

## **The Afternoon Email**

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

**All times Eastern**

15:27 08/22 **US TSYS/RECAP:** Tsys end near day's highs, still lower vs. Tues NY close, amid choppy 2-way flows, but late short-covering, mild safe-haven bid. Earlier this morning, Tsys dipped with German Bunds after ECB repeated strong vigilance stance. Traders eye stks (choppy), T-bills, repo for cues. 1) Overnight, safe-haven bid unwound; 2) Early NY dip on ECB; 3) some exit popular curve steepeners 4) Tsys short-covering off low; 5) Tbill bid including some money mkt funds; T-bill reinvestment bid expected Thu. 6) Traders mull if mkt calmed or if Wed anomaly & will panic anew. 7) Swap spds tighten across curve on a.m. bond dip, despite decent paying tied flow in fronts to intermeds. 8) Swap flow 2-way by midAM after better credit spds as JPM upgrade to neutral of Countrywide bds spurred more swap tightening. Vols off in morn, better put buys, call selling on move. Traders will eye 1) 4:30pm ET Thu Fed banking data (disct win brwrgs); 2) Lehman index extensions ests out Fri; shd be large for US Tsys; 3) Qtr end Fri Aug. 31 for Lehm, BS, MS, ML, GS.

15:27 08/22 **EURODLR FUTURES:** EuroDlr futures finished broadly lower in fronts to intermediates, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 9.125 bps to 65.75. In the Fronts (Sep07-Jun08), the Sep07 were 9.0 bps lower at 94-79 on combined Globex and pit volume of 340,000, the Dec07 lower 13.5 bps at 95-21.5 on volume of 332,000, the Mar08 13.5 bps lower at 95-43.5 on volume of 403,000, while the Jun08 were 11.0 bps lower at 95-45.5 on volume of 367,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 6.5 to 9.0 bps lower across the pack with 945,000 contracts traded.

15:06 08/22 **US SWAPS:** Spds finished the session tighter, but off better levels by the close in the front end--the inversion w/2s vs the balance of the curve continues. News that JP Morgan raised Countrywide Financial bonds to neutral also added further impetus to tighter spds while Tsys traded broadly lower as odds of an ease by Fed dropped. Sources reported some decent paying-tied flow in fronts to intermediates, specifically in 3yr bundles, Eurodollar Red packs (Sep08-Jun09) and Green packs

(Sep09-Jun10). Two-way followed, and one desk reported receiving and paying in 1- and 3-year bundles. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-1.50/76.50	-3.00/73.00	-3.25/71.25	-2.50/65.25
12:45	-3.50/74.50	-3.50/72.50	-3.25/71.25	-2.00/64.75
10:10	-4.75/73.25	-4.00/72.00	-3.25/71.25	-2.00/64.75
9:30	-3.75/74.25	-2.75/73.25	-2.50/72.00	-1.25/65.50
Wed Open	-3.00/75.00	-2.00/74.00	-2.00/72.50	-0.75/66.00
Tue 3:00	+3.00/78.00	+0.00/76.00	-1.75/74.50	-4.25/66.75

**(continued)**

15:21 08/22 **US TSY FUTURES:** Tsy futures finished near the session's midrange, lower across the curve on the bell. The Sep T-bonds settled 8/32 lower at 110-12, the Sep 10yr notes lower 9/32 at 108-25.5, the Sep 5yr note 11/32 lower at 106-14, while the Sep 2yr note settled 6.75/32 lower at 102-30. Of note, prices trading lower on the screen after the bell as equities push higher.

15:29 08/22 **US AGENCIES:** Higher rates, tighter spreads, stocks up smartly and buyers of GSEs heard throughout the day to include foreign accounts according to some dealers. \$7 billion plus of senior IG 10-years gets priced today and that is heard to be "a distraction" for some GSE investors. Indications as follows - Freddie June'09 +53 according to TradeWeb and other screens (vs Monday's 3PM mark of +55); Fannie July'09 +55 (+57); Fannie Mar'10 +54.5 (54.5); Freddie Aug'10 +59 (+62.5); Fannie May'12 +55 (+59); Freddie Aug'12 +57 (+61); Fannie June'17 +62.5 (+65); Freddie Aug'17 +61.5 (+64.5); Fannie Nov 2030 +58 (+58.5); Freddie Jul'32 +56 (+58).



### Fed Is Hopeful on Steps So Far

Officials Cite Stability Of Stocks and a Pickup In Big Mortgage Issuance  
By GREG IP

August 22, 2007; Page A2

WASHINGTON -- Federal Reserve officials are cautiously optimistic that the series of steps they have taken to stabilize markets have started to work.

09:37 08/22 **ECB**: 3 mth refi is technical measure to support money market normalisation

09:38 08/22 **ECB**: Monetary policy stance was expressed by President on Aug 2.

09:39 08/22 **BUNDS**: Sept Bunds hit session low at 113.22 after ECB says that "monetary policy stance was expressed by ECB President Trichet on Aug 2, i.e. strong vigilance.

09:43 08/22 **US TSYS**: US Tsys moving lower with Bunds (see 9:39am ET) as the ECB comes out and says its monetary policy expressed Aug. 2. 2Y/10y, 2y/30y seeing huge moves flatter on the day.

**FED**: Fed added US\$2B via its overnight system repos: all was agency collateral, no MBS, no Tsys.

11:46 08/22 **FED/DATA**: Fed balance sheet for today is the data that will be published Thurs evening at 4.30pm ET, and it will disclose discount window borrowings for the pd (avg) and on Weds (spot level), as well as a district breakdown (spot amounts for Weds only). For last week the Aug 15 data showed \$264m in DR loans; there was no borrowing in the NY (money center banks) or Richmond (Countrywide?) Dists, and it appears the bulk of the lending was to ag banks in Chicago, St Louis, KC and Minneapolis Dists.

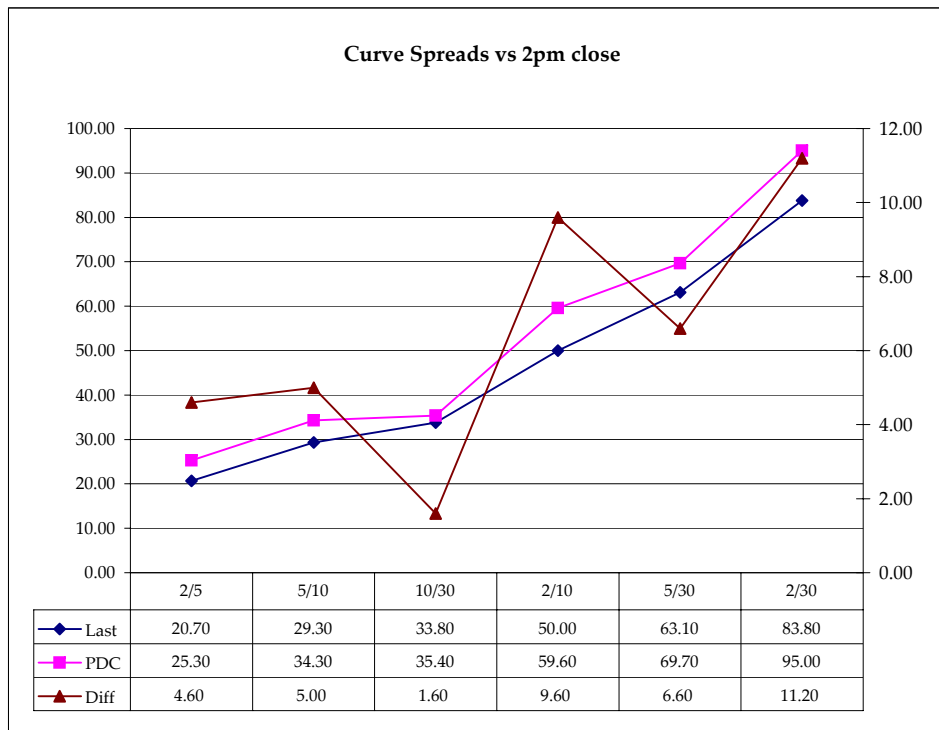
11:50 08/22 **US FED/DATA**: Credit Suisse economist Neal Soss suggests this is how the discount window data should be interpreted. How to interpret the "If borrowings at the Fed window this Thursday jump and the markets have calmed by then, the Fed's actions worked. If borrowings don't jump but the markets are calm on Thursday, the Fed's actions worked. The numbers have to be seen in the context of the markets." Another economist said the discount window borrowing idea has a potential to work and it is a "clever targeting approach" that avoids the question of moral hazard" but the real problem lies in CP. "If CP gets going, the rest of the markets will get going. If the Fed can help by tapping the markets, so be it. If CP gets going without the Fed, so be it." And she also echoes sentiments heard by others. "Everyday matters and all the things the Fed is doing matter. And each of the Fed actions have to be judged by what is happening in the market" on that particular day.

### ECB Statement on Repo operation:

"Today the European Central Bank's Governing Council has decided to conduct a supplementary liquidity-providing longer-term refinancing operation with a maturity of three months for an amount of EUR 40 billion. This operation is a technical measure aimed at supporting the normalisation of the functioning of the euro money market. It is conducted in addition to the regular monthly longer-term refinancing operations, which remain unaffected. The allotment amounts in the main refinancing operations will offset this provision of liquidity, taking into consideration the overall liquidity conditions. Today's decision was taken by written procedure. The position of the Governing Council of the ECB on its monetary policy stance was expressed by its President on 2 August 2007."

Comment >>> The ECB is responding to the illiquidity of the Euribor market on the longer maturities. However, it has also stated that it has not changed its view on the monetary policy stance - suggesting that a September rate hike is still on the cards. However, Trichet has emphasised that the ECB does not pre-commit which could mean that the ECB may still postpone the rate hike if the situation in the money market worsens again. Today's announcement points to higher ECB rates and a flatter curve. Expect to see a continuation of the recent unwinding, while 'normalisation trades' such as steepening of the ASW curve has further to go as CB's deal effectively with the crisis. --Howard

Yield Curve Spreads			
	TC	PDC	Diff
2/5	20.70	25.30	4.60
5/10	29.30	34.30	5.00
10/30	33.80	35.40	1.60
2/10	50.00	59.60	9.60
5/30	63.10	69.70	6.60
2/30	83.80	95.00	11.20



Notes:

TC = Today's Close at 2pm

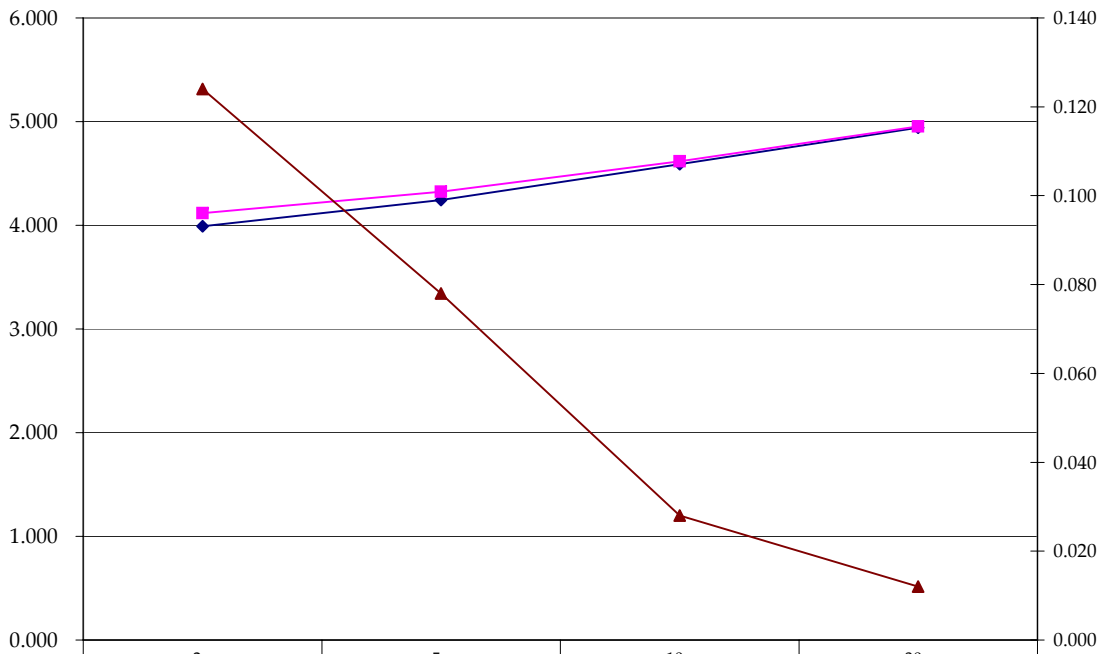
PDC = Prior Day's Close at 2pm

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	101.0375	3.992	4.116	0.124		
5y	4.625	7/31/09	101.2075	4.245	4.323	0.078	30.52	30.17
10y	4.750	8/15/17	101.090	4.588	4.616	0.028	69.53	68.80
30y	5.000	5/15/37	100.29	4.942	4.954	0.012	175.25	176.15

	PDC 32	TC
ZF	106.250	106.145
ZN	109.025	108.265
ZB	110.20	110.120

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	4.903	-11.938	9522.188
Q.ED.Red	4.844	-7.875	9527.875
Q.ED.Green	5.082	-4.125	9505.000
Q.ED.Blue	5.314	-1.500	9482.625
Q.ED.Gold	5.530	0.750	9461.875
Q.ED.Purple	5.530	0.750	9461.875

Fed Funds Daily Effective Rate  
Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	08/14/2007
Fed Funds - 2yr yield	77.4	-22.8	44.6
Fed Funds - 5yr yield	56.9	-21.1	31.5
Fed Funds - 10yr yield	27.4	-16.8	8.2
Fed Funds - 30yr yield	-6.4	-14.9	-17.7
GFER	4.89	-14.0	

GFER = Fed Funds Daily Effective Rate

Why 8/14/2007?

Pre-CPI (& Post PPI) is a good benchmark when the FED is focused on inflation.

