

# Fed Watch

US

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Economic Analysis

US

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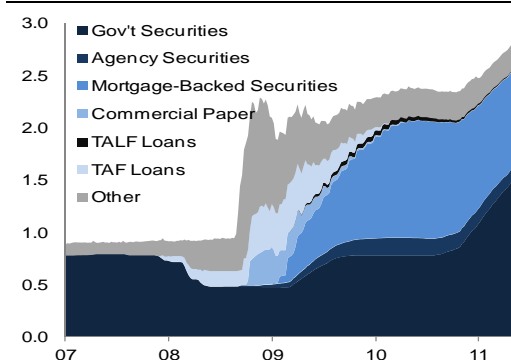
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## Federal Reserve Balance Sheet

### Excess reserves resume strong growth

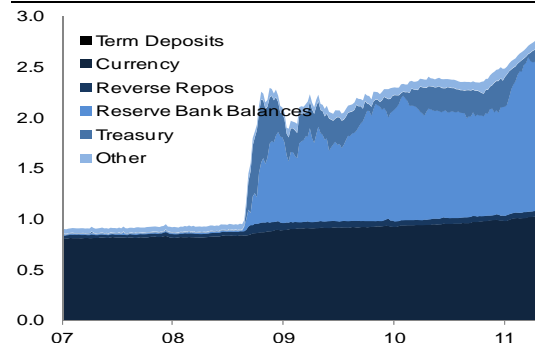
Growth of excess reserves increased sharply over the past few weeks as adjusted excess reserves of depository institutions engorged by \$115bn since 4 May. Holdings of mortgage-backed securities declined \$74.2bn or around \$14.8bn per month since the start of the year. Holdings of government securities have increased by \$506bn since the start of the year and \$682bn since the commencement of large scale asset purchases on 10 November 2010. The Federal Reserve is nearing the end of its large-scale asset purchase program (LSAP) and will publish the expected last month's worth of scheduled purchases on 10 June. Ever more rapid increases in excess reserves could complicate the Federal Reserve's sequence of exit steps from extraordinary monetary policy. Financial stability indicators such as the corporate spread, TED spread and VIX are little changed compared to two months ago, while the home equity spread has worsened marginally (Chart 4). Credit growth indicators are skewed by statistical breaks in the data.

Chart 1  
Factors Supplying Reserve Funds (\$tr)



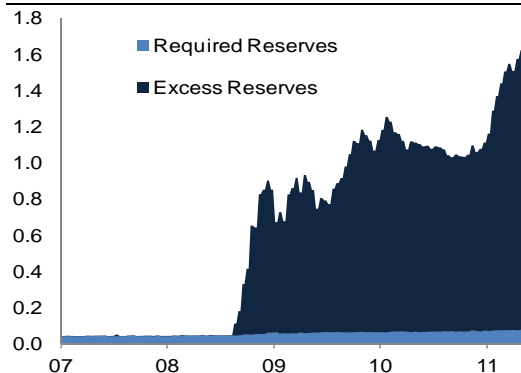
Source: Federal Reserve

Chart 2  
Factors Absorbing Reserve Funds (\$tr)



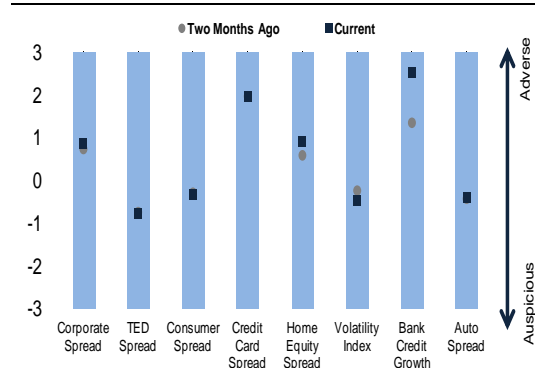
Source: Federal Reserve

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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