FEDERAL RESERVE BANK of ATLANTA

January 5, 2011

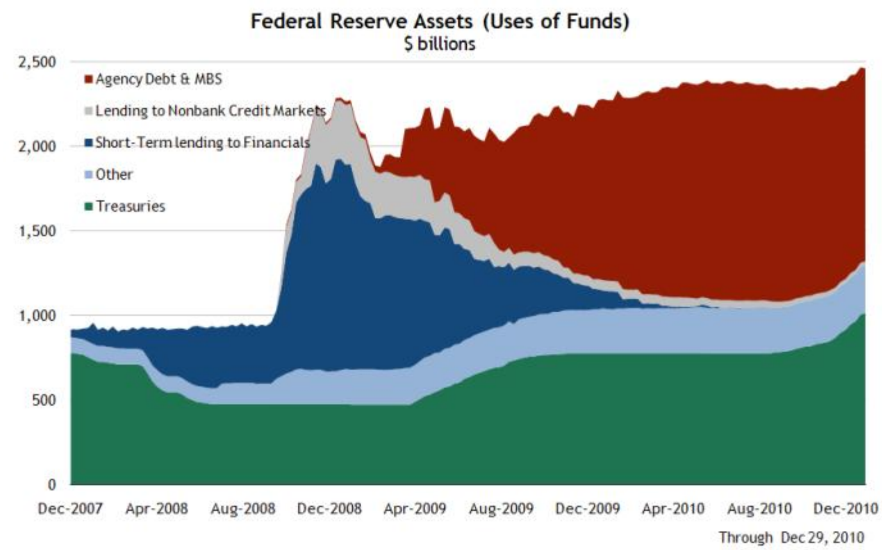
Financial Highlights

Federal Reserve

Summary

The balance sheet shrank by $7 billion for the week ended December 29.

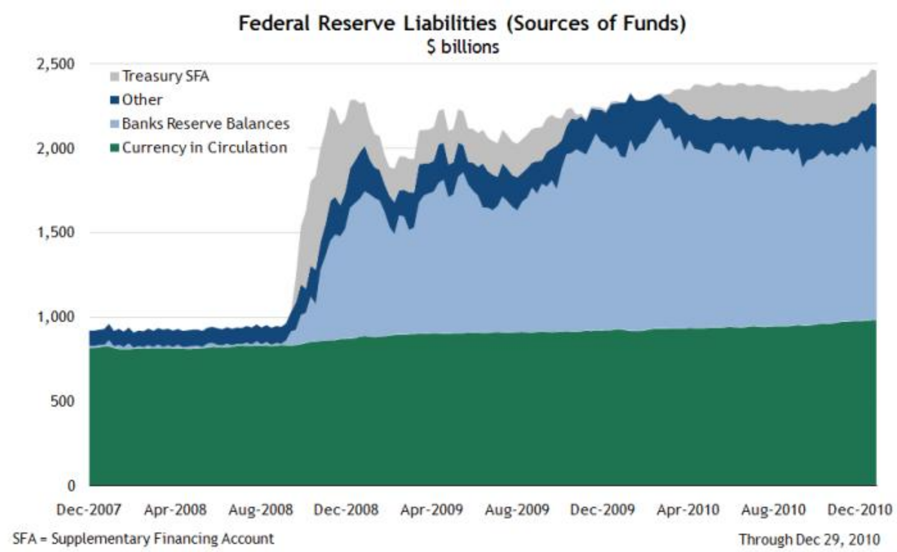
Since November 10, the balance sheet has increased $108.3 billion.



Source: Federal Reserve Board

- Treasuries increased by $8.9 billion while agency debt and MBS decreased $16.3 billion. Since November 10, Treasury securities have grown by $163 billion while agency debt and MBS have shrunk by $61.1 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $105 billion between mid-December and mid-January.
- Growth in the balance sheet will fluctuate from week to week as a result of volatility of MBS prepayments.

Bank reserve balances with the Federal Reserve decreased $14.8 billion while reverse repurchase agreements increased $8.1 billion.



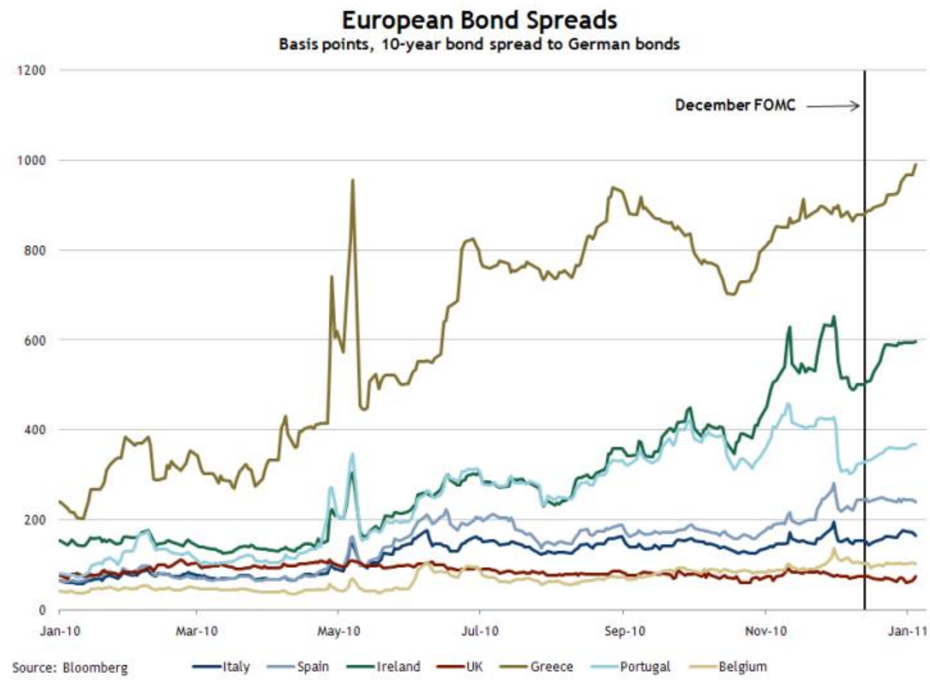
Source: Federal Reserve Board

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.

European Debt

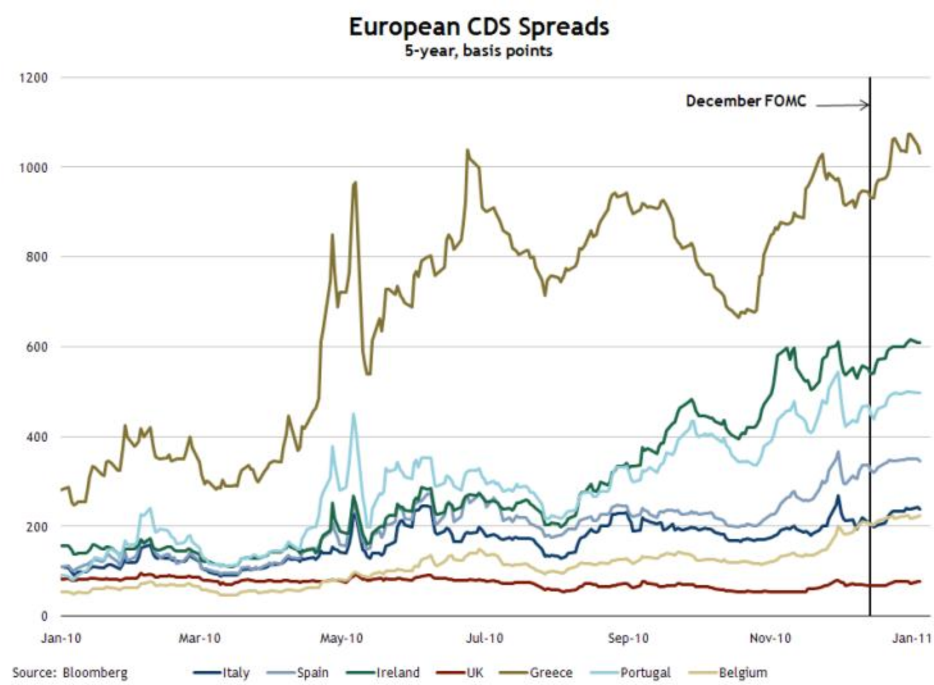
Summary

Greek, Irish, and Portuguese bond spreads (over German bonds) continue to be elevated, rising since the December FOMC meeting.



- Since the December FOMC meeting, the 10-year Greek-to-German bond spread has widend by 105 basis points (bps) (from 8.85% to 9.90%) through January 4.
- Similarly with other European peripherals' spreads, Portugal's is 38 bps higher, and Ireland's spread is 88 bps higher.

Similarly, CDS spreads have widened recently.

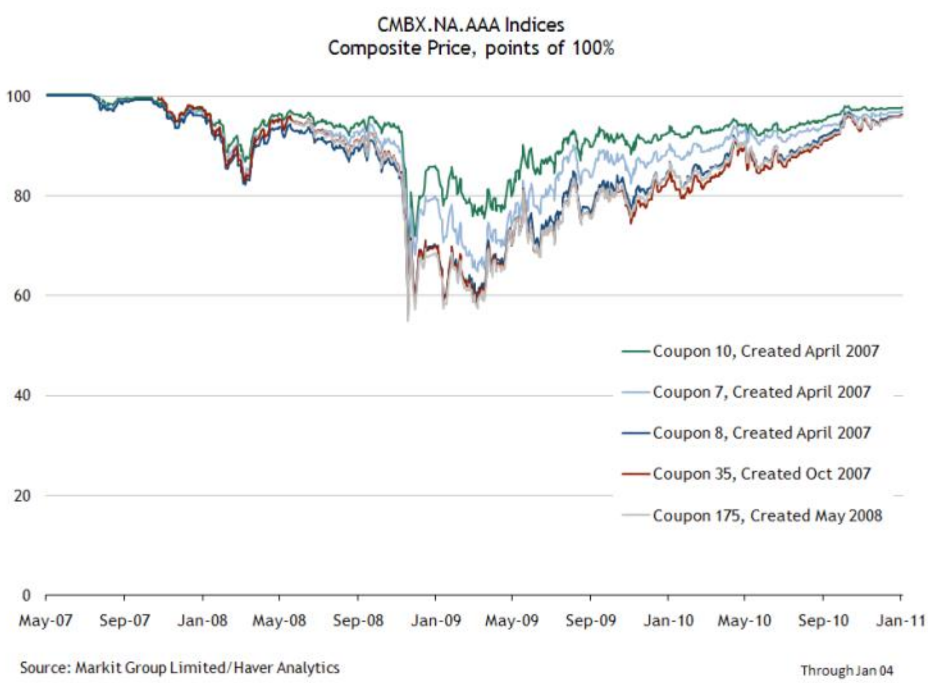


Securitization Markets

Summary

The ABX has changed little over the past couple of months, an indication of stability in the cost to insure against default on the underlying home equity loans.

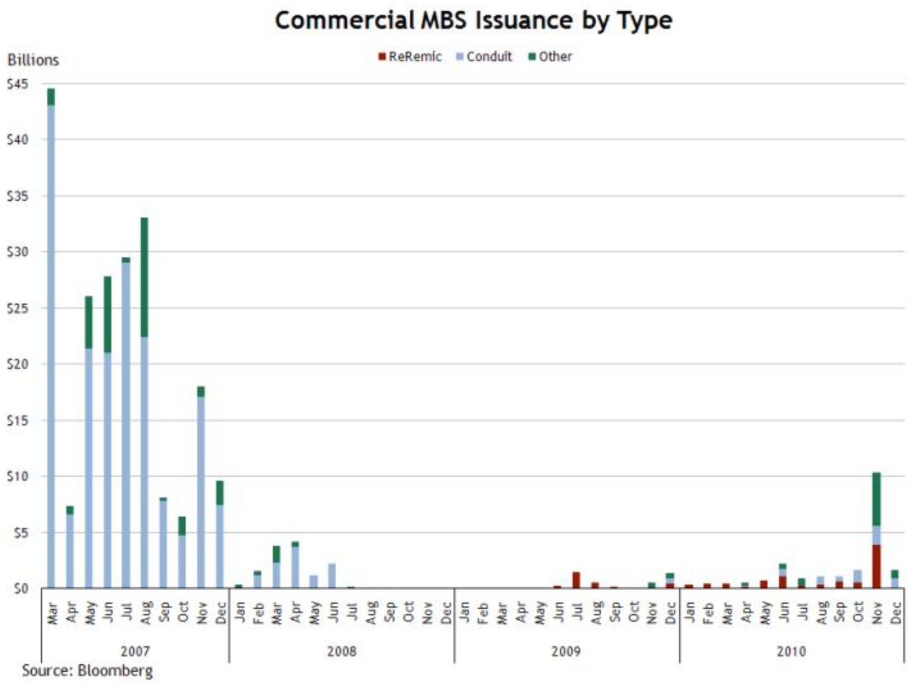
The index value of commercial MBS credit default swaps also appears to be stabilizing. All vintages of the CMBX.NA.AAA are converging at close to prerecession levels. Increases in the index indicate a decrease in the cost to insure against default of commercial MBS.



Commercial Mortgage Backed Securities

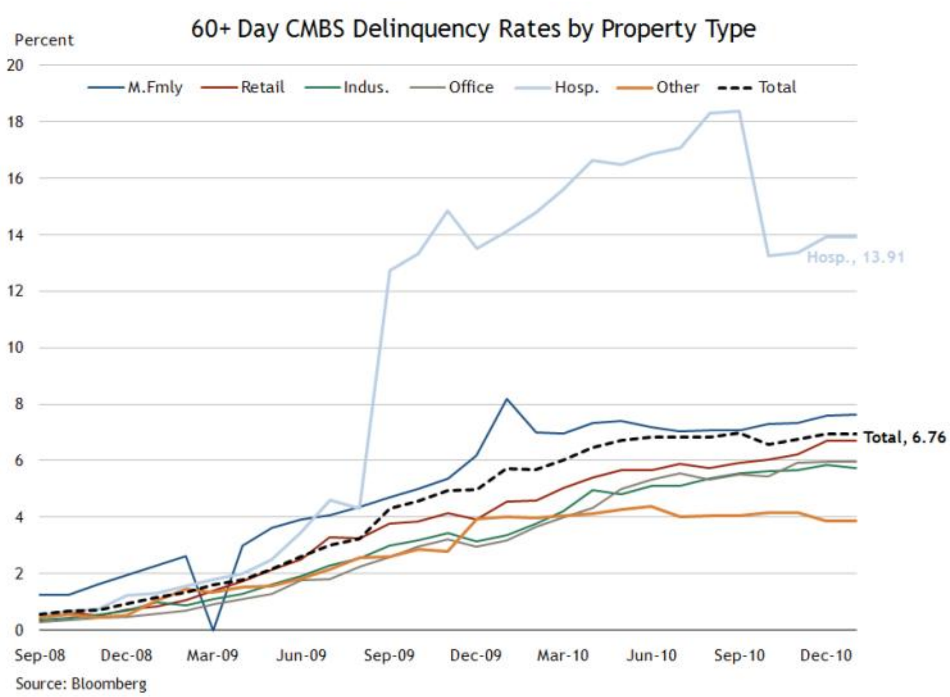
Summary

Issuance of commercial mortgage backed securities remains depressed. November saw a relatively large amount of activity, but December did not see the same amount of deals.



The 60-plus day delinquency rate for all properties, which includes loans 60 days past due, 90 days past due, REOs, and foreclosures, dropped slightly from Dec. 1, 2010, to Jan. 1, 2011.

Delinquency rates on hospitality properties (such as hotels) have declined significantly since September.

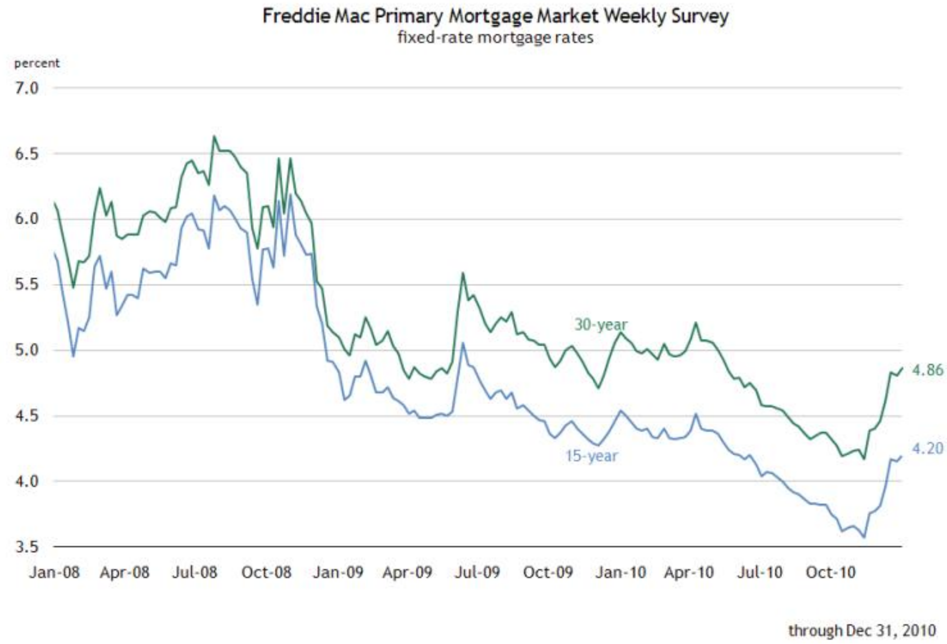


Mortgage Rates

Summary

Rates for fixed-rate mortgages edged up slightly for the week ended December 31 but remain relatively low.

The 30-year rate has risen to levels last seen in May 2010; the 15-year rate rose to levels last seen in June 2010.



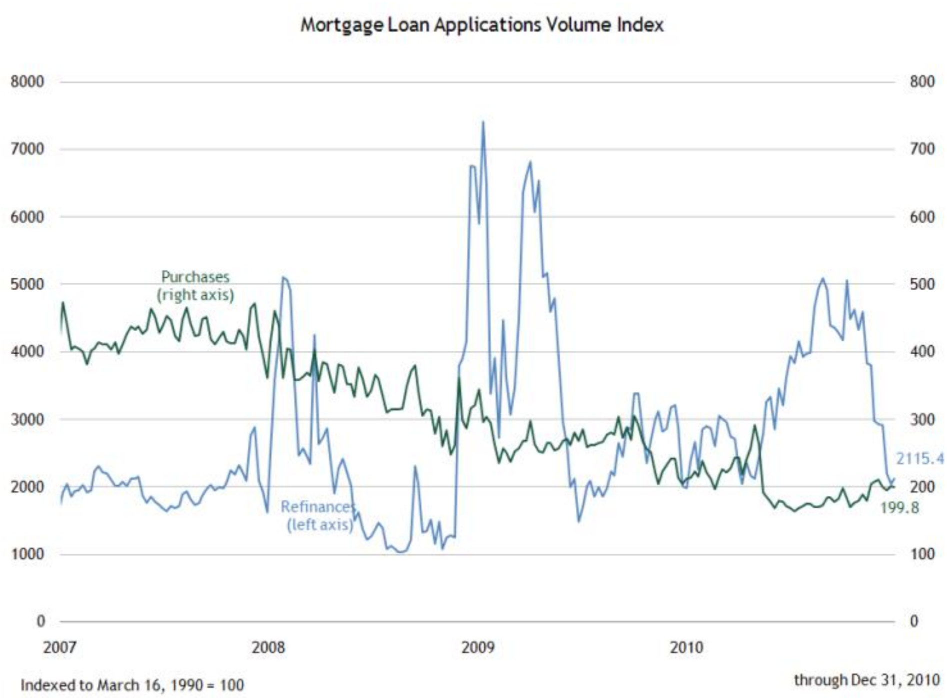
Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.86%, up slightly from 4.81% a week ago. At this time last year, the 30-year fixed rate averaged 5.14%.
- The 15-year fixed rate averaged 4.20%, up slightly from 4.15% a week ago. At this time last year the 15-year fixed rate mortgage averaged 4.54%.

The number of mortgage purchase applications declined last week, and the purchase index decreased 0.8% from the week earlier.

The refinance index increased 3.9% from the previous week after declining seven consecutive weeks.

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.



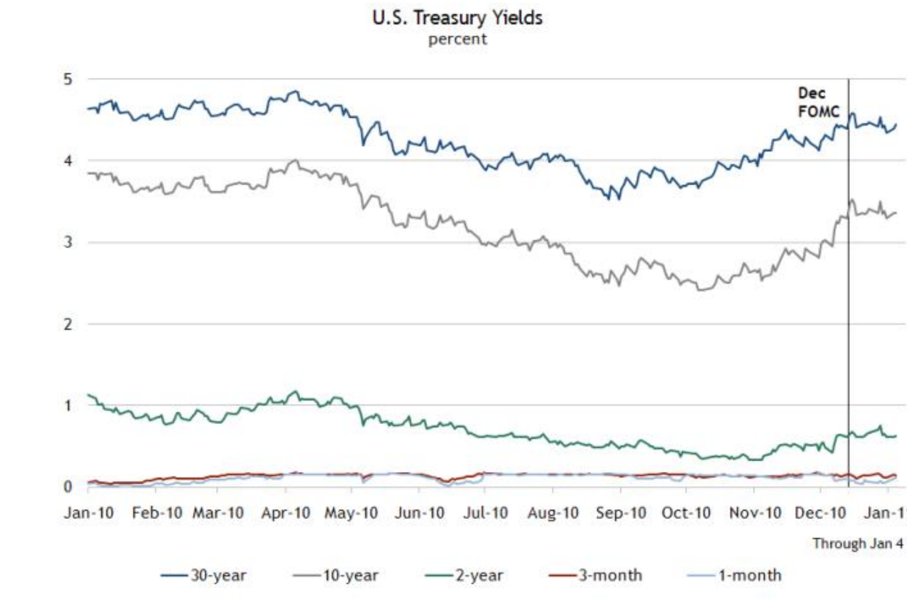
Source: Mortgage Bankers Association/Haver Analytics

- The refinance share of mortgage activity decreased to 71.0% from 70.3% the previous week.

Broad Financial Market Indicators

Summary

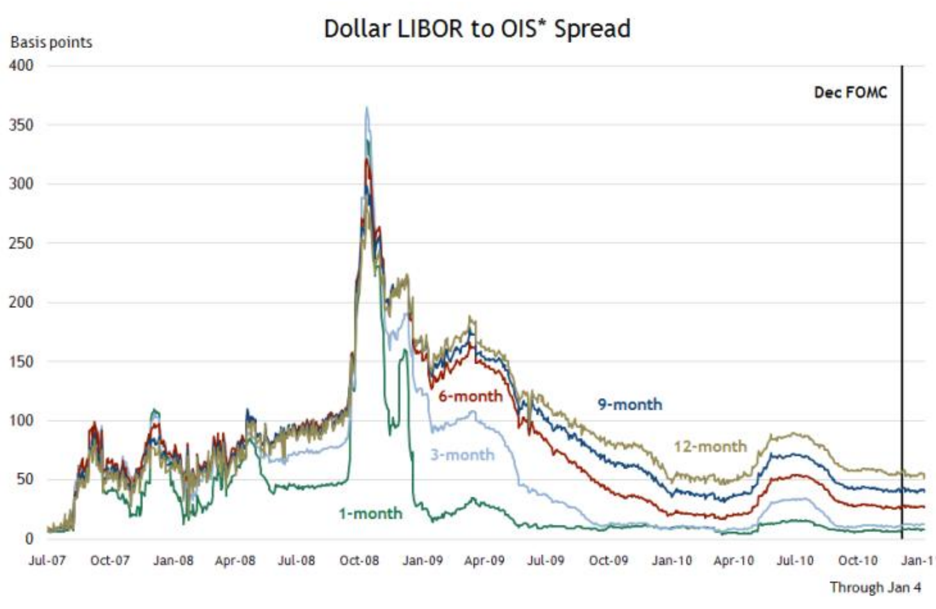
Longer-dated Treasury yields have fallen slightly since the December FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Through January 4, the 30-year Treasury bond has fallen 10 bps to 4.44% since December 14, while the 10-year note is lower by 13 bps to 3.36% and the 2-year by 3 bps to 0.63%.

LIBOR to OIS spreads continue to be stable.



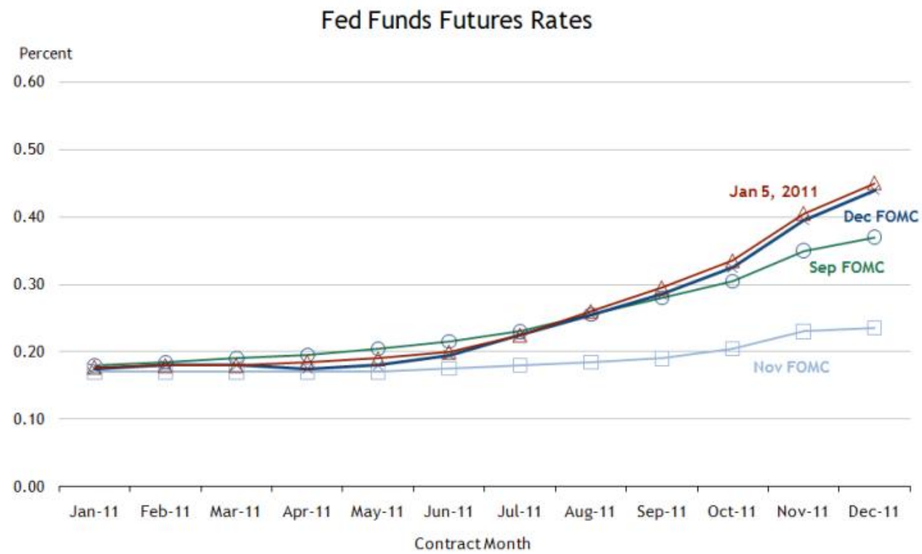
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

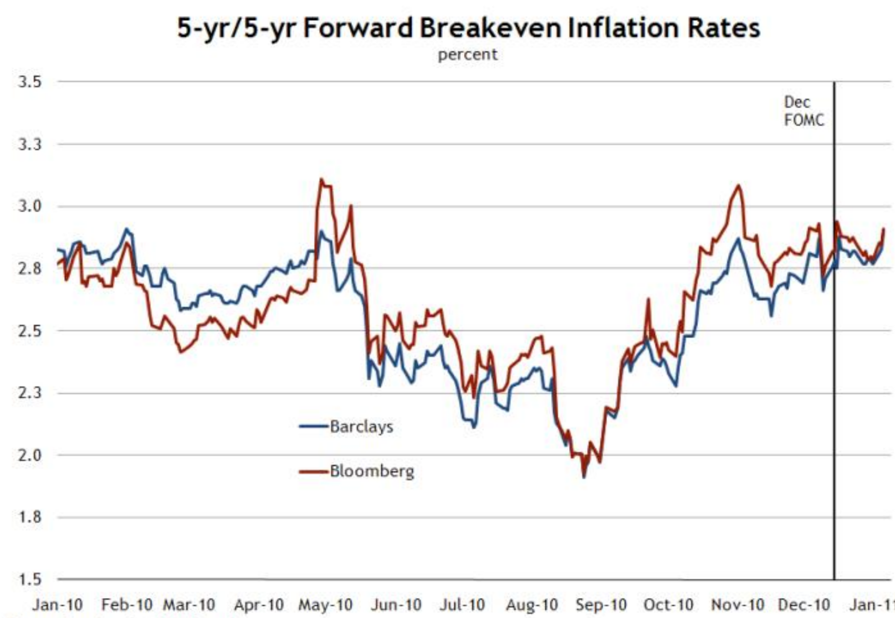
Since the November FOMC meeting, the curve of expected rates beginning in mid-2011 has moved noticeably higher, according to the fed funds futures market, exceeding the path of rates expected in September.



Source: Bloomberg

- As of January 5, the futures market for fed funds indicates an implied rate of about 45 bps for the December 2011 contract, nearly 22 bps higher than what followed the November FOMC meeting.

Breakeven inflation rates have risen slightly since the December FOMC meeting.



Source: Barclays Capital/Bloomberg

- After breakeven inflation rates rose strongly between the September and November FOMC meetings, they have since stayed within the range of 2.6% to 2.9%.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.90%, which is up about 12 bps since the December FOMC meeting.