



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

Commentary by Credit Suisse's US ABCP Trading Desk

ABCP Commentary

Where did it all go?

This past week the ABCP market braced itself for the possibility of a fresh amount of supply due to the first maturities within the CPFF. We saw an outflow of \$102 bn from the CPFF, decreasing the Fed's total ownership of commercial paper to 17% from 22% the week prior. As expected, we did not see an overwhelming amount of supply in the traditional market with the total CP market down approx \$90 bn and the ABCP market down by \$7 bn. Therefore, we conclude that issuers either went back into the CPFF or found other financing outside the CP market. When looking at the current CP statistics, the dramatic decrease of approximately \$90 bln in Financial CP would cause one to assume that the financial issuers went from one government safety net to another (via the TLGP). Pricing for ABCP this past week moved higher along with Fed Funds and LIBOR. We would expect that funds would continue to trade closer to 25 bps as the Fed is trying to remove some institutional constraints that appear to have kept the effective rate below the 25 bp level paid on reserves. We would expect as we navigate out of the earnings season and the 1st week of CPFF maturities, some of the pressure that the ABCP market has been experiencing will diminish. Although the political landscape will have an overhang, there are some important government initiatives that will get underway soon (the TALF in late Feb as well as the Student Loan Conduit) that should help financial markets, including the ABCP market.

The CPFF: Can the Patient be Weaned Off the Resuscitator?

In short, not yet. In my opinion, the CP market, while stabilized, still remains under pressure as evidenced over the past two weeks. With approximately 17% of the CP market owned by the Fed, it is obvious that this market needs to continue to shrink. The current demand for both ABCP and Financial CP is just not there. Since the CPFF terminates on April 30th, it will become very interesting over the next 90 days to see if the Fed will in fact extend the lifeline it has given or take a Darwinian approach and let the strongest survive. With both the current political and economic landscape, I would suspect that the facility would be extended to the end of the year and the Fed will probably start to implement rules to wean out the permanent users and truly become a backstop liquidity provider. There was one rule that was implemented last Friday to begin the weaning process, stating that CP issuers that were "inactive" prior to the creation of the CPFF are not eligible to participate. An issuer is considered "inactive" if it did not issue CP to institutions other than the sponsoring institution for any consecutive period of 3 months or longer between January 1, 2008 and August 31, 2008

The current CP statistics are as follows:

Total CP outstandings decreased by \$86.8 bn to **\$1.517 tn** for the week ending 1/28/09, as the CPFF had its first maturity rolls. The most significant portion of this drop came from financial CP (\$81.6 bn).

- Corporate outstandings increased by \$2.4 bn for the week (\$194.8 bn vs \$192.5 bn last week)
- Financial outstandings had a substantial weekly decrease (as noted above), down over 11% or \$81.6

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

bn WoW (\$653.1 bn vs \$734.7 bn last week)

-ABCP outstandings experienced a WoW decrease of \$7.7 bn (\$668.7 bn vs \$676.4 bn last week)

CPFF usage decreased markedly during the first week of its 3 month maturities. CPFF had a WoW decline of \$102.7 bn to **\$247.6 bn** vs \$350.3 bn last week.

AMLF usage increased for the first time in several weeks to **\$15.9 bn** from \$14.8 bn

The **MMIFF** continues to remain unutilized despite the Fed's announcement on Jan. 7th to expand the scope of investors eligible to participate.

Corporate/Financial Commentary

A tough week in the short-end

2009 started off with a bang. The Fed eased Fed Funds to some strange target of zero to 25 basis points and money funds went on a buying frenzy. Hungry for any yield, the risk taking was back on in full force. Unfortunately, the party ended this week. Liquidity was poor and funds traded above their target. Even the best credits saw their funding levels rise. Where has all the money gone? That is a frequently asked question in the short-end.

As Euro dollars moved back and forth between selling off and rallying, LIBOR started to creep higher. The funding levels are under pressure and so one can only assume that levels will continue to rise. Hopefully, the new month will bring fresh cash and new appetite for product in the short-end.

Headlines Affecting the CP Market (Bloomberg):

- 1/26 WSJ: Treasurys, Munis Slide; Commercial Paper Hangs On
- 1/29 Fed Commercial Paper Holdings Fall to \$247.6 bln vs \$350.3 bln
- 1/29 Commercial Paper Falls Most on Record as Fed Buying Plunges
- 1/29 WSJ: Thaw Is Felt in Market for Commercial Paper

Short-Term Fed Facility Usage:

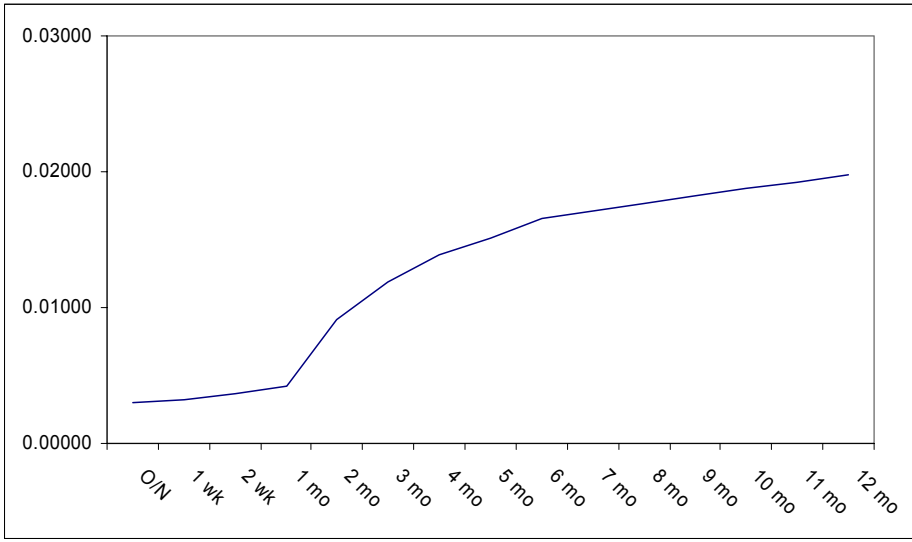
All amounts in USD billions (except where noted)

<u>Facility</u>	<u>Current Week (1/29)</u>	<u>Prior Week</u>	<u>Peak</u>	<u>Facility Effective Date</u>
AMLF	15.967	14.775	152.108 (10/1/08)	9/19/08
CPFF	247.578 (face)	350.252 (face)	350.252 (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 (1/30/08):

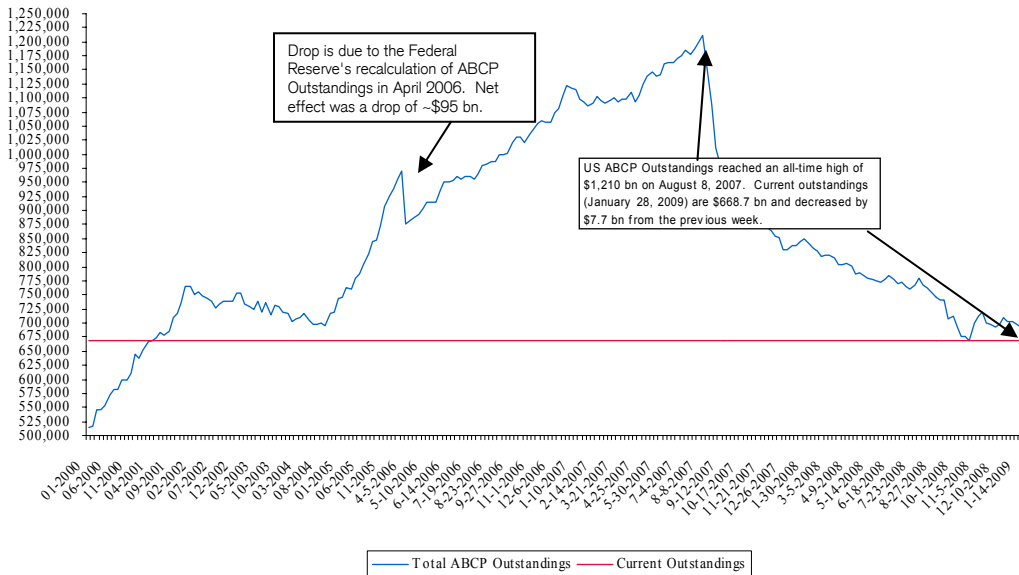


O/N	.30500%
1 wk	.32375%
2 wk	.36875%
1 mo	.41938%
2 mo	.91313%
3 mo	1.18438%
4 mo	1.38625%
5 mo	1.51250%
6 mo	1.66000%
7 mo	1.71125%
8 mo	1.76688%
9 mo	1.82375%
10 mo	1.87250%
11 mo	1.92375%
12 mo	1.97500%

ABCP Outstandings

U.S. ABCP Outstandings decreased by \$7.7 billion for the week ending January 28, 2009 to \$668.7 bn outstanding from \$676.4 billion outstanding (Source: Federal Reserve, *Not Seasonally Adjusted data*).

**Total US ABCP Outstandings as of Wednesday, January 28, 2009
(in millions)**



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

