

Fed Watch

US

September 1, 2011
Economic Analysis

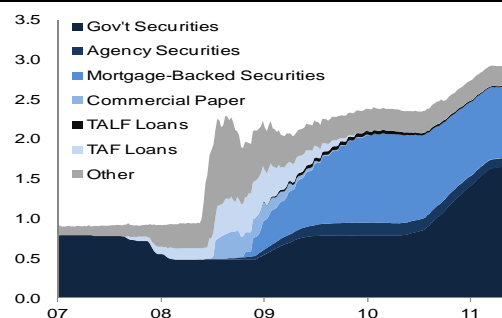
US

Boyd Stacey
boyd.stacey@bbvacompass.com

Federal Reserve Balance Sheet Monetary Policy Tweaks Loom

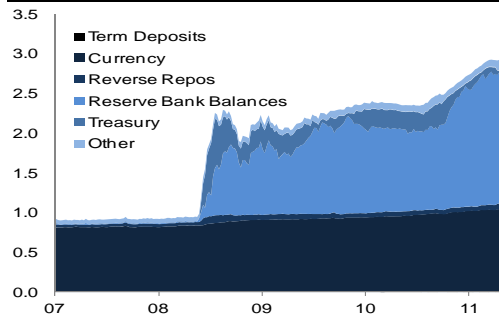
Balance sheet dynamics will become a central focus as the Fed explores further accommodation. Chairman Bernanke's speech at the Jackson Hole conference and the August FOMC minutes suggest the Fed could influence market liquidity by increasing its \$2.6Tr SOMA portfolio, adjusting its term composition, shifting the portfolio's short-term holdings to longer-maturing securities, or by adjusting interest on excess reserves. In terms of the most current report, it appears balance sheet size and term-maturity composition remained unchanged and consistent with Fed statements. With regard to excess reserves, it is unclear whether the consecutive periods of decline are suggesting markets are anticipating interest on excess reserve (IOER) adjustment or whether it is a market correction from a run-up. Again, this week's balance sheet activity was minimal, consistent with the end of QE2, although the threat of a double dip should increase the likelihood of some degree of balance sheet intervention in the near future.

Chart 1
Factors Supplying Reserve Funds (\$tr)



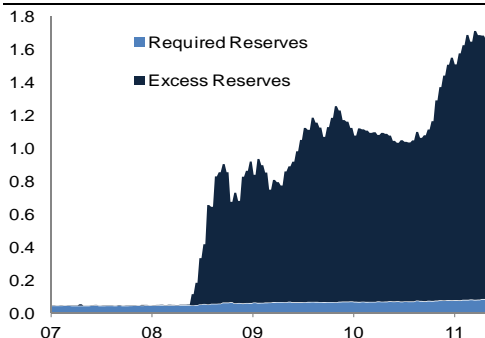
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$tr)



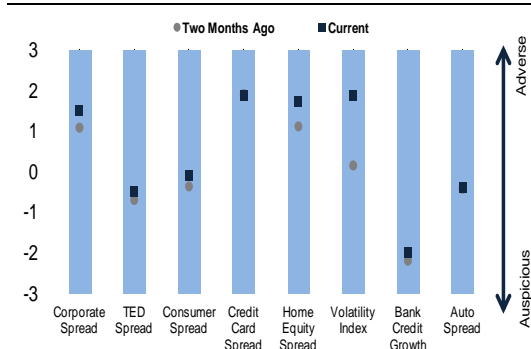
Source: Federal Reserve

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.