

## **The Afternoon Email**

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

**All times Eastern**

15:24 09/18 **US TSYS/RECAP:** US Tsys see wild gyrations after Fed cuts 50-bps in both fed funds rate and the discount rate: initial Tsys rally, then long end hammered amid inflation fears, but short end improves more, big curve steeper moves. Fed cut Fed funds target -50bp to 4.75%, eased DR -50bp to 5.25%, statement says "will act as needed to foster price stability and sustainable econ growth" Votes are both unanimous, 10-0. - Long end hurt by inflation fears, short end feels US economy weak ahead. Banks start to cut their prime rates. Fed funds rate now is 4.75%, discount rate is 5.25%. Stocks rallied. Some accounts did 2Y/10 steepeners, some others buying of 10s. Meanwhile, real money accts sold 10s and bonds before and after the release, both mortgage related. Swappers proved better receivers on rally as spds tightened sharply. Meanwhile bond markets now generally price in one more rate cut by the Fed by yr-end. Some vol sellers after fed. Financing traders applauded Fed doing "what the mkt needed" to stabilize Bds after credit crunch. DJIA +276: 13,679

15:15 09/18 **EURODLR FUTURES:** Eurodlr futures finished sharply higher, curve steeper after Fed cut both funds and discount rates by 50 bps. On the bell the Red/Gold pack spd (Dec08-Sep09) vs (Dec11-Sep12), steepened 8.0 bps at 79.625. In the Fronts (Dec07-Sep08), the Dec07 were 19.5 bps higher at 95-28.5 on combined Globex and pit volume of 573,000, the Mar08 higher 17.0 bps at 95-60.5 on volume of 425,000, the Jun08 15.0 bps higher at 95-71.5 on volume of 505,000, while the Sep08 were 13.0 bps higher at 95-74 on volume of 456,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.5 to 10.5 bps higher across the pack with 975,000 contracts traded.

15:06 09/18 **US EURODLR/SWAPS:** Spds ended session broadly improved after Fed cuts both Fed funds and the discount rate by 50 bps. Receivers across curve in line with move. Early flows were light--usual swap-tied accts did some pos. adjusts, buying Red packs (Dec08-Sep09), while some Tsy sources reported some MBS-tied paying in the intermediates while others could not confirm the flow. Nevertheless, some said fast money accts took profits in MBS, so paying was plausible. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	-4.25/65.50	-3.50/64.75	-2.00/64.25	-5.00/61.75
2:20	-2.75/67.00	-1.75/66.50	-2.00/66.25	-2.00/64.75
2:00	-1.75/68.00	-0.50/67.75	-0.25/68.00	-0.25/66.50
12:00	-1.75/68.00	-1.00/67.25	-0.50/67.75	-0.25/66.50
11:00	-1.50/68.25	-0.75/67.50	-0.50/67.75	-0.25/66.50
9:15	-0.50/69.25	-0.75/67.50	-0.50/67.75	-0.50/66.25
Tue Open	-0.25/69.50	-0.75/67.50	-0.50/67.75	-0.25/66.50
Mon 3:00	+0.25/69.75	+0.50/68.25	+1.00/68.25	+1.75/66.75

**(continued)**

15:09 09/18 **US SWAPTION VOLS:** Passing of Fed event, even one that surprises w/more than expected Fed funds rate cut as well as DR by 50bps, leaves gamma levels lower, while vols in the intermediates to longer end of the surface rebounded--off initial highs post FOMC by the bell. Broker and account activity was subdued ahead of the Fed as everyone was "watching and waiting" for the release, sources said. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:05	87.8 bps	717.2 bps	558.2 bps
2:20	86.8 bps	722.0 bps	561.2 bps
2:00	88.4 bps	715.8 bps	555.6 bps
12:25	88.4 bps	715.2 bps	555.8 bps
11:00	89.0 bps	714.8 bps	556.0 bps
10:00	90.2 bps	715.4 bps	556.2 bps
9:10	94.2 bps	715.0 bps	555.6 bps
Tue Open	94.6 bps	721.2 bps	557.4 bps
Mon 3:00	95.2 bps	719.6 bps	560.6 bps

15:13 09/18 **US TSY FUTURES:** Tsys closed mixed on the day albeit amid a steeper curve with the Dec T-bond ended off 7/32 at 112-25 with 299K traded while the Dec 10-yr settled better by 3/32 at 109-27.5 with 1.03M traded. The Dec 5-yr notes settled up 7/32 at 107-08.5 with 588K traded while the Dec 2-yr closed higher by 4.75/32 at 103-15.75 with 273K changing hands.



14:43 09/18 **FED REACT:** Max Bublitz, Chief Strategist at SCM Advisors says Fed cutting rates 50 bp "was the right thing to do" and opines that "more cuts will follow the rather weak data I expect to see this autumn." He says to watch out for hedge fund redemption issues at the end of Sept or in early Oct.

15:13 09/18 **FED REACT:** Economist David Greenlaw at Morgan Stanley points out "The language in the accompanying statement was more even handed than the special statement that was issued on August 17. There was a reference to the potential intensification of the housing market correction, along with a possible spillover to the broader economy. But, there was also an indication that some inflation risks remain." He says "the outcome of the October meeting will depend on how the Fed's forecast for the economy evolves over the next six weeks."

15:10 09/18 **FED REACT:** Peter Morici, a professor at Univ of Maryland says today's rate cut "along with other rate cuts later, as needed, will avert a recession."

14:57 09/18 **FED REACT:** Andrew Busch, FX Strategist at BMO, says "The market is now looking at expectations for Fed Funds to 4.25% by February. Given the recent drop in import prices and PPI, a lower dollar is a big benefit with little risk on inflation. It pumps up GDP by around .5% per quarter and offsets half of the losses from the housing sector. Bernanke continues the Greenspan put and assists those that made poor credit decisions without the consequences of market discipline. Like a teenager with a car and no curfew, we'll be having more problems down the road from these actions. But for now, who cares?"

14:56 09/18 **FED REACT:** Economist Steve Wood at Insight Economics says FOMC took decisive action, and "the policy statement language changed significantly to reflect the recent slowing of growth and the potential downside risks to the economy caused by the turmoil in the financial markets." He says the Fed "are prepared to do more if the economic situation continues to deteriorate" and calls for more rate cuts ahead.

**Release Date: September 18, 2007**

For immediate release

The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to 4-3/4 percent.

Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. Today's action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.

Readings on core inflation have improved modestly this year. However, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.

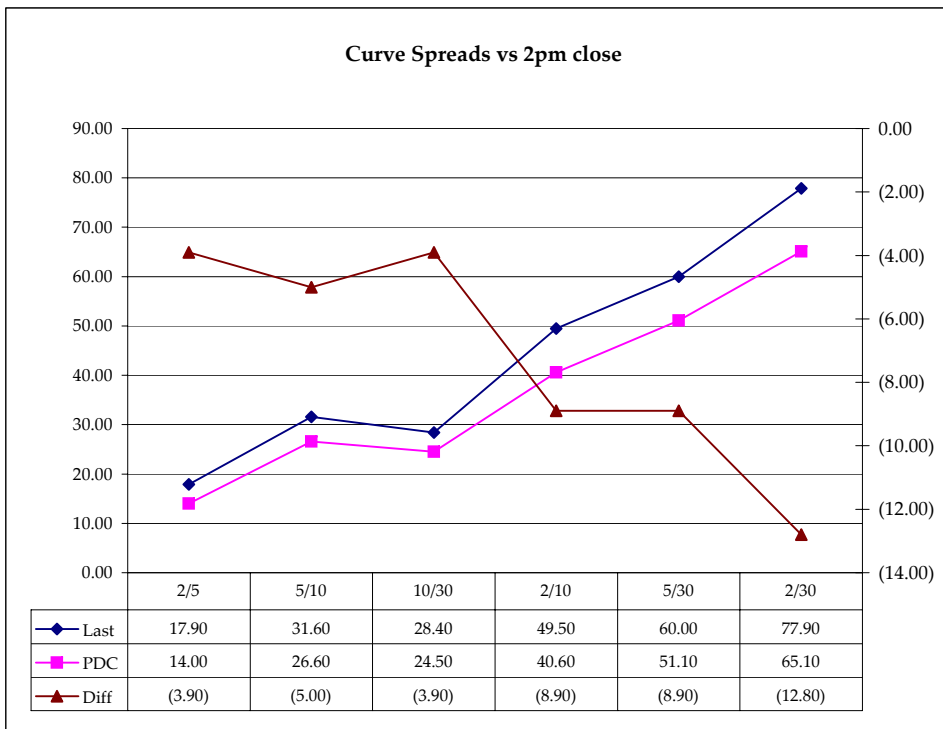
Developments in financial markets since the Committee's last regular meeting have increased the uncertainty surrounding the economic outlook. The Committee will continue to assess the effects of these and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Charles L. Evans; Thomas M. Hoenig; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; William Poole; Eric Rosengren; and Kevin M. Warsh.

In a related action, the Board of Governors unanimously approved a 50-basis-point decrease in the discount rate to 5-1/4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Cleveland, St. Louis, Minneapolis, Kansas City, and San Francisco.

SOURCE: FRB web site

Yield Curve Spreads			
	TC	PDC	Diff
2/5	17.90	14.00	(3.90)
5/10	31.60	26.60	(5.00)
10/30	28.40	24.50	(3.90)
2/10	49.50	40.60	(8.90)
5/30	60.00	51.10	(8.90)
2/30	77.90	65.10	(12.80)



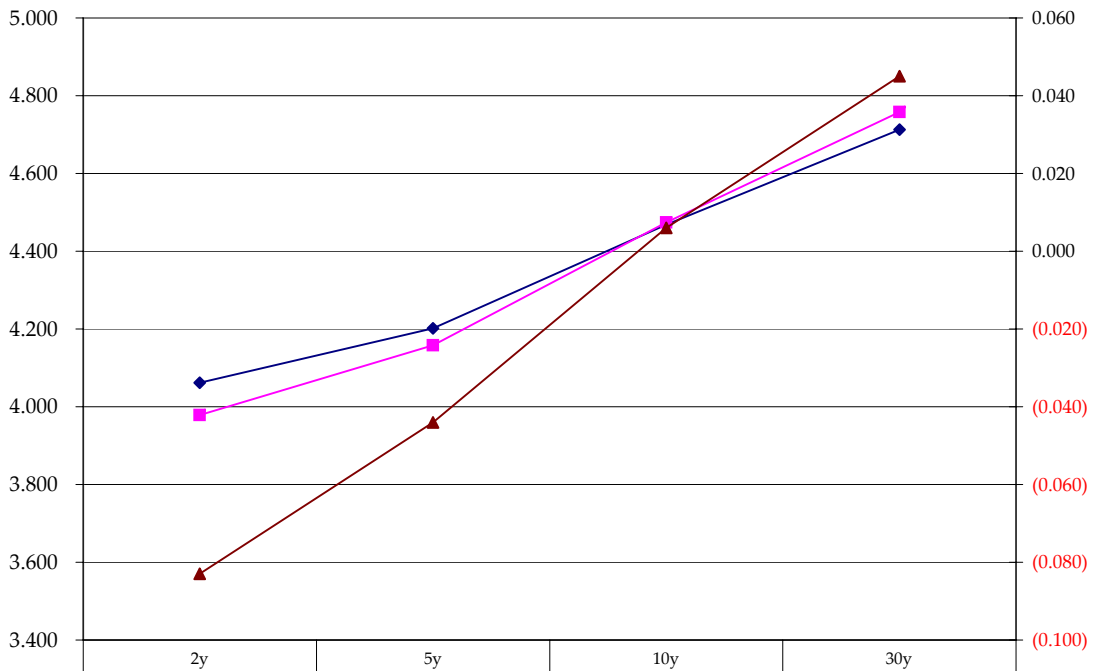
Notes:  
 TC = Today's Close at 2pm  
 PDC = Prior Day's Close at 2pm

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	99.2825	4.062	3.979	(0.083)		
5y	4.125	7/31/09	99.2100	4.202	4.158	(0.044)	21.78	21.01
10y	4.750	8/15/17	102.075	4.468	4.474	0.006	86.01	81.29
30y	5.000	5/15/37	104.18	4.713	4.758	0.045	-664.90	-677.19

	PDC 32	TC
ZF	107.015	107.085
ZN	109.245	109.275
ZB	112.28	112.170

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 & Fed Funds - Treasuries

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.535	15.125	9557.625
Q.ED.Red	4.541	8.125	9557.125
Q.ED.Green	4.871	3.375	9525.250
Q.ED.Blue	5.118	2.125	9501.500
Q.ED.Gold	5.361	0.750	9478.125
Q.ED.Purple	5.361	0.750	9478.125

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/17/2007
Fed Funds - 2yr yield	134.7	16.4	135.1
Fed Funds - 5yr yield	115.6	11.2	116.3
Fed Funds - 10yr yield	84.3	5.5	85.0
Fed Funds - 30yr yield	57	2.0	57.1
GFER	5.00	8.0	

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.

