The Afternoon Email

Table of Contents

Key Money Rates

11/14/2007 14:00

	Libor$ ^	Tbill	CP ^^
1M	4.658	3.816	4.600
3 M	4.878	3.401	4.450
6M	4.775	3.746	4.610
	TSY	**Swap**	**ED Pks ^^^**
2y	3.541	77.50	4.226
5y	3.852	76.75	5.018
10y	4.267	71.50	5.282

	Libor$ ^	Repos
0/N	4.774	4.290
1week	4.664	4.150
2week	4.654	4.150

Notes

^Quoted in US Dollars

^^CP = Commercial Paper

^^^ED Pks are colored for pack identifications. Exanple, 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

15:23 11/14 **US TSYS/RECAP:** Tsys ended lower but did recover off lows, amid mixed US stocks, on/off risk aversion, deleveraging bid for Tsys as some sold sister mkt bds/bought T-bills. Others citing mild Tsys reinvestment bid as $57B over the $18B needed to digest Nov refunding cd be coming back to Tsys after Thu, Nov. 15, refunding settlement as issues matured, cpn interest payments go out. Tsys earlier gyrated with US stks, drew buying when stocks weaker, Tsys sold when stocks rose. Data supportive: both Oct retail sales and sales ex-motor vehs +0.2%. Oct PPI +0.1%, unch core PPI. Midmorn saw 10Y buying, fast money bid in 3Y, 5Ys, buy-and- hold bid in 2Ys, 10s. There also was foreign central bank 10Y buying, other central banks shifted in front end. Street, bks bought 2Ys. Earlier, there was corp rate-lock selling, buy-and-hold acct sellingin 2s, 3Y selling, intermediate buying. Lower vol earlier, fast money sold 1Y/10Y swaptns, similar flow in Eurodlr, Tsys options as vols sold via various straggles. Some buying of 2Y Tsy futures by MBS-tied accnt.

15:08 11/14 **US EURODLR FUTURES:** Eurodlr futures finished at or near session lows with the curve continuing to unwind recent steepener move, the Red/Gold pack spd in 1.875 bps at 104.25 by the bell, -1.875 bps from Friday. In the Fronts (Dec07-Sep08), the Dec07 was in 4.0 bps at 95-22.55 on combined Globex and pit volume of 198,000, the Mar08 in 6.0 bps at 95-70.5 on volume of 258,000, the Jun08 in 7.0 bps at 95-93 on volume of 275,000, while the Sep08 contract was 7.0 bps lower at 96-03.5 on volume of 310,000. The 2yr proxy Red pack (Dec08-Sep09), settled 4.0 to 6.0 bps lower across the pack with 626,000 contracts traded.

(cont)

15:21 11/14 **US TSY FUTURES**: Tsys closed mostly lower for the second session, backing off Friday's contract high settlements across the board with Dec bonds finishing steady at 114-13 with 340K traded while the Dec 10-yr settled down 4/32 at 111-19 with 1.15M traded. The Dec 5-yr notes settled off 2.5/32 at 108-19.5 with 580K traded while the Dec 2-yr closed down 1/32 at 104-06.5 with 190K changing hands.

15:01 11/14 **US AGENCIES:** Off the tightest spreads of the day but still another day of better spreads for GSEs and swaps alike. Indications as follows - Fannie July'09 +54.5 (vs Tuesday's 3PM mark of +57); Freddie Nov'09 +54.5 (+57) Freddie Aug'10 +63.5 (+66.5); Fannie Sept'10 +62 (+65); Freddie Oct'12 +61.5 (+64); Fannie Nov'12 +62.5 (+65.5); Fannie June'17 +61.5 (+64); Freddie Nov'17 +64 (+66); Fannie Nov 2030 +58.5 (+59.5); Freddie Jul'32 +56.5 (+57.5). Fannie surprised, slightly, with a $3B 2Y Benchmark Note to price Friday. Most were thinking a 3-year but 2-year was second choice. At $3 billion it's a done deal even though it comes right after Freddie's 2-year Reference Note.

15:04 11/14 **US SWAPTION VOLS:** OTC vols continued to track FI mkts lower, despite underlying firming to better than midrange levels as equities pared early gains. Afte better sellers of gamm in the last couple sessions, sources said fast money got ball rolling early selling intermediate 1y/10y vol. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE 2Y/10Y	VEGA, 5Y/5Y
Wed 3:00	79.2 bps	722.8 bps	575.8 bps
1:20	79.8 bps	723.0 bps	576.2 bps
11:00	79.8 bps	727.0 bps	577.0 bps
10:15	80.0 bps	726.4 bps	578.4 bps
9:30	80.8 bps	721.0 bps	573.8 bps
9:00	83.0 bps	729.2 bps	579.8 bps
Wed Open	82.4 bps	729.0 bps	581.6 bps
Tue 3:00	83.8 bps	740.8 bps	582.8 bps

News: Snapshots throughout the day

MarketNews international

11:33 11/14 **FED REACT:** From JPM econmist Michael Feroli: "The changes announced today -- which amount to a regime of inflation targeting-lite -- could be seen as a compromise on the part of the inflation targeting advocates on the committee, led by the Chairman himself. Not only is it a compromise with the inflation-targeting skeptics on the committee, such as Vice Chair Kohn, but just as importantly with Congress and the vocal opponents of inflation targeting in that institution, such as Rep. Barney Frank. Increases in Fed transparency since 1994 have proceeded piece-meal and often in an ad hoc fashion. The changes announced today, however, were the result of committee-wide deliberations over the past year and will likely remain in place for several years."

11:13 11/14 **US CMBX**: In CMBX, spreads gapped wider across all tranches in line with the general weakness in the cash market over the last week. Tranches have now hit their historically widest spread levels and lowest dollar prices on renewed selling interest amidst negative headlines and liquidity concerns surrounding banks and mono-line insurers. According to CMBS strategists at JP Morgan, "We remain extremely defensive with respect to the direction that CMBX spreads may take over the next few months and while we believe that lower-rated CMBX tranches are close to becoming fundamentally oversold on a near term, we recommend investors remain short CMBX risk." Specifically, JP thinks that despite the huge sell off further up the capital structure, there may still be more selling to go and thus it may make sense to take short position at the AA or even AAA level. Over longer-term, spreads may continue to trade wider as negative sentiment looms over commercial real estate, reference obligations underlying CMBX are downgradesd, and losses begin to roll in over the next few years as the underlying collateral seasons.

12:17 11/14 **CDS:** Sources say the 2-day rally materialized amid a lack of bad headline news, talk of Buffett stepping in on a few monolines and also short covering. Sources say on the rally today, the IG9 trades at 70.5-71 bps while the HVOL9 is at 191-193 bps, after dipping below 200 bps late yestereday. A few indications on the rallying financials and mtg insurers are below:

Merrill Lynch (MER): 110-120 bps vs 133 bps at midday yest
Lehman (LEH): 110-120 bps vs 142 bps at midday yest
Bear Stearns (BSC) 120-130 bps
Goldman (GS) 68-72 bps
Citigroup (C): 70-75 bps vs 78 bps at midday yest
Radian (RDN): 730-760 bps, -50 bps on the day
PMI Group (PMI): 390-410 bps, -30 bps on the day.

Stone & McCarthy
RESEARCH ASSOCIATES

--Stone & McCarthy (Princeton)-- The MBA's broad mortgage application index jumped 5.5% in the week ended November 9, following a decline of 1.6% in the previous week. The increase reflected a gain of 4.8% in the purchase index and an increase of 6.4% in the refinancing application index. The ARM index increased 15.1%. Mortgage rates were unchanged to four basis points higher. It's a hard thing to verify, but we think that more borrowers are filing multiple applications, and/or a higher share of applications is being rejected. <u>As a result, we think that increases in applications like the one in the latest week shouldn't be interpreted to mean that a full-fledged housing recovery is underway.</u>
[my emphasis]

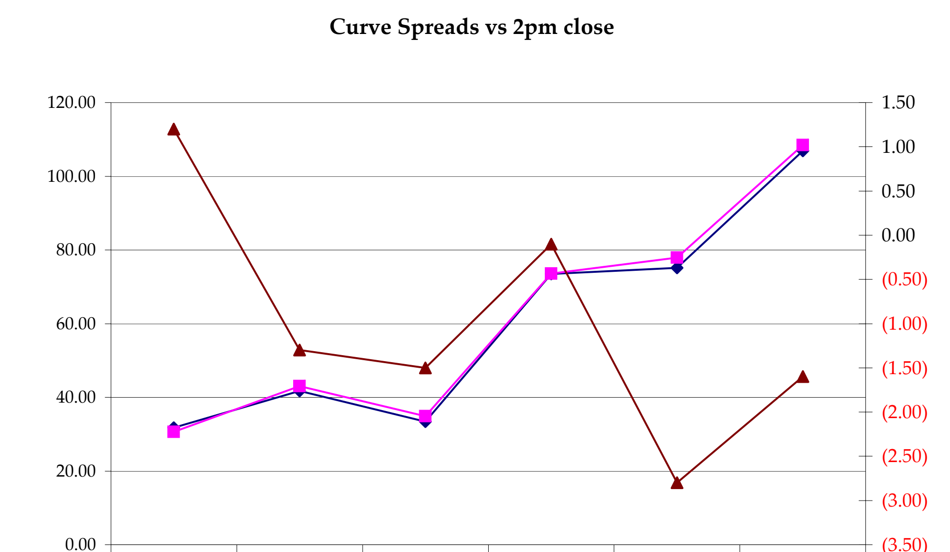
12:11 11/14 US: The market is focused on US (Financial Accounting Standards Board) **FASB regulation 157**, which comes into play Thursday. FASB 157, "effective for financial statements issued for fiscal years beginning after Nov.15 and interim periods within those fiscal years," requires banks to split their tradable assets into 3 tiers or "levels," with Level 1 assets easily able to be marked-to-market (quotable prices/active markets) and Level 3 assets valued by bank models instead. Stewart Newnham of Morgan Stanley says FASB 157 "is set to intensify the deflationary debit spiral in the US." He maintains that "as financial risks increase, so too should the Fed's likely policy response." Marshall Gittler of Deutsche Bank Private Wealth Management says FASB 157 will "set guidelines for financial institutions' capital allocations for assets for which there are no directly observable market prices." He says if there are no new writedown announcements this week, "some of the current fear gripping the market should dissipate."

MarketNews international

13:22 11/14 **US TSYS:** Sources confirm macro accts doing some delevering in the past few days with common themes being unwinding of steepeners, exiting longs in the front-end, unwinding spread wideners, unwinding long vol positions -- all based on the fact that the subprime mess has not spilled into the broader economy.

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	31.80	30.60	1.20
5/10	41.70	43.00	(1.30)
10/30	33.40	34.90	(1.50)
2/10	73.50	73.60	(0.10)
5/30	75.10	77.90	(2.80)
2/30	106.90	108.50	(1.60)



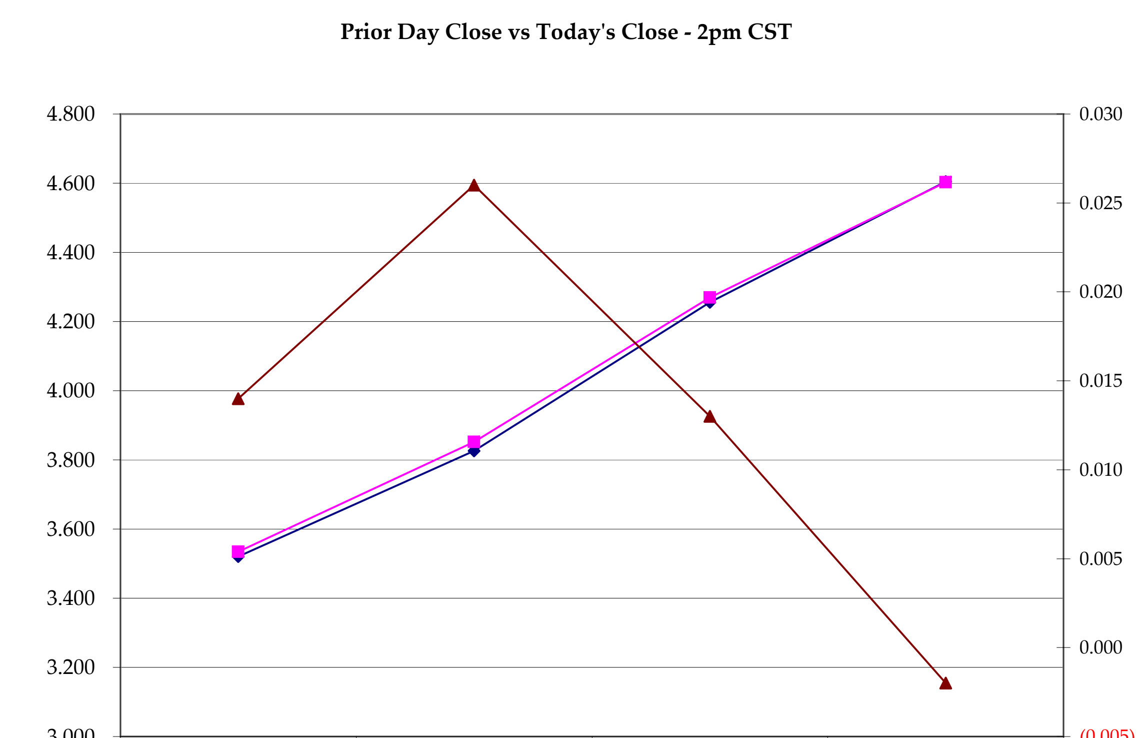
	2/5	5/10	10/30	2/10	5/30	2/30
Last	31.80	41.70	33.40	73.50	75.10	106.90
PDC	30.60	43.00	34.90	73.60	77.90	108.50
Diff	1.20	(1.30)	(1.50)	(0.10)	(2.80)	(1.60)

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	Basis TC
2y	3.625	10/31/09	100.0625	3.520	3.534	0.014		
5y	3.875	10/30/12	100.0700	3.826	3.852	0.026	35.41	34.19
10y	4.250	11/17/17	99.305	4.256	4.269	0.013	80.74	81.67
30y	5.000	5/15/37	106.11	4.605	4.603	(0.002)	244.29	246.15

	PDC 32	TC
ZF	108.220	108.195
ZN	111.230	111.185
ZB	114.13	114.120



	2y	5y	10y	30y
2pm Cls	3.520	3.826	4.256	4.605
Last	3.534	3.852	4.269	4.603
Diff	0.014	0.026	0.013	(0.002)

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 & Fed Funds - Treasuries

Eurodollar Packs

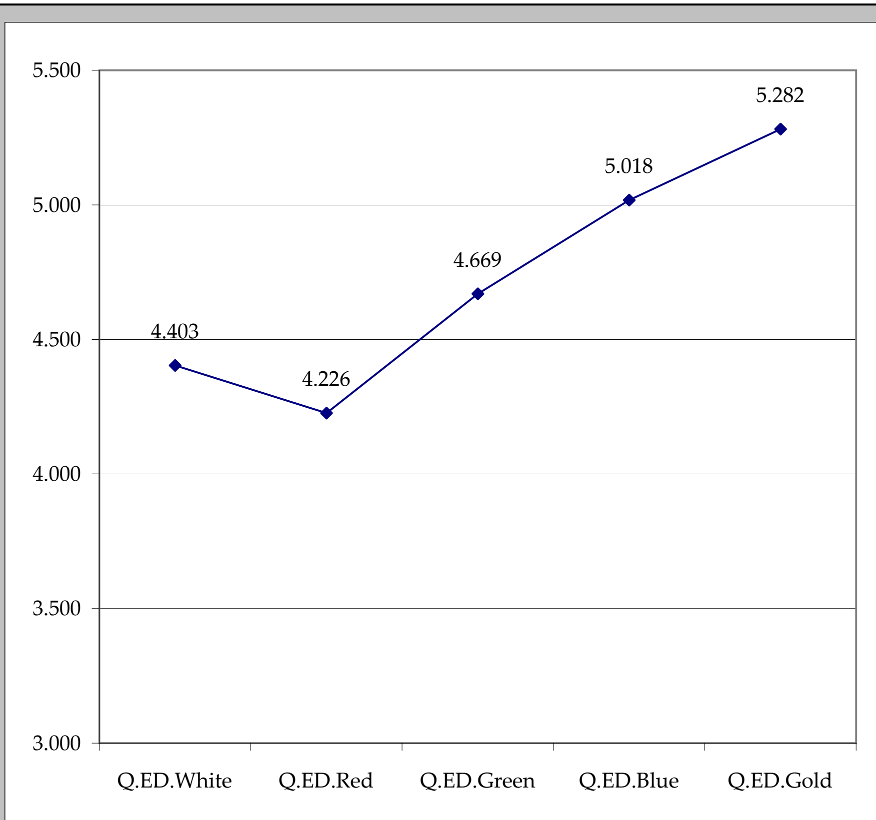
	Last Yield	Net Yield	Last Price
Q.ED.White	4.403	-2.000	9570.375
Q.ED.Red	4.226	-1.625	9587.500
Q.ED.Green	4.669	-1.125	9544.750
Q.ED.Blue	5.018	-0.375	9511.125
Q.ED.Gold	5.282	0.875	9485.750

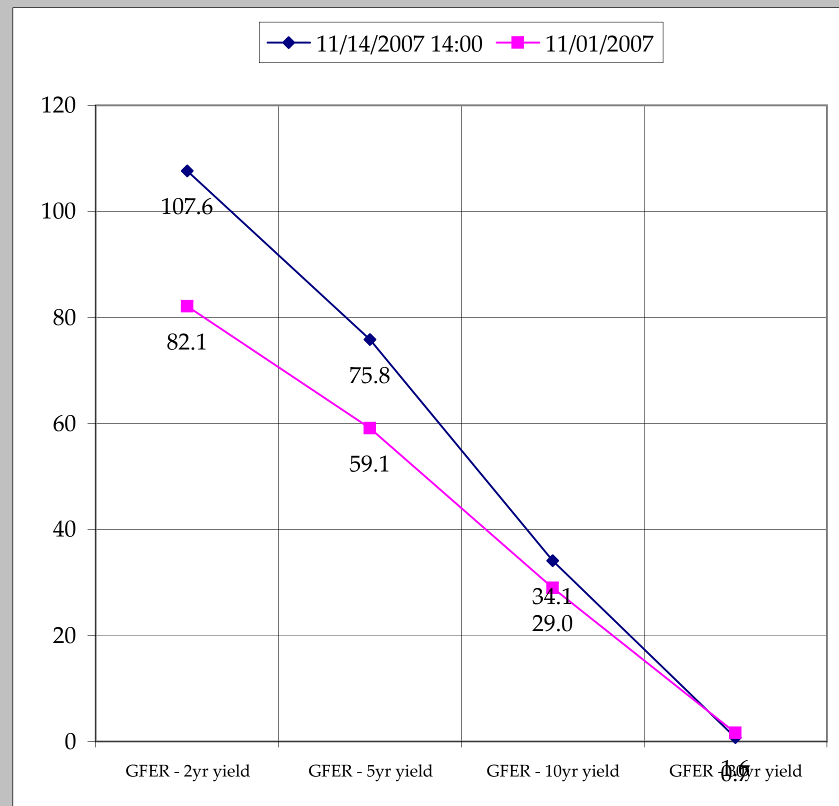
Fed Funds Daily Effective Rate Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	11/01/2007
GFER - 2yr yield	107.6	12.8	82.1
GFER - 5yr yield	75.8	10.8	59.1
GFER - 10yr yield	34.1	11.5	29.0
GFER - 30yr yield	0.7	13.4	1.6
GFER	**4.61**	12.0	

GFER = Fed Funds Daily Effective Rate

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





Fed Funds - Eurodollars

	Fed Funds (FF)			ED	ED - FF
Month	Last	Net	Implied	Implied	bps
Nov-07	95.545	-0.100	4.455	4.895	44.0
Dec-07	95.635	-0.150	4.365	4.810	44.5
Jan-08	95.680	-0.250	4.320	4.615	29.5
Feb-08	95.830	-0.350	4.170	0.000	0.0
Mar-08	95.890	-0.300	4.110	4.320	21.0
Apr-08	95.955	-0.400	4.045	0.000	0.0
May-08	96.065	-0.150	3.935	0.000	0.0
Jun-08	96.085	-0.250	3.915	4.080	16.5
Jul-08	96.160	-0.250	3.840	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Sep-08	96.245	-0.050	3.755	3.975	22.0