FEDERAL RESERVE BANK of ATLANTA

August 12, 2009

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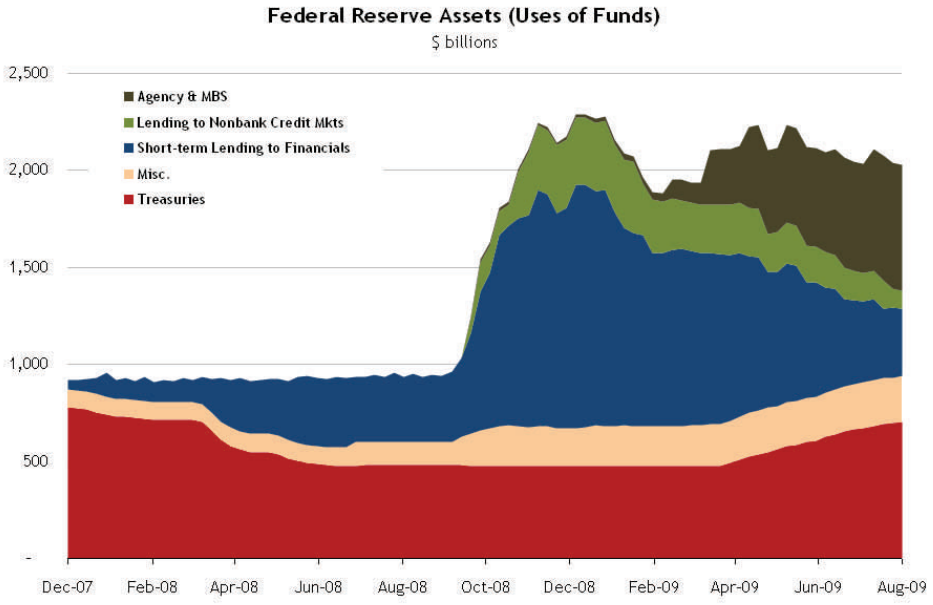
Federal Reserve

Summary

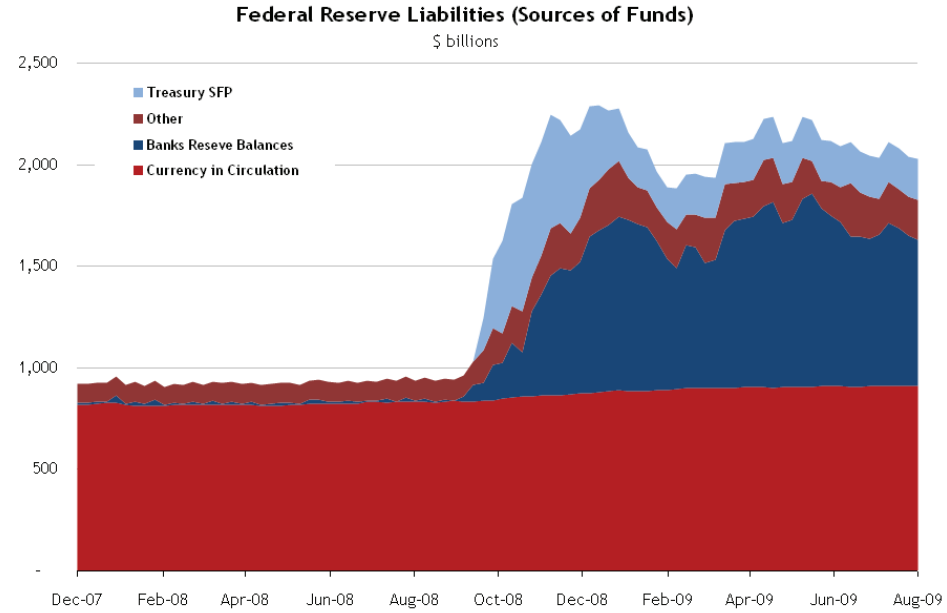
The size of the Fed's balance sheet has largely been flat since March, remaining within a range of $2 trillion to $2.2 trillion.



Source: Federal Reserve Board

- The overall size of the Fed's balance sheet has been steady during the past few months and the broad trends remain little changed. That is, the sizeable declines in short-term lending to financials and nonbank credit markets have largely been offset by increases in holdings of Treasury securities, mortgage-backed securities (MBS), and agency debt.
- Taken together, lending to financials and nonbank credit markets excluding TALF have declined to $405 billion, or about 20% of the balance sheet as of August 5. Holdings of Treasury securities have increased to $704 billion, or about 35% of the balance sheet. Treasury holdings had reached a peak of about $791 billion in August 2007. MBS holdings that have settled and thus show up on the balance sheet have risen to $542 billion (about 27% of the balance sheet).

On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet. Since March, reserves have accounted for an average of about 38% of liabilities.



SFP = Supplementary Financing Program

Source: Federal Reserve Board

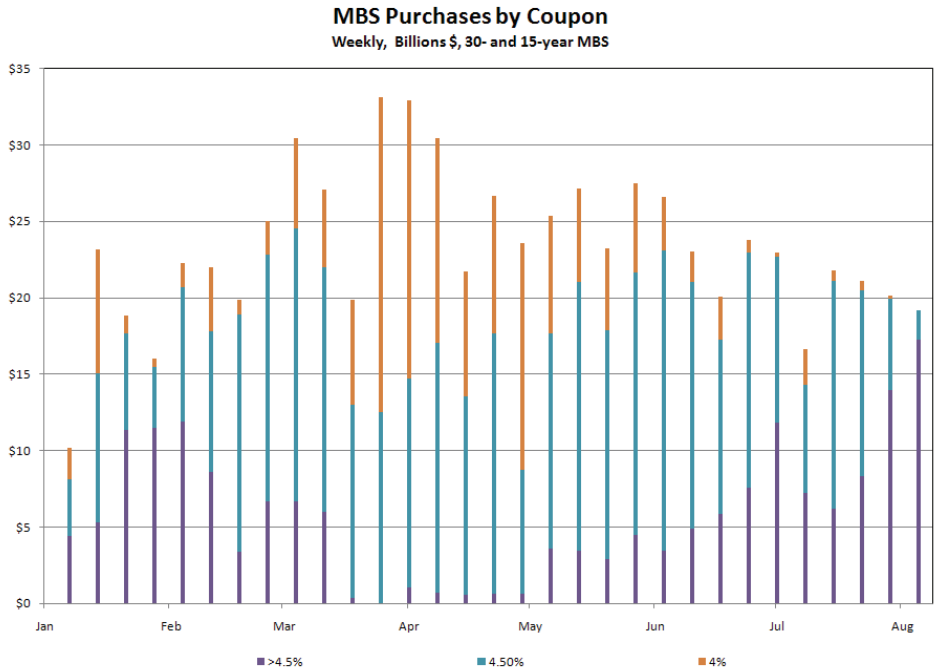
Assets: Lending to nonbanks: TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials: discount window, TAF, currency swaps, PDCF, and repos; Misc: Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other: Reverse repos, Treasury cash holdings, and deposits with Federal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

Federal Reserve

Summary

The Fed purchased $19.4 billion in MBS, most having a 5% or 5.5% coupon.

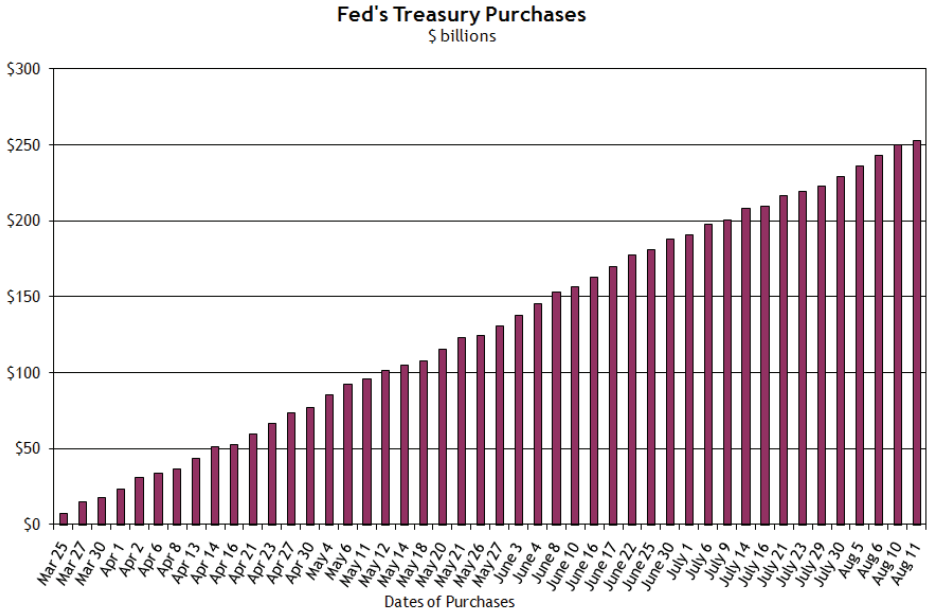
Historically, however, the Fed has made the vast majority of its MBS purchases in the 4% or 4.5% coupon range.



Source: NY Fed

- The Fed purchased a net total of $19.2 billion of agency-backed MBS between July 30 and August 5, bringing its total purchases up to $722 billion, and by year-end the Fed will purchase up to $1.25 trillion.
- Historically the MBS coupon rate range in which the Fed has concentrated its purchases are 4% and 4.5%. But this week, it purchased $6.05 billion of 5.5% coupon MBS and $11.2 billion of 5%, while only $1.9 billion of 4.5% and none of 4%.
- Since the purchases began in January, the Fed has also purchased small amounts of 6.5%, 6%, and (on the low end of the scale) 3.5% coupon MBS.

The Fed made has made four Treasury purchases since August 5, totaling $23.5 billion.

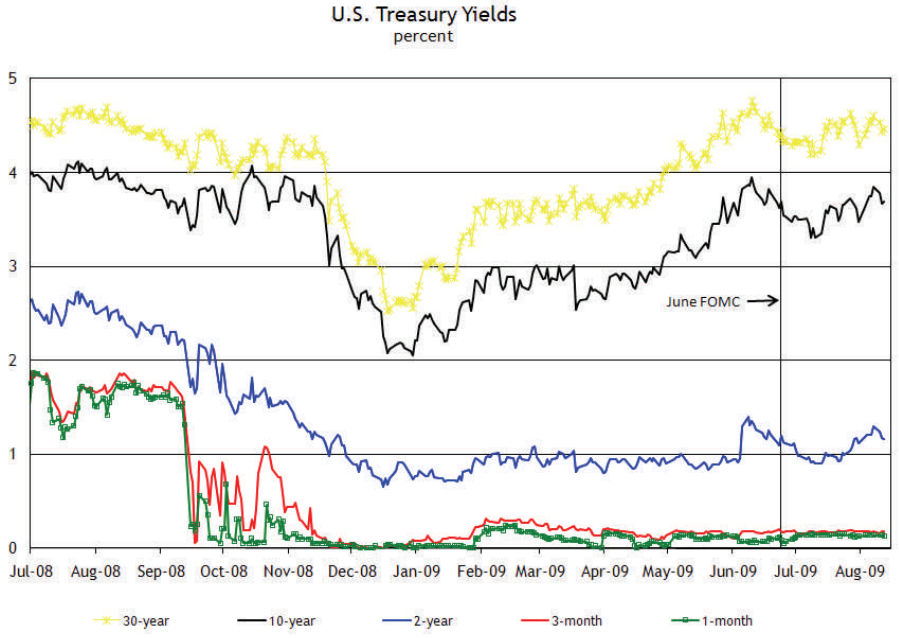


Source: NY Fed

Treasury Yields and LIBOR

Summary

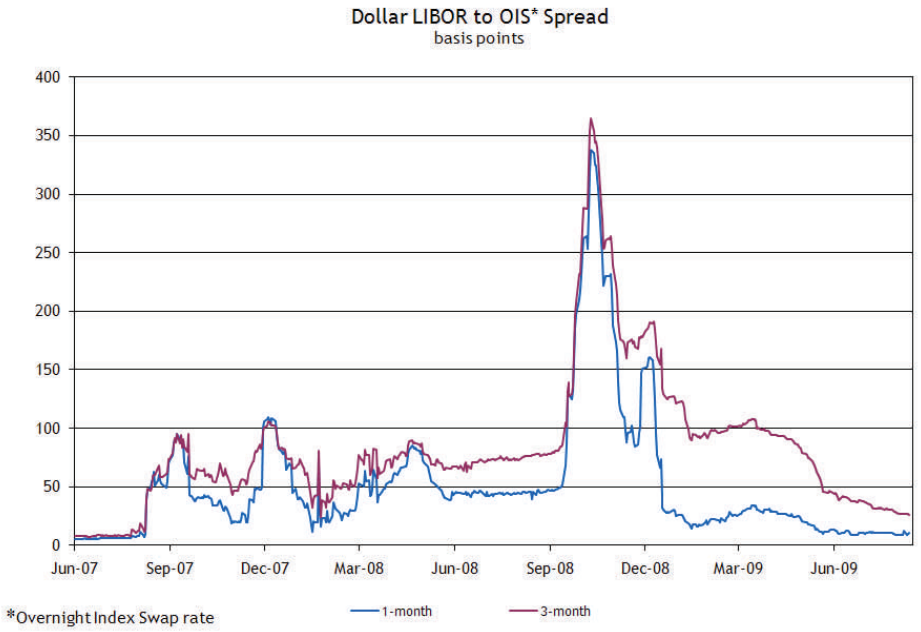
Longer-dated Treasury yields have drifted lower during the week and have changed little in the intermeeting period.



Source: Bloomberg

- Despite a jump in yields following the better-than-expected payrolls report on Friday, August 7, between August 5-12 longer-dated Treasury yields fell: The 30-year bond was down 9 basis points (bps) to 4.46%, the 10-year note fell 6 bps to 3.69%, and the two-year note was 5 bps lower, to 1.17%. And T-bills were little changed: The three-month yield was 0.18%, and the one-month was 0.13%.
- But since the last FOMC meeting on June 23-24, yields across the curve have changed by no more than 4 bps in either direction.

LIBOR-to-OIS spreads are low and stable, with little change in recent weeks.



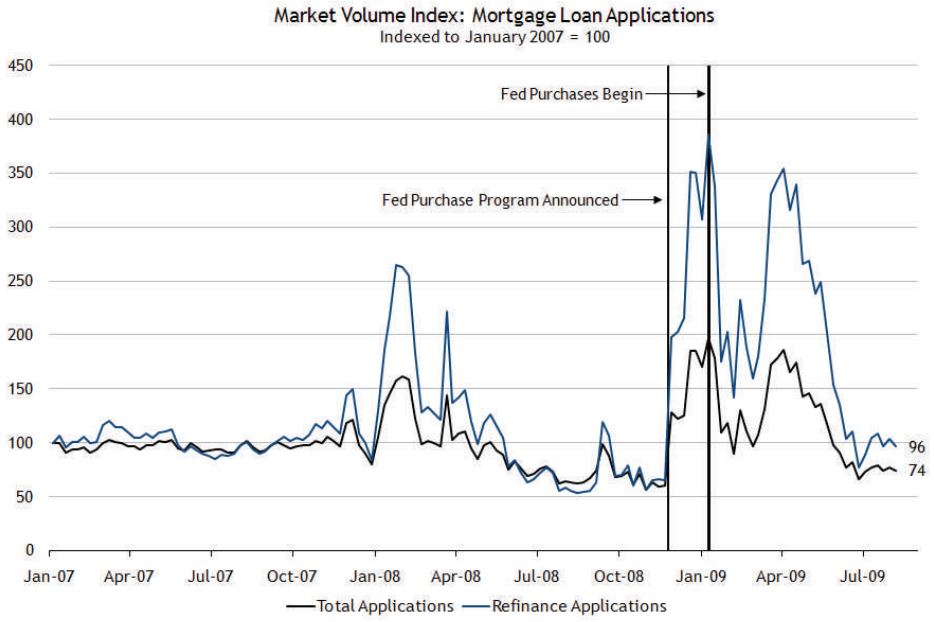
Source: Bloomberg and British Bankers' Association

- Interbank funding spreads remain at or near the precrisis levels: The one-month dollar LIBOR-to-OIS spread was 10 bps, and the three-month was 26 bps as of August 12.

Mortgage Refinances and Agency OAS

Summary

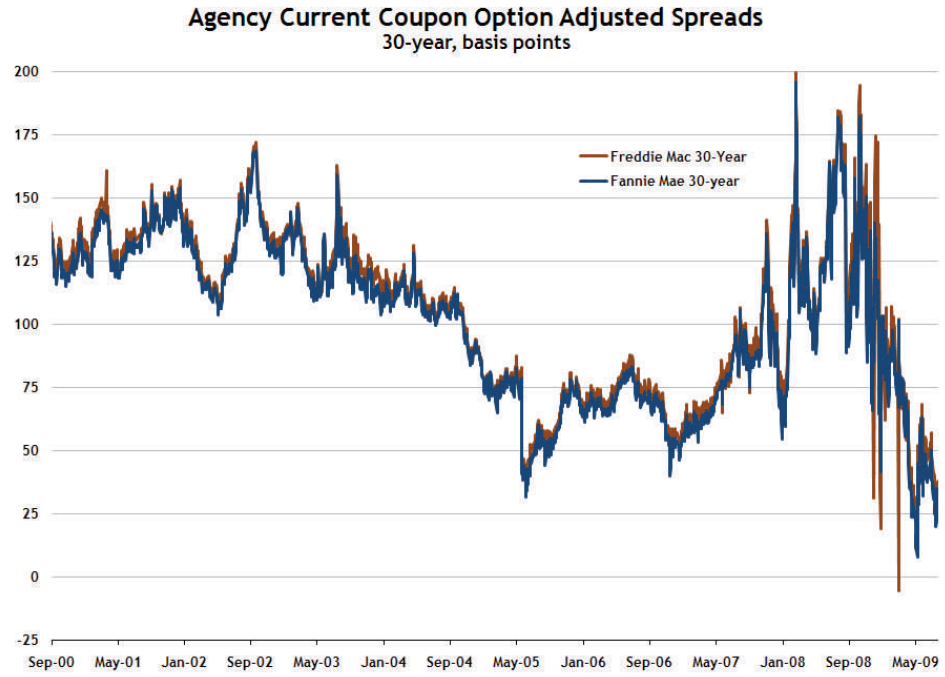
Both total mortgage loan application volume and refinance application volume remain below their peaks in January and April.



Source: Mortgage Bankers Association/Haver Analytics

- For the week ending August 7, total mortgage application volume and total refinance application volume decreased from the previous week; remaining 26% and 4%, respectively, lower than their January 2007 levels.

Agency coupon rates over OAS have trended down since August of last year.



Source: Bloomberg

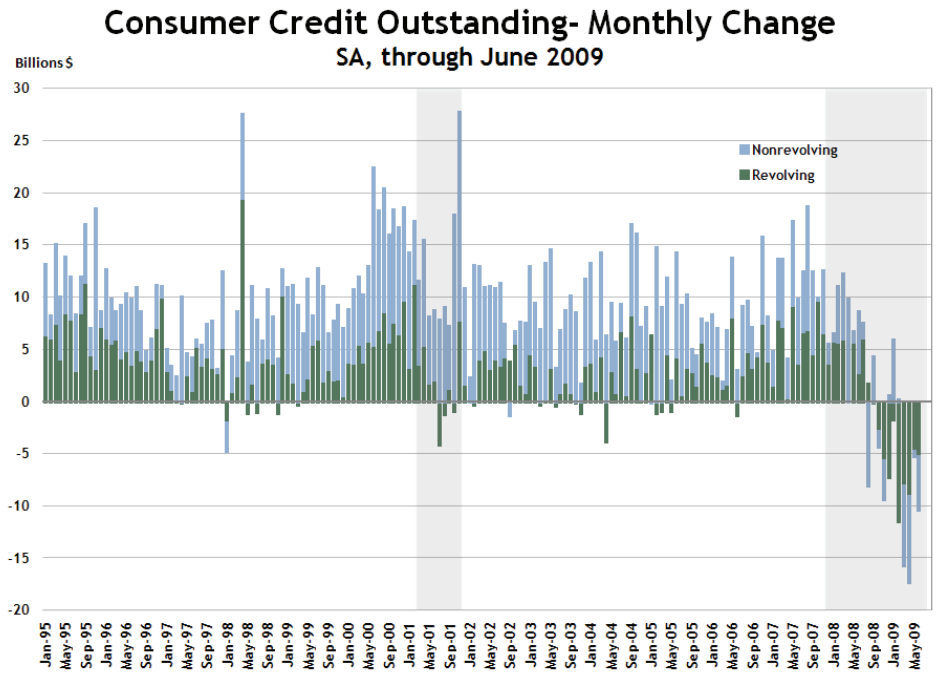
- On August 11, the 30-year Freddie Mac OAS spread was 32.45 bps, and the Fannie Mae OAS spread was 28.38 bps. Both spreads have narrowed considerably since this time last year; a year ago, the spreads were 176.5 bps for Freddie and 173.7 bps for Fannie.

Consumer Credit Outstanding

Summary

Consumer credit declined $10.3 billion dollars at an annualized rate of 4.8% from May to June, much more than some reported forecasts (e.g., Bloomberg forecast a decline of $5 billion based on a survey of economists).

The decline was split almost evenly between revolving and nonrevolving credit declines; revolving credit declined $5.3 billion and nonrevolving declined $5.1 billion.

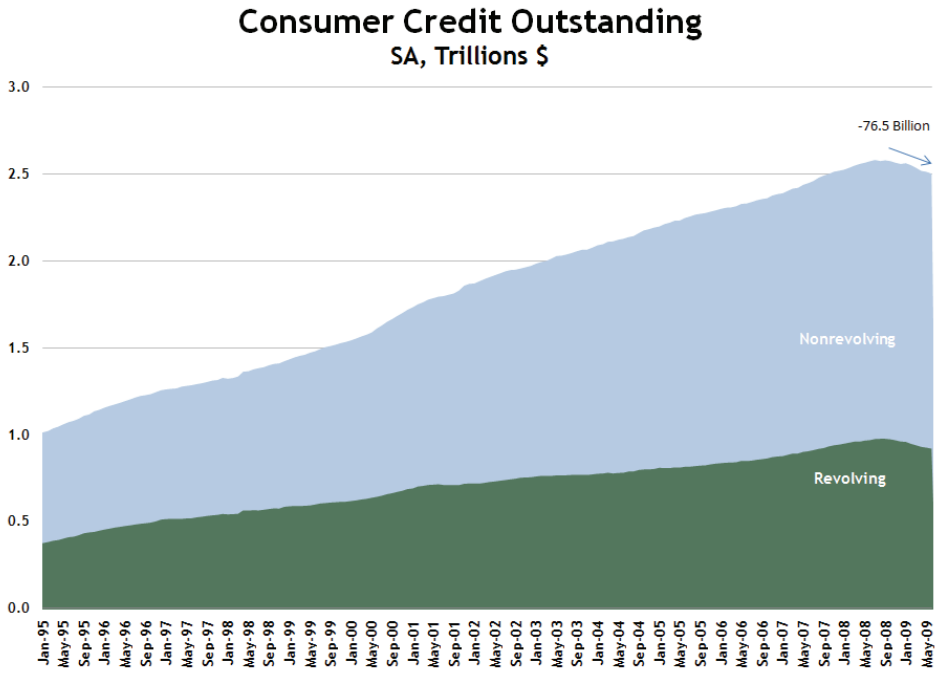


Source: Federal Reserve Board

- Consumer credit continues to contract as the savings rate increases, consumers spend less, and banks raise credit card interest rates and cut available balances.

Total consumer credit outstanding shrank to $2.5 trillion in June. Since September 2008 it has contracted $76.5 billion (or 2.97%).

Revolving credit has declined 5.8%, and nonrevolving credit has declined 1.2% since the September peak.



Source: Federal Reserve Board

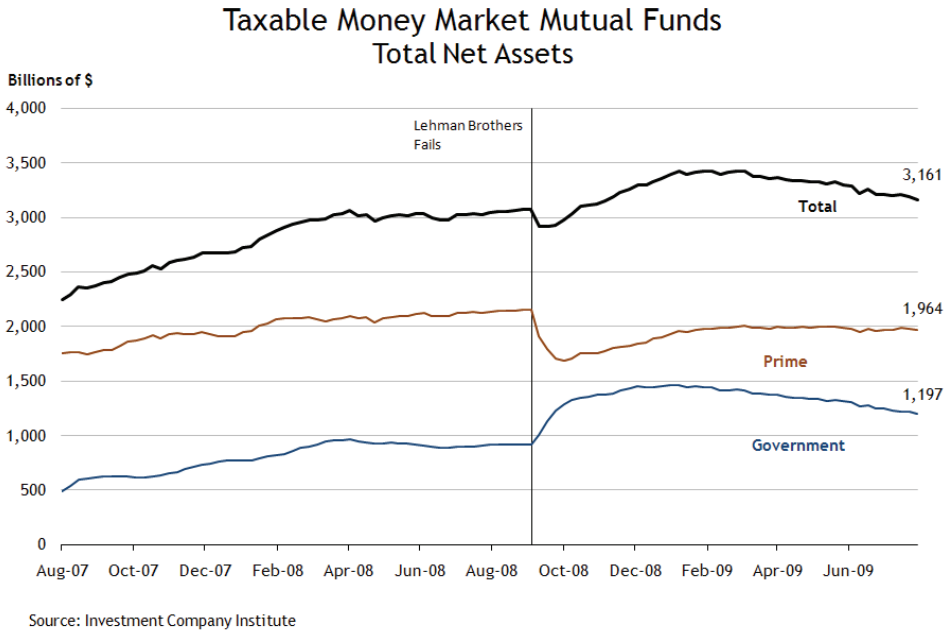
Money Market Mutual Funds

Summary

Immediately after the failure of Lehman Brothers, there was a large flight to quality in MMMFs, and a large amount of money flowed from prime funds (which hold mostly commercial paper) into less risky government funds (which hold mostly repos, agencies, and Treasuries).

Shortly thereafter, a correction in the market began, and money started flowing to prime funds again. More recently, government funds, and MMMFs as a whole, have experienced outflows.

Since March 4, total net assets in taxable money market funds have declined $261 billion.



- Each type of taxable money market mutual funds can be broken down further into retail funds and institutional funds. As of August 5, 84% of the money in government funds was invested in institutional funds while 62% of money in prime funds was in institutional funds.