

## The Afternoon Email

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### Key Money Rates

0	Libor\$ ^	Tbill	CP ^^	Term	Libor\$ ^	Repos
1M	4.893	3.640	4.820	0/N	4.804	4.630
3M	5.093	3.963	4.940	1week	4.843	4.600
6M	4.925	4.13	4.890	2week	4.866	4.600
	TSY	Swap	ED Pks ^^^			
2y	3.817	67.75	4.411			
5y	4.056	66.75	5.036			
10y	4.393	63.75	5.273			

### 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**

15:09 10/22 **US TSYS/RECAP:** US Tsys ended Mon midrange after early slide on profit- taking after 4th day of rally since Wed, then had bargain-hunting bounce off low. Mkt early had: 1) Some Asian profit-taking in intermediates (not heavy;); 2) Some selling as US stocks futures choppy, not weak as hoped; 3) Early black-box selling and European hedge fund selling in Tsys intermediates; real money selling shorter Tsys. 4) Some sold US Tsys/bought German Bunds;5) Decent hedge fund selling in MBS. 6) Dealers did pre-auction short-setting before Tsy's \$6B 5Y TIPS reopen Tue, US\$20B 2Y Wed, US\$13 5Y Thu. 7) BUT Tsys rebounded off lows amid risk aversion buying; bargain-hunting, MBS-tied buying in 5Y Tsys, MBS-tied accounts buying Tsys. 8) European funds bought Tsys at low. 9) Tsys aided as major servicer that Fri bought Tsys futures, did swap receiving is back Mon, receiving in swaps, buying MBS outright; other servicers also buy MBS. 10) MBS drew late US accts bid. 11) Tsys gained too as US stocks ebbed late. 10) Surprise at \$20B 2Y auction for Wed; \$13B 5Y Thu.

15:00 10/22 **SWAP:** Spreads remain tighter on the futures close after an early round of servicer receiving in the belly but mostly in 10Y. Other than that, not much going on, dealers confirmed. Sources note one servicer in particular has been named in the past two days and sources add that this acct has been both opportunistic and successful in hedging their huge servicing book. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon Close	-1.50/67.75	-0.75/66.75	-0.75/63.75	-0.50/60.00
Mon 10:44	-1.50/67.75	-1.00/66.50	-1.00/63.50	-0.50/60.00
Mon 9:23	-0.75/68.50	-0.75/66.75	-0.75/63.75	-0.50/60.00
Mon 8:07	+1.00/70.25	+0.75/68.25	+0.50/65.00	+0.25/60.75
Fri 3:10	+0.75/69.50	+0.75/68.00	+0.00/64.50	-0.75/60.50

(cont)

15:14 10/22 **US TSY FUTURES:** Tsys closed mixed across the board with bonds at their highest closing level since Sept 11, up 6/32 at 113-13 with 366K traded while the Dec 10-yr settled off 1/32 at 110-17 with 1.30M traded. The Dec 5-yr notes settled down 2.5/32 at 107-24 with 741K traded while the Dec 2-yr closed softer by .5/32 at 103-23.75 with 252K changing hands.

15:16 10/22 **US AGENCIES:** "Morbidly quiet," says a trader and gets the quote of the day. Spreads basically tighter across the board and what flow there was generally got described as "somewhat better buying," or words to that affect. Indications as follows - Freddie June'09 +43.5 according to TradeWeb and other screens (vs Friday's 3PM mark of +44); Fannie July'09 +43.5 (+43); Freddie Aug'10 +49.5 (+50); Fannie Sept'10 +49.5 (+50); Freddie Oct'12 +50.5 (+52); Fannie Nov'12 51.5 (53); Fannie June'17 +49.5 (+50); Freddie Nov'17 +51 (51.5); Fannie Nov 2030 +46.5 (+47.5); Freddie Jul'32 +45.5 (+46.5).

Almost no new issuance of any kind. And no scheduled supply on the horizon until Freddie's November 6 announcement. FHLB, of course, may step-in at any time that seems inviting.

15:06 10/22 **SWAPTIONS:** Sources reported light flows in OTC and on the Board but with some jockeying amid 2-way flows in puts and payers and some servicer buying of puts. Sources mention risk aversion as a common theme. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Mon Close	78.6 bps	710.8 bps	557.8 bps
Mon 11:00	78.6 bps	706.4 bps	555.6 bps
Mon 8:23	78.8 bps	711.4 bps	555.0 bps
Mon 8:07	78.4 bps	707.4 bps	553.8 bps
Fri 3:00	78.0 bps	707.8 bps	553.8 bps

**Barclays, RBS Line Up Emergency Fed Funds****By KATHARINA BART**

October 22, 2007 8:05 a.m.

**[WSJ]**

Two major United Kingdom banks have lined up a total of \$30 billion in emergency funds from the U.S. Federal Reserve, with analysts expecting other European investment banks to follow.

The Fed recently lifted requirements on how much Barclays PLC and Royal Bank of Scotland Group PLC can lend U.S. broker affiliates, according to the central bank's Web site. The move allows Barclays to lend up to \$20 billion and RBS to lend up to \$10 billion, following similar easing of requirements for Citigroup Inc., Bank of America Corp. and Deutsche Bank AG in recent months.

**[From RBS Greenwich Capital Markets]****Date/Time: 22 Oct 2007 7:10 AM**

[...]We are unwilling to stand in front of this rally, but expect this week will be characterized by a sideways/consolidation-trade as the 2- and 5-year supply weighs on any follow-through upgrade. With the data limited to Durable Goods and Housing, we see the fundamental story for this FOMC meeting as told.

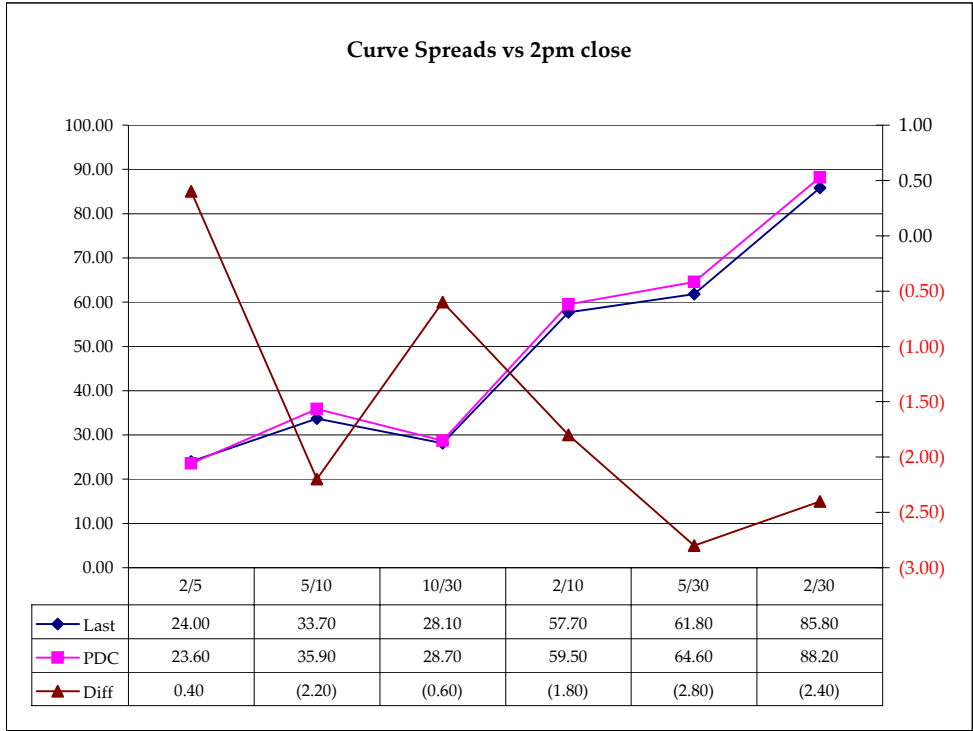
[...] Between the second Fed ease in a cycle and the third (and there has always been a third in our sample set), there are a few trends which we have noticed. Namely, 10-year yields tend to fall on average 17.6 bps after the second ease but before the third, the 2s/10s curve steepens on average 11.7 bps, and the 2s/Funds spread inverts an additional 22 bps.

The exception (and excluded from our averages) to these trends was 1998 (LTCM, etc) -- in that cycle the 10-year sold off 29 bps between the second and third eases, the 2s/10s curve was 31 bps flatter and the 2s/Funds spread disinverted by 51 bps. While '98 as an anomaly is no news -- given the risk-environment at the time, this distinction refocuses us on the question: Are we in a 1998-type rally or a more traditional shift in the monetary policy -- we are increasingly favoring the latter.

Also of note are the moves on the exact days of the second ease -- calculated on a close to close basis -- 10-year yields moved lower on the day of every ease -- an average of 11.5 bps. Similarly (and understandably), 2/Funds disinverted by 21 bps on average. As for the 2s/10s curve, it has historically had a mixed performance -- unchanged once, steeper once and flattening once.

David Ader, Head of Government Bond Strategy  
Ian Lyngen, Strategist  
Market Strategy Team  
[RBS Greenwich Capital Markets]

Yield Curve Spreads			
	TC	PDC	Diff
2/5	24.00	23.60	0.40
5/10	33.70	35.90	(2.20)
10/30	28.10	28.70	(0.60)
2/10	57.70	59.50	(1.80)
5/30	61.80	64.60	(2.80)
2/30	85.80	88.20	(2.40)

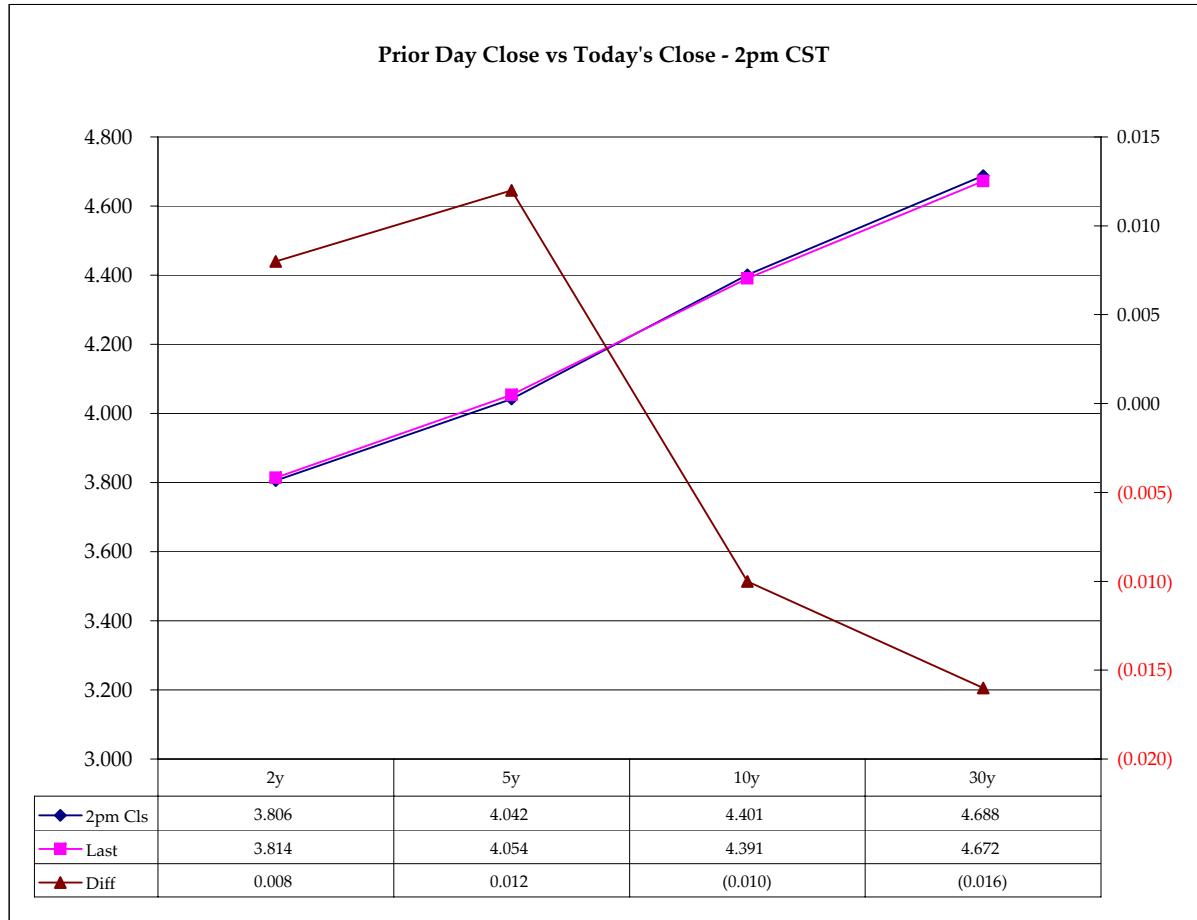


Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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	100.1150	3.806	3.814	0.008		
5y	4.125	8/31/12	100.2950	4.042	4.054	0.012	25.71	26.20
10y	4.750	8/15/17	102.240	4.401	4.391	(0.010)	79.39	82.29
30y	5.000	5/15/37	104.31	4.688	4.672	(0.016)	-664.12	-661.67

	PDC 32	TC
ZF	107.265	107.235
ZN	110.180	110.170
ZB	113.07	113.120



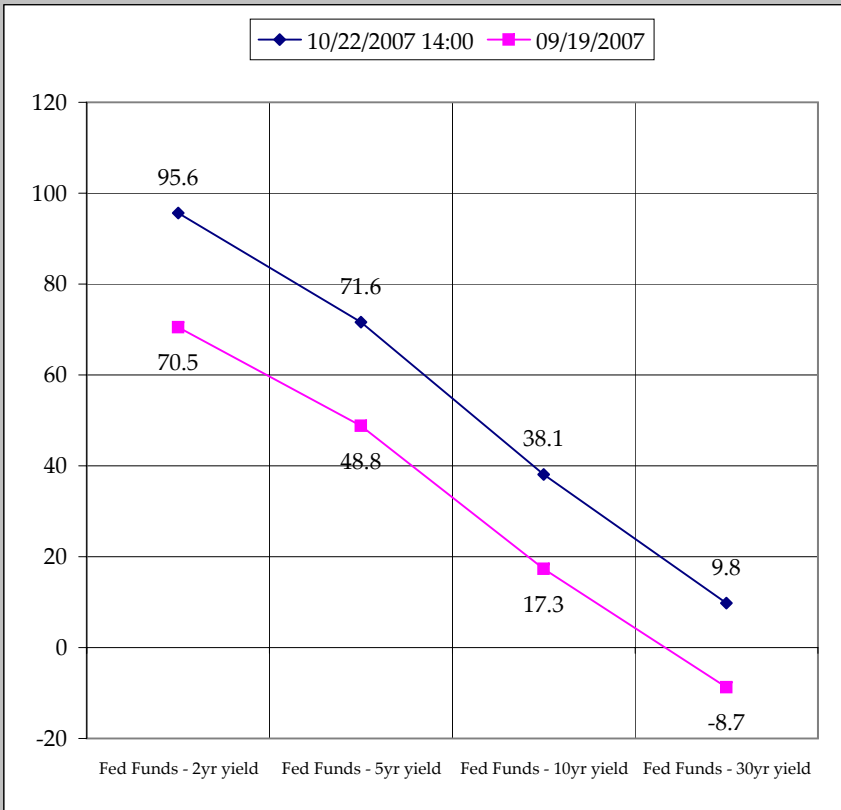
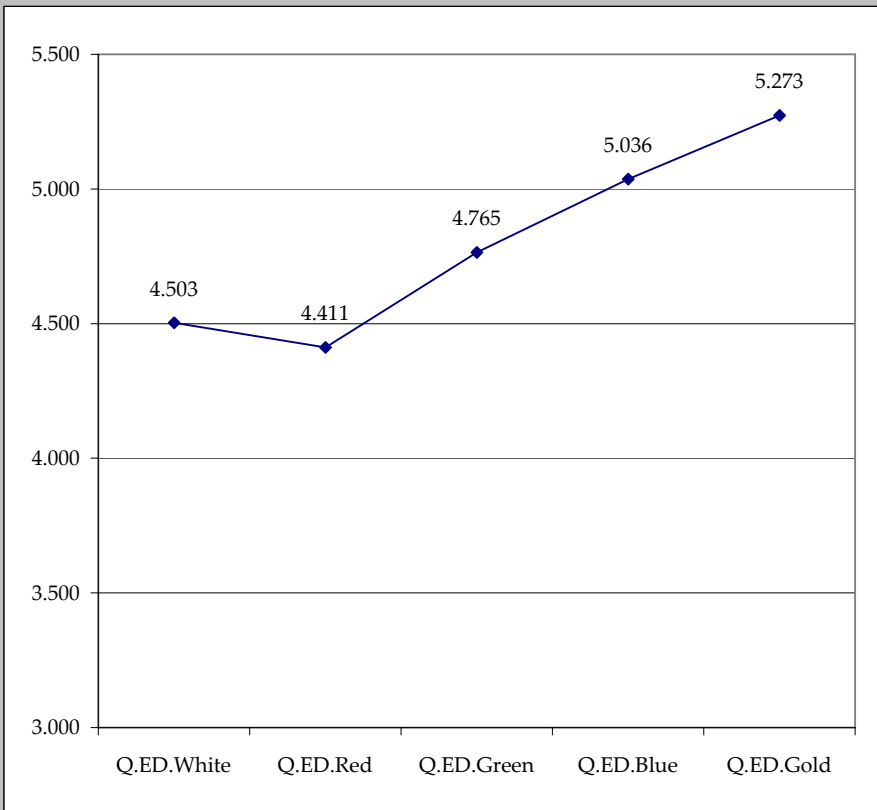
Notes:  
 Basis = (Cash Decimal - (Futures Decimal \* CF))\*32  
 32 = price is quoted in 32nds  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.503	-1.250	9560.750
Q.ED.Red	4.411	-0.125	9569.625
Q.ED.Green	4.765	0.125	9535.500
Q.ED.Blue	5.036	-0.500	9509.375
Q.ED.Gold	5.273	-1.875	9486.625

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	95.6	5.1	70.5
Fed Funds - 5yr yield	71.6	5.4	48.8
Fed Funds - 10yr yield	38.1	7.9	17.3
Fed Funds - 30yr yield	9.8	9.6	-8.7
GFER	4.77	8.0	

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).



Month	Fed Funds (FF)			ED	ED - FF
	Last	Net	Implied	Implied	bps
Oct-07	95.260	-0.050	4.740	0.000	0.0
Nov-07	95.460	-0.200	4.540	4.880	34.0
Dec-07	95.600	-0.050	4.400	4.715	31.5
Jan-08	95.670	-0.100	4.330	4.580	25.0
Feb-08	95.785	-0.150	4.215	0.000	0.0
Mar-08	95.810	-0.150	4.190	4.415	22.5
Apr-08	95.845	-0.300	4.155	0.000	0.0
May-08	95.890	-0.300	4.110	0.000	0.0
Jun-08	95.905	-0.200	4.095	4.260	16.5
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

