March 16, 2011

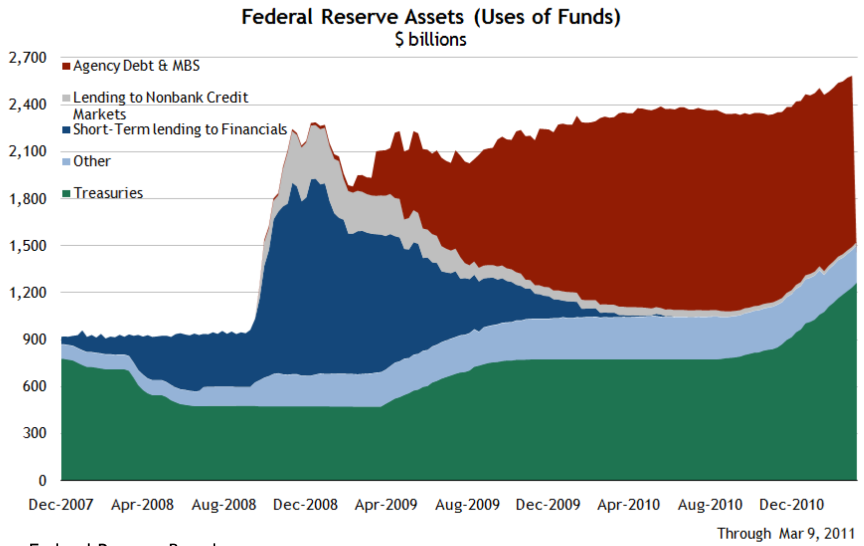
Financial Highlights

Federal Reserve

Summary

The balance sheet increased by $32.1 billion for the week ended March 9.

Since November 10, the balance sheet has increased $266 billion.



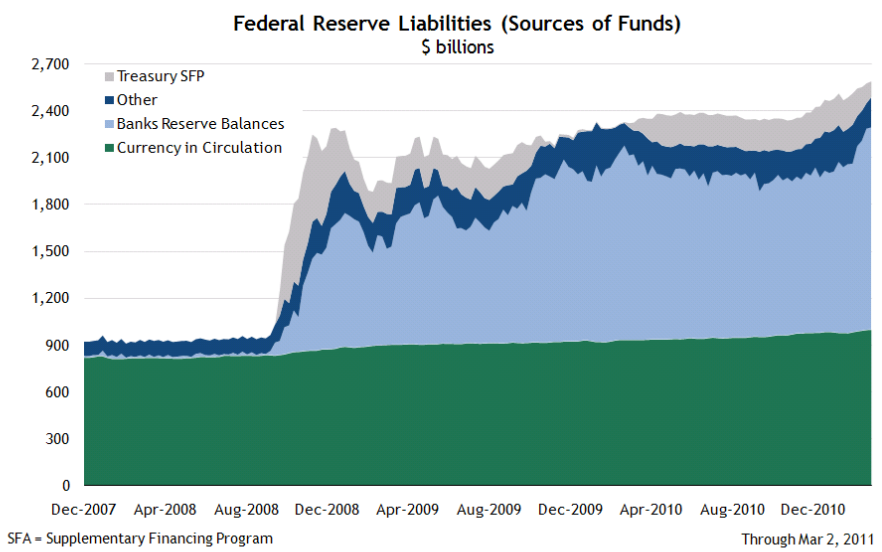
Source: Federal Reserve Board

- Treasuries increased by $29.8 billion while agency debt and MBS was unchanged. Since November 10, Treasury securities have grown by $413 billion while agency debt and MBS have shrunk by $108.5 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $102 billion between mid-March and mid-April.
- 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 $82.6 billion, and Treasury deposits with Federal Reserve Banks (part of "Other") decreased $20.9 billion.

The Treasury Supplemental Financial account declined by $25 billion for the fifth consecutive week.

As of March 9, 2011, bank reserves balances are $1.38 trillion.



Source: Federal Reserve Board

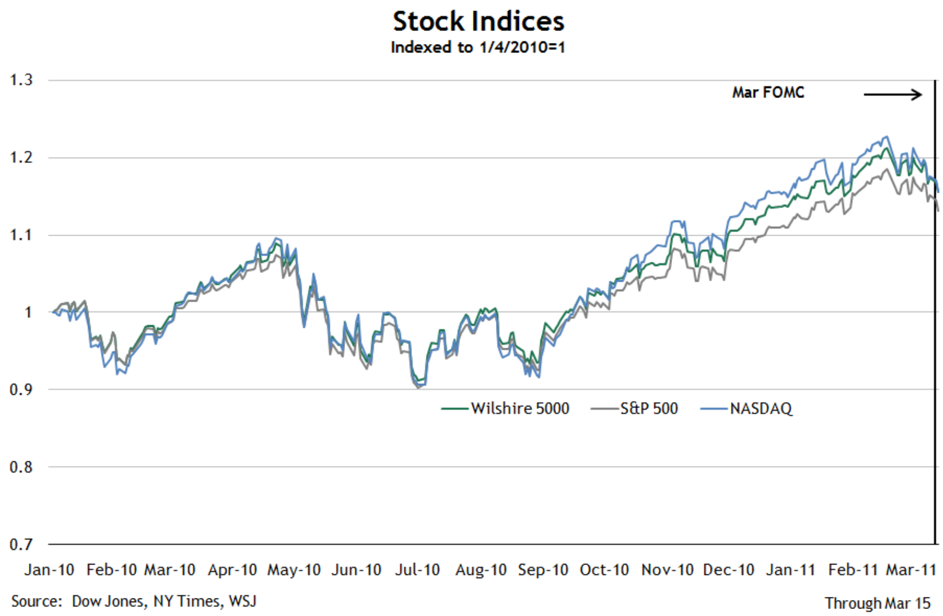
- The Treasury has announced that the Supplemental Financing Program (SFP) will be reduced to $5 billion to "provide flexibility" and delay the national debt from hitting the current ceiling of $14.29 trillion.
- The Treasury SFP was also reduced from $200 billion to $5 billion over the period September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

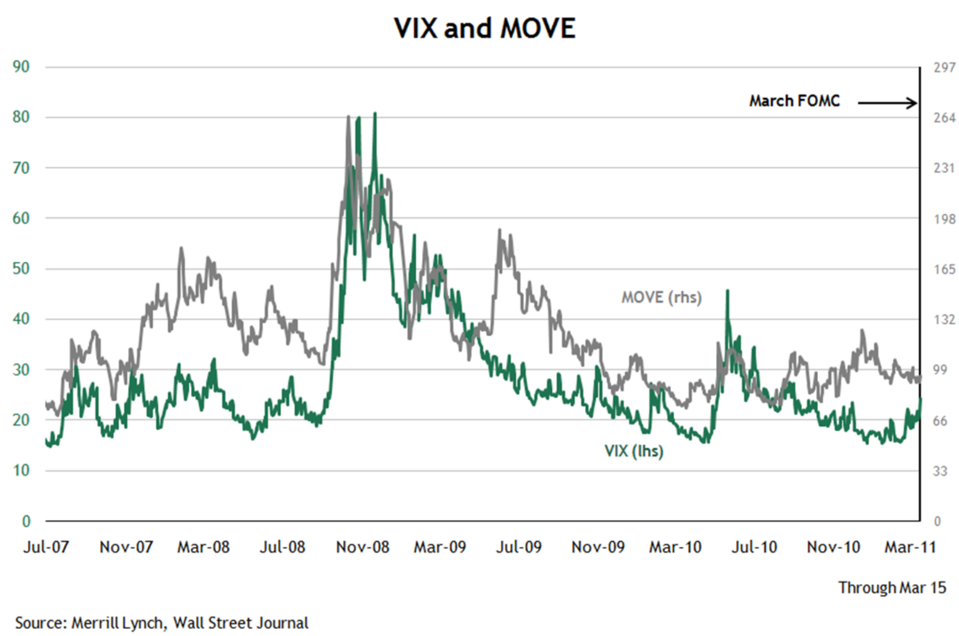
Summary

Equity markets have fallen by about 5% over the past month in light of rising oil prices amid political turmoil in the Middle East and North Africa.



The Merrill Lynch MOVE index shows bond market volatility has changed little over the past month.

The VIX "Fear index" from the Chicago Board Option Exchange indicates equity market volatility has been steadily rising and is up 48% from February 15, 2011.



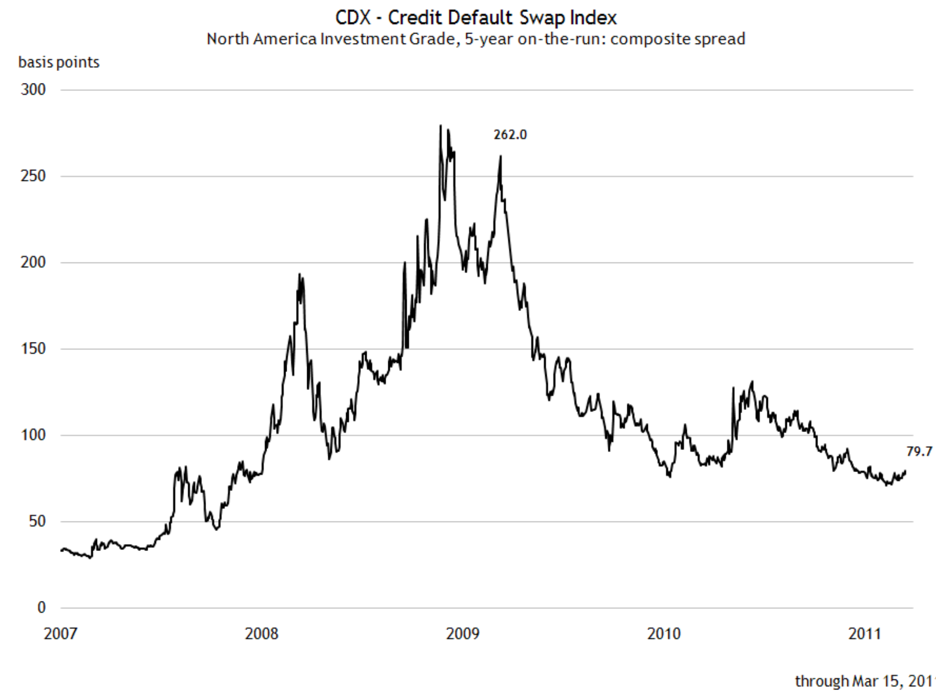
Bond and Equity Markets

Summary

The NAIG Credit Default Swap Index closed at 79.7 basis points (bps) on Tuesday.

Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. A decline in the CDX generally signals an improvement in the perception of credit quality.

One basis point equates to $1,000 annually on a contract protecting $10 million in debt.

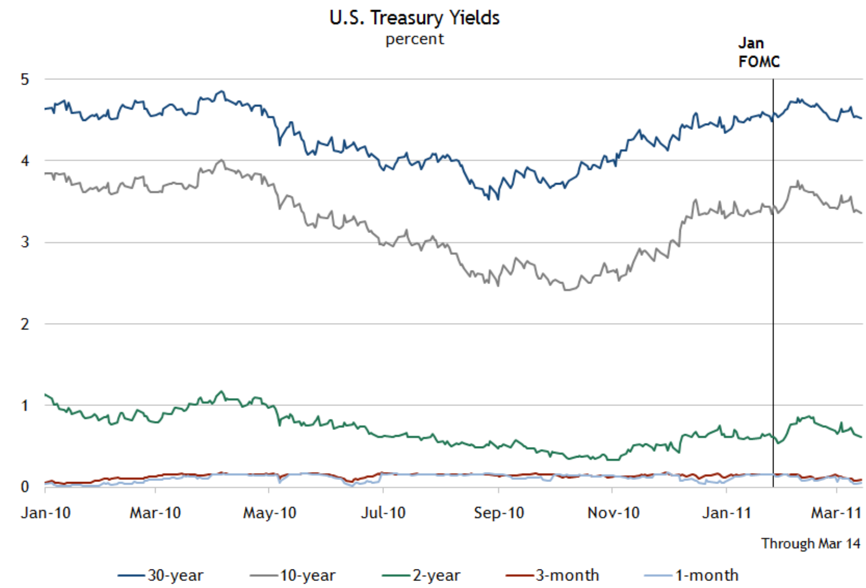


Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

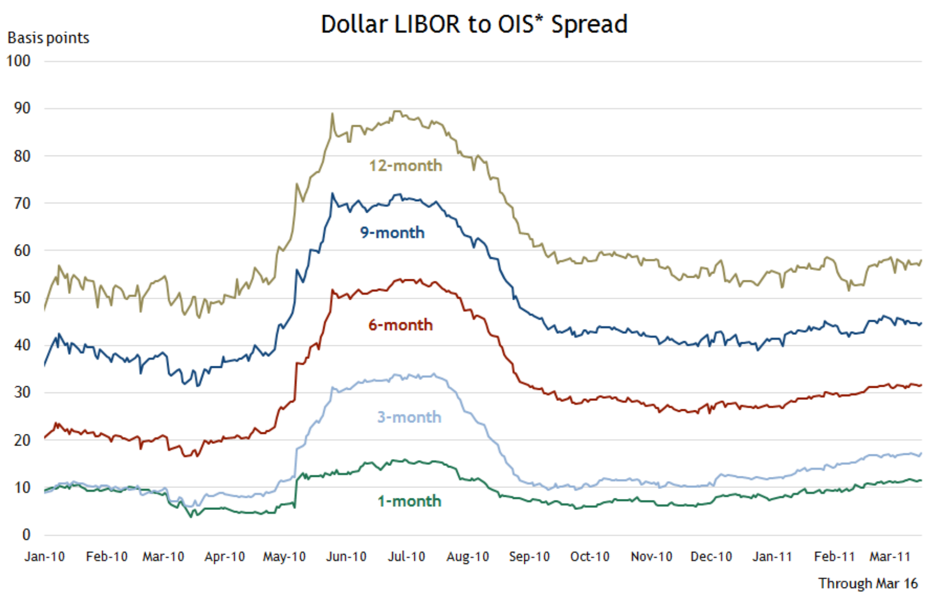
Treasury yields are very close to where they were on the day of the January FOMC meeting, even after a decline in yields from flight-to-quality flows during recent turmoil in the Middle East.



Source: Federal Reserve Board/Haver Analytics

- Since the January FOMC meeting, the 30-year Treasury bond yield is down 1 basis point to 4.52%, the 10-year note's yield is the same, and the two-year note is up 7 basis points (bps) to 0.61%.

LIBOR to OIS spreads are up modestly, with the one-month spreads up 35 basis points (bps) and three-month spreads up 70 bps since March 1.



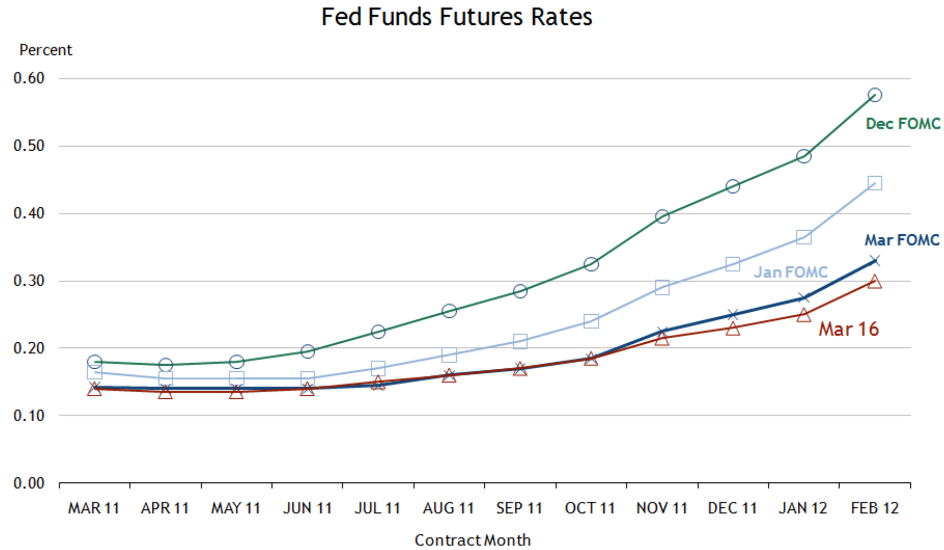
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

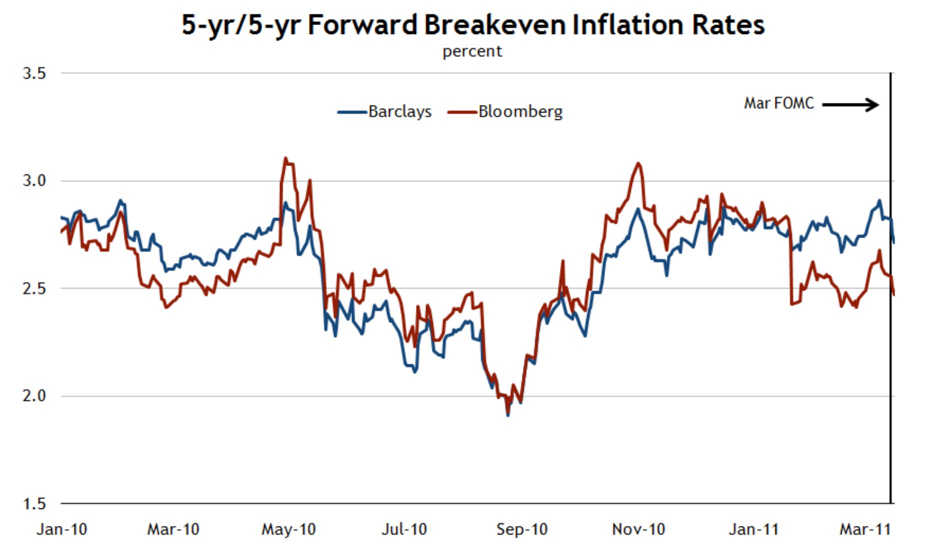
The curve of expected federal funds rates dropped slightly following the March FOMC meeting.



Source: Bloomberg

- As of March 16, 2011, the futures market for fed funds indicates an implied rate of about 30 bps for the February 2012 contract, down 3 bps from the time of March's FOMC meeting.

Breakeven inflation rates have declined about 20 bps since March 9.



Source: Bloomberg Through Mar 16

- Using one measure calculated by Barclays, the TIPS market suggests investors see CPI inflation five to 10 years out as averaging about 2.88%, as of March 9, 2011, which is higher by 9 bps over the past week.