

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

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

**All times Eastern**

15:19 10/02 **US TSYS/RECAP:** Tsys end off the day's highs after 1) quiet afternoon short-covering, corporate rate-lock unwinds, followed 2) morning gain on foreign customer buying in 5Y, 10Y, 30Y Tsys futures from dealers, overseas houses; heavy foreign buyers of Tsys/selling of Europe. 3) Weak -6.5% dip in NAR Aug. pending home sales aided Tsys, as did 4) on-and-off US stocks decline off Mon all-time DJIA high. 5) Morning also saw black-box buying in the 10Y futures, 30Y futures but also 6) leveraged accts selling 5Y, 10Y. And 7) had been morning short-covering after brief post-NAR profit-taking on gains, 2-way flows. 8) Yld curves slightly steeper after early flattening moves, big flattener move Mon; 10) fast money earlier sold 10Ys to go out curve, with banks, fast money accounts selling 5s. 11) Also had been earlier 2-way flows in 2Ys. 12) Credit concerns underpin Tsys. 13) There also was some option-tied receiving. 14) Commodities mixed: silver, cotton, gold, nickel lower. 15) ECB mtg. Thu, then key US Sept jobs data Fri.

15:16 10/02 **US EURODLR FUTURES:** Eurodlr futures finished a little above mid-range as mkt rallied/curve re-steepened following weaker than expected pending home sales data. The Red/Gold pack spd was 1.125 bps steeper at 81.875 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 3.0 bps lower at 95-07.5 on combined Globex and pit volume of 223,000, the Mar08 0.5 bps higher at 95-42 on volume of 277,000, the Jun08 2.5 bps higher at 95-60 on volume of 277,000, while the Sep08 contract was 4.0 bps higher at 95-68.5 on volume of 243,000. The 2yr proxy Red pack (Dec08-Sep09), settled 5.0 to 6.5 bps higher across the pack with 568,000 contracts traded.

15:03 10/02 **US EURODLR/SWAPS:** Spds ended session mixed, improved in 10s to 30s on rally. While Tsy sources reported light 2-way in fronts to belly, Eurodlr sources reported some early front end receiving, a German bank +1k Jun08 1-yr bundles, followed by light paying, profit taking after FI curves re-steepened as some rate cut fanatics took heart following the weak housing data. Sources said 2-year spds were underpinned by another higher set in 3-month LIBOR overnight, a reminder of ongoing credit issues at hand. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+0.75/68.75	+0.25/65.50	-0.50/62.25	-0.50/61.25
12:10	+0.75/68.75	+0.25/65.50	-0.25/62.50	-0.50/61.25
10:15	+0.75/68.75	+0.25/65.50	+0.00/62.75	+0.25/62.00
9:25	+0.75/68.75	+0.50/65.75	+0.25/63.00	+0.25/62.00
Tue Open	+0.50/68.50	+0.25/65.50	+0.00/62.75	+0.25/62.00
Mon 3:00	-0.25/68.00	+1.00/65.25	+0.25/62.75	+0.25/61.75

(cont)

15:23 10/02 **US TSY FUTURES:** Tsys closed better the day with the Dec T-bond ended up 9/32 at 112-00 with 305K traded while the Dec 10-yr settled up 8.5/32 at 109-19.5 with 1.076M traded. The Dec 5-yr notes settled 5.5/32 higher at 107-04.5 with 461K traded while the Dec 2-yr closed better by 2.5/32 at 103-16 with 152K changing hands.

15:07 10/02 **US SWAPTION VOL:** At-the-money straddle swaption premiums were near steady by the bell, intermediates under slight pressure late. Sources said flows included light option tied buying vs. short gamma positions while servicers were noted exchange listed call sellers, notably the December 10-year Treasury 111 call at 22/64 to 26/64. One swaption trader said the upper left corner, namely the 1-month sector "got hit pretty good" early in the session possibly from buyers of the March 10-year 106/112 strangles who may have tried to sell "1-month at-the-money to hedge leaving them long board vs swaption and long skew." According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:05	87.2 bps	723.4 bps	557.4 bps
12:10	87.4 bps	727.4 bps	557.2 bps
9:25	88.4 bps	727.2 bps	556.2 bps
Tue Open	88.4 bps	726.8 bps	554.8 bps
Mon 3:00	88.8 bps	726.8 bps	559.0 bps

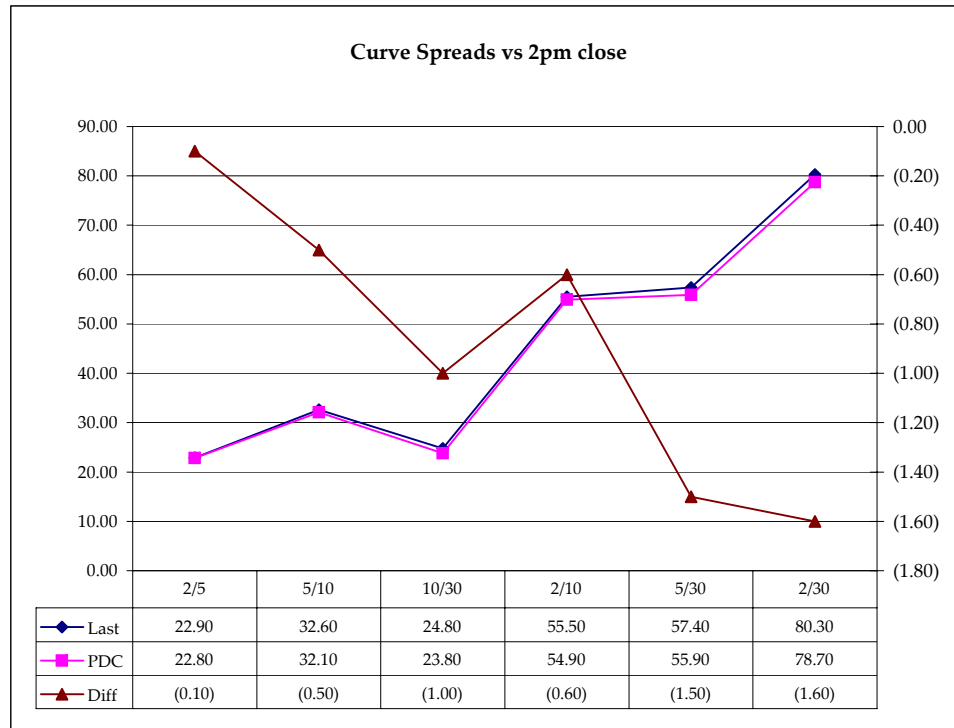
10:28 10/02 US DATA REACT: from RBC: A "renewed deterioration in pending sales activity suggests another leg down for sales in coming months. In turn, the renewed downturn should weigh on prices and personal consumption." From HFE's Ian Shepherdson: home sales data are "still absolutely awful, confirming that the existing homes market is now in freefall. We had expected a broadly flat index, simply on the grounds that the July number was so bad that a repeat performance was unlikely, yet August was nearly as bad. This is consistent with existing home sales falling to just 5M or so, compared to 5.50M in August and a sustained peak of about 7.2M in the summer of 2005 - a drop of 30%. Moreover, there is no sign yet that the bottom of the market is near."

11:21 10/02 DOLLAR VIEW: The greenback's slightly improved tone on the day is due to fears of verbal intervention by either ECB president Trichet at this Thursday's ECB meeting and Q&A session or by the G-7 in their communique Oct 19. Analysts remain skeptical of any overt measures to turn the dollar around given that its slide has up to now been orderly. Barbara Rockefeller of Rockefeller Treasury Services puts the probability of ECB or G7 intervention at "nearly zero, especially if it depends on US participation." The Fed does not appear to be worried about the dollar and the Treasury is unlikely to be either, with exports up over 12.0%. While the US says "strong dollar, best interests" it does nothing to support such a policy. "The real policy is 'let the markets decide' and that means no US intervention," Rockefeller says. As for the euro, she reminds that the eurozone wanted a currency that would be a competitor to the dollar, i.e. a reserve currency - "now let them live with it," she says.

NEWS ALERT
from The Wall Street Journal
Oct. 2, 2007

Auto makers posted weak sales for September. General Motors reported a slight gain of 0.3% in U.S. sales, despite last week's strike. Ford, down 21% for the month, ceded more ground to Toyota, which posted a 4.4% decline. Overall, September sales were weighed down by the credit crunch, high gasoline prices and housing-market weakness.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	22.90	22.80	(0.10)
5/10	32.60	32.10	(0.50)
10/30	24.80	23.80	(1.00)
2/10	55.50	54.90	(0.60)
5/30	57.40	55.90	(1.50)
2/30	80.30	78.70	(1.60)



Notes:

TC = Today's Close at 2pm

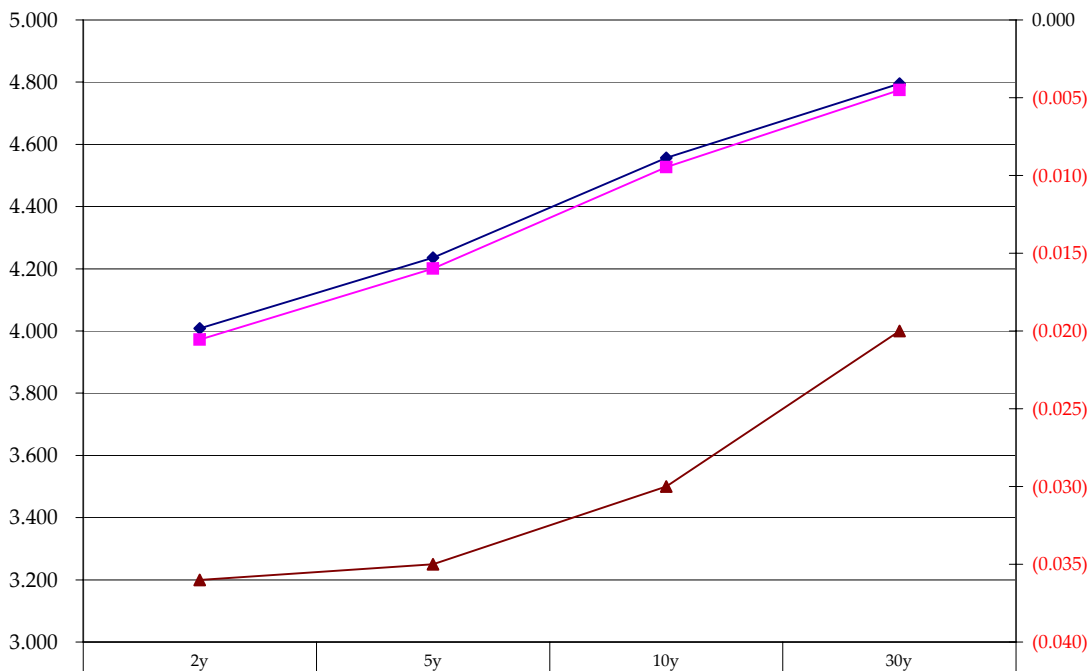
PDC = Prior Day's Close at 2pm

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

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	4.000	9/30/09	99.3150	4.008	3.972	(0.036)		
5y	4.125	8/31/12	100.0200	4.236	4.201	(0.035)	23.74	23.64
10y	4.750	8/15/17	101.165	4.557	4.527	(0.030)	75.26	74.55
30y	5.000	5/15/37	103.07	4.795	4.775	(0.020)	-666.32	-667.82

	PDC 32	TC
ZF	106.310	107.045
ZN	109.110	109.195
ZB	111.23	112.000

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



Notes:

Basis = (Cash Decimal - (Futures Decimal * CF))*32

32 = price is quoted in 32nds

TC = Today's Close at 2pm

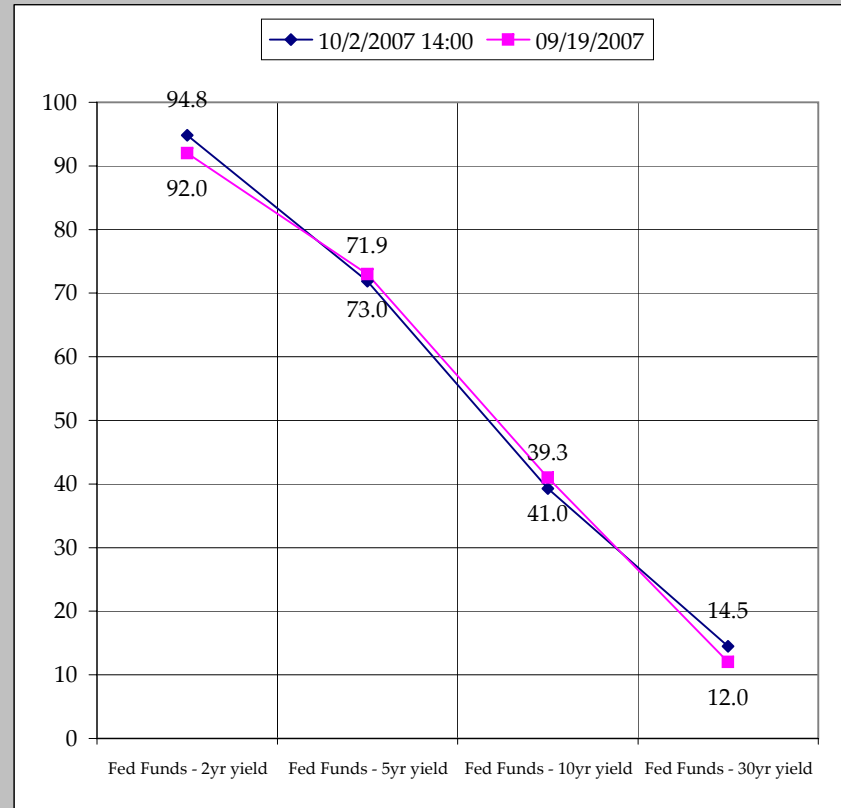
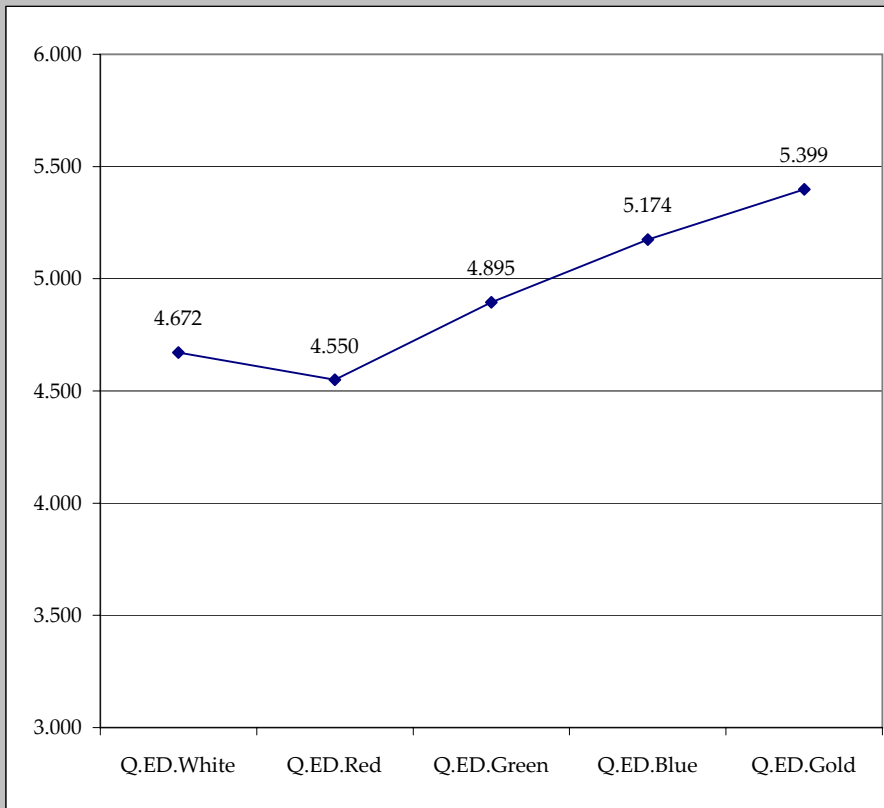
PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.672	1.000	9544.500
Q.ED.Red	4.550	6.000	9556.250
Q.ED.Green	4.895	6.250	9523.000
Q.ED.Blue	5.174	5.125	9496.125
Q.ED.Gold	5.399	5.000	9474.500

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	94.8	36.5	92.0
Fed Funds - 5yr yield	71.9	36.5	73.0
Fed Funds - 10yr yield	39.3	35.6	41.0
Fed Funds - 30yr yield	14.5	34.9	12.0
GFER	4.88	34.0	

GFER = Fed Funds Daily Effective Rate

Why 9/19/2007?
The morning after the last FOMC meeting is a good benchmark. I marked at 7:00am CT. (Before CPI release).



Month	Fed Funds (FF)			ED	ED - FF
	Last	Net	Implied	Implied	bps
Oct-07	95.270	-0.100	4.730	5.225	49.5
Nov-07	95.435	0.000	4.565	5.050	48.5
Dec-07	95.560	0.000	4.440	4.925	48.5
Jan-08	95.615	0.000	4.385	0.000	0.0
Feb-08	95.695	0.050	4.305	0.000	0.0
Mar-08	95.715	0.000	4.285	4.580	29.5
Apr-08	95.760	0.100	4.240	0.000	0.0
May-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Jun-08	#VALUE!	#VALUE!	#VALUE!	4.400	#VALUE!
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

