

The Afternoon Email

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Any stories from wire services are EST
Otherwise, times are CST

**All times Eastern**

15:18 08/01 **US TSYS/RECAP:** Tsys gyrated Wed: wild stocks-vs-bonds trade: 1) had firmed earlier as stocks ebbed as Beazer Homes' 41% stk fall (at one pt) fueled stk weakness, Tsys gain; Tsys gain late. Beazer denied bankruptcy protection filing. 2) Tsys safe-haven bid on subprime ABS/CDO, credit woe. 4) Street profit-taking on intermediate Tsys, real money sold 2s light but also Asian buying 5s earlier, others did good buying in 5Y futures. 5) Earlier brisk Asian buying in 10Ys; Street buying 2s, buy-&- hold accts buying 2Y,5Y,10Ys; foreign front end bid. 6) Tsys flatteners. 7) Stock mutual funds sell stocks, buy Tsbills. 8) T-bills, 10Y hot: RP. 9) Swap spds wider/mixed in wings in a.m.:light flatteners in 1yr spds, sell Jun08,Sep08 Eurodlr futs vs buy further; NY dealer sold appr 7,500 Dec07/Jun08/Dec08 flys vs ar08/Sep08/Mar09 fly on day at -8.5 to -9, likely liquidatn. 9) Late servicer flow:acct paid 1-4/64 for 5k Dec 10Y 108 calls, appr 6.01% vol vs. 5.68% settle. 8) Rumor 100K German Bunds & 25K US 10Y futures sold in UK;also in Tko, big 18K US 10Y buying- screen.

15:14 08/01 **US SWAPS:** Spds finished session well off earlier wides, the long end tighter with lower Tsy ylds. After reports of decent front end receiver interest from Asian accounts overnight, New York swap desks confirmed very light flow while spreads were directional with Treasuries, driven by the ongoing credit contagion theme. Some intermediate receiver interest preceded two-way in the belly by the midsession. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	+0.25/54.50	+0.50/67.00	+0.25/74.00	-0.50/77.50
12:15	+0.25/54.50	+0.75/67.25	+0.50/74.25	-0.25/77.75
11:00	+0.50/54.75	+1.25/67.75	+1.25/75.00	+0.00/78.00
10:15	+0.25/54.50	+1.00/67.50	+0.75/74.50	-0.25/77.75
9:25	-0.25/54.00	+1.00/67.50	+1.00/74.75	+0.00/78.00
Wed Open	+1.50/55.75	+2.00/68.50	+2.00/75.75	+0.75/78.75
Wed 7:35	+1.00/55.25	+1.75/68.25	+1.75/75.50	+0.50/78.50
Tue 3:00	-0.50/54.25	-1.50/66.50	-1.50/73.75	-1.25/78.00

15:26 08/01 **US TSY FUTURES:** Tsy futures finished the session steady to modestly higher in 5s to 30s after see-sawing throughout session. The Sep T-bonds settled 2/32 higher at 110-04, the Sep 10yr notes up 1.5/32 at 107-15, the Sep 5yr note .5/32 higher at 105-15.5, while the Sep 2yr note settled steady at 102-15.

(continued)

15:14 08/01 **US AGENCIES:** Swaps and GSEs get marked well off their wides of this morning but still mostly a touch wider than yesterday's 3PM numbers. Buying heard throughout the day, more front-end and/or callables than out the curve action.

Freddie June'09 +37.5 according to TradeWeb and other screens (vs Tuesday's 3PM mark of +37.5;

Fannie July'09 +38.5 (+38);

Fannie Mar'10 +43 (42.5);

Freddie Aug'10 +45.5 (+45);

Fannie May'12 +53 (+52.5);

Freddie Aug'12 +55 (+54);

Fannie June'17 +63 (+62.5);

Freddie Aug'17 +64 (+63);

Fannie Nov 2030 +66.5 (+66);

Freddie Jul'32 +65 (+65).

"I can not believe it is just Wednesday," said a trader. Speaking for myself and others - Friday can't come soon enough. Having said that, it will be interesting to see how we handle next week's Freddie Mac supply (\$3B or so 2/3Y). If past experience holds it should be a good sale no matter what is going on. If that dynamic changes, it could get, dare I say, more interesting."

15:26 08/01 **EURODLR FUTURES:** Eurodlr futures finished at or near midrange while the curve continued to give back last week's steepening. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, contracted 1.125 bps to 66.75. In the Fronts (Sep07-Jun08), the Sep07 were up 2.0 bps at 94-74.5 on combined Globex and pit volume of 415,000, the Dec07 up 3.0 bps at 94-93.5 on volume of 559,000, the Mar08 up 2.5 bps at 95-08.5 on volume of 669,000, while the Jun08 was 1.0 bps higher at 95-15.5 on volume of 548,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled steady to 0.5 bps higher across the pack with 1,179,000 contracts traded.

12:36 08/01 US: The Chicago Board Option's Exchange's volatility index or **VIX** is slipping in line with stock gains. The VIX stands around 23.50, down from an earlier high of 25.24 and up from Tuesday's low at 19.68 as well as an earlier low of 23.26.

13:10 08/01 **US TSYS/RESEARCH**: Stone & McCarthy's latest US Portfolio Mgr survey shows "changes in risk profiles were minimal and both measures of duration risk are effectively duration neutral. The Survey Mean Actual/Target Duration Ratio rose to 100% from 99.9% of bogey. The Asset-Weighted Actual/Target Duration Ratio was steady at 99.8% of bogey." The SMRA analysts also added that "both market sentiment and duration risk profiles converged in marginally bearish territory last week, suggesting that changes in risk profiles near-term will be modest. This week's data suggests that there is rising concern about the direction of the market, but an inclination to stay close to duration neutral. This is an unusually difficult environment, and portfolio managers appear to be attempting to cluster near duration neutrality, at least until some of the dust settles." Also, the survey found that "Treasury allocations dipped to 28.6% of assets from 29%."

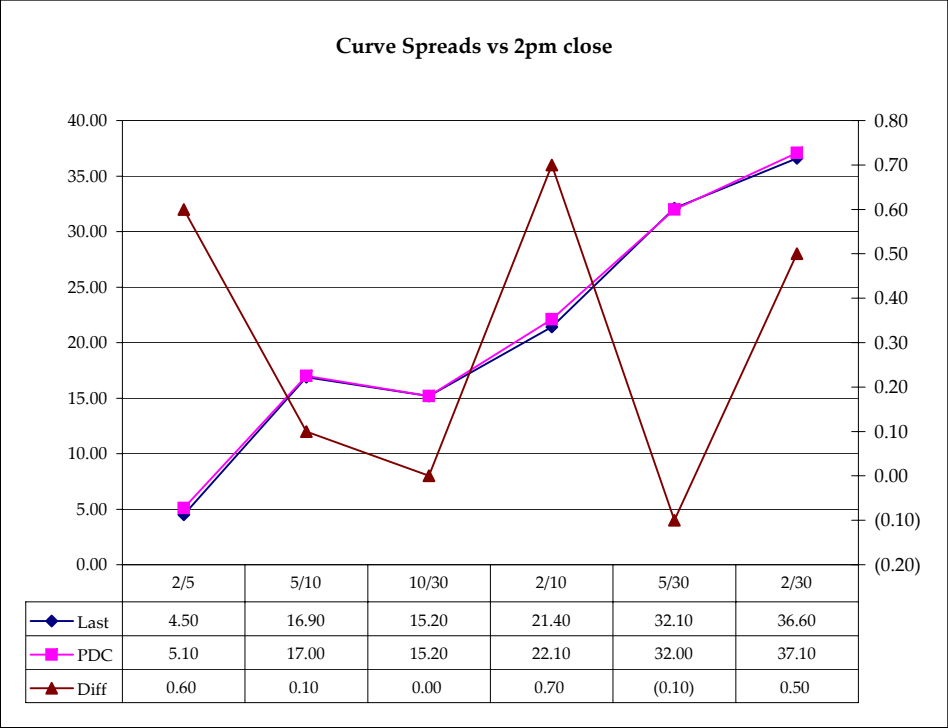
Table I—Forecast Summary	June	SMRA Est July	Survey Medians	
			MNI July 30	BBG July 30
Payrolls (000s)	132	120	125	130
Private (000s)	92	99		
Construction (000s)	12	-2		
Manufacturing Payrolls (000s)	-18	-14	-14	-15
Workweek (hours)	33.9	33.8	33.9	33.9
Index of Hours Worked (% chg)	0.5	-0.2		
Average Hourly Earnings (% chg)	0.3	0.3	0.3	0.3
Unemployment Rate (%)	4.5	4.5	4.5	4.5

13:41 08/01 **US TSYS/REPO**: The NY Fed had brisk borrowing by dealers today in various Tsys issues, with a total US\$9.917B in borrowing cited; - 1) Most borrowing of issues occurred in Aug. 0, 2007 T-bills where US\$3.037B in the issue was lent to dealers; there also was an outstanding loan of US\$1.758B in the issue too outstanding today. - 2) But there also was big borrowing in 10Y cash notes: Was US\$5.097B asked for, but Fed only lent out to dealers US\$2.97B.- 3) And also brisk borrowing in another T-bills, the Nov. 1, 2007, with US\$1.589B lent out by the Fed.

14:11 08/01 **US MBS/SubPrime**: Market sources are still bemoaning the ongoing series of rating agency announcements signaling the continued deterioration in subprime collateral with no rebound anywhere in sight. Yesterday, on top of Moody's announcement of tightening up their Alt-A ratings methodology and expectation of far greater losses, S&P again weighed in announcing that it placed ratings of 33 tranches from 10 U.S. CDOs backed by ABS on CreditWatch with negative implications. These tranches had a face value of \$1.025B and are collateralized substantially by subprime debt. This announcement was widely anticipated by the call last July 12th by S&P to lower ratings on 682 classes of subprime mortgages. The takeaway from S&P's move yesterday:

1)the agencies, still reeling by accusations of "too little too late" in their downgrades, are now out hunting for bear - not only in Alt- A and ABS, but quite possibly in CMBS as well, 2)still no mention of CDOs originated outside of US, which hold insignificant exposure to subprime, 3)still no word on CDO-squared,the most illiquid/opaque market segment.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	4.50	5.10	0.60
5/10	16.90	17.00	0.10
10/30	15.20	15.20	0.00
2/10	21.40	22.10	0.70
5/30	32.10	32.00	(0.10)
2/30	36.60	37.10	0.50



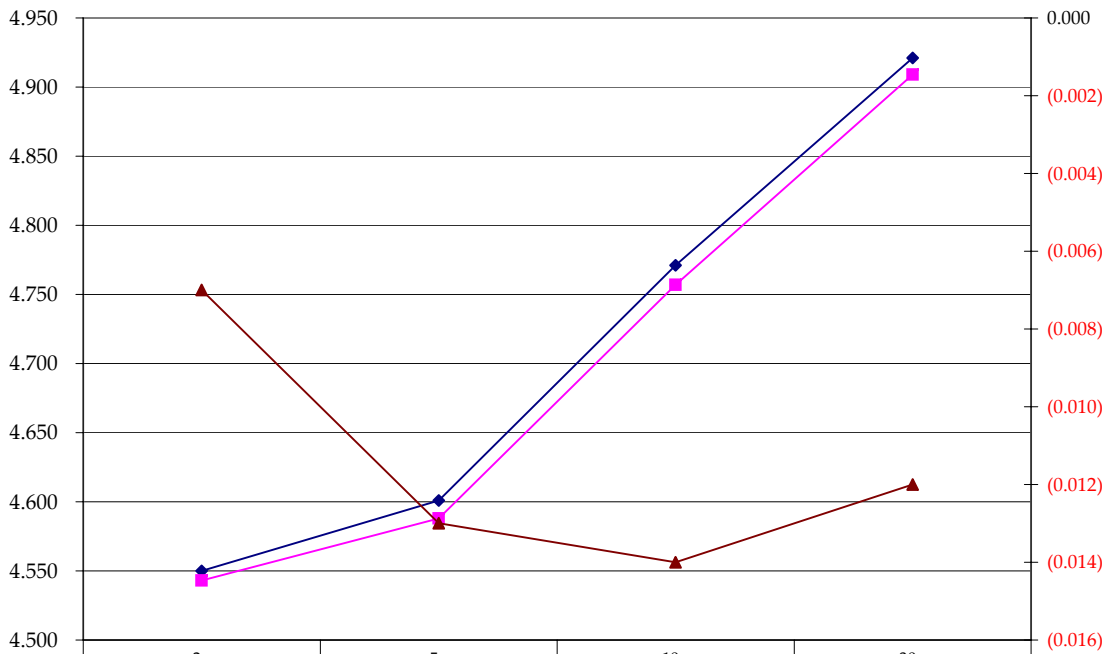
Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

Prior Day Close vs Today's Close - 2pm CST

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	4.625	7/31/09	100.0425	4.550	4.543	(0.007)		
5y	4.625	7/31/09	100.0325	4.601	4.588	(0.013)	20.62	21.87
10y	4.500	5/15/17	97.285	4.771	4.757	(0.014)	64.19	66.79
30y	4.750	2/15/37	97.11	4.921	4.909	(0.012)	197.02	203.85

	PDC 32	TC
ZF	105.150	105.150
ZN	107.135	107.145
ZB	110.02	110.010

Prior Day Close vs Today's Close - 2pm CST



	2y	5y	10y	30y
◆ 2pm CIs	4.550	4.601	4.771	4.921
■ Last	4.543	4.588	4.757	4.909
▲ Diff	(0.007)	(0.013)	(0.014)	(0.012)

Notes:

Basis = (Cash Decimal - (Futures Decimal * CF))*32

32 = price is quoted in 32nds

TC = Today's Close at 2pm

PDC = Prior Day's Close at 2pm

Eurodollar Packs, Fed Fund minus Treasuries

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	5.154	2.125	9498.000
Q.ED.Red	5.015	0.250	9511.250
Q.ED.Green	5.295	0.750	9484.500
Q.ED.Blue	5.533	1.250	9461.625
Q.ED.Gold	5.715	1.000	9444.125
Q.ED.Purple	5.715	1.000	9444.125

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	07/17/2007
Fed Funds - 2yr yield	73.7	-5.1	43.3
Fed Funds - 5yr yield	69.2	-4.5	35.9
Fed Funds - 10yr yield	52.3	-4	26.5
Fed Funds - 30yr yield	37.1	-2.2	18.1
GFER	5.28	3	

