



U.S. ABCP Market Outlook (CP Desk Comments)

Commentary by Credit Suisse's US ABCP Trading Desk

ABCP Commentary

Qtr End, Fed Meeting, Fed CP Programs Extended, 3 Month LIBOR below 60, SEC proposal on Money Funds.....It Finally Stopped Raining...I think.

To start the week, the ABCP market experienced some quarter-end pressures, which is just another step towards normalizing. The Fed Funds rate continued to trade at the higher end of the target and with 1 month LIBOR at 31 bps, most investors saw no benefit from buying 1 month paper over overnight in terms of a yield pick up. However, there was strong interest in 2 through 3 month paper as investors could pick up 5 to 15 bps depending on the issuer. Three month LIBOR broke through 60 bps for the first time on Friday, showing more evidence of the healing that is going on in the market.

The Fed ended its two day meeting on Wednesday stating there was not much change from April in terms of current growth and future growth, downside risks on inflation were dropped, and directly effecting the ABCP market, was the following line from its statement, "The Committee will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of financial and economic developments." The very next day, the Fed announced changes to the CPFF, AMLF, and MMIFF. The Fed announced an extension of the AMLF and CPFF to February 1, 2010, elimination of the MMIFF after October 30, 2009 (which has not been utilized since its inception), and modifications to the AMLF that now require 2a-7 Funds to have experienced outflows of 5% of net assets in a single day or 10% of net assets during the prior 5 business days before accessing the facility. This modification stresses the intent for the AMLF to provide liquidity to money market funds in times of stress. These announcements also provide a sigh of relief for some market participants as it buys some additional time under the Fed umbrella. Whether or not you agree with the Fed's decision to extend the AMLF and CPFF, the sheer fact that there is an obvious exit strategy from these programs is another step towards market normalization.

The SEC also announced a proposal for public comment to amend Rule 2a-7 following the turmoil in the market experienced during the week of Sept. 15, 2008 and also partly in response to the Investment Company Institute money market working group recommendations that were released earlier this year. The SEC is seeking comment on a number of items, including (but not limited to):

- Requiring that money market funds have certain minimum percentages of their assets in cash or securities that can be readily converted to cash, to pay redeeming investors.
- Shortening the weighted average maturity limits for money market fund portfolios (from 90 days to 60 days).
- Limiting money market funds to investing in only the highest quality securities (i.e., eliminate their ability to invest in so-called "Second Tier" securities).
- Requiring funds to stress test fund portfolios periodically to determine whether the fund can withstand

Maureen Coen
212.325.3531
maureen.coen@credit-suisse.com

Joseph Soave
212.325.1802
joseph.soave@credit-suisse.com

Brian Rogers
212.325.1802
brian.rogers@credit-suisse.com

Stephanie Gentile
212.325.4713
stephanie.gentile@credit-suisse.com

Galit Kursman
212.325.3358
galit.kursman@credit-suisse.com

Emily Lao Chua
212.325.9817
emily.laochua@credit-suisse.com

Danielle Melchione
212.325.0943
danielle.melchione@credit-suisse.com

market turbulence.

The proposals also would:

- Require money market funds to report their portfolio holdings monthly to the Commission and post them on their Web sites.
- Require funds to be able to process purchases and redemptions at a price other than \$1.
- Permit a money market fund that has "broken the buck" and decided to liquidate to suspend redemptions while the fund undertakes an orderly liquidation of assets.

Many investors already have adopted more stringent guidelines for their money market funds over the past 10 months. Stay tuned for more from the SEC on this topic.

Next week will be a bit tricky for issuers as Monday and Tuesday will be sticky due to quarter-end coupled with a shortened holiday week. We also have the all important Employment Situation data coming out on Thursday. One would expect that volume would be off, as most issuers have already completed the majority of their financing needs for quarter-end and next week.

At least it has stopped raining in the New York area (for now)!

The weekly CP data was benign and as expected:

Total CP outstandings decreased by \$11.3 bn to **\$1.281 tn** for the week ending 6/24/09. The sharpest weekly decline was seen in Corporate CP outstandings.

Money market fund assets increased by \$34.22 bn this week to \$3.709 trillion. Taxable (non-gov) assets rose \$25.85 bn to \$1.973 trillion, with a \$2.85 bn drop in retail assets and a \$28.7 bn jump in institutional assets.

Of the total CP market:

- Corporate outstandings decreased by \$9.3 bn for the week (\$145.3 bn vs \$154.7 bn last week)
- Financial outstandings increased by \$1.0 bn for the week (\$573.8 bn vs \$572.8 bn last week)
- ABCP outstandings experienced a weekly decrease of \$2.9 bn (\$562.1 bn vs \$565.0 bn last week)

CPFF usage declined again this week to **\$120.6 bn** vs \$128.8 bn last week.

AMLF usage decreased to **\$15.5 bn** from \$18.6 bn last week.


The **MMIFF** continues to remain unutilized.

The **Fed's exposure** to the total CP market declined slightly this week to 10.6% through these two programs.

(Source: Federal Reserve website, Investment Company Institute website)

Corporate/Financial Commentary

The week started off incredibly slow for corporate and financial CP. There seemed to be two primary reasons for this. The first was overnight repo rates which hovered around a 0.25% yield. Given the high rates, it did not make sense for investors to term out to 3 months for a yield pick up of 7 or 8 basis points for bank risk and no pick up for A-1/P-1 corporate risk. Therefore, most of the cash stayed in repo. The second reason was the fear of an imminent Federal Reserve tightening of the Federal Funds Rate. The September Eurodollar traded as low as 99.175 or 0.825% yield on Thursday. The current 3 month LIBOR is .60125%, so a 3 month LIBOR of 0.825 % means the September Eurodollar contract was predicting a 90% probability of a 25 basis point tightening by the August 12th FOMC meeting. This probability dropped to 26% by Thursday (6/25) and 0% by Friday (6/26). As the government repo collapsed and the probability of a tightening evaporated, money came rushing into the term corporate and bank market. Investors were willing to extend out to 9 months in several corporate names. At this point, it is hard to predict what will happen with repo rates and Eurodollars futures going forward since the weekly swings have been significant and unpredictable. We expect next week to be a little slower given quarter-end is Tuesday and the holiday on Friday.



Headlines Affecting the CP Market (Bloomberg):

- 6/24 SEC Proposes Rules to Halt Money-Market Fund Losses
- 6/24 Fed Leaves Bond Purchases Unchanged, Says Inflation 'Subdued'
- 6/24 Fed Leaves Target Interest-Rate Unchanged at 0% to 0.25%
- 6/25 Fed Extends Asset-Backed Commercial Paper Facility to Feb. 1
- 6/25 Fed Statement on Extension of Emergency Programs
- 6/26 LIBOR Declines Below 0.6% for First Time as Central Bank Aid Lowers Rates

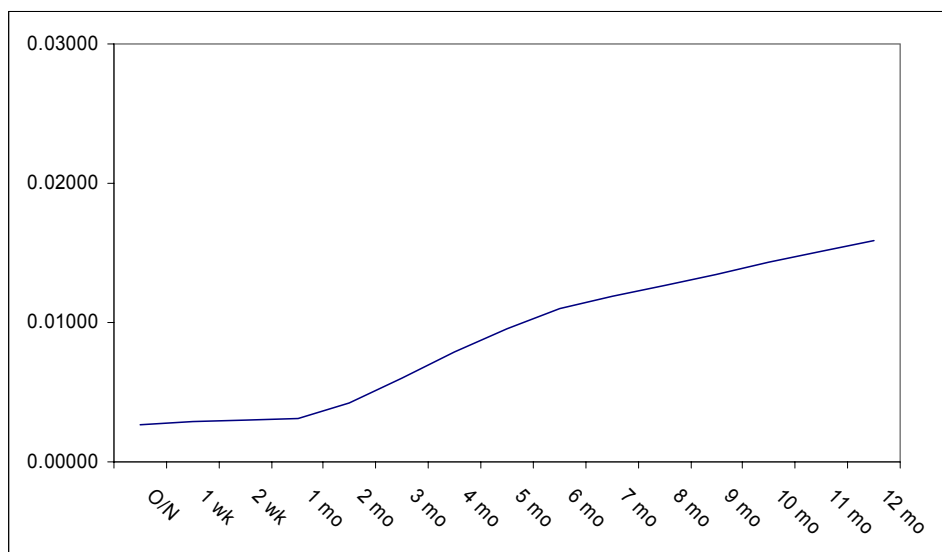
Short-Term Fed Facility Usage:

All amounts in USD billions (except where noted)

Facility	Current Week (6/17)	Prior Week	Peak	Facility Effective Date
AMLF	15.476	18.598	152.1 (10/1/08)	9/19/08
CPFF	120.603 (face)	128.8 (face)	350.3 (1/22/09)	10/27/08
MMIFF	0	0	n/a	11/24/08

Data source: <http://www.federalreserve.gov/releases/h41/Current>

LIBOR Curve (6/26/09):

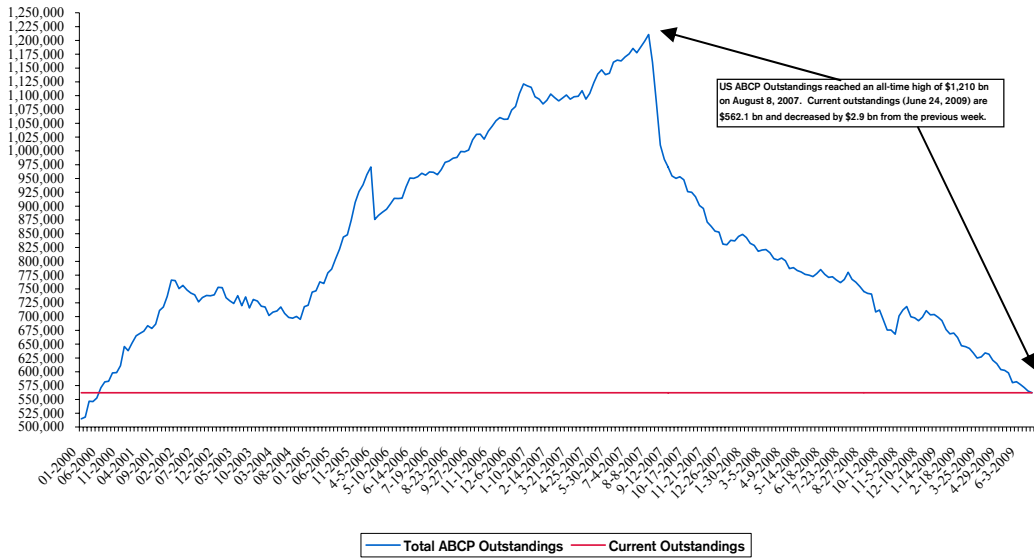


O/N	.26500%
1 wk	.29438%
2 wk	.29875%
1 mo	.31000%
2 mo	.42000%
3 mo	.59750%
4 mo	.78750%
5 mo	.95500%
6 mo	1.09500%
7 mo	1.18625%
8 mo	1.26750%
9 mo	1.34875%
10 mo	1.42875%
11 mo	1.50750%
12 mo	1.59125%

ABCP Outstandings

U.S. ABCP Outstandings decreased by \$2.9 billion for the week ending June 24, 2009 to **\$562.1 bn** outstanding from \$565.0 billion outstanding (Source: Federal Reserve, *Not Seasonally Adjusted data*).

Total US ABCP Outstandings as of Wednesday, June 24, 2009
(in millions)



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CREDIT SUISSE
Eleven Madison Avenue
New York City, NY
10010
U.S.A.
www.credit-suisse.com

