

The Afternoon Email

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Key Money Rates

10/23/2007 14:00

	Libor\$ ^	Tbill	CP ^^
1M	4.873	3.844	4.790
3M	5.084	3.976	4.900
6M	4.939	4.122	4.780
	TSY	Swap	ED Pks ^^^
2y	3.808	67.25	4.380
5y	4.055	65.75	5.035
10y	4.405	62.75	5.270

	Libor\$ ^	Repos
0/N	4.810	4.600
1week	4.849	4.600
2week	4.856	4.550

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**

15:25 10/23 **US TSYS/RECAP:** US Tsys market ends near the highs Tues after 1) seesaw trading with US stocks; 2) late short-covering as nervous shorts scramble; 3) Wal-Mart trimmed capital expenditures to US\$14.7B for current FYr; 4) ex-Fed-Chair Greenspan cited SIV bailout skepticism. 5) Tsys in morning had lower ranges amid muted flows such as better buying in 5Y issue, holding 100 20/32 minor support; 6) Also earlier better buying of MBS vs. swaps paying. 7) But some mortgage servicers sold 10Y Tsys calls. 8) Many on hold to await Wed a.m. Merrill Lynch 3Q earnings that could pressure stks. 9) US\$6B 5Y TIPS reopen Tues: so-so bid: 26.5% indirects, 1.954% high yield. 10) Traders expect more stocks-vs-bonds trading, supply trade given \$20B 2Y sale Wed, \$13B 5Y sale Thu. 11) 3Y special in O/N repo. 10) Richmond Fed index declined, prices paid too. 11) Long end pressured by US\$5.5B Ohio tobacco munis deal amid swap action; 12) Widespread California fires' effects mulled on Tsys, economy (mixed effect but cd hurt spendgn.) 13) US stocks action Wed=Tsys mkt key.

15:13 10/23 **US EURODLR FUTURES:** Eurodlr futures finished session near highs, curve off early flats, steepening again as the front end outperformed, the Red/Gold pack spd 3.0 bps steeper at 85.375 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was steady at 95-28.5 on combined Globex and pit volume of 202,000, the Mar08 steady at 95-58.5 on volume of 270,000, the Jun08 steady at 95-74 on volume of 307,000, while the Sep08 contract was 1.0 bps higher at 95-83.5 on volume of 316,000. The 2yr proxy Red pack (Dec08-Sep09), settled 2.0 to 3.5 bps higher across the pack with 634,000 contracts traded.

15:05 10/23 **US SWAPS:** Spds ended session tighter across the curve amid earlier paying vs buying of MBS, off levels in the first half despite the dip in Tsy ylds. Sources cited ongoing LIBOR compression and general improvement in credit spds for move. Other said flows were mostly tied to position "tweaking" as financials get closer to the next Fed announcement. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	-0.75/67.25	-1.00/65.75	-1.25/62.50	-1.25/58.75
12:00	-0.75/67.25	-1.00/65.75	-1.00/62.75	-0.75/59.25
11:00	-1.75/66.25	-1.25/65.50	-1.00/62.75	-0.75/59.25
10:20	-1.50/66.50	-1.25/65.50	-1.00/62.75	-0.75/59.25
9:30	-1.25/66.75	-1.25/65.50	-1.00/62.75	-0.75/59.25
Tue Open	-1.75/66.25	-1.00/65.75	-1.00/62.75	-0.75/59.25
Tue 8:00	-2.00/66.00	-1.25/65.50	-1.00/62.75	-0.75/59.25
Mon 3:00	-1.25/68.00	-0.75/66.75	-0.75/63.75	-0.50/60.00

(cont)

15:11 10/23 **US TSY FUTURES:** Tsys closed mixed across the board with bonds off 7/32 at 113-06 with 307K traded while the Dec 10-yr settled off .5/32 at 110-16.5 with 995K traded. The Dec 5-yr notes settled up 1.5/32 at 107-25.5 with 572K traded while the Dec 2-yr closed better by .75/32 at 103-24.5 with 179K changing hands.

15:10 10/23 **US AGENCIES:** Swap spreads give back some of the overnight tightening but remain better on the day. GSEs hold gains out the curve but are less happy up-front. Indications as follows - Freddie June'09 +44 according to TradeWeb and other screens (vs Monday's 3PM mark of +43.5); Fannie July'09 +44 (+43.5); Freddie Aug'10 +48.5 (+49.5); Fannie Sept'10 +48.5 (+49.5); Freddie Oct'12 +49 (+50.5); Fannie Nov'12 +50 (+51.5); Fannie June'17 +48.5 (+49.5); Freddie Nov'17 +50 (+51); Fannie Nov 2030 +46 (+46.5); Freddie Jul'32 +45 (+45.5). Most of the market quack remains focused on supply, one way or another. Much notice given to the size of callable redemptions, an on-going scenario in many trader's minds as "real supply" still weeks away.

15:06 10/23 **US SWAPTION VOLS:** At-the-money straddle swaption premiums ended session near steady after chopping lower in the intermediate sector for much of the session. While flow remained light for the second consecutive session this week, sources did report "some put skew buying in mortgage volatility" early in the first half as swap spreads showed ongoing improvement across the curve. According to GovPX:

Time (ET)	GAMMA	3M/2Y	INTERMEDIATE	2Y/10Y	VEGA	5Y/5Y
Tue 3:00	78.0 bps	711.4 bps	555.6 bps			
12:45	78.0 bps	709.4 bps	554.2 bps			
12:00	78.0 bps	708.6 bps	553.4 bps			
11:15	78.0 bps	704.8 bps	553.6 bps			
10:25	78.2 bps	709.2 bps	552.6 bps			
9:30	78.4 bps	708.6 bps	552.6 bps			
Tue Open	78.4 bps	711.0 bps	557.8 bps			
Mon 3:00	78.6 bps	710.8 bps	557.8 bps			

15:05 10/23 **FED FUNDS:** With the mkt pricing in approx an 88% chance of a 25bps cut next week, a MNI survey of the 21 primary dealers so far has 9 calling for a 25bps cut, 8 calling for steady policy and 1 uncommitted on the Oct FOMC meeting but calling for a 25bps cut in Q4. Three have yet to respond.



2007-10-23 05:00 (New York)

Preservation Program

- Enhanced focus on rate resets will benefit more than 80,000 borrowers - CALABASAS, Calif., Oct. 23 /PRNewswire/ -- Countrywide Financial Corporation (NYSE: CFC) today announced a comprehensive home preservation program to reach out to borrowers at-risk of default. Countrywide will launch an outbound calling initiative to refinance or modify up to \$16 billion of Countrywide loans for borrowers who are facing an adjustable-rate mortgage reset through the end of 2008.[Thanks Howard]

BULL'S SEEING 'BLOOD' THE PERIL AT MERRILL

By **RODDY BOYDSTAN O'NEAL** Problems mount. **October 23, 2007** -- As Merrill Lynch prepares to report its third-quarter earnings tomorrow, there are concerns the eye-popping pre-announcement of a \$5.5 billion charge from troubled bond investments might be the tip of the iceberg for the Wall Street giant [Thanks again Howard!]

13:27 10/23 **US TSYS/STOCKS/MUNIS:** Many Tsys traders eye the Merrill Lynch earnings out Wed. morning with a lot of focus on that issue. Earlier today in the UK session, there had been rumor, unconfirmed, that Merrill Lynch 3Q earnings Wed could show a substantial loss on top of US\$5B writedown preannounced less than 2 wks ago; fueled Tsys bid. And some now eyed market talk, unconfirmed, that Merrill Lynch's 2nd writedown could be anywhere between US\$7B and US\$12B, which could be a significant percentage of its US\$56B market capitalization but of course that is only market speculation at this juncture.



Federal Reserve State of Play - By Steve Beckner,

23 Oct 2007

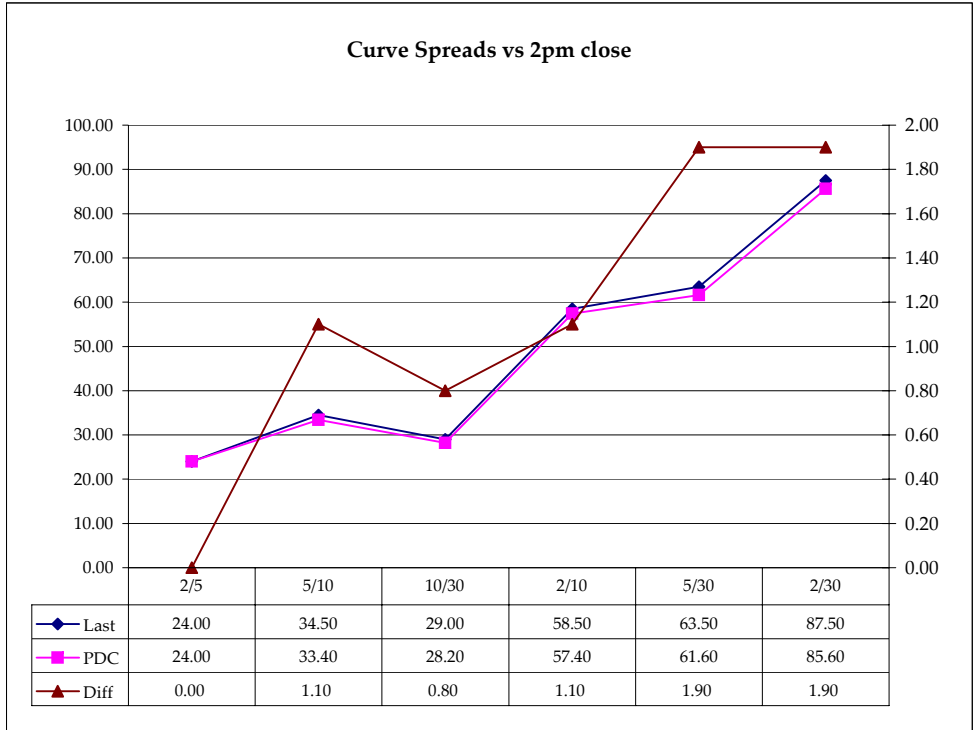
13:01 EDT / Oct 23

With a week to go until the Federal Open Market Committee meets there have been no clear signals from Fed policymakers that another rate cut is coming. Having preemptively eased 50 basis points Sept. 18, officials have approached the Oct. 30-31 meeting with an air of indecision. That's not to say the FOMC won't ease further, but members have not publicly, unambiguously leaned toward doing so next week.

One also has to ask whether the data have been weak enough to force the Fed's hand. The economy has slowed, as shown by the Beige Book and other indicators, but has it slowed more than expected? Last week, Chairman Ben Bernanke said, "it remains too early to assess the extent to which household and business spending will be affected by the weakness in housing and the tightening in credit conditions." Kansas City Fed President Thomas Hoenig, an FOMC voter, said growth has been slowed at least a percentage point due to housing and said its financial turmoil's impact is uncertain. But he said there are "offsetting" strengths: unemployment remains "low;" jobs are being created at "a fairly good pace;" "consumers are continuing to buy" and firms continue to invest." Hoenig said he's "optimistic" on the outlook, but said the Fed must "remain alert."

He said the Fed must "wait and see" what to do with rates. Another voter, St. Louis Fed chief William Poole, was quoted saying it's too soon to know the spillover from housing and "given the information set that we have, we are approximately in the right place" on rates. Last night, voting Chicago Fed President Charles Evans said the economy should rebound and enjoy 2.5% growth next year, but said the Fed can't take that for granted. There is "a less benign possibility," he said, in which housing "could weaken a good deal more" than expected, "weigh more heavily on consumer spending," worsen financial conditions and cause "a more serious downside risk" to the economy. While that outcome is unlikely, Evans said the Fed "should guard against it." But he said the Fed mustn't be "lax" on inflation and respond if it worsens.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	24.00	24.00	0.00
5/10	34.50	33.40	1.10
10/30	29.00	28.20	0.80
2/10	58.50	57.40	1.10
5/30	63.50	61.60	1.90
2/30	87.50	85.60	1.90

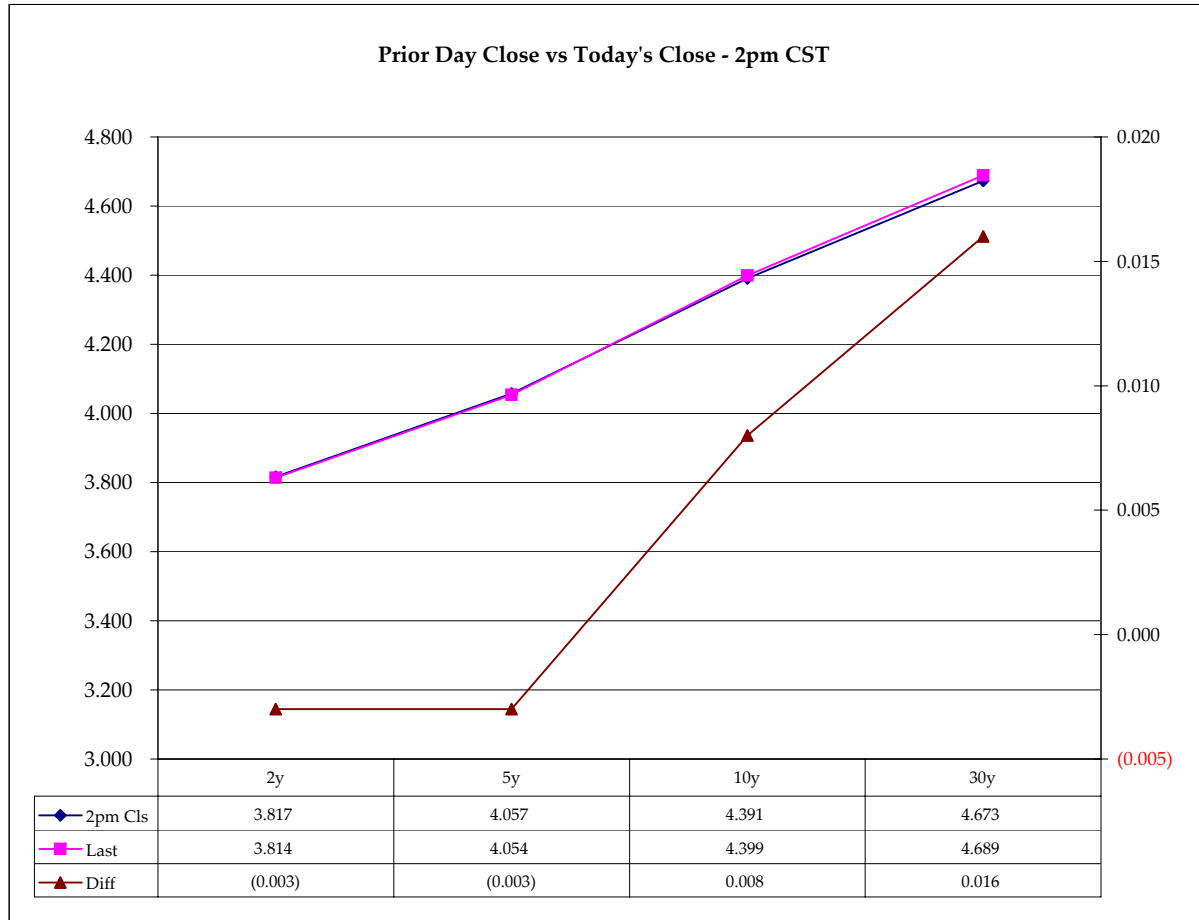


Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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	100.1075	3.817	3.814	(0.003)		
5y	4.125	8/31/12	100.2725	4.057	4.054	(0.003)	25.78	24.64
10y	4.750	8/15/17	102.265	4.391	4.399	0.008	82.79	80.25
30y	5.000	5/15/37	105.07	4.673	4.689	0.016	-662.78	-664.01

	PDC 32	TC
ZF	107.240	107.255
ZN	110.170	110.165
ZB	113.13	113.060



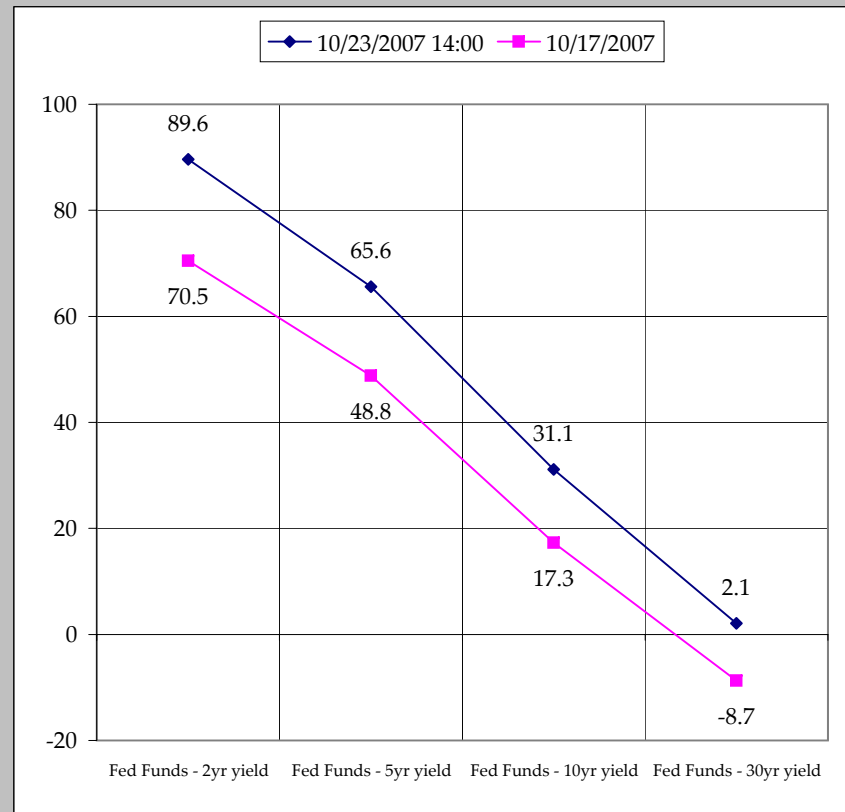
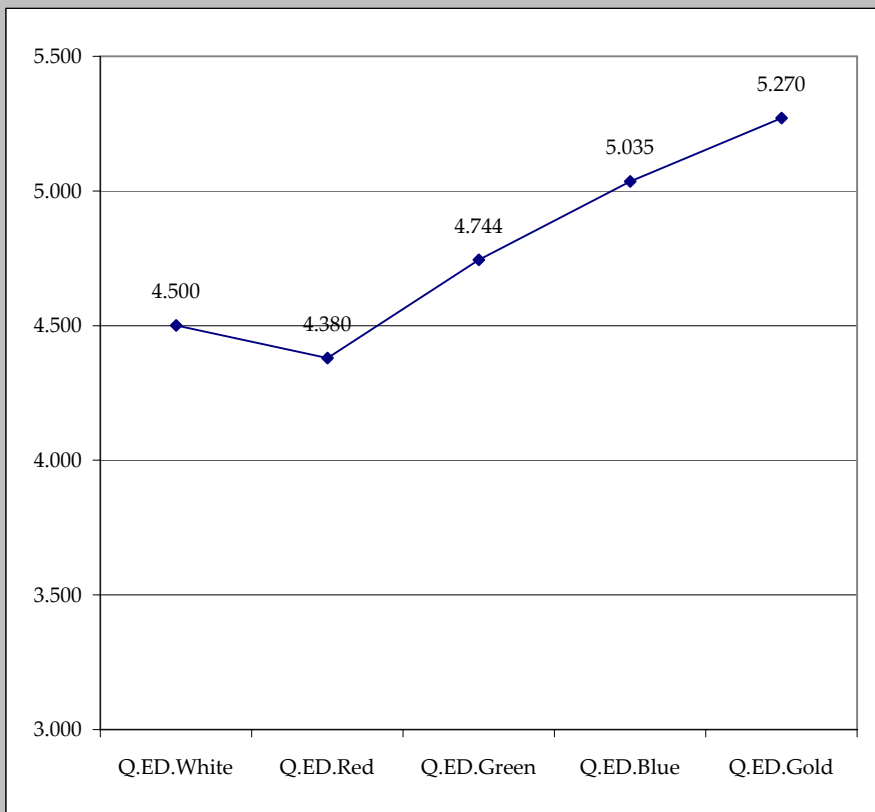
Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 32 = price is quoted in 32nds
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.500	0.125	9561.000
Q.ED.Red	4.380	2.750	9572.625
Q.ED.Green	4.744	2.125	9537.500
Q.ED.Blue	5.035	0.500	9509.500
Q.ED.Gold	5.270	-0.625	9486.875

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	10/17/2007
Fed Funds - 2yr yield	89.6	-1.8	70.5
Fed Funds - 5yr yield	65.6	-3.5	48.8
Fed Funds - 10yr yield	31.1	-5.0	17.3
Fed Funds - 30yr yield	2.1	-7.3	-8.7
GFER	4.71	-6.0	

GFER = Fed Funds Daily Effective Rate

Why 10/17/2007?
The morning of the CPI release is a good benchmark. I marked them at 5:30am CT, which was 2 hours before the CPI release.



Month	Fed Funds (FF)			ED	ED - FF
	Last	Net	Implied	Implied	bps
Oct-07	95.265	0.000	4.735	0.000	0.0
Nov-07	95.475	0.100	4.525	4.870	34.5
Dec-07	95.605	0.050	4.395	4.715	32.0
Jan-08	95.665	-0.050	4.335	4.600	26.5
Feb-08	95.785	0.000	4.215	0.000	0.0
Mar-08	95.820	0.100	4.180	4.415	23.5
Apr-08	95.870	0.150	4.130	0.000	0.0
May-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Jun-08	#VALUE!	#VALUE!	#VALUE!	4.260	#VALUE!
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

