8/20/2007 5:50

The Morning Email: Treasuries

Table of Contents

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

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MarketNews International

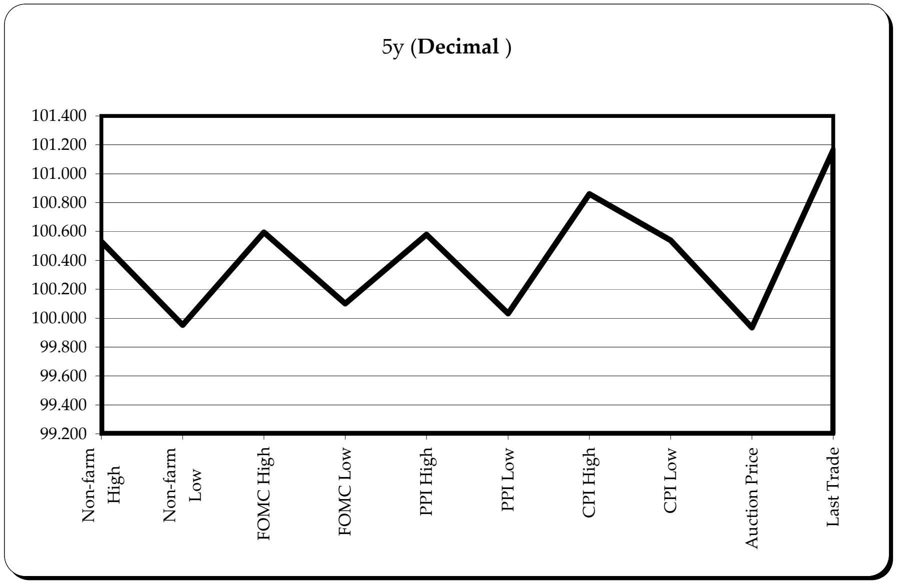
Important Econ Releases, Highs & Lows

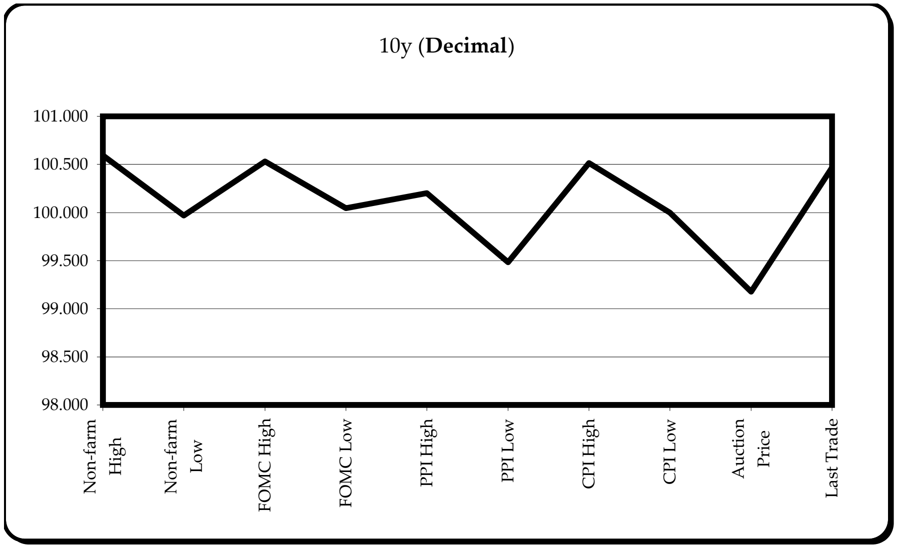
Economic Releases - 32nds

	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	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	100.2750	100.165	108.090	110.00	8/15/2007
CPI Low	100.1725	100.000	107.245	109.11	8/15/2007
Auction Price	99.2988	99.056			
Last Trade	101.0520	100.150	108.160	109.25	8/20/2007 5:50

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	102.310	(1.5)	102.317	102.292	102.310	34,026	2y Fut
FVAU7	106.135	(3.0)	106.155	106.100	106.130	59,944	5y Fut
TYAU7	108.160	(3.0)	108.190	108.115	108.160	102,928	10y Fut
USAU7	109.250	(2)	109.300	109.180	109.280	22,028	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.252	(0.5)	100.265	100.247	100.265	na	2y Cash
BUS05P	101.047	(1.0)	101.067	101.027	101.032	na	5y Cash
BUS10P	100.145	(1.0)	100.185	100.115	100.180	na	10y Cash
BUS30P	99.270	(5)	100.000	99.220	100.000	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.193	1.20	4.218	4.151	4.193	na	2y Yield
BUS05Y	4.360	0.80	4.383	4.336	4.35	na	5y Yield
BUS10Y	4.691	1.00	4.708	4.665	4.673	na	10y Yield
BUS30Y	5.008	1.00	5.023	4.976	4.981	na	30y Yield

Notes: SYM = Symbol

All times Eastern

Yesterday:

(continued)

Overnight:

05:18 08/20 TSYS: Treasuries are trading lower across the curve in London Monday, as the safe haven premium continues to erode from global bond markets. However, the curve continues to steepen, with sharp outperformance by the 2-yr note, as market players continue to rachet up expectations of an early Federal Reserve rate cut. Buoyed by the Fed's decision to cut the Discount Rate by 50 bps on Friday, many market commentators say that, along with the accompanying statement, has greatly increased the changes of a September cut in the Fed Funds rate. Prices were lower out of the traps in Tokyo trade, hampered by a solid rebound in the Nikkei that saw it rack up 4% gains by early afternoon. However, Treasuries found light support at the front of the curve, with real money bids appearing as equities pared early gains. The downside continued into the London session, as higher equities again weighed on sentiment. But volumes were modest, slowing considerably from the levels seen in previous session.

05:18 08/20 TSYS: (2) Real money names were buyers of the 2-year note and noted as buyers of 5 and 10-year paper on dips. But leveraged accounts remained sellers of the 10-year note as the curve continued to steepen. Asian real money accounts, along with Japanese regional banks, were seen as sellers of the 30-year. The Bund/T-note narrowed 1 bps on Friday's levels to 45 bps. Ahead of the U.S. session, the 2-yr note was 1/64 lower, trading at 100 25/32 to yield 4.17%. The 10-yr note was 4/32 lower at 100 12/32 (4.70%), with the Bond 15/32 lower at 99 23/32 (5.02%).

MarketNews international

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only be interpreted by the markets as a sign of doom."

Duration, DV01s, Curve Spreads, CF

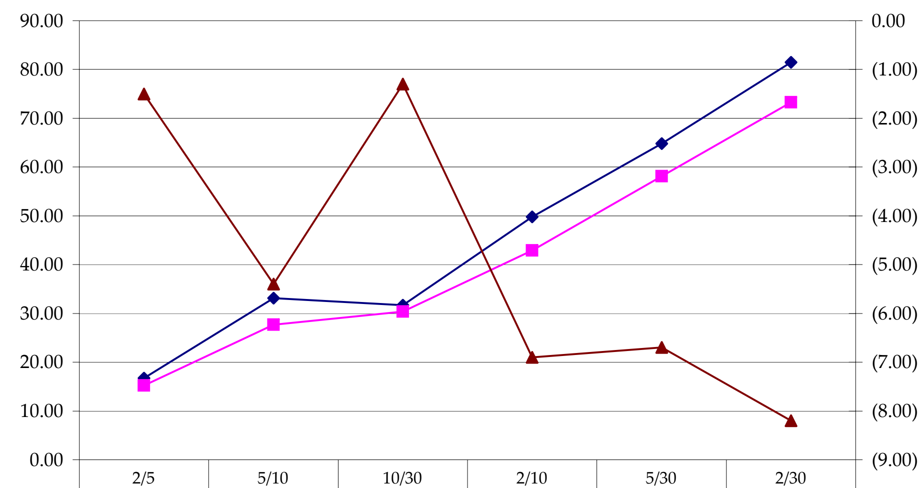
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.43	4.93	$1,542	9.87	n/a
10y	7.88	2.54	$792	5.07	n/a
5y	4.37	1.42	$443	5.68	n/a
2y	1.84	0.59	$186	2.38	n/a
ZB	9.58	3.42	$107	3.42	0.8625
ZN	5.65	1.98	$62	3.97	0.9086
ZF	3.82	1.31	$41	2.63	0.9430
ZT	1.75	1.16	$36	4.64	0.9764

Yield Curve Spreads

	Last	2pm close	Diff
2/5	16.70	15.20	(1.50)
5/10	33.10	27.70	(5.40)
10/30	31.70	30.40	(1.30)
2/10	49.80	42.90	(6.90)
5/30	64.80	58.10	(6.70)
2/30	81.50	73.30	(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.



	2/5	5/10	10/30	2/10	5/30	2/30
Last	16.70	33.10	31.70	49.80	64.80	81.50
2 PM Close	15.20	27.70	30.40	42.90	58.10	73.30
Diff	(1.50)	(5.40)	(1.30)	(6.90)	(6.70)	(8.20)

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		1.724	2.604	2.949
ZN	0.580		1.510	1.711
ZF	0.384	0.662		1.133
ZT	0.339	0.585	0.883	

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	4.15	7.41	14.43
ZN	2.87	7.15	12.78	24.87
ZF	4.33	10.80	19.30	37.57
ZT	4.91	12.24	21.86	42.55

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		2.494	4.307	8.353
5y	0.401		1.727	3.350
10y	0.224	0.560		1.875
30y	0.115	0.288	0.497	

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	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	As of
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

8/20/2007 5:50

Closes: 2pm CST vs this Morning

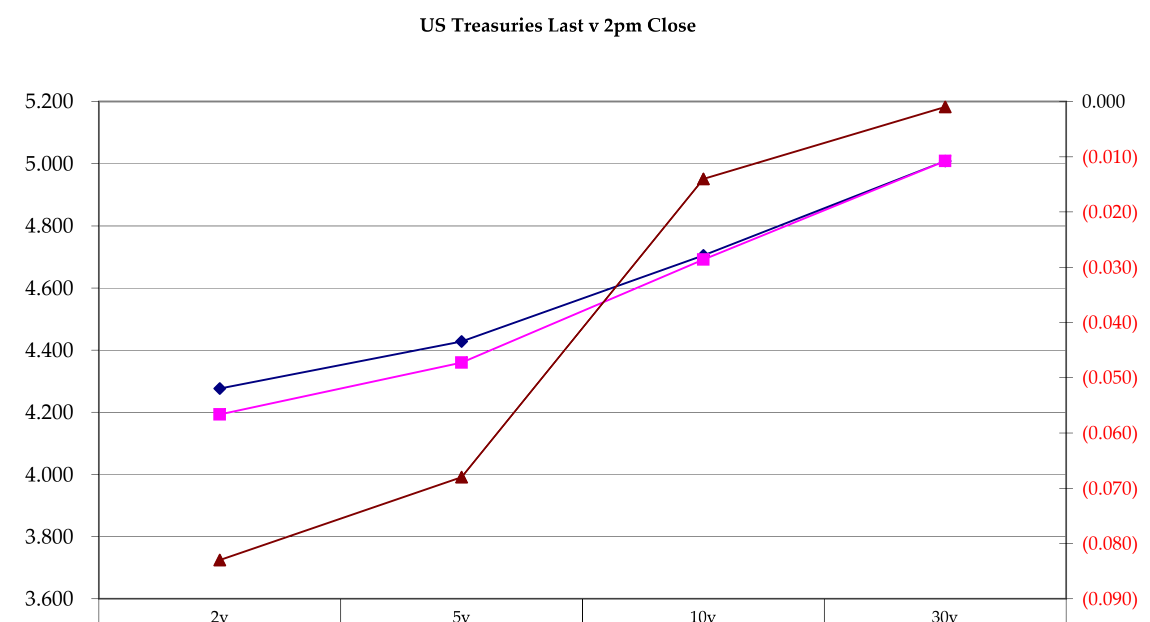
Pg 8

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.625	7/31/09	100.3175	4.276	4.193	(0.083)			
5y	4.625	7/31/09	101.2000	4.428	4.360	(0.068)	29.30	25.81	
10y	4.750	8/15/17	101.065	4.705	4.691	(0.014)	73.39	60.34	
30y	5.000	5/15/37	101.08	5.009	5.008	(0.001)	187.11	165.04	

	Close 32	Last
ZF	106.255	106.135
ZN	108.275	108.160
ZB	110.19	109.250

Curve Spreads

	Close bps	Last bps
2/5	15.2	16.7
5/10	27.7	33.1
10/30	30.4	31.7
2/10	42.9	49.8
5/30	58.1	64.8
2/30	73.3	81.5



	2y	5y	10y	30y
2pm Cls	4.276	4.428	4.705	5.009
Last	4.193	4.360	4.691	5.008
Diff	(0.083)	(0.068)	(0.014)	(0.001)

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	98.9	95.2	17.9	(95.9)	(93.0)	(93.2)	(51.4)
5yr Yield	98.9	100.0	97.5	30.2	(97.0)	(95.9)	(96.6)	(62.0)
10yr Yield	95.2	97.5	100.0	45.7	(93.0)	(92.5)	(94.2)	(69.9)
30yr Yield	17.9	30.2	45.7	100.0	(26.7)	(35.0)	(39.5)	(84.8)
ZT	(95.9)	(97.0)	(93.0)	(26.7)	100.0	99.2	98.6	66.1
ZF	(93.0)	(95.9)	(92.5)	(35.0)	99.2	100.0	99.6	73.1
ZN	(93.2)	(96.6)	(94.2)	(39.5)	98.6	99.6	100.0	75.6
ZB	(51.4)	(62.0)	(69.9)	(84.8)	66.1	73.1	75.6	100.0
emini SP	75.1	72.1	76.1	12.7	(73.2)	(68.7)	(70.0)	(42.7)
Dow Futures	87.1	84.4	85.3	12.7	(85.1)	(80.6)	(81.5)	(47.5)
USDJPY	93.1	94.9	89.4	26.6	(98.7)	(98.6)	(97.3)	(65.3)
EURUSD	94.3	94.4	92.7	22.1	(93.8)	(91.9)	(92.5)	(57.5)
EURJPY	96.1	97.4	93.3	26.0	(99.5)	(98.7)	(98.1)	(64.4)
Crude	23.3	21.7	16.2	1.8	(29.6)	(27.2)	(23.1)	(16.9)

	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		0.98	0.91	0.03	0.92	0.86	0.87	0.26
5yr Yield	0.98		0.95	0.09	0.94	0.92	0.93	0.38
10yr Yield	0.91	0.95		0.21	0.87	0.86	0.89	0.49
30yr Yield	0.03	0.09	0.21		0.07	0.12	0.16	0.72
ZT	0.92	0.94	0.87	0.07		0.98	0.97	0.44
ZF	0.86	0.92	0.86	0.12	0.98		0.99	0.53
ZN	0.87	0.93	0.89	0.16	0.97	0.99		0.57
ZB	0.26	0.38	0.49	0.72	0.44	0.53	0.57	
emini SP	0.56	0.52	0.58	0.02	0.54	0.47	0.49	0.18
Dow Futures	0.76	0.71	0.73	0.02	0.72	0.65	0.66	0.23
USDJPY	0.87	0.90	0.80	0.07	0.97	0.97	0.95	0.43
EURUSD	0.89	0.89	0.86	0.05	0.88	0.84	0.85	0.33
EURJPY	0.92	0.95	0.87	0.07	0.99	0.97	0.96	0.41
Crude	0.05	0.05	0.03	0.00	0.09	0.07	0.05	0.03

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	(16.9)	(10.4)	(13.1)	19.3	(11.4)	(18.2)	(14.7)	(42.6)
10YR BASIS	(64.9)	(55.8)	(58.4)	14.6	49.3	39.3	39.6	(1.6)
30YR BASIS	(73.9)	(70.8)	(69.5)	(8.8)	66.6	61.3	64.3	36.2

	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	0.03	0.01	0.02	0.04	0.01	0.03	0.02	0.18
10YR BASIS	0.42	0.31	0.34	0.02	0.24	0.15	0.16	0.00
30YR BASIS	0.55	0.50	0.48	0.01	0.44	0.38	0.41	0.13

	Daily Correlations Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	(7.4)	(73.9)	(73.7)
Dow Futures	(8.5)	(74.3)	(80.4)
USDJPY	16.5	(40.2)	(57.8)
EURUSD	(4.1)	(58.1)	(74.3)
EURJPY	8.8	(48.4)	(66.2)
Crude	17.9	(21.2)	(13.9)

	Daily R-Squared Treasury Basis		
	5YR BASIS	10YR BASIS	30YR BASIS
emini SP	0.01	0.55	0.54
Dow Futures	0.01	0.55	0.65
USDJPY	0.03	0.16	0.33
EURUSD	0.00	0.34	0.55
EURJPY	0.01	0.23	0.44
Crude	0.03	0.05	0.02

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	44%	**100%**		
10	25%	55%	**100%**	
30	13%	28%	51%	**139%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$186**			
5	$197	**$443**		
10	$195	$440	**$792**	
30	$187	$420	$756	**$1,485**

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)	$4		
30	($1)	$24	$36	

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	-5.78%			
10	-4.96%	0.88%		
30	-0.47%	5.64%	4.72%	

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	1.03	2.45	4.37	8.20
ZF	0.45	1.08	1.93	3.62
ZN	0.30	0.72	1.28	2.40
ZB	0.17	0.41	0.74	1.39

	2y	5y	10y	30y
2y	1.00	2.39	4.27	8.00
5y	0.42	1.00	1.79	3.35
10y	0.23	0.56	1.00	1.88
30y	0.13	0.30	0.53	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.27	3.42	5.90
ZF	0.44	1.00	1.51	2.60
ZN	0.29	0.66	1.00	1.72
ZB	0.17	0.38	0.58	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	1.03	2.45	8.74	16.40
ZF	0.45	2.16	3.86	7.24
ZN	0.60	1.43	1.28	2.40
ZB	0.70	1.66	1.48	2.78

	2y	5y	10y	30y
2y		2.39	2.13	4.00
5y	0.42		0.45	1.67
10y	0.47	2.24		1.88
30y	0.25	0.60	0.53	

	2y	5y	10y	30y
ZT		2.27	6.84	23.59
ZF	0.44		1.51	5.21
ZN	0.15	0.66		3.45
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

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%

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.

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.

Notes:
All probabilities are taken from The Cleveland Federal Reserve