

The Morning Email: Treasuries

Rotate Me

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Want something added?

Let me know: 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	102.072	(0.2)	102.080	102.070	102.075	11,155	2y Futures
FVAH7	105.200	(0.5)	105.215	105.190	105.200	21,239	5y Futures
TYAH7	108.100	(1.0)	108.125	108.095	108.105	54,573	10y Futures
USAH7	112.200	(2)	112.250	112.200	112.210	14,076	30y Futures
BUS02P	99.252	0.5	99.257	99.255	99.255	na	2y
BUS05P	99.215	(0.2)	99.230	99.215	99.225	na	5y
BUS10P	100.060	0.0	100.085	100.060	100.080	na	10y
BUS30P	96.155	(2)	96.225	96.155	96.195	na	30y
BUS02Y	4.730	(0.40)	4.76	4.713	4.743	na	2y Yield
BUS05Y	4.573	0.40	4.578	4.56	4.575	na	5y Yield
BUS10Y	4.599	0.20	4.605	4.587	4.603	na	10y Yield
BUS30Y	4.721	0.60	4.725	4.707	4.723	na	30y Yield

Source: CQG

Yesterday

12/14 14:16 US TSYS/US DATA: Traders eye the US Nov CPI out 8:30am ET Friday, which is expected in a Mkt. News poll of economists with a median estimate of 0.2% overall CPI/0.2% core CPI. "If it comes in at expectations, it could spur a deeper inversion," said Ian Lyngen, bond strategist at RBS Greenwich. "If it comes in above expectations, it would spur a deeper inversion." Traders also will be eyeing the Japanese tankan economic report out overnight Friday, and also Friday's 5:30 a.m. ET press conference by the U.S. delegation to China (which includes Tsy Secy Paulson) for signals. [Source – MNI]

Overnight

12/15 03:54 USTs: Treasuries are trading modestly higher across the curve in London Thursday, with dip-buying in both the London and Tokyo sessions helping underpin prices. Despite a sharp JGB sell-off -- pressured by the strong Bank of Japan Tankan survey and fears that the central bank will hike in December or, more likely, January. However, traders said volumes were light with the looming U.S. consumer price data keeping many players sidelined. Volumes in London continued to be muted, with what little flows were noted mainly inter-dealer. However, light buying of the front of the curve was seen from Asian central banks, helping underpin the 2-year note The 10-year note was 3/32 higher at 100 9/32 (4.59%), while the Bond was 2/32 higher at 96 21/32 (4.71%). The 2-/10-yr curve was unchanged, trading at -14 bps.

12/15 00:59 **BERNANKE**: The Chinese economy would become more responsive to monetary policy actions if the country were to move toward a more flexible exchange rate, Federal Reserve Chairman Ben Bernanke said in a speech in China. He also said: --increased market participation and more advanced Chinese markets are needed to develop "reliable 'monetary transmission mechanism.'" --China's central bank may need more monetary independence.

[Source – MNI]

Today

Note, Empire State came out yesterday.

Econ Releases

Date	ET	Release	For	Briefing.com	Consensus	Prior
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)

No speeches intra day
[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	15.70
10y	7.85
5y	4.38
3y	2.68
2y	1.84
ZB	9.89
ZN	5.89
ZF	3.96
ZT	1.90

DV01s (32nds)	
30y	4.93
10y	2.53
5y	1.40
3y	0.86
2y	0.59
ZB	3.64
ZN	2.05
ZF	1.34
ZT	1.25

DV01s (\$s)	
30y	\$1,539
10y	\$790
5y	\$438
3y	\$268
2y	\$184
ZB	\$114
ZN	\$64
ZF	\$42
ZT	\$39

Yield Curve Spreads

2/3	-10.00
3/5	-5.70
2/5	-15.70
5/10	2.60
2/10	-13.10
10/30	12.20
5/30	14.80
2/30	-0.90

Fly's

2/3/5	-4.30
2/5/10	-18.30
2/10/30	-25.30
5/10/30	-9.60

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

Number
of
contracts
LONG

Eurex Hedge Ratio's source: Bloomberg

US Financial Futures Hedge Ratios

	ZB	ZN	ZF	ZT
ZB		0.563	0.368	0.342
ZN	1.777		0.654	0.608
ZF	2.718	1.529		1.076
ZT	0.663	1.179	1.803	

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	3.85	6.94	13.52
ZN	2.88	4.19	6.84	12.34	24.04
ZF	4.40	6.40	10.45	18.86	36.76
ZT	4.73	6.89	11.25	20.29	39.54

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	2.378	4.290	8.361	
3y	0.686		1.633	2.945	5.740	
5y	0.420	0.613		1.804	3.516	
10y	0.233	0.340	0.554		1.949	
30y	0.120	0.174	0.284	0.513		

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	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				
	Sml Spec		Lrg Spec		Comm
	Net	Net	Net	Net	
ZF	17,682	41,850	(59,531)	As of	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	99.2575	4.729
3y	4.625	11/15/09	100.0000	4.624
5y	4.500	11/30/11	99.2250	4.567
10y	4.625	11/15/16	100.080	4.593
30y	4.500	2/15/36	96.20	4.523

GHCO

CF Basis*	Basis	32nds
5y	0.34	13.844
10y	1.66	51.297
30y	6.90	223.066
		ZF
		105.2050
		ZN
		108.1100
		ZB
		112.22

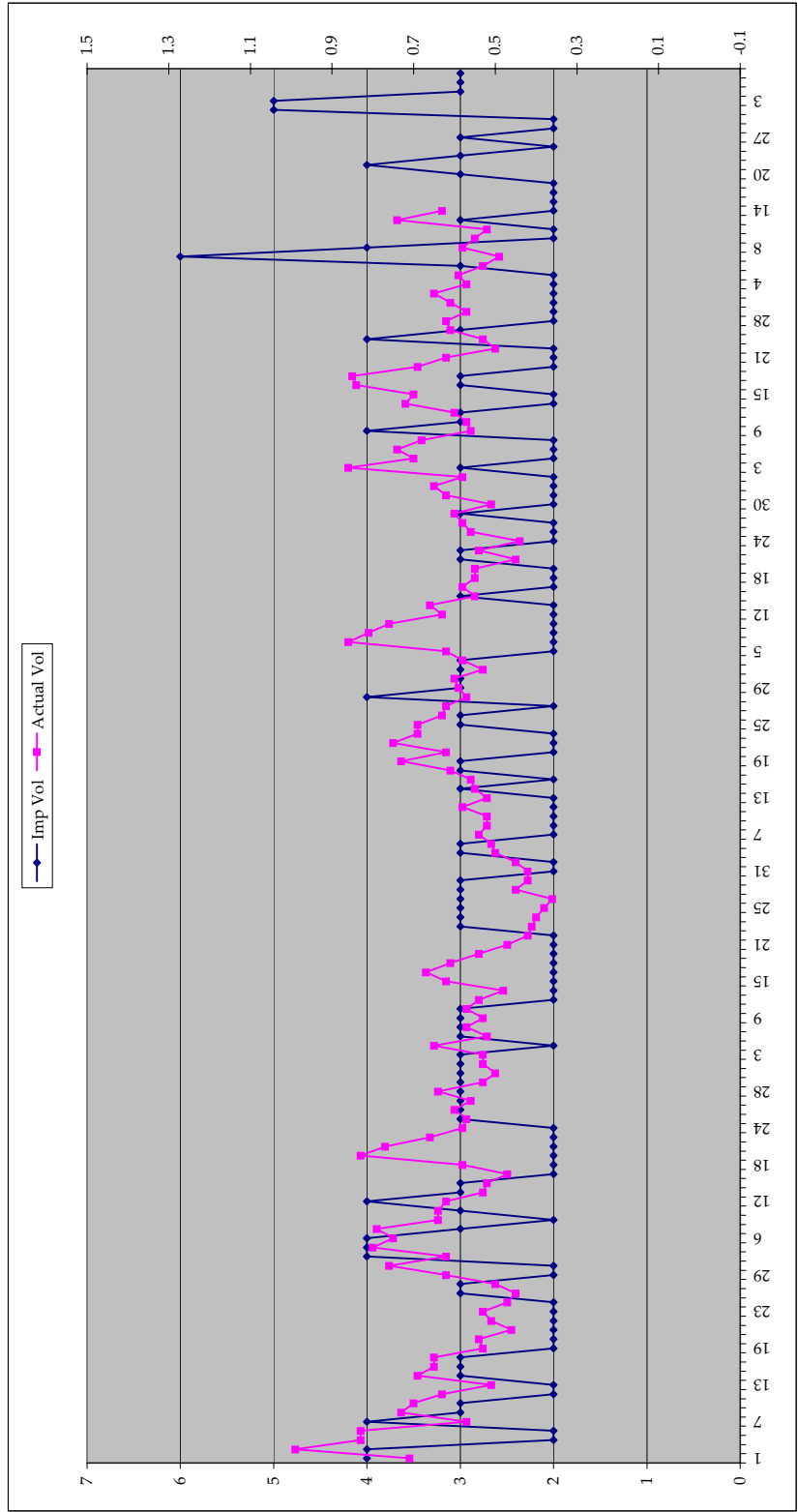
Curve Spreads bps

2/3	(0.105)
3/5	(0.057)
2/5	(0.162)
5/10	0.026
2/10	(0.136)
10/30	(0.070)
5/30	(0.044)
2/30	(0.206)

CF = Conversion Factor
Cash - (Futures * CF)

Implied Volatility (Daily)

Fig 9



Imp Vol Actual Vol

Begins Jun 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	12/15/2006	1/0/1900	1/0/1900
1900-2200	0000-0300	2000-2300	6	0	0
2200-0100	0300-0600	2300-0200	6	0	0
0100-0400	0600-0900	0200-0500	6	0	0
0400-0700	0900-1200	0500-0800	5	0	0
0700-1000	1200-1500	0800-1100	4	0	0
1000-1300	1500-1800	1100-1400	4	0	0
1300-1600	1800-2100	1400-1700	4	0	0
1600-1900	2100-0000	1700-2000	4	0	0

Shaded boxes denote market hours 4am to 4pm CDT

Scale is 1-9
 1,2 = very slow
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