

**All times Eastern**

15:12 07/18 **US TSYS/RECAP:** US Tsys rose Wed amid subprime jitters/risk-aversion buying of Tsys. Fed Chairman Bernanke cited Fed concern on higher inflation risk, but also concern housing downturn could last, also Fed cut 2007 growth projections; Tsys underpinned by ongoing subprime mkt fears. Tsys gained on buy-and-hold, lvrqd accts buying, after earlier selling on initial Bernanke headlines, short-covering later; also Asian central banks receiving earlier in intermediate swaps, other mixed flows, banks 2-way in intermediate Tsys, also some buy-and-hold accts selling early. NY afternoon flows had quiet two-way trades, underpinned by shaky US stocks, risk aversion. DJIA -105 at 13,867. European govt bonds rose Wed with short end underperforming, in turn flattening German Bund curve; Bunds dipped on initial Bernanke comments, who cited upside inflation risks as FOMC's "predominant policy concern," then covered shorts after Bernanke cited risk hsy correction might prove larger than expected; initially posted a moderate loss on 0.2%/0.2% US June CPI.

14:50 07/18 **US ABS/ABX:** The ABX 07-1 BBB-, after falling off in morning trading, is now priced at roughly 45.25 mid market with a wide bid-ask spread, up very slightly on the day from yesterday's close of 45.02.

15:02 07/18 **US SWAPS:** Spreads finished wider across the curve as credit concerns drive spreads and vol mkts higher. Sources note 5y and 10y spds at widest levels of the year. While several swap desks confirmed very light flow, one noted some light paying in 10s while a second said Asian central banks were receivers in the intermediates, "not really in line with spreads," one desk said. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:01	+1.25/51.25	+1.50/59.00	+1.00/67.50	+0.50/73.75
1:05	+1.25/51.25	+1.25/58.75	+1.00/67.50	+0.50/73.75
11:40	+0.75/50.75	+1.00/58.50	+0.75/67.25	+0.50/73.75
9:50	+0.50/50.50	+0.75/58.25	+0.75/67.25	+0.50/73.75
9:05	+0.50/50.50	+1.00/58.50	+0.75/67.25	+0.50/73.75
Wed Open	+0.75/50.75	+0.75/58.25	+1.00/67.50	+0.75/74.00
Tue 3:05	+0.25/50.00	+0.75/57.50	+1.00/66.50	+1.00/73.25

(continued)

15:10 07/18 **US AGENCIES:** "Mental exhaustion has set-in," said a trader. "And, it's only Wednesday. Guys are hammered. Not pretty." Swap and GSE spreads continue widening - out another 1-1.5bps. Freddie June'09 +33 according to TradeWeb and other screens (vs Tuesday's 3PM mark of +31.5; Fannie July'09 +33.5 (+32); Freddie Feb'10 +33.5 (+32); Fannie Mar'10 +33.5 (32); Fannie May'12 +39.5 (+38); Freddie Aug'12 +41 (+40); Freddie Apr'17 +50 (+48.5); Fannie June'17 +51 (+49.5); Fannie Nov 2030 +55.5 (+54); Freddie Jul'32 +53.5 (52). Freddie Mac gave the Street what it was looking for - \$3 billion 10-years and \$3B 3-year Reference Notes to price Friday. Early color is that the 10Y is getting solid interest from domestic accounts and that the overnight sessions will mostly finish the job for both.

15:07 07/18 **US Tsy Futures:** Tsy futures finished the session higher across the curve, Sep T-bonds settled 22/32 higher at 107-31, the Sep 10yr notes up 16.5/32 at 105-27, the Sep 5yr note 11/32 higher at 104-08, while the Sep 2yr note settled 4.25/32 higher at 101-30.

15:17 07/18 **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, expanded 2.5 bps to 52.125. In the Fronts (Sep07-Jun08), the Sep07 were out 0.5 bps at 94-66 on combined Globex and pit volume of 432,000, the Dec07 out 3.0 bps at 94-70 on volume of 253,000, the Mar08 out 6.0 bps at 94-78 on volume of 153,000, while the Jun08 was 8.0 bps higher at 94-84 on volume of 84,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 9.0 bps higher across the pack with 922,000 contracts traded.