

May 2003

U.S. Bond Issuance Continues to Increase in the First Quarter of 2003

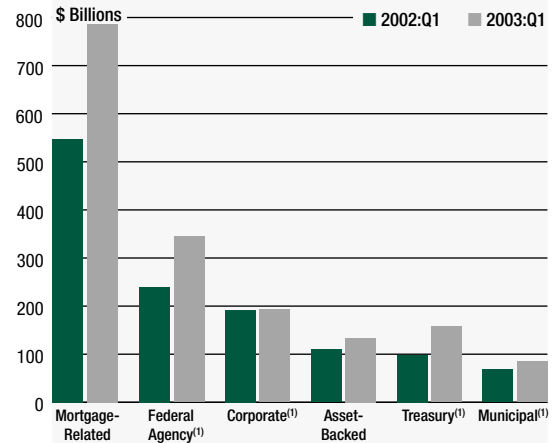
Issuance in the U.S. bond market totaled \$1.70 trillion in the first quarter of 2003, up 35.4 percent from the \$1.26 trillion issued during the same period last year. The theme continues to be the same in 2003 as it was last year for the U.S. debt markets. Issuers continued to take advantage of historically low interest rates to finance debt, while investors sought the safety of the fixed-income markets as the economy and equity markets remained uncertain. New issue activity in the corporate market increased slightly during the first quarter as companies, worried about the potential effects of the war in Iraq, rushed to take advantage of low interest rates. Secondary market trading volume was up across all markets in the first quarter, with the exception the municipal market where trading volume was relatively unchanged.

The size of the U.S. fixed-income markets increased to an estimated \$20.56 trillion outstanding at the end of the first quarter of 2003, up 1.8 percent from an estimated \$20.19 trillion outstanding at the end of 2002.

Highlights

- Treasury gross coupon issuance totaled \$157.4 billion in the first quarter of 2003, up from the \$98.5 billion issued in the same period one year ago. Total marketable Treasury debt outstanding, including bills and coupons, increased to \$3.32 trillion as of March 31, 2003.
- Federal agencies increased long-term issuance to \$344.6 billion in the first three months of the year. Short-term federal agency debt outstanding increased 1.5 percent, to \$678.2 billion as of the end of March.
- Municipal issuance totaled \$91.5 billion in the first quarter of 2003.
- New corporate bond issuance volume totaled \$192.8 billion in the first quarter, relatively unchanged from the \$191.9 billion issued in the first quarter of 2003.
- Asset-backed issuance increased 21.4 percent, to \$133.6 billion, up from the \$110.1 billion issued during the same period one year ago.
- Volume in the mortgage-related securities market remained strong and totaled \$786.7 billion in the first quarter of 2003, up from the \$547.0 billion issued in the first quarter of 2002.
- The outstanding volume of money market instruments, including commercial paper (CP), large time deposits, and bankers' acceptances (BAs), totaled an estimated \$2.53 trillion outstanding as of March 31, 2003.
- Special Report—Treasury Inflation-Indexed Securities report

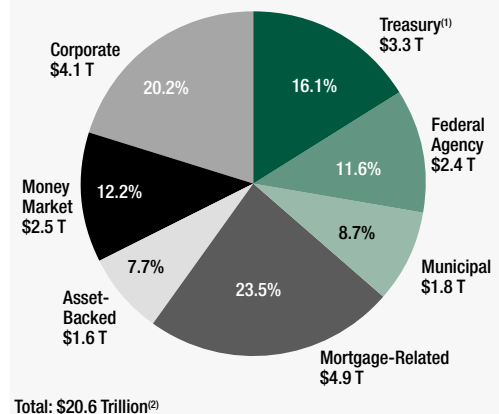
Issuance in the U.S. Bond Markets
2002:Q1 vs. 2003:Q1



⁽¹⁾ Includes long-term issuance only

Sources: Thomson Financial Sec., U.S. Treas., U.S. Fed. Agencies, Inside MBS & ABS

Outstanding Bond Market Debt
As of March 31, 2003*



Total: \$20.6 Trillion⁽²⁾

⁽¹⁾ Includes marketable public debt

⁽²⁾ Figures may not add due to rounding

* The Bond Market Association estimates

Sources: Fed. Reserve System, U.S. Treasury, U.S. Fed. Agencies and Inside MBS & ABS

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Treasury Coupon Issuance Continues Strong Pace

Gross coupon issuance in the U.S. Treasury market totaled \$157.4 billion in the first quarter of 2003, up 59.8 percent from the \$98.5 billion issued in the same period of 2002. Coupon issuance for the first quarter of 2003 was 7.1 percent higher than the \$146.9 billion issued in the fourth quarter of 2002. The increase was driven by the growing deficit, as the weak economy, homeland security demands and the war in Iraq took their toll on the federal government's fiscal position.

The Office of Management and Budget currently projects a federal budget deficit of \$304 billion in FY 2003, compared to the \$158 billion in FY 2002. Private estimates are even higher. The increase is caused by low revenues due to modest economic growth and increased spending. Federal receipts totaled \$825.2 billion as of the end March for the 2003 fiscal year, 6.1 percent lower than in the same period of fiscal year 2002. Federal outlays totaled \$1.08 trillion, 6.6 percent higher than in the same period of fiscal year 2002.

Debt Supply Increase, Treasury Suspends SLGS

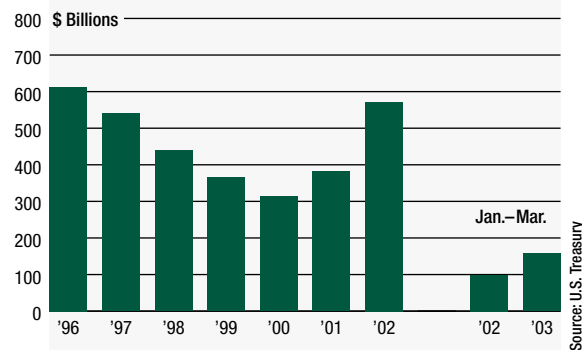
Total marketable Treasury debt outstanding, including bills and coupons, increased to \$3.32 trillion as of March 31, 2003, a 9.9 percent increase from the \$3.02 trillion outstanding at the end of the first quarter of 2002. The outstanding level of Treasury coupon securities totaled \$2.32 trillion at the end of the first quarter, compared to \$2.19 trillion outstanding at the end of the first three months of 2002. Gross retirements of coupon securities totaled \$112.3 billion in the first three months of 2003. There were no buyback operations in the first quarter.

To better manage the amount of outstanding debt subject to the mandated \$6.4 trillion limit, the Treasury Department suspended the sale of State and Local Government Series (SLGS) nonmarketable Treasury securities in February until further notice. Treasury SLGS securities generally are offered for sale to state and local governments that issue tax-exempt debt and are intended to assist with the compliance of the yield restrictions of the Internal Revenue Code. At the end of the first quarter of 2003, there were \$148.8 billion in SLGS held by the states and localities.

Trading Volume Strong in First Quarter

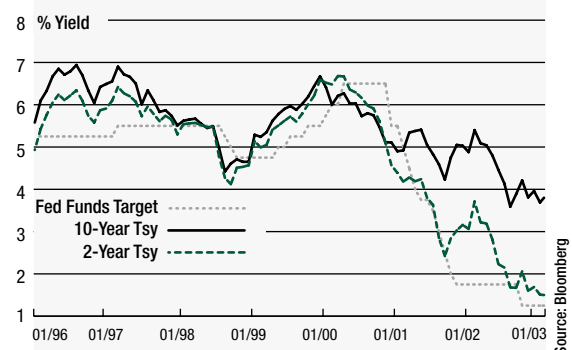
Daily trading volume by primary dealers averaged \$387.7 billion in the first quarter of 2003, up 12.5 percent from the daily average of \$344.8 billion in the same period of 2002. On a monthly basis, trading by primary dealers declined during the quarter to average \$372.7 billion in February as the developing situation in Iraq was uncertain. Trading volume increased to a daily average of \$409.2 billion in March as the slow growth of the economy and continued volatility in the equity market kept Treasury securities attractive to investors. The increase in trading volume in the first quarter of 2003 as compared to that of the same period of 2002 reflects the continuing need to manage risk as moderate growth in the economy and equity market performance continues.

Issuance of U.S. Treasury Securities⁽¹⁾ 1996–2003:Q1

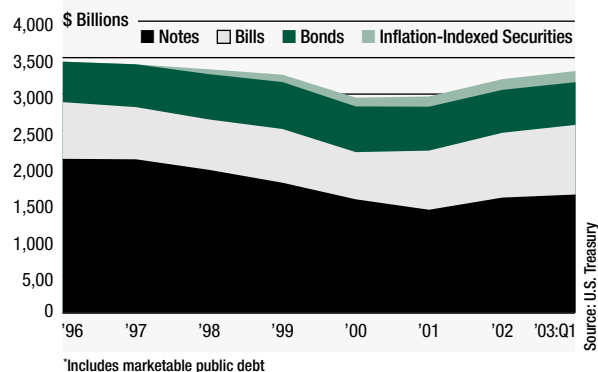


⁽¹⁾ Includes only marketable coupon securities

Treasury Yields and Fed Fund Rate Jan. 1996–Mar. 2003

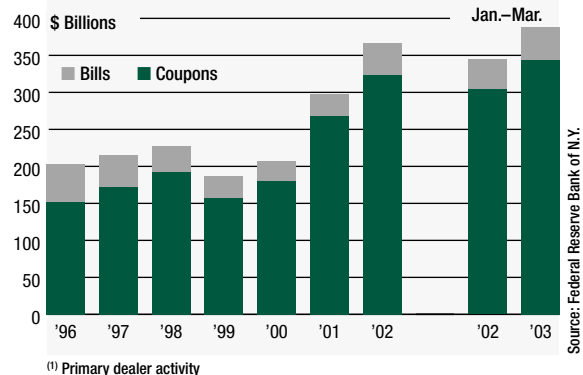


U.S. Treasury Securities Outstanding* 1996–2003:Q1



*Includes marketable public debt

Average Daily Trading Volume of U.S. Treasury Marketable Securities⁽¹⁾ 1996–2003:Q1



⁽¹⁾ Primary dealer activity

Federal Agency Debt Increases

Long-term debt issuance by federal agencies totaled \$344.6 billion in the first quarter of 2003, up 43.5 percent from the \$240.1 billion issued in the same period last year. The high level of activity in the home mortgage market continues to influence issuance volumes. The Federal Home Loan Bank System led the way with \$176.9 billion in new-issue sales, up from the \$90.6 billion issued during the first quarter of 2002. Long-term issuance by Fannie Mae, Sallie Mae and the Farm Credit System also increased. Issuance activity was mainly driven by growth in the retained mortgage portfolio of Fannie Mae, which increased in the first quarter of 2003 as low interest rates spurred growth in the mortgage origination market. Fannie Mae's retained mortgage portfolio increased 3.2 percent, to \$823.3 billion as of March 2003, up from the \$797.7 billion at the end of 2002. Freddie Mac's retained mortgage portfolio totaled \$569.5 billion as of March 2003, relatively unchanged from the \$568.2 billion at the end of December 2002. Short-term federal agency debt outstanding increased to \$678.2 billion as of the end of March, up 1.5 percent from the \$668.5 billion outstanding at the end of December.

Long-Term Federal Agency Debt Issuance

\$ Billions	2002	2002:Q1	2003:Q1	YTD-to-YTD % Change	YTD-to-YTD \$ Change
FHLB¹	435.4	90.6	176.9	95.3%	86.3
Freddie Mac	295.5	75.5	66.8	-11.5%	(8.7)
Fannie Mae	238.5	61.9	76.5	23.6%	14.6
Sallie Mae	20.5	4.7	5.2	10.6%	0.5
FCS²	50.1	7.2	19.1	165.3%	11.9
TVA³	1.5	0.2	0.1	-29.0%	(0.1)
Totals	1041.5	240.1	344.6	43.5%	104.5

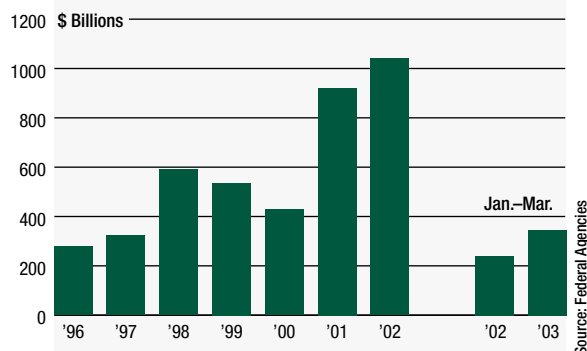
Short-Term Federal Agency Debt Outstanding

\$ Billions	3/31/02	12/31/02	3/31/03	% Change*	\$ Change*
FHLB¹	128.3	147.0	143.0	-2.7%	(4.0)
Freddie Mac	212.5	164.1	174.0	6.0%	9.9
Fannie Mae	270.7	303.8	318.0	4.%	14.2
Sallie Mae	30.7	25.6	23.8	-7.0%	(1.8)
FCS²	34.8	24.8	16.1	-35.1%	(8.7)
TVA³	1.8	3.2	3.3	3.1%	0.1
Totals	678.8	668.5	678.2	1.5%	9.7

*Percentage and amount change between 03/31/03 and 12/31/02
¹Federal Home Loan Bank System

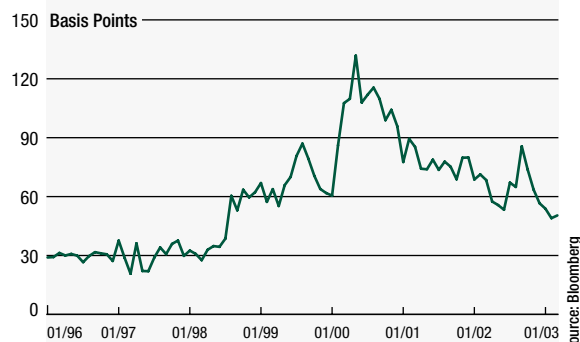
²Farm Credit System
³Tennessee Valley Authority

Long-Term Federal Agency Debt Issuance⁽¹⁾ 1996–2003:Q1

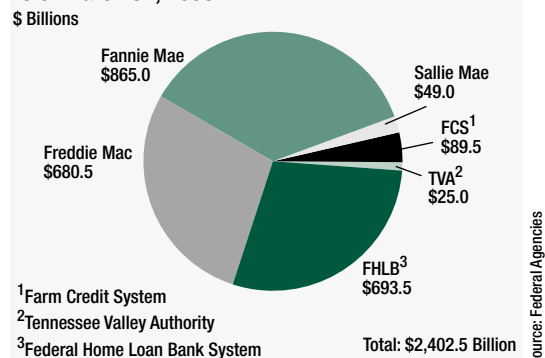


⁽¹⁾ Excludes maturities of one year or less

U.S. Agency Spreads to U.S. Treasury—10-Year 1996–2003:Q1

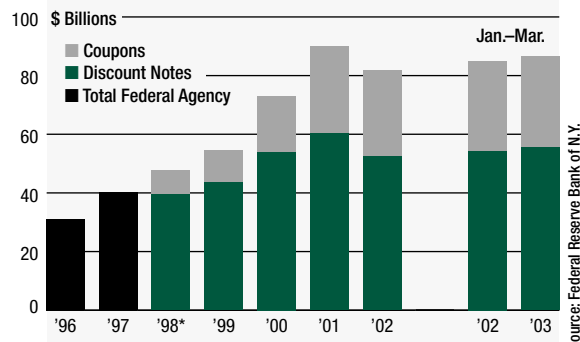


Total Federal Agency Debt Outstanding As of March 31, 2003



¹Farm Credit System
²Tennessee Valley Authority
³Federal Home Loan Bank System

Average Daily Trading Volume of Federal Agency Securities⁽¹⁾ 1996–2003:Q1



⁽¹⁾ Primary dealer activity
*First year in which specified maturity levels were reported

Municipal Issuance Continues Strong Pace

Total municipal debt issuance reached \$91.5 billion in the first quarter of 2003, up 22.1 percent over the \$75.0 billion issued in the same period of 2002. Long-term issuance increased to \$84.7 billion, up 24.6 percent from the \$68.0 billion issued in the first quarter of 2002. Total issuance for the first quarter was, however, 28.0 percent lower than the record \$127.1 billion issued in the fourth quarter of 2002. Short-term issuance for the first quarter of 2003 totaled \$6.8 billion, down slightly from the \$7.0 billion in the first quarter of 2002.

Record low interest rates and continued state and local budget woes are contributing factors to the increase in the issuance of municipal securities. The increase in supply was met by investors seeking tax-exempt yields virtually comparable to Treasury securities, reduced risk exposure, and stability in light of economic and geopolitical uncertainty.

Outstanding municipal securities reached an estimated \$1.8 trillion at the end of the first quarter, finishing the quarter 2.4 percent higher than the level of outstanding municipals at the end of 2002. Individual investors comprise the majority of holders of outstanding municipal debt in the U.S. municipal bond market, either directly or through funds.

General Government, Education Dominate Spending

Long-term new capital issuance totaled \$55.9 billion in the first quarter of 2003, up 22.2 percent from the \$45.8 billion issued in the same period of 2002. This continues the recent above-the-trend growth in new capital issuance by states and localities. State treasuries facing larger than expected budget deficits that must be balanced by the end of the fiscal year and the need to finance projects necessary to meet homeland security requirements resulted in an increase in new money issuance. Issuance volume in the general government sector totaled \$20.8 billion, 47.2 percent higher than the first quarter of 2002.

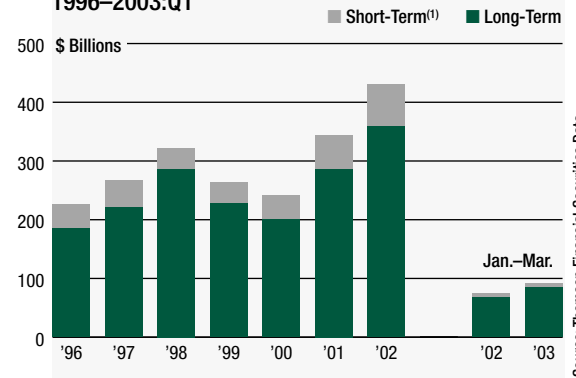
New capital issuance for the education and healthcare sectors totaled \$14.3 and \$4.5 billion, respectively, in the first three months of the year. The increase in issuance for these sectors reflects the need to meet greater demands associated with maintaining federally mandated education and healthcare programs.

Low overall interest rates contributed to an increase in refunding issuance as issuers sought to refinance outstanding debt to better manage debt service costs. Long-term refunding issuance totaled \$28.8 billion in the first quarter of 2003, 30.0 percent higher than the \$22.2 billion issued in the same period of 2002. Refunding issuance in the general government sector totaled \$8.5 billion in the first quarter, up 24.0 percent from the first quarter of 2002. The education and healthcare sectors also increased to \$5.7 billion and \$1.3 billion of refunding volume, respectively.

Trading Volume Surges

Average daily secondary market trading volume of municipal securities grew in the first quarter, reflecting the uncertainty in the marketplace as the situation in the Middle East developed. Average daily trading volume declined in February as the impending war approached, and rebounded in March to average \$11.8 billion during the quarter, above the \$9.9 billion average in the same period of 2002.

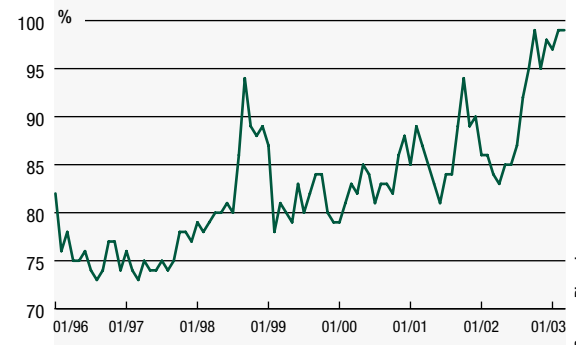
Short- and Long-Term Municipal Issuance 1996–2003:Q1



(1) Includes maturities of 13 months or less

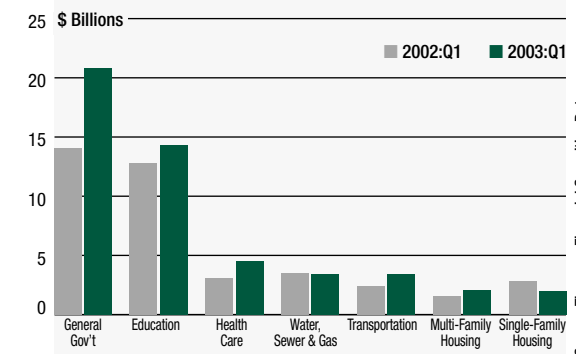
Source: Thomson Financial Securities Data

10-Yr Municipal G.O. AAA to 10-Yr Treasury Ratio 1996–2003:Q1



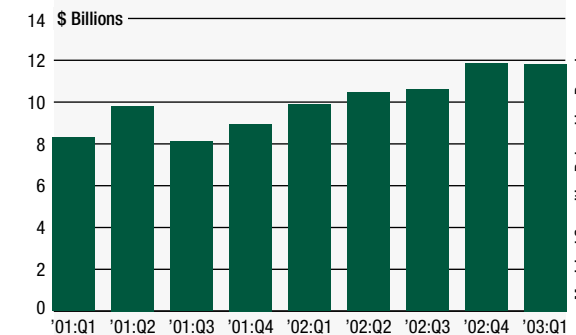
Source: Bloomberg

Municipal New Capital—Use of Proceeds 2002:Q1 vs. 2003:Q1



Source: Thomson Financial Securities Data

Average Daily Trading Volume of Municipal Securities* 2001:Q1–2003:Q1



*Includes both dealer-to-dealer and dealer-to-customer transactions

Source: Municipal Securities Rulemaking Board

Corporate Bond Issuance Stabilizes

New corporate bond issuance remained relatively stable during the first quarter of 2003 compared to the first quarter of 2002. Issuance reached \$192.8 billion in the first quarter of 2003, up 0.5 percent from the \$191.9 issued during the first quarter of 2002. New issues rose 53.7 percent versus the \$125.4 billion issued during the fourth quarter of 2002. Issuance surged in the first two months of 2003 compared to the same period in the prior year. Companies, worried about the potential effects of the pending war in Iraq, rushed to take advantage of low interest rates. New issue volume in January 2003 reached \$78.4 billion, an increase of 32.8 percent from the \$59.1 billion issued in January 2002. Issuance also rose 10.4 percent in February when compared to the previous February. Amidst continuing economic uncertainty and the Iraqi conflict, issuance slowed in March. Total new issuance totaled \$66.0 billion during the month, 22.9 percent less than the \$85.5 billion issued in March 2002. The corporate scandals of the past two years, combined with poor top-line corporate performance in general, continued to affect the corporate bond market in the first quarter of 2003. The increasing number of corporate bankruptcies over the past year made company credit ratings an even more prominent issue in the market. In an effort to avoid credit deterioration, corporations focused on improving their balance sheets. Many took advantage of the low interest rates to refinance or retire outstanding debt. New issues of convertible bonds—including investment grade and high-yield issues—totaled \$13.9 billion in the first quarter of 2003, down 27.6 percent from the \$19.2 billion issued during the same period of 2002.

High-Yield and Investment-Grade Sectors

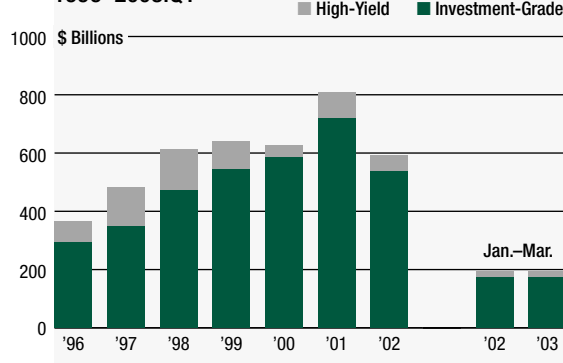
Issuance in the non-convertible high-yield sector increased 7.3 percent to \$18.4 billion in the first quarter of 2003, up from the \$17.2 billion issued in the first quarter of 2002, as issuers took advantage of improved investor sentiment in this sector. The threat of inflation and soft economic growth led to a significant increase in demand for high-yield bonds. A wide range of issuers relied on proceeds from high-yield securities to refinance existing debt or finance leveraged buyout deals. Yield spreads between high-yield bonds and Treasury securities remained at the tightest levels seen since the terrorist attacks of September 11. Issuance increased 37.3 percent in the first quarter relative to the \$13.4 billion issued in the fourth quarter of 2002.

New issue volume of non-convertible investment-grade bonds remained relatively stable in the first quarter of 2003 compared to the first quarter of 2002. Total volume decreased 0.2 percent to \$174.4 billion in 2003. On a quarter-to-quarter basis, issuance increased 55.7 percent from the \$112.0 billion issued in the fourth quarter of 2002. Continued falling equity prices led investors to seek the safety of high-quality fixed-income securities. The spread between AAA bonds and 10-year Treasuries averaged 75.70 basis points during the first quarter of 2003. In the first quarter of 2002, the average spread was 79.80 basis points.

Daily Trading Volume

The average daily corporate bond trading volume by primary dealers for bonds with maturities of greater than one year was \$22.5 billion in the first quarter of 2003, a 12.1 percent increase from the \$20.1 billion traded in the first quarter of 2002.

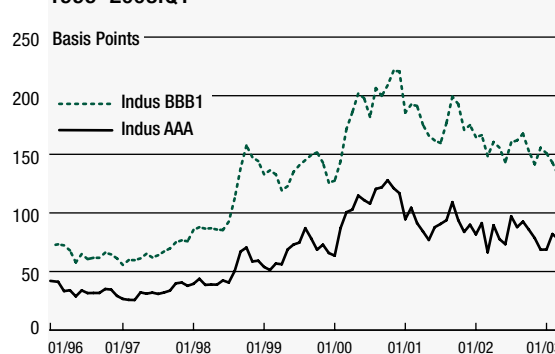
**Corporate Bond Issuance⁽¹⁾
1996–2003:Q1**



⁽¹⁾ Includes all non-convertible corporate debt, MTNs, and Yankee bonds, but excludes all issues with maturities of one year or less, CDs and federal agency debt.

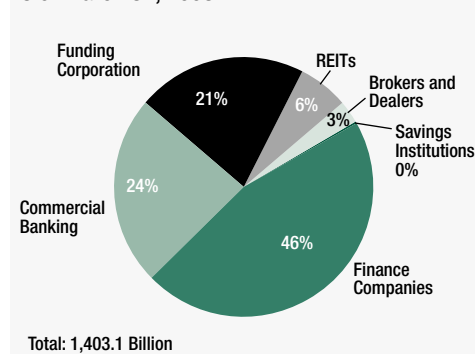
Source: Thomson Financial Securities Data

**U.S. Corporate Spreads to U.S. Treasury—10-Year
1996–2003:Q1**



Source: Bloomberg

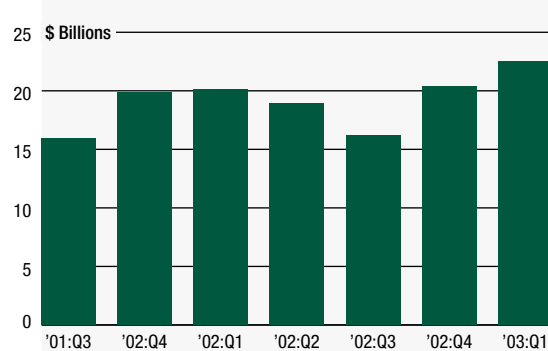
**Corporate Debt Outstanding—Financial Sectors
As of March 31, 2003***



* The Bond Market Association estimates

Sources: Federal Reserve System, The Bond Market Association

**Average Daily Trading Volume for Corporate Bonds⁽¹⁾
2001:Q3–2003:Q1**



⁽¹⁾ Primary dealer activity; excludes all issues with maturities of one year or less

Source: Federal Reserve Bank of N.Y.

ABS Issuance Remains Strong

Asset-backed securities issuance volumes remained strong in the first quarter of 2003, boosted by demand for secure debt instruments offering higher yields than U.S. Treasury securities. The weak economy, in conjunction with volatile equity markets, have proven to be important drivers of the ABS market. New issue activity increased 21.4 percent, to \$133.6 billion in the first quarter of 2003, up from the \$110.1 billion issued in the same quarter of 2002. However, issuance increased only slightly when compared to \$131.1 billion issued in the fourth quarter of 2002.

Top ABS Sectors

The home equity sector was the largest component in the ABS market accounting for 37.3 percent of total issuance. Issuance totaled \$49.8 billion in the first quarter of 2003, a 43.6 percent increase from one year ago and 8.8 percent higher than the last quarter of 2002. Yield spreads on 3-year home equity securities narrowed nearly 30 basis points in the first three months of 2003 following a widening during the second half of last year.

Issuance in the credit card sector continued to increase in the first quarter of the year despite an increase in personal bankruptcies and credit card delinquencies. The sector was the second largest component of the ABS market, accounting for 16.1 percent of total issuance. New issue activity increased to \$21.5 billion in the first quarter, up almost 50 percent from the first quarter of 2002, but only 4.5 percent from the fourth quarter of 2002. Three-year credit card spreads were relatively stable for most of 2002, but spreads narrowed 11 basis points in the first quarter of this year.

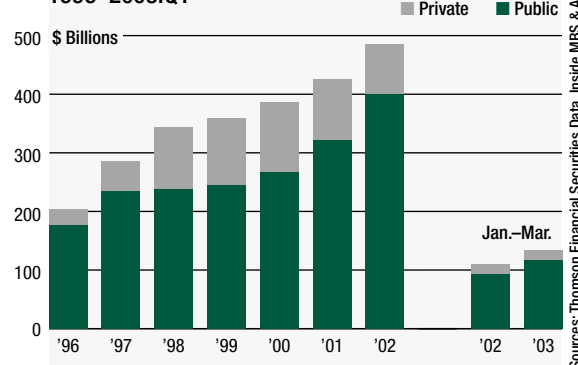
Auto loan issuance decreased to \$18.7 billion in the first quarter of the year, down 19.6 percent from the first quarter of 2002 and down 23.2 percent from the fourth quarter. Auto sales have decreased since last year resulting in lower issuance. Yield spreads for 2-year prime auto ABS have narrowed every month since October of 2002, falling close to 20 basis points by the end of March 2003.

Issuance in the student loan sector benefited from the return to the market of Sallie Mae last year. Activity again was strong in the first quarter of 2003, totaling \$9.6 billion, an increase of 29.4 percent compared to the first quarter of 2002 and 43.9 percent higher when compared to the fourth quarter of 2002. Sallie Mae continues to dominate issuance and accounted for over three-quarters of total new-issue activity in the first quarter.

ABCP

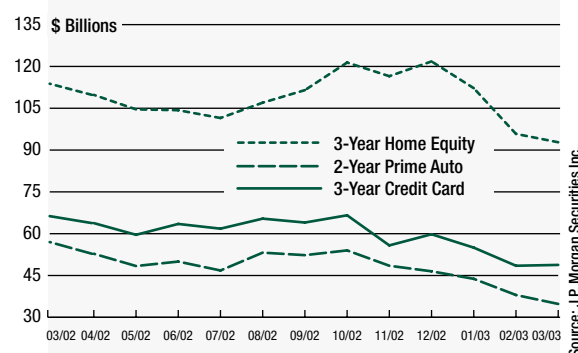
Outstanding asset-backed commercial paper (ABCP) decreased to \$700.2 billion at the end of March 2003, down 3.5 percent from the \$725.6 billion outstanding volume at the end of December. ABCP continues to make up over half of the commercial paper market. The more secure high-quality ABCP market is still attracting investors looking to safeguard against credit volatility and economic concerns. The decrease in ABCP may be partly attributed to FASB's new accounting guidelines on the consolidation of SPEs as investors and issuers decipher what the effects on the market will be.

Issuance of Asset-Backed Securities
1996–2003:Q1



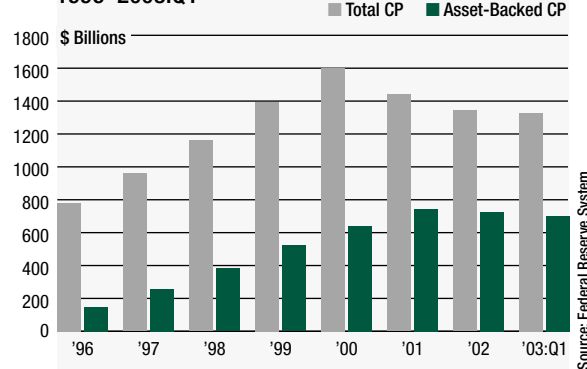
Sources: Thomson Financial Securities Data, Inside MBS & ABS

Asset-Backed Spreads to U.S. Treasury
March 2002–March 2003



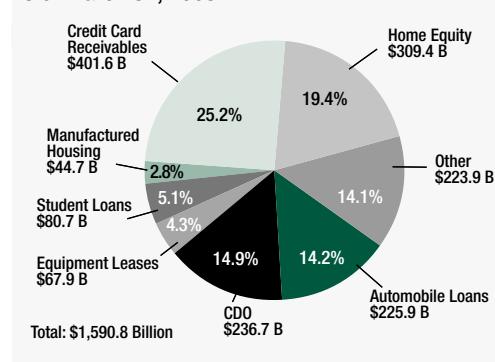
Source: J.P. Morgan Securities Inc.

Commercial Paper Outstanding
1996–2003:Q1



Source: Federal Reserve System

ABS Outstanding by Major Types of Credit
As of March 31, 2003



Source: Federal Reserve System, The Bond Market Association

Mortgage-Related Securities Increase

Issuance of mortgage-related securities, which include agency and non-agency pass-throughs and CMOs, increased to \$786.7 billion in the first quarter of 2003, up 43.8 percent from the \$547.0 billion issued in the same period of 2002. New issue activity increased 1.6 percent compared to the \$773.8 billion issued in the fourth quarter of 2002. Most of the increase is attributable to interest rate-induced mortgage refinancing activity. Mortgage rates reached a 40-year low during the first quarter of the year, which continued to drive home sales and refinancing. Mortgage originations increased from \$2.48 trillion at the end of 2002, to \$2.59 trillion at the end of the first quarter 2003.

Agency MBS and CMO

Issuance of agency mortgage-backed securities (MBS) increased to \$502.6 billion in the first quarter of 2003, up 39.5 percent from the \$360.2 billion issued in the first quarter of 2002. However, issuance decreased slightly from the \$509.6 billion issued during the fourth quarter of 2002. Fannie Mae led the way with \$292.6 billion in MBS, up 66.3 percent from the \$176.0 billion issued in the first quarter of 2002. Issuance of Freddie Mac MBS increased 15.1 percent from a year ago, to \$160.0 billion in the first quarter of 2003. Freddie's MBS issuance declined 18.8 percent when compared to the fourth quarter of 2002. Ginnie Mae MBS new issue activity totaled \$50.8 billion in the first quarter, up 12.4 percent from the \$45.2 billion issued in the first quarter of 2002.

Issuance of agency collateralized mortgage obligations (CMOs) increased to \$179.9 billion in the first quarter of the year, up 40.7 percent from the \$127.9 billion issued one year ago. An increase in prepayment rates contributed to the increase in agency CMO issuance in the first quarter. Freddie Mac saw the largest issuance volume in the period, totaling \$107.1 billion, up 38.7 percent from the \$77.2 billion issued in the first quarter of 2002. Fannie Mae CMO issuance increased to \$51.4 billion, up from the \$36.8 billion issued in the first quarter of 2002. Issuance of Ginnie Mae CMO increased 54.0 percent, to \$21.4 billion in the first quarter, up from the \$13.9 billion issued one year ago.

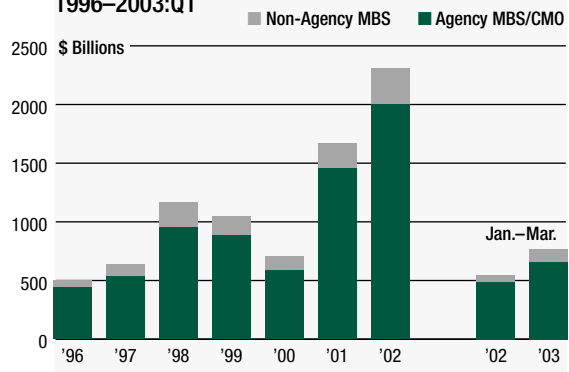
Non-agency MBS

New issue activity in the non-agency MBS market totaled \$104.5 billion in the first quarter of 2003, up 77.4 percent from the \$58.9 billion issued in the first quarter of 2002. Issuance increased 12.9 percent from the \$92.6 billion issued in the fourth quarter. Commercial mortgage-backed securities (CMBS) totaled \$16.4 billion in the first quarter of 2003, up 57.7 percent from the \$10.4 billion issued in the first quarter of 2002 according to *Inside MBS & ABS*. However, issuance decreased 26.1 percent from the \$22.2 billion issued in the fourth quarter of 2002. The CMBS market continues to be affected by the weak demand for office space and higher vacancy rates.

Trading Volume

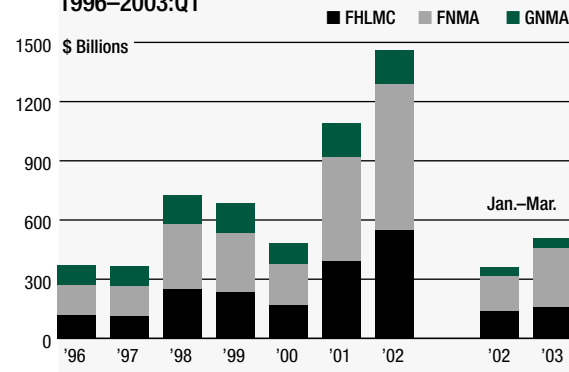
Average daily trading volume in agency mortgage-backed securities by primary dealers increased 60.8 percent, to \$213.7 billion in the first three months of the year, up from the \$132.9 billion in the first quarter of 2002.

Issuance of Mortgage-Related Securities 1996–2003:Q1



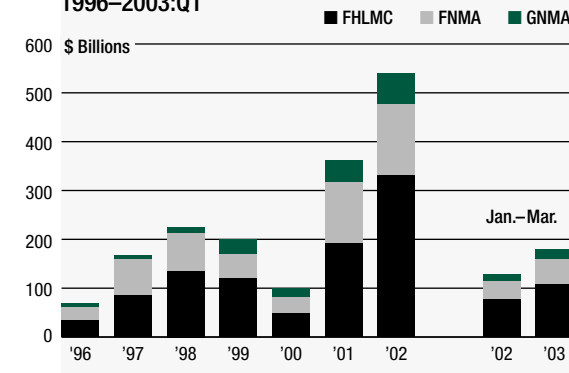
Sources: Fed. Agencies, Thompson financial Sec., Inside MBS & ABS

Issuance of Agency Mortgage-Backed Securities 1996–2003:Q1



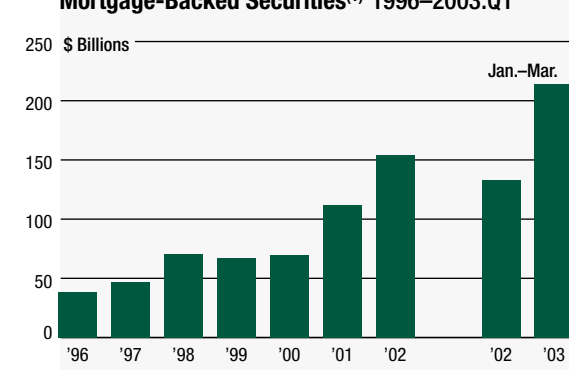
Sources: GNMA, FNMA, FHLMC, Inside MBS & ABS

Issuance of Agency CMOs 1996–2003:Q1



Sources: GNMA, FNMA, FHLMC, Inside MBS & ABS

Average Daily Trading Volume of Agency Mortgage-Backed Securities⁽¹⁾ 1996–2003:Q1



Source: Federal Reserve Bank of N.Y.

⁽¹⁾ Primary dealer activity

Outstanding Repo Agreements Decrease to \$3.69 Trillion

The average volume of total outstanding repurchase (repo) and reverse repo agreement contracts totaled \$3.69 trillion for the first quarter of 2003, a decrease of 2.6 percent from the average volume of \$3.80 trillion outstanding at the end of 2002. Outstanding repurchase agreements averaged \$2.16 trillion, with little change from the \$2.17 trillion outstanding at the end of the fourth quarter of 2002. Outstanding reverse repo contracts decreased 5.2 percent from \$1.62 trillion at the end of 2002 to average \$1.53 trillion as of March 31, 2003. The volume of outstanding repo and reverse repo agreements was 13.2 percent higher than the \$3.26 trillion outstanding at the end of the first quarter of 2002. The data represent financing activities of the primary dealers reporting to the Federal Reserve Bank of New York and include repurchase and reverse repurchase agreements involving U.S. government, federal agency, agency mortgage-backed, and corporate securities.

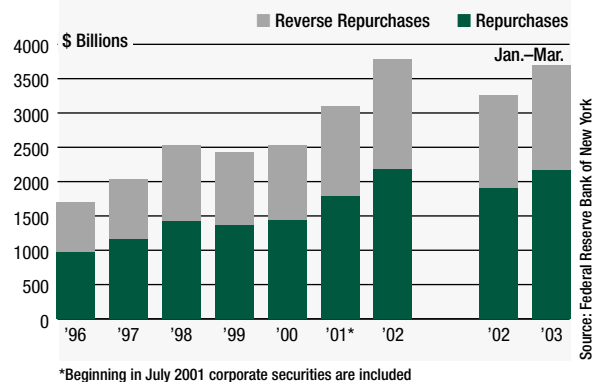
The Government Securities Division of the Fixed Income Clearing Corporation (an SEC registered clearing agency) facilitates orderly settlements in the U.S. government securities market and tracks repo trades settled through its system by product type. In the first quarter of 2003, over \$57.3 trillion in repo trades were submitted by Government Securities Division participants, with an average daily trading volume of approximately \$940 billion. Repo transactions involving Treasury notes accounted for the largest share of Government Securities Division repo activity, representing \$38.9 trillion or 67.9 percent of total volume. Repos involving Treasury bills accounted for an estimated \$4.6 trillion or 8.1 percent of the total and Treasury bonds accounted for \$3.2 trillion or 5.6 percent of the activity for the quarter. Transactions involving federal agency securities continued to increase, making it only second in volume to Treasury notes, accounting for \$8.0 trillion or 14.0 percent of 2003's volume.

Commercial Paper Outstanding Decreases, Money Market Supply Totals \$2.53 Trillion

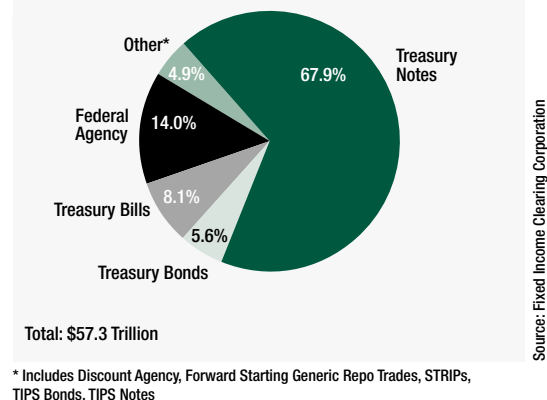
The outstanding volume of money market instruments, including commercial paper (CP), large time deposits, and bankers' acceptances (BAs), totaled an estimated \$2.53 trillion outstanding as of March 31, 2003, a slight increase from the \$2.52 trillion outstanding at the end of December 2002. Commercial paper outstanding decreased 1.2 percent to end the first quarter at \$1.33 trillion, marking the first decline since the second quarter of 2002. The decline in the level of commercial paper outstanding is attributable to changes in both supply and demand patterns. Slow growth in corporate investment dampened the need for working capital among issuers. Also, credit quality continued to be a concern with investors, driving borrowers to seek alternative means of financing. In addition, low interest rates and a contraction in credit spreads for corporate bonds made longer-term financing a cheaper, less volatile option some issuers.

The outstanding level of large time deposits rose to an estimated \$1.19 trillion as of March 31, 2003, up slightly from the \$1.18 trillion outstanding at the end of 2002. Bankers' acceptances totaled an estimated \$4.7 billion at the end of March 2003, a small change compared to the \$4.8 billion outstanding at of December 31, 2002.

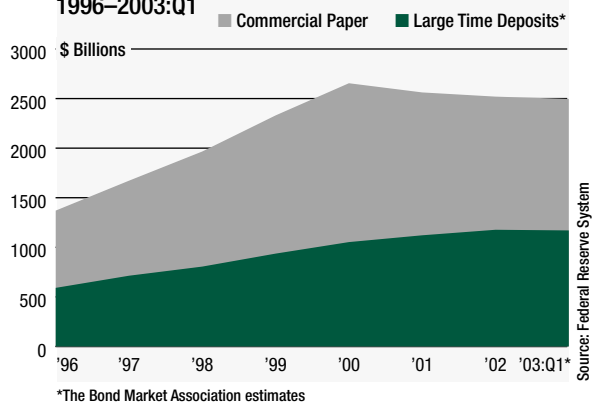
Financing by U.S. Government Securities Dealers
Average Amount Outstanding 1996–2003:Q1



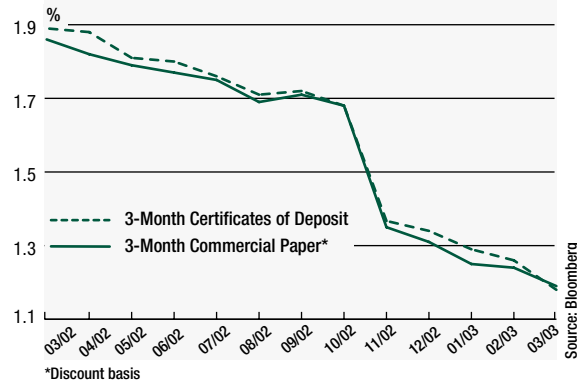
FICC Repo Trade Collateral
2003:Q1



Outstanding Money Market Instruments
1996–2003:Q1



Domestic Money Markets Interest Rates
Monthly Average Mar. 2002–Mar. 2003



Treasury Inflation-Indexed Securities

Treasury inflation-indexed securities (TIIS), or Treasury-inflation protected securities (TIPS) as they are sometimes referred, are an investment vehicle offered by the United States Treasury Department to guarantee investors that the ultimate value of their investment will not be eroded by inflation. First sold in January 1997, TIIS offer a fixed stated coupon rate and are sold in 10-year maturities with semiannual interest payments. The principal value of an inflation-indexed security is adjusted semiannually based on the Consumer Price Index. Interest payments are determined by applying the fixed coupon rate to the principal amount adjusted for inflation. When inflation occurs throughout the life of the bond, the bond holder will receive a higher principal payment at maturity than the original par value of the security to reflect the change in CPI during the life of the security. TIIS also protect against deflation—the final payment cannot be lower than the original par value of the bond. Treasury inflation-indexed securities are exempt from state taxes, but not federal taxes. Investors must pay federal taxes on the increase in principal value due to inflation during the year when the inflation adjustment occurred, even though the Treasury does not actually pay these adjustments until maturity. Of course, tax-exempt or tax-deferred investors are exempt from annual tax liability on principal adjustments. Recently, the Treasury Department announced it was expanding the number of Treasury inflation-indexed security auctions from three to four each year. The auctions will take place in January and July with reopenings in April and October. Individual and smaller institutional investors can participate non-competitively in TIIS auctions through Treasury Direct.

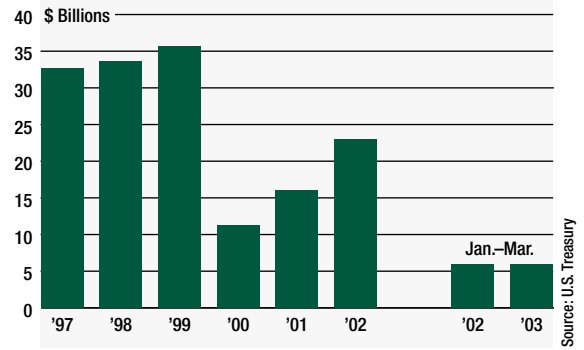
Statistics

TIIS are most attractive when inflationary expectations are the primary determinant in interest rate changes. During 2002, real interest rates decreased at a greater rate than nominal interest rates, causing a widening of break-even inflation rates, or the difference between the two yields. During January of 2003, TIIS yielded 2.34 percent, while 10-year Treasury securities yielded 4.05 percent. The break-even inflation rate was 1.61 percent. Therefore, if inflation remains above 1.61 percent for the remainder of the lives of the bonds, the TIIS will outperform the nominal security. Coincidentally, when real interest rates drive nominal interest rate changes, TIIS will have larger price moves than their nominal counterparts. TIIS returned 21.08 percent in 2002, while nominal Treasury securities had a rate of return of 17.87 percent. In addition, TIIS outperformed major fixed income sectors and the S&P 500 for 1, 3 and 5 year periods ending December 31, 2002.

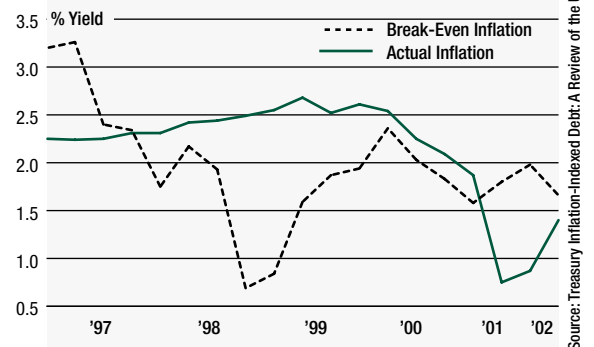
At the last TIIS auction, held on January 8, 2003, the Treasury Department sold \$6 billion of the notes at a yield of 2.34 percent, up from the 2.26 percent at the auction held on October 9, 2002, but down from 3.48 percent yield at the January 9, 2002 auction. TIIS daily trading volume averaged \$3.3 billion in the first quarter of 2003, up 83.3 percent from the same period last year.

According to the Treasury Borrowing Advisory Committee of the Bond Market Association, the target issuance range for TIIS in 2003 is \$23-30 billion. The Treasury Department is looking into reintroducing TIIS with maturities other than the current 10-years.

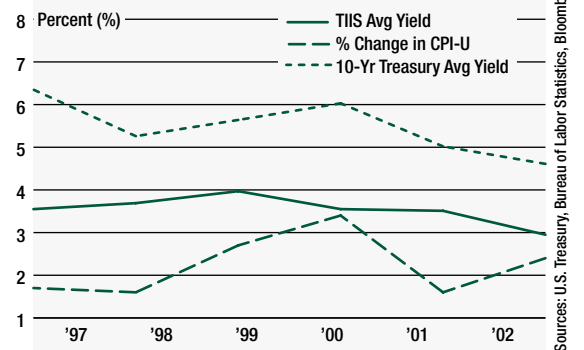
Issuance of TIIS
1997–2003:Q1



Break-Even Inflation Rate vs. Actual Inflation Rate
1997–2002



U.S. Treasury Yields and Inflation Rates
1997–2002



Average Daily Trading Volume of U.S. TIIS*
2001–2003:Q1

