

Fed Watch

US

17 November 2011
Economic Analysis

US

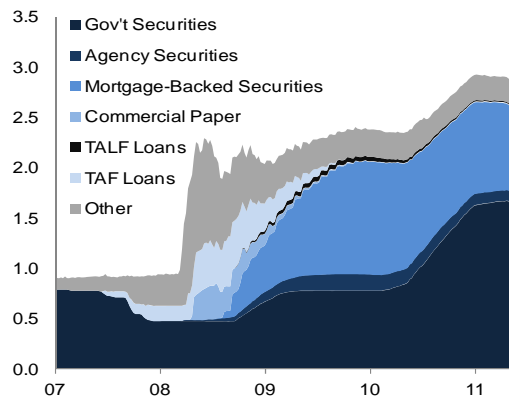
Boyd Stacey
boyd.stacey@bbvacompass.com

Federal Reserve Balance Sheet

Balance sheet constant as FOMC meeting approaches

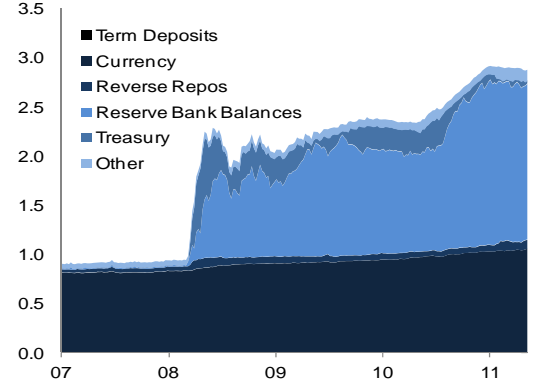
The ebbs and flows of the Fed balance sheet continued this week as short-duration treasuries' volatility persisted alongside an increase in longer-term security holdings. For example, treasuries maturing in greater than 10yrs increased 3.4%WoW, while 15day increased 51.4% and 90-day treasuries decreased 45.9%. Mortgage-backed securities (MBS), on the other hand, which are a focus of the maturity extension program by way of principal reinvestment, remained static with insignificant declines. Vice-Chairman Dudley, at a speech at West Point, reiterated his position that further stimulating real estate demand through MBS portfolio expansion is one of the tools still available to the Fed. Nonetheless, given that the next FOMC meeting is less than a month away, it is unlikely there will be a fundamental shift in the SOMA activity, although it is clear there are still many viable options, outside the current maturity extension program that could affect the balance sheet.

Chart 1
Factors Supplying Reserve Funds (\$tr)



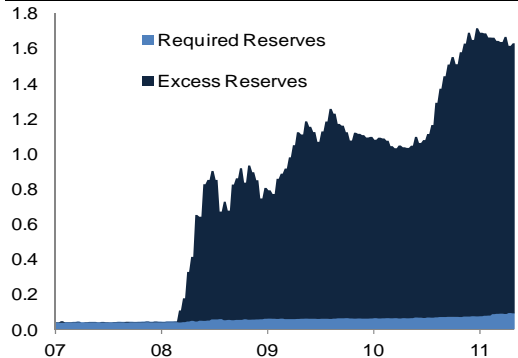
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$tr)



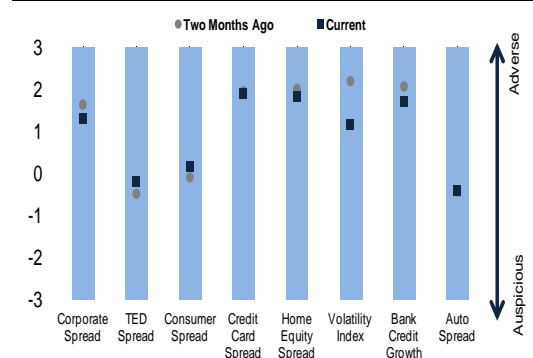
Source: Federal Reserve

Chart 3
Required and Excess Reserves (\$tr)



Source: Federal Reserve

Chart 4
Financial Indicators, Deviations from Mean



Source: BBVA Research and Bloomberg

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.