

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*	ZN	ZB	Date
Non-farm High	100.0075	100.0900	108.1600	113.0000	11/3/2006
Non-farm Low	99.2175	99.6500	107.1250	111.1300	11/3/2006
FOMC High	99.1600	98.2950	107.0550	110.2700	10/25/2006
FOMC Low	99.0800	98.1650	106.2550	110.0500	10/25/2006
PPI High	100.1375	99.0600	108.1850	113.1900	11/14/2006
PPI Low	100.0600	98.2350	108.0600	112.3100	11/14/2006
CPI High	99.1850	98.3150	107.0750	110.3100	10/18/2006
CPI Low	99.1150	98.2100	106.2950	110.1400	10/18/2006

*Adjusted for New Issue

Prices are recorded from econ release to 2pm CDT

Quotes

		32 nds						
	ls	net	high	low	open	Volume	SYM NAME	
TUAZ6	102.005	0.70	102.007	101.310	101.312	9,884	2y Futures	
FVAZ6	105.115	2.00	105.125	105.085	105.095	27,747	5y Futures	
TYAZ6	108.030	2.00	108.040	107.305	107.315	91,983	10y Futures	
USAZ6	112.270	1	112.280	112.200	112.220	19,333	30y Futures	
BUS02P								
	100.045	1.2	100.050	100.035	100.037	na	2y	
T.US.B045P1011	100.020	2.5	100.025	99.310	99.315	na	5y	
BUS10P	100.045	3.5	100.055	100.015	100.020	na	10y	
BUS30P	97.005	7	97.020	96.280	96.290	na	30y	
BUS02Y								
	4.789	(1.70)	4.823	4.78	4.823	na	2y Yield	
BUS05Y	4.608	(2.00)	4.646	4.605	4.646	na	5y Yield	
BUS10Y	4.605	(1.40)	4.627	4.599	4.625	na	10y Yield	
BUS30Y	4.687	(1.10)	4.703	4.683	4.696	na	30y Yield	

Source: CQG

Yesterday

Fed: Sources call attention to the talk about inflation: "All meeting participants expressed concern about the outlook for inflation. Most participants expected core inflation to edge lower, in part as the effects of the run-up in energy prices in recent years waned. And shelter costs were not expected to add materially to inflation going forward. Moreover, moderate growth in aggregate demand and the associated modest easing of pressures on resource utilization should also contribute slightly to the slowing in core inflation. Recent changes in core prices had declined importance of further moderation... Participants were concerned that inflation expectations could begin to drift upwards if core inflation remained slightly from earlier in the year. Nonetheless, nearly all participants viewed the current rates of core inflation as uncomfortably high and stressed the

1915 GMT [Dow Jones] Keep your eye on development in hiring, because the Fed certainly is: "Both data and reports from businesses indicated that the labor market remained tight," the FOMC minutes say. "The possibility that the tightness of the labor market could lead to a sustained increase in wage pressure was viewed by participants as an upside risk to costs and their expectations of a gradual decline in inflation," the Fed says. But the documents adds "continuing high profit margins provided some scope for increased labor costs to be absorbed without necessarily leading to elevated price pressures." (MSD)

From Howard RE: FOMC Minutes

-RISK TO ACHIEVING LOWER INFLATION IS BIGGEST CONCERN
 -'UPSIDE'INFLATION WANED ALBEIT ONLY SLIGHTLY
 -DOWNSIDE GROWTH RISKS DIMINISHED A LITTLE
 -CURRENT CORE INFLATION UNCOMFORTABLY HIGH
 -MOST FOMC MEMBERS EXPECT CORE INFLATION TO EDGE DOWN
 -LABOUR MARKET REMAINED TIGHT
 -FURTHER HOUSING MARKET ADJUSTMENT APPEARS LIKELY
 -CONCERNED INFLATION EXPECTATIONS WILL DRIFT UPWARDS
 -INVESTMENT SPENDING HOLDING UP WELL
 -PRICE STABILITY IS NECESSARY FOR MAXIMUM EMPLOYMENT
 [Howard Stein]

Overnight

[05:33 EST 11/16]

USTs: Treasuries are trading modestly higher in London trade Thursday, as real money and leveraged accounts were seen dip-buying after the overnight weakness. However, traders said the upside was modestly limited, with many players sidelined ahead of the U.S consumer inflation data due at 1330GMT. The dip-buying began early in the Tokyo session, with real money accounts buying the two-year note. The front of the curve continued to outperform modestly into the European session, as the curve steepened slightly as leveraged accounts took a little money off the table. Bunds were trading modestly higher against U.S. 10-year T-notes, up 1 bps on the day at 94 bps. The 2-yr note was 1/32 higher, trading at 100 5/32, to yield 4.79% and the 5-year note was 2/32 higher, trading at 100 2/32 (4.61%). The 10-year note was 2/32 higher at 100 4/32 (4.61%), while the Bond was 5/32 higher at 96 30/32 (4.69%). The 2-yr/5-yr yield curve was unchanged on overnight levels, trading at -18 bps. The 2-/10-yr curve was 1 bps steeper, trading at -18 bps.

Today

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior
Nov 16	08:30	CPI	Oct	-0.2%	-0.3%	-0.3%	-0.5%
Nov 16	08:30	Core CPI	Oct	0.2%	0.2%	0.2%	0.2%
Nov 16	08:30	Initial Claims	11/11	310K	310K	310K	308K
Nov 16	09:00	Net Foreign Purchases	Sep	NA	\$71.0B	\$71.0B	\$116.8B
Nov 16	09:15	Industrial Production	Oct	0.2%	0.3%	0.3%	-0.6%
Nov 16	09:15	Capacity Utilization	Oct	81.9%	82.0%	82.0%	81.9%
Nov 16	12:00	Philadelphia Fed	Nov	4.0	5.0	5.0	-0.7

[Sources: Yahoo! , Briefing.com, MNI, Reuters, Dow Jones, Bloomberg, icap]

Yield Curve Spreads & Flies, DV01s, CFs

M Duration	
30y	15.79
10y	7.93
5y	4.37
3y	2.77
2y	1.84
ZB	9.98
ZN	5.73
ZF	3.82
ZT	1.76

DV01s (32nds)	
30y	4.96
10y	2.54
5y	1.40
3y	0.88
2y	0.59
ZB	3.66
ZN	2.00
ZF	1.30
ZT	1.15

DV01s (\$s)	
30y	\$1,550
10y	\$794
5y	\$439
3y	\$276
2y	\$185
ZB	\$114
ZN	\$63
ZF	\$41
ZT	\$36

Yield Curve Spreads

2/3	-11.30
3/5	-6.80
2/5	-18.10
5/10	-0.30
2/10	-18.40
10/30	8.20
5/30	7.90
2/30	-10.20

Fly's

2/3/5	-4.50
2/5/10	-17.80
2/10/30	-26.60
5/10/30	-8.50

CFs

ZB	0.795
ZN	0.8995
ZF	0.9430
ZT	0.9528

*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	3.000
Bobl (Z)	0.530	0.920	1.400	1.500
Schatz (Z)	0.200	0.370	0.570	0.630

Eurex Hedge Ratio's source: Bloomberg

Number
of
contracts
LONG

US Financial Futures Hedge Ratios

	ZB	ZN	ZF	ZT
ZB		1.828	2.814	3.166
ZN	0.547		1.539	1.732
ZF	0.355	0.650		1.139
ZT	0.632	1.155	1.777	

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	2.42	3.84	6.95	13.57
ZN	2.95	4.42	7.02	12.71	24.80
ZF	4.55	6.80	10.81	19.56	38.18
ZT	4.89	7.65	12.16	22.01	42.96

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)		1.880	4.800
Bobl (Z)	0.520		2.484
Shatz (Z)	0.214	0.403	

Eurex Hedge Ratio's source: Bloomberg

Hedge Ratios: US Cash Treasuries / Eurodollar

US Treasuries v US Treasuries					
	2y	3y	5y	10y	30y
2y		1.565	2.488	4.504	8.790
3y	0.669		1.590	2.877	5.615
5y	0.421	0.629		1.810	3.532
10y	0.232	0.348	0.552		1.952
30y	0.119	0.178	0.283	0.512	

Commitment of Traders (COT)

Current Positions									
Small Spec			Large Spec			Commercials (Hedgers)			
Long	Short	Net	Long	Short	Net	Long	Short	Net	
0	290,060	(9,182)	146,513	196,642	(50,129)	1,001,980	942,669	59,311	0
0	347,588	(64,423)	690,129	304,402	385,727	1,570,498	1,891,803	(321,305)	0
0	171,759	(2,140)	112,486	164,529	(52,043)	579,745	525,562	54,183	0

WoW** Position Change					
Sml Spec		Lrg Spec		Comm	
Net		Net		Net	
0	23,780	(47,744)	23,965	As of	11/7/2006
0	31,763	(14,077)	(17,687)		
0	28,311	(20,559)	(7,752)		

**WoW = Week over week

2 PM CDT Closes: US Treasuries, US Financial Futures, YC Spreads, Basis

	Cpn	Mty	32nds	Yield
2y	4.875	10/30/08	100.0400	4.806
3y	4.625	11/15/09	99.2600	4.693
5y	4.625	10/31/11	100.0025	4.623
10y	4.625	11/15/16	100.025	4.615
30y	4.500	2/15/36	96.30	4.694

GHCO

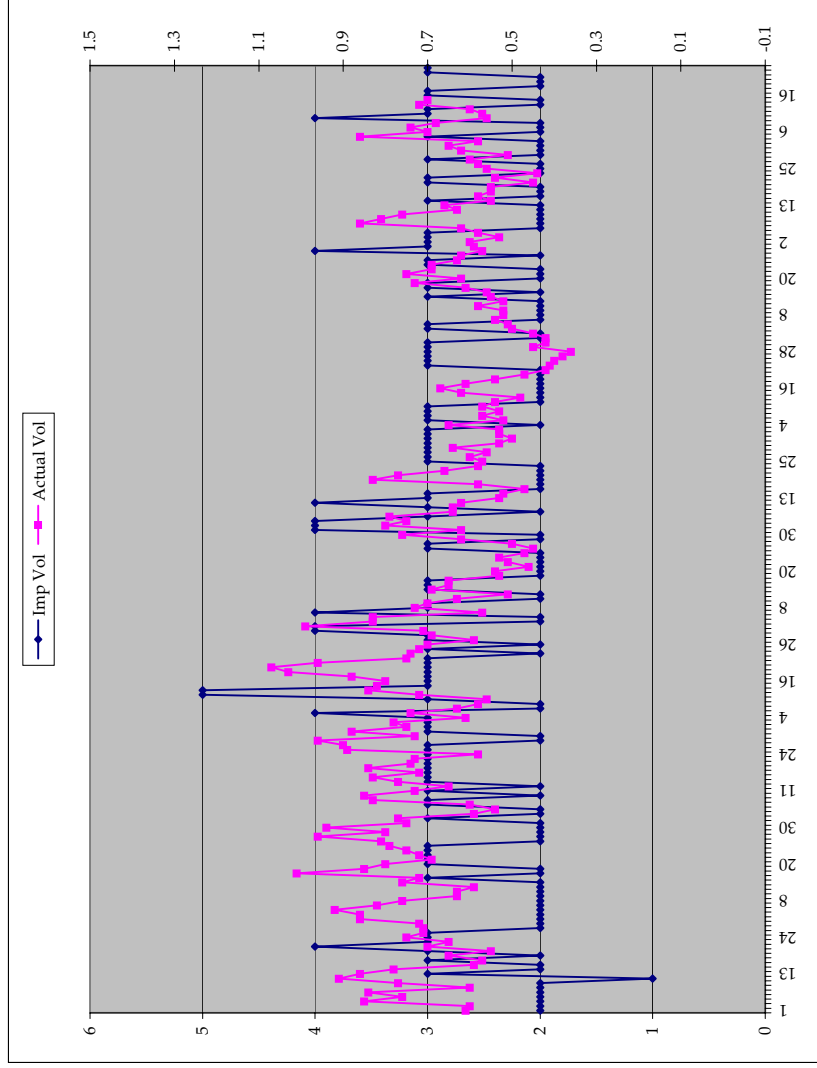
CF Basis* Basis	32nds
5y 0.89 13.578	ZF 105.1000
10y 2.87 92.929	ZN 108.0100
30y 7.06 232.345	ZB 112.25

Curve Spreads bps

2/3	(0.113)
3/5	(0.070)
2/5	(0.183)
5/10	(0.008)
2/10	(0.191)
10/30	0.079
5/30	0.071
2/30	(0.112)

CF = Conversion Factor
Cash - (Futures * CF)

Implied Volatility (Daily)



Begins Feb 1. 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.

Implied Volatility (3-Hour)

CDT Time	UT Time	EDT Time	11/15/2006	11/16/2006	11/17/2006
1900-2200	0000-0300	2000-2300	2	3	3
2200-0100	0300-0600	2300-0200	2	2	3
0100-0400	0600-0900	0200-0500	2	2	3
0400-0700	0900-1200	0500-0800	1	2	2
0700-1000	1200-1500	0800-1100	2	2	2
1000-1300	1500-1800	1100-1400	1	2	2
1300-1600	1800-2100	1400-1700	1	2	2
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
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