8/10/2007 5:46

The Morning Email: Treasuries

A note from Jim:
8/10/2007
30 yr intrinsics haven't been changed yet.

Table of Contents

"AAHHRGHHRRHH!"

MarketNews international

Stone & McCarthy
RESEARCH ASSOCIATES

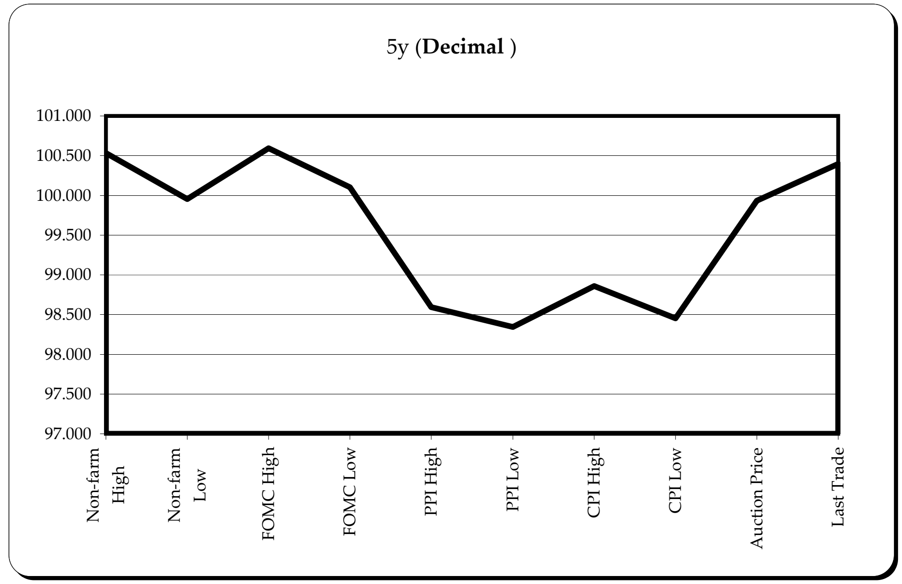
Important Econ Releases, Highs & Lows

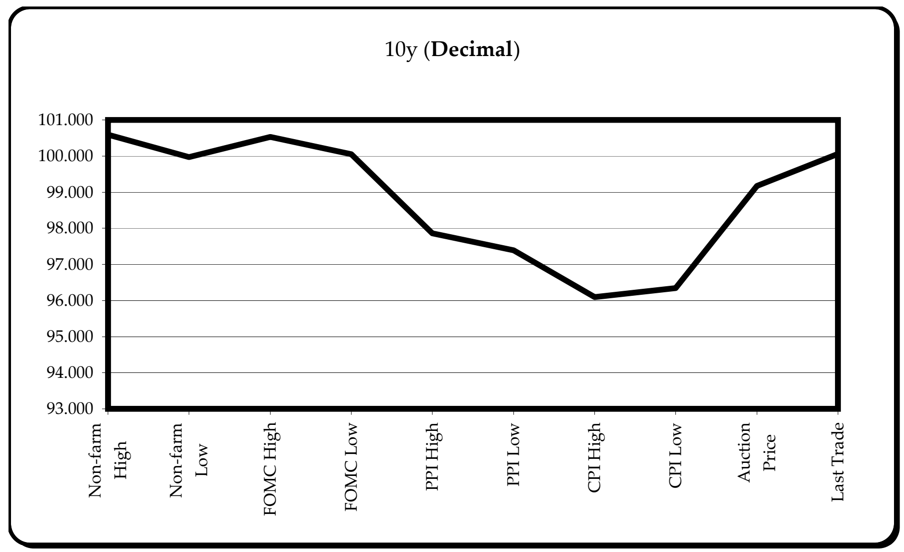
Economic Releases - 32nds

	5y	10y	ZNU7	ZBU7	Date
Non-farm High	100.1700	100.190	107.300	110.23	8/3/2007
Non-farm Low	99.3050	99.310	107.115	109.30	8/3/2007
FOMC High	100.1900	100.170	107.300	110.18	8/7/2007
FOMC Low	100.0325	100.015	107.140	110.02	8/7/2007
PPI High	98.1900	97.275	105.190	107.23	7/17/2007
PPI Low	98.1100	97.125	105.065	107.02	7/17/2007
CPI High	98.2750	96.030	105.310	108.04	7/18/2007
CPI Low	98.1450	96.110	105.125	107.11	7/18/2007
Auction Price	99.2988	99.056			
Last Trade	100.1270	100.020	107.220	109.19	8/10/2007 5:46

Auctions - 32nds

	2 y	5y	10y	30y
Auction Price	99.254	99.299	99.056	99.026
Auction Yield Stop	4.735	4.64	4.855	5.059
Actual Auction Date	7/25/2007	7/26/2007	8/8/2007	8/9/2007





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)
r = reopen

Quotes

	32 nds						
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
TUAU7	102.187	2.0	102.225	102.165	102.182	80,440	2y Fut
FVAU7	105.200	4.5	105.260	105.165	105.175	85,563	5y Fut
TYAU7	107.220	9.5	107.270	107.140	107.155	176,342	10y Fut
USAU7	109.190	16	109.220	109.070	109.100	27,472	30y Fut
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02P	100.120	1.7	100.160	100.107	100.115	na	2y Cash
BUS05P	100.125	5.2	100.182	100.095	100.120	na	5y Cash
BUS10P	100.015	8.5	100.075	99.295	99.305	na	10y Cash
BUS30P	100.130	419	100.165	100.040	100.065	na	30y Cash
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02Y	4.419	(2.60)	4.47	4.348	4.47	na	2y Yield
BUS05Y	4.531	(4.40)	4.579	4.492	4.579	na	5y Yield
BUS10Y	4.742	(3.60)	4.782	4.716	4.782	na	10y Yield
BUS30Y	4.968	(5.50)	4.999	4.96	4.99	na	30y Yield

Notes: SYM = Symbol

MarketNews international

All times Eastern
OVERNIGHT:

04:29 08/10 **US STOCKS**: US index futures continuing to rally back from early lows, helped by a modest bounce in European incices. The S&P Sep contract was last 5.4 lower at 1452.5, with the Nasdaq Sep contract 3 points lower at 1943.0.

02:07 08/10 **FX**: (European Open) European trade opens with carry trades again on the back foot as the fallout from credit markets continues to prompt a bout of heavy risk reduction across the board. Euro-yen sits towards the bottom end of the Y160.81-Y161.83 range, traders now eyeing the July spike lows at Y160.50, the cross having lost 5 big figures already this week. Euro-dollar has recovered slightly after slipping through the $1.3654 NY low, though the tone remains heavy, with a similar story in dollar-yen, the pair sitting just off the overnight Y117.72 lows. Sterling-yen sales are again weighing on cable which has slipped to a $2.01 handle in early Europe, whilst Aussie is slipping to fresh six-week lows at time of writing, more stops looking vulnerable now under $0.8400.

04:13 08/10 **US PRESS**: Securities regulators are checking the books at top Wall Street brokerage firms and banks to make sure they aren't hiding losses in the subprime-mortgage meltdown, said people familiar with the inquiry, the WSJ reports. The SEC is looking into whether Wall Street brokers are using consistent methods to calculate the value of subprime-mortgage assets in their own inventory, as well as assets held for customers such as hedge funds, th same people said. The concern: that the firms may not be marking down their inventory as aggressively as assets held by clients, the WSJ adds.

(continued)
OVERNIGHT:

05:33 08/10 **TSYS: (1)** Treasuries are trading modestly higher in London trade Friday, as global markets remain volatile, unnerved by the squeeze in global credit markets. However, prices were sharply off their best levels, as markets pared gains in the wake of the ECB's latest liquidity-providing operation. Treasuries were higher from the getgo in Tokyo, helped by the slump in Japanese stocks that saw the Nikkei fall as much as 3%. The front of the curve was again the early beneficiary, with the 2-year yield dropping below the 4.40% level. The strength was maintained into the early London session, as weaker European stocks and lower US stock index futures offered support. However, as stocks rallied from their lows, Treasuries dipped as the safe haven bid evaporated. The two-year pared gains to stand only modestly higher on the session, while the yield on the 10-year was little changed on the day at 4.750%.

05:20 08/10 **CREDIT**: The Countrywide Financial Corp profit warning after the bell in the US Thursday remains in focus as we head towards the US open. The lenders shares fell well over 10% in after hours trade after the firm said that "the secondary market and funding liquidity situation is rapidly evolving and the potential impact on the company is unknown", although adding that conditions may continue to worsen. The firm which accounts for almost a 5th of US mortgages, reportedly said earlier this year that "home price depreciation was like never before, with the exception of the great depression". The news will not come as a surprise to the market, with a number of other lenders declaring the acute funding squeeze they are facing in the past few weeks, but the "unknown outcome" element of the statement has rattled the market and the housing sector could see further pressure on the US open.

05:10 08/10 **RATINGS**: Wires have an S&P report saying US subprime impact on West Europe banks is limited.

04:31 08/10 **TSYS:** Treasuries slip from their best levels as the ECB's 3-day repo operation helps global markets regain a little of their nerve. The 2Y yield was l;ast at 4.41%, having touched 4.385% earlier in the session. The 10Y was last at 4.75%.

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

[EST]
09:48 08/09 **NY FED:** Fed is doing overnight system repos now, in addition to the 14-day system repos done earlier; Fed thus has added US$24B to banking system.

[EST]
09:44 08/09 **US TSYS**: Tsys higher still as trading veterans break down today's trading situation as follows:
- 1) US Stocks weaker, DJIA now off 1.19%, FTSE-100 off 2.23%, DAX off 2.21%.
- 2) Eurodollar futures drew heavy short-covering, vol is higher; front end Eurodollar curve is steepening amid safe-haven bid.
- 3) Traders related that the Wed. trading action pummeled hedge funds who had been positioned as follows: they were SHORT liquid stuff such as the ABX, CDX or LCDX indices; they were LONG illiquid stuff such as say trouble subprime ABS CDOS and similar risky paper. On Wed, ABX/CDX etc. rallied, hurting hedge funds, who still cannot find buyers for the riskiest illiquid paper, traders said.
- 4) There are ABS commercial paper concerns. WSJ Wed. said American Home Mortgage Investment Corp, which filed for bankruptcy protection, and REIT Luminent Mortgage Capital, are extending C/P loan maturities amid "liquidity problems." Aladdin Capital extended ABCP term, said WSJ.

08:15 08/09 LIBOR: Repeat: After rising 2.0 bps in the previous overnight session, 3 Month Libor set at 5.50%, +12.0 bps, while the 1 Month set at 5.5413%, +19.13 bps!

Duration, DV01s, Curve Spreads, CF

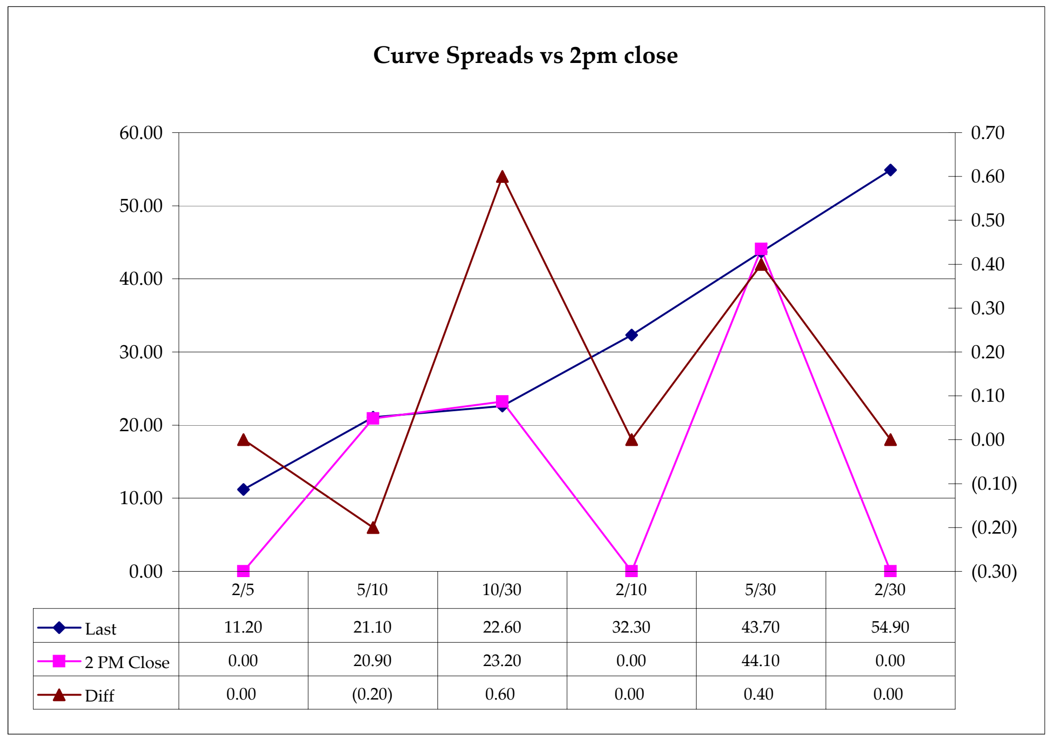
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.16	4.79	$1,498	9.58	n/a
10y	7.71	2.47	$772	4.94	n/a
5y	4.39	1.41	$441	5.65	n/a
2y	1.86	0.60	$187	2.39	n/a
ZB	9.60	3.42	$107	3.42	0.8275
ZN	5.66	1.98	$62	3.95	0.9086
ZF	3.83	1.31	$41	2.62	0.9430
ZT	1.77	1.17	$36	4.66	0.9764

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.

Yield Curve Spreads

	Last	2pm close	Diff
2/5	11.20	#VALUE!	#VALUE!
5/10	21.10	20.90	(0.20)
10/30	22.60	23.20	0.60
2/10	32.30	#VALUE!	#VALUE!
5/30	43.70	44.10	0.40
2/30	54.90	#VALUE!	#VALUE!



	2/5	5/10	10/30	2/10	5/30	2/30
Last	11.20	21.10	22.60	32.30	43.70	54.90
2 PM Close	0.00	20.90	23.20	0.00	44.10	0.00
Diff	0.00	(0.20)	0.60	0.00	0.40	0.00

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		1.729	2.613	2.932
ZN	0.578		1.511	1.695
ZF	0.383	0.662		1.122
ZT	0.341	0.590	0.891	

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	4.13	7.23	14.02
ZN	2.89	7.14	12.50	24.24
ZF	4.37	10.79	18.88	36.62
ZT	4.91	12.11	21.19	41.10

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		2.467	4.272	8.374
5y	0.405		1.732	3.395
10y	0.232	0.571		1.940
30y	0.119	0.295	0.510	

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

8/10/2007 5:46

Closes: 2pm CST vs this Morning

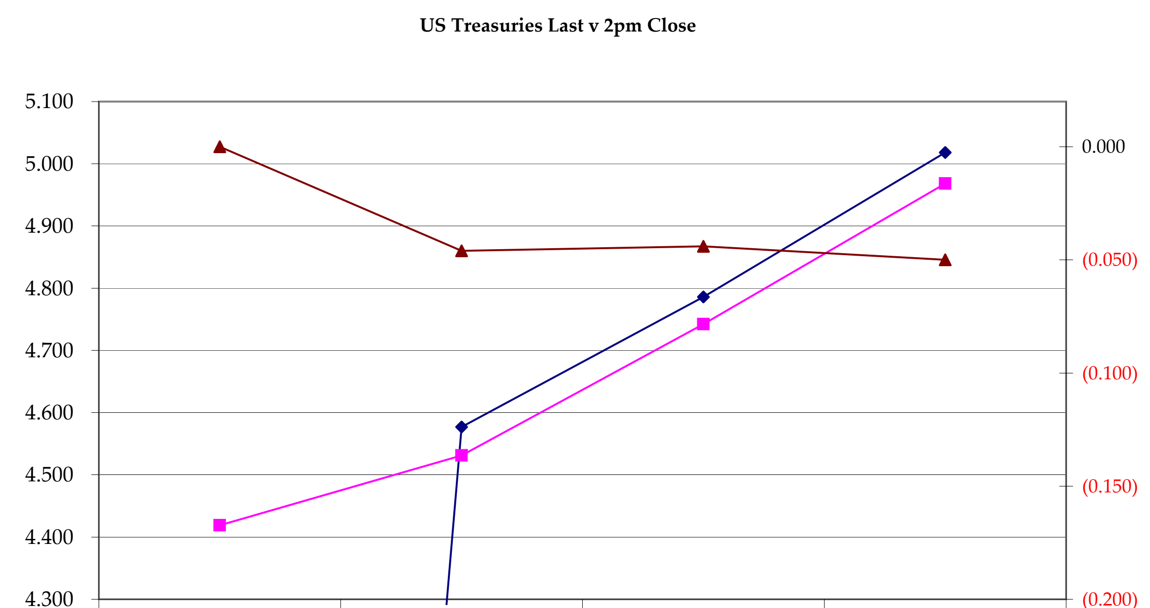
Pg 8

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.625	7/31/09	100.0900	4..466	4.419	#VALUE!			
5y	4.625	7/31/09	100.0650	4.577	4.531	(0.046)	23.87	25.36	
10y	4.750	8/15/17	99.230	4.786	4.742	(0.044)	69.05	70.96	-1.50
30y	4.750	5/15/37	99.23	5.018	4.968	(0.050)	301.37	312.46	+1.00

	Close 32	Last
ZF	105.150	105.200
ZN	107.120	107.220
ZB	109.04	109.190

Curve Spreads

	Close bps	Last bps
2/5	#VALUE!	11.2
5/10	20.9	21.1
10/30	23.2	22.6
2/10	#VALUE!	32.3
5/30	44.1	43.7
2/30	#VALUE!	54.9



	2y	5y	10y	30y
2pm Cls	0.000	4.577	4.786	5.018
Last	4.419	4.531	4.742	4.968
Diff	0.000	(0.046)	(0.044)	(0.050)

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 US Cash Treasuries (Yield)				Daily Correlations US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	93.6	81.9	33.1	(89.9)	(83.0)	(76.8)	(27.5)
5yr Yield	93.6	100.0	95.9	62.1	(90.6)	(92.5)	(88.7)	(57.0)
10yr Yield	81.9	95.9	100.0	80.8	(85.6)	(93.8)	(91.4)	(75.3)
30yr Yield	33.1	62.1	80.8	100.0	(50.4)	(71.8)	(74.1)	(96.8)
ZT	(89.9)	(90.6)	(85.6)	(50.4)	100.0	93.0	86.9	45.2
ZF	(83.0)	(92.5)	(93.8)	(71.8)	93.0	100.0	98.3	71.3
ZN	(76.8)	(88.7)	(91.4)	(74.1)	86.9	98.3	100.0	76.8
ZB	(27.5)	(57.0)	(75.3)	(96.8)	45.2	71.3	76.8	100.0
emini SP	93.2	92.5	84.9	44.9	(96.0)	(86.5)	(79.9)	(36.6)
Dow Futures	81.5	82.7	75.6	40.4	(88.4)	(72.9)	(63.0)	(26.8)
USDJPY	93.1	87.5	73.2	25.0	(91.3)	(78.9)	(72.1)	(20.4)
EURUSD	8.3	8.9	5.5	(3.7)	(33.6)	(9.7)	(3.2)	12.0
EURJPY	69.0	66.0	54.8	17.2	(81.4)	(61.2)	(53.5)	(10.2)
Crude	26.5	(1.0)	(21.1)	(57.7)	(5.7)	0.0	(2.6)	46.2

	Daily R-Squared US Cash Treasuries (Yield)				Daily R-Squared US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield		0.88	0.67	0.11	0.81	0.69	0.59	0.08
5yr Yield	0.88		0.92	0.39	0.82	0.86	0.79	0.32
10yr Yield	0.67	0.92		0.65	0.73	0.88	0.84	0.57
30yr Yield	0.11	0.39	0.65		0.25	0.51	0.55	0.94
ZT	0.81	0.82	0.73	0.25		0.87	0.75	0.20
ZF	0.69	0.86	0.88	0.51	0.87		0.97	0.51
ZN	0.59	0.79	0.84	0.55	0.75	0.97		0.59
ZB	0.08	0.32	0.57	0.94	0.20	0.51	0.59	
emini SP	0.87	0.86	0.72	0.20	0.92	0.75	0.64	0.13
Dow Futures	0.66	0.68	0.57	0.16	0.78	0.53	0.40	0.07
USDJPY	0.87	0.77	0.54	0.06	0.83	0.62	0.52	0.04
EURUSD	0.01	0.01	0.00	0.00	0.11	0.01	0.00	0.01
EURJPY	0.48	0.44	0.30	0.03	0.66	0.37	0.29	0.01
Crude	0.07	0.00	0.04	0.33	0.00	0.00	0.00	0.21

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	(81.4)	(81.3)	#REF!	(28.8)	59.4	53.2	47.3	18.3
10YR BASIS	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
30YR BASIS	(55.7)	(54.5)	#REF!	(20.6)	60.3	50.8	52.8	14.9

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

	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	0.66	0.66	0.50	0.08	0.35	0.28	0.22	0.03
10YR BASIS	0.52	0.25	0.08	0.09	0.39	0.13	0.08	0.12
30YR BASIS	0.31	0.30	0.21	0.04	0.36	0.26	0.28	0.02

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	(73.2)	#REF!	(65.0)
Dow Futures	(72.1)	#REF!	(63.1)
USDJPY	(73.9)	#REF!	(62.2)
EURUSD	(5.9)	#REF!	(34.1)
EURJPY	(53.7)	#REF!	(61.8)
Crude	2.6	#REF!	(19.3)

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.54	#REF!	0.42
Dow Futures	0.52	#REF!	0.40
USDJPY	0.55	#REF!	0.39
EURUSD	0.00	#REF!	0.12
EURJPY	0.29	#REF!	0.38
Crude	0.00	#REF!	0.04

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	25%	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	**$187**			
5	$197	**$441**		
10	$197	$439	**$772**	
30	$194	$433	$762	**$1,498**

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	($10)	$2		
30	($7)	$8	$10	

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.

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.44%			
10	-5.03%	0.43%		
30	-3.76%	1.77%	1.34%	

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	2.42	4.24	8.22
ZF	0.46	1.08	1.89	3.66
ZN	0.30	0.71	1.25	2.42
ZB	0.17	0.41	0.72	1.40

	2y	5y	10y	30y
2y	1.00	2.36	4.14	8.02
5y	0.42	1.00	1.75	3.39
10y	0.24	0.57	1.00	1.94
30y	0.12	0.29	0.52	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.24	3.39	5.86
ZF	0.45	1.00	1.51	2.61
ZN	0.29	0.66	1.00	1.73
ZB	0.17	0.38	0.58	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	1.02	2.42	8.47	16.44
ZF	0.46	2.16	3.78	7.32
ZN	0.60	1.43	1.25	2.42
ZB	0.70	1.65	1.45	2.80

	2y	5y	10y	30y
2y		2.36	2.07	4.01
5y	0.42		0.44	1.70
10y	0.48	2.29		1.94
30y	0.25	0.59	0.52	

	2y	5y	10y	30y
ZT		2.24	6.78	23.45
ZF	0.45		1.51	5.23
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	4.0
5.00	12.4
5.25	82.4
5.50	0.9

October/31/2007	
Target Rate	Probability
4.75	21.5
5.00	7.0
5.25	69.5
5.50	1.7

December/11/2007	
Target Rate	Probability
4.25	1.80
4.50	15.50
4.75	15.10
5.00	9.20

as of 08/08/07

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