The Afternoon Email

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

All times Eastern

13:05 10/05 US **TSYS/RECAP:** Tsys had major selloff Fri amid 1) +110K Sept US jobs, upward prior month revisions, 0.4% AHE; which spurred 2) bank portfolio did swaps paying mainly in 5Y/buying of MBS; 3) also was a few rounds of leveraged accounts selling too in 10s, 10Y futures; 4) midday sell US Tsys/buy MBS trades, and also duration shedding in MBS via paying in 5Y, 10Y swaps; 5) mkt earlier had temporarily stabilized at low on $1B buy by European central bank in cash 10Ys, US$1B buy by European central bk(s) in 2s; 6) also had been earlier Street, others buying at 4.60% 10Ys yield level earlier but then later, Street buyers, others who bought earlier sold 10Ys; 7) earlier were 2Y/10Y steepeners at +50bp in 20 mins after jobs; 8) also earlier sell US 2Y/buy Schatz, but some buy US/sell German action; later around 11am was sell Bunds/Buy UK Gilts action. 9) was early fincl insitutution buying in 5Ys, other 2Y, 10Y buying, with also quasi-offl bid in 5Ys. 10) Earlier, had been leveraged selling in 5s but also Street, hedge fund buying, short-cvrg.

13:10 10/05 **US EURODLR FUTURES:** Eurodlr futures finished off session lows on late position squaring, profit taking. While rate cut odds get deferred flattening front end spds, longer curve ends up steeper late. The Red/Gold pack spd was 3.875 bps steeper at 82.0 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 7.0 bps lower at 94-97.5 on combined Globex and pit volume of 293,000, the Mar08 10.5 bps lower at 95-27 on volume of 314,000, the Jun08 12.5 bps lower at 95-43 on volume of 365,000, while the Sep08 contract was 13.0 bps lower at 95-51 on volume of 415,000. The 2yr proxy Red pack (Dec08-Sep09), settled 11.5 to 12.0 bps lower across the pack with 1,050,000 contracts traded.

13:07 10/05 **US EURODLR/SWAPS**: Spds ended session wider after see-sawing through shortened session. Sources reported a bank portfolio paid on spd versus MBS, which really got things going wider. Spd paying was done largely in 5s but one dealer desk said "it really filtered" into every part of curve. Sources also reported real money acts were moderate sellers of 2yr futures, both corp and MBS related. Paying also noted in 10s. Eurodlr sources initially reported sellers of 1-, 3yr bundles and Red packs (Dec08-Sep09), while dip buyers, profit takers around midmorning, a NY dealer +1k Reds at -9.0 coincided with spds coming off wides. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 1:00	+0.75/71.00	+0.25/66.75	+0.75/63.00	+1.00/62.00
10:10	+0.50/70.75	-0.25/66.25	+0.75/63.00	+0.75/61.75
9:45	+1.75/72.00	+0.25/66.75	+1.25/63.50	+1.25/62.25
Fri Open	+1.50/71.75	+0.25/66.75	+0.25/62.50	+0.25/61.25
Thu 3:00	+0.50/70.25	+1.25/66.50	+0.50/62.25	+0.25/61.00

(cont)

13:09 10/05 **US SWAPTION VOLS:** At-the-money straddle swaption premiums firmed off session lows late after sharply lower levels across the surface as data came out in line. Taking a cue from in-line ADP payroll data on the private sector earlier this week, vol has been under pressure, "not your typical run-up that you'd usually have ahead of headline data like payrolls," one trader said. Sources reported rather light OTC option flow on the session, while other noted accounts had already squared ahead of the long weekend as well. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
1:00	79.0 bps	706.6 bps	547.2 bps
12:00	77.8 bps	698.2 bps	544.8 bps
9:20	81.6 bps	702.4 bps	545.2 bps
8:35	84.6 bps	716.8 bps	553.4 bps
Fri Open	82.8 bps	713.0 bps	554.2 bps
Thu 3:00	80.5 bps	713.0 bps	554.4 bps

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News: Snapshots throughout the day

MarketNews international

[7:44 am CT]
NEWS ALERT
from The Wall Street Journal
Oct. 5, 2007
U.S. employment rebounded last month on robust public education and other service-sector hiring, and August's decline was revised to a gain, signaling resilience in the labor market and reining in hopes for further aggressive easing by the Federal Reserve. Nonfarm payrolls rose 110,000 in September, and August was revised to an 89,000 rise from a previous estimate of a 4,000 decline. The unemployment rate rose 0.1 percentage point in September to 4.7%.

08:55 10/05 **US DATA REACT**: Economist Ian Shepherdson at HFE says "these latest payroll numbers fit quite well with the claims, ISM and help wanted numbers. Government hiring flatters both Aug/Sep; private payrolls up only 105K combined and the trend has halved over the past six months to just 60K per month. Temp hiring is tanking, signalling a further downshift in private payrolls... A rising unemployment rate is more or less a done deal; nothing motivates the Fed to cut rates more than a loosening labor market. Ignore the wages uptick; will slow as unemployment rises."

09:41 10/05 **FED:** Street has focused on this part of Fed VC Kohn's text, referring to the Sept 18 rate cut: "I thought that economic performance would be better served by the Federal Reserve taking its chances on responding too much, or too rapidly, to the turmoil in financial markets rather than acting too little, or too slowly. Sluggish or inadequate easing risked a weaker real economy that might cause lenders to pull back even more, leading to a deteriorating situation that could prove difficult to reverse. With the news on inflation relatively favorable of late and with inflation expectations seemingly well anchored, I believed that we would be able to offset the cut in the federal funds rate--if it turned out to be larger than needed--in time to preserve price stability."

Stone & McCarthy RESEARCH ASSOCIATES

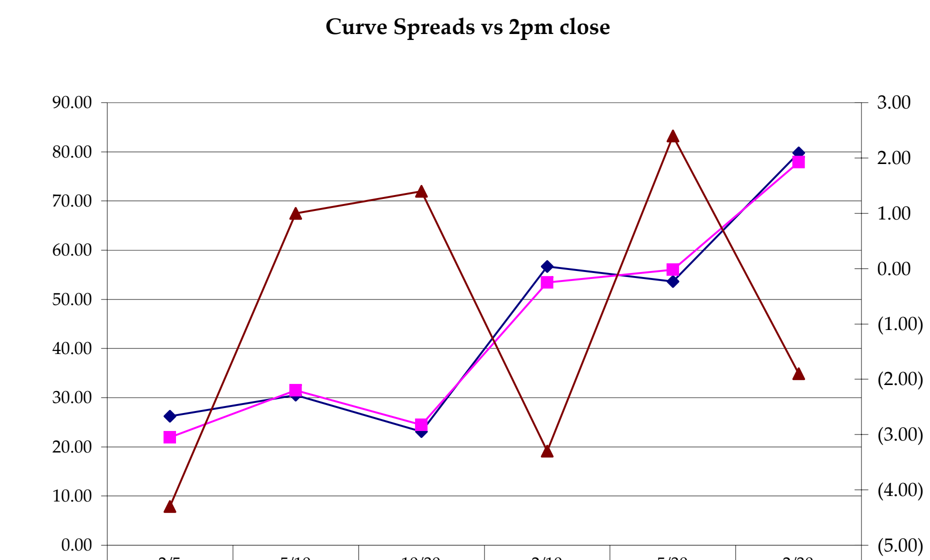
[Excerpted]
Part IV--Observations From The Household Survey
by Ray Stone, PhD

"While the national unemployment rate inched up to 4.7% from 4.6% in July and August. The recent uptrend in the unemployment rate is not a surprise and is consistent with other aspects of the employment data.

"For policy-makers the unemployment rate provides an indication of labor market utilization, a theme that has been highlighted frequently by Fed officials. The increase in the unemployment rate reduces the reluctance towards a more accommodative posture".

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	26.20	21.90	(4.30)
5/10	30.50	31.50	1.00
10/30	23.10	24.50	1.40
2/10	56.70	53.40	(3.30)
5/30	53.60	56.00	2.40
2/30	79.80	77.90	(1.90)



	2/5	5/10	10/30	2/10	5/30	2/30
Last	26.20	30.50	23.10	56.70	53.60	79.80
PDC	21.90	31.50	24.50	53.40	56.00	77.90
Diff	(4.30)	1.00	1.40	(3.30)	2.40	(1.90)

Notes:

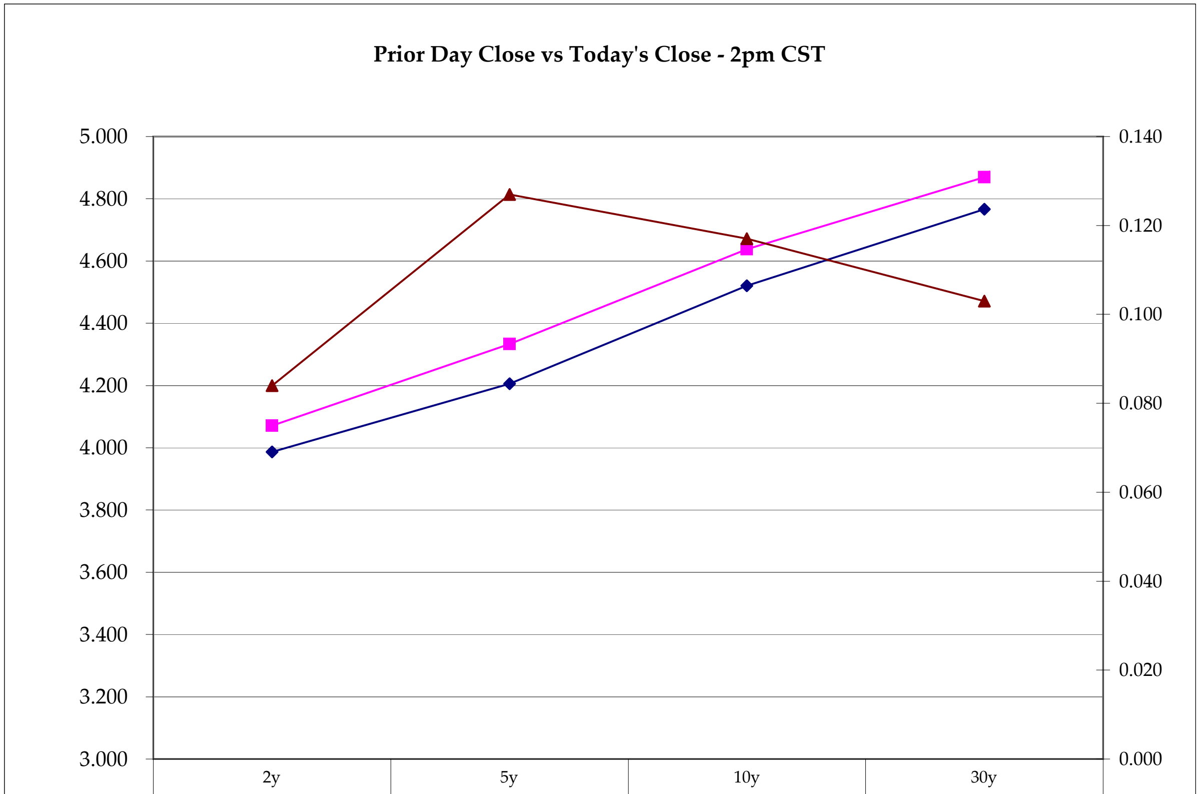
TC = Today's Close at 2pm

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	4.000	9/30/09	100.0075	3.987	4.071	0.084		
5y	4.125	8/31/12	100.0625	4.206	4.333	0.127	23.82	21.35
10y	4.750	8/15/17	101.255	4.521	4.638	0.117	76.09	71.08
30y	5.000	5/15/37	103.22	4.766	4.869	0.103	-664.65	-672.01

	PDC 32	TC
ZF	107.035	106.185
ZN	109.200	108.250
ZB	112.03	110.250



	2y	5y	10y	30y
2pm Cls	3.987	4.206	4.521	4.766
Last	4.071	4.333	4.638	4.869
Diff	0.084	0.127	0.117	0.103

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

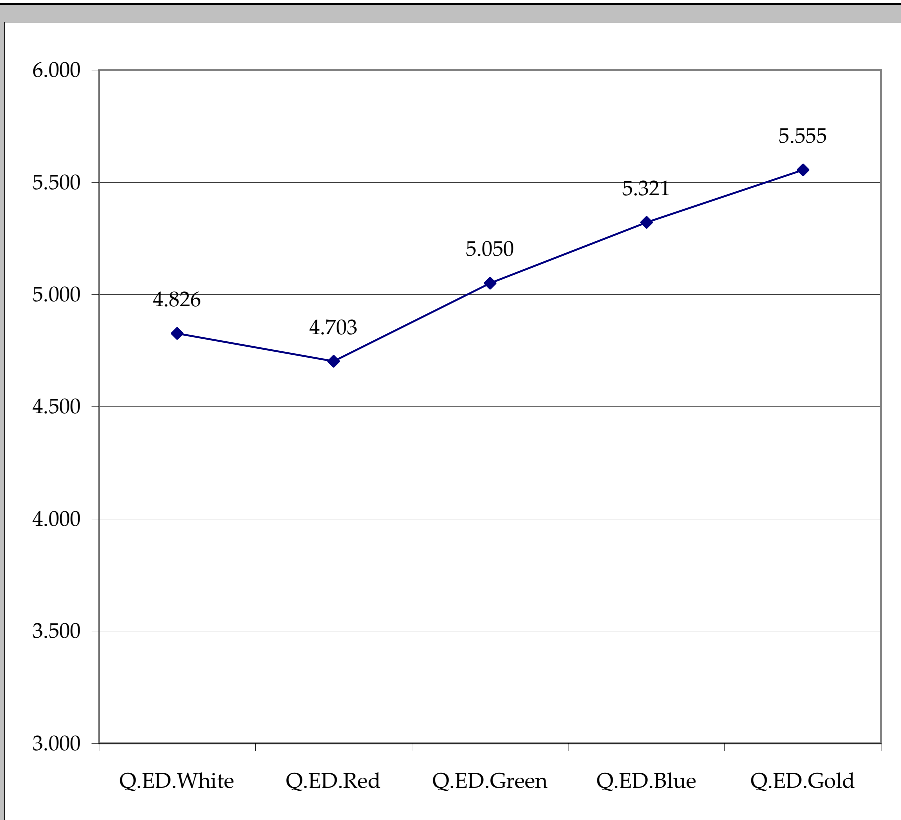
	Eurodollar Packs		
	Last Yield	Net Yield	Last Price
Q.ED.White	4.826	-10.750	9529.625
Q.ED.Red	4.703	-12.000	9541.500
Q.ED.Green	5.050	-12.250	9508.000
Q.ED.Blue	5.321	-13.625	9482.000
Q.ED.Gold	5.555	-15.875	9459.500

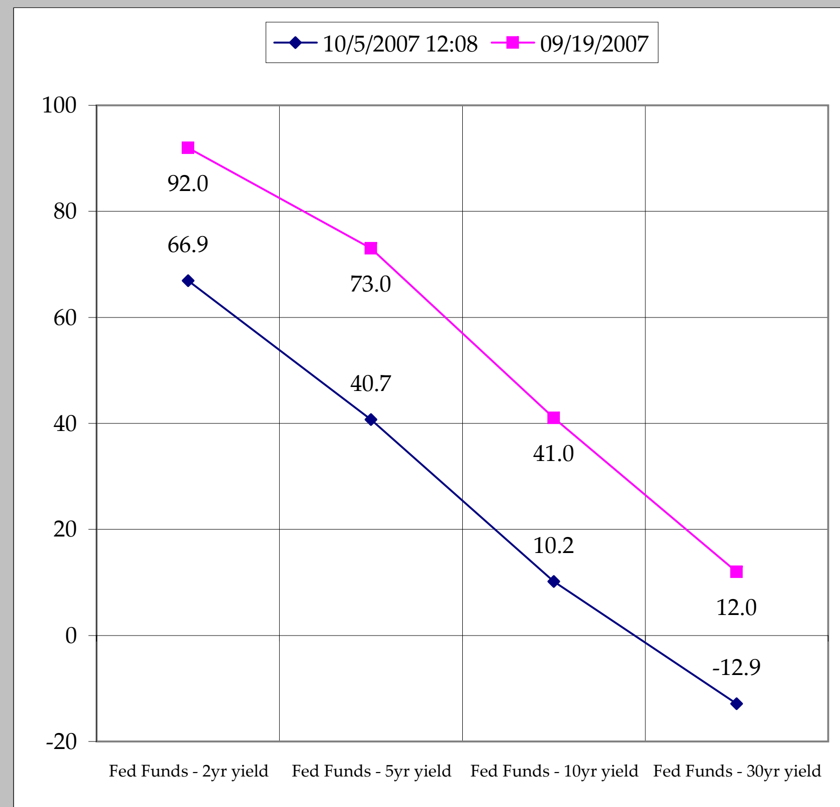
Fed Funds Daily Effective Rate
Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	66.9	-4.4	92.0
Fed Funds - 5yr yield	40.7	-7.5	73.0
Fed Funds - 10yr yield	10.2	-6.6	41.0
Fed Funds - 30yr yield	-12.9	-5.2	12.0
GFER	**4.74**	6.0	

GFER = Fed Funds Daily Effective Rate

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





Fed Funds - Eurodollars

	Fed Funds (FF)			ED	ED - FF
Month	Last	Net	Implied	Implied	bps
Oct-07	95.260	-0.100	4.740	5.243	50.3
Nov-07	95.360	-0.700	4.640	5.130	49.0
Dec-07	95.465	-0.750	4.535	5.025	49.0
Jan-08	95.520	-0.800	4.480	0.000	0.0
Feb-08	95.585	-0.900	4.415	0.000	0.0
Mar-08	95.595	-1.000	4.405	4.740	33.5
Apr-08	95.600	-1.250	4.400	0.000	0.0
May-08	95.640	-1.250	4.360	0.000	0.0
Jun-08	95.655	-1.000	4.345	4.570	22.5
Jul-08	95.690	-1.000	4.310	0.000	0.0
Aug-08	95.730	-0.950	4.270	0.000	0.0