The Afternoon Email

Table of Contents

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

All times Eastern

15:13 08/10 **US TSYS/RECAP**: Tsys end Fri mixed, short end higher, long end bit lower, after rangebound p.m. trading, late dip after a.m. safe-haven bid in Tsys due to weak U.S. stocks, fear of more subprime ABS/CDO weakness. DJIA -0.86%, FTSE-100 -3.71%, DAX -1.48%. Tsys drew hedge fund buying and buy-and-hold accounts buying in intermediates, financial institution buying in 5Ys, some Street profit-taking in 2Ys, buy-and-hold accounts taking profits in 5Ys, 10Ys. ECB loaned E61.05bln (US$83.5bln) in operation; US Fed added US$38B to banking system via 3 rounds of weekend system RPs. Hedge/leverage funds bought Euribor, Schatz heavily this morning. But later there was some asset allocation trades out of global bond mkts. In p.m. Tsys appeared to wane as many headed for sidelines after wild week. Morning: Eurodollar futures had decent dealer buying in fronts to intermediates, more short cover/risk aversion flow. Flows turned two-way mid morning as stocks choppy, Eurodlr curve active amid some sellers in Greens,Blues. Vols up but off high. (More)

15:05 08/10 **US SWAPS**: Spds finished session off wides by the close, action in the second half largely absent as FI mkts traded in a range. While several desks reported ongoing modest two-way with a bias towards paying in the fronts to intermediates, others reported decent curve steepener flow on the open. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:00	+3.25/60.00	+1.75/66.00	+1.25/70.50	+0.75/69.50
1:35	+3.50/60.25	+2.00/66.25	+1.50/70.75	+1.00/69.75
11:00	+3.75/60.50	+2.00/66.25	+1.75/71.00	+1.00/69.75
10:15	+3.75/60.50	+1.75/66.00	+1.25/70.50	+1.25/70.00
9:45	+4.50/61.25	+2.00/66.25	+1.50/70.75	+1.25/70.00
8:45	+4.00/60.75	+1.75/66.00	+1.50/70.75	+1.25/70.00
Fri Open	+5.50/62.25	+3.00/67.25	+2.75/72.00	+1.50/70.25
Thu 3:25	+5.50/56.75	+4.25/64.25	+2.50/69.25	-0.75/68.75

(continued)

15:17 08/10 **US TSY FUTURES:** Tsy futures finished the session at or near session lows, a return to some normalcy as after the Fed injected $38B in liquidity? We'll see on Monday. The Sep T-bonds settled 1/32 lower at 109-03, the Sep 10yr notes lower .5/32 at 107-11.5, the Sep 5yr note 1.5/32 lower at 105-13.5, while the Sep 2yr note settled steady at 102-17.

15:21 08/10 **EURODLR FUTURE**S: Eurodlr futures finished a well off session highs, near the bottom of the range as the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 0.25 bps to 66.00. In the Fronts (Sep07-Jun08), the Sep07 were up 0.5 bps at 94-76.5 on combined Globex and pit volume of 571,000, the Dec07 up 4.5 bps at 95-08.5 on volume of 722,000, the Mar08 up 2.0 bps at 95-24.5 on volume of 826,000, while the Jun08 was 0.5 bps higher at 95-27.5 on volume of 671,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled steady to 0.5 bps higher across the pack with 1,330,000 contracts traded.

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

09:16 08/10 **FED:**'Fed is providing liquidity for orderly markets. To provide reserves 'as necessary through open market operations, to promote fed funds at rates close to 5.25%. See 'unusual funding needs' re dislocations. Discount window an available source of funding.

09:17 08/10 **REACT:** Dollar mixed after the Fed statement as euro-yen vaults over Y161.00 as stock futures pare losses.

09:18 08/10 **US TSYS:** Traders appplaud Fed communication that will provide liquidity
for orderly markets. One thought that would calm the US stocks market a bit. "Put on curve flatteners," he added.

09:19 08/10 **EURO-DOLLAR**: Lifts to Y1.3685 area in the wake of the Fed statement that it stands by to provide liquidity at the Fed funds rate of 5.25%. Lift sees euro stalling shy of reported offers around $1.3700 with markets still watching US stocks for trading cues.

09:20 08/10 **BUNDS**: Sept Bunds once again shadowing US Treasuries lower as the Fed provides soothing words and ensures it will provide liquidity to facilitate the orderly functioning of financial markets.

09:22 08/10 **U.S. STOCKS:** Futures holding losses of about 87 points now, pared from the 130 or so seen prior to the Fed announcement and vs the 160 or so early in the US trading day. Nasdaq futures are down about 12.

11:05 08/10 **US FED**: The Fed now has done a total of US$35B via 2 weekend system repos; it did a US$16B weekend system repo most recently and a US$19B
weekend system repo earlier; in both cases, it was all MBS collateral accepted (though Fed had said in both cases that it would accept agency, MBS or Tsys debt as collateral.) The fed funds rate is still at 5.37%.

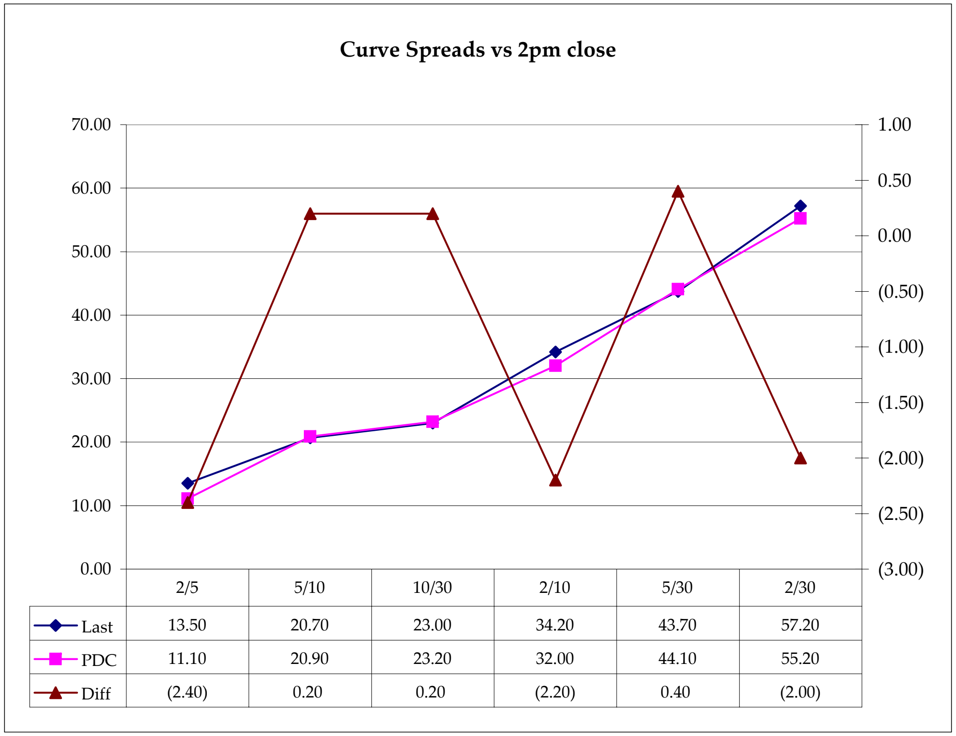
09:57 08/10 CREDIT:2, **Countrywide Financial** has been in focus as the firm gave a profit warning after the bell in the US Thursday. The company said that "the secondary market and funding liquidity situation is rapidly evolving and the potential impact on the company is unknown", although adding that conditions may continue to worsen. However the theme of "liquidity getting worse=lower earnings" has been downplayed by the market, as although it is important, it is a recurring theme that mortgage lenders are expressing to the market this week, and is already largely discounted.

10:59 08/10 **US FED**: FOA Economics Bob Brusca says FF market "is just beginning to show some stress but the levels of stress are not as intense as you might expect from the market reactions. This suggests that banks are not at the center of this storm, but securities firms are."

13:04 08/10 **US FED**: The Fed did a total of $35B in two weekend system repos Friday, one for $19B first thing this morning and another for $16B later in the morning. The federal funds rate has been hovering around 5 3/8% much of day and is now around 5.25%. With FF trading at a level low enough to indicate fairly stable conditions," Tony Crescenzi of Miller Tabak said, there was no obvious need for additional action from the Fed. "Moreover, commercial paper issuers were apparently able to obtain funding at normal levels, too. Hence, between both the fed funds and commercial paper markets were trading in ways that suggested that both banks and corporations were having very little difficulty obtaining short-term funding today." Crescenzi says decision to do 2 operations could mean: 1) There is great strain in market than is evident or 2) Fed simply wanted assure there was extra liqudity. "It seems best to rely upon market prices in this environment and believe that the Fed's second action were meant to provide a surfeit and were not a response to a problem that perhaps the Fed knows more about than the rest of us."

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	13.50	11.10	(2.40)
5/10	20.70	20.90	0.20
10/30	23.00	23.20	0.20
2/10	34.20	32.00	(2.20)
5/30	43.70	44.10	0.40
2/30	57.20	55.20	(2.00)



Notes:

TC = Today's Close at 2pm

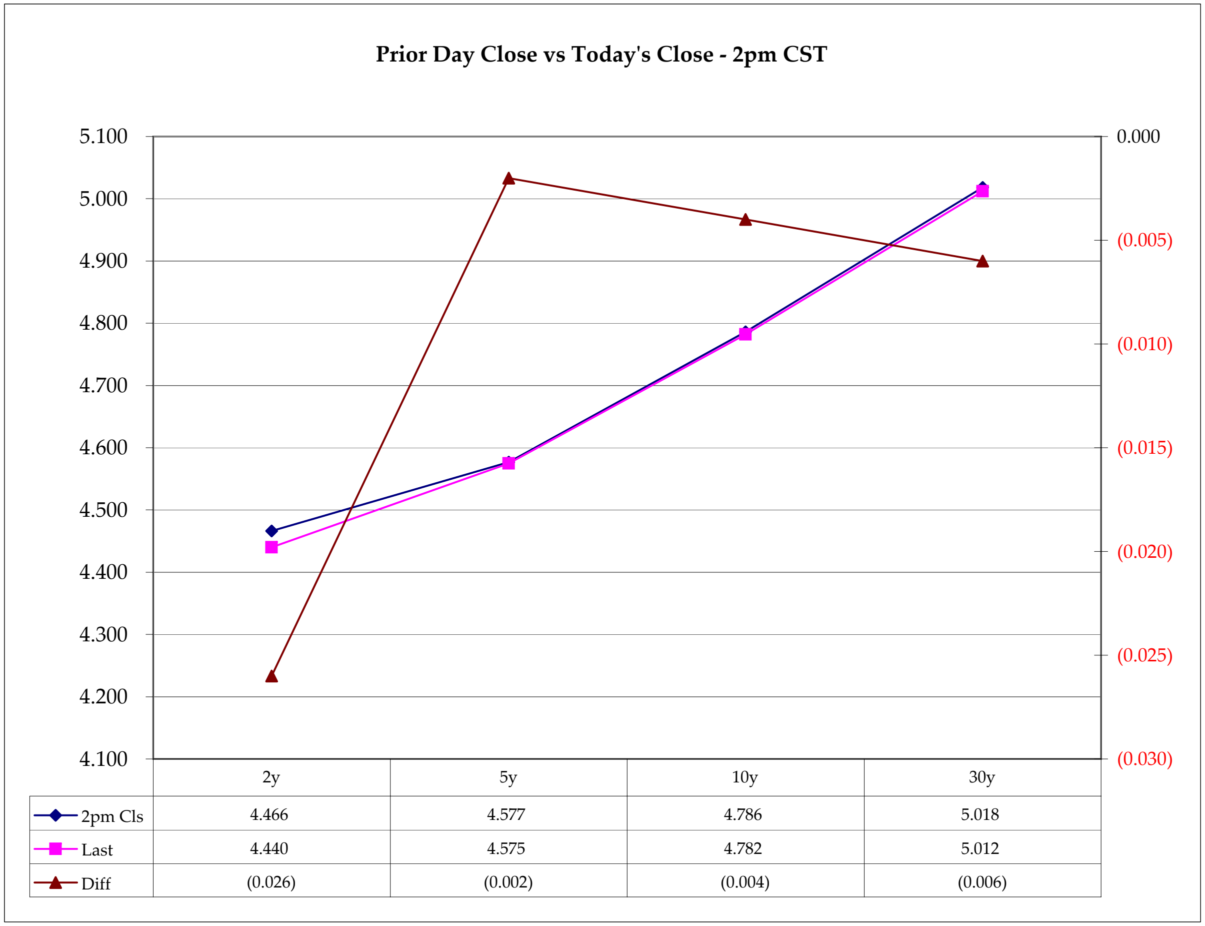
PDC = Prior Day's Close at 2pm

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

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis PDC	Basis TC
2y	4.625	7/31/09	100.0900	4.466	4.440	(0.026)		
5y	4.625	7/31/09	100.0650	4.577	4.575	(0.002)	23.87	24.85
10y	4.750	8/15/17	99.230	4.786	4.782	(0.004)	69.05	67.69
30y	5.000	5/15/37	99.23	5.018	5.012	(0.006)	179.15	179.56

	PDC 32	TC
ZF	105.150	105.145
ZN	107.120	107.135
ZB	109.04	109.070

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



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	5.041	1.500	9508.875
Q.ED.Red	4.997	-0.750	9513.125
Q.ED.Green	5.284	-1.625	9485.500
Q.ED.Blue	5.480	0.875	9466.750
Q.ED.Gold	5.668	1.000	9448.625
Q.ED.Purple	5.668	1.000	9448.625

Fed Funds Daily Effective Rate

Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	07/17/2007
Fed Funds - 2yr yield	97	14.5	43.3
Fed Funds - 5yr yield	83.5	14	35.9
Fed Funds - 10yr yield	62.8	13.6	26.5
Fed Funds - 30yr yield	39.8	15.1	18.1
GFER	5.41	14