

**Kirsten Harlow/NY/FRS**

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To

Timothy Geithner/NY/FRS@FRS, Terrence Checki/NY/FRS@FRS, William Rutledge/NY/FRS@FRS, Arthur Angulo/NY/FRS@FRS, Sandy Krieger/NY/FRS@FRS, William Dudley/NY/FRS@FRS, Brian Peters/NY/FRS@FRS, Sarah Dahlgren/NY/FRS@FRS, Patricia Mosser/NY/FRS@FRS, Susan McLaughlin/NY/FRS@FRS, Thomas Baxter/NY/FRS@FRS, Christine Cumming/NY/FRS@FRS, Michael Silva/NY/FRS@FRS, Meg McConnell/NY/FRS@FRS, Lucinda M Brickler/NY/FRS@FRS, Chris McCurdy/NY/FRS@FRS, Michael Held/NY/FRS@FRS, Til Schuermann/NY/FRS@FRS, William BRODOWS/NY/FRS@FRS

cc

Amy White/NY/FRS@FRS, Craig Leiby/NY/FRS@FRS, Kirsten Harlow/NY/FRS@FRS

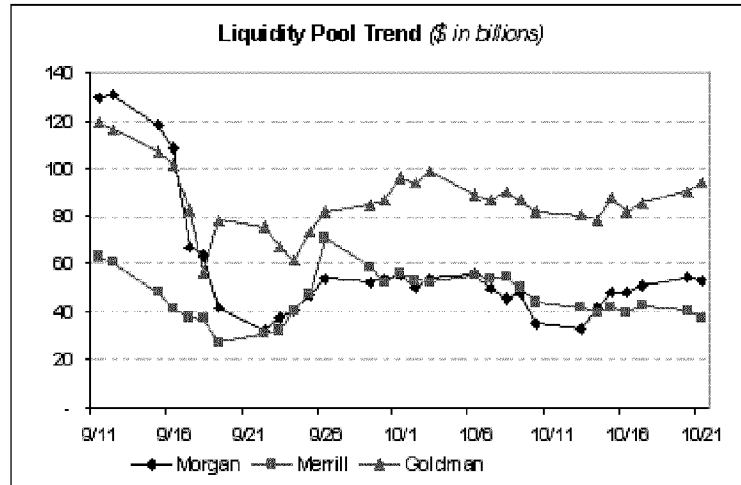
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Subject

Morgan, Goldman and Merrill Afternoon Update: October 22

**Summary**

Close attention on Merrill's liquidity pool continues, as they further investigate their options for alternative funding, should any unexpected outflows occur on Thursday and Friday (see below for details). On a positive note, all three institutions showed gradual signs of improvement in both the secured and unsecured space, with some greater signs of interest in term funding. Intraday collateral required for certain clearing/agency banks has also been reportedly on the decline for both Morgan and Goldman.



### Morgan

Liquidity Pool: Early estimate for liquidity pool is a drain of about \$1 billion from yesterday's close of \$53.3 billion.

Funding: In NY, some positive developments in the non-traditional FI space, as **Wells Fargo** and **Key Bank** increased their O/N funding of CP incrementally (WF from \$675 million to \$750 million; Key from \$600 million to \$700 million), while **Chase** came back into this market with \$1 billion in overnight money.

Prime Brokerage: Also very quite with balances stable. Wires out of about \$700 million are expected today for PB and IPB combined. Yesterday's activity was a net outflow of just over \$500 million.

Clearing Banks: Effective tomorrow, **DB** will no longer require the \$500 million deposit in NY to support EUR activity.

### Goldman

Liquidity Pool: Increased \$3 billion last night, to close at \$94 billion. Treasury staff informed us that over the next few days they will be redirecting collateral from GSCo to GSI to take advantage of GSI's significant overfunded position and reduce PDCF usage in New York. GSI's net funding position has been running \$8-10 billion higher than historic levels. GSCo is overfunded by \$4.5 billion and GSI is overfunded by \$45 billion.

Funding: As expected, GSI rolled \$1.7 billion with **BNP** and **Rabobank** (both v. equities, 1-3 month term); **Euroclear Bank** and **Axa** withdrew \$630 million. GSCo has extremely light maturities this week; no reportable counterparty comments/concerns to add.

Clearing Banks: **JPMC** agreed to allow Goldman to withdraw its \$3 billion cash balance; although noted it may request the maintenance of balances again as it deems necessary.

### Merrill

#### Liquidity Pool

Yesterday's pool was down by \$3.9 billion to \$36.8 billion. Today's pool is expected to be up \$1.6 billion to \$38.4 billion

Given the drop management is looking at a number of funding alternatives (some of which were mentioned yesterday):

ML is registered with the new CP program which is to start on Monday 10/27 and expect to utilize \$8 billion,

Conduit facility issuers were approached to fund \$3 to \$5 billion of ABCP (non-US domiciled loans which are not PDCF eligible),

Additional \$2.6 billion of the BAC secured lending facility available, and most importantly ML is in daily discussions with **BAC** on liquidity needs and ML management stated they are finalizing a \$5 to \$10 billion unsecured revolver along with, if needed, BAC to purchase ML CP overnight until the revolver is in place sometime next week. According to ML management, this CP purchase plan from BAC will be implemented if operating cash drops to \$20 billion before the end of this week.

Outflows: As has previously been reported, known large outflows through Monday include LTD maturities of \$3 billion on 10/23 and \$1.2 billion on 10/27.

Funding:

The repo trader reported seeing better funding conditions today with lower rates and tighter collateral spreads and noted that they did a one month term trade with **UBS O'Conner** for \$100 million for high yield collateral, the first one month trade since the Lehman default.

Tuesday, Merrill issued \$382 million in CP with a WAM of 1.8 days against \$444 million of maturities. Merrill was able to issue \$594 million in CP today with a 5 day WAM against \$343 million of maturities.

Fails: in the U.S Treasury market have decreased to \$28.6 billion down from \$36.5 billion on Monday.

**CPC Updates**

(Compiled by Craig Leiby)

Assignments: **Citi** reports **Morgan** (\$256 million) and **Goldman** (\$171 million) again among its top three counterparties.

Novations: **CS** noted that it turned down a novation request from a hedge fund client (**Basso Capital Management**) wanting to novate \$250 million of **MS** exposure. **CS** emphasized that it continues to accept nearly all novation requests for **MS** and continues to communicate directly with **MS** regarding discussion of any denied novation requests.

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Kirsten J. Harlow  
Federal Reserve Bank of New York  
Office: (212\_ 720-2912; Blackberry: (646) 413-1305  
kirsten.harlow@ny.frb.org