

## The Afternoon Email

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The eCBOT crashed at about 1:15 CT. It's hasn't been restored as of this writing. Within this email you will see the prices when the eCBOT crashed.

Thank you,  
Jim Goulding

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

**All times Eastern**

14:58 09/19 **US BONDS:** "...in pre-crisis days, 3M LIBOR was only about 15-20 bps cheaper to FF so it is still too high."

15:22 09/19 **US TSYS/RECAP:** Tsys fell Wed on longer end, short-end Tsys outperform amid 1) corporate rate-lock selling early later; 2) switch from US 10Ys to German Bunds; 3) big 2Y/10Y steepeners, including foreign central bks in general zone; 4) front end buying and intermediates selling, 5) some buying later and corporate rate-lock unwinds at low and 7) some 2/30Y flatteners, some eyeing more flatteners before Bernanke Thu 10amET. 8) MBS drew morning short-covering, selling Tsys/buy MBS, light Asian buying of Gold 6s. 10) Earlier selling in Dec 10-Yr 107/111 strangles, vol selling helping MBS despite steeper yld curve; action seems like work of W. Coast investor who sells various 10Y strangles in yld enhancements. 11) FHLB US\$3B 3Y to price Thu; talk +91. 12) EIB US\$1B 7Y pxd T+55. 13) Some vol structure bottom pickers help implies firm off low later. 14) Bull bias flows, conditional steepeners favored in case Fed not out of play. 15) Bear Stearns, Goldman earning Thu. 16) Sister bd mkts calm; \$ Libor calm; some worried on credit crunch.

15:11 09/19 **EURODLR FUTURES:** Eurodlr futures finished mixed, higher in the very front end while the curve came back from earlier flatter levels. On the bell, the Red/Gold pack spd (Dec08-Sep09) vs (Dec11-Sep12), flattened 0.125 bps at 80.625. In the Fronts (Dec07-Sep08), the Dec07 were 6.0 bps higher at 95-34.5 on combined Globex and pit volume of 413,000, the Mar08 higher 2.5 bps at 95-63 on volume of 362,000, the Jun08 1.5 bps lower at 95-70 on volume of 447,000, while the Sep08 were 2.5 bps lower at 95-71.5 on volume of 381,000. The 2yr proxy Red pack (Dec08-Sep09), settled 0.5 to 2.0 bps lower across the pack with 764,000 contracts traded.

15:05 09/19 **US EURODLR/SWAPS:** Spds ended session tighter across the curve, off better levels earlier in the session as flow dropped off in second half. After decent Asian acct 2-way in 10s and servicers receivers overnight, sources report decent rate locking on pick up in corp supply in NY sess while real money accts were 2-way in 2yr Tsys both corp and MBS related. In Eurodlrs, sources reported 2-way in 2yr bundles and Red packs (Dec08-Sep09), a +Blues (Dec10-Sep11) and -Golds (Dec11-Sep12). According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-4.50/61.00	-3.50/61.25	-3.00/61.25	-3.00/58.75
1:30	-5.50/60.00	-4.75/60.00	-4.00/60.25	-4.00/57.75
11:15	-6.00/59.50	-5.25/59.75	-4.75/59.50	-4.75/57.00
10:10	-4.75/60.75	-4.75/60.00	-4.50/59.75	-4.75/57.00
9:15	-4.75/60.75	-3.75/61.00	-3.25/61.00	-4.00/57.75
Wed Open	-6.75/58.75	-5.25/59.50	-4.50/59.75	-4.50/57.25
Tue 3:00	-4.25/65.50	-3.50/64.75	-2.00/64.25	-5.00/61.75

**(continued)**

15:03 09/19 **US SWAPTION VOL:** Over-the-counter vols continued to drift lower by the bell, interdealer flow largely cited as the culprit as sources reported a paucity of customer flows. Exchange listed vols, on the other hand, firmed off lows ahead of Bernanke's testimony in Washington tomorrow. According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Wed 3:00	82.0 bps	702.0 bps	549.0 bps
1:45	82.2 bps	705.6 bps	552.4 bps
12:30	82.2 bps	705.8 bps	551.8 bps
10:10	84.6 bps	706.8 bps	552.2 bps
9:05	84.6 bps	707.0 bps	550.4 bps
Wed Open	86.8 bps	718.4 bps	558.4 bps
Tue 3:05	87.8 bps	717.2 bps	558.2 bps

**RBS GREENWICH**

Anyway, so now what? First, the market's going to have an intellectual debate over whether it's one and done, the pace of any further moves, if the ease will prove inflationary and BEARISH. Second, the market will get NO satisfaction from these discussions because it will all take time to pan out -- and as for the inflation debate, consider prospects for a negative CPI print in a short while. Consider, too, that the next FOMC is October 31 -- a pretty long gap and opportunity for the Fed to gather a lot of data and information. They and the market should play by these numbers.

We don't think now is the time to take big positions that run counter to events that have just unfolded. For the risk of the Fed coming in with further cuts, for the sake of the inflation argument (dollar, commodities, easier money), for respect for how things play out historically, we continue to think steepening is the way to go. Our immediate targets are not ambitious -- leading into the next NFP -- given the move we've already seen and positions to reflect this consensus call. We'll take 2s/10s to 56-62 bp, recent wides, and certainly seek to buy 40-45 bp. The bullish/bearish call is, for now, more neutral.

**David Ader, Head of Government Bond Strategy**  
**Ian Lyngen, Strategist**  
**Market Strategy Team**

**"The Key Story Underpinning the Deceleration of Core CPI."**

**From the WSJ, By GREG IP, "Fed Cut Aims to Contain Damage"**  
**September 19, 2007; Page A1**  
[snippet from Ip's article]

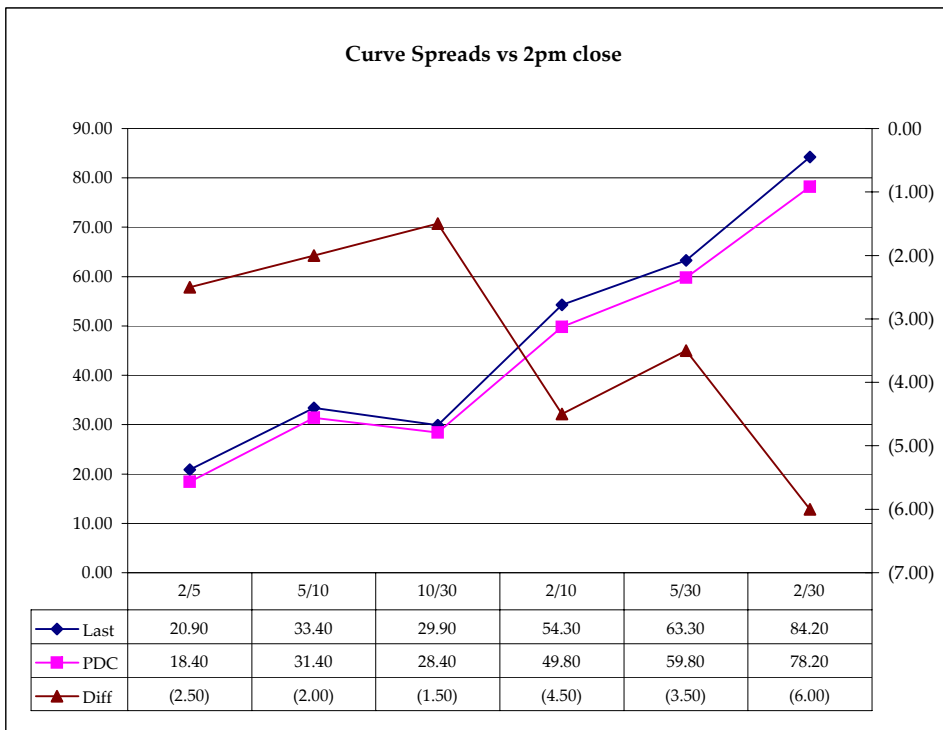
**The Fed's view of the economy has changed greatly in recent months. Here's how previous fed statements characterized the economy and the impact of the housing slump and credit crunch.**

Aug. 7. "Economic growth was moderate during the first half of the year. Financial markets have been volatile in recent weeks, credit conditions have become tighter for some households and businesses, and the housing correction is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in employment and incomes and a robust global economy."

Aug. 17. "Financial market conditions have deteriorated, and tighter credit conditions and increased uncertainty have the potential to restrain economic growth going forward. In these circumstances, although recent data suggest that the economy has continued to expand at a moderate pace, the Federal Open Market Committee judges that the downside risks to growth have increased appreciably."

Sept. 18. "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."

Yield Curve Spreads			
	TC	PDC	Diff
2/5	20.90	18.40	(2.50)
5/10	33.40	31.40	(2.00)
10/30	29.90	28.40	(1.50)
2/10	54.30	49.80	(4.50)
5/30	63.30	59.80	(3.50)
2/30	84.20	78.20	(6.00)



Notes:

TC = Today's Close at 2pm

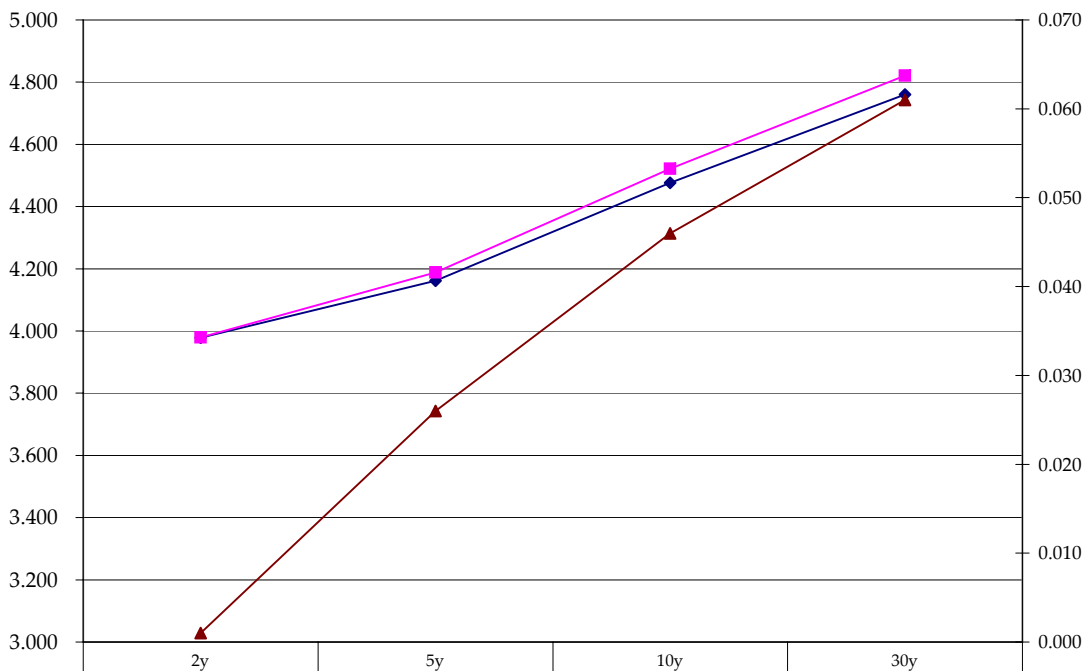
PDC = Prior Day's Close at 2pm

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	100.0125	3.978	3.979	0.001		
5y	4.125	7/31/09	99.2675	4.162	4.188	0.026	21.06	21.43
10y	4.750	8/15/17	102.055	4.476	4.522	0.046	81.29	78.36
30y	5.000	5/15/37	103.25	4.760	4.821	0.061	-678.30	-683.04

	PDC 32	TC
ZF	107.085	107.035
ZN	109.275	109.175
ZB	112.18	111.250

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

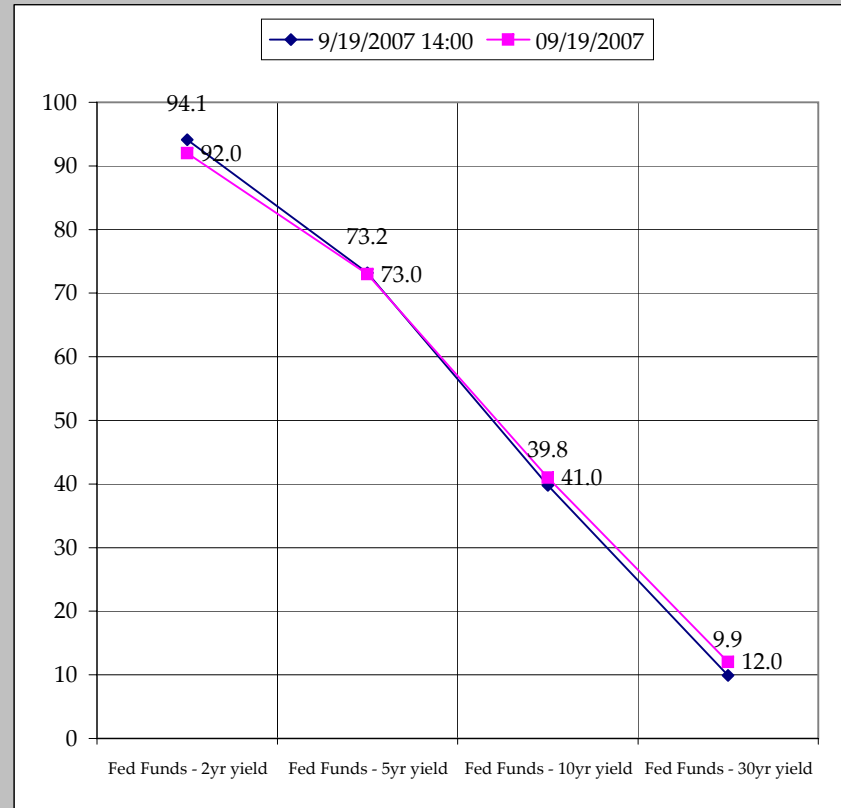
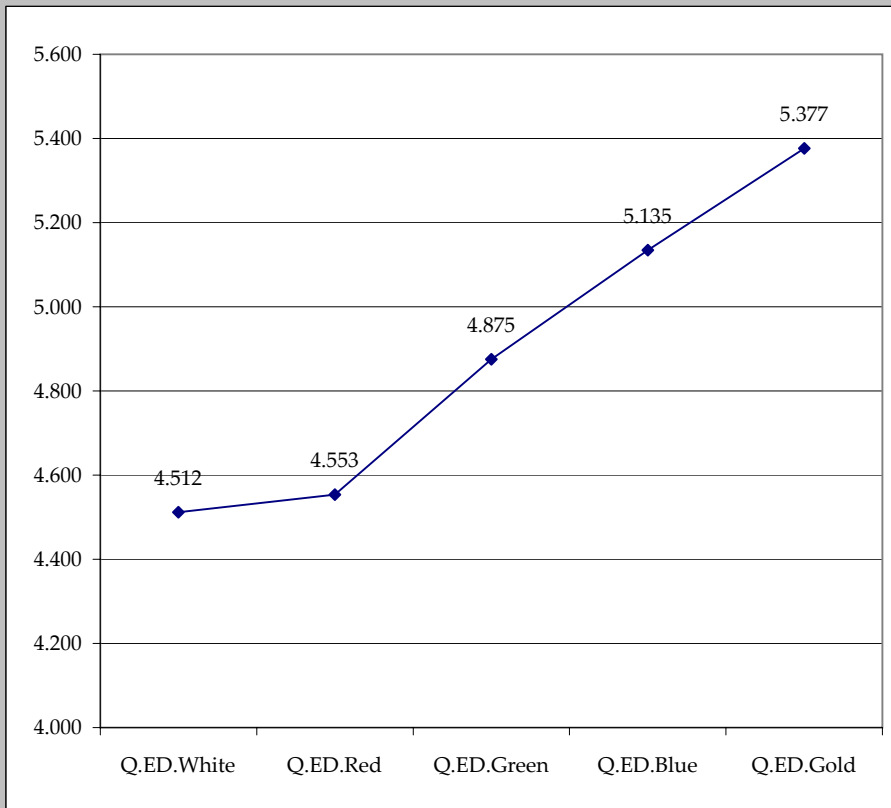
PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.512	1.250	9559.875
Q.ED.Red	4.553	-1.250	9555.875
Q.ED.Green	4.875	-0.250	9524.875
Q.ED.Blue	5.135	-0.500	9499.875
Q.ED.Gold	5.377	-0.875	9476.625

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	94.1	-42.3	92.0
Fed Funds - 5yr yield	73.2	-45.2	73.0
Fed Funds - 10yr yield	39.8	-46.6	41.0
Fed Funds - 30yr yield	9.9	-48.5	12.0
GFER	4.92	-41.0	

GFER = Fed Funds Daily Effective Rate

Why 9/19/2007?  
The morning after the last FOMC meeting is a good benchmark. I marked at 7:00am CT. (Before CPI release).



Month	Fed Funds (FF)			ED	ED - FF
	Last	Net	Implied	Implied	bps
Oct-07	95.285	0.000	4.715	5.065	35.0
Nov-07	95.445	-0.300	4.555	4.830	27.5
Dec-07	95.590	0.050	4.410	4.655	24.5
Jan-08	95.660	0.200	4.340	0.000	0.0
Feb-08	95.750	-0.100	4.250	0.000	0.0
Mar-08	95.780	-0.150	4.220	4.365	14.5
Apr-08	95.820	-0.450	4.180	0.000	0.0
May-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Jun-08	#VALUE!	#VALUE!	#VALUE!	4.300	#VALUE!
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

Oct07  
 Nov07  
 Dec07  
 Mar08

