

U.S. Daily Directions: April 25, 2008, NY Edition

Trade Recommendation	Entry date	Entry level	Current level	Cumulative PL	Target	Stop-loss	Theme
Sell US 30s vs Can 30s	Mar 19	-30bp	-37.4bp	+7.4bp	-45bp	-20bp	More inflation in US
Buy US 2s vs US 10s	Apr 23	147.4	143.2	-3.9bp	164.0	140.0	Tactical steepener
Buy Dec08 US ED vs CA BAX	Apr 23	27.0	18.5	-8.0bp	57.0	17.0	Market too hawkish Fed, too dovish BoC

Recommendations update: The US sold off sharply yesterday in the wake of a Greg IP article indicating the Apr 30th Fed cut might be its last, followed by better than expected initial jobless claims and durable goods orders. Furthermore, continued equity strength and a terrible Treasury auction added to the rise in yields. These developments worked to the advantage of the US vs Can 30s position, which rose 1.8bp as the US underperformed. In contrast, the same impetus caused the ED vs BAX position to lose 6bp. The US 2s10s steepener was crushed on the bear flattening.

Day ahead: **U. Mich. confidence.** Confidence is expected to have remained steady in the 2nd half of April at 63.2, a low since 1982.

Overnight: **LIBOR eases, US States' finances under pressure, Berry adds to Fed is done chorus.** LIBOR set lower, with the 1-mo dropping 0.5bp to 2.88125%, providing further evidence that that market has stabilized. The 1mo-LIBOR spread over OIS also slipped lower, but remains wide at 81.52bp, near the wides since early-Dec. The Nat'l Conference of State Legislatures reports that US states expect a combined \$26bn shortfall for the next budget year as the deteriorating economy leads to tax revenue shortfalls. Some states are proposing tax increases that could further squeeze US consumers. John Berry published an article last night stating that the Fed should stop easing based on rising inflation pressures and a tentative easing in the financial market crisis.

Asset Commentary/Assessment:

Eurodollars: **Yesterday, yields generally higher, curve steeper.** Yields rose as much as 21bp for the Jun-Sep'09 contracts. Only the May-Jul'08 contract yields fell (1-2bp). The market has increased the odds of no Fed action on Apr 30 to 18%, with the 82% balance pointing to a 25bp cut. The expected trough for the Fed Funds is at 2.00%, and the market is pricing more than a 75% chance of a hike to at least back to 2.25% by Dec.

Treasuries: **Yesterday, bearish flattening.** Yields spiked on reasonably decent jobless and non-farms data, but the explosion was likely primed by the Greg Ip article indicating a Fed ease on Apr 30 could be its last of the cycle. The 5yr auction was a worst received auction since 1996, stopping out 3.5bp above the 1pm bid. The indirect bid of 1.65 was the worst since 2003. The 2yr yield is up 19bp to 2.38%; it smashed through resistance at 2.20% (Feb high) and tested 2.42% resistance (Jan 25, post-SocGen high) before settling back. The 10yr yield jumped 9bp to 3.82%, testing above the 3.85% high of Apr 18 before settling back.

Swaps: **Yesterday,** spreads opened 1 to 3 bps wider this morning despite 3m Libor setting 1.3 bps lower. They continued to widen into a stronger than expected jobless claim number, but fell off the wides soon after. There was a strong sell off in front ends spreads through a weak 5 year auction, with most points inside of 10 years closing tighter on the day. Flows were relatively light, though we did see some interest in swap curve unwinds into the flattening.

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