

7/22/09 6:00 AM

The Morning Email: Eurodollar Correlations & R-Squared

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One contract may be correlating with another but does that mean there's causation. You must ask, "is one causing the other?"

That's what the R-Squared is for. Read R-Squared as follows: let's say, CLA and DJIA have an R-Squared of 0.44. That means there's a 44% chance that one is causing the market movement of the other.

You will always see a positive number for the R-Squared. If a correlation is a (negative) number, for example, (87.9) that means the two commodities are mirroring each other, not correlating. For example, today (which is 06/06/2007) the RBA and DJIA have a (87.9)% correlation. The R-Squared is 0.77. Therefore the two instruments are mirroring each other 88% of the time, and there's a 77% chance that one is causing the other.

Conditionally formatted cells:

If there's an R-Squared equal to or greater than 80%, then, the cell will turn BLUE. That tells us that there's an 80% chance that one of the instruments is causing the other to move. --Thanks, Jim

Want something added? Let me know: jgoulding@ghco.com

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	TU	Z3N	FV	TY	ZB	2Y Yld	3Y Yld	5Y Yld	7Y Yld	10Y Yld	30Y Yld		
EDAU09	15.8	-12.3	0.6	-10.3	-18.6	-10.5	-6.6	6.7	10.8	20.0	22.6	Correlations	Whites
EDAZ09	50.6	15.9	36.9	27.0	17.2	-46.0	-43.4	-30.4	-26.1	-15.6	-11.9		
EDAH10	86.6	57.8	79.7	74.3	66.8	-82.8	-84.0	-77.2	-73.9	-66.3	-63.3		
EDAM10	93.0	73.2	91.9	90.6	86.3	-94.8	-93.7	-92.8	-90.8	-86.9	-85.1		
EDAU10	92.2	79.6	94.1	94.9	92.7	-95.1	-94.4	-96.6	-95.5	-93.6	-92.5		Reds
EDAZ10	92.5	81.1	95.2	96.3	94.2	-95.1	-94.9	-97.5	-96.7	-95.1	-94.0		
EDAH11	92.6	83.4	95.8	97.1	95.7	-95.1	-95.1	-98.1	-97.6	-96.2	-95.2		
EDAM11	93.3	84.9	96.6	97.6	96.4	-95.9	-95.7	-98.6	-98.2	-96.7	-95.6		
EDAU11	93.8	86.4	97.2	98.2	97.1	-95.7	-96.2	-99.1	-98.8	-97.3	-96.1		Greens
EDAZ11	94.1	86.7	97.6	98.5	97.4	-95.6	-96.4	-99.3	-99.0	-97.4	-96.2		
EDAH12	93.8	87.1	97.6	98.6	97.8	-95.2	-96.2	-99.2	-99.1	-97.6	-96.3		
EDAM12	93.0	88.1	97.5	98.9	98.5	-94.4	-95.7	-99.3	-99.4	-98.3	-97.0		
EDAU12	91.4	88.9	96.8	98.8	99.3	-94.1	-94.4	-99.0	-99.4	-98.9	-97.7		Blues
EDAZ12	89.9	89.3	96.1	98.5	99.7	-93.0	-93.2	-98.5	-99.2	-99.3	-98.2		
EDAH13	87.5	91.2	94.5	97.6	99.8	-89.3	-91.1	-97.4	-98.5	-99.3	-98.4		
EDAM13	88.6	89.6	95.3	98.2	99.9	-91.9	-91.9	-98.0	-98.9	-99.5	-98.6		
EDAU13	87.1	90.2	94.4	97.6	99.9	-90.9	-90.7	-97.4	-98.4	-99.5	-98.6	Golds	
EDAZ13	86.9	89.4	94.3	97.6	99.9	-90.5	-90.4	-97.3	-98.4	-99.6	-98.8		
EDAH14	86.7	87.4	94.1	97.4	99.8	-90.0	-90.1	-97.3	-98.2	-99.6	-98.8		
EDAM14	85.4	87.4	93.2	96.8	99.6	-89.0	-89.0	-96.6	-97.7	-99.4	-98.7		
EDAU09	2.5	1.5	0.0	1.1	3.4	1.1	0.4	0.5	1.2	4.0	5.1	R - Squared	Whites
EDAU10	25.6	2.5	13.6	7.3	3.0	21.2	18.8	9.2	6.8	2.4	1.4		
EDAU11	75.0	33.4	63.6	55.2	44.6	68.6	70.5	59.5	54.7	44.0	40.1		
EDAU12	86.6	53.6	84.5	82.1	74.5	90.0	87.8	86.1	82.4	75.5	72.4		
EDAU10	85.0	63.4	88.6	90.0	86.0	90.5	89.1	93.3	91.1	87.7	85.6		Reds
EDAZ10	85.6	65.7	90.6	92.7	88.8	90.5	90.0	95.1	93.5	90.5	88.4		
EDAH11	85.7	69.6	91.8	94.3	91.5	90.5	90.5	96.3	95.3	92.6	90.6		
EDAM11	87.0	72.0	93.2	95.3	92.9	92.0	91.5	97.2	96.4	93.4	91.3		
EDAU11	88.0	74.7	94.6	96.5	94.4	91.6	92.5	98.2	97.6	94.6	92.3		Greens
EDAZ11	88.5	75.1	95.2	97.1	94.9	91.5	92.9	98.5	98.0	95.0	92.5		
EDAH12	88.0	75.9	95.2	97.3	95.6	90.7	92.6	98.5	98.2	95.3	92.7		
EDAM12	86.5	77.7	95.0	97.8	97.1	89.1	91.5	98.6	98.8	96.7	94.1		
EDAU12	83.6	79.0	93.7	97.6	98.5	88.5	89.1	98.0	98.7	97.8	95.5		Blues
EDAZ12	80.9	79.8	92.3	97.1	99.4	86.4	86.8	97.1	98.4	98.6	96.4		
EDAH13	76.5	83.2	89.3	95.3	99.6	79.7	82.9	94.9	97.0	98.6	96.7		
EDAM13	78.4	80.2	90.8	96.4	99.8	84.4	84.5	96.1	97.8	99.0	97.2		
EDAU13	75.9	81.4	89.0	95.2	99.8	82.6	82.2	94.8	96.9	98.9	97.2	Golds	
EDAZ13	75.6	80.0	88.9	95.2	99.8	81.9	81.8	94.7	96.8	99.1	97.5		
EDAH14	75.1	76.5	88.5	95.0	99.5	81.0	81.2	94.6	96.4	99.2	97.6		
EDAM14	73.0	76.4	86.8	93.8	99.2	79.2	79.1	93.4	95.4	98.9	97.5		

	Mini			Nymex	Gold	Eurex				
	S&Ps	Dow (5\$)	Nasdaq	Crude	Futures	Bund	Bobl	Schatz		
EDAU09	50.4	57.5	57.9	79.0	49.8	-29.7	-16.3	14.8	Correlations	Whites
EDAZ09	27.8	35.9	35.0	57.1	29.9	-4.2	7.3	26.4		
EDAH10	-19.6	-11.7	-13.3	4.5	-17.3	44.3	50.9	49.9		
EDAM10	-47.6	-41.1	-42.8	-30.2	-45.8	68.3	70.8	57.6		
EDAU10	-60.7	-55.3	-57.0	-47.1	-59.6	79.0	79.3	60.6		Reds
EDAZ10	-62.4	-57.3	-58.9	-50.2	-61.1	80.8	80.6	60.0		
EDAH11	-64.5	-59.7	-61.2	-61.2	-63.0	82.7	82.2	60.1		
EDAM11	-64.9	-60.0	-61.4	-52.0	-63.2	83.5	83.1	60.7		
EDAU11	-65.5	-60.6	-61.8	-52.1	-63.7	83.9	83.3	60.0		Greens
EDAZ11	-65.4	-60.5	-61.5	-51.6	-63.5	83.7	83.0	59.3		
EDAH12	-66.1	-61.3	-62.2	-52.2	-63.9	83.7	82.8	58.2		
EDAM12	-68.6	-64.1	-64.9	-55.1	-66.4	85.1	83.5	57.6		
EDAU12	-72.1	-67.8	-68.6	-59.1	-69.7	86.8	84.5	56.7		Blues
EDAZ12	-74.8	-70.9	-71.5	-62.3	-72.5	88.2	85.3	56.2		
EDAH13	-78.1	-74.5	-75.1	-65.8	-76.0	90.6	87.1	56.6		
EDAM13	-76.9	-73.1	-73.6	-64.5	-74.7	89.5	86.3	56.3		

	Mini			Nymex	Gold	Eurex				
	S&Ps	Dow (5\$)	Nasdaq	Crude	Gold	Bund	Bobl	Schatz		
EDAU09	25.4	33.1	33.6	62.5	24.8	8.8	2.6	2.2	R - Squared	Whites
EDAU10	7.7	12.9	12.3	32.6	9.0	0.2	0.5	7.0		
EDAU11	3.9	1.4	1.8	0.2	3.0	19.6	25.9	24.9		
EDAU12	22.6	16.9	18.3	9.1	21.0	46.6	50.1	33.2		
EDAU10	36.8	30.5	32.5	22.2	35.5	62.4	62.9	36.8		Reds
EDAZ10	38.9	32.8	34.7	25.2	37.3	65.2	65.0	36.1		
EDAH11	41.7	35.6	37.4	37.4	39.7	68.4	67.6	36.1		
EDAM11	42.1	36.0	37.7	27.0	39.9	69.7	69.0	36.8		
EDAU11	42.9	36.7	38.1	27.1	40.6	70.4	69.3	36.1		Greens
EDAZ11	42.8	36.6	37.8	26.6	40.3	70.0	68.9	35.1		
EDAH12	43.7	37.6	38.7	27.2	40.9	70.1	68.6	33.9		
EDAM12	47.1	41.0	42.1	30.4	44.1	72.4	69.8	33.2		
EDAU12	51.9	46.0	47.0	35.0	48.6	75.3	71.4	32.2		Blues
EDAZ12	56.0	50.2	51.1	38.9	52.6	77.8	72.7	31.6		
EDAH13	61.0	55.5	56.4	43.3	57.8	82.0	75.8	32.0		
EDAM13	59.1	53.4	54.1	41.6	55.8	80.1	74.4	31.7		

Read the last page

	EURUSD	EURJPY	USDJPY	ZT	ZF	ZN	ZB	2Y Yld	5Y Yld	10Y Yld	30Y Yld	Spread * Ratio
ZF - ED7	-9.2	-18.7	-26.0	57.4	54.3	37.8	46.4	40.3	42.4	35.3	31.5	10:12
5yr - ED7	-55.3	-64.4	-63.7	68.4	72.7	70.3	71.1	64.7	70.8	70.0	69.8	1:12

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Correlations

ZF - ED7	0.8	3.5	6.7	32.9	29.5	14.3	21.5	16.3	18.0	12.5	9.9
	30.6	41.5	40.6	46.8	52.9	49.5	50.6	41.9	50.2	49.0	48.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

R - Squared

	Cash Markets						US \$ Index	Futures					Correlations
	EURUSD	EURJPY	EURGBP	EURCHF	USDJPY	GBPUSD		US Dollar	Euro	Yen	Swiss	Canadian	
EDAU09	64.2	44.3	67.0	8.6	11.9	43.7	-63.7	-62.9	65.2	-13.2	67.5	40.0	
EDAZ09	46.3	16.9	58.9	-13.1	-21.5	25.9	-42.9	-42.1	42.0	19.1	49.2	16.4	
EDAH10	-1.5	-35.0	32.9	-43.7	-68.8	-19.1	6.5	7.1	-9.3	67.3	4.0	-30.6	
EDAM10	-32.1	-62.5	10.2	-57.7	-87.6	-44.7	36.7	37.1	-39.9	86.7	-24.5	-56.3	
EDAU10	-47.2	-74.3	-3.4	-61.3	-93.1	-56.2	51.8	52.2	-54.8	93.0	-39.3	-68.2	
EDAZ10	-49.6	-76.0	-5.8	-60.9	-93.8	-57.9	54.3	54.7	-57.5	93.9	-42.1	-69.5	
EDAH11	-51.8	-77.6	-8.3	-61.6	-94.4	-59.3	56.8	57.2	-59.7	94.5	-44.3	-71.7	
EDAM11	-52.1	-78.0	-8.2	-61.4	-94.7	-59.7	57.3	57.7	-59.9	94.9	-44.6	-72.5	
EDAU11	-53.2	-78.8	-8.1	-61.2	-95.0	-61.1	58.5	58.9	-60.9	95.3	-45.7	-73.1	
EDAZ11	-53.2	-78.8	-7.5	-61.1	-95.2	-61.4	58.5	58.8	-60.8	95.4	-45.5	-73.0	
EDAH12	-53.9	-79.3	-8.5	-61.3	-95.2	-61.8	59.2	59.6	-61.5	95.3	-46.2	-73.6	
EDAM12	-57.0	-81.3	-11.5	-61.5	-95.7	-64.1	62.3	62.6	-64.3	95.9	-49.2	-75.7	
EDAU12	-60.8	-83.8	-15.9	-61.9	-96.1	-66.4	66.0	66.4	-67.9	96.3	-52.9	-78.6	
EDAZ12	-64.1	-85.9	-19.3	-62.2	-96.5	-68.7	69.1	69.4	-70.7	96.7	-55.9	-80.9	
EDAH13	-67.5	-87.6	-24.3	-62.8	-95.9	-70.3	72.6	73.0	-73.8	96.4	-59.1	-84.0	
EDAM13	-66.3	-87.3	-21.6	-62.8	-96.7	-70.1	71.0	71.4	-72.5	97.1	-57.6	-82.7	

	Cash Markets						US \$ Index	Futures					R - Squared
	EURUSD	EURJPY	EURGBP	EURCHF	USDJPY	GBPUSD		US Dollar	Euro	Yen	Swiss	Canadian	
EDAU09	41.2	19.6	44.9	0.7	1.4	19.1	40.5	39.5	42.5	1.7	45.5	16.0	
EDAU10	21.4	2.9	34.6	1.7	4.6	6.7	18.4	17.8	17.6	3.6	24.2	2.7	
EDAU11	0.0	12.3	10.8	19.1	47.4	3.6	0.4	0.5	0.9	45.3	0.2	9.4	
EDAU12	10.3	39.1	1.0	33.3	76.8	20.0	13.5	13.8	15.9	75.1	6.0	31.7	
EDAU10	22.3	55.1	0.1	37.6	86.8	31.6	26.8	27.2	30.1	86.4	15.4	46.5	
EDAZ10	24.6	57.8	0.3	37.1	88.0	33.5	29.5	29.9	33.1	88.2	17.7	48.3	
EDAH11	26.9	60.3	0.7	37.9	89.1	35.2	32.3	32.7	35.6	89.4	19.6	51.5	
EDAM11	27.2	60.8	0.7	37.7	89.7	35.6	32.9	33.3	35.9	90.0	19.9	52.5	
EDAU11	28.3	62.0	0.7	37.4	90.3	37.4	34.2	34.7	37.1	90.8	20.9	53.5	
EDAZ11	28.3	62.2	0.6	37.4	90.6	37.8	34.2	34.6	37.0	91.0	20.7	53.4	
EDAH12	29.1	62.8	0.7	37.6	90.6	38.2	35.1	35.5	37.8	90.9	21.3	54.2	
EDAM12	32.5	66.2	1.3	37.8	91.5	41.0	38.8	39.2	41.4	92.0	24.2	57.4	
EDAU12	37.0	70.3	2.5	38.3	92.4	44.1	43.6	44.0	46.1	92.8	28.0	61.8	
EDAZ12	41.1	73.8	3.7	38.6	93.1	47.2	47.7	48.2	50.0	93.6	31.3	65.5	
EDAH13	45.6	76.8	5.9	39.5	91.9	49.4	52.7	53.3	54.5	92.9	35.0	70.5	
EDAM13	43.9	76.2	4.7	39.4	93.5	49.1	50.4	50.9	52.5	94.2	33.2	68.4	

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	Last Yield	Net Yield	Last Price	
Q.ED.White	0.86254805	0.0125	9915.125	
Q.ED.Red	2.20745831	-0.0625	9783.5	
Q.ED.Green	3.50274733	-0.2875	9657.5	Pack Prices
Q.ED.Blue	4.27122404	-0.425	9583.125	
Q.ED.Gold		-0.1875	9539.125	

Red /Gold is a 2/10 proxy

Blue/Gold is a 5/10 proxy

Concerning spread ratios : Don't use these ratios unless you talk to me. Or, use at your own risk. However, if you decide to use them and don't take care of convexity bias when you increase your size, you're doomed.

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