

## The Morning Email: Treasuries

Rotate Me

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Want something added?

Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

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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	97.3050	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	102.217	(0.50)	102.222	102.212	102.222	12,667	2y Futures		
FVAH7	106.135	(1.50)	106.150	106.125	106.150	28,302	5y Futures		
TYAH7	109.130	(3.00)	109.145	109.120	109.140	62,910	10y Futures		
USAH7	114.160	(1)	114.190	114.140	114.190	17,591	30y Futures		
BUS02P	100.057	(0.2)	100.060	100.055	100.057	na	2y		
BUS05P	100.152	(0.0)	100.155	100.145	100.152	na	5y		
BUS10P	101.150	(1.5)	101.155	101.140	101.150	na	10y		
BUS30P	99.040	(3)	99.055	99.020	99.040	na	30y		
BUS02Y	4.525	0.40	4.546	4.5	4.525	na	2y Yield		
BUS05Y	4.391	0.40	4.401	4.385	4.391	na	5y Yield		
BUS10Y	4.438	0.30	4.448	4.433	4.444	na	10y Yield		
BUS30Y	4.552	0.60	4.56	4.546	4.552	na	30y Yield		

Source: CQG

## Yesterday

**3:20 pm - Screamer of a Week:** The day ended on a high note, heck, the week ended on a high note, with the 10-yr yield seeing a 19.3 basis point range on the week & the 5-&-2-yr knocking out about 25 bps apiece & everybody closing near the best levels. The close well below 4.5% on the 10-yr yield is "looking really sweet," notes one long-term player, & "they should be able to pull off some solid follow-through." Previous bond bears have even begun to come around, although they are coming around with a pretty painful limp after having to get through this week. Data played right in to the market's hands, with ISM today doing almost exactly as CNBC's Rick Santelli kept pointing out, hitting under 50 & showing even worse than the previous day's PMI. Jobless claims added some to the price support as well, with some seeing them as a harbinger of bad numbers out the calendar. The week ahead could also be pretty bouncy as well, with housing numbers early in the week & the big payroll report at the end with a smattering of reports in between. The looming payroll number may help to anchor prices while any & all whisper numbers will probably be greeted with a market twitch (after the rumors early on PMI having been so close to on the money). The curve will try to edge into a less inverted pose, but it's all about the data (just ask any inflation fearing Fedster) the 2-10-yr yield spread running -10, the most unverted since the start of Nov.

## Overnight

[03:25 EST 12/04]  
**BONDS:** EGBs are opening mixed on Monday with the short-dated issues outperforming, in turn steepening the Bund curve. The 10-year Bund is moderately lower on profit-taking following strong gains on Friday after the US ISM came in sub 50.0 level for the first time since April 2003. Traders downplayed the rise in prices-paid index to 53.5 vs. 47.0 in October. Focus this week is on the slew of central bank rate decisions, with the BoC due to meet on Tuesday along with the RBA -- both expected to keep rates on hold. The BoE is also expected to leave its repo rate unchanged at 5.00%. The ECB rate decision is due on Thursday and a 25bps rate hike is fully priced in to take the refi rate to 3.50% -- the sixth in the current tightening cycle. Perhaps more importantly will be the ECB staff projections at the regular press conference and leaks in today's FTD imply that the HICP estimate around 1.8-1.9% in 2008, i.e. under the bank's 2% price-stability threshold, and cut the forecast for next year from 2.4%, without identifying its sources.

[Source – MNI]

## Today

### Econ Releases

Date	ET	Release	For	Briefing.com	Consensus	Prior
Dec 05	08:30	<a href="#">Productivity-Rev.</a>	Q3	0.6%	0.0%	0.0%
Dec 05	10:00	<a href="#">Factory Orders</a>	Oct	-4.4%	-2.0%	2.1%
Dec 05	10:00	<a href="#">ISM Services</a>	Nov	55.0	56.5	57.1
Dec 06	10:30	<a href="#">Crude Inventories</a>	12/01	NA	NA	-360K
Dec 07	08:30	<a href="#">Initial Claims</a>	12/02	320K	NA	357K
Dec 07	15:00	<a href="#">Consumer Credit</a>	Oct	\$9.0B	\$4.5B	-\$1.2B
Dec 08	08:30	<a href="#">Nonfarm Payrolls</a>	Nov	115K	125K	92K
Dec 08	08:30	<a href="#">Unemployment Rate</a>	Nov	4.4%	4.4%	4.4%
Dec 08	08:30	<a href="#">Hourly Earnings</a>	Nov	0.3%	0.3%	0.4%
Dec 08	08:30	<a href="#">Average Workweek</a>	Nov	33.9	33.9	33.9
Dec 08	10:00	<a href="#">Mich Sentiment-Prel.</a>	Dec	91.0	92.8	92.1

[Source: DailyFX.com]

**Speakers (Chicago/NY/London times)**

(Time in GMT/EST),  
 1400/0900 Chicago Fed Pres Moskow tv interview.

[Source: MNI, todayfx.com]

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

**Yield Curve Spreads & Flies, DV01s, CFs**

**M Duration**

	#VALUE!
30y	7.90
10y	4.42
5y	2.72
3y	1.88
2y	9.98
ZB	5.94
ZN	#VALUE!
ZF	#VALUE!
ZT	#VALUE!

**DV01s (32nds)**

	#VALUE!
30y	2.57
10y	1.42
5y	0.88
3y	0.60
2y	3.72
ZB	2.08
ZN	#VALUE!
ZF	#VALUE!
ZT	#VALUE!

**DV01s (\$s)**

	#VALUE!
30y	\$804
10y	\$445
5y	\$273
3y	\$188
2y	\$116
ZB	\$65
ZN	#VALUE!
ZF	#VALUE!
ZT	#VALUE!

**Yield Curve Spreads**

2/3	-9.50
3/5	-3.90
2/5	-13.40
5/10	4.70
2/10	-8.70
10/30	11.40
5/30	16.10
2/30	2.70

**Fly's**

2/3/5	-5.60
2/5/10	-18.10
2/10/30	-20.10
5/10/30	-6.70

**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
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

Number  
of  
contracts  
LONG

Eurex Hedge Ratio's source: Bloomberg

US Financial Futures Hedge Ratios

	ZB	ZN	ZF	ZT
ZB		0.559	#VALUE!	#VALUE!
ZN	1.790		#VALUE!	#VALUE!
ZF	#VALUE!	#VALUE!		#VALUE!
ZT	0.663	1.187	#VALUE!	

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	#VALUE!
ZN	2.89	4.21	6.84	12.37	#VALUE!
ZF	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
ZT	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

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		1.453	2.364	4.273	#VALUE!
3y	0.688		1.626	2.940	#VALUE!
5y	0.423	0.615		1.808	#VALUE!
10y	0.234	0.340	0.553		#VALUE!
30y	#VALUE!	#VALUE!	#VALUE!	#VALUE!	

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	Net
ZF	(13,883)	(16,249)	30,133	72,893	11/21/2006
ZN	(62,973)	(9,918)	72,893	64,702	
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	100.0650	4.517
3y	4.625	11/15/09	100.1775	4.422
5y	4.500	11/30/11	100.1700	4.380
10y	4.625	11/15/16	101.190	4.425
30y	4.500	2/15/36	99.11	4.540

## GHCO

CF Basis*	Basis	32nds
5y	1.34	15.442
10y	1.77	61.063
30y	8.29	260.739
		ZF
		ZN
		ZB

## Curve Spreads bps

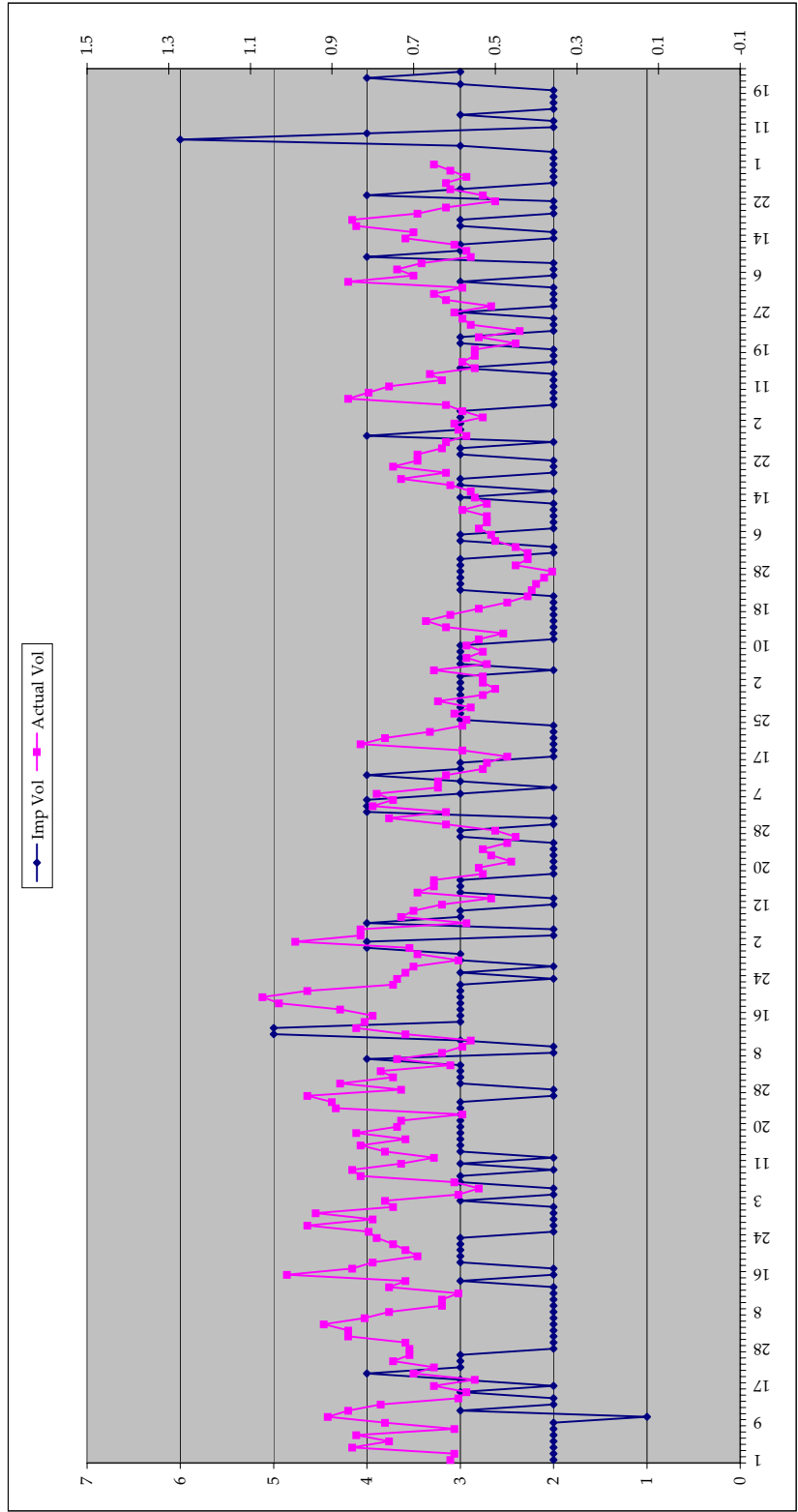
2/3	(0.095)
3/5	(0.042)
2/5	(0.137)
5/10	0.045
2/10	(0.092)
10/30	0.115
5/30	0.160
2/30	0.023

CF = Conversion Factor  
Cash - (Futures \* CF)

12/4/2006 5:40

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  
 1,2 = very slow  
 3 = moderate  
 4,5 = volatile  
 6-9 = very volatile