U.S. Commercial Paper Market Update

Week Ended November 3, 2023
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Market Commentary and Sell-Side Activity

Equities performed well and treasuries rallied as market participants digested Fedspeak from the FOMC meeting and economic data releases. The FOMC voted unanimously to hold interest rates steady at a 22-year high of 5.25%-5.50% for a second straight meeting. Signs of a slowing labor market and dovish comments from Fed Chair Powell following the FOMC’s decision to hold rates at their current levels offered markets respite from the recent period of volatility that shrouded much of September and October. Employment data metrics pointed to a cooling labor market with Non-Farm Payrolls coming in 30k below expectations while the unemployment rate rose to 3.9% in October, the highest level since January 2022. Equities finished the week notably higher with the Dow, S&P, and Nasdaq up 5.1%, 5.9% and 6.6%, respectively. The 2-year closed the week at 4.84% (-16bps) and the 10-year closed at 4.57% (-27bps).

CP outstanding decreased $27.24B WoW with Financial paper down a notable $30.77B as financial institutions issued large amounts of debt post-blackout. ABCP decreased $0.10B, while Corporate CP increased $3.70B. Following Wednesday’s FOMC meeting, sentiment that rates have “topped out” caused many buyside participants to purchase longer dated (>3-month) paper. Current market implied probability of a 25bps hike at the December 13th meeting is only ~4%. However, it should be noted that although many participants believe interest rates are no longer rising, year-end liquidity restraints are still anticipated. Therefore, we recommend completing funding needs proactively in order to avoid historical year-end price widening. Total CP placed into 2024 now sits at ~39% (+4% WoW), with 45% of Tier 1 CP, 22% of Tier 2 CP, and 45% of ABCP sold into the New Year. Appropriately priced paper continues to trade orderly and efficiently. We recommend issuers begin to plan funding needs in advance of the Thanksgiving holiday week, as trading desks will be lightly-staffed the Wednesday prior to, and Friday following, November 23rd. The Fed’s RRP facility remained steady WoW, with 99 users taking ~$1.1 trillion in collateral on Friday as cash rich investors continue to redeploy cash into the Treasury markets.

The Trade Balance is released Tuesday and Mortgage Applications on Wednesday. Wholesale Inventories MoM and Initial Jobless Claims come Thursday, with the University of Michigan Sentiment and Monthly Budget Statement on Friday.
Overview

- Prime Institutional money fund WAMs increased by 0.05 days WoW to 29.35 days
- Prime Institutional 7-Day Yields increased 0.87 bps WoW to 529.25 bps, while Prime Retail 7-Day Yields increased 0.34 bps WoW to 510.80 bps
- Since SVB entered receivership, Prime Money Funds AUM have increased by $112B, while Government and Treasury Funds have increased by $389B and $288B respectively
- SEC Rule 2a-7 Amendments became effective on October 2nd with first implementation date in 6 months
  > Prime Money Market funds will need to increase their daily liquid asset bucket from 10% to 25%; and their weekly liquid asset bucket from 25% to 50%
  > Expected to drive CP tenors shorter, putting upward pricing pressure on Tier I CP maturities > 1 week

Weekly Money Market Flows: Prime vs. Treasury/Government

Money Fund WAMS

Source: Federal Reserve Bank, Bloomberg, Crane Data
Federal Reserve and Calendars

3-Month BSBY & 3-Month OIS

Fed Funds Effective Rate

Reverse Repo Facility Usage

Issuance Calendar

Upcoming Economic Calendar

Sources: Federal Reserve Bank, Bloomberg
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