

Mellon Global Securities Lending Market Update

November 22 – December 3, 2004



DOMESTIC TRADING

U.S. Governments

The Treasury announced an issuance of \$42 billion in cash management bills that will mature on December 15th. These bills will be issued in three increments: a 14-day \$4 billion issue on December 1st, a 12-day \$24 billion issue on December 3rd, and an 8-day \$14 billion issue on December 7th. The maturity date of each coincides with the Treasury's December 15th refunding when a new five-year note will be issued and the November 15, 2014 10-year note will be re-opened and increased. The amount of this refunding has not been announced. With the increased amount of collateral in the market, overnight government general collateral rates are starting to tick up. General collateral averaged 1.945 for the past three weeks, but is now bid at 1.98 until December 14th (the next Federal Open Market Committee meeting). Term bids beyond that date have a full 25 basis point increase priced in, as one-month is bid at 2.12% and two-months is bid at 2.17%.

In the specials market, the five-year note is bid at 1.20% and the 10-year is bid at 1.00%.

U.S. Equities / Corporate Bonds

Quantum Fuel Systems Technologies Worldwide has entered into an agreement to purchase *Starcraft Corporation*. Shareholders of *Starcraft* will receive 2.34 shares of *Quantum* for every share of *Starcraft* they hold. Brokers borrowed shares of *Quantum* to lock in the spread of the risk arbitrage transaction. Brokers also borrowed shares of *Total SA* over record date to capture the dividend arbitrage between the French and the US markets. Finally, there were several convertible arbitrage opportunities that surfaced. Included were *Mindspeed Technology's* issuance of \$40 million in Convertible Senior Notes and *Millicom International Cellular's* issuance of \$200 million in Convertible Bonds.

The daily pace of corporate bond trading over the past two weeks slowed considerably. This slowdown can be partially attributed to the kickoff of the holiday season. While new issuance was heavy, just two issues triggered significant interest: *Merrill Lynch & Co.* (5.00% of 1/15) and *GMAC* (6.75% of 12/14). Other issues included: *Delta Air Lines* (10.375% of 2/11); *Philippine Republic* (10.625% of 3/25); *Charter Communications* (9.625% of 11/09); *Nextel* (9.50% of 2/11); *Genzyme Corp.* (1.25% of 12/23); *Coastal Corp.* (7.75% of 6/10); *Qwest Capital* (7.25% of 2/11); *Tekni Plex* (12.75% of 6/10); *United Rentals* (7.75% of 11/13) and *Calpine Corp.* (8.50% of 7/10).

Issues continuing to trade special include: *Qwest Capital* (7.00% of 8/09); four *Calpine Corp.* issues (8.50% of 2/11); (8.625% of 8/10); (7.625% of 4/06) and (8.25% of 8/05); two *Level 3 Communications* issues (6.00% of 9/09) and (11.00% of 3/08), and *Collins & Aikman* (12.875% of 8/12).

INTERNATIONAL TRADING

The International markets continue to ride the oil wave as Asian stocks rose after a drop in oil prices eased concerns that higher energy costs will leave consumers with less to spend. As consumer spending increased in the U.S., exporters, led by *Toyota Motor Corporation* and *LG Electronics* showed measured gains. Toyota, the world's largest automaker by value, climbed 1.6 percent. The company garners 80% of its operating profits from the North American markets. In Europe, the Central Bank left its main interest rate at a six-decade low of 2.00% as similar gains were realized on the decrease of oil prices. On the flip side, *Valero*, Europe's third largest maker of auto parts, fell 2 percent on the heels of the U.S. automakers slow down in sales coupled with high inventories.

COLLATERAL REINVESTMENT

The U.S. economy added just 112,000 jobs in November, fewer than market expectations of 200,000. The lower number was attributed to the increased cost of oil, along with the continued reluctance of companies to increase hiring despite the improving economic fundamentals. The inability of the economy to produce back-to-back months of solid job growth will enable the Fed to maintain its current policy of only raising interest rates at a 'measured pace'. The unemployment rate fell from 5.5% to 5.4% indicating some stability in the employment sector but no sign of any wage pressure. The money market curve flattened slightly from six-months through one-year, with market yields ranging between 2.55 % and 2.88%. Issuance of fixed rated paper picked up as issuers start to fund debt over the turn of the year, which still lags last year's pace.

GMAC issued \$2.5 billion of a multi tranche (AAA/Aaa) retail auto receivable deal. The tranche of interest was the A1 portion, which had a 1.3 years weighted average life and was priced at one-month Libor flat.

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