

The Morning Email: Treasuries

Rotate Me

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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 | 102.187 | 0.70 | 102.190 | 102.177 | 102.177 | 3,940 | 2y Futures | |
| FVAH7 | 106.090 | 2.50 | 106.095 | 106.050 | 106.055 | 16,068 | 5y Futures | |
| TYAH7 | 109.080 | 4.00 | 109.090 | 109.030 | 109.035 | 69,545 | 10y Futures | |
| USAH7 | 114.090 | 1 | 114.110 | 114.010 | 114.010 | 18,041 | 30y Futures | |
| BUS02P | | | | | | | | |
| | 100.035 | 1.2 | 100.037 | 100.027 | 100.027 | na | 2y | |
| BUS05P | 100.107 | 0.0 | 100.115 | 100.075 | 100.075 | na | 5y | |
| BUS10P | 101.090 | 6.0 | 101.100 | 101.040 | 101.040 | na | 10y | |
| BUS30P | #VALUE! | 9 | 98.235 | 98.125 | 98.130 | na | 30y | |
| BUS02Y | | | | | | | | |
| | 4.562 | (1.20) | 4.599 | 4.553 | 4.583 | na | 2y Yield | |
| BUS05Y | 4.420 | (3.00) | 4.464 | 4.415 | 4.464 | na | 5y Yield | |
| BUS10Y | 4.462 | (2.30) | 4.491 | 4.456 | 4.491 | na | 10y Yield | |
| BUS30Y | 4.581 | (1.60) | 4.604 | 4.577 | 4.599 | na | 30y Yield | |

Source: CQG

Yesterday

11:37 am - Tracking Payrolls: The market has been quiet, trade lax, as the market looks to the Fri marquee number. The **best call so far from Briefing.com respondents for forecasts was "Puppies!"** Who can resist? Those who have had something to say beyond a number have been concerned with the accuracy of the governments' reports in general. Hearing "You can't call it a forecast these days without forecasting how far off the first reported number would be," "Down 1, I fired myself," & "Given the gross inaccuracies of the initial NFP, and the subsequent revisions which now border on absurdity, we have stopped forecasting NFP" from a generally straight forward player-pundit. When trying to incorporate "Puppies!" into the payrolls forecasts we checked with Briefing.com head economist guy...he said "Puppies belong on my daughter's calendar, not the payroll report." So, maybe got to let the puppies fall by the wayside, probably about as on target as ADP's 158K.

[Source — Yahoo!]

Overnight

[05:20 EST 12/07]

USTs: Treasuries are trading modestly higher across the board in London Thursday, helped by light dip-buying and short-covering from both Asian and European accounts. However, traders say volumes are very light, with many players on the sidelines ahead of the ECB's rate setting decision and the U.S. market open. The uptick started in early Tokyo, despite a weaker open for JGBs. Again, light dip-buying in thin volumes was cited. With little in the way of fresh trading incentives, prices continued to tick higher in London trade, with leveraged names seen buying the belly of the curve and real money names noted as buyers of 2-year paper. Asian life funds were buyers of the Bond.

[Source — MNI]

Today *Econ Releases*

| Date | ET | Release | For | Briefing.com | Consensus | Prior |
|--------|-------|--------------------------------------|-------|--------------|-----------|---------|
| Dec 07 | 08:30 | Initial Claims | 12/02 | 320K | 325K | 357K |
| Dec 07 | 15:00 | Consumer Credit | Oct | \$9.0B | \$4.5B | -\$1.2B |
| Dec 08 | 08:30 | Nonfarm Payrolls | Nov | 115K | 105K | 92K |
| Dec 08 | 08:30 | Unemployment Rate | Nov | 4.4% | 4.5% | 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 | 92.0 | 92.1 |

[Source: DailyFX.com]

Upcoming 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 | 15.84 |
| 10y | 7.89 |
| 5y | 4.41 |
| 3y | 2.71 |
| 2y | 1.87 |
| ZB | 9.97 |
| ZN | 5.93 |
| ZF | 3.99 |
| ZT | 1.89 |

| DV01s (32nds) | |
|---------------|------|
| 30y | 5.07 |
| 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 | \$1,586 |
| 10y | \$802 |
| 5y | \$443 |
| 3y | \$272 |
| 2y | \$187 |
| ZB | \$116 |
| ZN | \$65 |
| ZF | \$42 |
| ZT | \$39 |

Yield Curve Spreads

| | |
|-------|--------|
| 2/3 | -10.20 |
| 3/5 | -4.00 |
| 2/5 | -14.20 |
| 5/10 | 4.20 |
| 2/10 | -10.00 |
| 10/30 | 11.90 |
| 5/30 | 16.10 |
| 2/30 | 1.90 |

Fly's

| | |
|---------|--------|
| 2/3/5 | -6.20 |
| 2/5/10 | -18.40 |
| 2/10/30 | -21.90 |
| 5/10/30 | -7.70 |

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 |

Eurex Hedge Ratio's source: Bloomberg

US Financial Futures Hedge Ratios

| | ZB | ZN | ZF | ZT |
|----|-------|-------|-------|-------|
| ZB | | 0.559 | 0.366 | 0.339 |
| ZN | 1.790 | | 0.655 | 0.608 |
| ZF | 2.734 | 1.527 | | 1.078 |
| ZT | 0.662 | 1.186 | 1.811 | |

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

Number
of
contracts
LONG

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 | 6.92 | 13.67 |
| ZN | 2.89 | 4.21 | 6.85 | 12.38 | 24.48 |
| ZF | 4.42 | 6.42 | 10.46 | 18.91 | 37.39 |
| ZT | 4.76 | 6.92 | 11.27 | 20.38 | 40.29 |

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 | | 1.454 | 2.368 | 4.282 | 8.467 | |
| 3y | 0.688 | | 1.628 | 2.944 | 5.821 | |
| 5y | 0.422 | 0.614 | | 1.808 | 3.576 | |
| 10y | 0.234 | 0.340 | 0.553 | | 1.977 | |
| 30y | 0.118 | 0.172 | 0.280 | 0.506 | | |

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 |
|----|-----------------------|----------|----------|------------|
| | Sm1 Spec | Lrg Spec | Comm | |
| | Net | Net | Net | |
| ZF | 32,083 | (8,011) | (24,072) | 11/28/2006 |
| 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 | 100.0300 | 4.574 |
| 3y | 4.625 | 11/15/09 | 100.1275 | 4.478 |
| 5y | 4.500 | 11/30/11 | 100.0825 | 4.442 |
| 10y | 4.625 | 11/15/16 | 100.050 | 4.605 |
| 30y | 4.500 | 2/15/36 | 98.14 | 4.598 |

GHCO

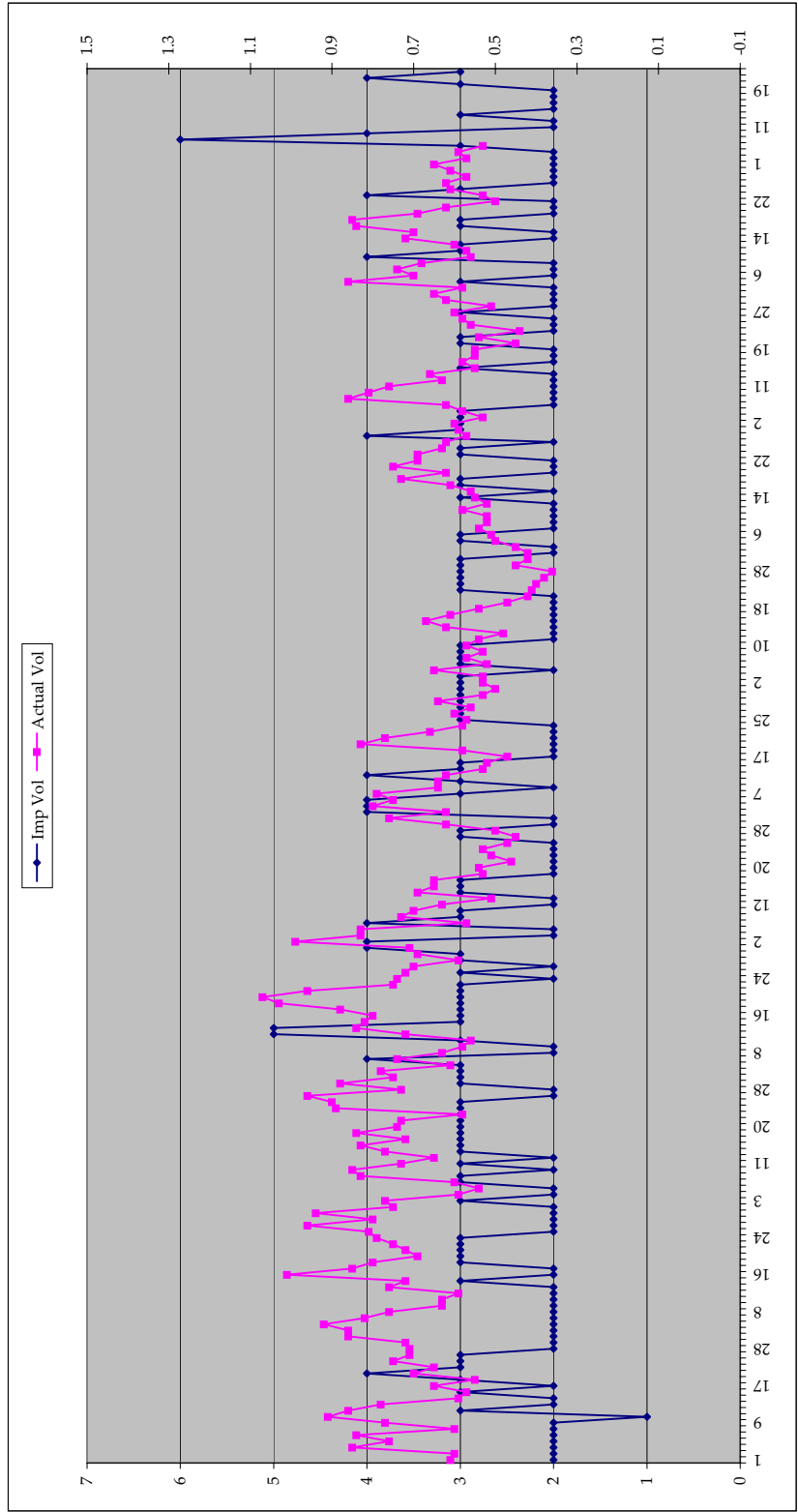
| CF Basis* | Basis | 32nds |
|-----------|-------|-------------|
| 5y | 0.40 | 14.680 |
| 10y | 0.76 | 25.534 |
| 30y | 7.34 | 244.764 |
| | | ZF 106.0650 |
| | | ZN 109.0400 |
| | | ZB 114.03 |

Curve Spreads bps

| | |
|-------|---------|
| 2/3 | (0.096) |
| 3/5 | (0.036) |
| 2/5 | (0.132) |
| 5/10 | 0.163 |
| 2/10 | 0.031 |
| 10/30 | (0.007) |
| 5/30 | 0.156 |
| 2/30 | 0.024 |

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 | 12/7/2006 | 12/8/2006 | 1/0/1900 |
|-----------|-----------|-----------|-----------|-----------|----------|
| 1900-2200 | 0000-0300 | 2000-2300 | 4 | 4 | 0 |
| 2200-0100 | 0300-0600 | 2300-0200 | 4 | 4 | 0 |
| 0100-0400 | 0600-0900 | 0200-0500 | 4 | 4 | 0 |
| 0400-0700 | 0900-1200 | 0500-0800 | 4 | 2 | 0 |
| 0700-1000 | 1200-1500 | 0800-1100 | 4 | 2 | 0 |
| 1000-1300 | 1500-1800 | 1100-1400 | 1 | 2 | 0 |
| 1300-1600 | 1800-2100 | 1400-1700 | 1 | 2 | 0 |
| 1600-1900 | 2100-0000 | 1700-2000 | 3 | 2 | 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