

# U.S. Fed Watch

January 6, 2011

**Economic Analysis**

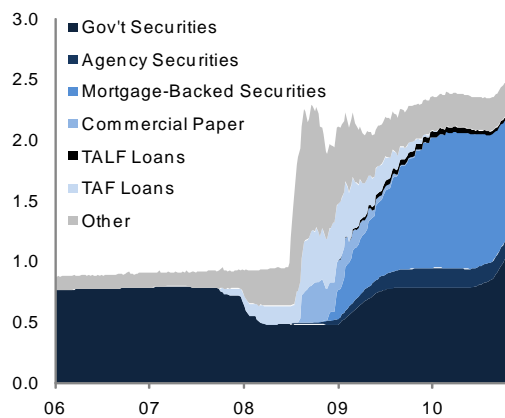
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## Federal Reserve Balance Sheet Careful purchase maneuvering around holiday weeks

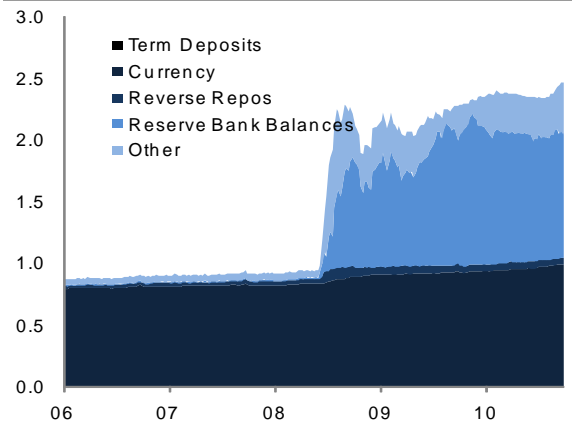
During the week of Dec 22<sup>nd</sup>, the Fed increased its maturity distribution of 1-5 yr and 5-10 yr Treasuries each by about \$18bn, representing the most busy week for Treasury notes in the past 12 months. However, the final week of the year yielded extremely light activity in notes. In the week ending Jan 6<sup>th</sup>, the Fed favored 5-10 yr over 1-5 yr Treasuries by increasing its maturity distribution by \$10bn and \$5.7bn, respectively. Since the start of the LSAP program on Nov 12<sup>th</sup>, the Fed has purchased \$185.6bn in Treasuries as of Jan 6<sup>th</sup>. The outstanding amount of mortgage-backed securities (MBS) declined by \$58.9bn. Next week the Fed will announce another calendar month's worth of scheduled purchases. According to Chart 3, the Fed is slightly below the midpoint of their expected purchase range. Overall, the Fed balance sheet increased by roughly \$12bn since the start of LSAPs, reaching an aggregate level of roughly \$2.5tr. Over the past two months, volatility and the corporate spread declined, both improving signs.

Chart 1  
**Factors Supplying Reserve Funds (\$tr)**



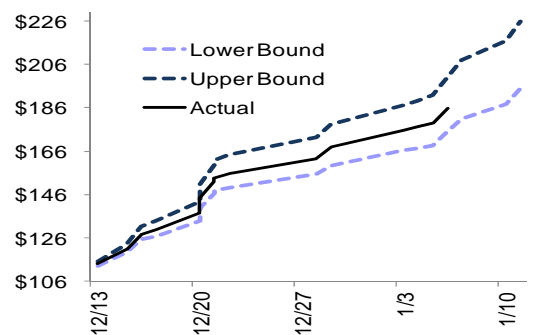
Source: BBVA Research and Federal Reserve

Chart 2  
**Factors Absorbing Reserve Funds (\$tr)**



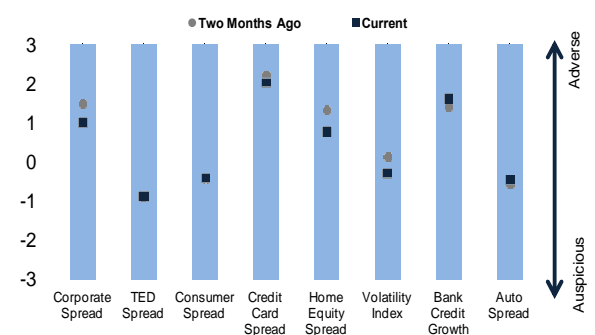
Source: BBVA Research and Federal Reserve

Chart 3  
**Projected and Actual Fed Purchases**



Source: BBVA Research and Federal Reserve

Chart 4  
**Financial Indicators, Deviations from Mean**



Source: BBVA Research and Bloomberg

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