

The Morning Email: Treasuries

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Rotate Me

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* | ZN | ZB | Date |
|---------------|----------|----------|----------|----------|------------|
| Non-farm High | 100.0200 | 102.1200 | 108.2050 | 113.0000 | 10/6/2006 |
| Non-farm Low | 99.1050 | 101.1100 | 107.1850 | 111.1500 | 10/6/2006 |
| FOMC High | 98.3050 | 100.2800 | 107.0550 | 110.2700 | 10/25/2006 |
| FOMC Low | 98.2300 | 100.1500 | 106.2550 | 110.0500 | 10/25/2006 |
| PPI High | 99.0625 | 101.0450 | 17.1400 | 111.0600 | 10/17/2006 |
| PPI Low | 98.2875 | 100.2200 | 106.3150 | 110.1500 | 10/17/2006 |
| CPI High | 99.0125 | 100.3000 | 107.0750 | 110.3100 | 10/18/2006 |
| CPI Low | 98.2650 | 100.1950 | 106.2950 | 110.1400 | 10/18/2006 |

*Adjusted for New Issue

Prices are recorded from econ release to 2pm CDT

Quotes

| | | 32 nds | | | | | | |
|--------|--------|---------|---------|---------|---------|-------------|--|--|
| Is | net | high | low | open | Volume | SYM NAME | | |
| TUAZ6 | 1.20 | 101.300 | 101.285 | 101.290 | 18,002 | 2y Futures | | |
| FVAZ6 | 3.00 | 104.290 | 104.265 | 104.270 | 48,351 | 5y Futures | | |
| TYAZ6 | 4.00 | 107.070 | 107.025 | 107.045 | 119,000 | 10y Futures | | |
| USAZ6 | 5 | 110.290 | 110.230 | 110.260 | 26,525 | 30y Futures | | |
| Is | net | high | low | open | Volume | SYM NAME | | |
| BUS02P | 0.7 | 100.025 | 100.015 | 100.015 | na | 2y | | |
| BUS05P | 1.2 | 98.315 | 98.292 | 98.305 | na | 5y | | |
| BUS10P | 1.0 | 100.295 | 100.250 | 100.275 | na | 10y | | |
| BUS30P | 1 | 94.040 | 93.275 | 94.025 | na | 30y | | |
| Is | net | high | low | open | Volume | SYM NAME | | |
| BUS02Y | 0.00 | 4.863 | 4.805 | 4.863 | na | 2y Yield | | |
| BUS05Y | (0.70) | 4.753 | 4.729 | 4.749 | na | 5y Yield | | |
| BUS10Y | (0.40) | 4.777 | 4.751 | 4.767 | na | 10y Yield | | |
| BUS30Y | 0.10 | 4.899 | 4.875 | 4.888 | na | 30y Yield | | |

Yesterday

Yellow = same as last statement

Grey = new in oct statement

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5-1/4 percent.

Economic growth has slowed over the course of the year, partly reflecting a cooling of the housing market.

Going forward, the economy seems likely to expand at a moderate pace.

Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures.

However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.

Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

What they took out from sep statement:

The moderation in economic growth appears to be continuing,...

...and of the prices of energy and other commodities have the potential to sustain inflation pressures.

Source: Yahoo!

Overnight

Other Sources: Reuters, MNI, Dow Jones, Bloomberg, Yahoo!

Yield Curve Spreads & Flies, DV01s, CFs

| M Duration | |
|------------|-------|
| 30y | 15.55 |
| 10y | 7.65 |
| 5y | 4.35 |
| 3y | 2.57 |
| 2y | 2.00 |
| ZB | 9.95 |
| ZN | 5.77 |
| ZF | 3.87 |
| ZT | 1.81 |

| DV01s (32nds) | |
|---------------|------|
| 30y | 4.72 |
| 10y | 2.49 |
| 5y | 1.38 |
| 3y | 0.82 |
| 2y | 0.58 |
| ZB | 3.58 |
| ZN | 2.00 |
| ZF | 1.31 |
| ZT | 1.19 |

| DV01s (\$s) | |
|-------------|---------|
| 30y | \$1,476 |
| 10y | \$779 |
| 5y | \$432 |
| 3y | \$257 |
| 2y | \$181 |
| ZB | \$112 |
| ZN | \$62 |
| ZF | \$41 |
| ZT | \$37 |

Yield Curve Spreads

| | |
|-------|--------|
| 2/3 | -6.20 |
| 3/5 | -4.10 |
| 2/5 | -10.30 |
| 5/10 | 2.40 |
| 2/10 | -7.90 |
| 10/30 | 12.30 |
| 5/30 | 14.70 |
| 2/30 | 4.40 |

Fly's

| | |
|---------|--------|
| 2/3/5 | -2.10 |
| 2/5/10 | -12.70 |
| 2/10/30 | -20.20 |
| 5/10/30 | -9.90 |

CFs

| | OTR* |
|----|--------|
| ZB | 0.7943 |
| ZN | 0.9178 |
| ZF | 0.9387 |
| ZT | 0.9528 |

*OTR = On the Run

*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) | 0.530 | 0.940 | 1.400 | 1.500 |
| Schatz (Z) | 0.230 | 0.410 | 0.620 | 0.680 |

Number
of
contracts
LONG

Eurex Hedge Ratio's source: Bloomberg

US Financial Futures Hedge Ratios

| | ZB | ZN | ZF | ZT |
|----|-------|-------|-------|-------|
| ZB | | 1.791 | 2.734 | 3.015 |
| ZN | 0.558 | | 1.527 | 1.684 |
| ZF | 0.366 | 0.655 | | 1.116 |
| ZT | 0.663 | 1.188 | 1.813 | |

H=Mch
M=Jun
U=Sep
Z=Dec

Hedge Ratios: US Treasury Cash / Eurex Bund, Bobl, Schatz

US Treasuries v US Financial Futures Hedge Ratios

| | 2y | 3y | 5y | 10y | 30y |
|----|------|------|-------|-------|-------|
| ZB | 1.66 | 2.30 | 3.87 | 6.97 | 13.21 |
| ZN | 2.97 | 4.12 | 6.92 | 12.49 | 23.66 |
| ZF | 4.53 | 6.29 | 10.57 | 19.07 | 36.12 |
| ZT | 4.89 | 6.94 | 11.66 | 21.03 | 39.84 |

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 |
| Schatz (Z) | 7.1 | 10.4 | 16.7 | 30.0 | 56.1 |

Eurex Hedge Ratio's source: Bloomberg

Eurex Hedge Ratios

| | Bund (Z) | Bobl (Z) | Schatz (Z) |
|------------|----------|----------|------------|
| Bund (Z) | | 1.880 | 4.800 |
| Bobl (Z) | 0.532 | | 2.484 |
| Schatz (Z) | 0.214 | 0.403 | |

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 | | 1.421 | 2.385 | 4.304 | 8.152 |
| 3y | 0.720 | | 1.679 | 3.029 | 5.738 |
| 5y | 0.429 | 0.596 | | 1.804 | 3.418 |
| 10y | 0.238 | 0.330 | 0.554 | | 1.894 |
| 30y | 0.125 | 0.174 | 0.293 | 0.528 | |

Commitment of Traders (COT)

| Maximum and Minimum Positions* | | | | | | | | | | | |
|--------------------------------|-----------|-----------|------------|---------|-----------|-------------|------------|---------|------------|-----------|-----------|
| Small Spec | | | Large Spec | | | Commercials | | | | | |
| Max | Date | Min | Date | Max | Date | Min | Date | Max | Date | Min | Date |
| ZF | 10/3/2006 | (179,890) | 10/25/2005 | 45,278 | 7/11/2006 | (284,813) | 8/9/2005 | 459,733 | 8/9/2005 | (66,981) | 10/3/2006 |
| ZN | 8/29/2006 | (274,045) | 3/21/2006 | 537,763 | 10/3/2006 | (117,947) | 10/25/2005 | 292,853 | 10/25/2005 | (476,446) | 10/3/2006 |
| ZB | 10/3/2006 | (92,110) | 4/25/2006 | 44,491 | 8/23/2005 | (172,009) | 5/2/2006 | 255,085 | 5/2/2006 | (6,409) | 8/30/2005 |

| Current Positions | | | | | | | | | | | |
|-------------------|---------|---------|------------|---------|----------|-----------------------|-----------|-----------|------|-------|-----|
| Small Spec | | | Large Spec | | | Commercials (Hedgers) | | | | | |
| Long | Short | Net | Long | Short | Net | Long | Short | Net | Long | Short | Net |
| ZF | 271,211 | 273,227 | 186,943 | 183,015 | 3,928 | 1,000,663 | 1,002,575 | (1,912) | ZF | | |
| ZN | 337,809 | 430,194 | 727,705 | 282,618 | 445,087 | 1,636,386 | 1,989,088 | (352,702) | ZN | | |
| ZB | 154,880 | 176,317 | 101,215 | 157,609 | (56,394) | 554,339 | 476,507 | 77,832 | ZB | | |

| WoW** Position Change | | | |
|-----------------------|----------|----------|------------|
| Sml Spec | Lrg Spec | Comm | As of |
| Net | Net | Net | 10/17/2006 |
| ZF | 12,554 | (37,763) | 25,209 |
| ZN | (14,373) | (50,647) | 65,020 |
| ZB | (16,864) | (11,226) | 28,092 |

*Minimum and Maximum Positions go back to 07/05/2005

**WoW = Week over week

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

| | Cpn | Mty | 32nds | Yield |
|-----|-------|-------|----------|-------|
| 2y | 4.875 | 39751 | 100.2550 | 4.854 |
| 3y | 4.875 | 40040 | 93.2950 | 4.797 |
| 5y | 4.625 | 40816 | 104.2700 | 4.747 |
| 10y | 4.875 | 42597 | 107.035 | 4.770 |
| 30y | 4.500 | 49720 | 110.24 | 4.892 |

GHCO

| CF Basis* Basis | 32nds |
|-------------------|-------------|
| 5y 10.39 16.162 | ZF 100.0125 |
| 10y 15.20 74.257 | ZN 100.0625 |
| 30y 32.16 188.020 | ZB 98.30 |

| New 2y | Close | Exp | Yield | Price |
|--------|-------|-------|--------|---------|
| Coup | | 10/08 | 4.8935 | 99.3025 |
| 4.875 | | | | |

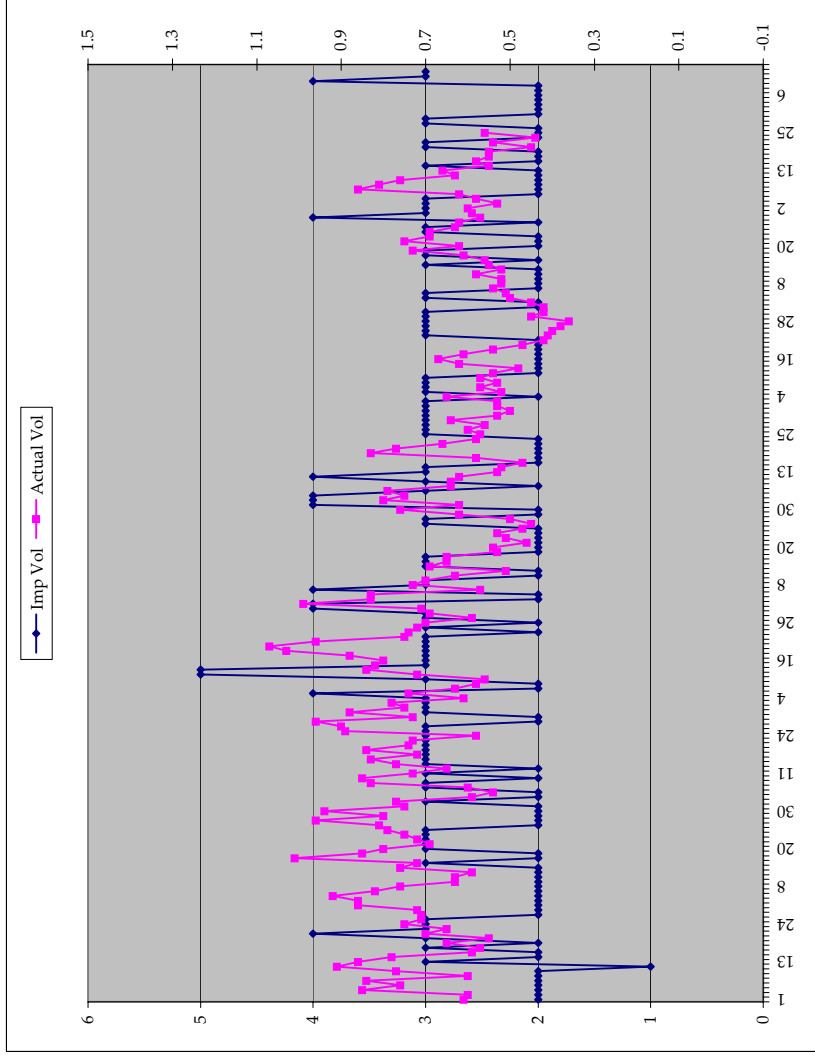
Curve Spreads bps

| | |
|-------|---------|
| 2/3 | (0.057) |
| 3/5 | (0.050) |
| 2/5 | (0.107) |
| 5/10 | 0.023 |
| 2/10 | (0.084) |
| 10/30 | 0.122 |
| 5/30 | 0.145 |
| 2/30 | 0.038 |

CF = Conversion Factor

Cash - (Futures * CF)

Implied Volatility (Daily)



Imp Vol Actual Vol

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 | 10/24/2007 | 10/25/2007 | 10/26/2007 |
|-----------|-----------|-----------|------------|------------|------------|
| 1900-2200 | 0000-0300 | 2000-2300 | 2 | 2 | 2 |
| 2200-0100 | 0300-0600 | 2300-0200 | 1 | 1 | 1 |
| 0100-0400 | 0600-0900 | 0200-0500 | 2 | 2 | 2 |
| 0400-0700 | 0900-1200 | 0500-0800 | 1 | 1 | 1 |
| 0700-1000 | 1200-1500 | 0800-1100 | 1 | 1 | 1 |
| 1000-1300 | 1500-1800 | 1100-1400 | 1 | 1 | 1 |
| 1300-1600 | 1800-2100 | 1400-1700 | 1 | 1 | 1 |
| 1600-1900 | 2100-0000 | 1700-2000 | 1 | 1 | 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