Asset-Backed Commercial Paper's Good And Bad News

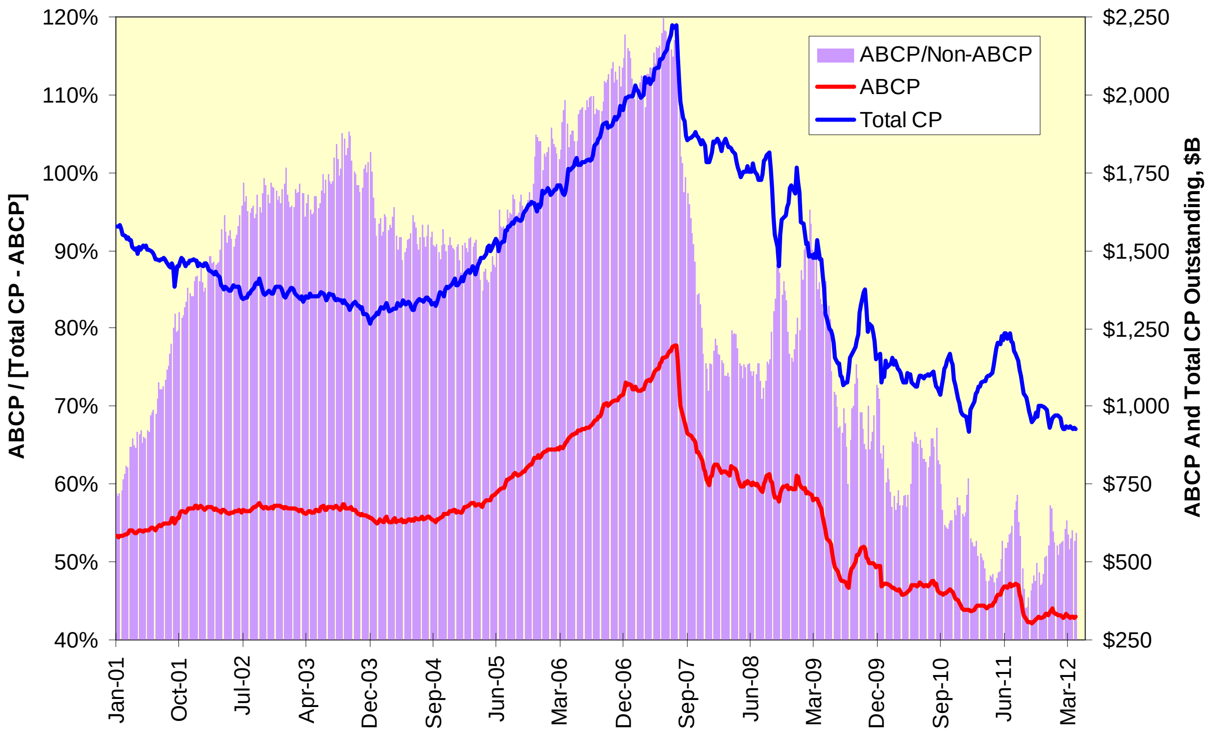
Its Amount Outstanding Is Stable, But Yields Tell Another Story

When you take a glance at the chart below and see the break in the amount of asset-backed commercial paper (ABCP if you want to impress the easily impressed) outstanding after August 2007, keep in mind a conversation I had with a wire service reporter back then:

Her: When will this crisis be over?
Me: When you stop asking me about it.

That was not me being unnecessarily sarcastic or even characteristically curt; it was, as both parties have recollected, my way of saying ABCP was never a subject of conversations before and would not be once the "crisis" was over. Moreover, we have cheapened the term "crisis" to the point where I search for synonyms, some of which are not fit for a family Website.

Asset-Backed Commercial Paper Market Relatively Stable

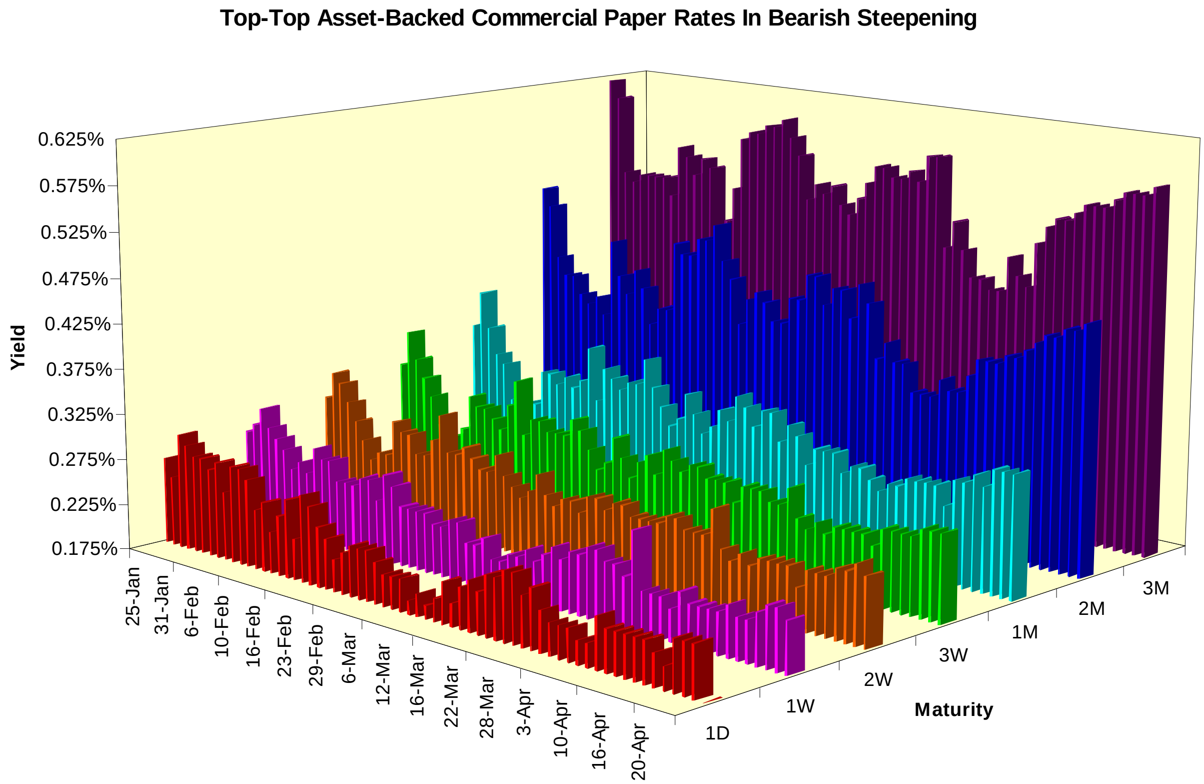


Please note how the quantity outstanding of ABCP has stabilized over the past year even as the quantity of non-ABCP outstanding continues to press toward its post-crisis low. The commercial paper market has been getting pressured from all sides; money-market mutual funds traditionally have been big buyers and they have been getting pressured by near-zero yields and the very real possibility they may have to "break the buck" soon, either directly or by holding cash in reserve. If the Federal Reserve thinks it is stimulating something with its low-rate policies, the entire money-market mutual fund industry and every holder of a bank savings account would beg to differ. Like that would do any good.

Why might ABCP be holding up relatively well? You cannot kill something, such as the mortgage-backed securities market, that is already dead. That happened in 2007-2008. We are left now with rising student loan-backed securities. It is a relief nothing can go wrong there as new graduates seem to have their choice of high-paying jobs to settle their modest debt loads.

The Rate Story

The other part of the ABCP story worth noting is how, in a yield-starved world, higher yields beyond one month are not inducing inflows. Lenders are staying short and accepting lower yields rather than going out on a limb to three months and getting almost twice as much. This turn of events really accelerated with the reignition of the European sovereign debt, um, crisis.



The struggles of the money-market mutual fund business and the commercial paper business go hand-in-hand. The lenders are not receiving enough to profit and the borrowers cannot attract funds. This is a reverse symbiosis where both organisms are threatened, maybe not with extinction but certainly with a good thrashing.