



8/27/2007 6:00

The Morning Email: Treasuries

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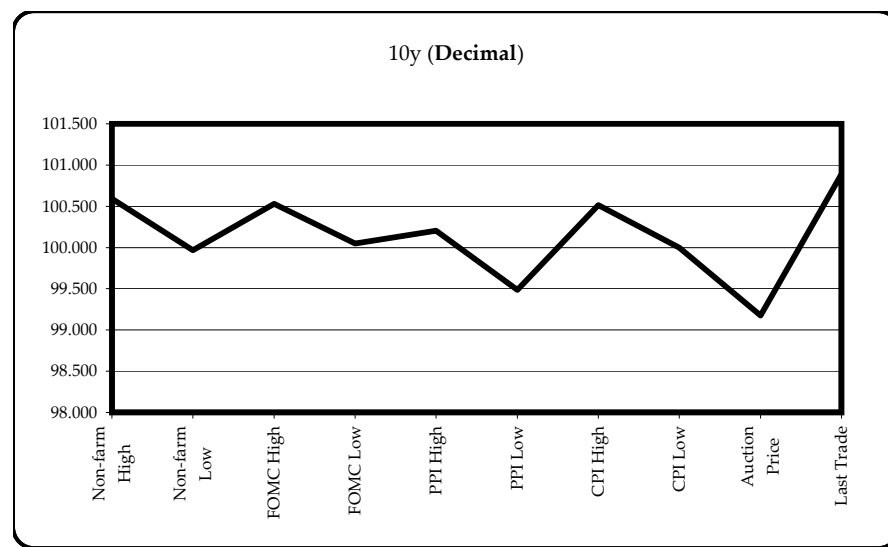
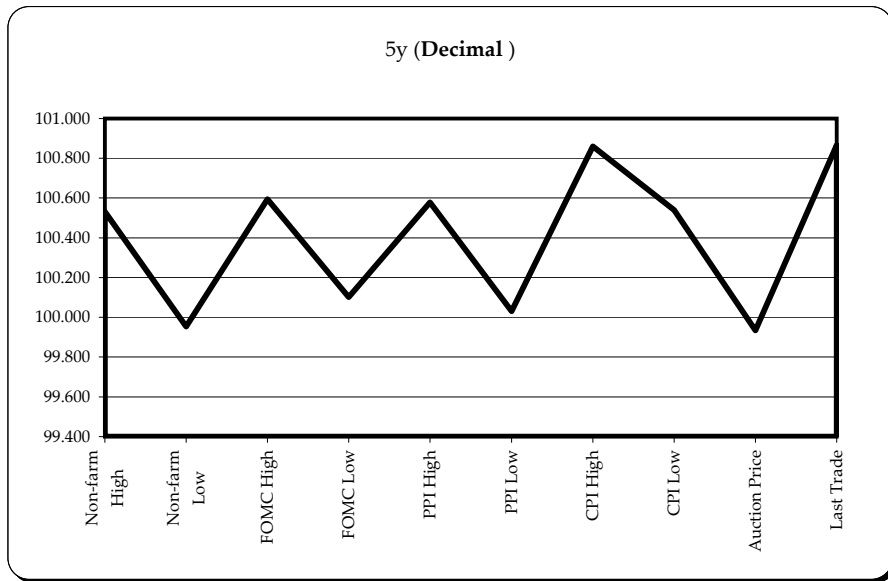
Want something added? Let me know: jgoulding@ghco.com

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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 | 100.2770 | 100.285 | 108.170 | 110.27 | 8/27/2007 6:00 |

| 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 | 102.227 | (2.0) | 102.252 | 102.220 | 102.245 | 16,847 | 2y Fut |
| FVAU7 | 106.005 | (3.5) | 106.050 | 105.305 | 106.040 | 32,553 | 5y Fut |
| TYAU7 | 108.170 | (4.0) | 108.225 | 108.140 | 108.200 | 71,389 | 10y Fut |
| USAU7 | 110.270 | (1) | 110.300 | 110.220 | 110.280 | 18,759 | 30y Fut |
| | Last | Net | High | Low | Open | Volume | SYM NAME |
| BUS02P | 100.172 | (2.7) | 100.195 | 100.175 | 100.185 | na | 2y Cash |
| BUS05P | 100.232 | (7.5) | 100.295 | 100.270 | 100.270 | na | 5y Cash |
| BUS10P | 100.275 | (6.0) | 101.005 | 100.280 | 100.315 | na | 10y Cash |
| BUS30P | 101.160 | (4) | 101.200 | 101.155 | 101.155 | na | 30y Cash |
| | Last | Net | High | Low | Open | Volume | SYM NAME |
| BUS02Y | 4.316 | 4.20 | 4.342 | 4.269 | 4.291 | na | 2y Yield |
| BUS05Y | 4.432 | 2.70 | 4.443 | 4.372 | 4.413 | na | 5y Yield |
| BUS10Y | 4.639 | 2.90 | 4.655 | 4.61 | 4.614 | na | 10y Yield |
| BUS30Y | 4.894 | 0.90 | 4.913 | 4.885 | 4.891 | na | 30y Yield |

Notes: SYM = Symbol

**All times Eastern****Treasury Market Summary: Friday, August 24****by John Canavan**

Most of the Treasury curve did quite well on Friday overall, despite strength in equity markets and strong economic figures. The curve flattened solidly, however, and bill yields surged again. The better economic figures did not pressure Treasuries as a whole. Rather, the strong numbers sparked a broad reversal of safe-haven trades and the curve flattening that resulted generated better support out the curve.

In addition, the New York Fed told banks that they "may pledge asset-backed commercial paper for which they also provide the backup lines of credit" as collateral for discount window borrowings, according to the Wall Street Journal. That may have raised expectations for an increase in liquidity in the commercial paper market, which added to the selling of bills.

Treasuries were higher across the curve overnight. The front-end led the way higher in the Far East amid weaker equity markets, although Market News International did note that volumes were modest. Prices backed away from the best of the overnight levels in Europe. Treasury cash prices remained higher on the session into the open in the U.S., however, while Treasury futures were only slightly lower.

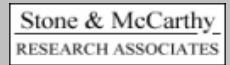
The morning's data releases were quite strong, but the market reactions were mixed. The front-end dipped on the much higher than expected level of durable goods orders, but the long-end did very little. The long-end led a drift higher into the mid-morning new home sales release, while prices in the curve steadied near the post-durables lows. There was a dip across the curve in response to the surprising strength in new home sales before the trade quickly turned from outright selling to reversing safe-haven and related curve steepening trades. The result was better support for the long-end even as prices at the front-end continued to push lower. SOURCE: SMRA.COM

Bill yields continued to lead the rise at the front-end amid the normalization of the past few sessions. Bill yields overall remain quite low at just a bit over 4%, but the correction is ongoing and bill spreads have tightened back up to the areas seen just prior to the massive flight bid into bills.

Coupon curve spreads also tightened up quite a bit Friday and over the past couple of days, but the entire steepening seen earlier had not yet been reversed.

(continued)

04:18 08/27 TSYS: Treasuries are trading modestly lower across the board in London Monday, as global equities confine to rally as fears ease of a credit crunch. However, traders note volumes in the cash markets are very light, with most London dealers absent, enjoying a national holiday. Prices were lower from the getgo in Tokyo trade, slipping in line with JGBs and the rising stockmarket. Real money names were sellers of the 2 and 5-year sector of the curve, with some light selling seen in the 10-year from leveraged accounts. The Bund/T-note continues to narrow, with the 10-Yr UST gaining 0.5 bps on Friday's levels to 39 bps. However, traders warn that liquidity is thin due to the UK holiday. Ahead of the U.S. session, the 2-yr note was 1/64 lower, trading at 100 19/32 to yield 4.30%. The 10-yr note was 3/32 lower at 100 30/32 (4.63%), with the Bond 5/32 lower at 101 20/32 (4.89%).



| | M Duration | DV01 32 | DV01 \$ | DV01 Box | CF |
|-----|------------|---------|---------|----------|--------|
| 30y | 15.54 | 5.06 | \$1,582 | 10.12 | n/a |
| 10y | 7.87 | 2.54 | \$795 | 5.09 | n/a |
| 5y | 4.35 | 1.41 | \$440 | 5.63 | n/a |
| 2y | 1.82 | 0.59 | \$183 | 2.35 | n/a |
| ZB | 9.59 | 3.45 | \$108 | 3.45 | 0.8625 |
| ZN | 5.63 | 1.99 | \$62 | 3.97 | 0.9086 |
| ZF | 3.80 | 1.30 | \$41 | 2.61 | 0.9430 |
| ZT | 1.73 | 1.14 | \$36 | 4.58 | 0.9764 |

| | Yield Curve Spreads | | |
|-------|---------------------|-----------|-------|
| | Last | 2pm close | Diff |
| 2/5 | 11.60 | 21.70 | 10.10 |
| 5/10 | 20.70 | 30.20 | 9.50 |
| 10/30 | 25.50 | 33.30 | 7.80 |
| 2/10 | 32.30 | 51.90 | 19.60 |
| 5/30 | 46.20 | 63.50 | 17.30 |
| 2/30 | 57.80 | 85.20 | 27.40 |

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

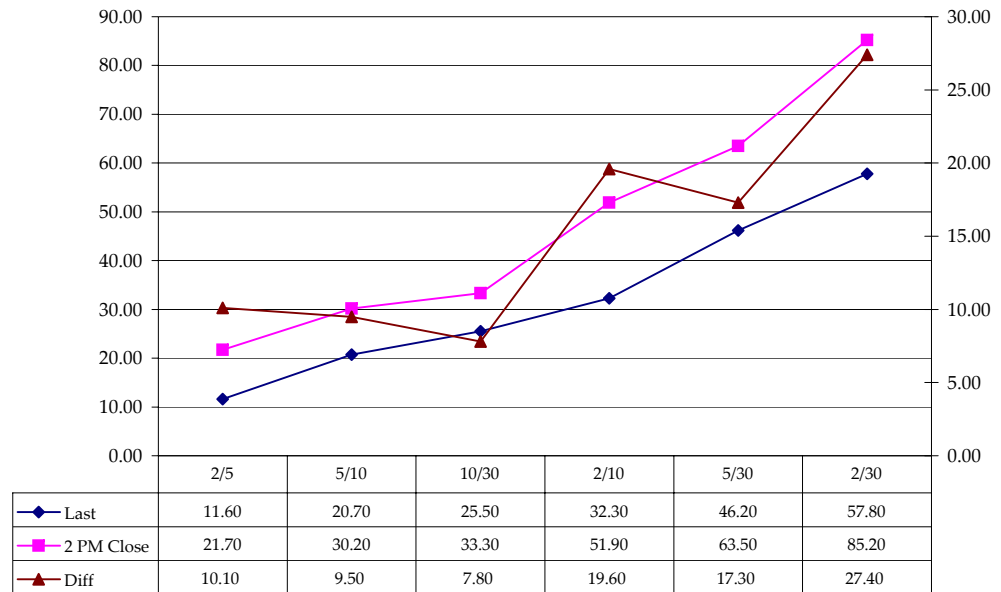
CF = Conversion Factor

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 | | 1.739 | 2.651 | 3.018 |
| ZN | 0.575 | | 1.524 | 1.735 |
| ZF | 0.377 | 0.656 | | 1.139 |
| ZT | 0.331 | 0.576 | 0.878 | |

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 | 1.63 | 4.07 | 7.36 | 14.65 |
| ZN | 2.83 | 7.08 | 12.81 | 25.49 |
| ZF | 4.31 | 10.80 | 19.52 | 38.84 |
| ZT | 4.91 | 12.29 | 22.23 | 44.23 |

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 | | 2.505 | 4.380 | 8.681 |
| 5y | 0.399 | | 1.749 | 3.465 |
| 10y | 0.221 | 0.553 | | 1.916 |
| 30y | 0.111 | 0.278 | 0.486 | |

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

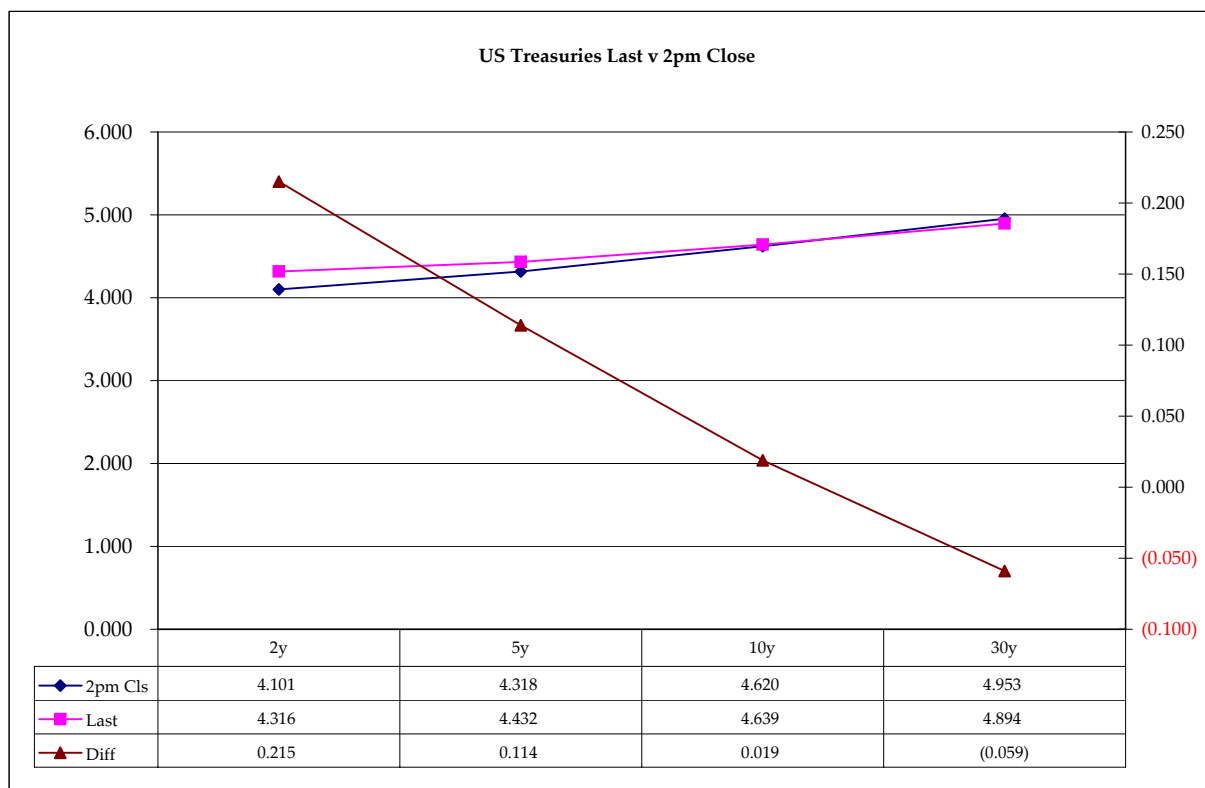
^WoW = Week over week

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 | 4.316 | 0.215 | | | |
| 5y | 4.625 | 7/31/09 | 101.1050 | 4.318 | 4.432 | 0.114 | 29.70 | 28.57 | |
| 10y | 4.750 | 8/15/17 | 101.010 | 4.620 | 4.639 | 0.019 | 68.35 | 72.93 | |
| 30y | 5.000 | 5/15/37 | 100.23 | 4.953 | 4.894 | (0.059) | 176.65 | 192.21 | |

| | Close 32 | Last |
|----|----------|---------|
| ZF | 106.150 | 106.005 |
| ZN | 108.270 | 108.170 |
| ZB | 110.12 | 110.270 |

| Curve Spreads | | |
|---------------|-----------|----------|
| | Close bps | Last bps |
| 2/5 | 21.7 | 11.6 |
| 5/10 | 30.2 | 20.7 |
| 10/30 | 33.3 | 25.5 |
| 2/10 | 51.9 | 32.3 |
| 5/30 | 63.5 | 46.2 |
| 2/30 | 85.2 | 57.8 |



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 | 24% | 55% | 100% | |
| 30 | 12% | 28% | 51% | 140% |
| Cash Matrix [DV01 x Duration] | | | | |
| | 2 | 5 | 10 | 30 |
| 2 | \$183 | | | |
| 5 | \$195 | \$440 | | |
| 10 | \$194 | \$440 | \$795 | |
| 30 | \$188 | \$425 | \$769 | \$1,524 |
| Cash Matrix [DV01 over / (under) valued] | | | | |
| | 2 | 5 | 10 | 30 |
| 2 | | | | |
| 5 | (\$11) | | | |
| 10 | (\$11) | \$0 | | |
| 30 | (\$5) | \$14 | \$26 | |
| Cash Matrix [DV01 over / (under) as %] | | | | |
| | 2 | 5 | 10 | 30 |
| 2 | | | | |
| 5 | -5.71% | | | |
| 10 | -5.69% | 0.02% | | |
| 30 | -2.56% | 3.34% | 3.32% | |

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 | 2.46 | 4.45 | 8.52 |
| ZF | 0.45 | 1.08 | 1.95 | 3.74 |
| ZN | 0.30 | 0.71 | 1.28 | 2.46 |
| ZB | 0.17 | 0.41 | 0.74 | 1.41 |

| Box for Box Matrix | | | | |
|--------------------|------|------|------|-------|
| | 2y | 5y | 10y | 30y |
| ZT | 1.03 | 2.46 | 8.89 | 17.04 |
| ZF | 0.45 | 2.16 | 3.90 | 7.48 |
| ZN | 0.59 | 1.42 | 1.28 | 2.46 |
| ZB | 0.68 | 1.63 | 1.47 | 2.82 |

| | 2y | 5y | 10y | 30y |
|-----|------|------|------|------|
| 2y | 1.00 | 2.40 | 4.33 | 8.31 |
| 5y | 0.42 | 1.00 | 1.81 | 3.47 |
| 10y | 0.23 | 0.55 | 1.00 | 1.92 |
| 30y | 0.12 | 0.29 | 0.52 | 1.00 |

| | 2y | 5y | 10y | 30y |
|-----|------|------|------|------|
| 2y | | 2.40 | 2.17 | 4.15 |
| 5y | 0.42 | | 0.45 | 1.73 |
| 10y | 0.46 | 2.21 | | 1.92 |
| 30y | 0.24 | 0.58 | 0.52 | |

| | ZT | ZF | ZN | ZB |
|----|------|------|------|------|
| ZT | 1.00 | 2.28 | 3.47 | 6.04 |
| ZF | 0.44 | 1.00 | 1.52 | 2.65 |
| ZN | 0.29 | 0.66 | 1.00 | 1.74 |
| ZB | 0.17 | 0.38 | 0.57 | 1.00 |

| | 2y | 5y | 10y | 30y |
|----|------|------|------|-------|
| ZT | | 2.28 | 6.94 | 24.15 |
| ZF | 0.44 | | 1.52 | 5.30 |
| ZN | 0.14 | 0.66 | | 3.48 |
| 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

