



Financial Highlights

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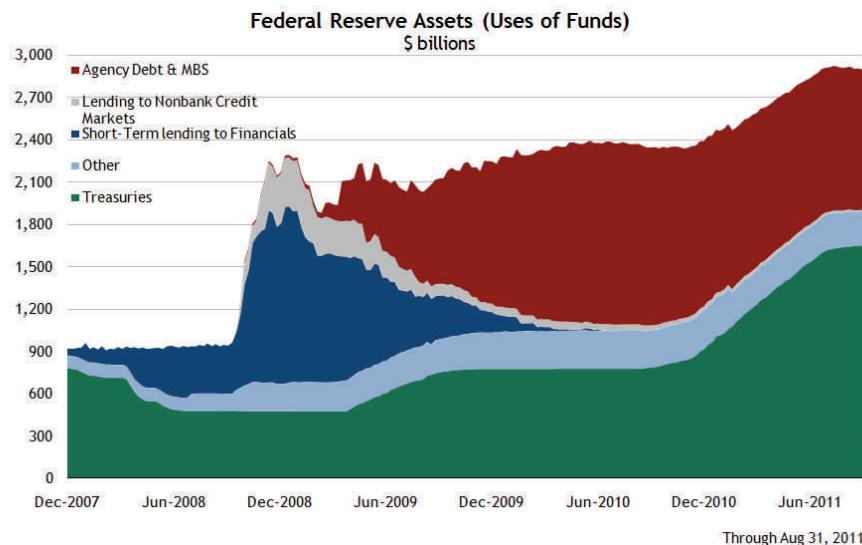
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Federal Reserve

Summary

The balance sheet decreased by \$5.8 billion for the week ended August 31.

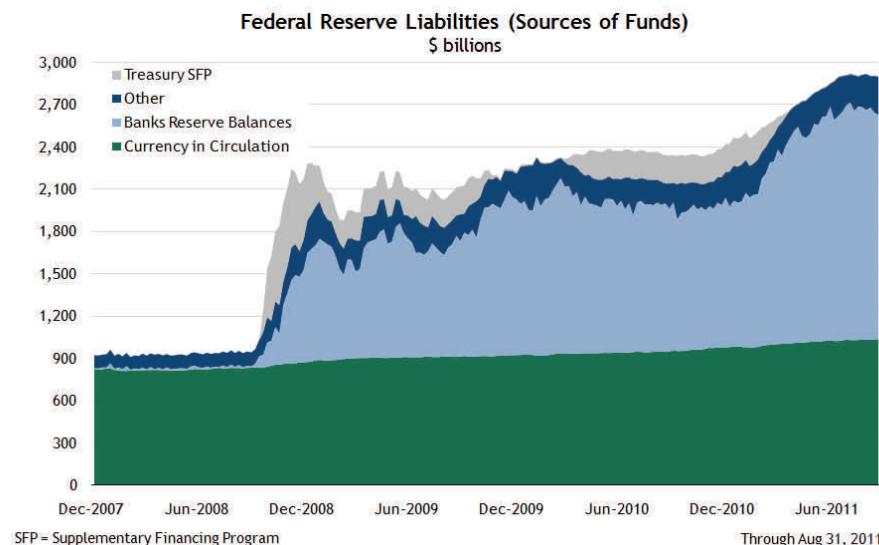


Source: Federal Reserve Board

- Treasuries increased \$3.7 billion while agency debt and MBS decreased \$7.4 billion.
- According to the [New York Fed's tentative outright Treasury operation schedule](#), the desk plans to purchase approximately \$14 billion between mid-August and mid-September. This amount represents how much is needed to replace the expected principal payments from agency debt and agency MBS over this time period.

Bank reserve balances with the Federal Reserve decreased \$18 billion and nonreserve deposits with the Federal Reserve declined by \$21 billion, more than offsetting a \$32 billion increase in Treasury deposits with Federal Reserve banks.

As of August 31, 2011, bank reserve balances are \$1.6 trillion.



Source: Federal Reserve Board

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIF; 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.

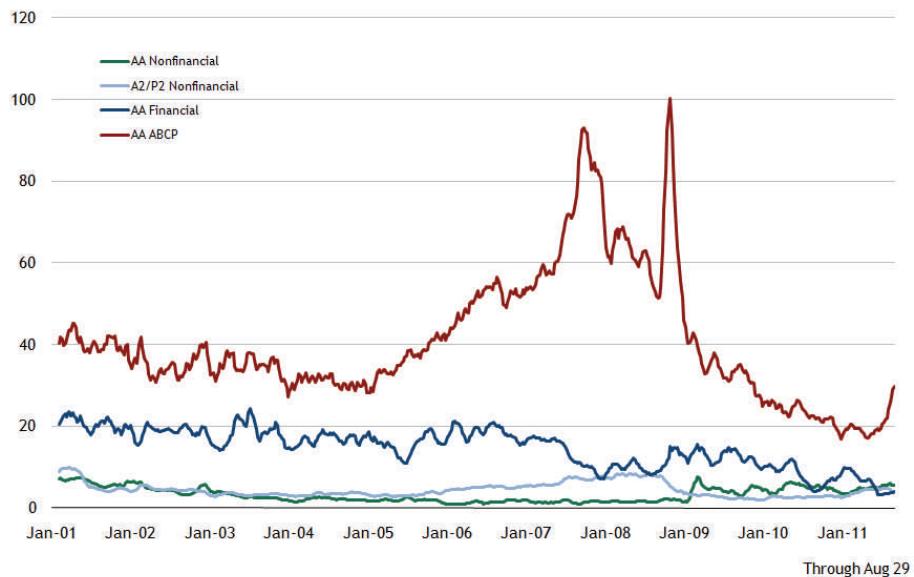
Commercial Paper

Summary

Weekly issuance of asset-backed commercial paper has risen significantly over the past couple of months.

Commercial Paper New Issuance

6 week moving average, Billions \$

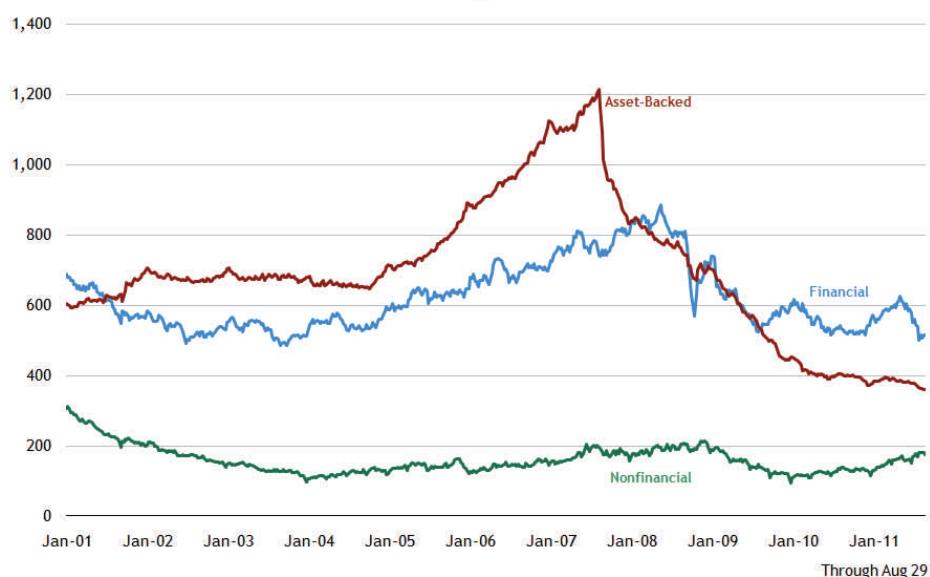


Source: Federal Reserve Board

Asset-backed commercial paper is slightly below year-ago levels, while nonfinancial paper outstanding has increased in recent months.

Commercial Paper Outstanding

NSA, Weekly, Billions \$

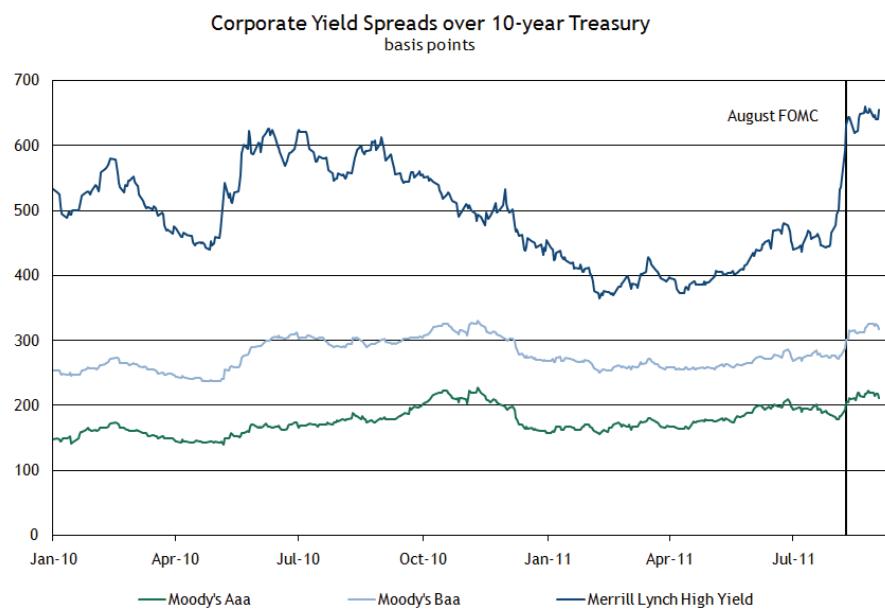


Source: Federal Reserve Board

Corporate Bonds

Summary

Since late July, spreads on high-yield corporate debt have widened significantly, and spreads on investment-grade debt are modestly higher.



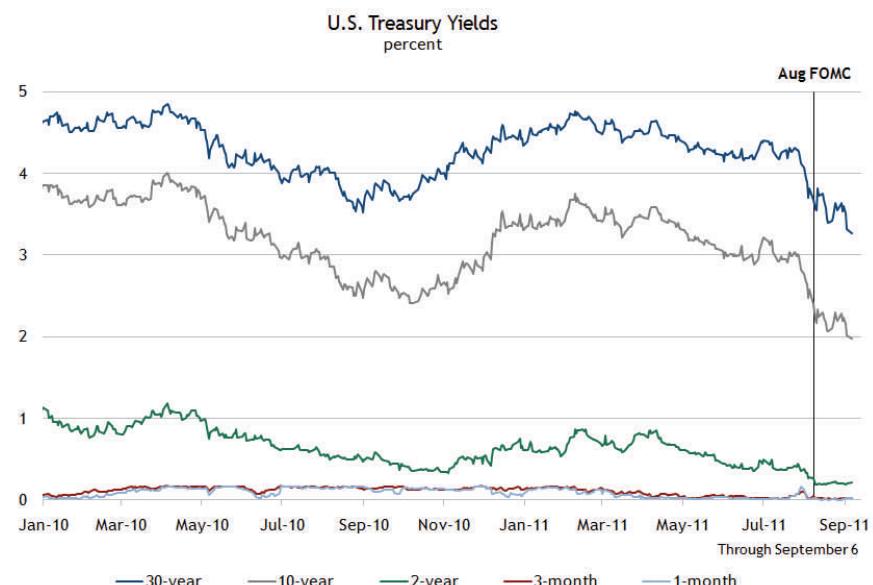
Source: Merrill Lynch, Moody's, Federal Reserve Board

- Corporate yield spreads have soared for junk debt, with the Merrill Lynch High Yield Index up 234 basis points (bps) (over the 10-year Treasury note yield) since July 25. Spreads are 44 bps higher since the August FOMC meeting.
- Higher-quality bond spreads widened moderately, as Moody's Aaa- and Baa-rated bonds were up 20 bps and 41 bps, respectively, over Treasuries since July 25.

Broad Financial Market Indicators

Summary

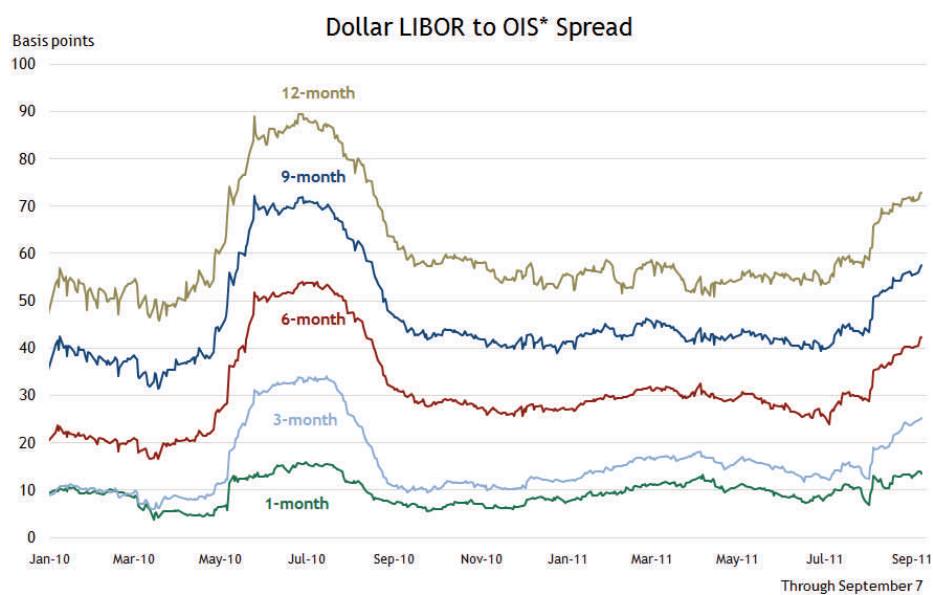
Longer-dated Treasury yields have dropped lower in the past week, while shorter-term yields are relatively unchanged.



Source: Federal Reserve Board/Haver Analytics

- Since August 9, the 30-year Treasury bond yield is down 30 bps to 3.26 percent, the 10-year yield is 22 bps lower to 1.98 percent, but the two-year yield is up 2 bps to 0.21 percent. The three- and one-month T-bill rates are both relatively unchanged at 2 bps.

LIBOR to OIS spreads for all tenors except have widened since the August FOMC meeting, but particularly longer tenors. Since August 9, spreads are nearly 5-6 basis points (bps) higher for the three- to 12-month tenors, but only 1 bp higher for the one-month tenor.



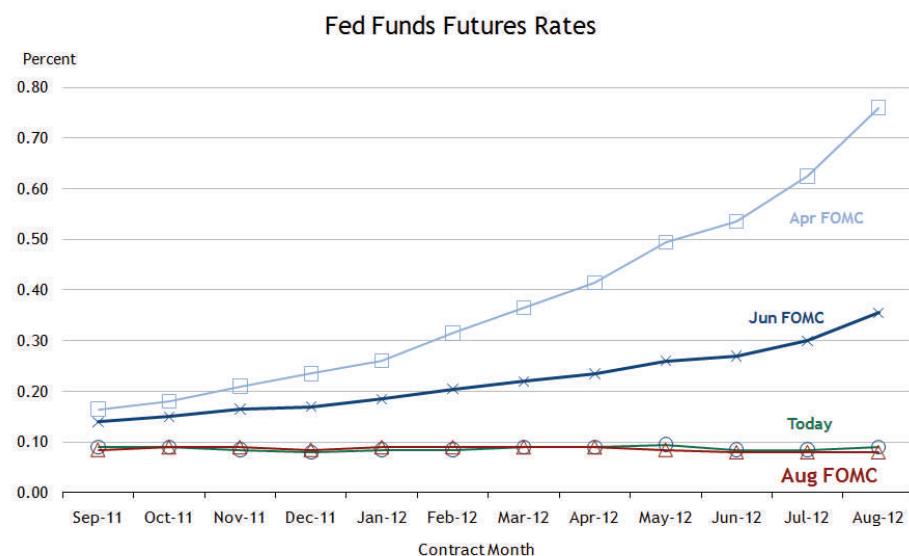
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

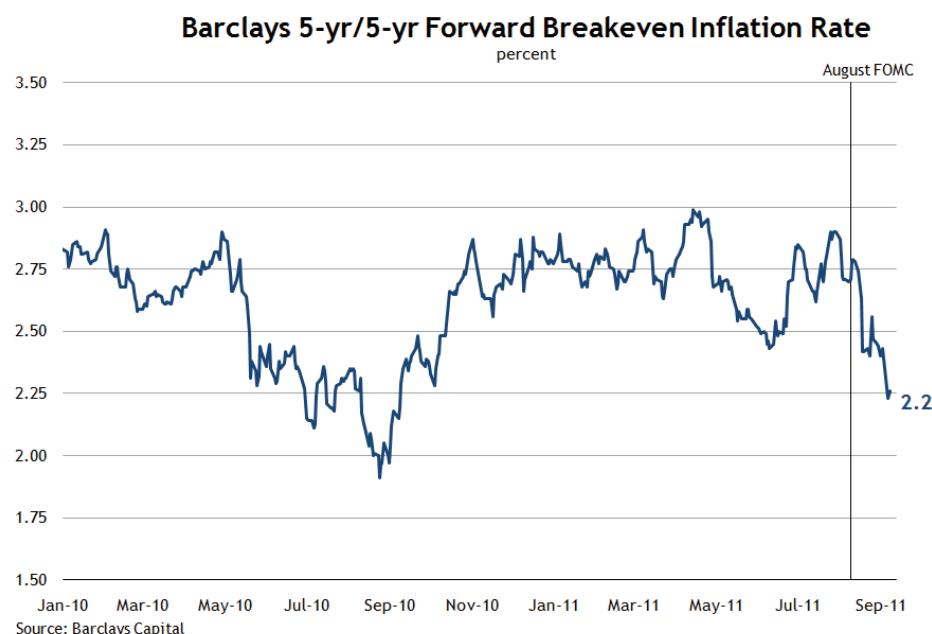
Following the FOMC's change in statement to reflect an anticipation of low rates through mid-2013, the fed funds futures market continues to price in a flat path through at least July 2012.



Source: Bloomberg

- As of September 7, 2011, and since the FOMC's change in statement to reflect the anticipation that current interest rate policy will be maintained through mid-2013, the futures market for fed funds indicates an implied rate between 8 bps and 9 bps for the *entire* forecast horizon from September 2011 through August 2012. (Contracts farther out are less liquidly traded and so are not shown here.)

Breakeven inflation rates have moved sharply lower since the August FOMC meeting.



Source: Barclays Capital

- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.26 percent as of September 7, 2011, which is 14 bps lower over the week and 45 bps lower since the August FOMC meeting. Current breakeven rates are approaching the lowest point seen since last fall.