

# Fed Watch

US

12 January 2012  
Economic Analysis

US

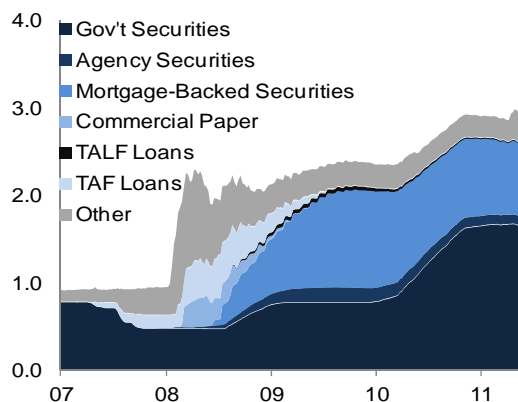
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## Federal Reserve Balance Sheet

### Balance sheet reflects mortgage objectives of white paper

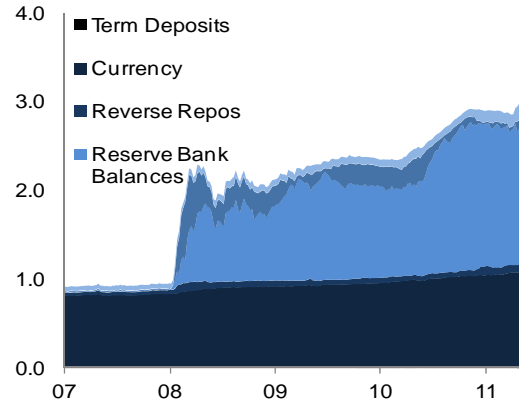
To begin the year, the Fed released a brief outlining the economic challenges facing the housing market. As was communicated in previous Fed releases and implicit in the objectives set forth in the maturity extension program, they are still focusing on mortgage rates— through yield curve adjustments— and mortgage-backed securities (MBS) markets. Consistent with the ideas set forth in the white paper, holdings of MBS accelerated in December, increasing an average 1.5% MoM for three consecutive periods. In addition, the Fed continued to target long-term Treasury securities of 5-10 year maturities and 10+ year maturities, which increased 0.8% and 0.6%WoW respectively. Thus far, these actions have lowered 30-year mortgage spreads 13bp and the yield curve slope by 11bp. Lastly, continuing the trend since August 2011, excess reserves held at the Federal Reserve declined 3.7% PoP.

Chart 1  
Factors Supplying Reserve Funds (\$tr)



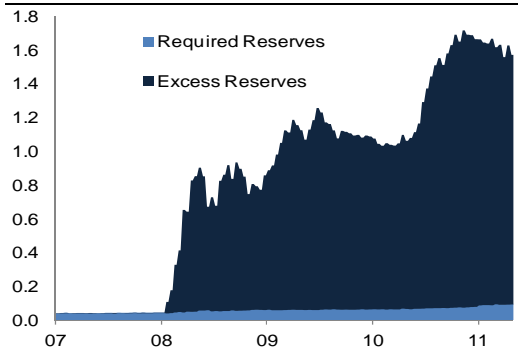
Source: Federal Reserve

Chart 2  
Factors Absorbing Reserve Funds (\$tr)



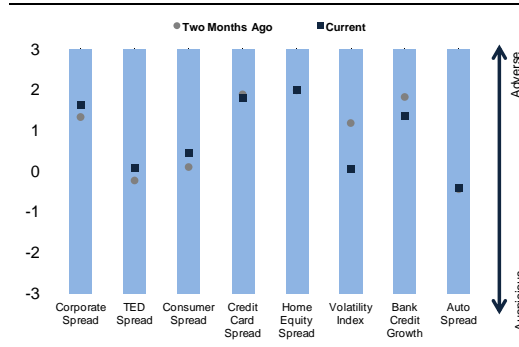
Source: Federal Reserve

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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