

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, (-0.879) 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		
EDAH10	78.8	75.5	70.2	63.6	53.8	-74.3	-77.7	-66.5	-63.0	-54.5	-50.9		
EDAM10	94.8	94.4	92.3	90.0	84.0	-93.2	-95.7	-91.5	-89.7	-85.5	-83.1		
EDAU10	95.1	95.8	95.2	94.8	90.8	-94.7	-96.5	-95.6	-94.5	-92.4	-90.8		Reds
EDAZ10	93.4	94.4	94.3	94.3	91.0	-93.1	-95.4	-94.9	-93.9	-92.7	-91.3		
EDAH11	92.7	94.3	94.2	94.3	91.6	-92.8	-95.5	-95.2	-94.0	-93.3	-92.1		
EDAM11	92.5	94.5	94.2	94.0	91.6	-93.0	-95.8	-95.2	-93.9	-93.2	-92.1		
EDAU11	92.3	94.4	94.1	93.8	91.7	-92.8	-95.8	-95.1	-93.7	-93.1	-92.0		Greens
EDAZ11	92.2	94.5	94.3	93.9	92.2	-92.9	-96.0	-95.3	-93.9	-93.4	-92.3		
EDAH12	92.2	94.8	94.7	94.4	92.9	-93.0	-96.3	-95.9	-94.5	-94.0	-92.9		
EDAM12	92.3	95.2	95.4	95.6	94.6	-93.3	-96.5	-96.7	-95.6	-95.5	-94.3		
EDAU12	92.5	95.6	96.6	97.2	97.0	-93.8	-96.5	-97.9	-97.3	-97.5	-96.2		Blues
EDAZ12	92.3	95.6	97.1	98.1	98.4	-93.9	-96.1	-98.4	-98.3	-98.6	-97.3		
EDAH13	92.1	95.5	97.3	98.6	99.1	-94.0	-95.6	-98.7	-98.9	-99.3	-98.0		
EDAM13	92.2	95.7	97.4	98.7	99.2	-94.2	-95.6	-98.9	-99.1	-99.4	-98.1		
EDAU13	91.7	95.2	97.2	98.6	99.5	-93.8	-95.0	-98.6	-99.0	-99.5	-98.3	Golds	
EDAZ13	91.4	94.9	97.0	98.6	99.6	-93.6	-94.5	-98.4	-99.0	-99.5	-98.4		
EDAH14	90.6	94.2	96.5	98.3	99.6	-93.0	-93.6	-98.1	-98.8	-99.5	-98.4		
EDAM14	89.9	93.6	96.0	98.0	99.6	-92.4	-92.8	-97.6	-98.5	-99.4	-98.3		
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		
EDAU11	62.1	57.0	49.2	40.5	28.9	55.1	60.4	44.2	39.7	29.7	25.9		
EDAU12	89.8	89.1	85.2	81.1	70.6	86.8	91.5	83.8	80.4	73.1	69.0		
EDAU10	90.4	91.7	90.6	89.9	82.5	89.6	93.1	91.4	89.3	85.5	82.5		Reds
EDAZ10	87.2	89.2	88.8	89.0	82.8	86.6	91.1	90.1	88.1	85.8	83.4		
EDAH11	85.9	89.0	88.7	88.9	83.9	86.1	91.3	90.6	88.4	87.0	84.9		
EDAM11	85.6	89.3	88.8	88.4	83.9	86.4	91.8	90.7	88.1	86.9	84.8		
EDAU11	85.2	89.1	88.6	88.0	84.2	86.1	91.8	90.5	87.8	86.7	84.7		Greens
EDAZ11	85.0	89.3	88.8	88.3	84.9	86.2	92.2	90.9	88.2	87.2	85.2		
EDAH12	84.9	89.8	89.6	89.2	86.3	86.5	92.7	91.9	89.3	88.4	86.2		
EDAM12	85.2	90.5	91.1	91.3	89.4	87.1	93.1	93.6	91.4	91.1	88.8		
EDAU12	85.7	91.4	93.3	94.6	94.0	88.0	93.1	95.9	94.7	95.0	92.5		Blues
EDAZ12	85.2	91.4	94.2	96.2	96.8	88.1	92.3	96.9	96.6	97.3	94.8		
EDAH13	84.8	91.2	94.6	97.1	98.3	88.3	91.5	97.5	97.8	98.6	96.1		
EDAM13	85.0	91.6	94.9	97.4	98.5	88.8	91.5	97.8	98.3	98.9	96.3		
EDAU13	84.1	90.7	94.4	97.3	98.9	88.0	90.3	97.3	98.1	99.1	96.6	Golds	
EDAZ13	83.5	90.0	94.0	97.2	99.2	87.5	89.3	96.9	97.9	99.1	96.7		
EDAH14	82.0	88.7	93.1	96.7	99.3	86.4	87.6	96.2	97.6	99.1	96.8		
EDAM14	80.8	87.6	92.2	96.1	99.2	85.5	86.2	95.4	97.1	98.8	96.6		

	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		

	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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Under Construction

	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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