

JANUARY 7, 2010, 4:11 P.M. ET

CREDIT MARKETS: Sentiments Up On Expectation Of Rosy Jobs Report

By Prabha Natarajan and Romy Varghese

Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Anticipation of a solid payrolls report that highlights recovery kept credit markets buoyed on Thursday. A slew of new bond deals, both high-yield and investment-grade corporates, kept these markets busy.

As long as interest rates stay low, sales of new corporate bonds will continue at a robust pace, said John Lekas, manager of the Leader Capital Short Term Bond Fund.

"The Fed is keeping interest rates down and allowing corporations distribute their debt in a more balanced fashion and get their balance sheets in order," he said.

Investment Grade

The investment-grade corporate bond market saw \$4.5 billion in financial bonds Thursday, and investors turned their attention to Friday's payrolls report.

ING Bank offered \$1.75 billion in notes maturing in two and three years, and Macquarie Group \$1 billion 10-year notes. Irish Life & Permanent launched \$1.75 billion of government-backed three-year notes.

The most active investment-grade note was Citigroup's 5% note due September 2014 that last yielded 5.391%, according to Trace data.

The benchmark high-grade credit derivatives index, the Markit CDX IG13, was quoted 1 basis point wider to 78 basis points by Markit.

High Yield

The junk bond market is off to a flying start with just under \$4 billion of new bonds stacked up, according to KDP Investment Advisors. That's impressive considering \$1.59 billion of new deals have already been completed this year and it's only the first full week of January.

Much of the supply can be attributed to the fact that there was a big calendar of bonds at year-end still unsold and technicals continue to be very muscular, according to Brendan White, managing director and senior portfolio manager at Touchstone High Yield Bond Fund.

"As long as the market is open companies will continue to finance and refinance. There is a lot of cash out there," he said.

Qwest Communications International joined the queue of companies looking to raise cash in the junk bond market Thursday with a \$500 million issue that was expected to price later in the session. Energy Future Holdings, meanwhile, sold a larger-than-expected \$500 million bond, while PaeTec Holding completed a sale of \$300 million of bonds.

Mortgages

Agency mortgage securities took a turn this afternoon, with some selling to the strength, nearly \$6 billion was sold, according to one trader. Risk premiums widened as a result by 2 basis points to 128 basis points over comparable Treasury yields.

Meanwhile, the Fed bought \$12 billion net of agency mortgage securities over the week ended Jan. 6. The central bank continues to be a dominant buyer of these securities, despite its paring down the size of its weekly purchases from the \$25 billion range last year. The Fed's gross purchase stood at \$14.5 billion. The Fed's \$1.25 trillion purchase program sunsets at the end of the first quarter.

Commercial Paper

The U.S. commercial paper market fell by a huge margin on a seasonally adjusted basis, but rose slightly on an unadjusted basis in the week ended Jan. 6, according to Federal Reserve data released Thursday.

On a seasonally adjusted basis, the market fell by \$94.2 billion after gaining by \$10.8 billion in the week before. On an unadjusted basis, this week's increase totaled \$7.3 billion, after an increase of \$5.7 billion last week.

A contraction in this market, used by companies to finance day-to-day needs like payroll, can signal shrinking business activity.

On a seasonally adjusted basis, the market is now \$1.076 trillion in size, substantially down from a peak of \$2.2 trillion in July 2007. On an unadjusted basis, the market stands at \$1.159 trillion.

Covered Bonds

The covered bond market--especially in the U.S.--has been virtually nonexistent over the past two years. But covered bond volume in 2010 has already reached \$8.2 billion this year--the best start to any year since 2006 year to date when volume reached \$9.9 billion, Dealogic says. BBVA's \$2.9 billion mortgage issue sold on Jan. 5 stands as the largest covered bond deal since September 2009, when UBS sold a \$3 billion deal. Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitization, but covered bond assets remain on the issuer's consolidated balance sheet.

Asset-Backed Securities

Tidewater Auto Receivables is a \$106.25 million auto loan-backed asset-backed security currently being shopped. The deal is not eligible for the Federal Reserve's Term Asset-Backed Securities Loan Facility, or TALF program. The loan application deadline for TALF was Thursday. Only one deal, Ford's \$1.25 billion bond, sold ahead of this monthly deadline this week.

Treasurys

Treasury prices were down modestly late Thursday afternoon as many investors bet on an upbeat non-farm payrolls report. But the small losses also show some investors don't want to put big positions before the actual number comes out. Comments from Kansas City Fed President Thomas Hoenig that the central bank should raise interest rates "sooner rather than later" also spurred some selling. As of 3:42 p.m. EST, the two-year note was 2/32 lower to yield 1.03%, the 10-year note was 5/32 lower to yield 3.83% while the 30-year bond was 12/32 lower to yield 4.7%.