



8/31/2007 5:59

## 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 Cash Duration Matrix
- Pg 10 Tic for Tic & Box for Box Matrix
- Pg 12 Fed Funds Probability of Tightening or Easing

eCBOT fixed income futures have been rolled  
to DEC 07.

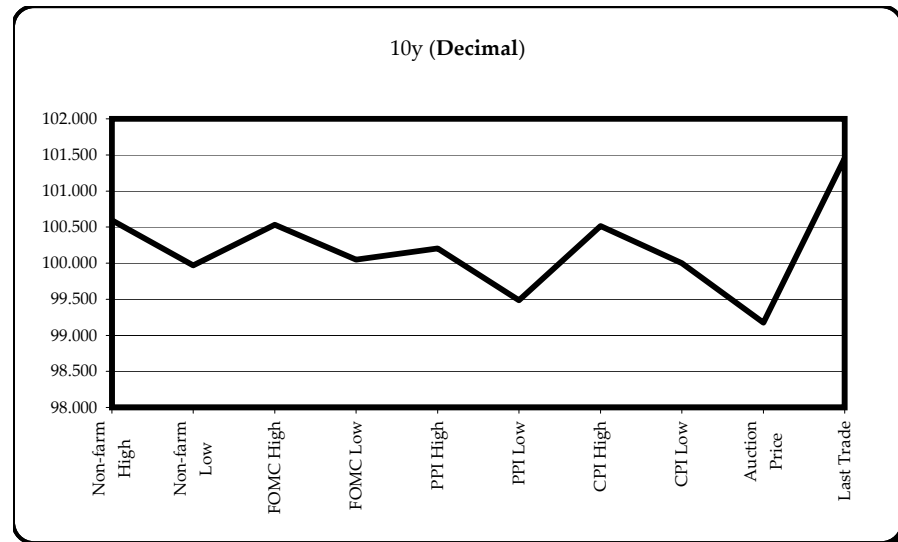
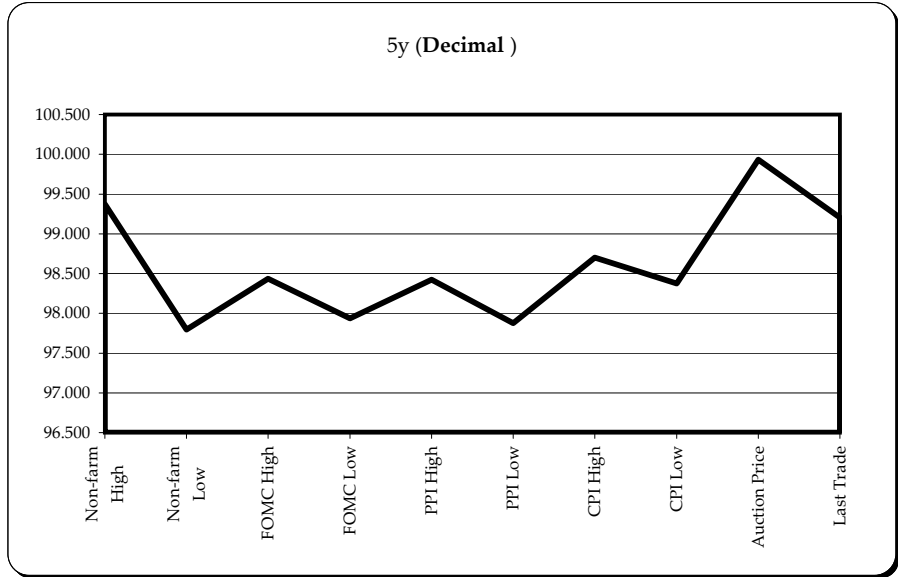
Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

**Disclaimer:** All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.



Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	99.1200	100.190	108.105	110.28	8/3/2007
Non-farm Low	97.2550	99.310	107.240	110.03	8/3/2007
FOMC High	98.1400	100.170	108.105	110.23	8/7/2007
FOMC Low	97.3000	100.015	107.265	110.07	8/7/2007
PPI High	98.1350	100.065	108.100	110.03	8/14/2007
PPI Low	97.2800	99.155	107.195	109.06	8/14/2007
CPI High	98.2250	100.165	108.215	110.05	8/15/2007
CPI Low	98.1200	100.000	108.055	109.16	8/15/2007
Auction Price	99.2988	99.056			
Last Trade	99.0650	101.145	108.275	111.13	8/31/2007 5:59

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.254	99.299	99.056	99.026
Auction Yield Stop	4.115	4.248	4.855	5.059
Actual Auction Date	8/29/2007	8/30/2007	8/8/2007	8/9/2007



Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +12.5; ZB = +5 (tics))  
 r = reopen

## Quotes

32 nds							
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAZ7	102.310	(0.1)	103.062	102.302	103.060	69,867	2y Fut
FVAZ7	106.130	(0.2)	106.300	106.125	106.300	114,844	5y Fut
TYAZ7	108.275	(0.2)	109.125	108.270	109.100	136,501	10y Fut
USAZ7	111.130	(0)	111.300	111.130	111.270	34,922	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.187	(7.0)	99.267	99.187	99.265	na	2y Cash
BUS05P	99.060	(218.0)	99.190	99.060	99.190	na	5y Cash
BUS10P	101.135	(14.0)	101.305	101.140	101.290	na	10y Cash
BUS30P	102.090	(12)	102.185	102.060	102.185	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.211	11.60	4.224	4.067	4.116	na	2y Yield
BUS05Y	4.304	7.70	4.311	4.188	4.202	na	5y Yield
BUS10Y	4.566	5.80	4.572	4.498	4.516	na	10y Yield
BUS30Y	4.852	2.40	4.862	4.828	4.834	na	30y Yield

Notes: SYM = Symbol

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

15:23 08/30 **US TSYS/RECAP:** US Tsys gained on 1) risk-aversion/safe-haven bid amid fear of weak risky debt/ABCP, and as 2) US stocks traded lower mainly. 3) Reasonably well bid US\$13B 5Y sale also aided too (4.248% stop, 2.74 cover, 22.8% indirects, 0.2% direct). 4) Morning had safe-haven bid but gappy trading, caution as 5 big primary dealers close qtr-end bks Fri. 5) Shd be month-end buying as Tsys Lehman index +0.19-years extension. 6) Data mixed: 4% 2Q GDP, with 9K wkly jobless claims, Conf Bd July Help Wtd index 25. 2Q OFHEO home price index came out at +0.1%, smallest qtrly gain since 1994. 7) A.m. had Street buying in 5Ys, foreign fast money buying & lvrgrd accts buying 2ys but also buy-and-hold account selling in 5Ys, some bank and lvrgrd acct selling in 5Ys. 8) P.m. had T-bill buying, buy-and-hold accounts' bid in intermediates, foreign bid in 2Ys, range-trade. 9) Vols this afternoon crept up in front end, maybe anticipation on Fed Chair Bernanke 10am ET Fri speech. 10) Many await 4:30pm ET discount window borrow data.

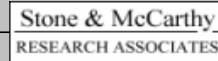
15:27 08/30 **EURODLR FUTURES:** Eurodlr futures finished near session highs, curve continuing to unwind last week's 25 bps flattening, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), steepened 3.875 bps, out 17.625 on the week. In the Fronts (Sep07-Jun08), the Sep07 were 5.75 bps lower at 94-54.5 on combined Globex and pit volume of 369,000, the Dec07 lower 1.0 bps at 95-11 on volume of 385,000, the Mar08 5.5 bps higher at 95-43.5 on volume of 384,000, while the Jun08 were 7.5 bps higher at 95-53.5 on volume of 430,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 7.5 to 8.5 bps higher across the pack with 956,000 contracts traded.

15:19 08/30 **US EURODLR/SWAPS:** Spds about midrange after the closing bell, flow light but consistently 2-way in fronts to intermediates on spd, curve 2-way as well if you take into acct overnight flows--2s/10s steepeners last night followed by real money selling 2s to buy 10s earlier. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:15	+2.25/75.50	+0.75/72.25	+0.75/71.00	+0.25/62.75
2:00	+2.00/74.75	+0.50/72.00	+0.75/71.00	+0.50/63.00
1:00	+1.75/74.50	+0.00/71.50	+0.50/70.75	+0.25/62.75
11:10	+3.00/75.75	+0.50/72.00	+0.25/70.50	+0.25/62.75
10:50	+4.00/76.75	+0.75/72.25	+0.50/70.75	+0.50/63.00
10:00	+5.00/77.75	+1.50/73.00	+1.25/71.50	+1.25/63.75
9:20	+5.25/78.00	+1.75/73.25	+1.75/72.00	+1.75/64.25
Thu Open	+4.00/76.75	+1.50/73.00	+1.25/71.50	+1.00/63.50
Wed 3:15	+0.00/72.75	-0.25/71.50	-1.00/70.25	-0.75/62.50

**(continued)****Overnight:**

04:48 08/31 **TSYS:** Treasuries are trading sharply lower in London Friday, building on early losses from the Asian session. Bonds were weighed by reports in the U.S. press suggesting possible Federal government help for distressed mortgage borrowers. The report helped boost global stock indices and sent the dollar to session highs. The report helped push bonds lower across the board, although the front of the curve led the way, as safe haven plays were unwound. Real money names were sellers of the to-year note and sellers of the new five-year, in part paring down auction positions. The longer-end was lower, but did find some support from duration weighted demand. Prices continued to slide in London, as the 2-year came under renewed pressure. Also hampering the market was position squaring ahead of the long holiday weekend in the U.S. The Bund/T-note narrowed modestly on Wednesday's levels, with the spread standing at 34 bps.



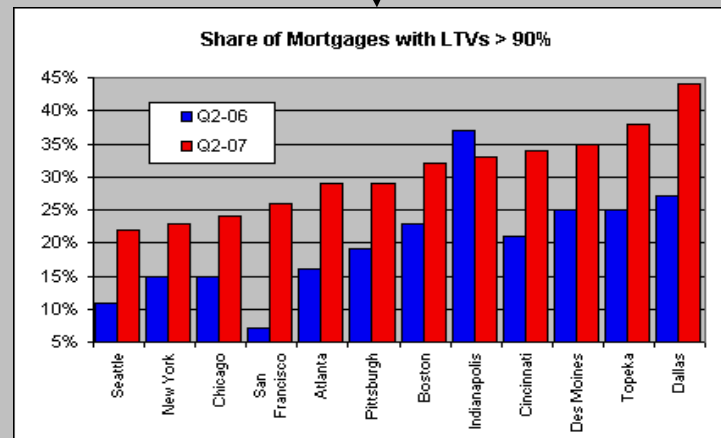
**12:52 08/30 US HOUSING:** MBA says as of June 30, defaults in non-owner occupied homes are a major driver of defaults in 4 of the states with the fastest rising rates of seriously delinquent loans. Defaults defined as 90 days or more late or in foreclosure. In Nevada, 32% of prime mortgages in default and 24% of subprime are on non-owner occupied. In Florida, it's 25% prime, 14% subprime. In Arizona, it's 26% prime, 18% subprime. In California, it's 21% prime and 15% subprime. Nevada and Florida facing fastest delinquency increases in country, with Arizona and California not far behind. In contrast, non-owner occupied defaults in the rest of the country are only 13% in prime and 11% in subprime.

MBA points out defaults are on the rise everywhere but it's not always a homeowner losing their home but an investor that gambled and lost. These 4 states saw the fastest HPA over the last 5 years. This attracted speculators and home builders, "a volatile combination that led to an over-supply of homes that was beyond the capacity of the local population to support," MBA says and investors just walked away from those mortgages.

**"We think that the odds favor a slight rise in the August national unemployment rate to 4.7% from 4.6% in July. This too, will not go unnoticed at the Fed."**

--Stone & McCarthy (Princeton)-- In the last several weeks, many mortgage lenders have announced steps they have taken to tighten their mortgage underwriting standards. Some of those steps pertain to loans with high loan-to-value (LTV) ratios. For instance Countrywide said that it was curtailing 100% financing -- where the loan equals the home's value or price -- and making some adjustments to 95% financing. (For a related comment, see Mortgage Focus: Tighter Lending Standards at Work, 8/2/07.) The latest data from the Federal Housing Finance Board's (FHFB) Monthly Interest Rate Survey (MIRS) showed that the share of mortgage loans with high LTV ratios continued to climb through June. Today's Chart of the Day shows the percentage of mortgage loans in the MIRS with LTVs over 90% by Federal Home Loan Bank District. (In the MIRS, the measure is termed "loan-to-price.") The chart shows data for the second quarter of 2006 and the second quarter of 2007...

**14:18 08/30 US MKTS:** Citi strategists Scott Peng and Chintan Gandhi say there are lingering mkt liquidity problems in several sectors, such as CP, short term munis, and auction rate preferreds. Crisis could be much worse if not for mkt expectation of Fed ease, they say. "A significant portion of the ABCP that came due in the last 3 wks has failed to be rolled" and "illiquidity is spreading."



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.57	5.11	\$1,597	10.22	n/a
10y	7.86	2.56	\$799	5.12	n/a
5y	4.46	1.42	\$443	5.67	n/a
2y	1.89	0.60	\$189	2.42	n/a
ZB	9.99	3.59	\$112	3.59	1.1103
ZN	5.94	2.08	\$65	4.15	0.9069
ZF	4.02	1.37	\$43	2.75	0.9221
ZT	1.91	0.64	\$20	2.57	0.9569

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	9.30	13.90	4.60
5/10	26.20	29.50	3.30
10/30	28.60	32.40	3.80
2/10	35.50	43.40	7.90
5/30	54.80	61.90	7.10
2/30	64.10	75.80	11.70

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**

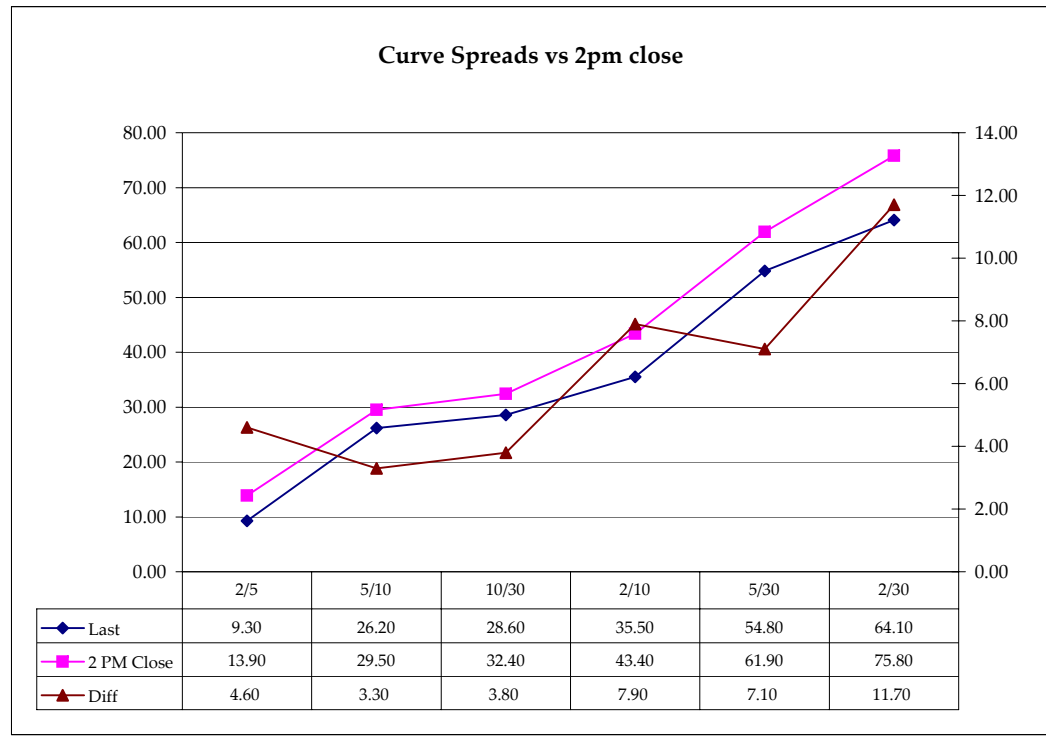
CF = Conversion Factor

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		1.730	2.617	5.598
ZN	0.554		1.512	3.235
ZF	0.382	0.689		2.139
ZT	0.179	0.309	0.467	

## Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.9	4.7
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	1.72	4.04	7.30	14.58
ZN	3.03	7.12	12.85	25.66
ZF	4.40	10.32	18.63	37.22
ZT	9.41	22.08	39.87	79.63

## 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		2.347	4.236	8.461
5y	0.426		1.805	3.606
10y	0.236	0.554		0.000
30y	0.118	0.277	0.501	

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

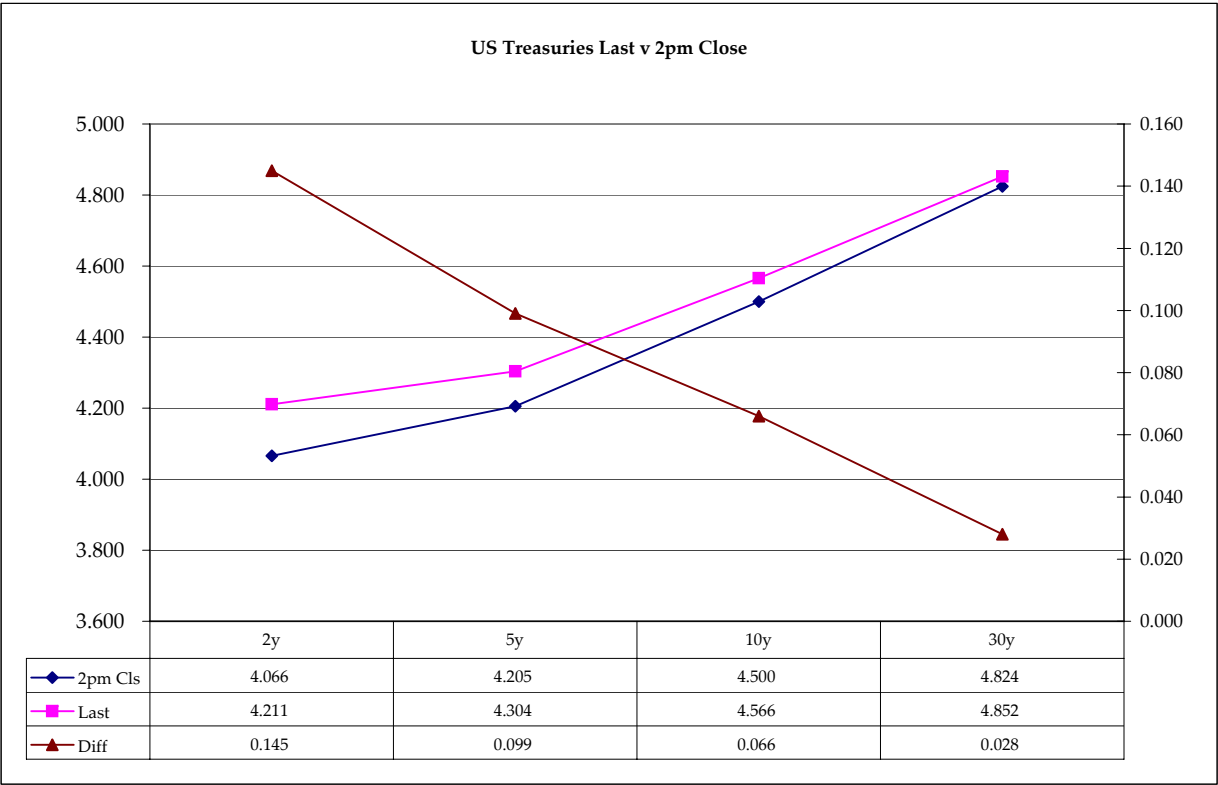
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	8/31/09	99.2800	4.066	4.211	0.145			-75
5y	4.125	7/31/09	99.2050	4.205	4.304	0.099			-50
10y	4.750	8/15/17	101.315	4.500	4.566	0.066			
30y	5.000	5/15/37	102.24	4.824	4.852	0.028			

	Close 32	Last	Roll
			As of 08/30
ZF		106.130	-2 tics
ZN		108.275	+12.5 tics
ZB		111.130	+5 tics

Curve Spreads		
	Close bps	Last bps
2/5	13.9	9.3
5/10	29.5	26.2
10/30	32.4	28.6
2/10	43.4	35.5
5/30	61.9	54.8
2/30	75.8	64.1

New 2y has not been rolled yet. Ignore data.



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

Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	100%			
5	42%	100%		
10	24%	57%	100%	
30	12%	29%	50%	132%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$0			
5	\$188	\$443		
10	\$193	\$454	\$799	
30	\$187	\$440	\$775	\$1,540
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$188)			
10	(\$193)	(\$11)		
30	(\$187)	\$3	\$24	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-100.00%			
10	-100.00%	-2.42%		
30	-100.00%	0.62%	3.12%	

**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	0.00	2.21	3.99	7.68
ZF	0.00	1.03	1.86	3.59
ZN	0.00	0.68	1.23	2.37
ZB	0.00	0.40	0.73	1.41

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.00	2.21	7.97	15.36
ZF	0.00	2.06	3.73	7.18
ZN	0.00	1.37	1.23	2.37
ZB	0.00	1.62	1.46	2.81

	2y	5y	10y	30y
2y	1.00	#DIV/0!	#DIV/0!	#DIV/0!
5y	0.00	1.00	1.81	3.48
10y	0.00	0.55	1.00	1.93
30y	0.00	0.29	0.52	1.00

	2y	5y	10y	30y
2y	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
5y	#DIV/0!	#DIV/0!	0.45	1.74
10y	#DIV/0!	2.22	#DIV/0!	1.93
30y	#DIV/0!	0.58	0.52	#DIV/0!

	ZT	ZF	ZN	ZB
ZT	1.00	2.14	3.24	5.46
ZF	0.47	1.00	1.51	2.55
ZN	0.31	0.66	1.00	1.69
ZB	0.18	0.39	0.59	1.00

	2y	5y	10y	30y
ZT	#DIV/0!	2.14	6.47	21.85
ZF	0.47	#DIV/0!	1.51	5.11
ZN	0.15	0.66	#DIV/0!	3.38
ZB	0.05	0.20	0.30	#DIV/0!

## Fed Funds Probability of Tightening or Easing

<b>Sept</b>		<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>	<b>550</b>
<b>8/28/2007</b>		18.6%	26.9%	26.6%	27.7%	0.2%
<b>8/29/2007</b>		26.5%	18.2%	28.2%	27.1%	0.0%

<b>October</b>		<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>	<b>550</b>	<b>575</b>
<b>8/28/2007</b>		67.5%	0.0%	12.8%	18.8%	0.6%	0.3%
<b>8/29/2007</b>		67.9%	0.0%	13.2%	18.5%	0.0%	0.4%

<b>December</b>		<b>375</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>	<b>550</b>
<b>8/28/2007</b>		28.0%	3.0%	5.4%	14.4%	11.4%	20.9%	15.1%	0.0%
<b>8/29/2007</b>		26.1%	5.7%	0.0%	6.5%	40.8%	4.2%	13.9%	1.6%

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



