The Afternoon Email

Table of Contents

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

MarketNews international

All times Eastern

15:01 10/10 **US TSYS/RECAP**: Tsys ended mixed Wed amid 1) 2-way flows, weaker US stocks; 2) expected corporate rate-lock unwind bid as large deals price; 3) real money buying in longer Tsys; 4) some asset-allocation trades from US stocks into US Tsys; 5) was earlier heavy 2Y selling; 6) earlier front- end buying, deal-tied flows aided Tsys; 7) swap spreads tightened earlier amid higher Tsys, and amid MBS spread widening (profit-taking); 8) better buyers in 2Ys, 3Y, and scale buying in 3Y Eurodlr futures, w/ also real money buying 2Ys too; 9) earlier selling of 10Ys/buying MBS, selling 10Ys/buying older 10Ys; 10) morning flow had fast money selling in 10Ys, real money selling intermediates, which cd have been unwound in later uptick; 11) Tsys futures saw early selling futures/buying Bunds (while was some selling of Bunds/buying Tsys overnight); 12) MBS accts had earlier big buying in Eurodlr futures, while hedge funds sold at-money calls in Eurodlr options. 13) P.m. had modest front-end short-cvrg earlier amid weak stks, Greenspan credit rhetoric. 14) Vol depressed.

15:00 10/10 **US EURODLR/SWAPS**: Spds ended session tighter across the curve, the 2s/10s spd of spds still well inverted. Sources reported ongoing receiver-tied interest in the fronts to intermediates, buyers of Red packs (Dec08-Sep09) and 3yr bundles--related to ongoing corporate supply and return of healthy CMBS supply. Sources also reported some modest interest in steepener unwinds. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-1.25/69.50	-0.75/64.75	-0.50/62.00	-0.25/61.50
1:15	-0.75/70.00	-0.75/64.75	-0.50/62.00	-0.25/61.50
12:00	-1.00/69.75	-1.00/64.50	-0.75/61.75	-0.75/61.00
10:45	-0.75/70.00	-0.25/65.25	-0.25/62.25	+0.00/61.75
9:30	-0.50/70.25	+0.00/65.50	+0.00/62.50	+0.25/62.00
Wed Open	+0.00/70.75	+0.25/65.75	+0.00/62.50	+0.50/62.25
Wed 7:55	+0.00/70.75	+0.25/65.75	+0.00/62.50	+0.50/62.25
Tue 3:00	-0.75/70.75	-1.00/65.50	-0.25/62.50	+0.00/61.75

(cont)

15:02 10/10 US **SWAPTION VOLS:** At-the-money straddle swaption premiums finished at or near session lows. Sources reported selling across surface. "Seems like the read on the minutes is, sell vol!," one OTC vol trader said. Barclays Capital strategists confirmed the move lower but said gamma "is coming off lesser than expected because the uncertainty in Fed action remains and realized vol remains high," while the "curve continues to flatten and longer-dated vol comes off in sympathy." According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Wed 3:00	73.8 bps	683.0 bps	531.4 bps
1:15	73.8 bps	685.4 bps	533.6 bps
12:00	73.6 bps	686.4 bps	533.6 bps
10:15	75.4 bps	684.0 bps	531.8 bps
9:55	75.4 bps	681.0 bps	529.2 bps
9:20	75.0 bps	685.6 bps	531.6 bps
Wed Open	75.8 bps	693.8 bps	538.6 bps
Tue 3:15	76.0 bps	692.6 bps	538.6 bps

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

08:05 10/10 **FED/Rosengren:** The Boston Fed Pres saying a further dip in house prices would hurt consumption more. Fin mkts are improved, but still seeing wider spreads, lower volume and subprime is likely to continue to have problems. Banks, he says in a speech text prepared for a Portland, Maine, appearance, must play a greater role in providing liquidity.

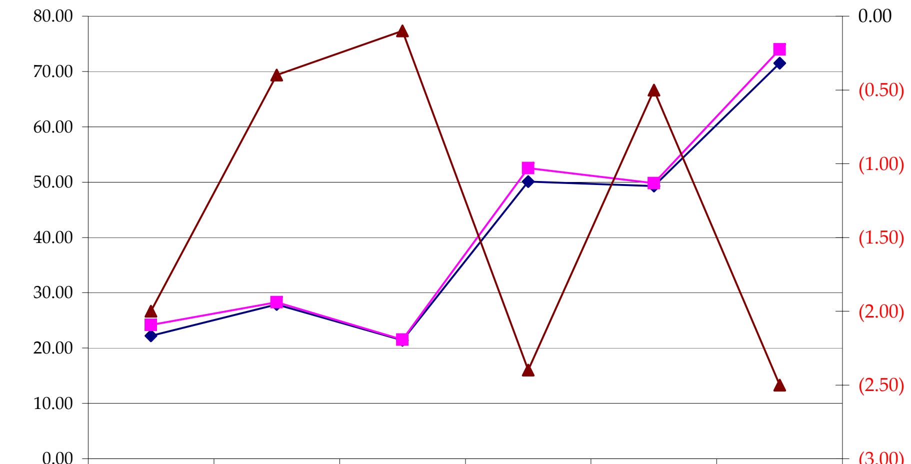
12:23 10/10 **DOLLAR/CENTRAL BANKS**: With the dollar under pressure across the boardin recent sessions, several central banks have been seen or rumored tohave been seen, buying dollars to prevent their currency from appreciating at a too fast clip. As examples, in Asia, the Bank of Korea and MAS were said to have intervened, and in Latam, Banxico has been seen buying dollar-reals recently. Whether these central banks use the dollar proceeds to buy new US Treasuries will not be known until the October TICS report. August TICS data, due out next Tuesday, will be closely eyed. Since August was a month when global investors were racing to get out of theire merging market holdings, there was less need, if any, for central banks to intervene to prevent currency appreciation versus the dollar. July TICS showed that Brazil increased their Tsy holdings by $11bn, Korea by $0.7bn and Singapore by 0.3bn.

12:35 10/10 **US STOCKS: Carry trade** positioning (euro-yen, sterling-yen etc...) is being weighed by lower US stock prices as the Dow Jones Industrial Average slips over 100 pts lower (off 110 pts at 14,055 currently). The Nasdaq Composite is off less than a point and the S&P500 is down only 6 points. Traders say the DJIA is being hurt by Boeing (off 2.8%) which announced it would delay the deliveries on its 787 Dreamliners by 6 months after hitting assembly problems. Chevron also under pressure(off 1.8%) as it warns of lower Q3 earnings due out Nov 1.

13:04 10/10 **US TSYS/CORPS/MBS/RESEARCH:** Stone & McCarthy's Ward McCarthy says their U.S. Portfolio Survey showed "mixed" results as "measures of duration exposure slipped marginally into defensive territory, yet readings on market sentiment were steady to improved. After breaking into bullish territory for the first time in more than 2 years, the survey Spread Expectations Index slipped back into marginally bearish territory" but "changes in asset allocations were mixed, as Treasury allocations continued to slip, while Corporate, Agency and MBS allocations all edged higher. Spread product allocations rose to 69% of assets in the latest survey." He also added "despite the volatile and mixed readings on market sentiment, risk profiles edged into marginally defensive territory, but remain close to neutral." The Survey Mean Actual/Target Duration Ratio edged off from 100.1% of bogey to 99.8% of bogey, while the Asset-Weighted Actual/Target Duration Ratio declined to 99% from 100.1% of bogey.

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	22.20	24.20	(2.00)
5/10	27.90	28.30	(0.40)
10/30	21.40	21.50	(0.10)
2/10	50.10	52.50	(2.40)
5/30	49.30	49.80	(0.50)
2/30	71.50	74.00	(2.50)



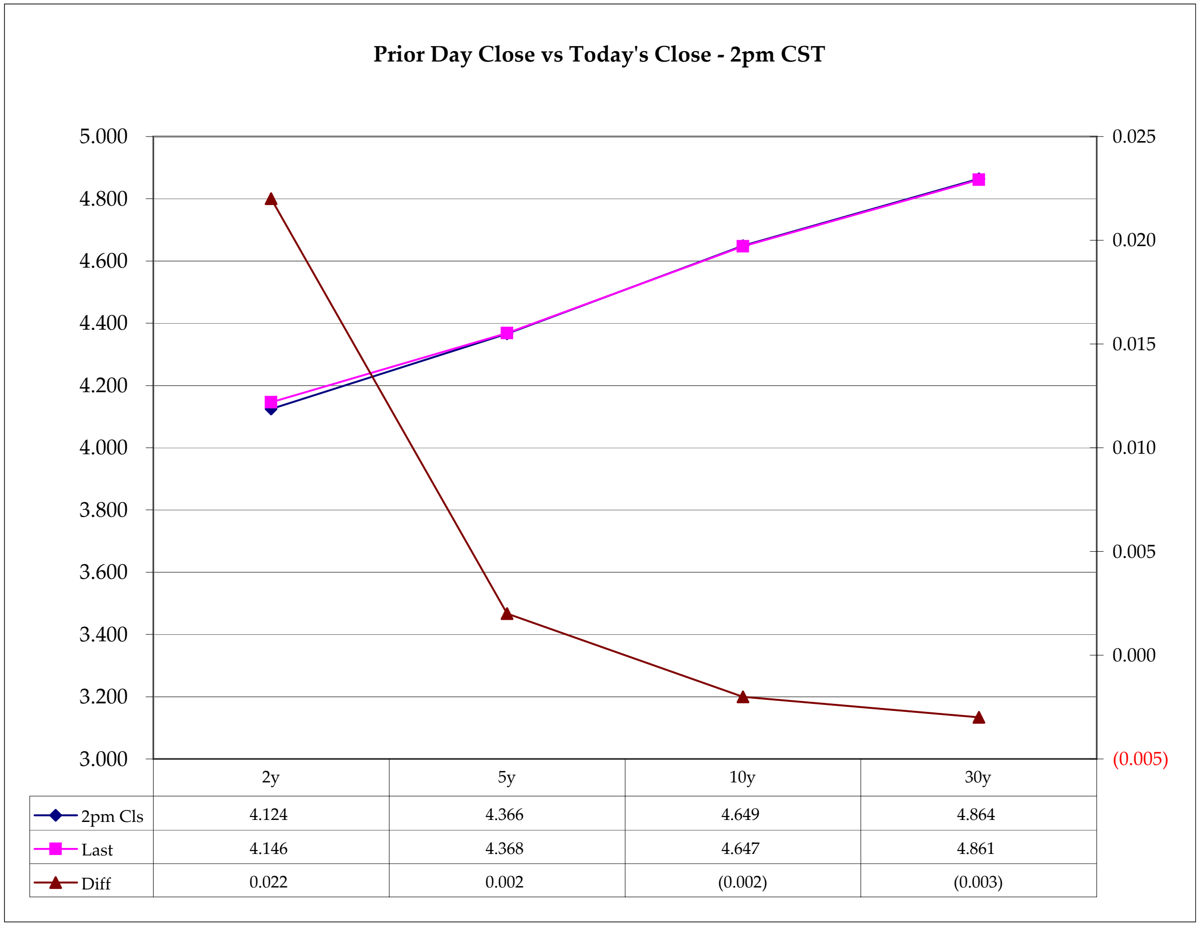
	2/5	5/10	10/30	2/10	5/30	2/30
Last	22.20	27.90	21.40	50.10	49.30	71.50
PDC	24.20	28.30	21.50	52.50	49.80	74.00
Diff	(2.00)	(0.40)	(0.10)	(2.40)	(0.50)	(2.50)

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	Basis TC
2y	4.000	9/30/09	99.2450	4.124	4.146	0.022		
5y	4.125	8/31/12	99.1550	4.366	4.368	0.002	21.49	21.19
10y	4.750	8/15/17	100.250	4.649	4.647	(0.002)	71.26	70.85
30y	5.000	5/15/37	102.04	4.864	4.861	(0.003)	-668.01	-667.01

	PDC 32	TC
ZF	106.135	106.135
ZN	108.215	108.225
ZB	110.25	110.250



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

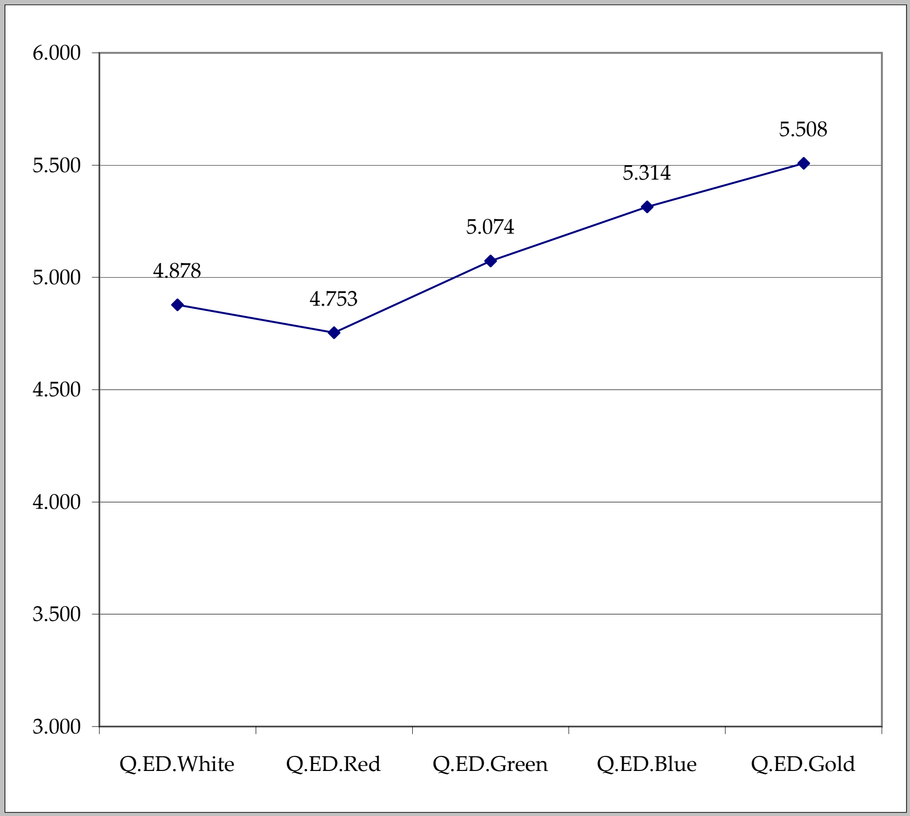
	Last Yield	Net Yield	Last Price
Q.ED.White	4.878	-0.250	9524.625
Q.ED.Red	4.753	-0.125	9536.625
Q.ED.Green	5.074	1.250	9505.750
Q.ED.Blue	5.314	2.125	9482.625
Q.ED.Gold	5.508	3.250	9464.000

Fed Funds Daily Effective Rate
Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	76.4	12.7	92.0
Fed Funds - 5yr yield	54.2	14.6	73.0
Fed Funds - 10yr yield	26.3	14.2	41.0
Fed Funds - 30yr yield	4.9	13.9	12.0
GFER	**4.91**	14.0	

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	95.250	-0.100	4.750	5.238	48.7
Nov-07	95.340	0.000	4.660	5.135	47.5
Dec-07	95.440	0.050	4.560	5.045	48.5
Jan-08	95.480	0.000	4.520	0.000	0.0
Feb-08	95.550	-0.100	4.450	0.000	0.0
Mar-08	95.560	-0.100	4.440	4.800	36.0
Apr-08	95.570	-0.300	4.430	0.000	0.0
May-08	95.590	-0.450	4.410	0.000	0.0
Jun-08	95.625	0.000	4.375	4.630	25.5
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	95.625	-0.650	4.375	0.000	0.0