

## Fed Watch

US

## September 1, 2011 Economic Analysis

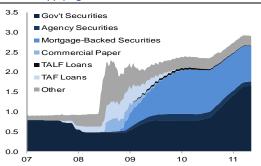
US

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## Federal Reserve Balance Sheet Monetary Policy Tweaks Loom

Balance sheet dynamics will become a central focus as the Fed explores further accommodation. Chairman Bernanke's speech at the Jackson Hole conference and the August FOMC minutes suggest the Fed could influence market liquidity by increasing it \$2.6Tr SOMA portfolio, adjusting its term composition, shifting the portfolio's short-term holdings to longer-maturing securities, or by adjusting interest on excess reserves. In terms of the most current report, it appears balance sheet size and term-maturity composition remained unchanged and consistent with Fed statements. With regard to excess reserves, it is unclear whether the consecutive periods of decline are suggesting markets are anticipating interest on excess reserve (IOER) adjustment or whether it is a market correction from a run-up. Again, this week's balance sheet activity was minimal, consistent with the end of QE2, although the threat of a double dip should increase the likelihood of some degree of balance sheet intervention in the near future.

Chart 1 Factors Supplying Reserve Funds (\$tr)



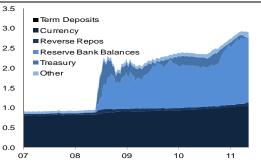
Source: Federal Reserve

Chart 3 Required and Excess Reserves (\$tr)



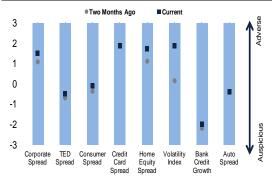
Source: Federal Reserve

Chart 2 Factors Absorbing Reserve Funds (\$tr)



Source: Federal Reserve

Chart 4
Financial Indicators, Deviations from Mean



Source: BBVA Research and Bloomberg

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