FEDERAL RESERVE BANK of ATLANTA

February 1, 2012

Financial Highlights

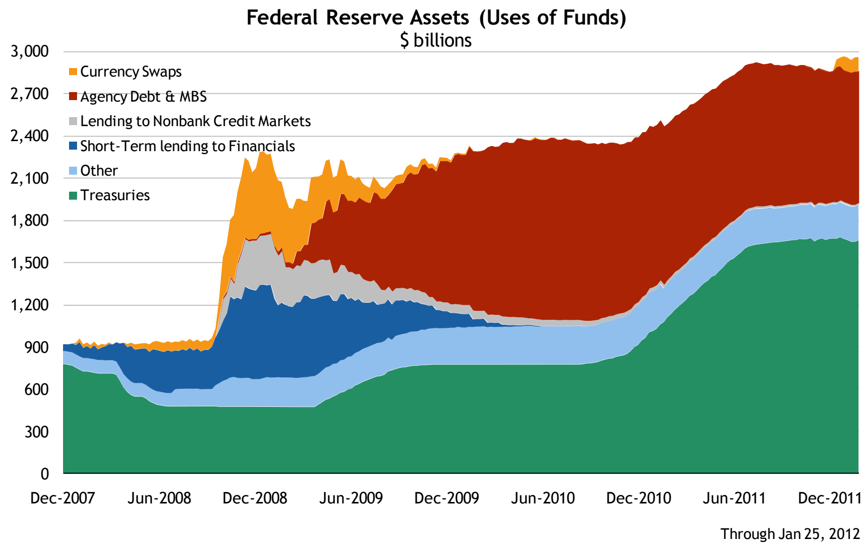
Federal Reserve

Summary

Between January 18 and January 25 the balance sheet increased $1 billion, remaining essentially unchanged at $3 trillion.

The increase over the past month has stemmed from increased use of dollar swap lines by foreign central banks. The need for more liquidity support stems from increased demand for dollars abroad as the European debt crisis continues.

On November 30, the Federal Reserve, along with other major central banks, announced they would lower the pricing on U.S. dollar swap operations in order to ease strains in financial markets. The expiration of the dollar swap lines were also extended by six months.



Source: Federal Reserve Board

- Treasuries increased $10 billion while agency debt and MBS decreased $11.8 billion.
- Central bank liquidity swaps decreased $0.1 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, and in line with the maturity extension program, the desk plans to purchase approximately $45 billion in Treasury securities with remaining maturities of from six to 30 years and sell approximately $43 billion in Treasury securities with remaining maturities of three years or less over the month of February.
- The Federal Reserve Bank of New York's statement outlining the implementation of the maturity extension program and changes in the reinvestment program for mortgage-backed securities can be found here.

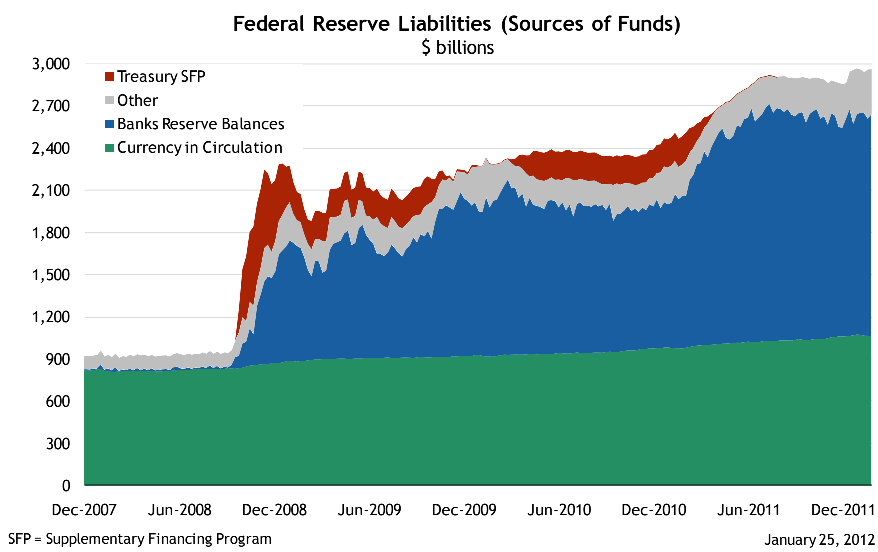
Reserve balances increased by $33.8 billion.

Treasury deposits with the Federal Reserve increased by $3.7 billion.

Reverse repurchase agreements with central banks decreased $2.4 billion.

Nonreserve deposits with the Federal Reserve decreased by $32.6 billion.

As of January 25, 2012, bank reserves are $1.58 trillion.



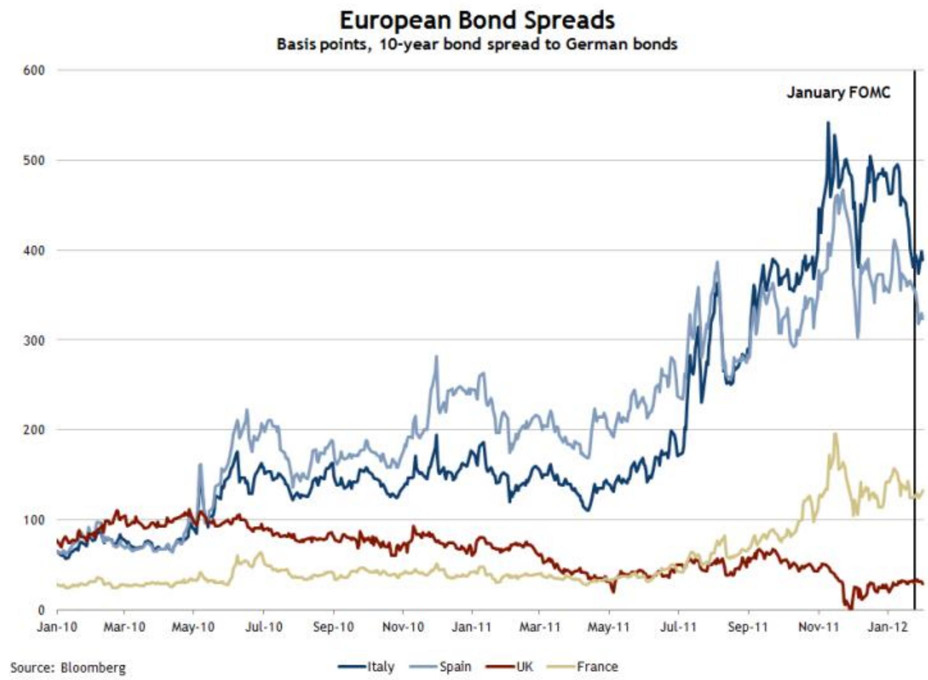
Source: Federal Reserve Board

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.

Broad Financial Market Indicators

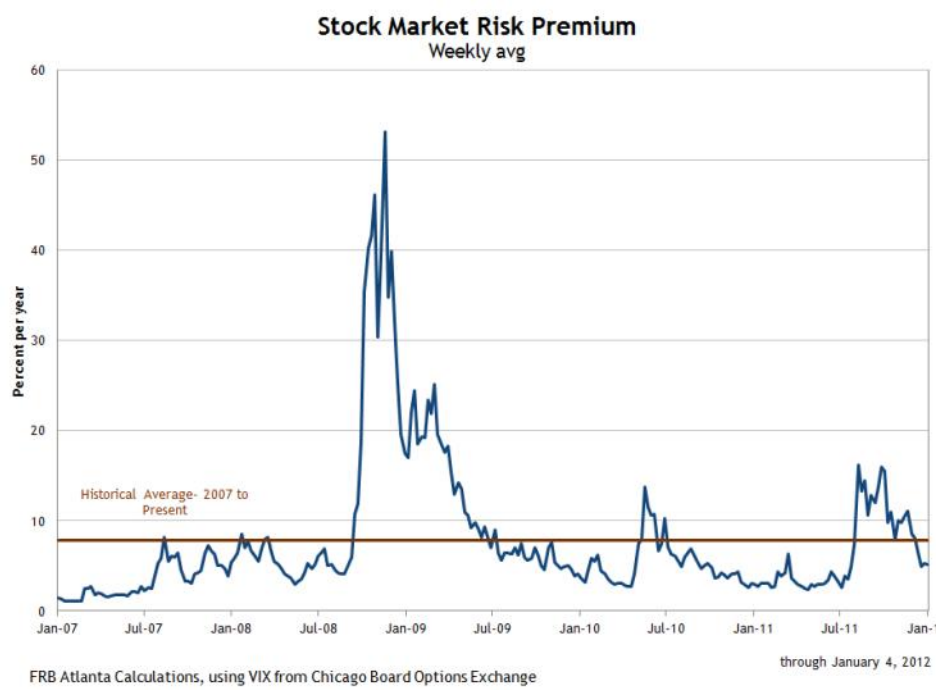
Summary

European bond spreads for Italian, French, and Spanish bonds have either improved or stabilized in January 2012.



- Bond yield spreads (versus German bonds) for the core Euro-area countries—Italy, Spain, and France, among others—have declined since the beginning of the year, though they remain elevated by historical comparison. Italian debt spreads are down 74 basis points (bps), Spanish spreads are flat, and French spreads are lower by 9 bps since January 1, 2012.
- Portuguese 10-year debt spreads (not shown), however, are 354 bps higher over the month.

The premium investors have demanded in order to invest in stocks has declined recently to its lowest levels since July 2011.

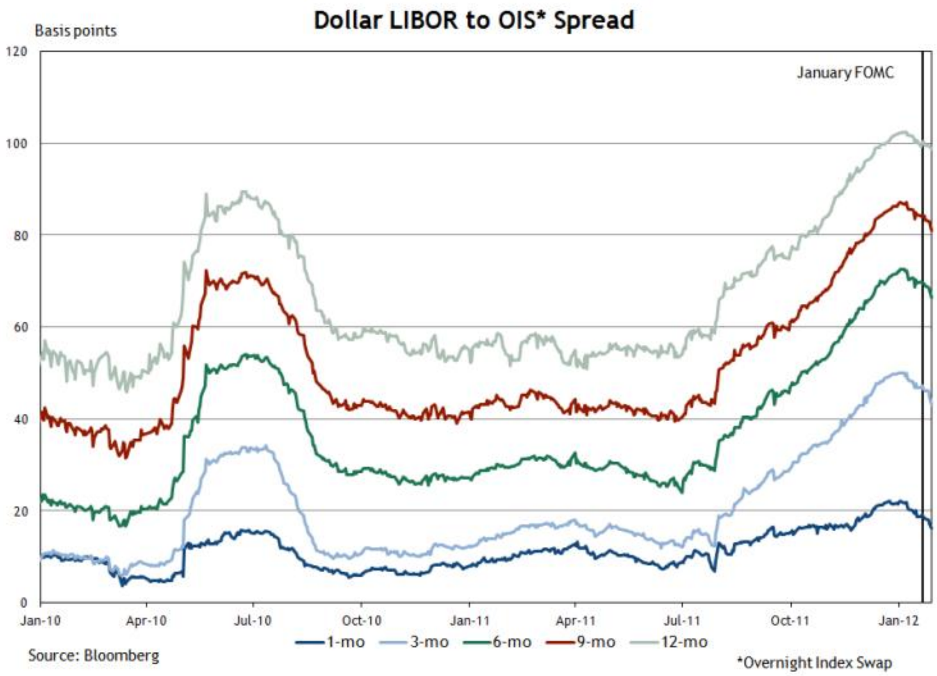


- In the most recent weekly average, the premium has declined to 3.77 percent per year, a slight increase from the previous weekly average of 3.46 percent and below the four-and-a-half-year average of 7.76 percent. The past two weeks have seen the lowest levels in the risk premium since June 2011.

Broad Financial Market Indicators

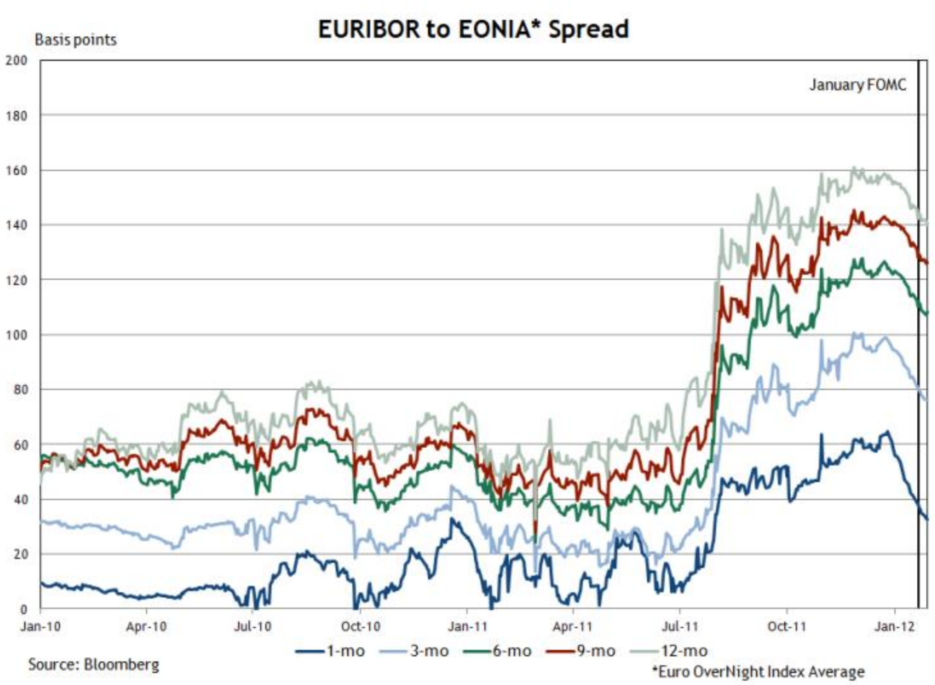
Summary

In the past week since the January FOMC meeting, LIBOR to OIS spreads for all tenors have declined by 1.7 to 3.4 basis points (bps).



- The LIBOR-OIS series shown above is denominated in U.S. dollars and reflects the spread between interbank lending rates offered and the overnight index swap (OIS) rate. The LIBOR panel used to create the rate is made up of 19 large international banks based in the United States, Europe, and elsewhere. The OIS rate is a proxy measure for the expected effective rate on federal funds held over a given maturity.

Over the past week, the euro-based Euribor-to-Eonia spread has continued to narrow across all tenors, dropping by 3-4.4 bps.

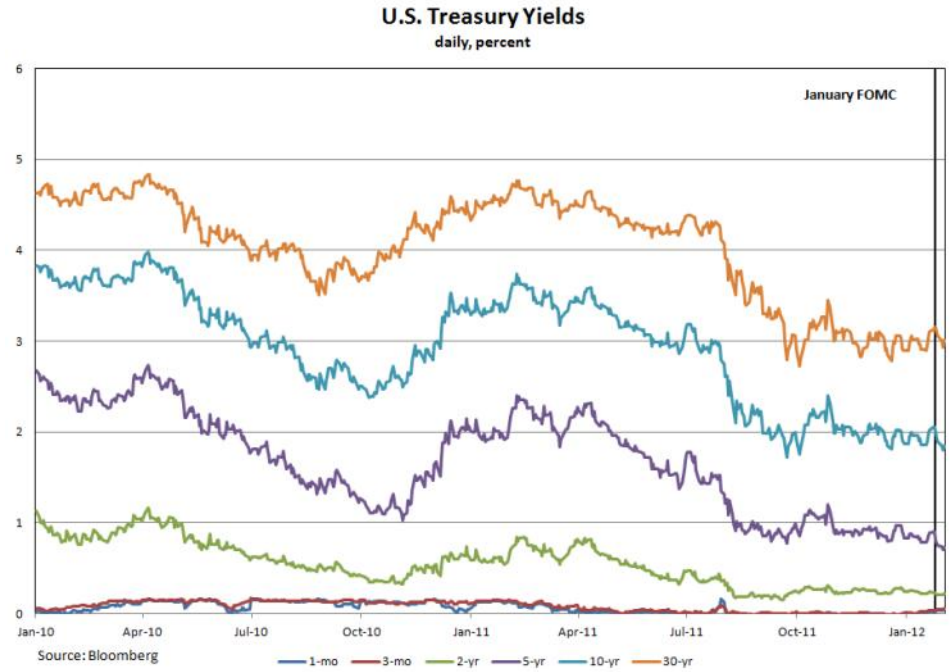


- The Euribor rates are offered interbank lending rates, denominated in euros and for a set of given maturities. The Euribor rate is determined by surveying 44 banks with the highest volume of business in the euro area, including 4 non-European banks. Eonia is the Euro Overnight Index Average swap rate on unsecured interbank lending in the euro area.

Broad Financial Market Indicators

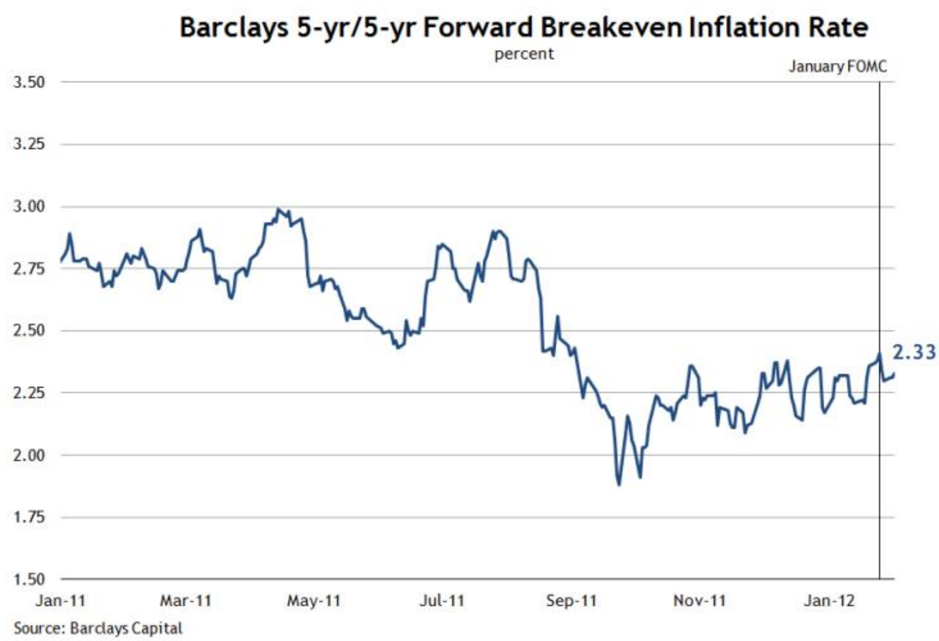
Summary

Following last week's FOMC meeting, long-term Treasury yields are down sharply.



- Since last week, the 30-year Treasury bond yield is down 14 bps to 3.01 percent, and the 10-year yield is 15 bps lower to 1.85 percent. The two-year note is flat at 0.22 percent. The three - and one-month T-bill rates are both up a little, 2-3 bps, at 0.06 percent and 0.05 percent, respectively. (All data are through February 1, 2012.)

Over the past week, the breakeven inflation rate is down to 2.33 percent and has ranged from about 2.15 percent to 2.40 percent over the past two months.



- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.33 percent as of February 1, 2012, which is 8 bps lower than a week ago, at the time of the January FOMC meeting.