

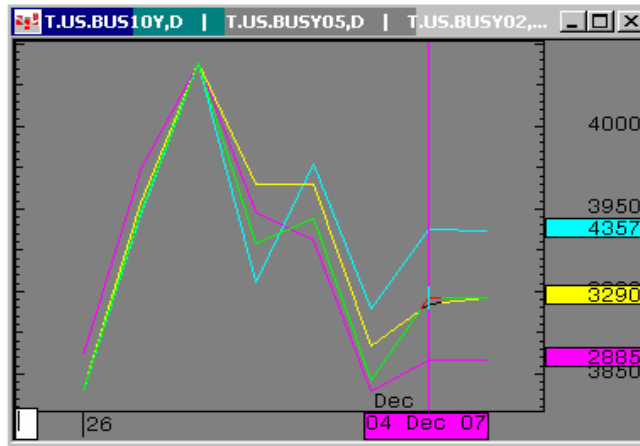


The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007

Wed Dec 05 2007 05:49:34



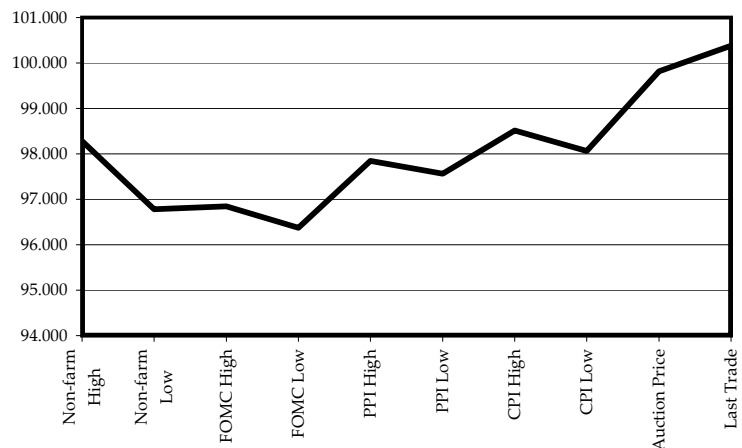
Want something added? Let me know: jgoulding@ghco.com

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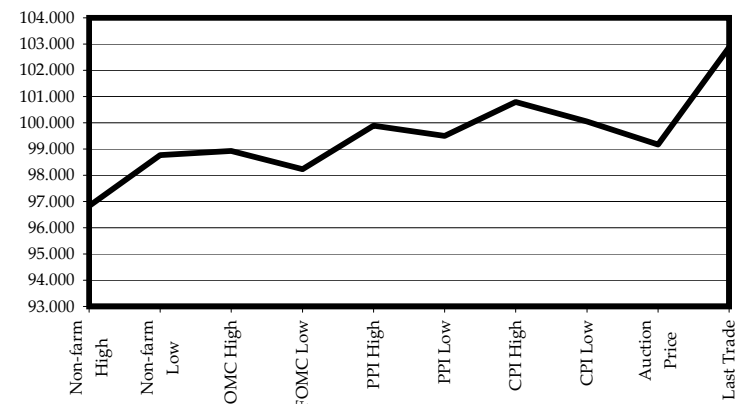
Economic Releases - 32nds					
	5y	10y	ZNH8	ZBH8	Date
Non-farm High	98.0900	96.265	110.250	114.22	11/2/2007
Non-farm Low	96.2500	98.245	109.235	113.11	11/2/2007
FOMC High	96.2700	98.295	109.290	113.20	10/31/2007
FOMC Low	96.1200	98.075	109.085	112.18	10/31/2007
PPI High	97.2700	99.285	111.010	114.17	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	100.1220	102.280	113.265	117.30	12/5/2007 5:52

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

5y (Decimal)



10y (Decimal)



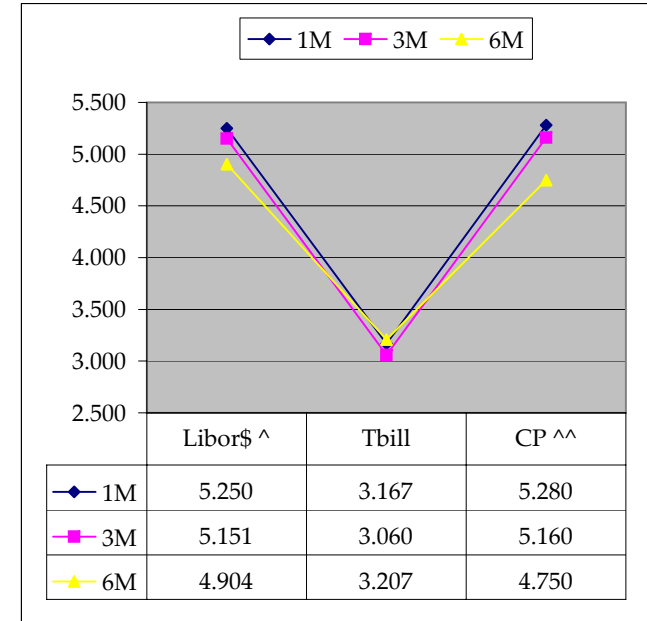
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 {Dec07 to Mch08 Futures roll: ZF = (-9); ZN = (-22); ZB = (+1) [tics]}
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	105.095	(0.0)	105.097	105.072	105.095	17,507	2y Fut
FVAH8	110.195	(0.0)	110.210	110.155	110.205	35,937	5y Fut
TYAH8	113.265	(0.0)	113.300	113.225	113.285	86,449	10y Fut
USAH8	117.300	(0)	118.010	117.230	117.300	19,457	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.145	0.2	100.150	100.130	100.145	na	2y Cash
BUS05P	100.120	(1.0)	100.130	100.092	100.127	na	5y Cash
BUS10P	102.275	0.0	102.285	102.235	102.270	na	10y Cash
BUS30P	110.185	2	110.225	110.125	110.175	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	2.885	0.00	2.921	2.864	2.881	na	2y Yield
BUS05Y	3.290	0.50	3.315	3.279	3.283	na	5y Yield
BUS10Y	3.896	0.00	3.917	3.874	3.878	na	10y Yield
BUS30Y	4.357	(0.10)	4.375	4.35	4.352	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	5.250	3.167	5.280
3M	5.151	3.060	5.160
6M	4.904	3.207	4.750

	Libor\$ ^	Repos
0/N	4.695	4.400
1week	4.864	4.100
2week	4.869	4.050

	TSY	Swap	ED Pks ^^
2y	2.884	98.50	3.504
5y	3.289	84.00	
10y	3.900	68.00	



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

Stone & McCarthy
RESEARCH ASSOCIATES

MarketNews
international



All Times Eastern unless otherwise marked

Yesterday:

15:27 12/04 **US TSYS/RECAP:** Tsys ended Tues off lows amid late rate-lock unwinds that stabilized mkt after rumored US\$6Bln sale of 2Y notes midday (cd have been lvrgd fund or UK or European bank; 3-4 fast money accts jumped on after initial sale, selling between US\$200M to US\$500M each; others eyed steepener stopouts too. (Was US\$3B 2Y buyer Mon. morn too.) The afternoon also had fast money covering 5Y shorts, earlier real money buying large size in 10Y futures on dip. Stocks lower amid analysts lowering earning estimates for major bks due to subprime woe. Mkt awaits 8:15am ET Wed. ADP private payrolls, Thu' RBS Greenwich's tradg update and ECB, BOE mtgs; others await rtgs dwngrades on CDO or subprime/SIV/ABS sector. UK financial regulator on Bbg telling bks to limit buying in mortgages. In morning, fund buying arose in 2ys, mild corp rate-lock selling, some 2Y/10Y steepeners; foreign buying, profit-taking. Traders mull who'll be left holdng weak SIV/ABS. MBS had morning origination selling, mostly 5.5s, some 5s also. Buying in 1y Eurodlr futures in size.

15:12 12/04 **US EURODLR FUTURES:** Eurodlr futures finished near midrange, pared gains around midsession, shadowing Tsys after large seller in 2s. Curve forges higher, the Red/Gold pack spd out 2.875 bps at 124.5. In the Fronts (Dec07-Sep08), the Dec07 was up 1.5 bps at 95-09.75 on combined Globex and pit volume of 283,000, the Mar08 up 1.5 bps at 95-81.5 on volume of 225,000, the Jun08 up 0.5 bps at 96-28 on volume of 222,000, while the Sep08 contract was 0.5 bps higher at 96-54 on volume of 248,000. The 2yr proxy Red pack (Dec08-Sep09), settled steady to 1.0 bps higher across the pack with some 992,000 contracts traded.

15:05 12/04 **US SWAPS:** Spds ended session off earlier wides, front end underperforming. After several rounds of paying on rate in 5s, 10s and 30s overnight, sources reported ongoing paying-tide flow in Eurodlr 5yr bundles and Green packs (Dec09-Sep10), followed by paying in front to intermediate Tsys in a couple waves, particularly in 2s when FI mkts dipped early in second half. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+1.00/99.25	+1.75/84.75	+0.50/68.25	-0.25/56.25
12:30	+0.50/98.75	+1.25/84.25	+0.00/67.75	-0.75/55.75
11:45	+1.50/99.75	+1.25/84.25	+0.00/67.75	-1.00/55.50
10:30	+1.00/99.25	+1.75/84.75	+0.00/67.75	-0.75/55.75
9:25	+2.25/100.50	+2.25/85.25	+0.25/68.00	-0.75/55.75
Tue Open	+2.25/100.50	+1.75/84.75	+0.25/68.00	-0.50/56.00
Tue 7:50	+3.75/103.00	+2.75/85.75	+0.50/68.25	-0.25/56.25
Mon 3:00	+10.50/99.25	+5.25/83.00	+2.50/67.75	+1.25/56.50

(cont)


Overnight:

05:41 12/05 **TSYS:** Treasuries are trading lower in London trade Wednesday, as the continue to consolidate recent solid gains. But the curve also managed to consolidate the recent curve steepening, as the market continues to look for Fed rate cuts in upcoming meetings. Treasuries were lower across the board from the getgo in Asian trade, with Tokyo dealers marking prices down. However, for a second straight day, volumes were seen as light. In London, Treasuries continued to inch lower, with outright flows largely seen as interdealer. Two-way demand was seen in the two-year note, with leveraged accounts seen selling the 10-year note. The sale of ten year notes was largely linked to unwinds of cross-border trades, with both the UK and d Eurozone spreads narrowing. The 10-year Bund/US T-Note spread was trading at -9.5 bps, narrowing 1.5 bps on the day, as it continues to back away from the recent multi-year lows. Ahead of the U.S. session, the 2-yr note was trading lower to yield 2.89%. The 10-yr note was lower at 3.90%.

05:29 12/05 **BUNDS/TSYS:** Traders report switching out of US Treasuries into German Bunds as the 10-year UST/Bund yield spread narrows to -9bps vs -11bps yesterday, having hit multi-year low at -19.5bps earlier this week. Traders also note that this spread moved into negative territory in swaps, amid capitulation trades going into the November year-end for many trading desks. This spread has now moved to +7bps in swaps.

02:31 12/05 **FX: (correct)** Fairly orderly session for majors overnight with the Australian dollar moving to the forefront of interest. RBA left interest rates unchanged, releasing a statement with the announcement which keeps a tightening bias but market focused on comments relating to concern over global credit meltdown and the implications toward Australia. Aussie-dollar was sold down from around \$0.8740 to lows of \$0.8677. Yen pairs were boosted after the Tokyo fix, the move up aided by reports of semi official demand interest in the Y109.60/50 area. Dollar-yen reversed from lows of Y109.85, pushing to highs of Y110.40, while euro-yen tracked higher, triggering stops through Y162.50 to take it on to Y162.86. Cable saw aggressive sales from a Canadian name, taking this rate down to lows of \$2.0550, where it ran into Swiss private bank demand, the recovery boosted by press reports suggesting possible nationalisation of Northern Rock if no private takeover is accepted.

05:20 12/05 **SONIA:** The SONIA (Sterling Over-Night Index Average) swap curve is now pricing in around 75% chance of a 25bps rate cut at Thursday's MPC meeting vs 50% earlier this week. The curve is now fulling pricing in a Jan rate cut and another 25bps at the April meeting. Interestingly, the curve is now fully pricing in 4 rate cuts.

13:35 12/04 **US MKTS:** Tony Crescenzi of Miller, Tabak says money mkt conditions "remain problematic" and it is possible more Fed actions to counter this are forthcoming. Earlier he wrote that Fed should narrow the DR spread to the Fed fnds target, but now he says "Alternatively, the Fed could continue to address the short-term liquidity problem via its open market operations," maybe including a coupon pass. He points out CP and LIBOR rates are moving up.

"..the December-is-illiquid-price-action-exaggerated-credit-panic-abounds-Fed-is-dovish perspective..."

"...we just don't think reason is the best trading strategy at the moment."

-David Ader, RBS Greenwich

[...]

The median estimate per the Market News International survey for **November payrolls** is for an increase of 75,000. The Bloomberg survey renders almost identical results. Here the median estimate was slightly lower than the MNI survey at +70,000, but the range of estimates was identical at -10,000 to +110,000. [...] --Raymond Stone, rstone@smra.com

Mortgage Relief Impact May Be Limited

By EDMUND L. ANDREWS

[...]

To qualify for the help, Mr. Paulson said, borrowers would have to be current on their payments and would have to be able to keep making payments at the introductory rates. Borrowers would not qualify if their financial condition was strong enough to manage the higher monthly payments or to refinance with a cheaper mortgage.

[...]

BANK OF CANADA CUTS KEY RATE 25 BPS TO 4.25%

09:01 12/04 BOC: CORE & TOTAL INFL NOW BELOW BANK'S EARLIER FORECAST

09:01 12/04 BOC: INFL AHEAD TO BE LOWER THAN 2.3% FORECAST FOR 2007

09:01 12/04 BOC: GLOBAL MKT TURMOIL TO PERSIST LONGER THAN EXPECTED

09:02 12/04 BOC: US HOUSING PROBLEMS 'HAVE WORSENERD'

09:02 12/04 BOC: INCREASED RISK OF SLOWER US DEMAND FOR CANADIAN EXPORTS

[Thank Howard]



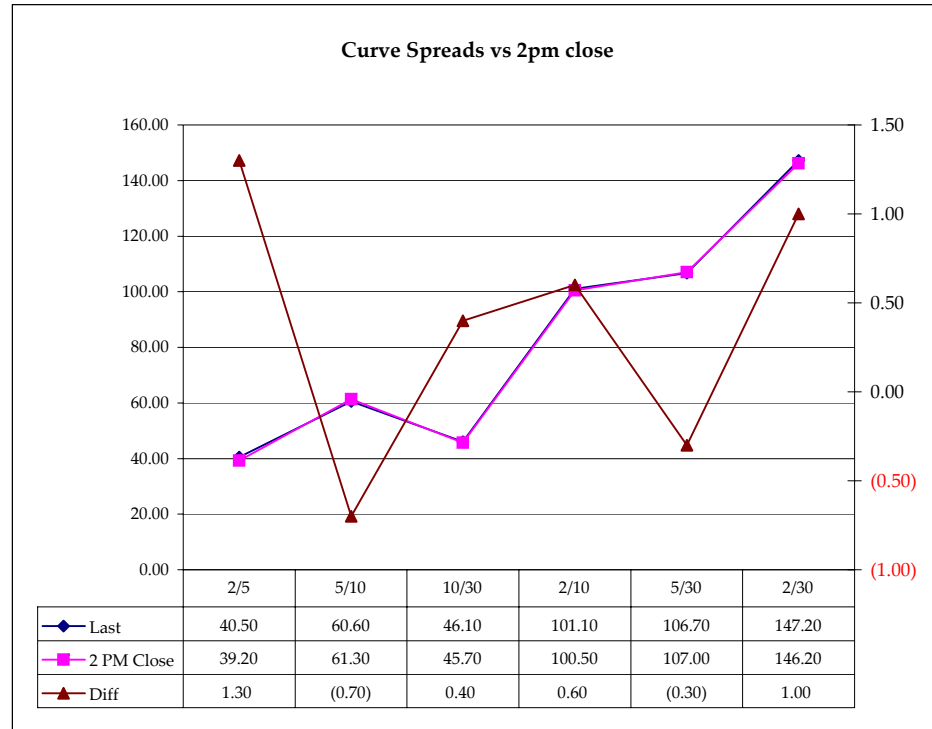
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.89	5.70	\$1,782	11.40	n/a
10y	8.06	2.66	\$831	5.32	n/a
5y	4.55	1.47	\$458	5.87	n/a
2y	1.91	0.61	\$192	2.46	n/a
ZB	10.39	4.01	\$125	4.01	0.8633
ZN	5.98	2.19	\$69	4.39	0.8747
ZF	4.04	1.44	\$45	2.88	0.9159
ZT	1.91	0.66	\$21	2.63	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	40.50	39.20	1.30
5/10	60.60	61.30	(0.70)
10/30	46.10	45.70	0.40
2/10	101.10	100.50	0.60
5/30	106.70	107.00	(0.30)
2/30	147.20	146.20	1.00

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	3.66	6.64	14.22
ZN	2.80	6.69	12.13	25.99
ZF	4.27	10.20	18.50	39.65
ZT	4.68	11.17	20.26	43.42

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.827	2.788	3.053
ZN	0.547		1.526	1.671
ZF	0.359	0.655		1.095
ZT	0.328	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		2.388	4.330	9.279
5y	0.419		1.814	3.886
10y	0.231	0.551		2.143
30y	0.108	0.257	0.467	

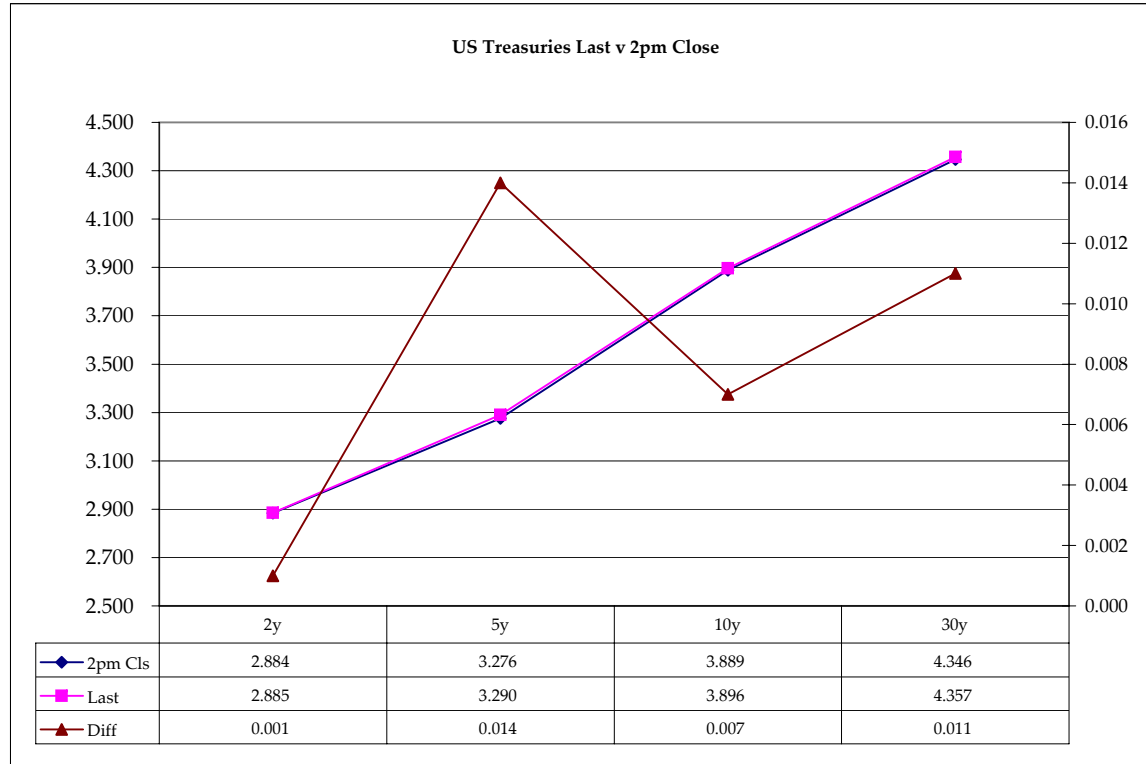
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	100.1475	2.884	2.885	0.001			-3.00	FVAH8	110.215	110.195
5y	3.375	11/30/12	100.1450	3.276	3.290	0.014	-29.16	-29.63	+1.25	TYAH8	113.300	113.265
10y	4.250	11/17/17	102.305	3.889	3.896	0.007	105.34	105.91		USAH8	118.02	117.300
30y	5.000	5/15/37	110.26	4.346	4.357	0.011	283.95	281.41				

Curve Spreads		
	Close bps	Last bps
2/5	39.2	40.5
5/10	61.3	60.6
10/30	45.7	46.1
2/10	100.5	101.1
5/30	107.0	106.7
2/30	146.2	147.2

TUAR1	-1.0
FVAR1	11.0
TYAR1	22.7
USAR1	-1.5

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	\$458		
10	\$197	\$469	\$831	
30	\$214	\$511	\$904	\$1,782
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$0)			
10	(\$5)	(\$11)		
30	(\$22)	(\$52)	(\$73)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.20%			
10	-2.52%	-2.32%		
30	-10.37%	-10.19%	-8.06%	

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	2.23	4.05	8.68
ZF		0.43	1.02	1.85	3.96
ZN		0.28	0.67	1.21	2.60
ZB		0.15	0.37	0.66	1.42

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		0.94	2.23	8.11	17.37
ZF		0.43	2.04	3.70	7.93
ZN		0.56	1.34	1.21	2.60
ZB		0.61	1.46	1.33	2.84

		2y	5y	10y	30y
2y		1.00	2.39	4.33	9.28
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			2.39	2.16	4.64
5y		0.42		0.45	1.94
10y		0.46	2.21		2.14
30y		0.22	0.51	0.47	

		ZT	ZF	ZN	ZB
ZT		1.00	2.19	3.34	6.11
ZF		0.46	1.00	1.53	2.79
ZN		0.30	0.66	1.00	1.83
ZB		0.16	0.36	0.55	1.00

		2y	5y	10y	30y
ZT			2.19	6.68	24.43
ZF		0.46		1.53	5.58
ZN		0.15	0.66		3.65
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	<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