

Securities Finance Market Monitor

Issue 19, for the month ending February 28, 2003

Money Markets Recap

The Fed is quiet, as nation prepares for conflict

While there was no meeting of the Federal Open Market Committee during the month of February, and therefore no expectation of any action with regard to short-term interest rates, Chairman Greenspan appeared on Capitol Hill early in the month to give his semi-annual assessment of and outlook for the U.S. economy. The bottom line of his testimony is that Fed monetary policy is stuck on hold, with no sign of inflation that would prompt any tightening of rates, and he offered a degree of comfort that economic growth will pick up once the geopolitical uncertainties abate, limiting any need to ease rates. Even an astounding report on Producer Prices, indicating a 1.6% increase for January and a core rate increase of .9%, both well above any expectations, did not spur any significant backup in yields anywhere on the curve. One thing of interest is a divergence between where economists and traders see rates going. A consensus of money market economists would indicate the overnight Federal Funds target rate being held at 1.25% until the 4th quarter of 2003, and rising thereafter, reaching 3.00% to 3.25% one year later. However, if you look at the Fed Funds futures market, you will see that throughout the month, there was the pricing in of a 25 basis-point ease sometime before mid-year and a reversal of that ease by year-end. As was reported last month, the short-term yield curve remains very flat and priced very close to the current Fed Funds target rate of 1.25%, offering very little reward for duration, given the only small chance that there will be a further cut in rates.

Duration of the cash collateral investment portfolios was brought down slightly to moderately, and liquidity increased in order to accommodate what would be the fiscal quarter end for several borrowers and the associated reduction of balance sheet that typically occurs.

US Government Markets Commentary

Higher volume returns to Government loans

US Treasury balances rose by 12% from January. This change reflects the volatility of demand which can be traced to recent geopolitical events such as the conflict with Iraq and well as the continuing concerns over the economy.

Borrowers like most investors, are most likely analyzing historical patterns of US military conflicts and are expecting the equity markets to improve once the US takes a position on the Iraq issue. This expectation has created a rise in demand for US Treasuries. The theory may be that a quick resolution may bring a rise in equities

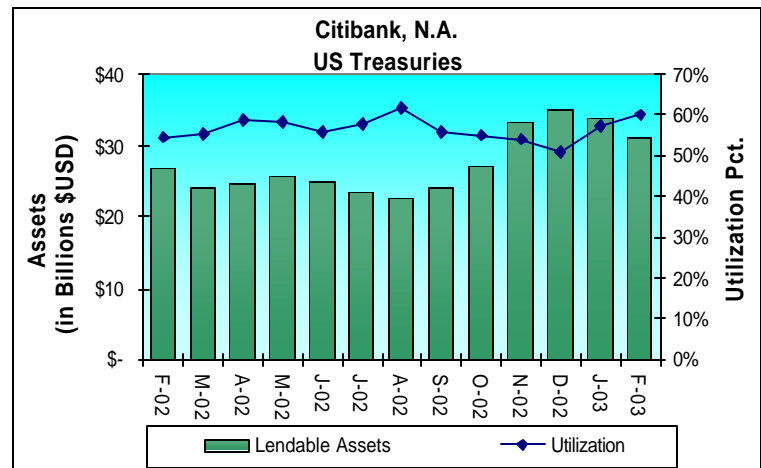
and a drop in Treasury prices. The Fed will most likely continue to issue US Government debt to in response to the expected shortfalls in cash flows from tax receipts due to the sluggish economy. Thus, while demand has risen, the increased supply has driven spreads lower.

The US Agency balances fell by nearly 10%. Recent Agency demand shifts are more the result of perception of the relative safety of US Agency securities than direct macro events. Spreads remain relatively robust.

US Government Issues Trading Special

		Spread Range (bps)		Market Commentary
		Low	High	
US T-Notes	11/15/06	175	300	On the run Treasury
US T-Notes	02/15/12	250	300	Strong borrower demand

For charts above and below: Source: Citibank, N.A. February, 2003 .



Specials Lending Activity

United States:

Webex (94767L109), a directional trade; is lending special at 8.25%. **Research Frontier** (760911107), a directional play, is lending special at 4.25%. **Nokia** (ADR - 654902204), a dividend arbitrage trade, is lending special at 4.75%. **Sierra Pacific** (826428104), divestiture, is trading at 75 to 90 basis points below Fed Funds.

Japan

Sumisho Electric (q7556) and **Nissho Electric** (q9865) announced there will be a third-party offering in these 2 names. Later it was announced that Sumitomo will buy a 19.9% stake in **Nissho Electric**. Both are rather illiquid names.

Jeans Mate Corp. (q7448) announced a 13-for-10 stock split. **Nissin** (q2897) food products, a secondary offering whereby 4.06 million new shares are to be sold.

Italy

Bca Popolare Di Milan (4072168) shares rose in price briefly due to a rumor that it may merge with a rival bank. Borrowers sought to hold stock until more facts were available.

Holland

Renewed interest in **Ahold NV** (5252602) after more speculation of errors in financial reporting. Some brokers sought to only hold stock temporarily, although the corporate bonds have been lent at 150 basis point fee levels.

Switzerland

Clariant (7113990) may issue stock to reduce debt. This news prompted borrowers to seek to reserve a lending position in the stock.

Germany

Levels already seem to be dropping in **Deutsche Telecom** (5842359), some brokers have begun to return stock that was on-loan.

referred to as "sellers." The terms "securities" and "collateral" are generally interchangeable. These distinctions become clear later when we analyze the hybrid nature of Repos.

The terms "Repurchase Agreement," "Repo," "RP," "Reverse Repo" and "Resale" are all used to describe the same transaction. One firm's Repo is another firm's Reverse Repo; both are the same transaction viewed from two different perspectives. It is common Street practice for both parties to view the transaction from the dealer's perspective. A dealer borrowing money is executing a Repo, while a dealer borrowing securities is executing a Reverse Repo. Accordingly, when a client lends money to a dealer, the transaction is called a Repo by both parties.

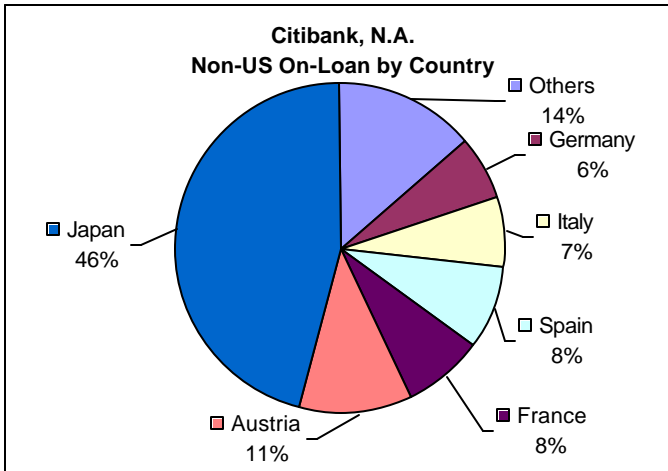
Delivery refers to the possession and control of securities "delivered" under a repurchase agreement. There are two delivery alternatives for Repo collateral: (1) receiving securities in an independent custodial account or (2) receiving securities in a segregation account with the dealer counterparty's account.

Deliverable Repo. The investor receives possession of securities in some manner. Possession of the securities creates a "perfected lien," or valid ownership (on the collateral). The cash investor receives the rights of ownership. There are two forms of delivery: "delivery versus payment" and "tri-party delivery." Tri-Party Repo has become the most popular form of delivery.

Tri-party Deliverable Repos. A dealer, cash lender and third party custodian bank enter into a tri-party agreement in which the custodian bank acts as the intermediary in the Repo transaction and holds the collateral on behalf of the buyer.

Segregation Repo. The cash lender receives a pledge of acceptable securities which are segregated within the dealer's own clearing account. It is also commonly referred to as "Hold-in-Custody", "Safekeeping", and "Mixed Bag Repo".

Repos are executed for maturities of between one day and five years (occasionally longer under special circumstances), with most having maturities of one year or less. Many are executed on an overnight (one day) basis. Transactions involving international securities are often executed for periods of one week or longer.



FYI: Repurchase Agreements Defined

Repurchase Agreements, called Repos, are money market transactions in which one party sells securities to another while agreeing to repurchase those same securities at a specific price on a specific forward date. These transactions are similar to secured loans, with the lender of money receiving securities as collateral to protect it against borrower default. Repos are viewed by some market participants as purchases and sales and by others as secured loans. Parties lending money are referred to as "buyers," while parties lending securities are

Citibank Securities Finance Contacts:

Alejandro Berney	US	1-212-657-1075
Thad Garrison	US	1-212-657-4032
Linda Kearney	UK	44-207-500-5411
Paul O'Brien	HK	852-2868-7347

© 2003 Citibank, N.A. Sources: Moody's Investors Services, The Bond Market Association, The Credit Suisse Repo Guide, and Bloomberg. For additional information please contact: Thad.Garrison@citigroup.com.

This newsletter is provided by Citibank solely as a service to its clients. The information contained herein is for informational purposes only. The information contained herein does not constitute a recommendation by Citibank to take any action, and Citibank is not providing any investment, tax or legal advice to any client. Under no circumstances is the information contained herein to be considered or used as an offer to sell, or a solicitation of any offer to buy, any security.