

The Afternoon Email

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

**All times Eastern**

15:32 09/05 **US TSYS/RECAP:** US Tsys rallied Wed on 1) weak economic data (-12.2% NAR July pending home sales, +38K ADP Aug. private payrolls.); 2) Weak global stocks: DJIA -1.14%; 3) morning short-covering as ABCP woe resumes; 4) ECB said wd "contribute to orderly conditions" if euro money mkt volatility persisted; 5) fast money, bank buying 2Ys, similar bid in 3Ys, 6) some Street and buy-and-hold acct profit-taking in 2Ys, also later profit-taking in intermediates. 7) US\$ 3m LIBOR rate "not coming off;" 8) T-bills bid amid ABCP jitters; 9) fast money profit-taking in intermediates; 9) real money sold 2Y futures while 10) corporate real money acct bought 10Y, 30Y futures; 11) swap flows light. 12) Lots of Eurodlr option flows around ECB comment above; 13) There is also buy Tsys/sell risky assets. 14) Some mixed MBS buying. 15) 5Y/30Y flattener too. 16) WSJ:Radian/MGIC merger off. 17) Safe-haven bid earlier as German police arrest 3 accused of plot to target US base; 18) beige Bk: All but 4 Fed districts saw continuing growth pre-Aug 27,4 distrs slowed.

15:07 09/05 **US EURODLR/SWAPS:** Spreads end wider but off intraday wides. Flows said to be light but focused on curve steepener plays. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed CLOSE	+2.00/79.50	+1.00/74.25	+0.25/70.25	+0.00/64.50
Wed 10:25	+3.00/80.50	+2.25/75.50	+1.50/71.50	+1.50/66.00
Wed 8:20	+3.25/80.75	+2.00/75.25	+1.75/71.75	+1.50/66.00
Tues: 3:20	+2.75/77.75	+1.75/73.25	+0.75/70.25	+2.00/64.75
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)

15:16 09/05 **US AGENCIES:** "I think we have a real problem on our hands," said a trader of today's general action of stocks slammed, swap and GSE spreads wider and Treasuries assaulting the 4.00% level in 2Y. "I think that few traders were mentally ready for another day like this and P&Ls will reflect the ugly side. I have not heard one happy voice today." Indications as follows - Freddie June'09 +55 according to TradeWeb and other screens (vs Tuesday's 3PM mark of +53.5); Fannie July'09 +55.5 (+53); Fannie Mar'10 +56.5 (54); Freddie Aug'10 +58 (+56); Fannie May'12 +53.5 (+52); Freddie Aug'12 +54.5 (+53); Fannie June'17 +56.5 (+55.5); Freddie Aug'17 +56.5 (+56); Fannie Nov 2030 +52.5 (+52); Freddie Jul'32 +52 (+51.5). Freddie prices \$3B new 5-year Reference Notes in the morning. It's been a good sale, most agree. Good foreign players as well as domestic. Official guidance remains the dreaded "within the context of the market." If it remains near +2 vs FRE Aug'12, look for +56.5 area but who knows what will transpire overnight.

15:11 09/05 **US SWAPTION VOL:** Uncertainty has played a key roll in swaption premiums today as levels are pumped across the surface. Several dealers said flows have been light despite the appearance of vol buying. However, some say vols would be even more jacked if MBS had performed poorly today. Their nice ride today has put some pressure on 2Y/5Y and

2Y/10Y vol, some say. According to GovPx.

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Wed Close	93.0 bps	693.0 bps	543.2 bps
Wed 10:25	92.2 bps	691.2 bps	539.0 bps
Wed 8:20	90.5 bps	685.0 bps	538.4 bps
Tues 3:20	92.0 bps	683.6 bps	536.6 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

MarketNews
International

Stone & McCarthy
RESEARCH ASSOCIATES

08:32 09/05 **US DATA REACT:** Ian Shepherdson, Chief U.S. Economist at HFE, says "evidence is starting to emerge that the labor market is finally cracking - and of course these data do not reflect the fallout from the market turbulence." He says 2 soft mos in ADP "is more than curious, especially given the increase in jobless claims." He's lowered his est for Aug payrolls to +100k (was +120k).

14:00 09/05 **US DATA:** Fed beige book prepared for Sept 18 FOMC: "econ activity has continued to expand" -- but a slower pace is seen in Philly, Richmond, Dallas and SF dists. "Outside of real estate, reports that the turmoil in fin'l mkts had affected econ activity during the survey pd were limited." Tighter lending for residential mtgs "was having a noticeable effect" on housing. Book was prepared using info gathered before Aug 27, was compiled at Cleveland Fed. This could have been too early to show the full effects of credit problems. Retail sales were positive, mfg activity expanded, employment had modest gains. Little change in overall prices pressures seen, and wage pressures were intense only in isolated professions.

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[Excerpt from] Preview-> Q2:07 Productivity and Unit Labor Cost Revisions by Joe Liro, PhD--

IMPLICATIONS FOR MONETARY POLICY

Last month's benchmark revision to the National Income and Products Account data which impacted productivity growth caused the Federal Reserve to lower its internal estimate of what it believes to be potential non-inflationary economic growth. The upward revision to second quarter productivity and the downward adjustment to unit labor costs should be welcomed news by both the Federal Reserve and by financial market participants. Stronger growth in productivity could give Federal Reserve policy-makers more confidence that they can address the turmoil in the financial markets without running an undue risk of triggering greater inflation.

The next FOMC meeting is on September 18 and we expect the FOMC to validate its 50 basis point cut in the discount rate on August 17 by lowering the target funds rate to 5% from its current 5.25%. Based on a SMR forecast that second half GDP growth will be well below trend and that headline inflation numbers will continue to improve, we expect the Federal Reserve to slowly lower the fed funds rate steady over the balance of the year to end 2007 at 4.5% or so.

10:00 09/05 **US DATA:** July NAR pending home sales index -12.2% to 89.9, vs 102.4 in June. It is also -16.1% YOY and fell in all regions. NAR blames mortgage disruptions -- contracts are not closing because mtg commitments are falling through at the last minute.

10:25 09/05 **US DATA REACT:** From economist Chris Low at FTN: "pending home sales index plunged 12.2% in July, suggesting weak home sales were in the works in August and September even before wholesale funding dried up in August." He also says ADP employment report "does not correlate very well with the national employment series on a month-to-month basis," but it does suggest "that job growth continues to slow."

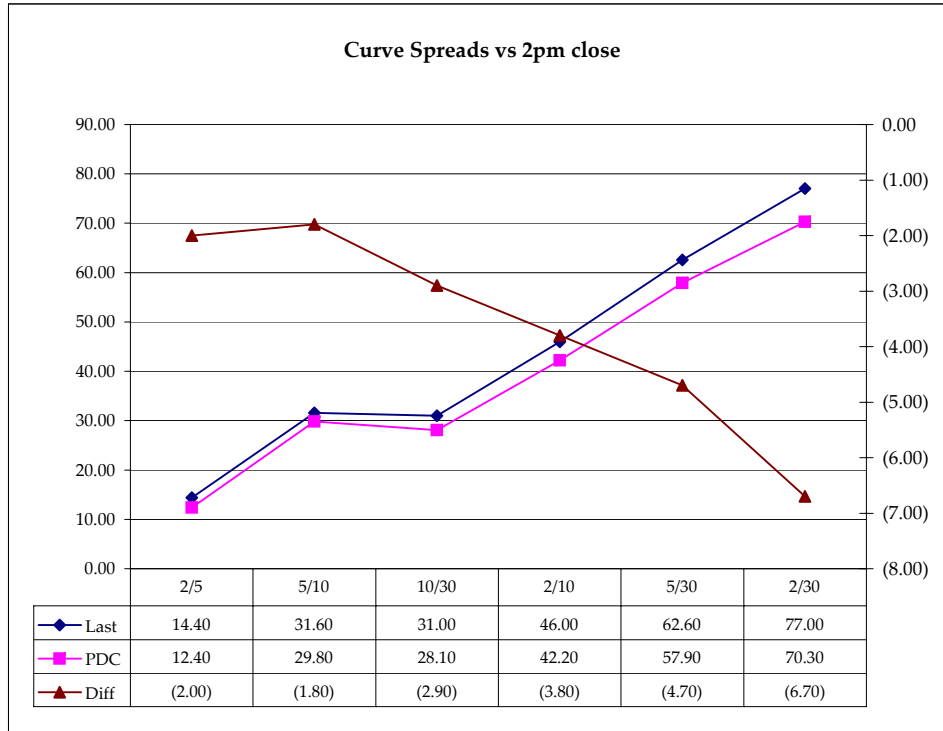
Fed Will Resist Discount-Rate Cut Before Meeting, Goldman Says 2007-09-05 06:48 (New York)

By Agnes Lovasz

Sept. 5 (Bloomberg) -- The U.S. Federal Reserve will resist cutting its discount lending rate before the next scheduled meeting because doing so may cause "significant turbulence" to global markets, according to Goldman Sachs Group Inc....

[Thanks Gabe!]

Yield Curve Spreads			
	TC	PDC	Diff
2/5	14.40	12.40	(2.00)
5/10	31.60	29.80	(1.80)
10/30	31.00	28.10	(2.90)
2/10	46.00	42.20	(3.80)
5/30	62.60	57.90	(4.70)
2/30	77.00	70.30	(6.70)



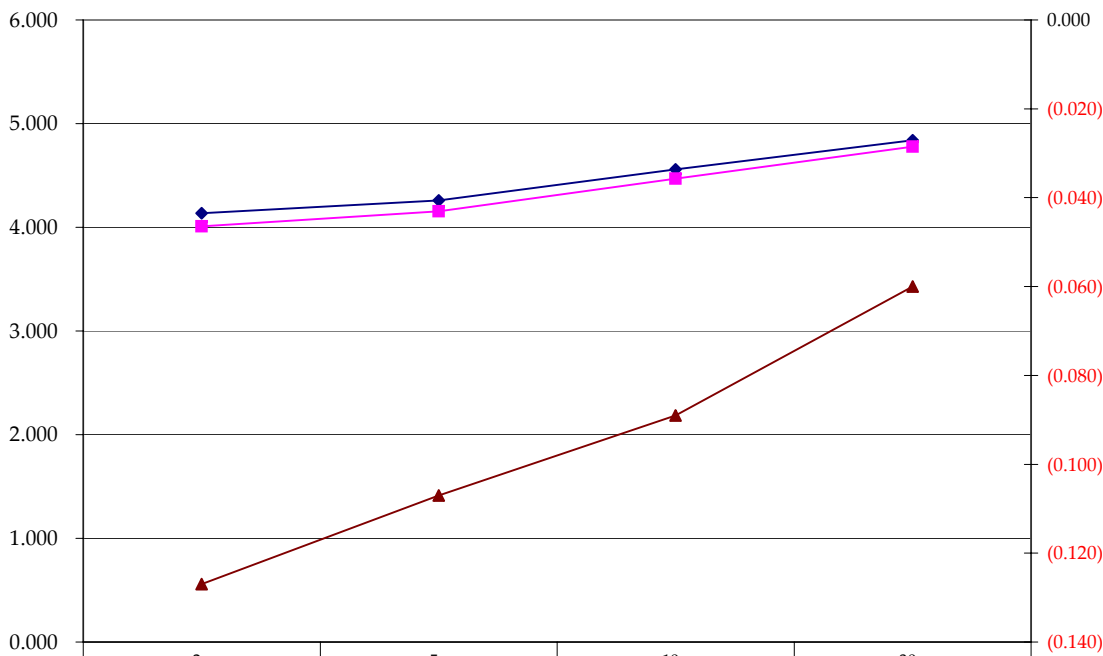
Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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	99.2375	4.136	4.009	(0.127)		
5y	4.125	7/31/09	99.1275	4.260	4.153	(0.107)	22.32	22.94
10y	4.750	8/15/17	101.165	4.558	4.469	(0.089)	83.87	86.37
30y	5.000	5/15/37	102.14	4.839	4.779	(0.060)	-680.72	-675.59

	PDC 32	TC
ZF	106.240	107.075
ZN	109.015	109.230
ZB	111.13	112.070

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



	2y	5y	10y	30y
◆ 2pm CIs	4.136	4.260	4.558	4.839
■ Last	4.009	4.153	4.469	4.779
▲ Diff	(0.127)	(0.107)	(0.089)	(0.060)

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

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.975	9.750	9515.313
Q.ED.Red	4.610	12.500	9550.375
Q.ED.Green	4.849	10.125	9527.375
Q.ED.Blue	5.076	9.000	9505.500
Q.ED.Gold	5.303	8.125	9483.750
Q.ED.Purple	5.303	8.125	9483.750

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

Spread Name	Diff bps	Net Chng	08/14/2007
Fed Funds - 2yr yield	121.1	37.6	44.6
Fed Funds - 5yr yield	106.7	36.4	31.5
Fed Funds - 10yr yield	75.1	34.0	8.2
Fed Funds - 30yr yield	44.1	31.5	-17.7
GFER	5.22	26.0	

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.

