

## U.S. Daily Directions: April 17, 2008, NY Edition

**Day ahead: Jobless claims, leading indicators, Philly Fed.** Initial jobless claims are expected to have risen to 375K, consistent with losses on non-farms. The leading indicators for March are expected to have risen +0.1%m/m, a high since Sep. The rise likely reflects the massive liquidity injected into the financial system, and it does suggest the slightest hint of a bottom for GDP growth in Q2, which would be consistent with the bump in Q3 GDP we expect from the tax rebates. The Apr Philly Fed is expected to rise from -17.4 to -15 – still recessionary, but beware the upside surprise, as happened with the Empire Survey.

**Overnight: Libor sets higher, extreme demand for UK auctions.** 3m LIBOR rose 8bp to 2.82%. The 1m LIBOR over OIS spread jumped almost 9bp to 78.35bp, a since Dec 20. The rises are indicative of ongoing problems in the banking system, particularly in Europe. Further evidence of European problems stem from news that the BoE received GBP50bn in bids for its weekly auction, more than three times the GBP13.7bn auction amount.

### Asset Commentary/Assessment:

**Eurodollars: Overnight, yields higher.** Yields rose 6-14bp along the curve. This partially reflects banking system problems, which are rising notably in Europe. The odds of a 50bp cut on Apr30, have fallen further to 18% from 42% a week ago. However, part of the price action reflects rising LIBOR relative to the Fed Funds rate, and to the extent rising LIBOR negatively impacts financing costs and the real economy, it might actually push the Fed into more aggressive easing. The expected trough for the Fed Funds has risen to 2.00%, with the Fed expected to hold throughout H2'08.

**Treasuries: Yields higher coming into US open.** Yields were steady in Asia, leaked higher in Europe, but have started rising sharply coming into the US open. The 2yr yield is up 10bp at 2.07%, and has finally broken out of the consolidating ranges of the past few weeks. As happened with the 10yr yield yesterday to confirm the uptrending channel in place since Mid-Mar. The 10yr is up 4bp to 3.73% and is threatening to outpace the uptrending channel in place since Mid-Mar. The 2s30s curve is 6.6bp flatter at 246bp. Technical support exists at 243bp, the Apr 7 low.

**MBS: Opening mixed.** Mortgages are opening mixed, stronger vs 5yr as the curve continues to flatten from yesterday and ~2+ wider to the 10yr. Some overnight buying continued in 5.5's and 6's, and we are seeing more interest again this am as dollar prices move lower.

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