

Fed Watch

US

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Economic Analysis

US

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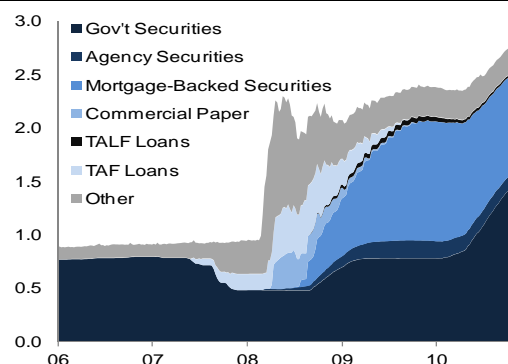
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Federal Reserve Balance Sheet

Excess reserves temper slightly

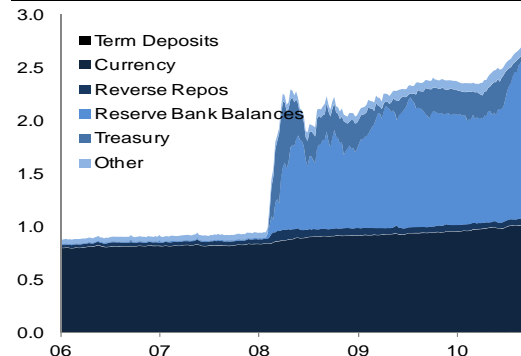
Growth of excess reserves slightly moderated over the past few weeks. The initial sharp rise over the course of the first quarter of 2011 was the result of depository institutions piling cash into excess reserves as a result of the end of the Treasury's Supplemental Financing Program, which restricted the amount of short-term Treasury instruments available for depository institutions' cash management. Holdings of mortgage-backed securities have declined around \$65bn since the beginning of the year, a pace of prepayment that is consistent with market expectations. Holdings of government securities have increased by \$427bn since the start of the year and \$603bn since the commencement of large scale asset purchases on 10 November 2010. The Federal Reserve is also working through auctions of subprime mortgages owned as a result of extraordinary assistance to AIG. So far the Fed sold \$6bn in subprime mortgages, excluding auctions that occurred today. Credit growth indicators (Chart 4) are skewed by statistical breaks in the data.

Chart 1
Factors Supplying Reserve Funds (\$tr)



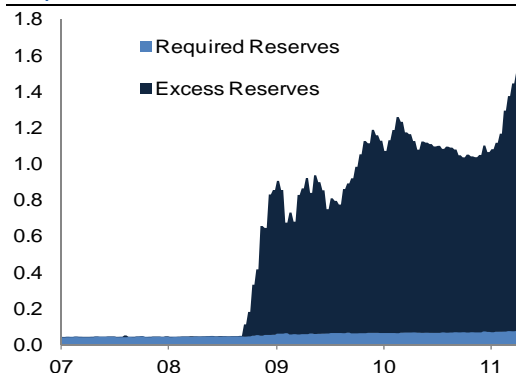
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$tr)



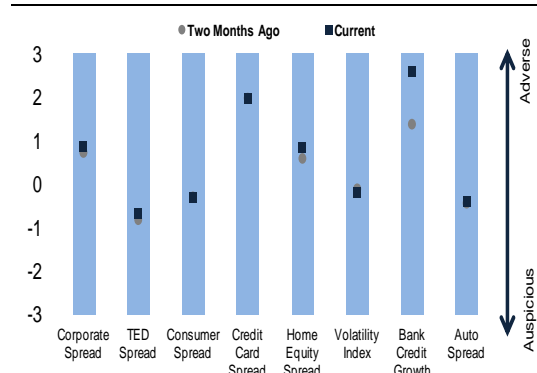
Source: Federal Reserve

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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