

## 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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### 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	102.097	0.5	102.105	102.087	102.090	13,340	2y Futures	
FVAH7	105.240	0.0	105.265	105.225	105.230	33,639	5y Futures	
TYAH7	108.155	0.0	108.190	108.130	108.135	90,116	10y Futures	
USAH7	112.310	0	113.040	112.260	112.270	18,745	30y Futures	
<b>BUS02P</b>								
	99.277	1.0	99.282	99.272	99.272	na	2y	
<b>BUS05P</b>	99.257	1.2	99.280	99.252	99.255	na	5y	
<b>BUS10P</b>	100.130	3.5	100.170	100.115	100.115	na	10y	
<b>BUS30P</b>	97.000	6	97.070	96.290	96.290	na	30y	
<b>BUS02Y</b>								
	4.692	(1.30)	4.726	4.68	4.726	na	2y Yield	
<b>BUS05Y</b>	4.543	(0.80)	4.553	4.525	4.539	na	5y Yield	
<b>BUS10Y</b>	4.571	(1.40)	4.591	4.553	4.591	na	10y Yield	
<b>BUS30Y</b>	4.688	(1.20)	4.708	4.673	4.688	na	30y Yield	

Source: CQG

## Yesterday

12/13 15:17 US TSYS/RECAP: Tsys suffered a severe selloff on +1% Nov. retail sales. Real money, fast money sold intermediates after retail sales, with also primary dealer short-setting before US\$8B 10Y reopening auction, then a later slide on further selling, intermediate swaps paying. There was talk of foreign buying in selloff, and Asian buying surfaced at 100 18/32 on cash 10-year but market still slid; also was real money buying in longer paper at lows, fast money bought 2Ys, Street buying in 10s. There also has been profit-taking cited in Tsys futures. 10Y's reopening auction weak despite price concession: 4.58% high yield, 12.6% indirect bid, 87% dealer, 0.3% direct bid. There also were servicers rolling down the March 111 10Y calls from 111 to 109, while elsewhere, a money mgr sold March bond premium. Two commercial mortgage-backed securities (CMBS) deals priced. There was some domestic selling in MBS 6.5s on the tightening and after Asian accounts went home; was good Asian MBS buying today. 2Y/30, 2Y/10 flatter on day.

[Source – MNI]

## Overnight

LONDON (MNI) –

- European Government bonds opened lower on Thursday, extending losses seen in the wake of the UST sell-off on Wednesday.
- a modest recovery in Treasury prices in Asia
- A mildly hawkish article by Greg Ip in the WSJ suggests both the Fed and the Wall St economists are betting that weak car sales, a falling housing market and an inverted yield curve are not – as normally they do – signalling a recession in 2007.

[Source – MNI]

## Today

### **Econ Releases**

Date	ET	Release	For	Briefing.com	Consensus	Prior
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)**

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	15.81
10y	7.86
5y	4.39
3y	2.69
2y	1.85
ZB	9.91
ZN	5.90
ZF	3.97
ZT	1.91

**DV01s (32nds)**

30y	4.98
10y	2.54
5y	1.41
3y	0.86
2y	0.59
ZB	3.66
ZN	2.05
ZF	1.34
ZT	1.25

**DV01s (\$s)**

30y	\$1,558
10y	\$792
5y	\$439
3y	\$269
2y	\$185
ZB	\$114
ZN	\$64
ZF	\$42
ZT	\$39

**Yield Curve Spreads**

2/3	-10.30
3/5	-4.60
2/5	-14.90
5/10	2.80
2/10	-12.10
10/30	11.70
5/30	14.50
2/30	-0.40

**Fly's**

2/3/5	-5.70
2/5/10	-17.70
2/10/30	-23.80
5/10/30	-8.90

**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		0.561	0.367	0.342
ZN	1.784		0.655	0.610
ZF	2.722	1.526		1.074
ZT	0.664	1.184	1.807	

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	2.36	3.84	6.93	13.63
ZN	2.89	4.20	6.85	12.36	24.30
ZF	4.41	6.41	10.46	18.87	37.10
ZT	4.73	6.89	11.23	20.26	39.83

## 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	4.283	8.420	
3y	0.687		1.630	2.942	5.783	
5y	0.421	0.613		1.805	3.547	
10y	0.233	0.340	0.554		1.966	
30y	0.119	0.173	0.282	0.509		

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	99.2725	4.704
3y	4.625	11/15/09	100.0250	4.595
5y	4.500	11/30/11	99.2550	4.546
10y	4.625	11/15/16	100.125	4.575
30y	4.500	2/15/36	97.00	4.689

## GHCO

CF Basis*	Basis	32nds
5y	0.34	13.555
10y	1.66	51.699
30y	7.81	227.906
		ZF
		105.2400
		ZN
		108.1550
		ZB
		112.31

## Curve Spreads bps

2/3	(0.109)
3/5	(0.049)
2/5	(0.158)
5/10	0.029
2/10	(0.129)
10/30	0.114
5/30	0.143
2/30	(0.015)

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



**Implied Volatility (3-Hour)**

CDT Time	UT Time	EDT Time	12/14/2006	12/15/2006	12/16/2006
1900-2200	0000-0300	2000-2300	2	6	4
2200-0100	0300-0600	2300-0200	1	6	3
0100-0400	0600-0900	0200-0500	2	6	3
0400-0700	0900-1200	0500-0800	3	5	2
0700-1000	1200-1500	0800-1100	4	4	2
1000-1300	1500-1800	1100-1400	8	4	2
1300-1600	1800-2100	1400-1700	7	4	2
1600-1900	2100-0000	1700-2000	6	4	2

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