

The Afternoon Email

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Key Money Rates

11/28/2007 14:02

	Libor\$ ^	Tbill	CP ^^
1M	4.822	3.547	4.730
3M	5.081	3.042	5.010
6M	4.906	3.275	4.710
	TSY	Swap	ED Pks ^^^
2y	3.196	83.75	3.757
5y	3.484	81.50	4.668
10y	4.027	67.75	4.983

	Libor\$ ^	Repos
0/N	4.799	4.110
1week	4.843	3.850
2week	4.839	3.800

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.

SYM = Symbol

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

**All times Eastern**

15:38 11/28 **US TSYS/RECAP:** Mkt weakened Wed after 1) risk aversion wanes (for now - some expect resumes Thu) 2) US stocks surge as Fed Vice Chair Kohn hints Dec. ease (briefly helped Tsys; helped riskier debt mkts daylong). 3) Also was weak US\$20B 2Y auction, 24.4% indirects. 4) Tsys 2-way flow, pre-auction short-setting. 5) Also afternoon short-covering; 6) Russian selling in 10-yr notes, foreign central bk, lvrgrd buying in 5Ys; 7) morning buying in off-run 5Ys, bank buying in WI 2Ys, lvrgrd 2Y/5Y curve steepeners, but others unwound curve steepeners done with 2Ys. 8) Also was lvrgrd accts bought 10Ys, 9) Agency, swaps, MBS tighter; was month-end buying but away from Tsys; 10) Fincl stocks led US stocks higher. 11) Fed did 3 system RP to aid year-end funding nerves such as US\$8B 43-day system. 11) Corp bd issuance resumes. 12) Vol sellers in Tsys options; MBS convexity recvg in fronts, intermediates. 13) Some said others short 3Ys/bought option ARMS; need to exit by Nov 30. 14) 2-way tech tradg in 10Y futures; 15) CDS spds in sharply. 16) Fyrend Fri for 4 dealers (More)

15:04 11/28 **US SWAPS:** Spds continue to march tighter. Earlier, swap-tied flow skewed towards convexity receiving, sources said, especially in fronts to intermediates. Others, however, said flow remains light and two way in the first half, reacting more to various factors that included the unwind of front end sponsorship, flatter curve, slight ease in overnight repo specials, and return of some decent corporate supply that spurred some modest rate locks. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Close	-8.00/84.00	-5.50/81.50	-2.50/68.00	-1.25/58.50
1:40	-8.25/83.75	-5.25/81.75	-2.75/67.75	-1.75/58.00
12:45	-5.25/86.75	-4.00/83.00	-2.00/68.50	-1.00/58.75
10:00	-7.00/85.00	-6.00/81.00	-3.50/67.00	-2.50/57.25
9:45	-4.25/87.75	-4.25/82.75	-2.25/68.25	-1.75/58.25
9:05	-3.50/88.50	-2.50/84.50	-1.50/69.00	-1.50/58.50
Wed Open	-2.00/90.00	-2.25/84.75	-1.75/68.75	-1.00/59.00
Wed 7:55	-2.00/90.00	-2.00/85.00	-1.25/69.25	-0.75/59.00

(cont)

15:29 11/28 **US TSY FUTURES:** Tsys closed sharply lower with the Dec T-bonds finished down 22/32 at 116-30 with 591K traded while the Dec 10-yr settled off 17/32 at 113-13.5 with 1.71M traded. The Dec 5-yr notes settled lower by 12.5/32 at 109-31 with 1.14M traded while the Dec 2-yr closed off 6/32 at 104-25 with 637K changing hands.

15:18 11/28 **US AGENCIES:** Better buying throughout the day from foreigners early on to domestic clients from "all walks of life," according to a trader. Callable demand with month-end extensions and major redemptions remains a durable theme. Indications as follows - Freddie Nov'09 +61.5 (vs Tuesday's 3PM mark of +66); Fannie Nov'09 +60 (+64.5); Freddie Aug'10 +65.5 (+71); Fannie Sept'10 +64 (+69.5); Freddie Oct'12 +67.5 (+75); Fannie Nov'12 +70.5 (+77.5); Fannie June'17 +64.5 (+69); Freddie Nov'17 +66.5 (+71); Fannie Nov 2030 +63 (+65); Freddie Jul'32 +62 (+63.5). Farm Credit Banks announce \$2 billion 3-year Designated Bond to price tomorrow or Friday via LB/MER/UBS. Initial talk was put at +72 area (within the context of the market). A rush for a decent allotment was heard.

15:06 11/28 **SWAPTIONS:** Sources say vols have ebbed as Tsys move back into the range, swaps retreat from their wides and stocks do better. While there has been money mgr and dealer selling in various strangles and out-of-the-money calls, sources said flow today is much more about position adjusting and rolling of strikes. Moreover, another reason for the retreat in vol is lessened convexity needs. Going forward a continued sharp downtick in Tsys could result in vols remaining well bid and near current 3-yr highs but a grind lower would roil vols, sources say. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Close	32.30%	20.20%	19.70%
1:35	33.10%	20.30%	19.80%
12:45	33.10%	20.20%	19.80%
11:10	33.70%	20.70%	20.20%
10:30	33.70%	20.70%	20.20%
Wed Open	33.40%	20.40%	20.00%

14:51 11/28 **US BONDS/LEHMAN:** While some brisk month-end buying of Tsys was done Monday, there could be a bit more to do as Friday, Nov. 30, brings month-end, and a large expected month-end index extension in the U.S. Tsy bond index extensions, as would normally be expected in a refunding month. Other index advance estimates are as follows: (final figures will be crunched after U.S. markets close Nov. 30):

- U.S. Tsy Index duration will extend by +0.21 yrs
- Agencies will extend by +0.12 yrs,
- U.S. Credit extends by +0.07 yrs
- MBS are estimated at +0.05 yrs.
- U.S. Aggregate Index duration increase by +0.09 yrs
- U.S. High-Yield Index will expand by +0.05 years.
- U.S. Gov/Credit to increase by +0.14 yrs

12:45 11/28 **US AGENCIES: FHLB** of Atlanta sent a letter to members reiterating the Bank's credit and collateral policies in light of recent mkt disruptions, says: "Bank's policies also include its "Guidelines to Promote Responsible Lending," which prohibit members from pledging collateral exhibiting predatory characteristics. The Bank requires each member to certify compliance with these guidelines each time the member submits its periodic collateral reports. It also tests for compliance... Any loan found to fail these tests is not eligible collateral and must be withdrawn... In addition, each member must comply with the Bank's Guidelines for Subprime and Nontraditional Loans," which require the member to provide periodic confirmation that its pledged residential first mortgage collateral and HELOC and second mortgage collateral do not violate applicable laws and regulations regarding subprime and nontraditional mortgage loans." See 8k on www.sec.gov/edgar.

US 2Yr Bidding Details ... Everyone Backs Away

by **John Canavan**

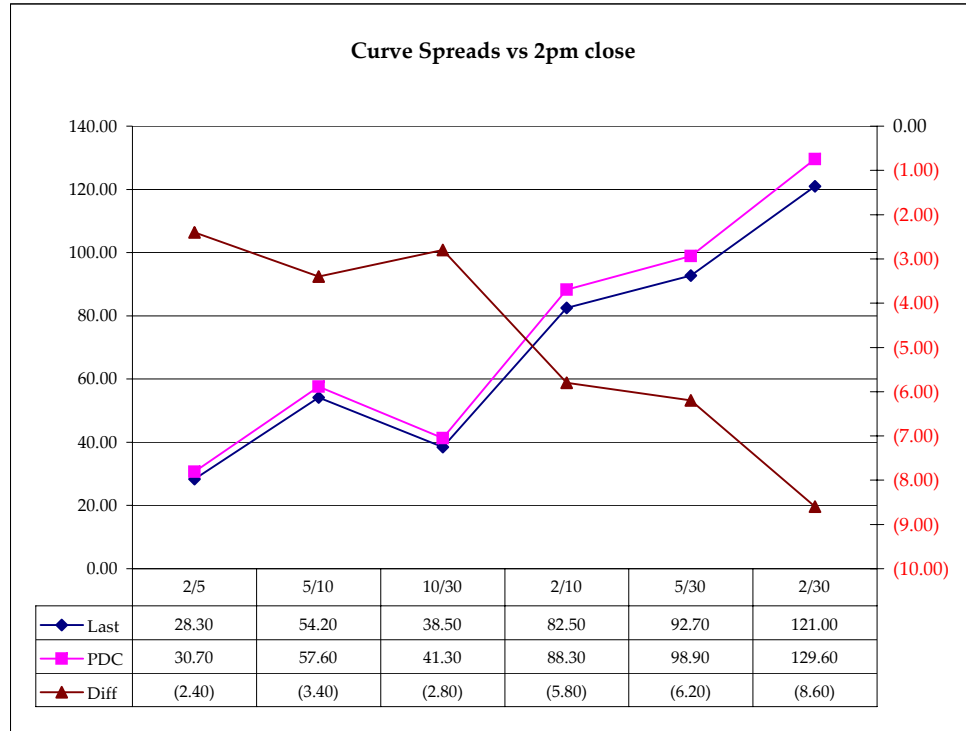
Stone & McCarthy (Princeton) -- As we reported earlier, this month's \$20.0 bln 2-year note auction went terribly. The auction stopped above the 100pm bid side for the first time since August 2006, and the stop was more than a full bps above the 100pm bid side. The bid cover was the lowest since the July 2006 auction. The indirect takedown was slightly improved from last month's record matching low, but was still very light. Everyone backed away from the auction this month.

[....]

Beige book prepared for Dec 11 FOMC meeting says "national economy continued to expand" thru mid-Nov but at a reduced pace from Oct; seven Districts reported a slower pace (Cleveland, Richmond, Atlanta, Chicago, St Louis, Dallas, SF). "Glut of avail homes continued"; prices fell; hsg demand is 'quite depressed' and builders continue to shelve projects. Overall retail spending was soft, mfg mixed, nonfinl services expanding. Price increases were modest except for food/energy; labor mkts are tight and wage increases continued at a modest pace. Bank lending was slowing. Book was summarized at SF Fed based on info available prior to Nov 16 (hsg starts/permits data came out Nov 20). -Prior beige book said "activity continued to expand in all Districts in September and early Oct but the pace of growth decelerated since Aug." [Thanks Howard]

14:18 11/28 **US TSYS:** The current 2Y vs. current 5Y spread has gone from 30.7 bps before the 2Y auction to +28.5 bps post auction. Several traders offer one possible explanation: due to year-end balance sheet constraints, traders cannot hedge the way they normally would. One trader says, if a trader was long the new 2Y auction and it went sour, he would normally sell some WI 5s ahead of the next day's auction to hedge the 2Y position. But because of the balance sheet constraints he cannot do that and must just puke out the 2s he just bought. These traders also note that even day traders are suffering from these year end constraints - they are nervous because the market is no longer moving as it usually does.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	28.30	30.70	(2.40)
5/10	54.20	57.60	(3.40)
10/30	38.50	41.30	(2.80)
2/10	82.50	88.30	(5.80)
5/30	92.70	98.90	(6.20)
2/30	121.00	129.60	(8.60)

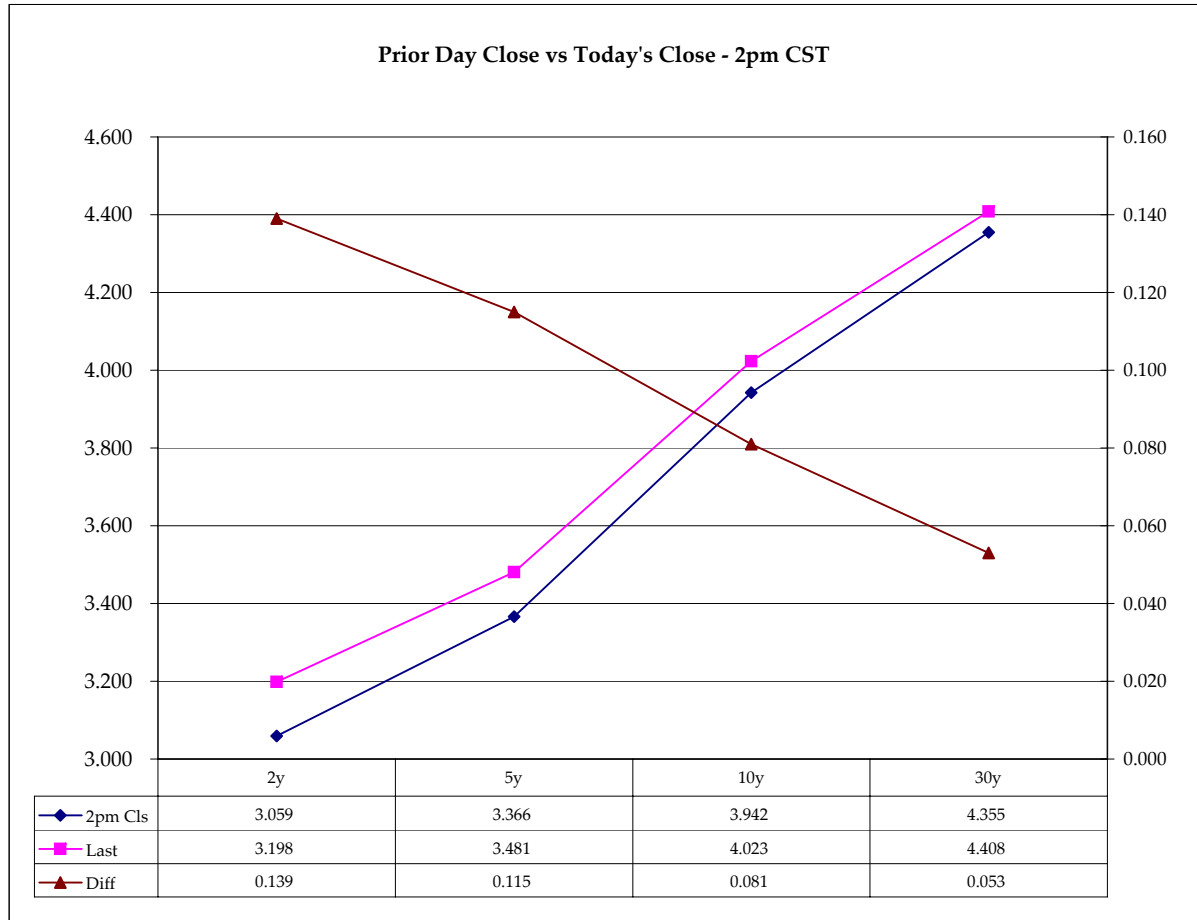


Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	3.625	10/31/09	101.0150	3.059	3.198	0.139		
5y	3.875	10/30/12	102.0925	3.366	3.481	0.115	38.75	42.11
10y	4.250	11/17/17	102.165	3.942	4.023	0.081	90.91	103.89
30y	5.000	5/15/37	110.21	4.355	4.408	0.053	291.04	279.17

	PDC 32	TC
ZF	110.115	109.210
ZN	113.305	112.225
ZB	117.20	116.310



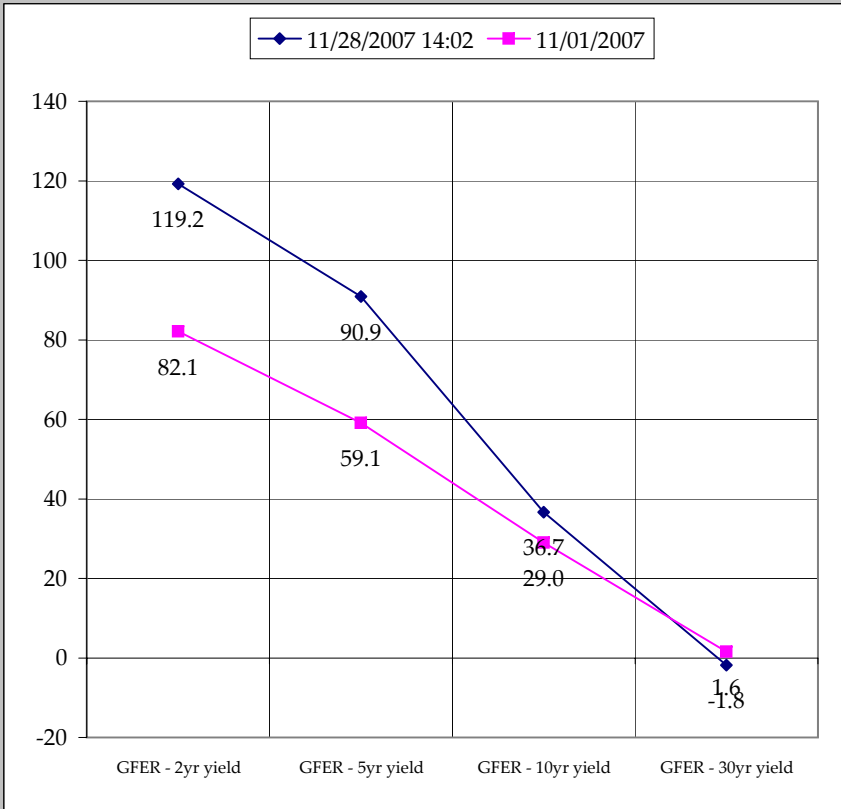
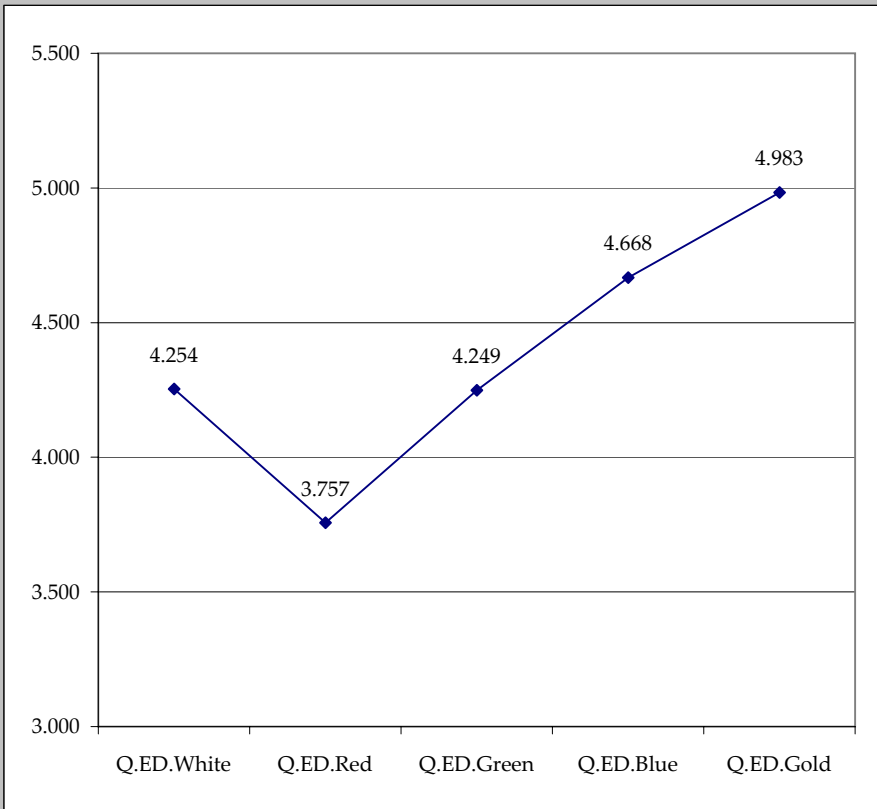
Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 32 = price is quoted in 32nds
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.254	-4.250	9584.875
Q.ED.Red	3.757	-7.125	9632.875
Q.ED.Green	4.249	-6.250	9585.250
Q.ED.Blue	4.668	-6.250	9544.875
Q.ED.Gold	4.983	-6.375	9514.500

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	11/01/2007
GFER - 2yr yield	119.2	-35.5	82.1
GFER - 5yr yield	90.9	-33.6	59.1
GFER - 10yr yield	36.7	-30.5	29.0
GFER - 30yr yield	-1.8	-27.4	1.6
GFER	4.62	-23.0	

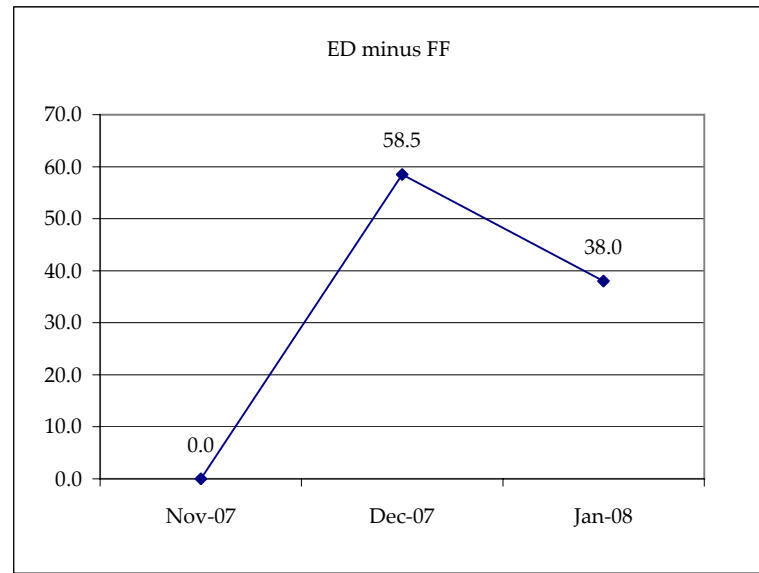
GFER = Fed Funds Daily Effective Rate

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	95.525	0.000	4.475	#VALUE!	#VALUE!
Dec-07	95.715	0.150	4.285	4.870	58.5
Jan-08	95.770	0.150	4.230	4.610	38.0
Feb-08	95.960	0.000	4.040	0.000	0.0
Mar-08	96.045	-0.100	3.955	4.250	29.5
Apr-08	96.130	-0.250	3.870	0.000	0.0
May-08	96.275	-0.500	3.725	0.000	0.0
Jun-08	96.295	-0.550	3.705	3.845	14.0
Jul-08	96.475	-0.150	3.525	0.000	0.0
Aug-08	96.575	-0.400	3.425	0.000	0.0
Sep-08	#VALUE!	#VALUE!	#VALUE!	3.640	#VALUE!



USD LIBOR								
	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
USDLIBON			4.79875	4.79875	4.79875	4.76750	0.03125	4.76750
USDLIB1M			4.82188	4.82188	4.82188	4.80875	0.01313	4.80875
USDLIB3M			5.08125	5.08125	5.08125	5.06188	0.01937	5.06188
USDLIB6M			4.90625	4.90625	4.90625	4.86250	0.04375	4.86250
USDLIB1Y			4.48813	4.48813	4.48813	4.39875	0.08938	4.39875
GBP LIBOR								
	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
GBPLIBON			5.82875	5.82875	5.83063	5.82875	(0.00188)	5.83063
GBPLIB1M			6.06563	6.06563	6.06563	6.05375	0.01188	6.05375
GBPLIB3M			6.59063	6.59063	6.59063	6.56063	0.03000	6.56063
GBPLIB6M			6.32000	6.32000	6.32000	6.28688	0.03312	6.28688
GBPLIB1Y			6.04125	6.04125	6.04125	6.00313	0.03812	6.00313
GBP DEPOSITS								
	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
GBPDEP1M	6.020	6.120	6.120	6.120	6.250	5.820	0.060	5.960
GBPDEP3M	6.540	6.640	6.640	6.640	6.740	6.320	0.000	6.540
GBPDEP6M	6.220	6.320	6.320	6.320	6.420	6.030	0.040	6.180
GBPDEP1Y	5.940	6.040	6.040	6.040	6.140	5.770	0.030	5.910
EURIBOR DEPOSITS								
	Bid	Ask	Last Quote	Last Trade	Hi	Low	Net Chng	Open
EURLIBON			3.9888	3.9888	4.0563	3.9888	(0.0675)	4.0563
EUIBOR1M			4.1690	4.1690	4.1690	4.1690	(0.0110)	4.1690
EUIBOR3M			4.7430	4.7430	4.7430	4.7430	0.0240	4.7430
EUIBOR6M			4.7150	4.7150	4.7150	4.7150	0.0220	4.7150
EUIBOR1Y			4.6530	4.6530	4.6530	4.6530	0.0270	4.6530