

Profitis Capital Services LLC

Market Commentary

January 21, 2011

The Fed's Portfolio

The Federal Reserve wrapped up its 10th week of "QE II" this Wednesday. In that time, a few milestones have been reached and a material shift in holdings has occurred.

Securities held outright (securities held as a result of "permanent open market operations"¹) have surpassed the \$2.2 trillion mark for the last two weeks.² The largest component is once again U.S. Treasury debt. Holdings reached \$1.08 trillion in the most recent report. This is a non-trivial number; it represents 7.7% of the total public debt outstanding and **12.2% of the total marketable debt outstanding**.³

Holdings of Agency/GSE mortgage backed securities (MBS) have either fallen or remained unchanged each week since August 18th of 2010. The current level of \$980.2 billion equates to 44.4% of the Fed's securities held outright, this marks over a 10 percentage point drop since the peak attained in July of 2010.

Thus far, the bulk of the "QE II" buying has taken place in U.S. Treasury debt maturing in over five years to ten years. The Fed has added \$114.5 billion in such instruments over the last ten weeks, representing 50.5% of the increase in U.S. Treasury holdings over that time.

In total, the Fed has committed \$226.5 billion out of the \$600 billion it allocated to "QE II" back in November.⁴ It is interesting to note that the yield on the 10 year U.S. Treasury Note has risen 70 basis points since the announcement.

Marios Kafantaris
(347) 233-2663
m.kafantaris@profitiscap.com

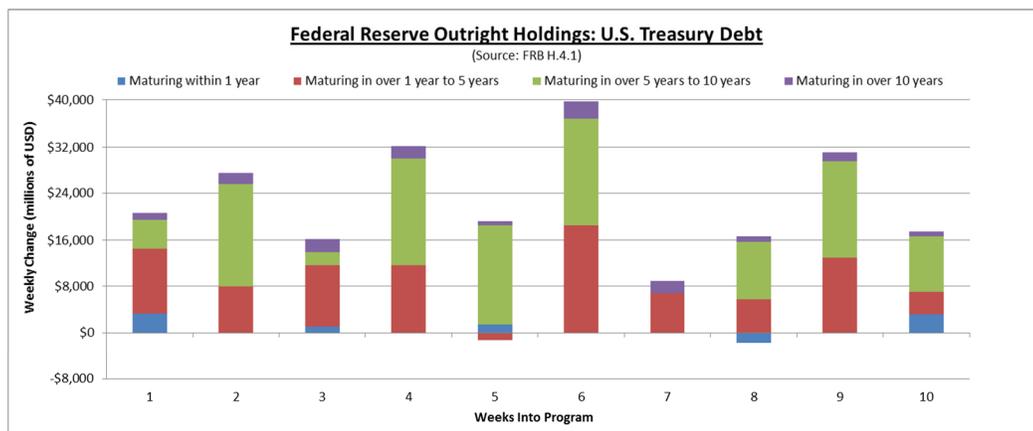


Chart 1: "QE II"
November 17, 2010 is the first weekly period in which "QE II" buying is accounted for in the Fed's H.4.1 statement.

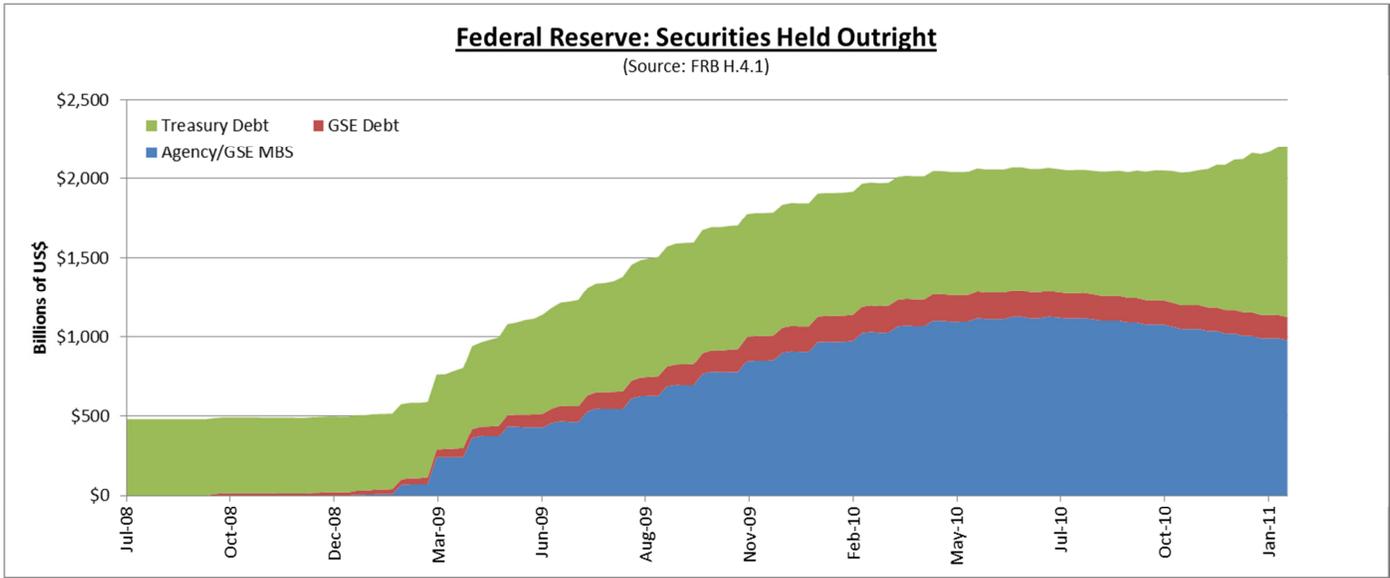


Chart 2: Securities Held Outright
 The Fed now maintains over \$2.2 trillion in securities held outright on its balance sheet.

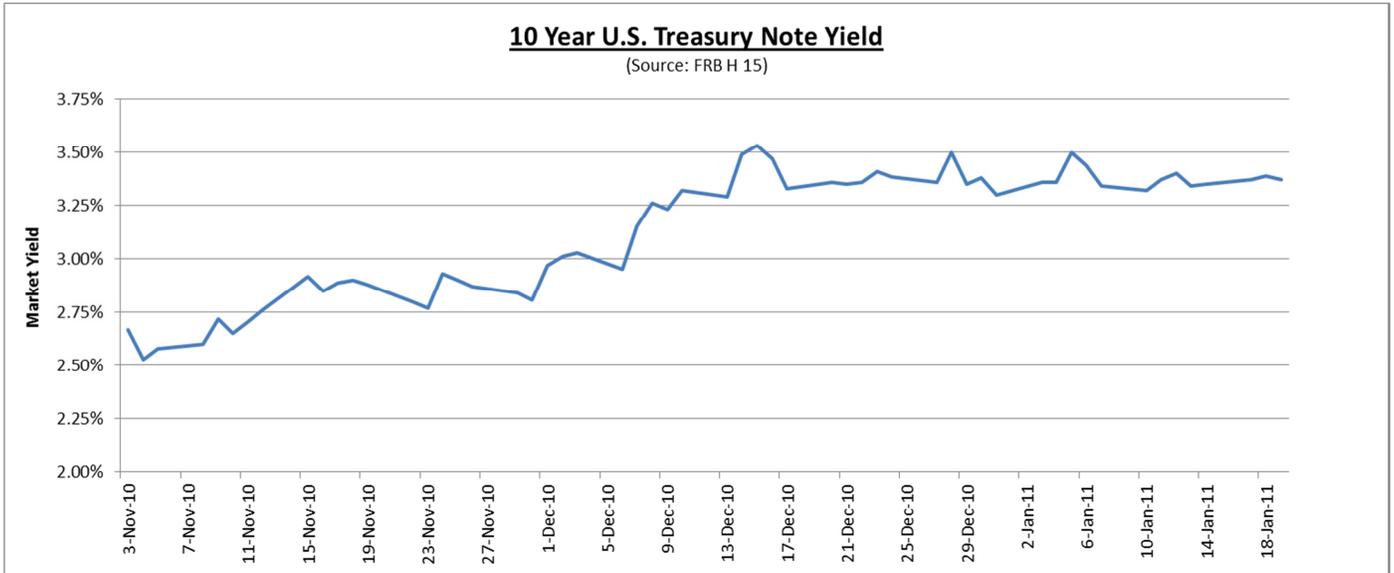


Chart 3: Market Yield: 10 Year U.S. Treasury Note

Profitis Capital Services LLC
150 Greenway Terrace
Forest Hills, NY 11375

info@profitiscap.com

www.profitiscap.com

¹Board of Governors of the Federal Reserve System:

http://www.federalreserve.gov/monetarypolicy/bst_openmarketops.htm

²Federal Reserve Statistical Release H.4.1: <http://www.federalreserve.gov/releases/h41/>

³Monthly Statement of the Public Debt:

<http://www.treasurydirect.gov/govt/reports/pd/mspd/2010/opds122010.pdf>

⁴Board of Governors of the Federal Reserve System:

<http://www.federalreserve.gov/newsevents/press/monetary/20101103a.htm>

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