



8/28/2007 5:47

The Morning Email: Treasuries

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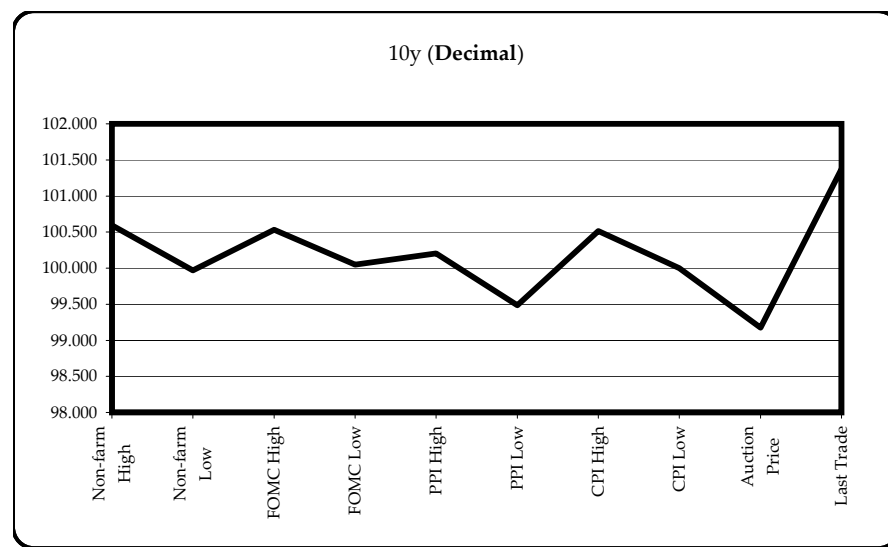
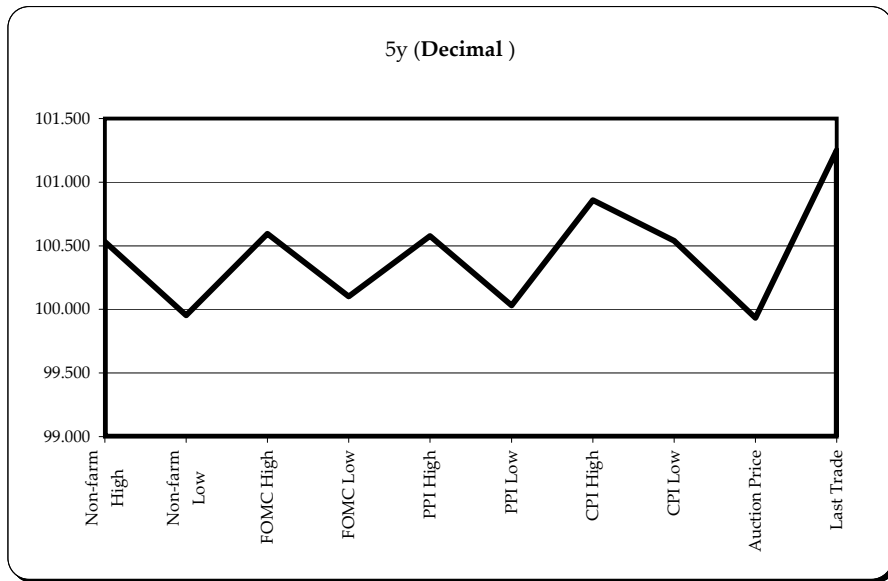
Want something added? Let me know: jgoulding@ghco.com

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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	101.0800	101.120	109.000	111.13	8/28/2007 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	102.302	3.5	102.315	102.290	102.307	28,919	2y Fut
FVAU7	106.165	6.0	106.195	106.145	106.170	57,424	5y Fut
TYAU7	109.000	5.0	109.045	108.305	109.015	121,715	10y Fut
USAU7	111.130	3	111.190	111.090	111.140	23,306	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.232	(0.2)	100.247	100.227	100.237	na	2y Cash
BUS05P	101.080	(0.7)	101.102	101.062	101.080	na	5y Cash
BUS10P	101.120	(2.5)	101.145	101.095	101.130	na	10y Cash
BUS30P	102.065	1	102.095	102.005	102.010	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.222	0.80	4.243	4.192	4.226	na	2y Yield
BUS05Y	4.338	0.90	4.379	4.32	4.35	na	5y Yield
BUS10Y	4.574	0.90	4.59	4.563	4.57	na	10y Yield
BUS30Y	4.856	0.10	4.875	4.85	4.857	na	30y Yield

Notes: SYM = Symbol

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

15:18 08/27 **US TSYS/RECAP:** Tsys gained amid 1) German Bund improvement as ECB's Trichet said ECB Aug. 2 statement written "before mkt turbulence"; (suggests ECB less firm on rate tighten view); 2) safe-haven bid and short-covering this afternoon; 3) high July inventories of existing homes, up 5.1% to 4.592M or a 9.6-month supply; 4) morning fast money accounts buyers in US 2Ys, intermediates; 5) financial institutions doing 2Y/10Y flatteners earlier, and 6) also fast money doing 2Y/10Y steepeners. There has been 7) early a.m. brisk foreign selling in cash 5Ys, and also was chunky cash 5y seller at 101 even level. 8) Swap-tied flows in NY relatively muted and two-way. 9) Hedges vs corporate supply continued in morning amid heavy selling in 2s from real money accts after interest to put 2s/10s steepeners back on by same accts, after curve flattening last wk. 10) Eurodlrs saw a.m. sellers of 2Y bundles & Red packs (Sep 2008-Jun 2009), balanced by buyers of 1Y & Sep 2008 2Y bundles. Strong US\$43B 3M, 6M Tbill sale (despite most sold since 1990).

15:11 08/27 **EURODLR FUTURES:** Eurodlr futures finished near session highs, curve unwinding a fraction of last week's 25 bps flattening, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), steepened 3.5 bps. In the Fronts (Sep07-Jun08), the Sep07 were 0.75 bps higher at 94-67 on combined Globex and pit volume of 181,000, the Dec07 higher 6.0 bps at 95-09 on volume of 198,000, the Mar08 8.0 bps lower at 95-34 on volume of 242,000, while the Jun08 were 7.5 bps higher at 95-38.5 on volume of 205,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 3.5 to 4.0 bps higher across the pack with 515,000 contracts traded.

15:01 08/27 **US SWAPS:** On the heels of receiving-tied flow in 10s during Asian sess., NY swap flow was relatively muted and two-way, similar to lighter flow in agencies/MBS. Hedges vs corp supply continue, sources reported heavy selling in 2s from real money accts followed by interest to put 2s/10s steepeners back on by same, this after last week's sharp flattening. Eurodollar sources reported sellers of 2yr bundles and Red packs (Sep08-Jun09), balanced by buyers of 1yr and Sep08 2-year bundles. Spds off early session tight as Tsys firmed post housing data, summer illiquidity issues a contributing to swap vol. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:00	-3.25/66.50	+0.00/66.25	+0.00/66.25	+0.00/61.00
1:30	-3.25/66.50	-0.50/65.75	+0.00/66.25	+0.00/61.00
11:10	-2.75/67.00	-0.75/65.50	-0.25/66.00	-0.25/60.75
10:00	-3.50/66.25	-0.75/65.50	-0.50/65.75	-0.50/60.50
Mon Open	-4.00/65.75	-2.00/64.25	-2.00/64.25	-1.75/59.25
Fri 3:05	-6.25/69.75	-5.25/66.25	-4.25/66.25	-2.50/61.00

(continued)**Overnight:**

05:22 08/28 **TSYS: USTs** are trading narrowly mixed Tuesday, as the front of the curve underperforms on profit-taking after late gains in the U.S. Monday. However, traders say volumes are light, with many players awaiting the New York open and the release of the FOMC minutes. Prices were little changed in Tokyo, although light selling was seen in the two and five-year sectors of the curve ahead of the auctions, due Wednesday and Thursday respectively. Longer-dated paper also saw light demand ahead of the month-end. Prices stayed in narrow ranges in London, with very light flows reported. Traders said flows were largely interdealer. Despite renewed worries over exposure of the financial markets to the US subprime problems, the front of the curve found little in the way of safe haven flows. The Bund/T-note was unchanged on Monday's levels, with the spread standing at 39 bps. The 2-yr note was 1+/32 lower, trading at 100 23/32 to yield 4.23%. The 10-yr note was 4/32 lower at 101 11/32 (4.58%), with the Bond 1/32 higher at 102 7/32 (4.86%).




09:28 08/27 **US VIEW:** Robert Blake of BOA offers insight into last week's Fed custody holdings, where US Tsy and agency securities in custody fell for the 4th consecutive week, the largest consecutive declines (total holdings) since April 2001. The bulk of the decline was in US Tsy Securities (down \$14.2 bn after cumulative \$30bn decline in prior 2 weeks), and this was the largest 3-week decline since 1989, he says. The "outsized" decline in custody holdings reflects "the record paydown of debt by the US Tsy August 15" and reduced dollar purchases in FX markets by foreign central banks due to recent weakness in emerging market currencies. "As underscored by the US dollar's recent resiliency, the reduced inflows do not appear to represent a sudden shift in foreign demand away from US assets, but rather a byproduct of recent currency market volatility and some heightened preference for liquidity on the part of foreign official accounts," Blake says.
[my emphasis]

10:11 08/27 **FED:** Street making much of Fed's legal letters to Citi and BAC allowing securities financing transactions between the banks and their mortgage affiliates, presumably with the aim of increasing the flow of financing.

11:31 08/27 **FED:** We hear those waiting for illumination of recent mkt events in the Aug 7 FOMC minutes are likely to be disappointed. These minutes are due Tues and cover all the events THROUGH Aug 7 -- which is just prior to the mkt's liquidity crisis. Any special Fed meetings after Aug 7 will be discussed in the Sept 18 FOMC minutes, which will be released Oct 9.

13:24 08/27 **US MKTS: Fed securities lending** totaled \$2.984b today, with \$1.8b of that amount in 3 bill issues.

1:43 08/27 **CHINA:** After news Friday that two Chinese banks had subprime exposure (Industrial Bank of China \$1.23bn and Bank of China \$9.6bn), Hong Kong-listed China Construction Bank, one of the mainland's "big four" state-owned commercial banks, announced also that it has invested some \$1.06 bn in US subprime mortgages. CCB has set aside Cny139 mn (\$18 mn) as a provision for any investment that sours. The Shanghai Composite index closed at a record high of 5,150.12, which put the index up 92.5% y-t-d. Earlier, the index posted a new life high of 5,192.06. CCB said its net profit in the first-half to June rose 47% year-on-year to Yuan34.22 bn (\$4.5 bn) from Yuan23.22 bn on the back of a 37% increase in net interest income and a 102% surge in net fee and commission income.

12:12 08/27 **JAPAN/YEN:** Using data from the Tokyo Futures Exchange, analysts note that Japanese retail investors are clearly feeling "gun shy" and cut positions in half last week. Greg Gibbs of ABN AMRO notes that these investors "rarely conduct stop loss trading" and typically "buy dips and sell rallies" (dollar-yen, euro-yen etc...). This "sudden and rare" risk aversion on the part of Japanese retail investors contributed to the hefty declines in Aussie, Kiwi and dollar-yen last week, Gibbs says. JPMorgan Chase analysts noted that their estimates of Japanese retail FX margin positions in the high yielders show Y388bn(\$3.3bn) in yen sales/FX buying on the week, which suggests carry is still popular. With aggregate yen shorts still at \$33bn, there is risk of a "decent yen rally if credit concerns force another round of deleveraging in coming weeks," JPMC says.

13:47 08/27 **US TSYS:** Analyst Tony Crescenzi of Miller, Tabak says today's \$43b T-bill sale was the most sold since 1990, "and the results... were very strong. The results look good at face value and even stronger when adjusted for the large auction sizes." Cover at 3.14 for the 3m, for example, is above avg and means the "total amount of bids submitted in today's 3-month T-bill auction was about \$73 billion, much more than" the \$44b average. He says these strong results may mean there is still a 'fear trade' in the mkts.

14:03 08/27 **US TSYS/FED/ABCP:** As markets appear to steady a bit, Tsys traders eye the stocks, which still remain lower in languid fashion. And some traders eyed the Fed's notice last Friday that a bank can pledge asset-backed commercial paper at the discount window for which it provides the backup liquidity and most applauded the move. One traders noted that it will "speed up normalization" of the financial system, while another noted that the discount window move last Friday "was perceived to be helpful." And a third trader noted that Fed officials "are really pushing hard for this method of liquidity" but "only time will tell" about the outcome.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.58	5.11	\$1,595	10.21	n/a
10y	7.87	2.56	\$800	5.12	n/a
5y	4.35	1.42	\$442	5.66	n/a
2y	1.82	0.59	\$184	2.35	n/a
ZB	9.60	3.47	\$109	3.47	0.8625
ZN	5.64	2.00	\$62	3.99	0.9086
ZF	3.80	1.31	\$41	2.62	0.9430
ZT	1.73	1.15	\$36	4.58	0.9764

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	11.60	12.50	0.90
5/10	23.60	21.50	(2.10)
10/30	28.20	26.70	(1.50)
2/10	35.20	34.00	(1.20)
5/30	51.80	48.20	(3.60)
2/30	63.40	60.70	(2.70)

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

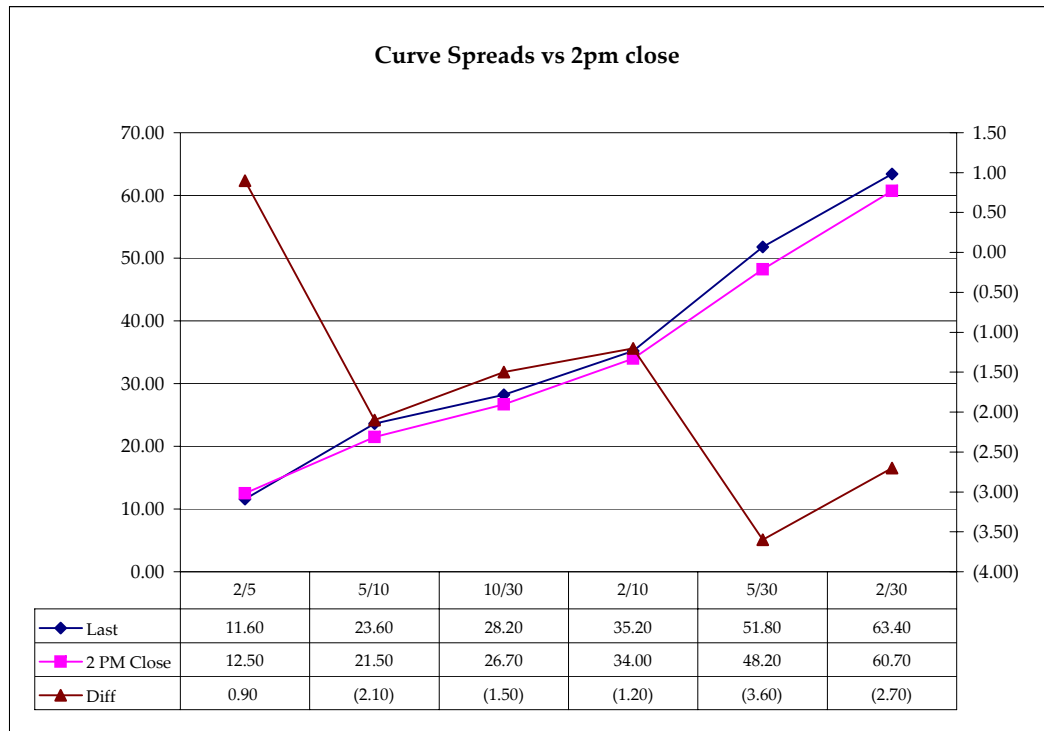
CF = Conversion Factor

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	2.652	3.031
ZN	0.575		1.525	1.743
ZF	0.377	0.656		1.143
ZT	0.330	0.574	0.875	

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	1.62	4.07	7.37	14.70
ZN	2.82	7.09	12.81	25.56
ZF	4.29	10.81	19.54	38.99
ZT	4.91	12.35	22.33	44.56

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		2.517	4.403	8.758
5y	0.397		1.749	3.480
10y	0.220	0.553		1.925
30y	0.110	0.277	0.485	

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	273,882	242,698	31,184	234,376	299,416	(65,040)	1,273,631	1,239,774	33,857	ZF
ZN	353,577	398,651	(45,074)	831,112	301,625	529,487	2,015,695	2,500,107	(484,412)	ZN
ZB	148,817	166,569	(17,752)	138,355	212,222	(73,867)	785,697	694,078	91,619	ZB

WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	15,514	(1,971)	(13,542)	8/21/2007
ZN	40,273	(128,543)	88,271	
ZB	(4,871)	46,783	(41,912)	

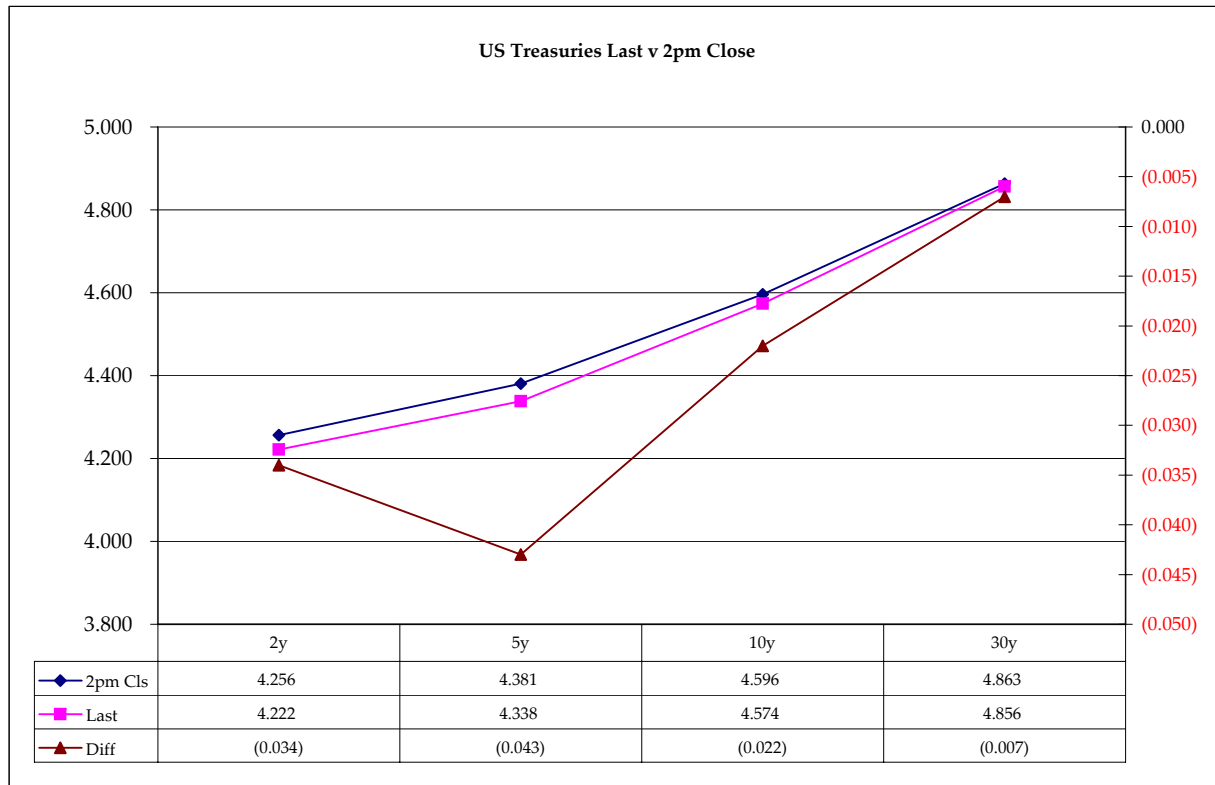
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.625	7/31/09	100.2050	4.256	4.222	(0.034)			-1.25/+2.00
5y	4.625	7/31/09	101.0150	4.381	4.338	(0.043)	24.94	25.78	-.50/+1.00
10y	4.750	8/15/17	101.070	4.596	4.574	(0.022)	74.35	74.80	
30y	5.000	5/15/37	102.05	4.863	4.856	(0.007)	195.41	195.69	

	Close 32	Last
ZF	106.105	106.165
ZN	108.270	109.000
ZB	111.11	111.130

Curve Spreads		
	Close bps	Last bps
2/5	12.5	11.6
5/10	21.5	23.6
10/30	26.7	28.2
2/10	34.0	35.2
5/30	48.2	51.8
2/30	60.7	63.4



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%	50%	140%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$184			
5	\$195	\$442		
10	\$195	\$442	\$800	
30	\$189	\$429	\$775	\$1,539
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$12)			
10	(\$12)	\$0		
30	(\$6)	\$14	\$24	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-6.04%			
10	-5.98%	0.06%		
30	-3.05%	3.18%	3.11%	

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	2.47	4.47	8.60
ZF	0.45	1.08	1.95	3.76
ZN	0.29	0.71	1.28	2.47
ZB	0.17	0.41	0.74	1.42

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.03	2.47	8.93	17.19
ZF	0.45	2.16	3.91	7.52
ZN	0.59	1.42	1.28	2.47
ZB	0.68	1.63	1.47	2.84

	2y	5y	10y	30y
2y	1.00	2.41	4.35	8.38
5y	0.42	1.00	1.81	3.48
10y	0.23	0.55	1.00	1.92
30y	0.12	0.29	0.52	1.00

	2y	5y	10y	30y
2y		2.41	2.18	4.19
5y	0.42		0.45	1.74
10y	0.46	2.21		1.92
30y	0.24	0.57	0.52	

	ZT	ZF	ZN	ZB
ZT	1.00	2.29	3.49	6.06
ZF	0.44	1.00	1.53	2.65
ZN	0.29	0.66	1.00	1.74
ZB	0.16	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.29	6.97	24.25
ZF	0.44		1.53	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
8/23/2007	18.4%	30.3%	28.5%	22.8%	0.0%
8/24/2007	24.4%	22.9%	24.3%	28.4%	0.0%

October

	450	475	500	525	550	575
8/23/2007	63.1%	0.0%	13.8%	19.6%	3.5%	0.0%
8/24/2007	53.0%	4.7%	19.3%	19.7%	3.3%	0.0%

December

	375	400	425	450	475	500	525	550
8/23/2007	17.1%	16.5%	0.0%	7.2%	22.3%	18.3%	18.0%	0.0%
8/24/2007	23.3%	0.1%	0.0%	7.8%	26.1%	19.4%	20.1%	2.9%

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

