

## **The Afternoon Email**

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



All times Eastern

15:28 08/13 **US TSYS/RECAP:** US Tsys dipped early Mon amid higher stks, 0.3% July retail sales, then climbed higher amid short-covering, ABCP/credit nerves, stks losing partial gains. Early on, there was 1) buy-and-hold accts buying 2Ys and intermediates; 2) Street in mixed flows in 10Ys; 3) some buy-and-hold acct profit-tkg earlier in 2Ys. 4) leveraged account in 2y/10Y flatteners too. 5) May 2017 10Y mildly special in overnight RP, 3.5%. 6) 3M US\$ dollar Libor rate reflected lending jitters. 7) Mild corporate rate-lock selling early; 9) AAA-rated Johnson & Johnson to do US\$2.5B 3-parter in 5Ys, 10Ys 30s. 10) Foreign accts quiet. 11) Eurodlr futures, 2-way with front end receivers and modest safe haven unwinds this morning, then chunky tho sporadic front-end receiver-tied support this p.m., Eurodlr futures curves steeper as risk aversion bid resumed. 13) Vols lower, 14) servicers buy out-of-money puts in morn. 15) Fed did US\$2B o/night system RP. 16) J&N deal got upsized to US\$2.5B; also could be unwind of corporate rate-lock selling; 17)also likely short-covering.

15:20 08/13 **EURODLR FUTURES:** Eurodlr futures finished well off session lows, near the top of the range as the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), steepened 3.375 bps to 69.375. In the Fronts (Sep07-Jun08), the Sep07 were lower 3.5 bps at 94-73.25 on combined Globex and pit volume of 331,000, the Dec07 in 4.5 bps at 95-04 on volume of 439,000, the Mar08 in 1.0 bps at 95-23.5 on volume of 535,000, while the Jun08 was unched at 95-27.5 on volume of 367,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled steady to 1.0 bps lower across the pack with 806,000 contracts traded.

15:04 08/13 **US SWAPS:** Spds finished session mostly wider, well out from earlier levels as Tsys regained modest risk aversion support in second half. Desks reported moderate front end receiving in Eurodlr space. NY swap desks reported similar flow while some were "fighting the flattener" move early. While long term accts sponsored the front end, Tsy sources reported swap-tied receiver interest in 2s and 3s, others were payers in 10s. Some chunky front end receiving in second half. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:00	+0.00/60.00	+1.50/67.25	+1.50/72.00	+1.25/70.75
1:20	-1.25/58.75	+1.25/67.00	+1.25/71.75	+1.25/70.75
12:00	-1.25/58.75	+0.25/66.00	+0.25/70.75	+0.50/70.00
10:30	-2.25/57.75	-0.50/65.25	-0.25/70.25	+0.00/69.50
9:10	-3.25/56.75	-0.75/65.00	-0.75/69.75	+0.00/69.50
Mon Open	-1.75/58.25	+0.00/65.75	+0.25/70.75	+0.75/70.25
Fri 3:00	+3.25/60.00	+1.50/65.75	+1.25/70.50	+0.75/69.50

(continued)

15:16 08/13 **US TSY FUTURES:** Tsy futures finished the session mostly higher, Sep T-bonds settled 5/32 higher at 109-15, the Sep 10yr notes higher 1.5/32 at 107-17, the Sep 5yr note .5/32 higher at 105-16.5, while the Sep 2yr note settled .25/32 lower at 102-17.5.



10:36 08/13 **CREDIT: (1 of 2) Goldman Sachs** has announced it will inject new capital into its Global Equity Opportunities fund after the "quant" hedge fund lost 28% of its value in the past 2 weeks. The investment bank reportedly said the performance of the fund and the Global Alpha fund had suffered significantly due to the volatility of markets in recent weeks. The algorithms used apparently did not predict the movement of many stocks would be so extreme and indeed that the direction could be opposite to the one expected, despite decades of back testing of the systems. C.V. Starr & Co, Perry Capital LLC and Eli Broad will also invest as the managers of the funds said they consider the current levels of some positions as attractive investment opportunities, especially given current fundamentals.

10:37 08/13 **CREDIT: (2 of 2)** The problems underline some of the perverse price action seen in both the credit and stock markets last week, where "favourite shorts" were seen to be squeezed by the broader market, causing securities to trade against the wider flow of the market. These long/short funds effectively saw the relationship between stocks dislocate in a much more perverse way than their models had expected, as the illiquidity in markets meant that de-leveraging compounded the funds' offside positions. The question is now whether when liquidity returns and extra capital is put to work that these "anomalies" right themselves, or if funds 'doubling up' in this way will lead themselves into further problems if or when sub-prime/liquidity issues rock the markets again.

10:24 08/13 **US TSYS/REPO:** The current May 2017 10Y notes are special in overnight RP at 4.10%; old 30s mildly special at 5.05%. Fed today did US\$2B in overnight system RPs; fed funds are now a bit above 5.25% target at 5.31%.

Tsy General O/N Coll. 5.17%

Federal Funds last at 5.25%

Mortgage-Backed N/A

Agencies N/A

US Tsys:	Current Issue	Old Issue
2-year note .....	5.10%	5.15%
3-year note .....	5.20%	5.20%
5-year note .....	5.10%	5.10%
10-year note .....	4.10%	5.15%
30-year bond.....	5.10%	5.05%

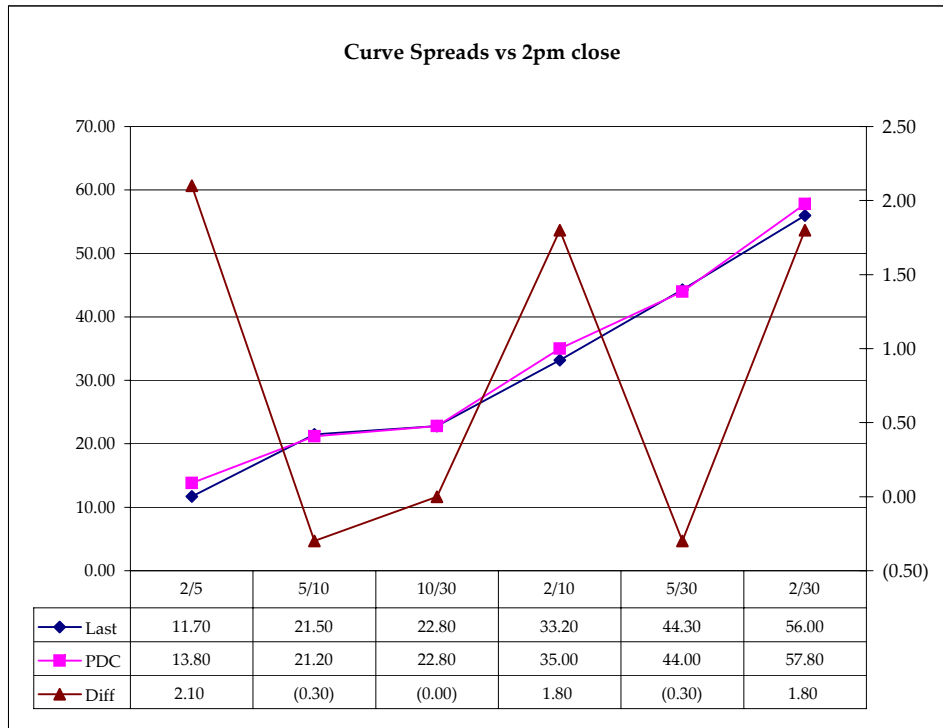
10:34 08/13 **US TSYS/LIBOR:** Treasuries traders noted that the 3-Month US dollar Libor rate has actually come down a tiny bit to 5.5575% vs. 5.7575% last Friday. They noted that this contrasts with the 3M Euro Libor, which rose to 4.51188% today from 4.45375% last Friday with very wide spreads.

"A serious deterioration in markets or spreading credit crunch could prompt a quick **Fed move**. Futures markets have priced in the possibility of a rate cut even before the Fed's next scheduled meeting, Sept. 18. If the situation doesn't improve, a Sept. 18 rate cut is likely." —Greg Ip (WSJ)

10:09 08/13 **US MKTS/FED:** Economist Bob Brusca of FAO Economics notes the Fed's liquidity injection on Fri forced the funds rate to a 0% low, and says the effective Fed funds rate was the lowest in over a year at 4.68%. He says "we're drowning in liquidity."

11:42 08/13 **US VIEW:** Ian Morris of HSBC describes two types of market crunches - with different Fed responses. During a short-term financial crunch such as the LTCM in 1998 and the 1987 stock crash, the Fed cut by 75bps over a 2 1/2 month period in 1998 and by 82.5bps after the 1987 crash and then began to raise rates in subsequent months. However, long-term macro crunches, such as that seen during the S&L crisis during the early 1990s and the tech crash in 2000, required longer easing cycles. "The Fed eased nearly 700bps in the early 1990s and 550bps in the early 2000s," Morris says. If events unfolding currently develop into a LT macro crunch, then the Fed "should not only cut rates in September and again in October, it should be cutting in 50 bps steps and will eventually cut rates to 1-2% as a full blown credit crunch recession develops," he says. Morris stresses however that while stocks have tanked and spreads widened, the size of the move does not "qualify as a full-blown crunch" and therefore "conditions do not merit a cut now".

Yield Curve Spreads			
	TC	PDC	Diff
2/5	11.70	13.80	2.10
5/10	21.50	21.20	(0.30)
10/30	22.80	22.80	(0.00)
2/10	33.20	35.00	1.80
5/30	44.30	44.00	(0.30)
2/30	56.00	57.80	1.80



**Notes:**

TC = Today's Close at 2pm

PDC = Prior Day's Close at 2pm

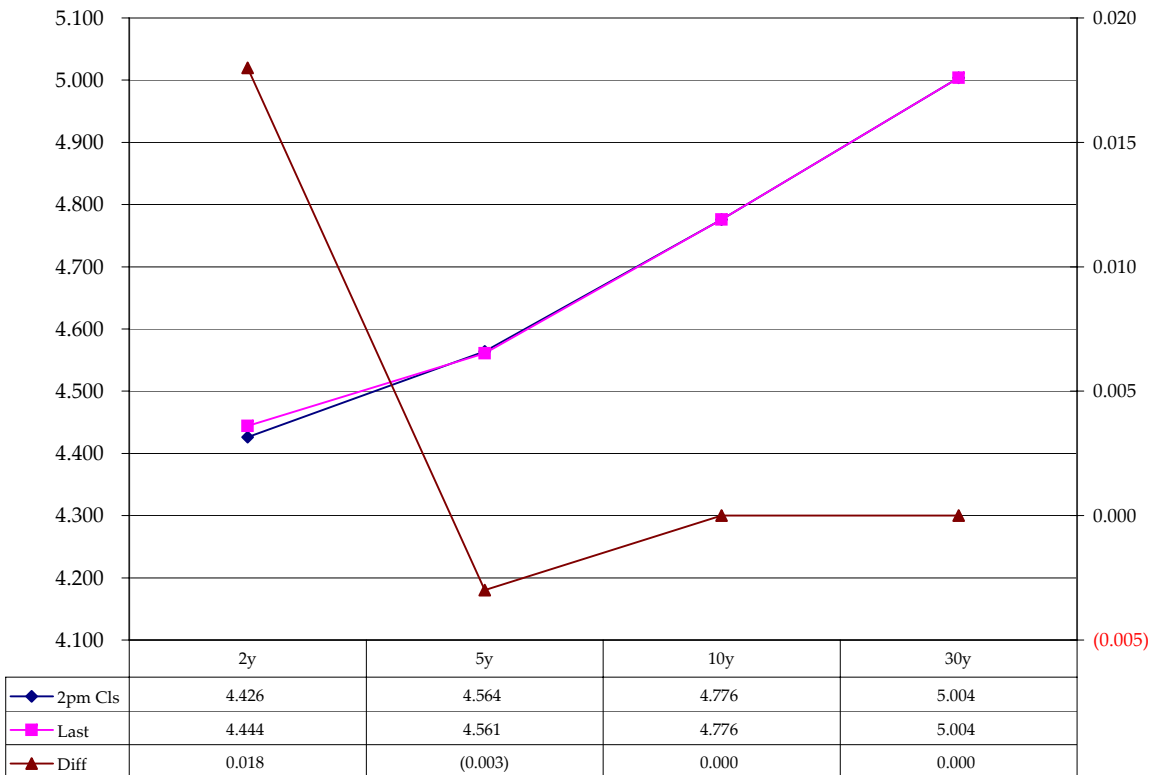
Prior Day Close vs Today's Close - 2pm CST

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	4.625	7/31/09	100.1125	4.426	4.444	0.018		
5y	4.625	7/31/09	100.0825	4.564	4.561	(0.003)	24.68	24.49
10y	4.750	8/15/17	99.255	4.776	4.776	0.000	68.37	67.05
30y	5.000	5/15/37	99.30	5.004	5.004	0.000	180.98	175.66

	PDC 32	TC
ZF	105.160	105.170
ZN	107.155	107.175
ZB	109.10	109.150

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			
	Last Yield	Net Yield	Last Price
Q.ED.White	5.060	-2.187	9507.063
Q.ED.Red	4.993	-0.625	9513.500
Q.ED.Green	5.291	-2.500	9484.875
Q.ED.Blue	5.525	-4.000	9462.375
Q.ED.Gold	5.718	-4.250	9443.875
Q.ED.Purple	5.718	-4.250	9443.875

