

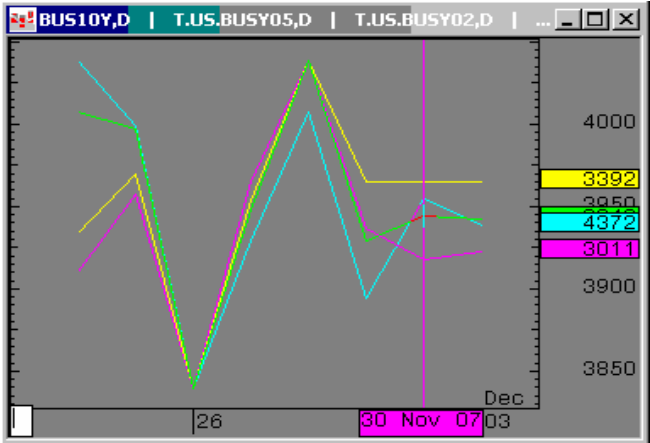


The Morning Email: Treasuries

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Daily Yield Curve



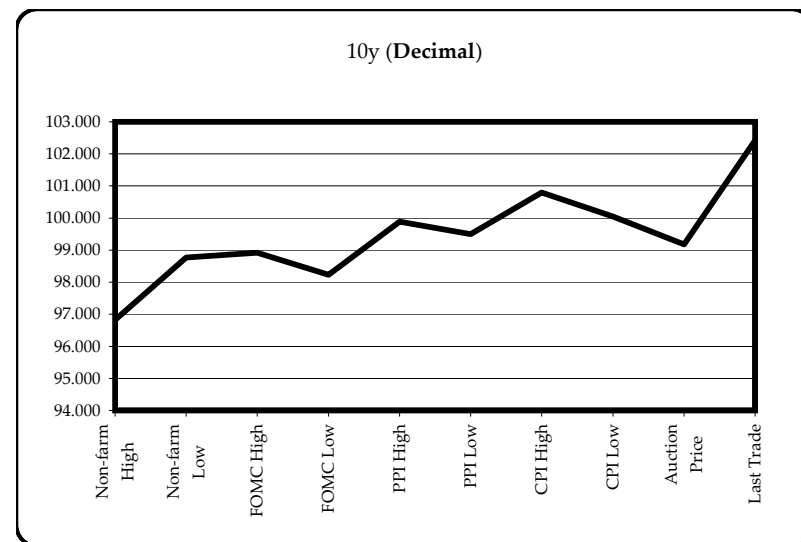
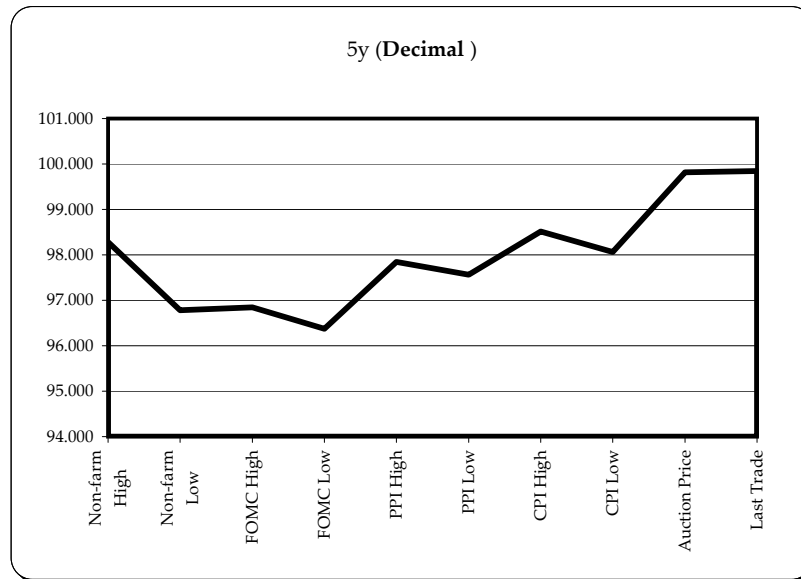
Source: CQG, Inc. © 2007 Mon Dec 03 2007 05:35:04



Want something added? Let me know: jgoulding@ghco.com
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Economic Releases - 32nds					
	5y	10y	ZNH8	ZBH8	Date
Non-farm High	98.0900	96.265	110.250	114.22	11/2/2007
Non-farm Low	96.2500	98.245	109.235	113.11	11/2/2007
FOMC High	96.2700	98.295	109.290	113.20	10/31/2007
FOMC Low	96.1200	98.075	109.085	112.18	10/31/2007
PPI High	97.2700	99.285	111.010	114.17	11/14/2007
PPI Low	97.1800	99.160	110.185	113.27	11/14/2007
CPI High	98.1650	100.255	111.200	115.18	10/15/2007
CPI Low	98.0200	100.015	111.035	114.17	10/15/2007
Auction Price	99.2616	99.056			
Last Trade	99.2700	102.135	113.100	117.12	12/3/2007 5:43

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.299	99.262	99.056	105.103
Auction Yield Stop	3.159	3.415	4.353	4.666
Actual Auction Date	11/28/2007	11/29/2007	11/7/2007	11/8/2007



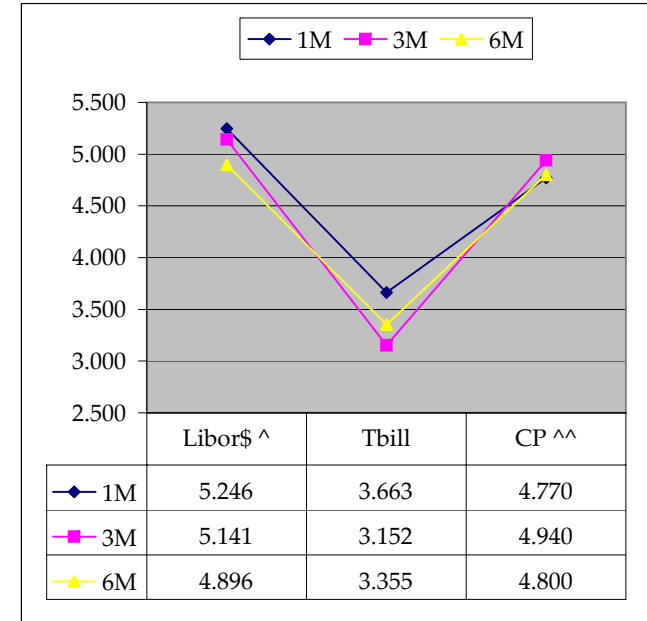
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 {Dec07 to Mch08 Futures roll: ZF = (-9); ZN = (-22); ZB = (+1) [tics]}
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	105.025	0.0	105.075	105.025	105.032	22,726	2y Fut
FVAH8	110.050	0.0	110.165	110.045	110.070	51,705	5y Fut
TYAH8	113.100	0.0	113.230	113.080	113.110	121,492	10y Fut
USAH8	117.120	0	117.250	117.070	117.140	24,604	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.060	(1.5)	100.100	100.060	100.060	na	2y Cash
BUS05P	99.267	(1.5)	100.022	99.270	99.277	na	5y Cash
BUS10P	#VALUE!	(1.5)	102.270	102.125	102.130	na	10y Cash
BUS30P	110.055	(1)	110.165	109.280	109.300	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.024	2.00	3.044	2.955	3.028	na	2y Yield
BUS05Y	3.406	1.40	3.413	3.351	3.394	na	5y Yield
BUS10Y	3.949	0.50	3.966	3.896	3.96	na	10y Yield
BUS30Y	4.377	(0.90)	4.404	4.356	4.402	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	5.246	3.663	4.770
3M	5.141	3.152	4.940
6M	4.896	3.355	4.800

	Libor\$ ^	Repos
0/N	4.705	3.050
1week	4.868	3.250
2week	4.878	3.250

	TSY	Swap	ED Pks ^^^
2y	3.027	89.50	3.597
5y	3.406	77.00	4.520
10y	3.953	64.25	



Notes

^Quoted in US Dollars
 ^^CP = Commercial Paper
 ^^ED Pks are colored for pack identifications. Example, the red pack is a 2-yr proxy and is colored red.
 Lastly, SYM = Symbol

**All times Eastern****Friday:****The Market**

The Treasury market opened slightly lower in the Far East overnight. Fed Chairman Bernanke's speech Thursday night added to the weight of evidence that the Fed will likely ease at the December FOMC meeting. That sent Asian equity markets and U.S. equity futures higher, pressuring Treasuries. There was little followthrough in either market though and Treasuries soon stabilized before hovering around unchanged levels into Europe. Treasuries ticked higher early in Europe, helped by weak economic numbers. Equities began to charge higher despite the figures, however, and Treasuries were headed lower again into the open in the U.S.

The selloff accelerated during the early morning in the U.S. despite lower than expected income and spending figures. The market was still pressured by the continued rise in U.S. equity futures following Bernanke's speech. Also weighing on the market was the Wall Street Journal article saying that "The Bush administration and major financial institutions are close to agreeing on a plan that would temporarily freeze interest rates on certain troubled subprime home loans." Market News International reported that the activity levels were thin despite the data releases and the equity market movements because four dealers are in the process of closing their books for fiscal year-end. The thin activity may have exacerbated the extent of the price moves.

[....]

Fed Governor Kroszner and Fed President Pool spoke during the afternoon, but neither moved the markets. Poole was discussing moral hazard and said that "From time to time, to be sure, Fed action to stabilize the economy --to cushion recession or deal with a systemic financial crisis -- will have the effect of pushing up stock prices." However, he noted, "Macroeconomic stabilization does not raise moral hazard issues because a stable economy provides no guarantee that individual firms and households will be protected from failure."

Equities came under renewed pressure in the afternoon, but still finished mixed to higher. The curve steepening trade continued though and the front-end continued to edged higher and into the black, while bonds held to narrow ranges not far from the lows.

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(cont)

Overnight:

05:32 12/03 TSYS: Treasuries are trading narrowly mixed in London trade Monday, with the curve flattening as the front of the curve outperformed. Traders said volumes were modest, with the market managing to retain a light underlying bid as global equities edged lower. In Tokyo, Treasuries were modestly higher from the getgo, although the upside was capped by profit-taking. London saw light two-way flows, with inter-dealer trade dominating. However, some buying of the two-year note was seen from real money accounts. The 10-year Bund/US T-Note spread was trading at -14 bps, widening 1 bps on the day, close to the recent multi-year lows. Ahead of the U.S. session, the 2-yr note was trading 1/32 higher at 100 7/32 to yield 3.01%. The 10-yr note was unchanged at 102 17/32 (3.94%), while the Bond was 2/32 higher at 110 9/32 (4.38%). The 2-yr/5-yr yield curve was 1 bps flatter on overnight levels, trading at +38 bps. The 2-/10-yr curve was 2 bps flatter, trading at +92 bps, with the 2-yr/30-yr curve flatter by 3 bps, standing at +136 bps.

02:21 12/03 FX: Japanese name sales of yen crosses provided the main action overnight, A Japanese security house a noted seller of euro-yen after the Tokyo fix. Demand for yen seen linked to further negative stories concerning credit markets in the weekend press, traders highlighting a WSJ article suggesting that Moody's is preparing to downgrade or review \$119bln of debt issued by SIV's (\$65bln of which is related to Citi SIV's). An article in the Telegraph suggests that RBS is set to announce stg2bln of subprime related write offs. Euro-dollar tracked cable's short squeeze higher, the demand able to counter negative pressure from euro-yen sales, with rate climbing from early lows of \$1.4633 (NY low \$1.4629) to an overnight high of \$1.4680. Sales of Aussie-yen weighed on Aussie-dollar, taking this latter rate down 70 points to a \$0.8786 low, the move also reacting to disappointing Australian trade data. Euro-dollar extends its recovery gains above \$1.4690 in early Europe as the dollar comes under general pressure.



08:45 11/30 **US DATA REACT:** RBC analyst TJ Marta says "Core PCE inflation for Oct rose more than expected - 1.9% (consensus 1.8%), and the prior was revised higher from 1.8% to 1.9%. This is still below the 2% comfort barrier expressed by some FOMC members, but the direction is worrisome. (But) inflation isn't worrisome enough to offset consumer weakness and the potential negative effects of the subprime and financial market collapse."

10:22 11/30 **US DATA REACT:** Economists at Nomura say Chicago PMI "rebounded to 52.9 in November after a surprising drop in October. Nonetheless, the index remained below its 6-month average with the component indices showing a decidedly mixed picture. The gain in November came mainly from a sharp rebound in the production index. Reflecting the increased output, the employment index also rose but the new orders held steady and while the inventories index fell below the 6-month average. Purchasing managers' indices of manufacturing activity in Cincinnati and New York showed considerable improvement but the Milwaukee index fell to a 4-month low. Overall, these data suggest manufacturing activity continues to advance but at an uneven pace across regions."

13:05 11/30 **US OUTLOOK:** From CIBC: "The (Fed's) message was, never mind what we said in October, credit market conditions and liquidity have deteriorated sharply since then, hinting that another cut is on tap for December, and in all likelihood a further move in the first quarter."




[...]

"In conclusion, **we believe the Fed will ease on December 11**. The question is by how much. We are leaning toward 50 bps because Federal Reserve policymakers finally appear to grasp the significance of the financial and real side destruction wrought by the subprime mortgage disaster. The Federal Reserve is facing extraordinary market circumstances and should the Fed take a conservative and incremental approach on December 11, the renewed market turbulence that has resurfaced in recent weeks may become corrosive. " **-Ken Kim**

"Next year, without a better mechanism for **home loan workouts**, the mortgage industry turmoil could enter a dangerous new phase. Through September, roughly \$45 billion in subprime ARMs were reset each quarter this year, according to Banc of America Securities (BAC). Starting in December, and through all of next year, that will jump to an average of \$90 billion a quarter." **-WSJ**

*UBS AG OUTLOOK STABLE BY MOODY'S :UBSN VX
 *UBS AG SR DEBT, DEPOSIT RATINGS AFFIRMED BY MOODY'S :UBSN VX
 *UBS AG FINANCIAL STRENGTH RATING CUT TO B+ FROM A- BY MOODY'Sp
 *MOODY'S DOWNGRADES UBS' FINL STRENGTH RATING TO B+ FROM A- (From Howard)

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.87	5.68	\$1,774	11.35	n/a
10y	8.06	2.65	\$828	5.30	n/a
5y	4.55	1.46	\$456	5.84	n/a
2y	1.91	0.61	\$192	2.46	n/a
ZB	10.37	3.97	\$124	3.97	0.8633
ZN	5.98	2.19	\$68	4.38	0.8747
ZF	4.04	1.43	\$45	2.86	0.9159
ZT	1.92	0.66	\$21	2.63	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	38.20	37.70	0.50
5/10	54.30	55.70	(1.40)
10/30	42.80	43.10	(0.30)
2/10	92.50	93.40	(0.90)
5/30	97.10	98.80	(1.70)
2/30	135.30	136.50	(1.20)

DV01 32, said differently, is "how many TICS are in a basis point?".

Example, If ZN moves 1~basis point, then, it's moved 2.08 tics (Today, 10/25/07, the value in the box is 2.08).

Since ZN trades in half tics, then, 4.17 boxes = 1 basis point in ZN. (Again, today, 10/25/07, the value in the box is 4.17). Of course the values will be different as you look at this. But, they won't be that much different. So, I think you can get the idea I'm trying to get across.

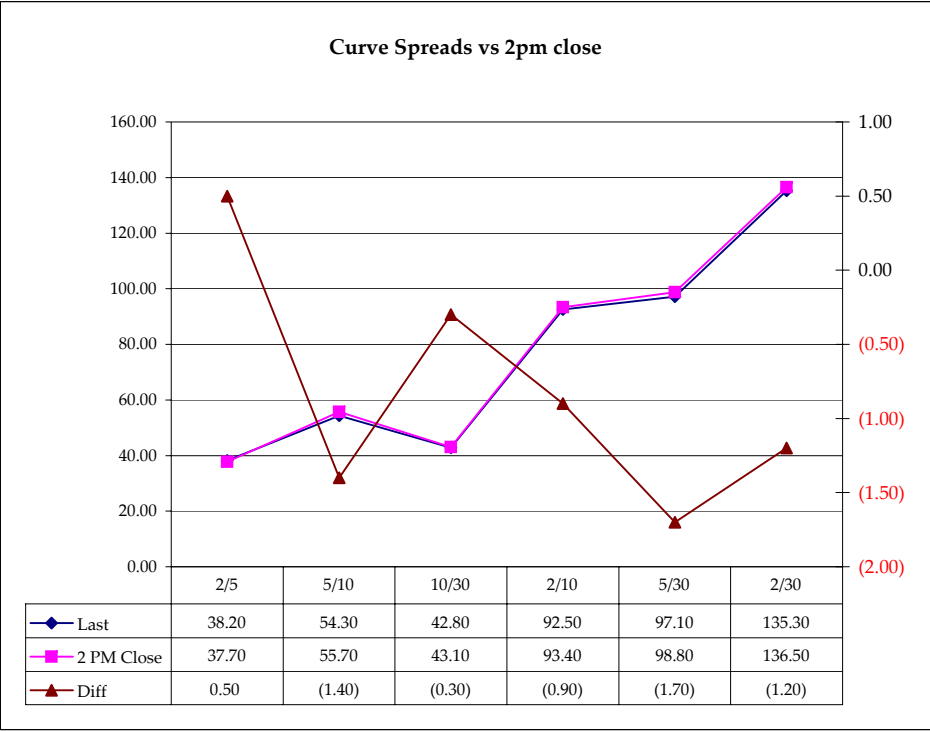
Notes

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



US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (Z)	0.980	1.700	2.700	2.900
Bobl (Z)	0.530	0.960	1.500	1.570
Shatz (Z)	0.210	0.380	0.580	0.630

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.55	3.68	6.67	14.29
ZN	2.81	6.67	12.10	25.95
ZF	4.29	10.20	18.51	39.67
ZT	4.68	11.12	20.18	43.25

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.815	2.775	3.026
ZN	0.551		1.529	1.667
ZF	0.360	0.654		1.090
ZT	0.330	0.600	0.917	

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (Z)	1.7	3.9	7.1	14.3
Bobl (Z)	3.1	7.1	12.8	25.8
Shatz (Z)	7.8	15.9	28.8	58.1

Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.7	4.2
Bobl (Z)	0.6	1.0	2.5
Shatz (Z)	0.2	0.4	1.0

US Treasuries

	2y	5y	10y	30y
2y		2.377	4.314	9.246
5y	0.421		1.814	3.889
10y	0.232	0.551		2.144
30y	0.108	0.257	0.467	

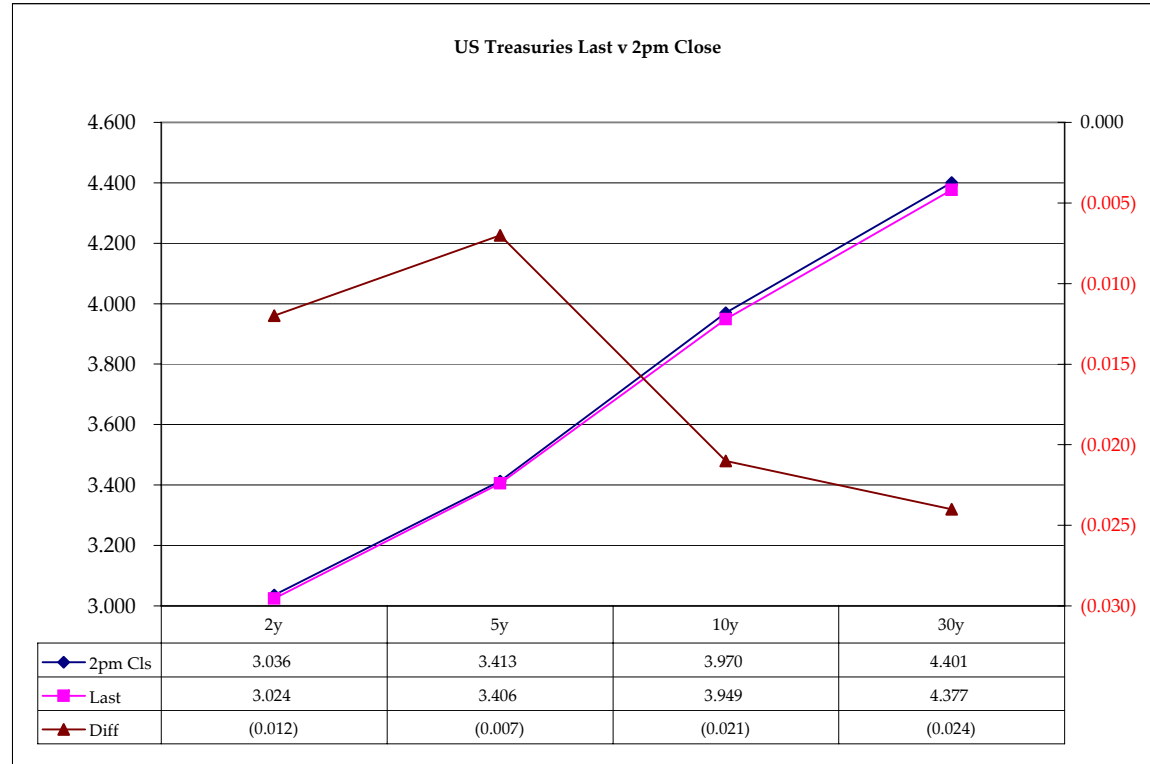
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	100.0550	3.036	3.024	(0.012)			-3.00	FVAH8	110.035	110.050
5y	3.375	11/30/12	99.2650	3.413	3.406	(0.007)	-32.67	-33.55	+1.25	TYAH8	113.065	113.100
10y	4.250	11/17/17	103.090	3.970	3.949	(0.021)	136.40	105.84		USAH8	117.06	117.120
30y	5.000	5/15/37	109.27	4.401	4.377	(0.024)	277.13	286.45				

Curve Spreads		
	Close bps	Last bps
2/5	37.7	38.2
5/10	55.7	54.3
10/30	43.1	42.8
2/10	93.4	92.5
5/30	98.8	97.1
2/30	136.5	135.3

TUAR1	-1.2
FVAR1	8.5
TYAR1	23.2
USAR1	-0.2

These are the 1/4 tic spreads. They are quoted in tics.
 .2 = 1/4
 .5 = 1/2
 .7 = 3/4



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%	56%	100%	
30	12%	29%	51%	135%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$192			
5	\$192	\$456		
10	\$197	\$467	\$828	
30	\$214	\$509	\$901	\$1,774
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$5)	(\$11)		
30	(\$22)	(\$53)	(\$74)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.06%			
10	-2.36%	-2.42%		
30	-10.35%	-10.40%	-8.18%	

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		0.94	2.22	4.04	8.65
ZF		0.43	1.02	1.85	3.97
ZN		0.28	0.67	1.21	2.59
ZB		0.15	0.37	0.67	1.43

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		0.94	2.22	8.07	17.30
ZF		0.43	2.04	3.70	7.93
ZN		0.56	1.33	1.21	2.59
ZB		0.62	1.47	1.33	2.86

		2y	5y	10y	30y
2y		1.00	2.38	4.31	9.25
5y		0.42	1.00	1.81	3.89
10y		0.23	0.55	1.00	2.14
30y		0.11	0.26	0.47	1.00

		2y	5y	10y	30y
2y			2.38	2.16	4.62
5y		0.42		0.45	1.94
10y		0.46	2.20		2.14
30y		0.22	0.51	0.47	

		ZT	ZF	ZN	ZB
ZT		1.00	2.18	3.33	6.05
ZF		0.46	1.00	1.53	2.78
ZN		0.30	0.65	1.00	1.82
ZB		0.17	0.36	0.55	1.00

		2y	5y	10y	30y
ZT			2.18	6.67	24.21
ZF		0.46		1.53	5.55
ZN		0.15	0.65		3.63
ZB		0.04	0.18	0.28	

Valuing the Basis

This page is based on the work of Galen Burghardt.

	Basis		Delivery Basket			Futures Price	
	Bullish	Bearish	DC^	HDB	LDB	Up	Down
Repo in GC		x					
Repo on Special	x		Steepen				
Repo Rate Down	x		Flatten				x
Repo Rate Up		x				x	
Fed buys back issue	x		Flatten	Deliver	Deliver		
Fed stops selling issue	x		Flatten	Deliver	Deliver		
Volatility Up (in general)	x						x
Volatility Down (in general)		x				x	
Volatility Up, PS		x				x	
Volatility Down, NPS	x						x
Volatility Down, PS		x				x	
Volatility Up, NPS	x						x
Fed Raising Rates			Flattens	Deliver	Deliver		
Cost-to-Carry up		x	<p><u>What affects the basis?</u> changes in rp rates changes in the slope of the yc and dc changes in yield spreads changes in yield volatility carry convergence</p>				
Cost-to-Carry down	x						
Market Rallying	x						
Market Breaking		x					
BNOc is Negative		x					
BNOc is Positive	x						
Curve Steepening (in general)	x						
Curve Flattening (in general)		x					
Curve Parallel (in general)		x					

Please see the morning email "US Deliverable Basket" for charts of the Deliverables.

If you're long the basis and the markets going up but the basis is barely going up, then check to see if there's a parallel shift going on in the curve.

Long basis and a parallel shift lowers the value of being long the basis. You won't make as much as you thought. You might even lose money.

Notes:

^ DC = Delivery Curve. See morning email, US Deliverable Basket for full basket.

PS = Parallel Shift

NPS = Non-Parallel Shift.

BNOc = Basis Net of Change

yc = yield curve

HDB = High Duration Bond/Note

LDB = Low Duration Bond/Note