



The Morning Email: Treasuries

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14:51 08/08 **US BONDS/SMRA:** SMRA's Ward McCarthy says in latest Portfolio Mgr survey, that fund mgrs' "changes in risk profiles were again minimal, and both measures of duration risk continue to huddle near duration neutrality" "Both market sentiment and duration risk profiles converged in marginally bearish territory two weeks ago, suggesting that changes in risk profiles near-term will be modest," he said. "Since then, both have migrated toward neutrality. Portfolio managers seem disinclined to venture too far from port while the ongoing credit storm continues to rage."



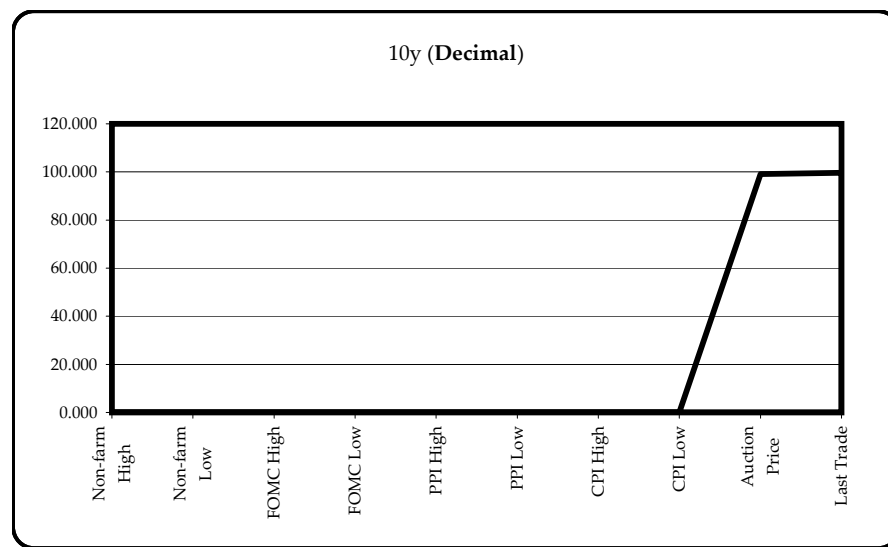
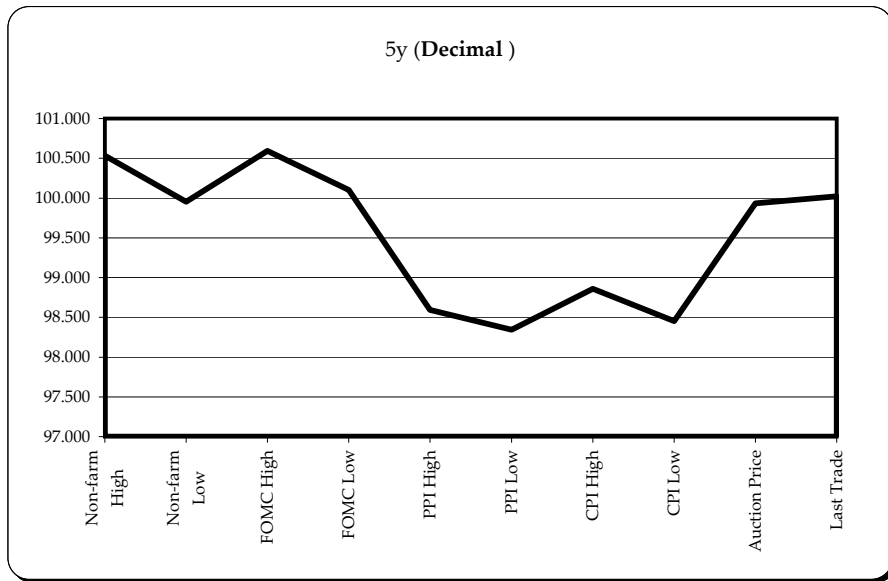
Want something added? Let me know: jgoulding@ghco.com
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Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	100.1700	0.000	107.300	110.23	8/3/2007
Non-farm Low	99.3050	0.000	107.115	109.30	8/3/2007
FOMC High	100.1900	0.000	107.300	110.18	8/7/2007
FOMC Low	100.0325	0.000	107.140	110.02	8/7/2007
PPI High	98.1900	0.000	105.190	107.23	7/17/2007
PPI Low	98.1100	0.000	105.065	107.02	7/17/2007
CPI High	98.2750	0.000	105.310	108.04	7/18/2007
CPI Low	98.1450	0.000	105.125	107.11	7/18/2007
Auction Price	99.2988	99.056			
Last Trade	100.0070	99.195	107.070	109.05	8/9/2007 5:45

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.254	99.299	99.056	98.194
Auction Yield Stop	4.735	4.64	4.855	4.838
Actual Auction Date	7/25/2007	7/26/2007	8/8/2007	8/09/2007 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	102.127	4.5	102.150	102.060	102.062	85,351	2y Fut
FVAU7	105.100	10.0	105.140	104.270	104.280	106,938	5y Fut
TYAU7	107.070	12.0	107.125	106.215	106.220	248,802	10y Fut
USAU7	109.050	6	109.150	108.210	108.230	58,239	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.047	7.0	100.065	99.292	99.292	na	2y Cash
BUS05P	100.007	14.0	100.045	99.177	99.185	na	5y Cash
BUS10P	99.190	217.0	99.260	99.015	99.025	na	10y Cash
BUS30P	96.030	22	96.160	95.065	95.150	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.537	(11.70)	4.68	4.508	4.667	na	2y Yield
BUS05Y	4.616	(10.30)	4.73	4.59	4.71	na	5y Yield
BUS10Y	4.798	(8.30)	4.886	4.77	4.86	na	10y Yield
BUS30Y	5.000	(4.80)	5.07	4.975	5.031	na	30y Yield

Notes: SYM = Symbol

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

15:05 08/08 **US TSYS/RECAP:** Tsys dipped lower amid 1) stronger stocks (DJIA +0.91%, FTSE-100 +1.35%), higher CDXs, stronger corporate bonds 2) so-so US\$13B 10Y sale: 32.1% indirects, 67.5% dealer bid, 0.4% direct, 4.855% high yield (53.4% allotmt), 2.3 cvr. 3) While market slid however, there was real domestic and foreign buying: Street and buy-and-hold account buying and leveraged accounts buying in 5s, but fast money sellers of intermediates. 4) Earlier, was fast money selling 5Ys; 5) dealer pre-10-yr short-setting, 6) corporate rate-lock selling in morn; 7) buy- and-hold accts buying 2Ys, intermediates, lvrgrd accts buying 5Ys, early real money corp-tied buying in 10Y futures. 8) German Bunds weak. 7) Eurodlr futures: better selling in fronts to intermediates all day (fair part deal-tied with some \$10B in corps placing) & some sporadic profit-tdg in front end late, buyers of Reds, Greens, a German bank +1k of latter. 8) Very heavy put buying on day, some 500k Sep 46 puts trade outright on screen and pit, vols off. Swap spds tightest of day on 2-way.

15:24 08/08 **EURODLR FUTURES:** Eurodlr futures finished a little off session lows as equities pare gains. Curve off flatter levels, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 3.5 bps to 59.25. In the Fronts (Sep07-Jun08), the Sep07 were in 3.5 bps at 94-67 on combined Globex and pit volume of 579,000, the Dec07 in 6.5 bps at 94-87.5 on volume of 530,000, the Mar08 in 8.5 bps at 95-04 on volume of 626,000, while the Jun08 was 9.5 bps lower at 95-10 on volume of 471,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 8.0 to 9.5 bps lower across the pack with 1,008,000 contracts traded.

15:09 08/08 **US SWAPS:** Spds off tight on the bell, flow remained two-way in fronts/intermediates with no set bias early. Some desks said decent portion was corp related w/\$10B placing. On heels of swap-tied receiver interest in 10s, paying-tied flow in 1-, 2-yr bundles, receivers in Reds (Sep08-Jun09) and Greens (Sep09-Jun10) noted. Reds came under heavy pressure mid-morning by non-swap-tied accts. Amid pre-auction short setting, similar two-way in fronts to intermediates on rate and spread in Tsy space. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-2.75/51.25	-4.00/60.50	-3.50/67.75	-3.25/70.25
1:40	-3.00/51.00	-4.50/60.00	-4.50/66.75	-4.00/69.50
12:00	-2.25/51.75	-3.50/61.00	-3.50/67.75	-3.00/70.50
10:35	-2.50/51.50	-3.50/61.00	-3.50/67.75	-3.25/70.25
8:15	-2.50/51.50	-4.25/60.25	-3.75/67.50	-3.50/70.00
Wed 7:40	-2.25/51.75	-4.50/60.00	-5.00/66.25	-4.25/69.25
Tue 3:00	-2.50/54.00	-1.75/64.50	-1.75/71.25	-1.50/73.50

(continued)**Overnight:**

05:41 08/09 **TSYS:** Treasuries are trading sharply higher across the board in London trade Thursday, as renewed market worries in the credit and equity markets again triggers a rush of **safe haven buying**. Prices were modestly higher from the getgo in Tokyo trade, helped by light dip-buying and bargain hunting after the sell-off in the U.S. overnight. However, initial volumes were light and prices only started to track sharply higher as European markets opened. Market talk of further problems in the credit and sub-prime markets prompted a swift rally in global debt markets, pushing Treasury and European debt yields sharply lower. The front of the curve outperformed, with real money flows pushing two-year yields down almost 10 basis points. Longer-dated paper was also sharply higher, with 10 and 30-year yields falling, despite positioning ahead of the \$9 billion Long Bond auction. The Bund/T-note narrowed 1 bps to 45 bps, as Treasuries outperformed European debt on renewed credit market worries. [my emphasis]

05:41 08/09 **TSYS:** (2) Ahead of the U.S. session, the 2-yr note was 8/32 higher, trading at 100 5/32 to yield 4.53%. The 10-yr note was 14/32 higher at 99 20/32 (4.80%), with the Bond 21/32 higher at 96 7/32 (5.00%). The 2-yr/5-yr yield curve was 2 bps steeper, trading at +8 bps. The 2-/10-yr curve was also steeper, trading at +26 bps, as was the 2-yr/30-yr curve to stand at +46 bps.

10:14 08/08 **US TSYS/RESEARCH:** UBS bond analysts noted that "the Fed left everyone in the markets with something to hang their hat on after the release of the latest FOMC statement" as "while clutching their inflation-fighting chits tightly to their chests, the Fed acknowledged that all may not be well in Camelot." The UBS analysts predicted that market's attention "will now turn back to the road, as traders squint and peer over the tightly-held wheel looking for the next othole" and predicted conditions are "ripe for a further unwind of position and valuation excesses in Treasuries in the next week or two. Specs are historically long while Monday's hammer bottoms in yields hint that the near-term path in rates is now higher."

11:00 08/08 **CARRY TRADES:** Plenty of demand for carry trades today as the yen skids lower across the board, traders variously noting strong demand for sterling, Cad, Aussie, kiwi, Brazil, Zar, Mex, Turkish lira and others as risk appetites blossom and as model and momentum accounts return to the markets in force.

11:19 08/08 **US AGENCIES/OPINION:** Lehman Brothers says of possible removal of **GSE** caps by OFHEO - "Our view is that it is likely that OFHEO will allow the GSEs to participate to a greater degree, albeit within their usual market of conforming loans. We expect that the GSEs will purchase high-rated non-agency Alt-A/subprime mortgages and fund with shorter maturity paper."

11:45 08/08 **US MBS/SubPrime:** S&P ongoing teleconference call on the US Banking sector: Banks are exposed to hedge funds primarily through their prime brokerage and secured lending operations. The exact level and risk of exposure is heavily dependent on their exact margin positions. "We don't think there is a massive hedge fund issue brewing. There are in fact some funds that are doing rather well. Further, the margin and repo loans that banks have made to hedge funds seem to be working as obligations are well collateralized and fairly conservative. The bottom line is that we are not expecting problems with banks because of hedge funds."

11:51 08/08 **US MBS/SubPrime:** S&P ongoing conference call on the US Banking sector: While the US residential mortgage market as a whole has slowed in volume, several large banks have actually increased market share. Increase in Mortgage Originations - % - (2007Q2 - 2007Q1)

Citigroup	16.67
JP Morgan	29.33
Bank of America	24.75
Wachovia	4.92
Wells Fargo	17.65
US Bancorp	39.49
Washington Mutual	6.40
Countrywide Financial	11.31

13:31 08/08 **US MBS/Alt-A:** Bankruptcy of American Home Mortgage made it the 2nd largest mortgage lender to file after New Century. According to data from UBS, unlike scores of tiny mom-and-pop subprime originators, American Home was 7th largest Alt-A originator in USA.

Top Alt-A Issuers (as of Q1'07)		\$Millions	
Rank	Issuer	\$Mln	2006 Share
1	Countrywide Financial	\$61,998	14.0%
2	Residential Funding Corp.	\$28,790	7.6%
3	Bear Stearns	\$38,946	7.5%
4	Lehman Brothers	\$25,873	7.1%
5	Washington Mutual	\$14,829	6.5%
6	IndyMac	\$28,225	5.6%
7	American Home Mortgage	\$12,962	5.6%
8	Citigroup	\$4,456	4.9%
9	RBS Greenwich Capital	\$4,453	4.6%
10	Goldman Sachs	\$4,080	4.2%

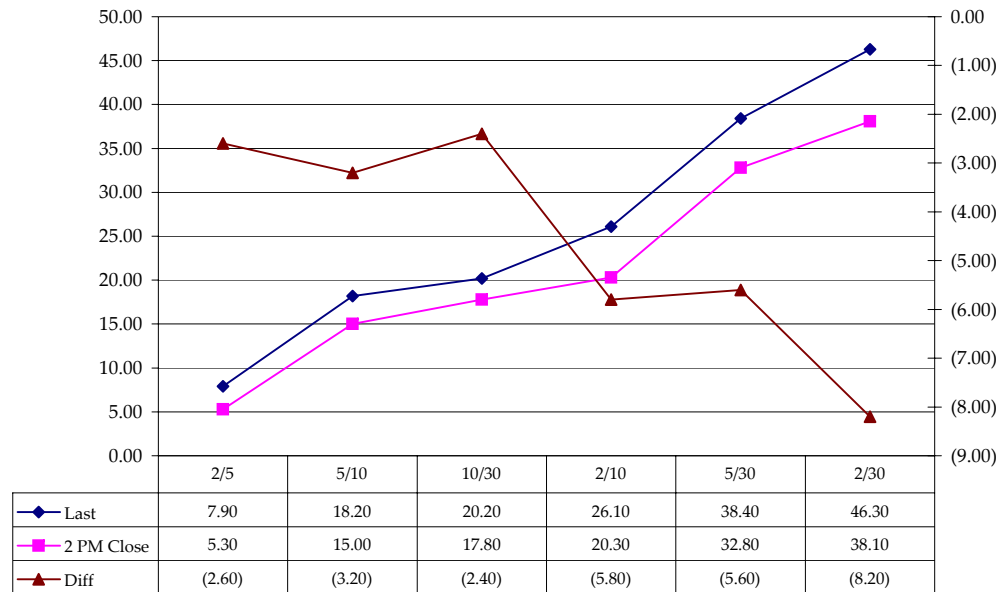
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.13	4.77	\$1,489	9.53	n/a
10y	7.71	2.46	\$768	4.92	n/a
5y	4.39	1.41	\$440	5.63	n/a
2y	1.86	0.60	\$187	2.39	n/a
ZB	9.59	3.40	\$106	3.40	0.8285
ZN	5.67	1.97	\$61	3.93	0.9086
ZF	3.84	1.30	\$41	2.61	0.9430
ZT	1.78	1.17	\$36	4.67	0.9764

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	7.90	5.30	(2.60)
5/10	18.20	15.00	(3.20)
10/30	20.20	17.80	(2.40)
2/10	26.10	20.30	(5.80)
5/30	38.40	32.80	(5.60)
2/30	46.30	38.10	(8.20)

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		1.729	2.605	2.912
ZN	0.578		1.507	1.684
ZF	0.384	0.664		1.118
ZT	0.343	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	1.69	4.14	7.23	14.02
ZN	2.91	7.16	12.50	24.24
ZF	4.39	10.79	18.84	36.52
ZT	4.91	12.06	21.06	40.82

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		2.457	4.249	8.319
5y	0.407		1.729	3.386
10y	0.233	0.573		1.939
30y	0.120	0.295	0.511	

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)	

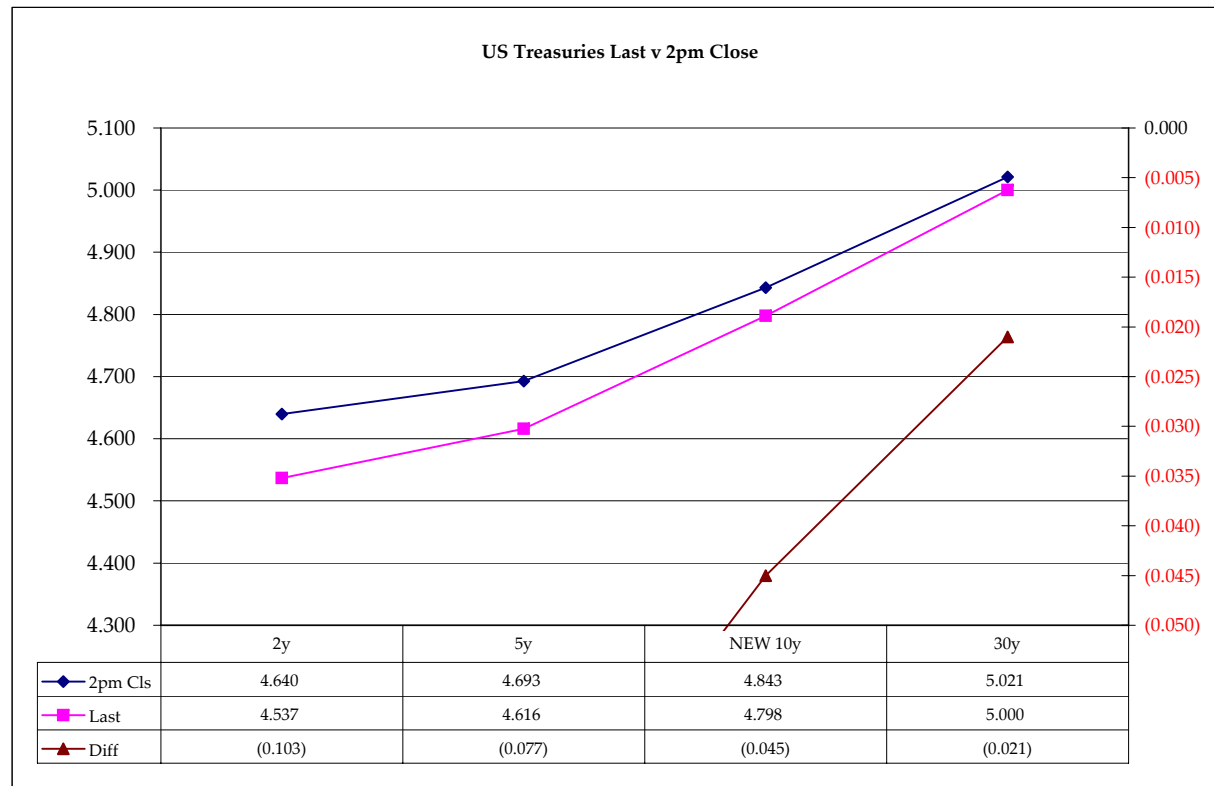
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.625	7/31/09	99.3100	4.640	4.537	(0.103)			
5y	4.625	7/31/09	99.2250	4.693	4.616	(0.077)	22.02	22.79	
NEW 10y	4.750	8/15/17	99.085	4.843	4.798	(0.045)	69.54	70.09	-1.50
30y	4.750	2/15/37	95.27	5.021	5.000	(0.021)	178.85	182.05	-1.25 / +1.75

	Close 32	Last
ZF	105.000	105.100
ZN	106.275	107.070
ZB	108.30	109.050

Curve Spreads		
	Close bps	Last bps
2/5	5.3	7.9
5/10	15.0	18.2
10/30	17.8	20.2
2/10	20.3	26.1
5/30	32.8	38.4
2/30	38.1	46.3



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	96.9	92.5	74.1	(85.1)	(85.1)	(79.7)	(63.0)
5yr Yield	96.9	100.0	97.8	85.5	(90.8)	(90.6)	(86.3)	(75.9)
10yr Yield	92.5	97.8	100.0	93.4	(93.8)	(94.4)	(91.2)	(84.8)
30yr Yield	74.1	85.5	93.4	100.0	(92.5)	(92.7)	(91.4)	(95.3)
ZT	(85.1)	(90.8)	(93.8)	(92.5)	100.0	96.1	90.8	83.6
ZF	(85.1)	(90.6)	(94.4)	(92.7)	96.1	100.0	98.6	90.8
ZN	(79.7)	(86.3)	(91.2)	(91.4)	90.8	98.6	100.0	93.9
ZB	(63.0)	(75.9)	(84.8)	(95.3)	83.6	90.8	93.9	100.0
emini SP	85.0	90.8	91.7	89.3	(93.3)	(86.7)	(80.7)	(77.6)
Dow Futures	68.9	78.0	78.8	80.7	(83.0)	(69.6)	(60.2)	(63.8)
USDJPY	90.6	95.0	91.0	79.5	(89.7)	(86.9)	(80.7)	(69.5)
EURUSD	(10.4)	4.9	7.3	22.7	(22.1)	(2.6)	4.2	(9.1)
EURJPY	51.2	64.1	63.0	65.8	(72.3)	(57.6)	(49.4)	(50.6)
Crude	(13.5)	(30.6)	(37.0)	(52.7)	40.7	22.8	16.3	36.9

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		0.94	0.86	0.55	0.72	0.72	0.64	0.40
5yr Yield	0.94		0.96	0.73	0.82	0.82	0.74	0.58
10yr Yield	0.86	0.96		0.87	0.88	0.89	0.83	0.72
30yr Yield	0.55	0.73	0.87		0.86	0.86	0.84	0.91
ZT	0.72	0.82	0.88	0.86		0.92	0.82	0.70
ZF	0.72	0.82	0.89	0.86	0.92		0.97	0.82
ZN	0.64	0.74	0.83	0.84	0.82	0.97		0.88
ZB	0.40	0.58	0.72	0.91	0.70	0.82	0.88	
emini SP	0.72	0.82	0.84	0.80	0.87	0.75	0.65	0.60
Dow Futures	0.48	0.61	0.62	0.65	0.69	0.48	0.36	0.41
USDJPY	0.82	0.90	0.83	0.63	0.80	0.75	0.65	0.48
EURUSD	0.01	0.00	0.01	0.05	0.05	0.00	0.00	0.01
EURJPY	0.26	0.41	0.40	0.43	0.52	0.33	0.24	0.26
Crude	0.02	0.09	0.14	0.28	0.17	0.05	0.03	0.14

	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	(78.9)	(78.0)	0.0	(45.8)	50.0	44.3	37.8	28.5
10YR BASIS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
30YR BASIS	(79.3)	(88.2)	0.0	(95.2)	92.8	85.9	80.3	81.7

	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	0.62	0.61	0.00	0.21	0.25	0.20	0.14	0.08
10YR BASIS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
30YR BASIS	0.63	0.78	0.00	0.91	0.86	0.74	0.65	0.67

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	(64.4)	0.0	(94.2)
Dow Futures	(62.8)	0.0	(91.2)
USDJPY	(71.9)	0.0	(83.1)
EURUSD	(7.3)	0.0	(34.2)
EURJPY	(50.6)	0.0	(75.6)
Crude	32.8	0.0	63.9

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.42	0.00	0.89
Dow Futures	0.39	0.00	0.83
USDJPY	0.52	0.00	0.69
EURUSD	0.01	0.00	0.12
EURJPY	0.26	0.00	0.57
Crude	0.11	0.00	0.41

All 10y basis is 'zeroed' out so I can roll the new 10yr issue.

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Notes: BASIS = CASH - (FUTURES * CF)

Jim Goulding, jgoulding@ghco.com

The Morning Email, Treas

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	\$196	\$438	\$768	
30	\$194	\$432	\$759	\$1,489
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$10)			
10	(\$9)	\$2		
30	(\$7)	\$8	\$9	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.28%			
10	-4.80%	0.51%		
30	-3.64%	1.74%	1.22%	

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	4.21	8.16
ZF	0.46	1.08	1.88	3.65
ZN	0.30	0.72	1.25	2.42
ZB	0.18	0.41	0.72	1.40

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.41	8.42	16.33
ZF	0.46	2.16	3.77	7.30
ZN	0.61	1.43	1.25	2.42
ZB	0.70	1.66	1.45	2.80

	2y	5y	10y	30y
2y	1.00	2.35	4.11	7.97
5y	0.42	1.00	1.75	3.39
10y	0.24	0.57	1.00	1.94
30y	0.13	0.30	0.52	1.00

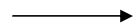
	2y	5y	10y	30y
2y		2.35	2.06	3.98
5y	0.42		0.44	1.69
10y	0.49	2.29		1.94
30y	0.25	0.59	0.52	

	ZT	ZF	ZN	ZB
ZT	1.00	2.24	3.37	5.82
ZF	0.45	1.00	1.51	2.61
ZN	0.30	0.66	1.00	1.73
ZB	0.17	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.24	6.74	23.29
ZF	0.45		1.51	5.21
ZN	0.15	0.66		3.46
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

FOMC Meeting



September/18/2007	
Target Rate	Probability
4.75	5.7
5.00	23.8
5.25	70.0
5.50	0.0

October/31/2007	
Target Rate	Probability
4.75	24.5
5.00	10.4
5.25	63.8
5.50	1.0

December/11/2007	
Target Rate	Probability
0.00	0.00
0.00	0.00
0.00	0.00
0.00	0.00

as of 08/07/07

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

