

**All times Eastern**

15:18 07/17 **US TSYS/RECAP:** Tsys end lower, midrange, 1) pressured as DJIA above 14,000 late; 2) 2-way flow amid p.m. profit-taking on earlier Tsys gain, trading choppy. 3) P.m. had buying in 10Y futures, 2Y Eurodlr futures, T-bills, 10Y lvrgrd acct buying, 2-way action. In a.m., 4) Tsys slid amid negative reaction to 0.3% core June PPI, 5) stronger stks; 6) May TICS data; 7) apparent lack of negative news from subprime area. Also 8) muted 2-way flow by US accts as all await Bernanke Wed 10am ET; 9) lvrgrd accts bought 10Ys this morn, and also in intermediates. 10) Real money accts took advantage of softer prices around PPI to buy 2Ys, 30Y bonds futures, in corp-related action. 11) Buy-and-hold types took profits in 5Ys, similar accts buy 10Ys. 12) Some mulled if was some foreign/Asian profit-taking in 5Y zone. 13) German Bunds gained on weak ZEW, weakened after ECB Garganis (though small bargain-hunting off low) on BBG saying ECB will need to raise rates more amid strong economic growth, rising risk to price stability. 14) Traders confused, hope for subprime clarity.

15:16 07/17 **US Tsy Futures:** Tsy futures finished the session lower, Sep T-bonds settled 13/32 lower at 107-10, the Sep 10yr notes in 9/32 at 105-10.5, the Sep 5yr note 5.5/32 lower at 103-28.5, while the Sep 2yr note settled 2.25/32 lower at 101-26.25.

15:13 07/17 **EURODLR FUTURES:** Eurodlr futures finished the session at or near session lows, the curve bear flattened, giving back nearly half of Mon's steepening. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, contracted 1.125 bps to 49.75. In the Fronts (Sep07-Jun08), the Sep07 were in 0.5 bps at 94-65.5 on combined Globex and pit volume of 84,000, the Dec07 in 2.0 bps at 94-67 on volume of 259,000, the Mar08 in 4.5 bps at 94-72 on volume of 317,000, while the Jun08 was 5.5 bps lower at 94-76 on volume of 316,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 6.0 to 6.5 bps lower across the pack with 668,000 contracts traded.

(continued)

15:12 07/17 **US AGENCIES:** Those who were beginning to think that spread widening had seen the worst and brighter skies were ahead have, between yesterday and today, been totally spanked. Swap spreads wider and GSEs too. Freddie June'09 +31.5 according to TradeWeb and other screens (vs Monday's 3PM mark of +30.5; Fannie July'09 +32 (+31); Freddie Feb'10 +32 (+31.5); Fannie Mar'10 +32 (31.5); Fannie May'12 +38 (+37.5); Freddie Aug'12 +40 (+39); Freddie Apr'17 +48.5 (+47.5); Fannie June'17 +49.5 (+48.5); Fannie Nov 2030 +54 (+53.5); Freddie Jul'32 +52 (51.5). Freddie Mac's Reference Note announcement in the morning. Dealers look for either \$3 billion new 3-years and \$3 billion new 10-years or \$1 billion re-opened Feb 2010 3-years and \$3 billion new 10-years. Nobody thinks a new 2-year will come forward.

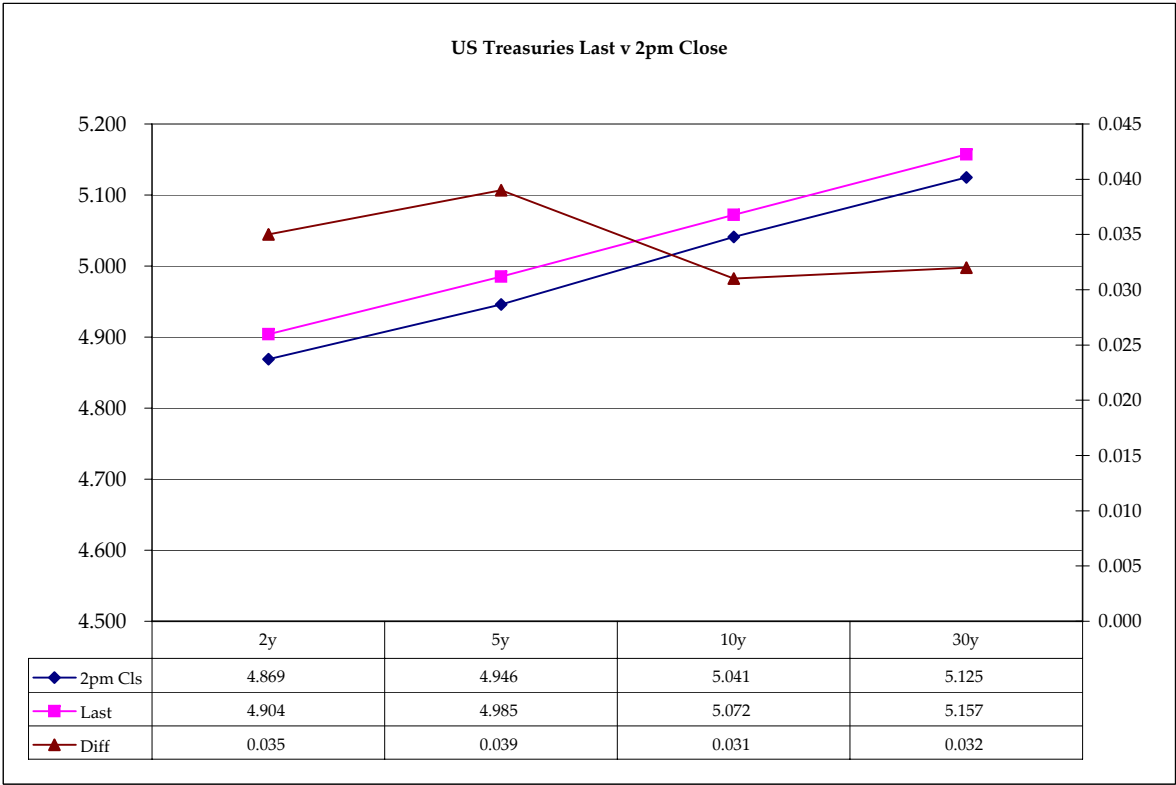
15:08 07/17 **US SWAPS:** Spreads finished Wider across the curve in a directional move w/lower Tsy ylds. On light two-way flow, sources reported modest deal related hedges and/or unwinds while one swap desk reported some mortgage account tied paying in 5s. Of note, while corporate supply is behind last week's torrid pace, the market was poised for nearly \$18 billion in CMBS supply in the next week. Modest front end paying continued into the second half. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:05	+0.25/50.00	+1.00/57.75	+1.25/66.75	+1.00/73.25
1:25	+0.25/50.00	+0.75/57.50	+0.75/66.25	+0.50/72.75
11:05	-0.25/49.50	+0.75/57.50	+0.75/66.25	+0.50/72.75
10:30	-0.25/49.50	+0.75/57.50	+0.75/66.25	+0.75/73.00
9:30	+0.00/49.75	+0.50/57.25	+0.50/66.00	+0.75/73.00
Tue Open	+0.50/50.25	+0.50/57.25	+0.50/66.00	+0.75/73.00
Mon 3:05	+0.75/49.75	+0.75/56.75	+0.75/65.50	+1.25/72.25

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	100.0025	4.869	4.904	0.035			
5y	4.875	6/30/12	99.2200	4.946	4.985	0.039	13.18	12.65	
10y	4.500	5/15/17	95.270	5.041	5.072	0.031	50.46	49.55	
30y	4.750	2/15/37	94.10	5.125	5.157	0.032	162.16	157.93	

	Close 32	Last
ZF	104.020	103.290
ZN	105.195	105.110
ZB	107.23	107.100

Curve Spreads		
	Close bps	Last bps
2/5	7.7	8.1
5/10	9.5	8.7
10/30	8.4	8.5
2/10	17.2	16.8
5/30	17.9	17.2
2/30	25.6	25.3



Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 Mduration for Curve Spreads:
 Longer duration minus shorter duration
 32 = price is quoted in 32nds