

Fed Watch

US

4 August 2011
Economic Analysis

US

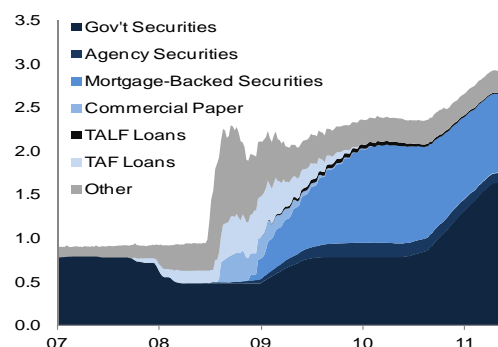
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Federal Reserve Balance Sheet

Balance sheet reflects limited principal reinvestment

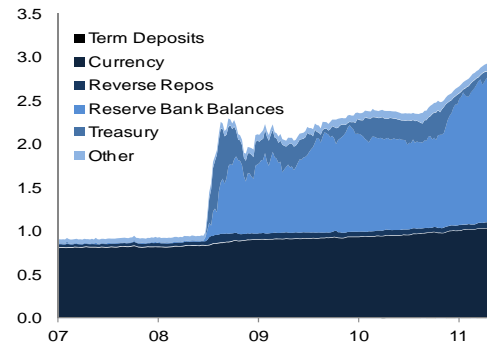
The Fed continues to purge securities acquired during the second Large Scale Asset Purchase program, with a ubiquitous drop in supply factors, excluding government securities. Although the drop in factors supplying funds was diminutive, with an average decline of 0.3%. The small net effect is consistent with a wind down in Fed activity and with limited principal reinvestment. In addition, Fed liabilities remained unchanged, further bolstering the story of limited balance sheet growth. The recent soft patch has led to speculation in regards to another round of asset purchases. This week's balance sheet is suggestive of no major shifts. Furthermore, excess reserve growth declined 0.1% MoM, however YoY excess growth is well above 2010 levels and is up 56.7%YoY. In sum, both Fed market activity and excess reserve growth were subdued, although further economic deceleration and increased interest payment on excess reserves could increase both.

Chart 1
Factors Supplying Reserve Funds (\$tr)



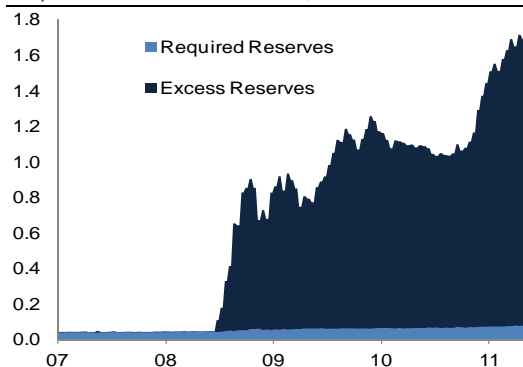
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$tr)



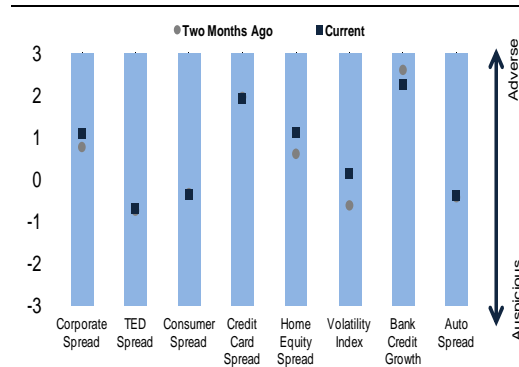
Source: Federal Reserve

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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