



The Morning Email: Treasuries

8/1/2007 5:44

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11:46 07/31 **US TSYS/ASIA**: Talk is Asian central banks have been selling the intermediates/buying T-bills.



"The projected \$13 bln 10-year note auction would paydown \$6.5 bln and the projected \$8 bln 30-year bond auction would raise all cash. In addition, maturing issues include a \$21.4 bln 3-year note and a \$21.7 bln 5-year. SMR projects that the Treasury will payout a combined \$28.9 bln with the mid-quarter coupon interest payment on August 15. Hence, the Treasury-generated cash flows from the projected Refunding package would result in a Treasury-generated cash infusion of \$70.5 bln into the market. Indeed, the cash flows associated with the upcoming Refunding will be extremely generous and create highly liquid market conditions. ." –Ward McCarthy, PhD (SMRA.COM)



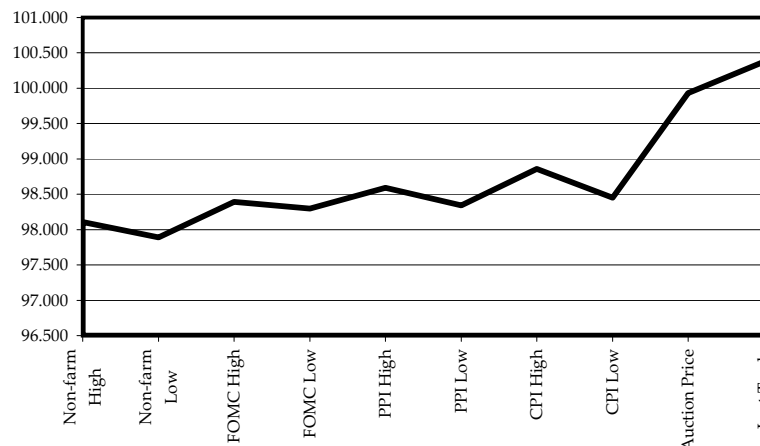
Want something added? Let me know: jgoulding@ghco.com
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Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	98.0350	94.315	104.305	106.16	7/6/2007
Non-farm Low	97.2850	94.205	104.175	105.31	7/6/2007
FOMC High	98.1250	95.150	105.130	107.07	6/28/2007
FOMC Low	98.0950	95.075	105.045	106.23	6/28/2007
PPI High	98.1900	95.280	105.190	107.23	7/17/2007
PPI Low	98.1100	95.130	105.065	107.02	7/17/2007
CPI High	98.2750	94.310	105.310	108.04	7/18/2007
CPI Low	98.1450	94.125	105.125	107.11	7/18/2007
Auction Price	99.2988	99.035			
Last Trade	100.1200	98.090	107.230	110.11	8/1/2007 5:44

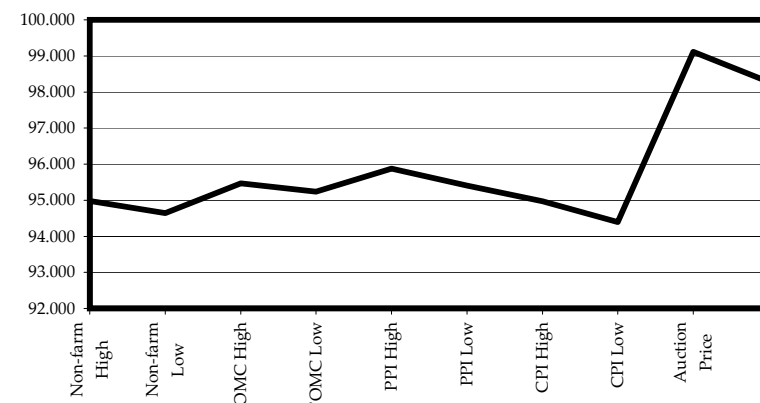
Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.254	99.299	99.035	98.194
Auction Yield Stop	4.735	4.64	4.612	4.838
Actual Auction Date	7/25/2007	7/26/2007	5/8/2007	5/11/2007 r

r = reopen

5y (Decimal)



10y (Decimal)



Notes: Cash and futures are adjusted roll
 Release times are from release to 2pm cdt
 (Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)

Quotes

32 nds							
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAU7	102.185	3.7	102.212	102.175	102.175	63,082	2y Fut
FVAU7	105.235	8.5	105.280	105.200	105.205	108,399	5y Fut
TYAU7	107.230	9.0	107.310	107.200	107.210	253,184	10y Fut
USAU7	110.110	10	110.250	110.070	110.110	50,793	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.080	0.7	100.105	100.077	100.077	na	2y Cash
BUS05P	100.120	2.7	100.170	100.105	100.105	na	5y Cash
BUS10P	98.090	3.0	98.170	98.065	98.065	na	10y Cash
BUS30P	97.215	1	98.025	97.175	97.255	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.489	(1.30)	4.53	4.439	4.53	na	2y Yield
BUS05Y	4.539	(1.20)	4.57	4.502	4.57	na	5y Yield
BUS10Y	4.716	(1.10)	4.741	4.684	4.741	na	10y Yield
BUS30Y	4.897	0.00	4.909	4.868	4.903	na	30y Yield

Notes: SYM = Symbol

**All times Eastern****Yesterday:**

15:16 07/31 **US TSYS/RECAP:** Tsys end higher into month-end amid: 1) safe-haven bid on weak CDX, US stocks; 3) month-end buying; TIPS had large index, Tsys 0.01-years extension. 4) Jitters as Germany's KfW will assume EU8.1B in financing obligations tied to IKB Deutsche Industriebank (BBG). 5) Deleveraging as hedge funds needed to tweak short Tsys/long risky debt positions. 6) 10Y RP special; 7) Talk bid lists in ABS, corps; 8) Mixed central bk flow: some Asians sold intermediates/buy Tbilis; another central bk sold bills/buy belly; Latin central bks sold Tsys. 9) A.m.: Tsys in choppy mixed flow. 10) Hedge funds deleverage, face haircut month-end/RP if collateral fell. 11) Tsys buying/Bund selling on MNI ECB sources story ECB eyed Sep or Oct hike. 12) Modest unwind of safe haven flow, curve steepener unwind too-in options, futures. 12) Real money buying 5yr Tsy futures earlier amid M&A woe. 13) Banks did 2Y/10Y steepeners, flatteners; overseas bank buying in intermediates, buy and hold 5/30Y steepener, mixed Street flow in 2Y,3Ys; fast money sold 10s.

15:18 07/31 **EURODLR FUTURES:** Reluctant to follow Tsys higher until later in the session, EuroDlr futures finished at or near highs, the curve bull flattening as the long end outpaced. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, contracted 4.25 bps to 67.875. In the Fronts (Sep07-Jun08), the Sep07 were steady at 94-72.5 on combined Globex and pit volume of 316,000, the Dec07 up 0.5 bps at 94-90.5 on volume of 466,000, the Mar08 up 1.0 bps at 95-06 on volume of 541,000, while the Jun08 was 1.5 bps higher at 95-14.5 on volume of 466,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 1.5 to 2.5 bps higher across the pack with 1,041,000 contracts traded.

15:03 07/31 **US SWAPS:** Spds finished session off tight as mkt firmed later in second half. Spreads got a little whippy as they came off approximately 1.00 bps from pre-open lvls spds still outperformed mortgage spds. In line with spreads coming off tight, sources reported some paying-tied flows in the fronts to intermediates in early trade, though overall volume was lighter and two-way in general.

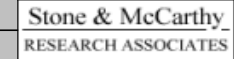
According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	-0.50/54.25	-1.50/66.50	-1.50/73.75	-1.25/78.00
11:30	-1.25/53.50	-2.00/66.00	-1.75/73.50	-1.50/77.75
10:30	-1.25/53.50	-2.25/65.75	-2.25/73.00	-1.75/77.50
9:30	-0.75/54.00	-2.00/66.00	-1.75/73.50	-1.50/77.75
Tue Open	-1.50/53.25	-2.25/65.75	-2.00/73.25	-1.75/77.50
Tue 7:40	-2.50/52.25	-3.25/64.75	-3.25/72.00	-3.50/75.75
Mon 3:00	-1.00/54.75	-1.00/68.00	-0.50/75.25	-0.25/79.25

(continued)**Overnight:**

06:22 08/01 **TSYS SUMMARY:** U.S. Treasuries are trading higher on Wednesday, amid continued risk-aversion buying as contagion spreads in the subprime and credit markets. The latest move comes after Macquarie Bank said investors in two of its high-yield funds may lose as much as 25% of their investments, amid contagion in the US subprime market. In addition, Bear Stearns, which has already forced to shut two hedge funds that bet heavily on the subprime-mortgage market, has halted redemption from a third fund -- Bear Stearns Asset-Backed Securities Fund -- which has roughly \$900mln in mortgage investments.

Traders reported Japanese trading accounts and leverage accounts buying 5 & 10-year Notes in the Tokyo session. Also noted was a large clip 18k contracts in 10-year Note futures, which went through screens. However, since the start of the London session, prices have eased lower from overnight highs, but still maintaining gains, as European equity bourses recover from opening lows. Overall, traders said that flows have been sporadic, with mkts thin.



08:43 07/31 **FED**: RBSGC alters forecast, says Fed will not tighten. "For almost a year, our call has been that the next Fed move would be a hike, and that it would occur in the fourth quarter of 2007. With that timeframe just a few short months away, it seems pretty obvious to us that, even if the ripple effects to GDP are minimal from the recent tumult, the detour of a month or two in the Fed's attention away from inflation risks and toward the possibility of having to manage a crisis will leave the Fed in no mood to take any chances."

We regard the June **ECI data** as somewhat comforting, and we suspect that policy-makers will construe these data in a similar fashion. While the unemployment rate has remained low at 4.5%, there does not appear to be undue pressures on wages or overall compensation costs.
--Ray Stone, PhD

09:27 07/31 **EGBs**: Month-end duration extension buying continues to dominate sentiment as the long-end of the EGB curve outperforms -- in turn flattening the 10/30-year yield spread by 2bps to +12bps. The month-end buying comes as the iBoxx Euro sovereign index extends by +0.16 years into August. This is an exceptionally large extension and also higher than average for this time of the year (+0.12 years).

Table I—Forecast Summary	June	SMRA Est July	Survey Medians	
			MNI July 30	BBG July 30
Payrolls (000s)	132	120	125	130
Private (000s)	92	99		
Construction (000s)	12	-2		
Manufacturing Payrolls (000s)	-18	-14	-14	-15
Workweek (hours)	33.9	33.8	33.9	33.9
Index of Hours Worked (% chg)	0.5	-0.2		
Average Hourly Earnings (% chg)	0.3	0.3	0.3	0.3
Unemployment Rate (%)	4.5	4.5	4.5	4.5

09:31 07/31 **CREDIT**: The TXU buy-out deal is in focus this morning as a report by CNN has said that the lead banks in the transaction are considering offering to pay a \$1 bln break-up fee in order to get the buy-out group to break the agreement. The [e]nders are concerned that they may be stuck with \$37.2 bln in committed debt to fund the purchase of TXU, the Dallas based energy company. A buy-out consortium of KKR, TPG and Goldman Sachs had agreed to acquire TXU for \$45 bln, comprising of \$25.9 bln of term loans and \$11.3 bln in an unsecured bridging loan.

09:40 07/31 **ECB**: The European Central Bank is on track to hike interest rates in September or October given persistent upside risks to price stability, but it is closely watching unfolding financial market turbulence, well-informed sources have told Market News International. Some sources signalled a preference for September, saying this could be quickly communicated to markets even though there is no press conference scheduled after Thursday's ECB Governing Council meeting. Others were more circumspect on the timing. The outlook for monetary policy becomes less clear after the next policy move, which would put the refinancing rate at 4.25%, the sources indicated. An increase to 4.5%, as many in the markets expect, is by no means pre-ordained. Read the full Sources story on MNI's Mainwire.

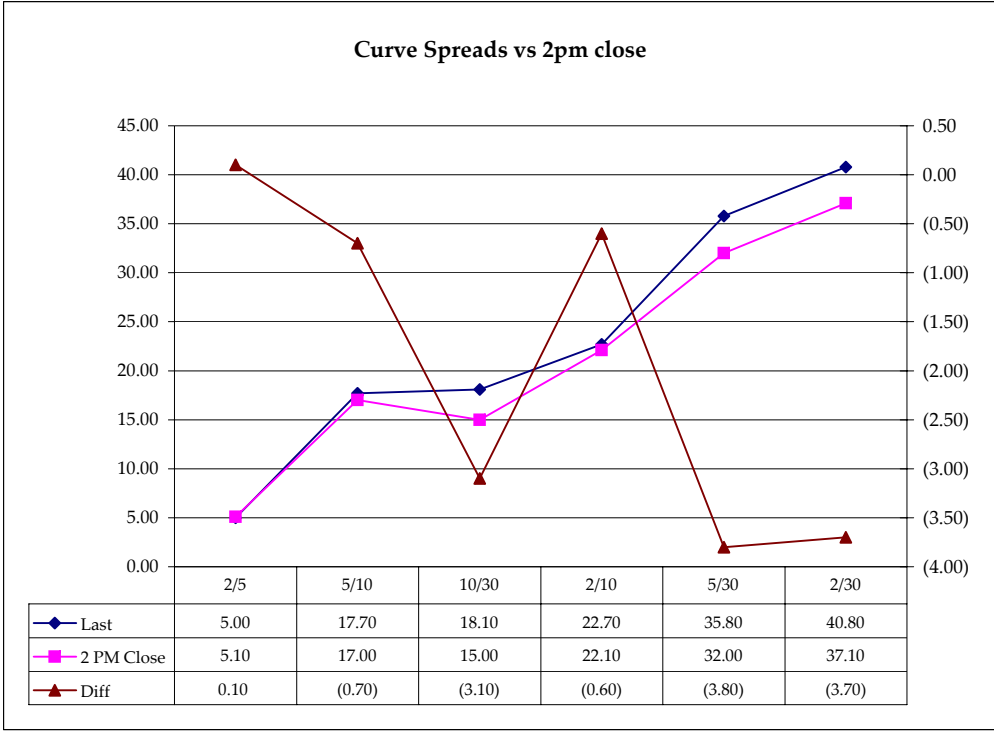


	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.28	4.89	\$1,527	9.77	n/a
10y	7.75	2.46	\$769	4.92	n/a
5y	4.42	1.42	\$443	5.68	n/a
2y	1.89	0.61	\$189	2.42	n/a
ZB	9.66	3.47	\$108	3.47	0.8285
ZN	5.70	1.99	\$62	3.98	0.8926
ZF	3.86	1.32	\$41	2.63	0.9430
ZT	1.80	1.18	\$37	4.73	0.9734

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	5.00	5.10	0.10
5/10	17.70	17.00	(0.70)
10/30	18.10	15.00	(3.10)
2/10	22.70	22.10	(0.60)
5/30	35.80	32.00	(3.80)
2/30	40.80	37.10	(3.70)

DV01 32 said differently is how many TICS is in a basis point.
 Example, If ZN moves 1-basis point, it's moved 1.94 tics.
 Since it trades in half tics 4 boxes = 1 basis point in ZN.

Notes
 CF = Conversion Factor
 MDuration = Modified Macaulay Duration
 MDuration & DV01s for Futures are based on proxy issue (CTD)
 DV01 Box = Dollar Value of 1 basis point move per Box



US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (U)	1.000	1.800	2.700	2.900
Bobl (U)	0.570	1.000	1.500	1.600
Shatz (U)	0.230	0.400	0.600	0.665

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.743	2.632	2.933
ZN	0.574		1.510	1.683
ZF	0.380	0.662		1.114
ZT	0.341	0.594	0.897	

Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.9	4.5
Bobl (U)	0.6	1.0	2.4
Shatz (U)	0.2	0.4	1.0

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.67	4.09	7.10	14.10
ZN	2.92	7.14	12.37	24.56
ZF	4.40	10.78	18.68	37.10
ZT	4.91	12.01	20.81	41.34

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (U)	1.6	3.9	6.7	12.9
Bobl (U)	3.0	7.0	12.1	23.5
Shatz (U)	7.3	17.1	29.4	57.3

US Treasuries

	2y	5y	10y	30y
2y		2.447	4.241	8.424
5y	0.409		1.733	3.442
10y	0.236	0.577		1.986
30y	0.119	0.290	0.504	

Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. Bloomberg hedge ratio's are static. Meaning, I only update them once a week and on rolls. My hedge ratio's are live, meaning, they're updated in real-time. I've managed to get the Eurex to Eurex ratio's updating live as of 07/05/2007. I'll be working on Eurex to the USA ratio's soon.

Current Positions										
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	238,364	253,136	(14,772)	289,646	331,141	(41,495)	1,147,455	1,091,188	56,267	ZF
ZN	319,032	436,359	(117,327)	770,758	362,305	408,453	2,076,800	2,367,926	(291,126)	ZN
ZB	140,066	181,173	(41,107)	127,871	238,686	(110,815)	797,713	645,791	151,922	ZB

WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	9,675	22,749	(32,424)	7/24/2007
ZN	50,936	29,159	(80,096)	
ZB	19,478	8,698	(28,176)	

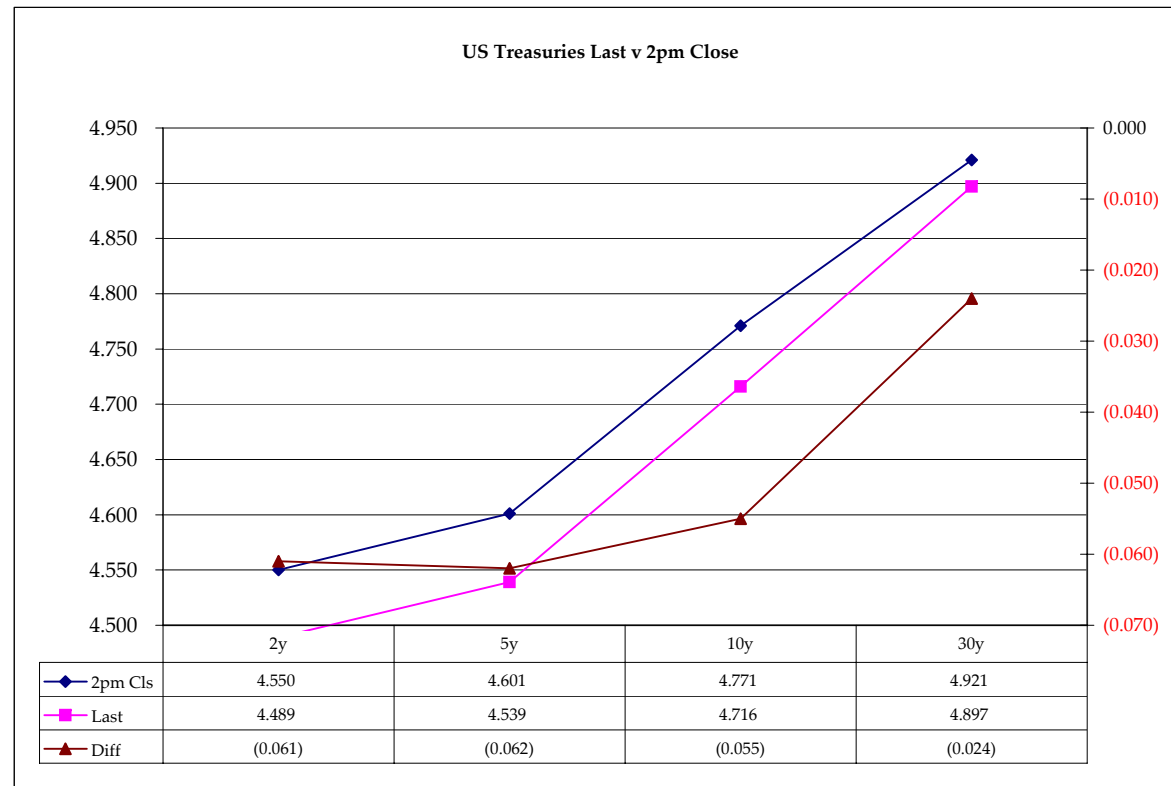
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.625	7/31/09	100.0425	4.550	4.489	(0.061)			
5y	4.625	7/31/09	100.0325	4.601	4.539	(0.062)	20.62	21.36	
10y	4.500	5/15/17	97.285	4.771	4.716	(0.055)	64.19	68.21	
30y	4.750	2/15/37	97.11	4.921	4.897	(0.024)	197.02	200.57	

	Close 32	Last
ZF	105.150	105.235
ZN	107.135	107.230
ZB	110.02	110.110

Curve Spreads		
	Close bps	Last bps
2/5	5.1	5.0
5/10	17.0	17.7
10/30	15.0	18.1
2/10	22.1	22.7
5/30	32.0	35.8
2/30	37.1	40.8



Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 MDuration for Curve Spreads:
 Longer duration minus shorter duration
 32 = price is quoted in 32nds

Correlations & R-Squared

Symbol	Daily Correlations US Cash Treasuries (Yield)				Daily Correlations US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	99.7	99.0	98.1	(98.4)	(98.0)	(97.7)	(97.9)
5yr Yield	99.7	100.0	99.6	98.8	(98.4)	(98.4)	(98.2)	(98.5)
10yr Yield	99.0	99.6	100.0	99.7	(97.1)	(97.4)	(97.4)	(98.2)
30yr Yield	98.1	98.8	99.7	100.0	(95.3)	(95.6)	(95.6)	(97.0)
ZT	(98.4)	(98.4)	(97.1)	(95.3)	100.0	99.8	99.5	98.9
ZF	(98.0)	(98.4)	(97.4)	(95.6)	99.8	100.0	99.8	99.5
ZN	(97.7)	(98.2)	(97.4)	(95.6)	99.5	99.8	100.0	99.5
ZB	(97.9)	(98.5)	(98.2)	(97.0)	98.9	99.5	99.5	100.0
emini SP	98.9	99.1	99.0	98.3	(97.0)	(96.7)	(96.1)	(96.5)
Dow Futures	98.6	98.4	98.4	98.0	(96.5)	(96.0)	(95.2)	(96.0)
USDJPY	98.2	98.8	98.5	97.3	(98.4)	(98.6)	(98.7)	(98.3)
EURUSD	87.2	88.2	87.2	86.1	(85.9)	(86.0)	(84.4)	(85.6)
EURJPY	98.3	99.1	98.5	97.2	(98.0)	(98.2)	(97.8)	(97.7)
Crude	(63.8)	(62.8)	(63.3)	(64.8)	59.7	59.5	56.5	61.9

One contract may be correlating with another but does that mean there's causation? Is one causing the other?

That's what the R-Squared is for. See the morning email 'Oil' for a complete explanation. There are correlation and r-squared measurements inside that email also.

Symbol	Daily R-Squared US Cash Treasuries (Yield)				Daily R-Squared US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield		0.99	0.98	0.96	0.97	0.96	0.95	0.96
5yr Yield	0.99		0.99	0.98	0.97	0.97	0.96	0.97
10yr Yield	0.98	0.99		0.99	0.94	0.95	0.95	0.96
30yr Yield	0.96	0.98	0.99		0.91	0.91	0.91	0.94
ZT	0.97	0.97	0.94	0.91		1.00	0.99	0.98
ZF	0.96	0.97	0.95	0.91	1.00		1.00	0.99
ZN	0.95	0.96	0.95	0.91	0.99	1.00		0.99
ZB	0.96	0.97	0.96	0.94	0.98	0.99	0.99	
emini SP	0.98	0.98	0.98	0.97	0.94	0.94	0.92	0.93
Dow Futures	0.97	0.97	0.97	0.96	0.93	0.92	0.91	0.92
USDJPY	0.96	0.98	0.97	0.95	0.97	0.97	0.97	0.97
EURUSD	0.76	0.78	0.76	0.74	0.74	0.74	0.71	0.73
EURJPY	0.97	0.98	0.97	0.94	0.96	0.96	0.96	0.96
Crude	0.41	0.39	0.40	0.42	0.36	0.35	0.32	0.38

	Daily Correlations US Cash Treasuries (Yield)				Daily Correlations US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
5YR BASIS	82.2	81.6	81.3	82.1	(79.9)	(78.4)	(75.6)	(78.0)
10YR BASIS	(74.6)	(75.4)	(78.9)	(82.8)	63.4	63.4	62.9	67.4
30YR BASIS	(86.0)	(86.4)	(88.8)	(91.5)	76.8	76.5	76.3	79.2

	Daily R-Squared US Cash Treasuries (Yield)				Daily R-Squared US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
5YR BASIS	0.68	0.67	0.66	0.67	0.64	0.61	0.57	0.61
10YR BASIS	0.56	0.57	0.62	0.69	0.40	0.40	0.40	0.45
30YR BASIS	0.74	0.75	0.79	0.84	0.59	0.59	0.58	0.63

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	85.0	(78.2)	(88.4)
Dow Futures	88.1	(79.0)	(88.6)
USDJPY	76.1	(69.9)	(82.0)
EURUSD	87.3	(69.2)	(77.9)
EURJPY	82.2	(72.1)	(83.7)
Crude	(83.7)	65.4	64.7

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.72	0.61	0.78
Dow Futures	0.78	0.62	0.78
USDJPY	0.58	0.49	0.67
EURUSD	0.76	0.48	0.61
EURJPY	0.68	0.52	0.70
Crude	0.70	0.43	0.42

One contract may be correlating with another but does that mean there's causation? Is one causing the other?

That's what the R-Squared is for. See the morning email 'Oil' for a complete explanation. There are correlation and r-squared measurements inside that email also.

Notes: BASIS = CASH - (FUTURES * CF)

Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	100%			
5	45%	100%		
10	26%	57%	100%	
30	13%	29%	51%	136%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$189			
5	\$200	\$443		
10	\$198	\$438	\$769	
30	\$199	\$441	\$774	\$1,527
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$11)			
10	(\$9)	\$5		
30	(\$10)	\$2	(\$5)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.47%			
10	-4.36%	1.18%		
30	-5.01%	0.49%	-0.68%	

What is this? (1):
 2yr cash has X% duration of 5yr cash .

What is this? (2):
 -2yr cash has DV01 of \$202
 -Multiply the 2yr DV01 by the percent duration to come up with what the 2yrs DV01 SHOULD be compared to the 5yr.

What is this? (3):
 -Now you can see the over/under value, based on the DV01, from contract to contract. In this example we are looking at the 2yr compared to the 5yr.

 Or you can look at the over/under value as a percentage instead of dollar terms.

Tic for Tic Matrix				
	2y	5y	10y	30y
ZT	1.02	2.40	4.16	8.27
ZF	0.46	1.08	1.87	3.71
ZN	0.30	0.71	1.24	2.46
ZB	0.17	0.41	0.71	1.41

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.40	8.33	16.54
ZF	0.46	2.16	3.74	7.42
ZN	0.61	1.43	1.24	2.46
ZB	0.70	1.64	1.42	2.82

	2y	5y	10y	30y
2y	1.00	2.35	4.07	8.07
5y	0.43	1.00	1.73	3.44
10y	0.25	0.58	1.00	1.99
30y	0.12	0.29	0.50	1.00

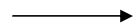
	2y	5y	10y	30y
2y		2.35	2.03	4.04
5y	0.43		0.43	1.72
10y	0.49	2.31		1.99
30y	0.25	0.58	0.50	

	ZT	ZF	ZN	ZB
ZT	1.00	2.23	3.37	5.87
ZF	0.45	1.00	1.51	2.63
ZN	0.30	0.66	1.00	1.74
ZB	0.17	0.38	0.57	1.00

	2y	5y	10y	30y
ZT		2.23	6.73	23.46
ZF	0.45		1.51	5.26
ZN	0.15	0.66		3.49
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

FOMC Meeting



August/07/2007	
Target Rate	Probability
4.75	7.07
5.00	4.34
5.25	91.08
5.50	0.5

September/18/2007	
Target Rate	Probability
4.75	17.08
5.00	12.6
5.25	70.28
5.50	0

October/31/2007	
Target Rate	Probability
4.75	27.30
5.00	3.90
5.25	66.60
5.50	2.03

as of 07/27/07

Probabilities take options into account and is much better at forecasting the FOMC intentions than the 'day-count' equation most analysts on the street use. The day-count equation is old and outdated.

Notes:

All probabilities are taken from The Cleveland Federal Reserve

