

The Afternoon Email

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

**All times Eastern**

15:05 08/08 **US TSYS/RECAP:** Tsys dipped lower amid 1) stronger stocks (DJIA +0.91%, FTSE-100 +1.35%), higher CDXs, stronger corporate bonds 2) so-so US\$13B 10Y sale: 32.1% indirects, 67.5% dealer bid, 0.4% direct, 4.855% high yield (53.4% allotmt), 2.3 cvr. 3) While market slid however, there was real domestic and foreign buying: Street and buy-and-hold account buying and leveraged accounts buying in 5s, but fast money sellers of intermediates. 4) Earlier, was fast money selling 5Ys; 5) dealer pre-10-yr short-setting, 6) corporate rate-lock selling in morn; 7) buy- and-hold accts buying 2Ys, intermediates, lvrgrd accts buying 5Ys, early real money corp-tied buying in 10Y futures. 8) German Bunds weak. 7) Eurodlr futures: better selling in fronts to intermediates all day (fair part deal-tied with some \$10B in corps placing) & some sporadic profit-tkg in front end late, buyers of Reds, Greens, a German bank +1k of latter. 8) Very heavy put buying on day, some 500k Sep 46 puts trade outright on screen and pit, vols off. Swap spds tightest of day on 2-way.

15:25 08/08 **US TSYS/RECAP II:** On a 3p.m. Tues to 3pm ET Wed basis close, the cash 2-year note yield rose 9.2 bps to 4.641%. The 3-year yield rose 11.4 bps to 4.640%, while the 5-year rose 11.6 bps to 4.696%. The 10-year yield rose 11.4 bps to 4.861%, and the 30-year yield rose 11.7 bps to 5.021%. The 2-year/5-year curve steepened 2.4 bps to +5.5 bps, the 2-year/10-year steepened 2.2 bps to +22.0 bps, and the 2-year/30-year steepened 2.5 bps to +38.0 bps. (Follows 15:05, 15:06 pm ET bullet with NY session flow details, summary; also, see Market at a Glance "US close" summary to be out shortly; summary moves 3 times per day in NY session (8am ET, 11:30am-ish ET, soon after 3:30pm ET).)

15:24 08/08 **EURODLR FUTURES:** Eurodlr futures finished a little off session lows as equities pare gains. Curve off flatter levels, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 3.5 bps to 59.25. In the Fronts (Sep07-Jun08), the Sep07 were in 3.5 bps at 94-67 on combined Globex and pit volume of 579,000, the Dec07 in 6.5 bps at 94-87.5 on volume of 530,000, the Mar08 in 8.5 bps at 95-04 on volume of 626,000, while the Jun08 was 9.5 bps lower at 95-10 on volume of 471,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 8.0 to 9.5 bps lower across the pack with 1,008,000 contracts traded.

(continued)

15:19 08/08 **US TSY FUTURES:** Tsy futures finished the session off session lows, rebounding slightly in response to equities paring gains. The Sep T-bonds settled 1-8/32 lower at 108-30, the Sep 10yr notes lower 2-4.5/32 at 106-27.5, the Sep 5yr note 15/32 lower at 105-00, while the Sep 2yr note settled 5.75/32 lower at 102-08.

15:09 08/08 **US: Paulson** reiterates met with many senior officials in China, including Pres. China wants to strengthen relationships with US. Doesn't know officials who raised "nuclear" option. China would like to boost investment in US. "Welcomes" SWF investments in US, is "ultimate vote of conf." in US econ.

15:11 08/08 **US: Tsys Sec Paulson** on CNBC: 'Absurd' that China would liquidate U.S. TTsy holdings.

15:09 08/08 **US SWAPS:** Spds off tight on the bell, flow remained two-way in fronts/intermediates with no set bias early. Some desks said decent portion was corp related w/\$10B placing. On heels of swap-tied receiver interest in 10s, paying-tied flow in 1-, 2-yr bundles, receivers in Reds (Sep08-Jun09) and Greens (Sep09-Jun10) noted. Reds came under heavy pressure mid-morning by non-swap-tied accts. Amid pre-auction short setting, similar two-way in fronts to intermediates on rate and spread in Tsy space. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-2.75/51.25	-4.00/60.50	-3.50/67.75	-3.25/70.25
1:40	-3.00/51.00	-4.50/60.00	-4.50/66.75	-4.00/69.50
12:00	-2.25/51.75	-3.50/61.00	-3.50/67.75	-3.00/70.50
10:35	-2.50/51.50	-3.50/61.00	-3.50/67.75	-3.25/70.25
8:15	-2.50/51.50	-4.25/60.25	-3.75/67.50	-3.50/70.00
Wed 7:40	-2.25/51.75	-4.50/60.00	-5.00/66.25	-4.25/69.25
Tue 3:00	-2.50/54.00	-1.75/64.50	-1.75/71.25	-1.50/73.50

10:14 08/08 **US TSYS/RESEARCH:** UBS bond analysts noted that "the Fed left everyone in the markets with something to hang their hat on after the release of the latest FOMC statement" as "while clutching their inflation-fighting chits tightly to their chests, the Fed acknowledged that all may not be well in Camelot." The UBS analysts predicted that market's attention "will now turn back to the road, as traders squint and peer over the tightly-held wheel looking for the next othole" and predicted conditions are "ripe for a further unwind of position and valuation excesses in Treasuries in the next week or two. Specs are historically long while Monday's hammer bottoms in yields hint that the near term path in rates is now higher."

11:00 08/08 **CARRY TRADES:** Plenty of demand for carry trades today as the yen skids lower across the board, traders variously noting strong demand for sterling, Cad, Aussie, kiwi, Brazil, Zar, Mex, Turkish lira and others as risk appetites blossom and as model and momentum accounts return to the markets in force.

11:19 08/08 **US AGENCIES/OPINION:** Lehman Brothers says of possible removal of **GSE** caps by OFHEO - "Our view is that it is likely that OFHEO will allow the GSEs to participate to a greater degree, albeit within their usual market of conforming loans. We expect that the GSEs will purchase high-rated non-agency Alt-A/subprime mortgages and fund with shorter maturity paper."

11:45 08/08 **US MBS/SubPrime:** S&P ongoing teleconference call on the US Banking sector: Banks are exposed to hedge funds primarily through their prime brokerage and secured lending operations. The exact level and risk of exposure is heavily dependent on their exact margin positions. "We don't think there is a massive hedge fund issue brewing. There are in fact some funds that are doing rather well. Further, the margin and repo loans that banks have made to hedge funds seem to be working as obligations are well collateralized and fairly conservative. The bottom line is that we are not expecting problems with banks because of hedge funds."

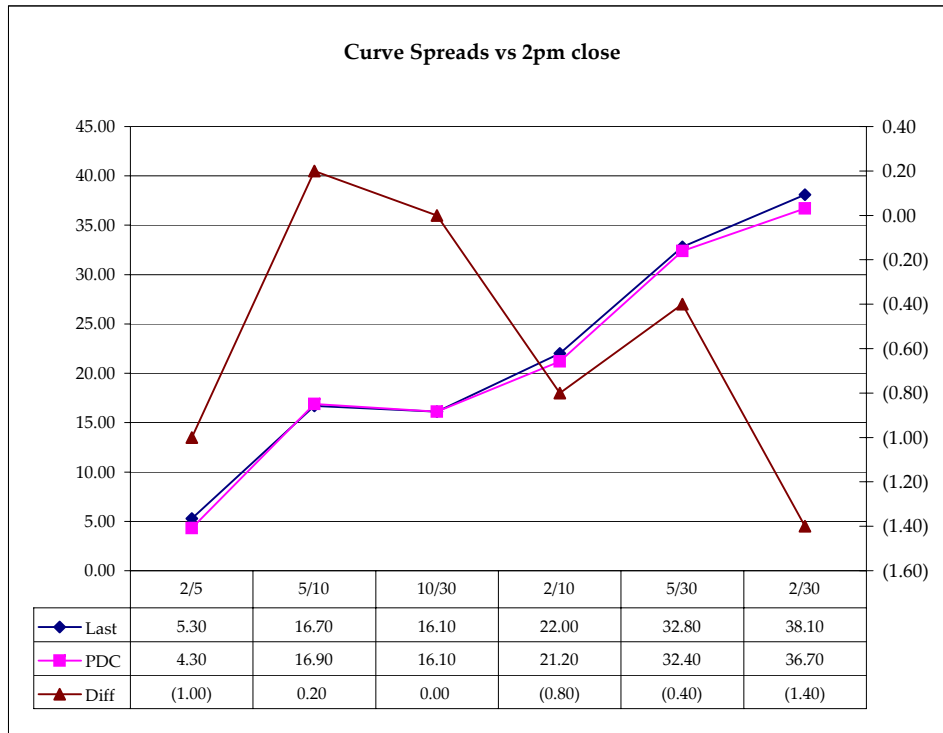
11:51 08/08 **US MBS/SubPrime: S&P** ongoing conference call on the US Banking sector: While the US residential mortgage market as a whole has slowed in volume, several large banks have actually increased market share. Increase in Mortgage Originations - % - (2007Q2 - 2007Q1)

Citigroup	16.67
JP Morgan	29.33
Bank of America	24.75
Wachovia	4.92
Wells Fargo	17.65
US Bancorp	39.49
Washington Mutual	6.40
Countrywide Financial	11.31

13:31 08/08 **US MBS/Alt-A:** Bankruptcy of American Home Mortgage made it the 2nd largest mortgage lender to file after New Century. According to data from UBS, unlike scores of tiny mom-and-pop subprime originators, American Home was 7th largest Alt-A originator in USA.

Top Alt-A Issuers (as of Q1'07) \$Millions			
Rank	Issuer	\$Mln	2006 Share
1	Countrywide Financial	\$61,998	14.0%
2	Residential Funding Corp.	\$28,790	7.6%
3	Bear Stearns	\$38,946	7.5%
4	Lehman Brothers	\$25,873	7.1%
5	Washington Mutual	\$14,829	6.5%
6	IndyMac	\$28,225	5.6%
7	American Home Mortgage	\$12,962	5.6%
8	Citigroup	\$4,456	4.9%
9	RBS Greenwich Capital	\$4,453	4.6%
10	Goldman Sachs	\$4,080	4.2%

Yield Curve Spreads			
	TC	PDC	Diff
2/5	5.30	4.30	(1.00)
5/10	16.70	16.90	0.20
10/30	16.10	16.10	0.00
2/10	22.00	21.20	(0.80)
5/30	32.80	32.40	(0.40)
2/30	38.10	36.70	(1.40)



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

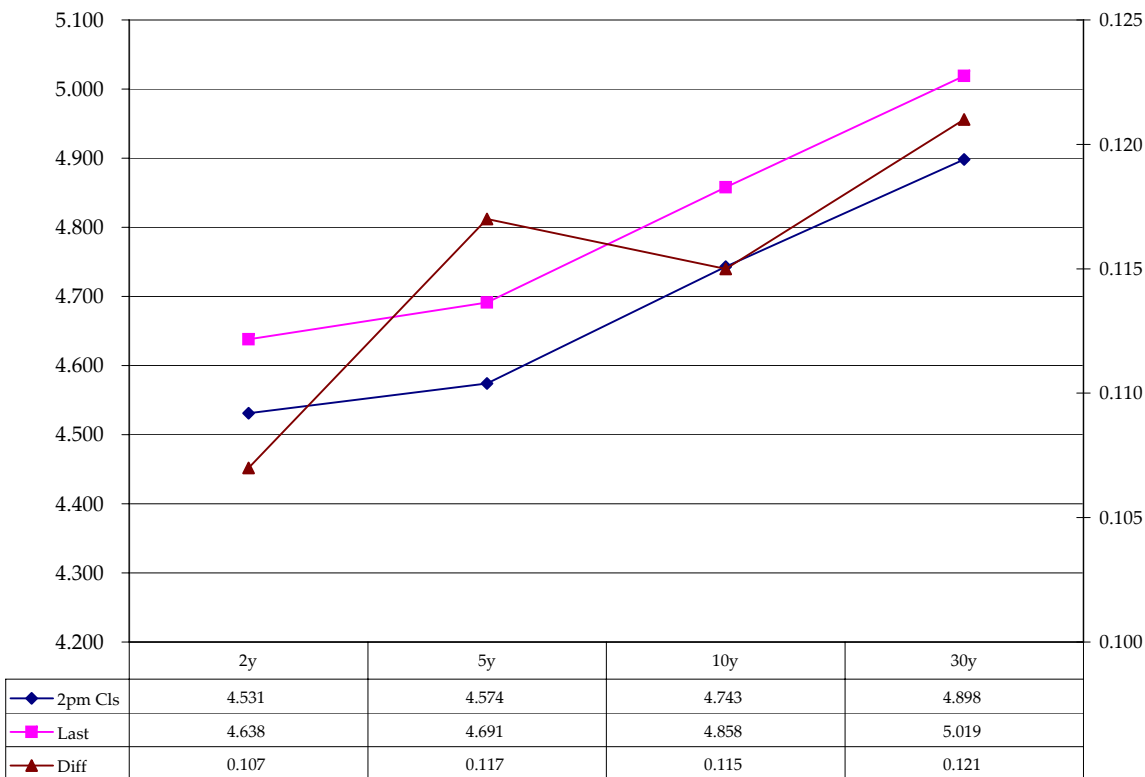
Prior Day Close vs Today's Close - 2pm CST

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	4.625	7/31/09	100.0525	4.531	4.638	0.107		
5y	4.625	7/31/09	100.0700	4.574	4.691	0.117	23.43	22.49
10y	4.500	5/15/17	98.035	4.743	4.858	0.115	67.17	58.75
30y	4.750	2/15/37	97.23	4.898	5.019	0.121	205.21	178.68

	PDC 32	TC
ZF	105.160	104.315
ZN	107.180	106.275
ZB	110.06	108.290

Showing the old 10yr.
Roll was (1.5) bps.

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



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	5.218	-7.250	9491.875
Q.ED.Red	5.099	-9.375	9503.375
Q.ED.Green	5.321	-6.875	9482.000
Q.ED.Blue	5.545	-7.250	9460.500
Q.ED.Gold	5.717	-6.000	9444.000
Q.ED.Purple	5.717	-6.000	9444.000

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	07/17/2007
Fed Funds - 2yr yield	62.2	-7.5	43.3
Fed Funds - 5yr yield	56.9	-8.5	35.9
Fed Funds - 10yr yield	40.2	-7.6	26.5
Fed Funds - 30yr yield	24.1	-7.9	18.1
GFER	5.26	0	

