

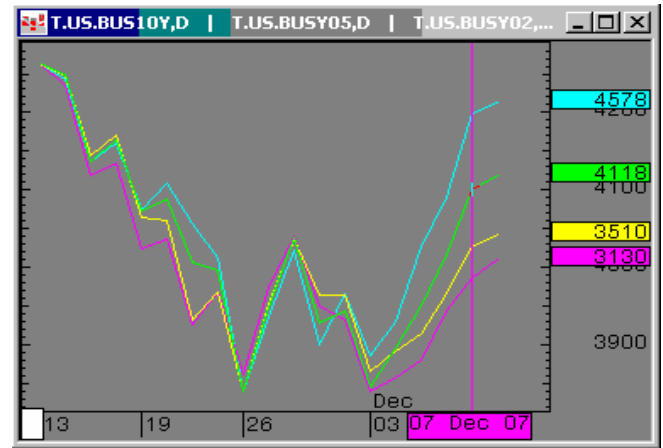


## The Morning Email: Treasuries

### 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



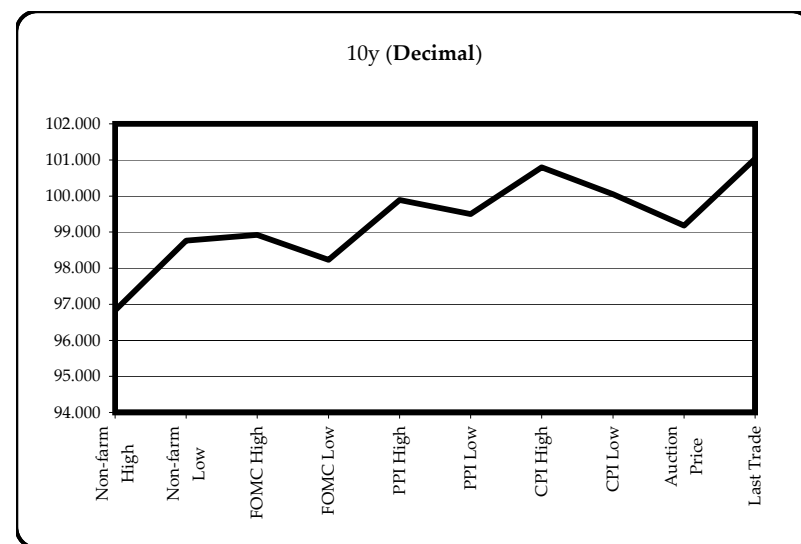
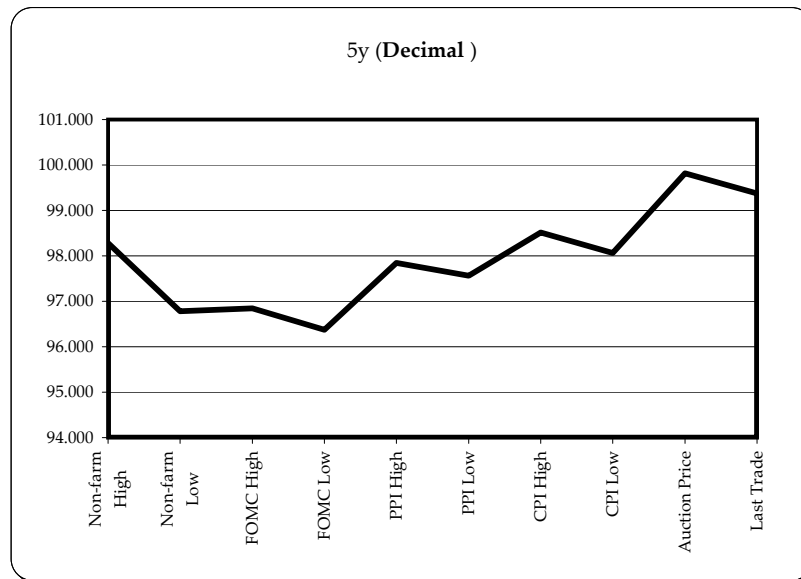
Source: CQG, Inc. © 2007 Mon Dec 10 2007 05:52:17



Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)  
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Economic Releases - 32nds					
	5y	10y	ZNH8	ZBH8	Date
Non-farm High	98.0900	96.265	110.220	114.22	11/2/2007
Non-farm Low	96.2500	98.245	109.205	113.11	11/2/2007
FOMC High	96.2700	98.295	109.260	113.20	10/31/2007
FOMC Low	96.1200	98.075	109.055	112.18	10/31/2007
PPI High	97.2700	99.285	110.300	114.17	11/14/2007
PPI Low	97.1800	99.160	110.155	113.27	11/14/2007
CPI High	98.1650	100.255	111.170	115.18	10/15/2007
CPI Low	98.0200	100.015	111.005	114.17	10/15/2007
Auction Price	99.2616	99.056			
Last Trade	99.1200	101.010	112.165	115.04	12/10/2007 5:57

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



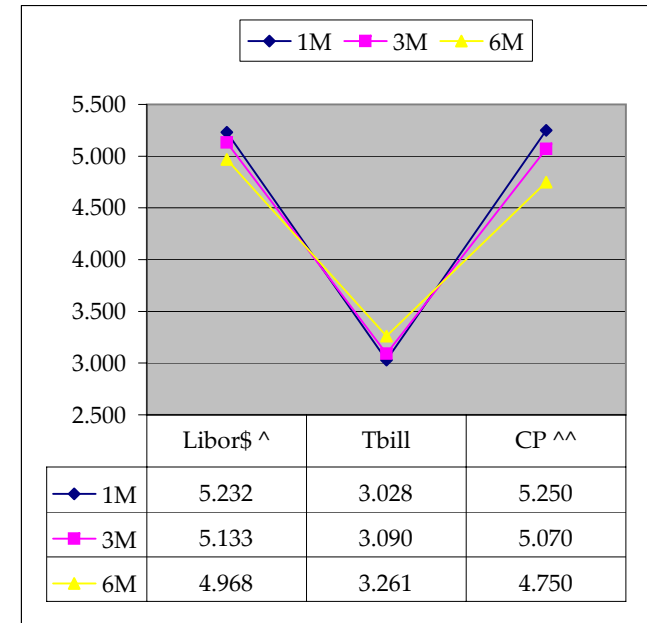
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 {Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	104.262	(0.0)	104.310	104.260	104.275	26,119	2y Fut
FVAH8	109.225	(0.0)	110.020	109.220	109.260	55,922	5y Fut
TYAH8	112.165	(0.0)	112.310	112.160	112.200	131,126	10y Fut
USAH8	115.040	(0)	115.280	115.040	115.050	33,605	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.312	(2.0)	100.042	99.312	100.015	na	2y Cash
BUS05P	99.117	(3.7)	99.227	99.117	99.160	na	5y Cash
BUS10P	101.005	(5.0)	101.190	101.005	101.100	na	10y Cash
BUS30P	106.220	(2)	107.215	106.235	107.040	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.134	4.10	3.146	3.047	3.117	na	2y Yield
BUS05Y	3.513	2.70	3.517	3.432	3.496	na	5y Yield
BUS10Y	4.120	1.90	4.126	4.051	4.107	na	10y Yield
BUS30Y	4.581	1.40	4.585	4.524	4.564	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	5.232	3.028	5.250
3M	5.133	3.090	5.070
6M	4.968	3.261	4.750

	Libor\$ ^	Repos
0/N	4.548	4.360
1week	4.599	4.100
2week	4.609	4.050

	TSY	Swap	ED Pks ^^^
2y	3.133	100.75	3.848
5y	3.515	89.00	
10y	4.124	71.75	



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

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**All Times Eastern unless otherwise marked**

**[Friday]**

**By John Canavan, SMRA.COM**

The Market

Treasuries edged marginally higher across the curve over the course of trading in the Far East and maintained a very slightly firmer tone for much of the activity in Europe. There was little direction overnight as most market participants remained sidelined ahead of the US morning's non-farm payrolls release.

The market was back to mixed levels and prices were very little changed at the open in the U.S. There were rumors of a strong payrolls report ahead of the release that began to knock Treasuries down. The actual release was slightly mixed. November payroll gains were above consensus, with a small upward revision to October as well, but September was revised significantly lower. The unemployment rate was steady at 4.7%. The consensus forecast had been for a rise to 4.8%. Average hourly earnings were up a sharp 0.5%.

Treasuries tumbled in response to the combination of payrolls numbers. The mixed numbers weren't strong enough to sustain the selloff though and there was some stability into mid-morning following the initial fall. The mid-morning University of Michigan Sentiment numbers were below expectations, but offered no fresh support. Without it, the Treasury market selloff resumed. Market News International noted heavy mortgage convexity related selling helping to drive the market lower, as well as levered money selling 10s.

The 5-year note led the way lower though, bowing the curve. Prices continued to fall into the early afternoon. Yields rose 11 bps to 14 bps across the coupon curve before a bottom was found. The price action quieted over the rest of the afternoon. Prices remained pinned near the lows and held to fairly narrow ranges through the close.

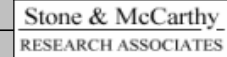
In addition to the mortgage related and levered selling, Treasuries have been ripe for a while now for a better correction. Just since June, the 2-year note fell from 5.10% to 2.85%, while 10s fell from 5.30% to 3.84%. That was an incredible run in a very short period of time. With the Fed coming up next week, market participants were looking to take some chips off the table. In addition, while the stresses on the financial system remain, there have been some small signs that things are at least not getting any worse looking into year-end. The ever-rising Libor rates had been a strong sign of those stresses recently, particularly since 1-month Libor began to incorporate the turn to the new year. The past few sessions have finally seen 1-month and 3-month Libor begin to steady and ease off of their recent worst levels, however, perhaps adding to the impetus to take profits.

(cont)

**Overnight:**

05:05 12/10 **TSYS: Treasuries** are trading modestly higher across the curve in London trade Monday, helped by bargain-hunting and short-covering after the sharp sell-off in the U.S. ahead of the weekend. However, traders said volumes were light, with few players prepared to open fresh trading positions ahead of the Federal Reserve's rate decision due on Tuesday. The Fed is largely expected to extend the recent rate cutting cycle, lowering rates by 25 bps to 4.25%. There had been expectations of a 50 bps cut in some quarters, although these have been tempered in recent days. Treasuries were higher across the board in Asian trade Monday, boosted by dip-buying after falls in the US Friday. However, many players remained sidelined ahead of the FOMC. Prices remained higher in London trade, although volumes remained muted. With little in the way of fresh trading incentives, prices consolidated around the highs seen in Asian trade.

05:04 12/10 **TSYS: (2)** The 10-year Bund/US T-Note spread was trading at -7 bps, narrowing 1 bps on the day. Ahead of the U.S. session, the 2-yr note was trading 1/32 higher at 100 2/32 to yield 3.08%. The 10-yr note was 4/32 higher at 101 9/32 (4.09%), while the Bond was 9/32 higher at 107 6/32 (4.55%). The 2-yr/5-yr yield curve was 1 bps flatter on overnight levels, trading at +39 bps. The 2-/10-yr curve was unchanged, trading at +101 bps, with the 2-yr/30-yr curve also unchanged, standing at +147 bps.

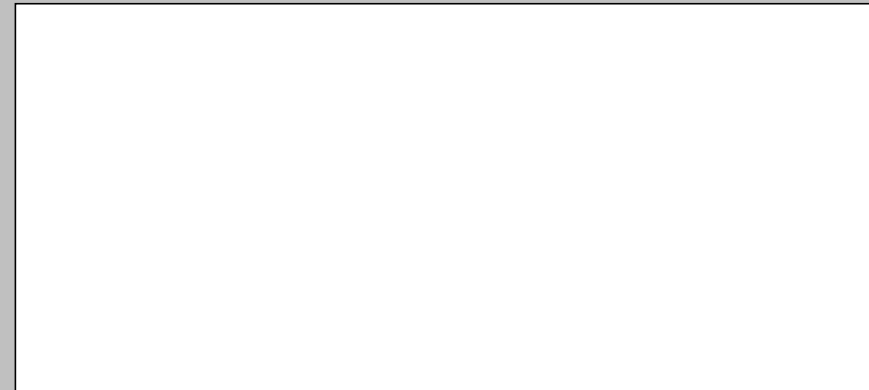


09:20 12/07 **US DATA REACT:** From Bear: "According to the employment report, the economy continues to expand at a moderate pace in the fourth quarter. This is also the message of the ISM surveys of manufacturing and nonmanufacturing activity. The labor market remains tight, which may have the potential to boost wage pressures going forward. From a macroeconomic perspective, therefore, the Fed is likely to be disinclined to cut the funds rate target by 50 basis points next week (we look for a 25-basis-point cut in the funds rate, with the potential for a larger cut in the discount rate)."

09:23 12/07 **US DATA REACT/FED:** From SoGen economist Steve Gallagher: "Current employment gains are not robust, but sufficient to keep the consumer out of serious trouble. With the unemployment rate at 4.7%, there is not a lot of slack in the labor market. This should support healthy income gains... The FOMC meets next week. We still expect a 25 bp cut. The employment report provides some reassurance on growth, but the Fed should still feel very comfortable easing policy based on the deepening financial market turmoil. However, the report argues against a more aggressive move and the hopes of a 50 bp move should fade in the market. While the Fed will stress downside risks to growth and leave options open, we see no guarantee of future rate cuts."

09:25 12/07 **US MKTS:** 3m TED spread is showing pressures at 210bp, Goldman says, "raising concerns about what the TED spread implies for the economic outlook. In a statistical recession forecasting model, we find that an elevated TED spread is a useful warning sign of recessions."

"How do we characterize the recent payroll data? On balance the payroll numbers were inline with recent trends, revealing a very gradual slowing. That said, something looks very wrong with the recent behavior of the payroll data, and this story seems to be apparent in the data extending through November."



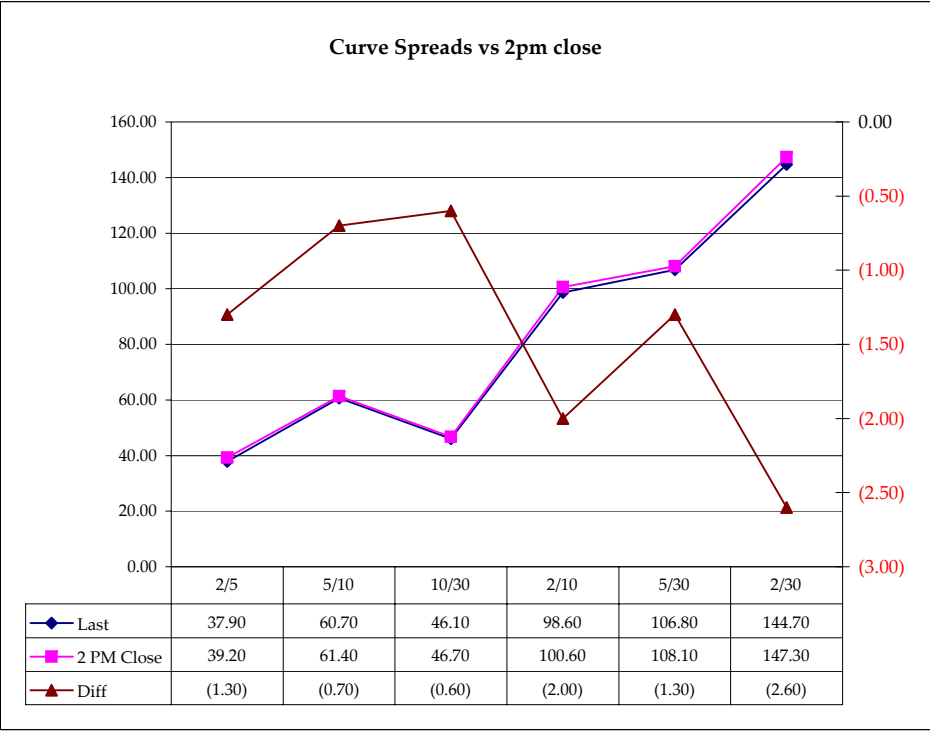
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.62	5.41	\$1,692	10.83	n/a
10y	8.02	2.60	\$813	5.20	n/a
5y	4.53	1.45	\$452	5.79	n/a
2y	1.89	0.61	\$190	2.43	n/a
ZB	10.30	3.88	\$121	3.88	0.8633
ZN	5.95	2.16	\$67	4.32	0.8747
ZF	4.02	1.42	\$44	2.83	0.9159
ZT	1.90	0.65	\$20	2.59	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	37.90	39.20	(1.30)
5/10	60.70	61.40	(0.70)
10/30	46.10	46.70	(0.60)
2/10	98.60	100.60	(2.00)
5/30	106.80	108.10	(1.30)
2/30	144.70	147.30	(2.60)

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	1.56	3.72	6.70	13.94
ZN	2.81	6.70	12.05	25.09
ZF	4.28	10.20	18.35	38.20
ZT	4.68	11.15	20.06	41.75

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.799	2.739	2.994
ZN	0.556		1.523	1.664
ZF	0.365	0.657		1.093
ZT	0.334	0.601	0.915	

## 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		2.384	4.287	8.924
5y	0.420		1.799	3.744
10y	0.233	0.556		2.081
30y	0.112	0.267	0.480	

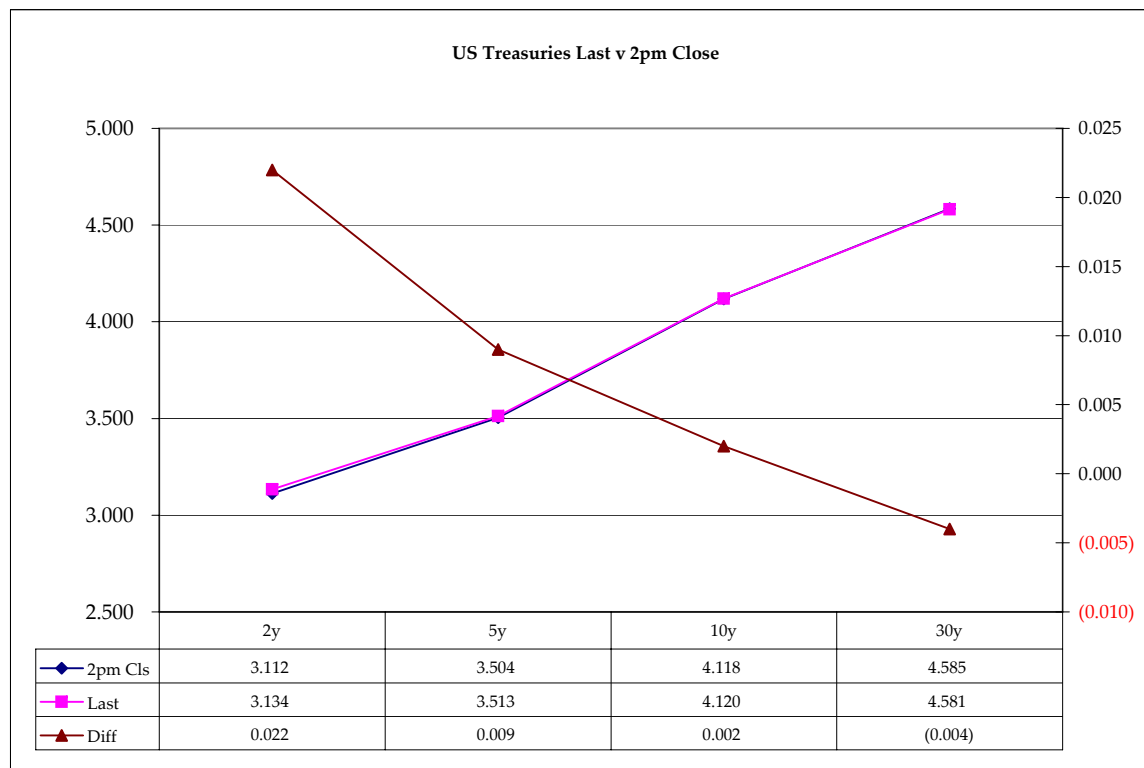
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	100.0075	3.112	3.134	0.022				FVAH8	109.245	109.225
5y	3.375	11/30/12	99.1325	3.504	3.513	0.009	-35.85	-35.27		TYAH8	112.180	112.165
10y	4.250	11/17/17	101.020	4.118	4.120	0.002	83.33	83.64		USAH8	115.05	115.040
30y	5.000	5/15/37	106.22	4.585	4.581	(0.004)	232.24	235.10				

Curve Spreads		
	Close bps	Last bps
2/5	39.2	37.9
5/10	61.4	60.7
10/30	46.7	46.1
2/10	100.6	98.6
5/30	108.1	106.8
2/30	147.3	144.7

TUAR1	0.5
FVAR1	10.5
TYAR1	24.2
USAR1	1.0

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	\$190			
5	\$189	\$452		
10	\$192	\$459	\$813	
30	\$205	\$491	\$869	\$1,692
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$2)	(\$7)		
30	(\$16)	(\$39)	(\$56)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.34%			
10	-1.22%	-1.56%		
30	-7.62%	-7.94%	-6.48%	

**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	4.01	8.35
ZF	0.43	1.02	1.84	3.82
ZN	0.28	0.67	1.21	2.51
ZB	0.16	0.37	0.67	1.39

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.94	2.23	8.02	16.70
ZF	0.43	2.04	3.67	7.64
ZN	0.56	1.34	1.21	2.51
ZB	0.63	1.49	1.34	2.79

	2y	5y	10y	30y
2y	1.00	2.38	4.29	8.92
5y	0.42	1.00	1.80	3.74
10y	0.23	0.56	1.00	2.08
30y	0.11	0.27	0.48	1.00

	2y	5y	10y	30y
2y		2.38	2.14	4.46
5y	0.42		0.45	1.87
10y	0.47	2.22		2.08
30y	0.22	0.53	0.48	

	ZT	ZF	ZN	ZB
ZT	1.00	2.19	3.33	5.99
ZF	0.46	1.00	1.52	2.74
ZN	0.30	0.66	1.00	1.80
ZB	0.17	0.37	0.56	1.00

	2y	5y	10y	30y
ZT		2.19	6.66	23.95
ZF	0.46		1.52	5.48
ZN	0.15	0.66		3.60
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.

<p><b>Notes:</b>                  ^ DC = Delivery Curve. See morning email, US Deliverable Basket for full basket.                  PS = Parallel Shift                  NPS = Non-Parallel Shift.                  BNOc = Basis Net of Change</p>	<p>yc = yield curve                  HDB = High Duration Bond/Note                  LDB = Low Duration Bond/Note</p>
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