

Fed Watch

US

14 July 2011
Economic Analysis

US

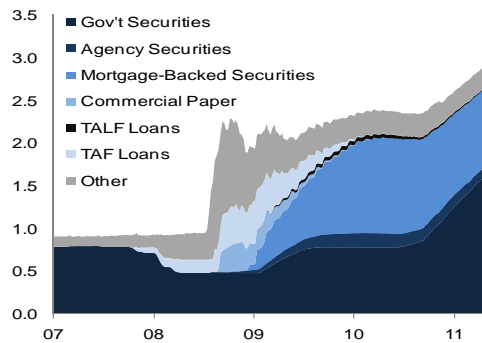
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Federal Reserve Balance Sheet

The Fed's near-term objectives evident in balance sheet

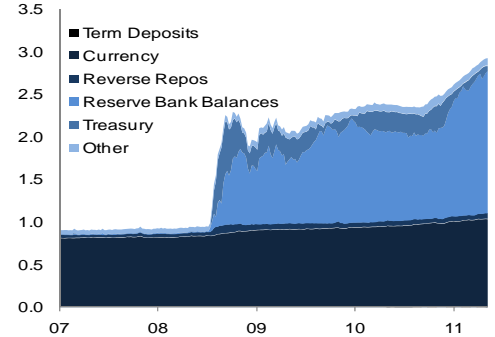
Excess reserves returned to their rapid expansion as in previous weeks, increasing 4.3% since June 30th. The increase is likely to continue until the Fed enacts a policy change. The Fed outlined its eventual exit strategy, in both the FOMC minutes and congressional testimony at the financial services committee, which may include alterations to interest payments on excess reserves and other forms of balance sheet normalization. Part of this balance sheet normalization will involve the run-off of risky assets such as mortgage securities. Today's report reflects this process with Treasuries increasing 0.3% and mortgage-backed securities (MBS), Term Asset Backed Loan Facilities (TALF), and agency securities either declining or remaining unchanged. The Fed appears to be entering a holding pattern as they exit the second Large Scale Asset Purchase (LSAP) program and thus balance sheet adjustments will be minimal in the very short term.

Chart 1
Factors Supplying Reserve Funds (\$Tr)



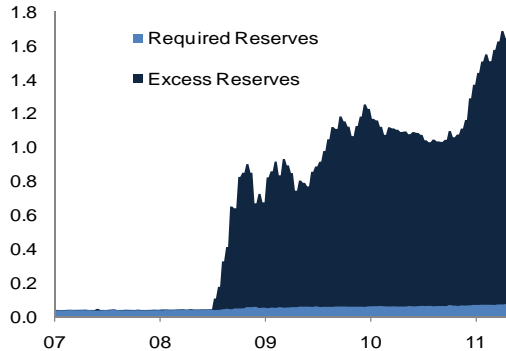
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$Tr)



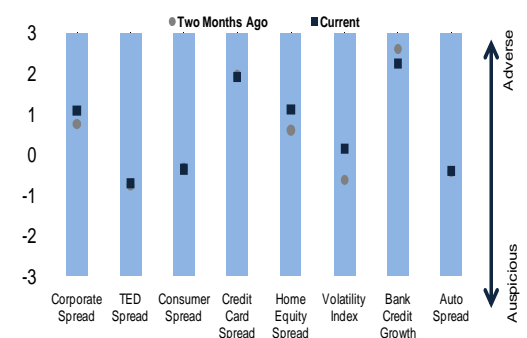
Source: Federal Reserve

Chart 3
Required and Excess Reserves (\$Tr)



Source: Federal Reserve

Chart 4
Financial Indicators, Deviations from Mean



Source: BBVA Research and Bloomberg

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