FEDERAL RESERVE BANK of ATLANTA

July 20, 2011

Financial Highlights

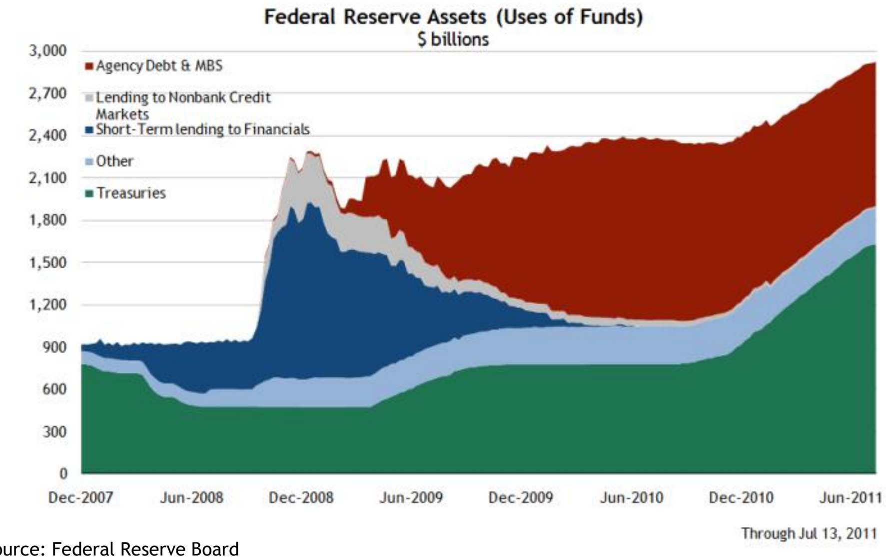
Federal Reserve

Summary

The balance sheet increased by $8.5 billion for the week ended July 13.

Since November 10, the balance sheet has increased $777 billion.

The $600 billion Treasury purchase program was completed on June 30, 2011.



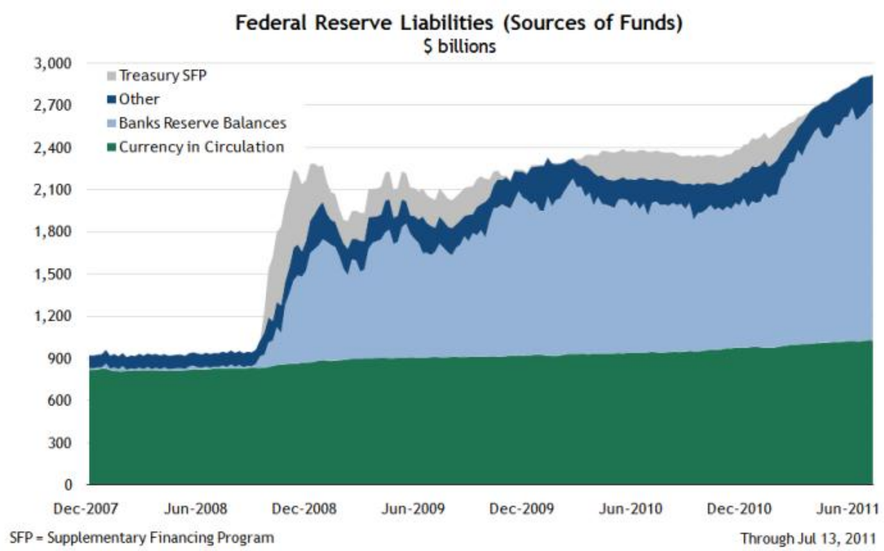
Source: Federal Reserve Board

- Treasuries increased by $5.9 billion while agency debt and MBS was unchanged.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $14 billion between mid-July and mid-August. This amount represents how much is needed to replace the expected principal payments from agency debt and agency MBS over this time period.
- Growth in the balance sheet will fluctuate from week to week as a result of the volatility of MBS prepayments.

Bank reserve balances with the Federal Reserve increased $25 billion while Treasury deposits with Federal Reserve Banks (part of "Other") decreased $11 billion.

The Treasury's Supplemental Financing Program (SFP) remained at $5 billion.

As of July 13, 2011, bank reserve balances are $1.7 trillion.



Source: Federal Reserve Board

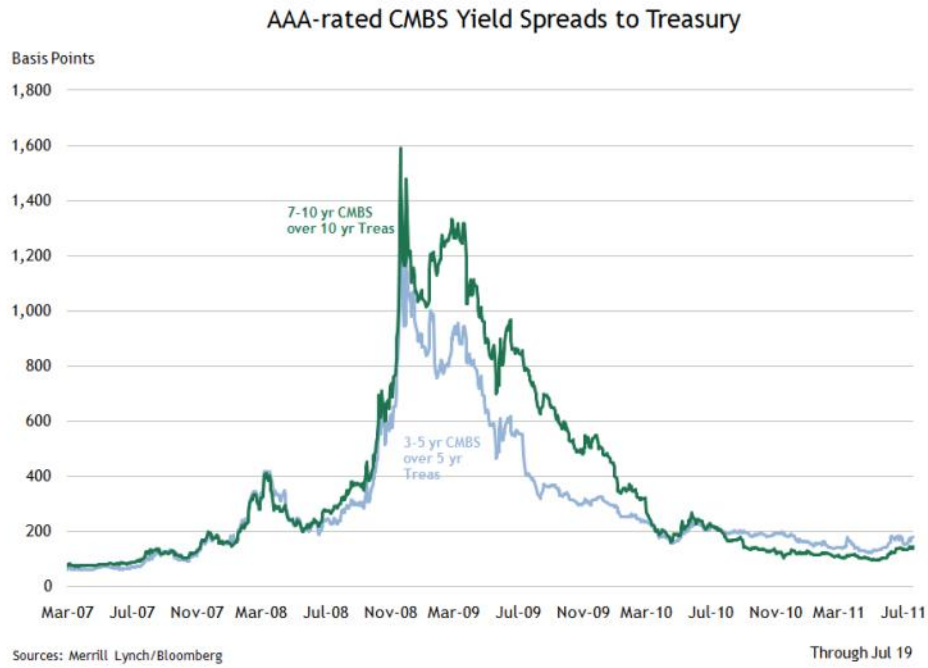
- The Treasury has announced that the Supplemental Financing Program (SFP) will be reduced to $5 billion to "provide flexibility" and delay the national debt from hitting the current ceiling of $14.29 trillion.
- The Treasury SFP was also reduced from $200 billion to $5 billion over the period September 23, 2009, to December 30, 2009, for the same reason.

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal Reserve Banks other than reserve balances and excluding the Supplementary Financing Program.

Bond Market

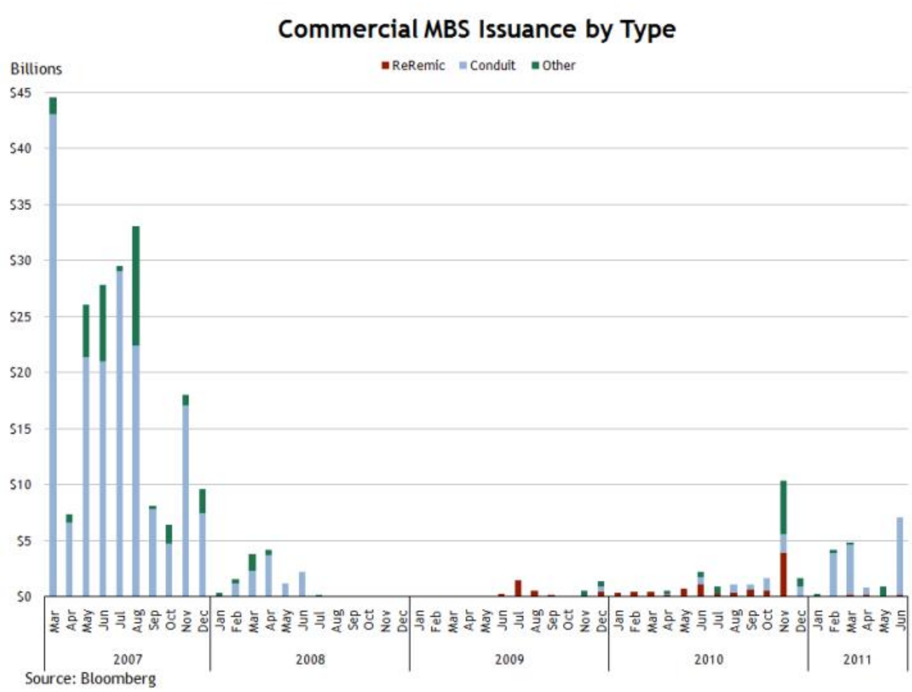
Summary

Top-rated CMBS yield spreads have been stable over the past 30 days.



- Compared with two months ago, yield spreads have risen. Three-to-five year CMBS over five-year Treasuries are up 44 basis points (bps) since May 19. Likewise, seven-to-ten year CMBS over ten-year Treasuries are up 44 bps since May 19.

Several conduit deals were issued February, March, April, and June, a sign of improvement in the CMBS issuance market.

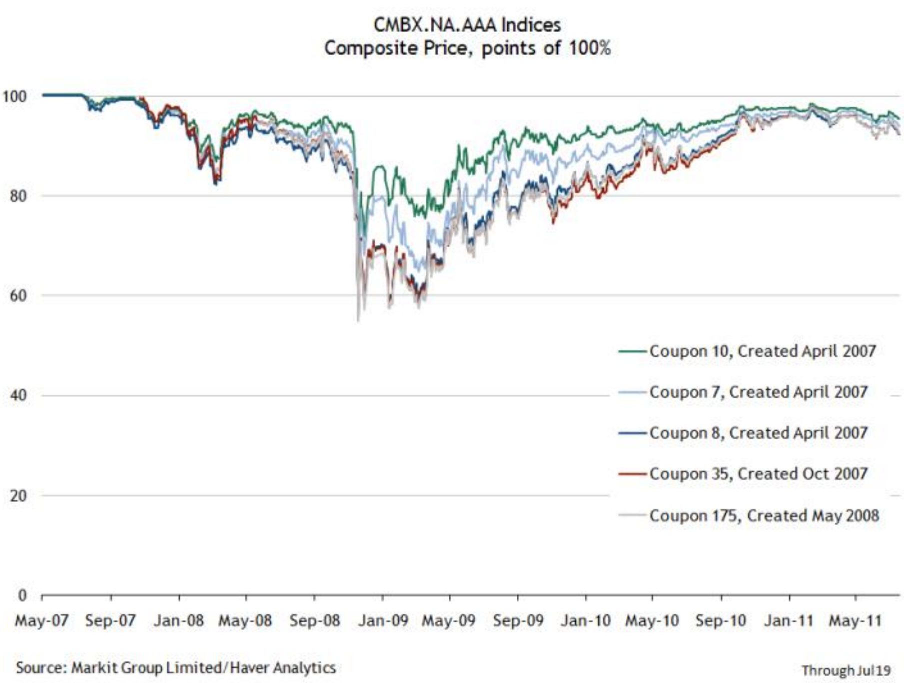


Bond Market

Summary

Most vintages of the AAA ABX.HE have been relatively stable since the beginning of the month after declining sharply earlier this year. Decreases in the index indicate an increase in the cost to insure against default on the underlying home equity loans.

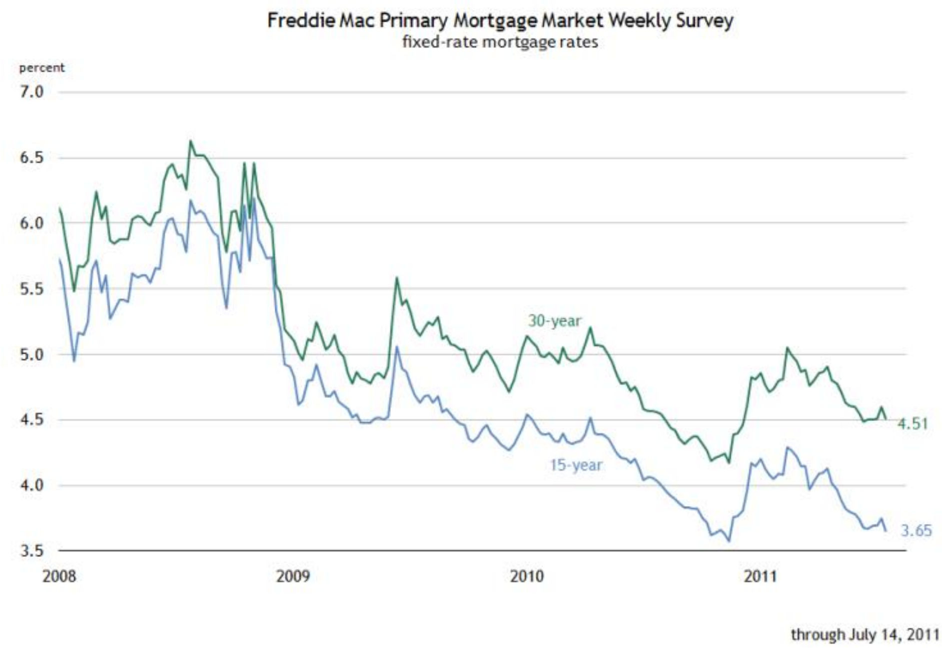
The index value of commercial MBS credit default swaps have declined since the beginning of the month. All vintages of the CMBX.NA.AAA remain close to prerecession levels. Increases in the index indicate a decrease in the cost to insure against default of commercial MBS.



Mortgage Market

Summary

Rates on both 30-year and 15-year fixed-rate mortgages declined for the survey week ending July 14, 2011.

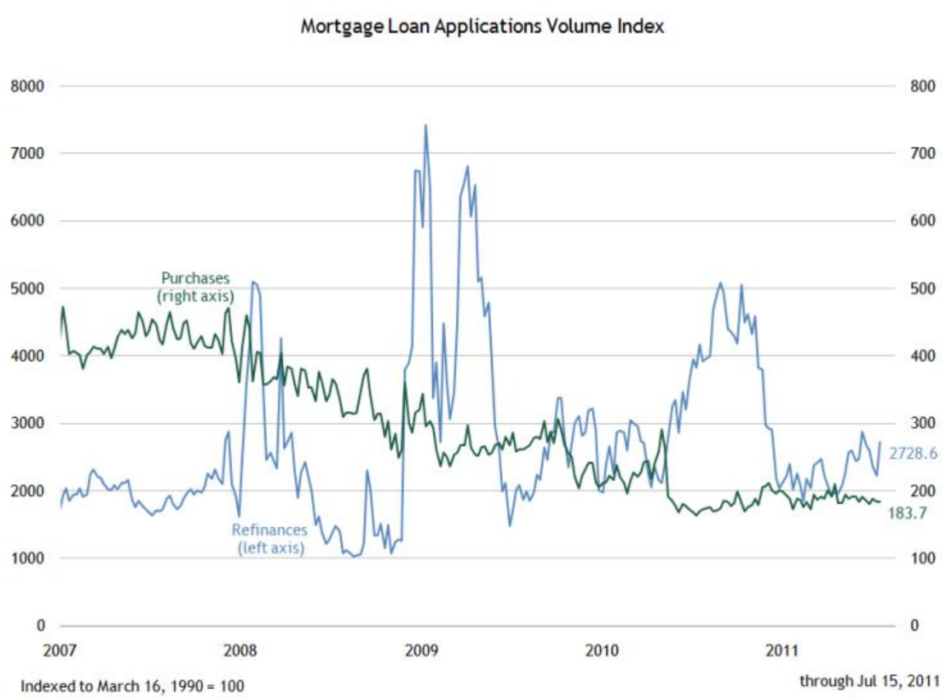


Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.51 percent, down from 4.60 percent a week ago. At this time last year the 30-year fixed rate averaged 4.57 percent.
- The 15-year fixed rate averaged 3.65 percent, down from 3.75 percent a week ago. At this time last year the 15-year fixed rate mortgage averaged 4.06 percent.

Total mortgage loan application volume increased 15.5 percent from the previous week, according to the MBA survey for the week ending July 15, 2011; refinance applications were up 23.1 percent while purchase applications fell 0.1 percent.

The Purchase Index and Refinance Index are measures of loan application volume reported in the MBA's Weekly Application Survey. The survey has been conducted weekly since 1990 and covers more than 50 percent of all U.S. retail residential mortgage applications.



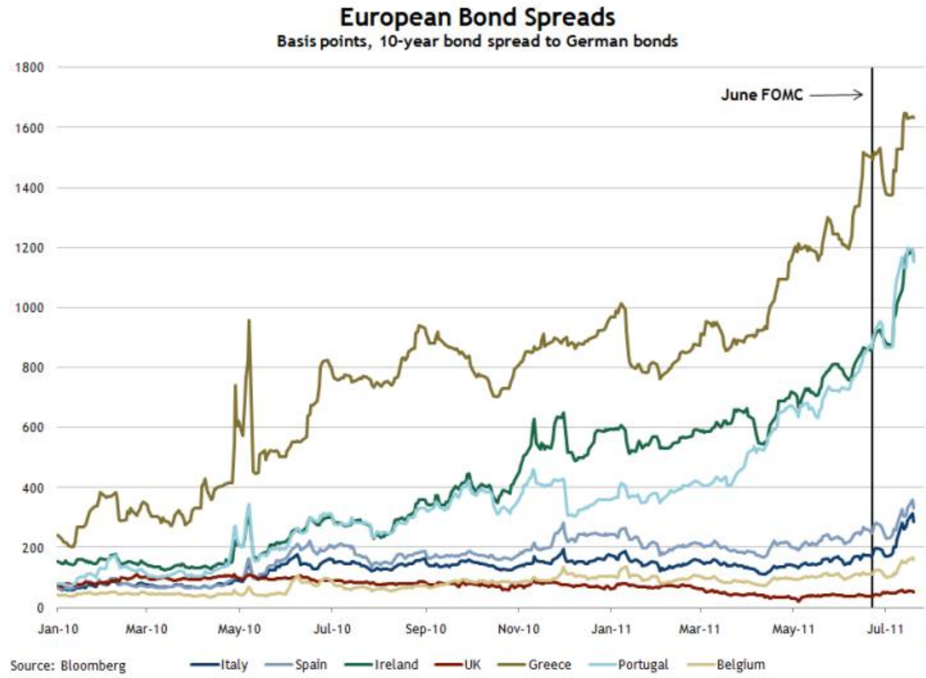
Source: Mortgage Bankers Association/Haver Analytics

- The refinance share of mortgage activity increased to 70.1 percent from 65.6 percent the previous week.

Europe

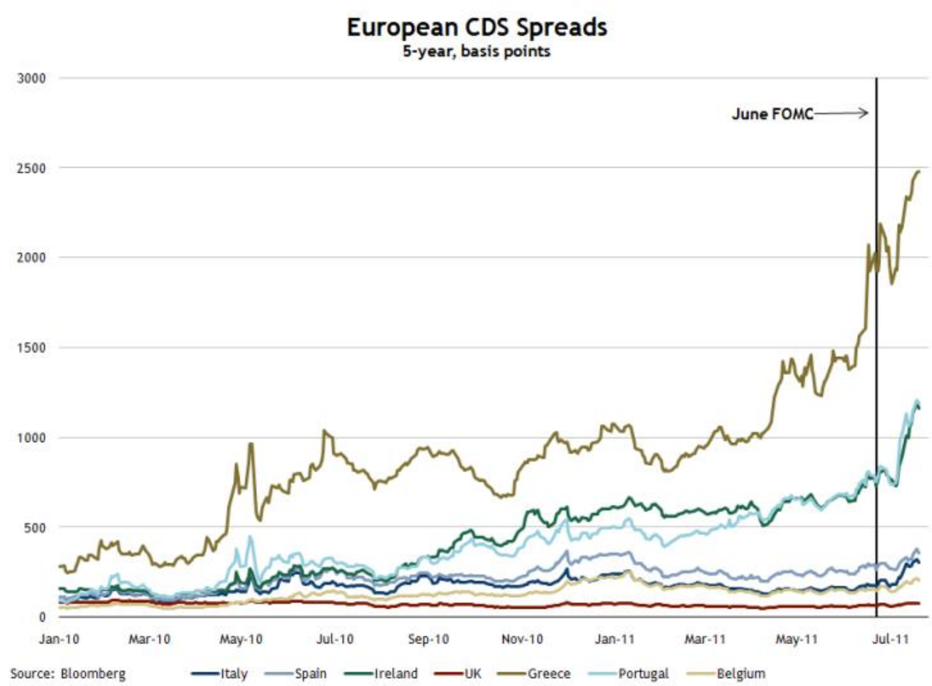
Summary

In recent days, Italy has become the next euro-area member to come under financial market pressure. Along with Greece, Portugal, Spain, and Ireland, Italian bond spreads (over German bonds) have continued to widen.



- Early last week, amid political uncertainty over intra-euro zone negotiations, Italian bond spreads spiked higher. Since the June FOMC meeting, the 10-year Italian-to-German bond spread has widened by nearly 108 bps through July 19. The spreads for Ireland and Portugal have soared higher by 276 bps and 262 bps, respectively, over the same period.
- Greek bond spreads remain extremely elevated, 140 bps higher since the June FOMC meeting, at 16.3 percent over German bonds. Spain's spread also rose 80 bps.

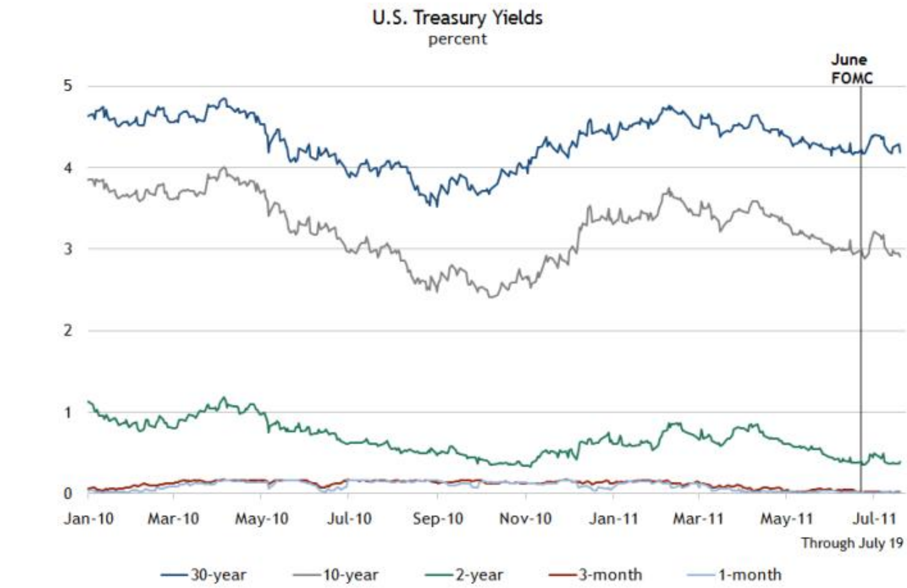
Similarly, CDS spreads show heightened worries over euro-area sovereign debt, with Italian spreads jumping 121 basis points (bps) since the June FOMC meeting.



Broad Financial Market Indicators

Summary

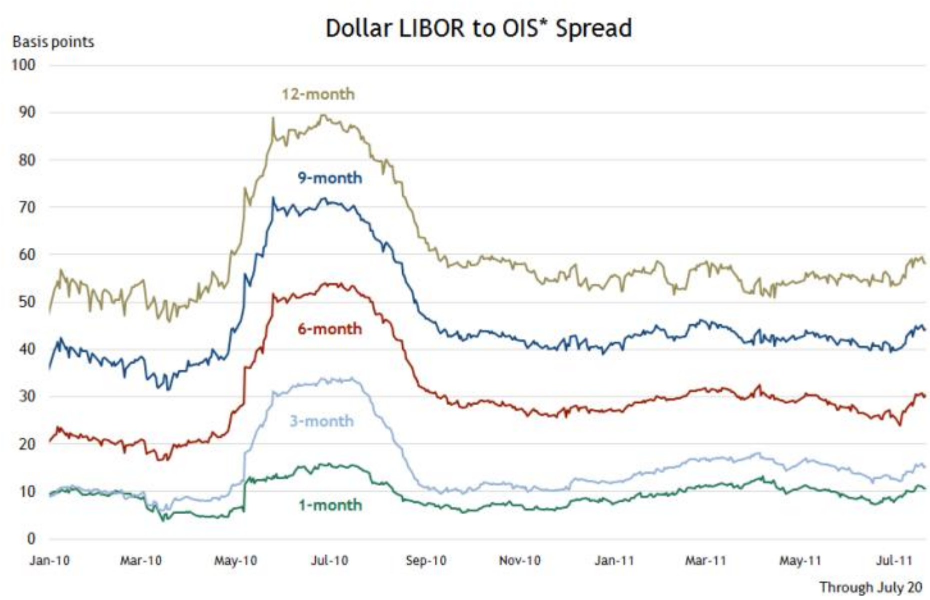
Treasury yields are slightly lower since the June FOMC meeting, despite initially spiking in the week following.



Source: Federal Reserve Board/Haver Analytics

- Since the June FOMC meeting, the 30-year Treasury bond yield is down 3 bps to 4.19 percent, the 10-year note's yield is lower by 10 bps to 2.91 percent, and the two-year note is unchanged at 0.39 percent.
- The three- and one-month T-bill rates are basically unchanged at 0.03 percent and 0.02 percent, respectively.

Since the June FOMC meeting, LIBOR to OIS spreads for all tenors have widen, if slightly. The one- and three-month spreads are up 1-2 bps, and are currently at 10.7 bps and 15.2 bps, respectively. Over the same period, the six-, nine-, and 12-month spreads are between 4 bps and 5 bps higher.



Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

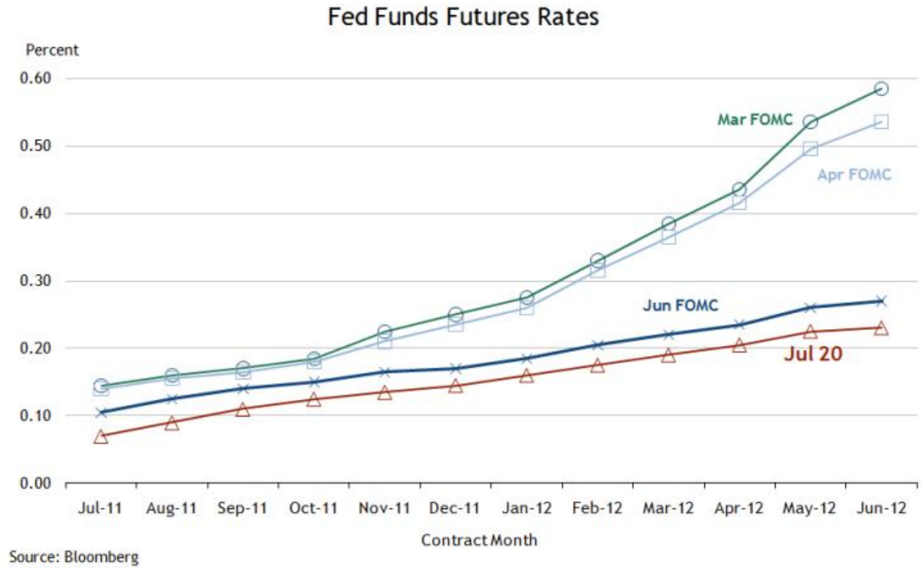
Summary

The curve of expected Fed Funds rates has shifted down in the past week.

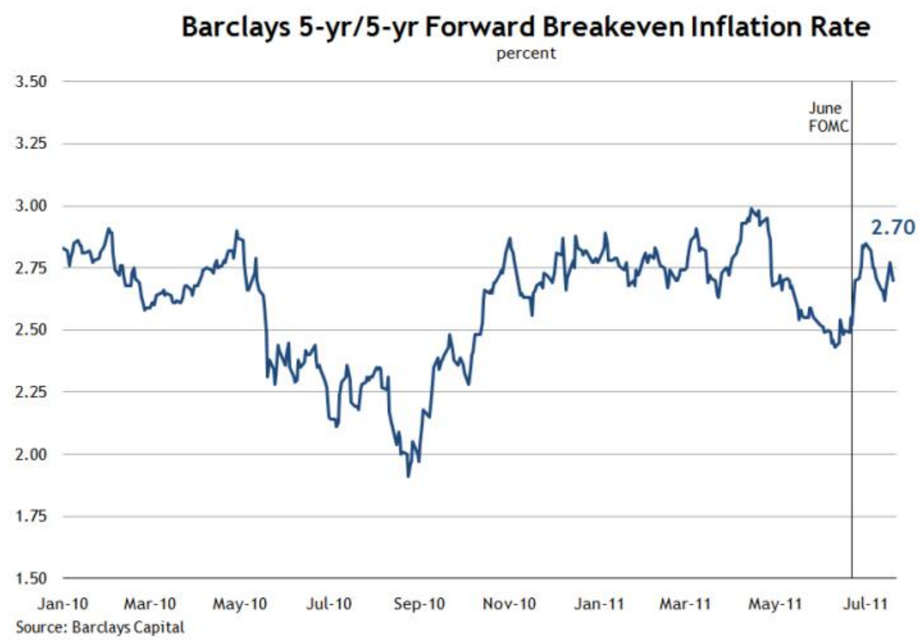
The long end of the curve of expected rates had moved significantly lower between the April and June FOMC meetings, with no rate increase expected in the next year.

The short end of the curve is lower, at least partially as a result of the anticipated runoff of the SFP and the FDIC assessment change.

Breakeven inflation rates, after initially rising sharply following the June FOMC meeting, have since moderated and are about 18 bps higher.



- As of July 20, 2011, the futures market for fed funds indicates an implied rate of about 23 bps for the June 2012 contract, about 30 bps lower since the April FOMC meeting and 4 bps lower from the June FOMC meeting.



- Looking at one measure calculated by Barclays suggests investors see CPI inflation 5 to 10 years out as averaging about 2.70 percent, as of July 20, 2011, which is 18 bps higher than before the June FOMC meeting, but up 5 bps over the past week.