



8/16/2007 6:06

The Morning Email: Treasuries

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

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

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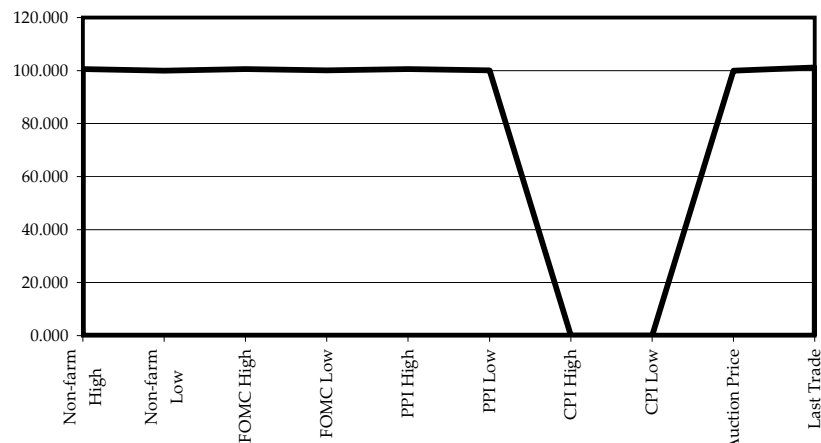
Stone & McCarthy
RESEARCH ASSOCIATES

MarketNews
International

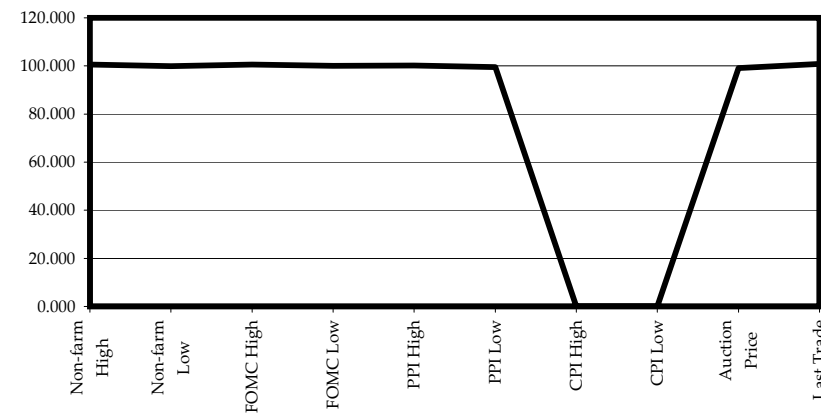
Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	100.1700	100.190	107.300	110.23	8/3/2007
Non-farm Low	99.3050	99.310	107.115	109.30	8/3/2007
FOMC High	100.1900	100.170	107.300	110.18	8/7/2007
FOMC Low	100.0325	100.015	107.140	110.02	8/7/2007
PPI High	100.1850	100.065	107.295	109.30	8/14/2007
PPI Low	100.0100	99.155	107.070	109.01	8/14/2007
CPI High	0.0000	0.000	0.000	0.00	8/15/2007
CPI Low	0.0000	0.000	0.000	0.00	8/15/2007
Auction Price	99.2988	99.056			
Last Trade	101.0520	100.260	108.195	110.06	8/16/2007 6:06

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

5y (Decimal)



10y (Decimal)



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	102.312	5.0	102.312	102.255	102.267	75,510	2y Fut
FVAU7	106.125	9.0	106.140	106.020	106.040	110,471	5y Fut
TYAU7	108.195	13.0	108.210	108.050	108.070	205,381	10y Fut
USAU7	110.060	20	110.080	109.170	109.180	64,798	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.250	5.5	100.252	100.197	100.207	na	2y Cash
BUS05P	101.050	12.5	101.062	100.270	100.282	na	5y Cash
BUS10P	100.250	18.5	100.270	100.090	100.125	na	10y Cash
BUS30P	100.170	102	100.215	99.260	99.260	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.200	(9.20)	4.3	4.191	4.3	na	2y Yield
BUS05Y	4.359	(8.50)	4.465	4.35	4.439	na	5y Yield
BUS10Y	4.649	(7.30)	4.72	4.64	4.72	na	10y Yield
BUS30Y	4.961	(6.40)	5.042	4.953	5.022	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

06:31 08/16 US: Reported comments from US officials overnight,
 ** PAULSON: Speaking in the WSJ Thursday, US Treas Sec Paulson said he expects current turmoil in US capital markets to slow, but not stall, US growth rates, adding that the current market repricing of risk shouldn't be a surprise as it was inevitable. He also said nothing should be done to try and guarantee market actors from losses. (WSJ)
 ** POOLE: St. Louis Fed Pres. William Poole said,
 - Not desirable for Fed to act before Sep18 meeting
 - No impact yet on the real economy from market upsets
 - Too early to say what the impact of market turmoil is on economy
 - Inflation moving in the right direction but job not done yet. (BbgTV)

05:13 08/16 **TSYS**: Treasuries are trading higher across the board in London trade Thursday boosted by renewed safe haven flows as global stocks again fall sharply. Comments from U.S. Treasury Secretary Henry Paulson in the WSJ suggested a slowing of U.S. growth in coming months, impacted by the stock market turmoil. Prices were higher from the off in Tokyo, with the flight to quality demand helping push the front of the curve sharply higher, as the 2-year yield fell to a low of 4.24%. Real money demand was noted in the shorter-dated paper, with good demand seen from Asian central banks. End user demand was also seen in the belly of the curve, underpinning both the 5 and 10-year sector as well. The bid continued into the London session, again underpinned by sharp falls seen on regional stocks. Although shorter-dated paper slipped from early highs, solid gains were still in place, with the 2-year yield down 2 bps at 4.260%. The Bund/T-note widened 1 bps on Wednesday's levels to 46 bps. The 2-yr note was higher, yielding 4.26%, with the 10-yr 4.69%.

(continued)

07:00 08/16 JAPAN: BOJ's UK representative declines to comment on yen's surge (rtrs)

U.S. Portfolio Survey: Near Neutral, Waiting On Calmer Waters

--Stone & McCarthy--There were widespread moderate changes among participants in the SMR U.S. Portfolio Manager Survey for the week ended August 14, but the direction of the changes was mixed leaving key survey statistics little changed overall. Measures of market sentiment remain neutral to marginally bearish, but the Arithmetic and Weighted readings reversed. The combination of sentiment and risk positioning continue to suggest that portfolio managers are unlikely to venture far from neutral in the weeks immediately ahead.

Treasury and MBS allocations decreased on average in the most recent Survey, while ABS allocations increased. Corporate and Agency allocations were unchanged. The Spread Expectations Index declined, suggesting greater expectations for spreads to widen.

The following table summarizes the most recent survey structural statistics, and compares them with the prior week.

SMR Weekly Money Manager Survey Summary				
08/14/07	Survey Average	Range	Prior Week	Range
Cash/Assets		0% - 8%		0% - 8%
Arithmetic	2.8%		2.8%	
Weighted	3.0%		3.0%	
Actual/Target Duration		97% - 103%		98% - 104%
Arithmetic	99.8%		100.1%	
Weighted	100.0%		99.8%	
Bear/Bull Index		3 - 6		3 - 6
Arithmetic	4.8		4.9	
Asset Weighted	5.0		5.0	
*Intending to adjust portfolio in coming week				
Actual/Bogey	99.0%		98.3%	
Bear/Bull Index	4.7		5.0	
% Planning to be Active	23%		8%	

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.49	4.99	\$1,559	9.98	n/a
10y	7.89	2.55	\$796	5.10	n/a
5y	4.38	1.42	\$444	5.69	n/a
2y	1.85	0.60	\$187	2.39	n/a
ZB	9.61	3.45	\$108	3.45	0.8625
ZN	5.66	1.99	\$62	3.98	0.9086
ZF	3.83	1.32	\$41	2.63	0.9430
ZT	1.76	1.17	\$36	4.66	0.9764

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	15.90	15.20	(0.70)
5/10	29.00	27.70	(1.30)
10/30	31.20	30.40	(0.80)
2/10	44.90	42.90	(2.00)
5/30	60.20	58.10	(2.10)
2/30	76.10	73.30	(2.80)

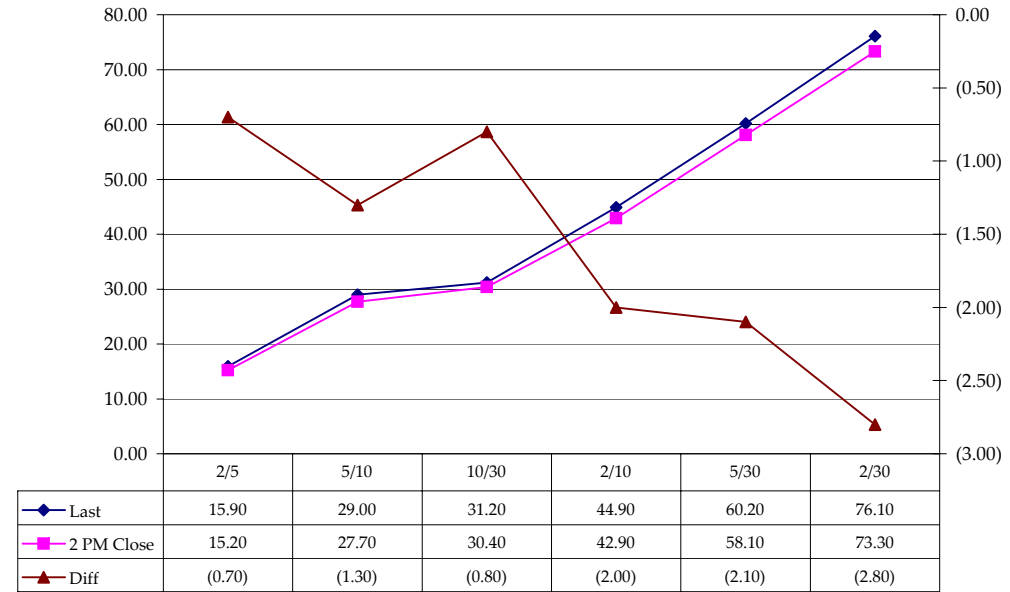
DV01 32 said differently is how many TICS is in a basis point. Example, If ZN moves 1-basis point, it's moved 1.94 tics.

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	2.618	2.958
ZN	0.577		1.512	1.708
ZF	0.382	0.661		1.130
ZT	0.338	0.585	0.885	

Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.9	4.6
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	4.12	7.39	14.47
ZN	2.87	7.14	12.79	25.06
ZF	4.34	10.79	19.34	37.88
ZT	4.91	12.20	21.85	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		2.485	4.306	8.401
5y	0.402		1.733	3.380
10y	0.225	0.558		1.887
30y	0.115	0.285	0.494	

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	As of
	Net	Net	Net	
ZF	12,619	(60,658)	48,039	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	100.1975	4.276	4.200	(0.076)			
5y	4.625	7/31/09	100.2725	4.428	4.359	(0.069)	25.29	26.76	
10y	4.750	8/15/17	100.115	4.705	4.649	(0.056)	65.93	68.16	
30y	5.000	5/15/37	99.28	5.009	4.961	(0.048)	171.57	178.83	

	Close 32	Last
ZF	106.035	106.125
ZN	108.060	108.195
ZB	109.18	110.060

Curve Spreads		
	Close bps	Last bps
2/5	15.2	15.9
5/10	27.7	29.0
10/30	30.4	31.2
2/10	42.9	44.9
5/30	58.1	60.2
2/30	73.3	76.1



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	97.3	85.5	13.7	(98.4)	(94.7)	(92.7)	(35.5)
5yr Yield	97.3	100.0	94.0	33.8	(96.3)	(97.5)	(97.1)	(54.8)
10yr Yield	85.5	94.0	100.0	63.0	(82.8)	(89.9)	(91.3)	(76.6)
30yr Yield	13.7	33.8	63.0	100.0	(11.1)	(30.2)	(36.2)	(93.8)
ZT	(98.4)	(96.3)	(82.8)	(11.1)	100.0	97.3	95.5	36.5
ZF	(94.7)	(97.5)	(89.9)	(30.2)	97.3	100.0	99.6	54.8
ZN	(92.7)	(97.1)	(91.3)	(36.2)	95.5	99.6	100.0	60.9
ZB	(35.5)	(54.8)	(76.6)	(93.8)	36.5	54.8	60.9	100.0
emini SP	99.0	96.2	83.0	10.5	(98.9)	(95.0)	(92.8)	(34.2)
Dow Futures	97.9	93.0	75.9	(1.5)	(97.9)	(91.6)	(89.1)	(23.7)
USDJPY	92.2	90.6	75.7	6.3	(95.7)	(92.5)	(90.9)	(31.5)
EURUSD	86.5	78.9	54.4	(26.1)	(88.7)	(80.2)	(77.3)	(1.7)
EURJPY	92.6	88.2	68.4	(8.3)	(95.6)	(89.9)	(87.7)	(19.1)
Crude	(8.8)	(24.6)	(40.1)	(61.1)	5.6	19.3	21.0	56.4

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		0.95	0.73	0.02	0.97	0.90	0.86	0.13
5yr Yield	0.95		0.88	0.11	0.93	0.95	0.94	0.30
10yr Yield	0.73	0.88		0.40	0.69	0.81	0.83	0.59
30yr Yield	0.02	0.11	0.40		0.01	0.09	0.13	0.88
ZT	0.97	0.93	0.69	0.01		0.95	0.91	0.13
ZF	0.90	0.95	0.81	0.09	0.95		0.99	0.30
ZN	0.86	0.94	0.83	0.13	0.91	0.99		0.37
ZB	0.13	0.30	0.59	0.88	0.13	0.30	0.37	
emini SP	0.98	0.93	0.69	0.01	0.98	0.90	0.86	0.12
Dow Futures	0.96	0.86	0.58	0.00	0.96	0.84	0.79	0.06
USDJPY	0.85	0.82	0.57	0.00	0.92	0.86	0.83	0.10
EURUSD	0.75	0.62	0.30	0.07	0.79	0.64	0.60	0.00
EURJPY	0.86	0.78	0.47	0.01	0.91	0.81	0.77	0.04
Crude	0.01	0.06	0.16	0.37	0.00	0.04	0.04	0.32

	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	(71.5)	(72.4)	(72.7)	(30.7)	59.7	55.1	54.8	33.3
10YR BASIS	(71.7)	(56.6)	(35.4)	40.2	65.7	48.5	43.8	(26.0)
30YR BASIS	(74.2)	(66.2)	(47.5)	17.0	72.2	62.2	62.0	6.8

	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	0.51	0.52	0.53	0.09	0.36	0.30	0.30	0.11
10YR BASIS	0.51	0.32	0.12	0.16	0.43	0.24	0.19	0.07
30YR BASIS	0.55	0.44	0.23	0.03	0.52	0.39	0.38	0.00

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	(66.6)	(70.0)	(74.8)
Dow Futures	(64.9)	(76.1)	(80.3)
USDJPY	(54.1)	(59.1)	(62.6)
EURUSD	(48.1)	(74.4)	(76.7)
EURJPY	(53.1)	(68.2)	(71.7)
Crude	27.9	(34.0)	(15.9)

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.44	0.49	0.56
Dow Futures	0.42	0.58	0.64
USDJPY	0.29	0.35	0.39
EURUSD	0.23	0.55	0.59
EURJPY	0.28	0.47	0.51
Crude	0.08	0.12	0.03

One contract may be correlating with another but does that mean there's causation? Is one causing the other?

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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	\$187			
5	\$198	\$444		
10	\$197	\$442	\$796	
30	\$189	\$424	\$763	\$1,502
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$11)			
10	(\$10)	\$2		
30	(\$2)	\$21	\$33	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-5.80%			
10	-5.29%	0.54%		
30	-1.22%	4.86%	4.30%	

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	2.44	4.37	8.25
ZF	0.45	1.08	1.93	3.65
ZN	0.30	0.71	1.28	2.41
ZB	0.17	0.41	0.74	1.39

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.44	8.74	16.49
ZF	0.45	2.16	3.87	7.30
ZN	0.60	1.43	1.28	2.41
ZB	0.69	1.65	1.48	2.79

	2y	5y	10y	30y
2y	1.00	2.38	4.26	8.05
5y	0.42	1.00	1.79	3.38
10y	0.23	0.56	1.00	1.89
30y	0.12	0.30	0.53	1.00

	2y	5y	10y	30y
2y		2.38	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	2.26	3.42	5.92
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		2.26	6.83	23.67
ZF	0.44		1.51	5.24
ZN	0.15	0.66		3.46
ZB	0.04	0.19	0.29	

Sept

	450	475	500	525	550
8/13/2007	19.4%	0.0%	22.9%	57.6%	0.0%
8/14/2007	20.9%	0.0%	24.2%	54.8%	0.0%

October

	450	475	500	525	550	575
8/13/2007	37.2%	0.0%	15.8%	45.9%	0.8%	0.3%
8/14/2007	43.3%	0.0%	12.4%	44.0%	0.0%	0.2%

December

	400	425	450	475	500	525	550	575
8/13/2007	12.0%	0.0%	16.6%	26.9%	12.5%	26.5%	5.6%	0.0%
8/14/2007	16.1%	0.0%	20.6%	22.1%	7.7%	29.8%	3.2%	0.6%

These probabilities take options into account and are much better at forecasting the FOMC intentions than the 'day-count' equation most analysts on the street use.

I'm switching to this type of view instead of the other one. I think this is better because we have a day to day comparison that we can see instantly.

Notes:

All probabilities are taken from The Cleveland Federal Reserve

