FEDERAL RESERVE BANK of ATLANTA

May 26, 2010

Financial Highlights

Federal Reserve

Balance Sheet 1

European Debt

Bond Spreads 2

CDS Spreads 2

Corporate Bonds

Yield Spreads 3

Issuance 3

CDX 4

Broad Financial Market Indicators

LIBOR to OIS: Spread and Rates 5, 6

Fed Funds Futures 5

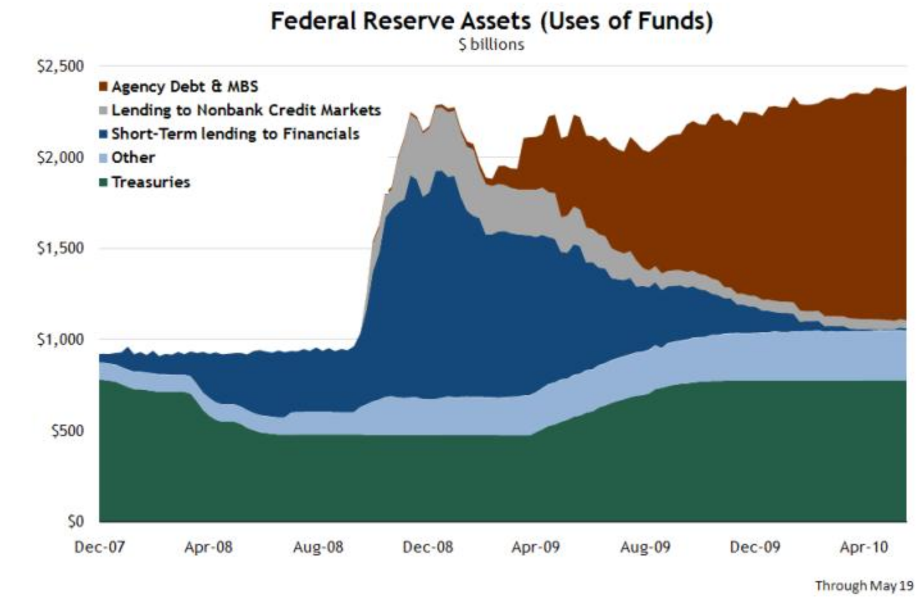
Treasury Yields 7

Federal Reserve

Summary

The balance sheet expanded by $15 billion to $2.4 trillion for the week ended May 19.

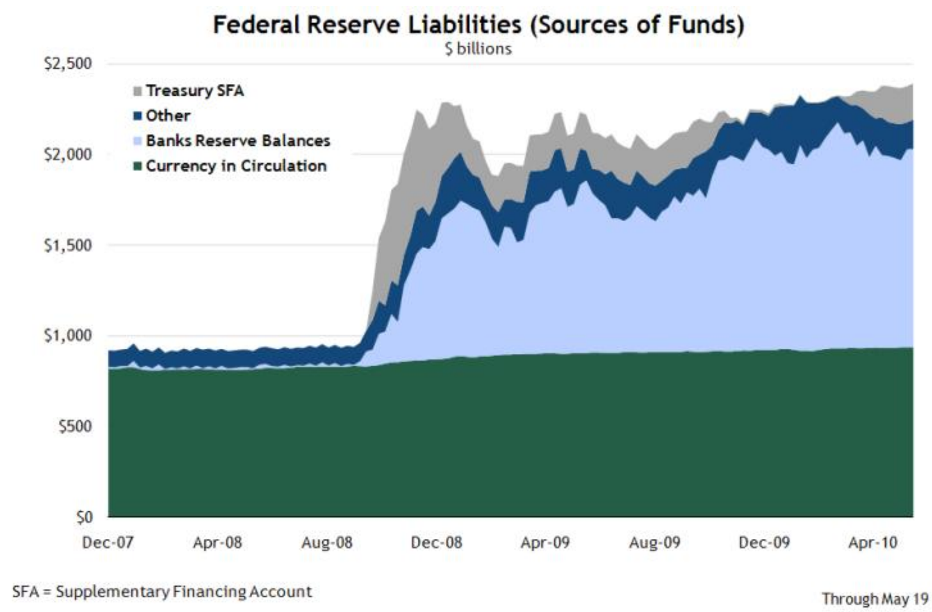
The Federal Reserve has restarted currency swaps with foreign central banks as a result of increased demand for dollars abroad, specifically in Europe.



Source: Federal Reserve Board

- Currency swaps with the European Central Bank remained unchanged from the prior week; the ECB is the only central bank that has participated so far.
- The increase in the balance sheet came mostly form MBS, which grew by $21 billion. The MBS purchase program ended in March, but MBS is expected to continue to increase the size of the balance sheet as purchases take time to settle. For more information about settlement time of MBS see the New York Fed's Web site.

Bank reserve balances increased by $3 billion, but the main mover was the Treasury's general account with the Federal Reserve (part of "Other"), which increased by $13 billion.



Source: Federal Reserve Board

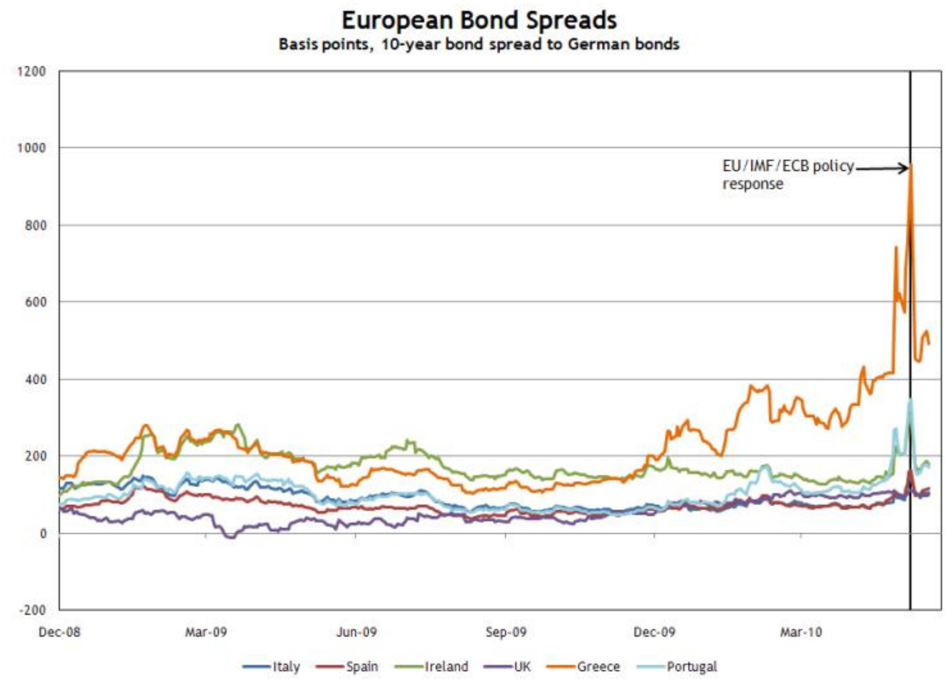
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

European Debt

Summary

Peripheral euro area bond spreads (over German bonds) narrowed sharply following the unveiling of the EU/IMF €750 billion package but have since widened from 38 basis points (bps) to as much as 75 bps (in the case of Greece).

In addition to the €750 billion EU/IMF package, the European Central Bank has purchased €16.5 billion of sovereign debt as part of its Securities Market Program.

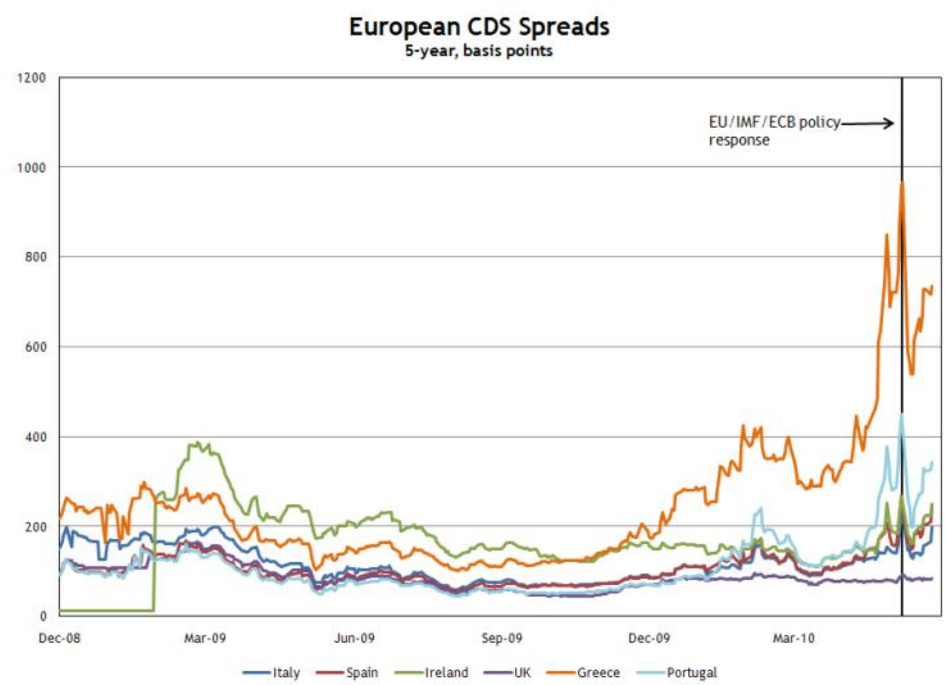


Source: Bloomberg

- After declining early last week, sovereign debt spreads have begun widening for peripheral euro area countries. As of May 25, the 10-year bond spread stands at 522 basis points (bps) for Greece, 217 bps for Ireland, 198 bps for Portugal, and 157 bps for Spain.

Similarly, CDS spreads have risen after the initial response to the stabilization package.

It should be noted that the German government, through its financial services regulator BaFin, unilaterally and temporarily banned naked short selling of sovereign debt securities, naked credit default swaps on European sovereign debt in which the buyer has no hedging demand, and naked short sales in 10 prominent German financials.

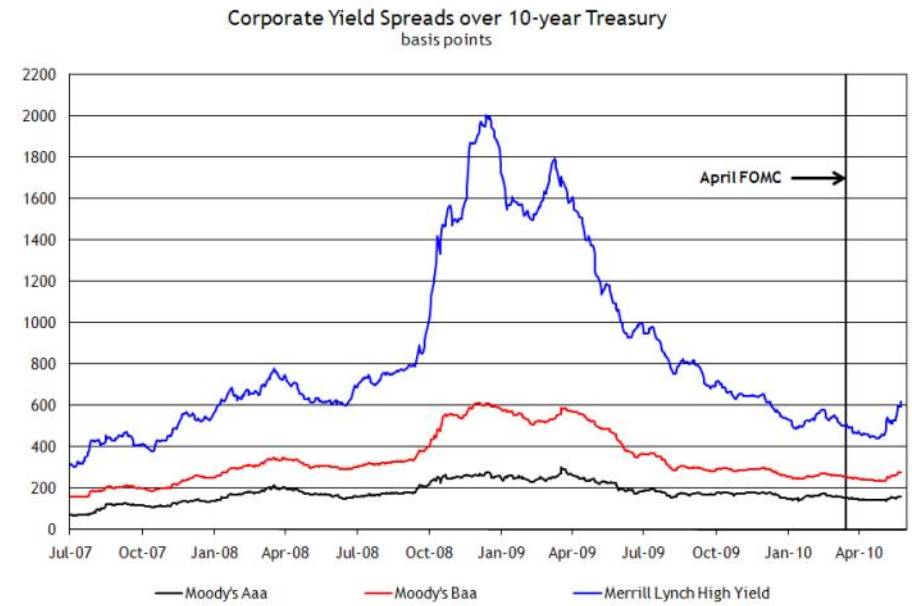


Source: Bloomberg

Corporate Bonds

Summary

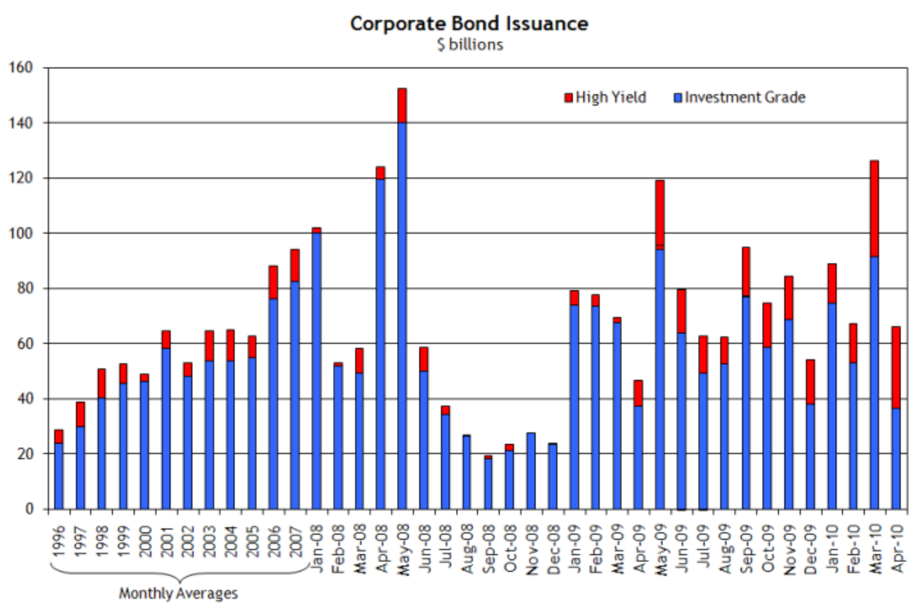
Corporate yield spreads have risen since the April FOMC meeting, as Treasury yields have fallen.



Source: Merrill Lynch, Federal Reserve Board

- Since the April FOMC meeting, corporate yield spreads have risen by 176 bps for the Merrill Lynch High Yield Index, 16 bps for Moody's Aaa-rated bonds, and 41 bps for Baa-rated bonds. The 10-year Treasury yield has dropped 62 bps during this time.

U.S. corporations accessed the bond market for $65.8 billion in financing during April 2010. Of this, $29.5 billion was high-yield bonds.



Source: SIFMA

- According to SIFMA, U.S. corporate bond issuance hit $65.8 billion in April 2010, a figure below the monthly average of $82.6 billion seen in the six months before. Of the $65.8 billion issued, $29.5 billion was high-yield debt.

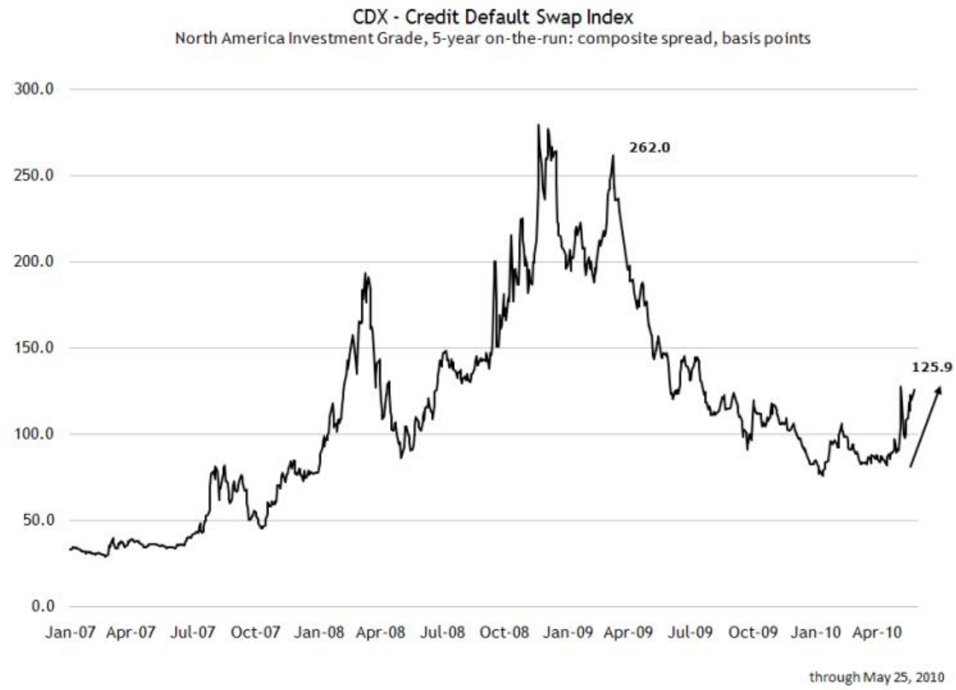
Corporate Bonds

Summary

The Markit CDX North America investment grade index climbed 35.2 bps more than a month ago. At 125.9 bps on May 25, the index is at its highest level since May 6, when it reached 127.6 bps. The May 6 level was the highest level since July 17, 2009.

Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. An increase in the CDX generally signals a deterioration in the perception of credit quality.

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

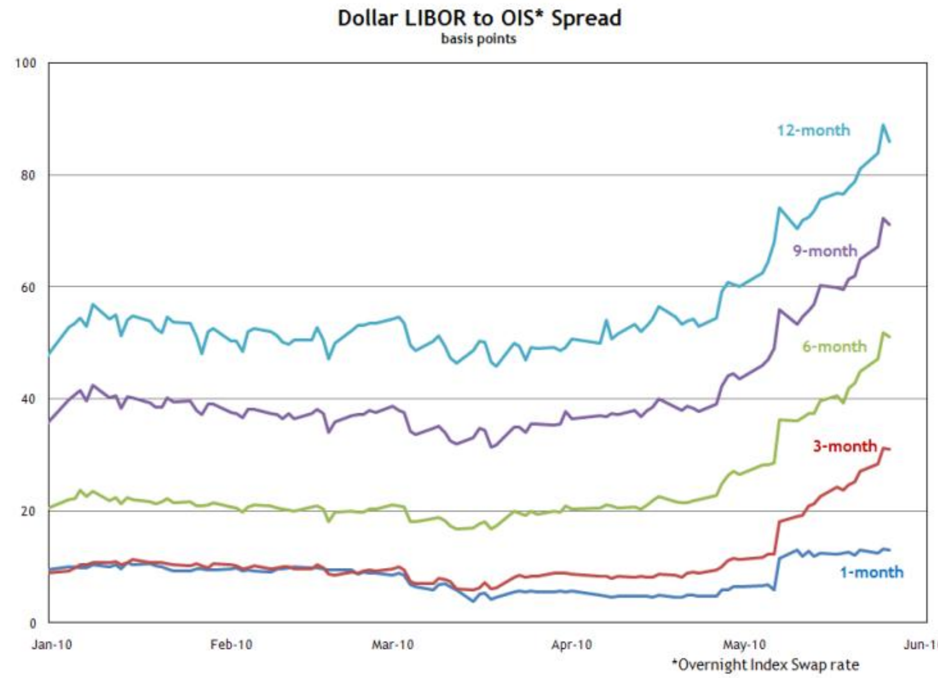


Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

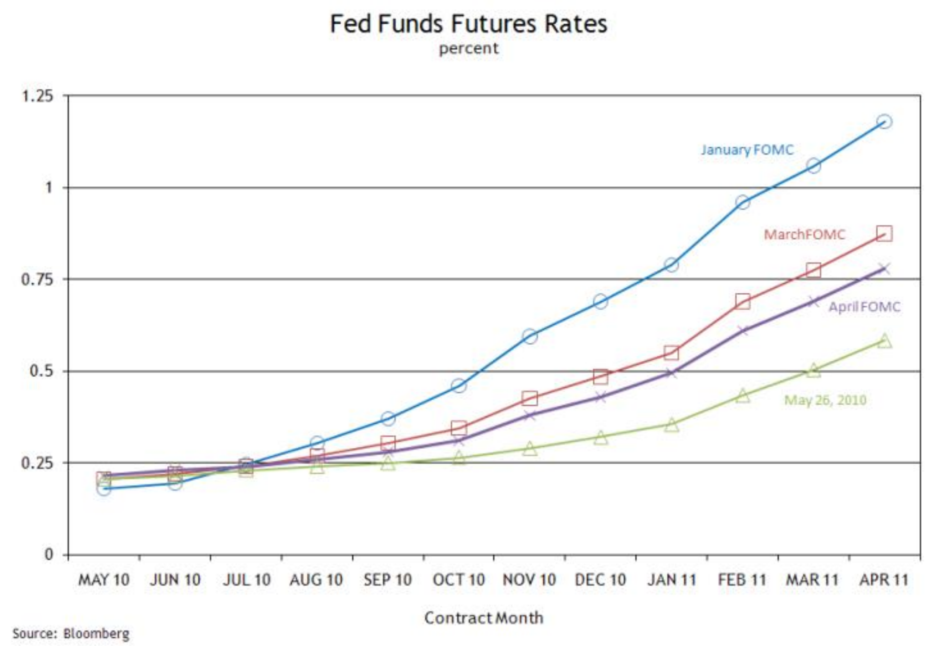
Outside of the one-month tenor, LIBOR to OIS spreads have risen 12 bps to 15 bps since May 7 as European financial turmoil continues to pressure dollar funding markets.



Source: Bloomberg/British Bankers' Association

- Between May 7 and 26, dollar LIBOR to OIS spreads widened in all tenors except for one month, which is up only 1.4 bps. Spreads rose from 12 to 15 bps for three-, six-, nine-, and 12-month spreads.

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



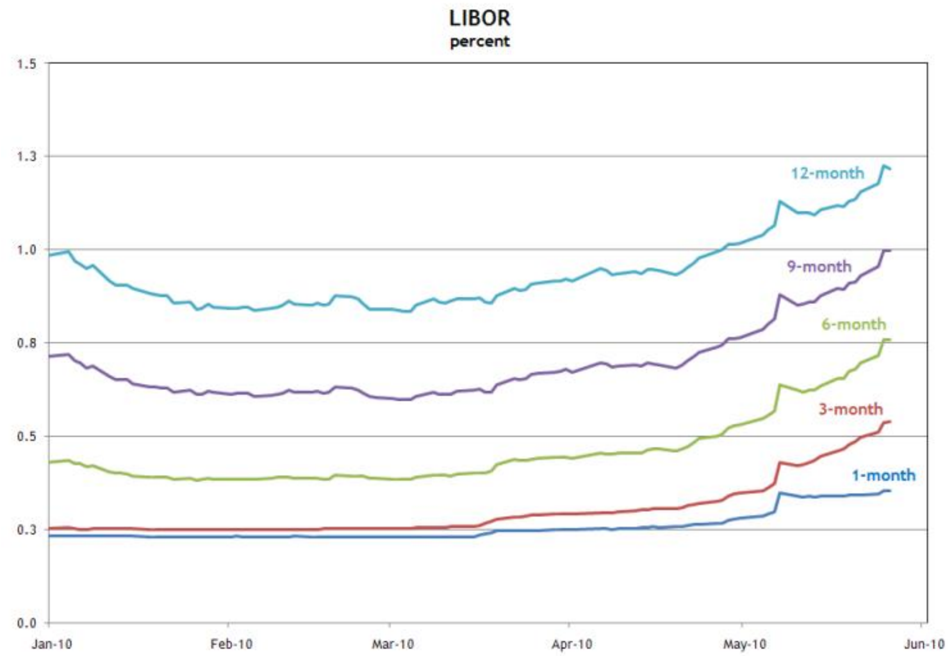
Source: Bloomberg

- Since the April FOMC meeting, the fed funds futures market doesn't reflect an expectation of a rate increase until the first or second quarter of 2011.
- As of May 26, the futures market for fed funds indicates an implied rate of about 51 bps for the March 2011 contract.

Broad Financial Market Indicators

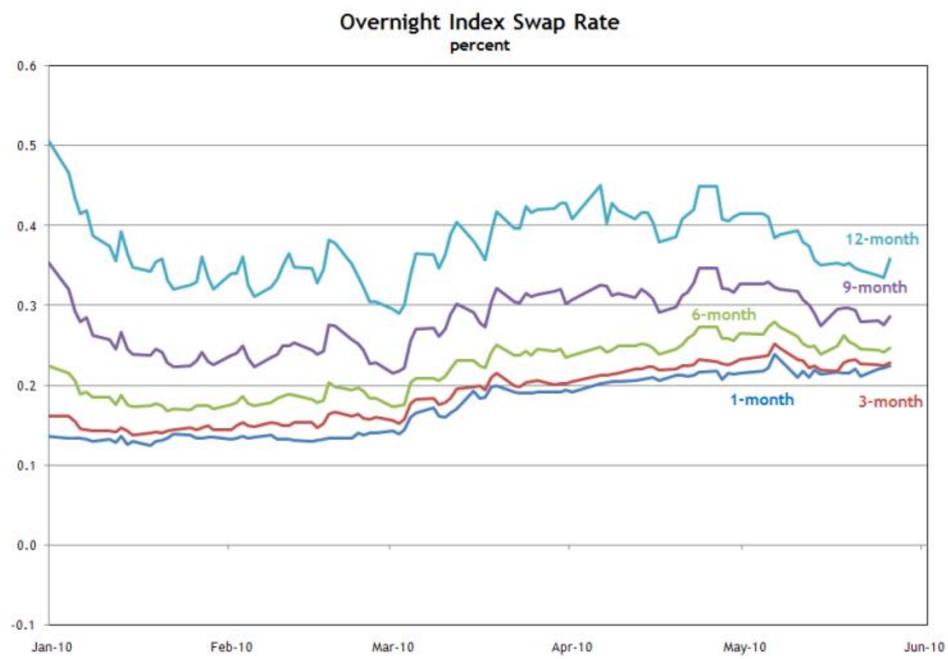
Summary

Decomposing the LIBOR to OIS spread into its respective components shows a rise in LIBOR fixings for all tenors longer than one month. On average, LIBOR is 8 to 10 bps higher for each tenor since its recent peak on May 7.



Source: Bloomberg/British Bankers' Association

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

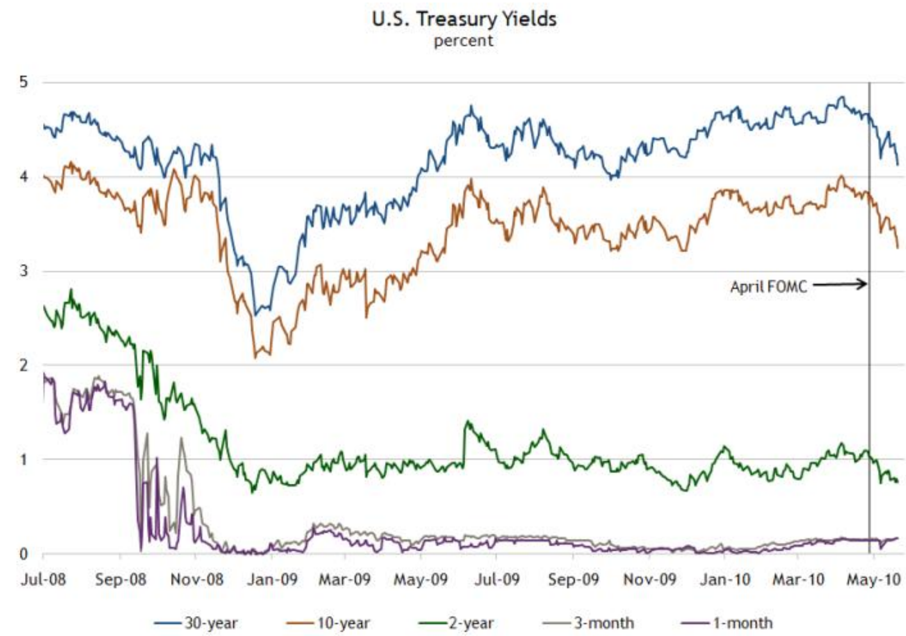


Source: Bloomberg/British Bankers' Association

Broad Financial Market Indicators

Summary

Longer-dated Treasury yields continue to decline amid a broader shunning of risky assets.



Source: Federal Reserve Board

- Treasury yields continue to experience declines from safe-haven flows coming in light of uncertainty regarding European financial troubles.
- Since the April FOMC, longer-dated Treasury yields have moved lower across the 2-to-30 year curve: Through May 25, the 30-year bond is down 56 bps to 4.07%, the 10-year note is 62 bps lower at 3.18%, and the two-year note declined 22 bps to 0.81%.
- The three– and one-month T-bill rates are essentially unchanged at 0.17% and 0.16%, respectively.