FEDERAL RESERVE BANK of ATLANTA

February 10, 2010

Financial Highlights

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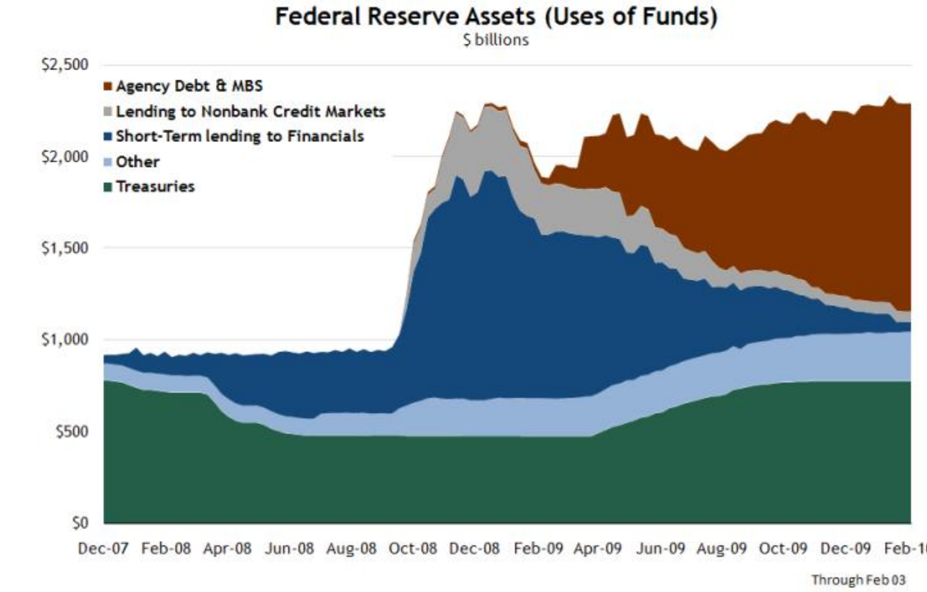
Federal Reserve

Summary

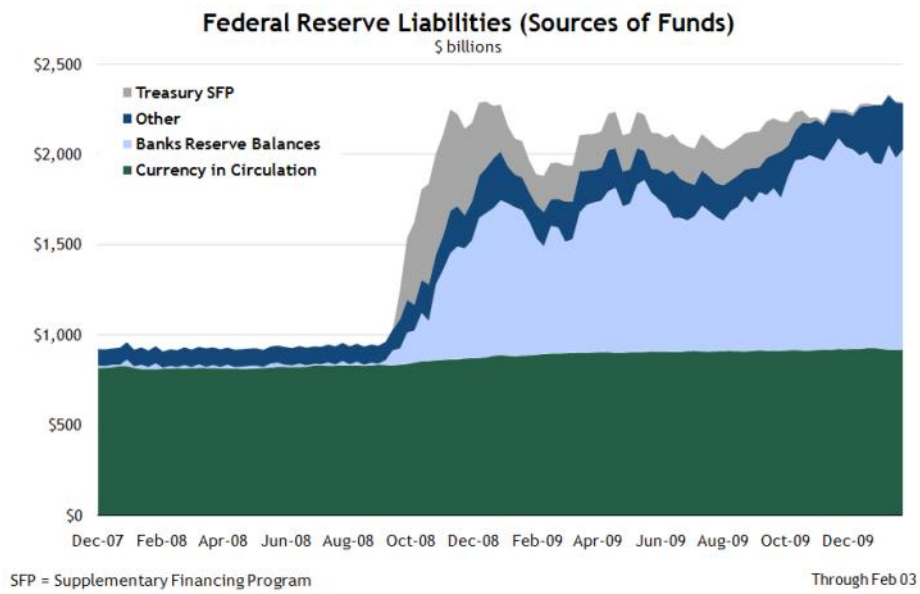
The balance sheet expanded slightly for the week ended February 3.



Source: Federal Reserve Board

- The balance sheet expanded $2.1 billion from January 28 to February 3. The largest change in the balance sheet came from holdings of agency debt and mortgage backed securities; together, they increased by $1.6 billion.
- On February 1 most of the liquidity facilities expired including the AMLF, CPFF, PDCF, TSLF, and liquidity swaps. The TALF for non-CMBS and legacy CMBS is set to expire in March while the TALF for new CMBS is scheduled to end in June.
- The balance sheet is expected to peak during the first half of this year after the MBS purchase program is completed and purchases settle on the balance sheet.

For the week ended February 3, currency in circulation and banks reserve balances each increased approximately $5 billion while other liabilities declined $8.5 billion.



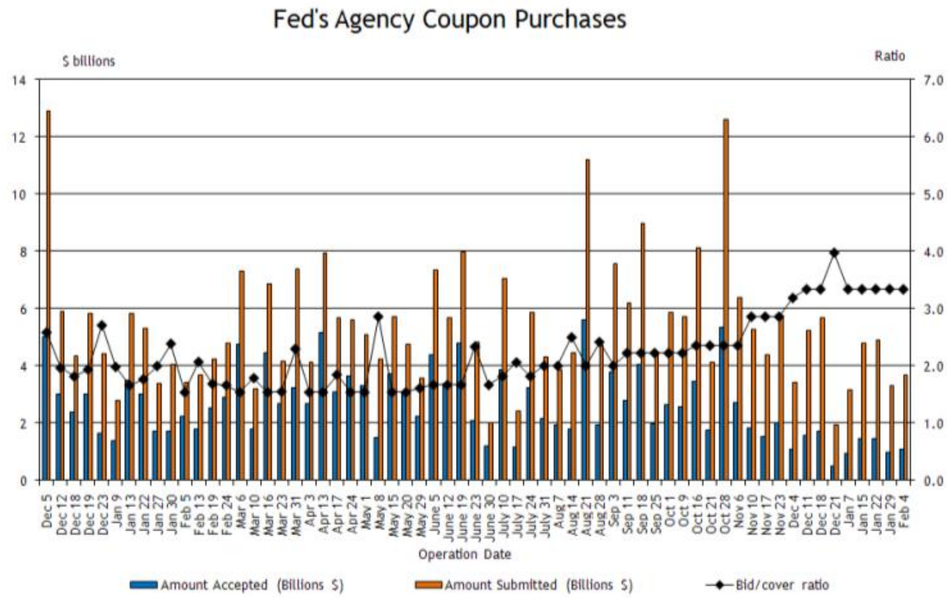
Source: Federal Reserve Board

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.

Federal Reserve

Summary

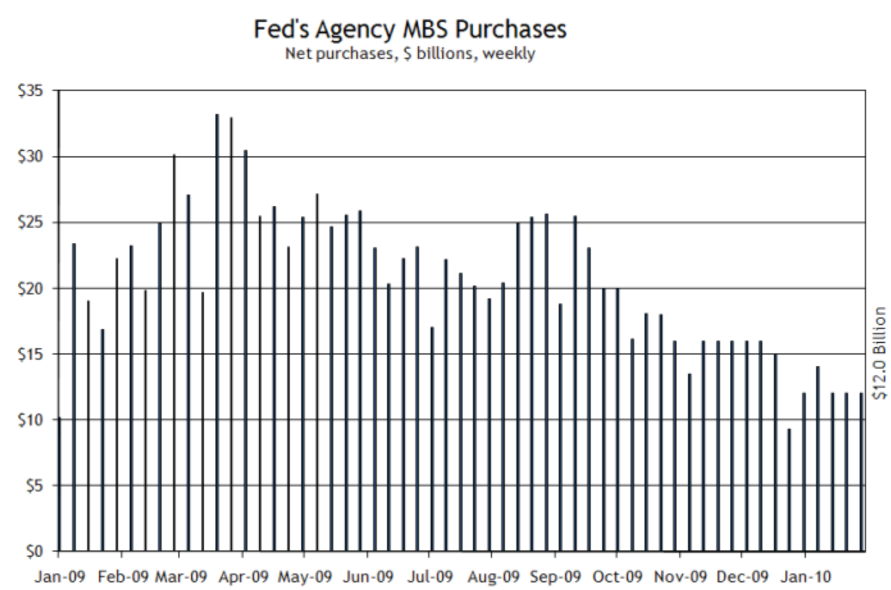
Bid-to-cover ratios for Fed purchases of agency debt have recently stabilized.



Source: NY Fed

- The Fed has completed $165.9 billion of its $175 billion agency debt purchase program through February 10 (making it 95% complete). The last purchase, on February 4, was made for $1.099 billion and had a bid-to-cover ratio of 3.33.
- The last five purchases have had an average bid-to-cover ratio of 3.33-3.34. The next agency purchase is scheduled for Thursday, February 11.

Similarly, the weekly net purchases of agency MBS has stabilized at $12 billion.



Source: NY Fed

- The Fed purchased a net total of $12 billion of agency-backed MBS through the week of February 3, bringing its total purchases up to $1.177 trillion, and by the end of the first quarter 2010 the Fed will have purchased $1.25 trillion (thus, it is 94% complete).
- In the first nine months of the program (January-September 2009), the Fed's average weekly purchase of MBS was $23.3 billion. Since October 2009, however, it has declined to $14.6 billion per week; the Fed needs to purchase only about $9.2 billion per week through March 2010 to reach its goal.

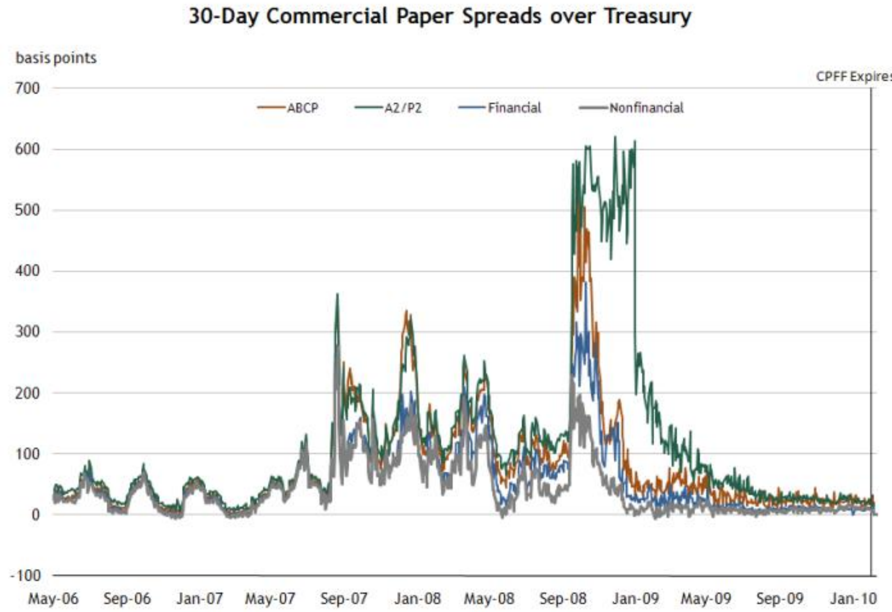
Commercial Paper

Summary

Thirty-day commercial paper spreads over Treasuries remain at low precrisis levels.

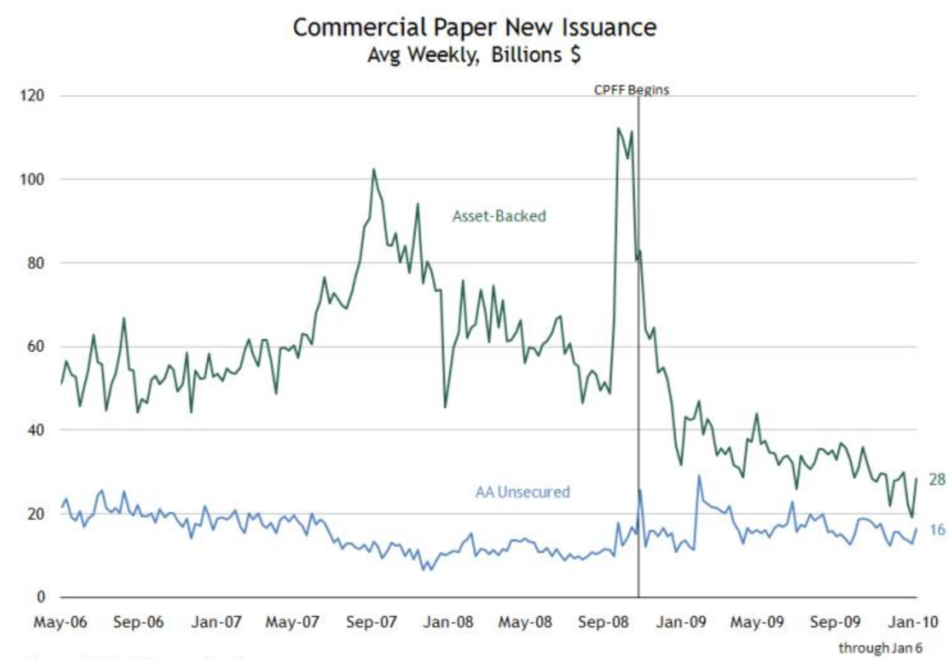
The Fed's Commercial Paper Funding Facility expired on Monday February 1 with no significant reaction in the market, marking the conclusion of a 15-month program.

The lack of a reaction was not surprising, considering the use of the program had dropped off almost completely in the last few months. The CPFF holdings have been right around $14 billion since November 14, down from a peak of $335 billion on Jan. 14, 2009.



Source: Federal Reserve Board

New issues of commercial paper have stabilized for unsecured paper but continue to steadily decline for asset-backed paper.

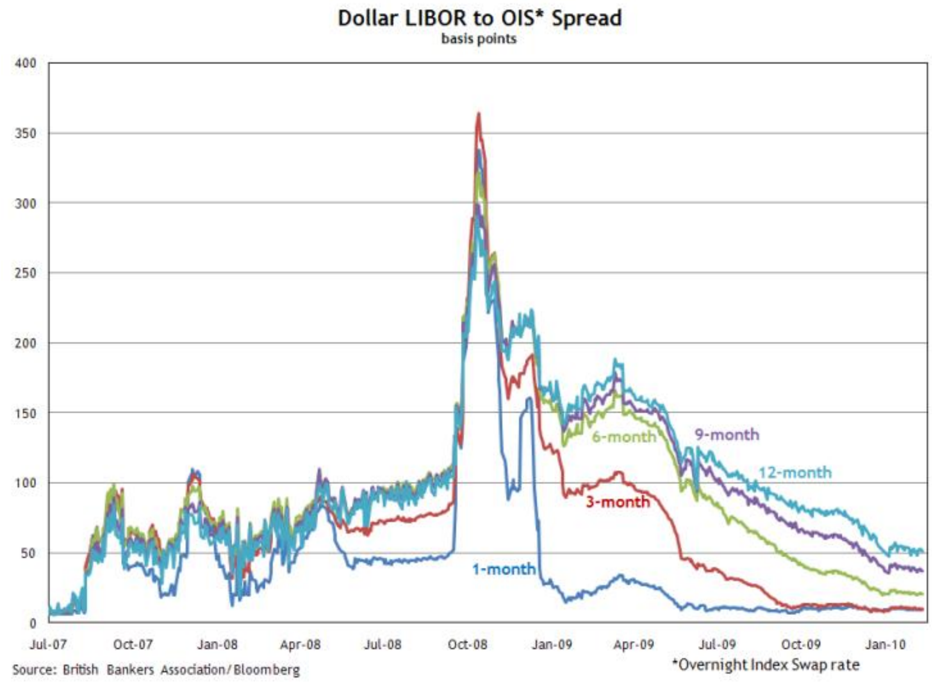


Source: Federal Reserve Board

Broad Financial Market Indicators

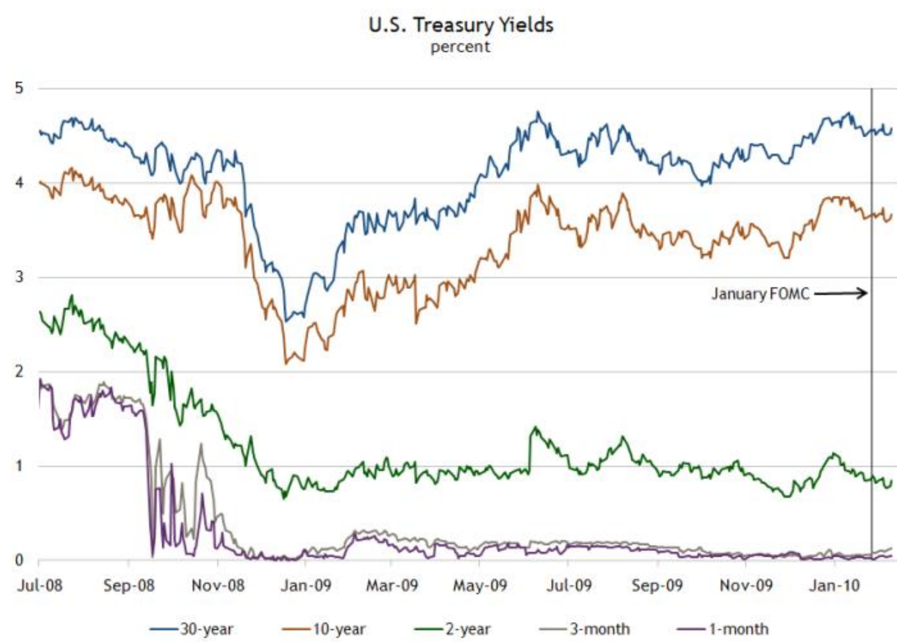
Summary

LIBOR to OIS spreads are stable.



- Since the January FOMC meeting, dollar LIBOR to OIS spreads are stable. The one-month and three-month spreads are up 9.4 and 9.7 basis points (bps), respectively. The 6-, 9-, and 12-month spreads are 19.7, 34.0, and 47.9 bps, respectively, through February 10.

Following the January FOMC meeting, Treasury yields are also relatively stable.



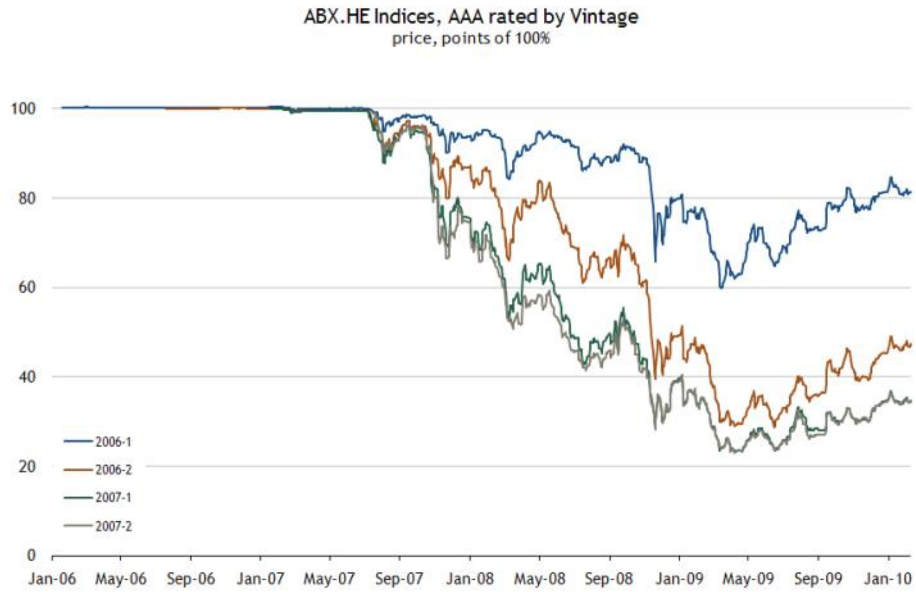
Source: Bloomberg

- Since the January FOMC meeting, longer-dated Treasury yields are as follows: Through February 9, the 30-year bond is up 3 bps to 4.58%, the 10-year moved 1 bps higher to 3.67%, and the two-year note was down 6 bps to 0.84%.
- Notably, the three- and one-month T-bill rates have moved up 4 bps during the same period.

Broad Financial Market Indicators

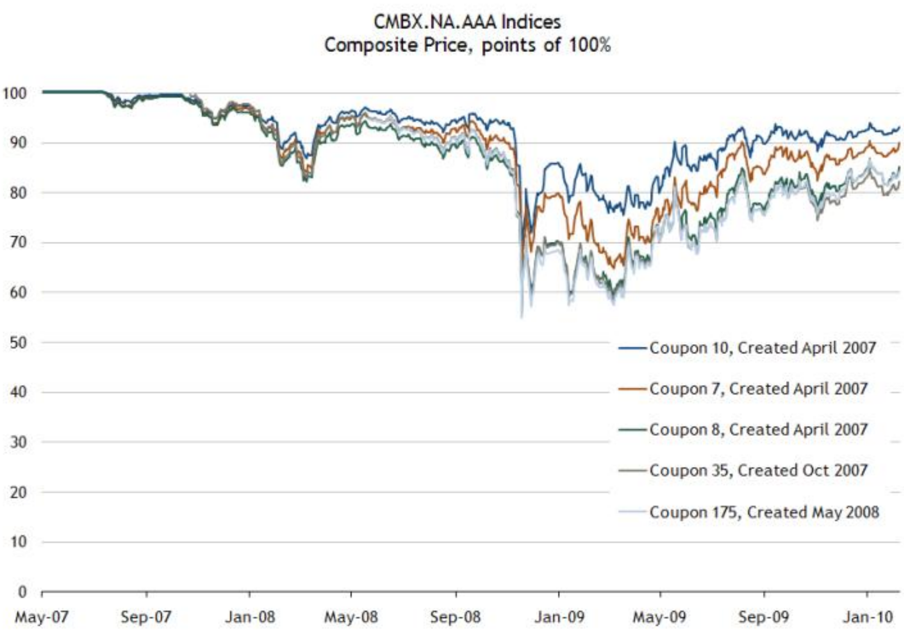
Summary

The ABX, a representation of the investment value of home equity credit default swaps, continues to steadily rise. This rise indicates a decline in the cost to insure against default on the underlying collateral.



Source: Markit Group Limited/Haver Analytics

The same is true for the value of commercial MBS credit default swaps. All vintages of the CMBX.NA.AAA continue to rise.

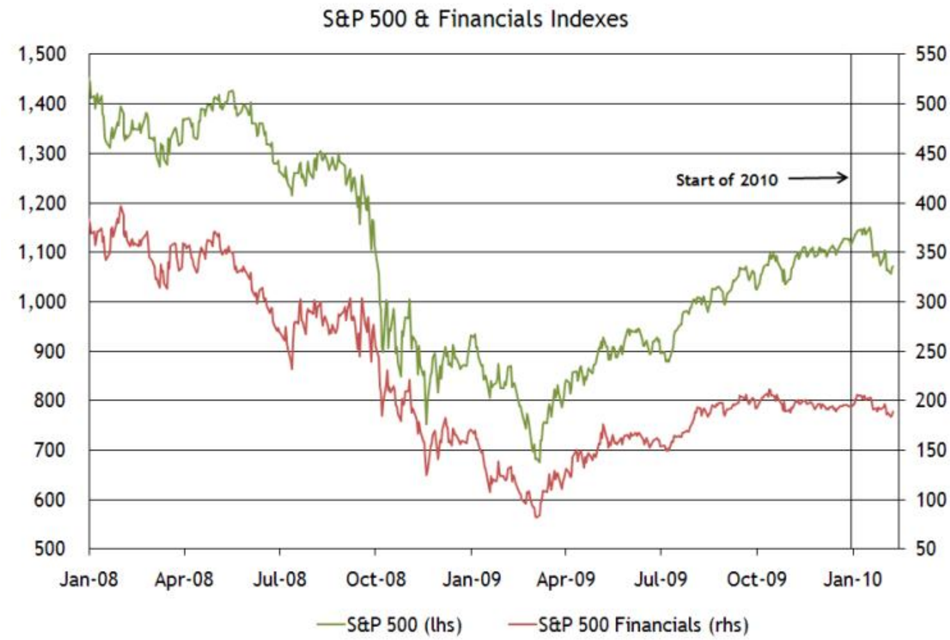


Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

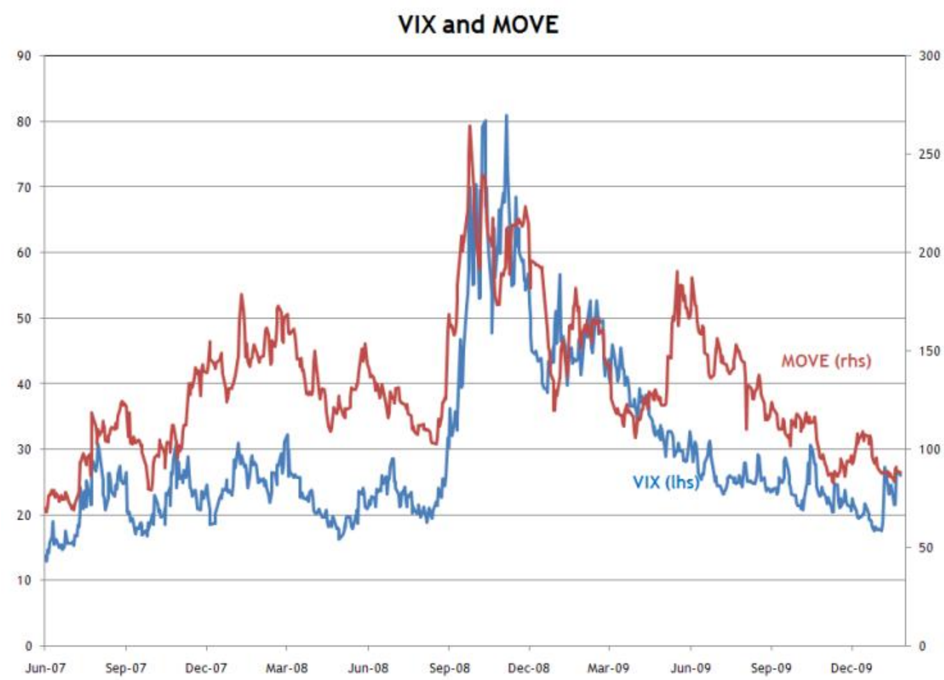
Equity markets have suffered losses since the start of the calendar year, though financials have declined by relatively less.



Source: Bloomberg

- The S&P 500 (shown) and the Dow Jones Industrial Average (not shown) have declined since the start of the calendar year, with the S&P 500 index down 3.8% and Dow down 3.4%, through February 10. The S&P financials subindex, however, has declined only 2.5%.

While bond market volatility is not much higher since the start of the year, equity market volatility has increased noticeably.



Source: Merrill Lynch, CBOE

- The Chicago Board of Exchange's Volatility Index (VIX), measuring the option-implied volatility of the S&P 500 index, is 12.4% higher since the start of the year, with a reading of 26.0 as of February 9—the highest such reading in more than three months.
- The Merrill Lynch Option Volatility Expectations (MOVE), a measure of bond market volatility, has stabilized around 85-90 as of February 9. It has increased 2.1% since the start of the year.