

The Morning Email: Treasuries

Rotate Me

Table of Contents

| | |
|--------------|---|
| Pg A | Important Econ Releases Highs & Lows |
| Pg 1 | Quotes |
| Pg 2 | News Snapshot |
| Pg 3 | Yield Curve Spreads & Flies, DV01s, CFs |
| Pg 4 | Hedge Ratios: US Financial Futures / Eurex Bund, Bobl, Schatz, |
| Pg 5 | Hedge Ratios: US Treasury Cash / Eurex Bund, Bobl, Schatz |
| Pg 6 | Hedge Ratios: US Cash Treasuries / Eurodollar |
| Pg 7 | Commitment of Traders (COT) |
| Pg 8 | 2 PM CDT Closes: US Treasuries, US Financial Futures, YC Spreads, Basis |
| Pg 9 | Implied Volatility (Daily) |
| Pg 10 | Implied Volatility (3-Hour) |

Want something added?

Let me know: 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 | 102.227 | 0.50 | 102.230 | 102.220 | 102.227 | 15,547 | 2y Futures | |
| FVAH7 | 106.155 | 1.00 | 106.165 | 106.140 | 106.155 | 33,987 | 5y Futures | |
| TYAH7 | 109.150 | 0.00 | 109.165 | 109.135 | 109.155 | 54,421 | 10y Futures | |
| USAH7 | 114.210 | 0 | 114.240 | 114.180 | 114.230 | 19,064 | 30y Futures | |
| | ls | net | high | low | open | Volume | SYM NAME | |
| BUS02P | 100.067 | 0.2 | 100.070 | 100.062 | 100.067 | na | 2y | |
| BUS05P | 100.170 | (0.0) | 100.180 | 100.162 | 100.172 | na | 5y | |
| BUS10P | 101.175 | (0.5) | 101.195 | 101.165 | 101.190 | na | 10y | |
| BUS30P | 99.085 | (1) | 99.105 | 99.070 | 99.085 | na | 30y | |
| | ls | net | high | low | open | Volume | SYM NAME | |
| BUS02Y | 4.500 | (0.80) | 4.529 | 4.5 | 4.525 | na | 2y Yield | |
| BUS05Y | 4.375 | (0.20) | 4.389 | 4.369 | 4.378 | na | 5y Yield | |
| BUS10Y | 4.429 | 0.40 | 4.438 | 4.419 | 4.427 | na | 10y Yield | |
| BUS30Y | 4.544 | 0.30 | 4.55 | 4.539 | 4.543 | na | 30y Yield | |

Source: CQG

Yesterday

3:26 pm - Trade Ticks Slightly Higher: Trade petered out going into the close, going out slightly bid & right where it had spent most of the session. Trade had **little to drive any "action"** & is looking out to the upcoming run of data on tap, especially the payroll report, but other, lesser status numbers will also see some undue attention, including the ISM services report hitting tomorrow. If previous reports are any indication the market will be looking for a worse-than-expected print. That said, that raises the bar for information that will help support prices, so a somewhat-worse-than-expected hit will likely result in a sell-off. **The 2-10-yr yield spread has held itself in a less inverted pose, now running at -8.7** versus an early -9.5.

Overnight

05:46 EST 12/05]

USTs: Treasuries are trading modestly lower in a lackluster session Tuesday, as a lack of fresh trading incentives prompts a bout of profit-taking. Prices started to slip in Tokyo, although volumes were light. Traders said a lack of fresh buying incentives was keeping many players sidelined. The story was similar through the early London session, with light profit-taking pushing prices lower. Real money names were noted as sellers of the front of the curve, with leveraged players sellers in the belly of the curve. However, traders said the weaker dollar was encouraging light buying close to the lows from Asian central banks. **[Source – MNI]**

Today

Econ Releases

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

[Source: DailyFX.com]

Speakers/Events

(Chi/NY/London Times)

GBP: Dec 7 at 6:00/7:00/12:00 - BoE MPC Interest Rate Announcement

EUR: Dec 7 at 7:30/8:30/13:30 - ECB Press Conference after Rate Announcement

[Source: MNI, todayfx.com]

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

Yield Curve Spreads & Flies, DV01s, CFs

M Duration

| | |
|-----|---------|
| 30y | 15.87 |
| 10y | 7.90 |
| 5y | 4.42 |
| 3y | #VALUE! |
| 2y | 1.87 |
| ZB | 9.98 |
| ZN | 5.93 |
| ZF | 4.00 |
| ZT | 1.90 |

DV01s (32nds)

| | |
|-----|---------|
| 30y | 5.11 |
| 10y | 2.58 |
| 5y | 1.42 |
| 3y | #VALUE! |
| 2y | 0.60 |
| ZB | 3.73 |
| ZN | 2.08 |
| ZF | 1.36 |
| ZT | 1.26 |

DV01s (\$s)

| | |
|-----|---------|
| 30y | \$1,598 |
| 10y | \$805 |
| 5y | \$445 |
| 3y | #VALUE! |
| 2y | \$188 |
| ZB | \$117 |
| ZN | \$65 |
| ZF | \$43 |
| ZT | \$39 |

Yield Curve Spreads

| | |
|-------|--------|
| 2/3 | -9.00 |
| 3/5 | -3.50 |
| 2/5 | -12.50 |
| 5/10 | 5.40 |
| 2/10 | -7.10 |
| 10/30 | 11.50 |
| 5/30 | 16.90 |
| 2/30 | 4.40 |

Fly's

| | |
|---------|--------|
| 2/3/5 | -5.50 |
| 2/5/10 | -17.90 |
| 2/10/30 | -18.60 |
| 5/10/30 | -6.10 |

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 |

Eurex Hedge Ratio's source: Bloomberg

Number
of
contracts
LONG

US Financial Futures Hedge Ratios

| | ZB | ZN | ZF | ZT |
|----|-------|-------|-------|-------|
| ZB | | 0.558 | 0.365 | 0.339 |
| ZN | 1.793 | | 0.654 | 0.607 |
| ZF | 2.740 | 1.528 | | 1.077 |
| ZT | 0.661 | 1.186 | 1.812 | |

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 | 1.61 | #VALUE! | 3.82 | 6.90 | 13.71 |
| ZN | 2.89 | #VALUE! | 6.84 | 12.38 | 24.57 |
| ZF | 4.42 | #VALUE! | 10.45 | 18.91 | 37.55 |
| ZT | 4.76 | #VALUE! | 11.26 | 20.37 | 40.45 |

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

Hedge Ratios: US Cash Treasuries / Eurodollar

| | US Treasuries v US Treasuries | | | | |
|-----|-------------------------------|---------|---------|---------|---------|
| | 2y | 3y | 5y | 10y | 30y |
| 2y | #VALUE! | #VALUE! | 2.366 | 4.280 | 8.498 |
| 3y | #VALUE! | | #VALUE! | #VALUE! | #VALUE! |
| 5y | 0.423 | #VALUE! | | 1.809 | 3.592 |
| 10y | 0.234 | #VALUE! | 0.553 | | 1.985 |
| 30y | 0.118 | #VALUE! | 0.278 | 0.504 | |

Commitment of Traders (COT)

| | Current Positions | | | | | | | | | |
|----|-------------------|---------|----------|------------|---------|----------|-----------------------|-----------|-----------|-----|
| | Small Spec | | | Large Spec | | | Commercials (Hedgers) | | | Net |
| | Long | Short | Net | Long | Short | Net | Long | Short | Net | |
| ZF | 331,256 | 312,832 | 18,424 | 177,830 | 233,271 | (55,441) | 1,031,941 | 994,924 | 37,017 | ZF |
| ZN | 504,257 | 578,654 | (74,397) | 639,418 | 267,968 | 371,450 | 1,513,325 | 1,810,378 | (297,053) | ZN |
| ZB | 202,517 | 183,714 | 18,803 | 139,394 | 172,553 | (33,159) | 582,844 | 568,488 | 14,356 | ZB |

| | WoW** Position Change | | | | As of 11/28/2006 | |
|----|-----------------------|----------|----------|-----|---------------------|------|
| | Sml Spec | | Lrg Spec | | | Comm |
| | Net | Net | Net | Net | | |
| ZF | 32,083 | (8,011) | (24,072) | | | |
| ZN | 47,677 | (10,979) | (36,699) | | | |
| ZB | 29,893 | 44,673 | (74,565) | | | |

**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 | 110.0625 | 4.521 |
| 3y | 4.625 | 11/15/09 | 100.1775 | 4.421 |
| 5y | 4.500 | 11/30/11 | 100.1625 | 4.385 |
| 10y | 4.625 | 11/15/16 | 101.170 | 4.433 |
| 30y | 4.500 | 2/15/36 | 99.07 | 4.548 |

GHCO

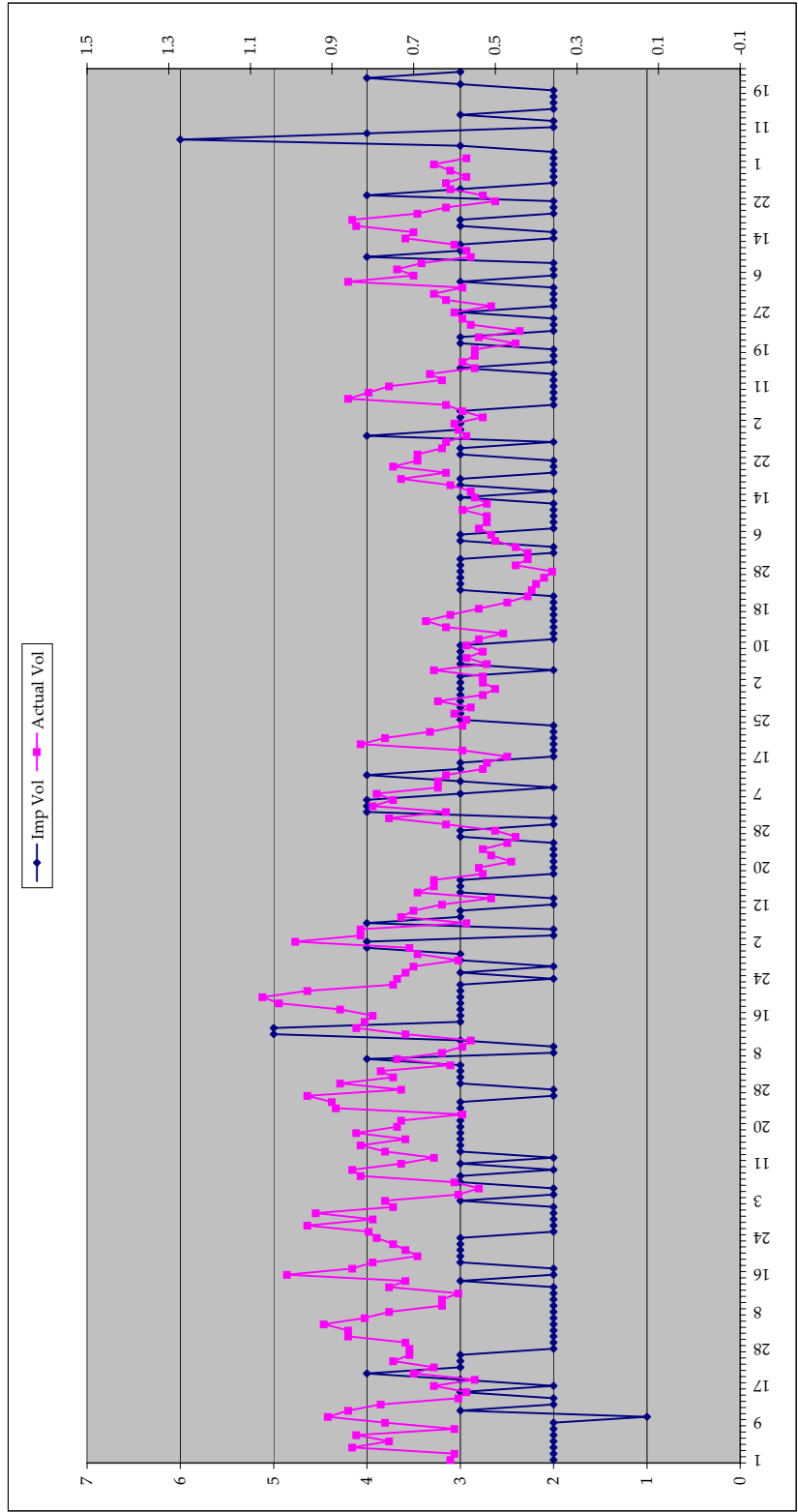
| CF Basis* | Basis | 32nds |
|-----------|-------|-------------|
| 5y | 0.40 | 16.632 |
| 10y | 1.77 | 59.974 |
| 30y | 8.27 | 256.739 |
| | | ZF 106.1400 |
| | | ZN 109.1450 |
| | | ZB 114.20 |

Curve Spreads bps

| | |
|-------|---------|
| 2/3 | (0.100) |
| 3/5 | (0.036) |
| 2/5 | (0.136) |
| 5/10 | 0.048 |
| 2/10 | (0.088) |
| 10/30 | 0.115 |
| 5/30 | 0.163 |
| 2/30 | 0.027 |

CF = Conversion Factor
Cash - (Futures * CF)

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 | 12/4/2006 | 12/5/2006 | 12/6/2006 |
|-----------|-----------|-----------|-----------|-----------|-----------|
| 1900-2200 | 0000-0300 | 2000-2300 | 2 | 2 | 2 |
| 2200-0100 | 0300-0600 | 2300-0200 | 2 | 2 | 2 |
| 0100-0400 | 0600-0900 | 0200-0500 | 2 | 2 | 2 |
| 0400-0700 | 0900-1200 | 0500-0800 | 1 | 2 | 1 |
| 0700-1000 | 1200-1500 | 0800-1100 | 1 | 1 | 1 |
| 1000-1300 | 1500-1800 | 1100-1400 | 1 | 1 | 1 |
| 1300-1600 | 1800-2100 | 1400-1700 | 1 | 1 | 3 |
| 1600-1900 | 2100-0000 | 1700-2000 | 1 | 1 | 4 |

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