

The Morning Email: Treasuries

Rotate Me

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Want something added?

Let me know: jgoulding@ghco.com

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Important Econ Releases Highs & Lows

	5y*	10y*	ZNH7**	ZBH7**	Date
Non-farm High	99.2200	100.0900	108.1800	113.0000	11/3/2006
Non-farm Low	99.0400	99.6500	107.1450	111.1300	11/3/2006
FOMC High	95.3050	98.2950	107.0750	110.2700	10/25/2006
FOMC Low	97.2200	98.1650	106.2750	110.0500	10/25/2006
PPI High	99.2850	99.0600	108.2050	113.1900	11/14/2006
PPI Low	99.2050	98.2350	108.0800	112.3100	11/14/2006
CPI High	99.2500	100.1700	108.1650	113.1200	11/16/2006
CPI Low	99.0650	99.2000	107.2250	112.0300	11/16/2006

*Adjusted for New Issue

**Adjusted for Roll

Prices are recorded from econ release to 2pm CDT

Quotes

		32 nds							
	ls	net	high	low	open	Volume		SYM NAME	
TUAH7	102.157	(0.20)	102.165	102.152	102.165	15,126		2y Futures	
FVAH7	106.040	(1.50)	106.060	106.025	106.060	35,239		5y Futures	
TYAH7	109.035	(3.00)	109.065	109.015	109.065	125,472		10y Futures	
USAH7	114.060	(1)	114.130	114.040	114.120	22,357		30y Futures	
BUS02P	99.317	(1.0)	100.005	99.317	100.002	na		2y	
BUS05P	100.065	(0.0)	100.077	100.057	100.075	na		5y	
BUS10P	101.070	(2.5)	101.090	101.045	101.090	na		10y	
BUS30P	98.265	(6)	98.315	98.225	98.305	na		30y	
BUS02Y	4.625	1.20	4.637	4.608	4.621	na		2y Yield	
BUS05Y	4.452	1.00	4.463	4.436	4.447	na		5y Yield	
BUS10Y	4.470	1.20	4.485	4.46	4.481	na		10y Yield	
BUS30Y	4.572	1.10	4.583	4.56	4.565	na		30y Yield	

Source: CQG

Yesterday

3:28 pm - Going Both Ways: Traders see solid arguments on both sides here, but **the bulls sure have been winning this game**. The trade up was on decent size & players reported good flows through the options with general rolling of long sided positions. The market may be running out of steam, according to one well-placed dealer, although he also understands the bulls' vision, its "trading on feelings...the 2.5 (rate) cuts built in are not going to happen, that's not how it'll all shake out," adding however "Q4 will be worse than Q3." "The euphoria (in treasuries) will end, but you have to be careful...maybe the **pick-up in jobless claims is an early indicator** of where things are going." Another poses the question of whether the **dollar's drop might be built to spill** over into treasuries. The rally **"feels solid** & as if there's more to go" says one player & adds "Could the 2-yr's (session high) yield of 4.666%" have anything to do with the move? The **2-10-yr yield spread remained in inversion running at -17**. As noted here **ahead of the holiday break technical issues "coming to a head in a large way," generally negative the buck & were expected around...wait for it...Nov 30**

Overnight

[02:45 EST 12/01]

BONDS: EGBs are opening moderately higher on Friday after strong gains on JGBs overnight in the wake of lower than expected CPI data, which in turn calmed some fears over the pace of interest rate increases in Japan.

[05:43 EST 12/01]

BUNDS: Dec Bunds down on profit-taking, with moves dictated by correction in euro-dollar from 20-month high at \$1.3282. However, this move lower in euro is merely a case of euro suffering from vertigo after eight consecutive up sessions, with some profit-taking also expected ahead of the key US ISM manufacturing data, where speculation is on a sub 50.0 level outcome after the Chicago Purchasers report came out at 49.9 yesterday. A Sub 50.0 ISM levels are historically in line with a Fed rate easing scenario. Dec Bunds are down 12 ticks at 118.36.

[Source — MNI]

Today

Econ Releases

Date	ET	Release	For	Briefing.com	Consensus	Prior
Nov 30	08:30	Initial Claims	11/25	310K	NA	321K
Nov 30	08:30	Personal Income	Oct	0.5%	0.5%	0.5%
Nov 30	08:30	Personal Spending	Oct	0.1%	0.1%	0.1%
Nov 30	10:00	Chicago PMI	Nov	56.0	54.5	53.5
Nov 30	10:00	Help-Wanted Index	Oct	30	31	30
Dec 01	00:00	Auto Sales	Nov	5.3M	5.2M	5.1M
Dec 01	00:00	Truck Sales	Nov	7.5M	7.3M	7.2M
Dec 01	10:00	Construction Spending	Oct	-0.3%	-0.2%	-0.3%
Dec 01	10:00	ISM Index	Nov	52.5	52.0	51.2

[Source: DailyFX.com]

Speakers (Chicago/NY/London times)

EUR: 4am/5am/10am - ECB's Tumpell-Gugereil speaks on financial integration in Madrid
 USD: 8am/9am/1pm - Fed's Bernanke speaks at research forum on monetary policy in Washington
 USD: 8:30am/9:30am/1:30pm - Fed's Plosser speaks
 EUR: 12:15pm/1:15pm/6:15pm 18:15 - ECB's Papademos speaks at research forum on monetary policy in Washington
 USD: 12:45pm/1:45pm/6:45pm 18:45 - Fed's Lacker speaks

[Source: todayfx.com]

[Other Sources: FXStreet.com, Briefing.com, MNI, Reuters, Dow Jones, Bloomberg, icap]

Yield Curve Spreads & Flies, DV01s, CFs

M Duration	
30y	15.86
10y	7.90
5y	4.42
3y	2.72
2y	1.88
ZB	9.98
ZN	5.94
ZF	4.00
ZT	1.90

DV01s (32nds)	
30y	5.09
10y	2.57
5y	1.42
3y	0.87
2y	0.60
ZB	3.71
ZN	2.07
ZF	1.36
ZT	1.26

DV01s (\$s)	
30y	\$1,589
10y	\$802
5y	\$444
3y	\$273
2y	\$188
ZB	\$116
ZN	\$65
ZF	\$42
ZT	\$39

Yield Curve Spreads

2/3	-11.20
3/5	-6.10
2/5	-17.30
5/10	1.80
2/10	-15.50
10/30	10.20
5/30	12.00
2/30	-5.30

Fly's

2/3/5	-5.10
2/5/10	-19.10
2/10/30	-25.70
5/10/30	-8.40

CFs

ZB	0.7956
ZN	0.9105
ZF	0.9397
ZT	0.9754

*CF OTR Basis = Conversion Factor On-the-Run Basis
 (Cash price - (Futures price* OTR CF))= CF OTR Basis

MDuration & DV01s for Futures are based on proxy issue (CTD)

MDuration = Modified Macaulay Duration

Hedge Ratios: US Financial Futures / Eurex Bund, Bobl, Schatz,

US Financial Futures / Eurex Bond Hedge Ratios
Short Number of Contracts

	ZB	ZN	ZF	ZT	Number of contracts LONG
Bund (Z)	1.000	1.800	2.700	2.900	
Bobl (Z)	0.510	0.910	1.400	1.500	
Schatz (Z)	0.200	0.360	0.550	0.580	

Eurex Hedge Ratio's source: Bloomberg

US Financial Futures Hedge Ratios

	ZB	ZN	ZF	ZT
ZB		0.558	0.366	0.340
ZN	1.792		0.655	0.609
ZF	2.736	1.527		1.075
ZT	0.664	1.190	1.817	

H=Mch
M=Jun
U=Sep
Z=Dec

Hedge Ratios: US Treasury Cash / Eurex Bund, Bobl, Shatz

US Treasuries v US Financial Futures Hedge Ratios

	2y	3y	5y	10y	30y
ZB	1.62	2.35	3.82	6.91	13.69
ZN	2.90	4.21	6.85	12.38	24.53
ZF	4.43	6.43	10.45	18.90	37.46
ZT	4.76	6.92	11.24	20.32	40.26

US Treasuries v Eurex Bonds Hedge Ratios

	2y	3y	5y	10y	30y
Bund (Z)	1.7	2.4	3.9	7.0	13.1
Bobl (Z)	3.1	4.7	7.3	13.5	25.2
Shatz (Z)	7.1	10.4	16.7	30.0	56.1

Eurex Hedge Ratio's source: Bloomberg

Eurex Hedge Ratios

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)		1.940	4.900
Bobl (Z)	0.515		2.500
Shatz (Z)	0.200	0.400	

Eurex Hedge Ratio's source: Bloomberg

H=Mch
M=Jun
U=Sep
Z=Dec

Hedge Ratios: US Cash Treasuries / Eurodollar

		US Treasuries v US Treasuries				
	2y	3y	5y	10y	30y	
2y		1.452	2.360	4.267	8.456	
3y	0.688		1.625	2.938	5.822	
5y	0.424	0.616		1.808	3.584	
10y	0.234	0.340	0.553		1.982	
30y	0.118	0.172	0.279	0.505		

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			Net
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	238,301	251,960	(13,659)	151,927	199,357	(47,430)	1,084,430	1,023,341	61,089	ZF
ZN	287,834	409,908	(122,074)	663,883	281,454	382,429	1,431,396	1,691,750	(260,354)	ZN
ZB	127,600	138,690	(11,090)	139,402	217,234	(77,832)	538,574	449,653	88,921	ZB

	WoW** Position Change				As of
	Sml Spec		Lrg Spec		
	Net	Net	Net	Net	11/21/2006
ZF	(13,883)	(16,249)	30,133		
ZN	(62,973)	(9,918)	72,893		
ZB	(18,536)	(46,167)	64,702		

**WoW = Week over week

2 PM CDT Closes: US Treasuries, US Financial Futures, YC Spreads, Basis

	Cpn	Mty	32nds	Yield
2y	4.625	11/30/08	100.0050	4.617
3y	4.625	11/15/09	100.1050	4.504
5y	4.500	11/30/11	100.0825	4.442
10y	4.625	11/15/16	101.105	4.458
30y	4.500	2/15/36	99.01	4.561

GHCO

CF Basis*	Basis	32nds
5y	0.40	14.954
10y	1.77	96.738
30y	8.27	249.675
		ZF 106.0550
		ZN 109.0600
		ZB 114.13

Curve Spreads bps

2/3	(0.113)
3/5	(0.062)
2/5	(0.175)
5/10	0.016
2/10	(0.159)
10/30	0.103
5/30	0.119
2/30	(0.056)

CF = Conversion Factor
Cash - (Futures * CF)

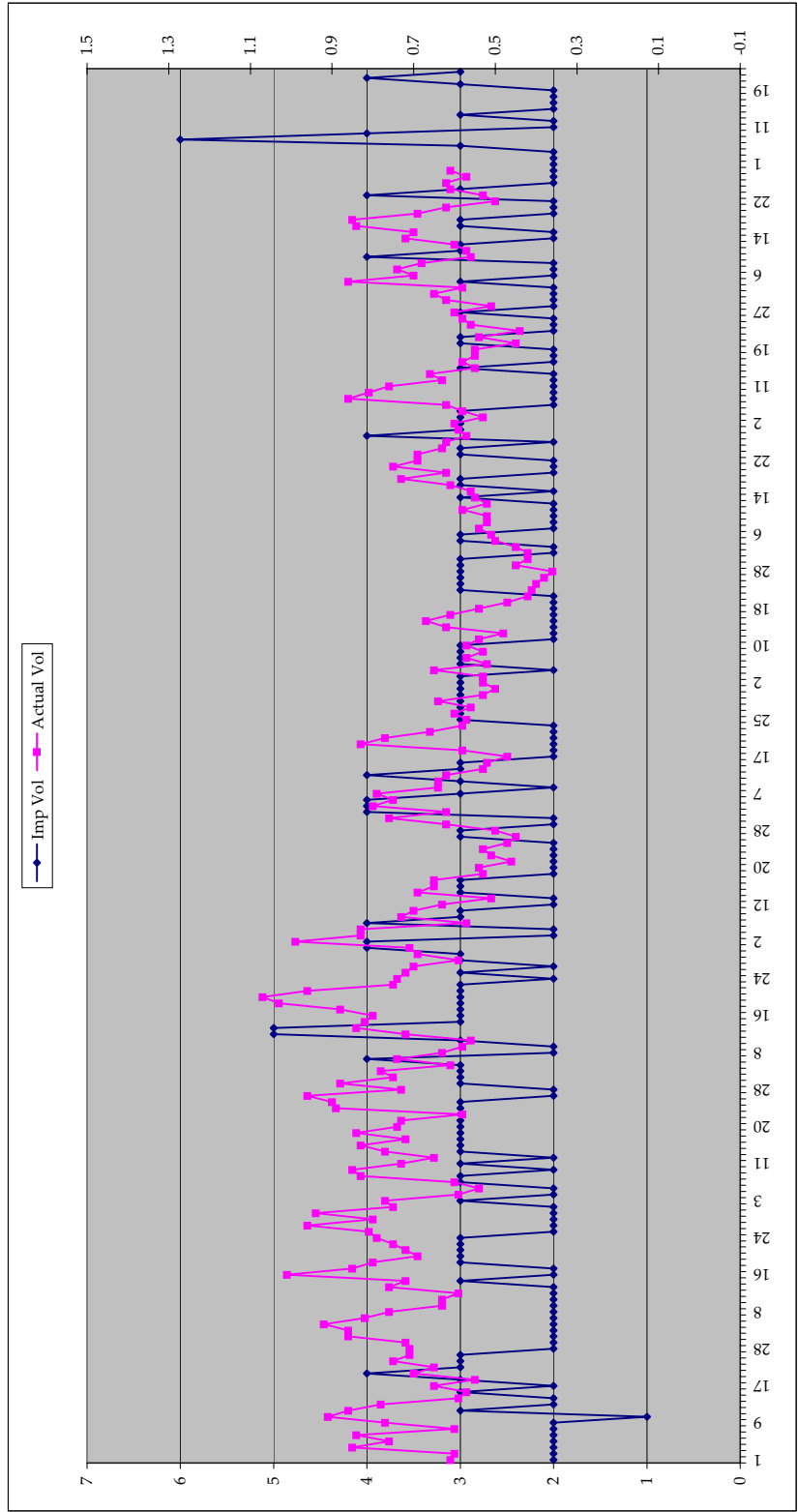
Old 5Y

Cpn	4.625
Mty	10/11
32nds	100.2425
Yield	

12/1/2006 5:50

Fig 9

Implied Volatility (Daily)



Imp Vol Actual Vol

Begins Feb 1, 2006. No weekends

Scale is 1-9 (left axis)
1,2 = very slow
3 = moderate
4,5 = volatile
6-9 = very volatile

Implied Volatility on left axis.
Actual Volatility on right axis.
Actual Vol based on 3 day MA.

Implied Volatility (3-Hour)

CDT Time	UT Time	EDT Time	12/1/2006	1/0/1900	1/0/1900
1900-2200	0000-0300	2000-2300	2	0	0
2200-0100	0300-0600	2300-0200	2	0	0
0100-0400	0600-0900	0200-0500	2	0	0
0400-0700	0900-1200	0500-0800	1	0	0
0700-1000	1200-1500	0800-1100	2	0	0
1000-1300	1500-1800	1100-1400	1	0	0
1300-1600	1800-2100	1400-1700	1	0	0
1600-1900	2100-0000	1700-2000	1	0	0

Shaded boxes denote market hours 4am to 4pm CDT

Scale is 1-9
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