The Afternoon Email

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

MarketNews international

All times Eastern

15:25 09/25 **US TSYS/RECAP**: US Tsys ended Tues mainly higher after 1) afternoon dip off highs after overnight rally amid afternoon servicers swaps paying in 5s, MBS-tied selling in Tsys; 2) profit-taking late; 3) rumored small front end seller in thin volume in afternoon; 4) late-morning profit-taking in longer Tsys after overnight rally on weak German IFO, Lennar Q3 loss, fear of Canadian C/P woe. 5) Tsys had support from quarter-end needs, lower 99.8 Sept Conf. Bd consumer confidence vs. 105.6 in Aug, and Aug NAR home resales -4.3%. 6) Long-end profit-taking near midday, accts doing a.m. curve steepeners, lvrgd accts sold 5Y, 10Ys, with Street selling too in intermediates, foreign accts sold 10s, but foreign accounts had bought long-end Tsys earlier in NY. 7) Morning receiving surfaced in 5Y swaps, lvrgd buying in 5Ys, morning MBS payers in swaps and Tsys sellersvs. buyg MBS. 8)Futures saw 2y/10Y latteners. 9) Servicers said to sell 2Y to 10Y sector via Eurodlr futures; one acct added to put protection via March 10Y 107.5 strike early.10) T-bills bid

15:11 09/25 **US EURODLR FUTURES**: Eurodlr futures finished off session highs, as support ebbed later in the second half, the Red/Gold pack spd 2.0 steeper as the front end retained the bid. In the Fronts (Dec07-Sep08), the Dec07 were 2.0 bps lower at 95-13 on combined Globex and pit volume of 291,000, the Mar08 higher 0.5 bps at 95-49.5 on volume of 299,000, the Jun08 1.5 bps higher at 95-61 on volume of 314,000, while the Sep08 were 2.0 bps higher at 95-65 on volume of 291,000. The 2yr proxy Red pack (Dec08-Sep09), settled 2.5 to 3.5 bps higher across the pack with 650,000 contracts traded.

15:04 09/25 **US EURODLR/SWAPS:** Spds ended session broadly wider in front end responding to steeper futures curves. Sources reported a continuation of Mon's flows: macro, pension and fund receiving noted across curve. Early flow included more spd, curve trades vs rate trades w/most involving "clean up" trades ahead of month/qtr-end as opposed to structural duration trades. Dealer desks confirmed forward steepeners but also some steepener unwinds. Eurodlr sources reported decent receiver interest in first half followed by some modest paying near midsession. Second half flow included MBS tied paying in Tsys 5s while Eurodlr sources reported modest sellers of Reds to Blues. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
3:00	+3.25/68.75	+1.75/67.25	+0.25/65.50	-0.25/63.75
12:45	+2.75/68.50	+1.50/67.00	+0.25/65.50	-0.50/63.50
10:05	+2.75/68.25	+1.25/66.75	+0.25/65.50	-0.50/63.50
Tue Open	+2.50/68.00	+0.50/66.00	+0.25/65.50	-0.25/63.75
Mon 3:00	+3.00/65.50	+1.00/65.50	+0.75/65.25	+0.25/64.00

(continued)

15:10 09/25 **US TSY FUTURES:** Tsys closed mixed on the day with the Dec T-bond ended down 2/32 at 110-26 with 263K traded while the Dec 10-yr settled better by 3.5/32 at 109-01.5 with 985K traded. The Dec 5-yr notes settled up 5.5/32 at 106-27 with 454K traded while the Dec 2-yr closed higher by 3.5/32 at 103-15 with 204K changing hands.

15:03 09/25 **US SWAPTION VOLS**: At-the-money straddle swaption premiums remained firm, but off session highs by the closing bell amid ongoing conditional curve interest by various accts: leveraged money, real money accounts, trading desk. Upper left corner remains bid ahead of Thursday's anticipated overnight "year end" turn/LIBOR set.
According to GovPX:

Time (ET)	GAMMA, 3M/2Y	INTERMEDIATE, 2Y/10Y	VEGA, 5Y/5Y
Tue 3:00	90.0 bps	725.8 bps	557.0 bps
1:30	90.0 bps	724.8 bps	559.0 bps
12:30	88.9 bps	726.4 bps	558.4 bps
10:10	87.6 bps	727.8 bps	558.0 bps
9:35	87.8 bps	726.6 bps	558.2 bps
Tue Open	87.8 bps	721.8 bps	558.0 bps
Mon 3:00	86.6 bps	712.8 bps	552.4 bps

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

10:00 09/25 **US DATA/Existing Homes**: Sales -4.3% in August to a saar rate of 5.5 million. That's 12.8% under the pace a year earlier. Surprise was that the home sales price went up for the first time in 13 months, +0.2% from a year earlier to $224,500. Nat'l Assoc of Realtors econ Lawrence Yun, homeowners 'reluctant to sell.' He sees same low range for Sept too. The NE region also looked a little better than expected. It wasthe first region to plunge. Median NE prices in Aug are +3.8% vs yrearlier. Midwest prices +3.0%. South -0.5%. West -3.8%.See more on the MNI main wire.

From David Ader, RBS

"**10s** holding vs 4.71% and probablyfading vs. 4.45%."

"We are looking at a chart of **2s** as we write and seeing the break of rising channel and bullish cross in stochastics both pointing to a target of 3.85%. "

"**5s** -- Weekly and Daily stochastics are now bearish -- we see strongest near-term support at the 4.45%/9818+ 38.2% retracement on the weekly chart..."

"**2s/10s** -- Weekly momentum is bullish and while the daily measures remain so, the daily does look a bit tired with potential divergences set up. We are watching the upper line of an upward sloping channel at 67 bp as target resistance and put support, key, at the FOMC day narrow of 39 bp. We would be buyers from 45-50 bp."

"**TY**...held to a channel at, now, about 10811 with an impressive bounce. Solace, however, is not confirmed with a shift in bearish momentum measures. That allows for test of the 10912/18 FOMC day low and recent breakdown level."

"**US** -- Lowest weekly close since early August has weekly/daily momentum negative. We see support prior support/volumes/recent weekly-low of 10918, then Aug lows of 10820. Most meaningful resistance is at the 11128 bottom of Pre-NFP range."

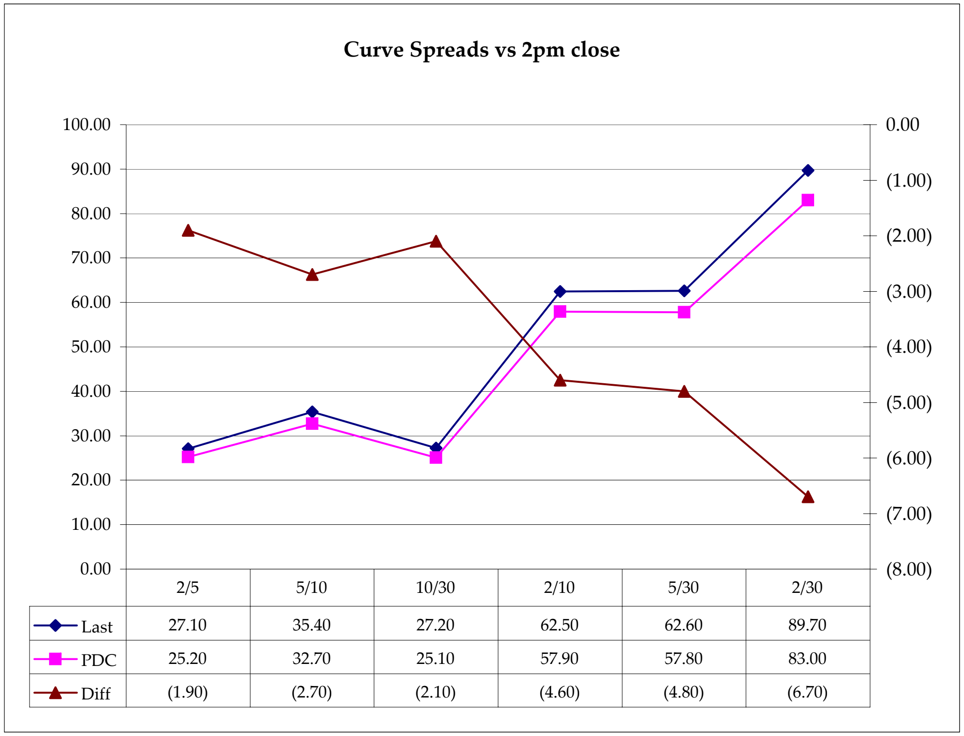
14:28 09/25 **US BONDS/LEHMAN:** Friday, Sept. 28, is month-end and quarter-end, and advance estimates for Lehman month-end bond index extensions show slight +0.05-years extension in Tsys but chunky Agencies at +0.12 yrs.

- U.S. Tsy Index duration will extend by 0.05 yrs
- Agencies will extend by +0.12 yrs, U.S. Credit extends by +0.06 yrs
- MBS are estimated at +0.06 yrs. U.S. Aggregate increase by +0.08 yrs
- U.S. High-Yield Index extends +0.03 years; U.S. Gov/Credit +0.08 yrs

US TSYS: Traders cited a T-bill bid today amid risk aversion, flight-to-quality bid too. "It's risk aversion," summarized one trader. Others meanwhile sharpen pencils to gauge CDO values/prices, figure out where to obtain quarter-end financing, figure out how to get more T-bills/ shorter Tsys assets for qrtr-end window-dressing. And some even look ahead to the LIBOR funding for turn of the year, which is very scarce usually, but doubly so in this year of subprime problems.

Curve Spreads

Yield Curve Spreads	TC	PDC	Diff
2/5	27.10	25.20	(1.90)
5/10	35.40	32.70	(2.70)
10/30	27.20	25.10	(2.10)
2/10	62.50	57.90	(4.60)
5/30	62.60	57.80	(4.80)
2/30	89.70	83.00	(6.70)



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	99.2925	4.045	3.987	(0.058)		
5y	4.125	7/31/09	99.0775	4.297	4.258	(0.039)	19.63	19.33
10y	4.750	8/15/17	100.315	4.624	4.612	(0.012)	70.05	69.42
30y	5.000	5/15/37	101.30	4.875	4.884	0.009	-677.34	-681.73

	PDC 32	TC
ZF	106.215	106.275
ZN	108.300	109.020
ZB	110.28	110.270

	2y	5y	10y	30y
2pm Cls	4.045	4.297	4.624	4.875
Last	3.987	4.258	4.612	4.884
Diff	(0.058)	(0.039)	(0.012)	0.009

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

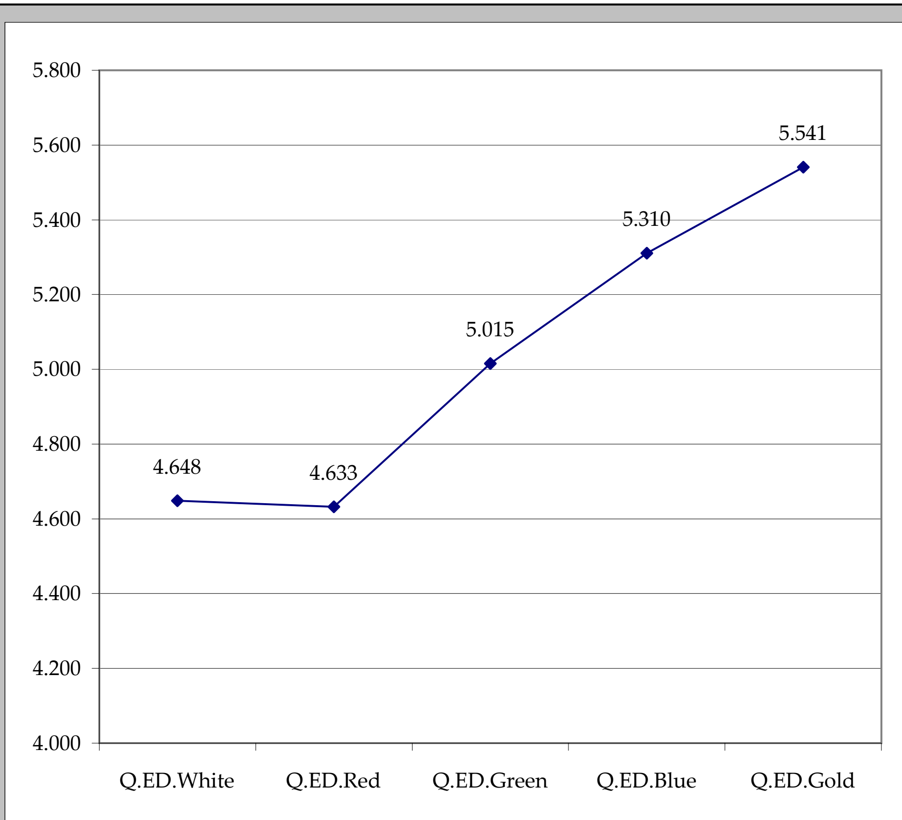
Eurodollar Packs	Last Yield	Net Yield	Last Price
Q.ED.White	4.648	0.125	9546.750
Q.ED.Red	4.633	3.125	9548.250
Q.ED.Green	5.015	1.875	9511.375
Q.ED.Blue	5.310	0.750	9483.000
Q.ED.Gold	5.541	0.750	9460.875

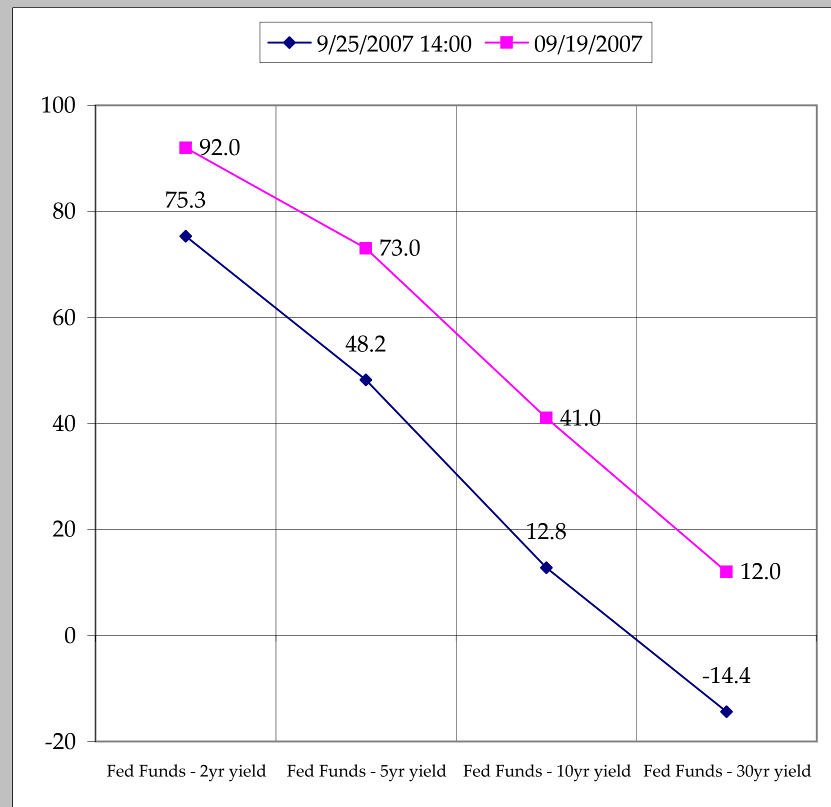
Fed Funds Daily Effective Rate
Minus US Treasury Yields

Spread Name	Diff bps	Net Chng	09/19/2007
Fed Funds - 2yr yield	75.3	3.5	92.0
Fed Funds - 5yr yield	48.2	2.4	73.0
Fed Funds - 10yr yield	12.8	-0.4	41.0
Fed Funds - 30yr yield	-14.4	-1.9	12.0
GFER	**4.74**	-2.0	

GFER = Fed Funds Daily Effective Rate

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





Fed Funds - Eurodollars

	Fed Funds (FF)			ED	ED - FF
Month	Last	Net	Implied	Implied	bps
Oct-07	95.280	0.000	4.720	5.200	48.0
Nov-07	95.470	0.400	4.530	5.015	48.5
Dec-07	95.620	0.650	4.380	4.875	49.5
Jan-08	95.680	0.700	4.320	0.000	0.0
Feb-08	95.775	0.750	4.225	0.000	0.0
Mar-08	95.795	0.650	4.205	4.505	30.0
Apr-08	95.810	0.650	4.190	0.000	0.0
May-08	95.870	1.000	4.130	0.000	0.0
Jun-08	95.880	1.200	4.120	4.390	27.0
Jul-08	95.910	1.400	4.090	0.000	0.0
Aug-08	95.900	1.650	4.100	0.000	0.0