



The Morning Email: Treasuries

8/15/2007 5:47

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Stone & McCarthy
RESEARCH ASSOCIATES

--Stone & McCarthy (Princeton)-- **The July 2007 Fed Senior Loan Officer Opinion Survey on Bank Lending Practices revealed a tightening in lending standards** to all businesses regardless of size: small, large and middle-market firms.

The latest survey also showed a considerable weakening in demand for subprime residential mortgages. Regarding the survey period, banks received the survey in mid-July, and their responses were due July 26, reported the Federal Reserve. Hence, the responses for residential mortgages could have been conceivably worse had the survey period been extended until now.

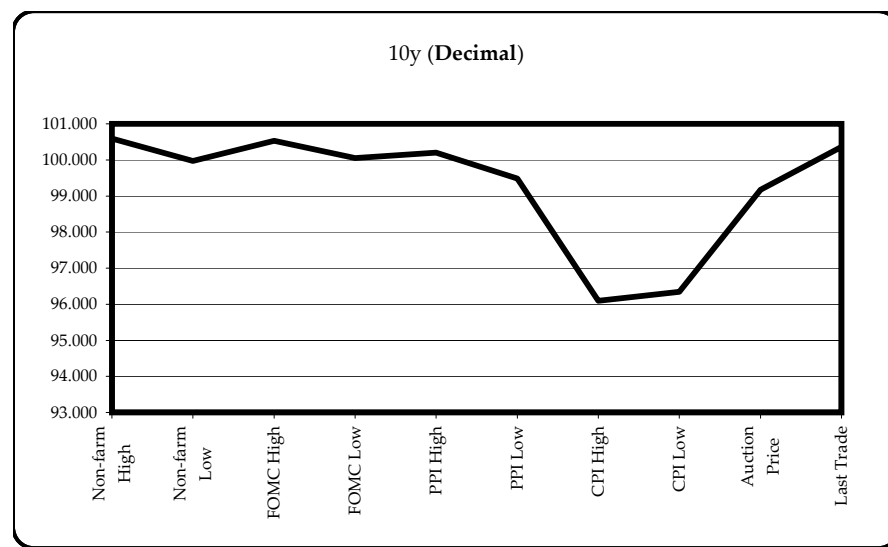
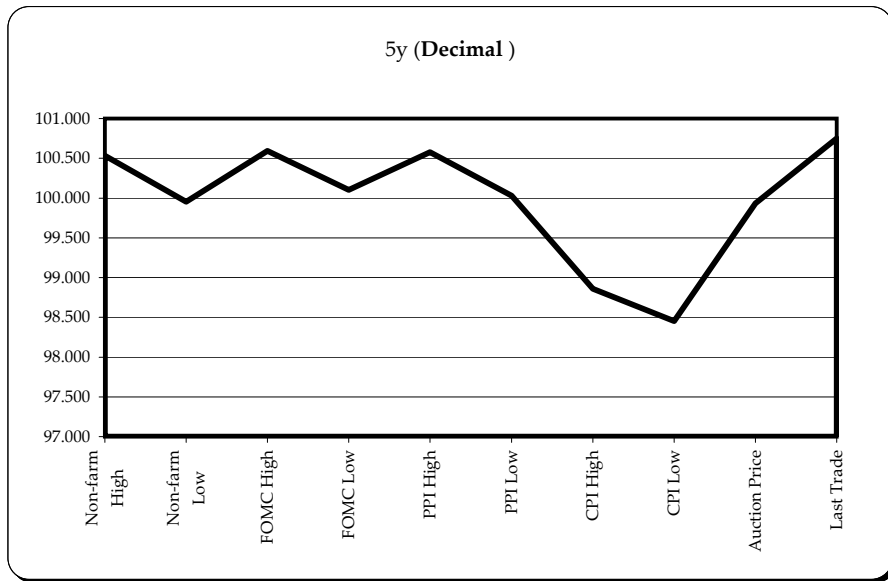
Aug. 14 (Bloomberg) -- Seventeen Canadian asset-backed commercial paper issuers, including Coventree Inc., are seeking back up financing from banks after failing to sell their short-term debt, ratings company DBRS said.

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	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	100.1850	100.065	107.295	109.30	8/14/2007
PPI Low	100.0100	99.155	107.070	109.01	8/14/2007
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	100.2400	100.115	108.025	110.00	8/15/2007 5:47

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 for 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	102.242	2.7	102.297	102.227	102.227	42,372	2y Fut
FVAU7	105.315	6.5	106.005	105.270	105.270	90,182	5y Fut
TYAU7	108.025	6.5	108.060	107.295	107.295	177,909	10y Fut
USAU7	110.000	6	110.040	109.250	109.260	23,678	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.170	0.5	100.180	100.160	100.167	na	2y Cash
BUS05P	100.237	4.0	100.245	100.202	100.220	na	5y Cash
BUS10P	100.115	5.0	100.130	100.070	100.080	na	10y Cash
BUS30P	100.155	9	100.180	100.090	100.090	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.330	(1.70)	4.393	4.309	4.393	na	2y Yield
BUS05Y	4.451	(3.00)	4.511	4.447	4.511	na	5y Yield
BUS10Y	4.701	(1.50)	4.74	4.695	4.74	na	10y Yield
BUS30Y	4.966	(1.50)	4.993	4.959	4.993	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

15:18 08/14 **US TSYS/RECAP:** Tsys rally Tues on 1) Safe-haven buying as riskier assets slid; 2) US stocks weak as traders with leverage/margin accts now may need to sell to get money as asset value slid; 3) Wal-Mart shares declined, cuts yearly earning outlk. 4) Street buying in 3Ys, decent buying in 2Ys, leveraged buying in 10s, hedge funds buy front end, real money buying in 2Y, 30Y futures (corporate-tied). 5) Concern on some Canadian entities' ability to roll over ABCP conduits spur Tsys safe- haven bid. 6) Some sell riskier debt/stks to deleverage, spurring more Tsys safe-haven bid. 7) Eurodlr futures: swappers 2-way in fronts, intermediate, deal-tied flow in Tsy 2s and 30s, vols bounce on bond rally off low. 8) In individual issues, a German bank sold 8,000 Sep07 Eurodlr futures. 9) P.M. had 2-way flow with some safe-haven buying in front-end Eurodlr futures. 10) T-bills, short cpns see good buying. 11) Bid lists in non-agency ARMs, and smaller ones in CMBS. 12) DJIA -1.2%, S&P 500 -1.31%. 12) Agency spreads widen across the board.

15:29 08/14 **EURODLR FUTURES:** Eurodlr futures finished near midrange, well off early lows as the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), steepened 2.125 bps to 71.5. In the Fronts (Sep07-Jun08), the Sep07 was 0.75 bps lower at 94-72.5 on combined Globex and pit volume of 420,000, the Dec07 up 2.0 bps at 95-06 on volume of 471,000, the Mar08 up 5.0 bps at 95-28.5 on volume of 552,000, while the Jun08 was 5.5 bps higher at 95-33 on volume of 441,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 4.5 to 5.0 bps higher across the pack with 914,000 contracts traded.

15:12 08/14 **US SWAPS:** Spds finished session near wides as Tsys rallied, stocks crumbled. It looked like the session was going to be a typical dog days of summer kind of a session with sources reporting modest two way , receivers matching payers in the fronts to intermediates with some deal related flow in 2s and 30s. The calm was tenuous, however, as spreads pushed to new session wides--now at 7-year wides. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+3.25/63.75	+2.25/69.75	+1.75/73.75	+0.50/71.50
1:00	+2.50/62.50	+2.00/69.50	+1.25/73.25	+0.25/71.25
11:30	+1.75/61.75	+1.50/69.00	+1.00/73.00	+0.25/71.25
10:40	+0.75/60.75	+1.25/68.75	+0.75/72.75	+0.00/71.00
10:10	+0.50/60.50	+0.50/68.00	+0.25/72.25	-0.25/70.75
9:15	-1.25/58.75	-0.25/67.25	-0.25/71.75	-0.50/70.50
Tue Open	-0.50/59.50	+0.25/67.75	+0.50/72.50	+0.00/71.00

(continued)

05:36 08/15 **TSYS:** Treasuries are trading modestly higher in London Wednesday, as global debt markets maintain a safe haven bid. With global equities again spooked by concerns over the fall out from the problems in the U.S. subprime mortgage market, bonds found a solid bid from early Asian trade.

Prices were higher from the getgo in Tokyo. And yield continued to fall throughout the session, as the Nikkei 225 fell to year-to-date lows. Real money names were good buyers of the 2-yr, with Asian central banks seen to the fore, perhaps triggered by the dollar weakness against the yen. In Europe, real money and leveraged accounts were buyers from the start of trade, although volumes were below recent averages. Real money names were buyers of 5 and 10-yr paper, with residual demand seen from Asia names in the 2-yr sector.

The Bund/T-note narrowed 1.5 on Tues's levels at 44 bps as Bunds were weighed ahead of the auction. the 2-yr note was 1+32 higher, trading at 100 17/32 to yield 4.34%. The 10-yr note was 4/32 higher at 100 11/32 (4.71%).

MarketNews
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RESEARCH ASSOCIATES

14:02 08/14 **US BONDS:** Several sources say today's \$3B bid list from a REIT containing non-agency AAA ARMS might be because of today's downgrade or margin calls. And other bidlist might be just to raise cash for possible redemptions or just to deleverage. But one analyst said the general themes are the same. **"It's not credit induced, it's about liquidity.** And they need money."

Several sources also note the mood is quite grim with information sharing drying up and even the passing on of information that is not true. "People are running for the hills," one salesman said. "People who would normally have interest in certain types of paper no longer want to be involved because they don't know where the clearing levels are," the analyst said. In terms of current disputes over the backup lines of credit in the ABCP market, another analyst said, "the Street can move faster than the lawyers and the name of the game is act now and ask questions later." On the topic of funding problems, market sources uniformly said it is a house of cards and if only a few big players take their chips off the table, it can all come tumbling down.

14:06 08/14 **US TSYS:** ...Meanwhile, hedge funds have the 45-day notice period deadline Wed. by which time those customers who sought to exit funds by Sept. 28 quarter-end must give notice by Wed, with some fear around on that score too.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.49	4.98	\$1,557	9.96	n/a
10y	7.89	2.53	\$792	5.07	n/a
5y	4.38	1.42	\$442	5.66	n/a
2y	1.85	0.60	\$186	2.39	n/a
ZB	9.60	3.43	\$107	3.43	0.8625
ZN	5.66	1.99	\$62	3.97	0.9086
ZF	3.83	1.31	\$41	2.62	0.9430
ZT	1.76	1.16	\$36	4.65	0.9764

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	12.10	12.20	0.10
5/10	25.00	22.10	(2.90)
10/30	26.50	24.10	(2.40)
2/10	37.10	34.30	(2.80)
5/30	51.50	46.20	(5.30)
2/30	63.60	58.40	(5.20)

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.

Notes

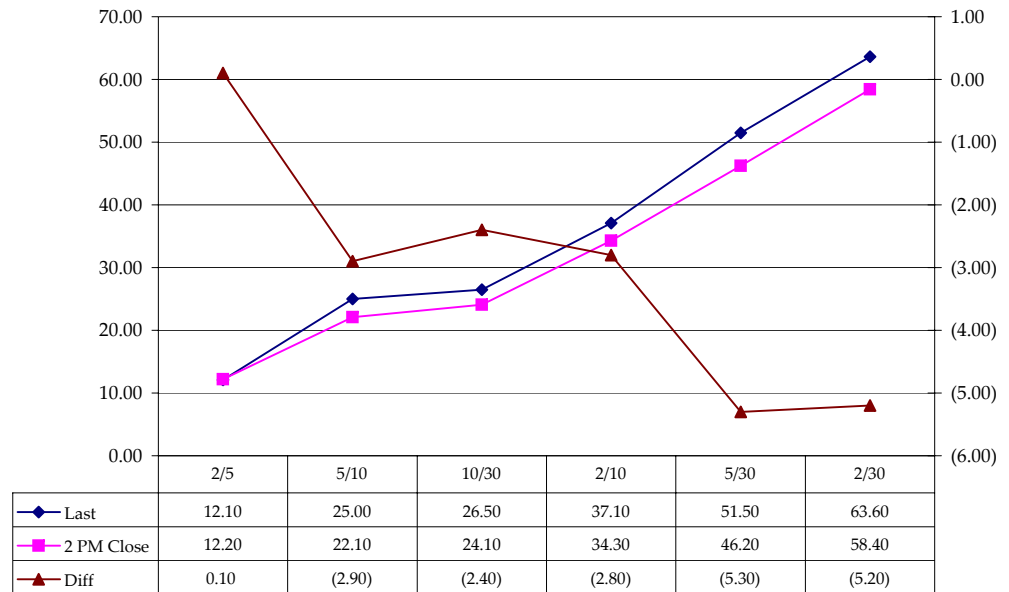
CF = Conversion Factor

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		1.728	2.617	2.948
ZN	0.579		1.515	1.706
ZF	0.382	0.660		1.126
ZT	0.339	0.586	0.888	

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	1.66	4.13	7.39	14.52
ZN	2.88	7.13	12.77	25.09
ZF	4.36	10.80	19.34	38.01
ZT	4.91	12.16	21.78	42.81

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		2.479	4.295	8.399
5y	0.403		1.733	3.388
10y	0.225	0.558		1.892
30y	0.115	0.284	0.492	

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	

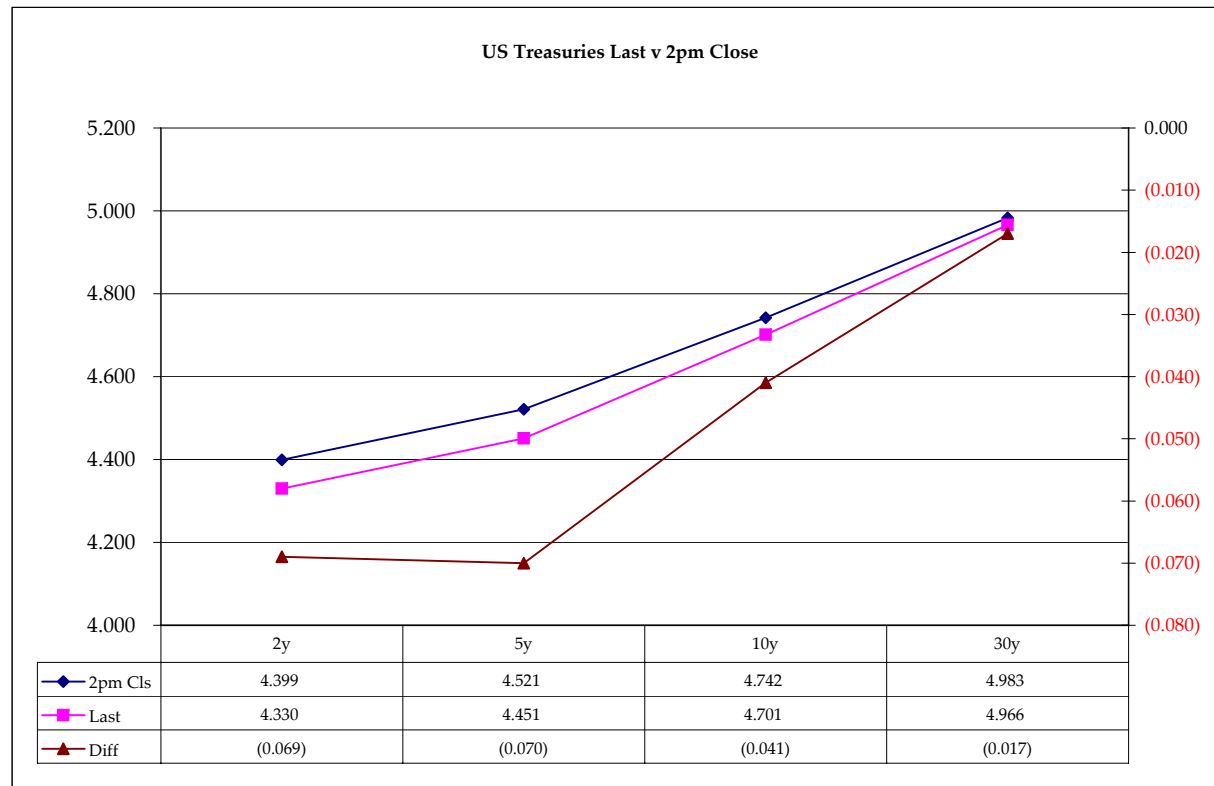
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.625	7/31/09	100.1275	4.399	4.330	(0.069)			
5y	4.625	7/31/09	100.1425	4.521	4.451	(0.070)	21.72	25.82	
10y	4.750	8/15/17	100.020	4.742	4.701	(0.041)	65.51	69.11	
30y	5.000	5/15/37	100.08	4.983	4.966	(0.017)	177.17	179.50	

	Close 32	Last
ZF	105.255	105.315
ZN	107.280	108.025
ZB	109.26	110.000

Curve Spreads		
	Close bps	Last bps
2/5	12.2	12.1
5/10	22.1	25.0
10/30	24.1	26.5
2/10	34.3	37.1
5/30	46.2	51.5
2/30	58.4	63.6



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	94.6	79.0	13.5	(97.0)	(88.9)	(83.8)	(23.3)
5yr Yield	94.6	100.0	93.3	42.2	(95.1)	(96.8)	(94.9)	(52.0)
10yr Yield	79.0	93.3	100.0	71.0	(80.8)	(92.8)	(93.9)	(75.9)
30yr Yield	13.5	42.2	71.0	100.0	(18.9)	(47.9)	(55.8)	(96.4)
ZT	(97.0)	(95.1)	(80.8)	(18.9)	100.0	94.3	90.3	32.5
ZF	(88.9)	(96.8)	(92.8)	(47.9)	94.3	100.0	99.1	60.6
ZN	(83.8)	(94.9)	(93.9)	(55.8)	90.3	99.1	100.0	69.0
ZB	(23.3)	(52.0)	(75.9)	(96.4)	32.5	60.6	69.0	100.0
emini SP	98.4	94.0	78.5	14.1	(97.8)	(89.5)	(84.8)	(25.8)
Dow Futures	96.5	89.0	68.6	(0.3)	(96.6)	(83.8)	(78.6)	(13.4)
USDJPY	93.9	90.5	71.4	6.0	(96.0)	(88.0)	(82.4)	(19.9)
EURUSD	72.2	64.4	39.1	(23.2)	(77.2)	(61.0)	(57.0)	6.4
EURJPY	86.9	81.1	57.9	(8.8)	(90.8)	(78.2)	(73.4)	(7.6)
Crude	15.5	(11.0)	(35.3)	(70.3)	(5.4)	12.3	19.7	65.7

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		0.89	0.62	0.02	0.94	0.79	0.70	0.05
5yr Yield	0.89		0.87	0.18	0.90	0.94	0.90	0.27
10yr Yield	0.62	0.87		0.50	0.65	0.86	0.88	0.58
30yr Yield	0.02	0.18	0.50		0.04	0.23	0.31	0.93
ZT	0.94	0.90	0.65	0.04		0.89	0.82	0.11
ZF	0.79	0.94	0.86	0.23	0.89		0.98	0.37
ZN	0.70	0.90	0.88	0.31	0.82	0.98		0.48
ZB	0.05	0.27	0.58	0.93	0.11	0.37	0.48	
emini SP	0.97	0.88	0.62	0.02	0.96	0.80	0.72	0.07
Dow Futures	0.93	0.79	0.47	0.00	0.93	0.70	0.62	0.02
USDJPY	0.88	0.82	0.51	0.00	0.92	0.77	0.68	0.04
EURUSD	0.52	0.42	0.15	0.05	0.60	0.37	0.33	0.00
EURJPY	0.75	0.66	0.34	0.01	0.83	0.61	0.54	0.01
Crude	0.02	0.01	0.12	0.49	0.00	0.02	0.04	0.43

	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	(85.9)	(84.2)	(73.2)	(19.2)	76.0	68.2	64.3	20.4
10YR BASIS	(78.5)	(58.0)	(29.2)	43.9	73.9	48.2	39.7	(34.5)
30YR BASIS	(74.1)	(64.1)	(40.2)	17.8	75.2	59.7	58.0	(0.4)

	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	0.74	0.71	0.54	0.04	0.58	0.46	0.41	0.04
10YR BASIS	0.62	0.34	0.09	0.19	0.55	0.23	0.16	0.12
30YR BASIS	0.55	0.41	0.16	0.03	0.57	0.36	0.34	0.00

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	(82.9)	(77.2)	(75.9)
Dow Futures	(80.9)	(84.9)	(83.5)
USDJPY	(75.9)	(76.7)	(70.4)
EURUSD	(58.1)	(80.2)	(79.2)
EURJPY	(69.7)	(82.0)	(79.1)
Crude	5.0	(43.8)	(23.6)

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.69	0.60	0.58
Dow Futures	0.66	0.72	0.70
USDJPY	0.58	0.59	0.50
EURUSD	0.34	0.64	0.63
EURJPY	0.49	0.67	0.63
Crude	0.00	0.19	0.06

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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%	56%	100%	
30	13%	28%	51%	139%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$186			
5	\$197	\$442		
10	\$196	\$440	\$792	
30	\$189	\$423	\$762	\$1,499
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$11)			
10	(\$10)	\$2		
30	(\$2)	\$19	\$30	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.64%			
10	-5.10%	0.57%		
30	-1.32%	4.57%	3.98%	

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	2.43	4.36	8.24
ZF	0.45	1.08	1.93	3.66
ZN	0.30	0.71	1.28	2.42
ZB	0.17	0.41	0.74	1.40

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.43	8.71	16.49
ZF	0.45	2.16	3.87	7.32
ZN	0.60	1.43	1.28	2.42
ZB	0.70	1.65	1.48	2.80

	2y	5y	10y	30y
2y	1.00	2.37	4.25	8.04
5y	0.42	1.00	1.79	3.39
10y	0.24	0.56	1.00	1.89
30y	0.12	0.30	0.53	1.00

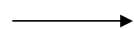
	2y	5y	10y	30y
2y		2.37	2.13	4.02
5y	0.42		0.45	1.69
10y	0.47	2.23		1.89
30y	0.25	0.59	0.53	

	ZT	ZF	ZN	ZB
ZT	1.00	2.25	3.41	5.90
ZF	0.44	1.00	1.51	2.62
ZN	0.29	0.66	1.00	1.73
ZB	0.17	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.25	6.82	23.59
ZF	0.44		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	40.1
5.00	1.1
5.25	58.6
5.50	0.0

October/31/2007	
Target Rate	Probability
4.75	66.3
5.00	0.0
5.25	27.2
5.50	6.3

December/11/2007	
Target Rate	Probability
4.25	18.20
4.50	18.40
4.75	16.10
5.00	14.80

as of 08/13/07

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

