

Fed Watch

US

6 October 2011
Economic Analysis

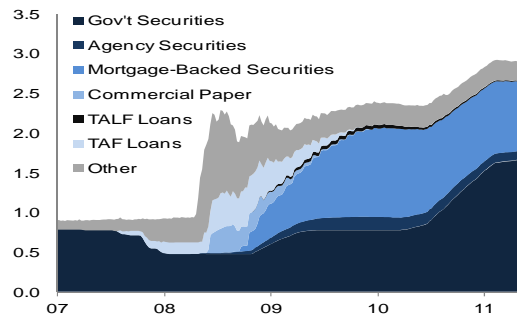
US

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Federal Reserve Balance Sheet Let's Do the "Twist"

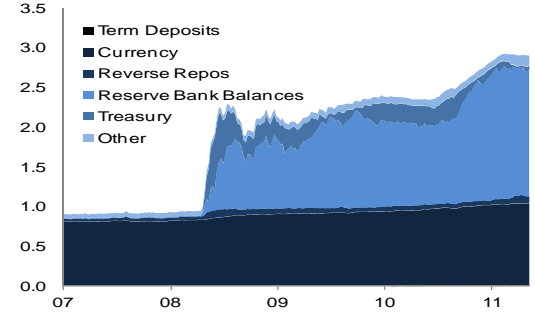
On Monday, the System Open Market (SOMA) operations began its maturity shift with the first official purchase and sale under the amended fed balance sheet policy dubbed "Operation Twist". The sale comes 15 days after the Fed announced it would adjust its portfolio position, extending the portfolio average maturity while also introducing a policy of principal reinvestment from maturing securities into agency mortgage backed securities (MBS). Upon the announcement, the Fed held \$1.56 trillion in Treasury notes of which 19% mature in less than two years; 35% maturing in 2-5 to five years; 36% due in 5 to 10 years; and 10% mature in 10 to 30 years. The average maturity was 6.1 years, which should increase if the Fed is successful. To date, SOMA has facilitated three rounds of purchases totaling \$7.5-9.25bn of purchased treasuries maturing 2019-2041 and \$8.8bn in Treasury sales maturing in 2012. The result of this week's operation was a 0.15% WoW or \$7.1M increase in net Open Market fund holdings. Agency MBS, however, were little changed, declining 0.6% WoW. In addition, the net position of interest paid on excess reserves (IOER) continued six consecutive bi-weekly periods of decline.

Chart 1
Factors Supplying Reserve Funds (\$tr)



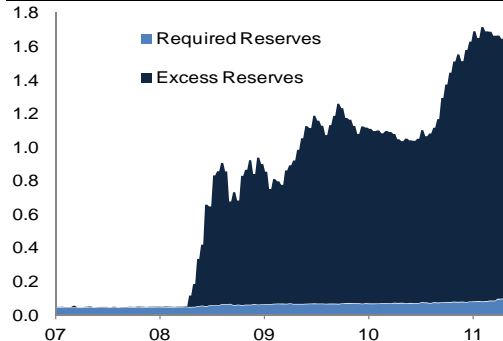
Source: Federal Reserve

Chart 2
Factors Absorbing Reserve Funds (\$tr)



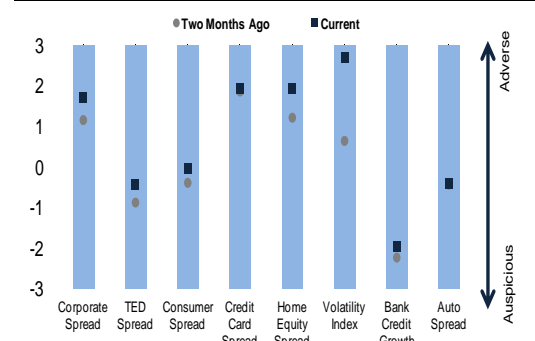
Source: Federal Reserve

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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