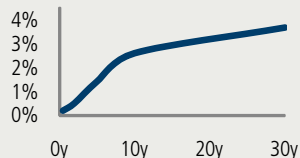


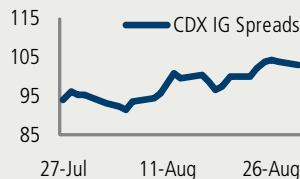
Market Close

| Treas. | Yld | Prev. | Chg. |
|--------|------|-------|---------|
| 2yr | 0.50 | 0.51 | -(0.01) |
| 5yr | 1.42 | 1.40 | +0.03 |
| 10yr | 2.63 | 2.58 | +0.05 |
| 30yr | 3.72 | 3.65 | +0.07 |



| MBS | Price | Chg |
|---------|--------|-----|
| FN 4.5% | 104-26 | -03 |
| GN 4.5% | 105-31 | -03 |

| Credit | Close | Chg |
|--------|---------|--------|
| CDX IG | 106.5bp | -2.5bp |
| CDX HY | \$97.4 | \$0.6 |



| Muni | Yld | % Tsy | Chg. |
|------|------|-------|------|
| 2yr | 0.47 | 95% | 1% |
| 10yr | 2.61 | 99% | -2% |
| 30yr | 4.14 | 111% | -2% |

Source: MMA

Day Ahead:

- Rates: Rally bias for rates significant given recent selling and potential for soft AM jobless numbers
- Eco: Payrolls have disappointment potential (Janney -123k, private +28k)
- Credit: Secondary trading volume has been decent this week, but will fall off a cliff today

Market Review:

A second day of selling pressures permeated the rates markets ahead of Friday's payrolls data release, the first time since mid-July in which Treasuries have faced two consecutive down days. Given our expectations of today's payrolls number (-123k), the markets are biased towards a potential post-data rally. On Thursday, the Treasury announced three, ten, and thirty year sales for September, which will include \$67 billion of supply, down \$1 billion from the last pass. A ten year TIPS auction meanwhile passed quietly by at 1PM, with moderate bidder interest showing through on the \$10 billion sale, but a reasonable sale level which implied a market-expected ten year inflation rate of just 1.63%. Treasury yields edged towards the high end of their trading range, with the ten year Treasury losing 5 basis points to end the day at around 2.63%, while the two year actually rallied a basis point to 0.50%. Look for utter quiet after about 9A this morning.

Pending home sales rebounded slightly in the month of July, following a pair of dismal months in the wake of the government tax credit's expiration. While sales improved 5.2% for July, they're still facing a 20% year-over-year drop in a clear sign that housing demand has stalled, fallen off a cliff, and is now struggling to stand back up. Regional data pointed towards marginally better performance in the northeast and marginally worse performance in the south, though it's hard to attribute much value to these data given the evident broader direction for the housing markets. Also out on Thursday, factory orders expanded by 0.1% in a follow up to last week's aircraft-driven durable goods orders result. Non-durables orders were flat month-over-month, largely reflecting anemic consumer demand in the summer of lost recovery.

A Gulf of Mexico oil platform owned by Mariner Energy (B3/B+) caught fire and exploded on Thursday in a bizarrely coincidental timing, considering the recently-solved BP (A2/A) Macondo well oil spew and the rarity of such events. The explosion doesn't appear to have caused nearly the damage that the Deepwater Horizon's did, but it does little to support oil drillers' assertions that their business is a safe one. While various industry supporters have spoken out against a ban or stricter regulation, it seems likely that the most recent problem will harden political support for additional drilling oversight. This morning, BP estimated that its costs for cleaning up the Macondo well disaster have reached roughly \$8 billion, which is below the \$10 billion BP has raised in cash from asset sales and debt issuance thus far and about one-quarter of the \$30 billion in liquidity BP plans to add to its balance sheet over the next 18 months. —Guy LeBas

Advisors to municipalities, guaranteed investment contract brokers and interest rate swap advisors have until Oct 1, 2010 to register with the Securities and Exchange Commission (SEC) as a result of a rule announced yesterday by the agency. This is one of the steps the SEC is taking to provide more oversight to the \$2.8 trillion municipal bond market. "We have acted expeditiously to create a temporary registration system to gather key data and provide transparency about municipal advisors," said SEC Chairman Mary Schapiro. The Chairman also said, "As a result, regulators, investors, and state and local governments will have a much better understanding of who provides services in the municipal market." Registrants will be required to report their contact information, market activities with which they engage, and specify any past disciplinary actions. Information will be available on the SEC's website after the registration deadline.

Municipal rating action included a Moody's downgrade of Solebury Township, PA (Aa3/A) bonds to Aa3 from Aa2 because of the township's weakened financial position as a result of continued use of reserves to fund operations. Solebury is about 45 miles north of Philadelphia and its affluent tax base of \$2.5 billion is expected to remain stable, according to Moody's. The rating action affected approximately \$35 million of township outstanding debt. Fitch meanwhile upgraded the Southeastern Pennsylvania Transportation Authority's (A2/A/AA) bond rating to AA from A+ because of sustained solid debt service coverage. Debt service coverage was 3.35x in FY2010. SEPTA operates the public transit system in the City of Philadelphia and a regional rail network of trains. —Tom Kozlik

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