

## The Afternoon Email

### Table of Contents

- Pg 1** News: Today's Recap for the United States
- Pg 2** News: Snapshots throughout the day
- Pg 3** Curve Spreads
- Pg 4** Prior Day Close vs Today's Close - 2pm CST
- Pg 5** Eurodollar Packs & Fed Funds - Treasuries
- Pg 6** Fed Funds - Eurodollars

### Key Money Rates

11/6/2007 14:00

	Libor\$ ^	Tbill	CP ^^
1M	4.667	3.913	4.590
3M	4.898	3.73	4.730
6M	4.853	3.95	4.630
	TSY	Swap	ED Pks ^^^
2y	3.674	75.50	4.341
5y	3.969	74.75	5.093
10y	4.355	71.50	5.348

	Libor\$ ^	Repos
0/N	4.625	4.350
1week	4.646	4.450
2week	4.649	4.400

### 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**

15:18 11/06 **US TSYS/RECAP:** Tsys ended Tues lower as 1) on-and-off stocks strength pressured Tsys (despite credit crunch worries: monoline bond insurer concern, bank writedown fear); 2) sister mkt spreads widened: agencies widened; many tried to shore up positions before fiscal yr-end end-Nov; 3) fast money sold MBS vs. swap receiving, with also outright selling in MBS product by bk portfolios; 4) also was options-tied selling in US 10Ys as servicer acct also bought up to 50K March 10Y 109 puts. 5) Citigrp said Mon it provided US\$7.6B in emergency funding to seven SIVS it runs after they struggled to repay maturing debt (BBG). 6) Muted foreign central bank buying in Tsys, bills this morn. 7) Earlier, there was heavy selling in Dec 2Y, 10Y 30Y Tsys futures by real money corporate, MBS-tied accounts too. 8) Morning corporate rate-lock sales; may unwind later. 9) 3M US\$ Libor rose 2d day, Dec OIS/LIBOR also did; credit jitters for yrend, ABCP fear). 10) Shorter Tsys had safe-haven bid. 11) Will be US\$13B 10Y auction Wed.

15:10 11/06 **US EURODLR FUTURES:** Eurodlr futures finished session a little below the middle of the range, curve still steeper after writedown rumors roiled financials, the Red/Gold pack spd bull steepening 4.5 bps at 97.25 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was in 1.0 bps at 95-14 on combined Globex and pit volume of 206,000, the Mar08 in 2.0 bps at 95-58.5 on volume of 196,000, the Jun08 in 2.0 bps at 95-77.5 on volume of 234,000, while the Sep08 contract was 2.0 bps lower at 95-87.5 on volume of 285,000. The 2yr proxy Red pack (Dec08-Sep09), settled 1.5 to 3.5 bps lower across the pack with 572,000 contracts traded. Of note, futures trading 1.0 to 2.0 bps lower than settle on the screen.

15:02 11/06 **US SWAPS:** Spds ended session mostly wider, the front end outperforming despite some decent paying in the vicinity, talk of early rate locks as well while some fast money selling MBS vs receiving in swaps, which was seen yesterday as well. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+0.25/75.50	+1.25/75.00	+1.25/71.50	+2.00/68.75
12:30	+0.75/76.00	+1.25/75.00	+1.50/71.75	+2.00/68.75
11:10	+0.25/75.50	+1.00/74.75	+1.00/71.25	+1.00/67.75
10:20	-1.00/74.25	+0.00/73.75	+0.50/70.75	+0.75/67.50
9:00	-1.75/73.50	+0.00/73.75	+0.00/70.25	+0.25/67.00
Tue Open	-0.50/74.75	+0.25/74.00	+0.50/70.75	+1.00/67.75
Tue 7:40	-0.50/74.75	+0.25/74.00	+0.50/70.75	+1.00/67.75
Mon 3:30	+3.00/75.25	+2.75/73.75	+2.50/70.25	+2.50/66.75

(cont)

15:13 11/06 **US AGENCIES:** Wider yesterday, overnight and in domestic trading hours. Wider again, with little regard for the front-end buying seen. Indications as follows - Freddie June'09 +51 according to TradeWeb and other screens (vs Monday's 3PM mark of +49); Fannie July'09 +50.5 (+48); Freddie Aug'10 +60.5 (+58.5); Fannie Sept'10 +59 (+56.5); Freddie Oct'12 +60 (+57); Fannie Nov'12 +61 (+58); Fannie June'17 +58.5 (+55.5); Freddie Nov'17 +61 (+57.5); Fannie Nov 2030 +56 (+54.5); Freddie Jul'32 +55 (+53). Freddie Mac, as widely expected, announced \$3 billion 2-year Reference Notes to price Thursday. Initial guidance was in the area of +51 (context of the market, blah, blah) and according to a dealer it pushed spreads out a bp as soon as it was announced - even though everybody expected the same thing.

15:04 11/06 **US SWAPTION VOL:** ATM straddle swaption premiums ended session near midrange on light, defensive volume as fiscal yr end nears, off midsession bounce as writedown rumors roiled financials.

According to GovPX:

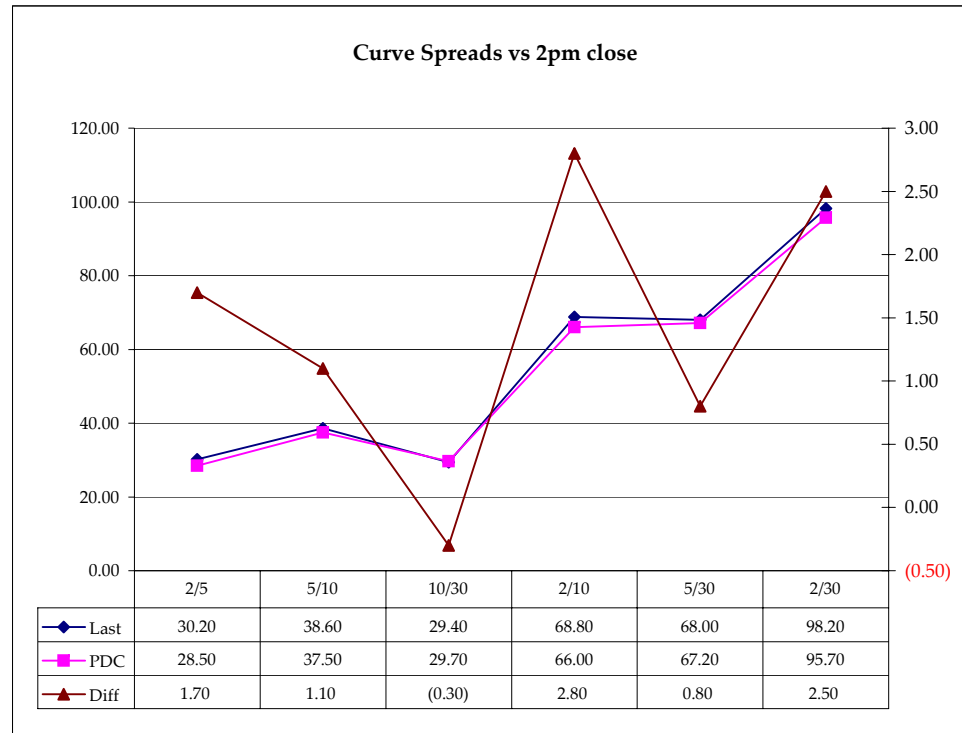
Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:00	80.4 bps	706.2 bps	560.0 bps
12:30	80.2 bps	709.8 bps	558.6 bps
10:10	78.8 bps	698.0 bps	556.0 bps
9:00	80.4 bps	704.2 bps	560.2 bps
Tue Open	80.2 bps	704.4 bps	560.8 bps
Mon 3:30	81.2 bps	707.4 bps	559.4 bps

13:52 11/06 **US TSYS/EUROPE/RESEARCH:** ABN analysts said European bond market "concern with bank balance sheet weakness will persist" until at least year-end amid "earnings and asset writedown disclosures in the runup to full-year reporting season. The U.S. bank sector should lead the results season in terms of timing, but European bank results (many in January) will also be keenly watched given the relative dearth of news in various Euro area regions." They added year-end demand " for cash is set to remain high and is symptomatic of funding issues for ABCP. Our working hypothesis is that a much more normal interbank mkt will emerge in Q1-08 but that is not the same as saying the broken business model of SIVs will be resurrected" so "bloated bank balance sheets and the possible need to raise capital will remain a factor in market thinking" and "quick fix for banking sector concerns is not expected, and to put it bluntly, we have trouble believing that the firms that have disclosed large write-downs and losses are that much more inept than the rest of the Street."

14:07 11/06 **US TSYS/RESEARCH:** The US\$18B 3Q quarterly refunding auctions -- the smallest in 20 years -- begin Wed. with 1pm ET US\$13B 10-year note auction and conclude with the \$5b 30-year bond reopening Thursday. Stone & McCarthy's Ward McCarthy said "the combined paydown for the refunding will be \$32.7 bln upon settlement on Nov. 15" which is "hefty by historical standards" paydown but "falls short of the August paydown of \$40.6 bln, the largest on record." And he adds that SMRA projects Treasury "will pay out a combined \$24.7 bln with the mid-quarter coupon interest payment on Nov. 15" so "total Treasury-generated cash flows from the November Refunding package will generate approximately \$57.4 bln in excess of what will be necessary to absorb the entire Refunding package" which is "potentially a very favorable development for both the auction process and the post-auction distribution process. The market will be very liquid due to this enormous inflow of cash that will be available to invest on these issues."

**The Refunding** (10s and 30s) will likely aid the steepening that has been the theme of the last several sessions -- but with just \$13 bn 10s and \$5 bn 30s, we struggle to imagine any major back-up in rates will be needed to take down the supply. The biggest risk to the market remains the ongoing concerns in the credit markets and news spilling out of the major banks as we near the impending fiscal year-end.--David Ader, Head of Government Bond Strategy, Ian Lyngen, Strategist  
Market Strategy Team, [RBS Greenwich]

Yield Curve Spreads			
	TC	PDC	Diff
2/5	30.20	28.50	1.70
5/10	38.60	37.50	1.10
10/30	29.40	29.70	(0.30)
2/10	68.80	66.00	2.80
5/30	68.00	67.20	0.80
2/30	98.20	95.70	2.50

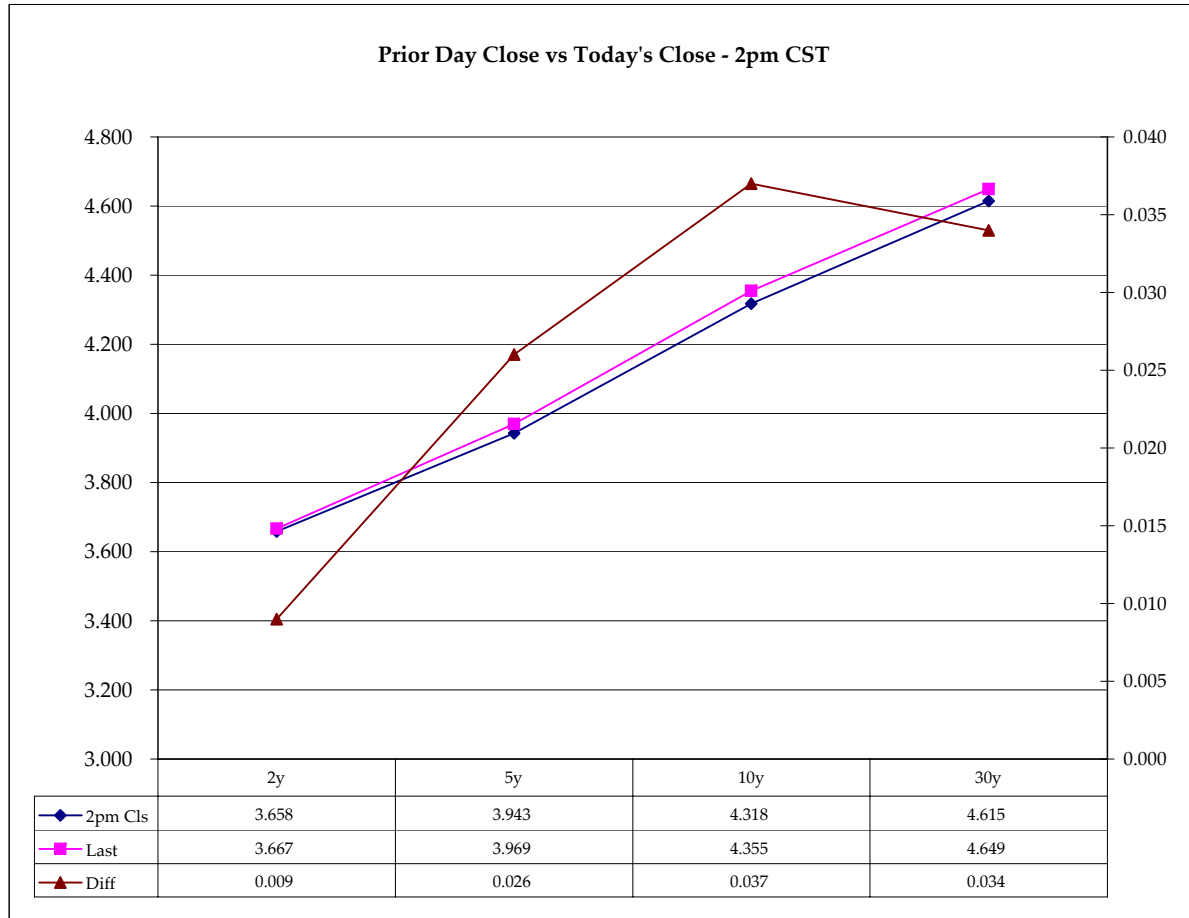


Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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	99.3000	3.658	3.667	0.009		
5y	3.875	10/30/12	99.2225	3.943	3.969	0.026	30.06	30.41
10y	4.750	8/15/17	103.130	4.318	4.355	0.037	83.16	81.82
30y	5.000	5/15/37	106.06	4.615	4.649	0.034	-659.54	-662.38

	PDC 32	TC
ZF	108.095	108.050
ZN	111.050	110.280
ZB	114.06	113.230



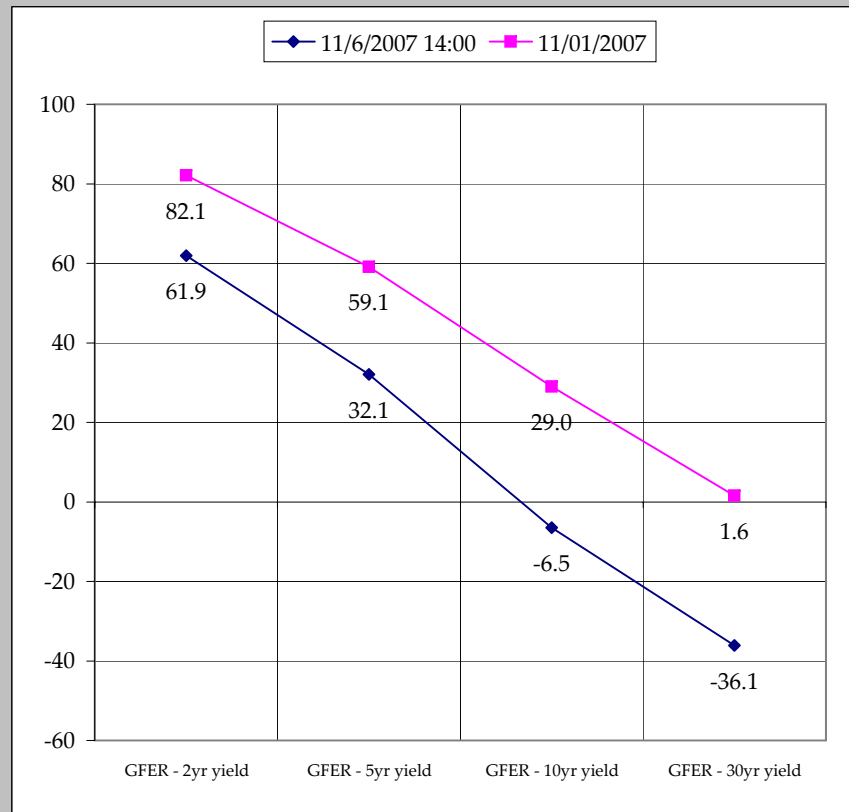
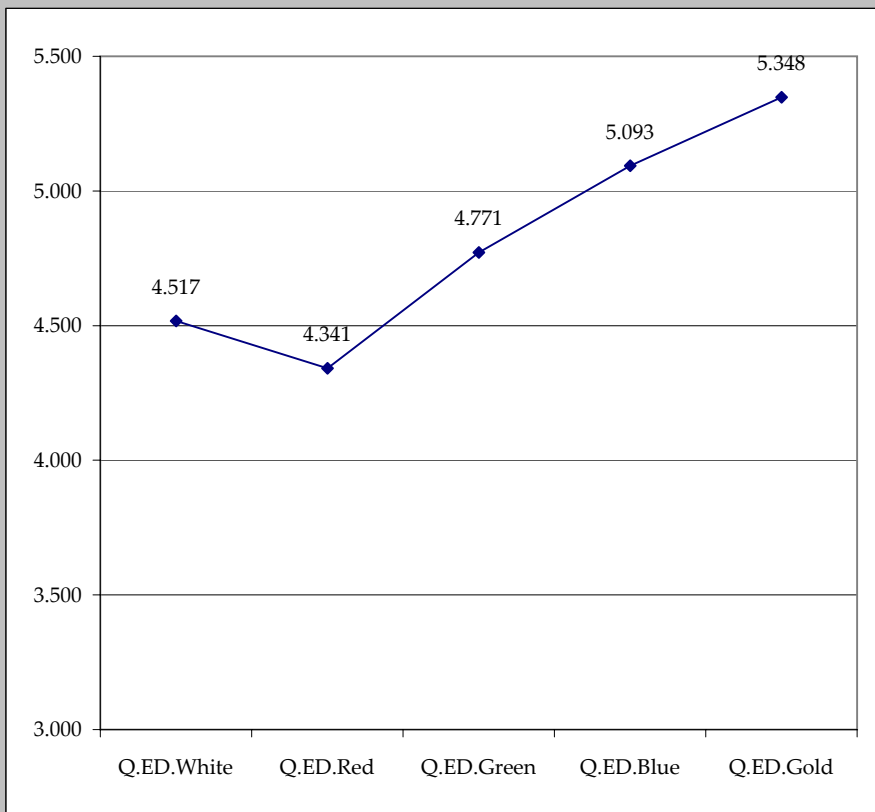
Notes:  
 Basis = (Cash Decimal - (Futures Decimal \* CF))\*32  
 32 = price is quoted in 32nds  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.517	-1.750	9559.375
Q.ED.Red	4.341	-2.500	9576.375
Q.ED.Green	4.771	-5.250	9534.875
Q.ED.Blue	5.093	-6.000	9503.875
Q.ED.Gold	5.348	-6.750	9479.375

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	11/01/2007
GFER - 2yr yield	61.9	1.4	82.1
GFER - 5yr yield	32.1	0.3	59.1
GFER - 10yr yield	-6.5	-1.3	29.0
GFER - 30yr yield	-36.1	-1.6	1.6
GFER	4.29	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	95.560	0.100	4.440	4.912	47.2
Dec-07	95.625	0.050	4.375	4.865	49.0
Jan-08	95.660	0.050	4.340	4.660	32.0
Feb-08	95.800	0.000	4.200	0.000	0.0
Mar-08	95.835	0.000	4.165	4.415	25.0
Apr-08	95.900	0.150	4.100	0.000	0.0
May-08	95.965	-0.100	4.035	0.000	0.0
Jun-08	96.015	0.300	3.985	4.225	24.0
Jul-08	96.050	0.100	3.950	0.000	0.0
Aug-08	96.050	-0.450	3.950	0.000	0.0
Sep-08	96.070	-0.350	3.930	4.125	19.5

