

The Afternoon Email

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Term	Libor\$ ^	Tbill	CP ^^
1M	4.950	3.383	4.830
3M	5.151	3.848	4.980
6M	5.006	4.113	4.950
	TSY	Swap	ED Pks ^^^
2y	3.805	69.25	4.412
5y	4.047	67.50	5.034
10y	4.405	64.50	5.253

Term	Libor\$ ^	Repos
0/N	4.801	4.550
1week	4.861	4.400
2week	4.899	4.400

Notes

^Quoted in US Dollars

^^CP = Commercial Paper

^^ED Pks are colored for pack identifications. Example, the red pack is a 2-yr proxy and is colored red.

Lastly, SYM = Symbol

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

**All times Eastern**

15:14 10/19 **US TSYS/RECAP:** US Tsys rallied Fri amid 1) sliding US stocks (DJIA off 2%; S&P 500 futures broke both 30-day, 100-day averages at 1535, 1522), which 2) spurred macro funds, black-box accounts to sell stocks/buy fixed income/Tsyt; 3) UK FTSE-100 off 1.23%; Japan Nikkei-225 -1.71%; 4) credit/ABCP/subprime/SIV concerns; 5) fear of another credit crunch as in Aug. 2007; 6) fear as is 20th anniversary of 1987 US stocks crash; asset-allocation aids 2Y, 5Ys, hurt US stocks; 7) German Bunds rallied amid sell stocks/buy Bunds; 8) Buy-and-hold accts buy 5Ys, lvrgrd accts do brisk buying in 10s. 9) Some concern too on Super-SIV M-LEC idea; there is lot of ABCP paper to roll in Nov; 9) Mortgage originator-servicer earlier bought Calls, Tsyt futures; servicers move dn in cpn; 10) MBS-tied swaps receiving in 10Ys, also MBS buying too. 11) Weak earnings. 12) Some Tsyt profit-taking: some selling by buy-and-hold accounts in 10Ys, others 10Y/30Y Tsyt steepeners. 13) bank bid in 5s. 14) S&P cuts Cheyenne Finance SIV to default;

15:15 10/19 **US SWAPS:** Spds ended session well off early tights despite heavy receiving both overnight and during NY session, some tied to servicer duration grab across curve as ylds dropped precipitously. Origination selling noted all week, contributed to move off tights before the midsession as well as a consistent amount of steepener unwinds as "smart money respects that the mkt has moved towards the upper end of the range," in terms of pricing in another Fed ease on Oct 31.

According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:10	+0.75/69.50	+0.75/68.00	+0.00/64.50	-0.75/60.50
1:30	+0.25/69.00	+0.25/67.50	-0.50/64.00	-1.00/60.25
12:30	+0.25/69.00	-0.25/67.00	-0.75/63.75	-1.00/60.25
10:10	+0.50/69.25	+0.25/67.50	-0.50/64.00	-0.75/60.50
9:00	-1.75/67.00	-1.25/66.00	-1.25/63.25	-0.75/60.50
Fri Open	-1.25/67.50	-0.50/66.75	-0.50/64.00	-0.50/60.75
Thu 3:00	+0.00/68.75	+0.75/67.25	+0.75/64.50	+0.00/61.25

(cont)

15:01 10/19 **U.S. STOCKS:** With the final hour of the stock trading week getting underway, the Dow is down 280 points while Nasdaq is down 54.

14:56 10/19 **US TSYS/STOCKS:** Tsyt hold a bid; talk surfaces also that the macro funds and black-box accounts had bought US Tsyt after they had sold once the S&P 500 futures had broken 1535 level, the 30-day moving average. "The credit stuff is starting to catch up with equities, finally," said one trader. "We had been saying all along that the Treasuries market would have been richer, if US equities had not been so strong" so such accounts capitulating today is important. "Once we broke 1,535 on the S&Ps, that was the 30-day moving average," said the trader. "And that got the macro funds and black boxers starting to sell equities and buy fixed income." The S&P 500 futures recently had been at 1,522.

15:15 10/19 **US TSY FUTURES:** Tsyt closed higher across the board with bonds at their highest closing level since Sept 12 while 10- and 5-yrs closed at their highest since Sept 10 and Dec 2-yrs closed at all-time contract highs. Dec T-bond ended up 1-full point and 2/32 at 113-07 with 357K traded while the Dec 10-yr settled up 21.5/32 at 110-18 with 1.35M traded. The Dec 5-yr notes settled up 14.5/32 at 107-26.5 with 563K traded while the Dec 2-yr closed better by 5.75/32 at 103-24.25 with 248K changing hands.

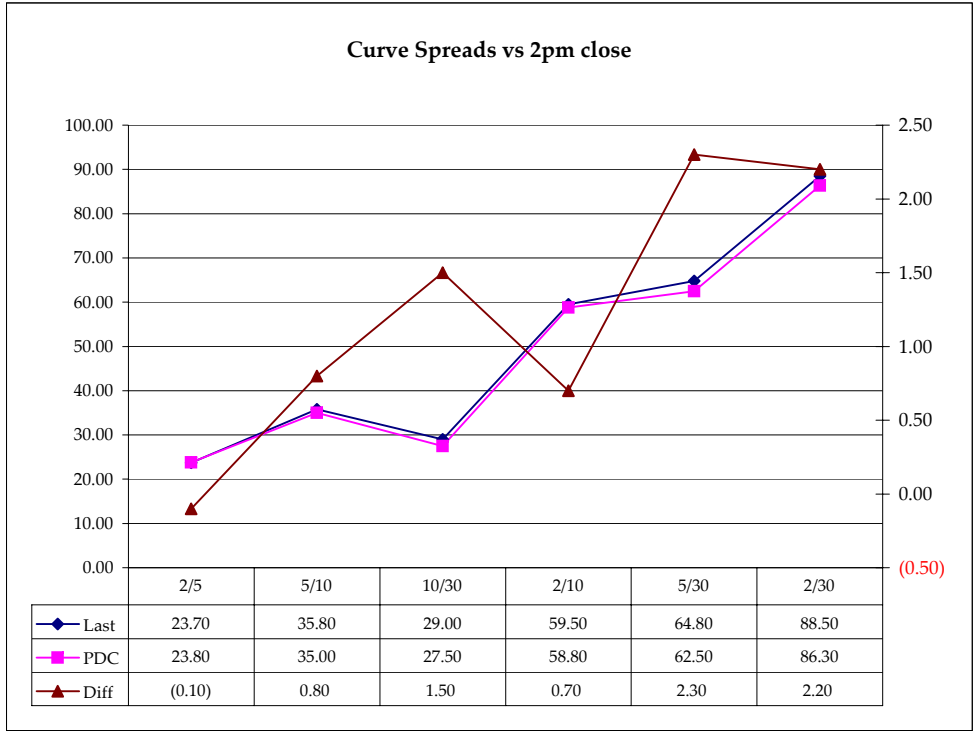
15:09 10/19 **US SWAPTION VOLS:** ATM straddle swaption premiums ended session only moderately higher across the surface compared to better gains in board vol. While increased odds of Fed rate cuts cited for firmer vols, followed by call/receiver interest and talk of servicer-tied duration grab, accts quick to hedge incoming custy flow w/little desire for inventory risk, kept vols fairly contained. Of note, ULC of vol surface, 3m/2yr for example, was is 7.0 bps lower by Fri's 2nd half vs nearly 85.0 bps in lead up to Sep payrolls w/rate cut odds were similar. "Seems either rates are too rich or vol is too cheap," said a strategist. "I'm a bit more biased towards the former."

According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Fri 3:00	78.0 bps	707.8 bps	553.8 bps
1:35	78.0 bps	708.4 bps	554.0 bps
9:50	77.6 bps	700.4 bps	548.6 bps
Fri Open	77.8 bps	697.8 bps	548.8 bps
Thu 3:00	76.6 bps	700.2 bps	547.2 bps



Yield Curve Spreads			
	TC	PDC	Diff
2/5	23.70	23.80	(0.10)
5/10	35.80	35.00	0.80
10/30	29.00	27.50	1.50
2/10	59.50	58.80	0.70
5/30	64.80	62.50	2.30
2/30	88.50	86.30	2.20

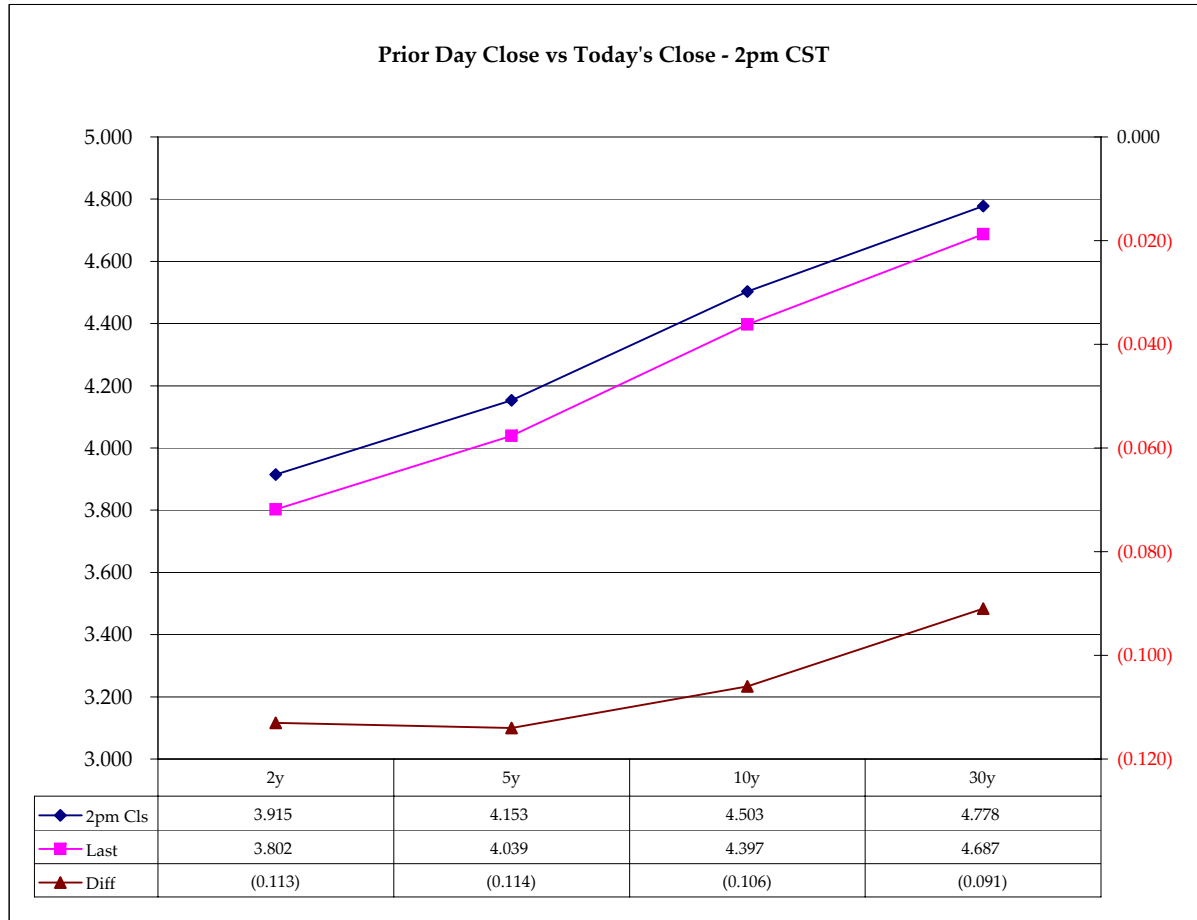


Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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	100.0500	3.915	3.802	(0.113)		
5y	4.125	8/31/12	100.1375	4.153	4.039	(0.114)	23.42	26.17
10y	4.750	8/15/17	101.300	4.503	4.397	(0.106)	72.89	79.39
30y	5.000	5/15/37	103.16	4.778	4.687	(0.091)	-672.87	-664.12

	PDC 32	TC
ZF	107.120	107.260
ZN	109.285	110.180
ZB	112.05	113.070



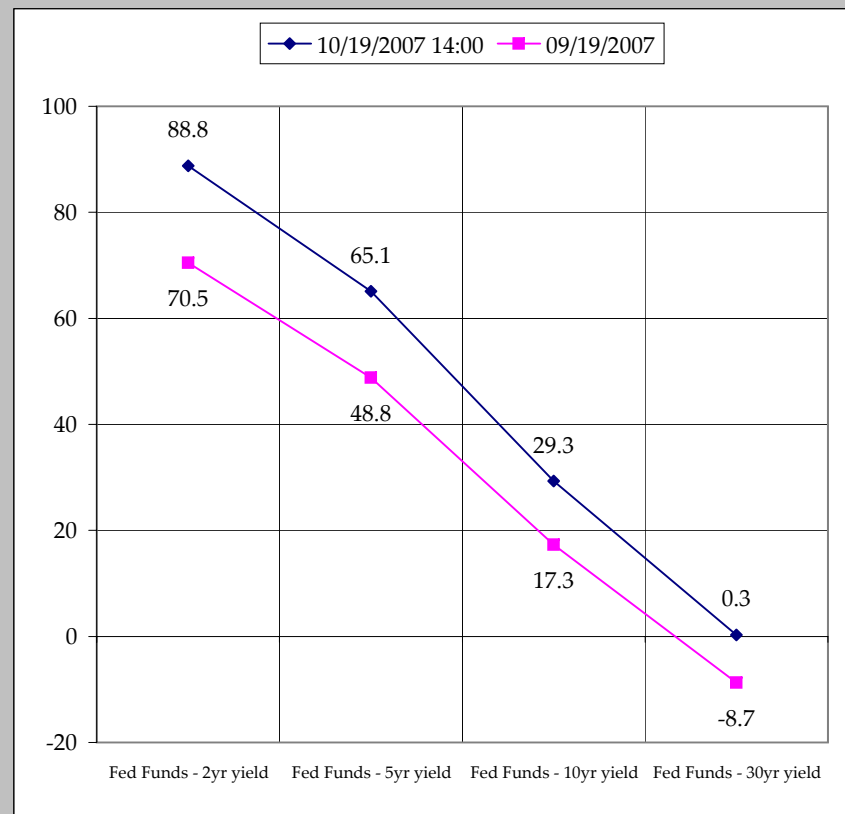
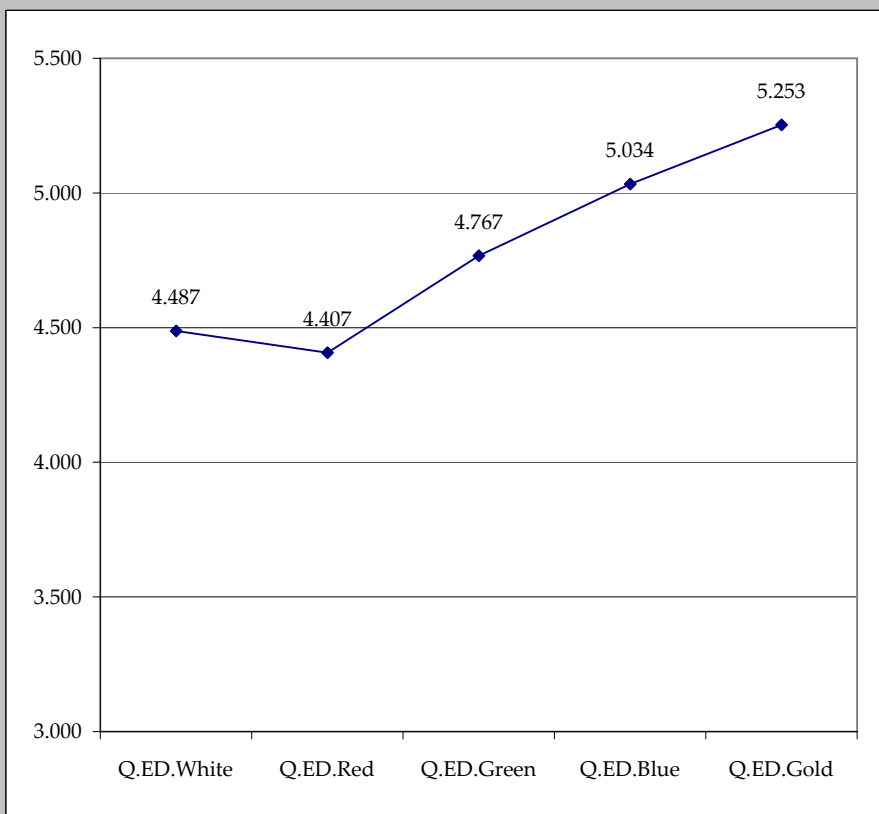
Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 32 = price is quoted in 32nds
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.487	11.625	9562.250
Q.ED.Red	4.407	12.000	9570.000
Q.ED.Green	4.767	11.375	9535.250
Q.ED.Blue	5.034	11.250	9509.625
Q.ED.Gold	5.253	11.250	9488.500

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	88.8	10.0	70.5
Fed Funds - 5yr yield	65.1	9.7	48.8
Fed Funds - 10yr yield	29.3	8.6	17.3
Fed Funds - 30yr yield	0.3	7.0	-8.7
GFER	4.70	-1.0	

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	95.270	0.100	4.730	0.000	0.0
Nov-07	95.485	0.600	4.515	4.888	37.3
Dec-07	95.610	0.650	4.390	4.700	31.0
Jan-08	95.685	0.750	4.315	4.565	25.0
Feb-08	95.800	0.800	4.200	0.000	0.0
Mar-08	95.825	0.800	4.175	4.400	22.5
Apr-08	95.875	1.000	4.125	0.000	0.0
May-08	95.915	0.950	4.085	0.000	0.0
Jun-08	95.900	0.800	4.100	4.245	14.5
Jul-08	95.940	0.600	4.060	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

