

Fed Watch

US

30 June 2011
Economic Analysis

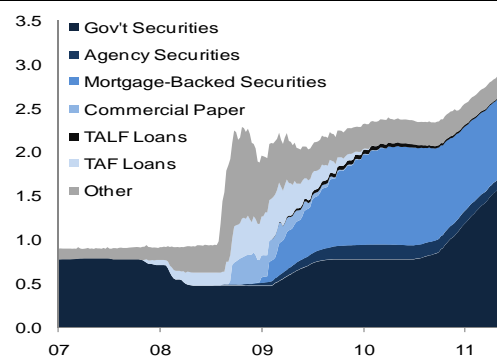
US

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Federal Reserve Balance Sheet LSAP Ends, but Balance Sheet Scrutiny will Continue

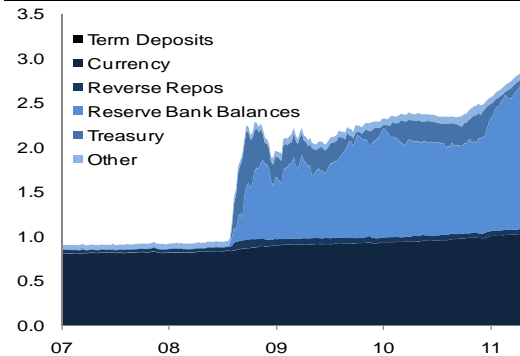
Today marks the end of the Fed's Large Scale Asset Purchases (LSAP) plan that targeted purchases of \$600bn in government securities. Since the announcement in November, the Fed balance sheet has undergone a significant facelift. At the close of LSAP, the Fed holds \$911bn in mortgage-backed securities (MBS), \$12.9bn in TALF loans, and \$118bn in agency securities. However, these crisis-related holdings have declined for 31 consecutive weeks (WoW) and the balance sheet has shifted to government securities, which increased \$759bn or 89% since 10 November. Recent statements by the Fed imply continued reinvestment of retiring principal. Previous Federal Reserve minutes also unveiled discussion of an eventual aim for an all-government securities balance sheet, a feat that the Fed is gradually achieving, although the absolute size of the balance sheet remains an obstacle. Excess reserves took a breather from their recent high growth rates of the past few months and declined by \$42bn.

Chart 1
Factors Supplying Reserve Funds (\$tr)



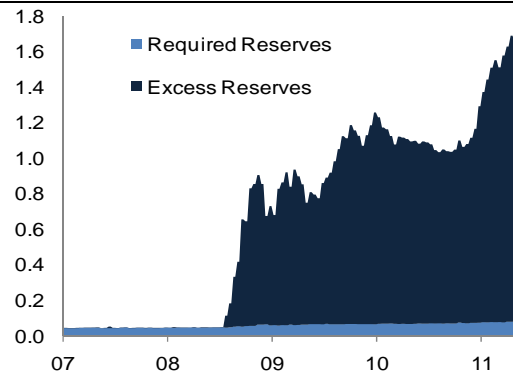
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$tr)



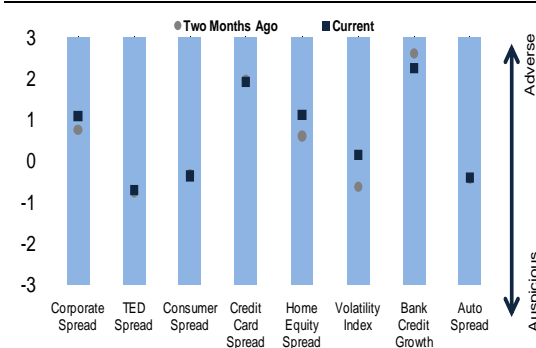
Source: Federal Reserve

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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