

Research Quarterly



May 2002

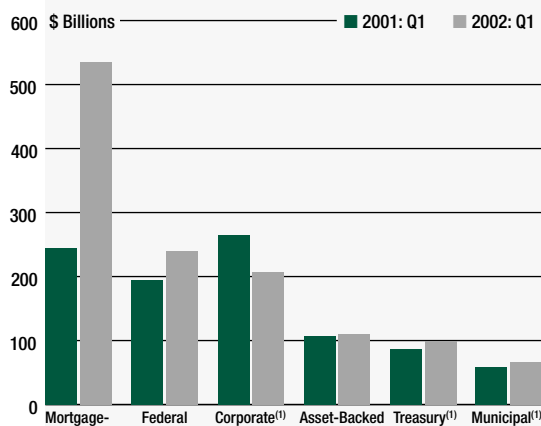
U.S. Bond Issuance Surges to \$1.3 Trillion in First-Quarter 2002

New issue activity in the U.S. bond market totaled \$1.3 trillion in the first quarter of 2002, an increase of 31.2 percent from the \$1.0 trillion issued during the same period last year. The low-interest-rate environment continues to attract issuers, while the relatively safer and more stable fixed-income markets appeal to investors looking to safeguard against stock market volatility. Most of the issuance increase can be attributed to the mortgage-related market, where issuance more than doubled when compared to the first quarter of 2001. Issuance across all bond markets increased, with the exception of the corporate market, where volume decreased in all sectors—high-yield, investment-grade, and convertible. Concerns over accounting practices and credit deterioration contributed to the decline in the corporate market. Secondary market trading volume was up across all reported markets in the first quarter of 2002, with the exception of the federal agency market.

Highlights

- Treasury gross coupon issuance totaled \$98.5 billion in the first quarter of 2002, up from \$86.1 billion issued during the same period last year. Treasury bills outstanding increased to \$834.4 billion as of March 31, 2002, up from \$712.0 billion at the end of first-quarter 2001.
- Federal agencies increased long-term new issue volume to \$240.1 billion in the first quarter of 2002. Short-term federal agency debt outstanding decreased 5.5 percent, to \$678.8 billion as of March 31, 2002.
- Municipal issuance totaled \$73.3 billion in the first quarter of 2002. Long-term issuance increased to \$66.7 billion, while short-term issuance decreased to \$6.6 billion.
- New corporate bond volume totaled \$206.5 billion in the first quarter of 2002, with issuance decreases across all sectors—investment-grade, high-yield, and convertibles.
- Asset-backed issuance increased slightly, totaling \$110.3 billion in the first quarter of 2002, up 2.4 percent from the \$107.7 billion issued during the same period last year.
- Volume of mortgage-related securities more than doubled, to \$534.7 billion in the first quarter of 2002, up from \$245.3 billion issued in the same period last year.
- Commercial paper outstanding decreased 4.4 percent to end the first quarter of 2002 at \$1.38 trillion, marking the fifth decline in the last six quarters. Asset-backed commercial paper declined for the first time since June 1994.

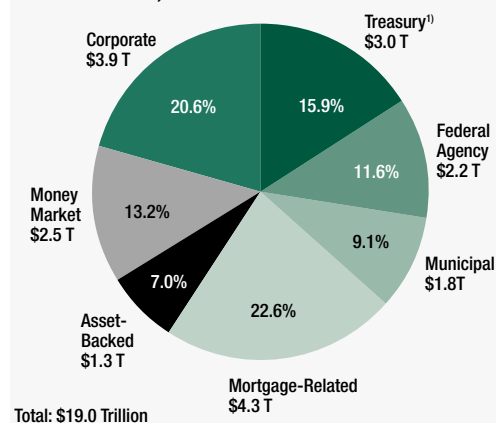
Issuance in the U.S. Bond Markets
2001: Q1 vs. 2002: Q1



⁽¹⁾ Includes long-term issuance

Sources: Thomson Financial Securities Data, U.S. Treasury, U.S. Federal Agencies, Inside MBS & ABS

Outstanding Bond Market Debt
As of March 31, 2002*



⁽¹⁾ Includes marketable public debt
* The Bond Market Association estimates

Sources: Federal Reserve System, U.S. Treasury, GNMA, FNMA, FHLMC

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Treasury Issuance Continues Rising

Gross coupon issuance totaled \$98.5 billion in the first quarter of 2002, up 14.4 percent from the \$86.1 billion issued in the first quarter of 2001. Issuance in the first quarter increased despite concerns the Treasury was approaching the current debt ceiling of \$5.95 trillion. The passage of the economic stimulus package in March increased Treasury's need to raise funds in order to meet increased spending needs. The increase in the issuance of Treasury securities served to offset lower-than-expected corporate tax receipts and funds needed for tax refunds extended as part of the economic stimulus package.

On a quarterly basis, gross coupon issuance was 30.7 percent lower in the first quarter of 2002, down from the record \$142.1 billion issued in the fourth quarter of 2001. With the uncertain economic outlook and passage of the economic stimulus package, the Congressional Budget Office (CBO) revised its budget deficit projection upward to \$46 billion in FY 2002, versus the \$21 billion deficit projected in January 2002. The CBO does not expect the budget to return to a surplus until FY 2004.

Short-Term Debt Outstanding Increases as Long-Term Supply Contracts

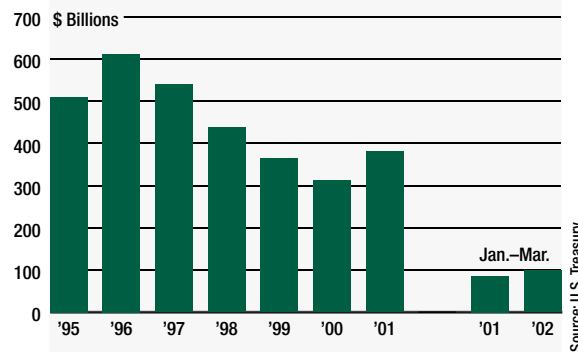
Total marketable Treasury debt outstanding, which includes bills and coupons, was \$3.02 trillion as of March 31, 2002, a slight increase from \$3.00 trillion outstanding at the end of the first quarter of 2001. Outstanding bills increased 17.2 percent, to \$834.4 billion at the end of the first quarter of 2002, up from \$712.0 billion outstanding in the same period of 2001. The increase in bill issuance resulted from the deterioration of the Treasury's cashflow position, partly caused by lower-than-expected individual and corporate tax receipts.

In contrast, the outstanding level of coupon securities decreased to \$2.19 trillion as of the end of the first quarter of 2002, down from \$2.29 trillion outstanding in the same period of 2001. Gross retirements of coupon securities totaled \$69.2 billion in the first quarter of 2002, down 44.9 percent from \$125.5 billion in the same period of 2001, not including buybacks. Treasury canceled buyback operations in the first quarter of 2002 after previously indicating that the use of buybacks would slow significantly. Temporary cessation of buyback operations allowed Treasury greater flexibility in meeting spending needs, and lessened the threat of reaching the debt ceiling. The volume of outstanding Treasury coupon securities at the end of March 2002 was slightly higher than the \$2.16 trillion at the end of December 2001.

Trading Volume Continues to Climb

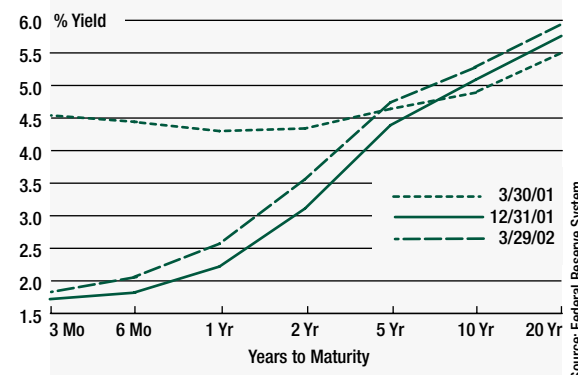
Average daily trading volume of U.S. Treasury securities by primary dealers reached \$344.8 billion in the first quarter of 2002, up 15.1 percent from \$299.6 billion in the same period of 2001. Demand for Treasuries increased during the quarter as concerns about weakness in the U.S. economy, continued deterioration of credit quality, and accounting practices caused investors to seek the relative safety of government securities.

Issuance of U.S. Treasury Securities⁽¹⁾
1995–2002: Q1

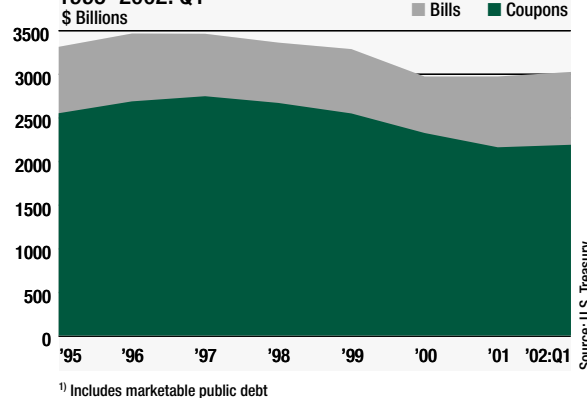


⁽¹⁾ Includes only marketable coupon securities

U.S. Treasuries—Constant Maturity Yield Curves

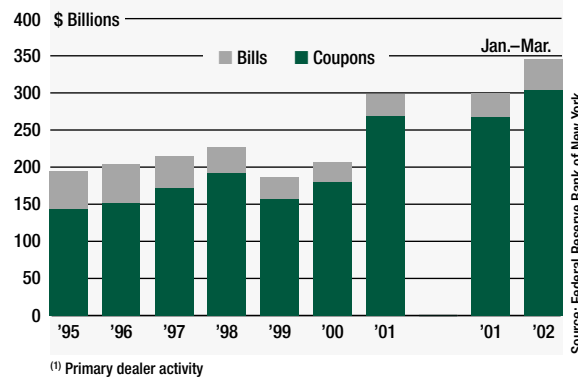


U.S. Treasury Securities Outstanding⁽¹⁾
1995–2002: Q1



⁽¹⁾ Includes marketable public debt

Average Daily Trading Volume of U.S. Treasury Marketable Securities⁽¹⁾ 1995–2002: Q1



⁽¹⁾ Primary dealer activity

Long-Term Agency Volume Increases

Long-term debt issuance by federal agencies totaled \$240.1 billion in the first quarter of 2002, up 23.0 percent from the \$195.2 billion issued during the same period last year. The housing-related agencies—Fannie Mae, Freddie Mac and the Federal Home Loan Bank System—together accounted for most of the increase of long-term agency debt issuance.

Short-term federal agency debt outstanding decreased 5.5 percent, to \$678.8 billion as of March 31, 2002, down from \$718.3 billion outstanding at the end of 2001. Short-term debt outstanding decreased across all agencies, with the exception of the Farm Credit System, whose short-term debt increased 3.6 percent, to \$34.8 billion outstanding. The largest dollar volume decreases were by Fannie Mae and the Federal Home Loan Bank System.

Average daily trading volume of agency securities by primary dealers was \$84.9 billion in the first quarter of 2002, a 9.7 percent decrease from the \$94.0 billion average daily trading volume during the same period last year. The average trading volume for the first quarter of 2002 is the lowest quarterly average since the fourth quarter of 2000.

Long-Term Federal Agency Debt Issuance

| \$ Billions | 2001 | 2001:Q1 | 2002:Q1 | YTD-to-YTD % Change | YTD-to-YTD \$ Change |
|-------------------|-------|---------|---------|---------------------|----------------------|
| FHLB ¹ | 383.0 | 77.6 | 90.6 | 16.8% | 13.0 |
| Freddie Mac | 235.2 | 50.4 | 75.5 | 49.8% | 25.1 |
| Fannie Mae | 249.4 | 57.8 | 61.9 | 7.1% | 4.1 |
| Sallie Mae | 19.5 | 2.2 | 4.7 | 113.6% | 2.5 |
| FCS ² | 31.0 | 6.2 | 7.2 | 16.1% | 1.0 |
| TVA ³ | 3.4 | 1.0 | 0.2 | -80.0% | (0.8) |
| Totals | 921.5 | 195.2 | 240.1 | 23.0% | 44.9 |

Short-Term Federal Agency Debt Outstanding

| \$ Billions | 3/31/01 | 12/31/01 | 3/31/02 | % Change* | \$ Change* |
|-------------------|---------|----------|---------|-----------|------------|
| FHLB ¹ | 186.2 | 139.8 | 128.3 | -8.2% | (11.5) |
| Freddie Mac | 183.8 | 222.8 | 212.5 | -4.6% | (10.3) |
| Fannie Mae | 282.6 | 288.5 | 270.7 | -6.2% | (17.8) |
| Sallie Mae | 37.5 | 31.1 | 30.7 | -1.3% | (0.4) |
| FCS ² | 32.8 | 33.6 | 34.8 | 3.6% | 1.2 |
| TVA ³ | 1.7 | 2.5 | 1.8 | -28.0% | (0.7) |
| Totals | 724.6 | 718.3 | 678.8 | -5.5% | (39.5) |

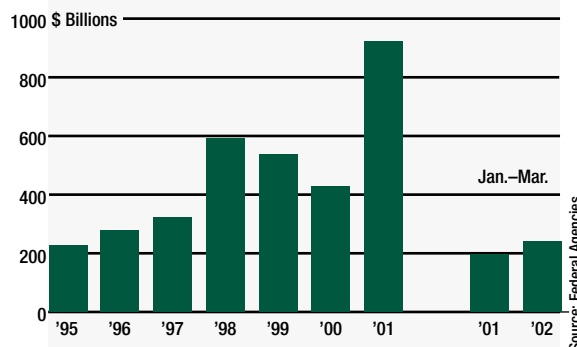
*Percentage and amount change between 03/31/02 and 12/31/01

¹ Federal Home Loan Bank System

² Farm Credit System

³ Tennessee Valley Authority

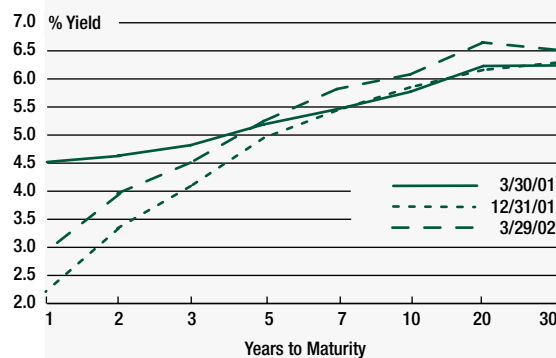
Long-Term Federal Agency Debt Issuance⁽¹⁾
1995–2002: Q1



⁽¹⁾ Excludes maturities of one year or less

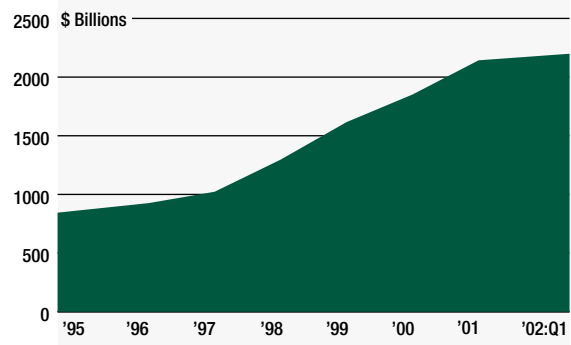
Source: Federal Agencies

U.S. Government Agency—Yield Curves



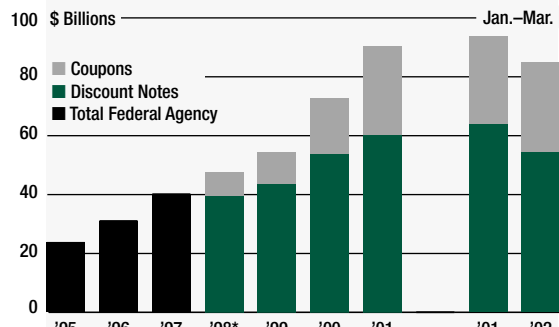
Source: Bloomberg

Total Federal Agency Debt Outstanding
1995–2002: Q1



Source: Federal Agencies

Average Daily Trading Volume of Federal Agency Securities⁽¹⁾
1995–2002: Q1



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

Source: Federal Reserve Bank of New York

Muni Issuance Increases

Total issuance in the municipal market totaled \$73.3 billion in the first quarter of 2002, up 7.6 percent over the \$68.1 billion issued during the same period of 2001. The modest increase in volume reflected a light issuance calendar, seasonal fluctuations in the market, and a changing interest rate environment. Long-term issuance increased 13.3 percent, to \$66.7 billion, in the first quarter of this year, up from \$58.9 billion issued during the same period of 2001. In contrast, short-term issuance decreased 28.4 percent, totaling \$6.6 billion in the first quarter, down from \$9.2 billion in the first quarter of 2001.

Total issuance was down 28.7 percent from the record \$102.9 billion issued during the fourth quarter of 2001, as the pace of issuance slowed from the rapid pace which characterized 2001.

Refunding Volume Remains Steady

Refunding issuance totaled \$21.5 billion in the first quarter of 2002, a slight increase over the \$20.9 billion issued during the same period of last year. Refunding volume is sensitive to changes in interest rates, as it affects the amount of interest that must be paid by bond issuers. Interest rates began to rise in March, thus reducing the attractiveness of refunding outstanding bonds. Despite widespread declines in some sectors, refunding volume in the general government sector during the first quarter of 2002 was \$6.9 billion, up from \$5.7 billion in the first three months of 2001. Healthcare sector refunding issuance increased substantially, to \$1.2 billion in the first quarter of 2002, up from \$0.1 billion in the same period last year. Issuance in the airport sector also surged, totaling \$1.3 billion during the first three months of this year, up from \$0.5 billion issued during the same period of 2001.

Refunding volume in the first quarter of 2002 was 7.2 percent lower than the \$23.2 billion refunded in the fourth quarter of 2001.

New Capital Volume Accelerates

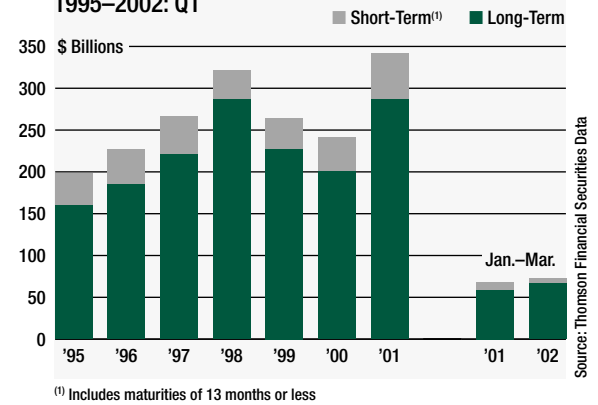
Low interest rates continued to spur new-money issuance in the municipal market. New capital issuance totaled \$45.2 billion during the first quarter of this year, up 19.0 percent from the \$38.0 billion issued in the same period last year. Issuance in the general government sector increased to \$14.2 billion in the first three months of 2002, compared to \$11.9 billion in the same period of 2001. Education sector new capital issuance in the first quarter of the year reached \$12.4 billion, an increase of 24.8 percent over the \$10.0 billion issued in first-quarter 2001. New-money issuance in the healthcare sector totaled \$3.3 billion, up from \$2.2 billion issued in the same period of last year.

New capital issuance in the first three months of 2002 was 32.2 percent lower than the \$66.7 billion issued in the fourth quarter of 2001.

Trading Volume Increases Strongly

Secondary average daily trading volume in the municipal market totaled \$9.9 billion in the first quarter of 2002, 19.4 percent higher than the \$8.29 billion in the first quarter of 2001. On a quarterly basis, trading volume increased 10.6 percent over the \$9.0 billion average daily volume in the fourth quarter of 2001. The data include interdealer trading of municipal securities, as well as trades between dealers and customers, as reported to the Municipal Securities Rulemaking Board.

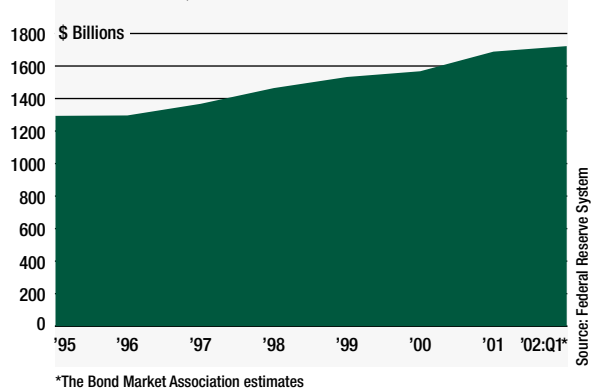
Short- and Long-Term Municipal Issuance 1995–2002: Q1



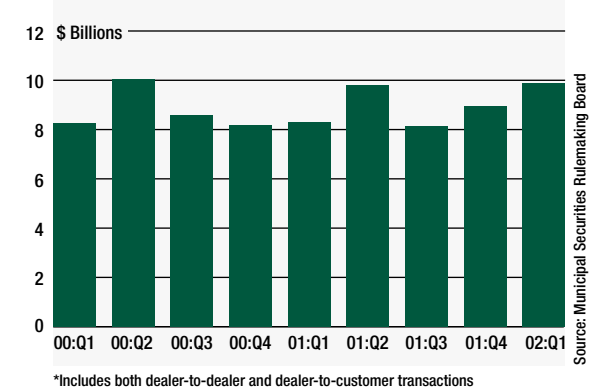
Municipal AAA G.O.'s — Yield Curves



Municipal Securities Outstanding 1995–2002: Q1



Average Daily Trading Volume of Municipal Securities* 2000:Q1–2002:Q1



Corporate Issuance Slows Sharply

New corporate bond volume decreased to \$206.5 billion in the first quarter of 2002, down 22.0 percent from the \$264.7 billion issued in the same period last year. However, when compared with the \$203.8 billion issued in the fourth quarter of 2001, issuance was relatively stable in the first quarter. Issuance in the investment-grade sector decreased 20.0 percent, while high-yield issuance dropped 41.9 percent. Issuers were concerned about the likelihood that interest rates would rise, and investors were concerned about accounting practices and corporate bankruptcies, thus contributing to the decrease in issuance. New issue volume resulting from refinancing of commercial paper slowed to \$10.5 billion in the first quarter of 2002, down 18.9 percent from the \$12.9 billion issued in first the quarter of 2001.

Issuance of convertible bonds—including investment-grade and high-yield issues—totaled \$19.0 billion in the first quarter of 2002, down 14.8 percent from the \$22.3 billion issued during the same period last year. Convertible bond issuance remained relatively flat from the \$18.7 billion issued in fourth-quarter 2001. Medium-term note (MTN) issuance increased 45.4 percent, to \$53.1 billion in the first quarter of 2002, up from the \$36.5 billion issued in the same period one year ago.

Investment-Grade Volume Decreases

New issue volume of nonconvertible investment-grade bonds totaled \$170.4 billion in the first quarter of 2002, down 20.0 percent from the \$213.0 billion issued in the first quarter of 2002. Most of the decrease can be attributed to the manufacturing and telephone communication sectors. The manufacturing sector decreased 45.4 percent, totaling \$20.3 billion in the first quarter of 2002, while the telephone communication sector totaled \$4.5 billion, down 86.7 percent from the \$33.8 billion issued in the first quarter of 2001. In contrast, investment banks increased new issuance by \$25.6 billion during the first quarter of 2002, up 87.1 percent from the \$13.7 billion issued in the same period last year.

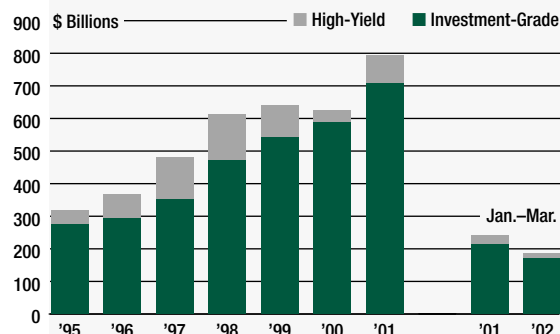
High-Yield Issuance Drops

Issuance in the nonconvertible high-yield sector decreased 41.9 percent, to \$17.1 billion in the first quarter of 2002, down from the \$29.4 billion issued in first-quarter 2001. On a quarter-to-quarter basis, issuance decreased only 7.8 percent from the \$18.5 billion issued in the fourth quarter of 2001. Deteriorating corporate credit quality continued to plague the high-yield sector as default volume increased to record levels, particularly in the telecom sector. Issuance was especially weak in the cellular telephone/radio/television sector, totaling \$3.3 billion in the first quarter of 2002, down 58.8 percent from the \$8.1 billion issued last year during the same period. Volumes also decreased in the electric service and telephone communication sectors.

Trading Volume Remains Steady

The average daily corporate bond trading volume by primary dealers for bonds with maturities of greater than one year was \$20.1 billion in the first quarter of 2002, relatively unchanged from the \$19.9 billion in the fourth quarter of 2001. The daily trading volume of \$24.4 billion in March was the highest monthly average since the Federal Reserve Bank of New York began collecting the data in July 2001.

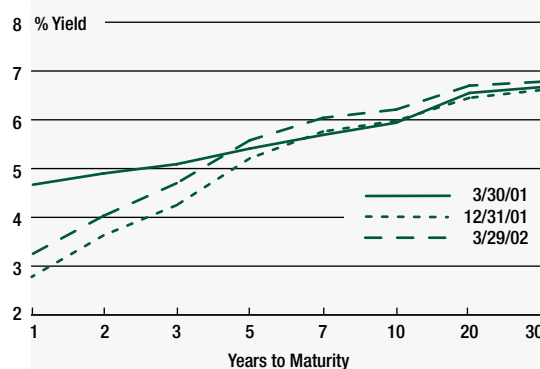
**Corporate Bond Issuance⁽¹⁾
1995–2002: Q1**



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

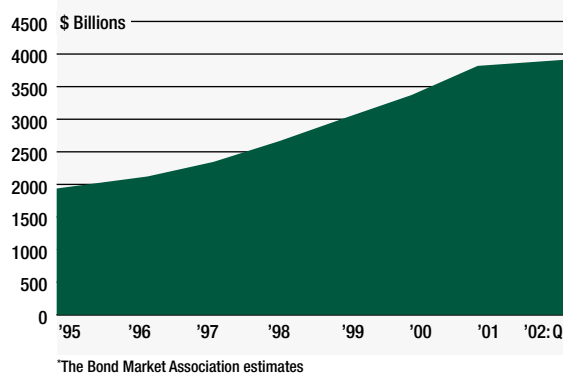
Source: Thomson Financial Securities Data

U.S. Corporate: AA Industrial—Yield Curves



Source: Bloomberg

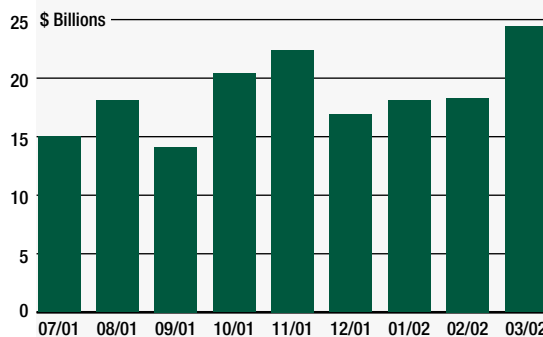
**Corporate Debt Outstanding
1995–2002: Q1***



*The Bond Market Association estimates

Sources: The Bond Market Association, Federal Reserve System

**Average Daily Trading Volume for Corporate Bonds⁽¹⁾
July 2001–March 2002**



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

Source: Federal Reserve Bank of New York

ABS Issuance Increases Slightly

Issuance in the asset-backed securities (ABS) market totaled \$110.3 billion in the first months of 2002, up 2.4 percent from the \$107.7 billion issued during the same period last year. Concerns over accounting practices and corporate bankruptcies led investors to seek alternatives that are relatively safer than corporate bonds and yields that are higher than U.S. Treasuries. Issuance in the public ABS market increased 11.1 percent, to \$93.8 billion, in the first quarter of 2002, up from the \$84.5 billion issued in the first quarter of 2001. In contrast, private ABS issuance totaled \$16.5 billion in the first quarter, down 28.9 percent from the \$23.2 billion issued in the first quarter of 2001. On a quarter-to-quarter basis, issuance volume followed the same trend, with public issuance 27.7 percent higher than fourth-quarter 2001, and private issuance nearly 50 percent lower. Overall, first-quarter issuance activity across major sectors was positive for the auto, home equity, and student loan sectors, while the credit card, equipment lease, manufactured housing, and stranded cost sectors declined from the same period last year.

Auto and Student Loan Sectors Increase

New issue activity in the auto loan sector increased to \$23.4 billion in the first quarter of 2002, up 25.1 percent from the \$18.7 billion issued during the same period last year. Issuance was buoyed by strong auto sales toward the end of the year, which increased loan originations. Issuance in the student loan sector reached a record during the first quarter of 2002, totaling \$7.8 billion, more than double the \$3.2 billion issued in the same period last year and up 17.9 percent from fourth-quarter 2001. The main reason for the large increase in the student loan sector was the return of Sallie Mae to the market, accounting for almost half of the sector's first quarter issuance.

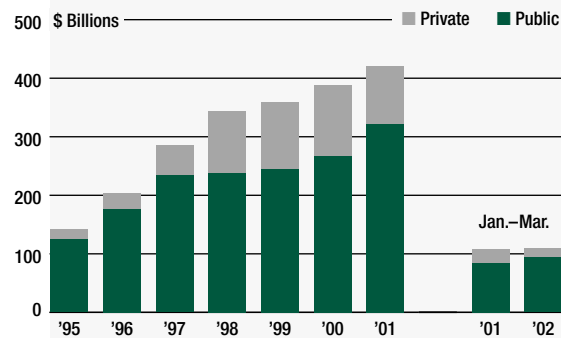
Home Equity and Manufactured Housing Mixed

Home equity issuance totaled \$35.3 billion during the first quarter of 2002, up 21.4 percent from the \$29.1 billion issued in the same period last year. The improving U.S. economic outlook, strong housing market, and low-interest-rate environment have helped to spur home loan originations, consequently increasing the amount of loans available for securitization. In contrast, issuance in the manufactured housing sector, which consists of mobile homes, decreased 28.5 percent, to \$1.4 billion in the first quarter of 2002, down from the \$1.9 billion issued in first-quarter 2001.

Volume Drops in Other Sectors

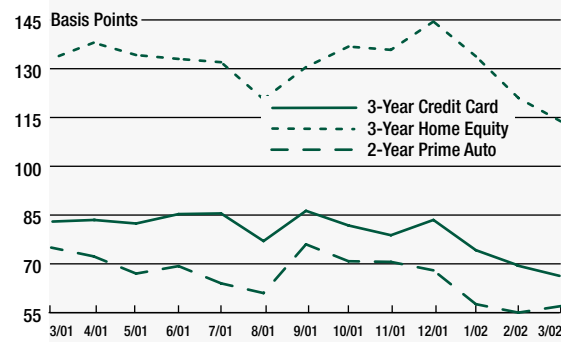
Credit card issuance volume decreased the most in dollar terms, falling to \$15.1 billion in the first quarter of 2002, down 43.3 percent from the \$26.6 billion issued one year earlier. However, issuance was 14.7 percent higher than the \$13.2 billion issued in fourth-quarter 2001, and it can be partly attributed to stronger consumer spending toward the end of 2001 and into 2002. New issue activity in the equipment lease sector decreased 54.5 percent, to \$1.2 billion in the first quarter of 2002, down from the \$2.6 billion issued during the same period one year ago. Consolidation in the equipment lease industry has negatively impacted issuance volumes. Stranded cost issuance totaled \$0.9 billion in the first quarter of 2001, down 87.0 percent from the \$6.5 billion issued last year.

Issuance of Asset-Backed Securities
1995–2002: Q1



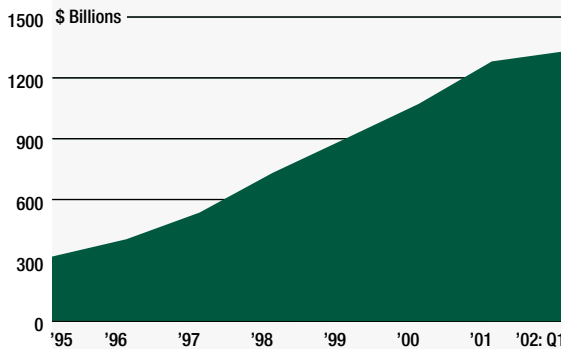
Sources: Thomson Financial Securities Data, Inside MBS & ABS

Asset-Backed Spreads to U.S. Treasury
March 2001–March 2002



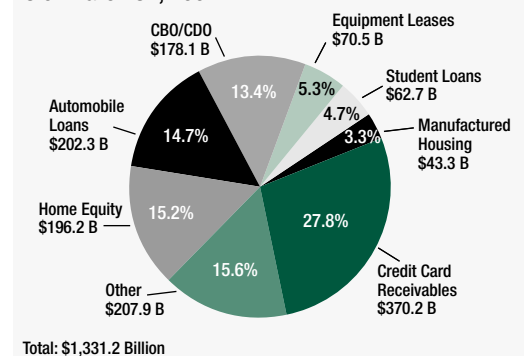
Sources: J.P. Morgan Securities Inc.

Asset-Backed Securities Outstanding
1995–2002: Q1



Sources: The Bond Market Association, Federal Reserve System

ABS Outstanding by Major Types of Credit
As of March 31, 2002



Sources: Federal Reserve System, The Bond Market Association

Mortgage-Related Securities Issuance Surges

Issuance of mortgage-related securities, which includes agency and private-label MBS/CMO, more than doubled, to \$534.7 billion in the first quarter of 2002, up from the \$245.3 billion issued during the first quarter of 2001. However, on a quarterly basis, issuance decreased 5.9 percent from the \$568.4 billion issued during the fourth quarter of 2001. The Mortgage Bankers Association 30-year fixed-rate mortgage index rose to 6.93 percent in the first quarter of 2002, up from 6.79 percent in the fourth quarter of 2001.

Private-label MBS/CMO issuance totaled \$46.6 billion in the first quarter of 2002, up 22.3 percent from the \$38.1 billion issued during the same period last year. However, issuance of private-label MBS/CMO was down 31.6 percent from the \$68.1 billion issued in the fourth quarter of 2001.

Agency MBS Issue Volume Increases Sharply

New issue activity of agency MBS totaled \$360.2 billion in the first quarter of 2002, more than double the \$167.7 billion issued during the same period last year. All three federal agencies increased new issuance during the first quarter of the year. The high rate of mortgage originations toward the end of 2001 and beginning of this year continued to boost issuance in the agency MBS market. Fannie Mae's issuance increased more than two-fold, to \$176.0 billion in the first quarter of 2002, up from the \$83.3 billion issued in the first quarter of 2001. New issue volume by Freddie Mac totaled \$139.0 billion in the first quarter of 2002, up more than 150 percent from the \$54.3 billion issued in the same period last year. Ginnie Mae's issuance increased 50.2 percent, to \$45.2 billion in the first quarter of the year, up from the \$30.1 billion issued during the first quarter of 2001. All federal agencies, with the exception of Ginnie Mae, increased issuance when compared to the fourth quarter of 2001.

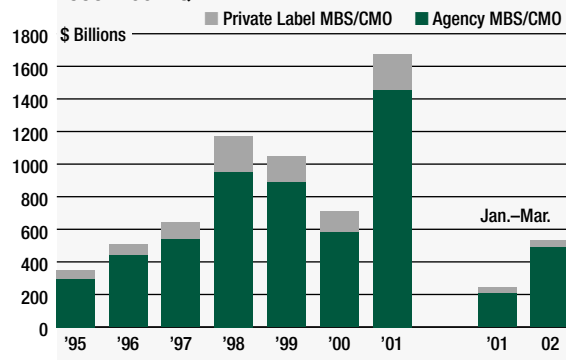
Agency CMO Issuance Strong

Issuance of agency collateralized mortgage obligations (CMO) increased sharply, to \$127.9 billion in the first quarter of 2002, up from \$39.5 billion issued during the first quarter of 2001. Freddie Mac led the way with total CMO issuance of \$77.2 billion in the first quarter of 2002, more than triple the \$23.6 billion issued during the same period last year. Fannie Mae's CMO issuance increased sharply, to \$36.8 billion in the first quarter of the year, up from the \$8.7 billion issued during first-quarter 2001. Issuance of Ginnie Mae CMOs was also up, totaling \$13.9 billion in the first quarter of 2002, almost double the \$7.2 billion issued one year ago. However, both Fannie Mae's and Ginnie Mae's issuance decreased when compared to the \$36.8 billion and \$13.9 billion issued in the fourth quarter of 2001. Freddie Mac's CMO issuance increased 10.1 percent from the \$70.1 billion issued in the fourth quarter of 2001.

Trading Volume Rises

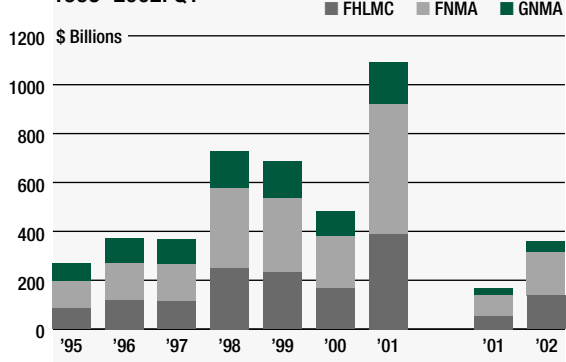
Daily trading volume in agency mortgage-backed securities by primary dealers averaged \$132.9 billion in the first quarter of 2002, up 29.0 percent from the average of \$103.1 billion during the first quarter of 2001. However, average trading volume of agency MBS was down 1.8 percent from the record quarterly average of \$135.3 billion reached in the fourth quarter of 2001.

Issuance of Mortgage-Related Securities 1995–2002: Q1



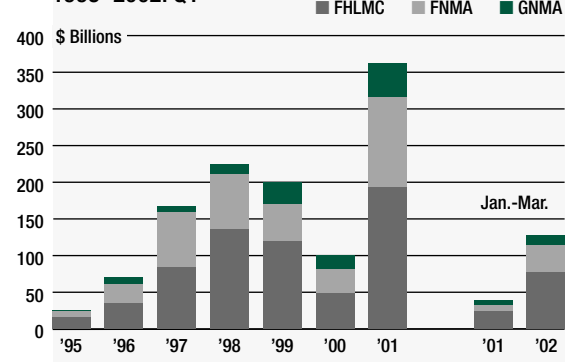
Sources: Fed. Agencies, Thomson Financial Sec. Data, Inside MBS & ABS

Issuance of Agency Mortgage-Backed Securities 1995–2002: Q1



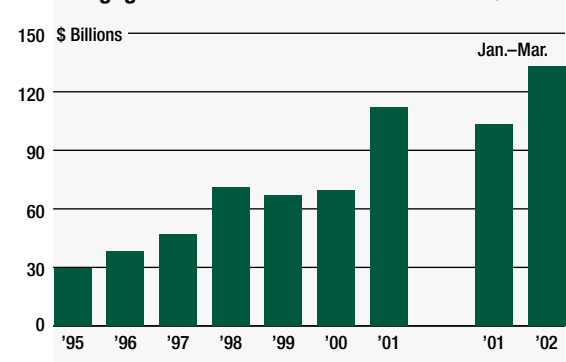
Sources: GNMA, FNMA, FHLMC

Issuance of Agency CMOs 1995–2002: Q1



Sources: GNMA, FNMA, FHLMC

Average Daily Trading Volume of Agency Mortgage-Backed Securities⁽¹⁾ 1995–2002: Q1



Source: Federal Reserve Bank of New York

⁽¹⁾ Primary dealer activity

Level of Outstanding Repo Agreements Reaches \$3.26 Trillion

The average daily trading volume of total outstanding repurchase (repo) and reverse repo agreement contracts totaled \$3.26 trillion for the first quarter of 2002, an increase of 16.2 percent over the average daily volume of \$2.80 trillion during the same period of 2001. Outstanding repurchase agreements rose to an average of \$1.90 trillion in the first quarter of 2002, an increase of 17.9 percent from the \$1.61 trillion for the same period in 2001. During the first quarter of 2002, outstanding reverse repo contracts increased 13.9 percent, to \$1.36 trillion, from last year's first-quarter average of \$1.20 trillion. The average daily amount of repo and reverse repo outstanding increased consistently throughout the quarter, and peaked at an estimated \$3.36 trillion in March. The data represent financing activities of the primary dealers reporting to the Federal Reserve Bank of New York and include repo and reverse repo agreements involving U.S. government, federal agency, mortgage-backed agency securities, and beginning in the third quarter of 2001, corporate securities.

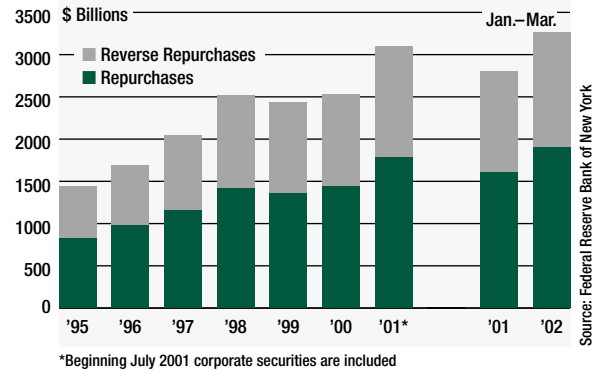
The Government Securities Clearing Corporation (GSCC), a registered clearing corporation that facilitates orderly settlements in the U.S. government securities market, tracks repo trades settled through its system by product type. In excess of \$50.5 trillion in repo trades were submitted by GSCC participants during the first quarter of 2002, with an average daily trading volume of approximately \$842.2 billion. Repo transactions involving Treasury notes accounted for the largest share of GSCC repo activity, representing \$32.3 trillion, or 64.0 percent of the period's total volume. Repos involving Treasury bonds accounted for an estimated \$3.3 trillion, or 6.5 percent of the total, and Treasury bills accounted for \$5.1 trillion, or 10.1 percent of the activity for the quarter. Transactions involving federal agency securities continued to increase, accounting for 14.5 percent of first-quarter 2002's volume, up from 12.2 percent for the same period of 2001.

Commercial Paper Outstanding Continues to Decline

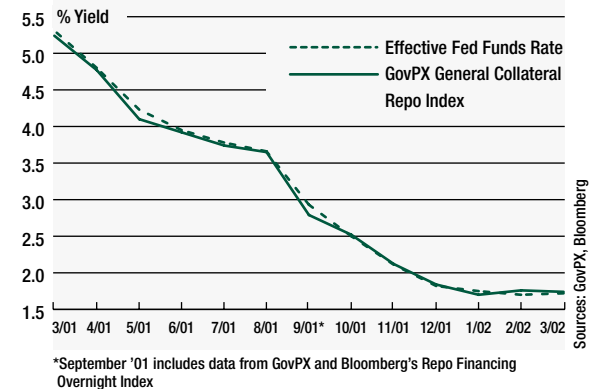
The outstanding volume of money market instruments, including commercial paper (CP), large time deposits and bankers' acceptances (BAs), totaled an estimated \$2.51 trillion outstanding as of March 31, 2002, a 2.1 percent decrease from the \$2.56 trillion at the end of December 2001. Commercial paper outstanding decreased 4.4 percent to end the first quarter at \$1.38 trillion, marking the fifth decline in the last six quarters. The decline in the level of CP outstanding can largely be attributed to continuing credit deterioration of several major issuers, who were subsequently forced out of the CP market. The outstanding level of asset-backed commercial paper declined for the first time since June 1994, falling 1.9 percent to end the quarter at \$731.4 billion.

The outstanding level of large time deposits rose slightly—less than one percent—to an estimated \$1.13 trillion, at the end of the first quarter of 2002, up from the \$1.12 trillion at the end of December 2001. Banker's acceptances totaled an estimated \$4.1 billion at the end of March 2002, down 14.6 percent from the \$4.8 billion outstanding as of December 31, 2001.

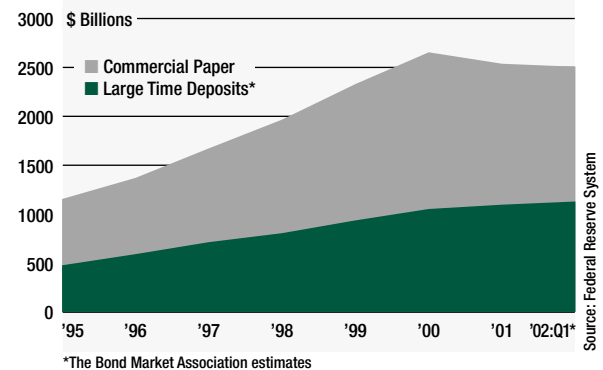
**Financing by U.S. Government Securities Dealers
Average Daily Amount Outstanding 1995–2002: Q1**



General Collateral Repo Index vs. Effective Fed Funds Rate Mar. 2001–Mar. 2002



Outstanding Money Market Instruments 1995–2002: Q1*



Domestic Money Markets Interest Rates Monthly Averages March 2001–March 2002

