

## 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	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	99.2575	99.0600	108.1650	112.2800	12/19/2006
PPI Low	99.1775	98.2350	108.0200	112.0700	12/19/2006
CPI High	100.0425	100.3000	109.0000	113.2400	12/15/2006
CPI Low	99.2000	100.0400	108.0850	112.1700	12/15/2006

\*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	102.042	0.7	102.042	102.030	102.037	4,085	2y Futures		
FVAH7	105.105	1.0	105.110	105.090	105.095	17,156	5y Futures		
TYAH7	107.295	2.5	107.300	107.270	107.275	22,322	10y Futures		
USAH7	112.000	4	112.010	111.280	111.290	9,391	30y Futures		
<b>BUS02P</b>									
BUS02P	99.317	9.0	100.002	99.310	99.312	na	2y		
BUS05P	99.135	1.7	99.135	99.117	99.120	na	5y		
BUS10P	99.270	2.0	99.275	99.240	99.255	na	10y		
BUS30P	95.235	4	95.235	95.190	95.220	na	30y		
<b>BUS02Y</b>									
BUS02Y	4.746	(2.80)	4.784	4.742	4.776	na	2y Yield		
BUS05Y	4.630	(0.90)	4.648	4.629	4.647	na	5y Yield		
BUS10Y	4.642	(0.80)	4.66	4.638	4.654	na	10y Yield		
BUS30Y	4.770	(0.50)	4.785	4.77	4.78	na	30y Yield		

Source: CQG

## Yesterday

12/27 15:14 US Tsy Futures: Prices end softer across the curve on very light volume and at fresh new multi week lows with Mar T-bonds closed at 111-29, off 18/32 and at its lowest level since Nov 6 with a low 114K traded. Meanwhile, the Mar 10-yr settled down 13/32 at 107-27.5, its lowest since Nov 16 with just 365M traded. The Mar 5-yr notes settled off 8.5/32 at 105-10, its worst since Nov 16 with 167K traded while Mar 2-yrs were down 3.75/32 at 102-03.5, its worst since Oct 25 with 67K traded.

12/27 15:08 US TSYS: The curves flattened. 2/5Y curve at -13.9 vs. -13.8 bps. 2/10Y curve at -12.8 vs. -11.5 bps. **A wide variety of reasons for the selloff:** 1) Stronger than expected new homes sales which casts doubts about the depths of the housing correction on the broader economy and also causes market to price out some early rate hikes by Fed; 2) Year-end lack of liquidity; 3) \$20B 2Y notes today and \$13B 5Y tomorrow is supply that is hard to digest at this time of year; 4) There was no Asian buying despite the rise in yields; 5) German bunds hit the skids and that also hurt Tsys; 6) In the selloff, market hit technical levels that caused black box selling. Tomorrow get weekly jobless claims, existing home sales, consumer confidence and NY NAPM.

12/27 15:06 Swaps: On the futures close, swap spreads remain sharply tighter despite lower Tsy prices. Sources said this was a function of anticipation of year-end, heavy GSE supply in January and anticipation of a seasonal tendency to tighten in Q1. So, the 2Y spd is tighter by 1.50bps to a midpoint of 34.75 bps while the 5Y is tighter by 1.00 bps to a midpoint of 40.75 bps. The 10Y is narrower by 1.00 bps to a midpoint of 48.00 bps while the 30Y is tighter by 0.75bps to a midpoint of 49.75 bps, according to GovPx. [Source - MNI]

## Overnight

12/28 06:35 UST SUMMARY: U.S. Treasuries are trading moderately higher on Thursday, amid short-covering and bargain hunting after sell-off the previous session. Safe-haven flows were also reported following news of hijacking of Aeroflot Airbus 320 plane in Prague.

Volumes were described as thin, with many players absent in the post-Christmas break...Attention now turns to US weekly jobless claims, Dec consumer confidence and Nov existing home sales data. Also eyed is the auction of the new 5-year Note auction for \$13.0bn later this session. Traders said that the smaller than expected size bodes well, but the lack of liquidity and risk that overseas real money accounts will be absent is likely to weigh and build in some concession ahead of the auction.

12/28 06:04 PRAGUE: Aeroflot hijacking suspect now detained in Prague, according to Czech TV. [Source - MNI]

## Today

### Econ Releases

Date	ET	Release	For	Briefing.com	Consensus	Prior
Dec 28	08:30	<a href="#">Initial Claims</a>	12/23	315K	323K	315K
Dec 28	10:00	<a href="#">Consumer Confidence</a>	Dec	102.5	101.8	102.9
Dec 28	10:00	Existing Home Sales	Nov	6.20M	6.15M	6.24M
Dec 29	10:00	<a href="#">Chicago PMI</a>	Dec	52.0	51.0	49.9
Dec 29	10:00	Help-Wanted Index	Nov	30	30	30

[Source: DailyFX.com]

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

None scheduled this week.

[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	15.61
10y	7.81
5y	4.35
3y	2.65
2y	1.81
ZB	9.85
ZN	5.86
ZF	3.93
ZT	1.87

DV01s (32nds)	
30y	4.87
10y	2.51
5y	1.39
3y	0.85
2y	0.58
ZB	3.61
ZN	2.03
ZF	1.33
ZT	1.23

DV01s (\$s)	
30y	\$1,521
10y	\$784
5y	\$434
3y	\$265
2y	\$181
ZB	\$113
ZN	\$64
ZF	\$42
ZT	\$38

2 yr is based on old 2y.

**Yield Curve Spreads**

2/3	-7.50
3/5	-4.10
2/5	-11.60
5/10	1.20
2/10	-10.40
10/30	12.80
5/30	14.00
2/30	2.40

**Fly's**

2/3/5	-3.40
2/5/10	-12.80
2/10/30	-23.20
5/10/30	-11.60

**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 (H)	1.000	1.800	2.800	3.000
Bobl (H)	0.550	0.970	1.500	1.600
Schatz (H)	0.200	0.400	0.600	0.660

Number  
of  
contracts  
LONG

Eurex Hedge Ratio's source: Bloomberg

**US Financial Futures Hedge Ratios**

	ZB	ZN	ZF	ZT
ZB		0.564	0.368	0.340
ZN	1.774		0.653	0.603
ZF	2.717	1.532		1.083
ZT	0.659	1.169	1.791	

**Month Codes:**

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	3.85	6.96	13.49
ZN	2.85	4.17	6.83	12.34	23.93
ZF	4.37	6.38	10.46	18.90	36.66
ZT	4.73	6.91	11.33	20.47	39.70

## US Treasuries v Eurex Bonds Hedge Ratios

	2y	3y	5y	10y	30y
Bund (H)	1.7	2.4	3.9	7.0	13.1
Bobl (H)	3.1	4.7	7.3	13.5	25.2
Shatz (H)	7.1	10.4	16.7	30.0	56.1

Eurex Hedge Ratio's source: Bloomberg

## Eurex Hedge Ratios

	Bund (H)	Bobl (H)	Shatz (H)
Bund (H)		1.900	4.600
Bobl (H)	0.530		2.500
Shatz (H)	0.220	0.400	

Eurex Hedge Ratio's source: Bloomberg

## Month Codes:

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		1.461	2.395	4.328	8.394
3y	0.684		1.639	2.962	5.745
5y	0.418	0.610		1.807	3.505
10y	0.231	0.338	0.553		1.939
30y	0.119	0.174	0.285	0.516	

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			Net
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	264,216	270,590	(6,374)	178,688	264,004	(85,316)	970,667	878,978	91,689	ZF
ZN	306,265	393,967	(87,702)	590,207	294,707	295,500	1,644,638	1,852,435	(207,797)	ZN
ZB	164,170	171,170	(7,000)	126,076	185,512	(59,436)	591,695	525,258	66,437	ZB

	WoW** Position Change				As of 12/19/2006	
	Sml Spec		Lrg Spec			Comm
	Net	Net	Net	Net		
ZF	(29,446)	7,528	21,917	87,116		
ZN	(32,729)	(54,386)	87,116	50,272		
ZB	(6,058)	(44,213)	50,272			

\*\*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	99.2300	4.778
3y	4.625	11/15/09	99.2675	4.685
5y	4.500	11/30/11	99.1225	4.641
10y	4.625	11/15/16	99.245	4.654
30y	4.500	2/15/36	95.20	4.780

GHCO

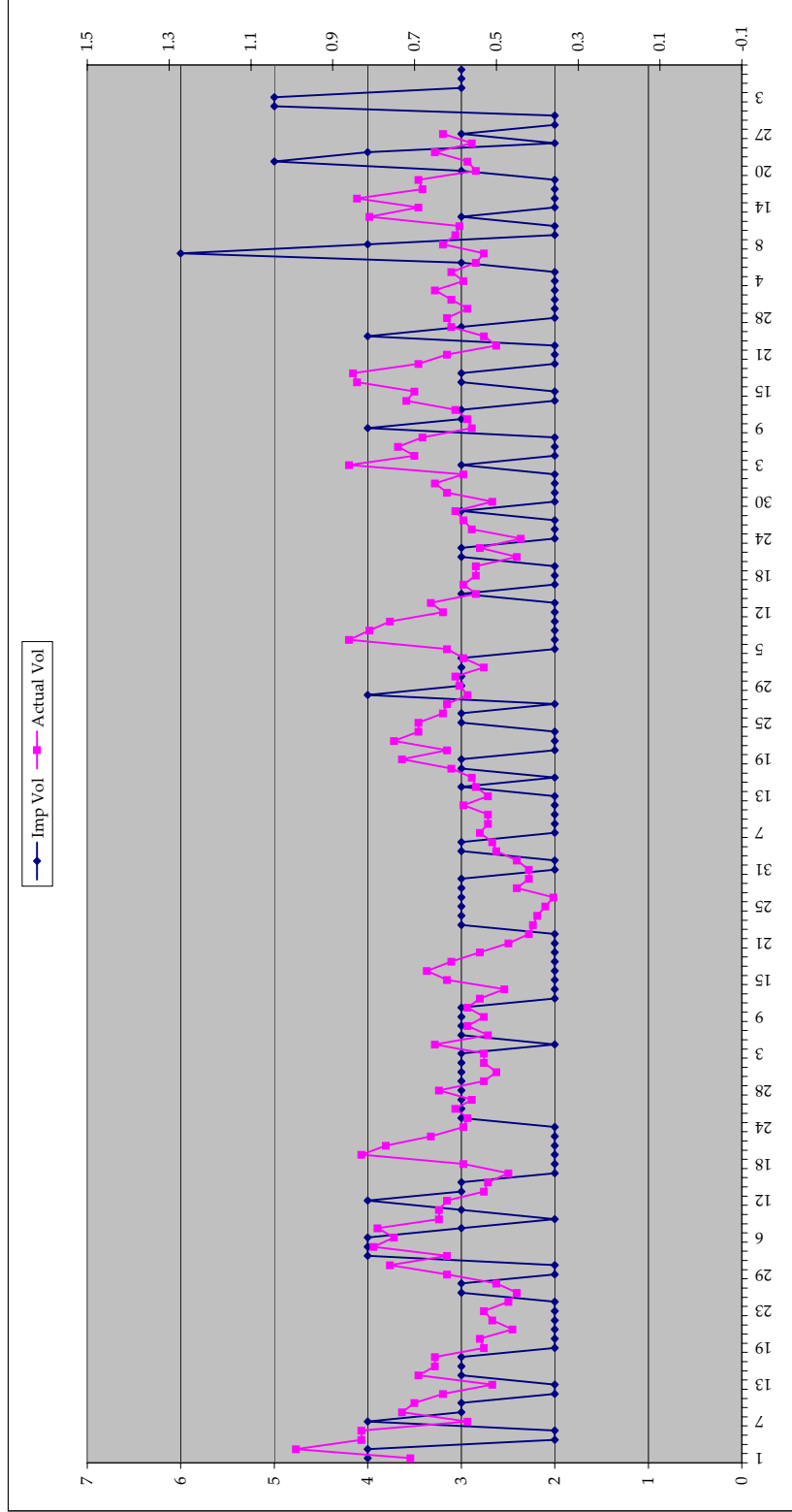
CF Basis*	Basis	32nds
5y	0.34	13.309
10y	1.57	49.909
30y	6.68	210.456

Curve Spreads bps
2/3
3/5
2/5
5/10
2/10
10/30
5/30
2/30

New 2y	
coup	4.750
mat	12/8/06
price32	99.3125
yield	4.769

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

### Implied Volatility (Daily)



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	12/28/2006	12/29/2006	1/0/1900
1900-2200	0000-0300	2000-2300	2	2	0
2200-0100	0300-0600	2300-0200	2	2	0
0100-0400	0600-0900	0200-0500	2	2	0
0400-0700	0900-1200	0500-0800	1	1	0
0700-1000	1200-1500	0800-1100	1	2	0
1000-1300	1500-1800	1100-1400	1	1	0
1300-1600	1800-2100	1400-1700	1	1	0
1600-1900	2100-0000	1700-2000	1	1	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