

## U.S. Daily Directions: March 27, 2008, US Edition

- Day ahead: Jobless claims, Final Q4 GDP, TSLF auction, 5-yr note auction, FedSpeak.** Jobless claims are expected to have slipped to 370K, very close to levels associated with non-farm payroll declines. The final Q4 GDP, by now ancient history, is expected to remain unchanged at 0.6%. The first TSLF auction will be held. It will be \$75bn, and the Fed will swap off-the-run Treasuries for Schedule 2 collateral for a 28-day period. The Treasury will auction \$18n of 5yr notes. FedSpeak during trading includes Pianalto (voter), Stern (voter, economy) and Lockhart (non-voter, economy).
- Overnight: Oil higher on Iraq violence, Auction rates hit sports arenas. Dollar holding.** Crude oil is up over \$107/bl on news that violence in Basra, Iraq has led to an explosion of a major pipeline. Auction rate bond failures have caused funding costs for sports arenas in some states to triple. The yields for the NY Giants reached 22%, at a time when NJ Governor Corzine is already suggesting further cuts to the NJ budget and is facing a recall vote. The US\$ index is holding for a second day at the 76.4% retracement level of the mid-Mar rally and is mixed against G7 currencies overnight.

### Asset Commentary/Assessment:

- Eurodollars: Overnight, yields narrowly mixed.** Yields ranged -1 to +2bp along the curve. The market appears to be pricing in faster easing followed by a quicker return to hiking. The potential trough for the Fed Funds is now priced at roughly 1.75% by H2'08. This view is more hawkish than our base case of 1.50% by mid-year. As to the Apr meeting, futures price the odds of a 50bp cut (our base case) at 36%, with the odds of only a 25p cut at 64%.
- Treasuries: Overnight, bear flattening.** Price action reversed course overnight, with yields marching steadily higher and the curve flattening. The 2yr yield rose 9p to 1.71%, and decent value appears to attract buyers at 1.75%. Continued financial losses and mounting economic weakness will likely keep the 2yr under pressure. The 10yr yield is up 3bp to 3.49%. The 2s30s flattened 5bp to 264bp.
- Swaps: Yesterday, wider.** The very strong 2-year auction send spreads wider, and the move was helped by pressure apparently related to quarter end, as the late day widening in spreads coincided with Libor being called higher yet again tomorrow. Look to use widening over the next few days and into quarter end to receive in short end swap spreads. That opinion would change, should continued pressure in the Libor settings continue after month/quarter end.

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