The Afternoon Email

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

MarketNews International

All times Eastern

15:03 10/17 US TSYS: Tsys rallied sharply and the curve steepened Wed for a very long list of both fundamental and technical reasons. Mostly a giant short squeezed ensued coupled with asset allocation and good pension fund buying forced the move. On a 3PM to 3PM basis, 2Y stands at 3.974% vs. 4.129% Tuesday. 3s at 3.993% vs. 4.141%. 5s at 4.211% vs. 4.342%. 10s at 4.546% vs. 4.657%. 30s at 4,809% vs. 4.914%. 2/5Y curve at +23.7 bps vs. +21.3 bps. 2/10Y at +57.2 bps vs. +52.8 bps. 2/10Y at +83.5 vs. +78.5.

15:12 10/17 **US EURODLR FUTURES**: Eurodlr futures finished at session highs, curve bull steepening on various factors while odds of 25 bps Fed rate cut moves to 100% by yr end, Oct goes from appr 20% at start of week to just over 50% today. The Red/Gold pack spd 4.0 bps steeper at 79.75 by the bell--nearly 10 bps steeper for the week. In the Fronts (Dec07-Sep08), the Dec07 was 5.0 bps higher at 95-12.5 on combined Globex and pit volume of 230,000, the Mar08 11.0 bps higher at 95-42.5 on volume of 331,000, the Jun08 12.5 bps higher at 95-58.5 on volume of 382,000, while the Sep08 contract was 12.5 bps higher at 95-65.5 on volume of 415,000. The 2yr proxy Red pack (Dec08-Sep09), settled 12.5 to 13.5 bps higher across the pack with 750,000 contracts traded.

15:05 10/17 **US EURODLR/SWAPS:** Spds ended session broadly wider in the front end, extending the inversion of the 2s/10s spd of spds as Tsy mkts continue to make new session highs w/equities chopping lower. After better steepener and receiver-tied flow in fronts to intermediates in the first half, sources reporting pick up in paying tied flow as some accts taking profits, others possibly setting rate locks. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	+4.50/68.75	+2.25/66.50	+0.75/63.75	+0.00/61.25
1:30	+3.25/67.50	+1.75/66.00	+0.75/63.75	-0.25/61.00
12:00	+2.50/66.75	+1.25/65.50	+0.00/63.00	-0.50/60.75
10:15	+2.25/66.50	+1.25/65.50	+0.25/63.25	-0.50/60.75
9:05	+2.00/66.25	+0.75/65.00	-0.25/62.75	-0.50/60.75
Wed Open	+1.25/65.50	+0.50/64.75	+0.25/63.25	+0.25/61.50
Wed 8:00	+1.25/65.50	+0.50/64.75	+0.25/63.25	+0.25/61.50
Tue 3:00	+1.50/64.25	+0.25/64.25	+0.00/63.00	-0.50/61.25

(cont)

15:06 10/17 **US SWAPTION VOLS:** At-the-money straddle swaption premiums ended the session sharply higher as FI mkts rallied, curves bull steepened on various factors as rate cut odds spiked. Sources continued to report rather muted flow, the Street modestly bid for vol in the fronts to intermediates, apparently spread off by one dealer as they continued to bid the Eurodollar Red pack (Dec08-Sep09) 53 straddle strip. Others continued to cite increased credit liquidity issues that widened near end swap spreads Tuesday and into Wednesday, in turn adding to the inversion in the 2s/10s spread of spreads. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Wed 3:00	75.4 bps	690.8 bps	544.2 bps
1:00	73.0 bps	683.4 bps	537.0 bps
11:45	72.8 bps	683.4 bps	537.0 bps
9:15	72.6 bps	675.4 bps	528.4 bps
Wed Open	71.6 bps	670.8 bps	527.8 bps
Tue 3:00	71.4 bps	669.6 bps	527.6 bps

MarketNews international

12:04 10/17 US TSYS: Analyst Tony Crescenzi of Miller, Tabak says nothing major has happened today, but these factors are helping Tsys: asset allocation from stocks to bonds, an increase in the fear trade that pushed T-bill rates lower (likely a result of weak housing data), pension fund buying in long-dated maturities, worries about Turkey allowing its army to launch anti-rebel operations in Iraq, and more job layoff announcements.

[From the WSJ]
Beige Book Sees Slower Growth
The economy slowed at the end of the third quarter and into the start of the fourth, while businesses grew even more uncertain about the future, the Fed said in its latest beige book.

Stone & McCarthy RESEARCH ASSOCIATES

Fed Beige Book: High Levels of Uncertainty
by Ken Kim
--Stone & McCarthy (Princeton)-- According to the Fed's latest beige book, the U.S. economy continued to expand but at a slower pace of growth than what was reported previously. "Anecdotal reports from the Federal Reserve Banks suggest economic activity continued to expand in all Districts in September and early October but the pace of growth decelerated since August," reported the Dallas Fed based on information collected on or before October 5, 2007.

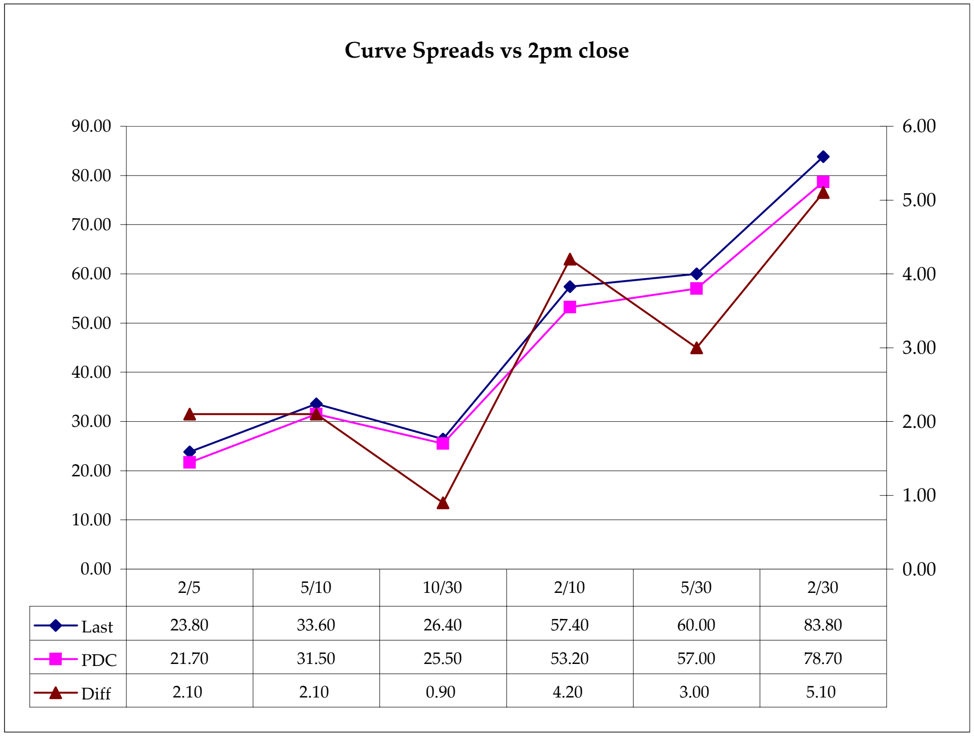
By Sebastian Boyd and Neil Unmack

Oct. 17 (Bloomberg) -- **Cheyne Finance Plc**, the structured investment vehicle managed by hedge fund Cheyne Capital Management Ltd., may not be able to pay its debts, receiver Deloitte & Touche LLP said today.

The receiver declared an ``insolvency event,'' it said today in an e-mailed statement. An insolvency event means the SIV ``is, or is about to become, unable to pay its debts as they fall due,'' according to its prospectus. [Thanks Howard]

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	23.80	21.70	2.10
5/10	33.60	31.50	2.10
10/30	26.40	25.50	0.90
2/10	57.40	53.20	4.20
5/30	60.00	57.00	3.00
2/30	83.80	78.70	5.10



Notes:

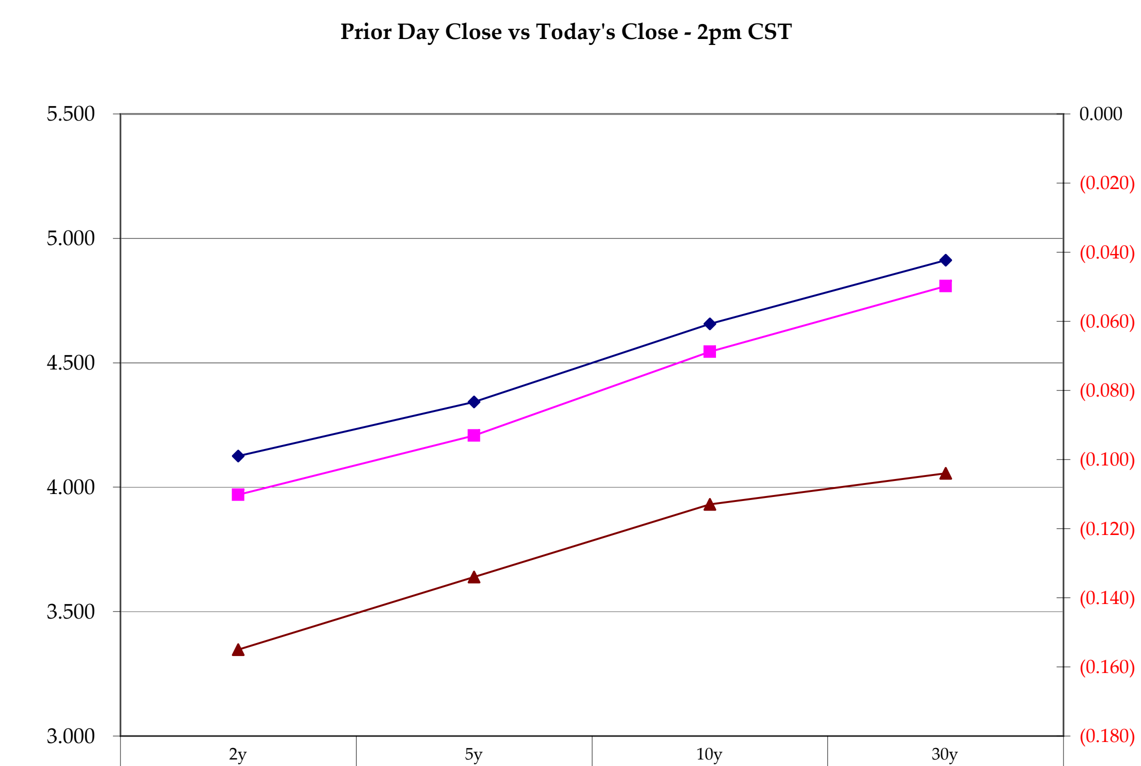
TC = Today's Close at 2pm

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	4.125	3.970	(0.155)		
5y	4.125	8/31/12	99.1900	4.342	4.208	(0.134)	19.89	21.67
10y	4.750	8/15/17	100.230	4.657	4.544	(0.113)	65.63	71.86
30y	5.000	5/15/37	101.12	4.912	4.808	(0.104)	-679.19	-672.21

	PDC 32	TC
ZF	106.190	107.050
ZN	108.255	109.175
ZB	110.13	111.220



	2y	5y	10y	30y
2pm Cls	4.125	4.342	4.657	4.912
Last	3.970	4.208	4.544	4.808
Diff	(0.155)	(0.134)	(0.113)	(0.104)

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

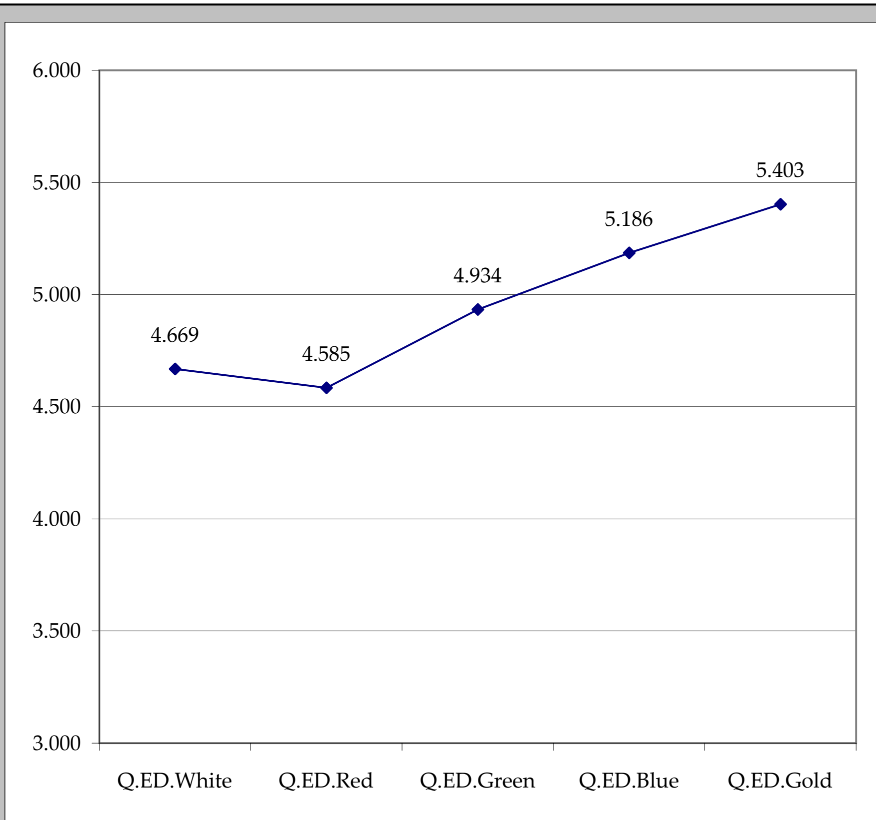
	Last Yield	Net Yield	Last Price
Q.ED.White	4.669	10.250	9544.750
Q.ED.Red	4.585	12.875	9552.875
Q.ED.Green	4.934	11.125	9519.250
Q.ED.Blue	5.186	10.500	9495.000
Q.ED.Gold	5.403	9.375	9474.125

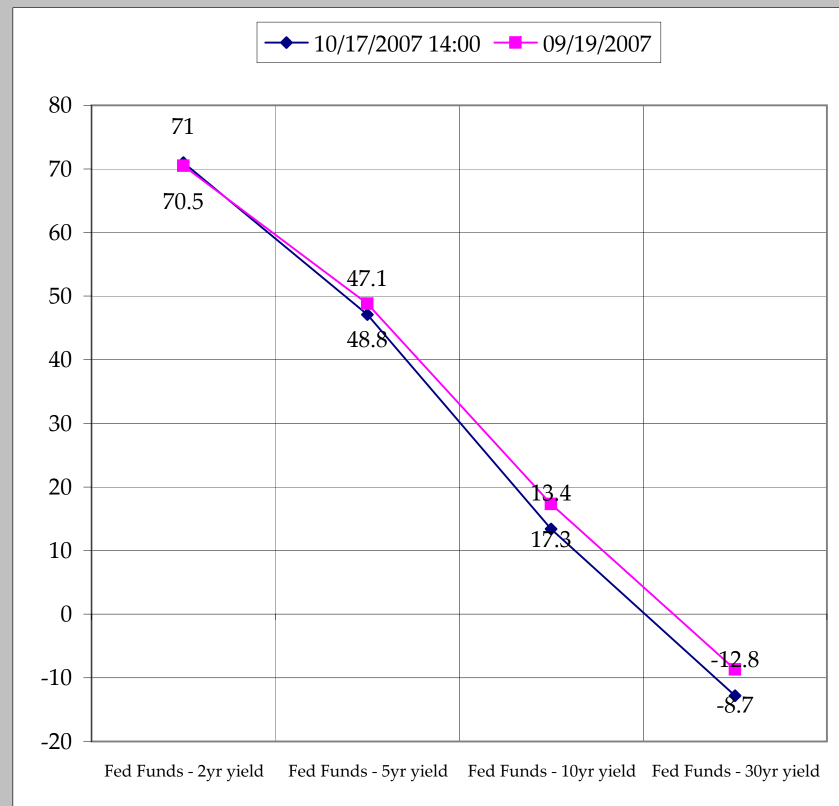
Fed Funds Daily Effective Rate Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	71	2.6	70.5
Fed Funds - 5yr yield	47.1	0.1	48.8
Fed Funds - 10yr yield	13.4	-2.3	17.3
Fed Funds - 30yr yield	-12.8	-2.9	-8.7
GFER	**4.81**	-13.0	

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	0.000	0.0
Nov-07	95.390	0.450	4.610	5.000	39.0
Dec-07	95.495	0.700	4.505	4.875	37.0
Jan-08	95.560	0.850	4.440	0.000	0.0
Feb-08	95.650	0.950	4.350	0.000	0.0
Mar-08	95.685	1.150	4.315	4.575	26.0
Apr-08	95.715	1.250	4.285	0.000	0.0
May-08	95.750	1.300	4.250	0.000	0.0
Jun-08	95.765	1.500	4.235	4.415	18.0
Jul-08	95.820	1.600	4.180	0.000	0.0
Aug-08	95.855	1.650	4.145	0.000	0.0