

## Financial Highlights

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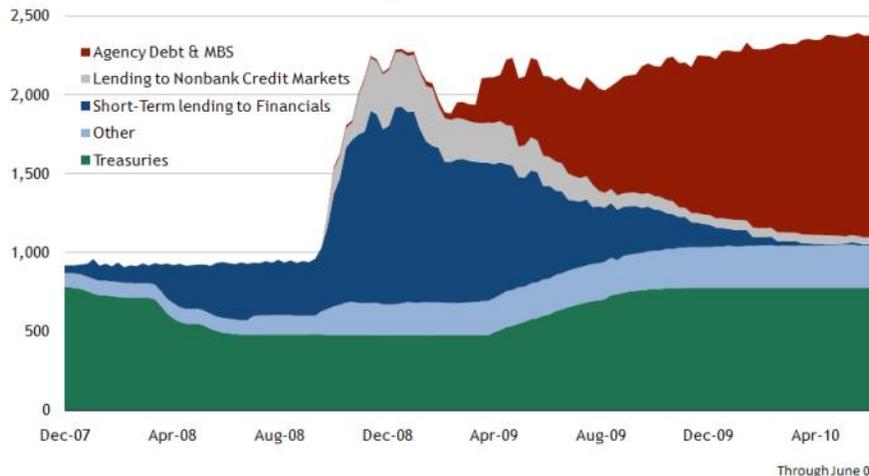
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# Federal Reserve

## Summary

The balance sheet decreased by \$4 billion to \$2.4 trillion for the week ended June 9.

**Federal Reserve Assets (Uses of Funds)**  
\$ billions

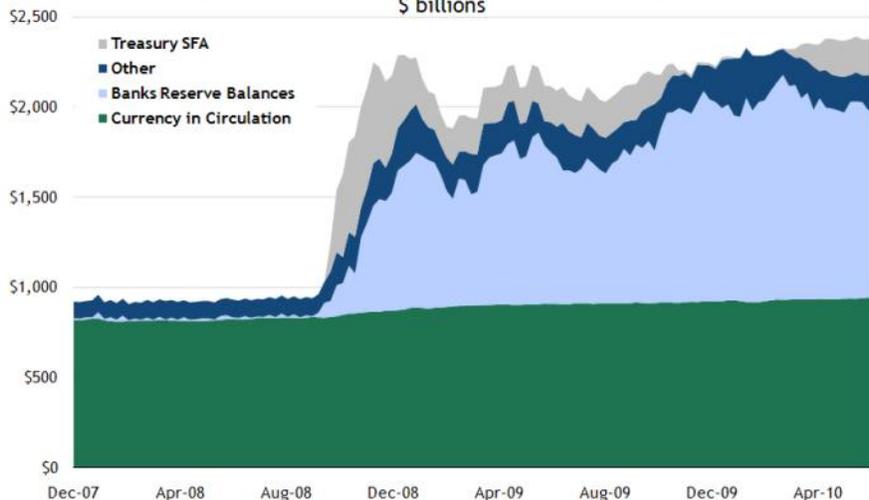


Source: Federal Reserve Board

- Currency swaps on the balance sheet decreased by \$5.4 billion as a result of the expiration of a one-week transaction with the ECB.
- MBS grew by \$61 million.

Bank reserve balances increased by \$39 billion while Treasury deposits with Federal Reserve banks (part of "Other") declined by \$43 billion.

**Federal Reserve Liabilities (Sources of Funds)**  
\$ billions



SFA = Supplementary Financing Account

Source: Federal Reserve Board

**Assets:** Lending to nonbanks—TALF, CPFF, AMLF, and MMLFF; 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

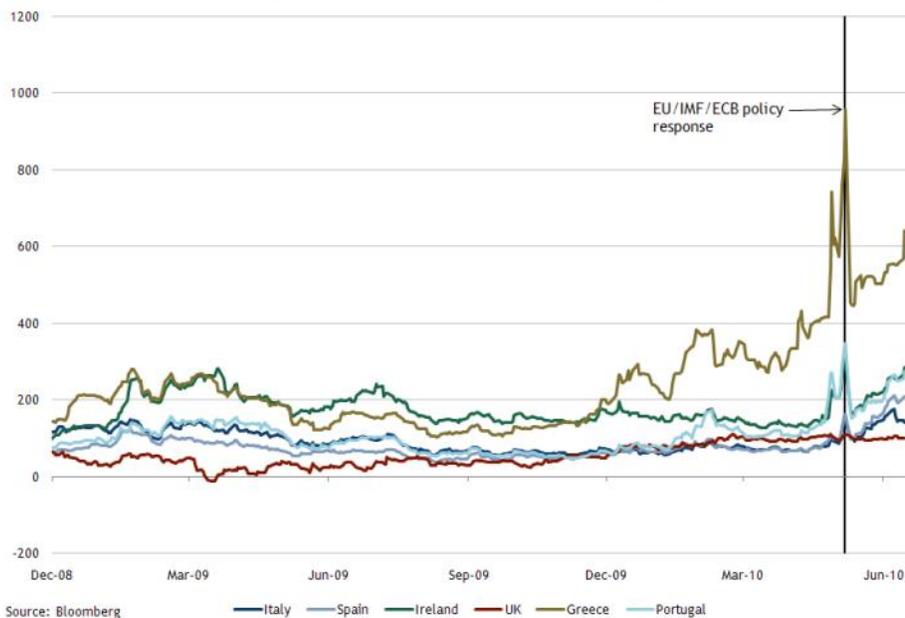
## Summary

Peripheral euro-area bond spreads (over German bonds) have continued to widen.

In particular, the bond spread for Spain has widened the most relative to levels before the European Union/International Monetary Fund rescue package was unveiled.

Similarly, while CDS spreads declined slightly last week, they are wide relative to earlier this year.

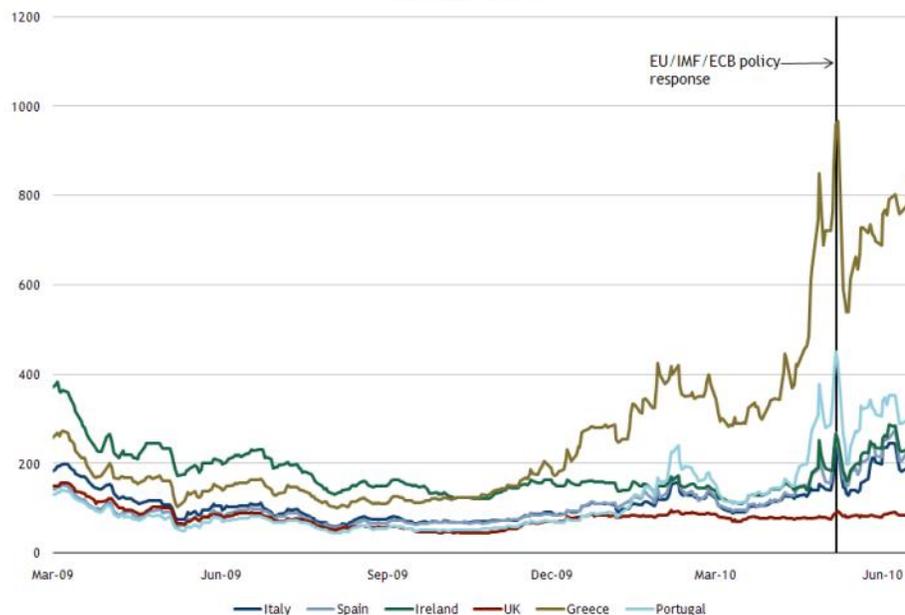
**European Bond Spreads**  
Basis points, 10-year bond spread to German bonds



Source: Bloomberg

- After initially declining in early May, sovereign debt spreads have begun widening for peripheral euro-area countries. As of June 16, the 10-year bond spread (over German bonds) stands at 640 basis points (bps) for Greece, 283 bps for Ireland, 274 bps for Portugal, and 209 bps for Spain.
- The spread to Spanish bonds has increased 110 bps since May 11, from 1% to 2.09%, while Portuguese bond spreads are 121 bps higher during the same period.

**European CDS Spreads**  
5-year, basis points



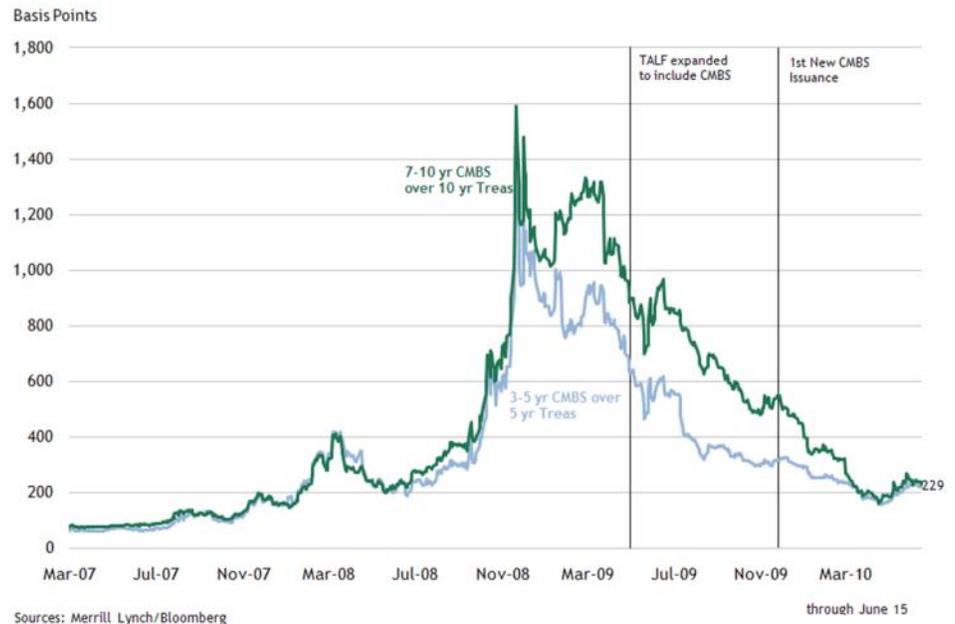
Source: Bloomberg

# Commercial Mortgage Backed Securities

## Summary

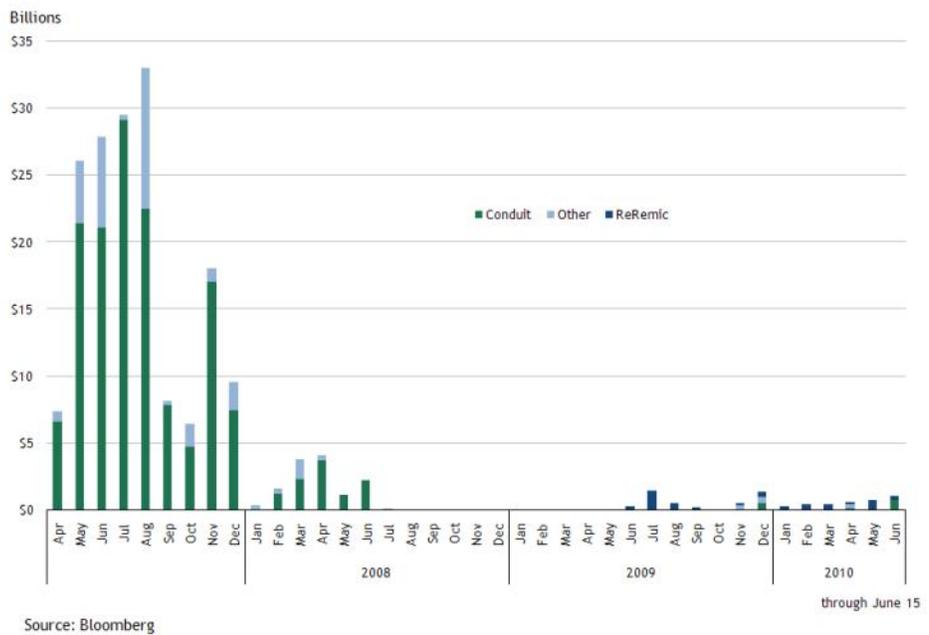
CMBS yields over Treasuries have increased recently. The widened spread has been the result of Treasury yields declining; CMBS yields have been flat since April.

AAA-rated CMBS Yield Spreads to Treasury



A \$716 million conduit deal was recently put together by JP Morgan, and another smaller deal is in the pipeline. This offering is the largest of new CMBS in two years.

Commercial MBS Issuance by Type



# Residential Mortgages

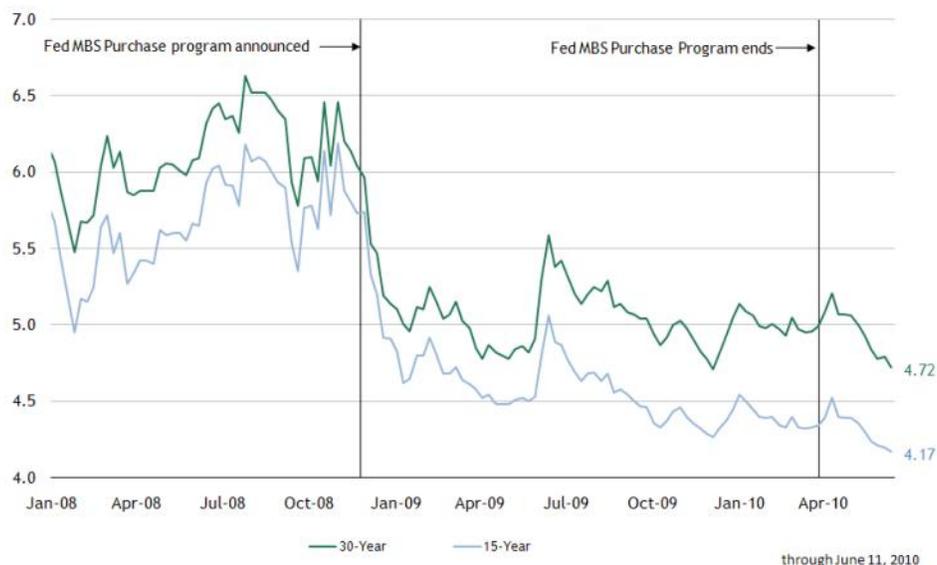
## Summary

Mortgage rates are at the lowest levels of 2010. The 15-year fixed rate has declined or held steady in each of the past nine weeks.

The 30-year fixed rate has not been lower since December 4, 2009, when it averaged 4.71%.

The 15-year fixed rate is at the lowest point since Freddie Mac began tracking it in August 1991, when it averaged 4.27%.

Freddie Mac Primary Mortgage Market Weekly Survey  
fixed-rate mortgage rates, percent



Source: Federal Home Loan Mortgage Corporation/Haver Analytics

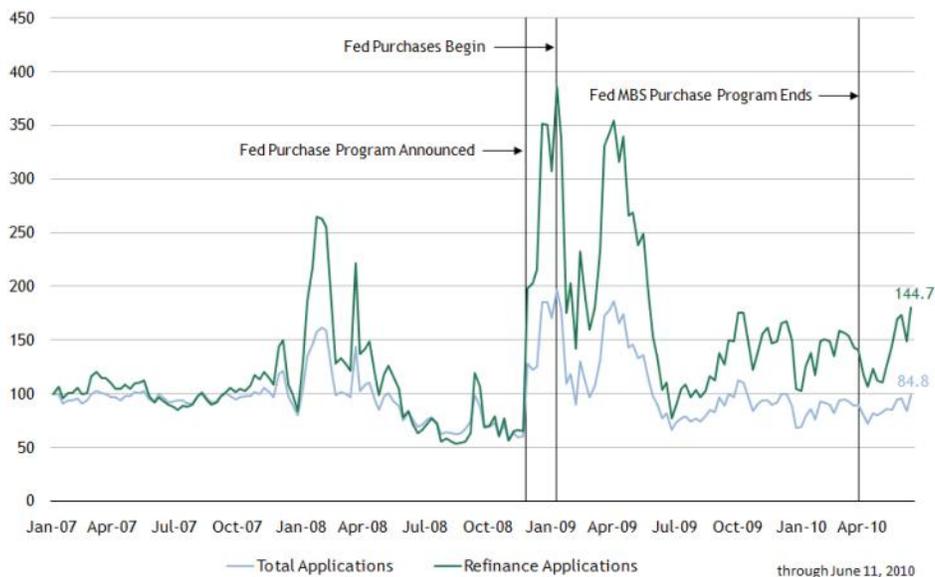
- The 30-year fixed rate averaged 4.72%, down from 4.79% a week ago; the 15-year fixed rate averaged 4.17%, down from 4.20% a week ago.
- At this time last year, the 30-year fixed rate averaged 5.59%; the 15-year fixed rate averaged 5.06%.

Total mortgage loan application volume and refinance application volume remain well below the peaks set in January and April 2009.

The refinance index increased 21.1% from the previous week to its highest level since May 22, 2009.

Despite relatively low rates, purchase applications have declined during the past month.

Market Volume Index: Mortgage Loan Applications  
Indexed to January 2007 = 100



Source: Mortgage Bankers Association/Haver Analytics

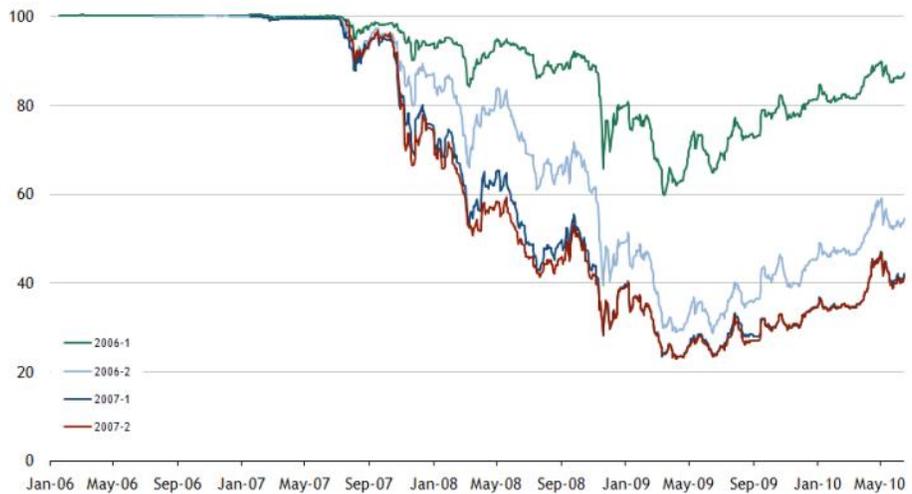
- For the week ending June 11, total mortgage application volume increased 17.7% from one week earlier while total refinance application volume increased 21.1% from the previous week.
- The refinance share of mortgage activity increased to 74.8% of total applications from 72.2% a week earlier.

# ABX and CMBX

## Summary

The ABX continues to rise across all vintages, indicating a decline in the cost to insure against default on the underlying home equity loans.

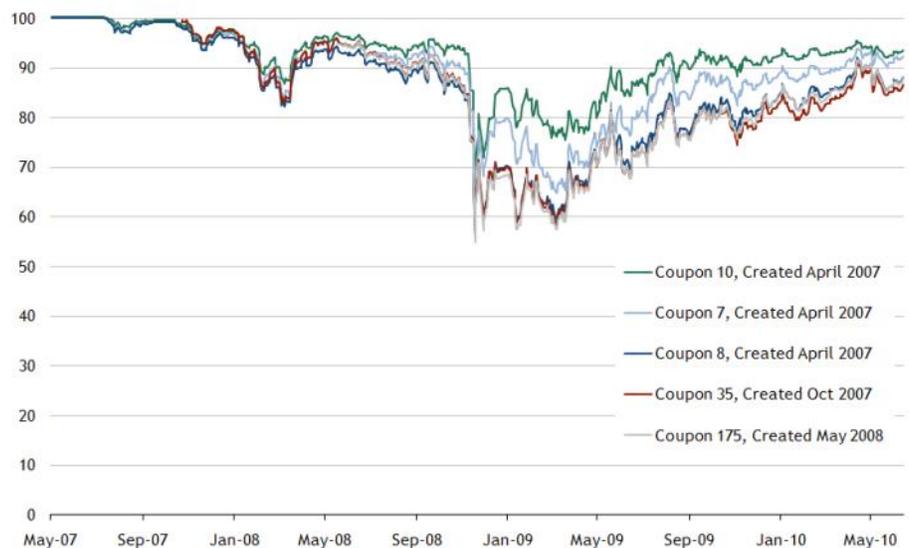
ABX.HE Indices, AAA rated by Vintage  
price, points of 100%



Source: Markit Group Limited/Haver Analytics

The same is true for the index value of commercial MBS credit default swaps. All vintages of the CMBX.NA.AAA continue to rise, indicating a lower cost of insuring against default of commercial MBS.

CMBX.NA.AAA Indices  
Composite Price, points of 100%

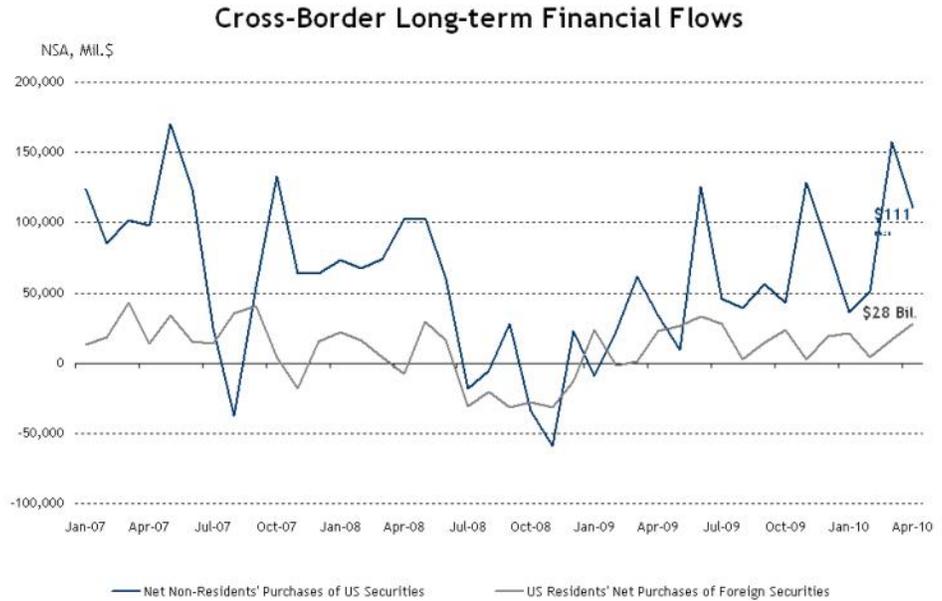


Source: Markit Group Limited/Haver Analytics

# Cross-Border Financial Flows (TIC Data)

## Summary

Nonresidents' purchases of long-term U.S. securities moderated in April but remained elevated. U.S. residents' buying of foreign bonds and equities stayed within the recent range.



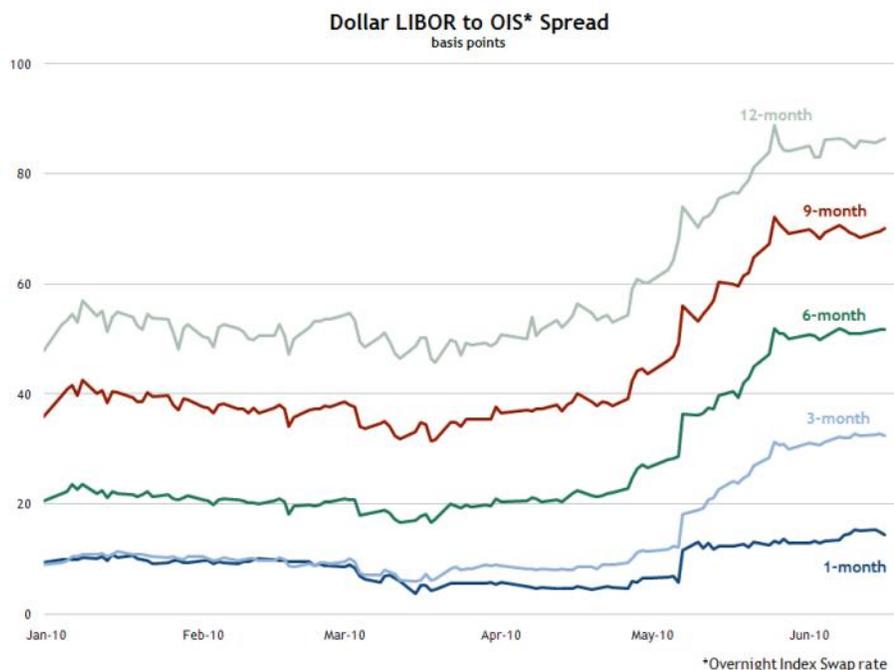
Source: U.S. Treasury/Haver Analytics

- On net, nonresidents bought \$111 billion in long-term U.S. securities in April. For both private and official foreign sectors, Treasury bonds and notes continued to account for the majority of net purchases of U.S. long-term financial assets. The private sector remains the main source of net foreign capital inflows to United States.
- After nine consecutive months of net sales, nonresidents on net resumed purchases of short-term U.S. assets in March and remained net buyers in April.
- China's stock of U.S. Treasury securities rose for the second consecutive month in April to \$900 billion, although it remains below a record \$940 billion recorded in July of last year. China accounts for a third of all U.S. Treasury securities holdings by foreign official institutions and about a quarter of total foreign holdings. At the end of the first quarter, nonresidents accounted for close to 52% of all privately held U.S. government debt.

# Broad Financial Market Indicators

## Summary

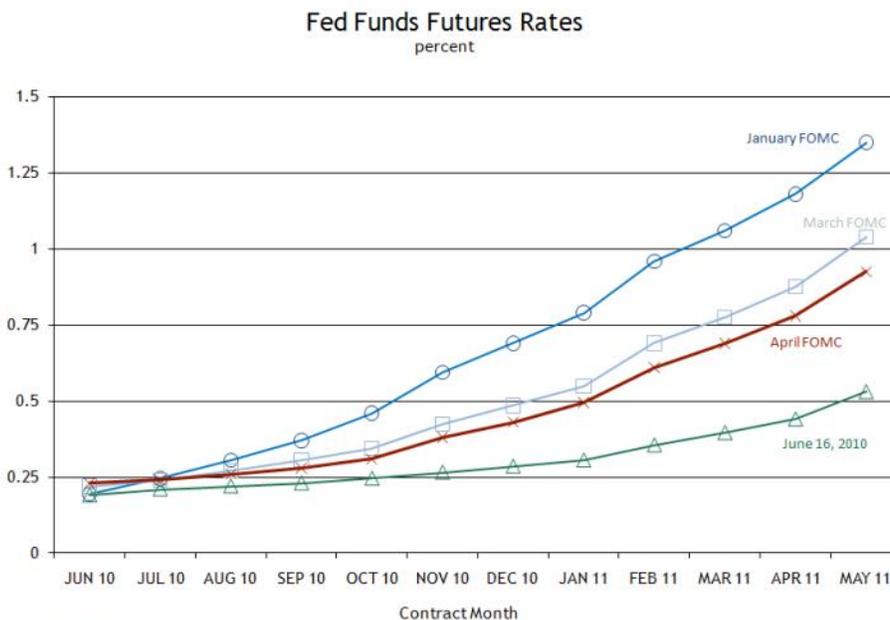
LIBOR to OIS spreads have flattened over the past few weeks but are elevated relative to levels seen earlier this year.



Source: Bloomberg/British Bankers' Association

- After rising for several weeks, between May 26 and June 16 Dollar LIBOR to OIS spreads have flattened out—wider or narrower by less than 2 bps, across all tenors. The one- and three-month spreads are at 14.4 bps and 32.4 bps, respectively, as of June 16.

The curve of expected rates from the fed funds futures market has flattened further since the April FOMC meeting.



Source: Bloomberg

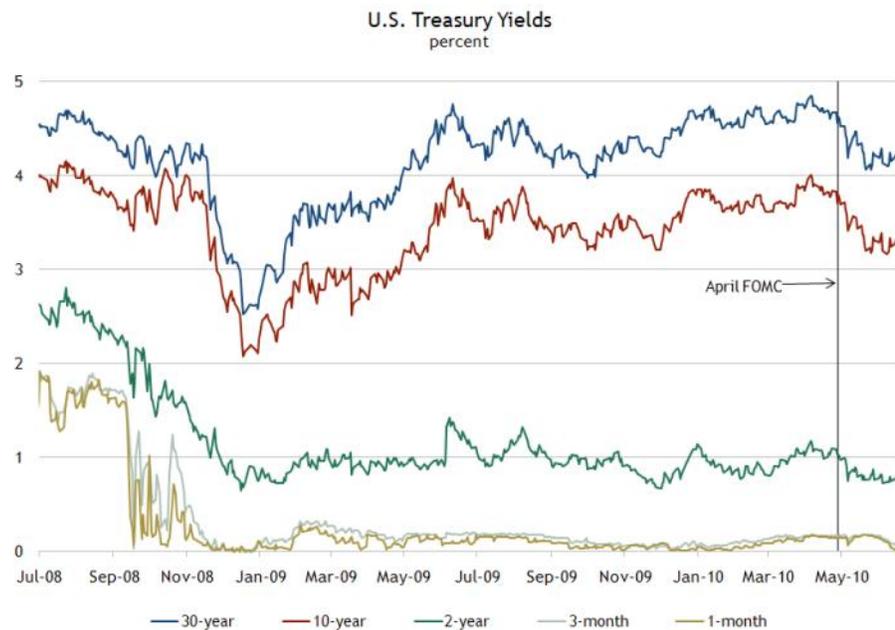
Source: Bloomberg

- The fed funds futures markets doesn't reflect an expectation of a rate increase until the second quarter of 2011.
- As of June 16, the futures market for fed funds indicates an implied rate of about 53 bps for the May 2011 contract.

## Broad Financial Market Indicators

### Summary

Longer-dated U.S. 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 15, the 30-year bond is down 40 bps to 4.23%, the 10-year bond is 48 bps lower at 3.32%, and the two-year note declined 24 bps to 0.79%.
- T-bill rates, however, have declined noticeably. After remaining near 15-18 bps for several weeks, the three- and one-month bills are lower by 7 bps and 11 bps, respectively, at 0.09% and 0.03%, through June 15.