

# US Rates Watch

## CP monitor: lower supply in new year

### Supply: lower outstanding in January

**Supply:** Total CP outstanding declined by \$20bn in January driven by financials (Exhibit 4) which dropped by \$29bn. The decline was somewhat offset by an increase in non-fin / corporate CPs. A closer look suggests most of the MoM changes came from the foreign sector, which shows a >1.5-sigma adjustment in both corporates and financials. Lower total CP supply is likely due to maturities rolling off into the new year.

As of end January, Canada led issuance in financials and total CP (Exhibit 24, Exhibit 25), while 40% of corporate issuance is from US issuers (Exhibit 26).

Bank CD issuance continues to be active consistent as issuers bolster their deposits. Increased CD issuance resulted in cheaper offering rates, according to FDIC & Bloomberg (Exhibit 7). We have argued ongoing CP & CD issuance raises the risk of a cheapening vs OIS, especially if prime fund WAM does not continue extending.

### Demand: no significant increase

**Demand:** Current CP rates do not reflect heightened demand for funding (Exhibit 11, Exhibit 13). MMF retail funds continued to attract inflows due to low yielding deposit alternatives. Prime MMFs reduced WAMs to c.33-35 days on January month-end; prime institutional reduced WAMs further in February, which is likely linked to the forthcoming MMF reform and liquidity fee requirement for prime institutional funds starting in October (Exhibit 10). If prime MMF WAMs stabilize around current levels, there could be greater cheapening potential amidst continued term CP & CD issuance.

### Rates: trading in-line with other front-end levels

**Rates:** Overall fin & non-fin CP rates traded in-line with other money market rates. We see risks that continued aggressive bank CD issuance & funding competition could cheapen rates further (Exhibit 7, Exhibit 11). Prime MMF WAM shortening is a risk to cheaper unsecured funding rates later in the year.

### Maturity: shortening trend continues

**Maturity distribution:** CP maturity extension overall declined in January; total CP maturity extension is now c. 54 days (Exhibit 14). The reduction in maturity distribution is likely driven by passage of year end, macro uncertainty, and issuers cautious of extending to longer tenors until a clearer Fed path emerges.

**Bottom line:** CP outstanding dropped in January driven by financials, likely due to CP paydown in the new year. Average CP maturity continues to shorten which likely suggests issuers cautious of extending to longer tenors until a clearer Fed path emerges.

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CP = commercial paper

CD = certificate of deposit

MMF = money market mutual funds

WAM = weighted-average maturity

O/S = outstanding

ABCP = asset backed commercial paper

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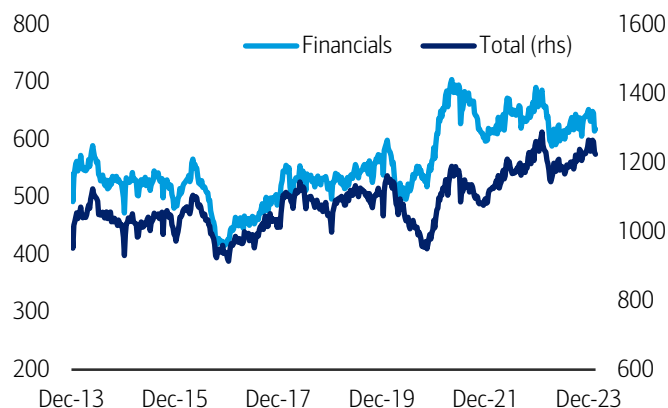
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# Commercial paper outstanding

## Exhibit 1: Financial CP vs total CP outstanding (\$bn)

Financials O/S saw signs of decline at January month-end

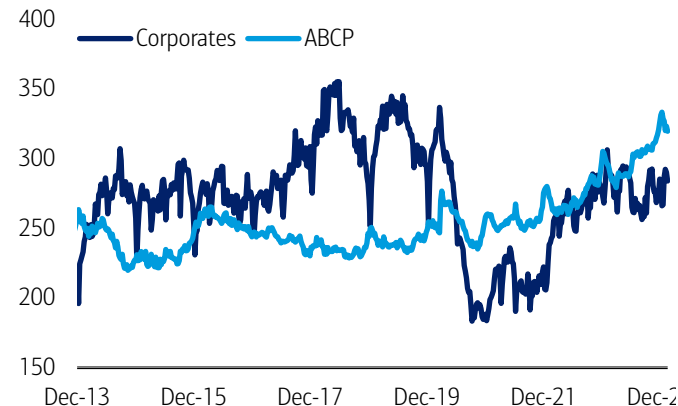


Source: BofA Global Research, Haver

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## Exhibit 2: Nonfin CP vs ABCP outstanding (\$bn)

O/S of ABCP peaked at the beginning of January and has declined since

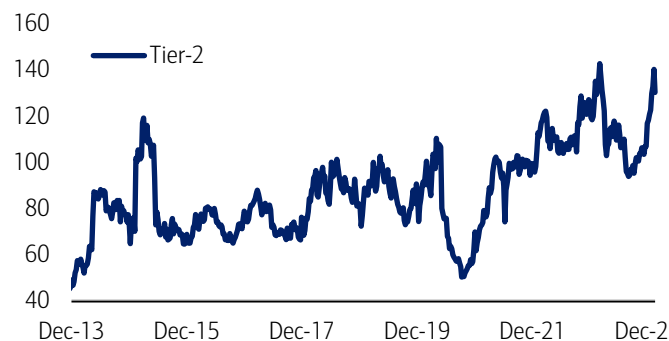


Source: BofA Global Research, Haver

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## Exhibit 3: Tier-2 CP outstanding (NSA, \$bn)

Tier-2 CP issuance peaked at the end of January



Source: BofA Global Research, Haver

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## Exhibit 4: CP outstanding as of 02/07/2024 (NSA, \$bn)

Total CP O/S decreased by \$20bn MoM; decline in financials somewhat offset by non-fin/corporates

	O/S	ΔMoM	Z-score since 2020	ΔYoY	Z-score since 2001
Financials	618	-29	-1.36	-38	-0.56
ABCP	320	-9	-1.43	28	0.42
Corporates	284	17	1.13	-6	-0.28
Total (rhs)	1224	-20	-0.88	-15	-0.03

Source: BofA Global Research, Haver

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## Exhibit 5: Domestic vs foreign issuers in Fin & Corp CP (NSA, \$bn)

Further breakdown shows MoM changes mostly driven by the foreign sector

	O/S	ΔMoM	Z-score since 2020	ΔYoY	Z-score since 2001
Fin - domestic	262	-6	-0.48	13	0.46
Fin - foreign	356	-23	-1.64	-51	-1.44
Corp - domestic	229	7	0.49	0	-0.07
Corp - foreign	55	10	1.66	-7	-0.78

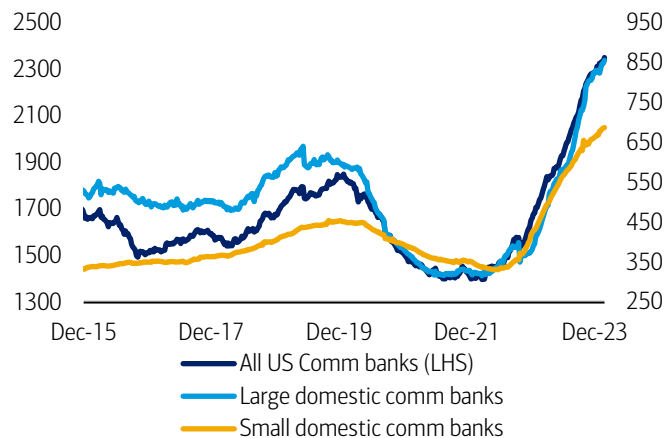
Source: BofA Global Research, Haver

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## CD activity

### Exhibit 6: US Commercial bank large time deposits as a proxy for CD activity (\$bn)

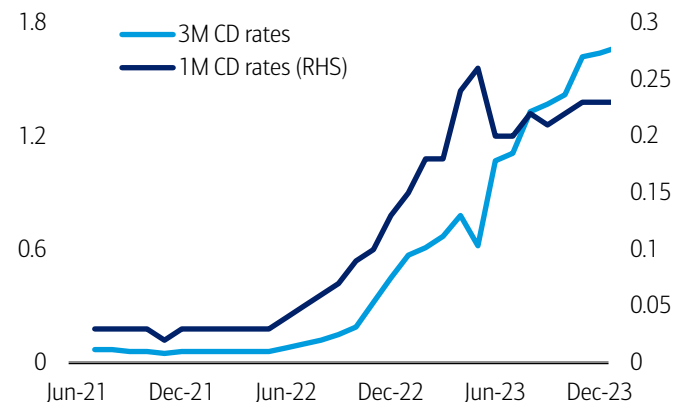
CD activity saw significant increase since last year



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### Exhibit 7: US FDIC 1M & 3M CD rates (monthly, %)

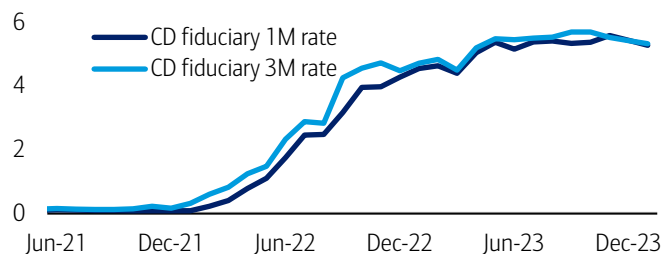
CD rates has cheapened with aggressive bank CD issuance & funding competition since 2H '22



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### Exhibit 8: US CD fiduciary 1M & 3M rates (monthly, %)

CD fiduciary rates have cheapened despite levels show signs of moderation recently

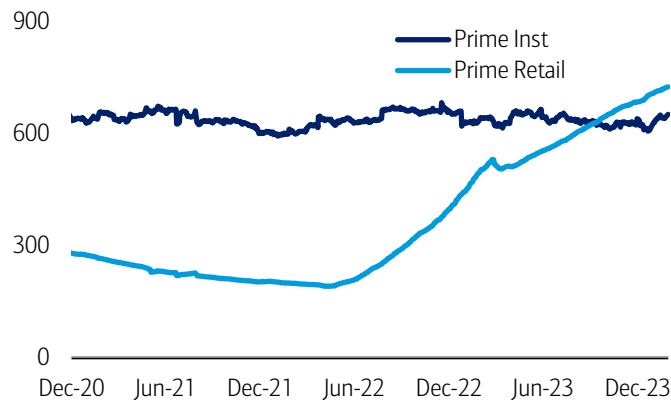


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## MMF AUM & WAM

### Exhibit 9: MMF AUM (\$bn)

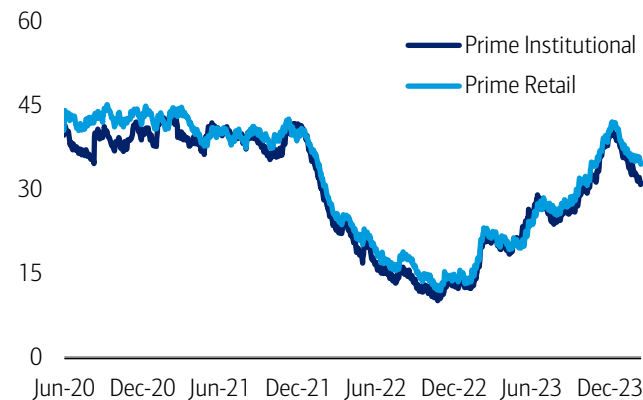
Retail funds continued to attract inflows due to low deposit alternatives



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### Exhibit 10: MMF WAM (days)

Prime institutional & retail funds have both been extending WAM

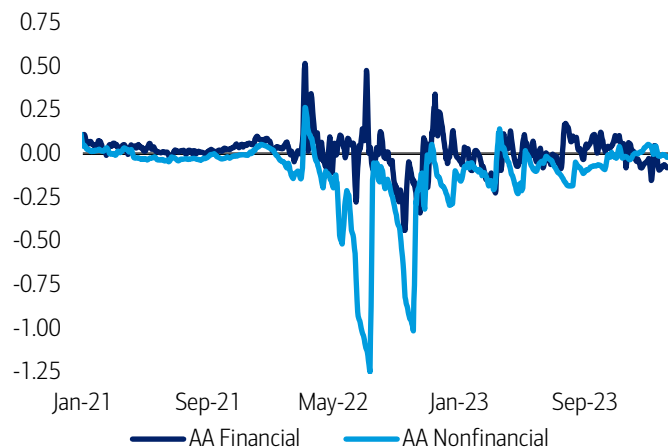


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## CP rates & spreads to OIS

### Exhibit 11: 3m AA fin & AA non-fin CP spreads to OIS (5D MA, %)

Fin & non-fin CP rates trade in-line with other money market rates



Source: BofA Global Research, Bloomberg

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### Exhibit 12: 1-month CP rates levels %, spreads to OIS (5d MA, bp), and z-scores

Z-scores of 1m CP spreads to OIS reflect relatively stable valuations

	Levels as of 02/12/2024	5D MA spreads	Z-score of spreads (5d MA) since 2020
AA Fin	5.32	-1.3	-0.2
AA Nonfin	5.33	-0.3	0.1
A2 P2 Nonfin	5.49	15.7	-0.3
AA Asset backed	5.34	0.7	-0.3

Source: BofA Global Research, Bloomberg

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### Exhibit 13: 3-month CP rates levels %, spreads to OIS (5d MA, bp), and z-scores

Z-scores of 3m CP spreads to OIS reflect relatively stable valuations

	Levels as of 02/12/2024	5D MA spreads	Z-score of spreads (5d MA) since 2020
AA Fin	5.24	-8	-0.4
AA Nonfin	5.3	-2	0.0
A2 P2 Nonfin	5.54	22	-0.3
AA Asset backed	5.32	0	-0.6

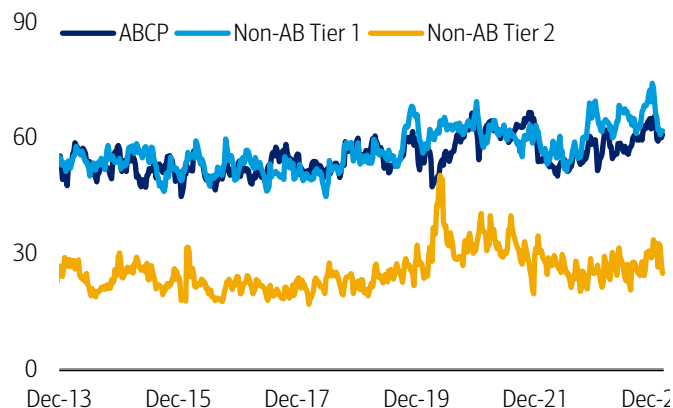
Source: BofA Global Research, Bloomberg

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## CP maturity distribution

### Exhibit 14: Avg maturity distribution of CP O/S by category (days)

Maturity extension overall declined in the month of Jan

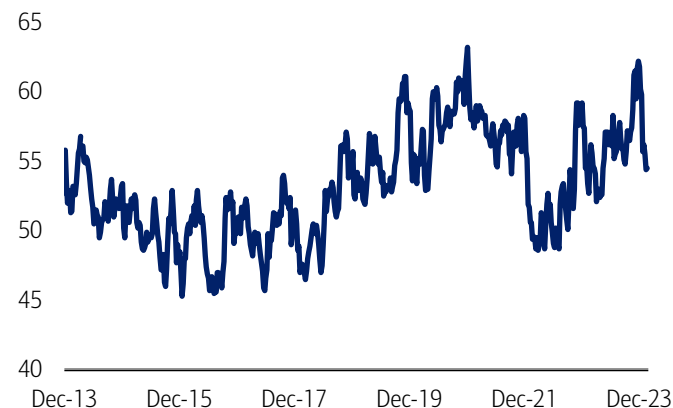


Source: BofA Global Research, Federal Reserve

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### Exhibit 15: Avg maturity distribution of total CP outstanding (days)

Maturity extension for total CP declined in Jan to c. 54 days

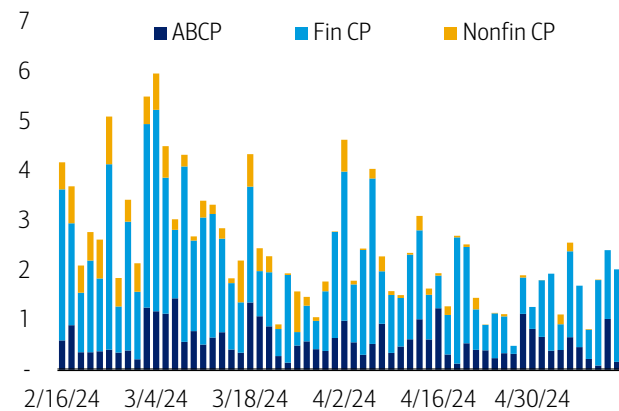


Source: BofA Global Research, Federal Reserve

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**Exhibit 16: CP maturing in the next 3 months (\$bn)**

CP maturing in the next 3m largely concentrated in financial CP

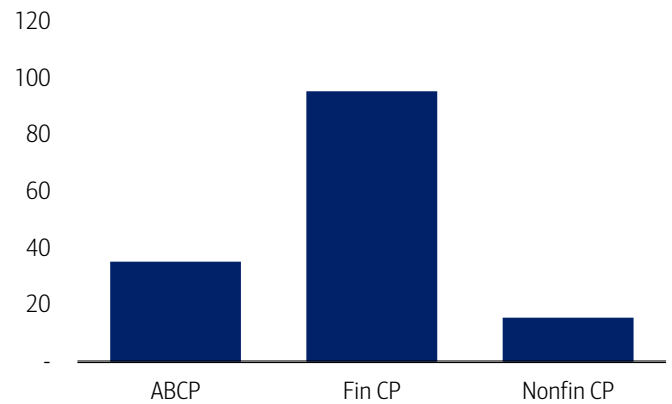


Source: BofA Global Research, Crane

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**Exhibit 17: Total CP maturing in the next 3 months by category (\$bn, as of 02/12/2024)**

CP maturing in the next 3m largely concentrated in financial CP

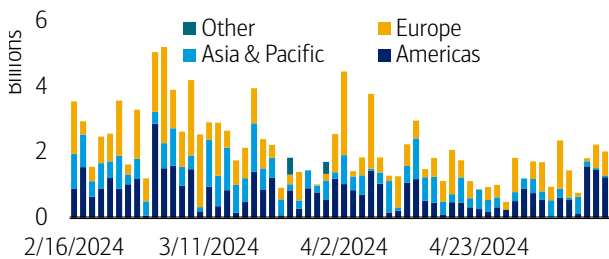


Source: BofA Global Research, Crane

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**Exhibit 18: CP maturing by region (\$bn)**

Amount of CP maturing mostly seen in Americas &amp; Europe

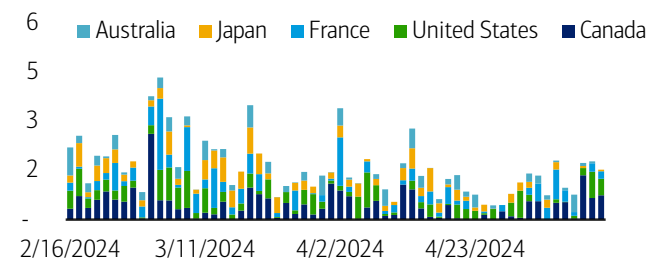


Source: BofA Global Research, Crane Data

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**Exhibit 19: Top 5 CP maturing by country (\$bn)**

Country-wise the amount of CP maturing are mostly seen in Canada, France &amp; US



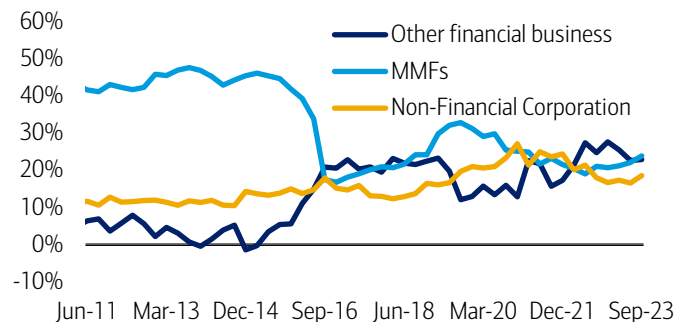
Source: BofA Global Research, Crane Data

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## CP holders

### Exhibit 20: Top 3 holders CP holdings over time

Money market mutual funds saw the most CP demand in Q3 '23



Source: BofA Global Research, Federal Reserve

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### Exhibit 21: CP holders as of end Q3 2023 (% total)

Money market mutual funds were the largest CP buyers in Q3 '23

	\$bn	% Total
MMFs	293	24%
Other Financial Business	281	23%
NonFinancial Corporation	228	19%
Foreign Institutions	170	14%
Other	129	10%
State & Local Govt	88	7%
Mutual Funds	41	3%
Total	1231	100%

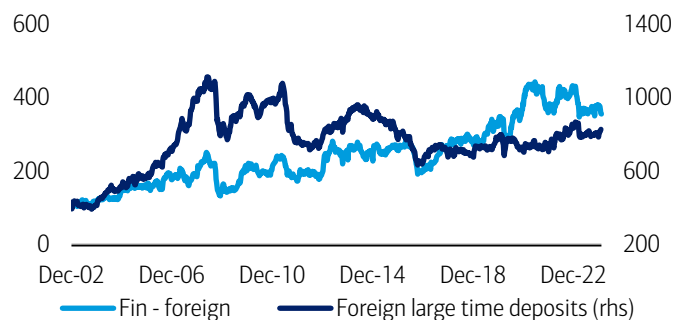
Source: BofA Global Research, Federal Reserve

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## Foreign CP

### Exhibit 22: Foreign fin CP outstanding & large time deposits (NSA, \$bn)

Foreign fin CP & large time deposits have stabilized recently



Source: BofA Global Research, Haver

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## CP issuers

### Exhibit 23: Total CP top 5 issuers by country (as of 01/31/2024)

Canada was the largest issuer in terms of total CP

	\$bn	% Total
Canada	67	22%
United States	51	16%
France	43	14%
United Kingdom	25	8%
Japan	23	7%

Source: BofA Global Research, Crane

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### Exhibit 24: ABCP top 5 issuers by country

Canada, US, and France were the largest issuers in ABCP as of end of Jan

	\$bn	% Total
Canada	18.01	23.9%
United States	17.90	23.7%
France	17.56	23.3%
United Kingdom	11.16	14.8%
Japan	8.98	11.9%

Source: BofA Global Research, Crane

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### Exhibit 25: Fin CP top 5 issuers by country

Canada also led the largest issuance in financial CP

	\$bn	% Total
Canada	45.2	22.6%
Australia	22.6	11.3%
France	19.3	9.6%
United States	18.3	9.2%
Sweden	16.0	8.0%

Source: BofA Global Research, Crane

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### Exhibit 26: Nonfin CP top 5 issuers by country

US led the largest issuance in non-financial CP

	\$bn	% Total
United States	15	40%
France	6	17%
Netherlands	5	12%
Canada	4	11%
Germany	3	8%

Source: BofA Global Research, Crane

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# Appendix

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## US CD fiduciary rates

The source for 1-month & 3-month CD fiduciary rates (BBG tickers: USFCDA CMPN Curncy & USFCDC CMPN Curncy) is the Bloomberg Composite Rate (CMP), which is a "best market" calculation. According to Bloomberg, "at any given point in time, the composite bid rate is equal to the highest bid rate of all of the currently active, contributed, bank indications. The composite ask rate is equal to the lowest ask rate offered by these same active, contributed, bank indications. For rates to be accepted into the composite, they must come from data contributors who have been "privileged" to send data to the composite, and the pricing must be considered valid and current."

## US FDIC CD rates

The source for 1-month & 3-month FDIC CD rates (BBG tickers: USNTN1MO Index & USNTN3MO Index) comes directly from FDIC ([www.fdic.gov/resources/bankers/national-rates/previous-rates.html](http://www.fdic.gov/resources/bankers/national-rates/previous-rates.html)). The latest update from FDIC indicates "The Final Rule redefined the "national rate" as the average of rates paid by all insured depository institutions and credit unions for which data is available, with rates weighted by each institution's share of domestic deposits. The "national rate cap" is calculated as the higher of: (1) the national rate plus 75 basis points; or (2) 120 percent of the current yield on similar maturity U.S. Department of the Treasury (U.S. Treasury) obligations plus 75 basis points. The national rate cap for non-maturity deposits is the higher of the national rate plus 75 basis points or the federal funds rate plus 75 basis points."







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