

## The Afternoon Email

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### Key Money Rates

11/2/2007 14:00

	Libor\$ ^	Tbill	CP ^^
1M	4.678	3.718	4.620
3M	4.865	3.607	4.730
6M	4.794	3.785	4.680
	TSY	Swap	ED Pks ^^^
2y	3.633	72.25	4.258
5y	3.917	71.00	4.980
10y	4.289	67.75	5.240

	Libor\$ ^	Repos
0/N	4.635	4.450
1week	4.650	4.450
2week	4.654	4.450

### 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.

Lastly, SYM = Symbol

Any stories from wire services are EST.  
Otherwise, times are CST.

**All times Eastern**

15:14 11/02 **US TSYS/RECAP:** US Tsys slid Fri after +166K Oct jobs then rallied on credit crunch fear, dealer short-covering, Asian/other buyers, buy-and-hold accts buying 10s, lvrgd accts buying 5Ys, fast money buying intermediates. Amid brief slide lower on US jobs, lvrgd accts sold US 2Ys, earlier fast money selling. But Tsys rallied amid safe-haven bid, concern on yrend financing; O/I/S/ Dec Libor spread moved 2 bps Fri after 5bp move Thu to over 50 (for Dec-March pd) amid yrend fear. T-Bills see big steady bid. Fear of more writedowns hurt US stks, esp. financial stocks amid fear on risky debt, ABCP but also some monoline bond insurers hurt. Swaps had light flow: lvrgd accts steepeners, fwd steepeners, butterflies, unwound flatteners. Sources reported earlier 5/10Y flattener at 2,000:1300. Foreign central banks did 2-way flows, moved out to intermediates; Mideast bid in Tsys too. Some mulled if big ABCP buyer leaving. If safe-haven bid on, some see brisk bid at \$18B refdg (smallest in 20 yrs) Wed (US\$13B 5Y), Thu (US\$5B 30Y bd reopen).

15:12 11/02 **US EURODLR FUTURES:** Eurodlr futures finished session broadly higher across the board again, the curve making up for Wed's bear flattening, the Red/Gold pack spd bull steepening 9.75 bps at 93.75. In the Fronts (Dec07-Sep08), the Dec07 was in 2.5 bps at 95-23 on combined Globex and pit volume of 451,000, the Mar08 up 10.0 bps at 95-67.5 on volume of 516,000, the Jun08 up 12.5 bps at 95-86.5 on volume of 545,000, while the Sep08 contract was 13.5 bps higher at 95-96 on volume of 574,000. The 2yr proxy Red pack (Dec08-Sep09), settled 12.5 to 13.5 bps higher across the pack with 1,244,000 contracts traded.

15:04 11/02 **US SWAPS:** Spds ended session off widest lvls of session, while 2s/10s spd of spd moved deeper into inversion as front end underperforms. In addition to early two-way, swap-tied flow had dealers buying 2s and 10s for mortgage accounts before and after the data, while moderate buyers of Reds emerged on midmorning upleg. Others tied lighter swap-tied volume to accts trying to stay flat going into weekend. They did note, however, HFs did forward steepeners w/leveraged acct interest in either flattener unwinds or new steepers a well, while fast\$ accounts were receivers in 2s. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:00	+4.50/72.25	+3.25/71.00	+3.25/68.00	+2.75/64.25
12:15	+4.00/71.75	+2.75/70.50	+2.75/67.50	+2.50/64.00
11:03	+5.25/73.00	+3.00/70.75	+2.75/67.50	+2.50/64.00
9:30	+2.25/70.00	+2.00/69.75	+2.00/66.75	+2.25/63.75
Fri Open	+2.50/70.25	+2.25/70.00	+2.25/67.00	+2.00/63.50
Thu 3:00	+3.75/67.75	+2.00/67.75	+1.00/64.75	+0.75/61.50

(cont)

15:15 11/02 **US AGENCIES:** Tracking swaps wider as Treasuries head for the moon and stocks, particularly financials, continue to suffer. Indications as follows - Freddie June'09 +45.5 according to TradeWeb and other screens (vs Thursday's 3PM mark of +45); Fannie July'09 +45 (+43); Freddie Aug'10 +54.5 (+51); Fannie Sept'10 +53.5 (+50); Freddie Oct'12 +54.5 (+52); Fannie Nov'12 +55.5 (+53); Fannie June'17 +52 (+49.5); Freddie Nov'17 +54.5 (+51.5); Fannie Nov 2030 +51.5 (+49); Freddie Jul'32 +50.5 (+48). Supply returns next week in the form of an expected \$4 billion of new 2-year Reference Notes from Freddie Mac according to an MIN dealer poll. The announcement will be Tuesday for Thursday pricing. A safe weekend to all.

15:14 11/02 **US TSY OPTIONS:** Sources report a flurry of call buying on the close including a buyer of the Mar 10-yr 112/113 calls stupids -- buying both strikes. However, there too was a seller of 10,000 Dec/Mar 10-yr 110 puts on the close and a servicer selling 12,000 Dec 10-yr 111 calls and 6,000 Dec 10-yr 112 calls, exiting longs. Sources also say on the day there has been good buying in the Dec 5-yr 108.5 calls outright for at least 10,000 contracts from a 4.58% vol up to 5.02%.

15:07 11/02 **US SWAPTION VOL:** ATM straddle swaption premiums ended session off highs amid ongoing light volume, similar to swap flows as acct weary of adding risk ahead of weekend and light data next week. OTC vols came off highs early in the second half as FI markets eased, spreads moved off wides as early writedown rumors never materialized into reality, as the correlation between vol and the underlying and vol becomes "super tight," one trader said. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Fri 3:00	80.4 bps	709.6 bps	563.4 bps
1:25	80.4 bps	704.4 bps	565.0 bps
12:15	81.0 bps	712.8 bps	564.2 bps
10:25	77.6 bps	696.6 bps	556.4 bps
9:25	79.6 bps	702.4 bps	558.0 bps
Fri Open	78.6 bps	698.2 bps	555.0 bps
Fri 8:10	78.6 bps	698.0 bps	555.2 bps
Thu 3:00	77.6 bps	700.2 bps	555.4 bps

08:55 11/02 **US TSYS/RESEARCH:** Jim Caron, head of US interest rate strategy at Morgan Stanley, said he felt the "market will rally from here as dip buyers will emerge due to recent tape bombs (on bank problems). But the market is already long" and "the average guy is long and looking to sell out after this number. Dip buyers will add insult to injury and get whipsawed." He suggested adding to 2-year note sales by exiting at 3.75% (2Y is at 3.78% currently) with a stop-out at 3.675%.

09:00 11/02 **US DATA REACT:** From economist Chris Low of FTN: "Today's report was better than expected and was characterized (by Bbg) as good enough to signal a resilient labor market that will keep the economy out of recession despite the housing slump. We expect the Fed will see it the same way. Despite all that, payroll growth was once again inadequate to prevent another increase in the unemployment rate, from 4.70% to 4.73%, which means the growth recession that began in April, when the unemployment rate first rose off its low of 4.40%, continues. Also, bear in mind that with wage growth slowing now that slack is coming back into the job market, consumers will be more reliant on credit to keep the expansion going than they have been in years, yet credit standards continue to tighten." He says that is why bonds stabilized.

13:25 11/02 **US BONDS:** One veteran trader said it has been a "hairy, hairy day" with Tsys skyrocketing higher over rumors that could not be confirmed and talk of losses in "magnitudes that almost seem unfathomable" and losses "that people have no way of quantifying." He also notes while ML tried to calm fears in a statement, the stock is still down 12% on the day so the Street has not been placated. In addition, the trader notes that there could be problems in other areas of the market besides CDOs, subprime and SIV funding. "Gold got to \$807 and crude oil to almost \$96" and that could be indicating pressures elsewhere. Other sources continue to be amazed at stories that the "bid is too cheap to hit" and "the paper is worth more than the market thinks" so they will hold onto it. In the old, unsophisticated days, if a trader had to sell, he sold, took the loss and cleared the decks to get back in the game. "It seems like all anyone is doing today with these complex instruments is changing deck chairs on the Titanic," one funny guy said.

**How do we characterize the recent payroll data?** Clearly the October gain was well in excess of our expectations, and therefore we have to acknowledge that the report represents an upside surprise, and probably is welcomed at the Fed.

[...]For policy-makers the unemployment rate provides an indication of labor market utilization, a theme that has been highlighted frequently by Fed officials. The increase in the unemployment rate has reduced the reluctance towards a more accommodative posture.

--by Ray Stone, PhD

**From: DAVID A ADER, RBS GREENWICH CAPITAL**

**At: 11/02 8:39:13**

\*U.S. OCT. PAYROLLS JUMP 166,000; UNEMPLOYMENT RATE AT 4.7%

-- 130k was PRIVATE

-- FACTORY JOBS FALL 21,000; CONSTRUCTION DOWN 5,000,

-- JOBLESS RATE AT 4.727% AFTER 4.696% IN SEPTEMBER

-- SEPTEMBER PAYROLLS RISE 96,000; REVISED FROM 110,000

-- AUGUST PAYROLLS RISE 93,000; REVISED FROM 89,000

\*U.S. OCT. AVERAGE HOURLY EARNINGS RISE 0.2% VS 0.3% FORECAST

\*\* Considerably stronger than forecast, private gains came in services

\*\* Silver lining? Wages were tamer than expected, a 'high' 4.7% unemployment rate.

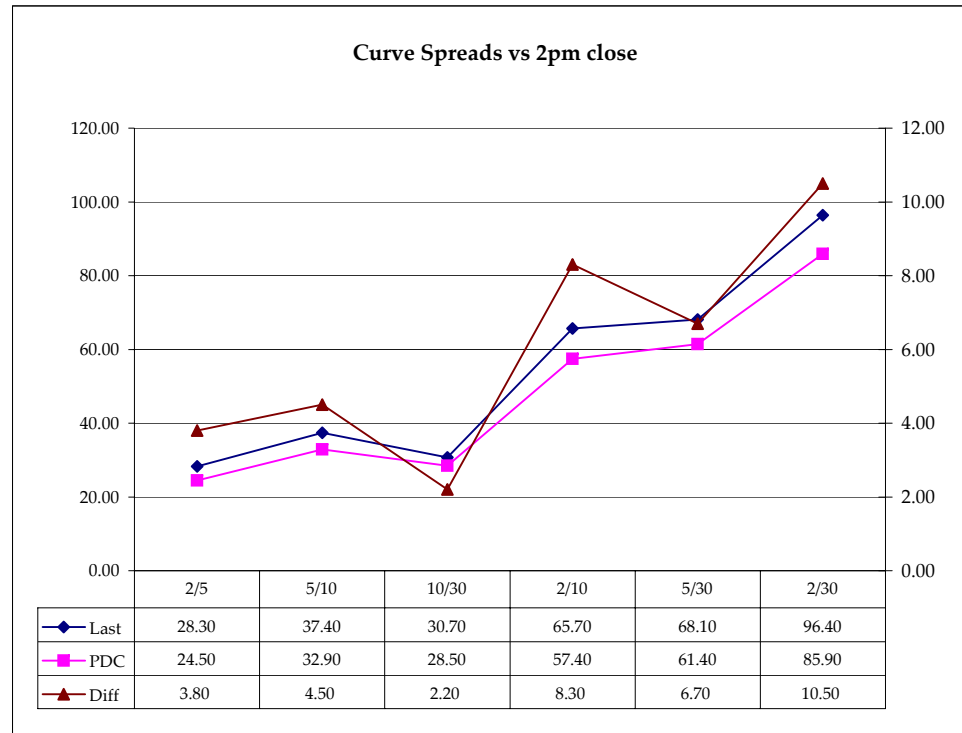
Stephen says report was not as strong as headline suggests, 6 mo average is down 25K from prior month so trend is softer.

\*\* Market holding VERY well, curve 'behaving'. We note that there's a big market profile level on TY at 11017 and single prints to 11012 serving as support. Resistance at a tested trendline 11107.

\*\* Flows saw bank/HF selling in 2s and 10s just after report, sellers BEFORE REPORT are UNDERWATER, seeing 2s/10s steepening interest, bank buying 5s.

\*\* We like this price action, supportive, BUT DON'T SEE ANY UPSIDE BREAK BASED ON THE DATA OR FLOWS, just firm action.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	28.30	24.50	3.80
5/10	37.40	32.90	4.50
10/30	30.70	28.50	2.20
2/10	65.70	57.40	8.30
5/30	68.10	61.40	6.70
2/30	96.40	85.90	10.50

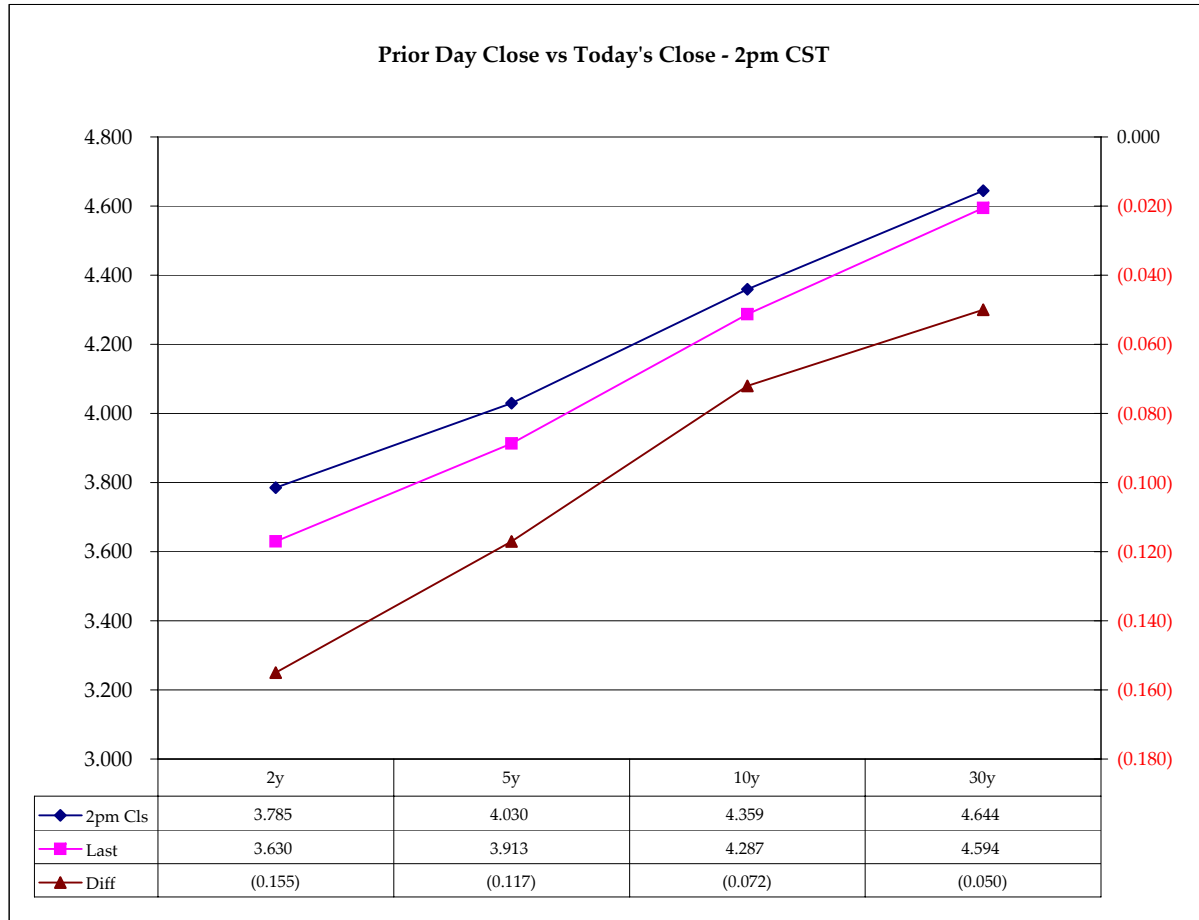


Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

Prior Day Close vs Today's Close - 2pm CST

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	3.625	10/31/09	99.2225	3.785	3.630	(0.155)		
5y	3.875	10/30/12	99.0975	4.030	3.913	(0.117)	28.50	29.91
10y	4.750	8/15/17	103.025	4.359	4.287	(0.072)	83.09	85.22
30y	5.000	5/15/37	105.22	4.644	4.594	(0.050)	-662.82	-659.64

	PDC 32	TC
ZF	107.295	108.140
ZN	110.255	111.110
ZB	113.27	114.160



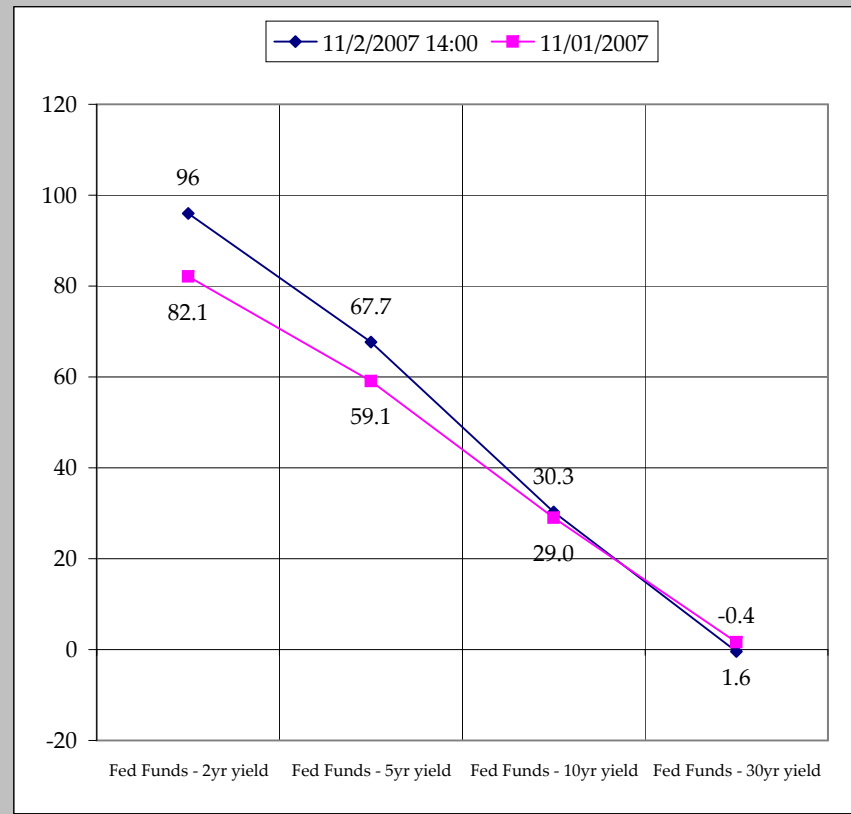
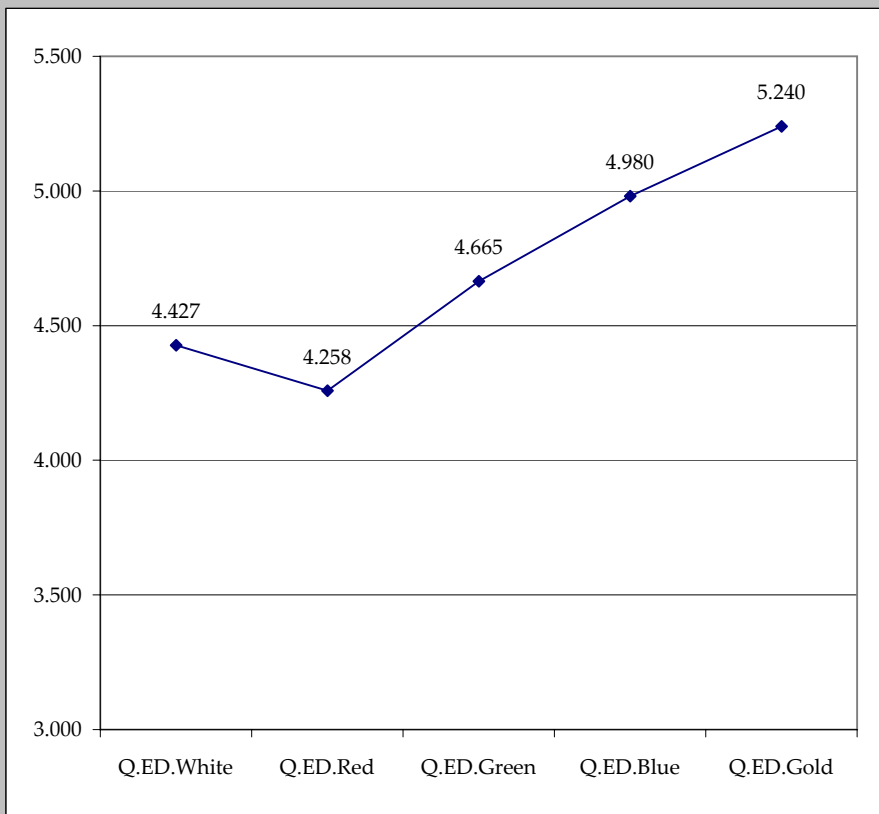
Notes:  
 Basis = (Cash Decimal - (Futures Decimal \* CF))\*32  
 32 = price is quoted in 32nds  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.427	8.250	9568.125
Q.ED.Red	4.258	13.000	9584.375
Q.ED.Green	4.665	9.125	9545.125
Q.ED.Blue	4.980	5.875	9514.750
Q.ED.Gold	5.240	2.375	9489.750

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	11/01/2007
Fed Funds - 2yr yield	96	10.0	82.1
Fed Funds - 5yr yield	67.7	7.8	59.1
Fed Funds - 10yr yield	30.3	4.5	29.0
Fed Funds - 30yr yield	-0.4	2.9	1.6
GFER	4.60	-1.0	

GFER = Fed Funds Daily Effective Rate

Why 11/01/2007?  
The morning after the FOMC is a good benchmark.



Fed Funds - Eurodollars

Month	Fed Funds (FF)			ED	ED - FF
	Last	Net	Implied	Implied	bps
Nov-07	95.530	0.150	4.470	4.843	37.3
Dec-07	95.625	0.200	4.375	4.775	40.0
Jan-08	95.675	0.250	4.325	4.595	27.0
Feb-08	95.840	0.650	4.160	0.000	0.0
Mar-08	95.880	0.700	4.120	4.325	20.5
Apr-08	95.940	0.800	4.060	0.000	0.0
May-08	96.030	1.150	3.970	0.000	0.0
Jun-08	96.030	1.100	3.970	4.135	16.5
Jul-08	96.070	1.100	3.930	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Sep-08	#VALUE!	#VALUE!	#VALUE!	4.045	#VALUE!

