The Afternoon Email

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

MarketNews international

All times Eastern

15:02 10/16 **US TSYS/RECAP:** Tsys end Tues just off highs after 1) weaker 18 Oct. NAHB, 2) slumping stocks, 3) some feeling economy is going to see more weakness and so Fed could do some rate cut(s) at some point. 4) There could be still corporate-tied bid to Tsys as unwinds of rate-lock sales should occur amid still large deals left to price today, esp. 5Ys.5) Morning flow were muted and 2-way, afternoon flows basically the same type. 6) Tsys traders downplayed weak Aug. TICS weakness, some say Japan let some Tsys holdings mature and did not immediately replace, but replacd in Sept; some noted choppy stks in Aug. and said was not surpriing to see a decline in foreigners' holdings. 7) Buy-hold account buying in 3Ys, similar selling in intermeidates, while 5s draw levrgd bid (vs 10s) and financial institution bid too. 8) Morning had sell Dec German Bunds/buy US Tsys trade; 2-way flow: foreign central bank modest selling in 2Ys, 5Ys, though buy-and-hold bid in 10Ys, similar selling 2Ys. 9) Active US corp. issuance 10) Wed 8:30am ET Sept CPI, hsg starts.

15:07 10/16 **US EURODLR FUTURES**: Eurodlr futures finished at or near session highs, curve rebounds from last Fri's bear flattening, the Red/Gold pack spd 4.0 bps steeper at 75.75 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 3.0 bps higher at 95-07.5 on combined Globex and pit volume of 162,000, the Mar08 6.5 bps higher at 95-31.5 on volume of 207,000, the Jun08 7.0 bps higher at 95-46 on volume of 257,000, while the Sep08 contract was 7.5 bps higher at 95-53 on volume of 245,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.0 to 7.5 bps higher across the pack with 560,000 contracts traded.

15:03 10/16 **US EURODLR/SWAPS**: Spds ended session mixed, the 2s/10s spd of spds re-inverting w/near end underperforming as credit-tied fears increased overnight. Sources confirmed a Chicago FCM was a scale seller of 800 Eurodollar 2-year bundles early, possibly in anticipation of increased corporate supply they said. Treasury sources reported some modest two-way on spread in the fronts to intermediates while staunch steepener holders took heart on the early Tsy curve expansion. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+1.50/64.25	+0.25/64.25	+0.00/63.00	-0.50/61.25
12:45	+1.50/64.25	+0.00/64.00	+0.25/63.25	-0.25/61.50
10:50	+1.50/64.25	+0.25/64.25	+0.50/63.50	-0.25/61.50
10:15	+1.75/64.50	+0.50/64.50	+0.50/63.50	-0.25/61.50
9:20	+1.75/64.50	+0.50/64.50	+0.50/63.50	+0.25/62.00
Tue Open	+1.75/64.50	+0.50/64.50	+0.50/63.50	+0.25/62.00
Tue 7:55	+1.50/64.25	+0.25/64.25	+0.50/63.50	+0.25/62.00
Mon 3:00	-1.00/62.75	+0.25/64.00	+1.25/63.00	+1.00/61.75

(cont)

14:53 10/16 **FED REACT:** From JPM: "Minutes to discount rate meetings between August 16 and September 18 solidified perceptions that SF Fed's Yellen and Philly Fed's Plosser stand on opposite ends of the FOMC's spectrum. On August 23, less than a week after the Fed's emergency inter-meeting cut of the discount rate, the SF Fed's Board of Directors voted for an additional 25 bp inter-meeting cut in the discount rate. (Traditionally, regional reserve bank boards vote for the action proposed by the banks president.) Just as interesting, going into the September 18 FOMC meeting, Plosser's Philadelphia Fed had requested no change in the discount rate."

15:07 10/16 U**S SWAPTION VOLS**: At-the-money straddle swaption premiums ended the session firmer across the board, still off last week's highs, however. One swaption trader said "street longs" pushed vols up "on the early equity weakness, credit concerns." Interestingly, board vol increased in lock-step as the Eurodollar Red pack (Dec08-Sep09) 53 straddle strip went bid as dealers moved to spread off the OTC risk. Vol "came off the highs very quickly at the 1st sign of recovery. Not a very inspiring rally in vol," the trader added. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:00	71.4 bps	669.6 bps	527.6 bps
1:15	71.2 bps	669.4 bps	526.8 bps
11:00	70.8 bps	670.2 bps	527.6 bps
9:25	70.4 bps	658.6 bps	522.0 bps
Tue Open	69.4 bps	657.0 bps	521.4 bps
Mon 3:00	69.4 bps	653.6 bps	519.8 bps

MarketNews international

10:20 10/16 **US DATA REACT:** Analyst Tony Crescenzi of Miller, Tabak says Aug TICS means "foreign investors were net sellers of $69.3 billion of U.S. securities during the month" but this was "fits with the performance of the U.S. stocks, credit securities, and the dollar in August, a harrowing month that would not have turned out as it did if foreigner investment had continued at its normal pace. This is what makes the estimates for $60 billion in inflow difficult to understand; the performance of the markets tipped it off. Looking forward, in light of the strong performance of the U.S. securities markets in September, inflows of foreign capital likely resumed." He points out Japan's $24.8 billion sale of U.S. Treasuries and notes despite this yields remained low in the face of Fed ease.

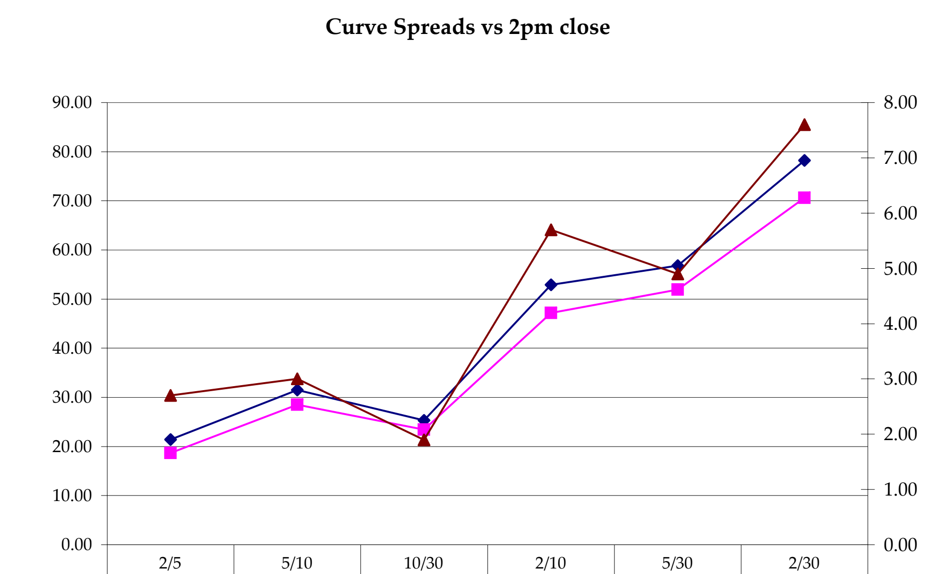
Stone & McCarthy RESEARCH ASSOCIATES

"September **industrial production** rose by 0.1% while August industrial production was revised lower to no change from the previously reported rise of 0.2%. Given the somewhat large downward revision to the August data, industrial output is on a softer track than what was thought previously.

"....There is supporting evidence that some single economic indicators, such as industrial production, do nearly as well as the Chicago Fed's National Activity Index in detecting oncoming recessions. For industrial production, the threshold is -1 standard deviation below the long-term mean as a **possible signal point of the U.S. economy having entered a recession.** In September, the standardized measure of the 3-month moving average of industrial production was 0.0, right in line with its long-term mean. In August, the corresponding measure was +0.3 SD and in July, +0.2 SD." ---Ken Kim
[my emphasis]

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	21.40	18.70	2.70
5/10	31.50	28.50	3.00
10/30	25.30	23.40	1.90
2/10	52.90	47.20	5.70
5/30	56.80	51.90	4.90
2/30	78.20	70.60	7.60



	2/5	5/10	10/30	2/10	5/30	2/30
Last	21.40	31.50	25.30	52.90	56.80	78.20
PDC	18.70	28.50	23.40	47.20	51.90	70.60
Diff	2.70	3.00	1.90	5.70	4.90	7.60

Notes:

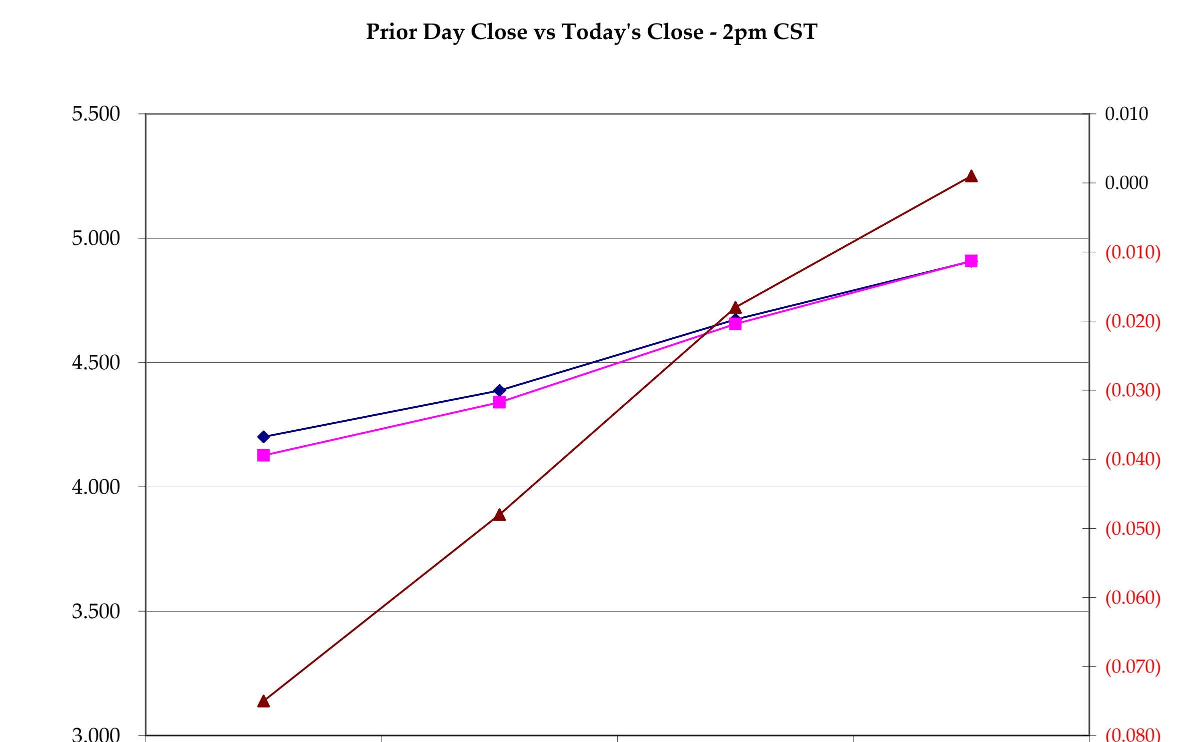
TC = Today's Close at 2pm

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	Basis TC
2y	4.000	9/30/09	99.2000	4.201	4.126	(0.075)		
5y	4.125	8/31/12	99.1250	4.388	4.340	(0.048)	19.89	20.05
10y	4.750	8/15/17	100.190	4.673	4.655	(0.018)	66.62	66.13
30y	5.000	5/15/37	101.14	4.907	4.908	0.001	-677.80	-679.91

	PDC 32	TC
ZF	106.120	106.185
ZN	108.200	108.255
ZB	110.14	110.150



	2y	5y	10y	30y
2pm Cls	4.201	4.388	4.673	4.907
Last	4.126	4.340	4.655	4.908
Diff	(0.075)	(0.048)	(0.018)	0.001

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

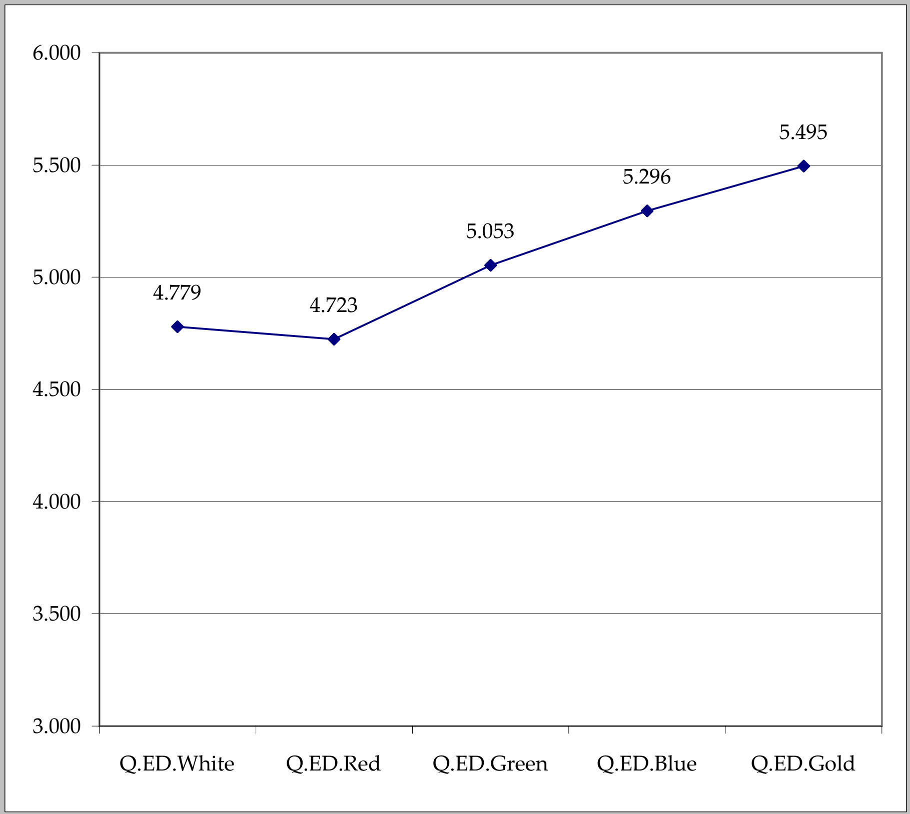
	Eurodollar Packs		
	Last Yield	Net Yield	Last Price
Q.ED.White	4.779	5.625	9534.125
Q.ED.Red	4.723	6.250	9539.500
Q.ED.Green	5.053	4.500	9507.750
Q.ED.Blue	5.296	4.125	9484.375
Q.ED.Gold	5.495	3.750	9465.250

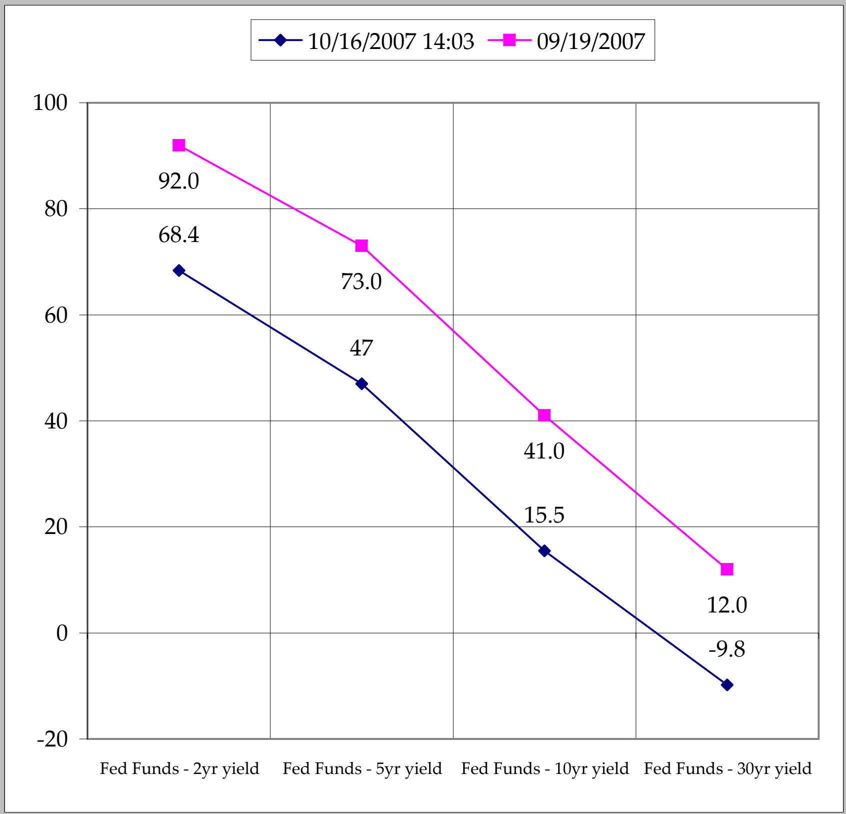
Fed Funds Daily Effective Rate
Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	68.4	14.4	92.0
Fed Funds - 5yr yield	47	11.9	73.0
Fed Funds - 10yr yield	15.5	8.2	41.0
Fed Funds - 30yr yield	-9.8	6.4	12.0
GFER	**4.75**	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	0.050	4.740	5.215	47.5
Nov-07	95.345	0.150	4.655	5.040	38.5
Dec-07	95.430	0.350	4.570	4.925	35.5
Jan-08	95.475	0.450	4.525	0.000	0.0
Feb-08	95.555	0.500	4.445	0.000	0.0
Mar-08	95.575	0.600	4.425	4.685	26.0
Apr-08	95.595	0.700	4.405	0.000	0.0
May-08	95.610	0.550	4.390	0.000	0.0
Jun-08	95.630	0.850	4.370	4.545	17.5
Jul-08	95.660	0.650	4.340	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0