

# Fed Watch

US

14 July 2011  
Economic Analysis

US

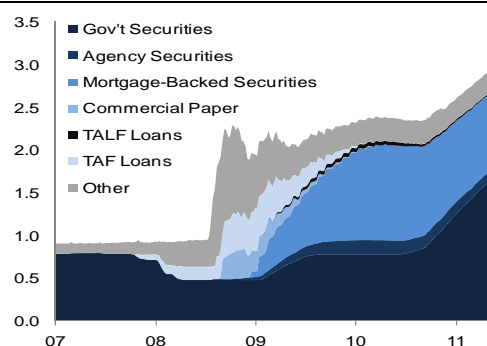
Boyd Stacey  
boyd.stacey@bbvacompass.com

## Federal Reserve Balance Sheet

### The Fed's near-term objectives evident in balance sheet

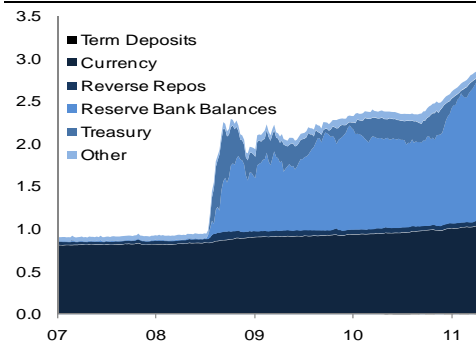
Excess reserves returned to their rapid expansion as in previous weeks, increasing 4.3% since June 30<sup>th</sup>. The increase is likely to continue until the Fed enacts a policy change. The Fed outlined its eventual exit strategy, in both the FOMC minutes and congressional testimony at the financial services committee, which may include alterations to interest payments on excess reserves and other forms of balance sheet normalization. Part of this balance sheet normalization will involve the run-off of risky assets such as mortgage securities. Today's report reflects this process with Treasuries increasing 0.3% and mortgage-backed securities (MBS), Term Asset Backed Loan Facilities (TALF), and agency securities either declining or remaining unchanged. The Fed appears to be entering a holding pattern as they exit the second Large Scale Asset Purchase (LSAP) program and thus balance sheet adjustments will be minimal in the very short term.

Chart 1  
Factors Supplying Reserve Funds (\$Tr)



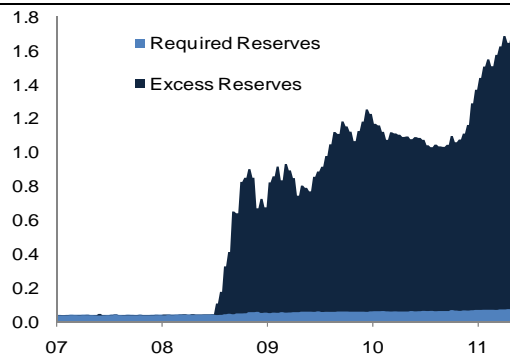
Source: Federal Reserve

Chart 2  
Factors Absorbing Reserve Funds (\$Tr)



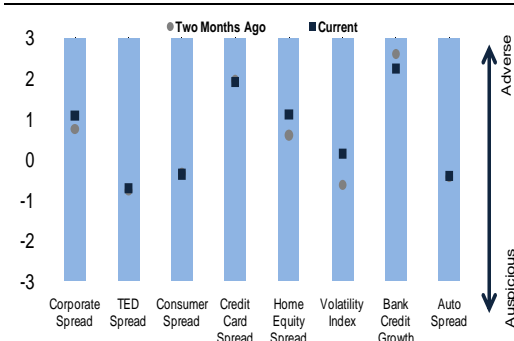
Source: Federal Reserve

Chart 3  
Required and Excess Reserves (\$Tr)



Source: Federal Reserve

Chart 4  
Financial Indicators, Deviations from Mean



Source: BBVA Research and Bloomberg

#### DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.