FEDERAL RESERVE BANK of ATLANTA

March 23, 2011

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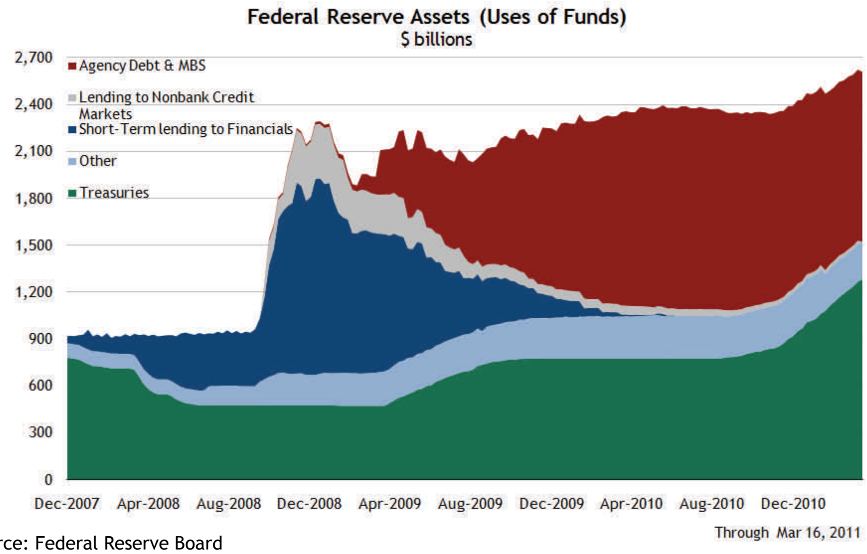
Federal Reserve

Summary

The balance sheet increased by $6.45 billion for the week ended March 16.

Since November 10, the balance sheet has increased $272 billion.



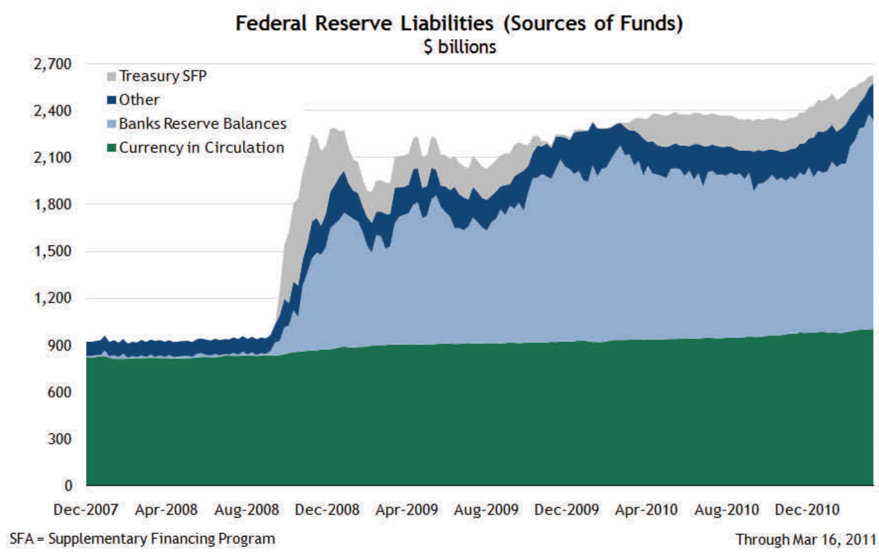
Source: Federal Reserve Board

- Treasuries increased by $14 billion while agency debt and MBS declined $8 billion. Since November 10, Treasury securities have grown by $427 billion while agency debt and MBS have shrunk by $117 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 declined $44.7 billion while Treasury deposits with Federal Reserve banks (part of "Other") increased $72.8 billion.

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

As of March 16, 2011, bank reserves balances are $1.33 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.

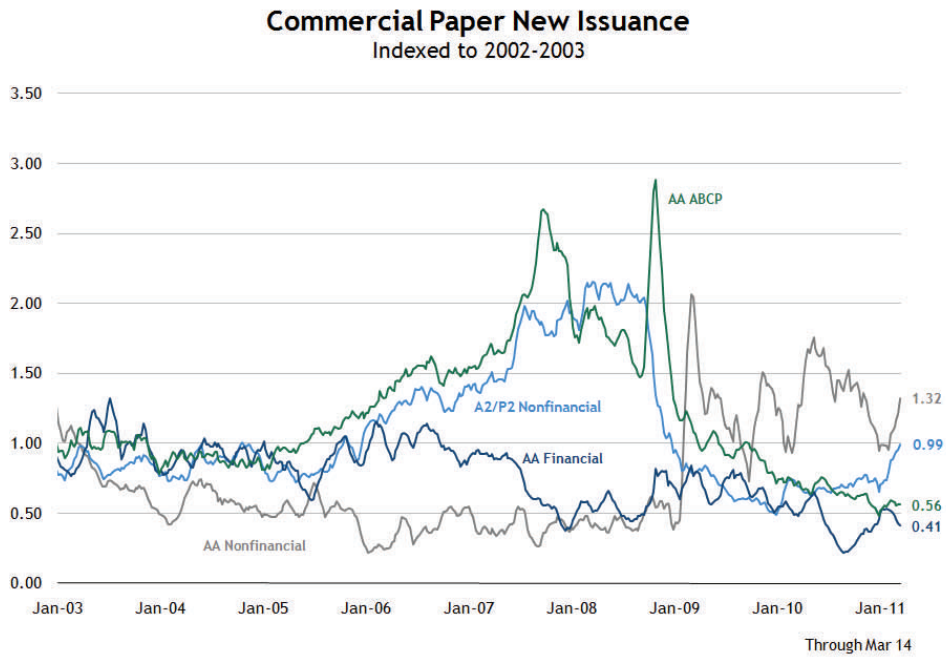
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

Commercial Paper

Summary

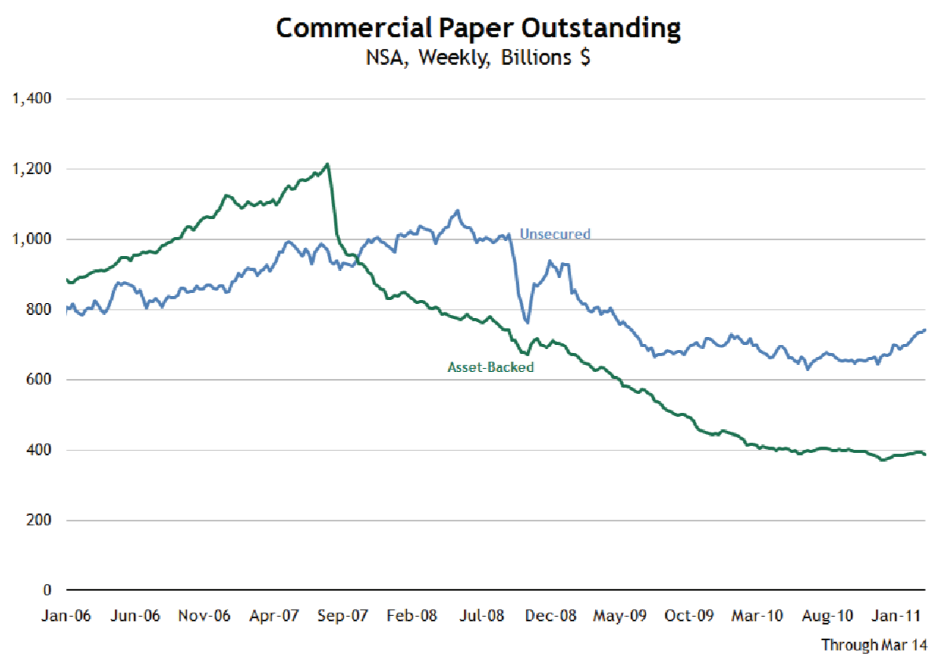
Issuance of asset-backed commercial paper has been declining since September 2007. As of March 14, issuance was trending at a little more than half of levels typically seen during the 2002-03 period.

In the unsecured commercial paper market, there have been recent increases in issuance of AA nonfinancial and A2/P2 nonfinancial. AA financial has been trending down and is currently less than half of levels typical of the 2002-03 period.



Source: Federal Reserve Board

As a result of recent issuance trends, asset-backed commercial paper outstanding is close to year-ago levels while unsecured paper has increased in recent months.

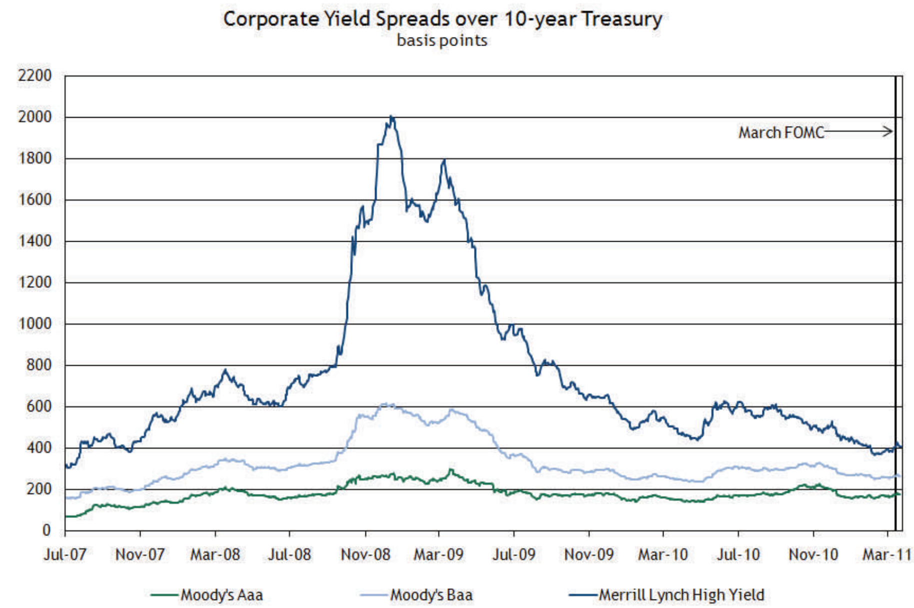


Source: Federal Reserve Board

Corporate Bonds

Summary

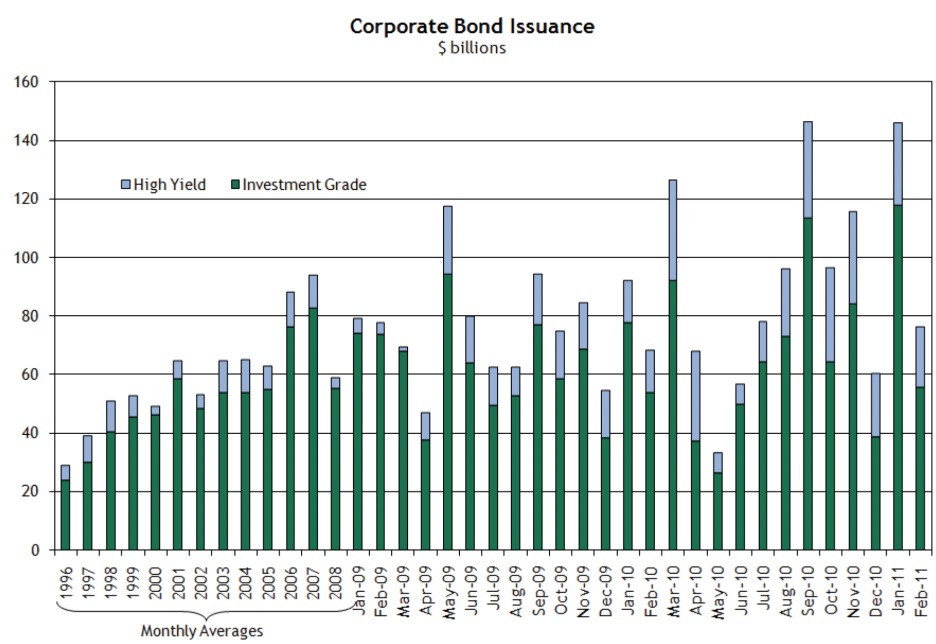
Between the January and March FOMC meetings, corporate yield spreads were mostly flat.



Source: Merrill Lynch, Moody's, Federal Reserve Board

- Between the January and March FOMC meetings, corporate yield spreads were essentially unchanged, with the Merrill Lynch High Yield Index widening 2 basis points (bps).
- The Moody's Aaa– and Baa-rated bond yields were also nearly flat: increasing by 8 bps and decreasing by 4 bps, respectively.

U.S. corporations accessed the bond market for $76 billion in February, according to SIFMA. This level comes after a strong January, with $146 billion in financing.



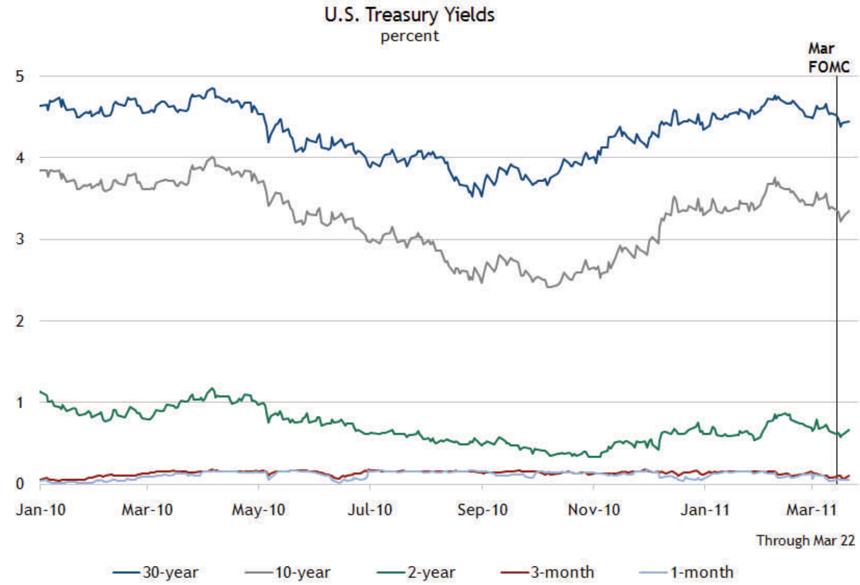
Source: SIFMA

- According to SIFMA, U.S. corporate bond issuance hit $76 billion in February 2011, and high-yield debt issuance made up $21 billion of that amount.

Broad Financial Market Indicators

Summary

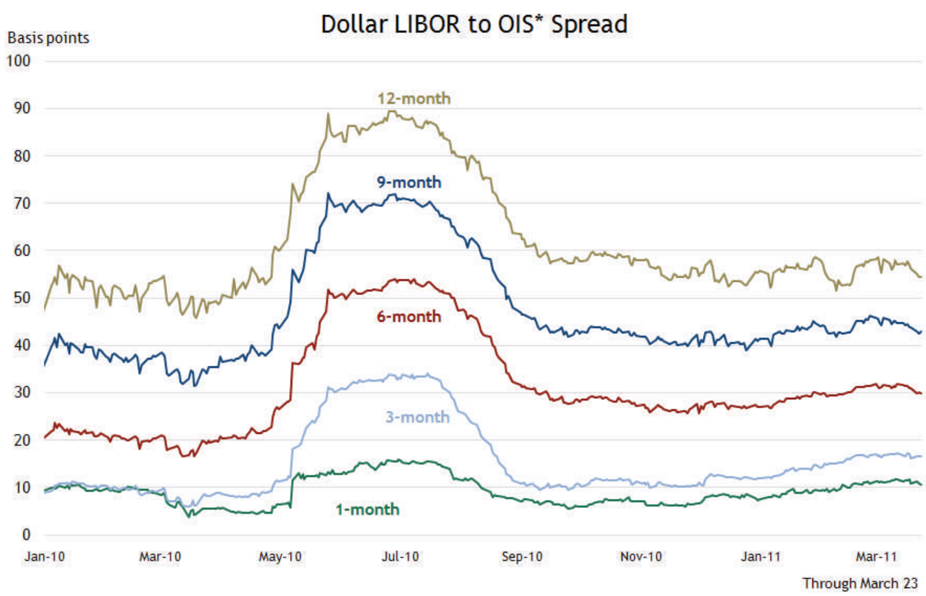
The 30-year bond and 10-year note are down in the week since the March FOMC meeting, while the two-year note is up.



Source: Federal Reserve Board/Haver Analytics

- Since the March FOMC meeting on the 15th, the 30-year Treasury bond yield is down 8 bps to 4.44%, the 10-year note's yield is lower by 2 bps to 3.34%, but the 2-year note is up 7 bps at 0.68%.

LIBOR to OIS spreads are mostly unchanged since the FOMC meeting that concluded last week, with the one- and three-month spreads at 10.7 basis points (bps) and 16.5 bps, respectively.



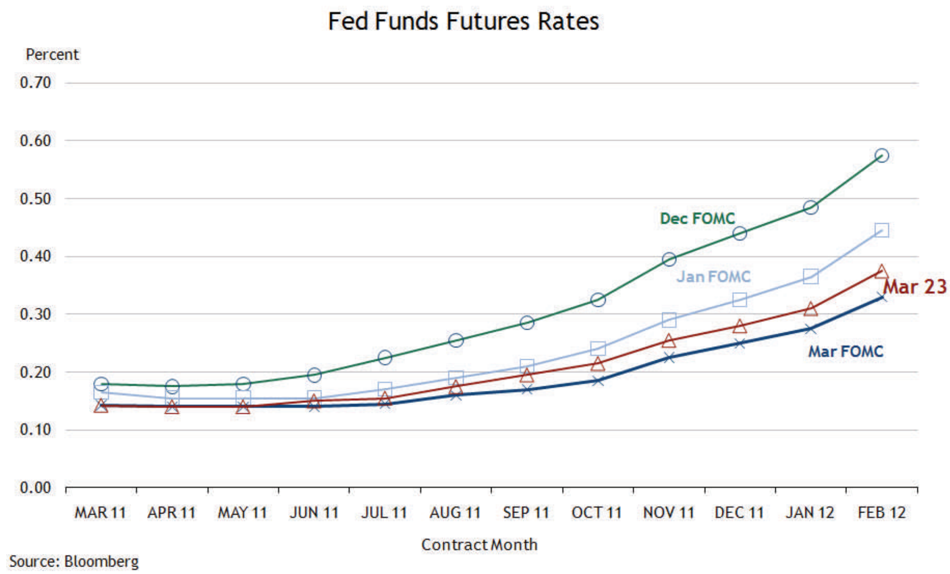
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

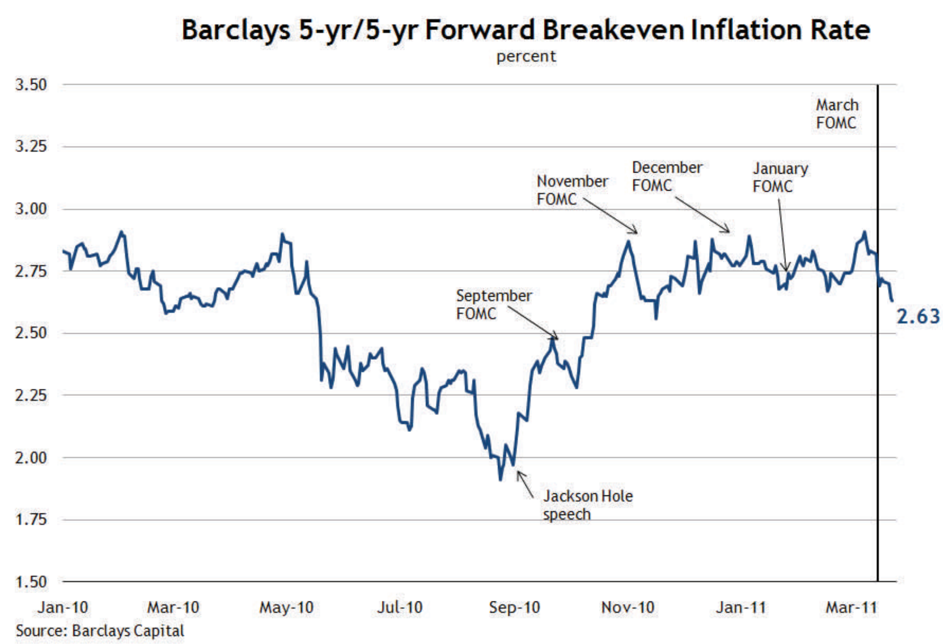
Summary

The curve of expected rates has moved higher since the FOMC meeting last week.



- As of March 23, 2011, the futures market for fed funds indicates an implied rate of about 38 bps for the February 2012 contract, up 5 bps from the March FOMC meeting last week. However, since the January meeting, it has moved 6 bps lower for that contract.

Breakeven inflation rates have dropped significantly recently.



- Breakeven inflation rates had been relatively stable between November 2010 and February 2011, staying within a range of 2.7% to 2.9%. But in recent weeks, they have dropped significantly.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.64%, as of March 23, 2011, which is lower by 23 bps from two weeks prior (March 9).