FEDERAL RESERVE BANK of ATLANTA

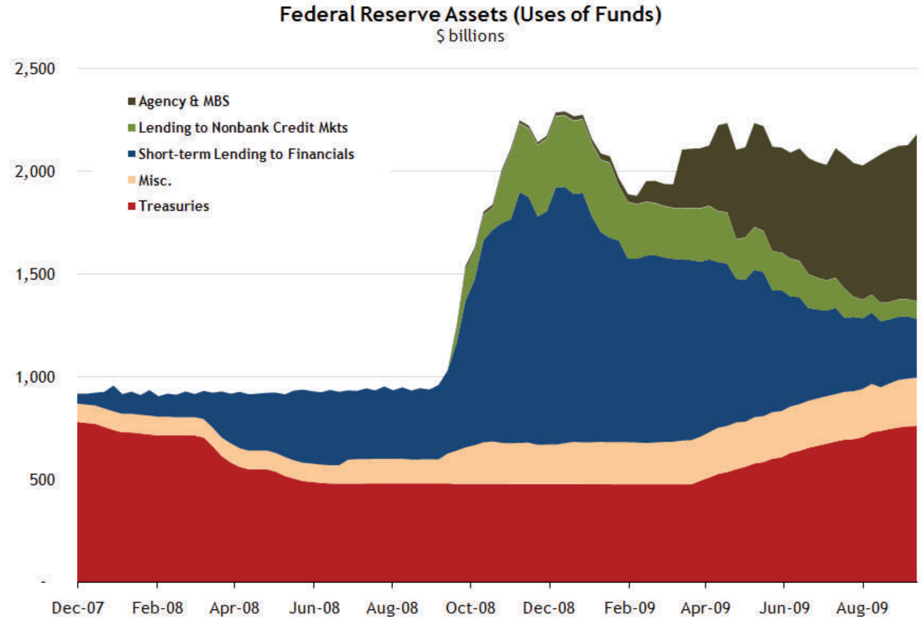
September 23, 2009

Financial Highlights

Federal Reserve

Summary

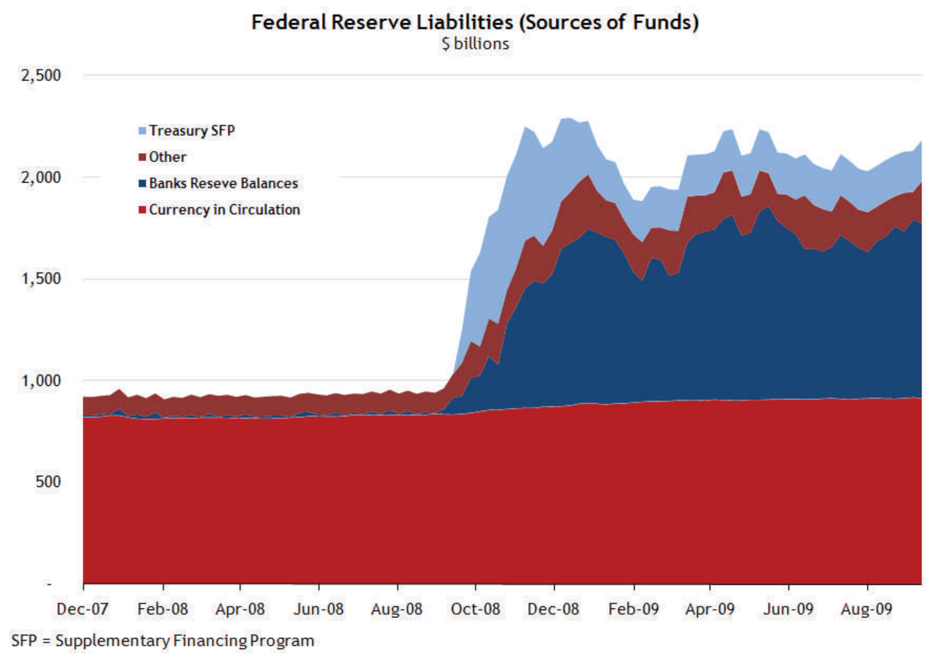
The size of the Fed's balance sheet has increased for six straight weeks but remains within its range since March of $2 trillion to $2.2 trillion.



Source: Federal Reserve Board

- The size of the Fed's balance sheet increased by about $152 billion to $2.18 trillion from August 5 to September 16. Since August 5, short-term lending to financials and nonbank credit markets have declined by a combined $63 billion. These decreases have been more than offset by increases in holdings of Treasury securities (up $54 billion), mortgage-backed securities (up $142 billion), and agency debt (up $17 billion) for a combined increase of $214 billion.

On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet. Since March, reserves have averaged about $800 billion, accounting for 38% of liabilities.



SFP = Supplementary Financing Program

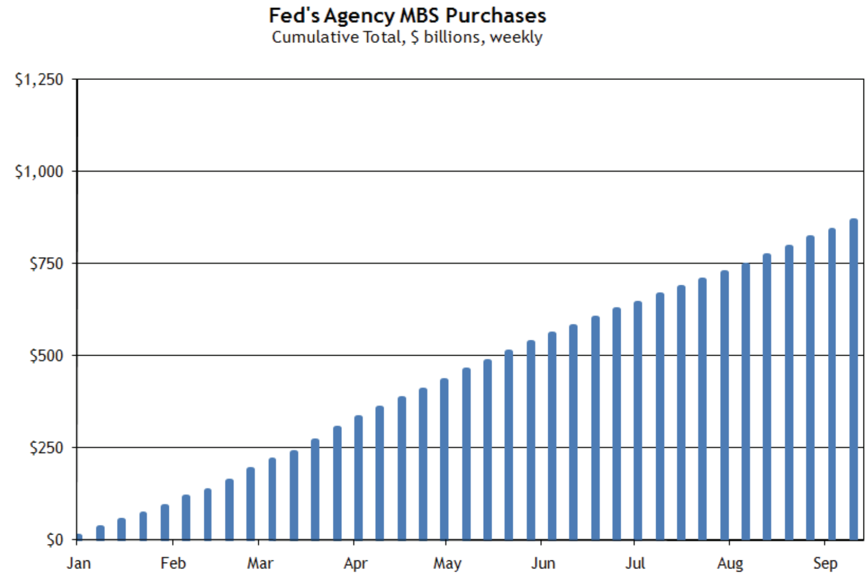
Source: Federal Reserve Board

- On September 16, the Treasury Department announced its intentions to let all but $15 billion in bills outstanding under the SFP expire in the coming weeks (the program currently stands at about $200 billion).

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.

Summary

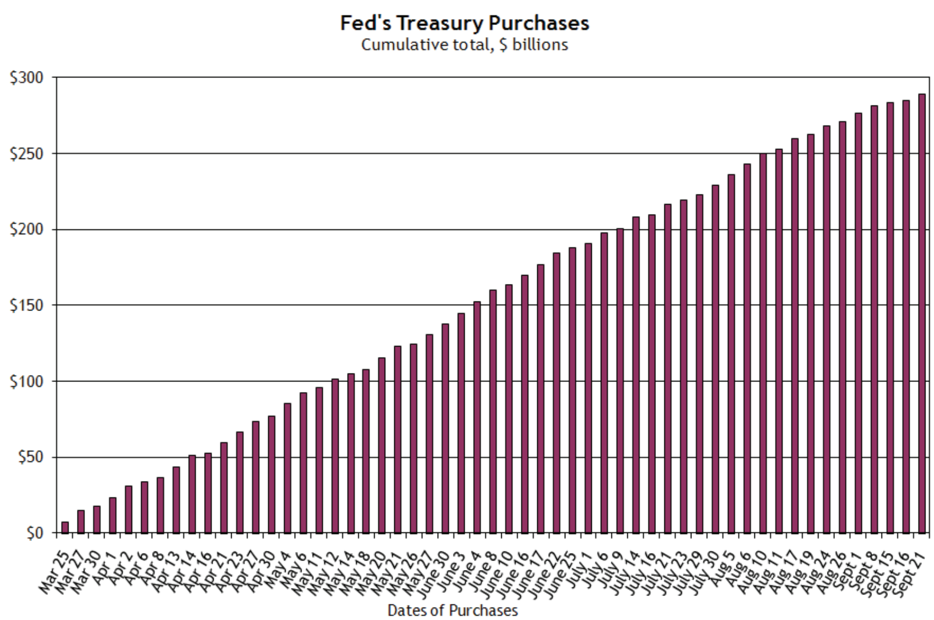
The Fed has now purchased about $866 billion in agency-backed MBS through the week ended September 16.



Source: New York Fed

- The Fed purchased a net total of $25.5 billion of agency-backed MBS between September 10 and 16, bringing its total purchases up to about $866 billion.

The Fed has less than $10 billion remaining to meet its goal of purchasing $300 billion in Treasury securities. These purchases will be completed by the end of October 2009.



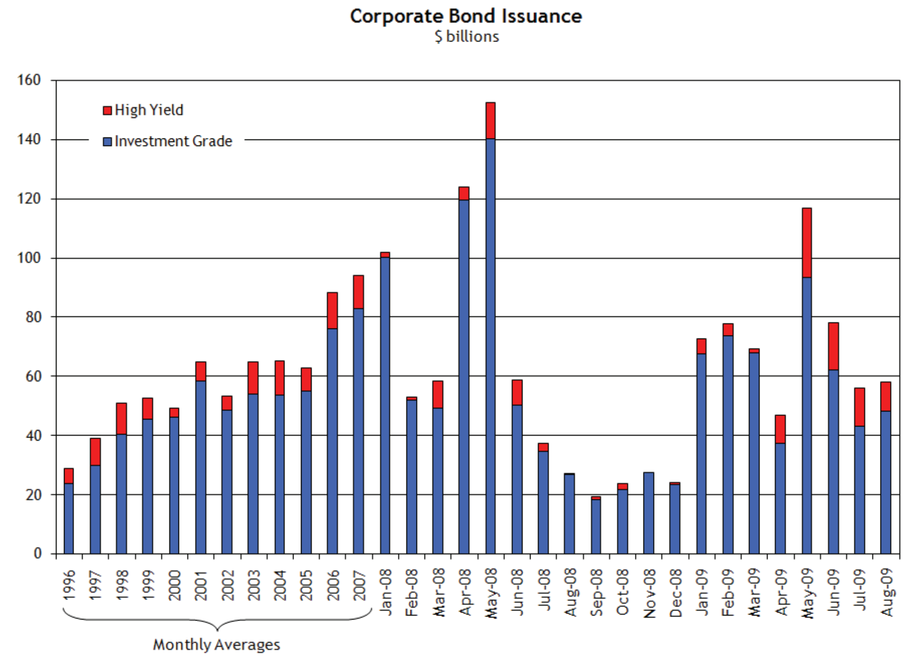
Source: New York Fed

- The Fed has purchased a total of $289.3 billion of Treasury securities through September 23, bringing it about 96% toward its goal. Of these, $4.5 billion have been TIPS purchases.
- In the past week, the Fed made a purchase on September 21 for $4.05 billion in the four-to-seven-year sector.

Corporate Bonds and Debt

Summary

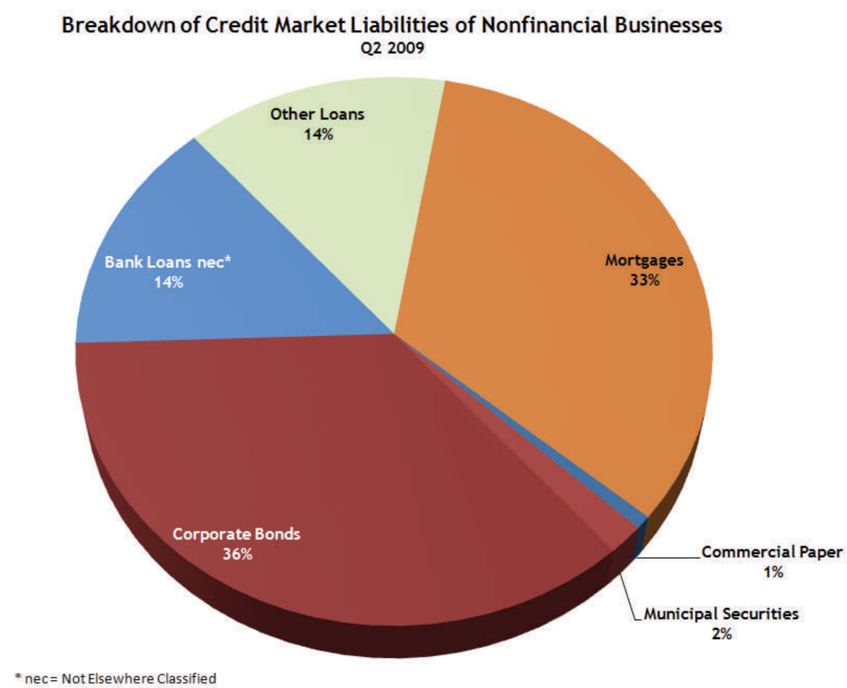
Corporate bond issuance has continued to be robust through August 2009 after slowing sharply in the second half of 2008.



Source: SIMFA

- New bonds issued by high-yield and investment-grade borrowers were flat in August (about $58 billion) compared with July (about $56 billion). Issuance so far during 2009 has totaled almost $575 billion from January through August, for an average of about $72 billion per month.

Looking at the distribution of credit market liabilities for nonfinancial businesses, corporate bonds constitute the single largest category, at about 36%.



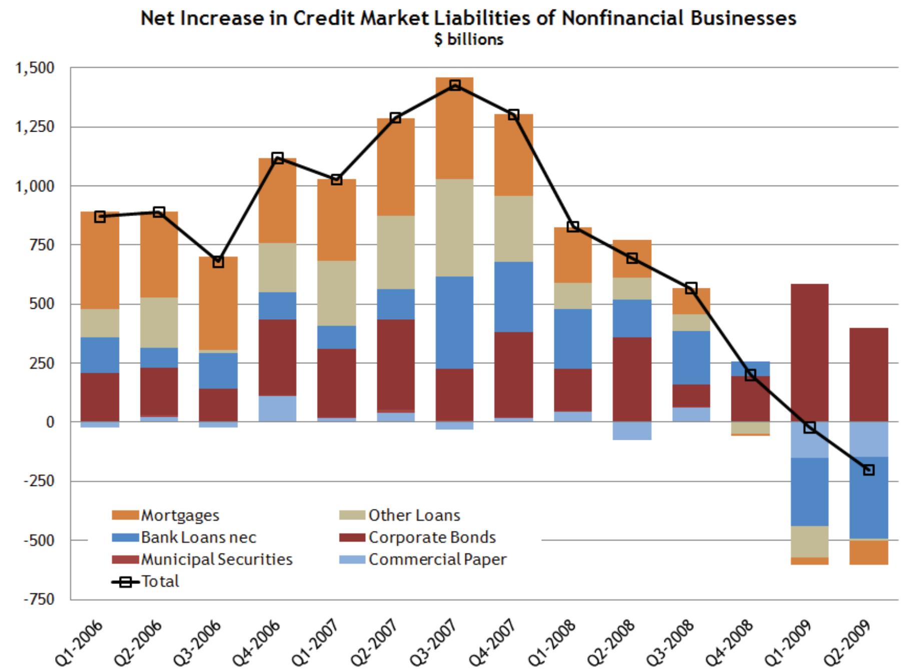
Source: Federal Reserve Board Flow of Funds

- The chart above shows a second-quarter snapshot of the amounts outstanding for the various credit market liabilities for nonfinancial businesses. The total of credit market instruments outstanding amounted to $11.2 trillion in the second quarter of 2009. Standing at about $4 trillion, corporate bonds account for the single largest category, followed by mortgages at $3.7 trillion.

Corporate Bonds and Debt

Summary

Businesses have been successful in tapping the bond market as a source of funding. However, declines in other types of credit have more than offset bond financing and have ultimately led to a decline in total credit market liabilities among nonfinancial businesses.



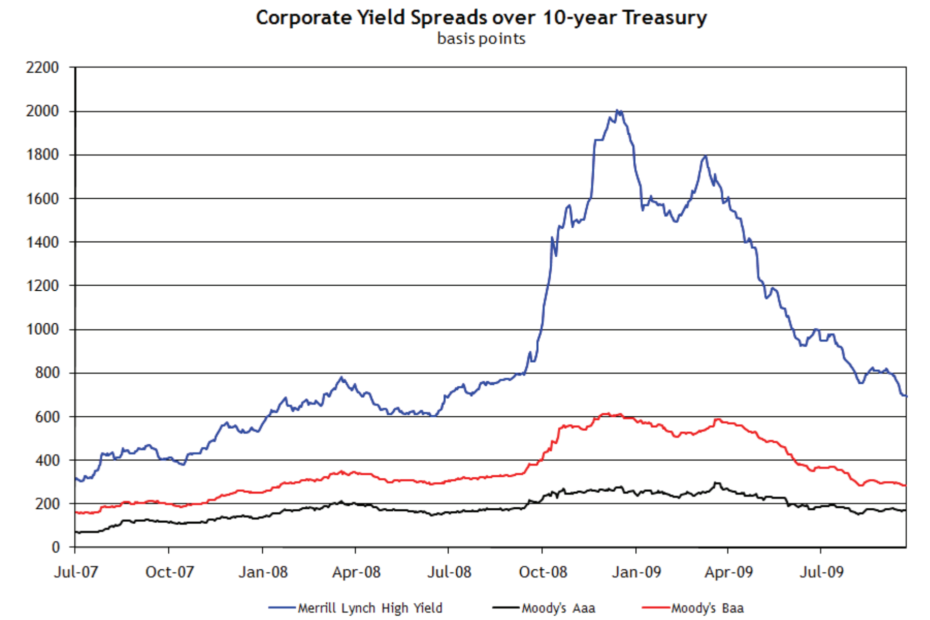
Source: Federal Reserve Board Flow of Funds

- Flow of funds data show that nonfinancial businesses reduced their total credit market liabilities by about $200 billion in the second quarter of 2009 after the pace of increases had slowed in every quarter beginning in the fourth quarter of 2007.
- In addition to the decline in total credit market liabilities, the composition of liabilities is also noteworthy. In the first half of 2009, corporate bonds were the only category of credit market instruments that showed a net increase for nonfinancial businesses. These increases were more than offset, however, by the sizeable declines in the other categories of the credit market, most notably declines in bank loans and commercial paper. Thus, in addition to cutting the aggregate amount of their credit market debt, nonfinancial businesses have also substituted away from funding via bank loans and commercial paper toward funding via the bond market.
- Illustrative of the change in the composition of credit market debt is the magnitude of the net changes in bonds and bank loans. For the first and second quarters combined, the $975 billion net increase in bonds for nonfinancial corporations was the largest two-quarter increase in the series' history (the second largest was an increase of $883 billion in 2001). Likewise, the $631 billion net decrease in bank loans was the largest two-quarter decrease in the series' history. Looking at commercial paper, it declined a net $297 billion in the first half of 2009, which was the largest decline since 2001—a sizeable move, but not outside of the historical range.
- (Note: The flow of funds definition for U.S. corporate bonds includes bonds issued both in the United States and in foreign countries but not bonds issued in foreign countries by foreign subsidiaries of U.S. corporations. For more on the flow of funds, click here).

Corporate Bonds and Debt

Summary

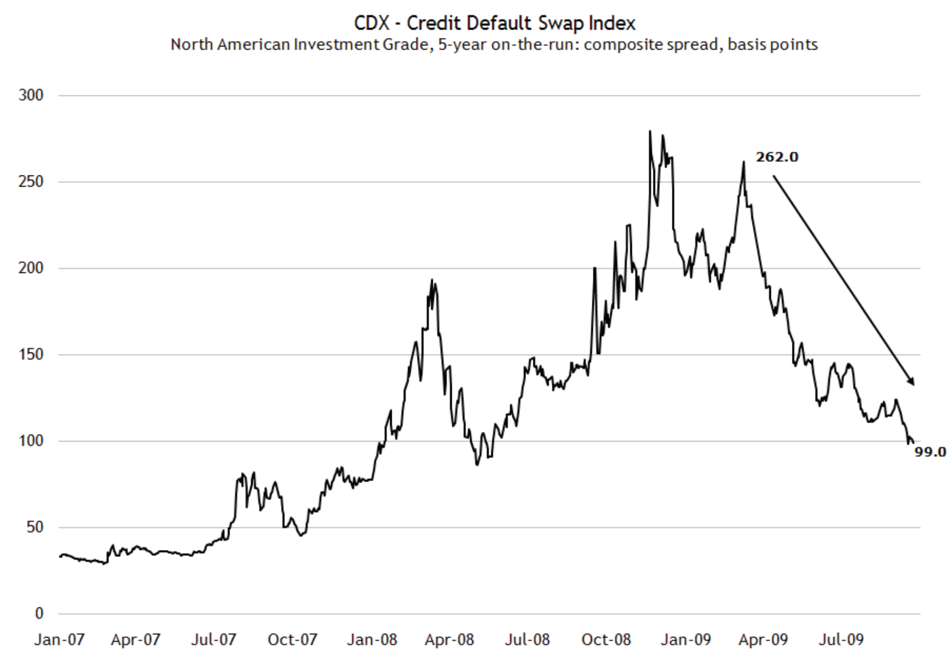
Corporate bond risk spreads for high-yield borrowers have continued to decline while investment-grade spreads have moved marginally lower during the past month.



Source: Merrill Lynch, Federal Reserve Board

- The broad improvement in yield spreads combined with the robust pace of bond issuance points to improved access to the bond market for corporate borrowers. The decline in spreads over 2009 likely reflects an improvement in liquidity and thus a decrease in the liquidity premium as well as declines in credit risk premia (see the chart below). Looking at recent moves, during the past month high-yield spreads have declined by nearly 120 basis points (bps) while Aaa and Baa spreads have declined by 5 bps and 23 bps, respectively.

The CDX has trended downward since March, consistent with improvement in perceived default risk among investment-grade bonds.



Source: Markit Group Limited/Haver Analytics

- The CDX traded below 100 bps on Wednesday, September 16, for the first time since May 2008.
- At 99 bps on Tuesday, the CDX is down from its recent peak of 262 bps set on March 9 of this year, the date the stock markets set recent lows.

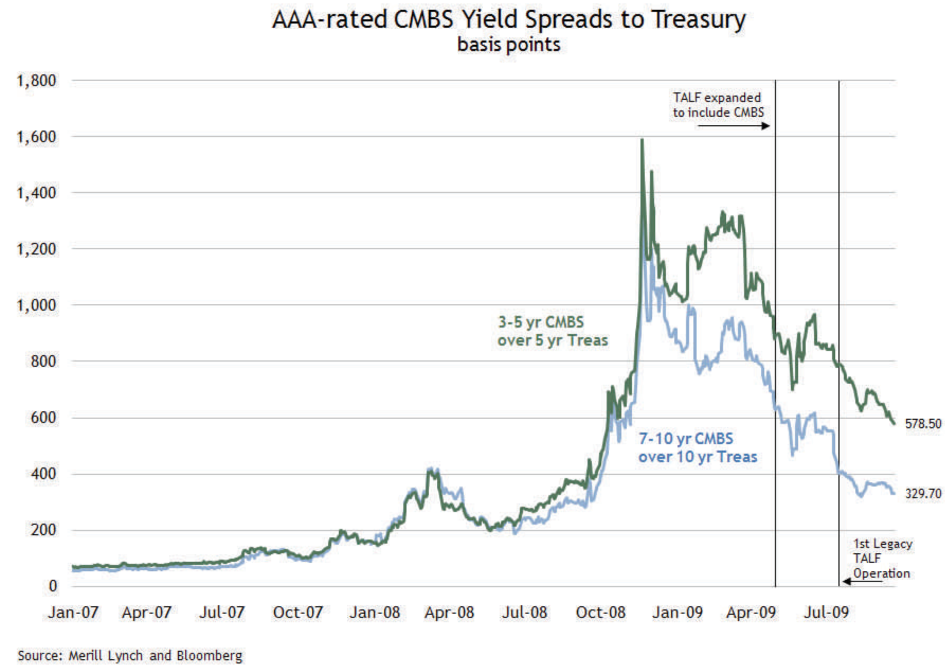
Commercial Mortgage Backed Securities

Summary

Yields spreads of CMBS over Treasuries continue to decline.

On September 15 the Treasury announced tax changes that make it easier to refinance commercial properties *before* the loan goes into default.

The last CMBS TALF operation provided $1.4 billion in financing for the purchase of legacy CMBS. There have been no loans to purchase newly issued CMBS.



- The three-to-five-year CMBS yield spread has narrowed 34 bps in the past 30 days and 542 bps since January 2. The seven-to-10-year CMBS spread has narrowed 110 bps in the past 30 days and 448 bps since January 2.

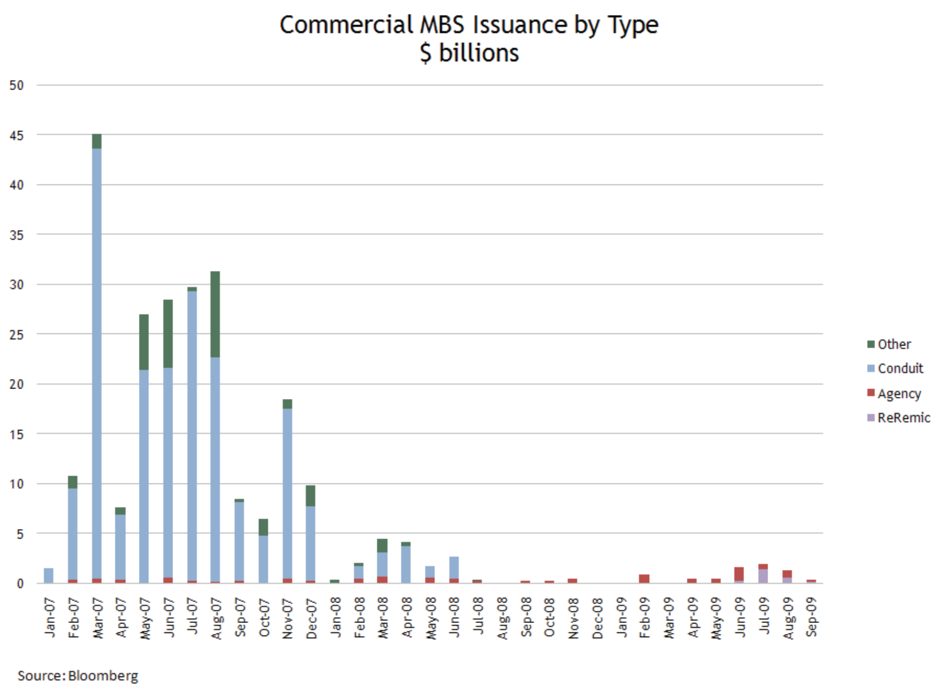
TALF Subscription Date	3 Year Loan Rate	5 Year Loan Rate	Newly Issued Amount	Legacy Amount (Millions)
6/16/2009	3.271	4.13	$0	–
7/16/2009	3.028	3.874	$0	$668.94
8/20/2009	3.072	3.872	$0	$2,283.32
9/17/2009	2.9455	3.7958	$0	$1,401.92

Source: New York Fed

CMBS issuance remains depressed.

Since August 2008 there has only been issuance in the form of agency and re-REMICs.

The bundling of securities to avoid downgrades remains a major part of issuance as 19.5% of U.S. CMBS are currently on the watch list for downgrading.

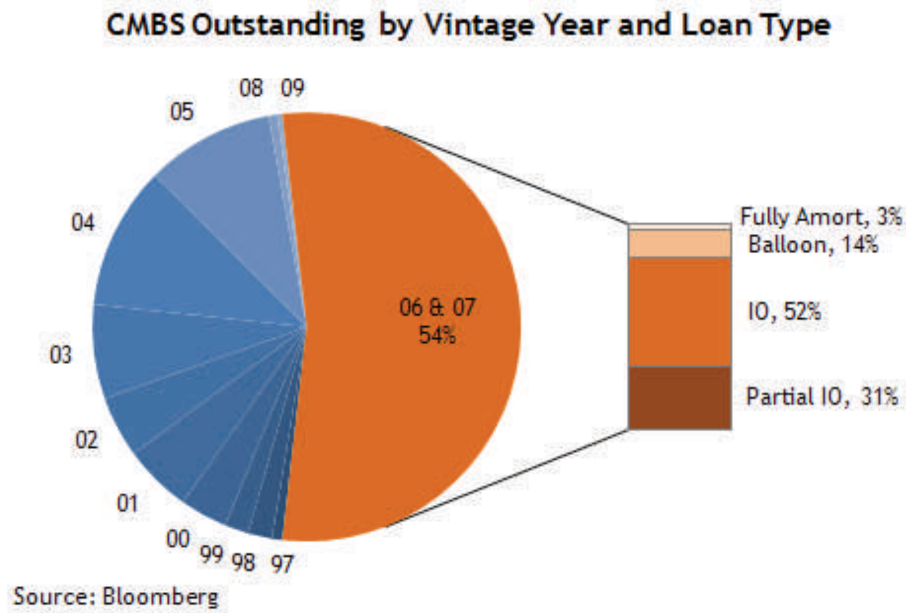


Commercial Mortgage Backed Securities

Summary

Fifty-four percent ($378 billion) of CMBS outstanding was created in 2006 and 2007.

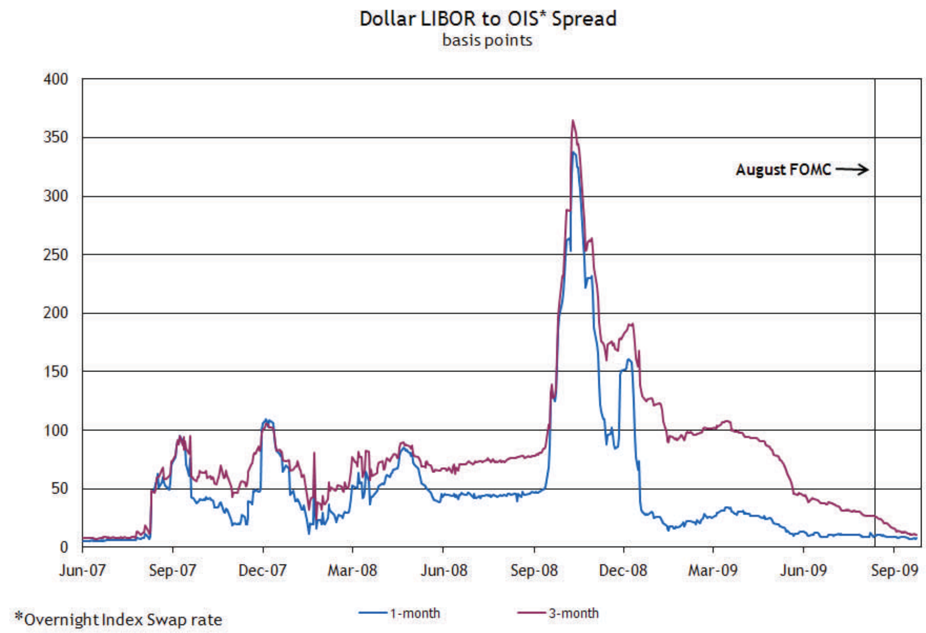
Of the vintage 2006 and 2007 CMBS, almost all of the loans are interest only or partial IO, with less than 3% being fully amortizing loans.



Broad Financial Market Indicators

Summary

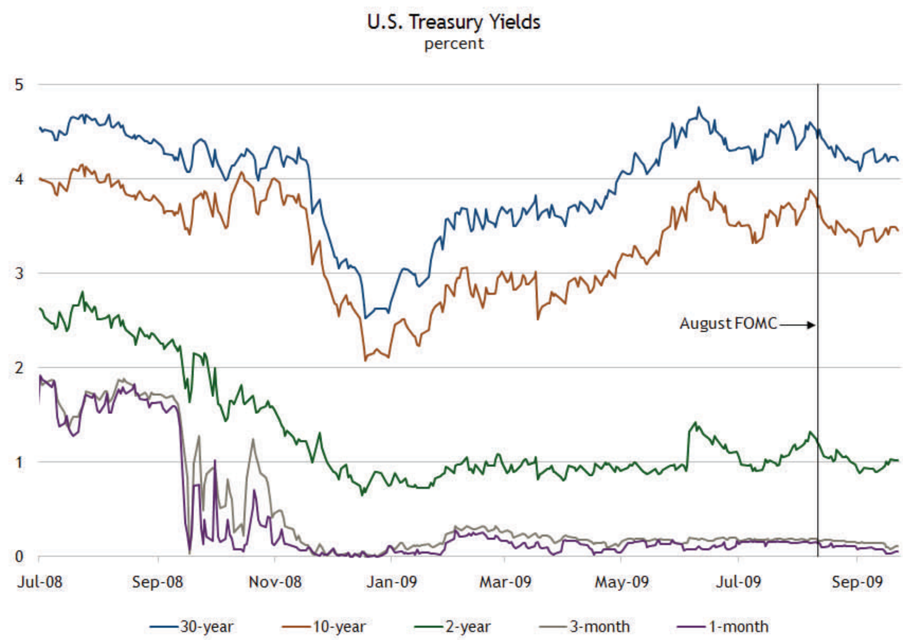
LIBOR-to-OIS spreads have narrowed considerably since the last FOMC meeting, the three-month spread in particular.



Source: Bloomberg and British Bankers' Association

- As of September 23, the one-month Dollar LIBOR to OIS spread was 7.6 bps, and the three-month was 10.5 bps. Since the last FOMC meeting the two spreads have dropped 3 bps and 15 bps, respectively.

Longer-dated Treasury yields declined in the intermeeting period as well.



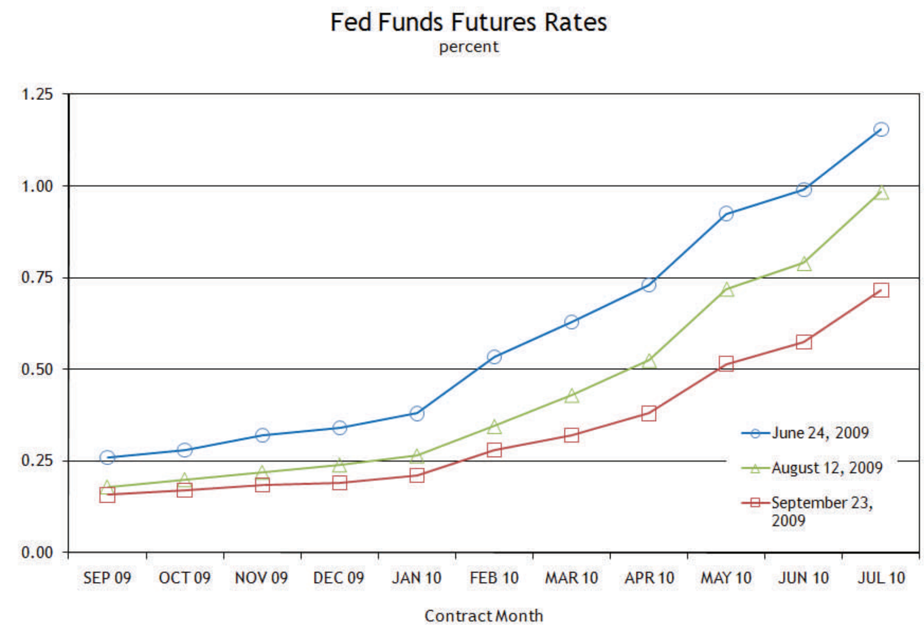
Source: Bloomberg

- Following the last FOMC statement on August 12, longer-dated Treasury yields have fallen: The 30-year bond was down 24 bps to 4.20%, the 10-year note fell 25 bps to 3.46%, and the two-year note was lower by 19 bps, to 1.02%.

Broad Financial Market Indicators

Summary

The market for federal funds futures currently implies a 25 basis point rate hike for May 2010; futures rates have moved lower over the last two intermeeting periods.



Source: Bloomberg

- Since the last FOMC meeting ended on August 12, futures rates have moved lower at the far end of the curve, implying a market perception that the Fed will keep rates unchanged over a longer horizon than was previously expected.