FEDERAL RESERVE BANK of ATLANTA

February 23, 2011

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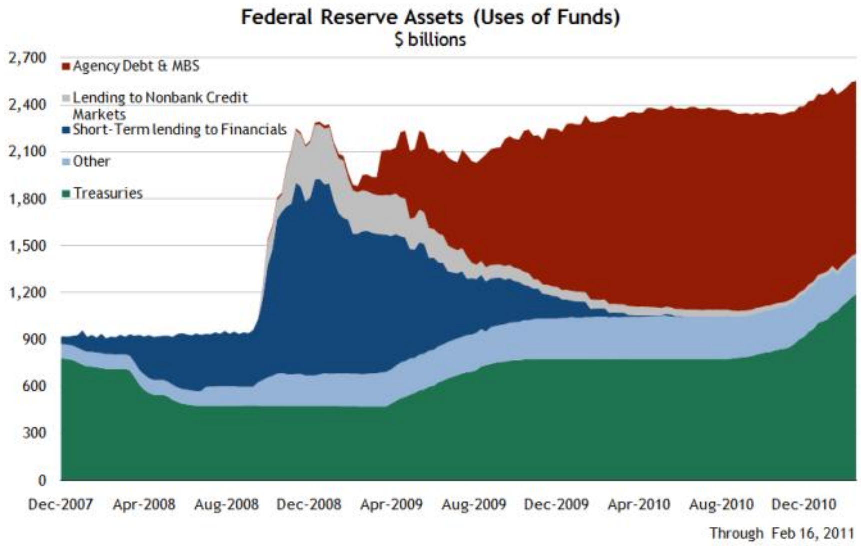
Federal Reserve

Summary

The balance sheet increased by $9 billion for the week ended February 16, 2011.

Since November 10, 2010, the balance sheet has increased $197 billion.



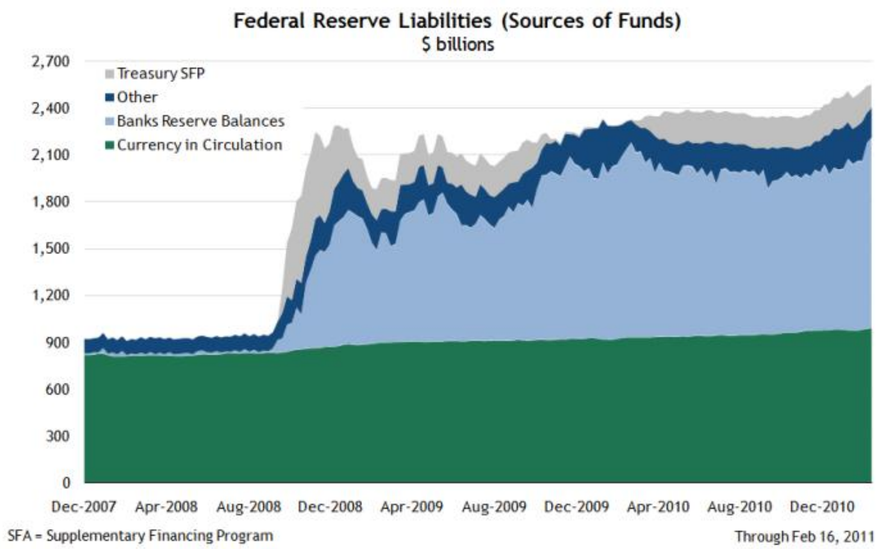
Source: Federal Reserve Board

- Treasuries increased by $23.2 billion while agency debt and MBS declined $6.9 billion. Since November 10, Treasury securities have grown by $337 billion while agency debt and MBS have shrunk by $98 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $97 billion between mid-February and mid-March.
- Growth in the balance sheet will fluctuate from week to week as a result of the volatility of MBS prepayments.

Bank reserve balances with the Federal Reserve increased $30.8 billion while Treasury deposits with Federal Reserve banks (part of "Other") decreased $8 billion.

The Treasury Supplemental Financial account declined $25 billion for the second consecutive week.

As of February 16, 2011, bank reserve balances are $1.2 trillion.



Source: Federal Reserve Board

- The Treasury has announced that the Supplemental Financing Program (SFP) will be reduced to $5 billion to "provide flexibility" and delay the national debt from hitting the current ceiling of $14.29 trillion.
- The Treasury SFP was also reduced from $200 billion to $5 billion over the period September 23, 2009, to December 30, 2009, for the same reason.

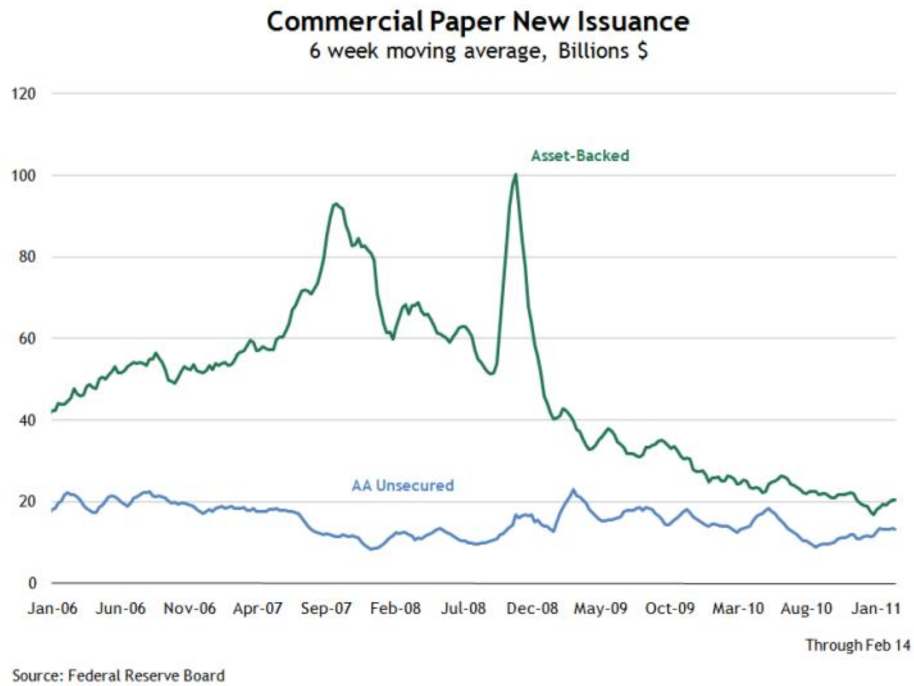
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

Commercial Paper

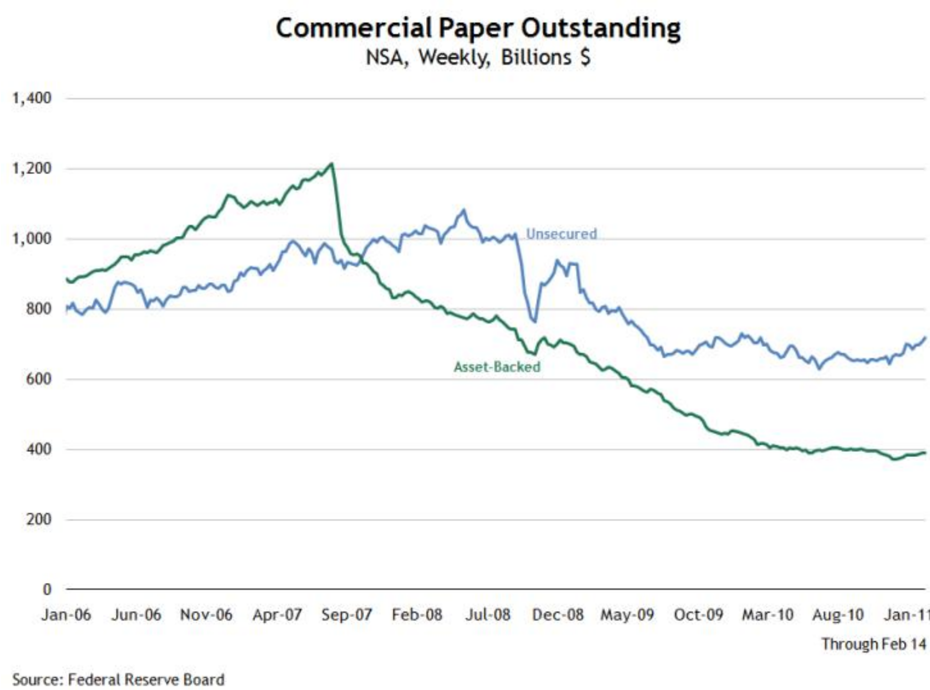
Summary

New issues of asset-backed commercial paper may be stabilizing, after trending down since mid-2007.

AA-rated unsecured paper remains relatively stable. From January 10 to February 14, there was an average of $13.2 billion in new issuance per week.



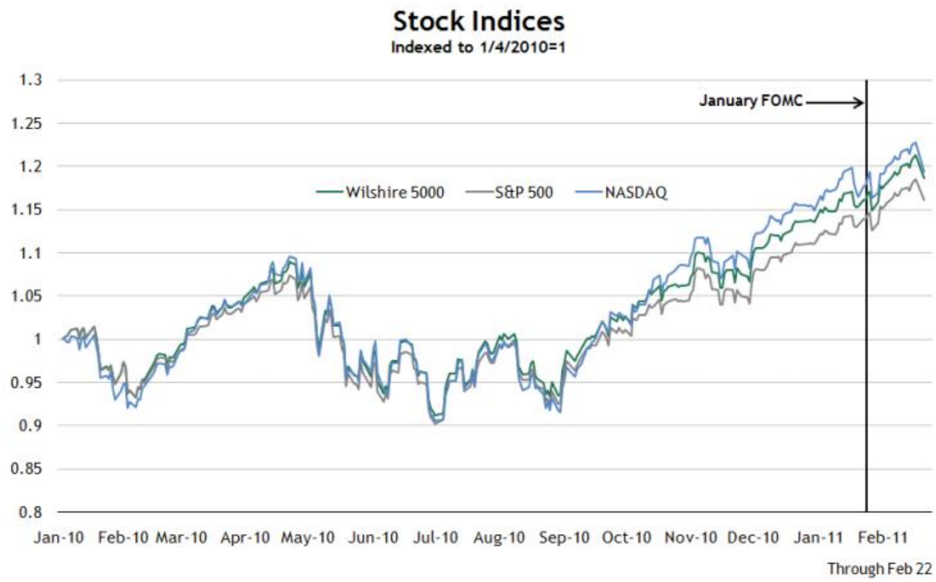
As a result of recent issuance trends, asset-backed commercial paper outstanding is close to year-ago levels while unsecured paper has increased in recent months.



Bond and Equity Markets

Summary

Equity markets have risen around 1% since the January FOMC meeting, but fell sharply on February 22 in light of rising oil prices amid political turmoil in the Middle East and North Africa.



Source: Dow Jones, NY Times, WSJ

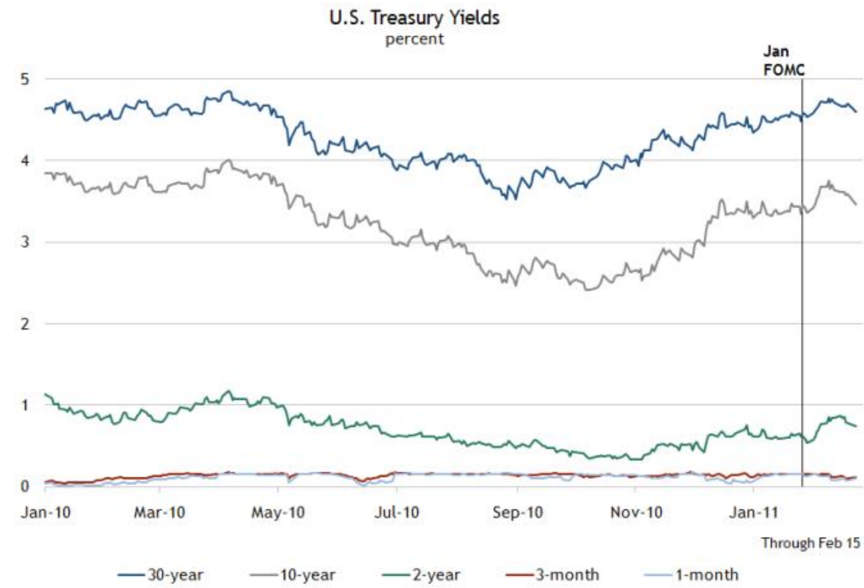
The Merrill Lynch MOVE index shows bond market volatility increased more than 4% since the January FOMC meeting, and the VIX "fear index" from the Chicago Board Option Exchange indicates equity market volatility soared higher by 25% (with a large jump on February 22).

Source: Merrill Lynch, Wall Street Journal

Broad Financial Market Indicators

Summary

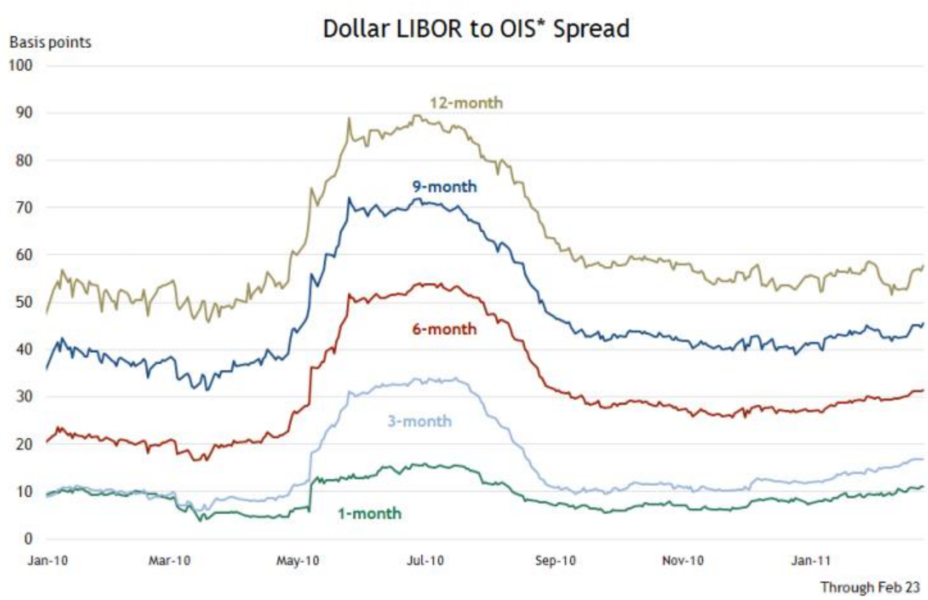
Treasury yields initially rose following the January FOMC meeting but have fallen recently from safe-haven flows tied to Middle East political turmoil.



Source: Federal Reserve Board/Haver Analytics

- Since the January FOMC meeting, the 30-year Treasury bond yield is up 1 basis point (bp) to 4.60%, the 10-year note's yield is higher by 1 bp to 3.46%, and the two-year note is up 12 bps to 0.74%.

LIBOR to OIS spreads are up modestly, with the twelve- and nine-month spreads at 4 basis points (bps) and 2 bps over the past week.



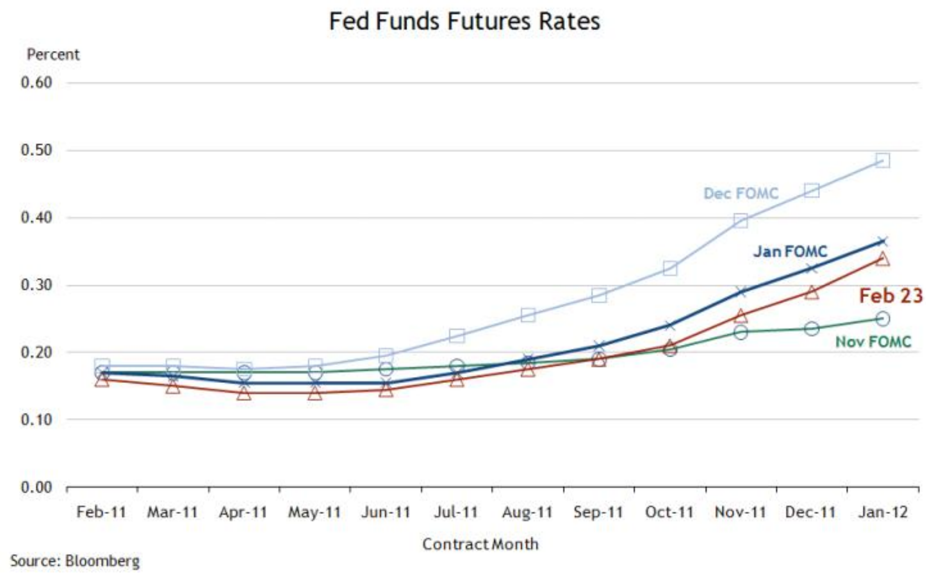
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

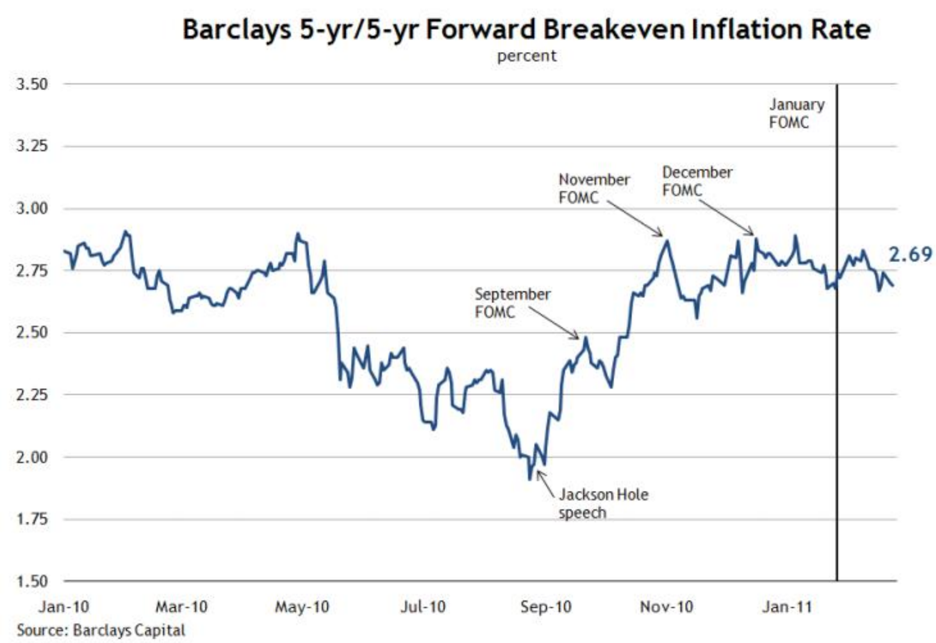
Summary

The curve of expected federal funds rates has moved sharply lower over the past week.



- As of February 23, 2011, the futures market for fed funds indicates an implied rate of about 34 bps for the January 2012 contract, down 13 bps from a week ago.

Breakeven inflation rates have moved a little lower since the January FOMC meeting.



- Using one measure calculated by Barclays, the TIPS market suggests investors see CPI inflation five to 10 years out as averaging about 2.69%, as of February 23, 2011, which is lower by 5 bps since the January 2011 FOMC meeting.