

## 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	100.0635	100.0900	109.0400	114.0500	12/8/2006
Non-farm Low	98.2825	99.6500	108.1850	113.0700	12/8/2006
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	102.127	0.20	102.130	102.117	102.117	8,618	2y Futures
FVAH7	105.310	0.50	106.005	105.295	105.300	18,884	5y Futures
TYAH7	108.265	0.50	108.285	108.250	108.250	50,909	10y Futures
USAH7	113.230	0	113.260	113.190	113.200	13,823	30y Futures
BUS02P	99.300		99.305	99.297	99.297	na	2y
BUS05P	100.015	0.0	100.025	100.005	100.005	na	5y
BUS10P	100.270	1.0	100.285	100.255	100.255	na	10y
BUS30P	97.315	1	98.030	97.310	97.310	na	30y
BUS02Y	4.650	(0.90)	4.675	4.646	4.667	na	2y Yield
BUS05Y	4.488	(0.50)	4.509	4.479	4.509	na	5y Yield
BUS10Y	4.516	(0.20)	4.53	4.508	4.524	na	10y Yield
BUS30Y	4.624	(0.10)	4.636	4.614	4.623	na	30y Yield

Source: CQG

## Yesterday

12/11 15:12 US TSYS: On a 3PM to 3PM basis, Treasuries did better on the day and the curve flattened to -14.2 bps vs. -12.1 bps. The 2/30Y flattened to -3.5 bps vs. -1.5 bps. Some of the reasons for the flattening: 1) Decent buying from Asian accounts in MBS and Tsys this morning; 2) Market was at cheaper end of recent range and that lured in longer end buying; 3) Front end still capped by Fed and players are doubtful that will signal easing at tomorrow meeting; 4) Today's flattening spurred longer end short covering; 5) Longer end shorts get spooked on repo specials; 6) About \$20B in CMBS pricings due before Christmas underpin longer end. **[Source MNI]**

## Overnight

12/12 05:21 USTs: Treasuries are trading modestly higher in London Tuesday, with a better bid from Asian accounts helping boost prices ahead of the Federal Reserve's FOMC rate decision later in the day. However, although traders expect no change in policy from the Fed, volumes are light across the board. Prices were better bid from the getgo in Tokyo, helped by the higher JGB market and light follow-through demand from real money accounts. But a lack of volume meant prices consolidated at the slightly higher levels in light trade seen mainly as interdealer. London trade was largely featureless, as a lack of sellers helped the market hold on to the early gains. Bids below the market from real money investors also helped offer support. **[Source – MNI]**

## Today

### **Econ Releases**

Date	ET	Release	For	Briefing.com	Consensus	Prior
Dec 12	08:30	<a href="#">Trade Balance</a>	Oct	-\$62.0B	-\$63.5B	\$64.3B
Dec 12	14:00	<a href="#">Treasury Budget</a>	Nov	-\$73.0B	-\$74.0B	\$83.1B
<b>Dec 12</b>	<b>14:15</b>	<b>FOMC policy statement</b>				
Dec 13	08:30	<a href="#">Retail Sales</a>	Nov	0.4%	0.2%	-0.4%
Dec 13	08:30	<a href="#">Retail Sales ex-auto</a>	Nov	0.5%	0.3%	-0.4%
Dec 13	10:00	<a href="#">Business Inventories</a>	Oct	0.5%	0.5%	0.4%
Dec 13	10:30	Crude Inventories	12/08	NA	NA	1049K
Dec 14	08:30	<a href="#">Export Prices ex-ag.</a>	Nov	NA	NA	-0.5%
Dec 14	08:30	<a href="#">Import Prices ex-oil</a>	Nov	NA	NA	-0.6%
Dec 14	08:30	<a href="#">Initial Claims</a>	12/09	320K	NA	324K
Dec 15	08:30	<a href="#">CPI</a>	Nov	0.2%	0.2%	-0.5%
Dec 15	08:30	<a href="#">Core CPI</a>	Nov	0.2%	0.2%	0.1%
Dec 15	08:30	NY Empire State Index	Dec	12.0	20.0	26.7
Dec 15	09:00	Net Foreign Purchases	Oct	NA	NA	\$65.1B
Dec 15	09:15	<a href="#">Capacity Utilization</a>	Nov	82.1%	82.2%	82.2%
Dec 15	09:15	<a href="#">Industrial Production</a>	Nov	0.1%	0.2%	0.2%

**[Source: DailyFX.com]**

### **Upcoming Speakers/Events** **(Chi/NY/London Times)**

USD: Dec 12 at 13:15/14:15/19:15 FOMC Meeting to discuss Interest Rates, Policy Statement to be issued at 19:15

WLD: Dec 14 - OPEC to hold a meeting

USD: Dec 15 at 12:00/01:00/06:00 - US Fed Chairman Bernanke Speaks in Beijing on Chinese economy. **[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	15.78
10y	7.87
5y	4.40
3y	2.70
2y	1.85
ZB	9.94
ZN	5.91
ZF	3.97
ZT	1.88

DV01s (32nds)	
30y	5.03
10y	2.55
5y	1.41
3y	0.87
2y	0.59
ZB	3.68
ZN	2.06
ZF	1.35
ZT	1.25

DV01s (\$s)	
30y	\$1,570
10y	\$797
5y	\$441
3y	\$270
2y	\$186
ZB	\$115
ZN	\$64
ZF	\$42
ZT	\$39

**Yield Curve Spreads**

2/3	-11.50
3/5	-4.70
2/5	-16.20
5/10	2.80
2/10	-13.40
10/30	10.80
5/30	13.60
2/30	-2.60

**Fly's**

2/3/5	-6.80
2/5/10	-19.00
2/10/30	-24.20
5/10/30	-8.00

**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		0.560	0.366	0.339
ZN	1.786		0.654	0.605
ZF	2.730	1.529		1.081
ZT	0.661	1.181	1.805	

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	2.35	3.83	6.92	13.64
ZN	2.88	4.19	6.84	12.36	24.35
ZF	4.40	6.41	10.45	18.89	37.23
ZT	4.76	6.93	11.30	20.43	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		1.456	2.374	4.292	8.458	
3y	0.687		1.630	2.947	5.808	
5y	0.421	0.613		1.808	3.562	
10y	0.233	0.339	0.553		1.971	
30y	0.118	0.172	0.281	0.507		

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			Net
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	316,157	280,051	36,106	248,776	262,367	(13,591)	936,298	958,812	(22,514)	ZF
ZN	375,270	445,925	(70,655)	618,765	293,192	325,573	1,509,581	1,764,498	(254,917)	ZN
ZB	187,939	183,373	4,566	165,709	188,190	(22,481)	578,059	560,145	17,914	ZB

	WoW** Position Change			As of
	Sml Spec		Comm	
	Net	Lrg Spec	Net	
ZF	17,682	41,850	(59,531)	12/5/2006
ZN	3,742	(45,877)	42,136	
ZB	(14,237)	10,678	3,558	

\*\*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	99.2975	4.662
3y	4.625	11/15/09	100.0700	4.543
5y	4.500	11/30/11	100.0100	4.493
10y	4.625	11/15/16	100.270	4.518
30y	4.500	2/15/36	97.31	4.627

## GHCO

CF Basis*	Basis	32nds
5y	1.24	14.477
10y	1.67	55.729
30y	7.14	240.607
		ZF
		ZN
		ZB

## Curve Spreads bps

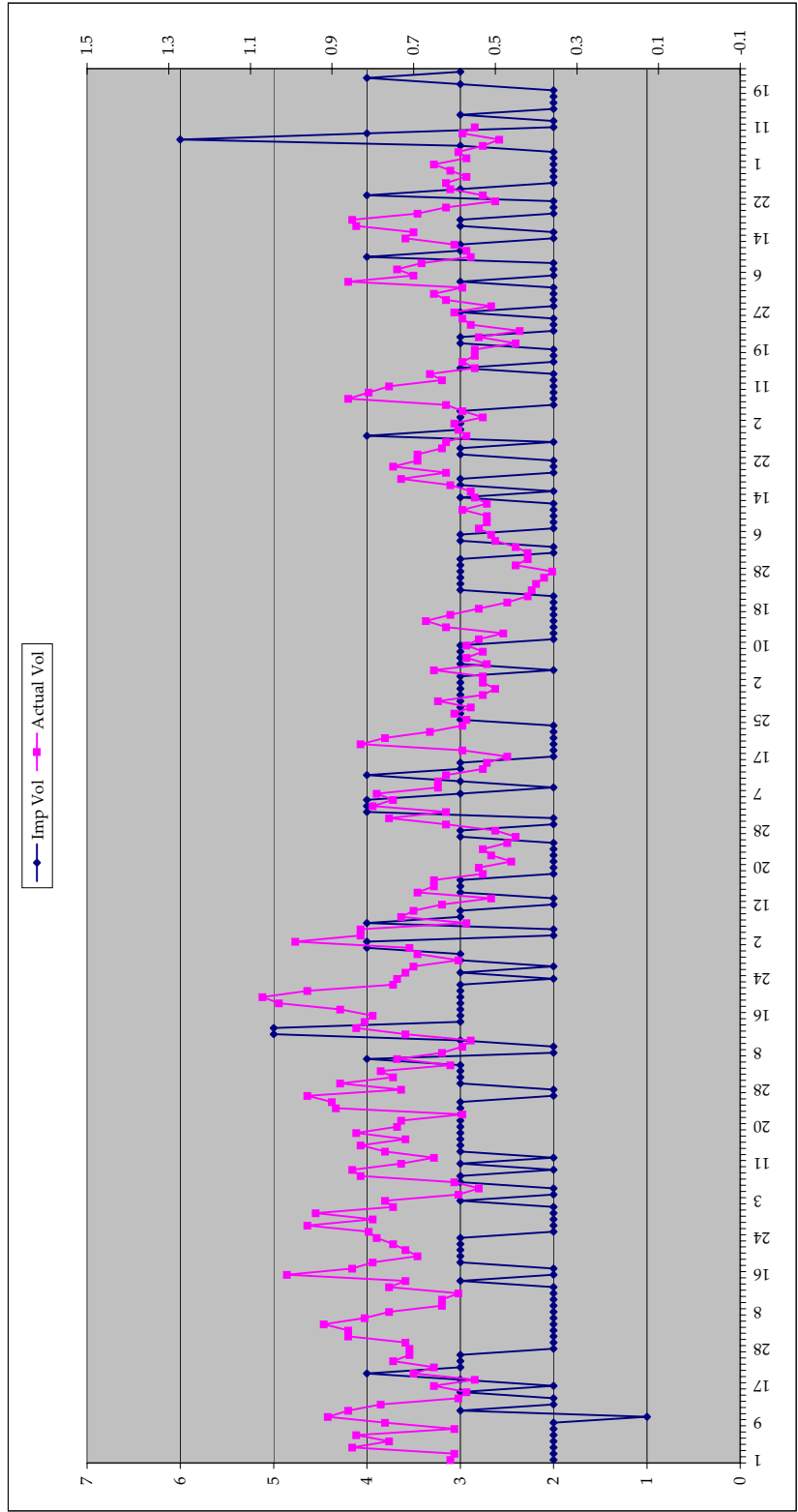
2/3	(0.119)
3/5	(0.050)
2/5	(0.169)
5/10	0.025
2/10	(0.144)
10/30	0.109
5/30	0.134
2/30	(0.035)

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

12/12/2006 5:42

### Implied Volatility (Daily)

Fig 9



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  
of the 30yr T-Bond Futures.

**Implied Volatility (3-Hour)**

CDT Time	UT Time	EDT Time	12/11/2006	12/12/2006	12/13/2006
1900-2200	0000-0300	2000-2300	3	2	2
2200-0100	0300-0600	2300-0200	4	1	2
0100-0400	0600-0900	0200-0500	3	3	2
0400-0700	0900-1200	0500-0800	1	2	1
0700-1000	1200-1500	0800-1100	1	3	2
1000-1300	1500-1800	1100-1400	0	2	1
1300-1600	1800-2100	1400-1700	0	1	1
1600-1900	2100-0000	1700-2000	1	2	1

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