

## **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**

15:04 10/12 **US TSYS/RECAP:** Tsys end choppy Fri lower after 1) early fall on varied selling in 10s, leveraged acct selling in 2Ys on 1.1% Sept PPI (though tame core 0.1%) and higher than expected 0.6% Sept retail sales. 2) But that got followed by banks buying 5ys, and then bond-friendly Univ. of Mich data: lower 82 Oct prelim vs. 83.4 Sept, 1Y inflation expectations at 3%. 3) Midmorning, there was light mixed flow by foreign central banks, buy-and-hold acct bid in 3Ys, bank 10Ys buyings, also Street selling in 5Ys, the lvrgrd accts bought there. 4) Tsys hurt later in day by US stocks gains, delayed reaction to Bund declines, corporate rate-lock selling, some doing 5Y/10Y steepeners (after many unwound 2Y/10Y steepeners earlier, though that remains a crowded trade as some still need to adjust after diminished rate cut hopes.) 5) While much weaker earlier, ABX indices managed to cut losses a bit, late, but then began to weaken anew late in the day. 6) There was light European central bank buying in 10Ys today, and some day shorts covered. 7) But big thing might be what's next: Monday's 7pm ET Fed Bernanke speech.

15:10 10/12 **US EURODLR FUTURES:** Eurodlr futures finished at or near session lows as the curve bear flattened, the Dec contract near steady. The Red/Gold pack spd was 4.75 bps flatterer at 69.50 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 0.5 bps higher at 95-04 on combined Globex and pit volume of 260,000, the Mar08 5.5 bps lower at 95-24 on volume of 323,000, the Jun08 8.0 bps lower at 95-36.5 on volume of 280,000, while the Sep08 contract was 8.0 bps lower at 95-42.5 on volume of 287,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.5 to 8.0 bps lower across the pack with 644,000 contracts traded.

15:02 10/12 **US EURODLR/SWAPS:** Spds ended session well off early tight--5s to 30s widening in the last hour, while the 2s/10s spd of spds continued to move off inversion as the front end remained tighter by the bell. Apparently focused on continued LIBOR compression, spds continued to improve despite relatively light swap-tied flows, sources said. Paying-tied flow in the front end early, a NY dealer sold 500 Reds (Dec08-Sep09) at -3.25, while swap-tied acts bought 5s versus selling 30s. Possible additional paying came from real money as an acct sold 10-yr and 30-yr Tsy futures, both mtg related. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:00	-0.75/63.75	+1.00/63.75	+1.00/61.75	+1.00/60.75
1:15	-0.75/63.75	-0.25/62.50	-0.50/60.25	-0.25/59.50
10:30	-2.75/61.75	-1.00/61.75	-1.00/59.75	-1.00/58.75
9:20	-2.50/62.00	-0.75/62.00	-0.75/60.00	-0.75/59.00
Fri Open	-1.00/63.50	-0.50/62.25	-0.75/60.00	-1.00/58.75
Thu 3:00	-5.00/64.50	-2.00/62.75	-1.25/60.75	-1.75/59.75

(cont)

15:04 10/12 **US SWAPTION VOLS:** At-the-money straddle swaption premiums finished session near lows, sources reported better selling, though servicer accounts were conspicuously absent. One swaption trader said he thought "the street is long and feeling pain given the way stuff trades. Vol slide had started Thursday and rolled to Friday as LIBOR compression gained momentum. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Fri 3:00	69.6 bps	660.2 bps	517.2 bps
1:05	70.4 bps	661.4 bps	519.0 bps
12:25	70.8 bps	659.4 bps	521.8 bps
10:30	70.4 bps	662.0 bps	519.4 bps
9:20	70.6 bps	660.2 bps	521.6 bps
Fri Open	73.0 bps	675.0 bps	526.6 bps
Thu 3:00	71.0 bps	671.6 bps	523.8 bps

14:44 10/12 **US TSYS/ABX/SUBPRIME:** ABX indexes did recover on short covering after sharp weakness earlier, but then started losing tractions in the last half hour, now a couple points off the lows, but still down broadly on the day. The 06-2 A ABX index is 61 mid-market, down 3+ points on the day.

15:17 10/12 **US TSY FUTURES:** Tsys closed lower across the board with the Dec T-bond ended down 8/32 at 110-12, its lowest since Sept 20 with 337K traded while the Dec 10-yr settled off 6/32 at 108-15, its lowest settle since Aug 27 with 1.07M traded. The Dec 5-yr notes settled down 6/32 at 106-08.5, also their lowest since Aug 27 with 476K traded while the Dec 2-yr closed softer by 4.25/32 at 103-01, their lowest close since late Aug 27 with 208K changing hands.

10/12/2007

News: Snapshots throughout the day

Pg 2

MarketNews  
international

Stone & McCarthy  
RESEARCH ASSOCIATES

09:59 10/12 **US DATA REACT:** From RBSGC: "It does not appear that there has been any dramatic shift in underlying spending patterns. Depending on the behavior of gasoline prices, the weather, and other key variables going forward, our sense is that consumer spending was tepid in September, may remain lackluster for another month or two in the fall, then get back to "normal" by around the turn of the year."

09:28 10/12 **US DATA REACT:** Economists at Nomura say on close inspection, retail sales were not strong: "Strong sales growth at gasoline (2.0%) food (+0.8%) stores accounted for about 75% of the growth in non-auto retail sales. Data from the PPI report showing big increases in both gasoline and food prices suggests most if not all of those sales gains reflected the impact of higher prices rather than increased consumption." They say the data "reinforce the presumption that higher prices of food and energy and a bit gloomier mood about the economy are cutting into discretionary spending" and they note more aggressive retail pricing will lower sales further.

12:08 10/12 **US FI VOLS:** Implies continue to notch lower on the range, some say "reaching oversold" levels as they look to buy vol now on further dips. Given move higher in yields and speculation of when (note: not if) rates will ease, others say vol is not a sale anymore as credit-tied issues/challenges for US economy remain. Anecdotal evidence, one fund that has profited by being short massive amounts of Tsy vol since the Fed eased, has been a scale buyer in the past week while a second scale seller of vol has begun buying OTM Tsy calls. On the other side of the coin, Morgan stanley stratetists suggest being short gamma as "near-term risk dynamics are not properly discounting for the possibility of a less active Fed and economic rebound in 4Q." Relating to OTC swaptions, Morgan Stanley said "though there has been some correction, short expiry volatility on short tails are stil trading at too dear a premium to longer expiries on longer tails."

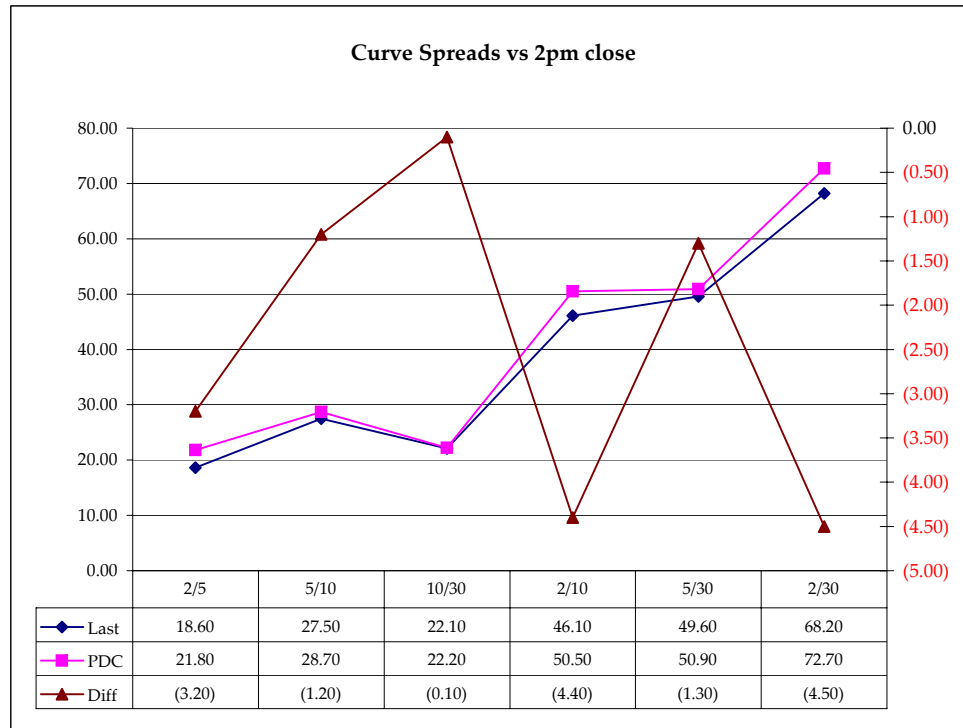
**Inferences for Q3 GDP:**

Following the previous day's print of a narrower trade deficit for August, we raised our estimate for the advance report of Q3 real GDP growth to 3.5%, up about 1% from our previous estimate. The retail control group, which is total sales excluding autos and building materials, rose by 5.6% in September and is up 4.6% for Q3. These data are still consistent with our forecast of +3.5% for Q3 real GDP.

"Despite, the larger than expected increase in the headline September retail sales report this is not a strong report. Indeed, a careful study of the data reveals troublesome indications that the housing and mortgage market turmoil has been increasingly apparent at retail establishments." **Ray Stone, PhD**

The September **PPI** data present some upside risks for the **CPI** report. However our forecast for consumer prices remains for an increase of 0.3% overall and a 0.2% rise at the core. --Terry Sheehan

Yield Curve Spreads			
	TC	PDC	Diff
2/5	18.60	21.80	(3.20)
5/10	27.50	28.70	(1.20)
10/30	22.10	22.20	(0.10)
2/10	46.10	50.50	(4.40)
5/30	49.60	50.90	(1.30)
2/30	68.20	72.70	(4.50)



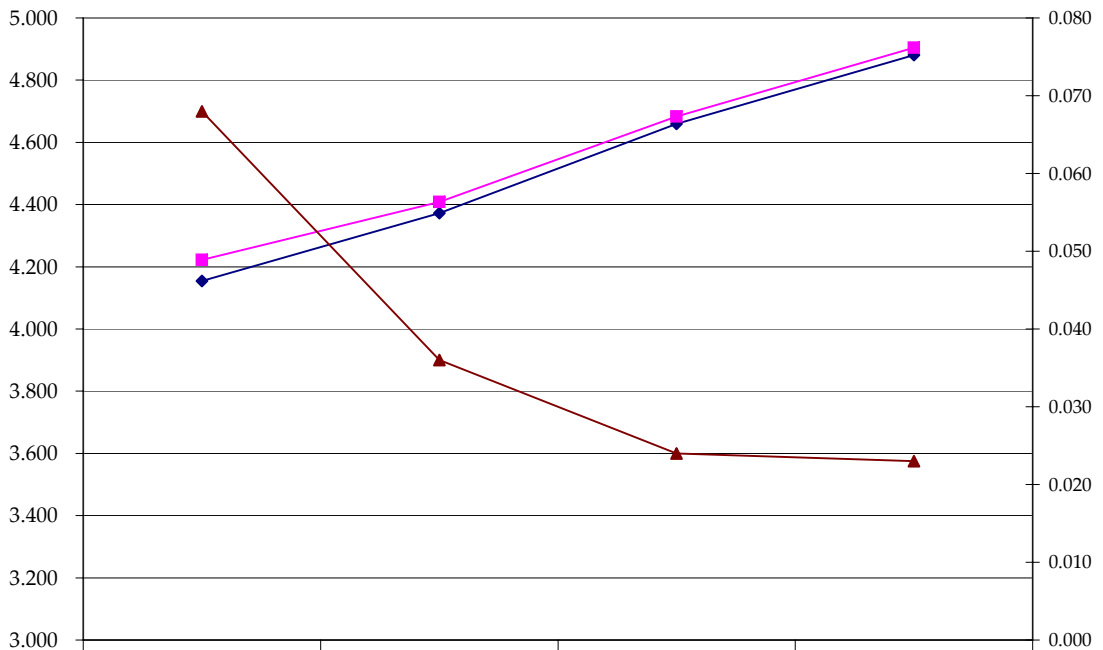
Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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	99.2275	4.154	4.222	0.068		
5y	4.125	8/31/12	99.1475	4.372	4.408	0.036	19.81	19.84
10y	4.750	8/15/17	100.225	4.659	4.683	0.024	69.21	68.60
30y	5.000	5/15/37	101.27	4.881	4.904	0.023	-671.46	-674.08

	PDC 32	TC
ZF	106.145	106.085
ZN	108.210	108.145
ZB	110.20	110.120

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



	2y	5y	10y	30y
◆ 2pm Cls	4.154	4.372	4.659	4.881
■ Last	4.222	4.408	4.683	4.904
▲ Diff	0.068	0.036	0.024	0.023

Notes:

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

32 = price is quoted in 32nds

TC = Today's Close at 2pm

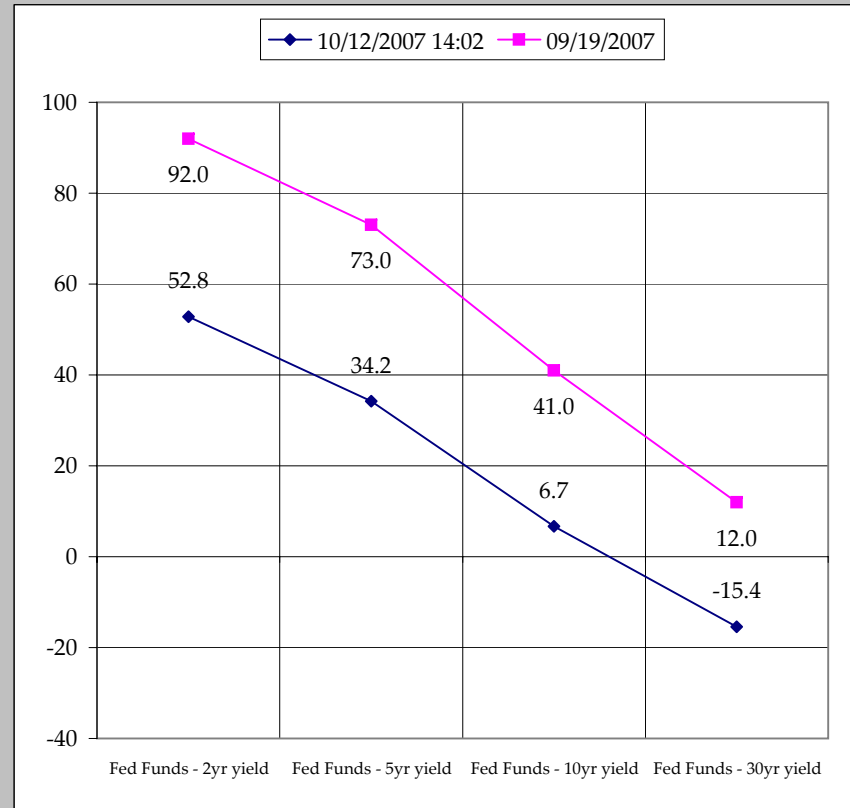
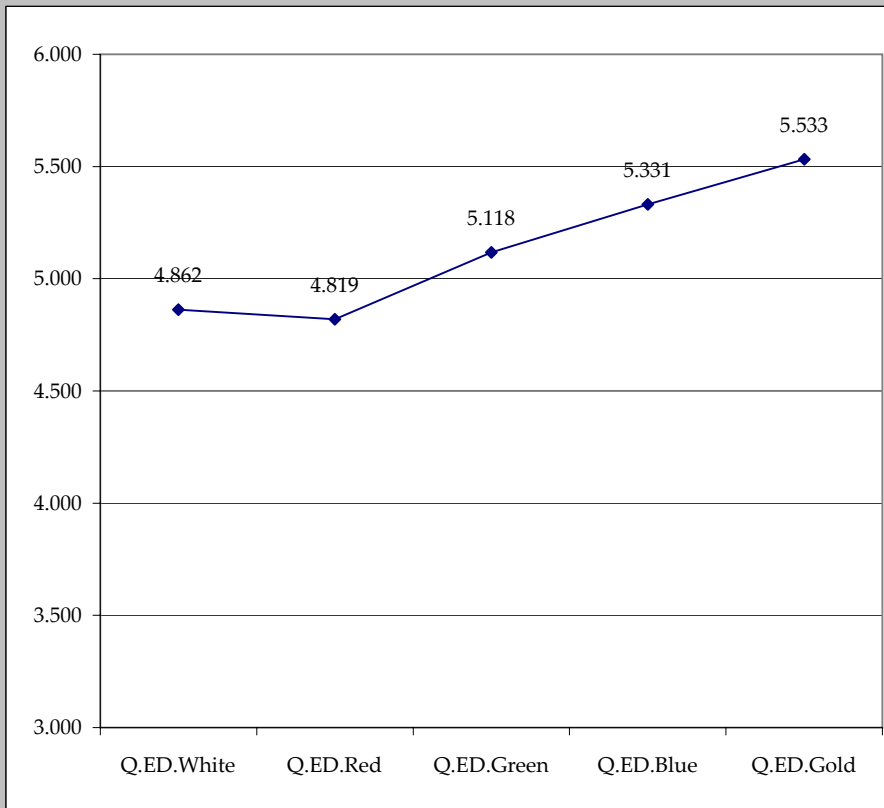
PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.862	-5.875	9526.125
Q.ED.Red	4.819	-7.750	9530.250
Q.ED.Green	5.118	-4.500	9501.500
Q.ED.Blue	5.331	-1.875	9481.000
Q.ED.Gold	5.533	-2.125	9461.625

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	52.8	12.5	92.0
Fed Funds - 5yr yield	34.2	16.4	73.0
Fed Funds - 10yr yield	6.7	18.5	41.0
Fed Funds - 30yr yield	-15.4	18.8	12.0
GFER	4.52	23.0	

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).



Fed Funds - Eurodollars

Month	Fed Funds (FF)			ED	ED - FF
	Last	Net	Implied	Implied	bps
Oct-07	95.255	0.000	4.745	5.213	46.8
Nov-07	95.325	-0.250	4.675	5.065	39.0
Dec-07	95.405	-0.300	4.595	4.965	37.0
Jan-08	95.445	-0.300	4.555	0.000	0.0
Feb-08	95.520	-0.300	4.480	0.000	0.0
Mar-08	95.530	-0.300	4.470	4.770	30.0
Apr-08	95.540	-0.400	4.460	0.000	0.0
May-08	95.600	-0.200	4.400	0.000	0.0
Jun-08	95.630	0.100	4.370	4.635	26.5
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

