

The Afternoon Email

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

**All times Eastern**

15:09 10/09 **US TSYS/RECAP:** Tsys dip lower Tues. on Sept. 18 FOMC minutes, as some interpreted that to say won't be string of US rate cuts, and on St. Louis Fed's Poole, who said Sept. jobs do not suggest US downside risk. There were mixed flow from Street players (selling in 2Ys but others buying 5s). Also, a money mgr continues to sell premium in 10Y options. P.m. had bank profit-taking in 10Ys, lvrgrd acct buying in 5Ys, corporate rate-lock unwinds in 5Ys too, earlier leveraged buying in 10Y Tsys vs some MBS selling. Some did 5y/10Y steepeners, others exited 2Y/10Y steepeners. Tsys hit day's high after 47 Oct. IBD/TIPP economic optimism vs 48.2 Sept. Tsys also gained earlier amid corporate- related swap receiving, and pension buying too, with deal-tied receiving in swaps, European central bank buying (shift from 2Y to 5Y), other foreign central bank bid for 5s, and foreign central bank buying in 3Ys, 5Ys. Real money earlier sold Dec 10y futures in large size. Morning also had bk bid in 3Ys, buy-and-hold profit-tkg in 5s, Street selling front end.

15:28 10/09 **US TSYS/RECAP II:** On a 1p.m. Fri to 3:00 pm ET Mon basis close, the cash 2-year note yield rose 5.1 bps to 4.129%. The 3-year yield rose 3.8 bps to 4.159%, while the 5-year yield rose 3.2 bps to 4.368%. The 10-year yield rose 0.8 bps to 4.649%, and the 30-year yield rose 0.8 bps to 4.864%. The 2-year/5-year curve flattened 1.9 bps to +23.9 bps, the 2-year/10-year flattened 4.3 bps to +52.0 bps, and the 2-year/30-year flattened 1.9 bps to +73.5 bps.

15:15 10/09 **US Eurodlr/Swaps:** Spds finished out the session mostly tighter after corporate related receiving has tightened up spds in the front end. Early receiving in 5Y where Deutsche Bank has a 5Y global bond issue scheduled noted. Still, overall flow light after the long weekend and sidelined accts ahead of afternoon release of Sep FOMC minutes. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00				
1:30	-0.75/70.75	-1.00/65.50	-0.25/62.50	+0.25/62.00
12:30	-0.75/70.75	-1.00/65.50	-0.25/62.50	+0.25/62.00
10:00	-0.75/70.75	-1.00/65.50	-0.25/62.50	-0.25/61.50
Tue Open	+0.00/71.50	-0.50/66.00	-0.25/62.50	+0.00/61.75
Tue 7:45	+0.25/71.75	-0.25/66.25	-0.25/62.50	+0.00/61.75
Fri 1:00	+1.25/71.50	+0.00/66.50	+0.50/62.75	+0.75/61.75
Fri Open	+1.50/71.75	+0.25/66.75	+0.25/62.50	+0.25/61.25

(cont)

15:10 10/09 **US TSY FUTURES:** Tsys closed steady to lower and at some of the lowest levels in 2-weeks with the Dec T-bond ended flat at 110-25, matching Friday's lowest closing levels since Sept 26, with 212K traded while the Dec 10-yr settled off 4.5/32 at 108-20, its worst since Sept 20, with 706K traded. The Dec 5-yr notes settled 4.5/32 lower at 106-13.5, also its worst since Sept 20, with 377K traded while the Dec 2-yr closed softer by 3/32 at 103-07, their lowest since Sept 20, with 141K changing hands.

15:23 10/09 **US SWAPTION VOL:** At-the-money straddle swaption premiums ended the session on the lows with the Sep FOMC minutes out of the way. Despite curve giving back all of Fri's steepening and then some as odds of ease continued to push out curve, sources said bear steepeners remained the name of the game as accts were able to take in premium to initiate such trades in vol space. While servicers were active put buyers in exchange listed Tsy options, namely Mar 10yr 107 puts, servicers were said to be sellers of shorter dated structures vs 6m OTC options on light size. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:15	76.0 bps	692.6 bps	538.6 bps
1:20	77.8 bps	700.0 bps	542.0 bps
12:30	77.8 bps	700.4 bps	542.2 bps
9:00	78.0 bps	707.6 bps	547.6 bps
Tue Open	78.2 bps	704.2 bps	545.0 bps
Fri 1:00	79.0 bps	706.6 bps	547.2 bps

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13:40 10/09 FED/Poole: The St. Louis Fed pres saying the Sept. jobs report does not suggest a downside risk is occurring. In a speech mainly profiling the real estate industry, Poole says the restoration of normal spreads "appears to be under way." The mkt turmoil, he says, provides "no new lessons." The Fed hasn't the power nor the desire for bailouts, he continues. Events suggest housing is to remain weak for several quarters. And, he says, the housing market may not stabilize until well into next year. See Poole's prepared text on the MNI main wire.

14:00 10/09 **FED: FOMC** Sept. 18 minutes show ALL voters favored 50BP cut, saying was needed to offset tighter fin'l conditions. All agreed 50BP 'at this meeting' was 'most prudent course of action.' The cut was not seen as interfering w/'realistic' risk pricing or adversely affecting infl outlk Agreed that w/o rate cut, could see broader output, jobs weakness and worried impaired fin'l mkt function could cont. All agreed infl risks remain and should be watched. Infl risk could be heightened if dlr falls significantly. They made no bal of risks statement due to uncertainty & made no decision on additional policy options. Credit mkt tightness was seen restraining econ growth. Noted subprime mtgs 'remained essentially unavailable.' Referenced Aug. 16 conf. call as having decided at the time that 'a change in the federal funds rate target was not yet warranted. However, the situation bore close watching.'

[Cited in this morning's WSJ]

Bloomberg: The biggest quarterly rally for U.S. government securities in five years is getting an extraordinary boost from the burgeoning reinvestment of petrodollars by the Organization of Petroleum Exporting Countries, whose members increased their holdings of Treasuries 12% this year through July to \$123.8 billion, Treasury Department data show.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	25.00	25.80	(0.80)
5/10	28.20	30.40	(2.20)
10/30	21.50	23.00	(1.50)
2/10	53.20	56.20	(3.00)
5/30	49.70	53.40	(3.70)
2/30	74.70	79.20	(4.50)



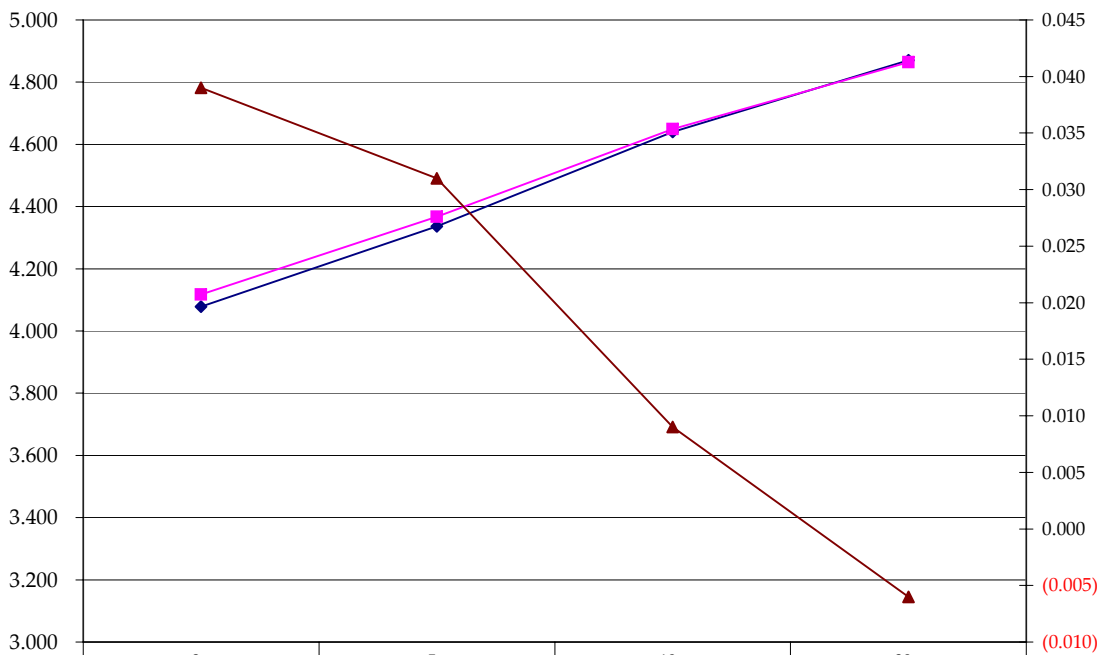
Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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	99.2725	4.078	4.117	0.039		
5y	4.125	8/31/12	99.1975	4.336	4.367	0.031	21.56	21.49
10y	4.750	8/15/17	100.275	4.640	4.649	0.009	71.03	70.80
30y	5.000	5/15/37	102.01	4.870	4.864	(0.006)	-671.51	-669.12

	PDC 32	TC
ZF	106.180	106.135
ZN	108.245	108.220
ZB	110.25	110.260

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

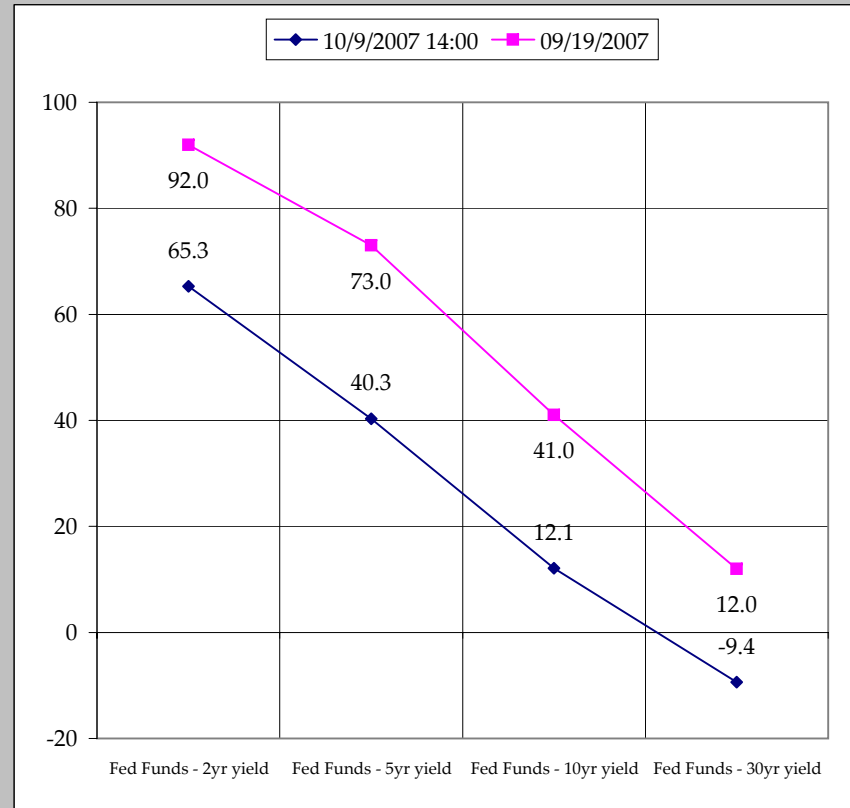
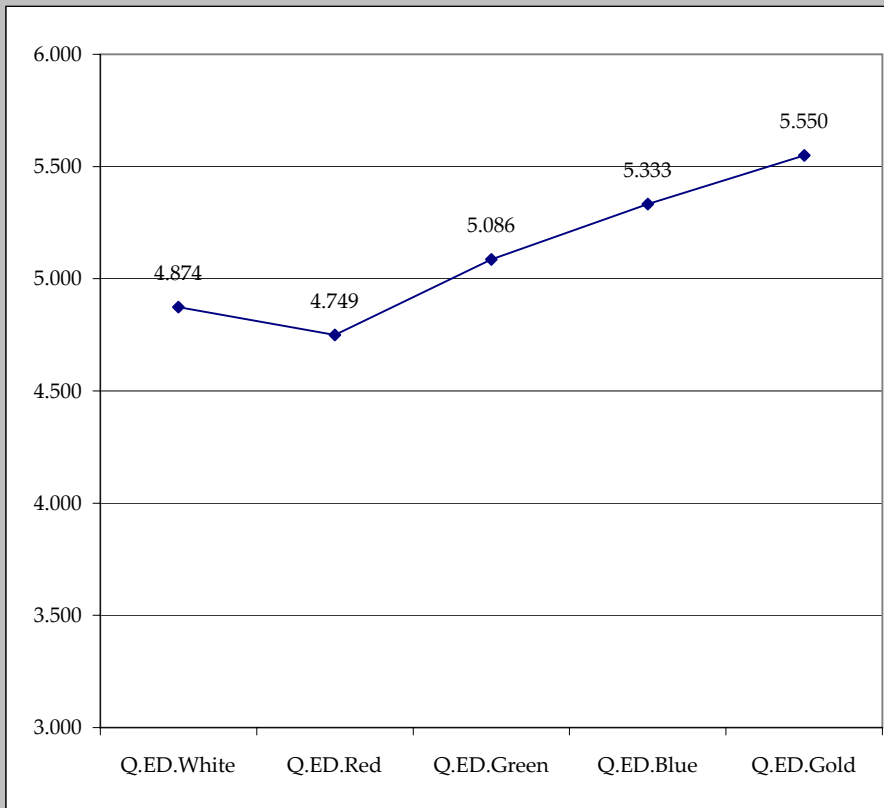
PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.874	-3.125	9525.000
Q.ED.Red	4.749	-1.000	9537.000
Q.ED.Green	5.086	-1.000	9504.625
Q.ED.Blue	5.333	0.000	9480.875
Q.ED.Gold	5.550	0.000	9460.000

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	65.3	-1.6	92.0
Fed Funds - 5yr yield	40.3	-0.8	73.0
Fed Funds - 10yr yield	12.1	1.3	41.0
Fed Funds - 30yr yield	-9.4	2.3	12.0
GFER	4.77	3.0	

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	95.260	-0.050	4.740	5.250	51.0
Nov-07	95.335	-0.350	4.665	5.155	49.0
Dec-07	95.435	-0.350	4.565	5.055	49.0
Jan-08	95.480	-0.350	4.520	0.000	0.0
Feb-08	95.555	-0.300	4.445	0.000	0.0
Mar-08	95.565	-0.350	4.435	4.785	35.0
Apr-08	95.595	-0.350	4.405	0.000	0.0
May-08	95.620	-0.500	4.380	0.000	0.0
Jun-08	95.660	0.000	4.340	4.625	28.5
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	95.730	0.000	4.270	0.000	0.0

