

7/24/09 5:45 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	-8.5	-16.2	-24.3	-35.0	-44.8	14.0	16.0	31.7	35.1	46.6	48.7	Correlations	Whites													
EDAZ09	31.0	24.2	16.4	6.1	-5.8	-24.1	-25.9	-9.4	-5.5	6.9	11.0			Correlations	Whites											
EDAH10	78.8	75.5	70.2	63.6	53.8	-74.3	-77.7	-66.5	-63.0	-54.5	-50.9					Correlations	Whites									
EDAM10	94.8	94.4	92.3	90.0	84.0	-93.2	-95.7	-91.5	-89.7	-85.5	-83.1		Correlations					Whites								
EDAU10	95.1	95.8	95.2	94.8	90.8	-94.7	-96.5	-95.6	-94.5	-92.4	-90.8				Correlations				Reds							
EDAZ10	93.4	94.4	94.3	94.3	91.0	-93.1	-95.4	-94.9	-93.9	-92.7	-91.3						Correlations			Reds						
EDAH11	92.7	94.3	94.2	94.3	91.6	-92.8	-95.5	-95.2	-94.0	-93.3	-92.1							Correlations			Reds					
EDAM11	92.5	94.5	94.2	94.0	91.6	-93.0	-95.8	-95.2	-93.9	-93.2	-92.1								Correlations			Reds				
EDAU11	92.3	94.4	94.1	93.8	91.7	-92.8	-95.8	-95.1	-93.7	-93.1	-92.0									Correlations			Greens			
EDAZ11	92.2	94.5	94.3	93.9	92.2	-92.9	-96.0	-95.3	-93.9	-93.4	-92.3										Correlations			Greens		
EDAH12	92.2	94.8	94.7	94.4	92.9	-93.0	-96.3	-95.9	-94.5	-94.0	-92.9											Correlations			Greens	
EDAM12	92.3	95.2	95.4	95.6	94.6	-93.3	-96.5	-96.7	-95.6	-95.5	-94.3												Correlations			Greens
EDAU12	92.5	95.6	96.6	97.2	97.0	-93.8	-96.5	-97.9	-97.3	-97.5	-96.2													Correlations		
EDAZ12	92.3	95.6	97.1	98.1	98.4	-93.9	-96.1	-98.4	-98.3	-98.6	-97.3														Correlations	
EDAH13	92.1	95.5	97.3	98.6	99.1	-94.0	-95.6	-98.7	-98.9	-99.3	-98.0	Correlations														Blues
EDAM13	92.2	95.7	97.4	98.7	99.2	-94.2	-95.6	-98.9	-99.1	-99.4	-98.1			Correlations												
EDAU13	91.7	95.2	97.2	98.6	99.5	-93.8	-95.0	-98.6	-99.0	-99.5	-98.3					Correlations										
EDAZ13	91.4	94.9	97.0	98.6	99.6	-93.6	-94.5	-98.4	-99.0	-99.5	-98.4		Correlations													Golds
EDAH14	90.6	94.2	96.5	98.3	99.6	-93.0	-93.6	-98.1	-98.8	-99.5	-98.4				Correlations											
EDAM14	89.9	93.6	96.0	98.0	99.6	-92.4	-92.8	-97.6	-98.5	-99.4	-98.3						Correlations									
EDAU09	0.7	2.6	5.9	12.3	20.1	2.0	2.6	10.0	12.3	21.7	23.8							R - Squared								Whites
EDAU10	9.6	5.8	2.7	0.4	0.3	5.8	6.7	0.9	0.3	0.5	1.2								R - Squared							
EDAU11	62.1	57.0	49.2	40.5	28.9	55.1	60.4	44.2	39.7	29.7	25.9									R - Squared						
EDAU12	89.8	89.1	85.2	81.1	70.6	86.8	91.5	83.8	80.4	73.1	69.0										R - Squared					Whites
EDAU10	90.4	91.7	90.6	89.9	82.5	89.6	93.1	91.4	89.3	85.5	82.5											R - Squared				
EDAZ10	87.2	89.2	88.8	89.0	82.8	86.6	91.1	90.1	88.1	85.8	83.4												R - Squared			
EDAH11	85.9	89.0	88.7	88.9	83.9	86.1	91.3	90.6	88.4	87.0	84.9													R - Squared		Reds
EDAM11	85.6	89.3	88.8	88.4	83.9	86.4	91.8	90.7	88.1	86.9	84.8														R - Squared	
EDAU11	85.2	89.1	88.6	88.0	84.2	86.1	91.8	90.5	87.8	86.7	84.7	R - Squared														
EDAZ11	85.0	89.3	88.8	88.3	84.9	86.2	92.2	90.9	88.2	87.2	85.2			R - Squared												Greens
EDAH12	84.9	89.8	89.6	89.2	86.3	86.5	92.7	91.9	89.3	88.4	86.2					R - Squared										
EDAM12	85.2	90.5	91.1	91.3	89.4	87.1	93.1	93.6	91.4	91.1	88.8		R - Squared													
EDAU12	85.7	91.4	93.3	94.6	94.0	88.0	93.1	95.9	94.7	95.0	92.5				R - Squared											Blues
EDAZ12	85.2	91.4	94.2	96.2	96.8	88.1	92.3	96.9	96.6	97.3	94.8						R - Squared									
EDAH13	84.8	91.2	94.6	97.1	98.3	88.3	91.5	97.5	97.8	98.6	96.1							R - Squared								
EDAM13	85.0	91.6	94.9	97.4	98.5	88.8	91.5	97.8	98.3	98.9	96.3								R - Squared							Blues
EDAU13	84.1	90.7	94.4	97.3	98.9	88.0	90.3	97.3	98.1	99.1	96.6									R - Squared						
EDAZ13	83.5	90.0	94.0	97.2	99.2	87.5	89.3	96.9	97.9	99.1	96.7										R - Squared					
EDAH14	82.0	88.7	93.1	96.7	99.3	86.4	87.6	96.2	97.6	99.1	96.8											R - Squared				Golds
EDAM14	80.8	87.6	92.2	96.1	99.2	85.5	86.2	95.4	97.1	98.8	96.6												R - Squared			

	Mini			Nymex	Gold	Eurex				
	S&Ps	Dow (5\$)	Nasdaq	Crude	Futures	Bund	Bobl	Schatz		
EDAU09	79.1	83.2	82.0	83.4	77.1	-44.3	-33.5	-10.4	Correlations	Whites
EDAZ09	57.6	63.2	61.5	63.4	62.0	-16.9	-6.8	7.6		
EDAH10	3.3	9.8	8.0	9.3	11.6	34.7	41.8	41.9		
EDAM10	-38.9	-33.3	-35.2	-34.8	-30.7	67.6	70.9	61.8		Reds
EDAU10	-54.1	-49.1	-50.9	-51.1	-46.5	76.8	78.3	66.2		
EDAZ10	-54.3	-49.7	-51.3	-51.3	-46.7	75.2	76.7	63.2		
EDAH11	-54.6	-50.1	-51.6	-51.6	-46.8	74.6	76.1	61.9		
EDAM11	-53.7	-49.2	-50.7	-49.7	-45.9	74.0	75.7	61.6		Greens
EDAU11	-53.4	-48.9	-50.3	-49.0	-45.8	73.1	74.8	60.5		
EDAZ11	-53.6	-49.2	-50.6	-48.9	-46.0	73.1	74.7	60.2		
EDAH12	-55.0	-50.6	-52.0	-50.1	-47.1	73.7	75.1	60.1		
EDAM12	-59.0	-54.7	-56.1	-54.2	-51.1	76.0	76.8	61.2		Blues
EDAU12	-65.4	-61.4	-62.9	-60.9	-57.5	80.4	80.2	63.8		
EDAZ12	-70.4	-66.6	-68.1	-66.1	-62.7	83.7	82.9	66.1		
EDAH13	-73.8	-70.1	-71.6	-69.9	-66.2	86.5	85.2	68.5		
EDAM13	-74.7	-71.0	-72.6	-70.9	-66.9	87.6	86.2	69.6		

	Mini			Nymex	Gold	Eurex				
	S&Ps	Dow (5\$)	Nasdaq	Crude	Gold	Bund	Bobl	Schatz		
EDAU09	62.6	69.2	67.2	69.6	59.5	19.7	11.2	1.1	R - Squared	Whites
EDAU10	33.1	39.9	37.9	40.2	38.5	2.8	0.5	0.6		
EDAU11	0.1	1.0	0.6	0.9	1.4	12.1	17.5	17.5		
EDAU12	15.2	11.1	12.4	12.1	9.4	45.7	50.3	38.2		Reds
EDAU10	29.3	24.2	25.9	26.1	21.7	59.0	61.4	43.8		
EDAZ10	29.5	24.7	26.3	26.3	21.8	56.6	58.8	39.9		
EDAH11	29.8	25.1	26.7	26.7	21.9	55.7	57.9	38.3		
EDAM11	28.8	24.2	25.7	24.7	21.0	54.7	57.4	37.9		Greens
EDAU11	28.5	23.9	25.3	24.0	21.0	53.4	55.9	36.6		
EDAZ11	28.7	24.2	25.6	23.9	21.1	53.4	55.9	36.2		
EDAH12	30.2	25.6	27.1	25.1	22.2	54.3	56.4	36.1		
EDAM12	34.8	30.0	31.5	29.4	26.1	57.8	59.0	37.5		Blues
EDAU12	42.8	37.7	39.5	37.1	33.1	64.6	64.3	40.7		
EDAZ12	49.5	44.3	46.3	43.7	39.3	70.1	68.6	43.7		
EDAH13	54.4	49.1	51.3	48.8	43.8	74.8	72.6	46.9		
EDAM13	55.8	50.4	52.6	50.3	44.8	76.7	74.3	48.5		

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	EURUSD	EURJPY	USDJPY	ZT	ZF	ZN	ZB	2Y Yld	5Y Yld	10Y Yld	30Y Yld	Spread * Ratio
ZF - ED7	-37.9	-64.2	-77.0	77.3	79.0	75.2	76.6	74.8	73.7	69.2	62.8	10:12
5yr - ED7	-62.6	-81.2	-81.6	69.0	75.3	78.2	75.5	75.5	77.6	76.9	74.8	1:12

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Correlations

ZF - ED7	14.4	41.3	59.3	59.7	62.3	56.6	58.7	56.0	54.3	47.9	39.5
5yr - ED7	39.2	65.9	66.6	47.7	56.8	61.2	57.0	57.0	60.2	59.1	55.9
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	85.2	72.0	65.1	21.7	39.7	67.6	-81.9	-80.3	82.4	-37.2	78.3	65.8	
EDAZ09	71.7	44.5	59.9	-0.5	4.8	54.2	-64.1	-61.4	61.1	-2.3	63.1	43.7	
EDAH10	25.0	-14.2	43.0	-35.1	-51.3	7.4	-14.1	-9.7	7.2	54.3	18.4	-8.9	
EDAM10	-14.7	-53.9	21.1	-53.5	-81.0	-28.6	26.2	31.1	-33.8	83.6	-18.1	-47.9	
EDAU10	-30.5	-67.0	10.9	-56.7	-88.1	-42.1	41.2	46.2	-48.8	90.6	-32.5	-60.9	
EDAZ10	-32.0	-67.2	9.1	-55.2	-86.7	-42.9	42.4	47.1	-50.1	89.3	-34.1	-60.5	
EDAH11	-33.6	-67.9	7.2	-54.5	-86.1	-43.8	43.9	48.1	-51.1	88.4	-35.5	-60.9	
EDAM11	-33.4	-67.4	7.1	-53.6	-85.5	-43.6	43.8	47.6	-50.6	87.4	-35.3	-60.5	
EDAU11	-33.7	-67.2	8.1	-52.9	-84.9	-44.5	44.2	48.0	-50.8	86.7	-35.8	-60.6	
EDAZ11	-34.2	-67.5	7.5	-52.9	-84.7	-44.9	44.9	48.5	-51.2	86.2	-36.3	-61.1	
EDAH12	-35.8	-68.6	5.4	-53.2	-85.1	-45.8	46.6	50.0	-52.6	86.3	-37.7	-62.4	
EDAM12	-39.8	-71.9	2.7	-53.8	-86.9	-49.1	50.6	54.0	-56.3	87.8	-41.4	-66.1	
EDAU12	-45.6	-76.7	-2.2	-55.1	-89.7	-53.4	56.5	60.1	-61.8	90.3	-46.8	-72.1	
EDAZ12	-50.1	-80.5	-5.8	-56.0	-91.8	-56.9	61.2	64.8	-66.1	92.0	-50.9	-76.7	
EDAH13	-53.0	-82.9	-8.5	-57.3	-93.3	-58.9	64.1	67.7	-68.6	93.3	-53.3	-80.0	
EDAM13	-53.5	-83.6	-9.6	-58.1	-93.9	-59.0	64.6	68.2	-68.9	93.8	-53.4	-80.9	

	Cash Markets						US \$ Index	Futures					R - Squared
	EURUSD	EURJPY	EURGBP	EURCHF	USDJPY	GBPUSD		US Dollar	Euro	Yen	Swiss	Canadian	
EDAU09	72.6	51.8	42.4	4.7	15.8	45.7	67.1	64.5	67.9	13.9	61.2	43.2	
EDAU10	51.4	19.8	35.9	0.0	0.2	29.4	41.1	37.7	37.3	0.1	39.8	19.1	
EDAU11	6.3	2.0	18.5	12.3	26.3	0.5	2.0	0.9	0.5	29.5	3.4	0.8	
EDAU12	2.2	29.1	4.5	28.6	65.6	8.2	6.9	9.7	11.4	69.9	3.3	22.9	
EDAU10	9.3	44.9	1.2	32.1	77.6	17.7	17.0	21.4	23.8	82.2	10.5	37.1	
EDAZ10	10.2	45.2	0.8	30.5	75.2	18.4	18.0	22.1	25.1	79.7	11.6	36.6	
EDAH11	11.3	46.0	0.5	29.7	74.2	19.2	19.2	23.1	26.1	78.1	12.6	37.0	
EDAM11	11.1	45.4	0.5	28.7	73.0	19.0	19.2	22.7	25.6	76.5	12.5	36.6	
EDAU11	11.3	45.2	0.6	28.0	72.1	19.8	19.5	23.0	25.8	75.1	12.8	36.7	
EDAZ11	11.7	45.5	0.6	28.0	71.8	20.2	20.2	23.5	26.2	74.4	13.1	37.3	
EDAH12	12.8	47.1	0.3	28.3	72.5	21.0	21.7	25.0	27.6	74.5	14.2	39.0	
EDAM12	15.8	51.6	0.1	28.9	75.5	24.1	25.6	29.2	31.7	77.1	17.2	43.7	
EDAU12	20.8	58.9	0.0	30.3	80.5	28.5	32.0	36.1	38.2	81.5	21.9	51.9	
EDAZ12	25.1	64.8	0.3	31.4	84.2	32.4	37.4	42.0	43.6	84.6	25.9	58.9	
EDAH13	28.1	68.8	0.7	32.8	87.0	34.7	41.0	45.8	47.0	87.0	28.4	63.9	
EDAM13	28.6	69.8	0.9	33.8	88.2	34.8	41.7	46.6	47.5	87.9	28.6	65.5	

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	Last Yield	Net Yield	Last Price	
Q.ED.White	0.93517635	0.175	9908	
Q.ED.Red	2.37537984	0.4875	9767.125	
Q.ED.Green	3.70400403	0.4125	9638	Pack Prices
Q.ED.Blue	4.50947189	0.1875	9560.125	
Q.ED.Gold	5.0024	0.1125	9512.625	

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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