

## 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	100.2000	102.1200	108.2050	113.0000	10/6/2006
Non-farm Low	99.2800	101.1100	107.1850	111.1500	10/6/2006
FOMC High	99.1600	100.2800	107.0550	110.2700	10/25/2006
FOMC Low	99.0800	100.1500	106.2550	110.0500	10/25/2006
PPI High	99.2350	101.0450	17.1400	111.0600	10/17/2006
PPI Low	99.1400	100.2200	106.3150	110.1500	10/17/2006
CPI High	99.1850	100.3000	107.0750	110.3100	10/18/2006
CPI Low	99.1150	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	102.035	0.20	102.040	102.030	102.035	9,582	2y Futures			
FVAZ6	105.095	0.50	105.105	105.085	105.085	43,158	5y Futures			
TYAZ6	107.260	2.00	107.260	107.235	107.245	65,291	10y Futures			
USAZ6	111.300	3	111.310	111.260	111.270	16,966	30y Futures			
BUS02P	#VALUE!	0.2	100.082	100.072	100.080	na	2y			
T.US:B045P1011	99.315	1.2	100.002	99.300	99.317	na	5y			
BUS10P	101.205	2.5	101.205	101.170	101.185	na	10y			
BUS30P	95.170	5	95.170	95.115	95.140	na	30y			
BUS02Y	4.743	0.50	4.767	4.73	4.767	na	2y Yield			
BUS05Y	4.627	(0.70)	4.643	4.623	4.643	na	5y Yield			
BUS10Y	4.661	(1.00)	4.681	4.66	4.679	na	10y Yield			
BUS30Y	4.784	(0.80)	4.798	4.783	4.797	na	30y Yield			

**3:24 pm - Trade Erases Recent Losses:** The market has been **working the high-end** all session but was unable to break through to new levels, even as players reported a lack of selling interest. The late action petered out & left the **market hanging just under the strongest levels since early in the month**. The shorter stuff took slightly wider swings, while the curve trade ground its way into a less inverted pose in the latter part of the session. The market is savoring the signs of slowing growth, but all that could turn on a dime if the **numbers on tap next week which includes some classics like payrolls** along with an almost pesky array of mid-tier stuff. Odds are all will be tuned in to the jobs report, the last before mid-term elections, but **ISM & personal income/spending** numbers could also spring some surprises on the market. The **2-10-yr yield spread ended the week on an inverted, but less so, level, heading into the weekend at -8.7**. The dollar managed to hold above its lows (one very small victory amid a week of losses for the greenback) with the euro topping out at 1.2750 & the buck bottoming on the yen at 117.1600. The dollar index pulled off its lows of 85.43 to close down at 85.56 (-0.33). Spot gold held higher at 598.50 to finish the week near its best level while crude oil struck back over 60 to 60.73 (+0.37). Next week brings a big bunch of data highlighted by **ISMs & the biggie payrolls report** on Fri. The Fed calendar has Richmond's Lacker & Chicago's Moskow on Mon & chief Bermanke on Wed along with others scattered through the remaining days.

Yesterday

Source: **Yahoo!**, **Briefing.com**

Overnight

**UBS says cooperating in U.S. Treasury bonds probe** - Reuters - 54 minutes ago

Swiss bank UBS AG is cooperating in an investigation by the U.S. authorities into reported manipulation of Treasury securities prices, a spokesman for the bank said on Monday.

**External] JGBs rise on U.S. Treasuries rally, Nikkei slump** - at Reuters - Mon 1:20 am ET

Japanese government bonds rose on Monday, supported by a rally in U.S. Treasuries and slumping domestic share prices, but investors were cautious ahead of the Bank of Japan's outlook report on Tuesday.

**External] US Treasuries climb in Asia after tepid growth data** - at Reuters - Mon 12:41 am ET

U.S. Treasuries extended gains in Asia on Monday following a rally late last week after data showing tepid economic growth in the third quarter rekindled expectations that the Fed's next move may be to cut rates.

Source: **Yahoo!**, **Briefing.com**

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

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

**M Duration**

30y	15.72
10y	7.66
5y	4.34
3y	2.56
2y	1.89
ZB	9.98
ZN	5.77
ZF	3.86
ZT	#VALUE!

**DV01s (32nds)**

30y	4.85
10y	2.52
5y	#VALUE!
3y	0.82
2y	#NUM!
ZB	3.61
ZN	2.01
ZF	1.31
ZT	#VALUE!

**DV01s (\$s)**

30y	\$1,516
10y	\$787
5y	#VALUE!
3y	\$257
2y	#NUM!
ZB	\$113
ZN	\$63
ZF	\$41
ZT	#VALUE!

**Yield Curve Spreads**

2/3	-6.70
3/5	-4.90
2/5	-11.60
5/10	3.40
2/10	-8.20
10/30	12.30
5/30	15.70
2/30	4.10

**Fly's**

2/3/5	-1.80
2/5/10	-15.00
2/10/30	-20.50
5/10/30	-8.90

**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	2.750	#VALUE!
ZN	0.557		1.531	#VALUE!
ZF	0.364	0.653		1.122
ZT	#VALUE!	#VALUE!	#VALUE!	

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	#NUM!	2.28	#NUM!	6.98	13.45
ZN	#NUM!	4.10	#NUM!	12.53	24.16
ZF	#NUM!	6.27	#NUM!	19.19	36.99
ZT	#VALUE!	#VALUE!	#NUM!	#VALUE!	#VALUE!

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	#VALUE!	#VALUE!	#NUM!	#VALUE!	#VALUE!
3y	#NUM!		#NUM!	3.059	5.897
5y	#NUM!	#NUM!		#NUM!	#NUM!
10y	#NUM!	0.327	#NUM!		1.927
30y	#NUM!	0.170	#NUM!	0.519	

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	249,962	283,905	(33,943)	162,014	188,621	1,066,819	1,006,270	60,549			
ZN	317,106	424,667	(107,561)	750,450	335,684	1,731,622	2,038,825	(307,203)			
ZB	154,908	184,274	(29,366)	72,362	162,814	580,124	460,306	119,818			

WoW** Position Change			
Sml Spec	Lrg Spec	Comm	As of
Net	Net	Net	10/17/2006
ZF	(31,927)	(30,535)	62,461
ZN	(15,176)	(30,321)	45,499
ZB	(7,929)	(34,058)	41,986

\*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	100.0775	4.747
3y	4.875	8/15/09	100.1575	4.683
5y	4.625	10/31/11	99.2375	4.681
10y	4.875	8/15/16	101.180	4.670
30y	4.500	2/15/36	95.12	4.796

## GHCO

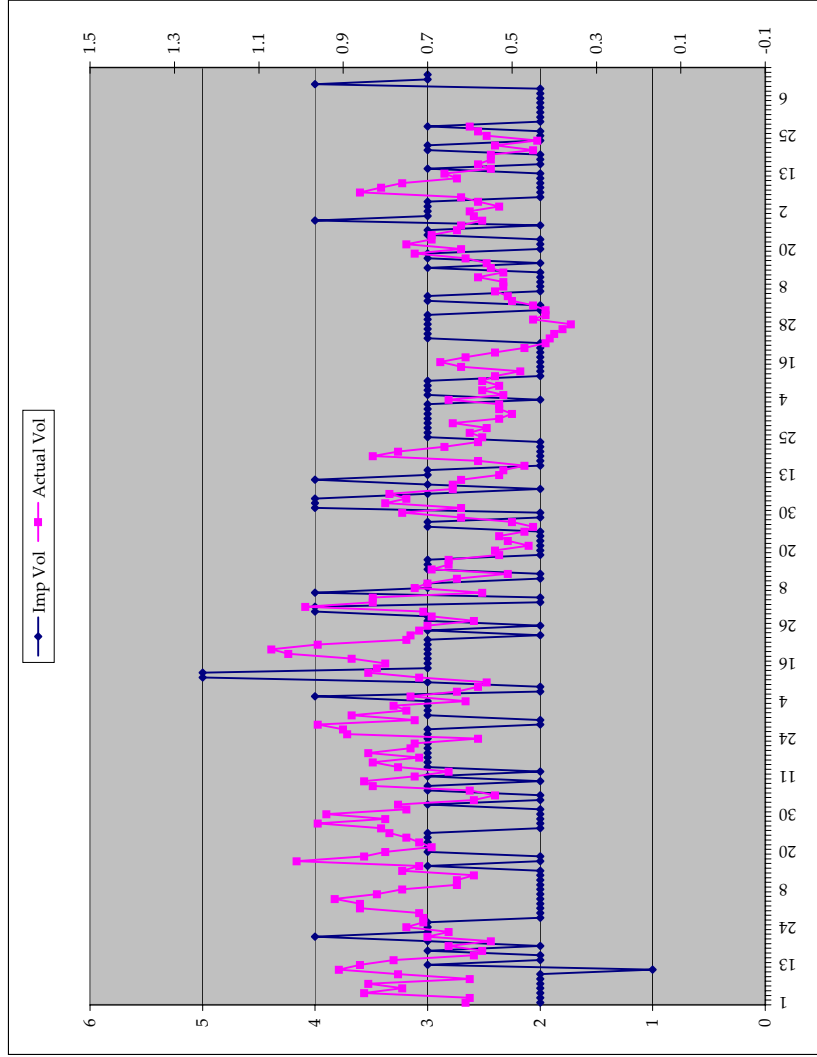
	CF Basis* Basis		32nds
5y	0.58	12.801	ZF 105.0950
10y	2.75	79.449	ZN 107.2450
30y	6.73	205.400	ZB 111.28

## Curve Spreads bps

2/3	(0.064)
3/5	(0.002)
2/5	(0.066)
5/10	(0.011)
2/10	(0.077)
10/30	0.126
5/30	0.115
2/30	0.049

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	10/30/2007	10/31/2007	11/1/2007
1900-2200	0000-0300	2000-2300	3	2	1
2200-0100	0300-0600	2300-0200	2	2	1
0100-0400	0600-0900	0200-0500	2	2	1
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	0
1300-1600	1800-2100	1400-1700	1	1	0
1600-1900	2100-0000	1700-2000	0	2	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