

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	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	100.0775	98.2950	109.0400	114.0100	12/12/2006
FOMC Low	100.0000	98.1650	108.2450	113.1400	12/12/2006
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	102.170	1.5	102.172	102.150	102.152	12,808	2y Futures	
FVAH7	106.075	2.5	106.080	106.040	106.050	36,594	5y Futures	
TYAH7	109.065	4.0	109.065	109.015	109.025	93,962	10y Futures	
USAH7	114.050	7	114.060	113.290	113.300	22,636	30y Futures	
	ls	net	high	low	open	Volume	SYM NAME	
BUS02P	100.022	1.5	100.025	100.005	100.007	na	2y	
BUS05P	100.092	3.0	100.095	100.065	100.065	na	5y	
BUS10P	101.060	3.5	101.065	101.015	101.020	na	10y	
BUS30P	98.165	8	98.165	98.100	98.100	na	30y	
	ls	net	high	low	open	Volume	SYM NAME	
BUS02Y	4.578	(3.00)	4.633	4.574	4.621	na	2y Yield	
BUS05Y	4.431	(2.10)	4.468	4.427	4.468	na	5y Yield	
BUS10Y	4.473	(1.60)	4.497	4.469	4.493	na	10y Yield	
BUS30Y	4.591	(1.60)	4.611	4.591	4.608	na	30y Yield	

Source: CQG

Yesterday

FOMC react: **From Lehman**: "This statement suggests a wait-and-see approach" but there are 4 key points - using "substantial" to describe housing in "a nod to the obvious"; The addition of "recent indicators have been mixed"; use of "on balance" to describe the likely path of theeconomy in another nod to mixed incoming data; and the constant saying "inflation risks remain."

12/12 15:13 FOMC react: From **Morgan Stanley**: "The initial bond market reaction to the release of the statement was positive with yields on 2-year notes dipping about 5 bp. This is consistent with the bullish spin that the market has been putting on almost any new piece of information for quite some time. **The main catalyst for the market move appeared to be the insertion of the word "substantial" to describe the cooling in the housing market. From our standpoint, this is way off the mark. The first part of the statement provides a backward looking assessment of the economy.** So, we view the insertion of the word "substantial" as merely an acknowledgement that the housing slowdown has played out almost exactly as anticipated". [Source – MNI]

14:14 *FED SAYS RECENT ECONOMIC INDICATORS 'HAVE BEEN MIXED'
 14:14 *FED'S LACKER DISSENTS, PREFERRING QUARTER-POINT INCREASE
 14:14 *FED VOTE TO LEAVE RATES UNCHANGED IS 10-1
 14:14 *FED SEES 'REDUCED IMPETUS FROM ENERGY PRICES'
 14:14 *FED SAYS INFLATION PRESSURES LIKELY TO MODERATE OVER TIME

14:14 FOMC: VOTE 10-1 FOR RATE DECISION
 14:14 FOMC: REPEATS ECON LIKELY TO EXPAND AT 'MODERATE PACE'
 14:14 FOMC: REPEATS: INFLATION PRESSURES SEEM LIKELY TO MODERATE
 14:14 FOMC: REPEATS HIGH RESOURCE USE COULD SUSTAIN INFL
 14:14 FOMC: REPEATS CORE INFL READINGS HAVE BEEN ELEVATED
 14:14 FOMC: RECENT ECON INDICATORS 'MIXED'
 14:14 **FOMC: REPEATS INFLATION RISKS REMAIN

[Source – MNI]

Overnight

12/13 04:39 USTs: Treasuries are trading higher across the board Wednesday, helped by follow-through buying from Asian accounts after the FOMC-inspired gains in the U.S. overnight. Treasuries closed higher, as the Federal Reserve's rate setting committee left rates unchanged, but the market read the accompanying statement from the FOMC as mildly dovish. Prices opened

higher in Asia, but the buying was light and across the curve. Traders said volumes were light, with many players awaiting the data later in the day before opening fresh positions. London trade saw prices maintain a better bid across the curve, but volumes remained subdued ahead of the \$8 billion 10-year sale later in the day.
 [Source – MNI]

Today

Econ Releases

Date	ET	Release	For	Briefing.com	Consensus	Prior
Dec 13	08:30	Retail Sales	Nov	0.4%	0.2%	-0.4%
Dec 13	08:30	Retail Sales ex-auto	Nov	0.5%	0.3%	-0.4%
Dec 13	10:00	Business Inventories	Oct	0.5%	0.5%	0.4%
Dec 13	10:30	Crude Inventories	12/08	NA	NA	1049K
Dec 14	08:30	Export Prices ex-ag.	Nov	NA	NA	-0.5%
Dec 14	08:30	Import Prices ex-oil	Nov	NA	NA	-0.6%
Dec 14	08:30	Initial Claims	12/09	320K	NA	324K
Dec 15	08:30	CPI	Nov	0.2%	0.2%	-0.5%
Dec 15	08:30	Core CPI	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	Capacity Utilization	Nov	82.1%	82.2%	82.2%
Dec 15	09:15	Industrial Production	Nov	0.1%	0.2%	0.2%

[Source: DailyFX.com]

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

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	9.95
ZN	5.91
ZF	3.97
ZT	1.88

DV01s (32nds)	
30y	5.05
10y	2.56
5y	1.41
3y	0.87
2y	0.59
ZB	3.71
ZN	2.07
ZF	1.35
ZT	1.25

DV01s (\$s)	
30y	\$1,578
10y	\$800
5y	\$442
3y	\$271
2y	\$186
ZB	\$116
ZN	\$65
ZF	\$42
ZT	\$39

Yield Curve Spreads

2/3	-10.10
3/5	-4.60
2/5	-14.70
5/10	4.20
2/10	-10.50
10/30	11.80
5/30	16.00
2/30	1.30

Fly's

2/3/5	-5.50
2/5/10	-18.90
2/10/30	-22.30
5/10/30	-7.60

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		0.559	0.365	0.337
ZN	1.789		0.653	0.603
ZF	2.740	1.532		1.083
ZT	0.658	1.176	1.802	

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	1.60	2.34	3.82	6.91	13.63
ZN	2.87	4.18	6.83	12.36	24.38
ZF	4.39	6.40	10.46	18.92	37.34
ZT	4.76	6.94	11.33	20.50	40.44

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		1.457	2.380	4.307	8.498
3y	0.686		1.633	2.956	5.831
5y	0.420	0.612		1.810	3.571
10y	0.232	0.338	0.553		1.973
30y	0.118	0.171	0.280	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 12/5/2006	
	Sml Spec		Lrg Spec			Comm
	Net	Net	Net	Net		
ZF	17,682	41,850	(59,531)	42,136		
ZN	3,742	(45,877)	10,678	3,558		
ZB	(14,237)					

**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	100.0075	4.611
3y	4.625	11/15/09	100.1100	4.497
5y	4.500	11/30/11	100.0675	4.452
10y	4.625	11/15/16	101.025	4.489
30y	4.500	2/15/36	98.08	4.609

GHCO

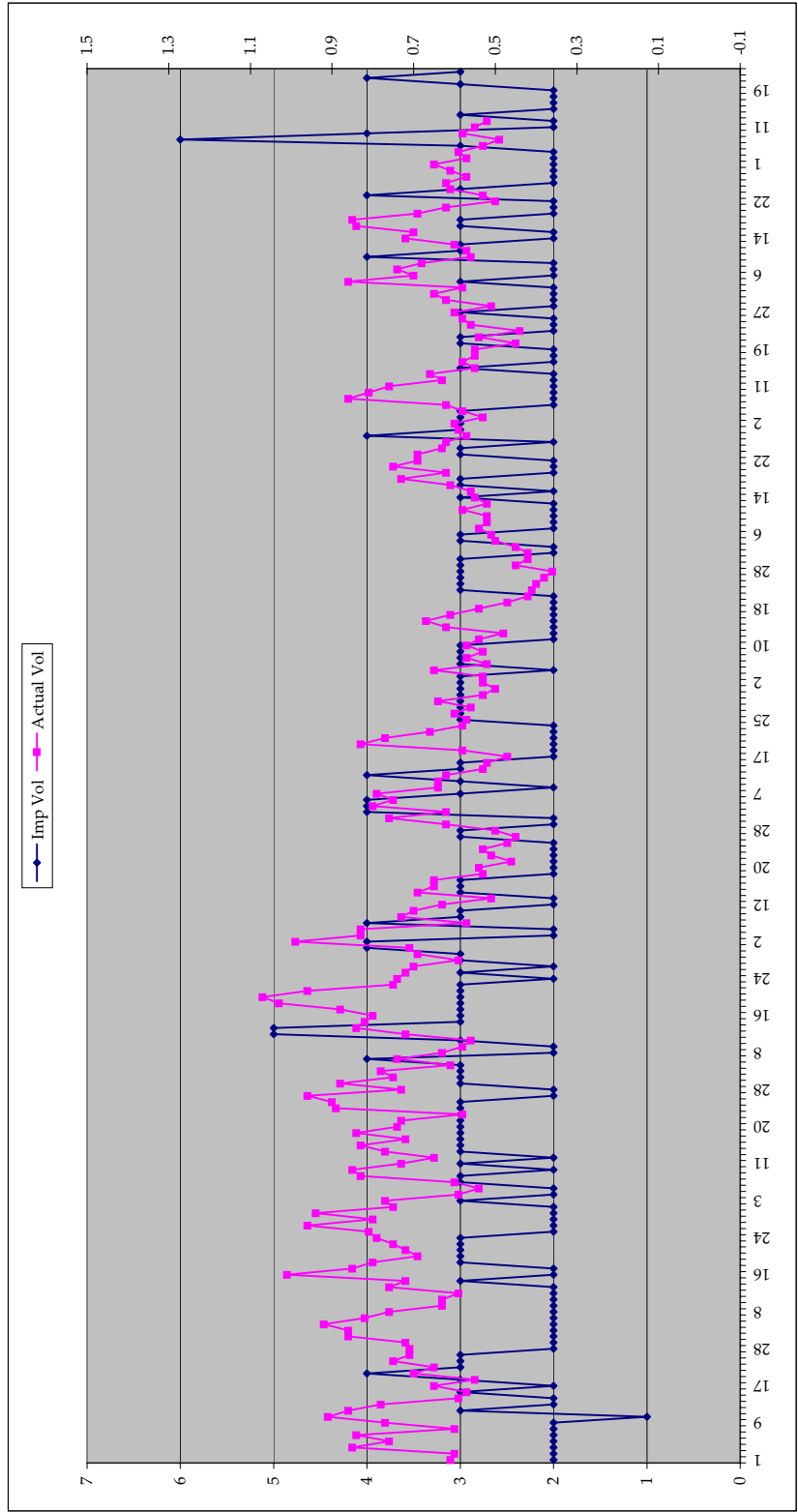
CF Basis*	Basis	32nds
5y	0.40	14.589
10y	1.76	56.400
30y	8.04	242.447
		ZF
		ZN
		ZB

Curve Spreads bps

2/3	(0.114)
3/5	(0.045)
2/5	(0.159)
5/10	0.037
2/10	(0.122)
10/30	0.120
5/30	0.157
2/30	(0.002)

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
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