

The Afternoon Email

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Key Money Rates

12/10/2007 14:00

| | Libor\$ ^ | Tbill | CP ^^ |
|-----|-----------|-------|------------|
| 1M | 5.232 | 3.017 | 5.250 |
| 3M | 5.133 | 3.043 | 5.070 |
| 6M | 4.968 | 3.276 | 4.750 |
| | TSY | Swap | ED Pks ^^^ |
| 2y | 3.158 | 98.25 | 3.867 |
| 5y | 3.537 | 89.50 | 4.813 |
| 10y | 4.147 | 72.50 | 5.157 |

| | Libor\$ ^ | Repos |
|-------|-----------|-------|
| 0/N | 4.548 | 4.300 |
| 1week | 4.599 | 4.100 |
| 2week | 4.609 | 4.050 |

Notes

^Quoted in US Dollars

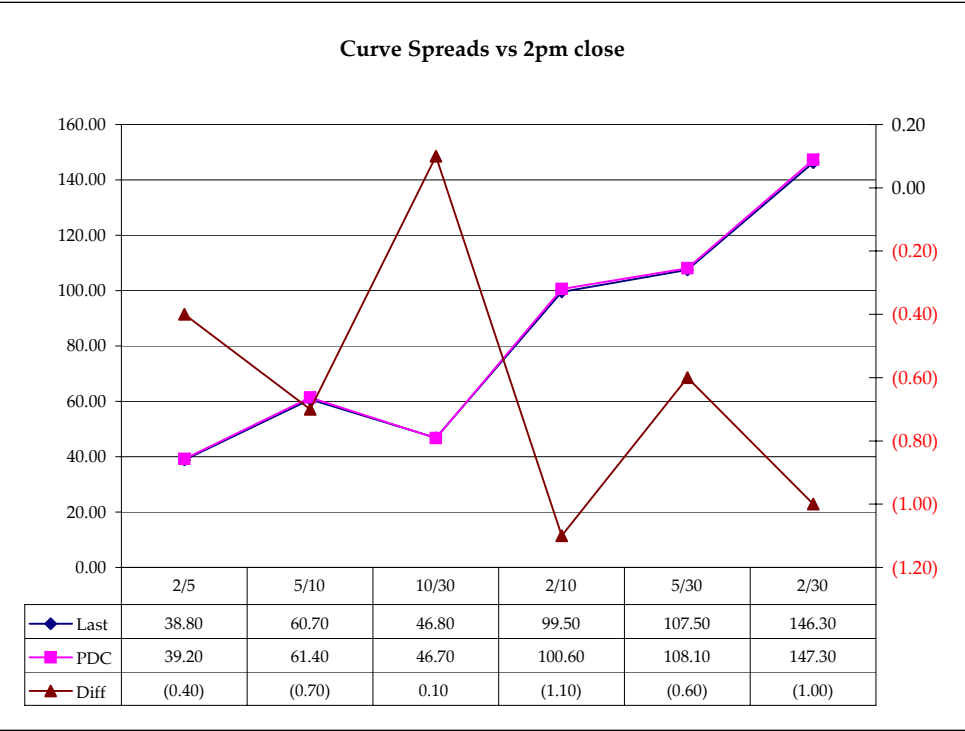
^^CP = Commercial Paper

^^^ED Pks are colored for pack identifications. Example, the red pack is a 2-yr proxy and is colored red.

SYM = Symbol

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

| Yield Curve Spreads | | | |
|---------------------|--------|--------|--------|
| | TC | PDC | Diff |
| 2/5 | 38.80 | 39.20 | (0.40) |
| 5/10 | 60.70 | 61.40 | (0.70) |
| 10/30 | 46.80 | 46.70 | 0.10 |
| 2/10 | 99.50 | 100.60 | (1.10) |
| 5/30 | 107.50 | 108.10 | (0.60) |
| 2/30 | 146.30 | 147.30 | (1.00) |

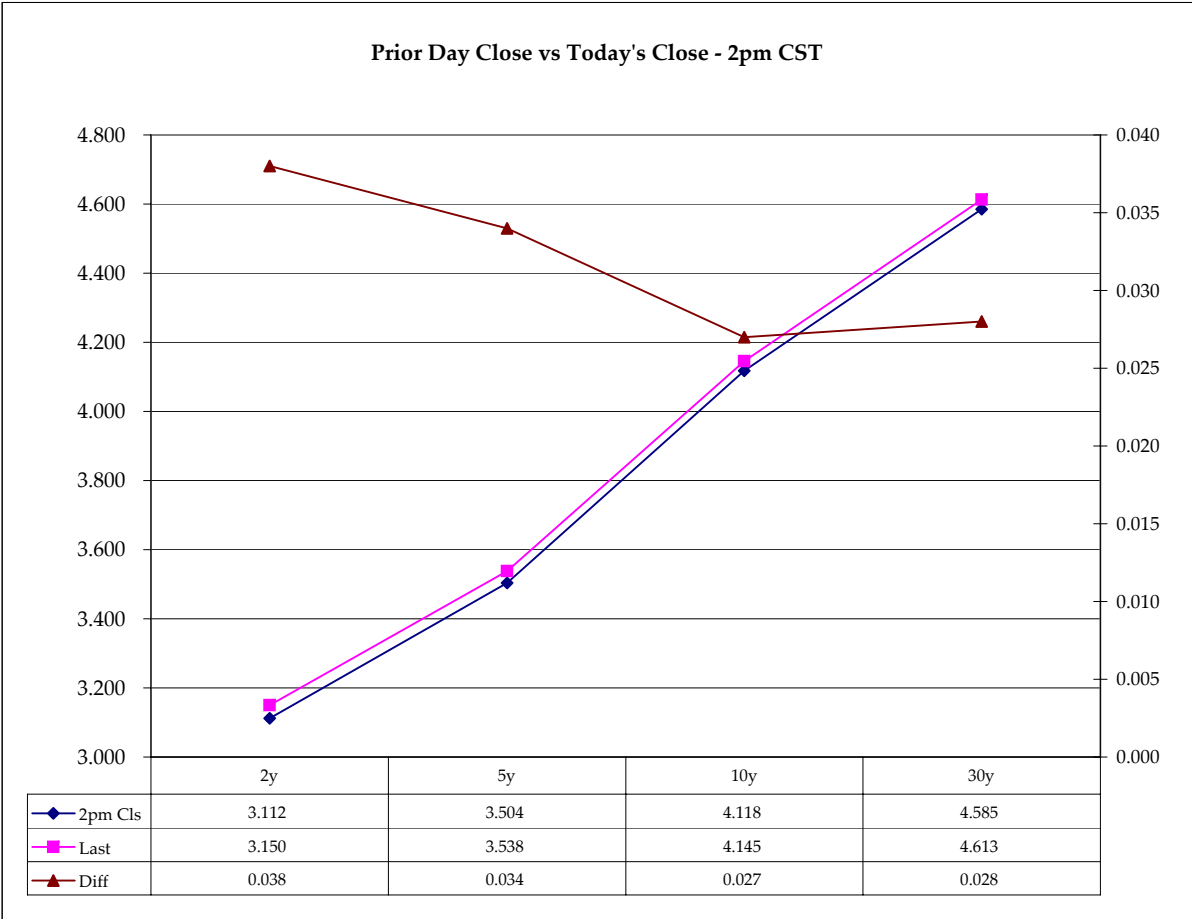


Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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

| | Cpn | Mty | PDC 32 | PDC | TC | Diff | Basis | |
|-----|-------|----------|----------|-------|-------|-------|--------|--------|
| | | | | | | | PDC | TC |
| 2y | 3.125 | 11/30/09 | 100.0075 | 3.112 | 3.150 | 0.038 | | |
| 5y | 3.375 | 11/30/12 | 99.1325 | 3.504 | 3.538 | 0.034 | -35.85 | -35.86 |
| 10y | 4.250 | 11/17/17 | 101.020 | 4.118 | 4.145 | 0.027 | 83.33 | 81.02 |
| 30y | 5.000 | 5/15/37 | 106.22 | 4.585 | 4.613 | 0.028 | 232.24 | 226.96 |

| March Contracts | | |
|-----------------|---------|---------|
| | PDC 32 | TC |
| ZF | 109.245 | 109.190 |
| ZN | 112.180 | 112.115 |
| ZB | 115.05 | 114.240 |



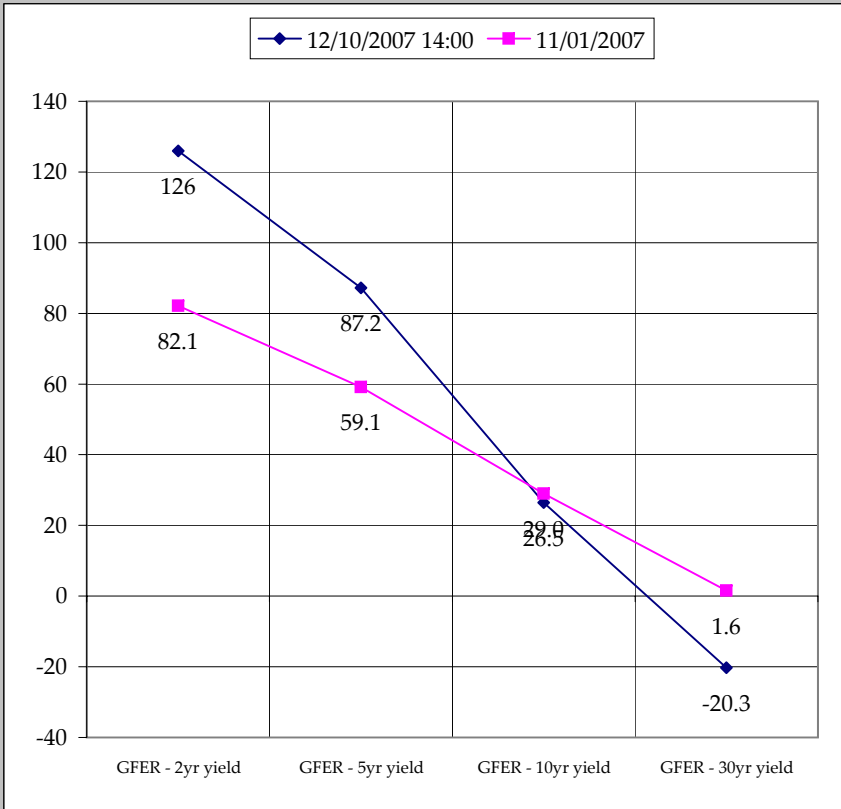
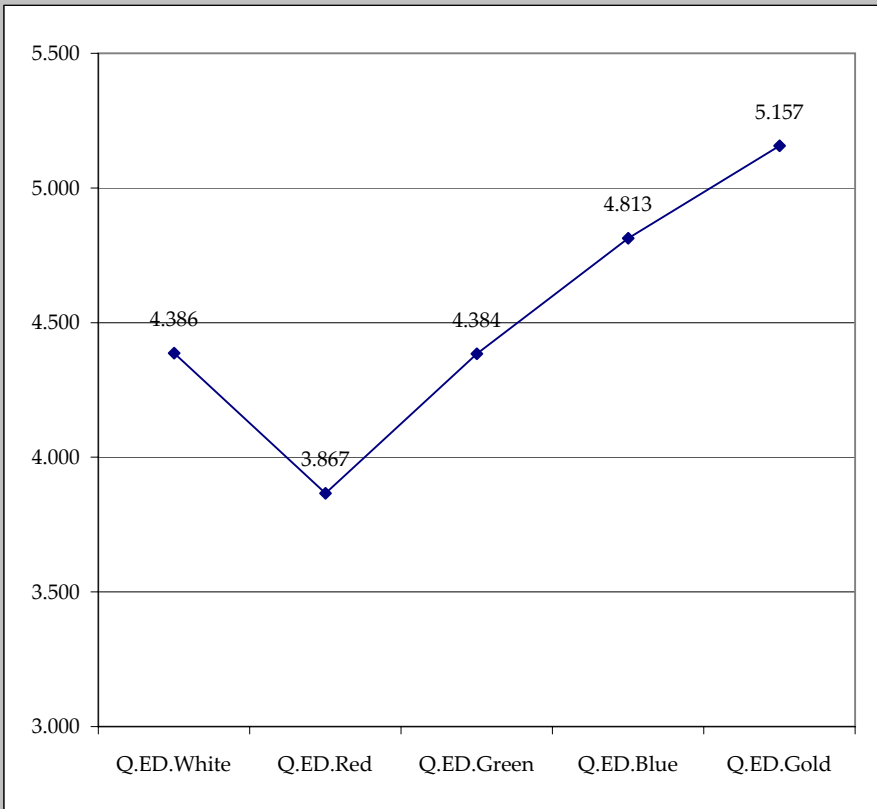
Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 32 = price is quoted in 32nds
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

| Eurodollar Packs | | | |
|------------------|------------|-----------|------------|
| | Last Yield | Net Yield | Last Price |
| Q.ED.White | 4.386 | -1.813 | 9572.063 |
| Q.ED.Red | 3.867 | -6.500 | 9622.250 |
| Q.ED.Green | 4.384 | -6.875 | 9572.250 |
| Q.ED.Blue | 4.813 | -5.000 | 9530.875 |
| Q.ED.Gold | 5.157 | -4.500 | 9497.750 |

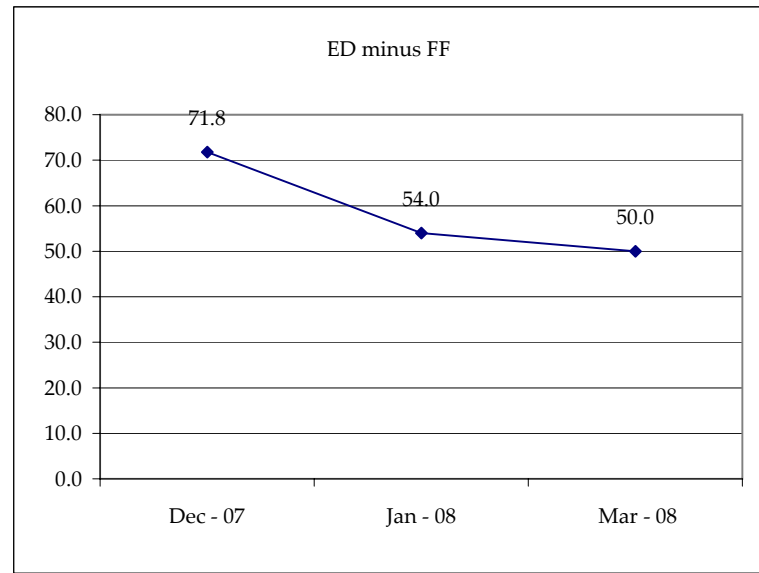
| Fed Funds Daily Effective Rate Minus US Treasury Yields | | | |
|--|----------|----------|------------|
| Spread Name | Diff bps | Net Chng | 11/01/2007 |
| GFER - 2yr yield | 126 | -13.7 | 82.1 |
| GFER - 5yr yield | 87.2 | -13.2 | 59.1 |
| GFER - 10yr yield | 26.5 | -12.4 | 29.0 |
| GFER - 30yr yield | -20.3 | -12.6 | 1.6 |
| GFER | 4.41 | -8.0 | |

GFER = Fed Funds Daily Effective Rate

Why 11/01/2007?
The morning after the FOMC is a good benchmark.



| Month | Fed Funds (FF) | | | ED | ED - FF |
|--------|----------------|---------|---------|---------|---------|
| | Last | Net | Implied | Implied | bps |
| Dec-07 | 95.750 | 0.150 | 4.250 | 4.968 | 71.8 |
| Jan-08 | 95.820 | 0.050 | 4.180 | 4.720 | 54.0 |
| Feb-08 | 96.020 | 0.100 | 3.980 | 0.000 | 0.0 |
| Mar-08 | 96.080 | -0.050 | 3.920 | 4.420 | 50.0 |
| Apr-08 | 96.150 | -0.100 | 3.850 | 0.000 | 0.0 |
| May-08 | 96.230 | -0.500 | 3.770 | 0.000 | 0.0 |
| Jun-08 | 96.245 | -0.500 | 3.755 | 3.980 | 22.5 |
| Jul-08 | 96.340 | -1.000 | 3.660 | 0.000 | 0.0 |
| Aug-08 | #VALUE! | #VALUE! | #VALUE! | 0.000 | 0.0 |
| Sep-08 | #VALUE! | #VALUE! | #VALUE! | 3.750 | #VALUE! |



| USD LIBOR | | | | | | | | |
|------------------|-------|-------|------------|------------|---------|---------|-----------|---------|
| | Bid | Ask | Last Quote | Last Trade | Hi | Low | Net Chng | Open |
| USDLIBON | | | 4.54750 | 4.54750 | 4.54750 | 4.54750 | 0.00000 | 4.54750 |
| USDLIB1M | | | 5.23188 | 5.23188 | 5.23750 | 5.23188 | (0.00562) | 5.23750 |
| USDLIB3M | | | 5.13250 | 5.13250 | 5.14063 | 5.13250 | (0.00813) | 5.14063 |
| USDLIB6M | | | 4.96750 | 4.96750 | 4.96750 | 4.93188 | 0.03562 | 4.93188 |
| USDLIB1Y | | | 4.55250 | 4.55250 | 4.55250 | 4.48875 | 0.06375 | 4.48875 |
| GBP LIBOR | | | | | | | | |
| | Bid | Ask | Last Quote | Last Trade | Hi | Low | Net Chng | Open |
| GBPLIBON | | | 5.68500 | 5.68500 | 5.69125 | 5.68500 | (0.00625) | 5.69125 |
| GBPLIB1M | | | 6.69500 | 6.69500 | 6.69500 | 6.65750 | 0.03750 | 6.65750 |
| GBPLIB3M | | | 6.61500 | 6.61500 | 6.61500 | 6.60625 | 0.00875 | 6.60625 |
| GBPLIB6M | | | 6.34938 | 6.34938 | 6.34938 | 6.34375 | 0.00563 | 6.34375 |
| GBPLIB1Y | | | 6.03000 | 6.03000 | 6.03000 | 6.02750 | 0.00250 | 6.02750 |
| GBP DEPOSITS | | | | | | | | |
| | Bid | Ask | Last Quote | Last Trade | Hi | Low | Net Chng | Open |
| GBPDEP1M | 6.600 | 6.700 | 6.700 | 6.700 | 6.800 | 6.400 | 0.030 | 6.570 |
| GBPDEP3M | 6.540 | 6.640 | 6.640 | 6.640 | 6.740 | 6.350 | 0.010 | 6.530 |
| GBPDEP6M | 6.250 | 6.350 | 6.350 | 6.350 | 6.450 | 6.100 | 0.010 | 6.240 |
| GBPDEP1Y | 5.930 | 6.030 | 6.030 | 6.030 | 6.130 | 5.780 | 0.000 | 5.930 |
| EURIBOR DEPOSITS | | | | | | | | |
| | Bid | Ask | Last Quote | Last Trade | Hi | Low | Net Chng | Open |
| EURLIBON | | | 3.8500 | 3.8500 | 3.9575 | 3.8500 | (0.1075) | 3.9575 |
| EUIBOR1M | | | 4.8950 | 4.8950 | 4.8950 | 4.8720 | 0.0230 | 4.8720 |
| EUIBOR3M | | | 4.9020 | 4.9020 | 4.9020 | 4.8910 | 0.0110 | 4.8910 |
| EUIBOR6M | | | 4.8600 | 4.8600 | 4.8600 | 4.8390 | 0.0210 | 4.8390 |
| EUIBOR1Y | | | 4.8150 | 4.8150 | 4.8150 | 4.7690 | 0.0460 | 4.7690 |

**All Times Eastern unless otherwise marked**

15:04 12/10 **US TSYS**: Treasuries seesawed all session but ended lower on the day. The market traded up on the following: 1) News UBS to writedown another \$10B and Fitch's downgrade from AA+ to AA; 2) News BOA fund to freeze assets; 3) Erroneous news that MBIA shares halted on impending gloomy news. Market traded down on: 1) Stronger than expected Oct. pending home sales; 2) News that MBIA to get infusion from Warburg Pincus; 3) Reopening of 10Y note this week for \$8B; 4) DJIA hitting levels not seen since early Nov; 5) Mortgage duration shedding by servicers in an ongoing unwind of the duration purchases made in the rally early last week. On a 3PM to 3PM basis, 2Y at 3.158% vs. 3.116%, 5Y at 3.539% vs. 3.507%, 10Y at 4.149% vs. 4.119% and 30Y at 4.613% vs. 4.585%. The 2/5Y curve is at +38.1 vs. +39.1. The 2/10Y curve is at +99.1 vs. +100.3. The 2/30Y curve is at +145.5 vs. +146.9%. One trader said the Treasury market needs constant bad news to sustain current levels. "No one likes these absolute yields, but the market is always bracing for more bad news."

15:10 12/10 **US EURODLR FUTURES**: Eurodlr futures finished near session lows again, curve giving back some of Fri's steepening, the Red/Gold pack spd in 1.75 bps at 125.0. In the Fronts (Dec07-Sep08), the Dec07 were up 1.75 bps at 95-03.25 on combined Globex and pit volume of 219,000, the Mar08 in 1.5 bps at 95-58 on volume of 245,000, the Jun08 in 3.5 bps at 96-02 on volume of 296,000, while the Sep08 contract was 4.0 bps lower at 96-25 on volume of 274,000. The 2yr proxy Red pack (Dec08-Sep09), settled 4.5 to 7.5 bps lower across the pack with some 991,000 contracts traded.

15:02 12/10 **US SWAPS**: Spds ended session off early wides. With heavy servicer-tied convexity hedging impetus for last Fri's spd widening/sharp bounce in ylds, sources cited subprime-tied news for the renewed underperformance of spreads while modest 2-way flow has taken a back seat on the modest debt market rally. With many accts on the sidelines ahead of Tue's FOMC rate announcement, sources report paying tied flow in 2s while a Chicago FCM picks up 250 Eurodlr 3yr bundles. According to GovPX:

| Time (ET) | 2Y Swap/Mid | 5Y Swap/Mid | 10Y Swap/Mid | 30Y Swap/Mid |
|-----------|--------------|-------------|--------------|--------------|
| Mon 3:00 | +0.50/98.25 | +1.50/89.50 | +0.50/72.50 | +0.50/61.00 |
| 1:20 | +2.00/99.75 | +2.75/90.75 | +1.50/73.50 | +1.00/61.50 |
| 10:30 | +2.00/99.75 | +2.25/90.25 | +0.75/72.75 | +0.25/60.75 |
| 9:45 | +2.25/100.00 | +2.25/90.25 | +1.00/73.00 | +0.25/60.75 |
| 9:00 | +2.75/100.50 | +2.25/90.25 | +0.50/72.50 | -0.25/60.25 |
| Mon Open | +3.00/100.75 | +1.75/89.75 | +1.00/73.00 | +0.25/60.75 |
| Fri 3:00 | +0.75/97.75 | +3.00/88.00 | +4.25/72.00 | +6.00/60.50 |

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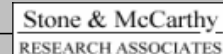
15:01 12/10 **US SWAPTION VOL**S: OTC vols finished at lows by the bell. Both exchange listed and OTC vols were bid early in the session, though pending Fed rate announcement had little to do with early support in OTC levels. While OTC flow remained light ahead of last FOMC announcement for '07, underlying debt markets/option implieds found early support on news that the Swiss bank UBS would take an additional \$10B in subprime-tied writedowns. According to GovPX:

| Time (ET) | GAMMA, 3M/2Y | INTERMEDIATE, 2Y/10Y | VEGA, 5Y/5Y |
|-----------|--------------|----------------------|-------------|
| Mon 3:00 | 31.40% | 18.70% | 17.70% |
| 1:20 | 32.10% | 18.80% | 17.70% |
| 12:00 | 32.10% | 18.80% | 17.70% |
| 11:25 | 32.90% | 19.00% | 18.00% |
| 10:10 | 32.80% | 18.80% | 17.90% |
| 9:00 | 33.90% | 18.90% | 18.00% |
| Mon Open | 33.90% | 18.90% | 18.00% |
| Fri 3:00 | 32.90% | 18.90% | 18.00% |

12/10/2007

News: Snapshots throughout the day

Pg 2



12:56 12/10 **FED**: Analyst Tony Crescenzi of Miller, Tabak says Fed's \$5b bill redemption drains reserves and "makes sense only in the context of some offsetting action, creating suspicion that the Fed has something up its sleeve, possibly an aggressive rate cut or other actions." He ponders if this means a 50 FF/75 DR rate cut.

[The story he was commenting on follows:]

11:21 12/10 FED/SOMA: The NY Fed posted on their web site: On Thursday, December 13, 2007, the Federal Reserve's System Open Market Account will redeem \$5 billion of Treasury bill holdings. This action is designed to give the Federal Reserve Open Market Trading Desk (the "Desk") greater flexibility in the day-to-day management of reserve levels.

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The Desk will continue to evaluate the need for the use of other tools to add flexibility to its open market operations. These may include further Treasury bill redemptions, reverse repurchase agreements and Treasury bill sales. (end of statement)

13:29 12/10 **US TSYS**: Much has been made of BOA's freezing a \$12B fund this morning but one buy-side account is quick to point out the difference between this fund and the so-called 2a7 funds that fall under the "protecting the NAV \$1" rule. The BOA fund is a private, enhanced fund with a duration of zero to 3 years, the source says. It is not a fund that falls under the "break the buck" category, he said. Others note in this very uncertain climate this is an important distinction. Sources say "the market understood this pretty quickly." Still, there are many questions such as how much institutional money is parked in this kind of fund? "The fact that several of these funds are freezing access to them means some people can't get their cash out which means that more and more inst. investors will pull money from these and park them in bills or 2a7 funds. That means liquidity continues to be a problem for ABCP problem."

"We believe the **Federal Open Market Committee** should cut the federal funds rate target by 1/2 percent to 4.0% and slash the discount rate by 3/4 percent to 4.25%, thereby reducing the penalty rate on the discount rate to just 25 basis points from the current 50 basis points." --by Ken Kim, SMRA.COM

13:30 12/10 **US OUTLOOK/FED**: From SoGen: "A 50bp cut, or even more, is what is needed to help get us out of the financial crisis. A strong electro-shock would hopefully allow markets to digest the year-end funding crisis with some serenity. 10-year Treasuries then would be at par with Fed funds. That would go a long way towards consolidating the 10-year at 4% or more likely below that."

13:52 12/10 **US OUTLOOK**: Max Bublitz, Chief Strategist at SCM Advisors, says "I expect a 25 bp cut in the **Fed** funds rate and a 50 bp cut in the discount rate along with some fairly dovish language... although I'd prefer 50/100. Nevertheless, the size of the cut is not the key because the cost of money isn't the real problem right now. The problem is that the credit markets remain severely clogged, which is increasingly impacting an already weakening economy. The key is for the Fed to signal that it understands the problem and stands ready to provide additional cuts as needed."



[From RBS]

We've seen the seasonals in the last week or so of Dec turn a bit negative and note that the third ease in a given cycle tends to generate a big backup -- 40 bp in 10s on average. A good deal of a backup has been seen so we think the action does preempt some drama, but still we're willing to go with it as we anticipate 1) some Fed relief on credit via a more aggressive move in the discount rate/collateral restrictions, 2) rate lock selling vs. Q1 issuance, 3) perhaps some residual impact on MBS as durations extend in a backup and the market ponders Fannie's added 25 bp "Adverse Market Delivery Charge" in March.

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