

## **The Afternoon Email**

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

**All times Eastern**

15:28 09/11 **US TSYS/RECAP:** US Tsys dip amid 1) Tues p.m. profit-taking after Mon, Tues rally on weak jobs, and as US stocks gain. Morning had 2) 2-way flow, short-covering after initial choppiness as Fed Chairman Bernanke did not address policy, which dimmed hope for 50 bps rate cut, let alone 25bp. Followed 3) MBS convexity bid, aided Tsys; 4) foreign selling in Tsys as US-European rate difference narrows, US\$ weak. 5) NY morn had bank, fast money profit-taking in 2Ys. 6) But was bk buying in intermediates, buy-and-hold acct buying surfaces in 3Ys. 7) Also fast money selling in 2Ys, hedge fund profit-taking in 5s. 8) Lvrge acct buying in 10Ys, 30Ys. 9) Oil gains hurt Tsys (inflationary) in p.m. 10) Some downplay qtr-end concerns for bks, though others still concerned on ABCP rollover, SIVs though stress are different woes. 11) P.m. saw front end unwind ongoing for heavy rate cut hope, or at least delayed. 12)

Strong Sep roll volume before Fri expiration. 13) Vols softer as market came off, consistent bear bias flow. 14) Vol sellers in 5Y, 10Y Tsys.

15:06 09/11 **US EURODLR/SWAPS:** Spds off early tight, wider across the curve as

Tsy ylds push higher as equities post strong gains. After some Asian account receiver-tied support of 10s overnight and general support for spreads in the intermediates, sources reported additional swap tied support in Eurodollar 3-year bundles while Treasury sources reported modest flow in early trade. Post Bernanke, sources reported some fast money-tied receiving in Tsy 10s. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+0.50/77.75	+0.50/69.75	+0.50/66.00	+1.00/61.75
2:00	+0.25/77.50	+0.25/69.50	+0.50/66.00	+0.75/61.50
12:30	+0.25/77.50	-0.25/69.00	+0.00/65.50	+0.50/61.25
11:10	+0.75/78.00	+0.00/69.25	+0.00/65.50	+0.25/61.00
9:45	+0.25/77.50	-0.50/68.75	-0.75/64.75	-0.25/60.50
8:45	-0.25/77.00	-1.00/68.25	-1.00/64.50	-0.50/60.25
Tue Open	-0.75/76.50	-1.00/68.25	-1.00/64.50	-0.50/60.25
Mon 3:00	+1.50/77.25	-0.75/69.25	-0.25/65.50	+0.50/60.75

**(continued)**

15:03 09/11 **FED:** Market News International's survey of the 21 primary dealerships shows 14 call for a 25 basis point rate cut at the September 18 Federal Open Market Committee meeting, while 5 look for a half-point cut in the target. See MNI main wire story for details.

15:09 09/11 **US SWAPTION VOLS:** Vols at or near last week's highs by the bell. On the heels of the rather rangy conditions that ensued, many sources said volume was muted as accounts hit the sidelines awaiting the front end to "normalize ahead of next Tuesday's FOMC announcement." Others, however, said there was some agency-tied hedging via swaptions which coincided with a Fannie Mae \$1 billion r/o 5-year Internet auction Tuesday, while others said overall volume was muted. According to GovPX:

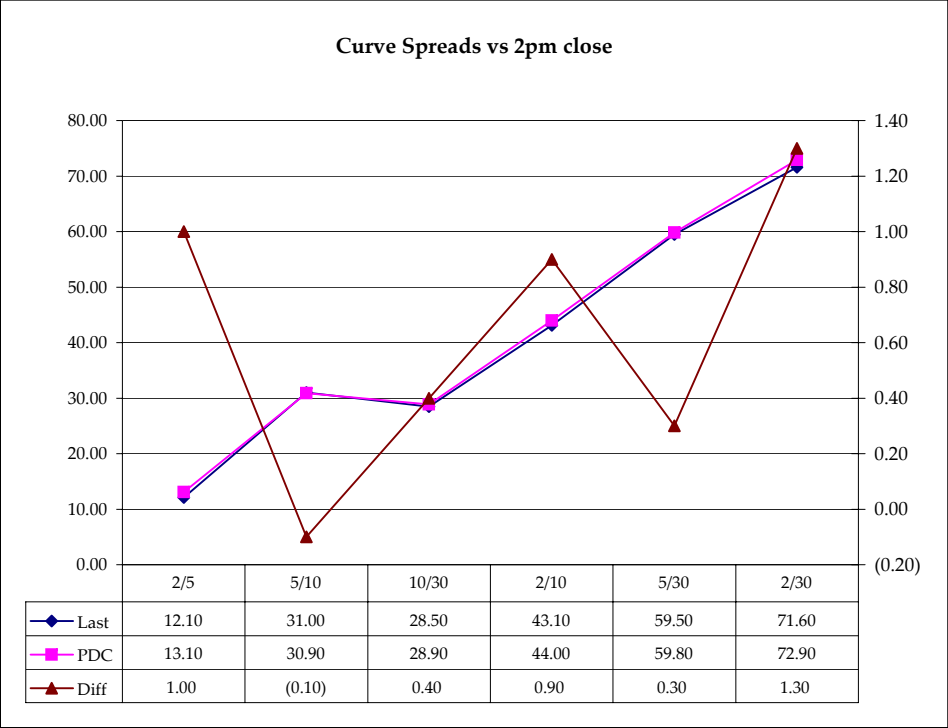
Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:00	94.8 bps	730.4 bps	568.6 bps
12:50	95.6 bps	725.0 bps	569.6 bps
11:15	95.4 bps	721.0 bps	566.0 bps
9:15	95.6 bps	720.6 bps	566.4 bps
Tue Open	97.0 bps	724.6 bps	565.4 bps
Mon 3:00	99.0 bps	725.4 bps	564.6 bps

15:16 09/11 **US TSY FUTURES:** Tsys closed lower on the day with the Dec T-bond ended off 6/32 at 114-00 with 234K traded while the Dec 10-yr settled softer by 11.5/32 at 110-13.5 with 943K traded. The Dec 5-yr notes settled down 10/32 at 107-18 with 474K traded while the Dec 2-yr closed softer by 6.25/32 at 103-16.5 with 185K changing hands.

15:16 09/11 **EURODLR FUTURES:** Eurodlr futures finished broadly lower, at or near session lows while the curve came off earlier flatter levels. On the bell the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 0.875 bps--from 2.50 bps. In the Fronts (Sep07-Jun08), the Sep07 were 4.5 bps lower at 94-33.25 on combined Globex and pit volume of 219,000, the Dec07 lower 14.5 bps at 95-07 on volume of 335,000, the Mar08 14.0 bps lower at 95-54.5 on volume of 329,000, while the Jun08 were 11.5 bps lower at 95-67 on volume of 377,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 7.5 to 9.5 bps lower across the pack with 969,000 contracts traded.



Yield Curve Spreads			
	TC	PDC	Diff
2/5	12.10	13.10	1.00
5/10	31.00	30.90	(0.10)
10/30	28.50	28.90	0.40
2/10	43.10	44.00	0.90
5/30	59.50	59.80	0.30
2/30	71.60	72.90	1.30



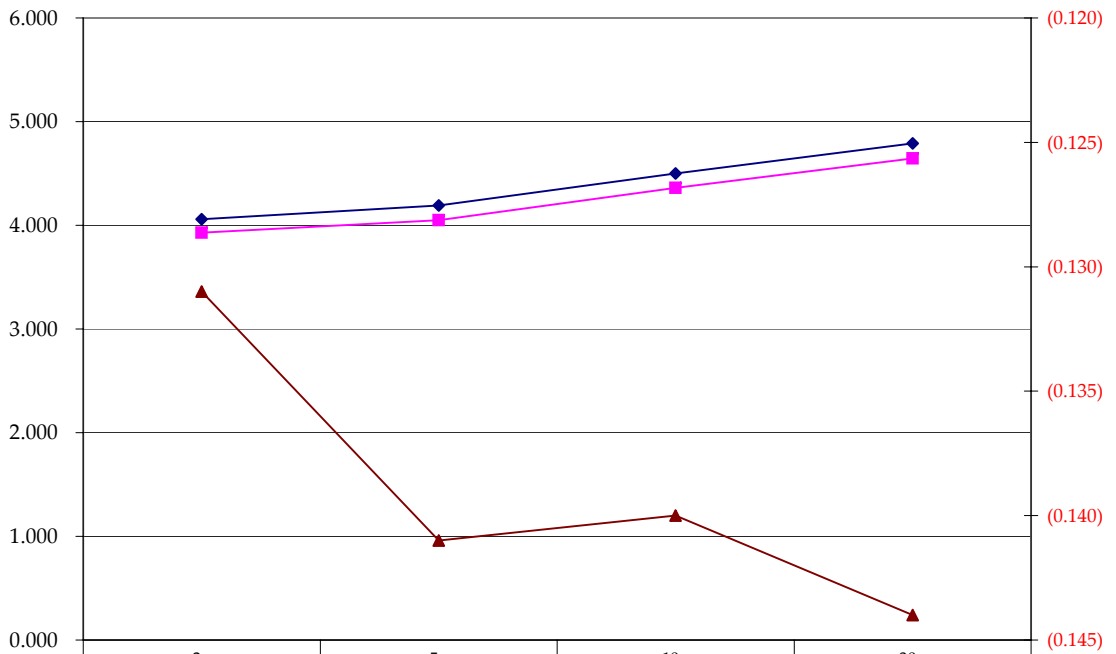
Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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	99.2800	4.060	3.929	(0.131)		
5y	4.125	7/31/09	99.2250	4.191	4.050	(0.141)	24.21	27.73
10y	4.750	8/15/17	101.315	4.500	4.360	(0.140)	85.72	94.97
30y	5.000	5/15/37	103.10	4.789	4.645	(0.144)	-675.54	-661.10

	PDC 32	TC
ZF	107.005	107.180
ZN	109.160	110.135
ZB	112.02	113.250

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



	2y	5y	10y	30y
◆ 2pm CIs	4.060	4.191	4.500	4.789
■ Last	3.929	4.050	4.360	4.645
▲ Diff	(0.131)	(0.141)	(0.140)	(0.144)

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	4.978	-11.500	9515.063
Q.ED.Red	4.464	-8.000	9564.500
Q.ED.Green	4.686	-7.625	9543.125
Q.ED.Blue	4.891	-7.000	9523.375
Q.ED.Gold	5.102	-6.875	9503.000
Q.ED.Purple	5.102	-6.875	9503.000

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	08/14/2007
Fed Funds - 2yr yield	114.1	12.3	44.6
Fed Funds - 5yr yield	102	14.0	31.5
Fed Funds - 10yr yield	71	16.6	8.2
Fed Funds - 30yr yield	42.5	19.8	-17.7
GFER	5.07	21.0	

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.

