

Securities Finance *Market Monitor*

Issue 31, for the Month Ending November 30, 2004

Money Markets Recap

The blowout October Non-farm payroll increase of 337,000 reported on November 5th removed any doubt that there was in the market about whether the FOMC would increase the Federal Funds target rate 25 basis points to 2.00%. The number was so strong that it also removed any chance that the Committee would modify their post meeting statement language in such a way as to give rise to the idea that they may have reason to pause in their determination to further remove policy accommodation at each subsequent meeting. When, in fact, they did implement the increase at the meeting on Nov 10th, the statement that followed was very much unchanged from that of the previous meeting in September. Federal Fund Futures prices indicated an 88% probability of another 25 basis point increase at the December 14 meeting, and as more data was released, that probability climbed to, and remains at a level above 90%. The 2-year UST note yield backed up about 20 basis points immediately following the employment report and continued to rise, crossing the 3.00% level late in the month. A 4% decrease in the value of the US dollar versus the Euro during November helped to exasperate rise in yields across the curve, however the 2's-10's curve actually flattened significantly throughout the earlier part of the month, before steepening again somewhat during the last few days.

We continue to expect further rate increases in the months ahead, and are managing the duration risk of the cash collateral investment portfolios in that regard. We continue to evaluate the relative value of all investments against our most conservative market expectations, and hope to strategically optimize returns while minimizing market price risk.

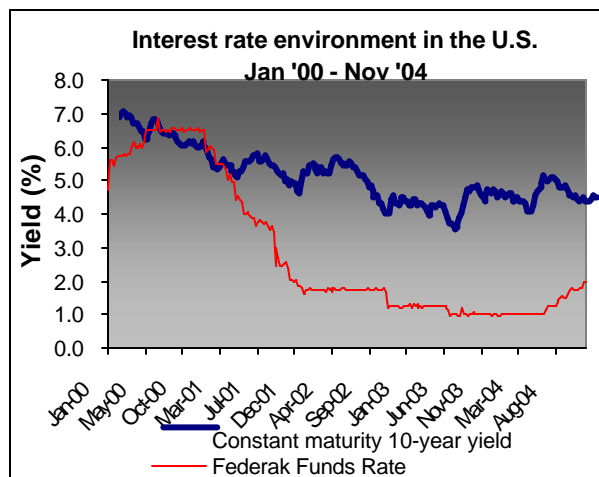
US Government Markets

November did not bring about significant change to the yield curve trend over the past few months. The current yield curve implies that the short end continued to move up as the long end resumed its state of paralysis. The shift in the short end of the curve is mainly due to the rate moves by the Fed, as discussed in detail in the previous section. The calmness of the long end, on the other hand, indicates that the investors are not anticipating strong inflationary pressures in the foreseeable future.

One of the concerns presented last month was the long-term debt policy that the U.S. treasury pursues. From the related news that came out during November was a piece from Washington Weekly, as cited on the Bond Market Association website "The House and Senate met for a brief post-election session this week and primarily focused on a measure to increase the debt limit.

Lawmakers agreed on Thursday to raise the statutory debt limit by \$800 billion." The quote reflects that U.S. debt level and the budget deficit will continue to have an impact on the treasury debt market and in turn, the lending market.

However, neither the concerns on the long-term indebtedness of the United States nor the weakness of the U.S. dollar are reflected in the interest rate graph shown below. The constant maturity 10-year note, which is the longest current borrowing vehicle for the treasury, has been fluctuating between 4 and 5 percent for the past three years, staying closer to 4 percent, for the most part. The recent increase in the weakness of the dollar led to expectations that the foreign central banks would move their investments to treasury securities of other currencies. However, by the end of November, the dollar was selling at 1.3279/euro in the spot market, depreciating from 1.2752/euro from the beginning of the month and had been impacting the movements in the UST market.



Agency Specials – Among the US Agencies that traded special were; 3134A4UQ5 (Freddie Mac) and 3133X8EL2 (Home Loan Mortgage Association). These issues traded special due to the borrowers seeking to short this position and the low supply in the market.

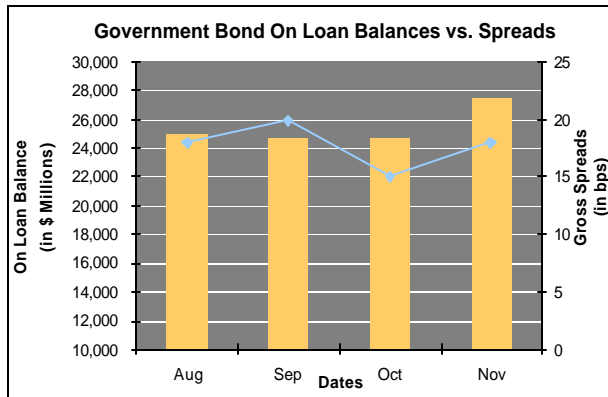
Treasury Specials- 912828AJ9, which matures on August 15th of 2012 traded among the special treasuries in the month of November. The issue is neither on-the-run or is the cheapest-to deliver and therefore the special trading activity is not easily explained. In addition to the AJ9, the current 10-year also traded special, as the current 10-year generally does. Other US Treasury issues trading special were Cusips: 912827S86, 912828CT5 and 912795RT0.

Happy Holiday's



Citigroup® Global Transaction Services

Since August, on-loan balances have remained relatively flat with the exception of November due to expanded client lending opportunities. Spreads for the period August through November ranged from 15 to 20 basis points ending at 18 bps in November.



U.S. Equity

The U.S. equity markets, gained throughout the month, beginning around 112 and ending the month at 118. This corresponds to a modest gain of 5.4% for the month. Towards the end of the month, concerns over the weakness of the dollar were in part neutralized by the reduction in oil prices.

Among the U.S. equity securities that traded special in the month of November were:

Marsh & McLennan (MMC): The insurance brokerage was hurt in the third-quarter for possible regulatory settlements. Accused by New York Attorney General Eliot Spitzer of colluding with insurers to garner more fees, Standard and Poor's lowered its credit rating one level to BBB+. News was also reported of potential job cuts.

Northwestern Corporation (NWEK) Northwestern reported a consolidated loss on common stock in the third quarter of \$29.6 million. According to Bloomberg News, during the third quarter Northwestern incurred "reorganization items totalling \$19.0 million and reorganization professional fees and expenses totalling \$10.5 million." The reorganization items included a \$19.5 million loss related to a proposed settlement with Cornerstone Propane.

International Equity

Credit Agricole SA's (ACA FP): Shares in France's largest bank fell as they announced lower than expected revenues. Bloomberg News reports that "revenues fell 0.3 percent from a year earlier to 3.1 billion euros (\$4.1 billion)." Analyst expectations were for a 3.6 percent increase. Third-quarter net income, however, rose 71

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percent by cutting bad loan provisions. Net profit came in at 653 million euros (\$850.6 million) in the three months to Sept. 30 compared with 382 million euros a year ago.

FYI – Securities Lending

The heart of the Citibank Securities Lending contingency operation is based on a technology architecture that is redundant on multiple levels. First, all data and database disk drives are fully mirrored. Second, there are two production servers in the Mid-Range Data Center at Silver Springs, Maryland (MRDC), which are configured for automatic bi-directional failover processing. Finally, the entire system setup is replicated at the MRDC at 111 Wall Street, with both contingency servers being updated intraday at five minute intervals, with a complete system update every evening.

In addition, there are fully operational sites in Rutherford, New Jersey and mid-town Manhattan that provide contingency for the New York trading desk and New York operations. Our lending desk utilized our mid-town location for one week following the September 11th attack.

Each night a tape back-up of the entire production file system is made, along with the entire development environment. A separate, nightly tape backup is made of all the application databases.

HP Openview is used to provide error messaging from the system to the MRDC operators' consoles. The dedicated technology team maintains a 24X7 coverage schedule for production support. An identical contingency unit at the MRDC in Silver Springs, MD, backs up the Global Securities Lending System's (GSLs) firewall.

Due to audit requirements, the Securities Lending unit's contingency plan is reviewed and updated at least twice a year, and a full-fledged contingency drill is practiced annually. Citibank's internal audit unit annually reviews both the contingency plan, and the overall performance during the drill.

Citibank's Systems Security Group and Compliance Group scrutinize the entire GSLs continuously. GSLs is audited to Citibank's highest standards on a regular basis. This audit includes all automated systems, manual processes, and operations. The recommended loan allocation algorithm used by the GSLs application is of special importance.

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