

## The Morning Email: Treasuries

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Rotate Me

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*	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											
	ls	net	high	low	open	Volume	SYM NAME				
TUAZ6	102.000	3.20	102.005	101.285	101.290	124,239	2y Futures				
FVAZ6	105.020	8.50	105.040	104.265	104.270	509,373	5y Futures				
TYAZ6	107.145	12.00	107.165	107.025	107.045	1,154,291	10y Futures				
USAZ6	111.100	20	111.130	110.230	110.260	313,646	30y Futures				
BUS02P	100.042	2.7	100.047	100.015	100.015	na	2y				
BUS05P	99.047	6.7	99.062	98.292	98.305	na	5y				
BUS10P	101.055	(1.0)	101.070	101.040	101.060	na	10y				
BUS30P	94.215	20	94.235	93.275	94.025	na	30y				
BUS02Y	4.800	(3.80)	4.863	4.788	4.863	na	2y Yield				
BUS05Y	4.682	(0.90)	4.698	4.667	4.683	na	5y Yield				
BUS10Y	4.717	(4.60)	4.777	4.711	4.767	na	10y Yield				
BUS30Y	4.840	(4.10)	4.899	4.836	4.888	na	30y Yield				

### Yesterday

**3:11 pm - Bonds Trudge Optimistically Higher:** Trade went out on the **highs**, taking back about 5 basis points across the curve in sporadic, but better than lately, action. The weak durables & the drop in median new home prices helped get the ball rolling early while trade was able to shrug off a **poorly done 5-yr auction**. The market struggled with some technical levels but went after stops later & took them out. The **day ahead is not fully loaded with data, but what is there is of fairly high caliber**, but the bonds have seen a pretty good move to one side of the boat, so a painful surprise would not be too pretty. There is little question the market will be sweating the details. Trade on the **2-10-yr yield spread** kicked around in a range for the majority of the day hanging near -9.6 average on the session **ending at -9.8**. The dollar was beaten up with a few rescue attempts abandoned quickly. The euro is up at 1.2691 while the yen is stronger at 118.3850. The dollar index fell to 85.89 (-0.49) as support finally found traction around 85.82. Spot gold is up at 596.95 (+5.90) as early morning highs of 598.82 were never retouched. Crude oil fell apart to 60.25 (-1.15). Tomorrow brings **Q3 GDP & UofM** revisions along with Minneapolis' Fed pres Stern talking on policy at 13:05.

Source: Yahoo!, Briefing.com

### Overnight

**external|GLOBAL MARKETS-Markets gear up for first look at US Q3 GDP** - at Reuters - 46 minutes ago

The dollar was on the back foot, but European stocks and bonds were little changed on Friday as investors awaited the first official estimate of third quarter U.S. gross domestic product.

**external|Lehman launches novel hybrid CDO** - at Reuters - 1 hour, 3 minutes ago

Lehman Brothers is marketing an innovative collateralised debt obligation referencing fixed-recovery default swaps on loans.

**external|JGBs edge up on tame CPI, focus moves to BOJ report** - at Reuters - Fri 2:54 am ET

Japanese government bond prices edged up on Friday after soft consumer price reinforced expectations that the Bank of Japan will likely wait until early next year to raise interest rates for a second time.

**external|Treasures mostly flat in Asia ahead of Q3 GDP** - at Reuters - Fri 1:03 am ET

U.S. Treasuries were steady in Asia on Friday as investors awaited third-quarter growth data due later in the session for more clues about whether the U.S. economy could achieve a soft landing.

Source: Yahoo!, Briefing.com

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

**Yield Curve Spreads & Flies, DV01s, CFs**

M Duration	
30y	15.61
10y	7.65
5y	4.34
3y	2.56
2y	1.84
ZB	9.97
ZN	5.77
ZF	3.86
ZT	1.81

DV01s (32nds)	
30y	4.78
10y	2.50
5y	1.38
3y	0.82
2y	0.59
ZB	3.60
ZN	2.00
ZF	1.31
ZT	1.18

DV01s (\$s)	
30y	\$1,492
10y	\$782
5y	\$432
3y	\$257
2y	\$185
ZB	\$112
ZN	\$63
ZF	\$41
ZT	\$37

**Yield Curve Spreads**

2/3	-6.30
3/5	-5.50
2/5	-11.80
5/10	3.50
2/10	-8.30
10/30	12.30
5/30	15.80
2/30	4.00

**Fly's**

2/3/5	-0.80
2/5/10	-15.30
2/10/30	-20.60
5/10/30	-8.80

**CFs**

ZB	0.7943
ZN	0.9178
ZF	0.9387
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	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		1.796	2.748	3.039
ZN	0.557		1.530	1.692
ZF	0.364	0.653		1.120
ZT	0.658	1.182	1.809	

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	1.64	2.28	3.89	6.96	13.27
ZN	2.95	4.10	6.98	12.50	23.84
ZF	4.51	6.28	10.69	19.12	36.48
ZT	4.89	6.94	11.82	21.14	40.34

**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

**Hedge Ratios: US Cash Treasuries / Eurodollar**

		US Treasuries v US Treasuries				
	2y	3y	5y	10y	30y	
2y		1.421	2.419	4.327	8.255	
3y	0.719		1.702	3.045	5.810	
5y	0.427	0.594		1.809	3.452	
10y	0.236	0.328	0.559		1.908	
30y	0.124	0.172	0.293	0.524		

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			
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	10/30/08	100.0450	4.800
3y	4.875	8/15/09	100.1150	4.734
5y	4.625	9/30/11	99.0525	4.691
10y	4.875	8/15/16	101.065	4.717
30y	4.500	2/15/36	94.23	4.840

## GHCO

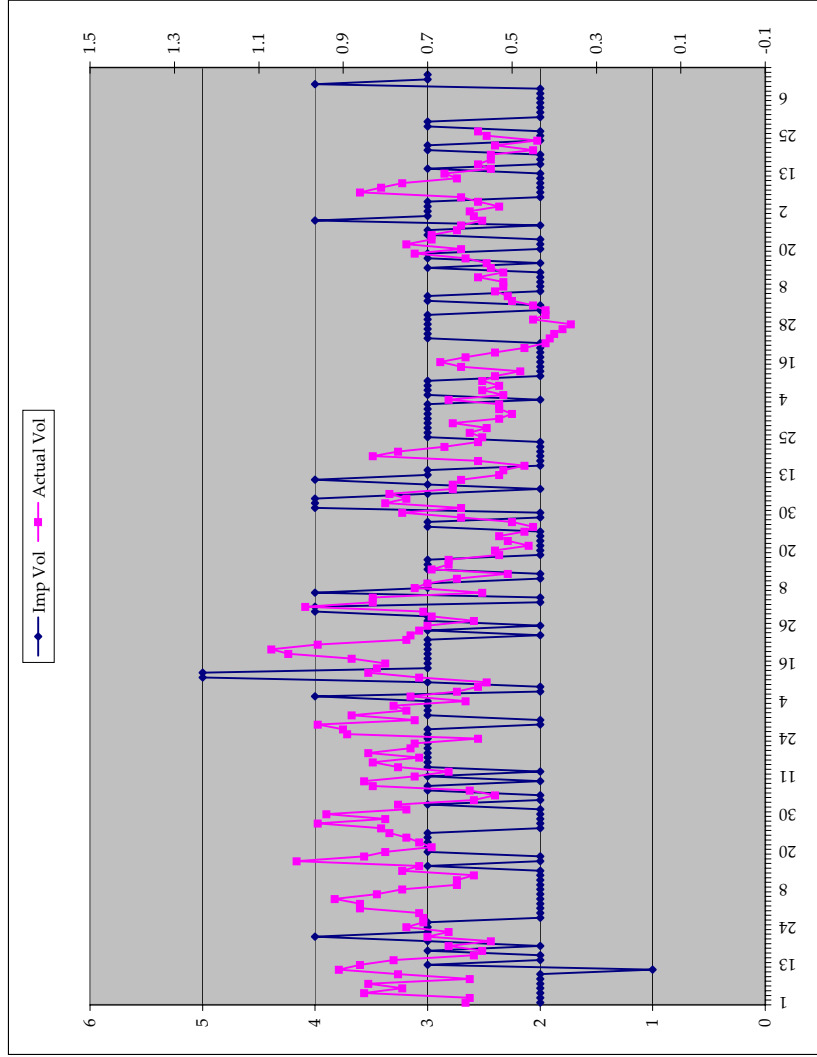
	CF Basis* Basis		32nds
5y	0.47	16.871	ZF 105.0250
10y	2.72	76.683	ZN 107.1500
30y	5.96	197.120	ZB 111.12

## Curve Spreads bps

2/3	(0.066)
3/5	(0.043)
2/5	(0.109)
5/10	0.026
2/10	(0.083)
10/30	0.123
5/30	0.149
2/30	0.040

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	10/27/2007	1/0/1900	1/0/1900
1900-2200	0000-0300	2000-2300	3	0	0
2200-0100	0300-0600	2300-0200	3	0	0
0100-0400	0600-0900	0200-0500	3	0	0
0400-0700	0900-1200	0500-0800	2	0	0
0700-1000	1200-1500	0800-1100	2	0	0
1000-1300	1500-1800	1100-1400	2	0	0
1300-1600	1800-2100	1400-1700	2	0	0
1600-1900	2100-0000	1700-2000	1	0	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