The Afternoon Email

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

All times Eastern

15:06 09/07 **US TSYS/RECAP**: US Tsys staged huge rally on 1) weak -4,000 Aug nonfarm payroll jobs, 2) real money buying amid varied buying; 3) huge call buying; 4) MBS convexity move spurred 5Y, 10Y US Tsys buying, huge swaps receiving too. 5) 10-year rally broke big chartpoint:4.40%. 6) Morning had end users buy 10s, real money buy intermediates while lvrgd accts bought 3Ys, also mild profit-taking at highs, with leveraged selling both 2- and 3Y- vs. 10Ys. 7) Foreign central banks did mixed flow: mild foreign central bank selling in 5Ys earlier, morning central bank buying in T-bills and pm. central bank buying in 5Y, 10Ys, while other central banks sought earlier to sell, but amid rally, market sliced through targets so cd not sell. 8) Some other accts sought to fade the rally, and had to buy quickly as it powered further higher. 9) Yen carry trade unwinds as some sold risky debt hldgs funded in yen. 10) Others eyed SIV, SIV-lite need to sell ABS before quarter-end;ABXs weak. 11) Some reluctant to sell risky debt as not getting hoped-for prices.

15:01 09/07 **US EURODLR/SWAPS**: Spds off the intraday tights but still narrower on the day after MASSIVE receiving in 5Y and 10Y by MBS accts, mainly servicers. The same accts said to be buying low strike receivers in swaptions, as well as bought tsys and MBS, sources confirm. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:00	-1.25/76.00	-1.75/70.00	-2.25/65.75	-3.00/60.25
Fri 12:30	-2.25/75.00	-3.00/68.75	-3.25/64.75	-3.75/59.50
Fri 9:15	+0.00/77.25	-0.50/71.25	-1.00/67.00	-1.50/61.75
Fri 8:40	+0.50/77.75	+0.75/72.25	+0.00/68.00	+0.00/63.25
Fri 8:20	-0.50/76.75	+0.50/73.00	+0.50/68.50	+0.75/64.00
Thurs 3:00	-2.25/77.25	-2.50/71.75	-2.25/68.00	-1.50/63.25
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

(continued)

15:05 09/07 **US SWAPTION VOLS**: Swaption vols firmer on the day, but off the intraday highs and remain very closely correlated to swap spds today for the first time in a while. Flows were earmarked by mtg accts buying low strike receivers in intermediates, action not reported of late despite the big Tsy rally this summer. Volume heavy. According to GovPx.

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Fri 3:00 pm	98.4 bps	709.8 bps	555.4 bps
Fri 12:30	97.4 bps	713.6 bps	553.8 bps
Fri 9:15	89.5 bps	686.8 bps	539.4 bps
Fri 8:40 am	90.2 bps	688.5 bps	540.5 bps
Fri 8:20 am	92.8 bps	689.8 bps	537.2 bps
Thurs 3:00 pm	93.0 bps	691.6 bps	539.6 bps
Thurs 8:00 am	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

MarketNews international

08:53 09/07 **US TSYS/RESEARCH**: David Ader, head of U.S. bond strategy at RBS Greenwich Capital, noted that the prices of the US Treasury market has "just passed clean resistance areas - 3.96% in 2-years, 4.44% in 10-years, 50 bp in 2s/10s - and so a close under marks AN UPSIDE BREAK. We would play for that given pace of this eakness. Note that the range on nonfarm payroll days for 10s is about 11 bp and so vs. 4.51% high today, then a move to 4.40% is reasonable just to meet the average range."

09:11 09/07 **FED/OPINION**: From Dr Neal Soss of Credit Suisse - "We are lowering our Fed funds forecast, and now expect a cumulative 75 basis points cut in the target rate to 4.50% by the end of this year. We expect further cuts in the discount rate, possibly by a greater magnitude than the drop in the funds rate. Fitting the pattern of past financial panics, our bias is to expect a re-tightening of monetary policy in 2008, more likely in the second-half of the year than the first half."

10:02 09/07 **BUNDS/TSYS:** The yield on the 2-year Schatz is trading above 2-year Note -- for the first time since Sept 2004.

10:01 09/07 **FED**: Sources are pondering if there is a signal to be read in the Fed's $2b weekend repo completed earlier, done with Fed funds under the 5.25% target rate. Could this be the first signal of ease??

11:15 09/07 **FED/OPINION:** Via Lehman Brothers - "Signs of disorder persisted this week, particularly in the money market. We continue to look for the Fed to cut rates by 25bp at each of its next two meetings, but the risk of more rapid rate cuts is rising."

Stone & McCarthy RESEARCH ASSOCIATES

--Stone & McCarthy (Princeton)--The second quarter data on **mortgage delinquencies** and foreclosures show once again that the problems in the mortgage market are not confined to the subprime sector. The share of prime ARMs past due increased to a record level, and the share of prime ARMs entering foreclosure also set a new record. The share of prime fixed-rate loans is also at the top of its historical range. Some regions saw a leveling off or small declines in the share of prime ARMs entering foreclosures, which is a positive development. Still, the inventory of homes in foreclosure continues to climb, and is approaching its historical high. That adds to the supply of unsold homes, and puts further downward pressure on home prices, all else equal. ---Nancy Vanden Houten

"The market has lost some confidence in the Fed because policymakers have done little to remedy the perception that subprime-related credit problems caught the Fed flatfooted initially, and that policymakers still do not have their hands around the ongoing credit market problems. This lack of confidence is a contributing factor to the money market dislocations that persist despite Herculean central bank efforts to provide liquidity and stability. In this era of transparency, the Fed behavior has been puzzling and contrasts with the frank approach adopted by FDIC Chair, Sheila Bair." ---Ward McCarthy,

MarketNews international

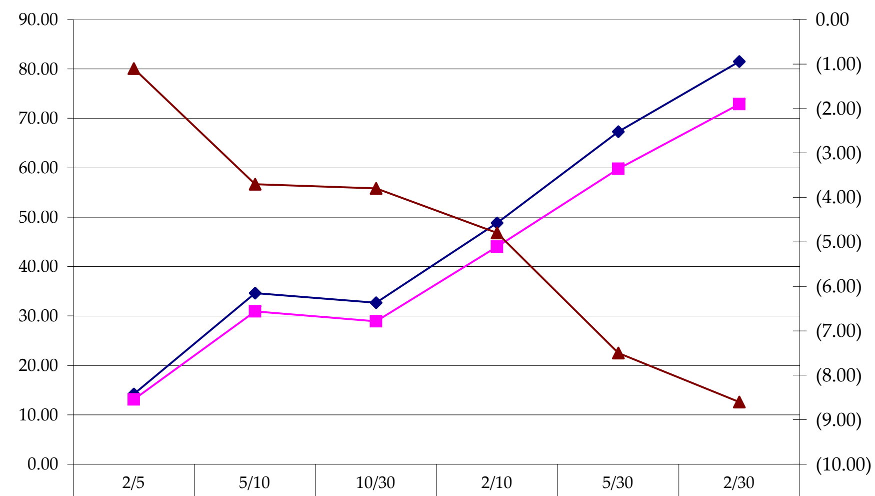
11:37 09/07 **US TSYS/ABCP**: (Clarification of the 11:32 ABX/ABX bullet) Besides technicals and fundamentals, there is risk-aversion pumping up US Tsys amid expected/actual selling of ABS holdings held by SIVS (Special Investment Vehicles) and SIVS-lites, said traders; such selling is to go ahead before the Sept. 28 quarter-end; the reason is due to the fact that such SIVS cannot roll over Asset-Backed Commercial Paper (ABCP) amid investor reluctance to buy.

Federal Reserve State of Play - By Steve Beckner

A surprisingly weak August employment report cemented expectations for Fed interest rate cuts, and those expectations seem unlikely to be disappointed. Officials have been guarded about what they might do at their Sept. 18 Federal Open Market Committee meeting. But the only question for Fed watchers is not whether it will cut rates, but by how much. Most think the Fed will cut the federal funds rate 25 basis points, but the dreary job numbers spurred talk it may slash by 50 basis points. Instead of the expected 100,000 gain, the Labor Department said non-farm payrolls fell by 4,000 -- the first outright drop in four years, amid widespread job losses. Prior months were revised down by 81,000.

Curve Spreads

	Yield Curve Spreads		
	TC	PDC	Diff
2/5	14.20	13.10	(1.10)
5/10	34.60	30.90	(3.70)
10/30	32.70	28.90	(3.80)
2/10	48.80	44.00	(4.80)
5/30	67.30	59.80	(7.50)
2/30	81.50	72.90	(8.60)



	2/5	5/10	10/30	2/10	5/30	2/30
Last	14.20	34.60	32.70	48.80	67.30	81.50
PDC	13.10	30.90	28.90	44.00	59.80	72.90
Diff	(1.10)	(3.70)	(3.80)	(4.80)	(7.50)	(8.60)

Notes:

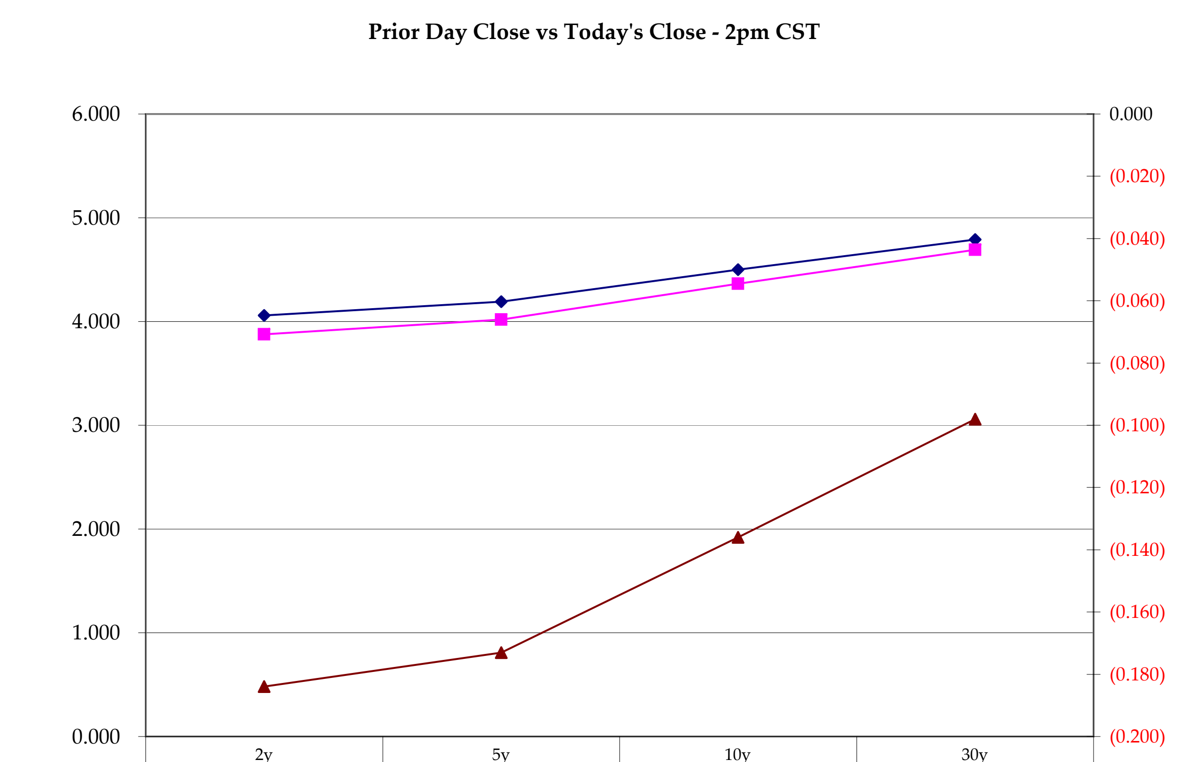
TC = Today's Close at 2pm

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	Basis TC
2y	4.000	8/31/09	99.2800	4.060	3.876	(0.184)		
5y	4.125	7/31/09	99.2250	4.191	4.018	(0.173)	24.21	27.64
10y	4.750	8/15/17	101.315	4.500	4.364	(0.136)	85.72	89.34
30y	5.000	5/15/37	103.10	4.789	4.691	(0.098)	-675.54	-670.06

	PDC 32	TC
ZF	107.005	107.235
ZN	109.160	110.175
ZB	112.02	113.110



	2y	5y	10y	30y
2pm Cls	4.060	4.191	4.500	4.789
Last	3.876	4.018	4.364	4.691
Diff	(0.184)	(0.173)	(0.136)	(0.098)

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	4.832	18.000	9529.125
Q.ED.Red	4.437	20.250	9567.125
Q.ED.Green	4.666	19.500	9545.000
Q.ED.Blue	4.875	19.500	9524.875
Q.ED.Gold	5.101	18.625	9503.125
Q.ED.Purple	5.101	18.625	9503.125

Fed Funds Daily Effective Rate

Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	08/14/2007
Fed Funds - 2yr yield	110.4	1.1	44.6
Fed Funds - 5yr yield	96.2	-0.3	31.5
Fed Funds - 10yr yield	61.6	-5.1	8.2
Fed Funds - 30yr yield	28.9	-9.0	-17.7
GFER	**4.98**	-20.0	

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.