

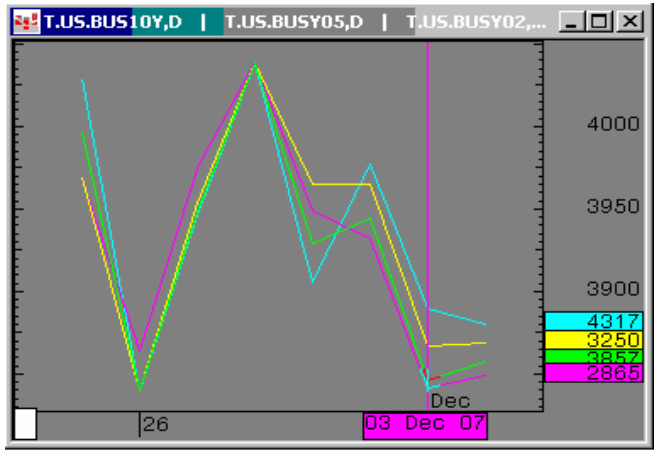


The Morning Email: Treasuries

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 Closes: 2pm CST vs this Morning
- Pg 8 Cash Duration Matrix
- Pg 9 Tic for Tic & Box for Box Matrix
- Pg 10 Valuing the Basis

Daily Yield Curve



Source: CQG, Inc. © 2007 Tue Dec 04 2007 05:28:34

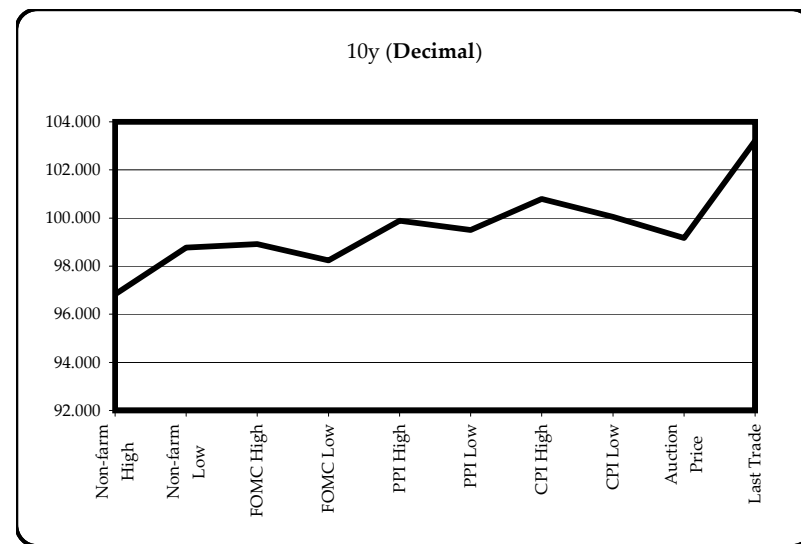
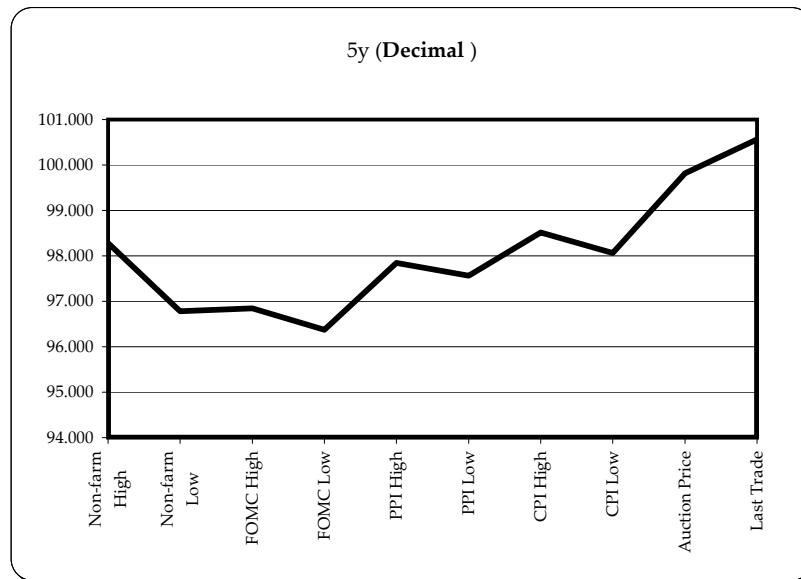


Want something added? Let me know: jgoulding@ghco.com

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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	100.1800	103.070	114.030	118.13	12/4/2007 5:32

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



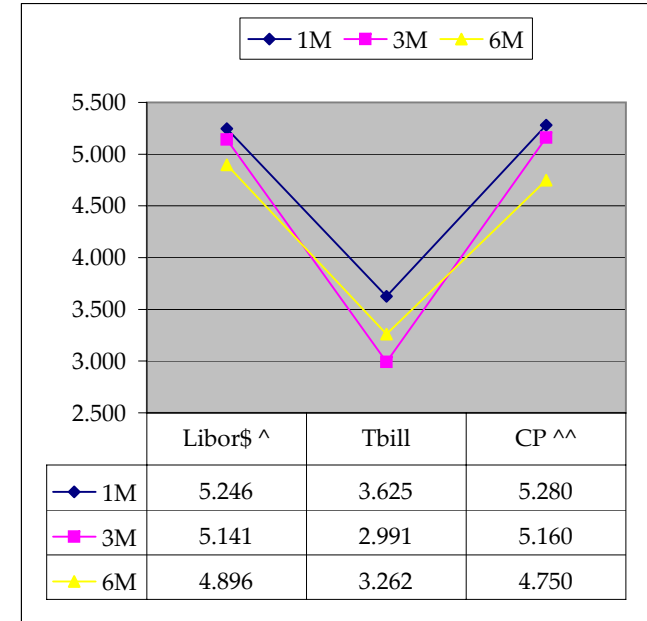
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 {Dec07 to Mch08 Futures roll: ZF = (-9); ZN = (-22); ZB = (+1) [tics]}
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	105.115	0.0	105.127	105.090	105.120	30,956	2y Fut
FVAH8	110.240	0.0	110.260	110.185	110.240	55,222	5y Fut
TYAH8	114.030	0.1	114.060	113.275	114.025	114,638	10y Fut
USAH8	118.130	0	118.150	118.000	118.110	26,103	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.157	(0.2)	100.170	100.142	100.165	na	2y Cash
BUS05P	100.177	(0.7)	100.192	100.130	100.185	na	5y Cash
BUS10P	103.060	(2.0)	103.100	102.300	103.055	na	10y Cash
BUS30P	111.070	2	111.100	110.260	111.075	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	2.865	1.20	2.901	2.832	2.873	na	2y Yield
BUS05Y	3.252	0.50	3.288	3.238	3.249	na	5y Yield
BUS10Y	3.857	1.10	3.894	3.844	3.861	na	10y Yield
BUS30Y	4.318	(0.60)	4.347	4.312	4.324	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	5.246	3.625	5.280
3M	5.141	2.991	5.160
6M	4.896	3.262	4.750

	Libor\$ ^	Repos
0/N	4.705	4.150
1week	4.868	3.250
2week	4.878	3.250

	TSY	Swap	ED Pks ^^
2y	2.864	98.75	3.469
5y	3.252	83.50	
10y	3.857	67.25	



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 unless otherwise marked****Yesterday:**

15:19 12/03 **US TSYS/RECAP:** US Tsys rose Mon on 1) safe-haven bid/SIV writedown fears and 2) big early 2-year buyer; 3) morning 2Y buying on flight-to-quality bid, also fund buying too; 4) 2Y/10Y, 2Y/30Y curves steepen sharply as some renew steepeners. 5) Fast money did 5Y/30Y steepeners. 6) Lvrgrd accts sold 5Ys. 7) Buy-and-hold bid in 30s. 8) Lvgrd accts did some buying out Tsys curve, also 9) foreign accounts did 2Y/10Y flatteners. 10) Goldman Sachs cut Fannie Mae stk tgt to US\$45 from \$60; Fannie stock off US\$1.88 on day. 11) Also had been early short-covering, credit fears as Moody's warned was preparing the biggest credit ratings downgrade since subprime mortgage crisis began. 12) Swap spreads mainly tighter, then wider esp. 2Y amid brisk 2Y buying, and 2Y swaps paying. 13) 3m US\$ LIBOR up 0.93 bps at 5.1406%. 14) Credit spreads on bks, brokers, some fin. names wider. 15) Good buying in various asset classes but also steepener unwinds, big seller of Dec07 Eurodlr futures as some hope for US discr rate cut disappointed.

15:11 12/03 **US EURODLR FUTURES:** Eurodlr futures finished a little above midrange, pared gains around midsession as equities attempted a rally, front end under pressure as one acct sells appr 50K Dec07 contracts on liquidation. Curve moves sideways, the Red/Gold pack spd out 0.5 bps at 121.625. In the Fronts (Dec07-Sep08), the Dec07 was in 7.5 bps at 95-08.25 on combined Globex and pit volume of 352,000, the Mar08 in 3.0 bps at 95-80 on volume of 232,000, the Jun08 up 0.5 bps at 96-27.5 on volume of 305,000, while the Sep08 contract was 4.0 bps higher at 96-53.5 on volume of 326,000. The 2yr proxy Red pack (Dec08-Sep09), settled 7.5 to 12.0 bps higher across the pack with some 950,000 contracts traded.

14:59 12/03 **US SWAPS:** Near end spds continue to forge wider, better paying as a whole reported while ongoing illiquidity exaggerating the move. Some flattener interest in 5s vs 10s noted earlier as well. Spd wideing making retracing over 50% of last week's tightening, inching closer to 20-yr wides as credit concerns move to fore again. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
2:55	+9.50/98.25	+5.25/83.00	+2.25/67.50	+1.00/56.25
12:20	+6.75/95.50	+3.00/80.75	+0.50/65.75	-0.25/55.00
11:10	+5.75/94.50	+2.25/80.00	+0.25/65.50	-0.50/54.75
10:20	+6.25/95.00	+1.50/79.25	+0.00/65.25	-1.00/54.25
9:50	+4.75/93.50	-0.25/77.50	-1.00/64.25	-1.75/53.50
9:20	+1.75/90.50	-0.25/77.50	-1.00/64.25	-1.50/53.75
Mon Open	+1.25/90.00	-0.50/77.25	-0.75/64.50	-1.50/53.75
Fri 3:00	-1.25/88.75	-3.25/77.75	-2.00/65.25	-1.75/55.25

(cont)

Overnight

05:12 12/04 **TSYS:** Treasuries are trading modestly lower across the curve in London trade Tuesday, hampered by light profit-taking after the strong overnight gains. However, despite the profit-taking, traders say the market retained an underlying bid with a continuing steepening bias. Treasuries were lower from the getgo in Tokyo trade, although volumes were muted and flows were largely interdealer. However, Asian real money accounts - including regional central banks - were buyers of the 2-year note. London trade saw light two-way flows across the board, with the front of the curve underperforming a little. However, with little in the way of fresh news and a light data calendar in the New York session, volumes remained light. The 10-year Bund/US T-Note spread was trading at -16 bps, widening 0.5 bps on the day, close to the recent multi-year lows. Ahead of the U.S. session, the 2-yr note was trading 1/64 lower at 100 7/32 to yield 2.86%. The 10-yr note was 6/32 lower at 103 3/32 (3.87%), while the Bond was 8/32 lower at 110 9/32 (4.34%).

02:17 12/04 **FX:** Aussie sold off in local trade, following release of disappointing retail sales and building approvals data, Aussie-dollar trading down from around \$0.8813 to \$0.8728 with talk of Asian sovereign sales aiding the move. Dollar-yen and euro-yen were bid up into the fix on rumours of strong buying to be seen. However, no major demand was seen and both rates reversed after, dollar-yen trading off 30 pips from Y110.54, euro-yen pushing down from around Y162.13 to Y161.54. This move in euro-yen weighed on euro-dollar, easing it away from resistance in the \$1.4670/75 area to \$1.4645. Dollar then came under pressure in late Asia/early Europe with euro-dollar back to challenge reported offers around \$1.4675, but so far noted stops above \$1.4680 remain intact. Equity markets to continue to provide main directional impetus.




14:40 12/03 **US ABS/RISK:** Initial govt plans to limit subprime fallout may only have marginal effect, at best, at reducing foreclosures and losses, said UBS. Subprime borrowers at default risk fall broadly in 3 types: 1) borrowers who can pay higher reset rate, 2) can continue to afford initial teaser rate, but likely to default when forced to pay higher reset rate, 3) cannot afford initial teaser or higher reset rate. Guidelines to be shortly hammered out by mortgage industry and regulators are aimed at group #2, buyers who can at least pay lower teaser payments. But ost probably already eligible for loan modifications and may already be neat workout with servicers. "Pressure from govt, esp from regulators, can certainly encourage a bank to modify more loans, but that number will be marginal. The only way to ensure major increase in modifications is for government to impose a massive, wholesale modification - but that would call into question the sanctity" of legal documents of securitization" so from all reports, no one "seriously considering" such approach"

[...]

"Today's announcement of bill redemptions may be setting the stage for some further innovation in discount window policy."

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"We confront a week that gets a chunk of new information to tell us how weak November was. This doesn't matter very much, to be frank. Between the Beige Book, Fed'speak, data through last week that pointed to slowing consumption (and flat private wage & salary gains) it seems the Fed has enough to go on to ease with confidence next week."

[...]

"Our discussion of broad trading ranges and the market effectively going nowhere defines pretty well our approach into year end."

[...]

sell 2s/10s vs. 100 bp (reverse over) and buy vs. 78-80, buy 2s vs. 3.17/21% sell vs. 2.90%. Sell TY to a closing gap at 11305, then buy. Sell vs. 11417/19.

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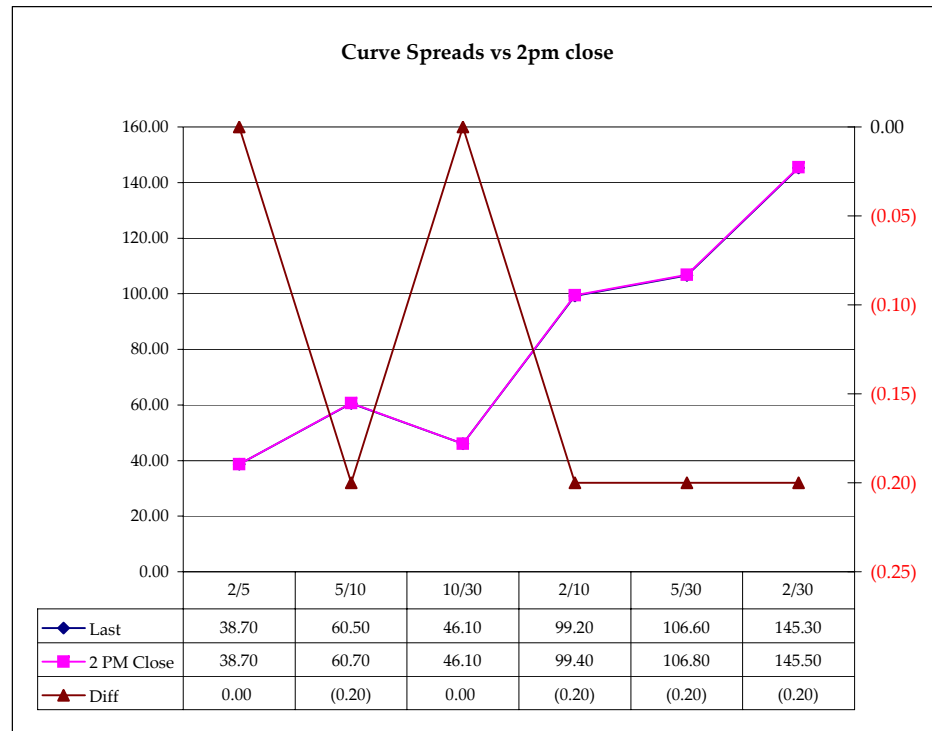
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.94	5.75	\$1,796	11.49	n/a
10y	8.07	2.67	\$835	5.34	n/a
5y	4.56	1.47	\$460	5.88	n/a
2y	1.91	0.62	\$192	2.46	n/a
ZB	10.41	4.04	\$126	4.04	0.8633
ZN	5.99	2.20	\$69	4.40	0.8747
ZF	4.04	1.44	\$45	2.88	0.9159
ZT	1.92	0.66	\$21	2.63	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	38.70	38.70	0.00
5/10	60.50	60.70	(0.20)
10/30	46.10	46.10	0.00
2/10	99.20	99.40	(0.20)
5/30	106.60	106.80	(0.20)
2/30	145.30	145.50	(0.20)

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 (H)	0.980	1.700	2.700	2.900
Bobl (H)	0.530	0.960	1.500	1.570
Shatz (H)	0.210	0.380	0.580	0.630

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.53	3.64	6.62	14.24
ZN	2.80	6.69	12.15	26.12
ZF	4.27	10.21	18.55	39.90
ZT	4.68	11.18	20.32	43.69

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.834	2.802	3.068
ZN	0.545		1.527	1.672
ZF	0.357	0.655		1.095
ZT	0.326	0.598	0.913	

US Treasuries v Eurex Bonds

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

Eurex Bonds

	Bund (H)	Bobl (H)	Shatz (H)
Bund (H)	1.0	1.7	3.4
Bobl (H)	0.6	1.0	2.0
Shatz (H)	0.3	0.5	1.0

US Treasuries

	2y	5y	10y	30y
2y		2.389	4.341	9.335
5y	0.419		1.817	3.907
10y	0.230	0.550		2.150
30y	0.107	0.256	0.465	

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	100.1400	2.897	2.865	(0.032)			-3.00	FVAH8	110.190	110.240
5y	3.375	11/30/12	100.1325	3.284	3.252	(0.032)	-28.12	-27.95	+1.25	TYAH8	113.285	114.030
10y	4.250	11/17/17	102.300	3.891	3.857	(0.034)	106.16	109.47		USAH8	118.01	118.130
30y	5.000	5/15/37	110.23	4.352	4.318	(0.034)	281.82	286.46				

Curve Spreads		
	Close bps	Last bps
2/5	38.7	38.7
5/10	60.7	60.5
10/30	46.1	46.1
2/10	99.4	99.2
5/30	106.8	106.6
2/30	145.5	145.3

TUAR1	-1.2
FVAR1	10.0
TYAR1	21.7
USAR1	-1.2

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	\$193	\$460		
10	\$198	\$471	\$835	
30	\$216	\$513	\$910	\$1,796
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$1)			
10	(\$6)	(\$12)		
30	(\$23)	(\$54)	(\$75)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.33%			
10	-2.81%	-2.49%		
30	-10.78%	-10.49%	-8.20%	

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	2.24	4.06	8.74
ZF		0.43	1.02	1.86	3.99
ZN		0.28	0.67	1.21	2.61
ZB		0.15	0.36	0.66	1.42

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		0.94	2.24	8.13	17.47
ZF		0.43	2.04	3.71	7.98
ZN		0.56	1.34	1.21	2.61
ZB		0.61	1.46	1.32	2.85

		2y	5y	10y	30y
2y		1.00	2.39	4.34	9.33
5y		0.42	1.00	1.82	3.91
10y		0.23	0.55	1.00	2.15
30y		0.11	0.26	0.47	1.00

		2y	5y	10y	30y
2y			2.39	2.17	4.67
5y		0.42		0.45	1.95
10y		0.46	2.20		2.15
30y		0.21	0.51	0.47	

		ZT	ZF	ZN	ZB
ZT		1.00	2.19	3.34	6.14
ZF		0.46	1.00	1.53	2.80
ZN		0.30	0.65	1.00	1.83
ZB		0.16	0.36	0.55	1.00

		2y	5y	10y	30y
ZT			2.19	6.69	24.54
ZF		0.46		1.53	5.60
ZN		0.15	0.65		3.67
ZB		0.04	0.18	0.27	

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	<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				
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