FEDERAL RESERVE BANK of ATLANTA

May 12, 2010

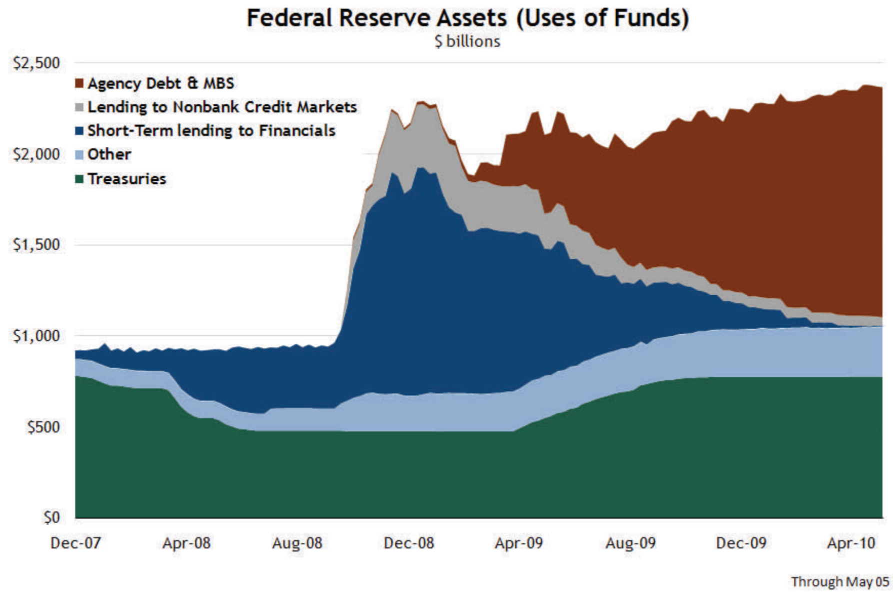
Financial Highlights

Federal Reserve

Summary

The balance sheet contracted $5 billion for the week ended May 5.

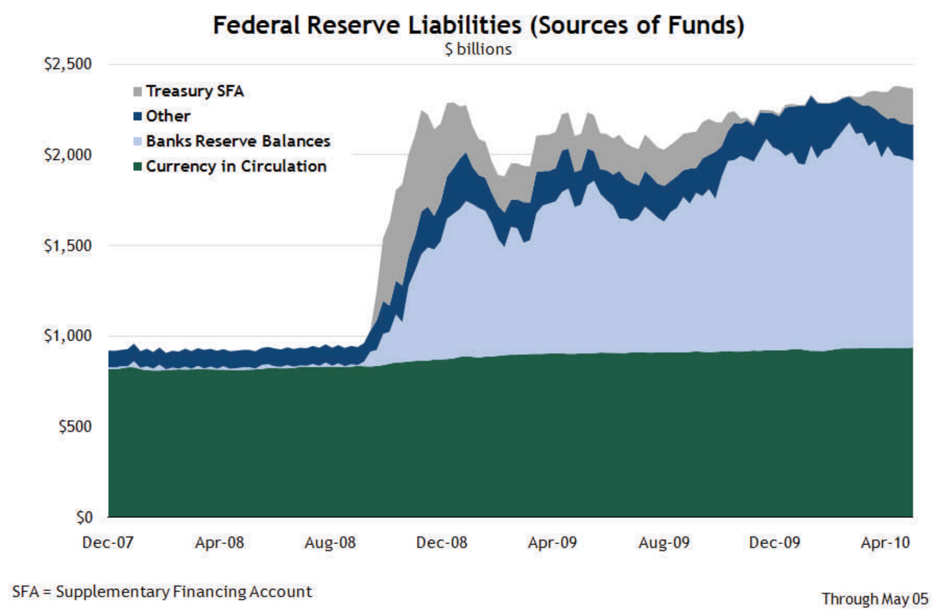
Amid increased demand for dollars abroad, the Federal Reserve announced Sunday that it will restart currency swaps.



Source: Federal Reserve Board

- The biggest change on the balance sheet came from the decline in the commercial paper funding facility (part of lending to nonbank credit markets). It dropped $4.9 billion to $2 million.
- The amount of MBS on the balance sheet increased by $1 billion. The MBS purchase program ended in March, but MBS on the balance sheet are expected to continue to grow as the purchases continue to settle on the balance sheet. Currently there are $1.1 trillion in MBS and $168 billion of agency debt on the balance sheet. For more information about settlement time of MBS, see the New York Fed's Web site.

Bank reserve balances declined $16 billion, continuing the recent downward trend.



Source: Federal Reserve Board

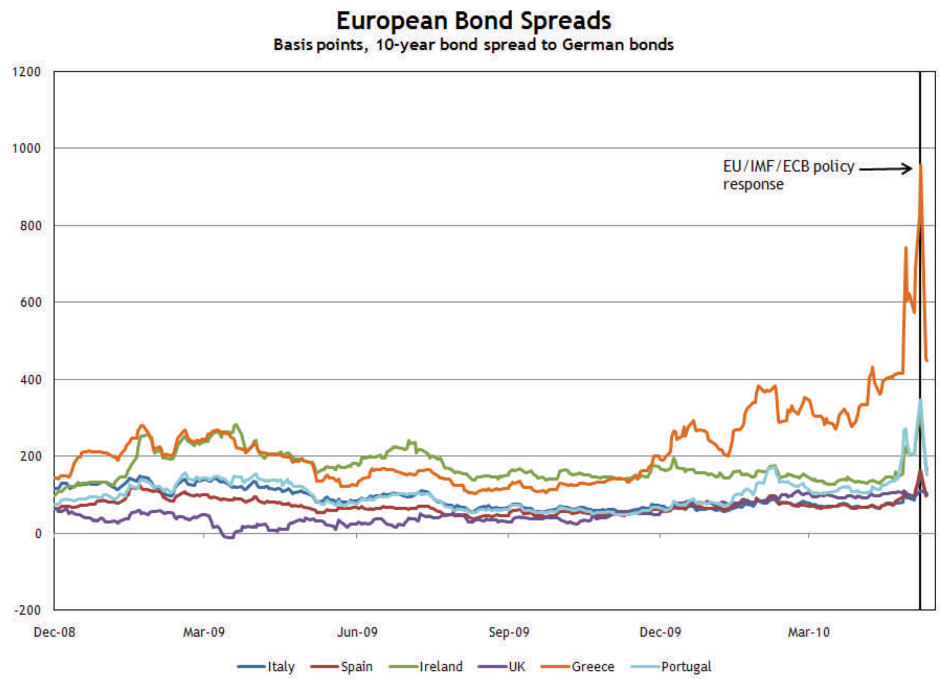
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

European Debt

Summary

European bond spreads (over German bonds) narrowed considerably this week following the unveiling of the European Union's €750 billion policy response on May 9, jointly with the International Monetary Fund.

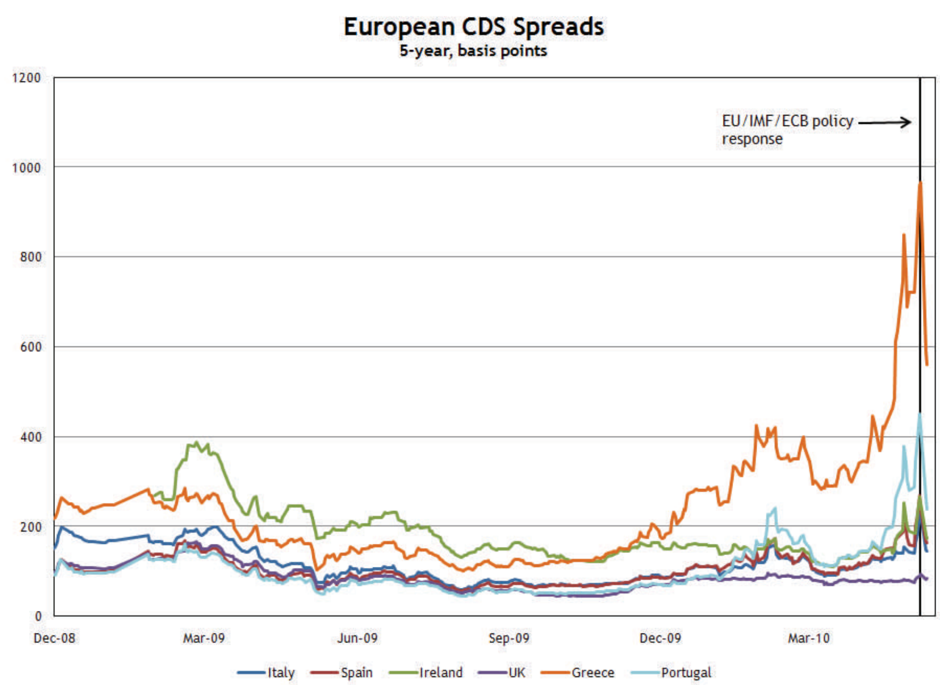
In addition to the €750 billion package, the European Central Bank announced its Securities Market Program, aimed at purchasing public and private European debt.



Source: Bloomberg

- During the past few weeks, the 10-year Greece-to-German bond spread had risen to nearly 10% (or 1000 bps), but following the €750 billion EU/IMF package, the spread fell sharply to around 450 bps, as of May 11. Other European peripherals' spreads also narrowed, with Portugal currently at 152 bps, Ireland at 165 bps, and Spain at 100 bps.

Similarly, CDS spreads narrowed this week.

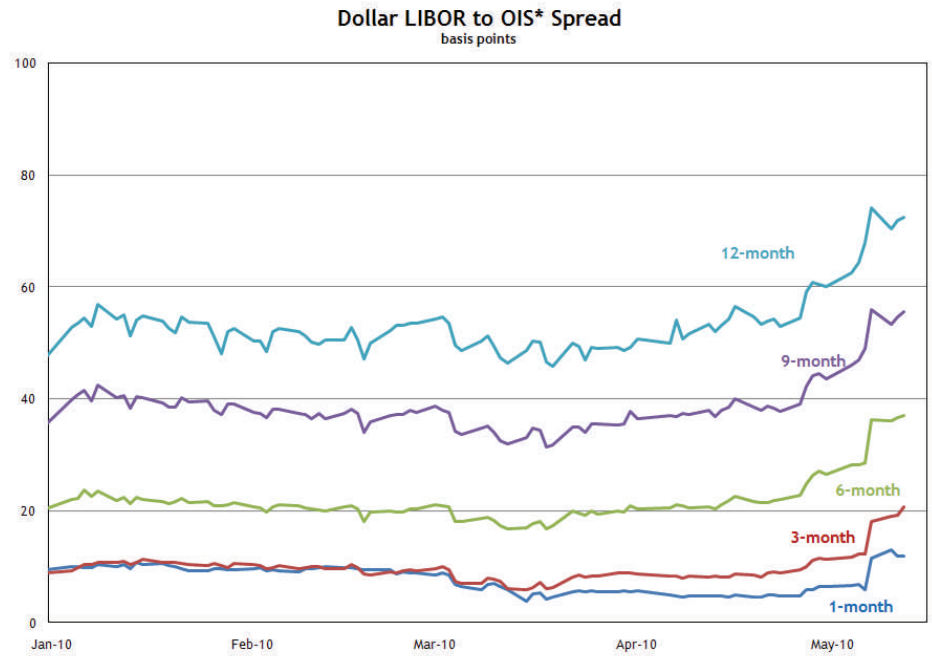


Source: Bloomberg

Broad Financial Market Indicators

Summary

LIBOR to OIS spreads rose sharply last week, particularly between May 6 and 7, as European financial turmoil increased interbank credit premiums.

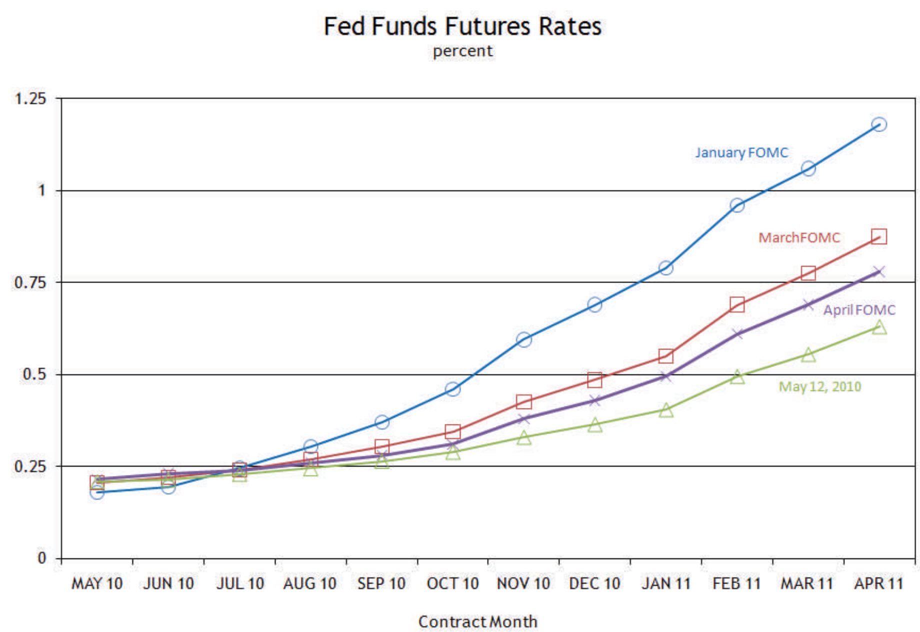


Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

- Between May 6 and 7, dollar LIBOR to OIS spreads widened across all tenors. The one- and three-month spreads rose by nearly 6 basis points (bps), while the six-, nine-, and 12-month spreads were higher by 6-8 bps. Spreads have not recovered to the ranges seen prior to the last few weeks.

The curve of expected rates from the fed funds futures market has flattened since the April FOMC meeting.



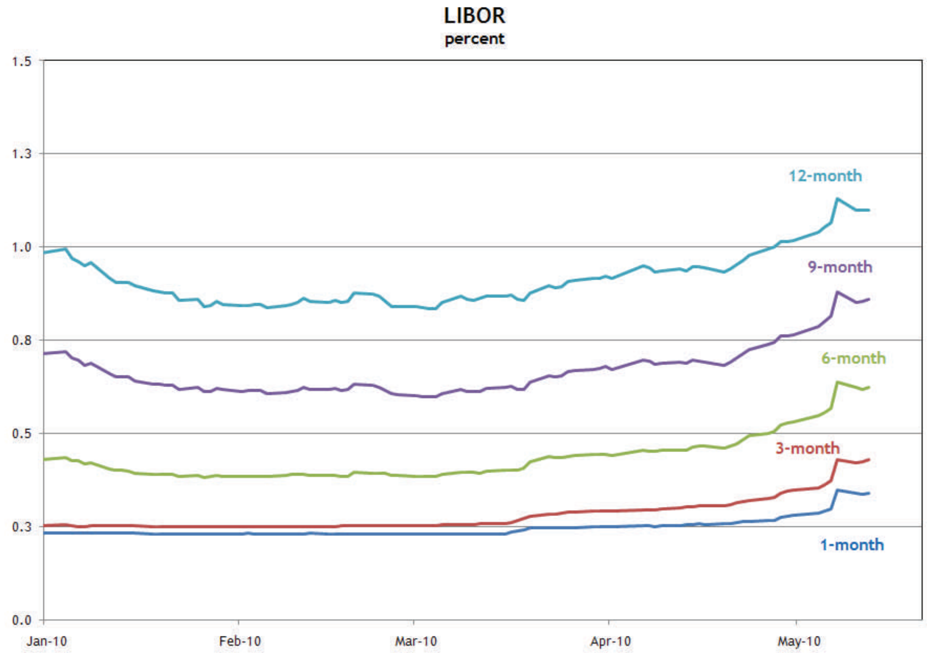
Source: Bloomberg

- The fed funds futures market reflects an expectation of a rate increase in early 2011.

Broad Financial Market Indicators

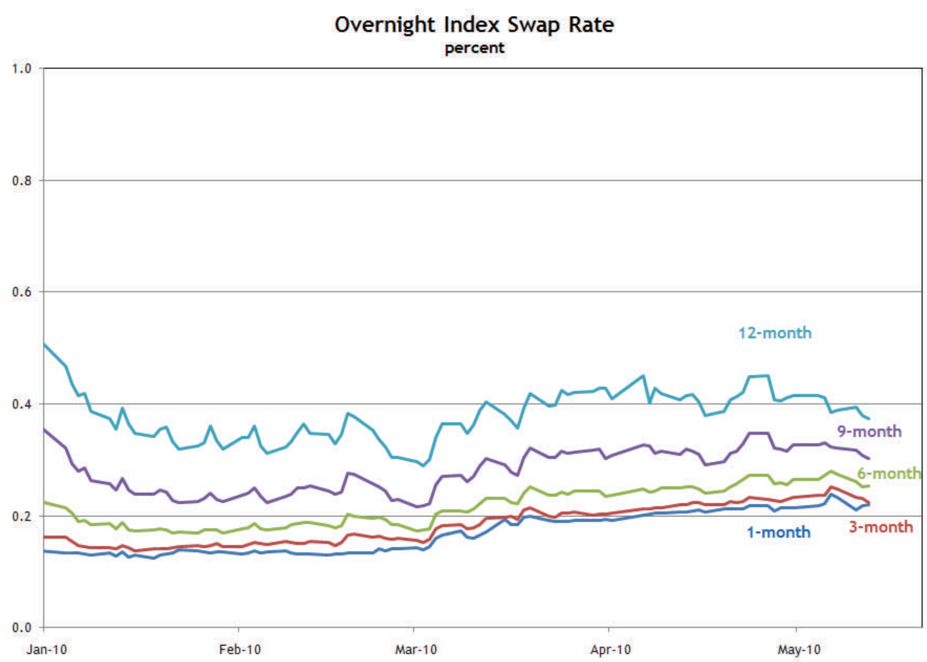
Summary

Decomposing the LIBOR to OIS spread into its respective components shows a rise in LIBOR fixings last week (particularly on May 7) as the driving factor behind the spread widening (see previous page).



Source: Bloomberg/British Bankers' Association

Overnight index swap rates, while volatile, have been stable.

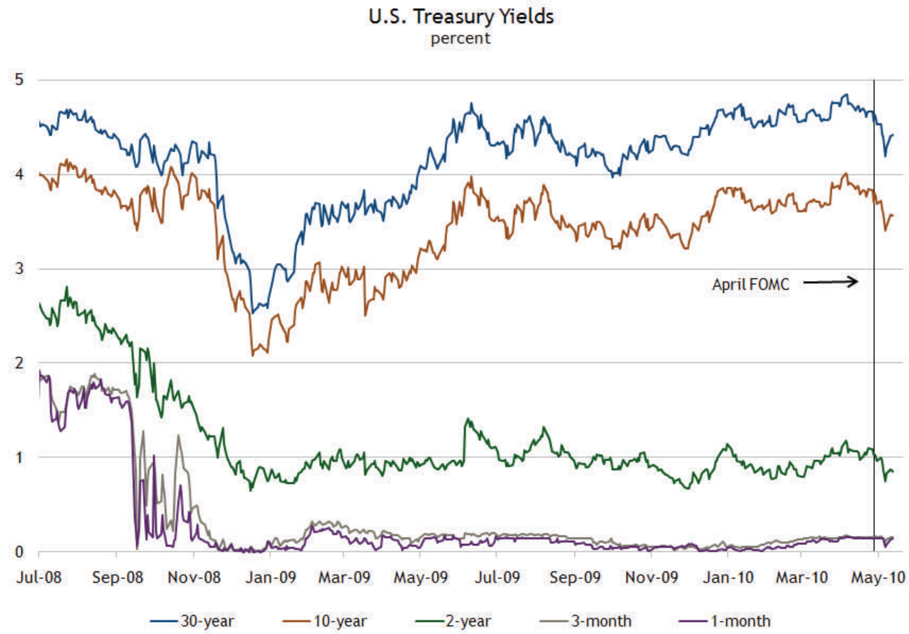


Source: Bloomberg/British Bankers' Association

Broad Financial Market Indicators

Summary

Continuing the trend seen across several indicators, last week's volatility is also evident in the Treasury market.



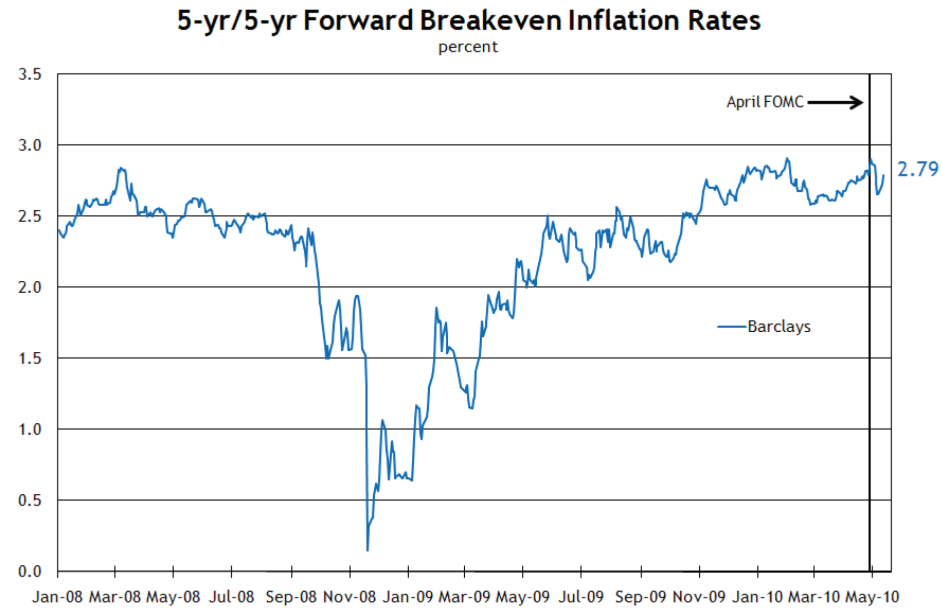
Source: Federal Reserve Board

- As with other market indicators, Treasury yields experienced a sharp decline amid safe-haven flows from the European financial distress and broader anxiety stemming from the sharp equity market plunge last Thursday. On May 6, yields dropped 13 bps to 20 bps across the two-to-30 year curve.
- Taking a slightly longer look, since the April FOMC meeting, longer-dated Treasury yields have moved lower across the two-to-30 year curve: Through May 12, the 30-year bond is down 21 bps to 4.42%, the 10-year bond is 24 bps lower at 3.56%, and the two-year note declined 18 bps to 0.85%.
- The three– and one-month T-bill rates are essentially unchanged at 0.16% and 0.15%, respectively.

Broad Financial Market Indicators

Summary

After narrowing sharply last week amid broader market distress, breakeven inflation rates from the TIPS market have stabilized and remain within recent ranges.



Source: Bloomberg/Barclays Capital

- At Friday's close last week, the 5-year/5-year forward breakeven inflation rate fell by 21 bps (from 2.87% to 2.66%) compared with the previous Friday's close, according to Barclays. But the rate has since risen back to recent ranges with a reading of 2.79% on May 12.