

Fed Watch

US

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Economic Analysis

US

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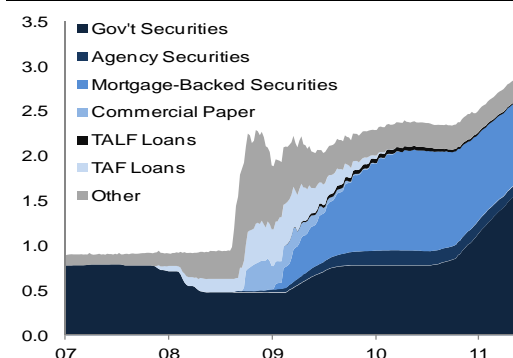
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Federal Reserve Balance Sheet

Excess reserves grow at breakneck speed

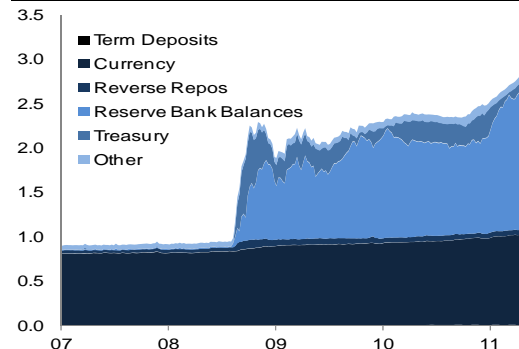
Rampant growth of excess reserves continued over the past two months. Total adjusted excess reserves at depository institutions increased \$177bn since 4 May and are up \$600bn since the beginning of the year. At its present rate, excess reserves will be double that of its year-end level by October 2011. This pace of growth and the aggregate size of excess reserves will represent a severe challenge to the Federal Reserve's future attempts to normalize the balance sheet. This month we are nearing the end of the large-scale asset purchase program, but so far reinvestment of retiring principal will continue, according to official Federal Reserve statements. Holdings of mortgage-backed securities are down \$74.8bn since the beginning of the year. Holdings of government Treasury securities have increased by \$721bn since the commencement of asset purchases on 10 November 2010 and are up \$545bn since the start of the year.

Chart 1
Factors Supplying Reserve Funds (\$tr)



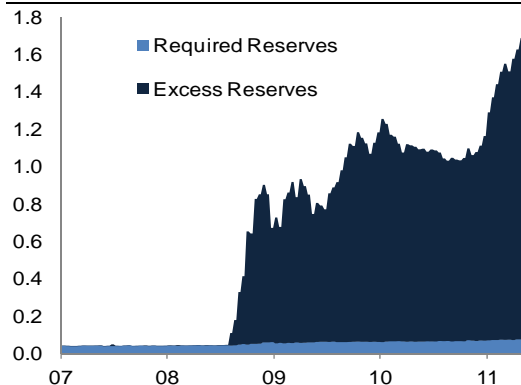
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$tr)



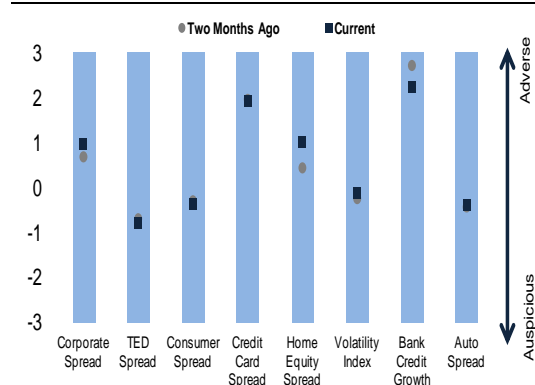
Source: Federal Reserve

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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