

**All times Eastern**

15:14 07/20 US TSYS/RECAP: Tsys rally to 7-wk price highs amid 1) Major safe-haven buying amid subprime/credit jitters, esp. before weekend; 2) Technical buying: 10Y futures close above 106 2/32. 3) German Bunds rally: concerns on European CDO, weak debt exposure; 4) Brisk Mideast buying in Bunds, Bobls, in o/night & in NY session. 5) Technical buying: US 10-yr breaks below 4.98% yield. 6) Safe-haven buying, de-leveraging amid subprime/credit jitters as some eye big buyouts/financing. BBG said KKR bks gave other bks until next wk, to sign onto \$18.5B loan for Alliance Boots buyout. 7) US stocks weak. 8) Traders forced to exit risky debt/buy Tsys. 9) Unwinds of recent yen carry trade used in past to fund purchases of riskier US debt. 10) A.m. swaps paying in fronts-intermediates, modest volume, only couple \$bln in Eurodlr space. 11) Good-size FOB trade: Swiss bank bought 15k Sep 5yr futures at 104-10 to 104-10.5 vs selling 5,800 Sep 30yr at 108-00 to 107-31. 12) Swaps spreads came off widest levels in p.m. 13) DJIA -0.95%; S&P 500 -1.05%; DAX -1.46%

15:16 07/20 **EURODLR FUTURES**: Eurodlr futures finished the session broadly higher, the curve off steeper levels. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, bull steepened 1.0 bps to 52.625. In the Fronts (Sep07-Jun08), the Sep07 were up 0.5 bps at 94-66.5 on combined Globex and pit volume of 200,000, the Dec07 up 3.5 bps at 94-73.5 on volume of 383,000, the Mar08 up 6.0 bps at 94-83 on volume of 438,000, while the Jun08 was 7.0 bps higher at 94-89.5 on volume of 372,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 6.0 to 7.0 bps higher across the pack with 941,000 contracts traded.

15:05 07/20 **US SWAPS**: Spreads came off wider levels as Tsys retraced slightly, equities making an attempt to recover losses. Flow consisted of relatively light paying in the fronts to intermediates while fear of increasing subprime concerns cited as the major factor as the disconnection between wider spreads and lower Tsy ylds continues.

According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:05	+2.75/53.00	+2.25/60.25	+2.00/68.75	+1.25/74.25
1:30	+3.00/53.25	+2.50/60.50	+2.25/69.00	+1.50/74.50
12:35	+2.25/52.50	+2.00/60.00	+1.75/68.50	+1.00/74.00
10:45	+1.75/52.00	+2.00/60.00	+1.75/68.50	+1.25/74.25
9:05	+0.50/50.75	+0.50/58.50	+0.25/67.00	+0.25/73.25
Fri Open	+0.50/50.75	+0.75/58.75	+0.50/67.25	+0.25/73.25
Thu 3:05	-1.00/50.25	-0.75/58.00	-0.75/66.75	-0.75/73.00

(continued)

15:11 07/20 **US SWAPTION VOL**S: By the bell, vols came lightly off midsession highs. While a dearth of flow continued, Barclays Capital strategist Piyush Goyal confirmed "uncertainty in sub-prime is driving vols for now." skew to the upside remained higher as high-strike payers on longer-dated options outpaced low strike receiver swaptions. As an aside, exchange listed options has seen similar strong interest in upside call insurance as some said the new pain trade is the upside.

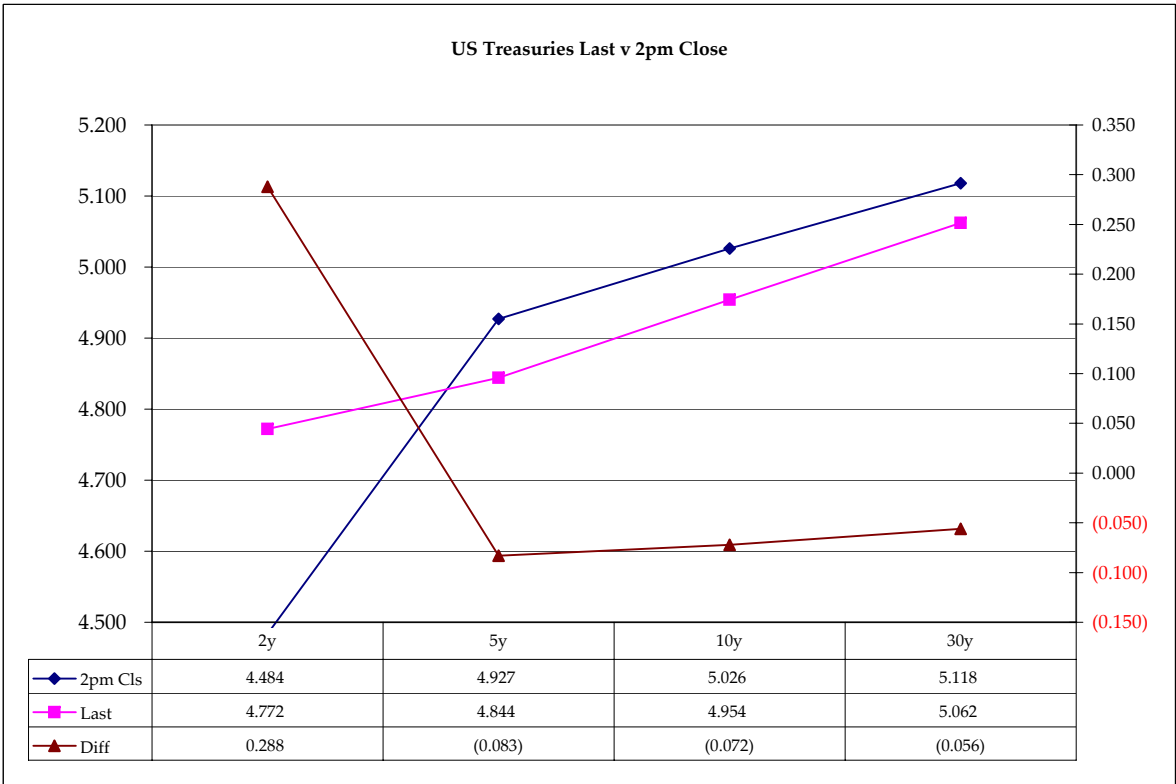
According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Fri 3:05	54.2 bps	616.2 bps	499.8 bps
1:25	53.0 bps	619.8 bps	500.0 bps
11:35	54.0 bps	616.0 bps	496.0 bps
9:05	53.0 bps	610.0 bps	491.2 bps
Fri Open	52.6 bps	608.8 bps	490.6 bps
Thu 3:05	51.8 bps	606.4 bps	488.0 bps

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	100.0150	4.484	4.772	0.288			
5y	4.875	6/30/12	99.2475	4.927	4.844	(0.083)	13.55	14.48	
10y	4.500	5/15/17	95.305	5.026	4.954	(0.072)	50.39	53.61	
30y	4.750	2/15/37	94.14	5.118	5.062	(0.056)	164.00	172.93	

	Close 32	Last
ZF	104.045	104.150
ZN	105.235	106.075
ZB	107.25	108.130

Curve Spreads		
	Close bps	Last bps
2/5	44.3	7.2
5/10	9.9	11.0
10/30	9.2	10.8
2/10	54.2	18.2
5/30	19.1	21.8
2/30	63.4	29.0



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