



The Morning Email: Treasuries

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8/13/2007 5:57



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

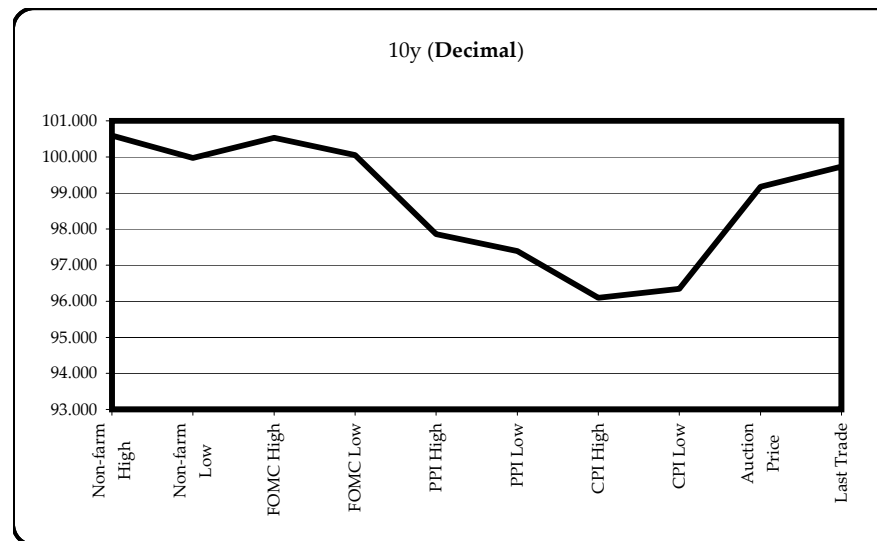
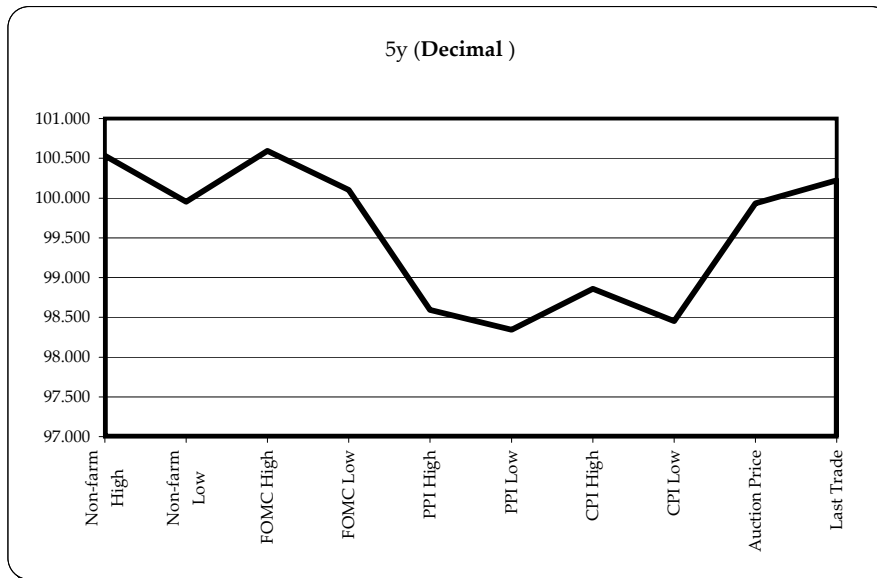
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Stone & McCarthy
RESEARCH ASSOCIATES

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	100.0720	99.235	107.145	109.08	8/13/2007 5:57

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	102.177	0.2	102.190	102.160	102.160	28,347	2y Fut
FVAU7	105.145	(1.5)	105.170	105.105	105.110	46,799	5y Fut
TYAU7	107.145	(1.5)	107.170	107.085	107.085	82,816	10y Fut
USAU7	109.080	(1)	109.110	109.000	109.010	16,912	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	#VALUE!	1.2	100.120	100.100	100.102	na	2y Cash
BUS05P	100.072	2.7	100.092	100.040	100.057	na	5y Cash
BUS10P	99.235	6.0	99.265	99.180	99.200	na	10y Cash
BUS30P	99.250	12	99.310	99.180	99.225	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.440	(2.10)	4.47	4.415	4.47	na	2y Yield
BUS05Y	4.572	(1.90)	4.6	4.556	4.595	na	5y Yield
BUS10Y	4.782	(2.00)	4.81	4.768	4.81	na	10y Yield
BUS30Y	5.011	(2.80)	5.045	4.986	5.045	na	30y Yield

Notes: SYM = Symbol

**All times Eastern****Friday:**

15:13 08/10 **US TSYS/RECAP:** Tsys end Fri mixed, short end higher, long end bit lower, after rangebound p.m. trading, late dip after a.m. safe-haven bid in Tsys due to weak U.S. stocks, fear of more subprime ABS/CDO weakness. DJIA -0.86%, FTSE-100 -3.71%, DAX -1.48%. Tsys drew hedge fund buying and buy-and-hold accounts buying in intermediates, financial institution buying in 5Ys, some Street profit-taking in 2Ys, buy-and-hold accounts taking profits in 5Ys, 10Ys. ECB loaned E61.05bln (US\$83.5bln) in operation; US Fed added US\$38B to banking system via 3 rounds of weekend system RPs. Hedge/leverage funds bought Euribor, Schatz heavily this morning. But later there was some asset allocation trades out of global bond mkts. In p.m. Tsys appeared to wane as many headed for sidelines after wild week. Morning: Eurodollar futures had decent dealer buying in fronts to intermediates, more short cover/risk aversion flow. Flows turned two-way mid morning as stocks choppy, Eurodollar curve active amid some sellers in Greens, Blues. Vols up but off high.

15:21 08/10 **EURODLR FUTURES:** Eurodollar futures finished a well off session highs, near the bottom of the range as the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 0.25 bps to 66.00. In the Fronts (Sep07-Jun08), the Sep07 were up 0.5 bps at 94-76.5 on combined Globex and pit volume of 571,000, the Dec07 up 4.5 bps at 95-08.5 on volume of 722,000, the Mar08 up 2.0 bps at 95-24.5 on volume of 826,000, while the Jun08 was 0.5 bps higher at 95-27.5 on volume of 671,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled steady to 0.5 bps higher across the pack with 1,330,000 contracts traded.

15:05 08/10 **US SWAPS:** Spds finished session off wides by the close, action in the second half largely absent as FI mkts traded in a range. While several desks reported ongoing modest two-way with a bias towards paying in the fronts to intermediates, others reported decent curve steepener flow on the open. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:00	+3.25/60.00	+1.75/66.00	+1.25/70.50	+0.75/69.50
1:35	+3.50/60.25	+2.00/66.25	+1.50/70.75	+1.00/69.75
11:00	+3.75/60.50	+2.00/66.25	+1.75/71.00	+1.00/69.75
10:15	+3.75/60.50	+1.75/66.00	+1.25/70.50	+1.25/70.00
9:45	+4.50/61.25	+2.00/66.25	+1.50/70.75	+1.25/70.00
8:45	+4.00/60.75	+1.75/66.00	+1.50/70.75	+1.25/70.00
Fri Open	+5.50/62.25	+3.00/67.25	+2.75/72.00	+1.50/70.25
Thu 3:25	+5.50/56.75	+4.25/64.25	+2.50/69.25	-0.75/68.75

(continued)**Overnight:**

04:46 08/13 TSYS: Treasuries are trading modestly higher in London trade Monday, helped by light short-covering bids. However, traders say sentiment is still mixed, with the rallying stockmarkets helping deflate some of the recent safe haven flows. Prices opened lightly bid in Asia, as regional traders took advantage of the late weakness seen in the US debt markets. However, traders said the volumes in Tokyo were light, with many players sidelined by the Obon holiday season. Prices held their light gains in London trade, but flows were largely interdealer, with no stand-out features ahead of the US open. The Bund/T-note narrowed 0.5 bps to 47 bps on Friday's late levels as Treasuries outperformed modestly. Ahead of the U.S. session, the 2-yr note was 1/32 higher, trading at 100 11/32 to yield 4.44%. The 10-yr note was 5/32 higher at 99 22/32 (4.79%), with the Bond 6/32 higher at 99 21/32 (5.02%). The 2-yr/5-yr yield curve was unch, trading at +14 bps. The 2-/10-yr curve was also unchanged, trading at +35 bps, as was the 2-yr/30-yr curve to stand at +58 bps.

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09:22 08/10 **U.S. STOCKS:** Futures holding losses of about 87 points now, pared from the 130 or so seen prior to the Fed announcement and vs the 160 or so early in the US trading day. Nasdaq futures are down about 12.

11:05 08/10 **US FED:** The Fed now has done a total of US\$35B via 2 weekend system repos; it did a US\$16B weekend system repo most recently and a US\$19B weekend system repo earlier; in both cases, it was all MBS collateral accepted (though Fed had said in both cases that it would accept agency, MBS or Tsys debt as collateral.) The fed funds rate is still at 5.37%.

09:57 08/10 **CREDIT:2, Countrywide Financial** has been in focus as the firm gave a profit warning after the bell in the US Thursday. The company 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. However the theme of "liquidity getting worse=lower earnings" has been downplayed by the market, as although it is important, it is a recurring theme that mortgage lenders are expressing to the market this week, and is already largely discounted.

10:59 08/10 **US FED:** FOA Economics Bob Brusca says FF market "is just beginning to show some stress but the levels of stress are not as intense as you might expect from the market reactions. This suggests that banks are not at the center of this storm, but securities firms are."

13:04 08/10 **US FED:** The Fed did a total of \$35B in two weekend system repos Friday, one for \$19B first thing this morning and another for \$16B later in the morning. The federal funds rate has been hovering around 5 3/8% much of day and is now around 5.25%. With FF trading at a level low enough to indicate fairly stable conditions," Tony Crescenzi of Miller Tabak said, there was no obvious need for additional action from the Fed. "Moreover, commercial paper issuers were apparently able to obtain funding at normal levels, too. Hence, between both the fed funds and commercial paper markets were trading in ways that suggested that both banks and corporations were having very little difficulty obtaining short-term funding today." Crescenzi says decision to do 2 operations could mean: 1) There is great strain in market than is evident or 2) Fed simply wanted assure there was extra liquidity. "It seems best to rely upon market prices in this environment and believe that the Fed's second action were meant to provide a surfeit and were not a response to a problem that perhaps the Fed knows more about than the rest of us."

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.07	4.87	\$1,522	9.74	n/a
10y	7.70	2.46	\$769	4.92	n/a
5y	4.38	1.41	\$440	5.63	n/a
2y	1.85	0.60	\$186	2.39	n/a
ZB	9.59	3.41	\$107	3.41	0.8625
ZN	5.66	1.97	\$62	3.94	0.9086
ZF	3.83	1.31	\$41	2.61	0.9430
ZT	1.77	1.16	\$36	4.66	0.9764

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	13.20	13.80	0.60
5/10	21.00	21.20	0.20
10/30	22.90	22.80	(0.10)
2/10	34.20	35.00	0.80
5/30	43.90	44.00	0.10
2/30	57.10	57.80	0.70

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

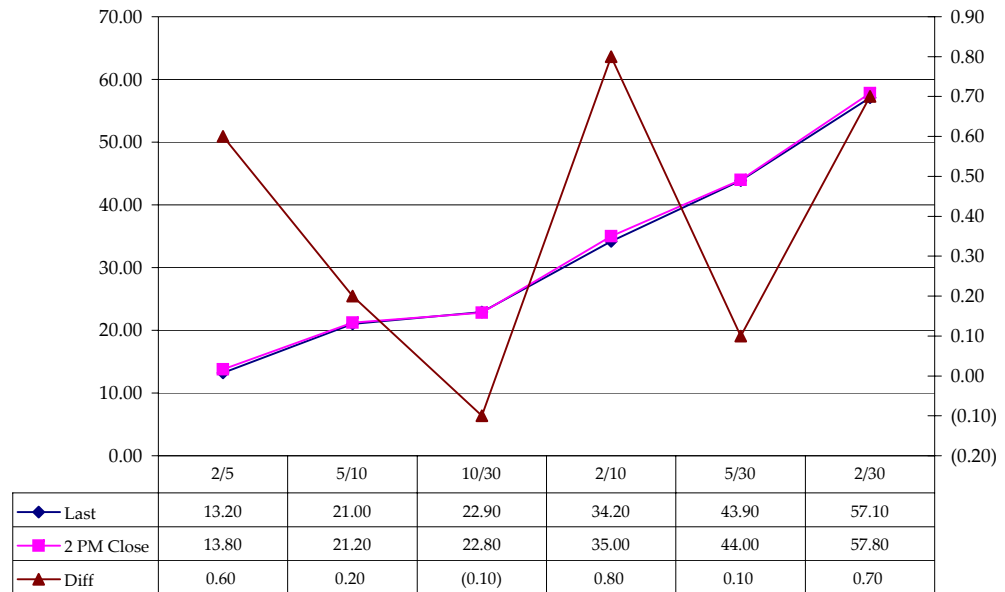
CF = Conversion Factor

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

Curve Spreads vs 2pm close



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		1.732	2.611	2.929
ZN	0.577		1.508	1.691
ZF	0.383	0.663		1.122
ZT	0.341	0.591	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	1.68	4.13	7.22	14.29
ZN	2.90	7.15	12.50	24.75
ZF	4.37	10.79	18.84	37.31
ZT	4.91	12.10	21.14	41.86

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		2.466	4.264	8.271
5y	0.406		1.729	3.354
10y	0.232	0.573		1.920
30y	0.117	0.289	0.500	

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	261,392	280,750	(19,358)	205,811	269,966	(64,155)	1,290,047	1,206,534	83,513	ZF
ZN	326,240	445,533	(119,293)	970,269	302,251	668,018	2,125,683	2,674,407	(548,724)	ZN
ZB	145,410	185,206	(39,796)	145,230	226,126	(80,896)	802,631	681,939	120,692	ZB

WoW^ Position Change				
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	12,619	(60,658)	48,039	As of 8/7/2007
ZN	(34,476)	97,667	(63,190)	
ZB	302	(3,284)	2,982	

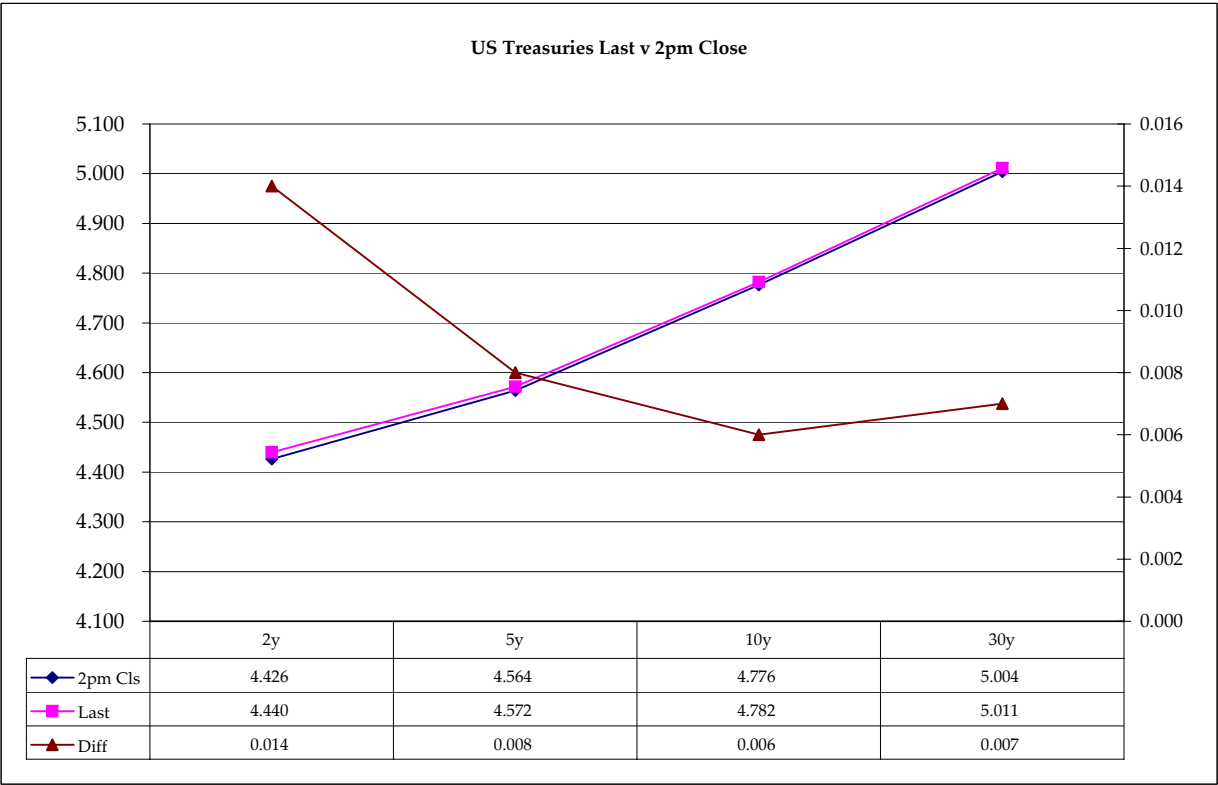
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.625	7/31/09	100.1125	4.426	4.440	0.014			
5y	4.625	7/31/09	100.0825	4.564	4.572	0.008	24.68	25.05	
10y	4.750	8/15/17	99.255	4.776	4.782	0.006	68.37	67.28	
30y	5.000	5/15/37	99.30	5.004	5.011	0.007	180.98	177.70	

	Close 32	Last
ZF	105.160	105.145
ZN	107.155	107.145
ZB	109.10	109.080

Curve Spreads		
	Close bps	Last bps
2/5	13.8	13.2
5/10	21.2	21.0
10/30	22.8	22.9
2/10	35.0	34.2
5/30	44.0	43.9
2/30	57.8	57.1



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	88.3	66.9	12.5	(90.1)	(74.9)	(67.2)	(11.1)
5yr Yield	88.3	100.0	93.0	55.7	(85.0)	(90.8)	(86.6)	(54.0)
10yr Yield	66.9	93.0	100.0	81.6	(70.2)	(90.5)	(88.9)	(78.0)
30yr Yield	12.5	55.7	81.6	100.0	(25.8)	(64.8)	(69.4)	(96.7)
ZT	(90.1)	(85.0)	(70.2)	(25.8)	100.0	86.4	80.3	27.8
ZF	(74.9)	(90.8)	(90.5)	(64.8)	86.4	100.0	98.5	69.1
ZN	(67.2)	(86.6)	(88.9)	(69.4)	80.3	98.5	100.0	76.0
ZB	(11.1)	(54.0)	(78.0)	(96.7)	27.8	69.1	76.0	100.0
emini SP	90.8	86.8	71.2	25.1	(95.4)	(81.3)	(72.7)	(24.3)
Dow Futures	83.0	76.1	58.5	13.5	(88.8)	(65.9)	(56.2)	(10.1)
USDJPY	91.9	79.4	55.7	3.6	(89.7)	(66.8)	(58.8)	(2.3)
EURUSD	16.7	7.0	(3.2)	(19.3)	(38.6)	(4.7)	0.7	23.1
EURJPY	68.9	55.9	35.2	(6.9)	(79.4)	(47.3)	(39.7)	9.1
Crude	18.8	(19.8)	(45.0)	(71.6)	(1.7)	17.5	19.4	61.4

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		0.78	0.45	0.02	0.81	0.56	0.45	0.01
5yr Yield	0.78		0.87	0.31	0.72	0.82	0.75	0.29
10yr Yield	0.45	0.87		0.67	0.49	0.82	0.79	0.61
30yr Yield	0.02	0.31	0.67		0.07	0.42	0.48	0.94
ZT	0.81	0.72	0.49	0.07		0.75	0.65	0.08
ZF	0.56	0.82	0.82	0.42	0.75		0.97	0.48
ZN	0.45	0.75	0.79	0.48	0.65	0.97		0.58
ZB	0.01	0.29	0.61	0.94	0.08	0.48	0.58	
emini SP	0.83	0.75	0.51	0.06	0.91	0.66	0.53	0.06
Dow Futures	0.69	0.58	0.34	0.02	0.79	0.43	0.32	0.01
USDJPY	0.84	0.63	0.31	0.00	0.80	0.45	0.35	0.00
EURUSD	0.03	0.00	0.00	0.04	0.15	0.00	0.00	0.05
EURJPY	0.47	0.31	0.12	0.00	0.63	0.22	0.16	0.01
Crude	0.04	0.04	0.20	0.51	0.00	0.03	0.04	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	(76.9)	(78.5)	#REF!	(22.5)	53.3	45.3	38.5	12.4
10YR BASIS	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
30YR BASIS	(52.7)	(32.0)	#REF!	23.4	58.3	26.5	26.5	(18.5)

	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	0.59	0.62	0.41	0.05	0.28	0.21	0.15	0.02
10YR BASIS	0.48	0.11	0.00	0.29	0.38	0.03	0.01	0.30
30YR BASIS	0.28	0.10	0.01	0.05	0.34	0.07	0.07	0.03

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

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	(64.5)	#REF!	(53.4)
Dow Futures	(65.0)	#REF!	(62.9)
USDJPY	(69.9)	#REF!	(58.5)
EURUSD	(9.6)	#REF!	(45.3)
EURJPY	(49.7)	#REF!	(63.3)
Crude	16.8	#REF!	(18.3)

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.42	#REF!	0.29
Dow Futures	0.42	#REF!	0.40
USDJPY	0.49	#REF!	0.34
EURUSD	0.01	#REF!	0.20
EURJPY	0.25	#REF!	0.40
Crude	0.03	#REF!	0.03

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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%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$186			
5	\$197	\$440		
10	\$196	\$437	\$769	
30	\$192	\$429	\$754	\$1,476
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$10)			
10	(\$9)	\$3		
30	(\$6)	\$11	\$15	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.33%			
10	-4.75%	0.61%		
30	-2.88%	2.59%	1.96%	

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	2.42	4.23	8.12
ZF	0.46	1.08	1.88	3.62
ZN	0.30	0.72	1.25	2.40
ZB	0.17	0.41	0.72	1.39

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.42	8.45	16.24
ZF	0.46	2.16	3.77	7.24
ZN	0.61	1.43	1.25	2.40
ZB	0.70	1.65	1.44	2.77

	2y	5y	10y	30y
2y	1.00	2.36	4.13	7.92
5y	0.42	1.00	1.75	3.35
10y	0.24	0.57	1.00	1.92
30y	0.13	0.30	0.52	1.00

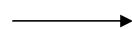
	2y	5y	10y	30y
2y		2.36	2.06	3.96
5y	0.42		0.44	1.68
10y	0.48	2.29		1.92
30y	0.25	0.60	0.52	

	ZT	ZF	ZN	ZB
ZT	1.00	2.24	3.38	5.86
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	6.77	23.43
ZF	0.45		1.51	5.22
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	36.8
5.00	0.3
5.25	61.2
5.50	1.5

October/31/2007	
Target Rate	Probability
4.75	60.5
5.00	0.0
5.25	34.7
5.50	4.7

December/11/2007	
Target Rate	Probability
4.25	27.00
4.50	6.40
4.75	10.39
5.00	12.30

as of 08/09/07

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

