

## **The Afternoon Email**

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

**All times Eastern**

15:03 09/06 **US TSYS/RECAP** US Tsys ebbed Thurs amid better hedge fund, portfolio, real money selling in belly, but also foreign central bank buying in short end & 5s, buying of US Tsys intermediates/MBS selling, end-user buying shorter Tsys. Afternoon saw lower range-trade, some profit-taking, short-setting ahead of Aug. jobs out Fri, and also corps receiving in US swaps, real money receiving in intermediates, servicers rolling to higher Tsys options strikes, and heavy put buying in event of downside on Fri. But there also was some late short-covering off lows. 2/30Y Tsys curve flattened: was better 30Y buying vs. 2Ys, mixed action in 10-yrs as levered accounts, banking portfolios and real money sold the sector while overseas accounts including bk portfolios were buyers of 10-Yrs. Fed speakers seemed to downplay odds of a US rate cut. In futures, sources said real money corporate related accounts bought Dec T-bds and were moderate sellers of Dec 2s. Some eyed mild ABCP bid. ECB 3mo refi allotment for Sep 12, which has no preset allotment amt.(More)

15:18 09/06 **US TSYS/RECAP II:** On a 3p.m. Wed to 3:00 pm ET Thu basis close, the cash 2-year note yield rose 5.6 bps to 4.068%. The 3-year yield rose 5.1 bps to 4.073%, while the 5-year rose 3.9 bps to 4.194%. The 10-year yield rose 2.9 bps to 4.502%, and the 30-year yield rose 1.1 bps to 4.791%. The 2-year/5-year curve flattened 1.7 bps to +12.6 bps, the 2-year/10-year flattened 2.7 bps to +43.4 bps, and the 2-year/30-year flattened 4.5 bps to +72.3 bps.

15:02 09/06 **US EURODLR/SWAPS:** Spreads tightened throughout the session in what dealers described as busier activity. The corp calender brought in decent receiving and there too was some outright real money receiving in the belly as some have gotten "more comfortable" with the current money market situation, some say. Lots of 3-month resets going through in eurodollar futures which has sparked lots of Sep/Dec

trading and activity in the Sep 43 puts, sources say. According to GovPX:

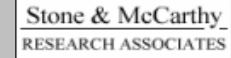
Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thurs 3:00	-2.25/77.25	-2.50/71.75	-2.25/68.00	-1.50/63.25
Thurs 9:30	-2.00/77.50	-1.50/72.75	-1.75/68.50	-1.50/63.00
Thurs 8:00	-1.25/78.25	-1.25/73.00	-1.50/68.75	-1.00/63.50
Wed 3:20	+2.00/79.50	+1.00/74.25	+0.25/70.25	+0.00/64.50
Tues 3:20	+2.75/77.75	+1.75/73.25	+0.75/70.25	+2.00/64.75
Fri 1:00	-1.25/74.00	-1.00/71.25	-1.75/69.50	+0.00/63.25

**(continued)**

15:31 09/06 **GOLD:** Spot gold holds at \$695.75/oz, on the high side of a \$681.50 to \$697.70 range. Earlier, gold broke above the 2007 high near \$693.60. A close above that level would bode well for a break above psychological resistance at \$700. UBS strategists note talk of a large producer buyback (several million ounces mentioned), which could explain the demand that has caused the sharp run up from the August 16 lows around \$641. "While a break below \$690 would suggest a double top, for the moment, we reckon you have to be flat or long with a tight stop sub \$690," UBS says. On the buy back talk, back in late April/early May, gold companies Lihir and Barrick announced large-scale buybacks that served to underpin gold at the time. After closing around \$663 in March, gold peaked at \$693.60 in April and \$690.80 in early May.

15:06 09/06 **US SWAPTION VOL:** While vols has experienced some fast money sellers this was more prevalent at the Board (tsy options), source say. Servicers were rolling today in the 10Y tails. Still, sources remind that there is much ahead on the calender, which is keeping vol firm. According to GovPx.

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Thurs 3:00	93.0 bps	691.6 bps	539.6 bps
Thurs 11:45	93.4 bps	694.6 bps	545.2 bps
Thurs 9:30	93.4 bps	694.3 bps	542.0 bps
Thurs 8:00	92.6 bps	694.6 bps	543.0 bps
Wed Close	93.0 bps	693.0 bps	543.2 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



06:54 09/06 **LIBOR**: 3-month sterling Libor rate fixing at 6.8775% -- highest level since November 1998.

11:01 09/06 **US-CHINA/FED**: SF Fed conference on "Asian Banking: Challenges and Opportunities" is the final conference in SF Fed's Asian Financial Crisis series and gets underway now with SF Fed Pres Yellen making introductory remarks. Featured speakers include Dominic Barton, Chairman of McKinsey & Co.-Asia, Andrew Crockett, President of JPMorgan Chase International, and Tarisa Watanagase, Governor of the Bank of Thailand.

11:00 09/06 **FED**: St Louis Fed Pres Poole (FOMC voter), in a London speech on 'Jobs and Trade,' says it is incumbent upon policy makers "to maintain a commitment to free and open trade," and argues this is beneficial to all in the long-run. He says US labor mkt is 'strong' but does not comment on the overall economy or Fed policy.

**[QUOTES OF THE DAY]**

12:29 09/06 **FED**: Poole said Fed will not be pushed into rate cuts by mkts.

12:32 09/06 **FED**: Poole said Fed never cuts rates just to bail out mkts.

14:15 09/06 **US TSYS/FED**: While some eyed the Fed speakers basically appearing not to promise any US rate cut, one trader said the Fed should cut the fed funds rate by 25 bps more so to assuage liquidity crisis worries, than to spur major economic relief. "If 25 bps more is not going to kill the economy, then 25 bps less will not hurt the economy, but it will make people feel better," said one trader. "We are having a liquidity crisis," he added. Speaking of liquidity the Fed added today about US\$31B in liquidity to the banking system, in 3 rounds of open market operations.

Table I—Forecast Summary	July	SMRA Est August	Survey Medians	
			MNI Sep 5	BBG Sep 5
Payrolls (000s)	92	95	100	102
Private (000s)	120	87		
Construction (000s)	-12	-4		
Manufacturing Payrolls (000s)	-2	-15	-10	-11
Workweek (hours)	33.8	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	0.3
Unemployment Rate (%)	4.6	4.7	4.7	4.6

**Raymond Stone, rstone@smra.com**

--Stone & McCarthy (Princeton)-- "Initial Unemployment Claims in the week ended September 1 dipped 19,000 to 318,000, from an upwardly revised (and elevated 337,000) in the prior week. "...Initial Unemployment Claims is one of the few truly timely indicators, thus the behavior of this series in the weeks immediately ahead may be more influential than usual in policy deliberations."

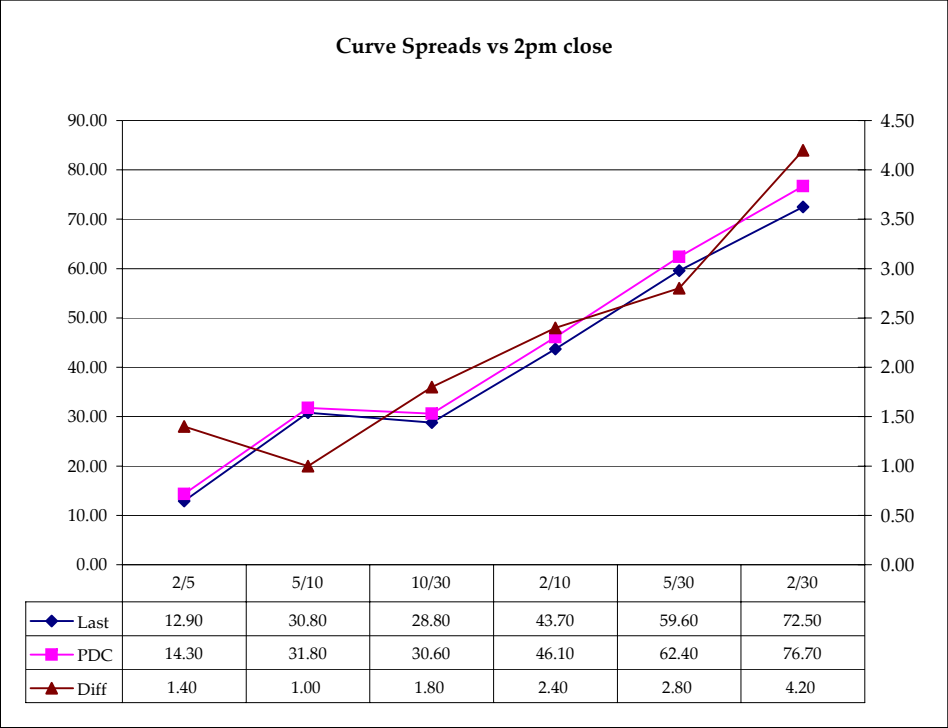
**David Ader - U.S. Government Bond Strategist--** [ on nonfarm release]

In skewing the risks based on aggregating anecdotes and history and think the risk is for a soft report.

**Federal Reserve State of Play - By Steve Beckner, 6 Sept 2007 12:40 EDT / Sep 06**

"...But, while the Fed has certainly indicated a readiness to ease policy to supplement the extensive provision of liquidity it has undertaken, the Fed has made no guarantees."

Yield Curve Spreads			
	TC	PDC	Diff
2/5	12.90	14.30	1.40
5/10	30.80	31.80	1.00
10/30	28.80	30.60	1.80
2/10	43.70	46.10	2.40
5/30	59.60	62.40	2.80
2/30	72.50	76.70	4.20



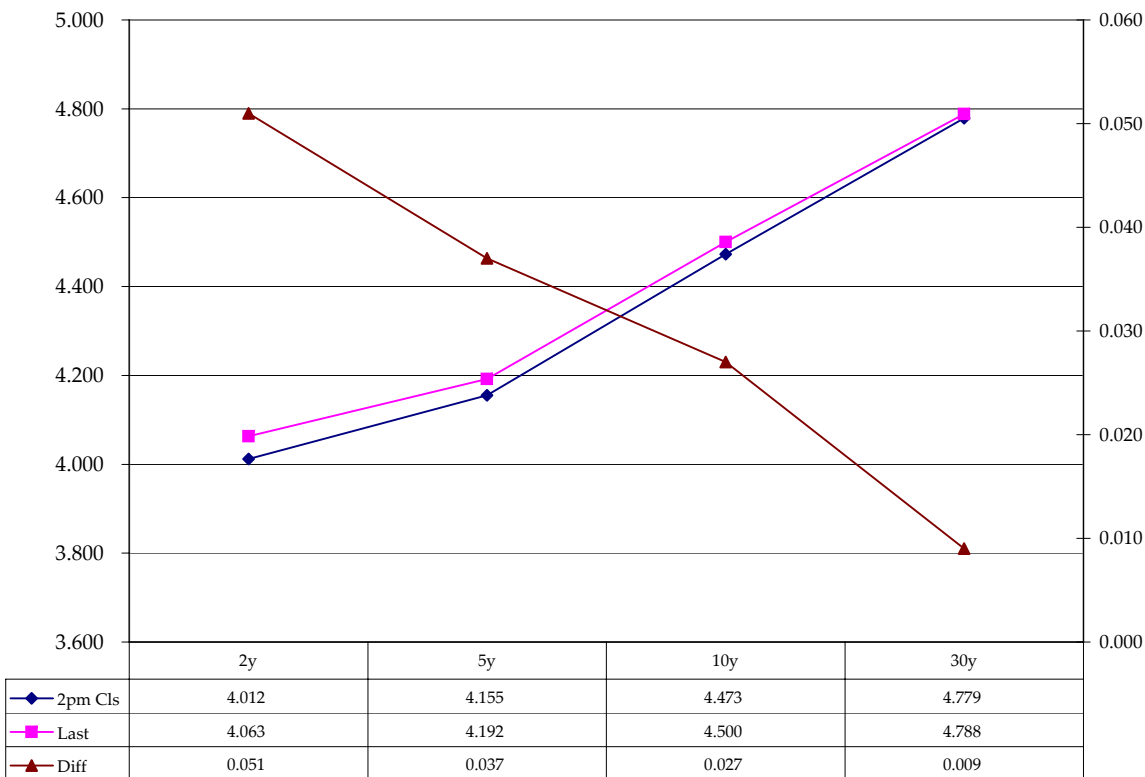
Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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	99.3125	4.012	4.063	0.051		
5y	4.125	7/31/09	99.2775	4.155	4.192	0.037	22.99	23.91
10y	4.750	8/15/17	102.065	4.473	4.500	0.027	86.37	86.18
30y	5.000	5/15/37	103.16	4.779	4.788	0.009	-675.59	-675.54

	PDC 32	TC
ZF	107.075	107.005
ZN	109.230	109.155
ZB	112.07	112.020

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	5.019	-4.187	9511.125
Q.ED.Red	4.646	-3.375	9547.000
Q.ED.Green	4.870	-1.875	9525.375
Q.ED.Blue	5.079	-0.125	9505.250
Q.ED.Gold	5.309	-0.875	9483.125
Q.ED.Purple	5.309	-0.875	9483.125

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

Spread Name	Diff bps	Net Chng	08/14/2007
Fed Funds - 2yr yield	111.7	-10.3	44.6
Fed Funds - 5yr yield	98.8	-8.6	31.5
Fed Funds - 10yr yield	68.4	-7.5	8.2
Fed Funds - 30yr yield	39.2	-5.6	-17.7
GFER	5.18	-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.

