

## The Afternoon Email

### Table of Contents

- Pg 1** News: Today's Recap for the United States
- Pg 2** News: Snapshots throughout the day
- Pg 3** Curve Spreads
- Pg 4** Prior Day Close vs Today's Close - 2pm CST
- Pg 5** Eurodollar Packs & Fed Funds - Treasuries
- Pg 6** Fed Funds - Eurodollars

### Key Money Rates

10/25/2007 14:00

	Libor\$ ^	Tbill	CP ^^
<b>1M</b>	4.819	3.875	4.780
<b>3M</b>	5.011	3.911	4.860
<b>6M</b>	4.836	3.991	4.830
	TSY	Swap	ED Pks ^^^
<b>2y</b>	3.731	65.75	4.293
<b>5y</b>	3.995	65.00	4.989
<b>10y</b>	4.352	62.25	5.245

	Libor\$ ^	Repos
<b>0/N</b>	4.783	4.600
<b>1week</b>	4.809	4.600
<b>2week</b>	4.813	4.500

### 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

15:38 10/25 **US TSYS/RECAP:** Tsys hold lower range but ended off day's low, 2-way flow: 1) stocks-vs-bonds choppy trading; 2) stocks ending weaker on insurer/ABCP/credit jitters; 3) dealers set shorts into US\$13B 5Y auction (3.993% high yield, 21.3% indirects, 77.4% dealer bid); 4) safe-haven bid waxed, waned w/ stocks; 5) earlier swaps paying in 2Y, 5Y; 6) early brisk buying in Dec. 10Ys futures by real money, and little bit less buying in Dec 2Ys (had sold Dec. 30s); 7) +4.8% gain in Sept home sales to +770K SAR but Aug revised to +735K (vs +795k prior.) 8) Accounts exited 2Y/10Y steepeners. 9) Afternoon saw more customer adding to 2Y/10Y steepener: had bought 12k Dec 2Ys/sold 7K Dec 10Ys by day's end. 10) Cash 10Y, 3Ys special in repo. 11) Earlier bargain-hunting in 2Ys after early NY selling at 3.75% 2Y psychological resistance area; earlier lvrgd fincl selling in 5Ys, pension selling in intermediates. 11) Sept remittances weak; ABXs weak; some eyed 30-day, 60day delinqs on 06-01 vintage due to upcoming resets, increased default chances. (more)

15:13 10/25 **US EURODLR FUTURES:** Eurodlr futures finished session mixed, near the bottom end of the range in the longer expiries as the curve bear steepened, the Red/Gold pack spd was 2.5 bps steeper at 91.5 by the bell--new highs. In the Fronts (Dec07-Sep08), the Dec07 was in 1.0 bps at 95-35.5 on combined Globex and pit volume of 202,000, the Mar08 up 0.5 bps at 95-69.5 on volume of 261,000, the Jun08 steady at 95-84.5 on volume of 297,000, while the Sep08 contract was 0.5 bps lower at 95-93 on volume of 302,000. The 2yr proxy Red pack (Dec08-Sep09), settled 0.5 to 2.0 bps lower across the pack with 706,000 contracts traded.

15:05 10/25 **US SWAPS:** Spds ended session steady to tighter in the front end as the 2s/10s spd of spds works to move off inversion by 1.25 bps. Sources said the early flow was linked to the LIBOR compression as several accounts received in 2-years. But, also sources said the narrowing was also linked to the 2-year roll after Wednesday's \$20 billion U.S. Treasury 2-year auction. Early trading also had payers in 2- and 5-year swap spreads. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	-1.25/65.75	-0.50/65.00	+0.00/62.25	+0.00/58.50
1:30	-1.25/65.75	-0.50/65.00	+0.25/62.50	+0.00/58.50
11:59	-2.00/65.00	-1.00/64.50	-0.50/61.75	-0.50/58.00
10:00	-1.50/65.50	-0.75/64.75	-0.25/62.00	-0.25/58.25
Thu Ope	-2.75/64.25	-1.50/64.00	-0.50/61.75	-0.75/57.75
Thu 7:50	-2.75/64.25	-1.25/64.25	-0.50/61.75	-0.75/57.75
Wed 3:0	-0.25/67.00	+0.00/65.75	-0.25/62.25	-0.25/58.50

(cont)

15:11 10/25 **US TSY FUTURES:** Sources say a custoMer acct continues to add to the 2/10Y steepener via futures as they bought 12,000 Dec 2-yrs vs sold 7,000 Dec 10-yrs by days end.

15:12 10/25 **US AGENCIES:** Stocks, rumor and innuendo and a good time was had by all. AIG this and that. More Merrill and mostly more worries about what shoe will drop next on which investment bank/insurance company and how big will it be. GSEs end pretty close to yesterday's marks after tightening and than widening back at last somewhat. Indications as follows - Freddie June'09 +46 according to TradeWeb and other screens (vs Wednesday's 3PM mark of +46); Fannie July'09 +45.5 (+46); Freddie Aug'10 +51.5 (+51); Fannie Sept'10 +51 (+50); Freddie Oct'12 +50 (+51); Fannie Nov'12 +51.5 (+52); Fannie June'17 +48.5 (+48.5); Freddie Nov'17 +50.5 (+51); Fannie Nov 2030 +46.5 (+46.5); Freddie Jul'32 +45.5 (+45.5). Tomorrow bring the pricing of Home Loans \$3B 2Y Global Bond. +46.5 area the most frequently mentioned number. Officially, "within the context of the market," which could be up, down or sideways when we hit our desks in the morning. As per usual.

15:07 10/25 **US SWAPTION VOLS:** At-the-money straddle swaption premiums ended session steady to mixed, a little softer in the front end as volume dwindled in the second half with "not much of a consistent theme." According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Thu 3:05	81.2 bps	725.2 bps	566.4 bps
1:30	81.2 bps	725.4 bps	567.6 bps
12:40	81.2 bps	721.4 bps	567.8 bps
8:05	82.4 bps	724.4 bps	566.6 bps
Wed 3:05	82.4 bps	724.2 bps	565.8 bps

10:38 10/25 **GLOBAL MARKETS/OPINION:** What's the greatest risk facing global markets over the last two months of 2007? - The latest Lehman client poll.

1. Another systematic credit flare - 31%;
  2. Further poor performance revelations by financial institutions and/or Hedge Funds - 9%;
  3. Global Political Risk - 6%;
  4. Negative rethink of 2008 outlook - 38%;
  5. SIV resolution stasis - 3%;
  6. Underinvestment in risk assets: cyclical second wind on the way- 13%.
- Lehman says - "Among the most pressing capital market concerns, readers see the highest risk coming from a negative sentiment shift rather than actual fundamental deterioration. This should not be entirely surprising, although we were struck that SIVs ranked last in terms of worries. The annual forecast season is just two months away. Few prognosticators will be unequivocally sanguine."

11:56 10/25 **US ABS:** The ABX is trading lower across the board in part due to yet another round of dismal monthly remittance reports that are coming out today. The ABX07-2 AA is down 6.5 points to 63.5 midmarket, the 06-1 A is down 2.5 points to 74.25 midmarket, and the 07-2 BBB- is down 3 points to 20. The continued slowing trend in prepayment speeds suggests that hard pressed buyers are facing difficulties in refinancing and/or difficulties in finding a buyer for their homes.

11:58 10/25 **FED:** Sources are looking at a FT story that quotes Vincent Reinhart, a former top staff member at the Board. FT says "Mr Reinhart said that although the 50 basis point rate cut last month was intended to frontload the easing required to offset the credit squeeze, it was 'probably not a sufficient frontloading of the needed easing' to allow the Fed to sit tight at the October 31 meeting."

Raymond Stone

--Stone & McCarthy (Princeton)-- Initial Unemployment Claims in the week ended October 20 declined 8,000 to a still elevated 331,000 reading.

The claims data will not go unnoticed as we approach next week's FOMC meeting. Policy-makers have been keeping a keen eye out for signs of contagion from the mortgage market/housing debacle. The recent elevation in claims provides evidence of contagion, and should tilt the debate in favor of taking action. Our bet is the FOMC cuts the funds target by 25bps to 4-1/2%, with a similar cut in the discount rate.

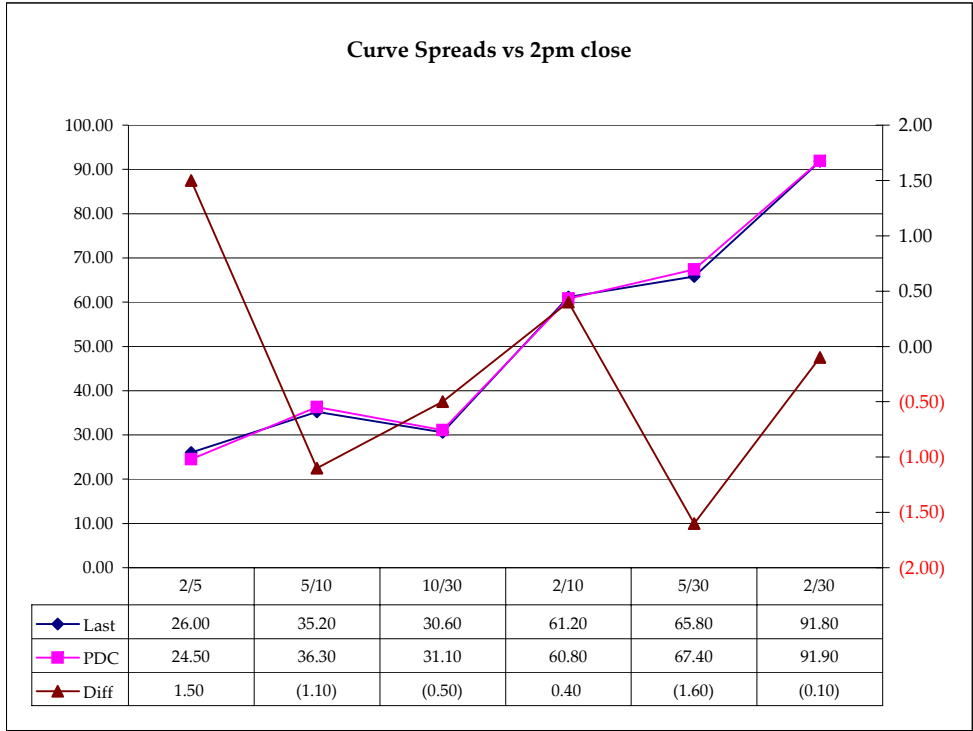
NEWS ALERT [8:17am CT]

from **The Wall Street Journal**, Oct. 25, 2007

The Bush administration imposed sweeping new sanctions against Iran's defense ministry, its Revolutionary Guard Corps and a number of banks for purported support for terrorist organizations in Iraq and the Middle East.

13:13 10/25 **US MKTS:** Joint Economic Comm report titled, "The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values and Tax Revenues, and How We Got Here" says 2 mln subprime mortgage homes could be foreclosed, resulting in blns in losses. The report argues in favor of foreclosure prevention. See [www.jec.senate.gov](http://www.jec.senate.gov).

Yield Curve Spreads			
	TC	PDC	Diff
2/5	26.00	24.50	1.50
5/10	35.20	36.30	(1.10)
10/30	30.60	31.10	(0.50)
2/10	61.20	60.80	0.40
5/30	65.80	67.40	(1.60)
2/30	91.80	91.90	(0.10)

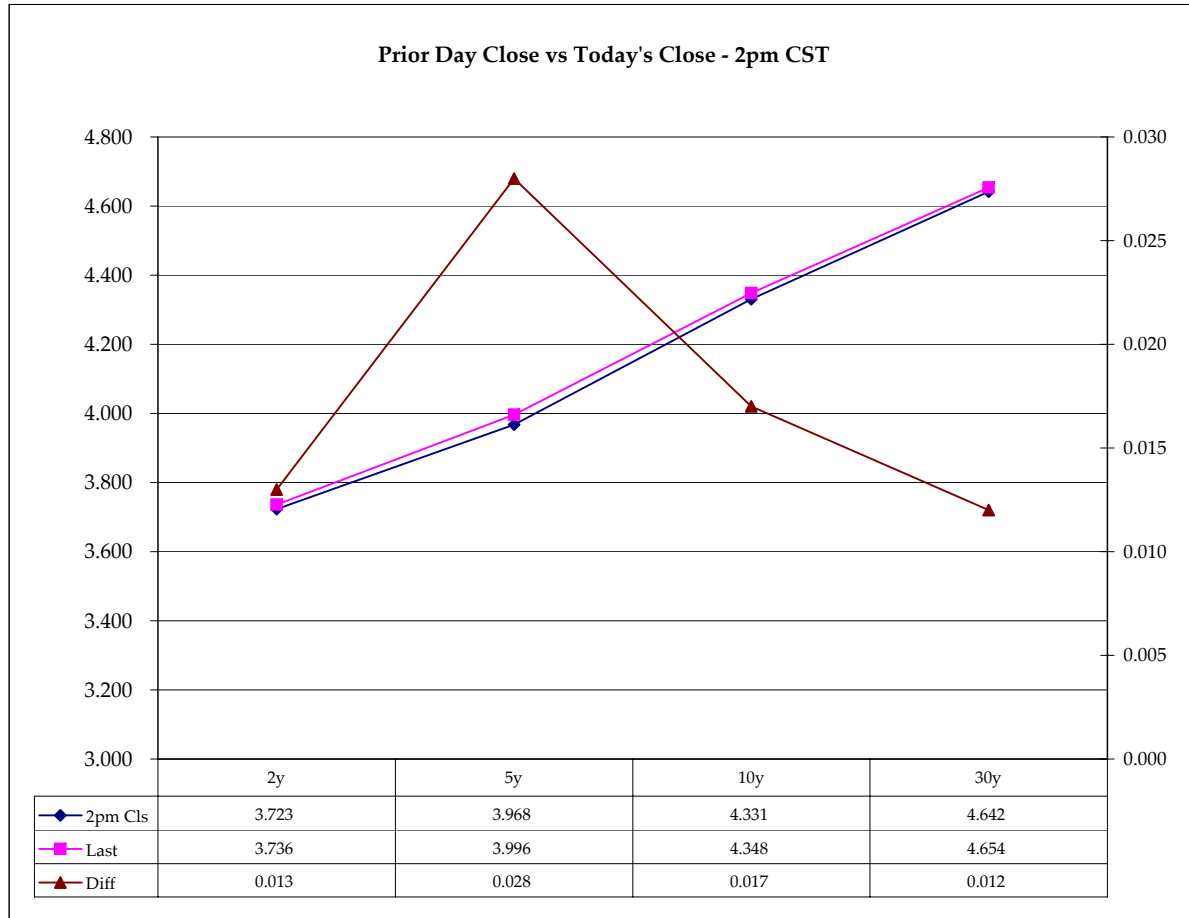


Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

Prior Day Close vs Today's Close - 2pm CST

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	3.625	9/30/09	99.2600	3.723	3.736	0.013		
5y	4.250	8/31/12	101.0800	3.968	3.996	0.028	26.46	26.64
10y	4.750	8/15/17	103.100	4.331	4.348	0.017	83.78	83.27
30y	5.000	5/15/37	105.23	4.642	4.654	0.012	-665.15	-666.60

	PDC 32	TC
ZF	108.050	108.005
ZN	111.010	110.275
ZB	113.30	113.250



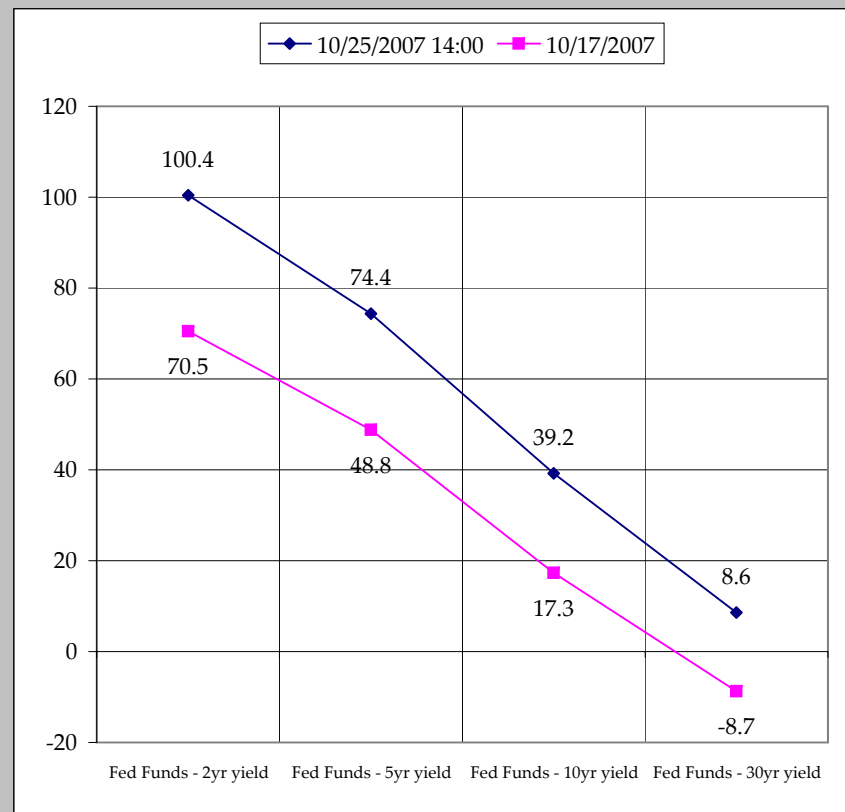
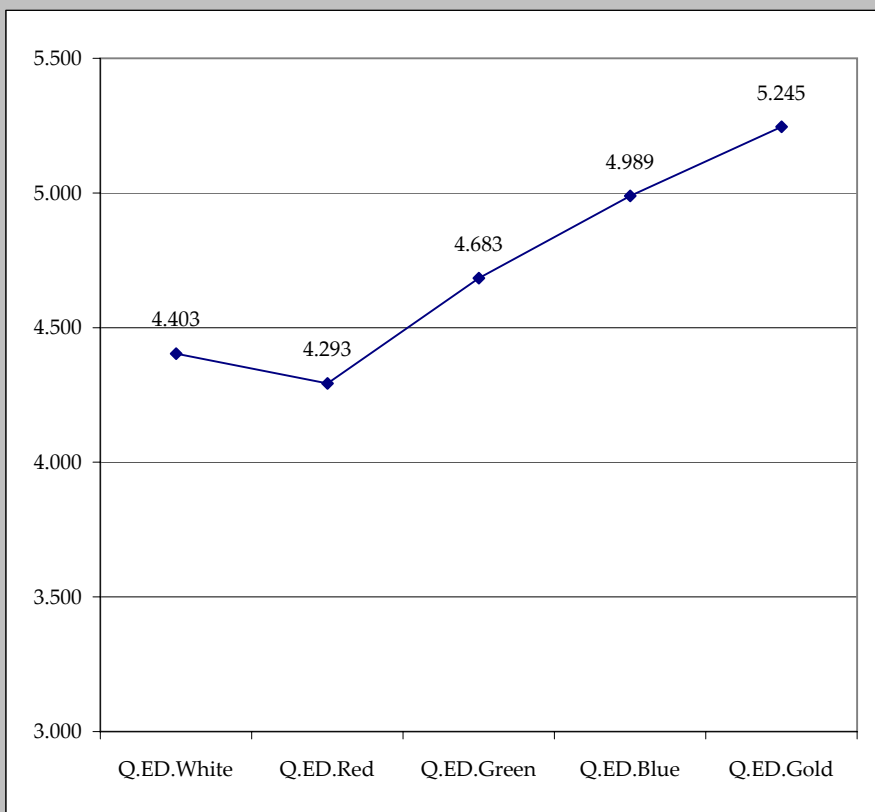
Notes:  
 Basis = (Cash Decimal - (Futures Decimal \* CF))\*32  
 32 = price is quoted in 32nds  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.403	-0.500	9570.375
Q.ED.Red	4.293	-1.750	9581.000
Q.ED.Green	4.683	-3.125	9543.375
Q.ED.Blue	4.989	-3.375	9513.875
Q.ED.Gold	5.245	-4.500	9489.250

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	10/17/2007
Fed Funds - 2yr yield	100.4	7.1	70.5
Fed Funds - 5yr yield	74.4	6.0	48.8
Fed Funds - 10yr yield	39.2	6.7	17.3
Fed Funds - 30yr yield	8.6	6.5	-8.7
GFER	4.67	7.0	

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	95.270	0.000	4.730	0.000	0.0
Nov-07	95.530	-0.050	4.470	4.800	33.0
Dec-07	95.665	0.050	4.335	4.650	31.5
Jan-08	95.735	0.050	4.265	4.480	21.5
Feb-08	95.850	-0.100	4.150	0.000	0.0
Mar-08	95.895	0.050	4.105	4.310	20.5
Apr-08	95.960	0.050	4.040	0.000	0.0
May-08	96.025	0.100	3.975	0.000	0.0
Jun-08	96.040	0.200	3.960	4.155	19.5
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

