

11/12 14:46

TO:

See list below

1997

SOME MARKET ANALYSIS: OVER THE PAST 6 MONTHS, EURODOLLAR SPREADS HAVE BEEN WIDENING AS THE US TREASURIES REDUCTION OF THE T-BILL SUPPLY HAS CAUSED THE BILL MARKET TO TIGHTEN, AND THE VARIOUS TERM TED SPREADS TO WIDEN. THIS HAS MADE LIBOR FLOATERS VERY CHEAP, RELATIVE TO FIXED RATE ASSETS. USING THE CREDIT CARD MARKET AS A PROXY FOR THE NON-CALLABLE DEBT MARKET, I FIND MOST VALUE IN 4YR LIBOR FLOATERS. IN GENERAL, I RECOMMEND LIBOR FLTRS.

MAT	SWAP	CARD/FIXED	E\$ SPREAD	CARD/FLOATER	FLOATER CHEAP
2YR	44 BPS	45 BPS	1 BPS	4 DM	3 BPS
3	45	47	2	8	6
4	47	50	3	13	10
5	48	55	7	14	7
7	51	55	4	15	11

PAGE 2

* THE UST INCREASED T-BILL ISSUANCE FROM 13B TO 24B IN THE 89-94 PERIOD, TO FUND THE WORKING CAPITAL NEEDS OF THE RTC AND FDIC THRIFT AND BANK BAILOUT. THIS MONEY WAS NOT PAID OFF BY THE GOVT AFTER THE RESOLUTION OF THE CRISIS.

* IN MARCH 1997, T-BILL ISSUANCE WAS CUT FROM 23B TO 14B/WEEK.

* STARTING APRIL, ALL TED SPREADS (INCLUDING SWAP SPREADS) STARTED WIDENING. FIXED RATE SPREADS HAVE ONLY RELUCTANTLY FOLLOWED.

* SWAP SPREADS ARE ON A WIDENING TREND. SEE \$\$\$SWAP2 Index GP.

* WITH THE 4TH QUARTER ISSUANCE OVERHANG, I'D EXPECT THIS TREND TO CONTINUE - I.E. FIXED RATE SPREADS TO WIDEN.

* THE ARBITRAGE AVAILABLE BETWEEN FIXED AND FLOATING ASSETS (IF YOU CAN USE SWAPS), ALSO ARGUES FOR A FIXED RATE WIDENING.

PAGE 3

* ARGUMENTS AGAINST A FIXED RATE WIDENING ARE:

- RICH MBS MARKET IS CAUSING INVESTORS TO INCREASE CORPORATE ALLOCATIONS. (THIS COULD BE POWERFUL).

- MANY (MOST?) INVESTORS DON'T FOLLOW THE SWAPS MARKET OR CANNOT USE SWAPS. +50 SPREAD FOR CORPORATES/ABS IS WIDEST IN A WHILE AND THUS CONSIDERED ATTRACTIVE. THEIR DEMAND FOR SPREAD PRODUCT WILL REIN IN THE WIDENING.

* I HAVE SOME DATA TO DOCUMENT THESE STATEMENTS, INCLUDING A RESEARCH ARTICLE I DID IN 1991 DISCUSSING THE RTC-RELATED T-BILL ISSUANCE, AND ITS IMPLICATIONS ON THE TED SPREAD. BACK THEN, I SUGGESTED THAT T-BILLS WERE RESPONSIBLE FOR THE TIGHT SPREADS. I CAN FAX THIS, IF YOU'RE INTERESTED.