The Afternoon Email

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

All times Eastern
Yesterday:

15:13 08/20 **US TSYS/RECAP:** Tsys rose Mon on safe-haven bid, choppy stks, fear of risky investment loss. Tsys had short-covering, and so ignored 0.4% July LEI, as traders deemed outmoded. Tsys had brisk T-bill bid amid severe scarcity (Sept. 13 1M T-bill at 1.25% earlier, 2.17% by day's end) amid fear of ABCP safety, money mkt funds, deleveraging of risky debt/assets. But 3m, 6M bill auction so-so. Fed said wd redeem $5B in T-bill hldgs to give SOMA flexibility in daily reserve mgmt. Buy-&-hold accts earlier bought 2YS, with also lvrg)d acct bid in 10Ys; this morn, buy-and-hold acct buying in intermediates, fast money bought 10s, 30S. Eurodlr futures had mixed flow, deal-tied flow in front end. Real money corp-tied buying in Tsys 2Y, 30Y futures, while same accts offered 10Y futures earlier. Talk of a.m. ET Tsys steepener unwind. Eurodlrs futures had risk aversion support prevalent, liquidity issue. Ease odds remain high. Vols off lows. Should be seeing more rolls In Tsy futures as nears expiry/mo-end. US stks mixed late(DJIA up,S&P 500 off.)

15:24 08/20 **US SWAPS:** Spds remained wider in front end (3-month LIBOR performance cited for widening, higher than expected after contract eased for 6th consecutive session overnight), spds improved in 10s to 30s later in second half. Sources reported moderate 2-way flow in front end, a NY dealer sold Sep08 2yr bundles while a Chicago FCM bought 3yr bundles at -1.75 as well as 1yr bundles at -4.5. Tsy sources reported deal related support by real money accounts in the wings, receiving in 2yr and 30yr Tsy futures, followed by payers in 10yr futures. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:05	+5.50/74.00	+0.25/75.25	-0.50/75.50	-0.50/69.25
1:30	+6.00/74.50	+1.75/76.75	+0.75/76.75	+0.50/70.25
11:10	+3.75/72.25	+1.50/76.50	+0.25/76.25	-0.25/69.50
10:45	+4.25/72.75	+1.00/76.00	+1.00/77.00	+0.50/70.25
9:25	+3.00/71.50	+0.00/75.00	+0.00/76.00	+0.25/70.00
Mon Open	+0.00/68.50	-0.25/74.75	-0.75/75.25	-0.25/69.50
Fri 3:05	-3.00/68.50	-2.50/75.00	-2.00/76.00	-3.25/69.75

(continued)

14:39 08/20 **US TSYS/T-BILLS**: T-bills still hold a bid though not as much as before. "There was a lot of concern, in what's going on in T-bills and of course the concern on the ABCP," said one observer. "ABCP issuance has shown a sharp decline in net issuance. The concern is that if (issuers) can't issue ABCP, they will tap their credit lines, and banks will be pressured. The talk is that 70% to 80% have such credit lines, and it is a US$1.12 Trln ABCP market." Meanwhile, some have noted could be a bid of choppiness in the Tsys market into the quarter-end as 5 dealers close their quarter-end on Aug. 31. Said one trader eyeing the Tsys market and riskier sister bond markets broadly, "it's a liquidity squeeze."

15:14 08/20 **US TSY FUTURES**: Tsy futures finished near the session's midrange, higher across the curve. The Sep T-bonds settled 12/32 higher at 110-07, the Sep 10yr notes higher 6/32 at 108-25, the Sep 5yr note 5/32 higher at 106-21, while the Sep 2yr note settled 3.5/32 higher at 103-04.

15:22 08/20 **US AGENCIES**: Treasuries better with front-end leading the way as swap and GSE spreads head wider. "Just when you think it might be safe to put a toe in the water," said a trader. "Woosh, the wave breaks on top of your skull." Indications as follows - Freddie June'09 +53.5 according to TradeWeb and other screens (vs Friday's 3PM mark of +49.5); Fannie July'09 +55 (+50.5); Fannie Mar'10 +52.5 (50); Freddie Aug'10 +59.5 (+56.5); Fannie May'12 +60 (+59); Freddie Aug'12 +61.5 (+60); Fannie June'17 +68 (+68); Freddie Aug'17 +68 (+67.5); Fannie Nov 2030 +63 (+63); Freddie Jul'32 +62 (+62). Fannie Mae as mostly expected passed on issuing a new Benchmark Note this month. "Small needs and a silly market. A perfect time to take a pass," said a dealer.

15:30 08/20 **EURODLR FUTURES:** Eurodlr futures finished session moderately higher, while the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 0.75 bps to 78.375. In the Fronts (Sep07-Jun08), the Sep07 was 2.25 bps higher at 94-91 on combined Globex and pit volume of 348,000, the Dec07 up 1.5 bps at 95-30 on volume of 327,000, the Mar08 steady at 95-52.5 on volume of 387,000, while the Jun08 was 0.5 bps higher at 95-54 on volume of 293,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 1.5 to 3.5 bps higher across the pack with 581,000 contracts traded.

News: Snapshots throughout the day

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DJ **Fed Kohn**:Can't Rule Out Bigger Subprime Effect On US Economy
(This article was originally published Sunday)
By Brian Blackstone Of DOW JONES NEWSWIRES
WASHINGTON (Dow Jones)--The fallout from the "dramatic deterioration" in performance of U.S. subprime mortgages may have a broader impact on U.S. consumption and the economy, Federal Reserve Vice Chairman Donald Kohn wrote in
a paper released Sunday.

09:44 08/20 **US TSYS/FED**: (correct size of O/N System:) NY Fed says it did US$3.5Bln in overnight system repos, with most of that, US$2B in MBS collateral, US$1.3B in agency debt and US$200M in US Tsys debt.

09:49 08/20 **CREDIT: US CDS** spreads look set to open with a relatively positive tone this morning taking their lead from Europe, where spreads have consolidated during the day, after the Fed action on Friday and the associated bounce in the equity markets. European single names are mildly tighter across the board with the benchmark **Itraxx** Xover index around 12 bps tighter so far today trading at the 330 bps level. Traders have reported that turnover is low, however, with most market players awaiting the next piece of newsflow and the same is expected to be the
same in the US. **The ABX HE BBB- 07-1 index** looks set to open a tad tighter this morning with a mid-market $ price of 34.5.

11:43 08/20 **FED REACT**: Analyst Tony Crescenzi of Miller, Tabak says the Fed redeeming $5b in bills signals: "1) The Fed expects discount window borrowings to be as much as $5 billion this week, hence reducing the amount of liquidity injections needed in the banking system by $5b... 2) The Fed wants to signal that it is not yet ready to cut the fed funds rate, which would otherwise fall if the Fed's loans to the banking system were not offset by drains from the banking system elsewhere." He says the Fed holds about $785b of Treasuries and $277b of this is in T-bills.

11:52 08/20 **FED OPINION:** Fed's announcement of $5b bill sale came after bill rates started to fall into the 1%s. A result of the Fed's actions will be to add bills to the mkt (these are the safe assets in demand currently) and to take in those assets as collateral that accounts do not want to hold (such as MBS, possibly submitted against discount window borrowing). Fed seems to be addressing specific situations - the clamoring for bills, the ability to take in illiquid assets, and the setting of prices on assets that have seen trading freeze up.

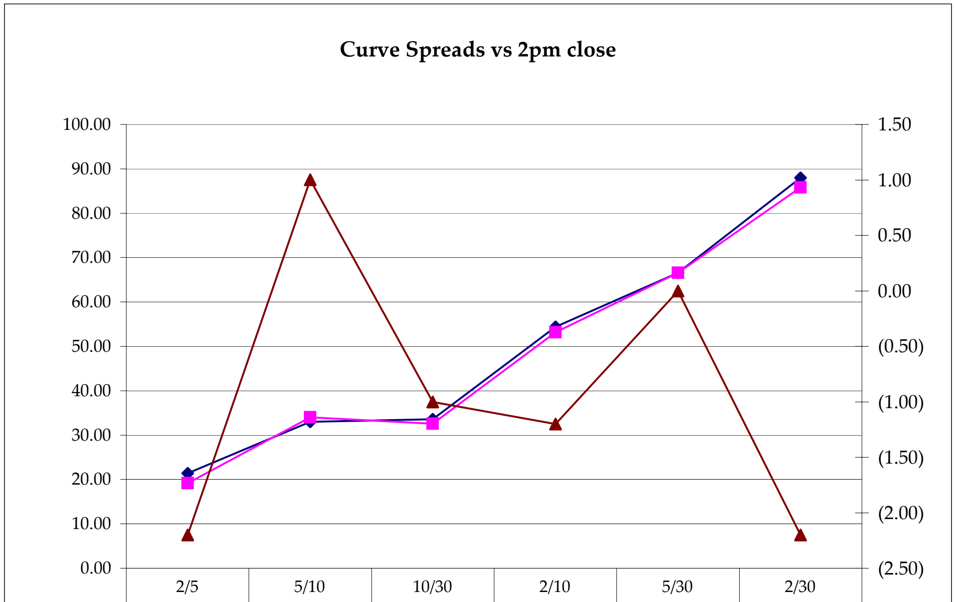
12:37 08/20 US OUTLOOK: ML chief economist David Rosenberg argues there might be more market turmoil ahead. He says "The reason why the Fed cut the discount rate and is now begging the banks to come borrow at the discount window is because round one (CBs' liquidity injection last wk) failed. As a result, nobody should really be drawing too much comfort." He also points out the lowering of the DR "has no real economic significance" - it is a penalty rate that affects banks and will not affect the macroeconomy.

13:44 08/20 **US TSYS**: Analyst Tony Crescenzi of Miller, Tabak says the T-bill sale was weak as investors were reluctant to buy at such low yields. He points out "money fund yields have not yet fallen by as much as T-bill
yields" and he expects institutional money fund assets to surge as a result. He says "A surfeit of liquidity is what is needed to push investors further out on the risk spectrum."

Curve Spreads

Yield Curve Spreads

	TC	PDC	Diff
2/5	21.40	19.20	(2.20)
5/10	33.00	34.00	1.00
10/30	33.60	32.60	(1.00)
2/10	54.40	53.20	(1.20)
5/30	66.60	66.60	0.00
2/30	88.00	85.80	(2.20)



	2/5	5/10	10/30	2/10	5/30	2/30
Last	21.40	33.00	33.60	54.40	66.60	88.00
PDC	19.20	34.00	32.60	53.20	66.60	85.80
Diff	(2.20)	1.00	(1.00)	(1.20)	0.00	(2.20)

Notes:

TC = Today's Close at 2pm

PDC = Prior Day's Close at 2pm

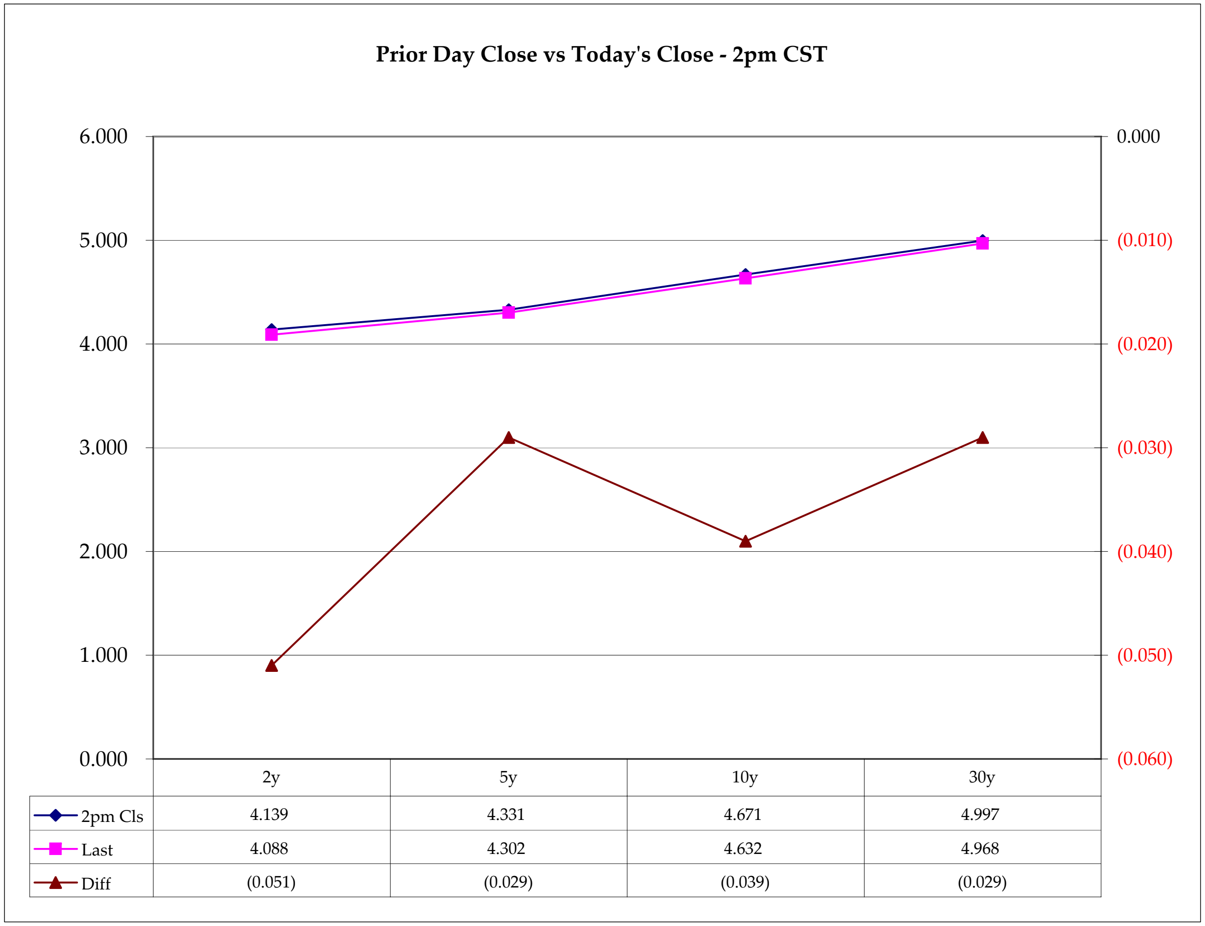
8/20/2007 14:00

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

Pg 4

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis PDC	Basis TC
2y	4.625	7/31/09	100.2750	4.139	4.088	(0.051)		
5y	4.625	7/31/09	101.0875	4.331	4.302	(0.029)	57.18	26.57
10y	4.750	8/15/17	100.200	4.671	4.632	(0.039)	62.62	66.66
30y	5.000	5/15/37	100.01	4.997	4.968	(0.029)	169.31	172.46

	PDC 32	TC
ZF	105.160	106.215
ZN	108.190	108.250
ZB	109.27	110.070



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

	Eurodollar Packs		
	Last Yield	Net Yield	Last Price
Q.ED.White	4.800	1.312	9532.125
Q.ED.Red	4.805	2.875	9531.625
Q.ED.Green	5.113	3.625	9502.000
Q.ED.Blue	5.382	3.500	9476.125
Q.ED.Gold	5.622	3.500	9453.125
Q.ED.Purple	5.622	3.500	9453.125