FEDERAL RESERVE BANK of ATLANTA

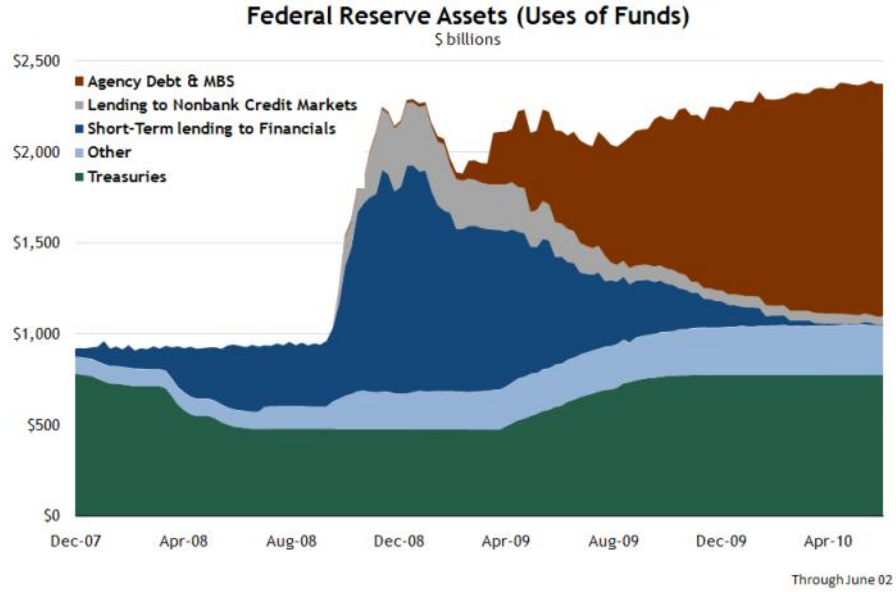
June 9, 2010

Financial Highlights

Federal Reserve

Summary

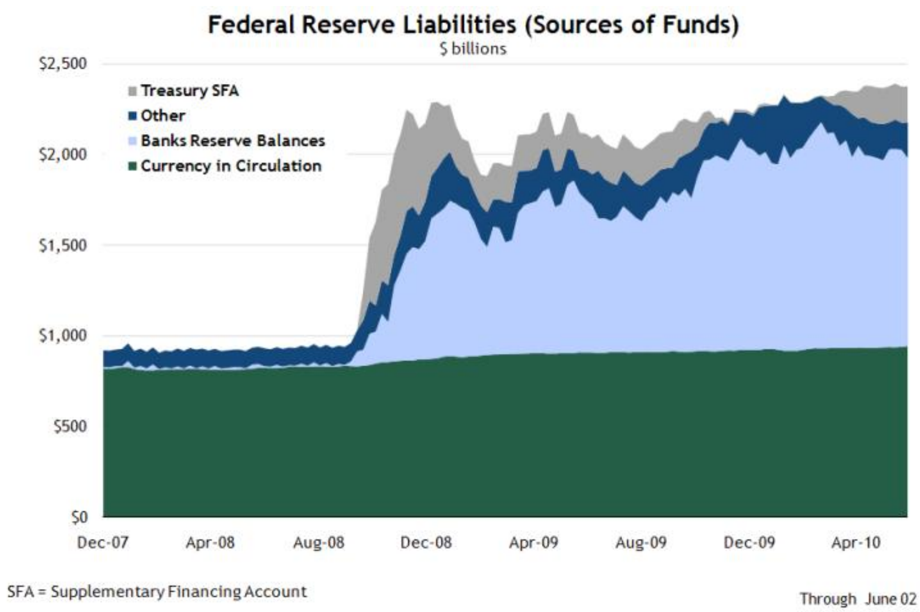
The balance sheet increased by $1 billion to $2.4 trillion for the week ended June 2.



Source: Federal Reserve Board

- Currency swaps on the balance sheet increased by $5.4 billion as a result of a new one-week transaction with the ECB. This increase was largely offset by a $4.1 billion decline in primary credit to depository institutions.
- Mortgage backed securities grew by $700 million.

Bank reserve balances declined by $50 billion while U.S. Treasury deposits with Federal Reserve banks (part of "Other") grew by $46 billion.



Source: Federal Reserve Board

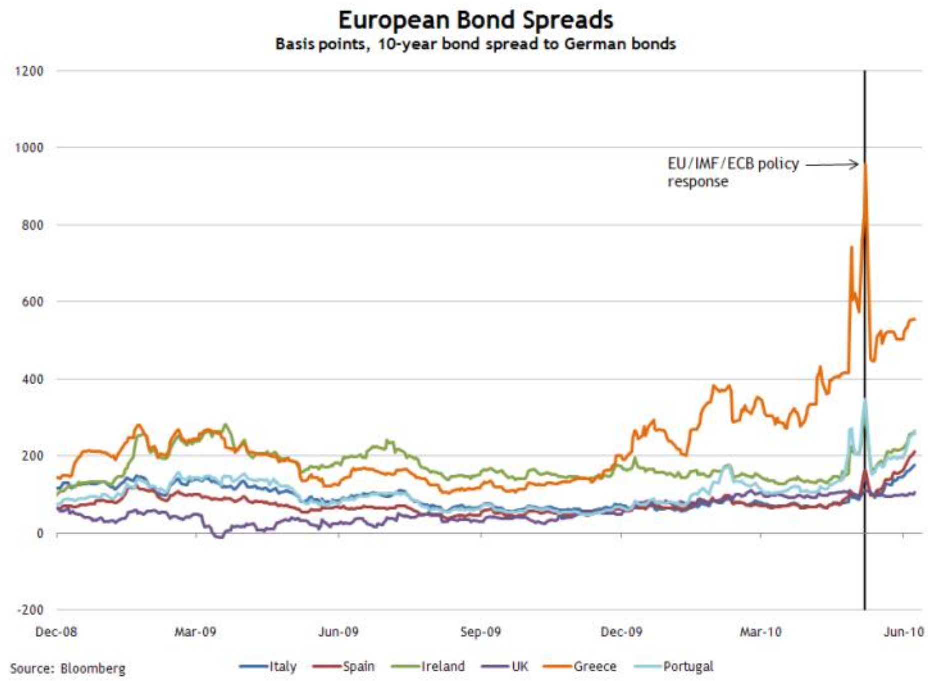
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

European Debt

Summary

Following a decline after the initial reports of the EU/IMF €750 billion package and ECB bond purchases, peripheral euro area bond spreads (over German bonds) have widened.

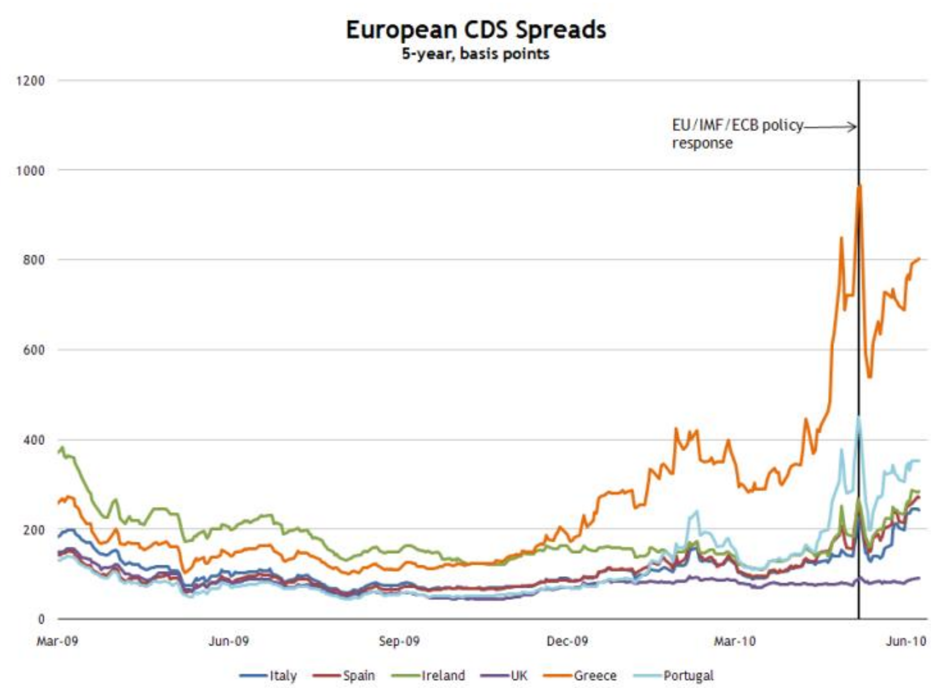
In particular, the bond spreads for Italy and Spain have widened the most *relative* to their levels before the rescue package was unveiled.



Source: Bloomberg

- After initially declining four weeks ago, sovereign debt spreads have begun widening for peripheral euro area countries. As of June 9, the 10-year bond spread stands at 554 basis points (bps) for Greece, 258 bps for Ireland, 265 bps for Portugal, and 211 bps for Spain.
- The spread to Italian bonds has increased 76 bps since May 11, from 1% to 1.75%, while Portuguese bond spreads are 112 bps higher during the same period. U.K. bond spreads are essentially unchanged.

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

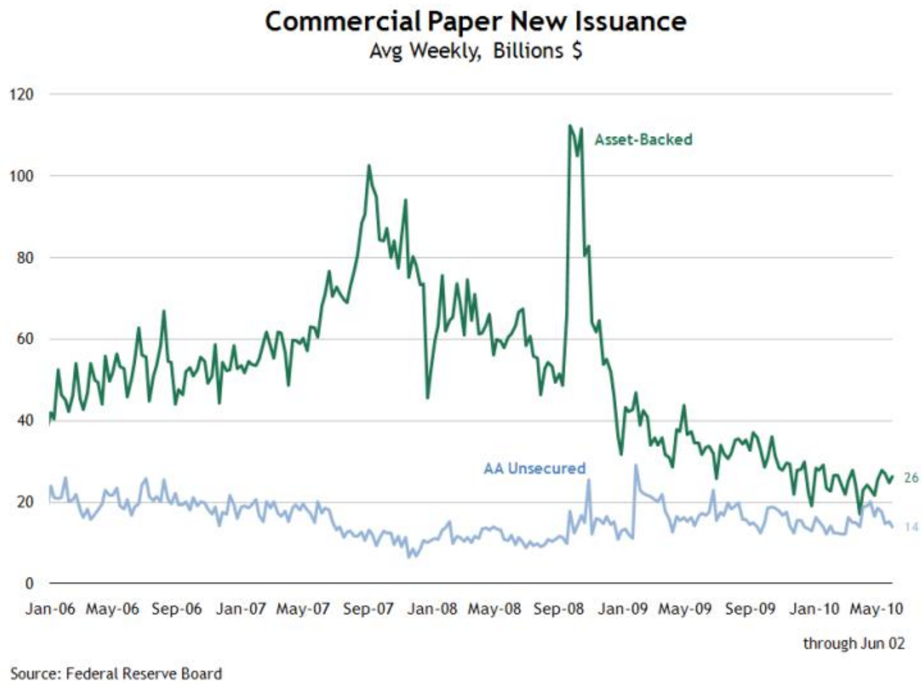


Source: Bloomberg

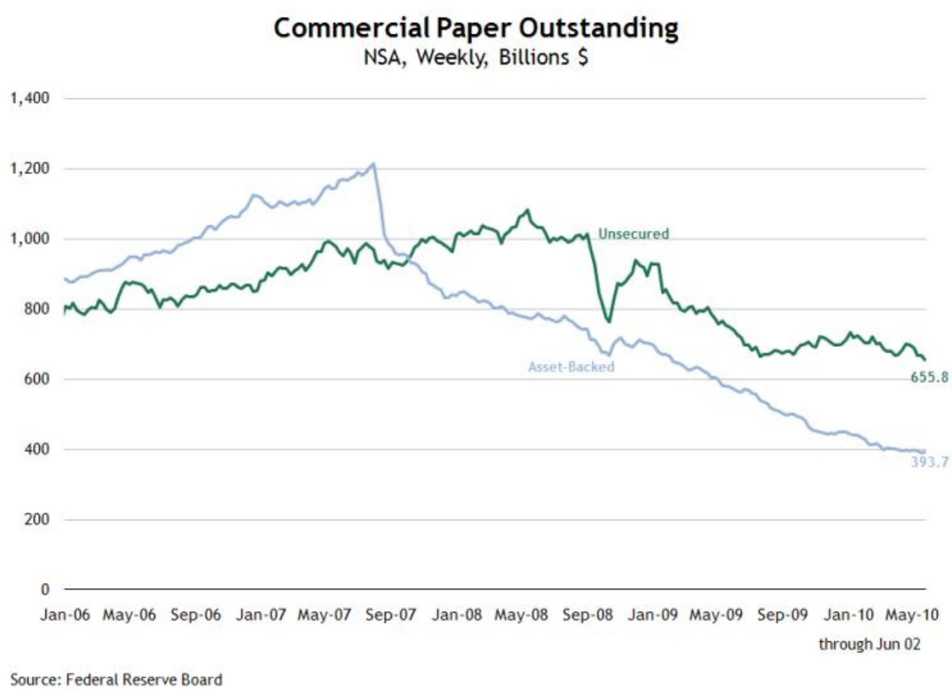
Commercial Paper

Summary

Issuance of asset-backed commercial paper continues to decline while unsecured commercial paper has remained stable since July 2009.



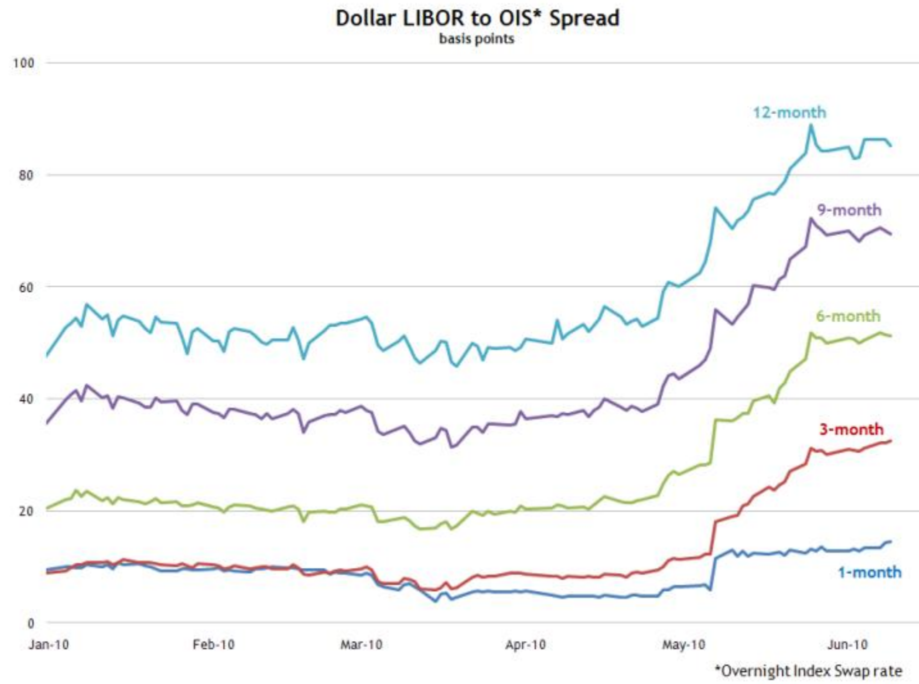
As a result of issuance trends, unsecured commercial paper outstanding has remained stable while asset-backed commercial paper outstanding continues to contract.



Broad Financial Market Indicators

Summary

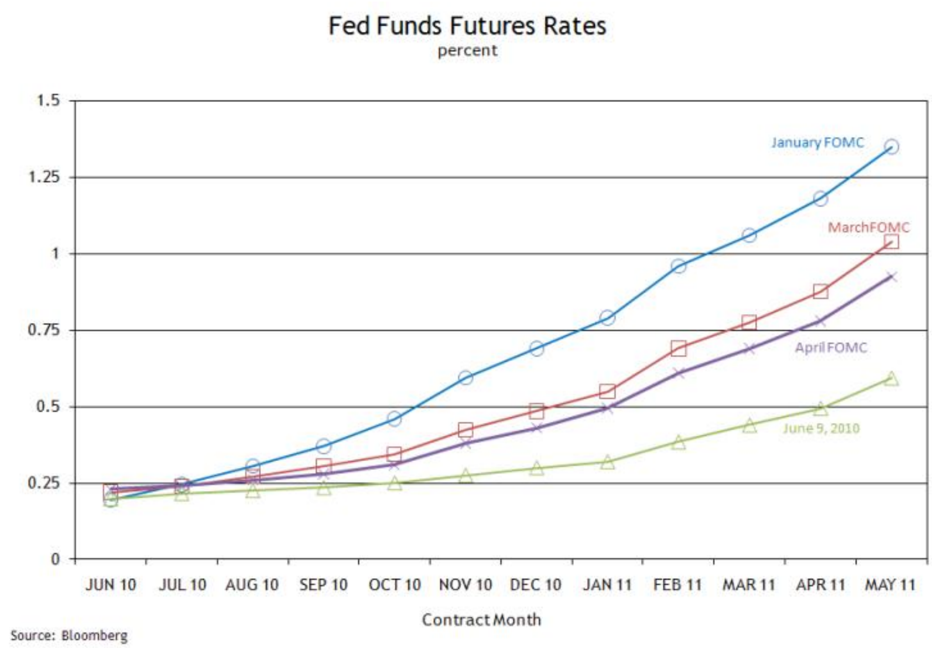
LIBOR to OIS spreads have flattened over the past two weeks but are elevated relative to levels seen earlier this year.



Source: Bloomberg/British Bankers' Association

- After rising for several weeks, between May 26 and June 9 dollar LIBOR to OIS spreads have flattened out and are wider or narrower by less than 2 bps across all tenors. The one- and three-month spreads are at 14.4 bps and 32.5 bps, respectively, as of June 9.

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

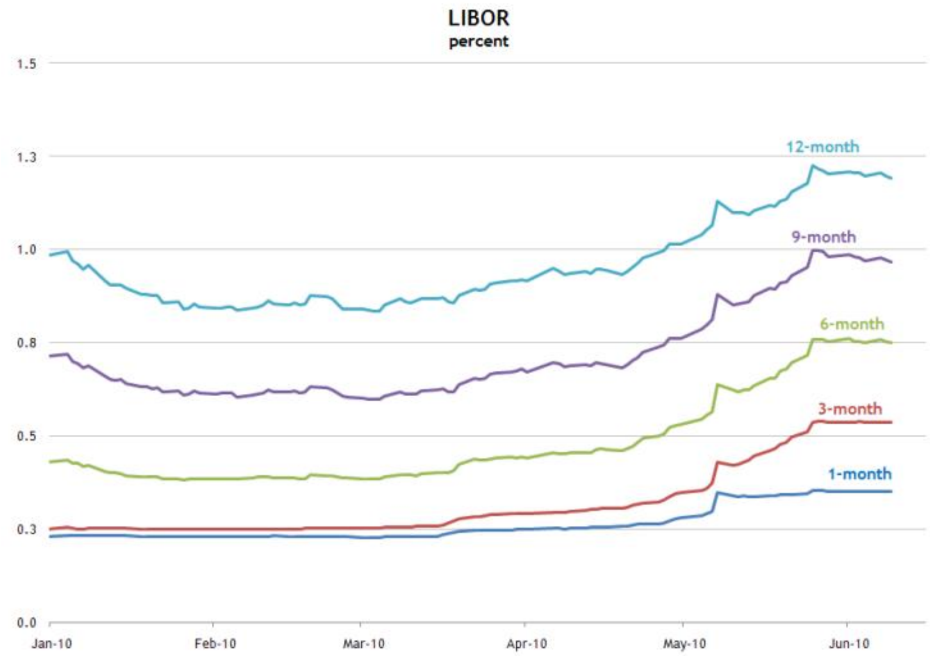


- The fed funds futures markets doesn't reflect an expectation of a rate increase until the first or second quarter of 2011.
- As of June 9, the futures market for fed funds indicates an implied rate of about 50 bps for the April 2011 contract.

Broad Financial Market Indicators

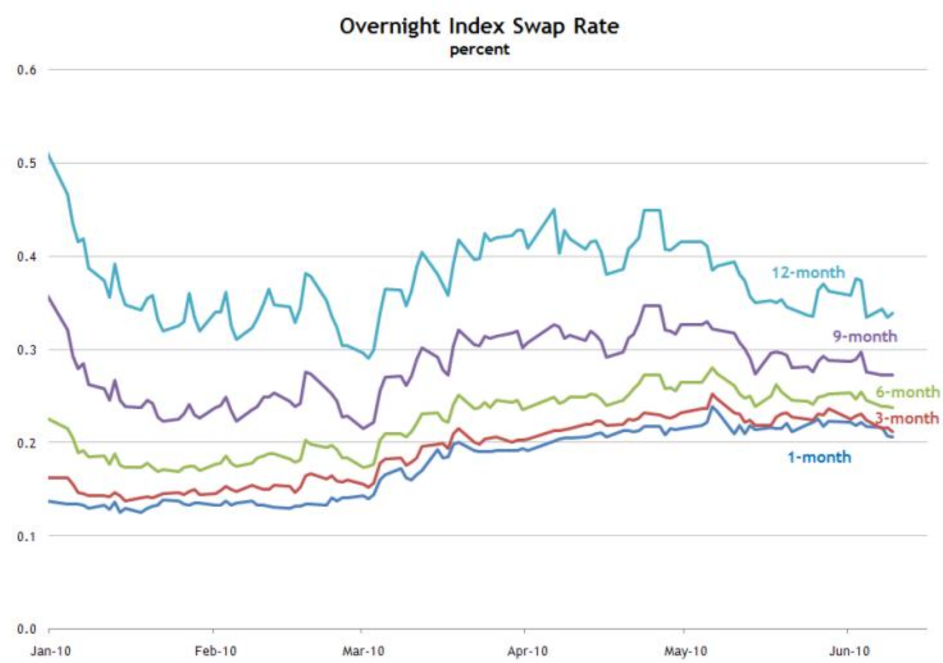
Summary

Decomposing the LIBOR to OIS spread into its respective components shows a stabilization in LIBOR fixings for all tenors.



Source: Bloomberg/British Bankers' Association

Overnight index swap rates, however, have declined slightly during the past month, indicating lower expected monetary policy rates going forward.

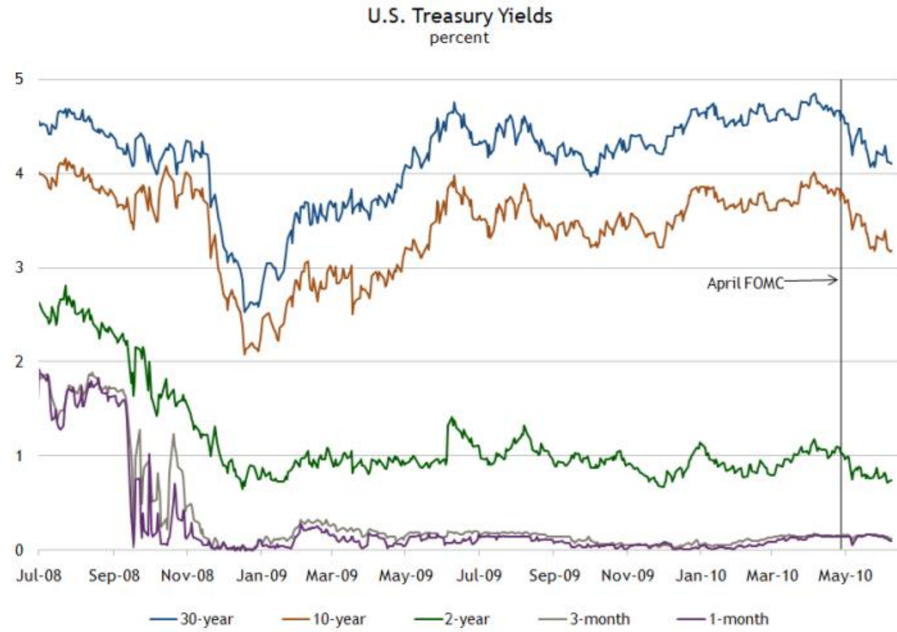


Source: Bloomberg/British Bankers' Association

Broad Financial Market Indicators

Summary

Longer-dated Treasury yields are significantly lower since the April FOMC meeting.



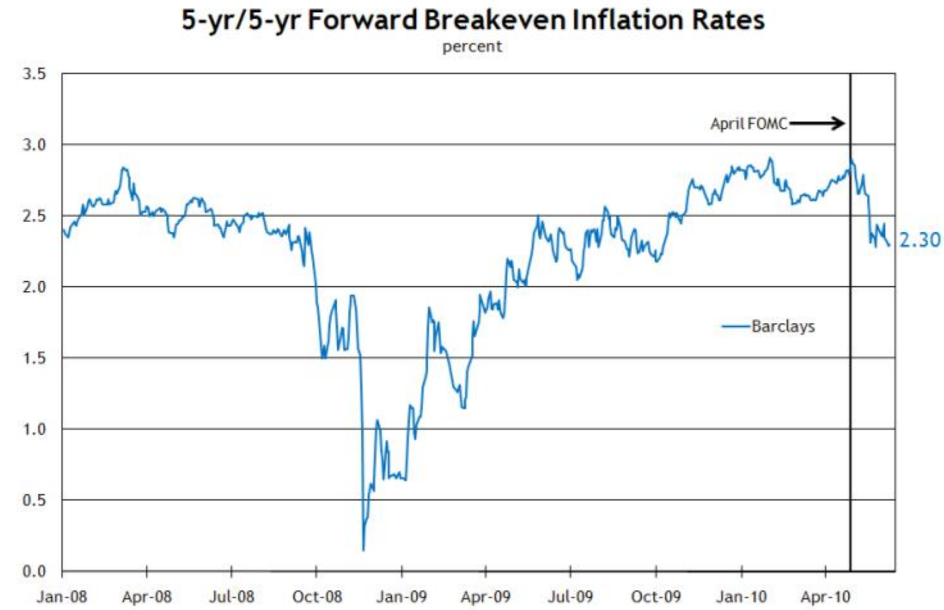
Source: Federal Reserve Board

- Treasury yields continue to experience declines from safe-haven flows coming in light of uncertainty regarding European financial troubles.
- Since the April FOMC meeting, longer-dated Treasury yields have moved lower across the two-to-30 year curve: Through June 9, the 30-year bond is down 53 bps to 4.10%, the 10-year bond is 62 bps lower at 3.18%, and the two-year note declined 29 bps to 0.74%.
- The three– and one-month T-bill rates are 4 bps lower at 0.12% and 0.10%, respectively.

TIPS

Summary

Breakeven inflation rates from the TIPS market have declined considerably since the April FOMC meeting.



Source: Bloomberg/Barclays Capital

- The 5-year/5-year forward breakeven inflation rate, according to Barclays, has declined 56 bps since the April FOMC meeting, with a reading of 2.30% on June 9, the largest drift downward in expected inflation since early 2009.