

## Financial Highlights

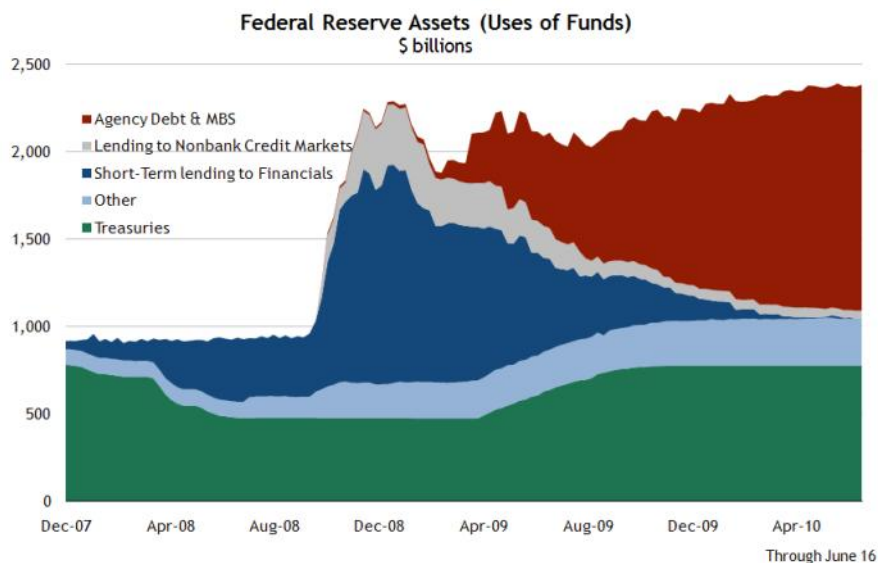
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# Federal Reserve

## Summary

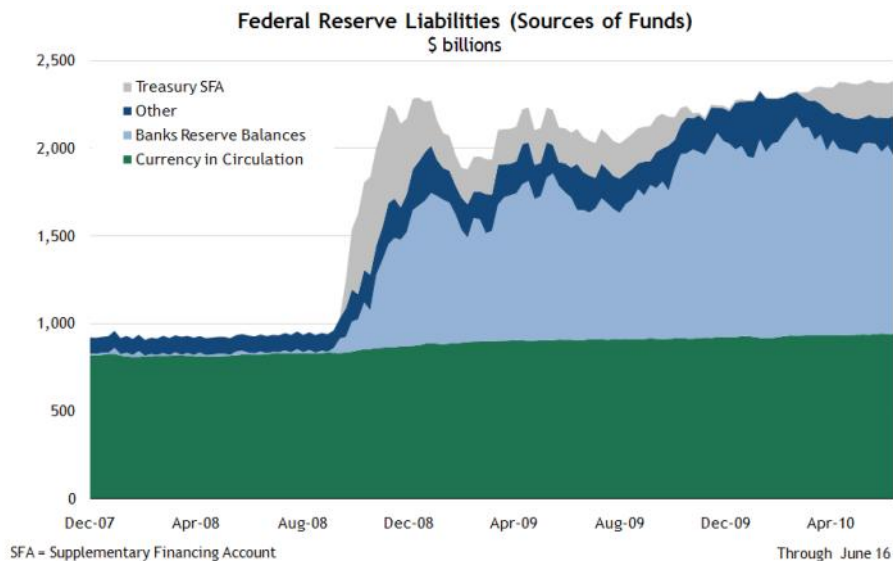
The balance sheet increased by \$12.9 billion, to \$2.4 trillion, for the week ended June 16.



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.
- No loans were requested at the last subscription of the CMBS TALF facility on June 18.
- MBS grew by \$13.9 billion, as previous purchases continue to settle.

Bank reserve balances fell by \$57 billion while U.S. Treasury deposits with Federal Reserve banks (part of "Other") increased by \$67 billion.



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

Greek bond spreads (over German bonds) have risen recently, near the highs seen before the European policy package was announced in early May.

Other euro zone countries' bond spreads are also elevated during the same period.

Similarly, CDS spreads have risen for Greece and remain elevated for other peripheral euro-area countries.

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



- Since tightening in early May, the 10-year Greece-to-German bond spread has risen to nearly 300 basis points (bps) (from 4.38% to 7.39%) through June 22. Other European peripherals' spreads are elevated, with Portugal up 138 bps over the period, Ireland up 111 bps, and Spain 86 bps higher.

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

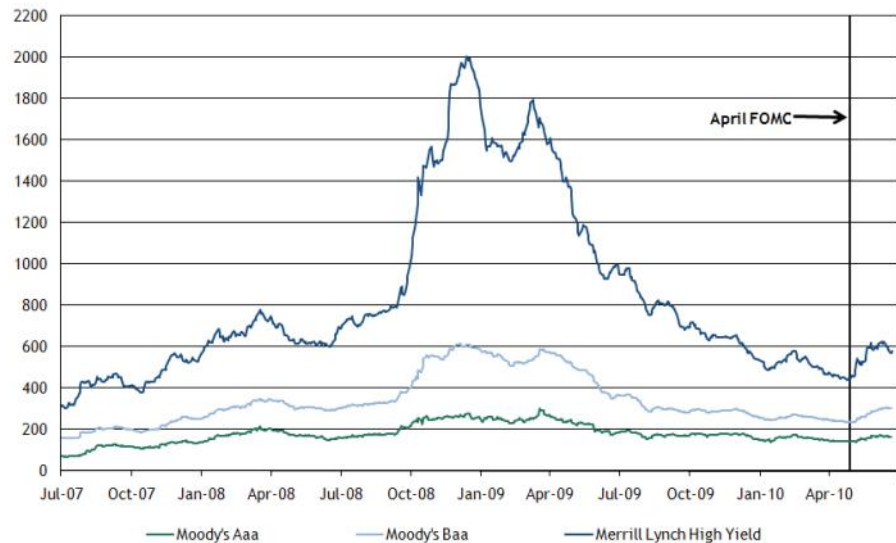


# Corporate Bonds

## Summary

Corporate yield spreads have widened during the intermeeting period.

Corporate Yield Spreads over 10-year Treasury  
basis points

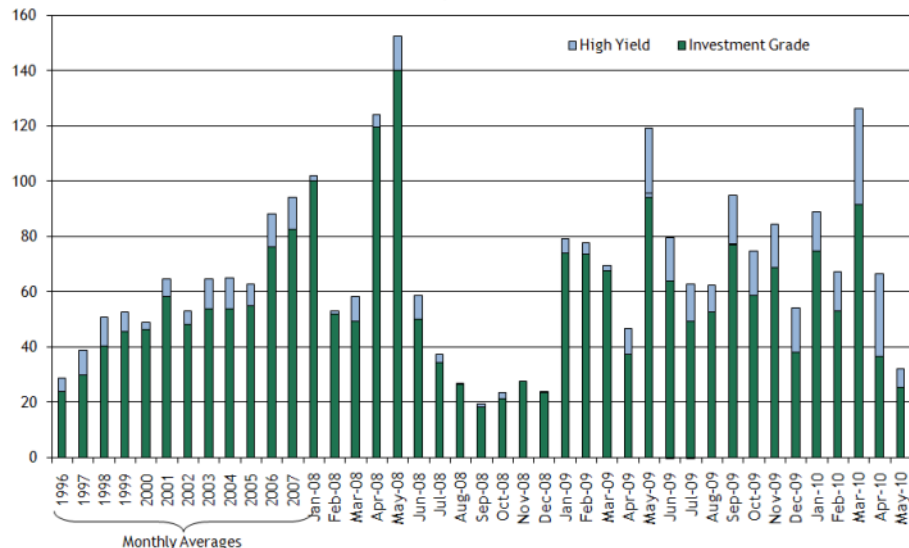


Source: Merrill Lynch, Moody's, Federal Reserve Board

- Since the April FOMC meeting, corporate yield spreads have widened by 130 bps for the Merrill Lynch High Yield Index, 19 bps for Moody's Aaa-rated bonds, and 64 bps for Baa-rated bonds.

U.S. corporations accessed the bond market for \$31.9 billion in financing during May 2010, the lowest total since December 2008.

Corporate Bond Issuance  
\$ billions



Source: SIFMA

- According to SIFMA, U.S. corporate bond issuance hit \$31.9 billion in May 2010, the lowest monthly total since December 2008.
- High-yield debt issuance was \$6.7 billion, the lowest since March 2009.

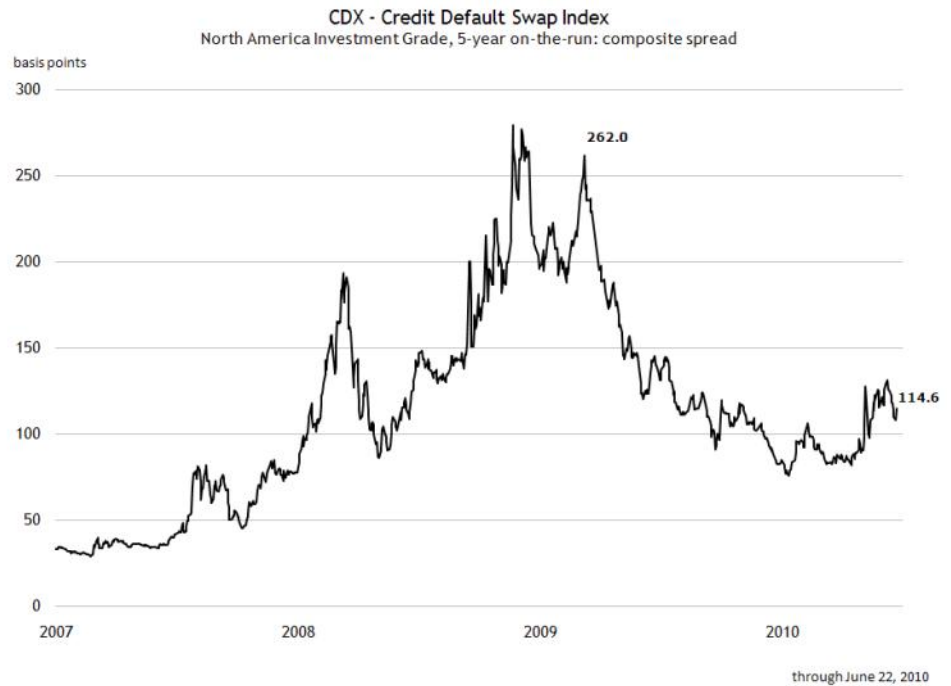
## Summary

The Markit CDX North America investment grade index has declined 9 basis points (bps) from one month ago to 114.6.

On June 9 the index reached 131.3 bps, its highest level since July 14, 2009.

Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. An increase in the CDX generally signals a deterioration in the perception of credit quality.

One basis point equates to \$1,000 annually on a contract protecting \$10 million in debt.



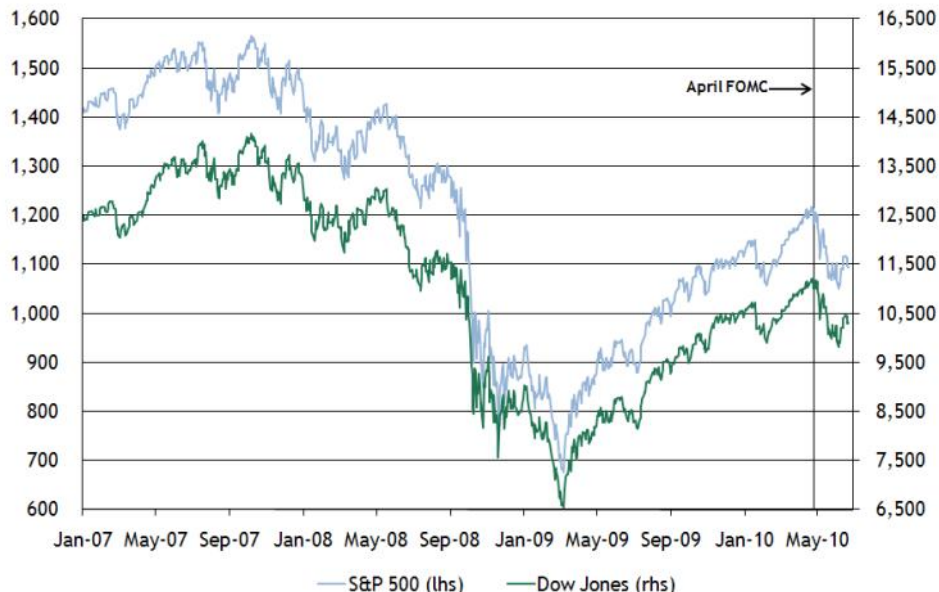
Source: Markit Group Limited/Haver Analytics

# Equity Markets

## Summary

Equity markets were broadly down over the intermeeting period.

S&P 500 & Dow Jones Equity Indexes

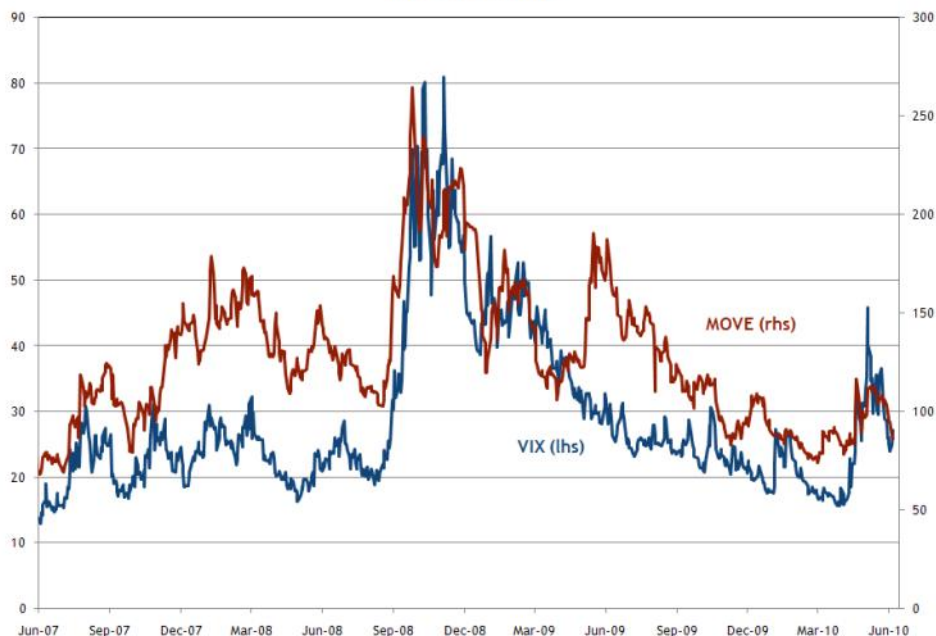


Source: Bloomberg

- Since the April FOMC meeting, the S&P 500 has declined 8.2%, and the Dow Jones Industrial Average is 6.7% lower, through June 23. The S&P financials subindex (not shown) is down 10% during the same period.

Equity market volatility has risen substantially in the intermeeting period while bond market volatility is essentially flat.

VIX and MOVE



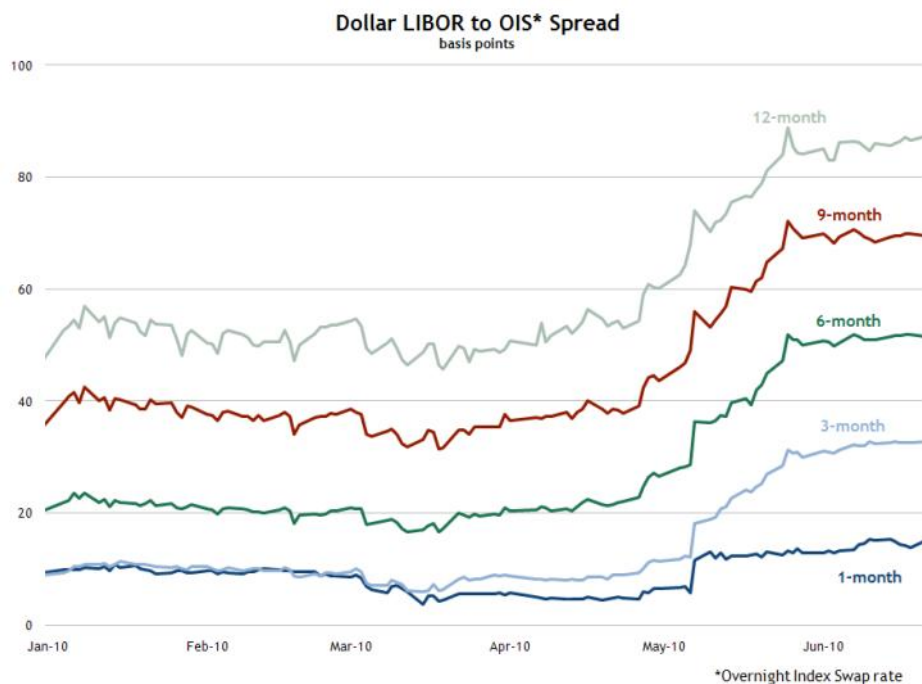
Source: Merrill Lynch, Chicago Board Options Exchange

- According to the VIX "fear index," from the Chicago Board Options Exchange, equity market volatility has increased 28.3% since the April 28 FOMC meeting.
- Over the same period, the Merrill Lynch MOVE index showed bond market volatility actually decreased slightly (1.5%).

# Broad Financial Market Indicators

## Summary

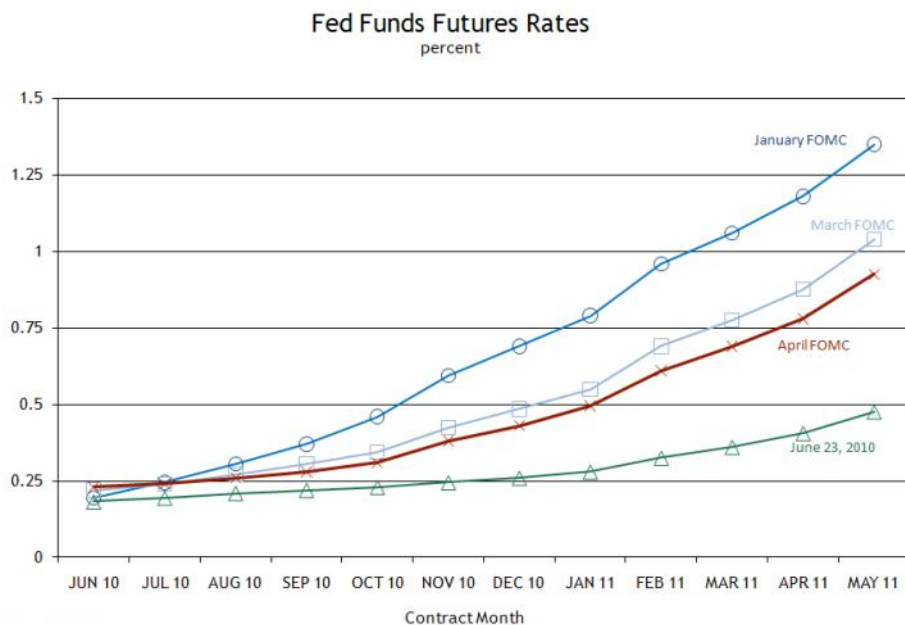
LIBOR to OIS spreads have been relatively stable, rising only a few basis points in the past month.



Source: Bloomberg/British Bankers' Association

- In the four weeks through June 23, dollar LIBOR to OIS spreads widened slightly across most tenors. The one- and three-month spreads rose by about 2.5 bps, while the six- and 12-month spreads were higher by 1.5 bps to 2 bps; the nine-month was flat. Spreads have not recovered to the ranges seen prior to May 2010, nor have they reached the highs during the fall of 2008.

The curve of expected rates from the fed funds futures market has flattened further since the April FOMC meeting, pushing back the first Fed rate increase to mid-2011.



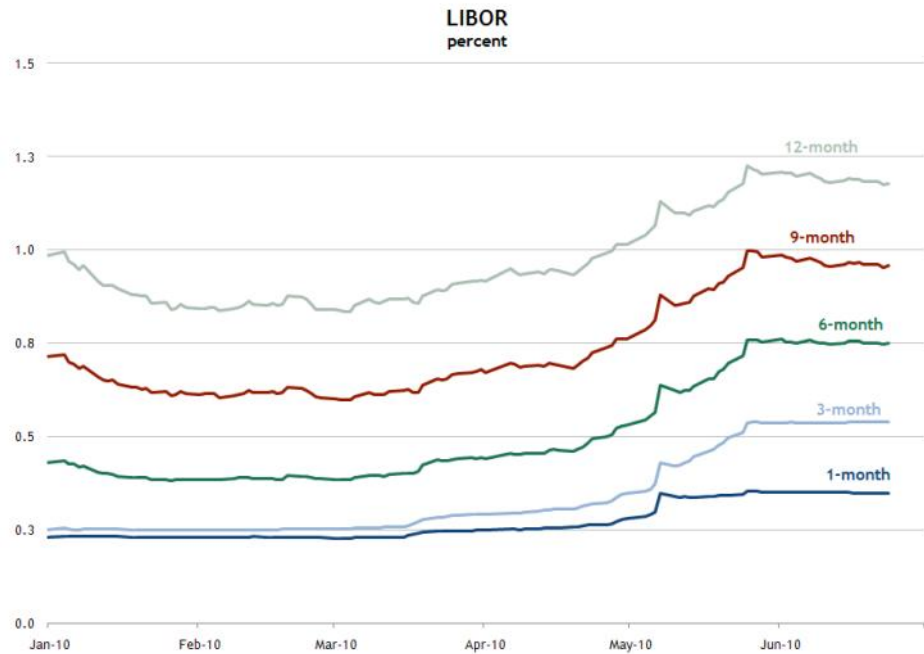
Source: Bloomberg

- Since the April FOMC meeting, the fed funds futures markets has pushed back its expectation of a rate increase to mid-2011.
- As of June 23, the futures market for fed funds indicates an implied rate of about 47 bps for the May 2011 contract.

# Broad Financial Market Indicators

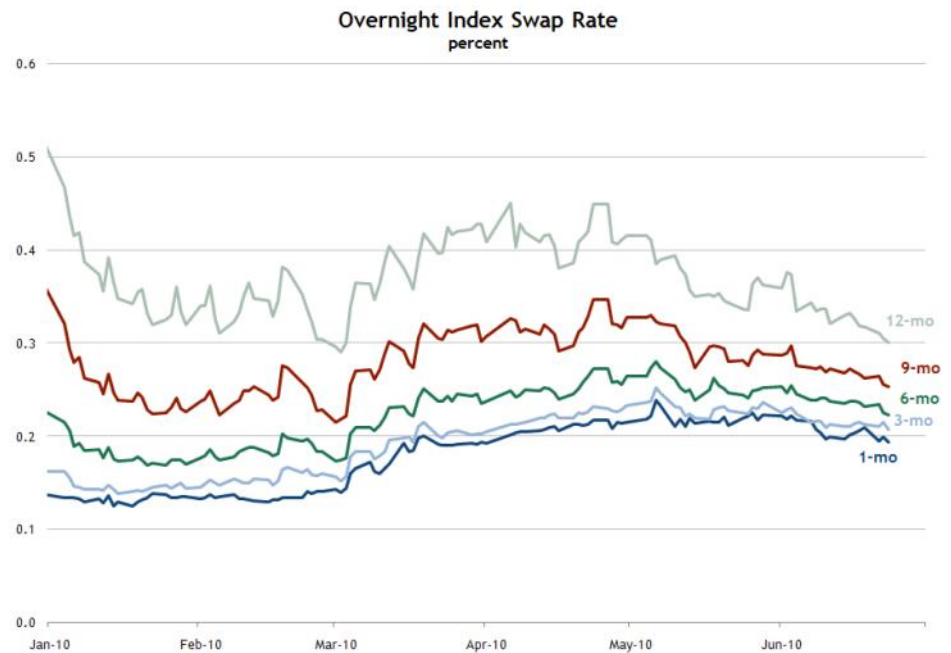
## Summary

Decomposing the LIBOR to OIS spread into its respective components shows stabilization in LIBOR fixings since late May, and...



Source: Bloomberg/British Bankers' Association

...a slow decline in overnight index swap rates, across all tenors, reflecting lower expected policy rates going forward.



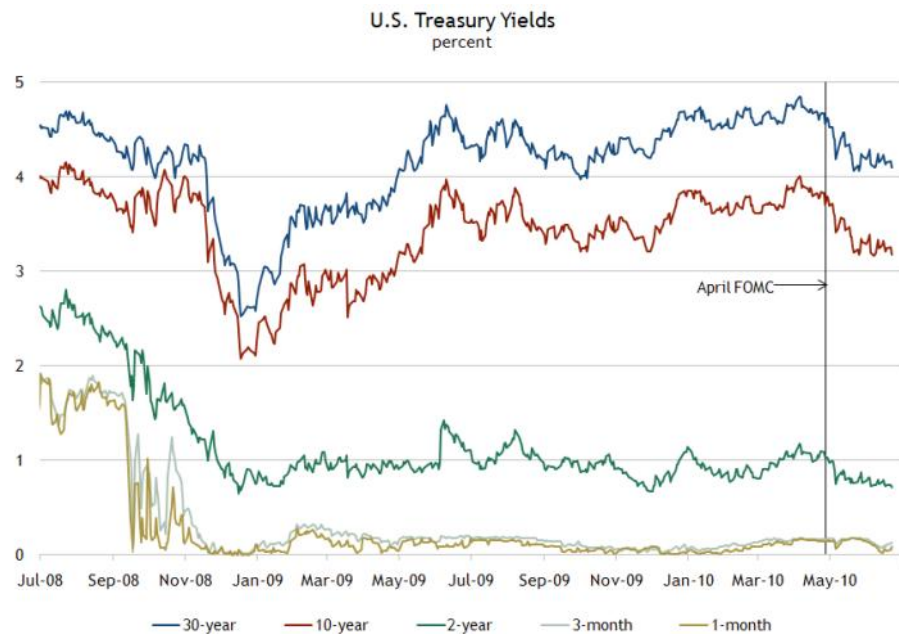
Source: Bloomberg/British Bankers' Association



## Broad Financial Market Indicators

### Summary

Longer-dated Treasury yields are significantly lower during the intermeeting period.



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 22, the 30-year bond is down 53 bps to 4.10%, the 10-year is 62 bps lower at 3.18%, and the two-year note declined 32 bps to 0.71%.
- T-bill rates, too, have declined in the intermeeting period. After remaining near 15 bps to 18 bps for several weeks, the three- and one-month bills are lower by 3 bps and 6 bps, respectively, at 0.13% and 0.08%, through June 22.