



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

Commentary by Credit Suisse's US ABCP Trading Desk

ABCP Commentary

We seem to be wading in the warmer and calmer August ocean water, with not much fluctuation in terms of flows or levels this week. Most of the top-tiered issuers were trying to get done in 1 month maturities below a 0.25% level, but that proved to be a bit spotty as investors dug in. Most investors are still looking for 3 month paper for the pick up in yield as the Fed is expected to remain on hold for quite some time and those maturities still puts their investment inside of year-end for cash management purposes. The week over week decline in the CPFF came in as expected and the next material drop should occur at the end of October during the next big set of rolls. As the market digests the better than expected Employment Situation, we might see 3 month LIBOR stay at a 46 or begin to back up a few basis points (see discussion on rate changes below). Next week should bring the bulk of the months' flows for ABCP before we head into corporate tax day and the second half of the month.

The weekly CP data was as follows:

Total CP outstandings increased by \$1.9 bn to **\$1.206 tn** for the week ending 8/5/09. Declines were seen for both Financial CP and ABCP outstandings.

Money market fund assets decreased by \$27.45 bn this week to \$3.606 trillion. Taxable (non-gov) assets decreased by \$10.5 bn to \$1.963 trillion, with a \$4.5 bn drop in retail assets and a \$6 bn decline in institutional assets.

Of the total CP market:

- Corporate outstandings increased by \$10.6 bn for the week (\$146.8 bn vs \$136.2 bn last week)
- Financial outstandings decreased by \$4.4 bn for the week (\$523.8 bn vs \$528.2 bn last week)
- ABCP outstandings experienced a weekly decline of \$4.3 bn (\$535.3 bn vs \$539.7 bn last week)

CPFF usage declined by \$6.2 bn this week to **\$56.9 bn** (face value) from \$63.2 bn last week.

AMLF usage decreased to **\$113 mn** from \$806 mn last week.

The **MMIFF** continues to remain unutilized.

The **Fed's exposure** to the total CP market declined to **4.7%** through these two programs.

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

Corporate/Financial Commentary

Are the tightenings coming?

It seems premature to discuss tightening. In fact, it seems odd to point to Eurodollar futures as the predictors of future tightening since their track record over the last 2 years can be described as "horrible". Yet, we in the short-end have very few other measures for market expectation of future moves by the FOMC. So, this week let's look at what Eurodollars are predicting for the near term since what they are pricing in is a rather substantial increase in the Federal Funds rate. Currently, the 3 month LIBOR rate stands at 0.46% yield. The nearest Eurodollar contract is the September contract which is set on 9/14/09 to settle on 9/16/09 and is currently trading at 99.50 or 0.50% yield. This contract is therefore

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predicting no change in rates for the better part of 1½ months. It should also be noted that the next FOMC meeting is on August 12th, next Wednesday, and the Eurodollar market is not preparing for anything to happen at that meeting. It is the December Eurodollar contract and beyond that are depicting a different picture. The December contract is predicting an 0.81% yield by 12/14/09 to settle 12/16/09. The fall FOMC meetings are September 23rd, November 4th, and December 16th this year. So, the two meetings at play in the December contract are the September 23rd and November 4th. The probabilities per meeting are impossible to separate but the market does have 35 basis points priced in by December 14th this year. The March 2010 contract is pricing in a 1.22% yield for 3 months by March 17, 2010. Substantial moves are priced in...for now.

Headlines Affecting the CP Market (Bloomberg):

- 8/7 US Job Cuts Slow, Unemployment Rate Unexpectedly Falls as Downturn Eases
- 8/6 Forbes: Money Markets-Dollar Rates Fall, U.S. CP Market Rebounds
- 8/6 U.S. Commercial Paper Market Rises for First Time in 17 Weeks
- 7/30 BOE Announces New Secured Commercial Paper Facility

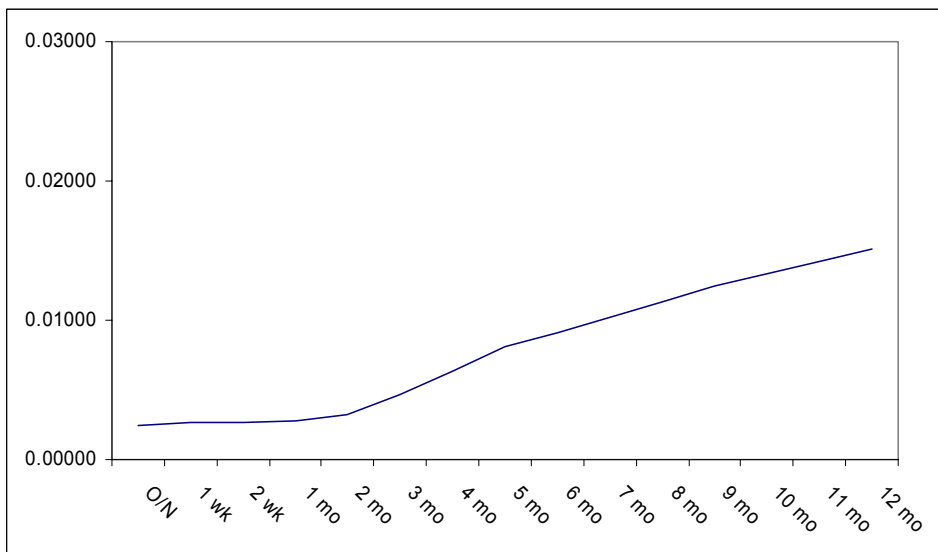
Short-Term Fed Facility Usage:

All amounts in USD billions (except where noted)

<u>Facility</u>	<u>Current Week (8/5/09)</u>	<u>Prior Week</u>	<u>Peak</u>	<u>Facility Effective Date</u>
AMLF	0.113	0.806	152.1 (10/1/08)	9/19/08
CPFF	56.997 (face)	63.206 (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 (8/7/09):

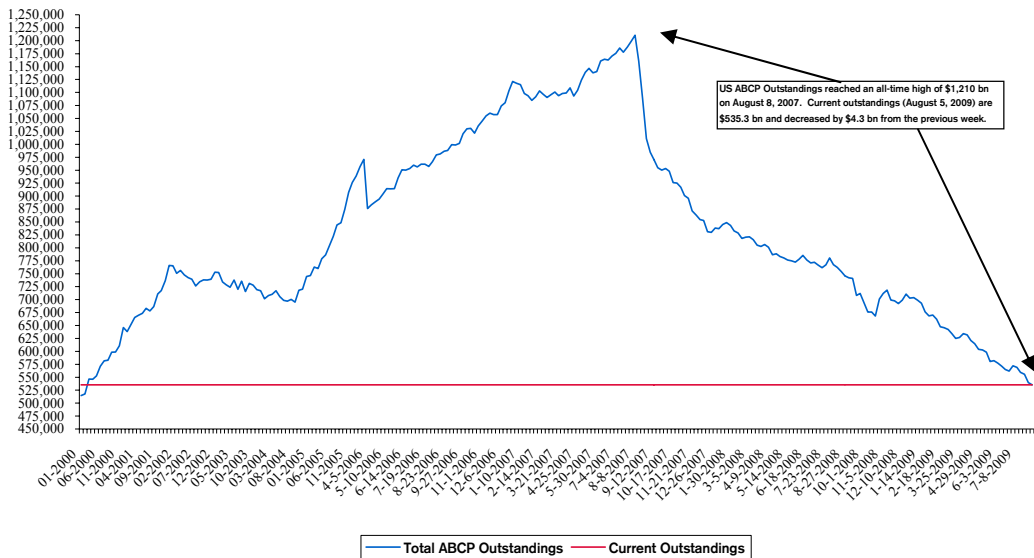


O/N	.24500%
1 wk	.26250%
2 wk	.26875%
1 mo	.27563%
2 mo	.32313%
3 mo	.46125%
4 mo	.63125%
5 mo	.80563%
6 mo	.90750%
7 mo	1.02563%
8 mo	1.13375%
9 mo	1.24250%
10 mo	1.33125%
11 mo	1.42563%
12 mo	1.51000%

ABCP Outstandings

U.S. ABCP Outstandings decreased by \$4.3 billion for the week ending July 29, 2009 to **\$535.3 bn** outstanding from \$539.7 billion outstanding (Source: Federal Reserve, *Not Seasonally Adjusted data*).

Total US ABCP Outstandings as of Wednesday, August 5, 2009
(in millions)



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