

The Afternoon Email

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Key Money Rates

10/29/2007 14:00

	Libor\$ ^	Tbill	CP ^^
1M	4.753	3.950	4.710
3M	4.960	3.966	4.770
6M	4.831	4.058	4.620
	TSY	Swap	ED Pks ^^^
2y	3.797	64.50	4.375
5y	4.046	65.25	5.065
10y	4.383	62.75	5.305

	Libor\$ ^	Repos
0/N	4.808	4.700
1week	4.779	4.550
2week	4.770	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**

15:28 10/29 **US TSYS/RECAP:** US Tsys prices end Mon mixed (10Y, 30Y higher on day, rest lower) amid 1) stocks moved off high earlier but caught late bid, so Tsys gyrate w/ stocks; 2) Tsys bargain-hunting on-and-off; 3) safe-haven bid in T-bills; 4) Street selling in high-grade ABXs; 5) smallish RMBS, ABS bid lists from various types; 6) leveraged accounts, financial institutions, foreign accts sold Tsys intermediates; 7) Bargain-hunting in 2Ys near 3.825% in morning, leveraged accts buy 2Ys also; 8) some did 5Y/10Y steepeners or 10Y/30Y flatteners. 9) Corporate rate-lock unwinds. 10) Tsys morning cut losses as US stocks gave up some gains; German Bunds also crept higher amid muted action. 11) Mixed data: weaker Dallas Fed Oct manufacturing index at -6.6 vs. Sept. -4.6) but Oct Mfrg prices paid leapt to 33.6 vs. 17.9 Sept. 12) There was a servicer who had bought up to 25K Mar 10Y 112 calls bought on the day at a 5.64% vol vs. 5.56% settlement on Fri. 13) Long-end UK Gilt buying as MNI said UK DMO Chief said Gilt issuance likely to fall in FY2008/2009.

15:07 10/29 **US EURODLR FUTURES:** EuroDlr futures finished session lower, near middle of the range while the curve back some of last week's steepening, the Red/Gold pack spd was 6.25 bps flatter at 89.0 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was in 3.5 bps at 95-32 on combined Globex and pit volume of 163,000, the Mar08 in 3.5 bps at 95-64 on volume of 163,000, the Jun08 in 3.5 at 95-77 on volume of 157,000, while the Sep08 contract was 3.5 bps lower at 95-85 on volume of 152,000. The 2yr proxy Red pack (Dec08-Sep09), settled 3.0 to 3.5 bps lower across the pack with 370,000 contracts traded.

15:07 10/29 **US SWAPS:** Spds ended the session tighter, the 2s/10s spd of spds moving steady to Fri's lvl as long end improved in second half. On heels of decent Asian account receiver-tied support overnight, volume remained tepid at midmorning Monday, with light two-way moves on curve and spread in the fronts to intermediates as accounts positioned for Wednesday's Fed announcement. Spds moved off tight by midsession as Tsy recovered from early lows. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:00	-1.50/64.50	-1.00/65.25	-1.25/62.75	-1.25/59.00
12:45	-1.25/64.75	-0.75/65.50	-0.75/63.25	-0.75/59.50
10:35	-2.00/64.00	-1.50/64.75	-1.00/63.00	-1.00/59.25
9:20	-2.00/64.00	-1.00/65.25	-0.25/63.75	+0.25/60.75
Mon Open	-2.00/64.00	-1.00/65.25	-0.25/63.75	+0.25/60.75
Mon 7:50	-1.75/64.25	-0.25/66.00	+0.00/64.00	+0.25/60.75
Fri 3:00	+0.75/66.00	+1.25/66.25	+1.75/64.00	+2.00/60.50

(cont)

15:15 10/29 **CLOCKS:** For planning purposes, just a reminder that clocks in the U.S. will fall back one hour this coming weekend as Daylight Savings Time ends, restoring time differentials to "normal" with the UK, Europe and the Pacific Rim.

15:19 10/29 **US AGENCIES:** Tighter spreads for swaps and GSEs pretty much across the board. Agencies saw good front-end buying overnight and that seemed to set the tone and, at least for once, there was follow through according to dealers. Indications as follows - Freddie June'09 +43.5 according to TradeWeb and other screens (vs Friday's 3PM mark of +45.5); Fannie July'09 +42 (+44.5); Freddie Aug'10 +50 (+51.5); Fannie Sept'10 +49 (+51); Freddie Oct'12 +49.5 (+51.5); Fannie Nov'12 +51 (+52); Fannie June'17 +47.5 (+49); Freddie Nov'17 +50 (+51.5); Fannie Nov 2030 +48 (+48); Freddie Jul'32 +46.5 (+47). Dealer concerns of large redemptions along with month-end index buying remains a major topic of conversation.

15:07 10/29 **US SWAPTION VOL:** At-the-money straddle swaption premiums ended session steady to mixed, vega crept marginally higher late as Tsy curve flattened. Sources reported very light OTC flows, lower vol across surface due to similar drivers last week: ongoing LIBOR compression, lower anxiety re: credit issues, subprime-tied writedowns. While the 2s/10s spread of spd has moved approximately 6.0 bps off inversion since a week ago while OTC vols inched higher, many still espouse steepener. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Mon 3:00	77.6 bps	710.8 bps	563.4 bps
12:45	77.8 bps	710.6 bps	561.0 bps
11:30	77.8 bps	708.4 bps	562.4 bps
10:45	78.2 bps	713.8 bps	563.2 bps
9:15	78.2 bps	709.8 bps	560.0 bps
Mon Open	78.2 bps	712.2 bps	560.4 bps
Fri 3:00	79.4 bps	712.8 bps	560.2 bps



10:06 10/29 **US CMBS:** A string of negative news items, including losses by financial guarantors and Merrill's whopping write-down weight heavily on the CMBS market. Starting off last week on a somewhat more positive tone, by the end of the week, CMBS spreads were 1-25 bpts. wider over the last 5 trading days. In addition to a sell off in the cash market, CMBS indexes were also lower across the board. Further, the funding advantage increased even further for the receiving leg on CMBS swap trades - all further adding pressure on the cash market. According to CMBS strategists at JP Morgan, "We will remain in an environment of heightened spread volatility through at least year end, as each new piece of negative news is met with a disproportionately larger widening than any lack of bad news is greeted with tightening. Given this expectation, we remain underweight CMBS spreads across the capital structure." JP also adds that further declines in the ABX as well as the fear of fire sales in AAA ABS and CDO paper by SIVs, should result in wider cash CMBS spreads.

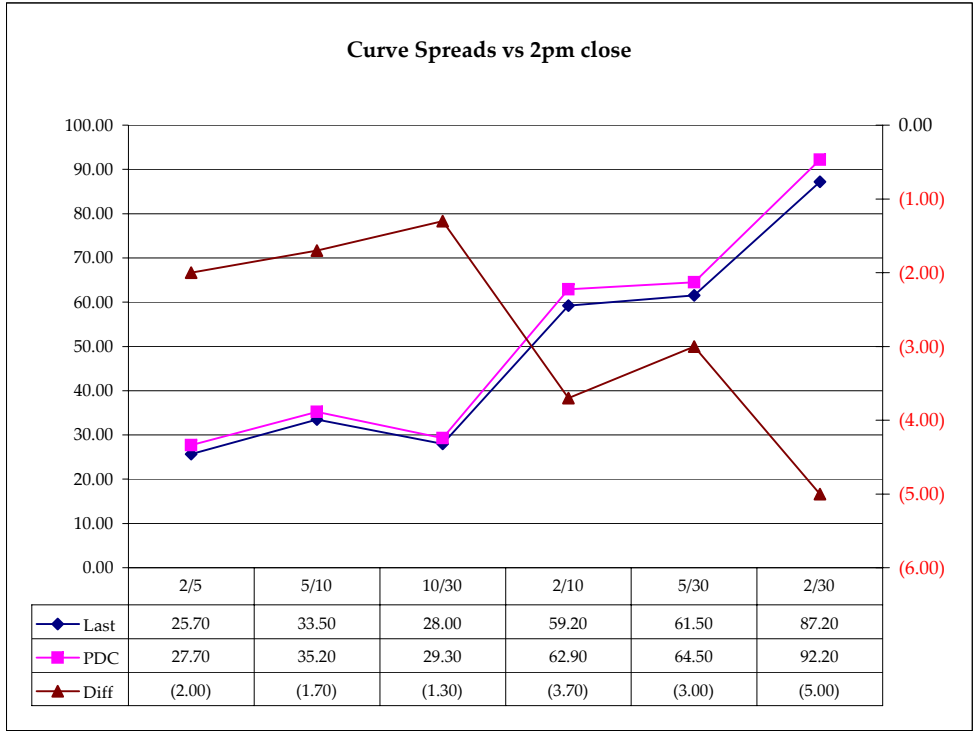
13:00 10/29 **US OUTLOOK:** Analyst Richard Berner at Morgan Stanley & Co. says "builders may have to slash up to another 40% from 1-family housing starts to balance supply with demand. And real home prices likely will have to decline by 10% to make housing more affordable and boost demand. Neither such a construction decline nor its potential effect on economic activity seems to be in any forecast."

US TSYS: According to Lehman Bros, **the month-end extensions for Nov 1** are:
 U.S. Treasury extension at 0.04 years
 U.S. Aggregate at 0.05 years
 Euro Treasury at 0.11 years
 Sterling Gilts at 0.04 years

11:31 10/29 **GLOBAL EARNINGS:** Market sources following earnings season closely and the next two weeks are highlighted by large European names. BAS strategists the recent widening in credit spreads of European financials has been led by some of the largest banks in Europe - UBS, DB and CS - and the scale of the widening has been "unprecedented." BAS says, "given the sheer volume of risk reduction that is implied in the sector, we would expect a relief rally" via spread tightening if no negative surprises come through this week. Some highlighted dates and names for Q3 earnings are:
 Oct 30 UBS
 Oct 31 Deutsche Bank, Generali (Italian Reinsurance Co)
 Nov 01 Credit Suisse, ABN Amro
 Nov 07 ING, Societe Generale, Commerzbank. US AIG also out this day
 Nov 08 BNP Paribas, Fortis

10:52 10/29 **US BONDS:** Bond strategists at Deutsche Bank say 3 factors have been driving the yield curve - risk premia, liquidity and the economy. DB says the importance of the economy has risen even as the liquidity factor has stabilized. But DB is looking for more steepening as the data starts showing the economy is heading into recession and regardless of what action the Fed takes this Wed at its meeting. Commenting on the risk factor, DB says risk premia and the repricing and transfer of assets has been an ongoing factor causing curve steepening since Q3 2006. "The unwind of the conundrum that had caused the unusual flatness of the curve since 2004 has been driven by the reduction in bank demand for mortgages, the reduced growth in overseas demand for dollar assets, and the pressures of mortgage supply have all led to curve steepening," DB says in its weekly piece. "Recently, the subprime crisis and the need to reprice risk assets as they are transferred out of low-capitalized structures such as SIVs and into stronger hands has also boosted the risk premium."

Yield Curve Spreads			
	TC	PDC	Diff
2/5	25.70	27.70	(2.00)
5/10	33.50	35.20	(1.70)
10/30	28.00	29.30	(1.30)
2/10	59.20	62.90	(3.70)
5/30	61.50	64.50	(3.00)
2/30	87.20	92.20	(5.00)

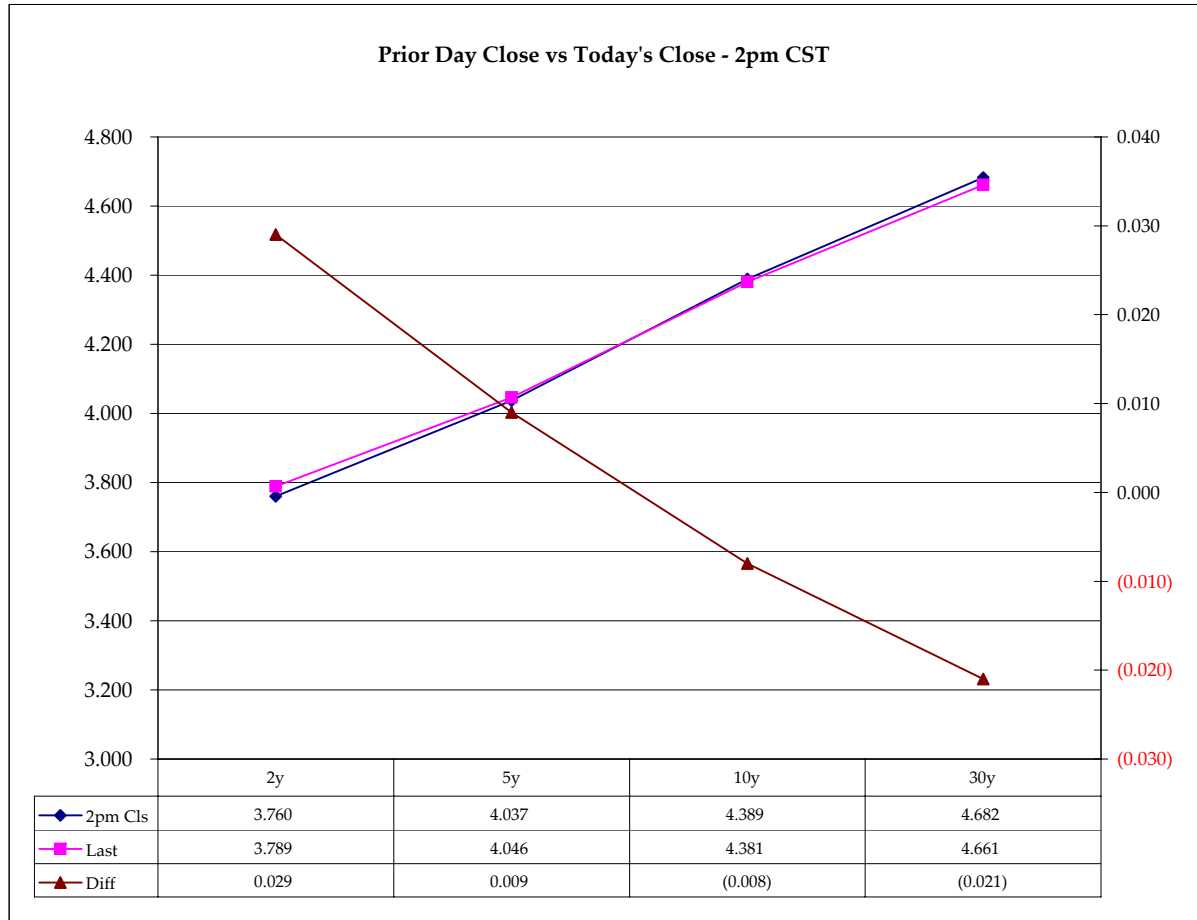


Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	3.625	10/31/09	99.2375	3.760	3.789	0.029		
5y	3.875	10/30/12	99.0875	4.037	4.046	0.009	27.96	28.99
10y	4.750	8/15/17	102.270	4.389	4.381	(0.008)	80.12	81.62
30y	5.000	5/15/37	105.02	4.682	4.661	(0.021)	-670.61	-665.66

	PDC 32	TC
ZF	107.290	107.265
ZN	110.205	110.205
ZB	113.16	113.210



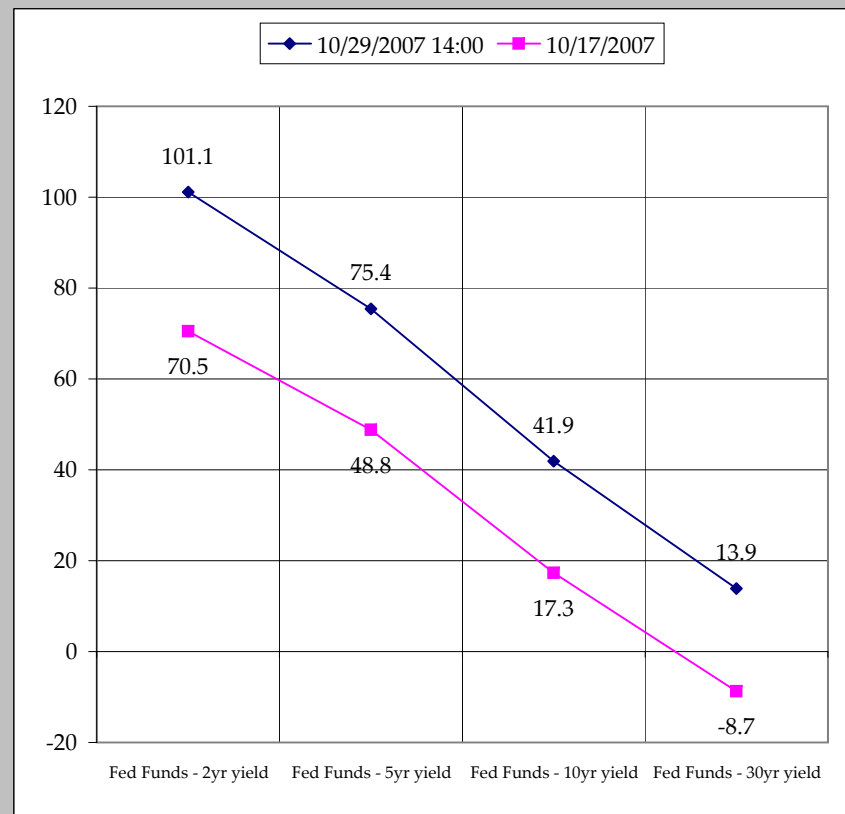
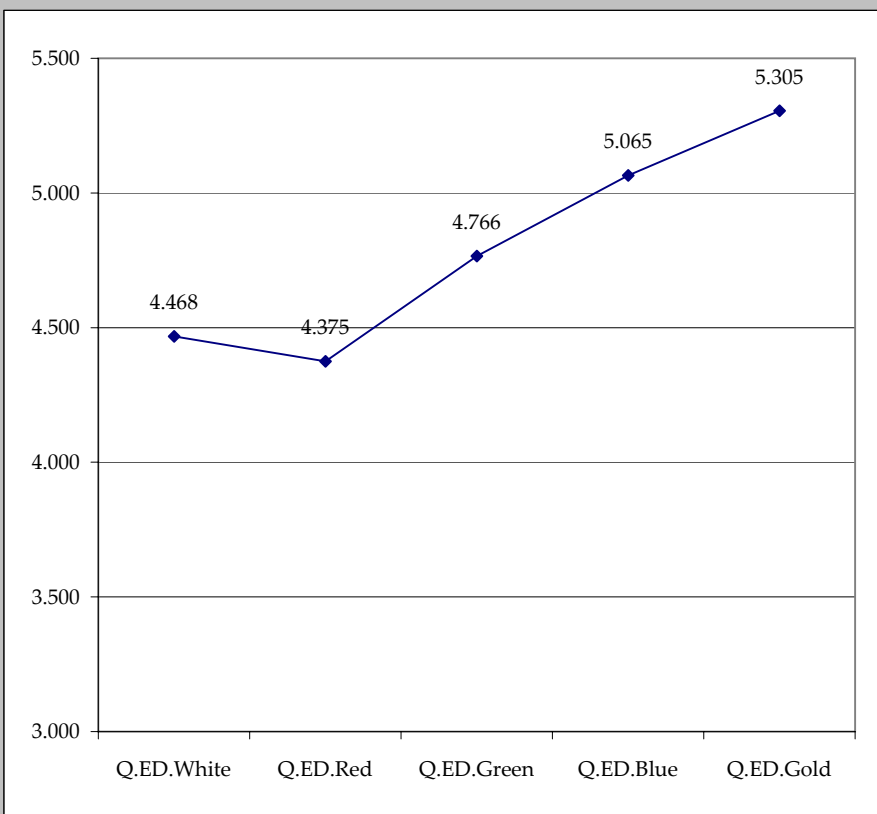
Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 32 = price is quoted in 32nds
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.468	-3.875	9564.125
Q.ED.Red	4.375	-3.875	9573.125
Q.ED.Green	4.766	-2.000	9535.375
Q.ED.Blue	5.065	0.375	9506.625
Q.ED.Gold	5.305	1.750	9483.500

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	10/17/2007
Fed Funds - 2yr yield	101.1	-9.2	70.5
Fed Funds - 5yr yield	75.4	-6.2	48.8
Fed Funds - 10yr yield	41.9	-4.4	17.3
Fed Funds - 30yr yield	13.9	-2.7	-8.7
GFER	4.80	-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	95.250	-0.100	4.750	0.000	0.0
Nov-07	95.490	-0.300	4.510	4.785	27.5
Dec-07	95.610	-0.350	4.390	4.685	29.5
Jan-08	95.665	-0.400	4.335	4.530	19.5
Feb-08	95.785	-0.350	4.215	0.000	0.0
Mar-08	95.825	-0.250	4.175	4.365	19.0
Apr-08	95.890	-0.350	4.110	0.000	0.0
May-08	95.960	-0.250	4.040	0.000	0.0
Jun-08	95.955	-0.350	4.045	4.230	18.5
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

