

## Fed Watch

US

## 17 November 2011 Economic Analysis

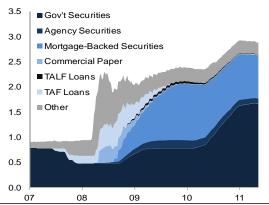
US

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## Federal Reserve Balance Sheet Balance sheet constant as FOMC meeting approaches

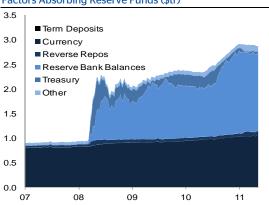
The ebbs and flows of the Fed balance sheet continued this week as short-duration treasuries' volatility persisted alongside an increase in longer-term security holdings. For example, treasuries maturing in greater than 10yrs increased 3.4%WoW, while 15day increased 51.4% and 90-day treasuries decreased 45.9%. Mortgage-backed securities (MBS), on the other hand, which are a focus of the maturity extension program by way of principal reinvestment, remained static with insignificant declines. Vice-Chairman Dudley, at a speech at West Point, reiterated his position that further stimulating real estate demand through MBS portfolio expansion is one of the tools still available to the Fed. Nonetheless, given that the next FOMC meeting is less than a month away, it is unlikely there will be a fundamental shift in the SOMA activity, although it is clear there are still many viable options, outside the current maturity extension program that could affect the balance sheet.

Chart 1 Factors Supplying Reserve Funds (\$tr)



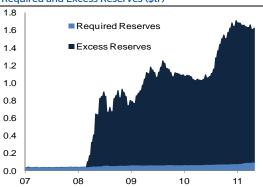
Source: Federal Reserve

Chart 2 Factors Absorbing Reserve Funds (\$tr)



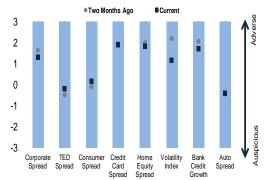
Source: Federal Reserve

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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