

## The Afternoon Email

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### Key Money Rates

12/17/2007 14:00

|     | Libor\$ ^ | Tbill | CP ^^      |
|-----|-----------|-------|------------|
| 1M  | 4.965     | 2.716 | 5.130      |
| 3M  | 4.941     | 3.005 | 4.990      |
| 6M  | 4.849     | 3.381 | 4.760      |
|     | TSY       | Swap  | ED Pks ^^^ |
| 2y  | 3.237     | 88.75 | 3.975      |
| 5y  | 3.574     | 85.50 | 4.889      |
| 10y | 4.191     | 67.25 | 5.196      |

|       | Libor\$ ^ | Repos |
|-------|-----------|-------|
| 0/N   | 4.418     | 3.900 |
| 1week | 4.364     | 3.900 |
| 2week | 5.094     | 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 ]**

15:22 12/17 **US TSYS/RECAP:** US Tsys ended Mon higher due to safe-haven bid on US stocks losses, monoline insurer/credit jitters, short-covering. Tsys opened NY higher in quiet 2-way flow, aided by overnight bid due to weak global stks, credit jitters. Afternoon then saw sizable US real money buyers in US 10Ys around 100 12/32 area, while some lvrgd accts bought 5Ys, (but others took profits in intermediates.) Morning saw US accts buying when 10 year yield neared 4.23%, bank profit-taking earlier in 10s, foreign central bank profit-tkg in 5s, Street 10Y bid, early bid on weak Dec NY Fed Empire St Mfrg Index. Buy-and-hold acct buying in 5s, lvrgd accts selling there. 3M bill auction tailed. In options, servicer rolled longs from Mar 10Y 115.5 calls to 113.5 calls, in size. Swaps had mild paying in intermeds on spread; decent/sporadic buying &/or covering shorts in upside call structures in Mar, Jun expiry-anticipating more rate cuts. US\$20B 1st TAF auction done; result Wed. Moodys Fri put FGIC on watch for downgrade; cut outlk to neg on MBIA, CIFG, some CDS hurt. More

15:08 12/17 **US EURODLR FUTURES:** Eurodlr futures drifted at or near top end of range for most of session, curve steepening with the long end underperforming: the Red/Gold pack spd finished 1.75 bps steeper at 120.25. In the Fronts (Mar08-Dec08), the Mar08 were up 0.5 bps at 95-57.5 on combined Globex and pit volume of 211,000, the Jun08 up 2.5 bps at 95-96 on volume of 234,000, the Sep08 up 5.0 bps at 96-20 on volume of 202,000, while the Dec08 contract was 6.5 bps higher at 96-30.5 on volume of 251,000. The 2yr proxy Red pack (Mar09-Dec09), settled 7.0 to 7.5 bps higher across the pack with some 438,000 contracts traded.

15:05 12/17 **US SWAPS:** While results from the Fed's first Taf won't be made public until Wed, spds moved off early wides near the close of today's auction amid ongoing light supportive flow. In sharp contrast to last week, light flow kicked off the week with some in-line paying-tied flow early in 10s by real money accounts, sources related, possibly an "unwind of an existing portfolio given who s involved," one desk added. According to GovPX:

| Time (ET) | 2Y Swap/Mid | 5Y Swap/Mid | 10Y Swap/Mid | 30Y Swap/Mid |
|-----------|-------------|-------------|--------------|--------------|
| Mon 3:00  | +0.25/88.75 | -0.75/85.50 | -1.25/67.25  | -0.75/58.25  |
| 12:25     | +0.75/89.25 | -0.25/86.00 | -1.00/67.50  | -0.25/58.75  |
| 10:45     | +2.00/90.50 | +1.00/87.25 | +0.25/68.75  | +0.75/59.75  |
| 9:30      | +2.75/91.25 | +1.25/87.50 | +0.75/69.25  | +1.25/60.25  |
| 8:50      | +2.25/90.75 | +1.25/87.50 | +1.00/69.50  | +1.25/60.25  |
| Mon Open  | +1.00/89.50 | +1.00/87.25 | +0.50/69.00  | +0.50/59.50  |
| Mon 7:50  | +1.50/90.00 | +0.75/87.00 | +0.25/68.75  | +0.00/59.00  |
| Fri 3:15  | -0.75/88.50 | +1.50/86.25 | +2.50/68.50  | +3.50/59.00  |

(cont)

15:19 12/17 **US TSY FUTURES:** Tsys closed better across the curve with Mar T-bonds finished up 17/32 at 114-16 with 145K traded while the Mar 10-yr settled up 11.5/32 at 112-10 with 496K traded. The Mar 5-yr notes settled hifger by 8.5/32 at 109-17 with 279K traded while the Mar 2-yr closed up 4/32 at 104-22.5 with 165K changing hands.

15:06 12/17 **US SWAPTION VOL:** OTC vols crept another notch higher by the close despite the absence of significant flow, partially induced by illiquid pre-holiday mkts while focus earlier was on Fed first TAF auction. According to GovPX:

| Time (ET) | GAMMA, 3M/2Y | INTERMEDIATE, 2Y/10Y | VEGA, 5Y/5Y |
|-----------|--------------|----------------------|-------------|
| Mon 3:00  | 31.40%       | 18.50%               | 17.50%      |
| 12:45     | 31.20%       | 18.40%               | 17.50%      |
| 11:20     | 31.20%       | 18.40%               | 17.50%      |
| 10:25     | 31.20%       | 18.40%               | 17.50%      |
| 9:30      | 31.20%       | 18.40%               | 17.50%      |
| Mon Open  | 31.10%       | 18.30%               | 17.40%      |
| Mon 8:10  | 31.10%       | 18.30%               | 17.40%      |
| Fri 3:20  | 30.60%       | 18.30%               | 17.30%      |



09:10 12/17 **US DATA REACT:** From Steve Wood at Insight Economics: "Factory activity of New York based firms grew much more moderately in December than it had in October and November. Demand conditions softened but remained strong. With lean inventories, shipments also decelerated. Surprisingly, factories say they are still hiring at a moderate pace. Price pressures slowed, reflecting the recent dip in energy costs. This report portends a small drop in national manufacturing activity, which will have to be confirmed by the other regional surveys as well as the ISM Manufacturing Survey itself on January 2." ALSO "The current account deficit improved moderately and has clearly passed its peak. Although the long-term trend deterioration has been halted it has been difficult to improve substantially on a sustained basis on a dollar basis but there has been a significant improvement when measured as a percent of GDP."

09:11 12/17 **US OUTLOOK:** From Goldman: "economic data suggest that real GDP probably will eke out a modest gain in the fourth quarter, and that the labor market remains intact. But the mood among both consumers and businesses is souring quickly. Moreover, with inflation surprising on the upside in November, the Fed's room for maneuver appears more limited, at least for now. Nevertheless, we expect the hard economic data in 2008 to be weak enough to overcome the current inflation worries and ultimately trigger significantly more monetary easing."

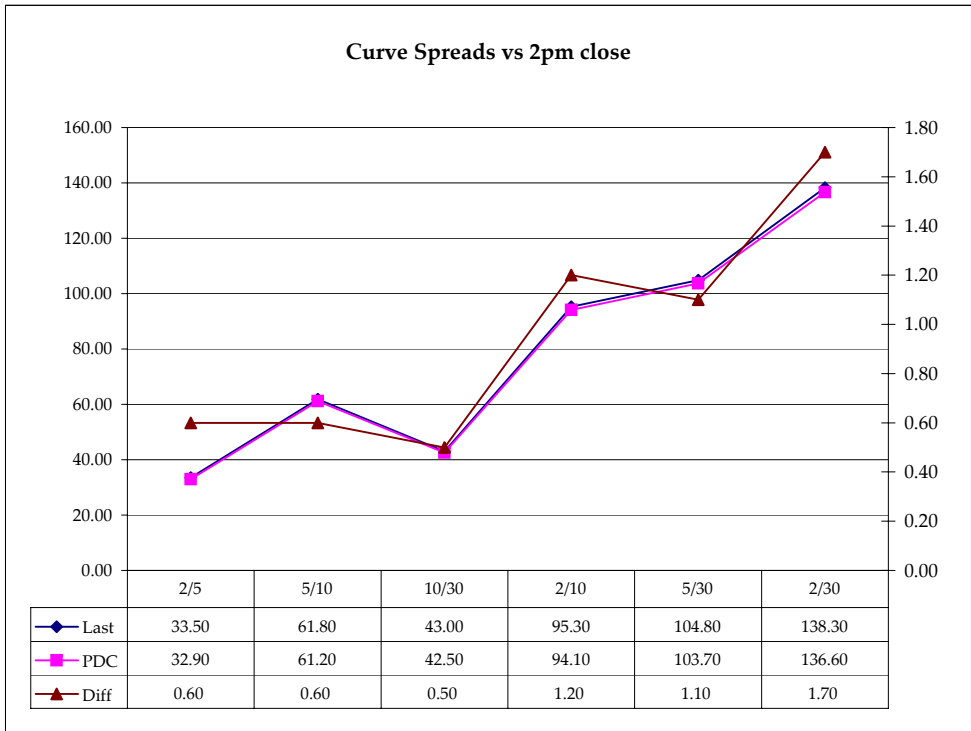
09:13 12/17 **US DATA REACT:** Ian Shepherdson, Chief U.S. Economist at HFE, says of C/A, "a surge in the net foreign income surplus to \$20.5B from \$12.7B accounts for the better-than-expected current account. No further details are provided in the data but the BEA says interest, dividend and earnings on direct investments abroad all rose, more than offsetting higher interest payments on US debt, public and private, owned by foreigners. The financing details show a huge swing in net private portfolio flows (to -\$76B from +\$162B) offset by a \$56B rise in net foreign direct investment and a \$126B swing in net non-banking flows."

09:57 12/17 **US TSYS/RESEARCH:** BNP Paribas bond analysts noted on the **TAF** auction that the "impact on the FF rate should be limited as the overall level of reserves will remain unchanged. We continue to believe the Fed, as other central banks, is willing to limited tensions on overnight rate going through the year end. As far Libor is concerned, even though Libor is not collateralised, increasing borrowing on terms and through the discount window should have a positive impact on the level of rates. It is a key step in the right direction even though the levels involved so far are unlikely to be enough." Today's TAF operation at 10am ET to 1pm ET is for US\$20B.

11:00 12/17 **US MKTS:** Morgan Stanley's Ldn analyst Stephen Jen says there are 3 possible outcomes of **TAF**: "1-There is for some reason little interest in this auction and the marginal bidder sets the auction rate close to the OIS rate. (Right now, the 3M LIBOR-OIS spread is around 82bp, down only slightly from the prior week of 103bp.) 2-There is a lot of demand in this auction and the auction rate approaches or exceeds 4.75% - the interest rate of the discount window. 3-There is intermediate demand that puts the auction rate somewhere between 4.25% and 4.75%." He says outcome 2 means the Fed would need to raise the size of future auctions to satiate demand. He says TAF is "an unstigmatised version of the discount window," and will eventually affect markets-witness pastcoordinated currency interventions that caused mkts to succumb.

13:20 12/17 **US ABS/CDO:** The fall out will be immediate from Moodys decision last Friday PM to place FGIC and XL Capital on review for possible downgrade as well as MBIA and CIFG on negative watch. As direct result, some 90,549 securities will be put on negative watch an unprecedented number, according to CDO strategists at UBS. The vast majority of affected securities are public finance issues. In addition, market sources indicate several other possible ramifications of monoline downgrades: 1) public sector issuers who have monoline insured debt in market may be in breach of covenants if insurer falls below AAA and may be forced to find alternative insurance coverage (easier said than done) 2) further liquidity crunch for public sector issuers, 3) a near freeze on any upcoming debt deals in pipeline that involved monoline guaranty again adding to liquidity squeeze. Whatever the resolution of FGICs and XLs ratings watches, we believe monoline credit quality will be a persistent issue over the coming months, UBS adds.  
[SOURCE: MNI]

| Yield Curve Spreads |        |        |      |
|---------------------|--------|--------|------|
|                     | TC     | PDC    | Diff |
| 2/5                 | 33.50  | 32.90  | 0.60 |
| 5/10                | 61.80  | 61.20  | 0.60 |
| 10/30               | 43.00  | 42.50  | 0.50 |
| 2/10                | 95.30  | 94.10  | 1.20 |
| 5/30                | 104.80 | 103.70 | 1.10 |
| 2/30                | 138.30 | 136.60 | 1.70 |

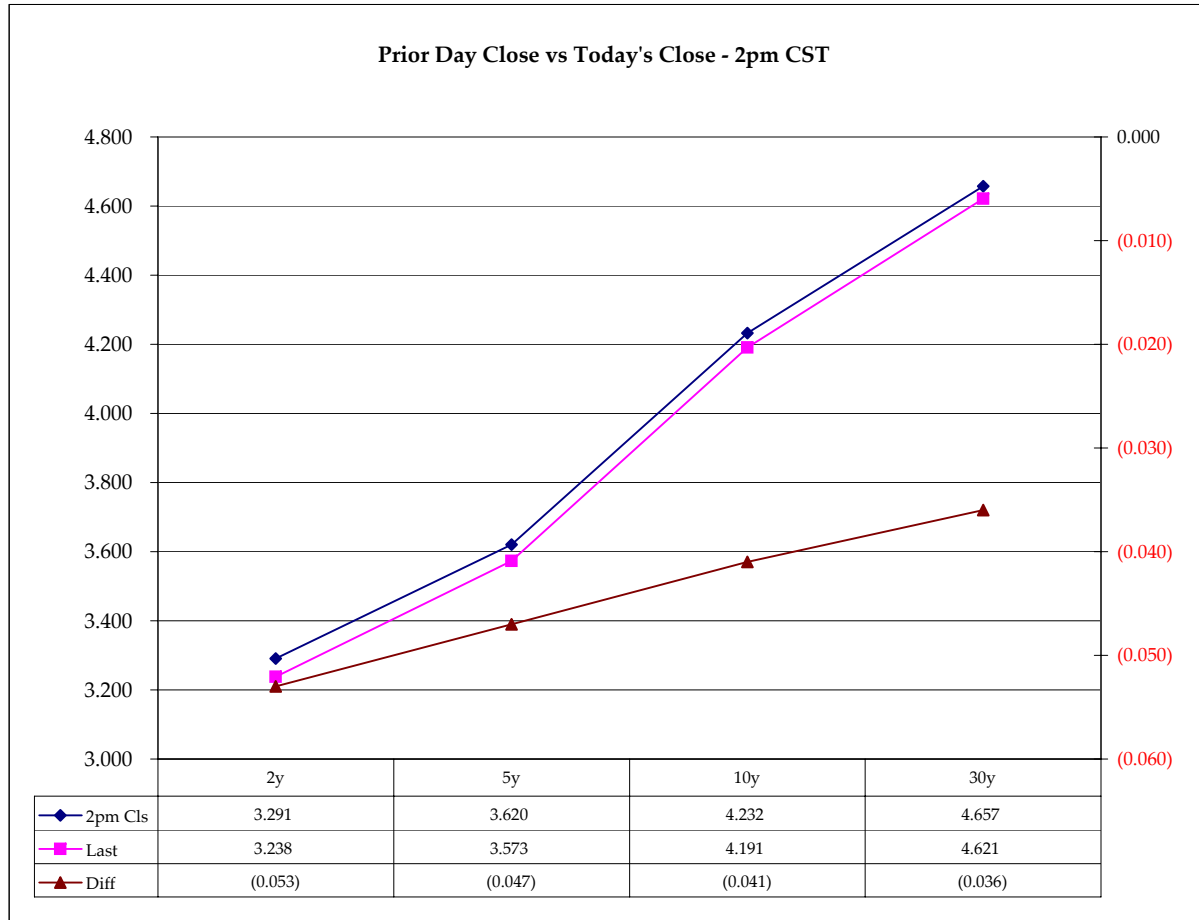


Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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 | 99.2200 | 3.291 | 3.238 | (0.053) |        |        |
| 5y  | 3.375 | 11/30/12 | 98.2875 | 3.620 | 3.573 | (0.047) | -37.69 | -38.77 |
| 10y | 4.250 | 11/17/17 | 100.045 | 4.232 | 4.191 | (0.041) | 70.89  | 71.33  |
| 30y | 5.000 | 5/15/37  | 105.15  | 4.657 | 4.621 | (0.036) | 230.36 | 234.19 |

|    | PDC 32  | TC      |
|----|---------|---------|
| ZF | 109.085 | 109.165 |
| ZN | 111.305 | 112.100 |
| ZB | 113.26  | 114.110 |



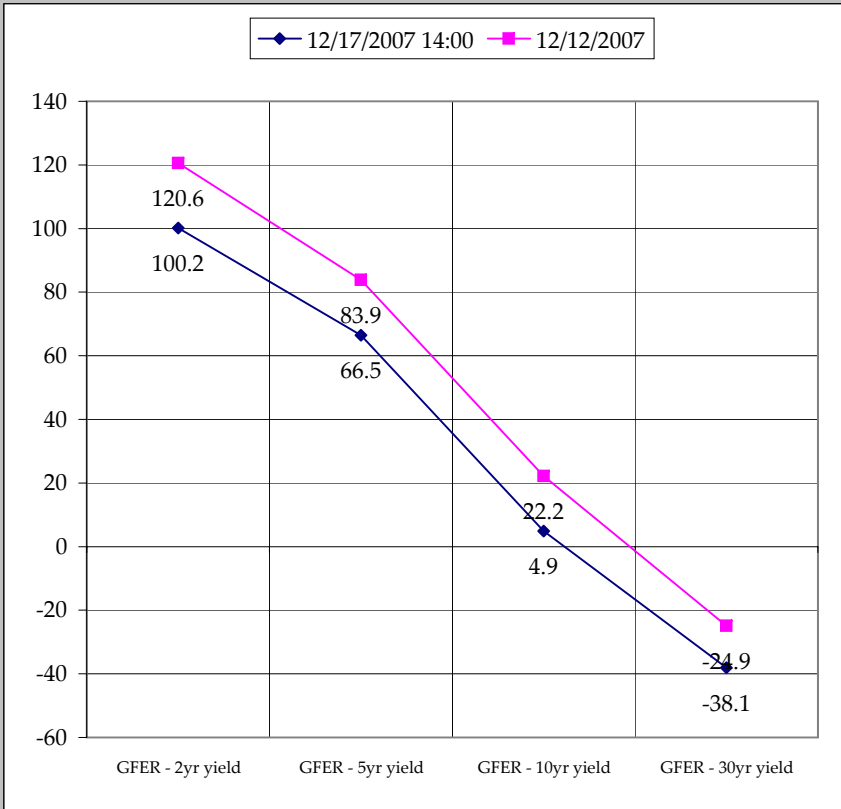
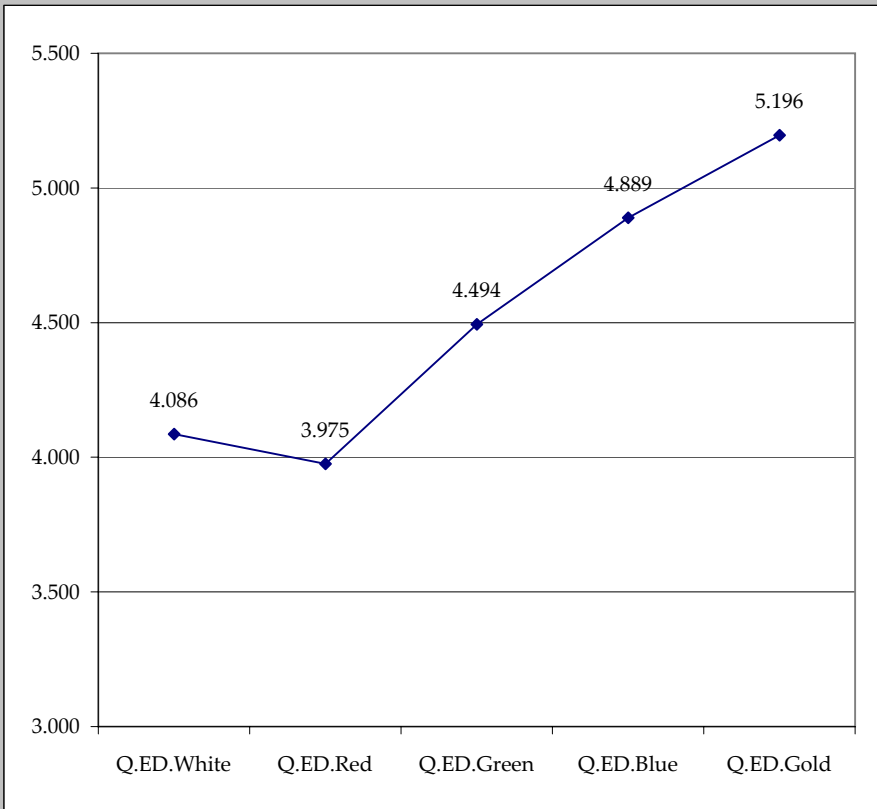
Notes:  
 Basis = (Cash Decimal - (Futures Decimal \* CF))\*32  
 32 = price is quoted in 32nds  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

| Eurodollar Packs |            |           |            |
|------------------|------------|-----------|------------|
|                  | Last Yield | Net Yield | Last Price |
| Q.ED.White       | 4.086      | 3.625     | 9601.000   |
| Q.ED.Red         | 3.975      | 7.250     | 9611.750   |
| Q.ED.Green       | 4.494      | 5.750     | 9561.625   |
| Q.ED.Blue        | 4.889      | 5.000     | 9523.500   |
| Q.ED.Gold        | 5.196      | 5.375     | 9494.000   |

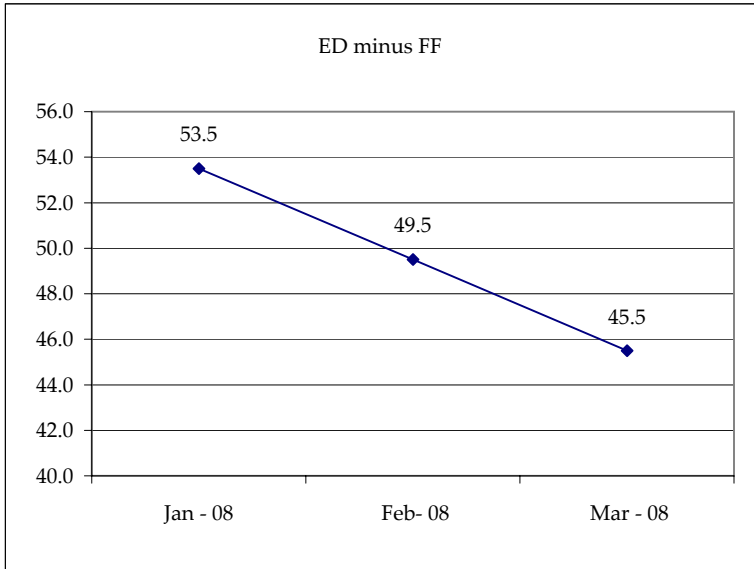
| Fed Funds Daily Effective Rate<br>Minus US Treasury Yields |          |          |            |
|--|----------|----------|------------|
| Spread Name  | Diff bps | Net Chng | 12/12/2007 |
| GFER - 2yr yield   | 100.2    | 1.0      | 120.6      |
| GFER - 5yr yield   | 66.5     | -1.3     | 83.9       |
| GFER - 10yr yield  | 4.9      | -1.5     | 22.2       |
| GFER - 30yr yield  | -38.1    | -2.3     | -24.9      |
| GFER   | 4.24     | -6.0     |            |

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     |
| Jan-08 | 95.815         | 0.000   | 4.185   | 4.720   | 53.5    |
| Feb-08 | 95.970         | 0.200   | 4.030   | 4.525   | 49.5    |
| Mar-08 | 96.030         | 0.200   | 3.970   | 4.425   | 45.5    |
| Apr-08 | 96.085         | 0.150   | 3.915   | 0.000   | 0.0     |
| May-08 | 96.185         | 0.050   | 3.815   | 0.000   | 0.0     |
| Jun-08 | 96.200         | 0.100   | 3.800   | 4.040   | 24.0    |
| Jul-08 | 96.295         | 0.150   | 3.705   | 0.000   | 0.0     |
| Aug-08 | 96.370         | -0.050  | 3.630   | 0.000   | 0.0     |
| Sep-08 | 96.435         | 0.100   | 3.565   | 3.800   | 23.5    |
| Dec-08 | #VALUE!        | #VALUE! | #VALUE! | 3.695   | #VALUE! |



| <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                |            |            | 4.41750           | 4.41750           | 4.41750   | 4.30250    | 0.11500         | 4.30250     |
| USDLIB1M                |            |            | 4.96500           | 4.96500           | 4.99625   | 4.96500    | (0.03125)       | 4.99625     |
| USDLIB3M                |            |            | 4.94125           | 4.94125           | 4.96625   | 4.94125    | (0.02500)       | 4.96625     |
| USDLIB6M                |            |            | 4.84875           | 4.84875           | 4.84875   | 4.84875    | 0.00000         | 4.84875     |
| USDLIB1Y                |            |            | 4.51875           | 4.51875           | 4.51875   | 4.49125    | 0.02750         | 4.49125     |
| <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                |            |            | 5.59750           | 5.59750           | 5.60000   | 5.59750    | (0.00250)       | 5.60000     |
| GBPLIB1M                |            |            | 6.54125           | 6.54125           | 6.59250   | 6.54125    | (0.05125)       | 6.59250     |
| GBPLIB3M                |            |            | 6.43125           | 6.43125           | 6.49625   | 6.43125    | (0.06500)       | 6.49625     |
| GBPLIB6M                |            |            | 6.24938           | 6.24938           | 6.27875   | 6.24938    | (0.02937)       | 6.27875     |
| GBPLIB1Y                |            |            | 5.96375           | 5.96375           | 5.98000   | 5.96375    | (0.01625)       | 5.98000     |
| <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                | 6.420      | 6.520      | 6.520             | 6.520             | 6.620     | 6.320      | (0.070)         | 6.490       |
| GBPDEP3M                | 6.380      | 6.480      | 6.480             | 6.480             | 6.580     | 6.270      | (0.040)         | 6.420       |
| GBPDEP6M                | 6.180      | 6.280      | 6.280             | 6.280             | 6.380     | 6.030      | 0.000           | 6.180       |
| GBPDEP1Y                | 5.880      | 5.980      | 5.980             | 5.980             | 6.080     | 5.750      | 0.000           | 5.880       |
| <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                |            |            | 3.9888            | 3.9888            | 3.9888    | 3.8588     | 0.1300          | 3.8588      |
| EUIBOR1M                |            |            | 4.9300            | 4.9300            | 4.9320    | 4.9300     | (0.0020)        | 4.9320      |
| EUIBOR3M                |            |            | 4.9490            | 4.9490            | 4.9490    | 4.9410     | 0.0080          | 4.9410      |
| EUIBOR6M                |            |            | 4.9170            | 4.9170            | 4.9170    | 4.9100     | 0.0070          | 4.9100      |
| EUIBOR1Y                |            |            | 4.8850            | 4.8850            | 4.8850    | 4.8800     | 0.0050          | 4.8800      |



