

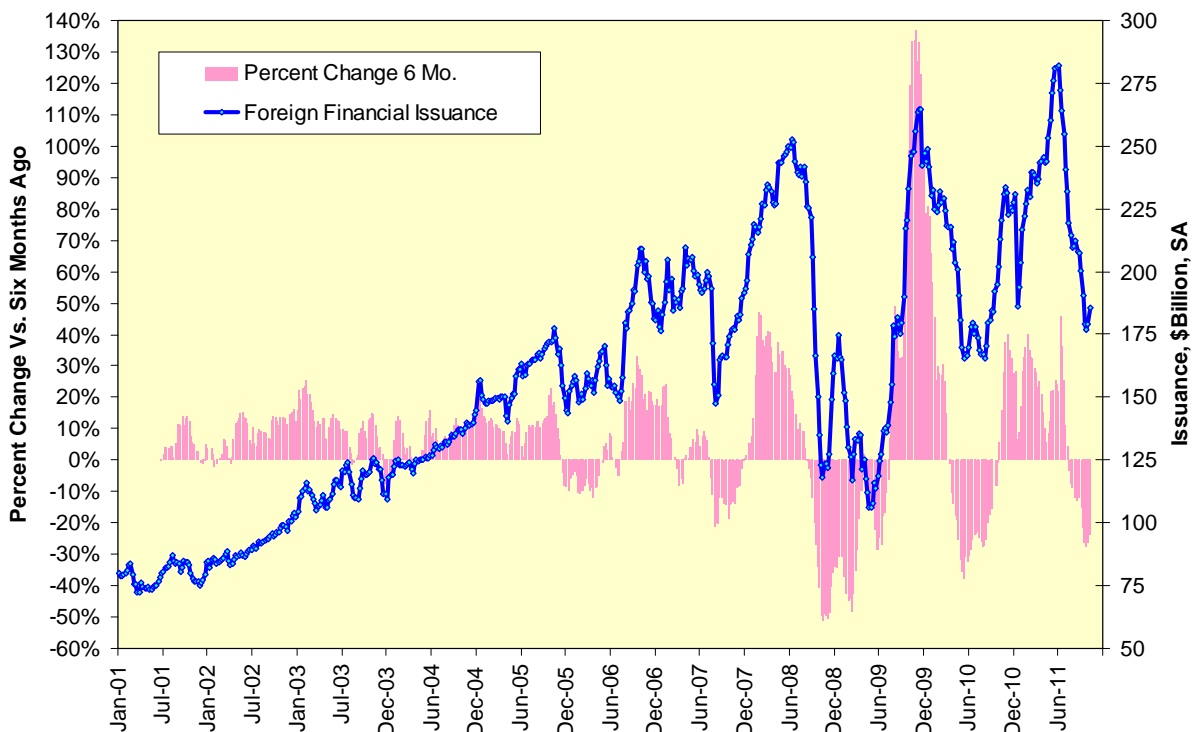
Trends In Commercial Paper Issuance

Some things you suspect; other things you just know. One of the things falling into the latter category is topics such as gold, gasoline or whether the S&P 500 is going to go up or down (Actual answer: Both, and you may quote me on that) are surefire ways to get attention. Commercial paper, repurchase agreements and mundane things such as that might get a polite nod for a few seconds but on balance they are a quick way to clear out a room.

Alas, just as spinach is purported to be good for you, commercial paper, last discussed here in [June 2010](#), is important to the interesting markets you know and love. Nonfinancial corporations issue gobs of it to fund operations, inventories and accounts receivable; money-market funds have been the principal buyers of CP over the years. As we found out the hard way in September 2008, money-market funds that bought CP and got TP instead broke the buck, the wind and more than one heart.

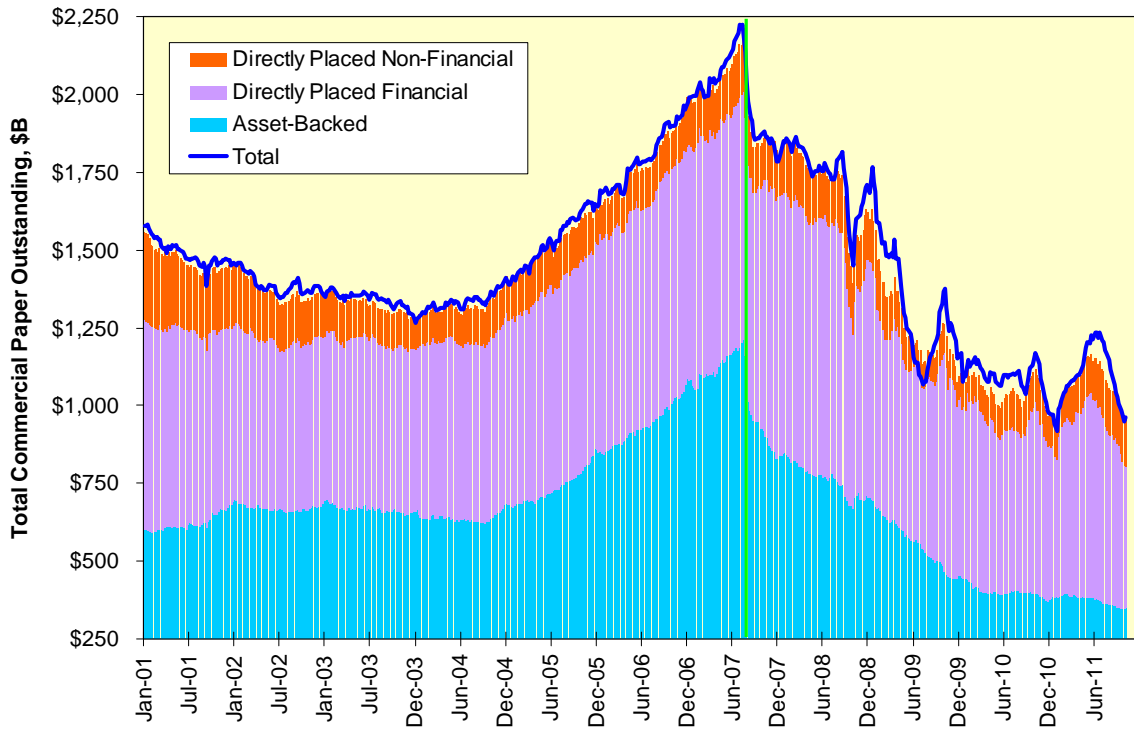
European banks that did not trust each others' balance sheets and avoided the interbank market turned to the CP market and found more than one American buyer, at least until those American buyers decided they might not want the credit risk of those banks. The result has been a rollercoaster of issuance by foreigners over the last few years; we recently saw a massive pullback in issuance under a buyers' strike. Expect the impending resolution of the European sovereign credit situation, the one involving European commercial banks taking a haircut on their Greek bonds before they will get EFSF credit to buy more European sovereign debt (yes, you read that right) to lead to a rebound in this issuance level.

Foreign Commercial Paper Issuance



If we return to U.S. issuance, we see asset-backed paper remains dead in the water and probably dead on dry land, too, as the mortgage-backed market remains federalized. Nonfinancial firms' direct issuance has rebounded along with [higher bank lending](#), and this is an unmistakable sign of economic stabilization and higher growth. Offsetting this upturn, financial firms' direct issuance has been pressured by the fear of European contagion and the risks it posed to American banks. This level should rebound as well as the European situation moves toward resolution.

Commercial Paper After The Earthquake



The net result is the very basic and very boring funding base for business has found a footing outside of the moribund asset-backed sector. This does not mean sunny skies ahead, but it does take away one major possible source of implosion, one that threatened us all in 2008, and who can be upset about that?