

## **The Afternoon Email**

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

**All times Eastern**

15:11 09/04 **US TSYS/RECAP:** Tsys ending Tues narrowly mixed, with 2Y 3Y 5Y higher on the day, but long end lower despite 10Y 30Y buying, and hedge fund and real money buying in long P-STRIPS, belated index-tied buying. Tsys had a number of pressure factors hurting them: stronger stocks (DJIA now up 88 pts on day), earlier by German Bunds weakness amid selling there, some Canadian bond selling, and US corporate rate-lock selling. There also was a late seller of 3,000 Dec T-bond 117 calls. But morning had Tsys short-covering, moderate real money buying in Dec T-bonds, selling Dec 10Ys. Intermediates drew Continental bank profit-taking, while some leveraged accts did Tsys steepeners. There also was foreign central bank profit-taking in 2Ys, other central bank buying in T-bills. This morning, some sold Tsys/bought MBS. There also was fast money profit-taking, some bank profit-taking in 10Ys. Eurodrl futures saw some steepener flows amid 500 Red/Gold pack spread sales (2Y/10Y proxy.) Mkts calm but financing, some CDO bid lists suggest ABCP woes not over.(More)

15:28 09/04 **US TSYS/RECAP II:** On a 1p.m. Fri to 3:00 pm ET Tues basis close, the cash 2-year note yield fell 2.1 bps to 4.136%. The 3-year yield fell 1.6 bps to 4.154%, while the 5-year fell 0.4 bps to 4.262%. The 10-year yield rose 1.1 bps to 4.558%, and the 30-year yield rose 0.2 bps to 4.839%. The 2-year/5-year curve steepened 1.7 bps to +12.6 bps, the 2-year/10-year steepened 3.2 bps to +42.2 bps, and the 2-year/30-year steepened 2.3 bps to +70.3 bps.

15:24 09/04 **US EURODLR/SWAPS:** Spds close wider after reports of early hedge fund receiving in 2Y but then GSE paying in the sector. Nonetheless, sources say this is one of the quietest sessions in 3-weeks and tighter ranges are symbolic of a general lack of willingness to inventory risk. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tues 3:20	+2.75/77.75	+1.75/73.25	+0.75/70.25	+2.00/64.75
Tues 2:10	+2.00/77.00	+1.50/73.00	+0.50/70.00	+1.50/64.25
Tues 11:30	+0.25/75.25	+0.50/72.00	+0.25/69.75	-1.00/61.75
Tues 9:20	+0.75/75.75	+1.00/72.50	+0.00/69.50	+0.00/62.75
Tues 8:10	+1.00/76.00	+1.25/72.75	+0.25/69.75	+0.75/63.50
Fri 1:00	-1.25/74.00	-1.00/71.25	-1.75/69.50	+0.00/63.25
Fri Open	-3.75/71.50	-0.50/71.75	-1.25/70.00	-0.50/62.75
Fri 7:40	-4.25/71.00	-1.00/71.25	-1.50/69.75	-0.75/62.50
Thu 3:15	+2.00/75.25	+0.75/72.25	+1.00/71.25	+0.75/63.25

**(continued)**

15:17 09/04 **US AGENCIES:** Wider swap and GSE spreads carry the day. Flows are less than robust say dealers and have no particular bent. However, Freddie Mac sale gets off to a strong start domestically. Indications as follows - Freddie June'09 +53.5 according to TradeWeb and other screens (vs Friday's early close 1PM mark of +49); Fannie July'09 +53 (+51); Fannie Mar'10 +54 (50.5); Freddie Aug'10 +56 (+53); Fannie May'12 +52 (+50.5); Freddie Aug'12 +53 (+51.5); Fannie June'17 +52.5 (+56); Freddie Aug'17 +56 (+55.5); Fannie Nov 2030 +52 (+51.5); Freddie Jul'32 +51.5 (+50.5). Freddie Mac's new \$3B 5Y Reference Note seen to be at least half done according to a dealer. Not surprisingly so far, it is mostly domestic. It is expected/assumed that when Asia/Japan and Europe/UK get a full look it will be all over by tomorrow morning, mostly. Just FYI, the last 5Y saw 34% go to Asia and 19% Europe.

15:26 09/04 **US SWAPTION VOLS:** Vols firm across the surface and sources say it is difficult to pinpoint one single event that has kept vols firm. For example, the strategist pointed out that the market is clearly concerned about possibly heavy portfolio redemptions and a lofty corp deal pipeline in Sept and the pending FOMC, while "leaning" towards a rate

cut to 5.00%, could be a huge head fake for the market, some fear. This was not to mention the fact that LIBOR continues to reset higher, which caused swap spreads to widen. Dealer desks confirm swaption premiums are simply trading directionally, especially 2Y tails, with rates.

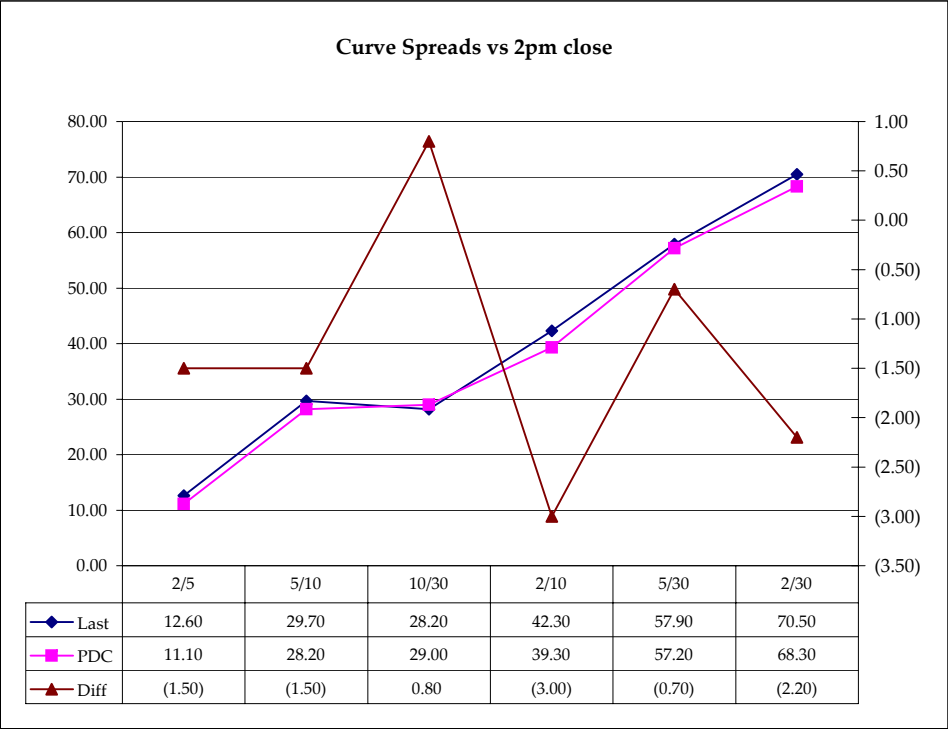
Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tues 3:20	92.0 bps	683.6 bps	536.6 bps
Tues 1:30	91.6 bps	683.0 bps	536.8 bps
Tues 11:30	91.8 bps	680.0 bps	534.6 bps
Tues 9:20	90.4 bps	681.0 bps	534.6 bps
Tues 8:10	90.0 bps	680.5 bps	535.8 bps
Fri 1:00	91.4 bps	684.4 bps	535.2 bps

Table I—Forecast Summary	July	SMRA Est August	Survey Medians	
			MNI Aug29	BBG Aug29
Payrolls (000s)	92	95	125	115
Private (000s)	120	87		
Construction (000s)	-12	-4		
Manufacturing Payrolls (000s)	-2	-15		-10
Workweek (hours)	33.8	33.8		33.8
Index of Hours Worked (% chg)	-0.1	0.1		
Average Hourly Earnings (% chg)	0.3	0.3		0.3
Unemployment Rate (%)	4.6	4.7	4.6	4.6

09:49 09/04 **FED:** Gov. Mishkin produced an 80-pg paper for the Jackson Hole conf, on web at <http://federalreserve.gov/pubs/feds/2007/200740/index.html>. He concludes, "One objection to an easing of monetary policy following the collapse of an asset bubble is that it might lead market participants to believe that the central bank will always act to prop up asset prices, a belief that can make a bubble more likely. The central bank can mitigate such an interpretation, however, if it publicly emphasizes that its monetary policy is not directed at stabilizing any particular asset price but is rather focused on achieving price stability and maximum sustainable employment. Making sure that a house-price collapse does not do serious harm to the aggregate economy in no way eliminates sharp declines in house prices and so does not provide insurance against such declines. The same reasoning holds true for stock prices."

10:03 09/04 **US OUTLOOK:** "We expect modest Fed easing at its next two meetings. Administration proposals to reduce foreclosures and ease financial impacts on low income homeowners were well-received. This weeks post-Labor Day releases will give some indication of the effects of the financial market turbulence to date on spending, business activity and employment." - Peter Kretzmer, Sr Economist at BA.

Yield Curve Spreads			
	TC	PDC	Diff
2/5	12.60	11.10	(1.50)
5/10	29.70	28.20	(1.50)
10/30	28.20	29.00	0.80
2/10	42.30	39.30	(3.00)
5/30	57.90	57.20	(0.70)
2/30	70.50	68.30	(2.20)



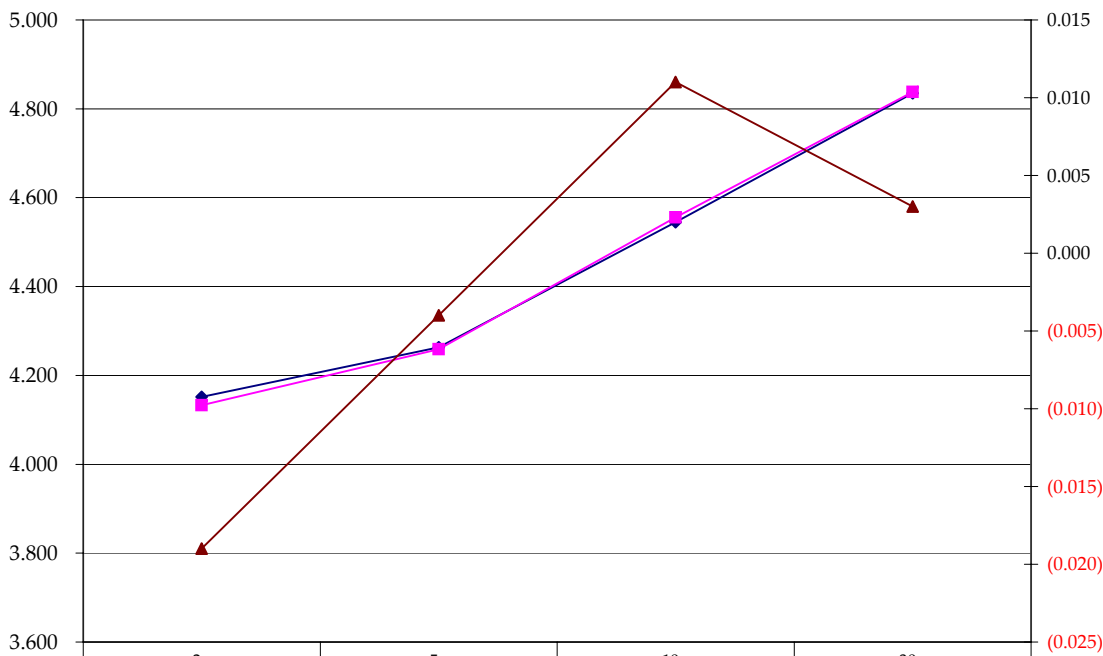
Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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

	Cpn	Mty	PDC 32	PDC	TC	Diff	Basis	
							PDC	TC
2y	4.000	8/31/09	99.2275	4.152	4.133	(0.019)		
5y	4.125	7/31/09	99.1225	4.263	4.259	(0.004)	23.20	21.80
10y	4.750	8/15/17	101.200	4.545	4.556	0.011	87.37	83.87
30y	5.000	5/15/37	102.19	4.835	4.838	0.003	-677.94	-677.72

	PDC 32	TC
ZF	106.225	106.245
ZN	109.015	109.015
ZB	111.18	111.130

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



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**

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	5.078	-3.625	9505.438
Q.ED.Red	4.738	1.250	9538.125
Q.ED.Green	4.949	0.500	9517.750
Q.ED.Blue	5.160	1.000	9497.500
Q.ED.Gold	5.368	1.875	9477.500
Q.ED.Purple	5.368	1.875	9477.500

**Fed Funds Daily Effective Rate  
Minus US Treasury Yields**

Spread Name	Diff bps	Net Chng	08/14/2007
Fed Funds - 2yr yield	82.7	-3.6	44.6
Fed Funds - 5yr yield	70.1	-5.5	31.5
Fed Funds - 10yr yield	40.4	-7.1	8.2
Fed Funds - 30yr yield	12.2	-5.3	-17.7
GFER	4.96	-4.0	

GFER = Fed Funds Daily Effective Rate

Why 8/14/2007?

Pre-CPI (& Post PPI) is a good benchmark when the FED is focused on inflation.

