FEDERAL RESERVE BANK of ATLANTA

February 2, 2011

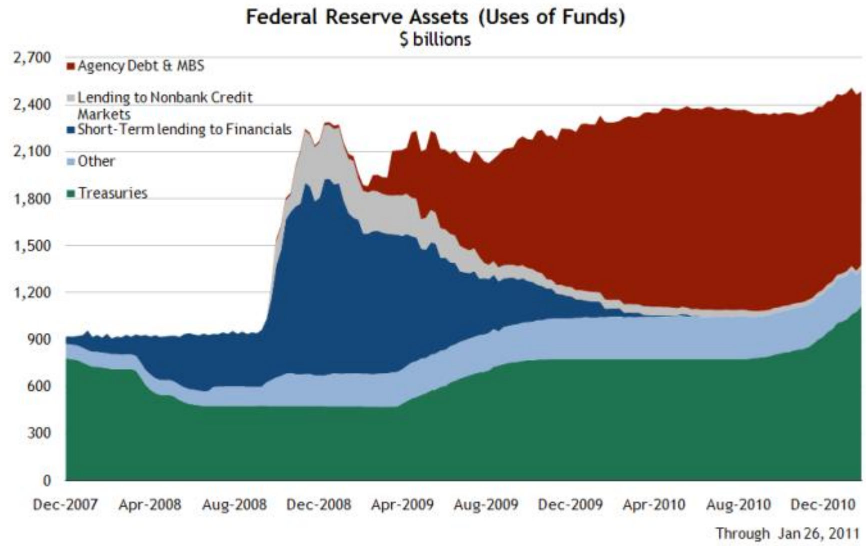
Financial Highlights

Federal Reserve

Summary

The balance sheet increased $19.3 billion for the week ended January 26.

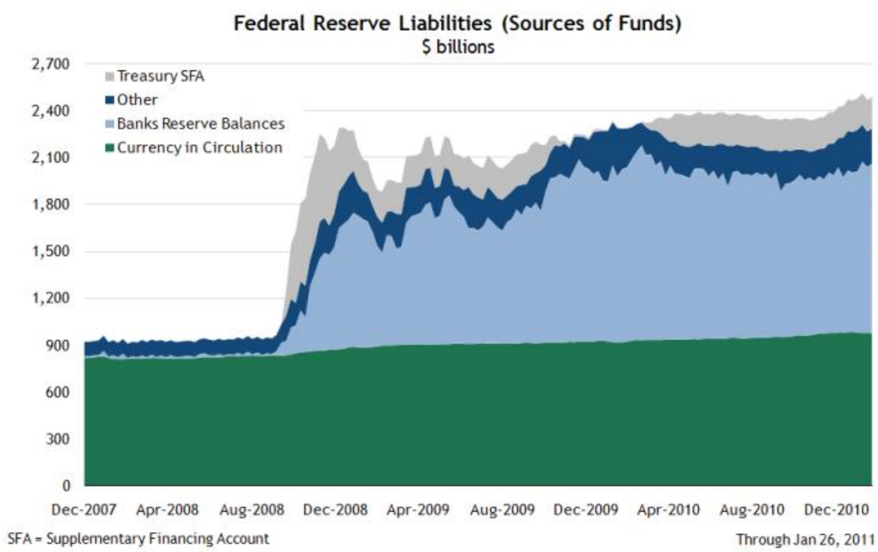
Since November 10, the balance sheet has increased $131 billion.



Source: Federal Reserve Board

- Treasuries increased $34.9 billion while agency debt and MBS decreased $16.3 billion. Since November 10, Treasury securities have grown by $261 billion while agency debt and MBS have shrunk by $91 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $112 billion between mid-January and mid-February.
- Growth in the balance sheet will fluctuate from week to week as a result of the volatility of MBS prepayments.

Bank reserve balances with the Federal Reserve increased $22.4 billion.



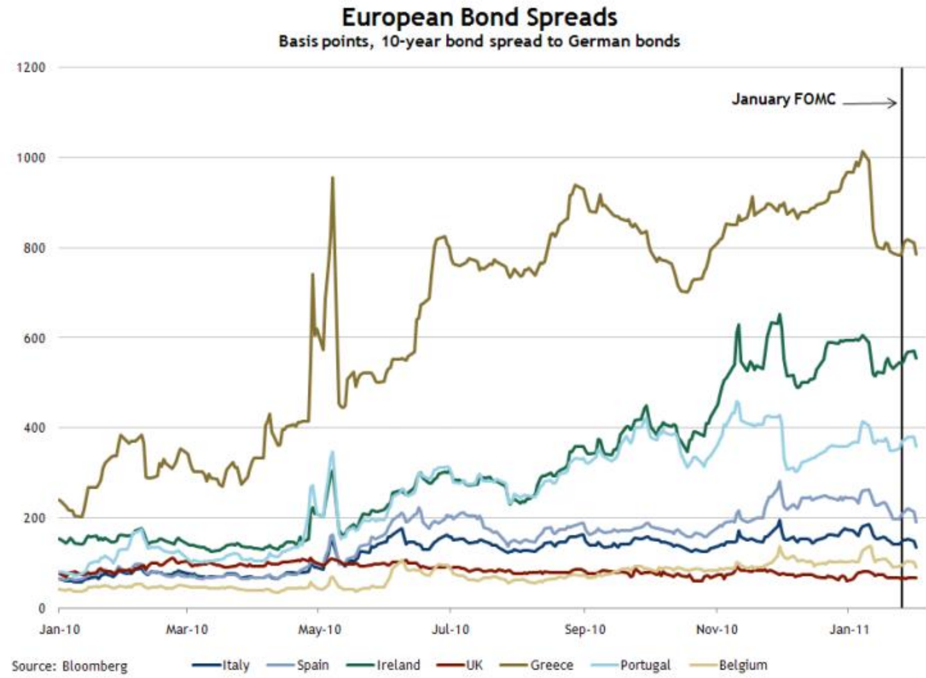
Source: Federal Reserve Board

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.

European Debt

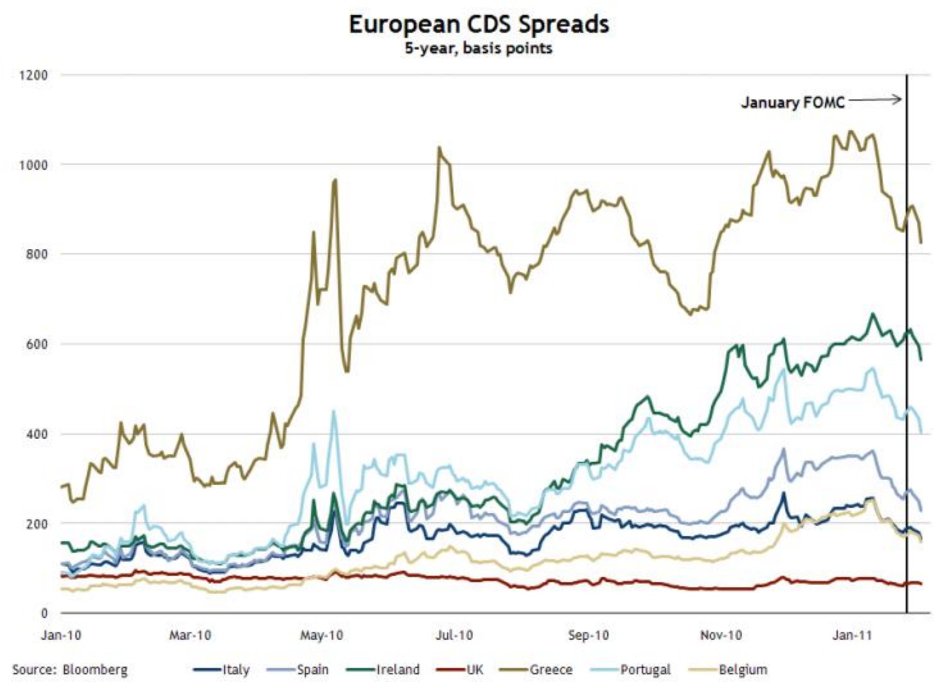
Summary

While there has been some improvement since the start of the year, most peripheral European bond spreads (over German bonds) continue to be elevated, particularly those of Greece, Ireland, and Portugal.



- Since the start of the year, the 10-year Greece-to-German bond spread has narrowed by 183 basis points (bps), through February 1. Similarly, the spread for Ireland is 41 bps lower, 54 bps lower for Spain, and down 42 bps for Italy.
- Portugal's spread, however, is essentially unchanged over the period.

Similarly, CDS spreads have recently improved but are still historically high.

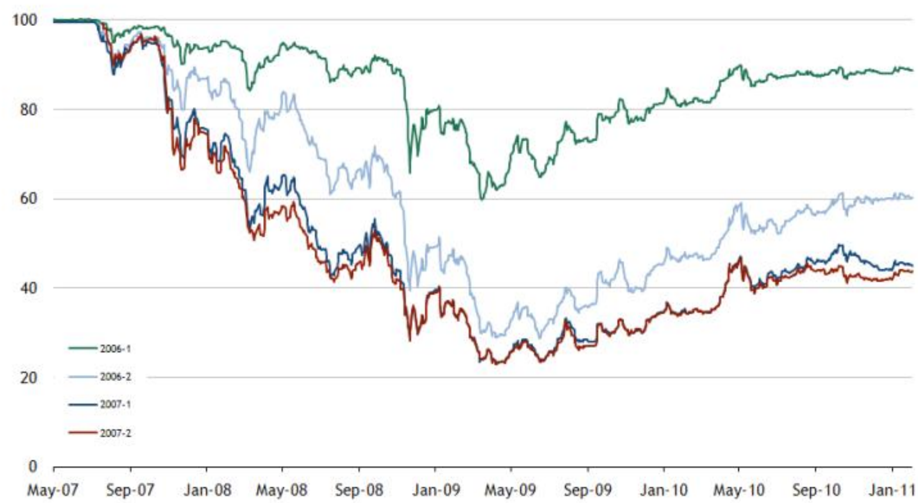


Securitization Markets

Summary

The ABX has changed little during the past couple of months, an indication of stability in the cost to insure against default on the underlying home equity loans.

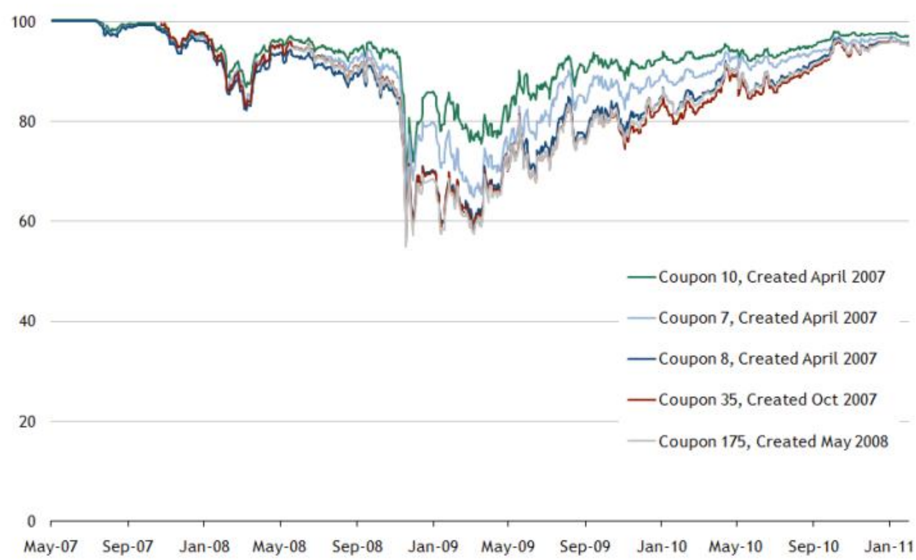
ABX.HE Indices, AAA rated by Vintage
price, points of 100%



Source: Markit Group Limited/Haver Analytics Through Feb 01

The index value of commercial MBS credit default swaps also appears to be stabilizing. All vintages of the CMBX.NA.AAA are converging at close to prerecession levels. Increases in the index indicate a decrease in the cost to insure against default of commercial MBS.

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

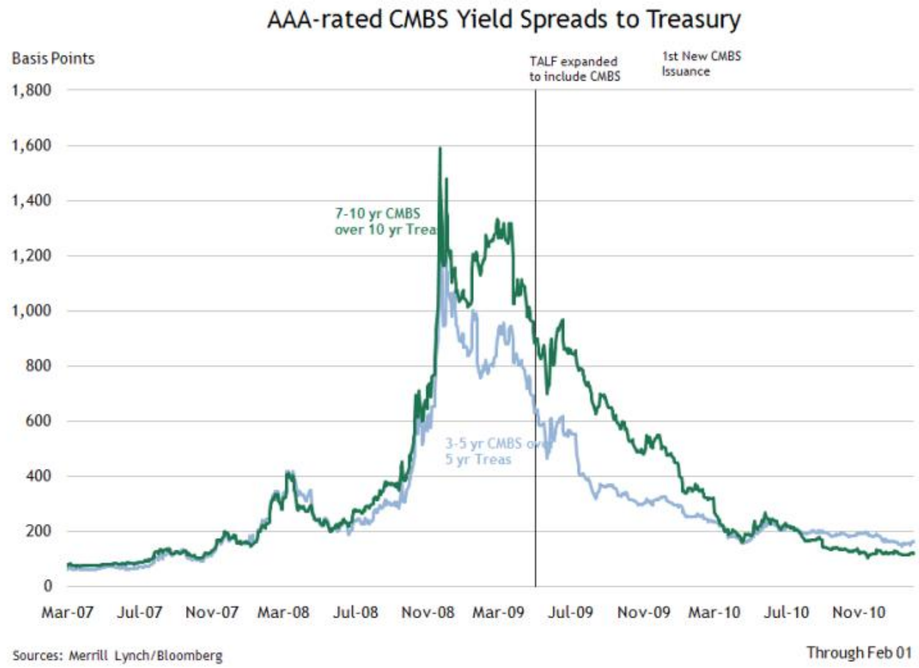


Source: Markit Group Limited/Haver Analytics Through Feb 01

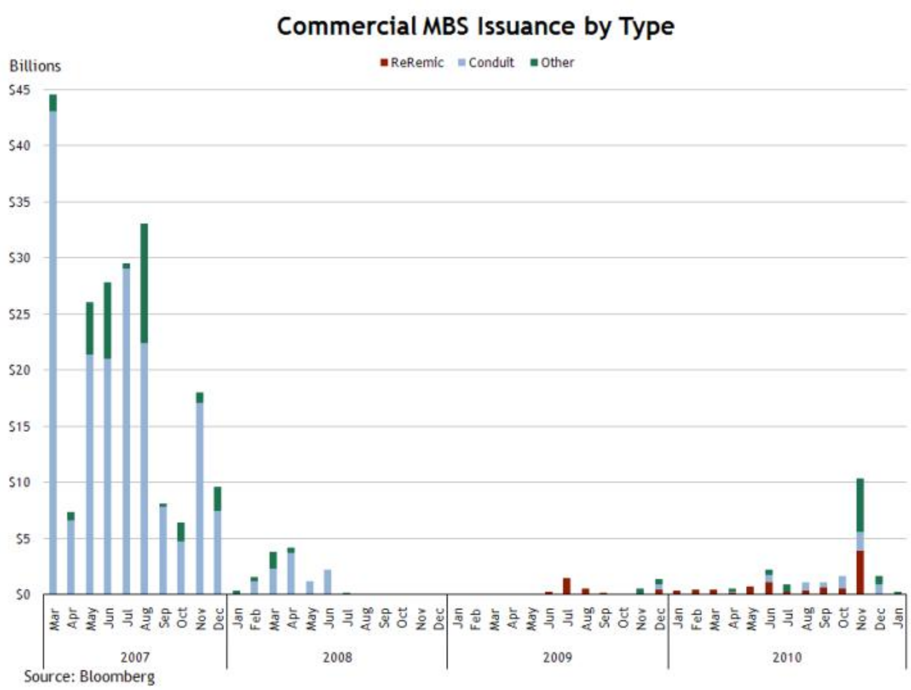
Securitization Markets

Summary

Top-rated CMBS yield spreads over Treasuries have been relatively stable since August.



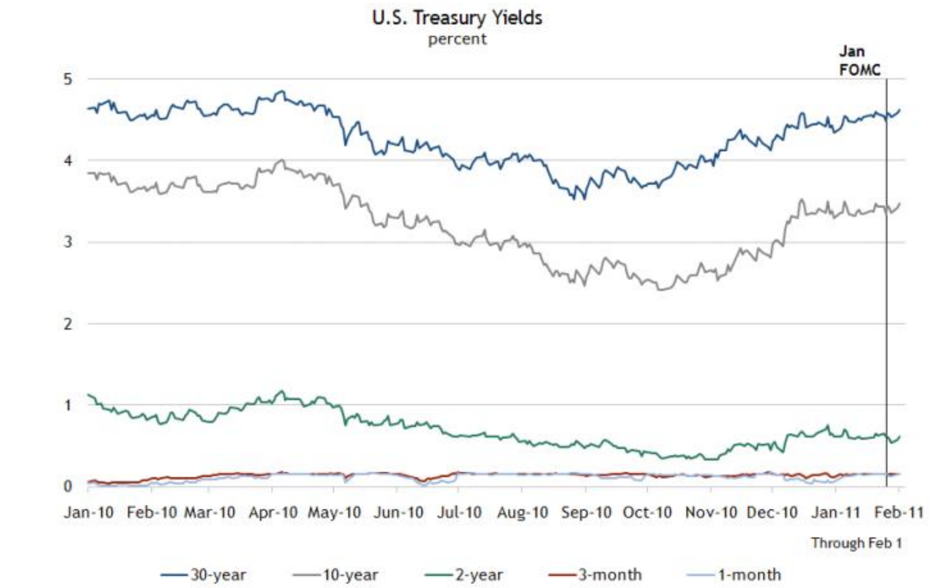
Issuance levels in December and January were nowhere close to as high as November. However, there has been at least one conduit deal every month since June, a sign that the CMBS issuance market is coming back.



Broad Financial Market Indicators

Summary

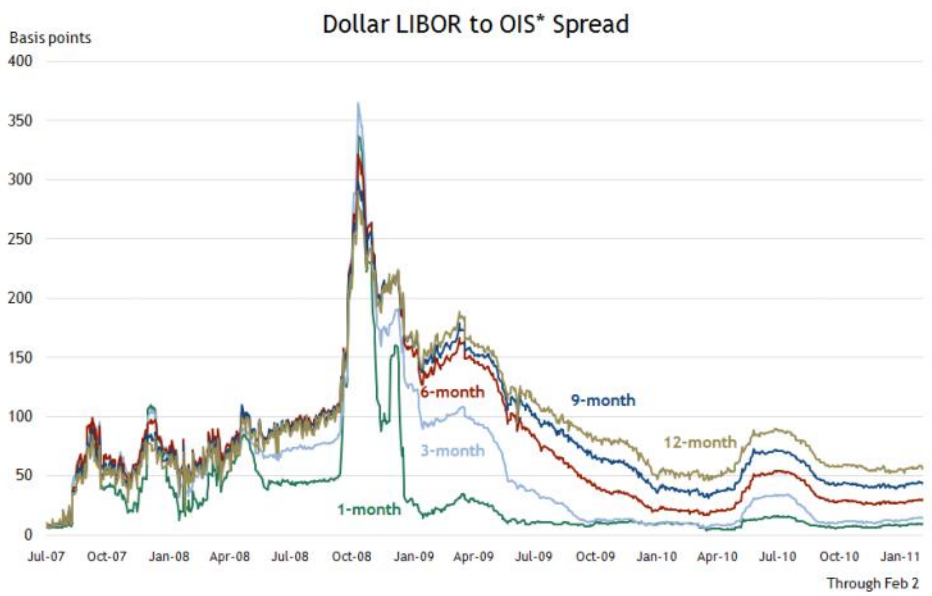
Longer-dated Treasury yields have risen since the start of the year but were relatively unchanged following the January FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- From January 3 through February 1, the 30-year Treasury bond yield is up 28 bps to 4.62%, the 10-year note's yield is higher by 18 bps to 3.48%, and the two-year note is unchanged at 0.61%.

LIBOR to OIS spreads continue to be stable, with the one- and three-month spreads at 9 basis points (bps) and 15 bps, respectively, up 1 bp and 3 bps since the December FOMC meeting.



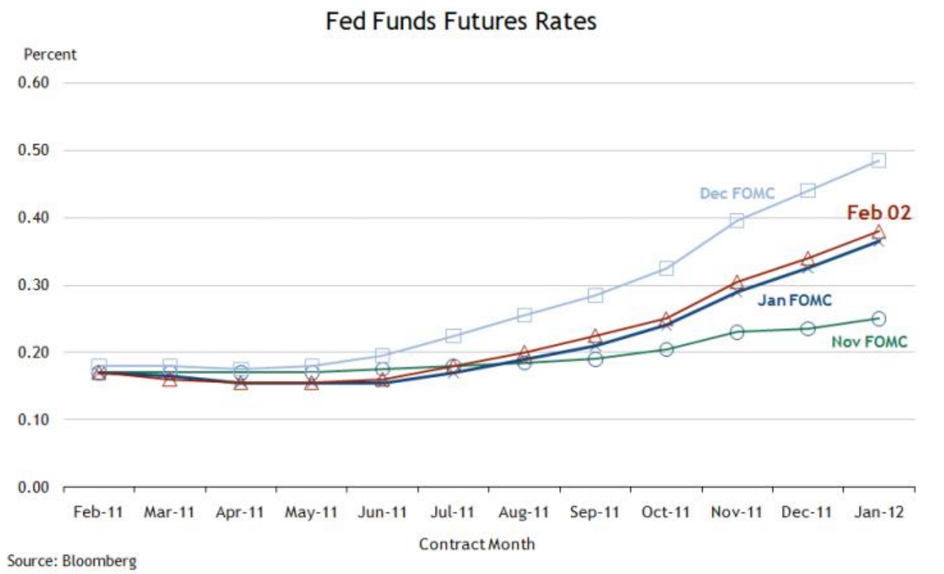
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

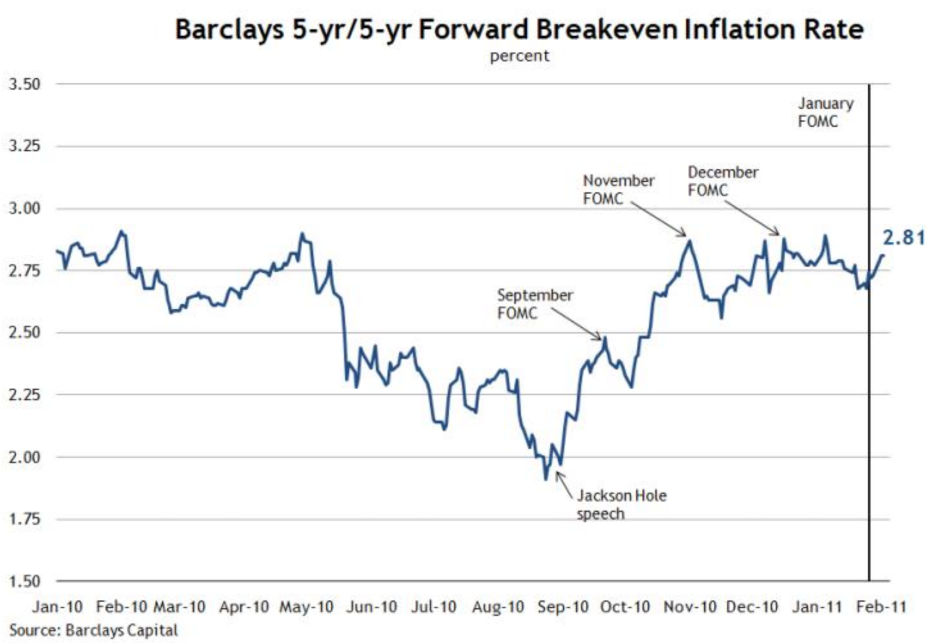
Summary

Since the December 2010 FOMC meeting, the curve of expected rates in the second-half of 2011 has moved lower, according to the fed funds futures market, though it is still higher than what followed in November 2010.



- As of February 2, 2011, the futures market for fed funds indicates an implied rate of about 38 bps for the January 2012 contract, nearly 11 bps lower than what followed the December 2010 FOMC meting but 13 bps higher than in November 2010.

Breakeven inflation rates are up slightly since the January FOMC meeting.



- After breakeven inflation rates rose strongly between August and November, they have since stayed within the range of 2.7% to 2.9%.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.81%, as of February 2, 2011, which is higher by 8 bps since the January 2011 FOMC meeting.