

The Afternoon Email

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Key Money Rates

11/8/2007 14:00

	Libor\$ ^	Tbill	CP ^^
1M	4.660	3.552	4.580
3M	4.887	3.362	4.770
6M	4.803	3.654	4.670
	TSY	Swap	ED Pks ^^^
2y	3.459	82.25	4.183
5y	3.802	82.00	5.045
10y		75.75	5.334

	Libor\$ ^	Repos
0/N	4.558	4.300
1week	4.628	4.350
2week	4.639	4.350

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**

15:04 11/08 **US TSYS/RECAP:** Tsys rallied strongly Thu daylong with only 1) minor late profit-taking, amid 2) voracious risk-aversion buying in Tsys as sister markets basically got hammered. This afternoon saw 3) leveraged accounts buying 5Ys today, a 4) host of bid lists in hybrid agency ARMS and AAA-rated Home Equity floaters, some in CMBS; 5) selling of various riskier debt markets/buying of Tsys; 6) falling US stocks spurred risk aversion buying in Tsys; 7) CDS indexes are flying wider and near or have pierced in some cases the summer wides. 8) Selling of MBS/buying of US Tsys; 9) financial institutions also bought 3Ys, leveraged accounts bought 2Ys. This morning Tsys also rose 10) amid ongoing dip buyers, U.S. and foreign and real money sponsorship, on-and-off stocks weakness, and 11) fairly dovish comments out of Fed Chairman Ben Bernanke to Jt Econ Comm as said FOMC grapples with "resilient" data but persistent financial strains. Foreign central bank bid surfaced in front-end Tsys, as did leveraged accts, bank bid. Some financial institutions sold 5s.

15:14 11/08 **US EURODLR FUTURES:** Eurodlr futures finished session a little off session highs, curve still steeper, the Red/Gold pack spd out another 9.5 bps at 112.25 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was up 7.0 bps at 95-25 on combined Globex and pit volume of 312,000, the Mar08 up 11.0 bps at 95-72.5 on volume of 459,000, the Jun08 up 14.0 bps at 95-96.5 on volume of 497,000, while the Sep08 contract was 14.5 bps higher at 96-07.5 on volume of 499,000. The 2yr proxy Red pack (Dec08-Sep09), settled 9.5 to 13.0 bps higher across the pack with 1,189,000 contracts traded.

15:03 11/08 **US SWAPS:** Spds succumb to FI rally, well off early tights, wider in fronts to belly--snapping back to recent credit-crunch sensitive trend. Long end still outperforms. After light flow earlier, sources reporting some receiver-tied flow in 2-, 3-yr Eurodlr bundles, this after decent receiving and steepener interest across curve overnight. Some had tied early tightening to spds being "overly-wide" Wed, while one desk posited that "Dollar" was the key. "There is an out of risk mindset and the rate directional bias for spreads is not there with the curve steepening." Therefore, "the dollar trade takes out the buyer of assets," the source concluded. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	+1.75/82.25	+2.50/82.00	+2.50/76.00	-0.50/69.00
11:55	+1.00/81.50	+1.50/81.00	+1.50/75.00	-1.00/68.50
10:45	-2.25/78.25	-0.75/78.75	-0.75/72.75	-2.50/67.00
Thu Open	-1.25/79.25	-0.75/78.75	-0.50/73.00	-1.75/67.75
Wed 3:05	+5.00/80.50	+4.50/79.50	+2.00/73.50	+0.75/69.50

(cont)

15:12 11/08 **US TSY FUTURES:** Tsys closed better across the board with the 10-thru 2-yr hitting all time contract highs and contract high closes. Dec bonds finish up 11/32 at 114-02 with 463K traded while the Dec 10-yr settled up 14.5/32 at 111-20 with a light 1.617M traded. The Dec 5-yr notes settled up 11/32 at 108-26.5 with 895K traded while the Dec 2-yr closed better by 6.25/32 at 104-11.25 with a heavy 401K changing hands.

15:10 11/08 **DOLLAR VIEW:** Stephen Jen of Morgan Stanley says while MS believes the dollar is "grossly undervalued against the EUR and GBP" and "may not be far from the ultimate trough against these currencies," the FX market is likely to keep selling dollars "until the G7 are provoked into threatening or actually conducting interventions." With the G7 not yet in a position to step in, "the dollar will likely keep weakening now, even against the yen," he says. Morgan Stanley sees scope for the euro to peak at \$1.51 in Q1 before slipping to \$1.35 by the end of 2008 and for dollar-yen to fall to Y106.00 by Q1 2008, before rebounding to Y114.00 by the end of '08, Jen says.

15:03 11/08 **US SWAPTION VOL:** While board/OTC vols have tracked FI mkts higher all session, swaption vols gapped higher late, making some wonder if servicers had stepped. Others said duration shedding target not met. Call/receivers came into the session rich to puts in the upper left corner, "but with curve moves like this hard to say" they were rich by midsession, one swaption trader said. Gamma still below Aug 16 highs, 93-95 bps, before Fed cut DR by 50 bps. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Thu 3:00	86.0 bps	756.8 bps	593.2 bps
1:55	85.6 bps	752.6 bps	591.6 bps
1:10	81.8 bps	736.2 bps	579.0 bps
12:00	82.6 bps	736.0 bps	579.2 bps
10:15	82.4 bps	734.4 bps	574.8 bps
9:30	82.4 bps	733.0 bps	572.8 bps
Thu Open	83.0 bps	733.6 bps	573.4 bps
Wed 3:05	82.2 bps	724.0 bps	570.2 bps

11/8/2007

News: Snapshots throughout the day

Pg 2

MarketNews
international

Stone & McCarthy
RESEARCH ASSOCIATES

10:57 11/08 **US TSYS:** Tsys again hold the highs, as US stocks remain weaker. Some are surprised at the morning's Bernanke comments and added that "he did not want to be too hawkish" thus softened down his tone quite a bit amid turbulent financial markets. "It looks like, after this, the Fed will have to cut at the next meeting," said one observer. "At the last meeting, the Fed said there was less uncertainty. But now, he is citing more uncertainty" amid credit crunch issues. He added that "the U.S. dollar continues to tank," which is "bearish for the back end Treasuries," but noted that Bernanke said when oil goes up as the dollar weakens, "that takes away from growth."

10:56 11/08 **ECB VIEW:** The ECB kept the minimum refi rate unchanged at 4.0% earlier as expected. Laurent Bilke of Lehman Brothers says the main takeaway from the accompanying statement "is that the ECB retains a wait-and-see posture." The central bank subtly used "adverbs" to voice concern about both inflation developments and downside growth risks. "Our call is unchanged," Bilke says, "The ECB will most likely stay on hold for a while." Lehman's view is that the eurozone economy already hit a turning point, he notes. However, even with a slowing economy, the risk of "late cycle inflation pressures and commodity price increases obliges the ECB to stay on hold with a tightening bias," Bilke says.

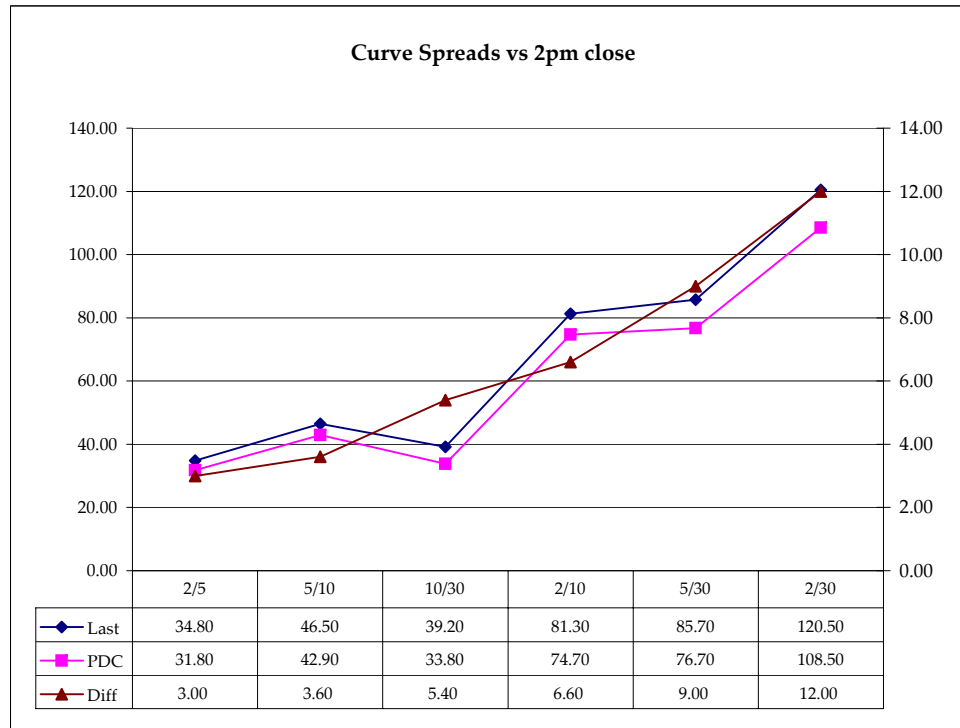
14:44 11/08 **US/EMERGING MARKETS:** Tensions are rising, that is clear. The CBO[E]'s volatility index or VIX, viewed as a barometer of the market's attitude toward risk, holds at \$28.37 down from an earlier high of 29.15. The VIX hit a low of 16.08 on Oct 11, before rising risk aversion sent the index higher. At the peak of the credit crunch on August 16, the day before the Fed cut the discount rate by 50bps, the VIX hit a high near 37.50. In Emerging Markets, the EMBI-plus stands at +220 Thursday afternoon, up from opening levels near +212 and early Monday rates near +205. The EMBI-plus spread (versus similar U.S. Treasury securities) stood at +219 basis points at the end of July, and rose to +251 basis points at the peak of market turmoil in August.

[9:30 am CT]
NEWS ALERT
from The Wall Street Journal
Nov. 8, 2007

Fed Chairman Ben Bernanke said that while the most recent data suggest a "resilient" economy, growth should slow "noticeably" this quarter and into 2008 as the housing slump intensifies. In prepared testimony to the Joint Economic Committee of Congress, he said he expects the economy to strengthen later next year, and that the Fed's recent rate reductions have put risks to growth and inflation roughly in balance. His remarks suggest that, from a broad economic perspective, another rate reduction in December is unlikely, though he left the door open for future moves.

Curve Spreads

Yield Curve Spreads			
	TC	PDC	Diff
2/5	34.80	31.80	3.00
5/10	46.50	42.90	3.60
10/30	39.20	33.80	5.40
2/10	81.30	74.70	6.60
5/30	85.70	76.70	9.00
2/30	120.50	108.50	12.00

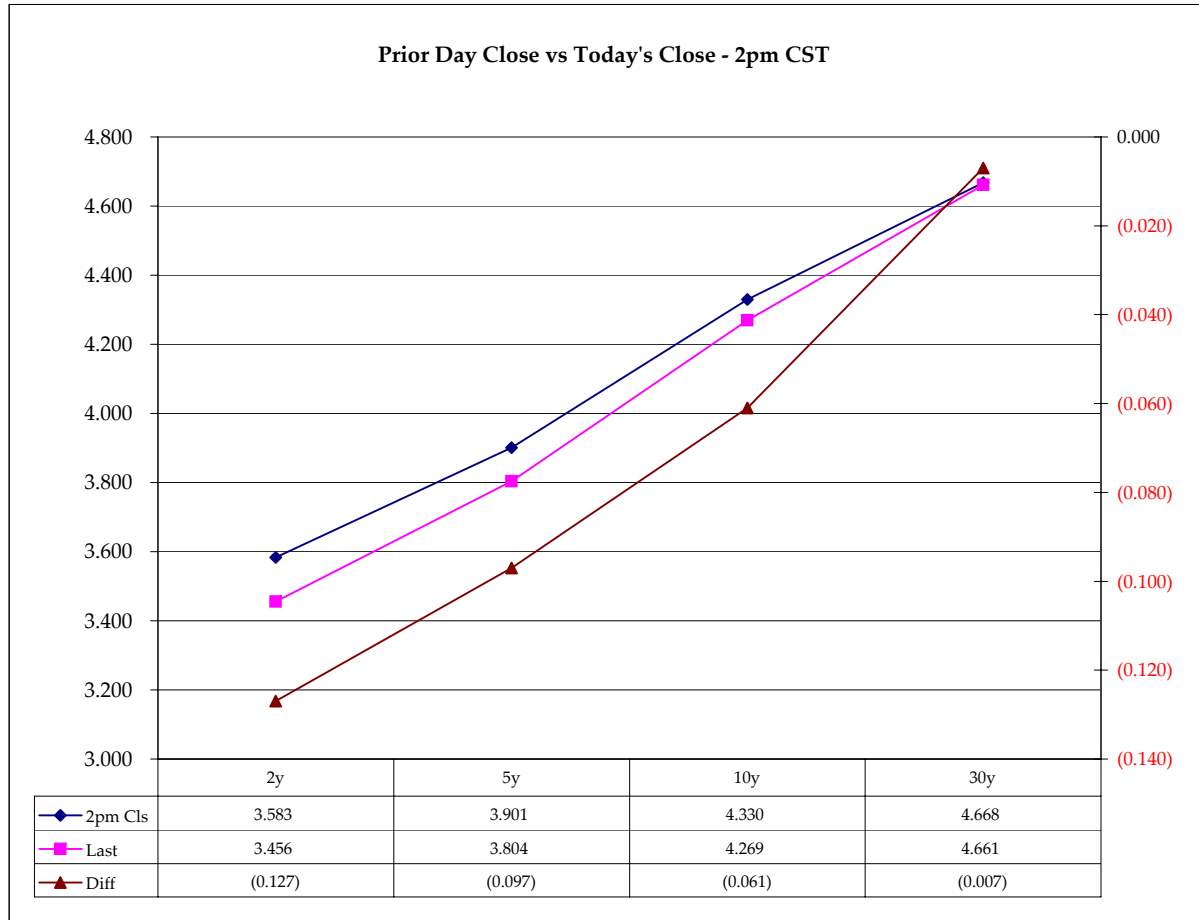


Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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	100.0250	3.583	3.456	(0.127)		
5y	3.875	10/30/12	99.2825	3.901	3.804	(0.097)	30.59	34.81
10y	4.250	11/17/17	99.115	4.330	4.269	(0.061)	77.00	78.86
30y	5.000	5/15/37	105.10	4.668	4.661	(0.007)	229.77	222.42

	PDC 32	TC
ZF	108.155	108.265
ZN	111.055	111.200
ZB	113.23	114.030



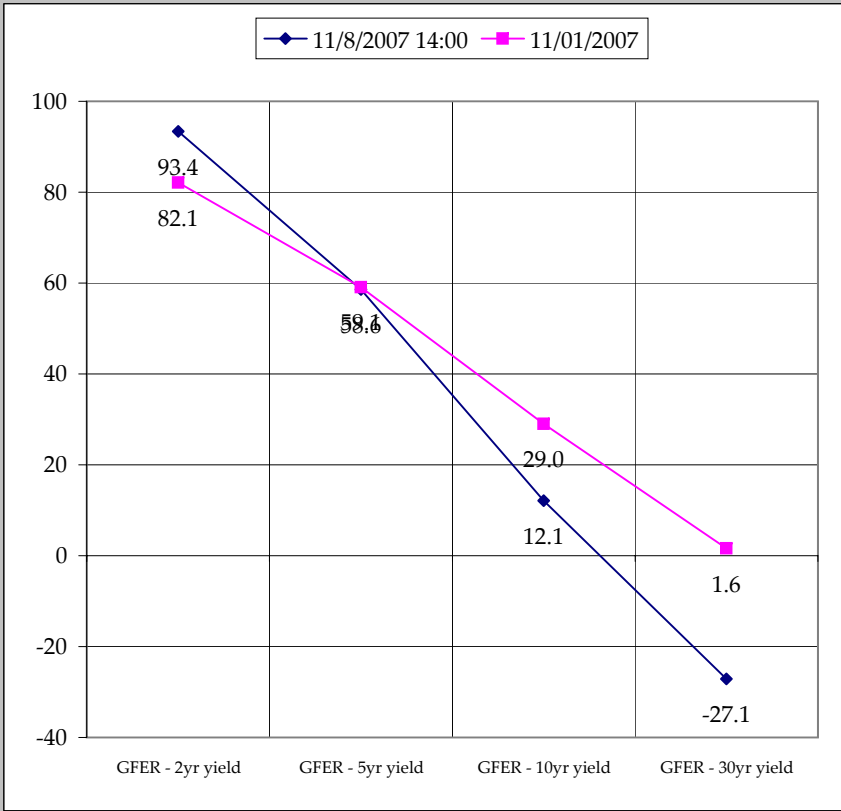
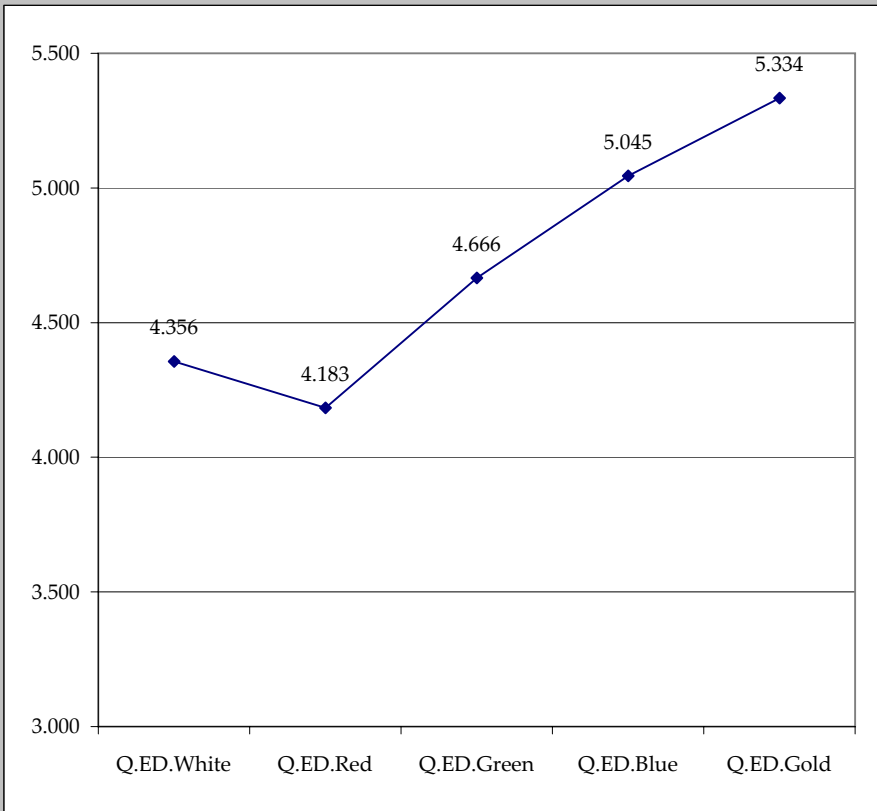
Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 32 = price is quoted in 32nds
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.356	11.250	9575.000
Q.ED.Red	4.183	10.625	9591.625
Q.ED.Green	4.666	7.875	9545.000
Q.ED.Blue	5.045	4.250	9508.500
Q.ED.Gold	5.334	1.625	9480.750

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	11/01/2007
GFER - 2yr yield	93.4	24.5	82.1
GFER - 5yr yield	58.6	22.2	59.1
GFER - 10yr yield	12.1	19.2	29.0
GFER - 30yr yield	-27.1	14.8	1.6
GFER	4.39	17.0	

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	95.580	0.100	4.420	4.830	41.0
Dec-07	95.680	0.400	4.320	4.750	43.0
Jan-08	95.730	0.550	4.270	4.525	25.5
Feb-08	95.900	0.650	4.100	0.000	0.0
Mar-08	95.950	0.700	4.050	4.280	23.0
Apr-08	96.020	0.750	3.980	0.000	0.0
May-08	96.140	1.100	3.860	0.000	0.0
Jun-08	96.145	1.100	3.855	4.040	18.5
Jul-08	96.050	-0.400	3.950	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Sep-08	#VALUE!	#VALUE!	#VALUE!	3.930	#VALUE!

