The Afternoon Email

Table of Contents

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

All times Eastern

15:24 08/28 **US TSYS/RECAP**: (Tsys rallied Tue on 1) safe-haven buying/ ABCP jitters, 2) weak stks aid Tsys; DJIA -1.45%; 3) foreign central bank buying in T-bills, 3Y, 5Ys; 4) major de-leveraging by hedge funds, who exited yen carry trades (sold risky debt/bought Tsys); 5) FOMC mins say mkts underestimated Fed inflation concern in Jun FOMC statemt, which hurts stocks. 6) real money asset-allocation (sell US stocks/buy US Tsys) 7) Earlier had been bank profit-taking in long end, buy-and-hold selling in 10s; 8) fast money buying in 2Ys, 5Y/10Y flatteners; 9) mo-end/qrtr-end illiquidity eyed; 10) short-coverg on weak Aug. Conf Bd Cons Conf 11) 2-way flows earlier: Street selling in 2Ys, fast money buying in 5Ys, international institution buying intermediates, swap-tied buying out curve. 12) Bank buying in 5s, bills, 10s. 13) Rolling in 5Y, 10Y, 30Y futures, hundreds of thousands of contracts. 14) Fed funds futures: odds 75 bps of ease by end-Dec. 15) Front end vols off after FOMC min tho swap spreads blowout. 16) 10am ET Fri Bernanke Jackson Hole.

15:30 08/28 **EURODLR FUTURES:** Eurodlr futures finished at session highs, curve continuing to unwind last week's 25 bps flattening, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), steepened 7.25 bps, out 10.75 on the week. In the Fronts (Sep07-Jun08), the Sep07 were 0.50 bps higher at 94-68 on combined Globex and pit volume of 197,000, the Dec07 higher 9.5 bps at 95-18.5 on volume of 262,000, the Mar08 10.0 bps higher at 95-44 on volume of 333,000, while the Jun08 were 10.0 bps higher at 95-48.5 on volume of 309,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 10.5 to 11.0 bps higher across the pack with 709,000 contracts traded.

15:16 08/28 US SWAPS: **US SWAPS**: Front end spds at session wides in 2s by bell, though still off 7yr wides of week ago, with a few minutes to go on the session. Apparently still enthralled w/credit crunch anxieties after early morning ABCP-tied news. Flow turned light after early receiver-tied interest in long end. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:15	+6.25/72.75	+5.75/71.75	+4.25/70.75	+1.75/63.50
2:55	+6.25/72.75	+6.25/72.25	+4.75/71.25	+2.50/63.50
2:10	+5.00/71.50	+4.75/70.75	+3.50/70.00	+2.00/63.00
11:30	+3.50/70.00	+3.25/69.25	+1.75/68.25	+0.25/61.25
9:10	+2.25/68.25	+2.00/68.00	+1.25/67.75	+0.50/61.50
Tue Open	+3.00/69.00	+2.00/68.00	+1.25/67.75	+0.75/61.75
Mon 3:00	-3.25/66.50	-0.25/66.00	+0.25/66.50	+0.00/61.00

Contributing to the firmer price action early, sources reported modest receiver related support in front end Eurodollars as well as intermediate to long end Treasuries.

(continued)

15:21 08/28 **US TSY FUTURES:** Tsy futures finished at session highs, the Sep T-bonds settled 12/32 higher at 111-23, the Sep 10yr notes higher 22.5/32 at 109-17.5, the Sep 5yr note 19/32 higher at 106-29.5, while the Sep 2yr note settled 9.5/32 higher at 103-04.5.

15:15 08/28 **US AGENCIES**: "If it weren't for the curve steepening, you'd think the swap and GSE spread widening would be a big deal," said a salesman. "I think guys are seriously impaired. Nobody can catch these swings." Indications as follows - Freddie June'09 +50.5 according to TradeWeb and other screens (vs Monday's 3PM mark of +46.5); Fannie July'09 +52 (+47.5); Fannie Mar'10 +52 (48); Freddie Aug'10 +55.5 (+52.5); Fannie May'12 +51.5 (+48); Freddie Aug'12 +53.5 (+49); Fannie June'17 +59 (+56); Freddie Aug'17 +59 (+56); Fannie Nov 2030 +54 (+52.5); Freddie Jul'32 +54 (+53). Near $6 billion of IG corporates priced today. People muttering that no matter what happens in commercial paper decent names have all the access to long-term debt they could ask for. EIB prices $3B global 3-years i the morning near mid-swaps -20.

15:28 08/28 **PIPELINE: Priced today** -

$1.25B *Morgan Stanley(MS) Aa3/AA- Sen Global 5Y MTN +151 MS
$350M *Macy's Retail Hldngs(M) Baa2/BBB 5.5Y +165 BAS/CS/JPM
$800M *NiSource Finance(NI) Baa3/BBB Sen 10.5Y +187.5 BAS/BNP/DB
$1.5B *Capital One Fin(COF) A3/BBB+ Sen Hldng Co 10Y +225 Barc/C
$2B *AT&T Inc(T) A2/A 30Y +167 BAS/BC/ML

MarketNews international

13:29 08/28 **US BONDS:** While people are on pins and needles waiting for other shoes to drop, there are some signs of stabilization/recovery out there:
1) Some originators willing to make jumbo prime mortages (around 8%) and hold on books;

2) FF back to 5.25%-5 3/8% level for two days;

3) While ABCP deemed heart of problem, amt outstanding dwindling - and market got over the hurdle of largest amts maturing - so in a sense problem getting smaller -- providing one can get funding elsewhere. Part of Macy's $350M 5.5Y bond issue Tue was to repay CP. AT&T upped 30Y from $1B to $2B and might be partially CP related too;

4) Money again coming into money market mutual funds;

5) Recent large amts of debt issuance from investment banks might be way of doing their part to signal all is going to be okay. But, surely the demand is there too and that signals people okay with credit;

6) Hearing some money managers finding value in select ABCP around 6%.

7) Fed is targetting areas where it can do real help and buying time to assess where economy is on Sept 18. The financial markets like action and answers but for now the markets and the Fed must just sit and wait for new data to shed light on how the financial crisis has affected the general economy...

Stone & McCarthy RESEARCH ASSOCIATES

Our view of the underlying difficulties facing the U.S. housing sector (and by extension the U.S. economy and financial markets) will not be alleviated by the corrective actions undertaken by the Federal Reserve. We expect the Federal Reserve to decide to reduce its target for the federal funds rate by 25 basis points to 5 percent at the September 18, 2007 FOMC meeting. We expect additional rate reductions at subsequent FOMC meetings to come.

Stone & McCarthy RESEARCH ASSOCIATES

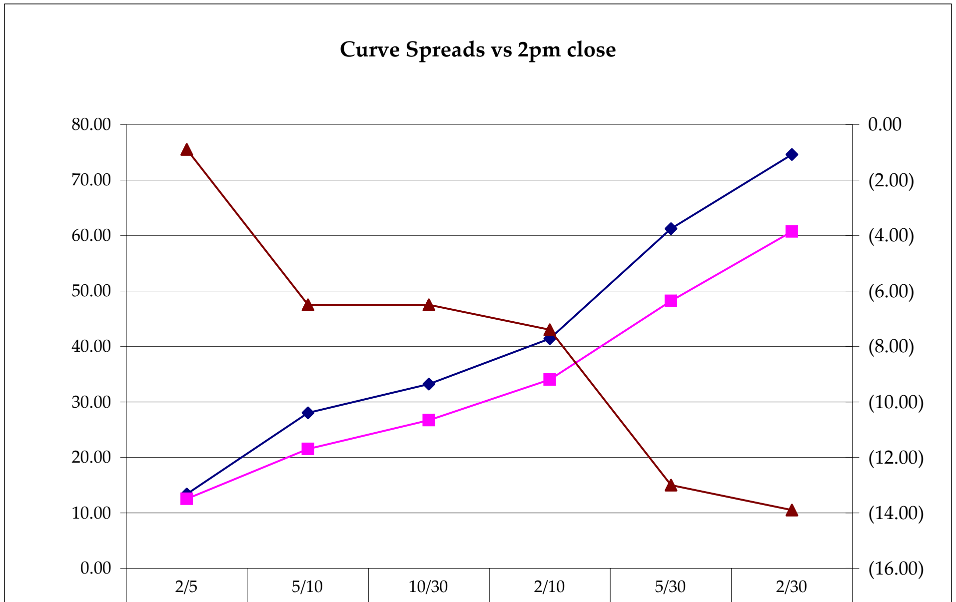
14:00 08/28 **US DATA/FED**: Aug 7 FOMC minutes give only a slim hint about the mkt crisis to come, saying Fed was watching the mtg market: "a further deterioration in financial conditions could not be ruled out and, to the extent such a development could have an adverse effect on growth prospects, might require a policy response." There's no hint at what the response might be, and FOMC ultimately decided to keep its inflation bias and keep the 5.25% funds target in place. FOMC staff lowered its econ projections in Aug but participants still saw moderate expansion likely, saying rising employment and exports were expected. Hsg to remain a drag, and subprime to recover over time; hsg credit remained generally available. Core inflation readings were favorable, but participants wanted evidence that improvement would be sustained.

14:01 08/28 **US DATA/FED: Take-2:** FOMC was fighting a battle in rear view mirror, as minuted say that mkts underestimated FOMC's infl concern in the June minutes. That's prob why the inflation bias was kept so prominently on Aug 7 although the FOMC was aware of brewig subprime problems.

FROM HOWARD [re minutes]:
-MARKETS UNDERSESTIMATED INFLATION CONCERN IN JUNE FOMC STATEMENT
-BERNANKE MONETARY POLICY TESTIMONY CAUGHT MARKETS UNAWARE
-MULLED POSSIBLE POLICY RESPONSE TO FUTURE MARKET TROUBLE
-CREDIT CONDITIONS SUGGEST MORE DOWNSIDE GROWTH RISKS
-NO EVIDENCE RECENT CORE INFLATION TRENDS TO BE SUSTAINED
-MEDIAN LONG TERM INFLATION EXPECTATIONS 'TICKED UP'
-FOMC LOWERED 07 AND 08 GDP FORECAST FOR MEETING
-HOUSING TO REMAIN A DRAG ON GROWTH
-'SOME MEASURES' SHOWING DECLINES IN HOUSE VALUES
-HIGHER RATES,TIGHTER CREDIT SLOWING HOUSING DEMAND
-HOME PRICE APPRECIAITON CONTINUING TO SLOW
-INFLATION RECEDED IN JUNE DUE TO ENERGY PRICE DECLINES
-EMPLOYMENT ATILL INCREASING AT 'HEALTHY PACE'
TRADE DEFICIT WIDENED,OIL IMPORTS ROSE SHARPLY
-SECURITIES BACKED BY SUBPRIME MOERTGAGES EXPECTED TO RECOVER

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	13.40	12.50	(0.90)
5/10	28.00	21.50	(6.50)
10/30	33.20	26.70	(6.50)
2/10	41.40	34.00	(7.40)
5/30	61.20	48.20	(13.00)
2/30	74.60	60.70	(13.90)



	2/5	5/10	10/30	2/10	5/30	2/30
Last	13.40	28.00	33.20	41.40	61.20	74.60
PDC	12.50	21.50	26.70	34.00	48.20	60.70
Diff	(0.90)	(6.50)	(6.50)	(7.40)	(13.00)	(13.90)

Notes:

TC = Today's Close at 2pm

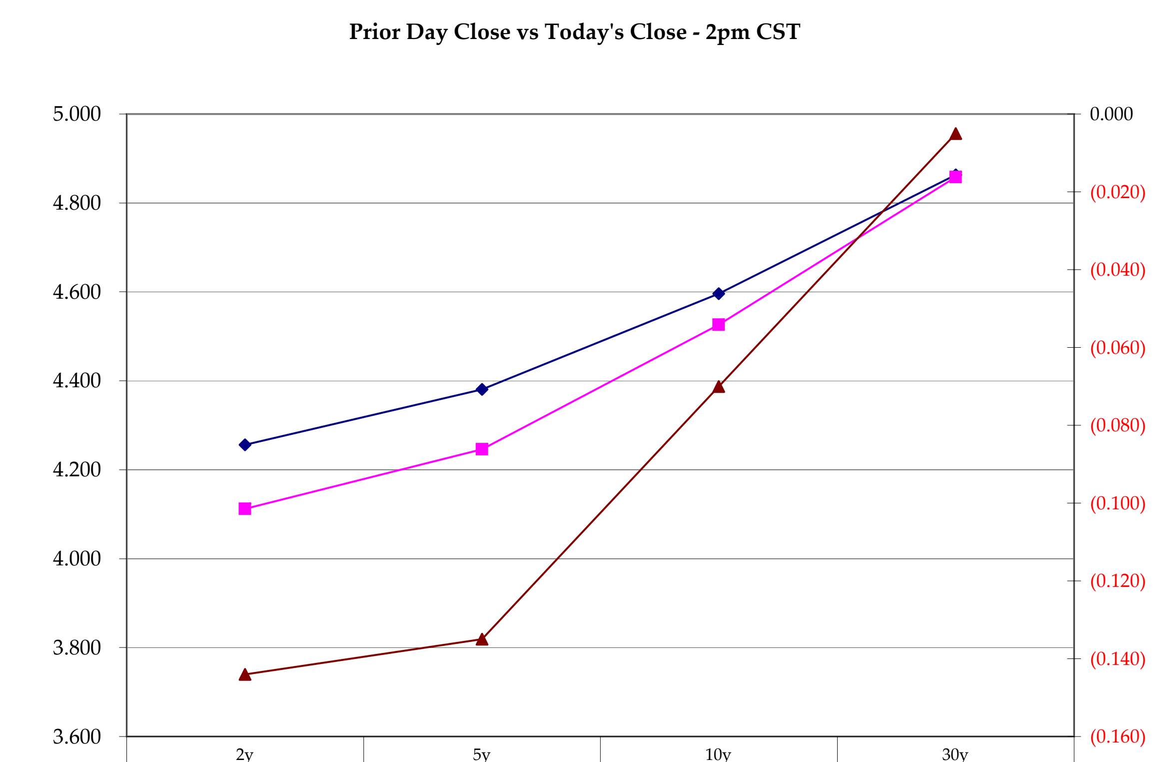
PDC = Prior Day's Close at 2pm

8/28/2007 14:03

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	100.2050	4.256	4.112	(0.144)		
5y	4.625	7/31/09	101.0150	4.381	4.246	(0.135)	24.94	26.70
10y	4.750	8/15/17	101.070	4.596	4.526	(0.070)	74.35	72.27
30y	5.000	5/15/37	102.05	4.863	4.858	(0.005)	195.41	189.15

	PDC 32	TC
ZF	106.105	106.290
ZN	108.270	109.160
ZB	111.11	111.200



	2y	5y	10y	30y
2pm Cls	4.256	4.381	4.596	4.863
Last	4.112	4.246	4.526	4.858
Diff	(0.144)	(0.135)	(0.070)	(0.005)

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	4.934	7.000	9519.250
Q.ED.Red	4.743	10.000	9537.625
Q.ED.Green	4.970	7.750	9515.750
Q.ED.Blue	5.177	6.125	9495.875
Q.ED.Gold	5.385	4.000	9475.875
Q.ED.Purple	5.385	4.000	9475.875

Fed Funds Daily Effective Rate
Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	08/14/2007
Fed Funds - 2yr yield	115.8	26.2	44.6
Fed Funds - 5yr yield	102.4	24.3	31.5
Fed Funds - 10yr yield	74.4	19.9	8.2
Fed Funds - 30yr yield	41.2	15.7	-17.7
GFER	**5.25**	16.0	

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.