

The Afternoon Email

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

**All times Eastern**

13:16 08/31 **US TSYS/RECAP:** Tsys end mid-range, lower amid late slide, earlier month-end buying, short-covering, window-dressing bid in choppy mkt. 5 of 22 dealers close qrtr-end books today so moves exaggerated. Stocks higher. Tsys gained earlier as deemed Pres. Bush's hsg aid not enough to cure subprime/ABCP mkt ills. MNI Main Wire's Beckner story said Fed Chair Bernanke said ready to do what's needed to prevent mkt turbulence from damaging US economy, but not directly hinting at impending fed funds rate cut. Mixed flows in US 5Y, 10Ys but also 3Y, 10Y buying,

earlier fast money and buy-and-hold acct 5Y bid. Tsys saw month-end 10Y buying, foreign central bk, overseas institutions buying in 5Ys. MBS drew leveraged buying. Some banks did US 5Y/30y flatteners, others did 2y/10y steepeners. Lvrgd accts bought under 5-yrs maturity, buy-and-hold accts bought 2s,intermediates. Payer-tie flow in front to intermediate Eurodlr futures, real money modest sellers of 10y-,30y-Tsy futures,corp deal-tied.Bunds hurt as MNI story said Sep. 6 ECB mtg outcome uncertain.

13:09 08/31 **EURODLR FUTURES:** Eurodlr futues finished lower, near mid-range, curve bear flattening, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 8.375 bps. In the Fronts (Sep07-Jun08), the Sep07 were 5.25 bps lower at 94-49.25 on combined Globex and pit volume of 309,000, the Dec07 lower 4.5 bps at 95-06.5 on volume of 281,000, the Mar08 7.5 bps lower at 95-36 on volume of 264,000, while the Jun08 were 9.0 bps lower at 95-44.5 on volume of 297,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 7.5 to 9.0 bps lower across the pack with 630,000 contracts traded.

13:01 08/31 **US EURODLR/SWAPS:** Spds near top end of range, still improved on move. Sources reported payer-tie flow in front to intermediate Eurodollarfutures, while real money accounts were modest sellers of 10- and30-year Treasury futures, both corporate deal related.According to GovPX:

Time (ET) 2Y Swap/Mid 5Y Swap/Mid 10Y Swap/Mid 30Y Swap/Mid

| | | | | |
|----------|-------------|-------------|-------------|-------------|
| Fri 1:00 | -1.25/74.00 | -1.00/71.25 | -1.75/69.50 | +0.00/63.25 |
| 12:00 | -1.00/74.25 | -0.50/71.75 | -1.50/69.75 | +0.25/63.50 |
| 10:20 | -1.75/73.50 | -0.25/72.00 | -1.25/70.00 | +0.25/63.50 |
| 10:05 | -2.00/73.25 | -0.25/72.00 | -1.25/70.00 | +0.50/63.75 |
| 9:45 | -2.25/73.00 | -0.50/71.75 | -1.25/70.00 | +0.00/63.25 |
| 9:00 | -2.25/73.00 | -0.25/72.00 | -1.25/70.00 | +0.00/63.25 |
| Fri Open | -3.75/71.50 | -0.50/71.75 | -1.25/70.00 | -0.50/62.75 |
| Fri 7:40 | -4.25/71.00 | -1.00/71.25 | -1.50/69.75 | -0.75/62.50 |
| Thu 3:15 | +2.00/75.25 | +0.75/72.25 | +1.00/71.25 | +0.75/63.25 |

(continued)

13:05 08/31 **US AGENCIES:** Good month-end buying, strong stocks and tighter spreads lighten the load for the long weekend. Indications as follows - Freddie June'09 +49 according to TradeWeb and other screens (vs Thursday's 3PM mark of +52); Fannie July'09 +51 (+54); FannieMar'10 +50.5 (51.5); Freddie Aug'10 +53 (+55); Fannie May'12 +50.5 (+51); Freddie Aug'12 +51.5 (+52); Fannie June'17 +56 (+58); Freddie Aug'17 +55.5 (+57.5); Fannie Nov 2030 +51.5 (+52); Freddie Jul'32 +50.5 (+52).

13:04 08/31 **US TSY FUTURES:** Tsy futures finished lower, near mid-range as equities hold onto gains, the Dec T-bonds settled 11/32 lower at 111-19, the Dec 10yr notes lower 12.5/32 at 109-01.5, the Dec 5yr note 9/32 lower at 106-22, while the Dec 2yr note settled 5.5/32 lower at 103-02.5.

10:00 08/31 **FED: Chairman Bernanke's speech:** very dovish. Says Fed "stands ready to take additional actions as needed to provide liquidity and promote the orderly functioning of mkts." Reiterates FOMC "will act as needed to limit the adverse effects on the broader economy that may arise from the disruptions in fin'l mkts." Reviews that hsg downturn has been sharp and outlook "will depend on unfolding developments in mtg mkts." Says "Obviously if current conditions persist in mtg mkts, the demand for homes could weaken further, with poss. implications for the broader economy. We are following these developments closely." Says financial stress has not been confined to mtg mkts. Global fin'l losses have far exceeded even the most pessimistic projections. Investor uncertainty has increased. "econ data bearing on past mos or qtrs may be less useful tha[n] usual" and Fed will pay close attention to the timeliest indicators as well as anecdotal evidence.

12:06 08/31 **FED REACT:** Bottom line from analyst Tony Crescenzi of Miller, Tabak: "Fed Chairman Ben Bernanke reinforced current expectations for future interest rate cuts by the Federal Reserve, including expectations for at least a 25 basis point cut by the September 18th FOMC meeting. There is nothing within the speech, however, that indicates any urgency toward a rate cut."

| Table I—Forecast Summary | July | SMRA Est August | Survey Medians | |
|---------------------------------|------|--------------------|----------------|--------------|
| | | | MNI Aug29 | BBG Aug29 |
| Payrolls (000s) | 92 | 95 | 125 | 115 |
| Private (000s) | 120 | 87 | | |
| Construction (000s) | -1.2 | -4 | | |
| Manufacturing Payrolls (000s) | -2 | -15 | | -10 |
| Workweek (hours) | 33.8 | 33.8 | | 33.8 |
| Index of Hours Worked (% chg) | -0.1 | 0.1 | | |
| Average Hourly Earnings (% chg) | 0.3 | 0.3 | | 0.3 |
| Unemployment Rate (%) | 4.6 | 4.7 | 4.6 | 4.6 |

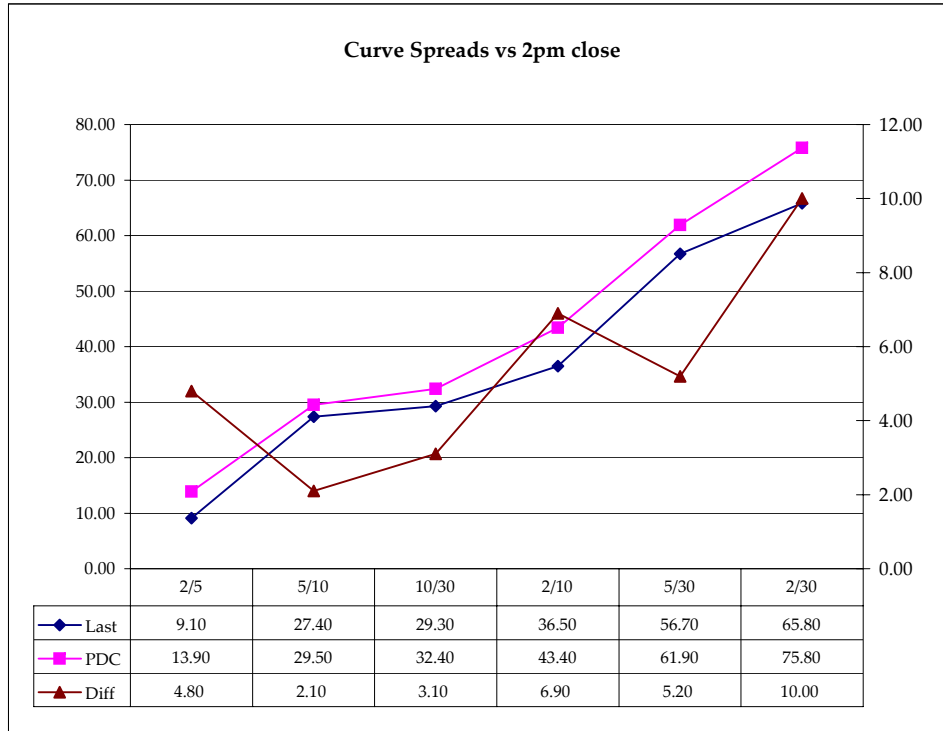
Treasury Announces Market Financing Estimates

Washington- Treasury announced its current estimates of net marketable financing for the July – September 2007 and October – December 2007 quarters:

Over the July – September 2007 quarter, the Treasury expects to borrow \$73 billion of net marketable debt, assuming an end-of-September cash balance of \$60 billion. The current estimate is \$31 billion greater than announced in April 2007. The increase in borrowing is primarily the result of higher outlays, lower net issuances of State and Local Government Series securities and adjustments in quarterly cash balances. Over the October – December 2007 quarter, the Treasury expects to borrow \$74 billion of net marketable debt, assuming an end-of-December cash balance of \$30 billion.

During the April – June 2007 quarter, Treasury paid down \$139 billion of net marketable debt, finishing with a cash balance of \$25 billion at the end of June. In April 2007, Treasury announced an estimated pay down in net marketable borrowing of \$145 billion, assuming an end-of-June cash balance of \$30 billion. The increase in borrowing was primarily the result of slightly lower receipts.

| Yield Curve Spreads | | | |
|---------------------|-------|-------|-------|
| | TC | PDC | Diff |
| 2/5 | 9.10 | 13.90 | 4.80 |
| 5/10 | 27.40 | 29.50 | 2.10 |
| 10/30 | 29.30 | 32.40 | 3.10 |
| 2/10 | 36.50 | 43.40 | 6.90 |
| 5/30 | 56.70 | 61.90 | 5.20 |
| 2/30 | 65.80 | 75.80 | 10.00 |



Notes:

TC = Today's Close at 2pm

PDC = Prior Day's Close at 2pm

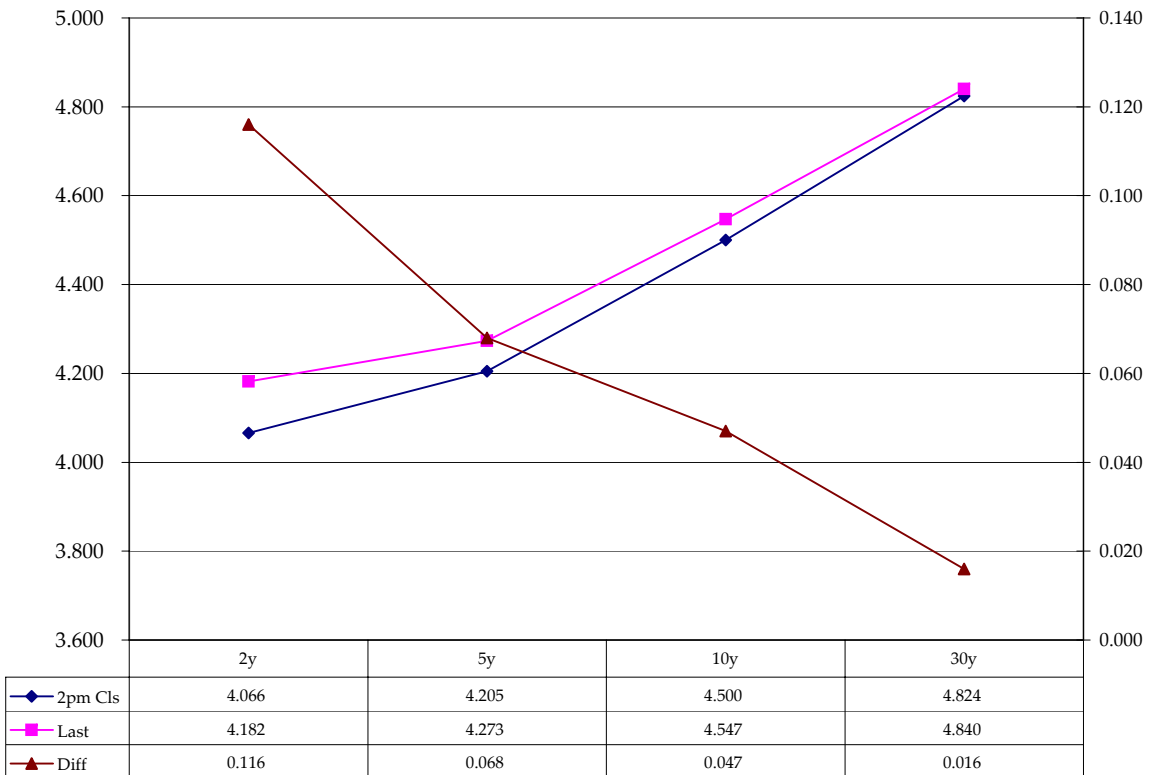
Prior Day Close vs Today's Close - 2pm CST

| | Cpn | Mty | PDC 32 | PDC | TC | Diff | Basis | |
|-----|-------|---------|---------|-------|-------|-------|---------|---------|
| | | | | | | | PDC | TC |
| 2y | 4.000 | 8/31/09 | 99.2800 | 4.066 | 4.182 | 0.116 | | |
| 5y | 4.125 | 7/31/09 | 99.2050 | 4.205 | 4.273 | 0.068 | 30.53 | 25.35 |
| 10y | 4.750 | 8/15/17 | 101.315 | 4.500 | 4.547 | 0.047 | 88.90 | 87.73 |
| 30y | 5.000 | 5/15/37 | 102.24 | 4.824 | 4.840 | 0.016 | -672.44 | -685.88 |

| | PDC 32 | TC |
|----|---------|---------|
| ZF | 106.235 | 106.185 |
| ZN | 109.125 | 109.000 |
| ZB | 111.15 | 111.190 |

Noon Close
Today is early CBOT close

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

| Eurodollar Packs | | | |
|------------------|------------|-----------|------------|
| | Last Yield | Net Yield | Last Price |
| Q.ED.White | 5.051 | -7.625 | 9508.000 |
| Q.ED.Red | 4.743 | -7.625 | 9537.625 |
| Q.ED.Green | 4.961 | -4.750 | 9516.625 |
| Q.ED.Blue | | -1.750 | 9495.750 |
| Q.ED.Gold | | -1.000 | 9474.500 |
| Q.ED.Purple | | -1.000 | 9474.500 |

| Fed Funds Daily Effective Rate Minus US Treasury Yields | | | |
|--|----------|----------|------------|
| Spread Name | Diff bps | Net Chng | 08/14/2007 |
| Fed Funds - 2yr yield | 81.8 | -8.7 | 44.6 |
| Fed Funds - 5yr yield | 72.7 | -4.6 | 31.5 |
| Fed Funds - 10yr yield | 45.3 | -3.9 | 8.2 |
| Fed Funds - 30yr yield | 16 | -1.2 | -17.7 |
| GFER | 5.00 | 0.0 | |

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.

