



The Morning Email: Treasuries

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Aug. 22, 2007

Four major U.S. banks said they have each borrowed \$500 million from **the Federal Reserve's discount window**, becoming the first to say they have taken advantage of the central bank's latest attempt to add liquidity to the credit markets. Citigroup said it is "pleased to inject liquidity into the financial system during times of market stress." Minutes later, J.P. Morgan Chase, Bank of America and Wachovia issued a joint press release saying they also borrowed \$500 million each. The trio said "the companies believe it is important at this time to take a leadership role in demonstrating the potential value of the Fed's primary credit facility and to encourage its use by other financial institutions." --WSJ



13:08 08/22 **US TSYS/TBILLS:** T-bills see brisk reinvestment demand ahead of big rollover day Thu (see below for issues maturing). Some expect T-bill bid to endure amid some leftover fears on safety of asset-backed commercial paper (ABCP) though that could be waning. (And some Tsys traders noted that banks will be able to take in ABCP for clients and borrow at the discount window against it.) Thursday also will bring the weekly 3-month and 6-month T-bill auction announcement at 11:00 a.m. ET. "There has been reinvestment demand for tomorrow," said one trader. "They bounced off the worst levels. Real short stuff is almost at the best levels of the day, as are 6-month bills and one-month bills. Three-month bills are lagging." Issues maturing tomorrow include:

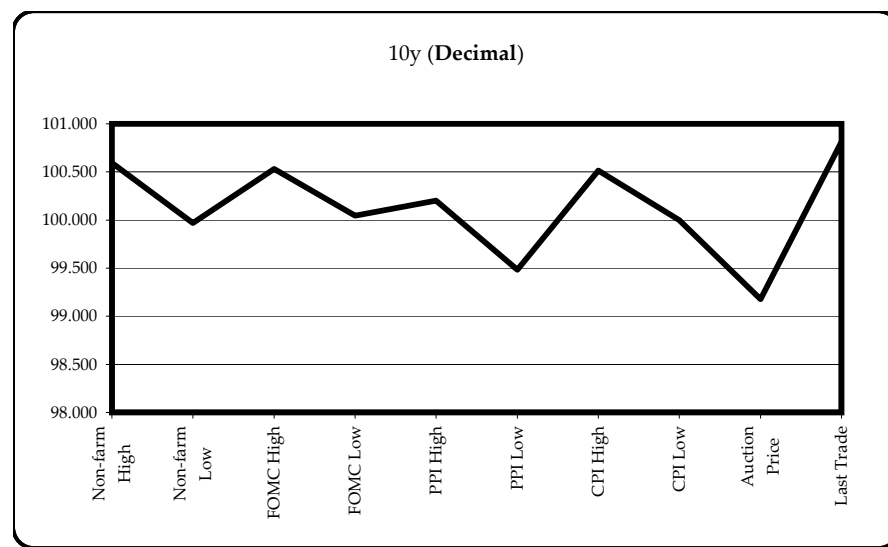
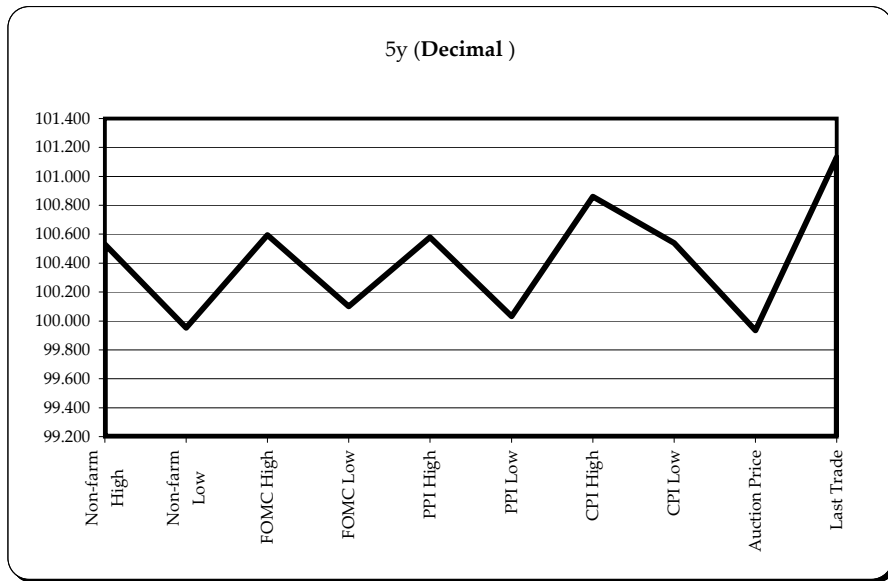
- 1) \$10-billion eight-day cash management bill;
- 2) \$15.0-billion in 3-month bills;
- 3) \$16 billion in six-month T-bills maturing, and
- 4) \$18.0-billion in 4-week T-bills maturing.

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	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	101.0420	100.260	108.195	110.06	8/23/2007 5:35

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	102.282	(8.2)	103.045	102.242	103.040	423,172	2y Fut
FVAU7	106.100	(15.5)	106.250	106.065	106.245	678,797	5y Fut
TYAU7	108.195	(14.5)	109.025	108.145	109.020	1,268,367	10y Fut
USAU7	110.060	(14)	110.190	109.290	110.180	304,717	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	#VALUE!	(8.7)	101.035	100.247	101.017	na	2y Cash
BUS05P	101.040	(16.2)	101.205	101.030	101.205	na	5y Cash
BUS10P	100.255	(15.0)	101.085	100.205	101.085	na	10y Cash
BUS30P	100.175	(7)	100.270	100.050	100.195	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.175	14.70	4.213	4.002	4.04	na	2y Yield
BUS05Y	4.365	11.50	4.379	4.241	4.258	na	5y Yield
BUS10Y	4.647	5.90	4.673	4.583	4.596	na	10y Yield
BUS30Y	4.962	1.70	4.991	4.939	4.949	na	30y Yield

Notes: SYM = Symbol

**All times Eastern****Yesterday:**

15:27 08/22 **US TSYS/RECAP:** Tsys end near day's highs, still lower vs. Tues NY close, amid choppy 2-way flows, but late short-covering, mild safe-haven bid. Earlier this morning, Tsys dipped with German Bunds after ECB repeated strong vigilance stance. Traders eye stks (choppy), T-bills, repo for cues. 1) Overnight, safe-haven bid unwound; 2) Early NY dip on ECB; 3) some exit popular curve steepeners 4) Tsys short-covering off low; 5) Tbill bid including some money mkt funds; T-bill reinvestment bid expected Thu. 6) Traders mull if mkt calmed or if Wed anomaly & will panic anew. 7) Swap spds tighten across curve on a.m. bond dip, despite decent paying tied flow in fronts to intermeds. 8) Swap flow 2-way by midAM after better credit spds as JPM upgrade to neutral of Countrywide bds spurred more swap tightening. Vols off in morn, better put buys, call selling on move. Traders will eye 1) 4:30pm ET Thu Fed banking data (disc win brrwgs); 2) Lehman index extensions ests out Fri; shd be large for US Tsys; 3) Qtr end Fri Aug. 31 for Lehm, BS, MS, ML, GS.

15:27 08/22 **EURODLR FUTURES:** Eurodlr futures finished broadly lower in fronts to intermediates, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 9.125 bps to 65.75. In the Fronts (Sep07-Jun08), the Sep07 were 9.0 bps lower at 94-79 on combined Globex and pit volume of 340,000, the Dec07 lower 13.5 bps at 95-21.5 on volume of 332,000, the Mar08 13.5 bps lower at 95-43.5 on volume of 403,000, while the Jun08 were 11.0 bps lower at 95-45.5 on volume of 367,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 6.5 to 9.0 bps lower across the pack with 945,000 contracts traded.

15:06 08/22 **US SWAPS:** Spds finished the session tighter, but off better levels by the close in the front end--the inversion w/2s vs the balance of the curve continues. News that JP Morgan raised Countrywide Financial bonds to neutral also added further impetus to tighter spds while Tsys traded broadly lower as odds of an ease by Fed dropped. Sources reported some decent paying-tied flow in fronts to intermediates, specifically in 3yr bundles, Eurodollar Red packs (Sep08-Jun09) and Green packs (Sep09-Jun10). Two-way followed, and one desk reported receiving and paying in 1- and 3-year bundles. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-1.50/76.50	-3.00/73.00	-3.25/71.25	-2.50/65.25
12:45	-3.50/74.50	-3.50/72.50	-3.25/71.25	-2.00/64.75
10:10	-4.75/73.25	-4.00/72.00	-3.25/71.25	-2.00/64.75
9:30	-3.75/74.25	-2.75/73.25	-2.50/72.00	-1.25/65.50
Wed Open	-3.00/75.00	-2.00/74.00	-2.00/72.50	-0.75/66.00
Tue 3:00	+3.00/78.00	+0.00/76.00	-1.75/74.50	-4.25/66.75

**(continued)
Overnight:**

05:13 08/23 TSYS: Treasuries are trading lower across the board Thursday, although shorter-dated paper again led the way. With talk again of investors paring back their recent safe haven flows, the flight out of the front of the curve became a near stampede in Asia. Two-year Treasuries are still sharply lower in London, although off the session lows. Having stood at 4.13% at the time of the Chicago futures close, the yield ballooned out to 4.30% in early Asian trade, as the curve continues to flatten as the safe haven flows of recent weeks are unwound. The 2-year was trading off its early Tokyo lows, although still 11 bps higher on the session at 4.270%. The rest of the curve was also lower, with light selling seen across the board from both real money and leveraged accounts. Hot money names were also sellers of the two and 5-year note. There was no pick-up in London, with prices remaining pressured by the continued safe haven unwind. Weaker European government bonds also weighed on sentiment.

05:13 08/23 TSYS: (2) European names were also sellers of the 10-year note. However, two-way flows were seen in the two-year note, as bottom fishing was seen from leveraged accounts. The Bund/T-note was widened modestly on Tuesday's levels to 43 bps, as global bonds continue to unwind the recent safe haven flows. Ahead of the U.S. session, the 2-yr note was 5/32 lower, trading at 100 21/32 to yield 4.27%. The 10-yr note was 10/32 lower at 100 16/32 (4.69%), with the Bond 12/32 lower at 100 6/32 (4.99%). The 2-yr/5-yr yield curve was 2 bps flatter on Tuesday's levels, trading at +17 bps. The 2-/10-yr curve was 4 bps flatter, trading at +42 bps, while the 2-yr/30-yr curve was 6 bp flatter, standing at +72 bps. September expiry futures contracts on the CBOT electronic system are trading lower on Tuesday's closing levels. The two-year note was 6/32 lower at 12 24/32, while Sep T-note was 15/32 lower at 108 12/32 and the Bond was down 14/32 at 109 30/32.



Fed Is Hopeful on Steps So Far

Officials Cite Stability Of Stocks and a Pickup In Big Mortgage Issuance
By GREG IP

August 22, 2007; Page A2

WASHINGTON -- Federal Reserve officials are cautiously optimistic that the series of steps they have taken to stabilize markets have started to work.

09:37 08/22 **ECB**: 3 mth refi is technical measure to support money market normalisation

09:38 08/22 **ECB**: Monetary policy stance was expressed by President on Aug 2.

09:39 08/22 **BUNDS**: Sept Bunds hit session low at 113.22 after ECB says that "monetary policy stance was expressed by ECB President Trichet on Aug 2, i.e. strong vigilance.

09:43 08/22 **US TSYS**: US Tsys moving lower with Bunds (see 9:39am ET) as the ECB comes out and says its monetary policy expressed Aug. 2. 2Y/10y, 2y/30y seeing huge moves flatter on the day.

FED: Fed added US\$2B via its overnight system repos: all was agency collateral, no MBS, no Tsys.

11:46 08/22 **FED/DATA**: Fed balance sheet for today is the data that will be published Thurs evening at 4.30pm ET, and it will disclose discount window borrowings for the pd (avg) and on Weds (spot level), as well as a district breakdown (spot amounts for Weds only). For last week the Aug 15 data showed \$264m in DR loans; there was no borrowing in the NY (money center banks) or Richmond (Countrywide?) Dists, and it appears the bulk of the lending was to ag banks in Chicago, St Louis, KC and Minneapolis Dists.

11:50 08/22 **US FED/DATA**: Credit Suisse economist Neal Soss suggests this is how the discount window data should be interpreted. How to interpret the "If borrowings at the Fed window this Thursday jump and the markets have calmed by then, the Fed's actions worked. If borrowings don't jump but the markets are calm on Thursday, the Fed's actions worked. The numbers have to be seen in the context of the markets." Another economist said the discount window borrowing idea has a potential to work and it is a "clever targeting approach" that avoids the question of moral hazard" but the real problem lies in CP. "If CP gets going, the rest of the markets will get going. If the Fed can help by tapping the markets, so be it. If CP gets going without the Fed, so be it." And she also echoes sentiments heard by others. "Everyday matters and all the things the Fed is doing matter. And each of the Fed actions have to be judged by what is happening in the market" on that particular day.

ECB Statement on Repo operation:

"Today the European Central Bank's Governing Council has decided to conduct a supplementary liquidity-providing longer-term refinancing operation with a maturity of three months for an amount of EUR 40 billion. This operation is a technical measure aimed at supporting the normalisation of the functioning of the euro money market. It is conducted in addition to the regular monthly longer-term refinancing operations, which remain unaffected. The allotment amounts in the main refinancing operations will offset this provision of liquidity, taking into consideration the overall liquidity conditions. Today's decision was taken by written procedure. The position of the Governing Council of the ECB on its monetary policy stance was expressed by its President on 2 August 2007."

Comment >>> The ECB is responding to the illiquidity of the Euribor market on the longer maturities. However, it has also stated that it has not changed its view on the monetary policy stance - suggesting that a September rate hike is still on the cards. However, Trichet has emphasised that the ECB does not pre-commit which could mean that the ECB may still postpone the rate hike if the situation in the money market worsens again. Today's announcement points to higher ECB rates and a flatter curve. Expect to see a continuation of the recent unwinding, while 'normalisation trades' such as steepening of the ASW curve has further to go as CB's deal effectively with the crisis. --Howard

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.47	4.99	\$1,558	9.97	n/a
10y	7.88	2.54	\$795	5.09	n/a
5y	4.36	1.42	\$443	5.67	n/a
2y	1.83	0.59	\$185	2.37	n/a
ZB	9.58	3.43	\$107	3.43	0.8625
ZN	5.65	1.99	\$62	3.98	0.9086
ZF	3.81	1.31	\$41	2.62	0.9430
ZT	1.74	1.16	\$36	4.62	0.9764

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	19.00	21.70	2.70
5/10	28.20	30.20	2.00
10/30	31.50	33.30	1.80
2/10	47.20	51.90	4.70
5/30	59.70	63.50	3.80
2/30	78.70	85.20	6.50

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

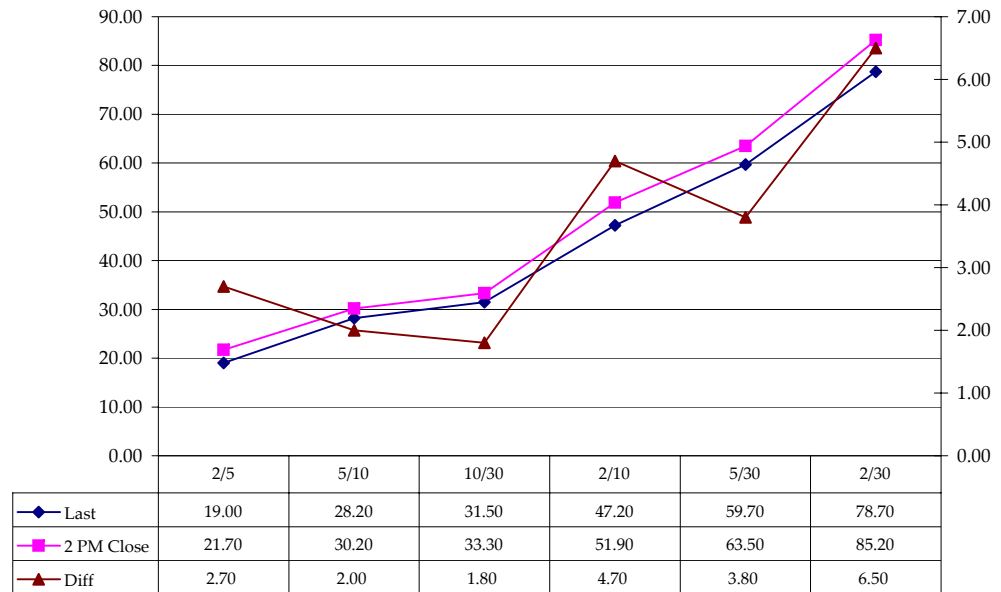
CF = Conversion Factor

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	3.000
Bobl (U)	0.560	0.970	1.470	1.664
Shatz (U)	0.220	0.382	0.578	0.653

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.725	2.620	2.973
ZN	0.580		1.519	1.723
ZF	0.382	0.658		1.135
ZT	0.336	0.580	0.881	

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	1.65	4.12	7.41	14.52
ZN	2.85	7.12	12.78	25.04
ZF	4.32	10.81	19.41	38.03
ZT	4.91	12.26	22.02	43.16

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (U)	1.7	4.0	7.1	13.9
Bobl (U)	3.1	7.3	13.1	25.5
Shatz (U)	7.8	18.6	33.3	65.0

US Treasuries

	2y	5y	10y	30y
2y		2.499	4.342	8.472
5y	0.400		1.738	3.390
10y	0.223	0.557		1.888
30y	0.114	0.284	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	268,068	252,398	15,670	211,672	274,741	(63,069)	1,226,352	1,178,953	47,399	ZF
ZN	351,249	436,596	(85,347)	963,653	305,623	658,030	1,970,508	2,543,191	(572,683)	ZN
ZB	149,028	161,909	(12,881)	124,350	245,000	(120,650)	808,584	675,053	133,531	ZB

WoW^ Position Change				As of 8/14/2007
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	35,028	1,086	(36,114)	
ZN	33,946	(9,988)	(23,959)	
ZB	26,915	(39,754)	12,839	

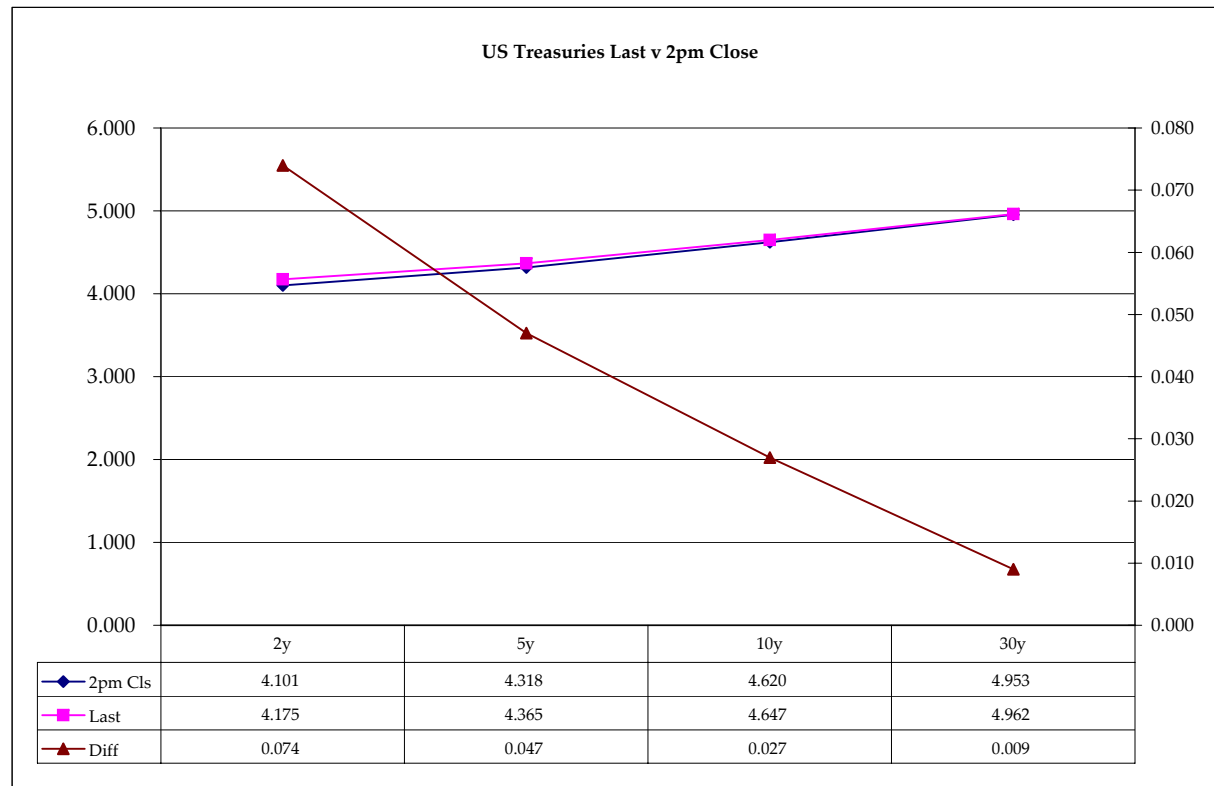
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.625	7/31/09	100.2950	4.101	4.175	0.074			
5y	4.625	7/31/09	101.1050	4.318	4.365	0.047	29.70	28.11	
10y	4.750	8/15/17	101.010	4.620	4.647	0.027	68.35	68.16	
30y	5.000	5/15/37	100.23	4.953	4.962	0.009	176.65	176.83	

	Close 32	Last
ZF	106.150	106.100
ZN	108.270	108.195
ZB	110.12	110.060

Curve Spreads		
	Close bps	Last bps
2/5	21.7	19.0
5/10	30.2	28.2
10/30	33.3	31.5
2/10	51.9	47.2
5/30	63.5	59.7
2/30	85.2	78.7



Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 MDuration for Curve Spreads:
 Longer duration minus shorter duration
 32 = price is quoted in 32nds

Hey! Where are the Correlations? The R-Squared?

All correlations have been moved to a new morning email called.....The Morning Email: Correlations & R-Squared.

Thanks,
Jim

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Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	100%			
5	44%	100%		
10	25%	55%	100%	
30	12%	28%	51%	140%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$185			
5	\$196	\$443		
10	\$195	\$440	\$795	
30	\$187	\$422	\$762	\$1,501
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	-5.78%			
10	-5.30%	0.51%		
30	-1.20%	4.86%	4.33%	

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	1.03	2.45	4.40	8.32
ZF	0.45	1.08	1.94	3.66
ZN	0.30	0.71	1.28	2.41
ZB	0.17	0.41	0.74	1.40

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.03	2.45	8.81	16.63
ZF	0.45	2.16	3.88	7.33
ZN	0.59	1.42	1.28	2.41
ZB	0.69	1.65	1.48	2.80

	2y	5y	10y	30y
2y	1.00	2.39	4.30	8.11
5y	0.42	1.00	1.80	3.39
10y	0.23	0.56	1.00	1.89
30y	0.12	0.29	0.53	1.00

	2y	5y	10y	30y
2y		2.39	2.15	4.05
5y	0.42		0.45	1.70
10y	0.47	2.23		1.89
30y	0.25	0.59	0.53	

	ZT	ZF	ZN	ZB
ZT	1.00	2.27	3.45	5.95
ZF	0.44	1.00	1.52	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		2.27	6.89	23.78
ZF	0.44		1.52	5.24
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
8/20/2007	36.7%	17.8%	25.1%	19.8%	0.6%
8/21/2007	50.2%	3.4%	33.1%	12.7%	0.6%

October

	450	475	500	525	550	575
8/20/2007	88.4%	0.0%	0.0%	6.2%	5.3%	0.0%
8/21/2007	92.7%	0.0%	0.0%	0.0%	6.3%	1.0%

December

	375	400	425	450	475	500	525	550
8/20/2007	3.2%	41.6%	0.0%	12.2%	18.1%	14.1%	8.8%	0.0%
8/21/2007	0.0%	52.5%	0.0%	6.7%	14.5%	11.3%	9.7%	4.9%

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.

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

