

## The Afternoon Email

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### Key Money Rates

12/11/2007 14:00

	Libor\$ ^	Tbill	CP ^^
1M	5.204	2.862	5.230
3M	5.111	2.947	5.080
6M	4.956	3.173	4.810
	TSY	Swap	ED Pks ^^^
2y	2.964	103.50	3.651
5y	3.335	92.50	4.613
10y	3.981	74.25	4.996

	Libor\$ ^	Repos
0/N	4.433	4.230
1week	4.450	4.100
2week	4.469	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.

**All Times Eastern unless otherwise marked****[Following is from Stone & McCarthy]**

Treasuries traded sharply higher on Tuesday prior to the afternoon FOMC decision, and traded higher still after the FOMC announcement. A safe-haven bid returned to the Treasury market in the morning in response to the announcement that Freddie Mac posted its largest loss on record in Q3, while Freddie CEO Richard Syron indicated that Q4 "results are not going to be effectively better than they were in the third quarter." The Freddie developments was just the latest in a long string of developments that confirm that breadth and the depth of subprime-related financial problems. Nonetheless, the FOMC did as little as possible at the FOMC meeting, cutting the fed funds rate and the discount rate by 25 bps. The action hammered the stock market, triggering safe-haven flows in the process that drove the Treasury market sharply higher. The decision is difficult to understand coming in the wake of the recent comments by Kohn, Bernanke and Yellen.

15:12 12/11 **US EURODLR FUTURES:** EuroDlr futures forged sharply higher post FOMC, while front 2 contracts edged lower, curve forges steeper w/Reds outpacing, The Red/Gold pack spd finished 2.375 bps steeper at 127.25. In the Fronts (Dec07-Sep08), the Dec07 were in 11.0 bps at 94-92.25 on combined Globex and pit volume of 649,000, the Mar08 in 2.0 bps at 95-56 on volume of 372,000, the Jun08 up 6.0 bps at 96-08 on volume of 370,000, while the Sep08 contract was 13.5 bps higher at 96-38 on volume of 363,000. The 2yr proxy Red pack (Dec08-Sep09), settled 17.5 to 20.5 bps higher across the pack with some 1,117,000 contracts traded.

15:05 12/11 **US SWAPS:** Spds tighter most of session, gapped wider post FOMC. While many had anticipated more of a cut by the Fed, now fear Fed is behind the curve. Swap tied flow light in second half after Tsy sources reported some "decent" servicer-tied receiving across curve early. Front end near within 50 bps of 20yr wides. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+5.25/103.50	+2.75/92.25	+1.50/74.00	+0.75/61.75
2:50	+5.50/103.75	+1.50/91.00	+1.25/73.75	-0.25/60.75
2:45	+5.50/103.75	+1.50/91.00	+1.25/73.75	-0.25/60.75
2:30	+0.75/99.00	-0.75/88.75	-0.75/71.75	-2.25/58.75
1:35	-6.25/92.00	-5.00/84.50	-5.25/67.25	-4.75/56.25
12:20	-5.50/92.75	-4.00/85.50	-3.75/68.75	-3.50/57.50
11:00	-4.50/93.75	-3.25/86.25	-2.75/69.75	-2.50/58.50
9:25	-6.25/92.00	-4.50/85.00	-3.25/69.25	-3.00/58.00
8:50	-5.25/93.00	-2.50/87.00	-2.25/70.25	-2.25/58.75
Mon 3:00	+0.50/98.25	+1.50/89.50	+0.50/72.50	+0.50/61.00

(cont)

15:29 12/11 **US TSY FUTURES:** Tsys closed better across the curve with Mar T-bonds finished up 1-full point and 20/32 at 116-14 with 291K traded while the Mar 10-yr settled up 1-full point and 7/32 at 114-12.5 with 1.02M traded. The Mar 5-yr notes settled better by 28.5/32 at 110-16 with 540K traded while the Mar 2-yr closed up 11.5/32 at 105-05.5 with 314K changing hands.

15:14 12/11 **US AGENCIES:** Very nice tightening, in a nano-second following FOMC, snaps into horrible widening. Bottom line, very distinct disappointment in the Fed, great worry for the year-end turn financing and liquidity heading even further south. Indications as follows - Freddie Nov 09 +73 (vs Monday's 3PM mark of +70); Fannie Nov'09 +71 (+69); Freddie Aug'10 +72.5 (+71.5); Fannie Sept'10 +72 (+70.5); Freddie Oct'12 +67.5 (+64); Fannie Nov'12 +70.5 (+67); Fannie June'17 +64 (+63); Freddie Nov'17 +66.5 (+64.5); Fannie Nov 2030 +59.5 (+59.5); Freddie Jul'32 +59 (+58.5). Spreads tighten all day and reverse severely - 2Y Fannie move from +67 to +64.5 to +73 - Ouch Freddie 10Y +61.5 to +58.5 to +66.5 - Double Ouch. Oh yes - Freddie Reference Note tomorrow - \$3B 5Y the Street's best guess.

15:03 12/11 **US SWAPTION VOLs:** OTC vols finished at session highs while spds snapsharply wider post FOMC. Sources had reported customer bid for gamma earlier, likely hedged via EuroDlr options, specifically Red pack (Dec08-Sep09) 62 straddle strip where dealers bought the vol structure from 404.5 down to 401.0. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:00	32.50%	19.00%	17.90%
2:30	32.30%	18.90%	17.80%
1:45	31.80%	18.90%	17.90%
11:25	31.80%	18.70%	17.70%
8:50	31.60%	18.70%	17.80%
Tue Open	31.40%	18.60%	17.70%
Mon 3:00	31.40%	18.70%	17.70%



14:36 12/11 **FED REACT:** Analyst Tony Crescenzi of Miller, Tabak says back month Eurodollar contracts suggest expectations rose for the level of the funds rate in late 2008 and 2009. He says this "makes no sense given the slight action today, which means that the market believes that by doing so little today the Fed will have to do more later. This was a poor course of action for the Fed, in my opinion, especially having left the discount rate at such a wide spread to the fed funds rate."

14:36 12/11 **US AGENCIES:** More traders very unhappy with lack of more forceful action from Fed. Concerns center on year-end pressures. Some, for the first time, worry out-loud that the Fed is out of step with reality and is now, dare we say, "behind the curve." This has been heard before. We find it interesting though at this time that traders/analysts who we would normally look for level-headed, non knee-jerk responses rom are moving in to the camp that says the Fed does not get the joke.

14:49 12/11 **FED REACT:** Citi's chief economist Bob DiClemente says "a stunning disappointment in light of the sharp deterioration in near-term growth prospects and tightening financial conditions... The dissent in favor of more aggressive action is also not especially encouraging as it indicates that more decisive move was strongly resisted. Taken together the action and the statement will invite speculation that the Committee lacks a consensus in addressing the threat to growth and still is focused on lingering perceived threats to inflation. This concern is overdrawn in our judgment. A more aggressive move might have limited chances that we will see significant further rate cuts. As a result, we can reaffirm that at least another 75bps is in store, with at least 25bps at the end of January."

14:55 12/11 **US TSYS/RISK: Dec. 3M OIS/LIBOR** is jumping, showing fear of risk, as the Dec 3M OIS/LIBOR has jumped roughly a huge 15 bps on the day to over 100 bps vs. 85 bps earlier today. "The spread products are wider," said one trader. "It just intensifies that year-end funding constraint. Capitol costs are going to be critical. But the Fed has said we're aware of this, we think we have done enough."

14:56 12/11 **FED REACT:** Economist Steven Ricchiuto at Handelsbank says Fed took a "cautious approach to easing" that disappointed stock traders. He says the policy statement "strongly implies that the Committee will cut rates further if the steps taken today fail to stabilize markets during the inter-meeting period."

Release Date: December 11, 2007

**The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 4-1/4 percent.**

Incoming information suggests that economic growth is slowing, reflecting the intensification of the housing correction and some softening in business and consumer spending. Moreover, strains in financial markets have increased in recent weeks. Today's action, combined with the policy actions taken earlier, should help promote moderate growth over time.

Readings on core inflation have improved modestly this year, but elevated energy and commodity prices, among other factors, may put upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.

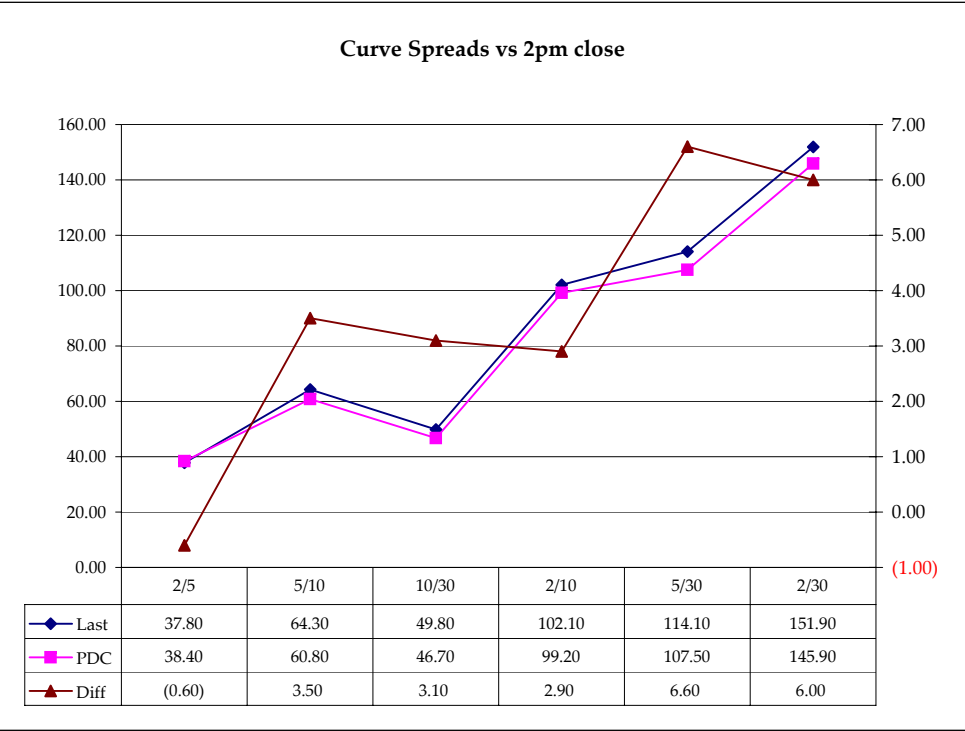
Recent developments, including the deterioration in financial market conditions, have increased the uncertainty surrounding the outlook for economic growth and inflation. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Charles L. Evans; Thomas M. Hoenig; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; William Poole; and Kevin M. Warsh. Voting against was Eric S. Rosengren, who preferred to lower the target for the federal funds rate by 50 basis points at this meeting.

In a related action, the Board of Governors unanimously approved a 25-basis-point decrease in the discount rate to 4-3/4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and St. Louis.

[Source: the Federal Reserve]

Yield Curve Spreads			
	TC	PDC	Diff
2/5	37.80	38.40	(0.60)
5/10	64.30	60.80	3.50
10/30	49.80	46.70	3.10
2/10	102.10	99.20	2.90
5/30	114.10	107.50	6.60
2/30	151.90	145.90	6.00

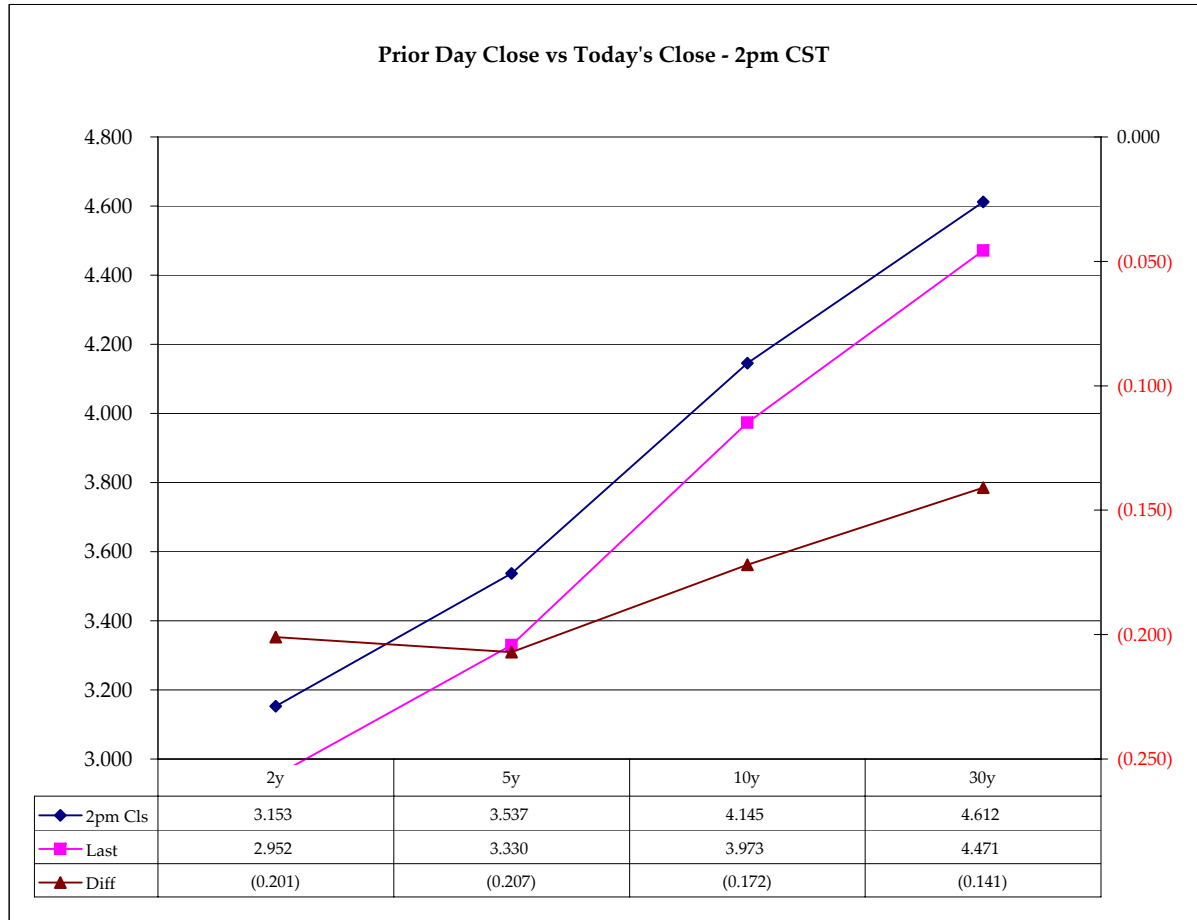


Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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	99.3025	3.153	2.952	(0.201)		
5y	3.375	11/30/12	99.0850	3.537	3.330	(0.207)	-36.02	-33.54
10y	4.250	11/17/17	100.270	4.145	3.973	(0.172)	81.58	88.28
30y	5.000	5/15/37	106.07	4.612	4.471	(0.141)	228.96	255.39

March Contracts		
	PDC 32	TC
ZF	109.195	110.170
ZN	112.120	113.215
ZB	114.24	116.180



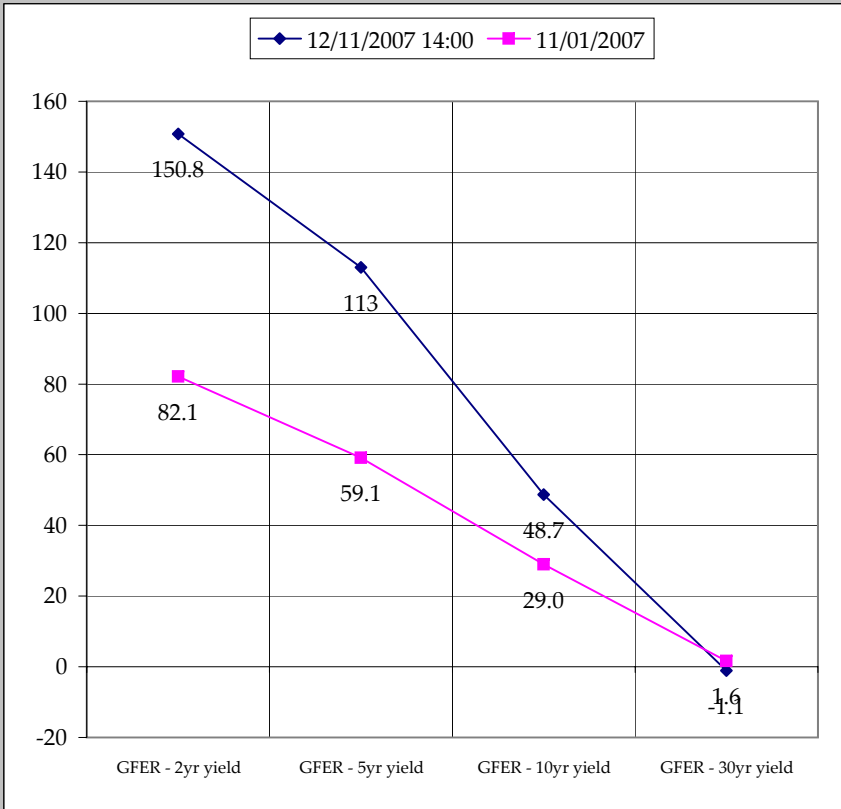
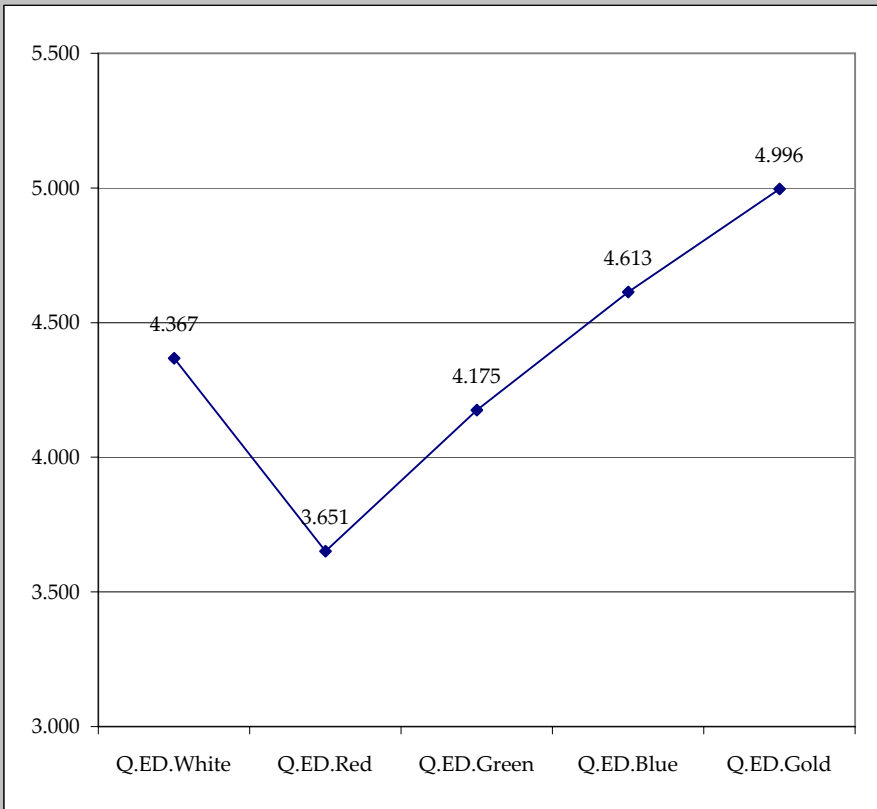
Notes:  
 Basis = (Cash Decimal - (Futures Decimal \* CF))\*32  
 32 = price is quoted in 32nds  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.367	1.875	9573.938
Q.ED.Red	3.651	20.625	9643.125
Q.ED.Green	4.175	19.875	9592.375
Q.ED.Blue	4.613	20.000	9550.125
Q.ED.Gold	4.996	15.625	9513.250

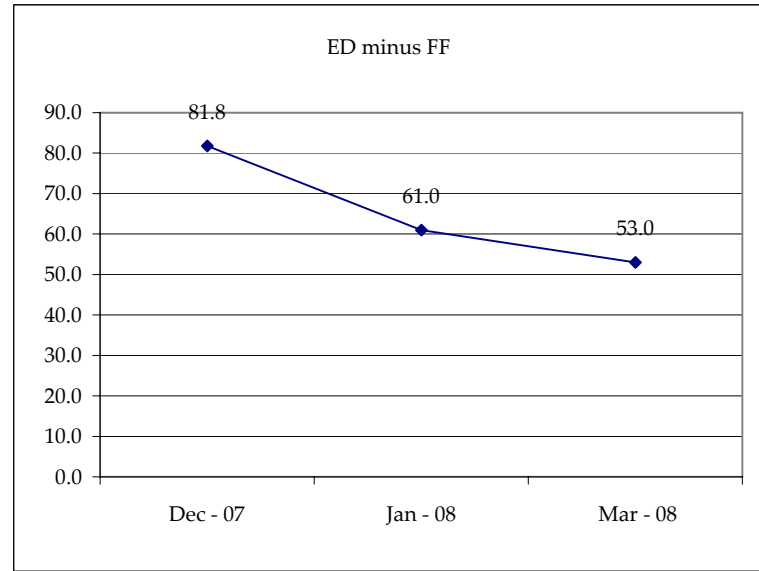
Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	11/01/2007
GFER - 2yr yield	150.8	26.5	82.1
GFER - 5yr yield	113	27.5	59.1
GFER - 10yr yield	48.7	23.2	29.0
GFER - 30yr yield	-1.1	19.8	1.6
GFER	4.46	5.0	

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	95.740	-0.050	4.260	5.078	81.8
Jan-08	95.810	-0.100	4.190	4.800	61.0
Feb-08	96.020	0.050	3.980	0.000	0.0
Mar-08	96.090	0.050	3.910	4.440	53.0
Apr-08	96.165	0.150	3.835	0.000	0.0
May-08	96.265	0.350	3.735	0.000	0.0
Jun-08	96.285	0.400	3.715	3.915	20.0
Jul-08	96.410	0.600	3.590	0.000	0.0
Aug-08	96.510	0.500	3.490	0.000	0.0
Sep-08	96.615	1.300	3.385	3.610	22.5



<b>USD LIBOR</b>	<b>Bid</b>	<b>Ask</b>	<b>Last Quote</b>	<b>Last Trade</b>	<b>Hi</b>	<b>Low</b>	<b>Net Chng</b>	<b>Open</b>
USDLIBON			4.43250	4.43250	4.54750	4.43250	(0.11500)	4.54750
USDLIB1M			5.20375	5.20375	5.23188	5.20375	(0.02813)	5.23188
USDLIB3M			5.11125	5.11125	5.13250	5.11125	(0.02125)	5.13250
USDLIB6M			4.95625	4.95625	4.96750	4.95625	(0.01125)	4.96750
USDLIB1Y			4.54875	4.54875	4.55250	4.54875	(0.00375)	4.55250
<b>GBP LIBOR</b>	<b>Bid</b>	<b>Ask</b>	<b>Last Quote</b>	<b>Last Trade</b>	<b>Hi</b>	<b>Low</b>	<b>Net Chng</b>	<b>Open</b>
GBPLIBON			5.70000	5.70000	5.70000	5.68500	0.01500	5.68500
GBPLIB1M			6.73875	6.73875	6.73875	6.69500	0.04375	6.69500
GBPLIB3M			6.62500	6.62500	6.62500	6.61500	0.01000	6.61500
GBPLIB6M			6.35250	6.35250	6.35250	6.34938	0.00312	6.34938
GBPLIB1Y			6.03125	6.03125	6.03125	6.03000	0.00125	6.03000
<b>GBP DEPOSITS</b>	<b>Bid</b>	<b>Ask</b>	<b>Last Quote</b>	<b>Last Trade</b>	<b>Hi</b>	<b>Low</b>	<b>Net Chng</b>	<b>Open</b>
GBPDEP1M	6.600	6.700	6.700	6.700	6.800	6.450	0.000	6.500
GBPDEP3M	6.540	6.640	6.640	6.640	6.740	6.350	0.000	6.440
GBPDEP6M	6.250	6.350	6.350	6.350	6.450	6.100	0.000	6.150
GBPDEP1Y	5.930	6.030	6.030	6.030	6.130	5.780	0.000	5.830
<b>EURIBOR DEPOSITS</b>	<b>Bid</b>	<b>Ask</b>	<b>Last Quote</b>	<b>Last Trade</b>	<b>Hi</b>	<b>Low</b>	<b>Net Chng</b>	<b>Open</b>
EURLIBON			4.0500	4.0500	4.0500	3.8500	0.2000	3.8500
EUIBOR1M			4.9230	4.9230	4.9230	4.9230	0.0280	4.9230
EUIBOR3M			4.9270	4.9270	4.9270	4.9270	0.0250	4.9270
EUIBOR6M			4.8810	4.8810	4.8810	4.8810	0.0210	4.8810
EUIBOR1Y			4.8470	4.8470	4.8470	4.8470	0.0320	4.8470