U.S. Daily Directions: December 6, 2007, NY Edition

Today: **Mortgage bailout, initial jobless claims, mortgage delinquencies, chain store sales.** The White House has indicated it will unveil a plan (13:45 EST) by which to mitigate foreclosures, including freezing interest rate resets, fast-tracking homeowners towards refinancing, and allowing state and local governments to utilize more tax-exempt bond programs to fund mortgage refinancings. The plan has enough critics and problems that it should not be viewed in any way as a panacea. The Fed's Kroszner will testify regarding loan modifications and foreclosures. Initial jobless claims are expected to moderate to a benign 335K, below the 350K level above which the jobs market has historically deteriorated. Q3 mortgage delinquencies are reported, and while there is no forecast, note that the Q2 rate rose to 5.12%, just below the 5.20% and 5.35% peaks in Q2'91 and Q3'01, respectively. ICSC chain store sales for Nov are expected to have risen 2.4%y/y, still consistent with the downtrend in place since early-2006.

Overnight: **RBS beats estimates, but don't sound "all clear".** RBS reported today that its profits would prove "well ahead" of estimates. The bank reported $3bn of writedowns, roughly in line with expectations. Equities globally are generally higher on that report and relief that the US government will announce plans to mitigate the housing crisis. On the negative side, Toll Brothers, the largest US luxury homebuilder, reported its first loss in 21 years due to the ongoing housing recession. The WSJ is reporting that the super-SIV is flopping due to lack of interest – small wonder since it was only offering to buy the assets SIVs could sell themselves.

Asset Commentary/Assessment:

Eurodollars: **Overnight, yields rose** particularly farther out the curve. The strip suggests a trough in the Fed Funds rate just below 3.25% by Dec'08 – Mar'09. The futures market prices the odds for a 25bp ease in Dec at 100% and those for a 50bp ease at 44%. The odds of a move to 4% or lower by Mar'08 are 96%.

Treasuries: **Overnight, mixed to higher.** Yields rose in Asia on relief at the prospect of government intervention to mitigate housing foreclosures. In Europe, the short end stabilized, while longer-term yields fell. Coming into the US session, the long end is rising. The 2yr yield is up 3.2bp, although it remains below 3%. The 10yr rose 1.3bp and appears to be moving towards a test of 4.0%. Our 2s30s position (target 175bp, stop-loss 132bp) has retreated 3.5bp to 1.48%, giving up yesterday's gains. A worsening of financial conditions and the premium for short-dated Treasuries as collateral over yearend will allow the curve to steepen back towards the recent highs.

Swaps: **Overnight, spreads tightened.** The 2yr narrowed 1.9bp to 95.5, off the high from two weeks ago but still above the Aug high just above 80bp. The 10yr spread tightened 0.8bp to 66.8bp, well off the high of 87.5bp two weeks ago and the Aug high of 83.75bp.

MBS: Mortgages exhibited very little duration today despite the initial treasury sell-off post ADP and then later flight to quality on news of a possible capital shortage at MBIA. Mortgages tightened into the sell-off and widened into the rally. However as treasuries retreated from their highs closing near the lows of the day by 5:00, MBS ended the day ~4 tighter to the treasury curve and 3 tighter to the swap curve. Originators have been auctioning specifieds this week and loan balance as well as certain 10/20 IO's continue to be in demand. Pay-ups have improved marginally on some of the newer issue premium collateral, however seasoned paper has suffered, especially in Gold collateral where supply is a factor and balance sheets remain thin.

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