

The Afternoon Email

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Key Money Rates

12/12/2007 14:00

	Libor\$ ^	Tbill	CP ^^
1M	5.103	2.827	5.130
3M	5.058	2.867	4.990
6M	4.929	3.301	4.760
	TSY	Swap	ED Pks ^^^
2y	3.116	91.00	3.736
5y	3.449	86.00	4.683
10y	4.072	69.00	5.009

	Libor\$ ^	Repos
0/N	4.340	4.100
1week	4.369	3.950
2week	4.381	3.750

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**

15:15 12/12 **US TSYS:** Major whipsaw in 24 hours sends 2Y notes from 3.12% pre-Fed on Tue to +2.95% at the close Tue. Then today, liquidity measures announced by Fed sent 2s to 3.25% at the lows. Curve has also been roiled with 2/10Y settling at +96 Wed vs +102.2 yesterday. Intra-day Wed it was +91 in the morning. On a 3PM to 3PM basis, 2Y at 3.108% vs. 2.968% Tue. 5Y at 3.444% vs. 3.343%. 10Y at 4.068% vs. 3.990%. 30Y at 4.528% vs. 4.486%.

15:22 12/12 **US EURODLR FUTURES:** EuroDlr futures retrace after Tue's post FOMC moonshot, lower most of Wed's session but firming late as equities turn into the red after trading sharply higher. The Red/Gold pack spd finished 7.125 bps flatter at 120.125. In the Fronts (Dec07-Sep08), the Dec07 were up 14.25 bps at 95-06.5 on combined Globex and pit volume of 750,000, the Mar08 up 10.5 bps at 95-66.5 on volume of 421,000, the Jun08 up 2.5 bps at 96-10.5 on volume of 365,000, while the Sep08 contract was 3.5 bps lower at 96-34.5 on volume of 394,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.5 to 8.0 bps lower across the pack with some 1,321,000 contracts traded.

15:12 12/12 **US SWAPS:** Spds off best lvls of session by close, initial impetus from lower US\$ LIBOR set overnight, while roller coaster picked up speed after Fed TAF news. Some payer-tied flow noted prior to NY open. Two-way flow turned better receivers in fronts to intermediates by midmorning. Modest unwinds, paying as mkt drifted off lows in second half. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-10.00/93.50	-5.50/87.00	-4.25/69.75	-3.00/58.75
1:10	-12.50/91.00	-7.00/85.50	-4.00/70.00	-2.50/59.25
10:55	-14.50/89.00	-8.00/84.50	-5.75/68.25	-3.75/58.00
9:30	-15.75/87.75	-9.50/83.00	-6.50/67.50	-4.25/57.50
8:55	-9.25/94.25	-5.75/86.75	-5.00/69.00	-4.75/57.00
Wed Open	-6.00/97.50	-4.75/87.75	-4.50/69.50	-4.25/57.50
Tue 3:00	+5.25/103.50	+3.00/92.50	+1.50/74.00	+0.75/61.75

(cont)

15:10 12/12 **US AGENCIES:** "Truly a Linda Blair head-spinning session," said a trader conjuring that scene in the Exorcist. "Even if guys somehow escaped P&L damage, they are psychologically impaired. Liquidity between now and year-end? Ha ha ha." Or words to that effect. Indications as follows - Freddie Nov'09 +63 (vs Tuesday's 3PM mark of +73); Fannie Nov'09 +60.5 (+71); Freddie Aug'10 +63 (+72.5); Fannie Sept'10 +62 (+72); Freddie Oct'12 +61.5 (+67.5); Fannie Nov'12 +63 (+70.5); Fannie June'17 +57 (+64); Freddie Nov'17 +59.5 (+66.5); Fannie Nov 2030 +51.5 (+59.5); Freddie Jul'32 +50.5 (+59). Freddie to price \$3 billion 5Y Reference Notes Friday as was widely expected. Also, and less expected but not shocking, was its \$1B re-opening of the outstanding 2Y 4.125% Nov 2009 via internet auction Friday.

15:13 12/12 **US SWAPTION VOL:** OTC vols see-saw, finished near steady on the close in the intermediates-vega, while gamma caught a bid again, tracking FI mks as they drift off lows/equities go into the red. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Wed 3:10	32.70%	18.90%	17.80%
1:35	32.50%	18.70%	17.50%
11:55	32.20%	18.70%	17.40%
11:05	32.20%	18.80%	17.50%
10:30	32.00%	18.80%	17.60%
9:40	32.00%	18.90%	17.90%
9:10	33.40%	19.30%	18.30%
Wed Open	33.60%	19.60%	18.30%
Tue 3:00	32.50%	19.00%	17.90%

14:50 12/12 US MBS/ABS/SubPrime: Yesterday, MBA announced loan performance data for Q3'07 indicating that the delinquency rate on single family mortgages reached 5.59% - the highest DQ rate since 1986. This DQ rate is +47 bpts. over Q2'07 and +92 bps versus a year ago. The % of loans in foreclosure rose 29 bps from Q2 to 1.69% in Q3, a 64 bp increment over a year ago. The foreclosure rate now stands at the highest level ever recorded by the MBA. Data was even bad at the top end of the credit curve. Comparing Q'3'07 to Q3'06, the DQ rate increased 68 bpts. for prime loans, +375 bpts. for subprime loans, +12 bpts. for FHA loans, and remained unchanged for VA loans. The foreclosure inventory rate rose 35 bpts. for prime loans and +303 bpts. for subprime loans. The foreclosure inventory rate decreased 6 bpts. for FHA and -9 bpts. for VA loans, year-over-year. This data indicates that even more agency downgrades in ABS and CDOs are imminent. So far, based on the # of deals, 92% of '06originated ABS deals have been downgraded.

The Federal Reserve joined with other major central banks to announce new measures designed to inject added cash into global money markets. The Fed plans to create a new "term auction facility" under which it would lend at least \$40 billion and potentially far more, in four separate actions starting this week. The loans would be at rates far below those charged on direct loans from the Fed to banks from its "discount window." The European Central Bank, Bank of England, Bank of Canada and Swiss National Bank simultaneously announced parallel measures. U.S. stock futures surged on the news. **[Source: WSJ]**

ECB Statement >>

12 December 2007 - Measures designed to address elevated pressures in short-term funding markets Today, the Bank of Canada, the Bank of England, the European Central Bank (ECB), the Federal Reserve, and the Swiss National Bank are announcing measures designed to address elevated pressures in short-term funding markets.

ECB Decisions

The Governing Council of the ECB has decided to take joint action with the Federal Reserve by offering US dollar funding to Eurosystem counterparties. The Eurosystem shall conduct two US dollar liquidity-providing operations, in connection with the US dollar Term Auction Facility, against ECB-eligible collateral for a maturity of 28 and 35 days. The submission of bids will take place on 17 and 20 December 2007 for settlement on 20 and 27 December 2007, respectively. The operational details can be obtained from the ECB's website (www.ecb.europa.eu). The US dollars will be provided by the Federal Reserve to the ECB, up to \$20 billion, by means of a temporary reciprocal currency arrangement (swap line).

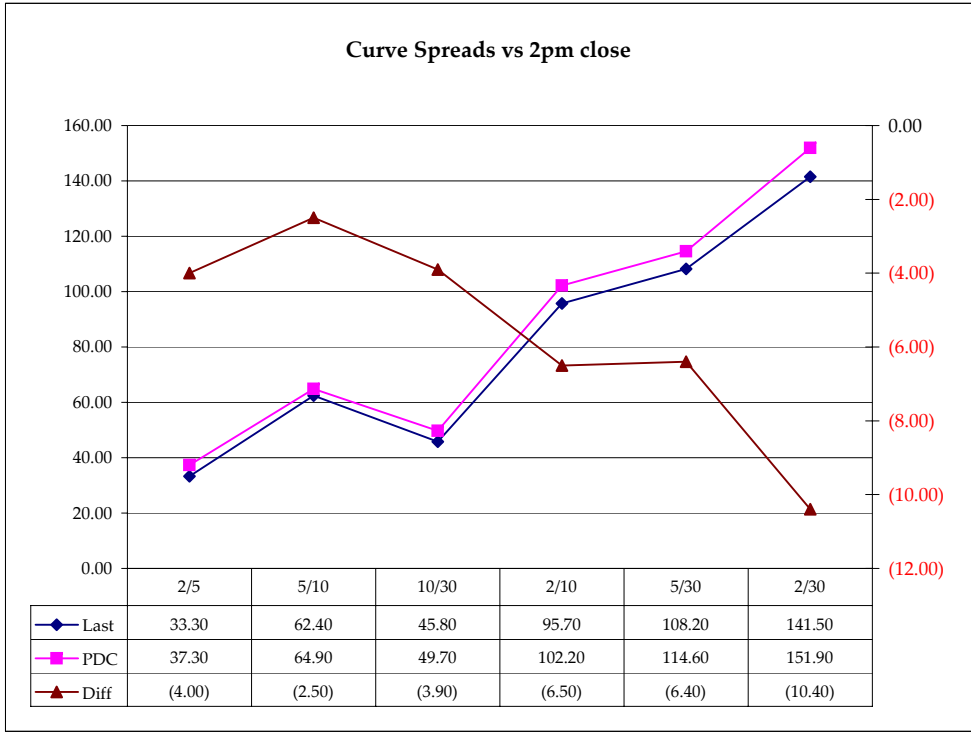
It is reminded that the Governing Council previously decided on 8 November 2007 to renew at maturity the two supplementary longer-term refinancing operations (LTROs) that were allotted in August and September 2007. As an additional measure, the Governing Council decided on 13 November to lengthen the maturity of the main refinancing operation settling on 19 December 2007 to two weeks, thereby maturing on 4 January 2008 instead of 28 December 2007.

09:25 12/12 **FED REACT:** From HFE: "The Fed has offered \$20B and \$4B to the ECB and SNB respectively via six-month swap lines, presumably so these central banks can intervene in some way in the euro-dollar market. The Fed says they may conduct additional TAF auctions in coming months, "depending in part on evolving market conditions". Clearly, the Fed is feeling its way in the dark here; current conditions are unprecedented in modern times. We think these measures are a step in the right direction, but there is simply no way to know for sure how effective they will be. The big question, though, is why the Fed did not make this announcement yesterday, instead of allowing the markets to be hugely disappointed by their actions."

09:33 12/12 **FED REACT:** From FTN: "By allowing the Federal Reserve to inject term funds through a broader range of counterparties and against a broader range of collateral than open market operations, this facility (TAF) could help promote the efficient dissemination of liquidity when the unsecured interbank markets are under stress."

09:42 12/12 **CREDIT:** US credit markets are seeing a fairly upbeat tone in the wake of the Fed announcing its TAF (Temporary Auction Facility) and coordination to ease liquidity in short term money markets with other central banks. It does beg the question, what do they know about potential upcoming liquidity crunch event risk, comments one trader, but for the time being the move has buoyed credit and stock markets. This follows a rather negative reaction to yesterday's Fed rate cut, which saw stocks sell off (although the reaction in credit markets was much more muted). Spreads in the financial sector are quite sharply tighter on the TAF news, with high grade institutions up to 5bps better following the announcement. In the wider credit market, spreads are 2-3bps tighter for many benchmark indices and single names. The longevity of this move (tightening) will be debatable, and if markets fail to establish a more positive medium term outlook, central banks could see themselves extending and enhancing to current market support, according to one analyst.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	33.30	37.30	(4.00)
5/10	62.40	64.90	(2.50)
10/30	45.80	49.70	(3.90)
2/10	95.70	102.20	(6.50)
5/30	108.20	114.60	(6.40)
2/30	141.50	151.90	(10.40)



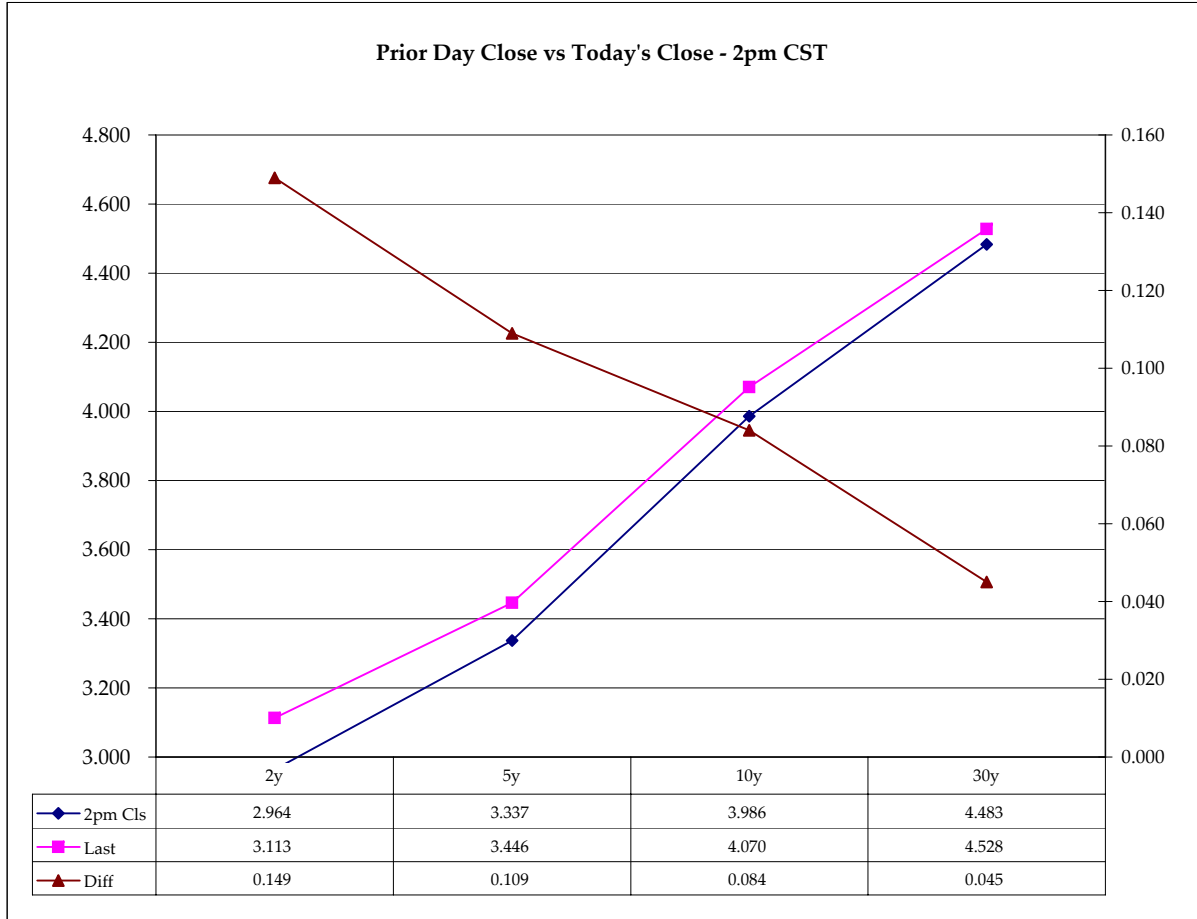
Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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	100.0975	2.964	3.113	0.149		
5y	3.375	11/30/12	100.0550	3.337	3.446	0.109	-33.12	-34.01
10y	4.250	11/17/17	102.045	3.986	4.070	0.084	88.53	83.46
30y	5.000	5/15/37	108.13	4.483	4.528	0.045	251.48	248.43

March Contracts

	PDC 32	TC
ZF	110.160	109.315
ZN	113.195	112.310
ZB	116.15	115.210



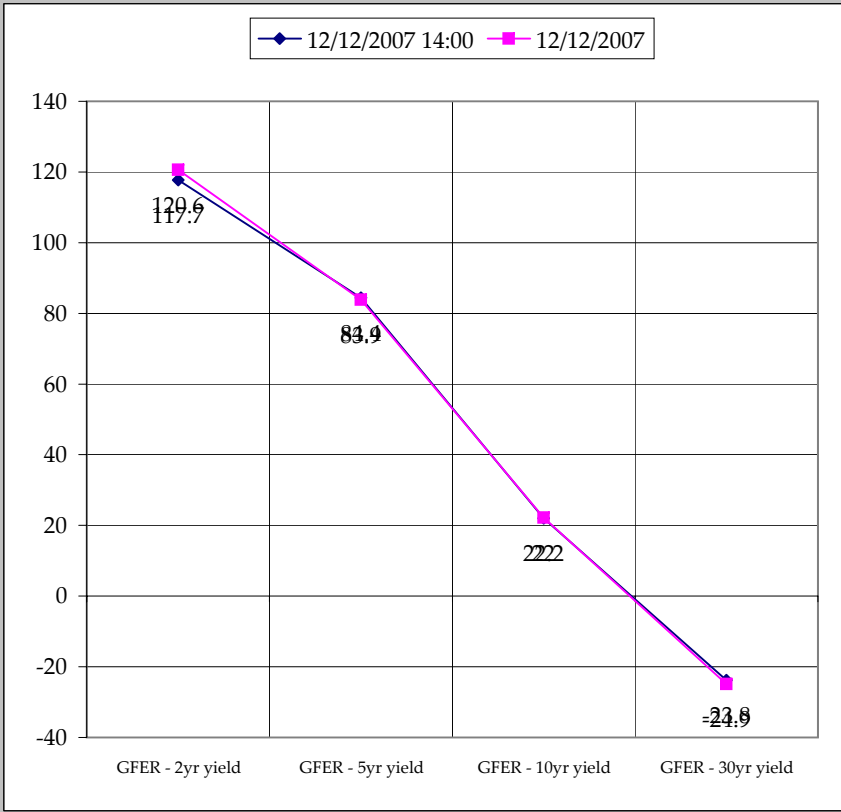
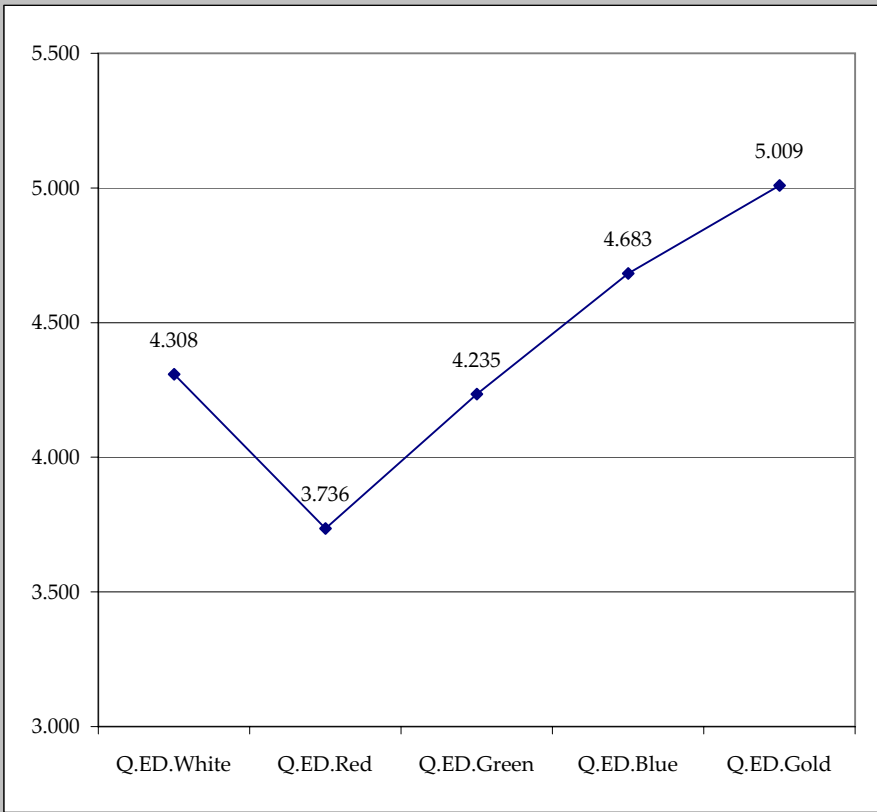
Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 32 = price is quoted in 32nds
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.308	6.063	9579.625
Q.ED.Red	3.736	-7.250	9634.875
Q.ED.Green	4.235	-4.875	9586.625
Q.ED.Blue	4.683	-4.125	9543.375
Q.ED.Gold	5.009	-1.750	9512.000

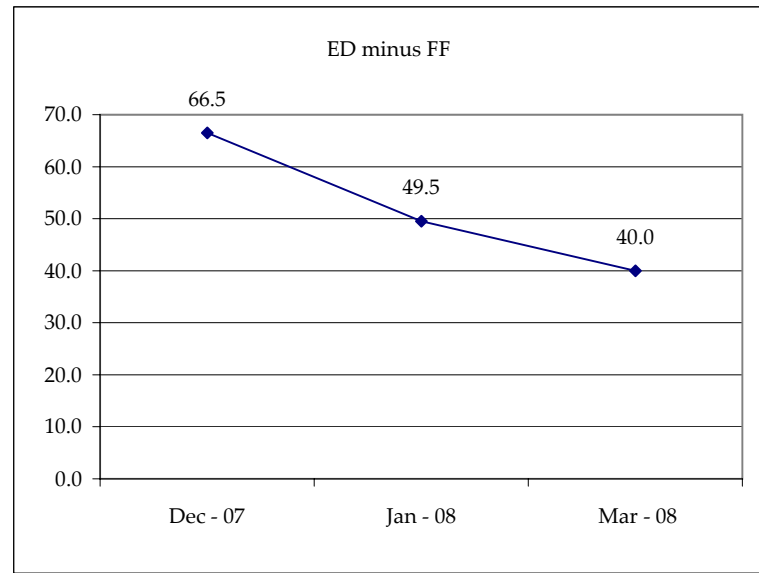
Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	12/12/2007
GFER - 2yr yield	117.7	-38.0	120.6
GFER - 5yr yield	84.4	-31.6	83.9
GFER - 10yr yield	22	-27.4	22.2
GFER - 30yr yield	-23.8	-23.6	-24.9
GFER	4.29	-17.0	

GFER = Fed Funds Daily Effective Rate

12/12/2007?
Why this date? Day after the fed is a good benchmark. I'll keep this until next fed meeting in Jan 08.



Month	Fed Funds (FF)			ED	ED - FF
	Last	Net	Implied	Implied	bps
Dec-07	95.730	-0.100	4.270	4.935	66.5
Jan-08	95.815	0.050	4.185	4.680	49.5
Feb-08	96.005	-0.100	3.995	0.000	0.0
Mar-08	96.070	-0.150	3.930	4.330	40.0
Apr-08	96.140	-0.250	3.860	0.000	0.0
May-08	96.250	-0.250	3.750	0.000	0.0
Jun-08	96.280	-0.100	3.720	3.895	17.5
Jul-08	96.410	0.150	3.590	0.000	0.0
Aug-08	96.500	-0.050	3.500	0.000	0.0
Sep-08	96.535	0.050	3.465	3.650	18.5



USD LIBOR	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
USDLIBON			4.34000	4.34000	4.43250	4.34000	(0.09250)	4.43250
USDLIB1M			5.10250	5.10250	5.20375	5.10250	(0.10125)	5.20375
USDLIB3M			5.05750	5.05750	5.11125	5.05750	(0.05375)	5.11125
USDLIB6M			4.92875	4.92875	4.95625	4.92875	(0.02750)	4.95625
USDLIB1Y			4.50188	4.50188	4.54875	4.50188	(0.04687)	4.54875
GBP LIBOR	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
GBPLIBON			5.68500	5.68500	5.70000	5.68500	(0.01500)	5.70000
GBPLIB1M			6.74625	6.74625	6.74625	6.73875	0.00750	6.73875
GBPLIB3M			6.62688	6.62688	6.62688	6.62500	0.00188	6.62500
GBPLIB6M			6.35375	6.35375	6.35375	6.35250	0.00125	6.35250
GBPLIB1Y			6.03375	6.03375	6.03375	6.03125	0.00250	6.03125
GBP DEPOSITS	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
GBPDEP1M	6.500	6.600	6.600	6.600	6.830	6.380	(0.100)	6.500
GBPDEP3M	6.500	6.600	6.600	6.600	6.750	6.370	(0.040)	6.440
GBPDEP6M	6.200	6.300	6.300	6.300	6.450	6.100	(0.050)	6.150
GBPDEP1Y	5.880	5.980	5.980	5.980	6.130	5.780	(0.050)	5.830
EURIBOR DEPOSITS	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
EURLIBON			4.0550	4.0550	4.0550	4.0500	0.0050	4.0500
EUIBOR1M			4.9470	4.9470	4.9470	4.9470	0.0240	4.9470
EUIBOR3M			4.9530	4.9530	4.9530	4.9530	0.0260	4.9530
EUIBOR6M			4.9060	4.9060	4.9060	4.9060	0.0250	4.9060
EUIBOR1Y			4.8670	4.8670	4.8670	4.8670	0.0200	4.8670