

The Afternoon Email

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

**All times Eastern**

15:00 09/21 **US TSYS/RECAP:** US Tsys rose Friday after 1) earlier weakness on MBS-tied pressure, 3) long-end selling in morning by real money, hedge funds, MBS-tied accts; 4) computer-generated selling in Tsys; 5) short-setting to test market lows (which held), 5) selling as Fed Kohn says Fed eased on hsg woe not econ, 6) brisk morning selling in 5Ys, mainly foreign but also some US selling there too. Then Tsys held the lows and so improved on 7) short-covering; 8) better technicals: key 4.70% 10Y cash yield held; 9) real money buying in 10Ys and 30Ys, 9) pension buying in 30Ys, off-run 30Ys; 10) 2Y/10Y, 2Y/30Y curves flattening after 3 steeper days Tue,Wed,Thu; 10) Talk mortgage servicers, originators sold MBS albeit at reduced pace; was also foreign buying in MBS. 14) Stocks gain but appear to be ending off day's highs. 15) In options, mortgage servicer shed large amt of 10Y Tsys puts. 16) Late, there was corporate rate-lock unwinds eyed; also 17) weaker grade ABXs dipped amid selling of ABX 06-01 BBB- index. (More)

15:10 09/21 **US TSYS/RECAP II:** On a 3p.m. Thu to 3:00 pm ET Fri basis close, the cash 2-year note yield fell 3.0 bps to 4.058%. The 3-year yield fell 2.9 bps to 4.114%, while the 5-year yield fell 3.1 bps to 4.303%. The 10-year yield fell 4.0 bps to 4.632%, and the 30-year yield fell 5.1 bps to 4.891%. The 2-year/5-year curve flattened 0.1 bps to +24.5 bps, the 2-year/10-year flattened 1.0 bps to +57.4 bps, and the 2-year/30-year flattened 2.3 bps to +83.3 bps.

15:15 09/21 **US EURODLR/SWAPS:** Spds ended session mixed. On heels of decent Asian paying overnight, It paying tied flow across curve early, interspersed by some tentative short covering, receiver-tied flow in the front-end as Tsy ylds dropped at midmorning and spds came off wides. Sources reported selling in 10s and 30s, the latter mtg real money accts, Eurodollar sources reported scale sellers of 2yr bundles, and to a lesser extent from Reds to Golds. Curve steepener unwind interest also reported. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
3:10	-0.50/62.50	+0.25/64.50	+0.00/64.50	+0.25/63.50
1:00	-0.75/63.25	+0.25/64.50	+0.25/64.75	+0.75/64.00
10:30	-0.75/63.25	+0.50/64.75	+0.50/65.00	+1.00/64.25
9:45	+0.25/63.25	+0.50/64.75	+0.50/65.00	+1.00/64.25
9:15	+0.25/63.25	+1.25/65.50	+1.25/65.75	+2.25/65.50
Fri Open	-0.25/62.75	+0.25/64.50	+0.00/64.50	+0.75/64.00
Fri 7:50	+0.50/63.50	+0.00/64.25	-0.25/64.25	+0.25/63.50

(continued)

15:13 09/21 **US AGENCIES:** Too soon for month-end trades as note is taken of the larger than usual +0.12-year Lehman agency index extension. On balance, better buying is described by dealers but also said to have been mostly Street/professional trading. Indications as follows - Freddie June'09 +42.5 according to TradeWeb and other screens (vs Thursday's 3PM mark of +43); Fannie July'09 +41.5 (+41.5); Freddie Aug'10 +45 (+45); Fannie Sept'10 +45 (+44.5); Fannie May'12 +42.5 (+42); Freddie Oct'12 +45 (+44); Fannie June'17 +47 (+47); Freddie Aug'17 +46.5 (+47); Fannie Nov 2030 +47 (+45.5); Freddie Jul'32 +47 (+45). Fannie/Freddie supply still a few weeks away - Freddie Oct 9 with a 2/3Y and a 10Y. Fannie announces Oct 12. FHLB expected early and often to term out some of the large discount note issuance surrounding its "advances" to members. Safe weekend to all.

15:19 09/21 **US SWAPTION VOL:** Over-the-counter vols were firm in gamma but lower in intermediates and longer tails. Late flow from the CBOT had a seller of Nov 10Y vol heavily on the screen, which likely weighed. Still, sources said swaption vols were firm all day as compared to those at the CBOT as gamma product was sought. Several accounts, including servicers and banks bought front end gamma to intermediates Thursday into early Friday as the curve started to flatten on otherwise range conditions. Other early flow included ongoing interest by real money accounts in curve steepener around the 1M/5Y vs longer expiries. GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
3:10	85.0 bps	700.4 bps	546.6 bps
1:00	85.6 bps	702.4 bps	547.2 bps
10:45	85.6 bps	702.0 bps	547.8 bps
9:15	86.2 bps	704.0 bps	549.6 bps
Fri Open	85.6 bps	706.0 bps	551.4 bps
Fri 8:00	85.0 bps	702.8 bps	549.4 bps

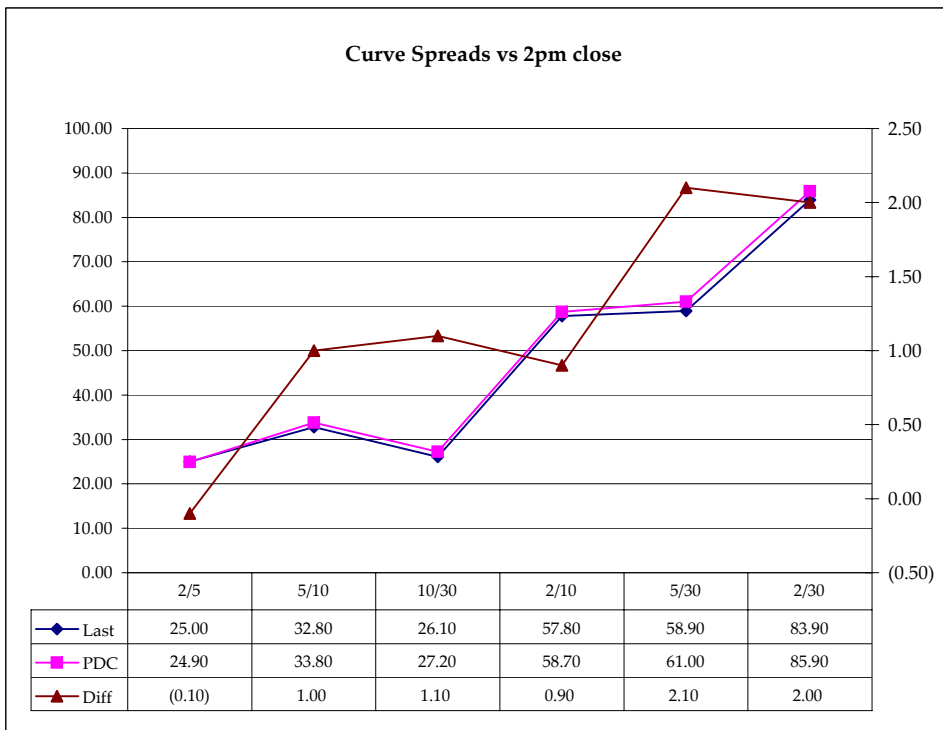
15:22 09/21 **US TSY FUTURES:** Tsys closed up on the day, retreating from some of the lowest closing levels set yest. The Dec T-bond ended up 16/32 at 110-24 with 365K traded while the Dec 10-yr settled better by 8/32 at 108-28.5 with 1.07M traded. The Dec 5-yr notes settled higher by 4.5/32 at 106-21.5 with 519K traded while the Dec 2-yr closed higher by 1.75/32 at 103-11 with 191K changing hands.

Stone & McCarthy
RESEARCH ASSOCIATES

Mishkin...says "studying the performance of different rules in macroeconomic models has become a major enterprise at central banks, and the conclusion is that the Taylor principle is indeed very important."

[MISHKAN: Voter, Moderate/Dove]

Yield Curve Spreads			
	TC	PDC	Diff
2/5	25.00	24.90	(0.10)
5/10	32.80	33.80	1.00
10/30	26.10	27.20	1.10
2/10	57.80	58.70	0.90
5/30	58.90	61.00	2.10
2/30	83.90	85.90	2.00



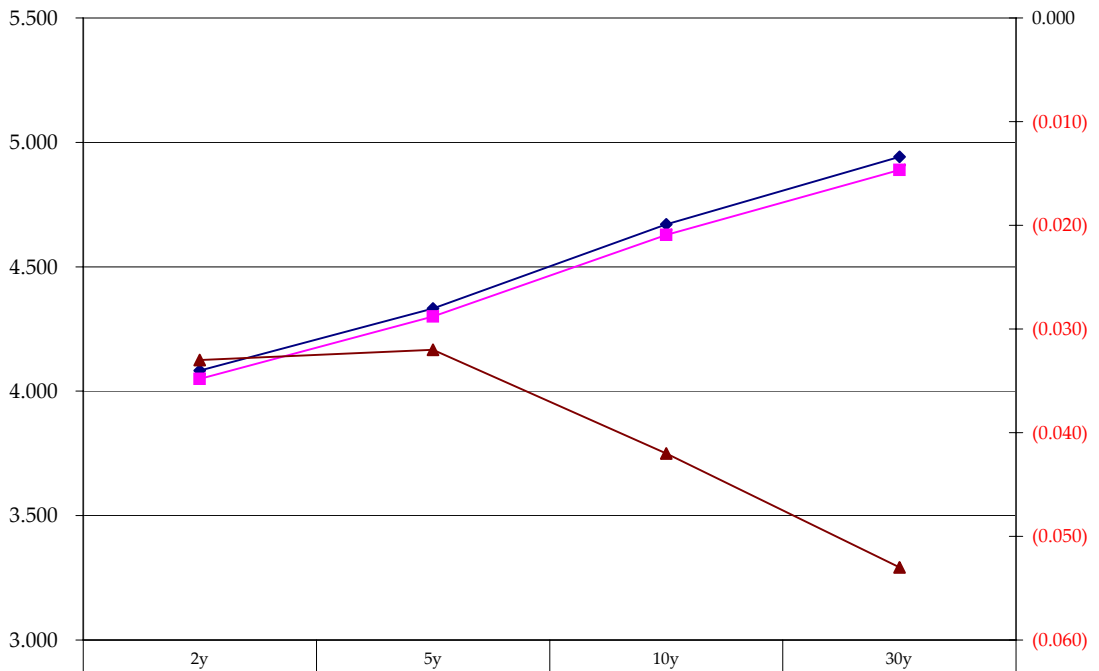
Notes:
 TC = Today's Close at 2pm
 PDC = Prior Day's Close at 2pm

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	99.2700	4.083	4.050	(0.033)		
5y	4.125	7/31/09	99.0275	4.332	4.300	(0.032)	18.79	18.88
10y	4.750	8/15/17	100.200	4.670	4.628	(0.042)	67.16	69.41
30y	5.000	5/15/37	100.29	4.942	4.889	(0.053)	-688.64	-680.40

	PDC 32	TC
ZF	106.170	106.215
ZN	108.205	108.285
ZB	110.08	110.240

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



	2y	5y	10y	30y
◆ 2pm CIs	4.083	4.332	4.670	4.942
■ Last	4.050	4.300	4.628	4.889
▲ Diff	(0.033)	(0.032)	(0.042)	(0.053)

Notes:

Basis = (Cash Decimal - (Futures Decimal * CF)) * 32

32 = price is quoted in 32nds

TC = Today's Close at 2pm

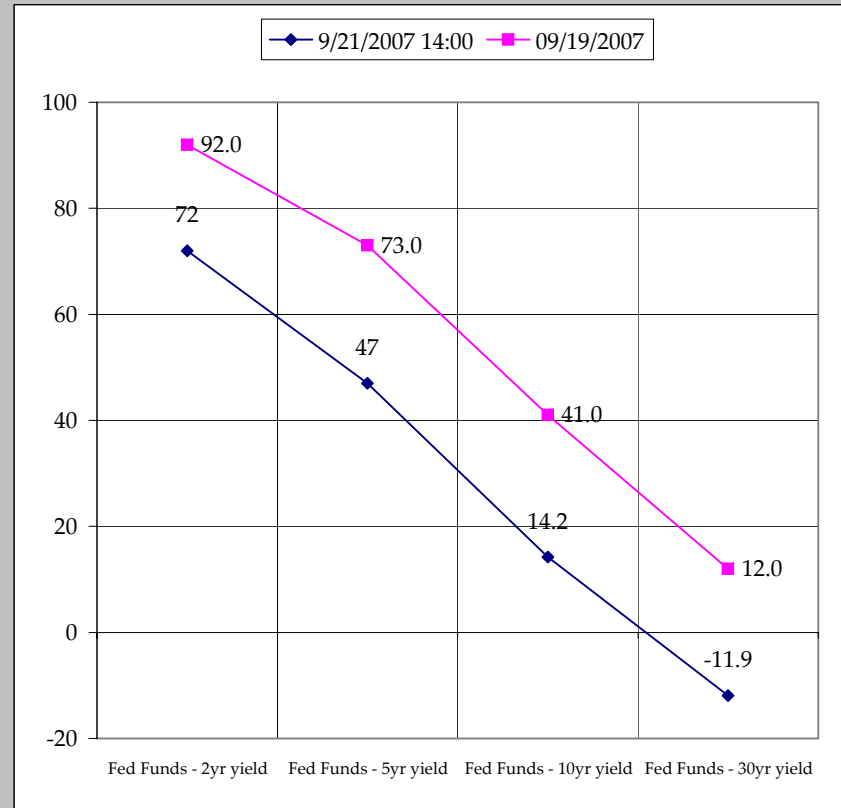
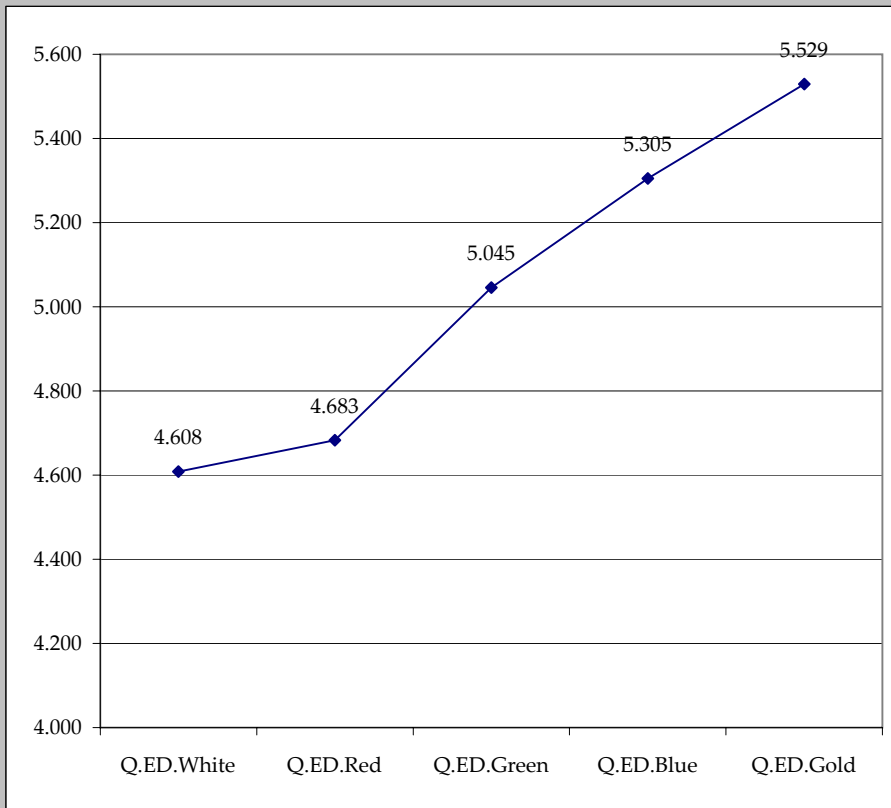
PDC = Prior Day's Close at 2pm

Eurodollar Packs			
	Last Yield	Net Yield	Last Price
Q.ED.White	4.608	2.750	9550.625
Q.ED.Red	4.683	4.250	9543.375
Q.ED.Green	5.045	2.375	9508.500
Q.ED.Blue	5.305	3.750	9483.500
Q.ED.Gold	5.529	5.500	9462.000

Fed Funds Daily Effective Rate Minus US Treasury Yields			
Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	72	8.5	92.0
Fed Funds - 5yr yield	47	8.4	73.0
Fed Funds - 10yr yield	14.2	10.0	41.0
Fed Funds - 30yr yield	-11.9	10.6	12.0
GFER	4.77	3.0	

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	95.280	0.000	4.720	5.100	38.0
Nov-07	95.425	-0.050	4.575	4.890	31.5
Dec-07	95.555	-0.050	4.445	4.740	29.5
Jan-08	95.620	0.000	4.380	0.000	0.0
Feb-08	95.720	-0.050	4.280	0.000	0.0
Mar-08	95.720	-0.300	4.280	4.475	19.5
Apr-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
May-08	95.775	-0.050	4.225	0.000	0.0
Jun-08	95.770	0.000	4.230	4.390	16.0
Jul-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0
Aug-08	#VALUE!	#VALUE!	#VALUE!	0.000	0.0

