



The Morning Email: Treasuries

8/8/2007 5:49

Table of Contents

- Pg 1 Important Econ Releases, Highs & Lows
- Pg 2 Quotes
- Pg 3 News: Yesterday & Overnight Recap for the United States
- Pg 4 News: Snapshots throughout the day
- Pg 5 Duration, DV01s, Curve Spreads, CF
- Pg 6 Hedge Ratio's
- Pg 7 Commitment of Traders (COT)
- Pg 8 Closes: 2pm CST vs this Morning
- Pg 9,10 Correlations & R-Squared
- Pg 11 Cash Duration Matrix
- Pg 12 Tic for Tic & Box for Box Matrix
- Pg 13 Fed Funds Probability of Tightening or Easing

Index	Price	Yr High	Yr Low	As of
ABX-HE-BBB- 07-2	38.65	50.33	38.65	7-Aug



14:14 08/07 FED: FOMC keeps interest rates unchanged. Now says "Financial markets have been volatile in recent weeks, credit conditions have been tighter for some households and businesses." Fed now says the housing sector "correction" is ongoing (drops "adjustment.") Fed notes "downside risks to growth" somewhat higher. Economic growth "was moderate" in 1H. Fed still expects "moderate" growth in coming quarters. Repeats core inflation "improved modestly" in recent months. Repeats policy adjustment to continue to depend on growth and inflation data. Repeats predominant concern remains risk that inflation fails to moderate as expected. Vote 10-0.

14:15 08/07 FED: FOMC statement says "Economic growth was moderate during the first half of the year. Financial markets have been volatile in recent weeks, credit conditions have become tighter for some households and businesses, and the housing correction is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in employment and incomes and a robust global economy."

14:16 08/07 FED: FOMC statement says "Although the downside risks to growth have increased somewhat, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the outlook for both inflation and economic growth, as implied by incoming information."

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

Disclaimer: All information within this newsletter is meant for internal use at GH Trader's LLC, only. 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.

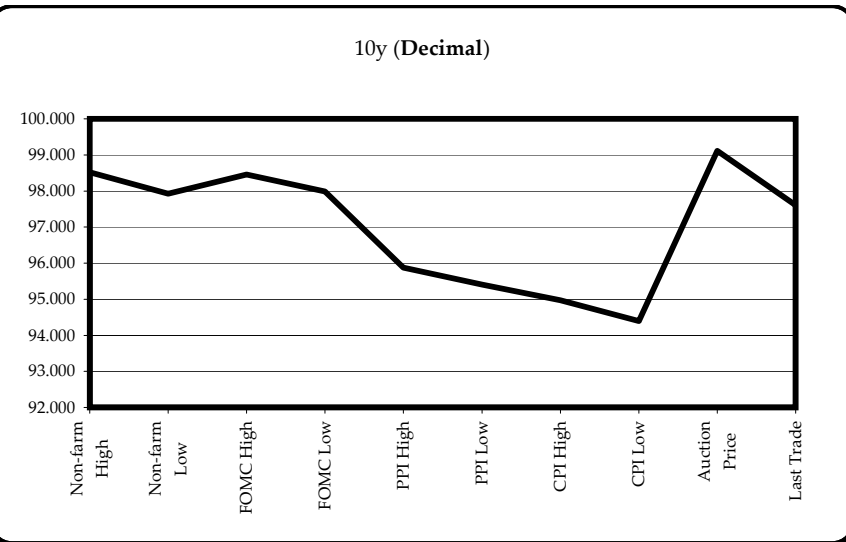
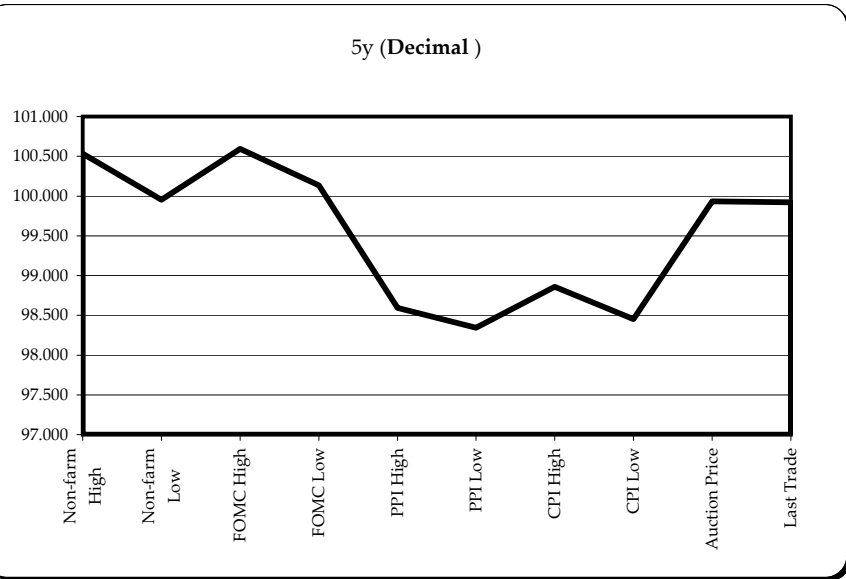
Stone & McCarthy
RESEARCH ASSOCIATES

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	100.1900	98.145	107.300	110.18	8/7/2007
FOMC Low	100.0425	97.315	107.140	110.02	8/7/2007
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	99.2950	97.195	107.045	109.15	8/8/2007 5:49

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)



Quotes

		32 nds						
	Last	Net	High	Low	Open	Volume	SYM NAME	
TUAU7	102.105	(3.0)	102.127	102.092	102.127	27,094	2y Fut	
FVAU7	105.065	(9.0)	105.130	105.040	105.120	56,678	5y Fut	
TYAU7	107.045	(13.0)	107.130	107.015	107.130	131,344	10y Fut	
USAU7	109.150	(23)	109.260	109.110	109.260	24,343	30y Fut	
	Last	Net	High	Low	Open	Volume	SYM NAME	
BUS02P	100.015	(1.7)	100.035	100.005	100.035	na	2y Cash	
BUS05P	99.292	(5.0)	100.032	99.275	100.032	na	5y Cash	
BUS10P	97.195	(6.5)	97.275	97.165	97.270	na	10y Cash	
BUS30P	96.210	(13)	97.030	96.195	97.030	na	30y Cash	
	Last	Net	High	Low	Open	Volume	SYM NAME	
BUS02Y	4.596	3.30	4.621	4.529	4.567	na	2y Yield	
BUS05Y	4.643	3.70	4.661	4.577	4.591	na	5y Yield	
BUS10Y	4.807	2.50	4.823	4.756	4.766	na	10y Yield	
BUS30Y	4.964	2.40	4.974	4.917	4.923	na	30y Yield	

Notes: SYM = Symbol

**All times Eastern**

15:25 08/07 **US TSYS/RECAP:** Tsys end lower after wild reaction to FOMC leaving rate unchanged & only mild nod to weak hsg mkt, but then soon rebounded sharply temporarily amid wild gyrations, weaker stocks after 1) initial big 2Y/10Y flattening move; 2) then reversal of part of that as 2/10Y then steepens mildly amid rumored huge fast money 2Y/10Y steepener (some mull if was US\$5B trade?) and now 3) Tsys 2Y/10 flatter. 4) Stocks also got hurt by FOMC statement, which forced some to buy back Tsys. 5) Was Tsys selling right after FOMC, then 6) talk of a huge US\$5-blm-plus fast money 2Y/10Y post-FOMC steepener and 7) Street, fast money buying 2s, 8) buy-and-hold accounts bought intermediates, 2s. 9) Prior to FOMC, some mortgage accts sold decent size of 2-, 10-, 30yr Tsy futures. 10) Earlier prior to FOMC, US Tsys held range, with some bank buying in US 10Ys, and buy-and-hold accounts buying 10s outright, some similar bid in the 10Y roll. There is also fast money buying in 30-year bonds. There was light real money buying 2y, 10Y futures in early corp-tied trading.

15:27 08/07 **EURODLR FUTURES:** EuroDlr futures finished near mid-range, realized vol on the rise after a choppy ride post FOMC. After some curve chop, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 1.125 bps to 62.75. In the Fronts (Sep07-Jun08), the Sep07 were in 6.5 bps at 94-70.5 on combined Globex and pit volume of 472,000, the Dec07 in 6.5 bps at 94-94 on volume of 572,000, the Mar08 in 4.0 bps at 95-12.5 on volume of 562,000, while the Jun08 was 2.0 bps lower at 95-19.5 on volume of 488,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 1.0 to 1.5 bps lower across the pack with 918,000 contracts traded.

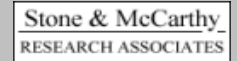
15:14 08/07 **US SWAPS:** After some wild swings in the front end post FOMC, spds finished session sharply tighter across the board, the front end outpacing amid sporadic mixed flow. Seemed like swappers took a step back to watch the show. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	-2.25/54.25	-1.50/64.75	-1.75/71.25	-1.25/73.75
2:50	-1.75/54.25	-1.50/64.75	-1.75/71.25	-1.25/73.75
2:30	+0.50/56.50	-0.75/65.50	-1.00/72.00	-1.25/73.75
2:15	-1.75/54.25	-1.25/65.00	-1.25/71.75	-1.50/73.50
11:45	-1.25/54.75	-1.25/65.00	-1.50/71.50	-1.00/74.00
10:15	-1.25/54.75	-1.25/65.00	-1.50/71.50	-1.00/74.00
9:10	-1.50/54.50	-1.25/65.00	-1.75/71.25	-1.50/73.50
Tue Open	-1.50/54.50	-1.50/64.75	-1.50/71.50	-1.50/73.50
Mon 3:00	+0.75/56.00	-0.75/66.25	-1.00/73.00	-1.75/75.00

(continued)

05:12 08/08 **TSYS:(1)** Treasuries are trading sharply lower across the board in London Wednesday. With credit markets enjoying a sharp rally, pushing the iTraxx crossover rate to an intraday low of 343 bps, Treasuries bore the brunt of the shift in sentiment. Tokyo trade saw prices open lower, as regional players reacted to the Fed's rate decision and statement. With good profits seen in recent sessions, traders said many accounts looked to take some money off the table. Selling was seen across the board, with Asian names again to the fore. Traders said Japanese names were continuing their recent selling, but Wednesday saw a shift in sentiment that led to a paucity of buyers. The selling continued into the London session, with Asia names remaining to the fore. However, leveraged players and spec accounts soon joined the selling, pushing yields sharply higher. Weakness in the European bond markets added to the bearish gloom, as stocks benefitted at the expense of fixed income markets.

05:12 08/08 **TSYS:(2)** Positioning ahead of the week's refunding also added to the downward pressure, as the ten-year sale loomed large. The Bund/T-note widened 1 bps to 46 bps, as Treasuries again underperformed European debt ahead of the 10-year auction. On Wednesday, the Treasury is set to sell \$13 billion new 10-year notes and \$9 billion of the new Long Bond on Thursday. Ahead of the U.S. session, the 2-yr note was 3/32 lower, trading at 100 1/32 to yield 4.61%. The 10-yr note was 11/32 lower at 97 18/32 (4.81%), with the Bond 18/32 lower at 96 21/32 (4.96%). The 2-yr/5-yr yield curve was 1 bps flatter, trading at +4 bps. The 2-/10-yr curve was also 1 bps flatter, trading at +20 bps, as was the 2-yr/30-yr curve to stand at +36 bps.



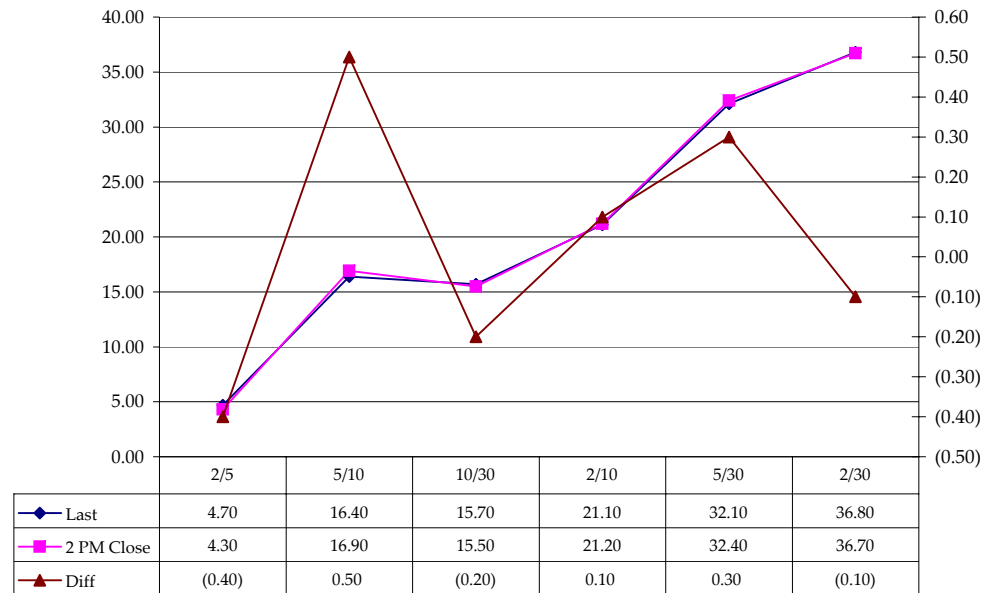
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.18	4.81	\$1,502	9.62	n/a
10y	7.72	2.44	\$761	4.87	n/a
5y	4.39	1.41	\$440	5.63	n/a
2y	1.87	0.60	\$187	2.39	n/a
ZB	9.61	3.42	\$107	3.42	0.8285
ZN	5.67	1.96	\$61	3.93	0.8926
ZF	3.84	1.30	\$41	2.61	0.9430
ZT	1.78	1.17	\$36	4.67	0.9764

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	4.70	4.30	(0.40)
5/10	16.40	16.90	0.50
10/30	15.70	15.50	(0.20)
2/10	21.10	21.20	0.10
5/30	32.10	32.40	0.30
2/30	36.80	36.70	(0.10)

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



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	2.625	2.932
ZN	0.574		1.506	1.682
ZF	0.381	0.664		1.117
ZT	0.341	0.595	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	7.12	14.05
ZN	2.92	7.16	12.41	24.49
ZF	4.39	10.79	18.68	36.87
ZT	4.91	12.05	20.86	41.18

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		2.455	4.251	8.391
5y	0.407		1.732	3.418
10y	0.235	0.577		1.974
30y	0.119	0.293	0.507	

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

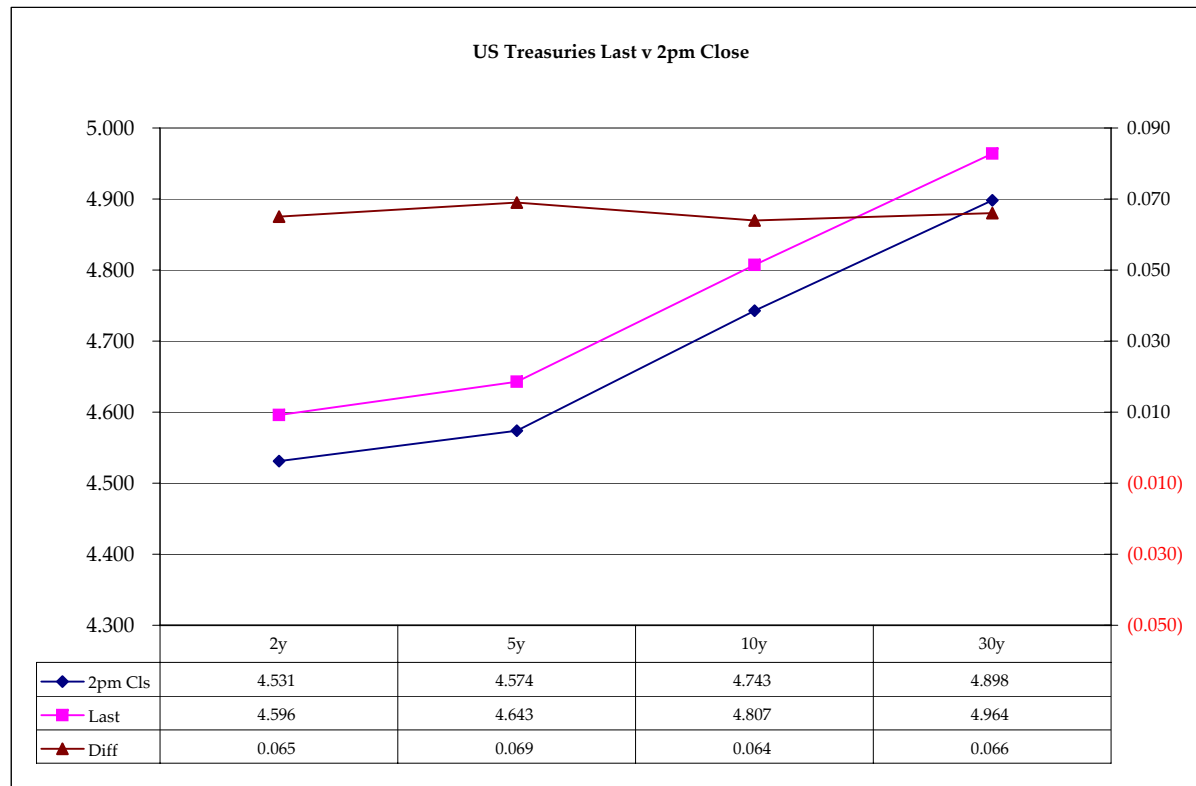
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.625	7/31/09	100.0525	4.531	4.596	0.065			
5y	4.625	7/31/09	100.0700	4.574	4.643	0.069	23.43	22.89	
10y	4.500	5/15/17	98.035	4.743	4.807	0.064	67.17	63.22	-1.00 / +1.25
30y	4.750	2/15/37	97.23	4.898	4.964	0.066	205.21	191.26	-1.25 / +1.50

	Close 32	Last
ZF	105.160	105.065
ZN	107.180	107.045
ZB	110.06	109.150

Curve Spreads		
	Close bps	Last bps
2/5	4.3	4.7
5/10	16.9	16.4
10/30	15.5	15.7
2/10	21.2	21.1
5/30	32.4	32.1
2/30	36.7	36.8



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	97.8	93.7	77.9	(78.0)	(80.8)	(74.3)	(63.8)
5yr Yield	97.8	100.0	96.9	84.2	(75.8)	(79.2)	(74.1)	(70.0)
10yr Yield	93.7	96.9	100.0	94.3	(73.3)	(78.9)	(75.6)	(77.5)
30yr Yield	77.9	84.2	94.3	100.0	(66.6)	(72.6)	(71.9)	(83.4)
ZT	(78.0)	(75.8)	(73.3)	(66.6)	100.0	92.8	83.5	71.7
ZF	(80.8)	(79.2)	(78.9)	(72.6)	92.8	100.0	97.5	87.6
ZN	(74.3)	(74.1)	(75.6)	(71.9)	83.5	97.5	100.0	92.9
ZB	(63.8)	(70.0)	(77.5)	(83.4)	71.7	87.6	92.9	100.0
emini SP	86.6	89.3	89.6	85.2	(73.8)	(67.0)	(58.0)	(57.2)
Dow Futures	67.0	71.4	69.3	65.3	(63.0)	(43.1)	(27.8)	(30.1)
USDJPY	83.0	85.3	76.2	62.1	(86.9)	(83.0)	(74.0)	(62.9)
EURUSD	(28.1)	(19.1)	(19.2)	(6.6)	3.2	30.2	39.1	24.7
EURJPY	33.1	41.5	34.9	35.1	(54.6)	(31.1)	(18.6)	(21.9)
Crude	(4.1)	(14.9)	(17.5)	(27.2)	28.1	0.3	(11.3)	5.3

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		0.96	0.88	0.61	0.61	0.65	0.55	0.41
5yr Yield	0.96		0.94	0.71	0.57	0.63	0.55	0.49
10yr Yield	0.88	0.94		0.89	0.54	0.62	0.57	0.60
30yr Yield	0.61	0.71	0.89		0.44	0.53	0.52	0.69
ZT	0.61	0.57	0.54	0.44		0.86	0.70	0.51
ZF	0.65	0.63	0.62	0.53	0.86		0.95	0.77
ZN	0.55	0.55	0.57	0.52	0.70	0.95		0.86
ZB	0.41	0.49	0.60	0.69	0.51	0.77	0.86	
emini SP	0.75	0.80	0.80	0.73	0.54	0.45	0.34	0.33
Dow Futures	0.45	0.51	0.48	0.43	0.40	0.19	0.08	0.09
USDJPY	0.69	0.73	0.58	0.39	0.76	0.69	0.55	0.40
EURUSD	0.08	0.04	0.04	0.00	0.00	0.09	0.15	0.06
EURJPY	0.11	0.17	0.12	0.12	0.30	0.10	0.03	0.05
Crude	0.00	0.02	0.03	0.07	0.08	0.00	0.01	0.00

	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	(16.3)	(12.8)	1.7	22.5	30.9	23.2	18.5	(2.8)
10YR BASIS	(73.4)	(78.7)	(83.0)	(78.5)	34.2	32.5	26.5	37.0
30YR BASIS	(72.2)	(77.2)	(85.5)	(88.2)	47.4	42.7	36.7	47.8

	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	0.03	0.02	0.00	0.05	0.10	0.05	0.03	0.00
10YR BASIS	0.54	0.62	0.69	0.62	0.12	0.11	0.07	0.14
30YR BASIS	0.52	0.60	0.73	0.78	0.22	0.18	0.13	0.23

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	9.6	(80.3)	(89.2)
Dow Futures	2.5	(75.9)	(80.7)
USDJPY	(41.4)	(47.6)	(48.9)
EURUSD	19.2	(2.8)	(12.3)
EURJPY	(11.9)	(32.7)	(41.2)
Crude	6.0	33.8	39.8

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.01	0.65	0.80
Dow Futures	0.00	0.58	0.65
USDJPY	0.17	0.23	0.24
EURUSD	0.04	0.00	0.02
EURJPY	0.01	0.11	0.17
Crude	0.00	0.11	0.16

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	\$187			
5	\$197	\$440		
10	\$195	\$434	\$761	
30	\$195	\$435	\$763	\$1,502
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$10)			
10	(\$8)	\$6		
30	(\$8)	\$5	(\$2)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.27%			
10	-3.95%	1.39%		
30	-4.23%	1.09%	-0.29%	

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	2.41	4.17	8.24
ZF	0.46	1.08	1.87	3.69
ZN	0.30	0.72	1.24	2.45
ZB	0.17	0.41	0.71	1.40

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.41	8.34	16.47
ZF	0.46	2.16	3.74	7.37
ZN	0.61	1.43	1.24	2.45
ZB	0.70	1.64	1.42	2.81

	2y	5y	10y	30y
2y	1.00	2.35	4.07	8.04
5y	0.43	1.00	1.73	3.42
10y	0.25	0.58	1.00	1.97
30y	0.12	0.29	0.51	1.00

	2y	5y	10y	30y
2y		2.35	2.04	4.02
5y	0.43		0.43	1.71
10y	0.49	2.31		1.97
30y	0.25	0.59	0.51	

	ZT	ZF	ZN	ZB
ZT	1.00	2.23	3.36	5.86
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	5.25
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	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

