8/7/2007 5:54

The Morning Email: Treasuries

Index	Price	Yr High	Yr Low	As of
ABX-HE-BBB- 07-2	38.94	50.33	38.94	3-Aug

ABX is a Subprime market measure.
ABX - HE - **BBB**- 07-2, is the symbol for the index.
BBB- (BBB Minus) is the rating for the loans. The underlying asset is all home equity loans underwritten for the second half of 2007. These contracts are rolled just like futures.

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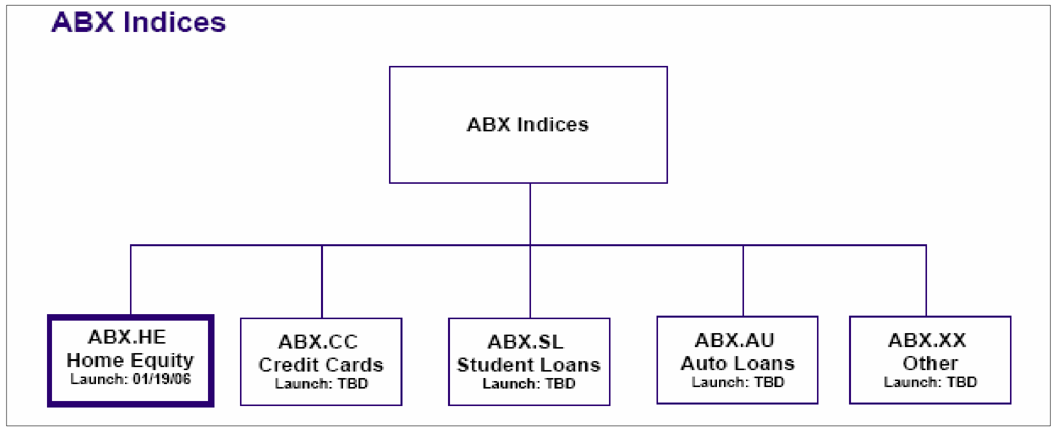


- ABX.HE will represent a standardized basket of home equity ABS reference obligations
- Five indices based upon the rating of reference obligations: AAA, AA, A, BBB, and BBB-
- Application of defined rules will construct a portfolio representative of each sectors current market

Want something added? Let me know: jgoulding@ghco.com

Important Econ Releases, Highs & Lows

Economic Releases - 32nds

	5y	10y	ZNU7	ZBU7	Date
Non-farm High	100.1700	98.165	107.300	110.23	8/3/2007
Non-farm Low	99.3050	97.295	107.115	109.30	8/3/2007
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	100.0700	98.010	107.170	110.00	8/7/2007 5:54

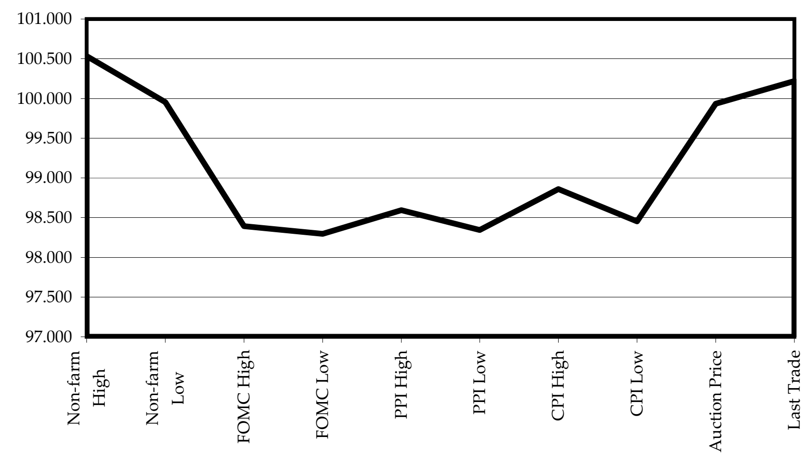
Auctions - 32nds

	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

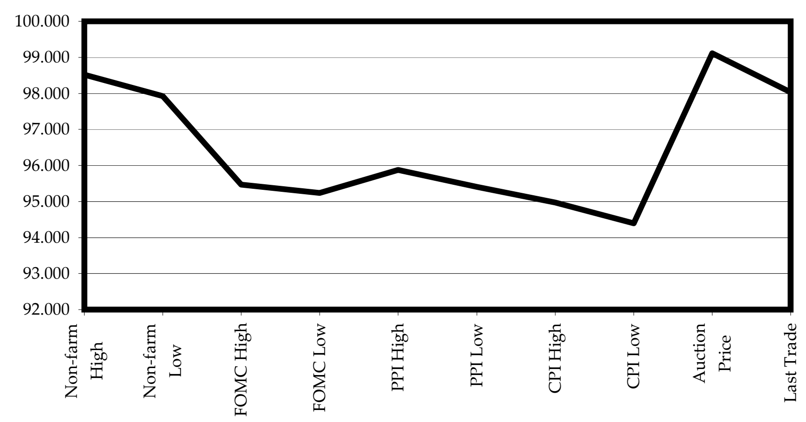
r = reopen

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)

5y (**Decimal**)



10y (**Decimal**)



Quotes

	32 nds						
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAU7	102.145	(1.7)	102.162	102.145	102.150	23,381	2y Fut
FVAU7	105.165	(3.0)	105.200	105.165	105.175	27,948	5y Fut
TYAU7	107.170	(4.5)	107.220	107.170	107.190	89,019	10y Fut
USAU7	110.000	(7)	110.080	109.300	110.050	21,629	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.067	(0.5)	100.077	100.067	100.072	na	2y Cash
BUS05P	100.070	(1.0)	100.097	100.070	100.087	na	5y Cash
BUS10P	98.010	(4.5)	98.070	98.010	98.060	na	10y Cash
BUS30P	97.080	(10)	97.205	97.090	97.175	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.504	2.90	4.525	4.483	4.525	na	2y Yield
BUS05Y	4.574	0.90	4.579	4.551	4.577	na	5y Yield
BUS10Y	4.751	1.80	4.758	4.725	4.743	na	10y Yield
BUS30Y	4.925	1.90	4.929	4.897	4.912	na	30y Yield

Notes: SYM = Symbol

All times Eastern

Yesterday:

15:12 08/06 **US TSYS/RECAP**: Tsys gyrated Mon amid 2-way flow/on-and-off safe-haven bid; subprime ABS/CDO/fund/credit jitters. Tsys ended lower as stks end firm. U.S. accts dominated, some unwinding safe-haven buys of last Fri, others did safe-haven buying. US stocks choppy. Some US accts exit bull flatteners. Others cover shorts in case FOMC surprises; before credit debacle, pain trade to downside. Tsys had MBS-tied buying:some sold MBS/buy Tsys. MBS spreads wider in morn amid some real, fast money selling MBS, some MBS short-covering. 10Y special. Swap spreads wider, esp 2yr, saw some front end receiving-tied flow and two-way in intermediate Tsys. Swaption vols up, surface steeper as vega outpaces gamma. Eurodlr call grab still went on in a.m. but some more willing to sell. Some mull how FOMC will cover credit woe. In p.m., many squared before Tue FOMC. Vols off as underlying ebbs, equities hold gain. Some ongoing front end steepener interest, dealers buying 1-, 2yr Eurodlr bundles, Reds and Greens despite mkt moving lower. Curve gave back early steepening.

15:12 08/06 **US SWAPS**: Spds finished session well off early wides as Tsy finish nea rsession lows as equities post higher. Flow two-way on muted volume ahead FOMC. Front end spreads bucked early flows, small receiver interest in front end Eurodollar futures and two-way in intermediate Treasuries, and lagged the marginally wider balance of the curve.According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:00	+0.50/55.75	-0.75/66.25	-1.00/73.00	-1.50/75.25
1:00	+1.00/56.25	+0.00/67.00	+0.00/74.00	-0.75/75.25
11:00	+2.00/57.25	+0.50/67.50	+0.50/74.50	+0.00/76.00
10:30	+1.75/57.00	+0.75/67.75	+0.75/74.75	+0.25/76.75
9:30	+1.50/56.75	+0.25/67.25	+0.25/74.25	+0.00/76.50
Mon Open	+1.50/56.75	+1.00/68.00	+1.00/75.00	+0.50/77.00
Fri 3:00	+1.50/55.25	+1.50/67.00	+1.25/74.00	+0.25/76.50

15:22 08/06 **EURODLR FUTURES:** Eurodlr futures finished well off session highs, curve giving back earlier steeper profile. Off nearly 4.0 bps wieds, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, contracted 2.875 bps to 64.125. In the Fronts (Sep07-Jun08), the Sep07 were in 1.0 bps at 94-77 on combined Globex and pit volume of 430,000, the Dec07 in 1.0 bps at 95-00.5 on volume of 567,000, the Mar08 in 1.5 bps at 95-16.5 on volume of 646,000, while the Jun08 was 3.0 bps lower at 95-21.5 on volume of 570,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 4.0 to 5.0 bps lower across the pack with 1,135,000 contracts traded.

(continued)

Overnight:

05:11 08/07 **TSYS:** Treasuries are trading flat in London Tuesday, consolidating at the lower overnight levels as market players hunker down ahead of the Federal Reserve's FOMC meeting and rate decision. Although the market is unanimous in its view the Fed will remain on hold at 5.25%, many will be eyeing the accompanying statement. Of particular interest will be to see if the Fed make any updated comments on the current problems in the sub-prime lending and credit markets.

Prices inched higher from the off in Tokyo, aided by dip-buying after the overnight sell-off, however, with volumes light and selling seen from leveraged accounts as London opened, prices soon retreated to stand little changed. The Bund-T-note widened 1 bps to 45 bps, as US Treasuries nderperformed European debt ahead of the FOMC meeting. On Wednesday, the Treasury is set to sell $13 billion new 10-year notes and the $9 billion 30-year notes on Thursday. The 2-yr note was 1/64 higher, trading at 100 7/32 to yield 4.50%. The 10-yr was unch at 98 5/32 (4.74%), with the Bond 1/32 lower at 4.91%.

ABX.HE Trading Mechanics

	Index at 100.00 Assumes Market Spread Equals Index Fixed Rate	
Trade Date	Index at 98.00 • Implies spreads have widened	Index at 102.00 • Implies spreads have tightened
Trade Initiation	• Buyer pays Seller 2% x (Notional) x (Factor) • Seller pays Buyer accrued premium from the end of the last accrual period until the trade effective date	• Seller pays Buyer 2% x (Notional) x (Factor) • Seller pays Buyer accrued premium from the end of the last accrual period until the trade effective date
Trade Termination	• Seller pays Buyer 2% x (Notional) x (Factor) • Buyer pays Seller accrued premium from the end of the last accrual period until the trade effective date	• Buyer pays Seller 2% x (Notional) x (Factor) • Buyer pays Seller accrued premium from the end of the last accrual period until the trade effective date

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.23	4.85	$1,516	9.70	n/a
10y	7.72	2.45	$765	4.90	n/a
5y	4.40	1.41	$441	5.65	n/a
2y	1.87	0.60	$188	2.40	n/a
ZB	9.62	3.44	$107	3.44	0.8285
ZN	5.67	1.97	$62	3.95	0.8926
ZF	3.85	1.31	$41	2.62	0.9430
ZT	1.78	1.17	$37	4.69	0.9764

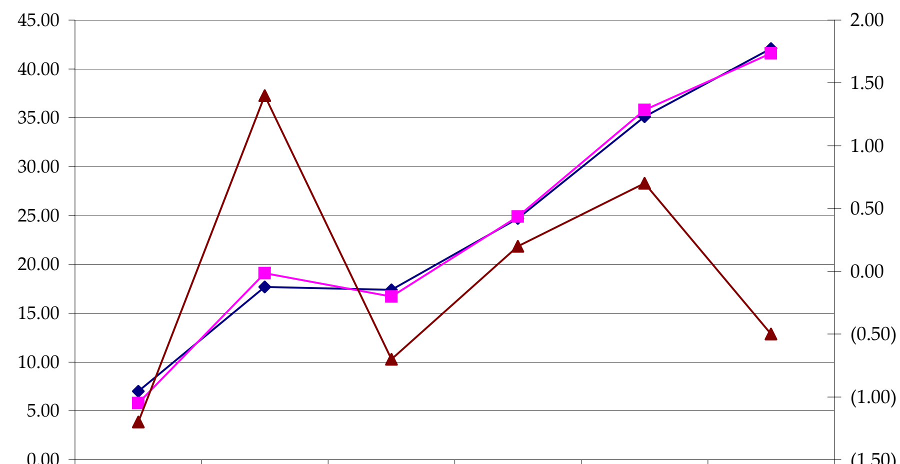
Yield Curve Spreads

	Last	2pm close	Diff
2/5	7.00	5.80	(1.20)
5/10	17.70	19.10	1.40
10/30	17.40	16.70	(0.70)
2/10	24.70	24.90	0.20
5/30	35.10	35.80	0.70
2/30	42.10	41.60	(0.50)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	7.00	17.70	17.40	24.70	35.10	42.10
2 PM Close	5.80	19.10	16.70	24.90	35.80	41.60
Diff	(1.20)	1.40	(0.70)	0.20	0.70	(0.50)

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

Hedge Ratio's

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		1.741	2.625	2.932
ZN	0.574		1.508	1.684
ZF	0.381	0.663		1.117
ZT	0.341	0.594	0.895	

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	4.11	7.13	14.12
ZN	2.91	7.16	12.41	24.58
ZF	4.39	10.79	18.71	37.06
ZT	4.91	12.05	20.90	41.40

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		2.456	4.259	8.436
5y	0.407		1.734	3.434
10y	0.235	0.577		1.981
30y	0.119	0.291	0.505	

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.

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	245,284	277,261	(31,977)	235,249	238,746	(3,497)	1,240,077	1,204,603	35,474	ZF
ZN	364,574	449,391	(84,817)	895,406	325,055	570,351	2,055,163	2,540,697	(485,534)	ZN
ZB	150,665	190,763	(40,098)	132,940	210,552	(77,612)	802,847	685,137	117,710	ZB

	WoW^ Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	**(17,205)**	**37,998**	**(20,793)**	7/31/2007
ZN	**32,510**	**161,898**	**(194,408)**	
ZB	**1,009**	**33,203**	**(34,212)**	

^WoW = Week over week

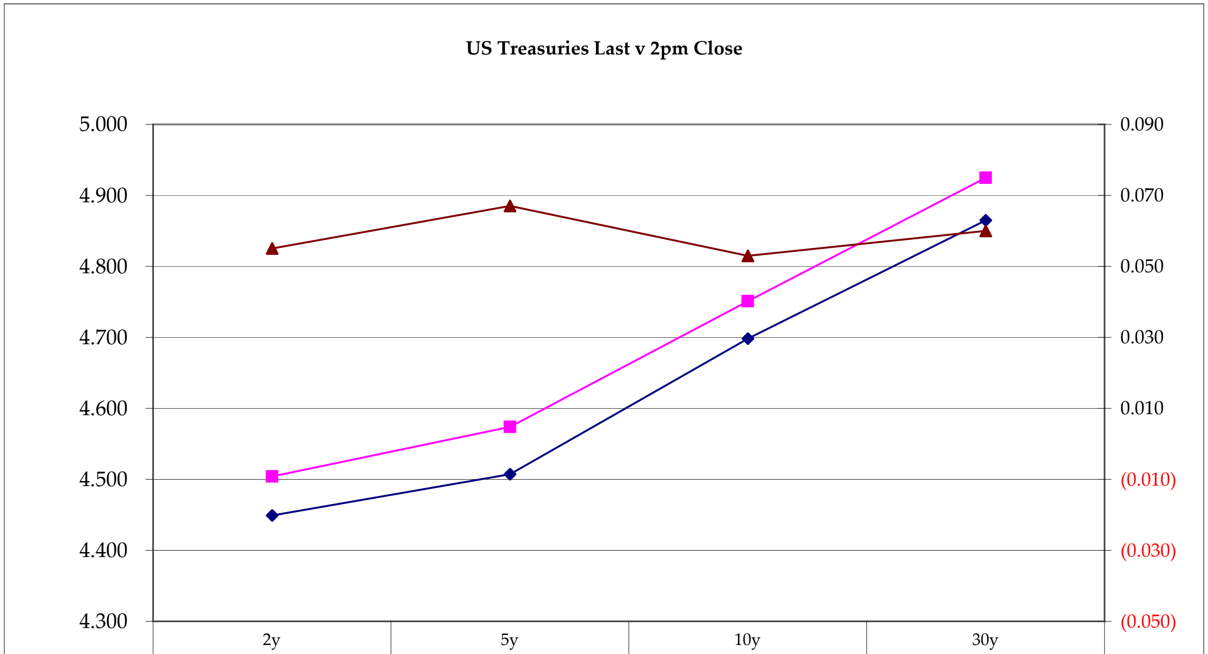
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.625	7/31/09	100.1000	4.449	4.504	0.055			
5y	4.625	7/31/09	100.1625	4.507	4.574	0.067	24.19	22.96	
10y	4.500	5/15/17	98.145	4.698	4.751	0.053	69.24	65.56	-1.00 / +1.25
30y	4.750	2/15/37	98.07	4.865	4.925	0.060	209.61	196.68	-1.25 / +1.50

	Close 32	Last
ZF	105.250	105.165
ZN	107.280	107.170
ZB	110.20	110.000

Curve Spreads

	Close bps	Last bps
2/5	5.8	7.0
5/10	19.1	17.7
10/30	16.7	17.4
2/10	24.9	24.7
5/30	35.8	35.1
2/30	41.6	42.1



	2y	5y	10y	30y
2pm Cls	4.449	4.507	4.698	4.865
Last	4.504	4.574	4.751	4.925
Diff	0.055	0.067	0.053	0.060

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

	Daily Correlations				Daily Correlations			
	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	98.8	96.7	87.4	(88.7)	(91.4)	(89.8)	(84.5)
5yr Yield	98.8	100.0	98.5	91.6	(90.2)	(92.0)	(90.5)	(88.2)
10yr Yield	96.7	98.5	100.0	96.7	(87.1)	(90.6)	(90.4)	(91.8)
30yr Yield	87.4	91.6	96.7	100.0	(82.6)	(86.3)	(87.2)	(94.1)
ZT	(88.7)	(90.2)	(87.1)	(82.6)	100.0	98.2	95.5	89.3
ZF	(91.4)	(92.0)	(90.6)	(86.3)	98.2	100.0	99.2	94.0
ZN	(89.8)	(90.5)	(90.4)	(87.2)	95.5	99.2	100.0	96.3
ZB	(84.5)	(88.2)	(91.8)	(94.1)	89.3	94.0	96.3	100.0
emini SP	93.3	95.7	94.9	92.1	(90.3)	(89.2)	(86.2)	(84.9)
Dow Futures	82.5	87.0	84.3	81.7	(85.1)	(78.7)	(72.7)	(71.7)
USDJPY	91.8	93.8	89.0	81.4	(96.3)	(94.5)	(91.1)	(84.7)
EURUSD	(31.9)	(22.5)	(24.4)	(14.3)	12.8	28.5	34.2	26.6
EURJPY	58.9	66.4	61.0	60.5	(74.4)	(62.9)	(56.4)	(55.3)
Crude	25.1	12.8	12.9	2.9	(12.0)	(25.1)	(29.3)	(14.9)

	Daily R-Squared				Daily R-Squared			
	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield		0.98	0.93	0.76	0.79	0.84	0.81	0.71
5yr Yield	0.98		0.97	0.84	0.81	0.85	0.82	0.78
10yr Yield	0.93	0.97		0.93	0.76	0.82	0.82	0.84
30yr Yield	0.76	0.84	0.93		0.68	0.74	0.76	0.89
ZT	0.79	0.81	0.76	0.68		0.96	0.91	0.80
ZF	0.84	0.85	0.82	0.74	0.96		0.98	0.88
ZN	0.81	0.82	0.82	0.76	0.91	0.98		0.93
ZB	0.71	0.78	0.84	0.89	0.80	0.88	0.93	
emini SP	0.87	0.91	0.90	0.85	0.81	0.79	0.74	0.72
Dow Futures	0.68	0.76	0.71	0.67	0.72	0.62	0.53	0.51
USDJPY	0.84	0.88	0.79	0.66	0.93	0.89	0.83	0.72
EURUSD	0.10	0.05	0.06	0.02	0.02	0.08	0.12	0.07
EURJPY	0.35	0.44	0.37	0.37	0.55	0.40	0.32	0.31
Crude	0.06	0.02	0.02	0.00	0.01	0.06	0.09	0.02

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.

Correlations & R-Squared (continued)

	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	44.5	48.1	54.9	65.9	(51.4)	(50.7)	(48.8)	(55.5)
10YR BASIS	(74.1)	(77.1)	(81.0)	(79.3)	47.0	49.7	48.3	57.1
30YR BASIS	(80.1)	(84.0)	(89.3)	(92.3)	64.4	66.1	65.2	74.0

	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	0.20	0.23	0.30	0.43	0.26	0.26	0.24	0.31
10YR BASIS	0.55	0.59	0.66	0.63	0.22	0.25	0.23	0.33
30YR BASIS	0.64	0.71	0.80	0.85	0.41	0.44	0.42	0.55

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	62.9	(75.2)	(88.4)
Dow Futures	60.4	(72.0)	(82.5)
USDJPY	41.0	(56.8)	(67.9)
EURUSD	15.5	4.4	(2.4)
EURJPY	44.6	(45.9)	(59.8)
Crude	0.2	13.9	11.4

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.40	0.57	0.78
Dow Futures	0.37	0.52	0.68
USDJPY	0.17	0.32	0.46
EURUSD	0.02	0.00	0.00
EURJPY	0.20	0.21	0.36
Crude	0.00	0.02	0.01

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%**

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

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$188**			
5	$198	**$441**		
10	$196	$436	**$765**	
30	$197	$438	$769	**$1,516**

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.

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($11)			
10	($8)	$6		
30	($9)	$3	($4)	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.38%			
10	-4.18%	1.27%		
30	-4.63%	0.80%	-0.46%	

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 & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	1.02	2.41	4.18	8.28
ZF	0.46	1.08	1.87	3.71
ZN	0.30	0.72	1.24	2.46
ZB	0.17	0.41	0.71	1.41

	2y	5y	10y	30y
2y	1.00	2.35	4.08	8.08
5y	0.42	1.00	1.73	3.43
10y	0.25	0.58	1.00	1.98
30y	0.12	0.29	0.50	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.23	3.37	5.86
ZF	0.45	1.00	1.51	2.62
ZN	0.30	0.66	1.00	1.74
ZB	0.17	0.38	0.57	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	1.02	2.41	8.36	16.56
ZF	0.46	2.16	3.74	7.41
ZN	0.61	1.43	1.24	2.46
ZB	0.70	1.64	1.43	2.82

	2y	5y	10y	30y
2y		2.35	2.04	4.04
5y	0.42		0.43	1.72
10y	0.49	2.31		1.98
30y	0.25	0.58	0.50	

	2y	5y	10y	30y
ZT		2.23	6.74	23.46
ZF	0.45		1.51	5.25
ZN	0.15	0.66		3.48
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

FOMC Meeting →

August/07/2007	
Target Rate	Probability
4.75	4.7
5.00	7.2
5.25	88
5.50	0

September/18/2007	
Target Rate	Probability
4.75	42
5.00	0
5.25	56
5.50	0.97

October/31/2007	
Target Rate	Probability
4.75	20.00
5.00	15.00
5.25	63.00
5.50	0.00

as of 08/06/07

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