12/12/2007 5:37

The Morning Email: Treasuries

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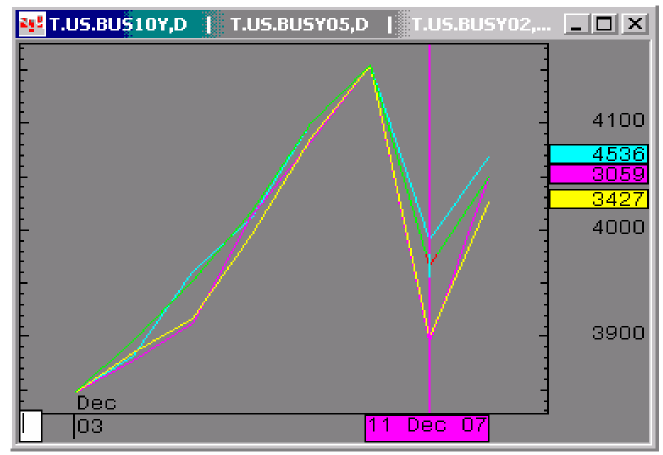
Daily Yield Curve



Source: CQG, Inc. © 2007 Wed Dec 12 2007 05:37:03

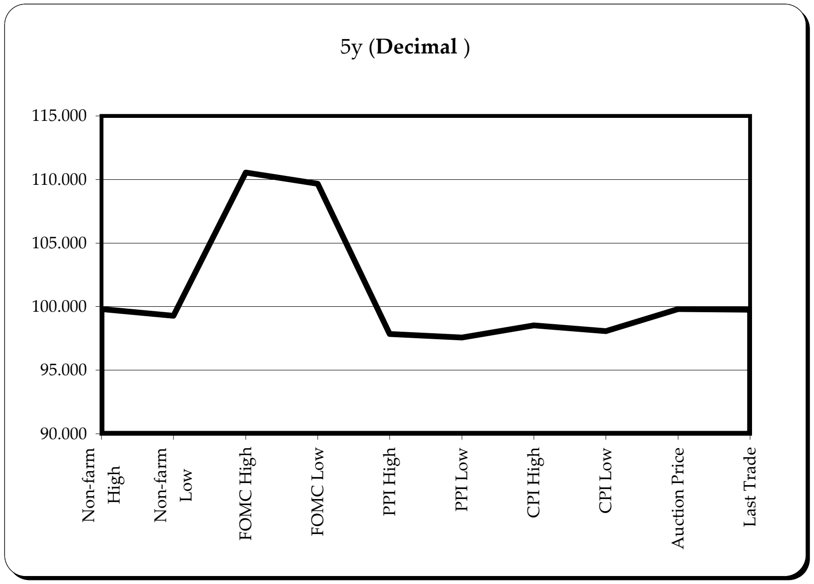
30y 10y 5y 2y

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

Important Econ Releases, Highs & Lows

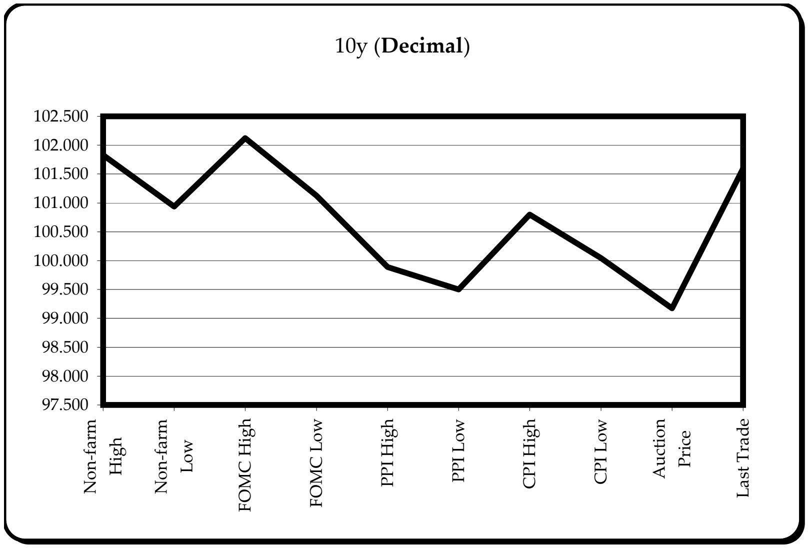
Economic Releases - 32nds

	5y	10y	ZNH8	ZBH8	Date
Non-farm High	99.2625	101.265	113.090	116.17	12/7/2007
Non-farm Low	99.0925	100.300	112.120	115.00	12/7/2007
FOMC High	110.1750	102.040	113.200	116.16	12/11/2007
FOMC Low	109.2150	101.040	112.185	115.03	12/11/2007
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	99.2420	101.190	113.020	115.24	12/12/2007 5:37



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

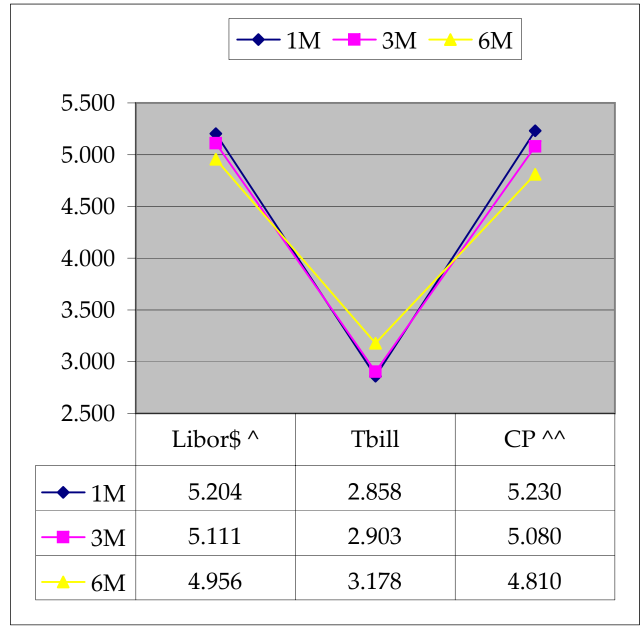


Notes: Cash and futures are adjusted for roll.
Release times are from release to 2pm cdt
{Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}
r = reopen

12/12/2007 5:37

Quotes

	Last	Net	High (32 nds)	Low (32 nds)	Open (32 nds)	Volume (32 nds)	SYM NAME
TUAH8	104.317	(0.1)	105.077	104.317	105.072	38,229	2y Fut
FVAH8	110.020	(0.1)	110.195	110.020	110.195	74,354	5y Fut
TYAH8	113.020	(0.2)	113.230	113.015	113.225	180,631	10y Fut
USAH8	115.240	(0)	116.200	115.230	116.200	36,639	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.037	(9.0)	100.122	100.040	100.097	na	2y Cash
BUS05P	99.240	(17.5)	100.087	99.242	100.045	na	5y Cash
BUS10P	101.190	(22.0)	102.055	101.190	102.030	na	10y Cash
BUS30P	107.150	(106)	108.125	107.150	108.035	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.059	14.80	3.068	2.907	2.948	na	2y Yield
BUS05Y	3.427	12.10	3.432	3.305	3.318	na	5y Yield
BUS10Y	4.051	8.20	4.057	3.966	3.981	na	10y Yield
BUS30Y	4.536	7.40	4.54	4.474	4.504	na	30y Yield



	Libor$ ^	Tbill	CP ^^
1M	5.204	2.858	5.230
3M	5.111	2.903	5.080
6M	4.956	3.178	4.810
	TSY	Swap	ED Pks ^^^
2y	3.063	97.50	3.714
5y	3.430	89.75	
10y	4.053	70.75	

	Libor$ ^	Repos
0/N	4.433	4.230
1week	4.450	4.100
2week	4.469	4.050

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:

15:42 12/11 **US TSYS/RECAP:** US Tsys rallied Tue after Fed cut fed funds & discount rates by 25 bps; mkt feels is not enough to assuage funding squeeze/credit crunch near year-end. US stocks feel similarly and slid sharply: DJIA is now off 1.87%, S&P 500 index -2.04%, Nasdaq -1.97%. Cash 10-year yield broke 4.0% yield to downside, 2Y broke 3.0% yield to downside. Swaps paying arose across the board as spds widen off earlier tights as market disappointed. Just after FOMC ended, more buying arose in 2s, including lvrgd accts, fund mgr buying in 10-yrs. Dec. 3M OIS/LIBOR jumping: fear of risk: by roughly huge 15 bps on day to over 100 bp vs. 85 earlier Tue. Tsys saw big steepener curve trades, swap paying across the board, and short-covering in Tsys. A hedge fund bought 10K 5Y futures. Fear of end-of-yr squeeze intensifies, aids front end. Ongoing buying by real money, servicers in MBS. In morn, safe-haven bid, short-covering, Freddie Mac's Syron said expected cd be total losses of US$10B-$12b on current mortgage bk; T-bills had Asian bid, official bid.

15:12 12/11 **US EURODLR FUTURES:** Eurodlr futures forged sharply higher post FOMC, while front 2 contracts edged lower, curve forges steeper w/Reds outpacing, The Red/Gold pack spd finished 2.375 bps steeper at 127.25. In the Fronts (Dec07-Sep08), the Dec07 were in 11.0 bps at 94-92.25 on combined Globex and pit volume of 649,000, the Mar08 in 2.0 bps at 95-56 on volume of 372,000, the Jun08 up 6.0 bps at 96-08 on volume of 370,000, while the Sep08 contract was 13.5 bps higher at 96-38 on volume of 363,000. The 2yr proxy Red pack (Dec08-Sep09), settled 17.5 to 20.5 bps higher across the pack with some 1,117,000 contracts traded.

15:05 12/11 **US SWAPS:** Spds tighter most of session, gapped wider post FOMC. While many had anticipated more of a cut by the Fed, now fear Fed is behind the curve. Swap tied flow light in second half after Tsy sources reported some "decent" servicer-tied receiving across curve early. Front end near within 50 bps of 20yr wides. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+5.25/103.50	+2.75/92.25	+1.50/74.00	+0.75/61.75
2:50	+5.50/103.75	+1.50/91.00	+1.25/73.75	-0.25/60.75
2:45	+5.50/103.75	+1.50/91.00	+1.25/73.75	-0.25/60.75
2:30	+0.75/99.00	-0.75/88.75	-0.75/71.75	-2.25/58.75
1:35	-6.25/92.00	-5.00/84.50	-5.25/67.25	-4.75/56.25
12:20	-5.50/92.75	-4.00/85.50	-3.75/68.75	-3.50/57.50
11:00	-4.50/93.75	-3.25/86.25	-2.75/69.75	-2.50/58.50
9:25	-6.25/92.00	-4.50/85.00	-3.25/69.25	-3.00/58.00
8:50	-5.25/93.00	-2.50/87.00	-2.25/70.25	-2.25/58.75
Mon 3:00	+0.50/98.25	+1.50/89.50	+0.50/72.50	+0.50/61.00

(cont)

Overnight:

05:02 12/12 **TSYS:** Treasuries are trading lower across the board in London trade Wednesday, weighed by profit-taking after the Federal Reserve's overnight rate cut. The Fed cut both the Fed Funds and Discount rates by 25 bps - disappointing some who had been looking for a 50 bps cut. The Fed's move weighed sharply on U.S. stocks, sending the Dow Jones down 2.1%. Weaker stocks unnerved investors, which, along with the lower Fed Fund rate, helped trigger a flood of safe haven flows into Treasuries.However, prices were lower from the getgo in Asia, as regional players took advantage of the overnight strength to book profits. The weakness continued into the London session, with prices pressured by further profit-taking and unwinds of the safe haven flows. Real money names were sellers of the 2 and 5-year note, as shorter dates underperformed.

05:02 12/12 **TSYS:** (2) Leveraged names were outright sellers of the 10-year note, although there was buying of the T-note against European debt. The 10-year Bund/US T-Note spread was trading at -19 bps, closing in on recent lows at -23. Ahead of the U.S. session, the 2-yr note was trading 7/32 lower at 100 5/32 to yield 3.03%. The 10-yr note was 16/32 lower at 101 25/32 (4.14%), while the Bond was 28/32 lower at 107 26/32 (4.60%). The 2-yr/5-yr yield curve was 3 bps flatter on overnight levels, trading at +36 bps. The 2-/10-yr curve was 5 bps flatter trading at +100 bps, with the 2-yr/30-yr curve also 6 bps flatter, standing at +148 bps.

03:19 12/12 **ZHOU:** Reported comments from PBOC Gov

-- China CPI, Fed rates have big impact on PBOC Policy

-- Worried expansive Fed policy adds to global liquidity.

-- Don't see big impact on China from Fed rate cut.

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

14:36 12/11 **FED REACT:** Analyst Tony Crescenzi of Miller, Tabak says back month Eurodollar contracts suggest expectations rose for the level of the funds rate in late 2008 and 2009. He says this "makes no sense given the slight action today, which means that the market believes that by doing so little today the Fed will have to do more later. This was a poor course of action for the Fed, in my opinion, especially having left the discount rate at such a wide spread to the fed funds rate."

14:36 12/11 **US AGENCIES:** More traders very unhappy with lack of more forceful action from Fed. Concerns center on year-end pressures. Some, for the first time, worry out-loud that the Fed is out of step with reality and is now, dare we say, "behind the curve." This has been heard before. We find it interesting though at this time that traders/analysts who we would normally look for level-headed, non knee-jerk responses rom are moving in to the camp that says the Fed does not get the joke.

14:49 12/11 **FED REACT:** Citi's chief economist Bob DiClemente says "a stunning disappointment in light of the sharp deterioration in near-term growth prospects and tightening financial conditions... The dissent in favor of more aggressive action is also not especially encouraging as it indicates that more decisive move was strongly resisted. Taken together the action and the statement will invite speculation that the Committee lacks a consensus in addressing the threat to growth and still is focused on lingering perceived threats to inflation. This concern is overdrawn in our judgment. A more aggressive move might have limited chances that we will see significant further rate cuts. As a result, we can reaffirm that at least another 75bps is in store, with at least 25bps at the end of January."

14:55 12/11 **US TSYS/RISK: Dec. 3M OIS/LIBOR** is jumping, showing fear of risk, as the Dec 3M OIS/LIBOR has jumped roughly a huge 15 bps on the day to over 100 bps vs. 85 bps earlier today. "The spread products are wider," said one trader. "It just intensifies that year-end funding constraint. Capitol costs are going to be critical. But the Fed has said we're aware of this, we think we have done enough."

14:56 12/11 FED REACT: Economist Steven Ricchiuto at Handelsbank says Fed took a "cautious approach to easing" that disappointed stock traders. He says the policy statement "strongly implies that the Committee will cut rates further if the steps taken today fail to stabilize markets during the inter-meeting period."

Release Date: December 11, 2007

The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 4-1/4 percent.

Incoming information suggests that economic growth is slowing, reflecting the intensification of the housing correction and some softening in business and consumer spending. Moreover, strains in financial markets have increased in recent weeks. Today's action, combined with the policy actions taken earlier, should help promote moderate growth over time.

Readings on core inflation have improved modestly this year, but elevated energy and commodity prices, among other factors, may put upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully

Recent developments, including the deterioration in financial market conditions, have increased the uncertainty surrounding the outlook for economic growth and inflation. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Charles L. Evans; Thomas M. Hoenig; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; William Poole; and Kevin M. Warsh. Voting against was Eric S. Rosengren, who preferred to lower the target for the federal funds rate by 50 basis points at this meeting.

In a related action, the Board of Governors unanimously approved a 25-basis-point decrease in the discount rate to 4-3/4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and St. Louis.

[Source: the Federal Reserve]

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.66	5.47	$1,709	10.94	n/a
10y	8.03	2.62	$818	5.24	n/a
5y	4.53	1.45	$454	5.80	n/a
2y	1.89	0.61	$189	2.42	n/a
ZB	10.31	3.90	$122	3.90	0.8633
ZN	5.95	2.17	$68	4.34	0.8747
ZF	4.01	1.42	$44	2.84	0.9159
ZT	1.89	0.65	$20	2.59	0.9486

Yield Curve Spreads

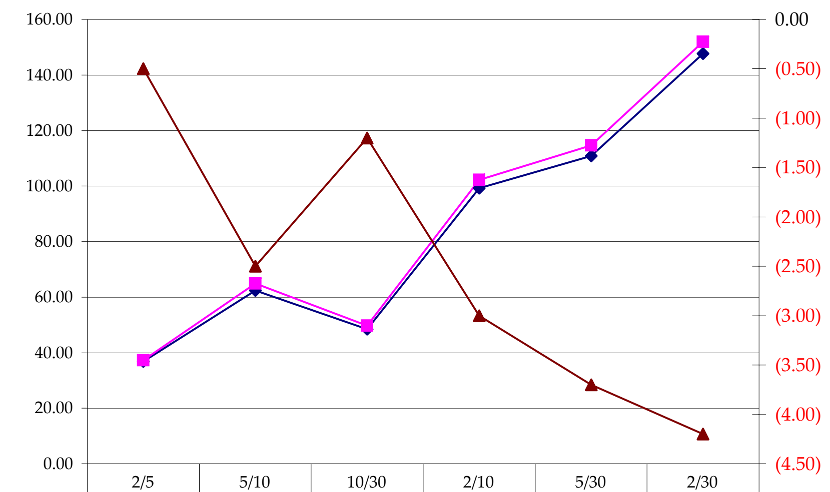
	Last	2pm close	Diff
2/5	36.80	37.30	(0.50)
5/10	62.40	64.90	(2.50)
10/30	48.50	49.70	(1.20)
2/10	99.20	102.20	(3.00)
5/30	110.90	114.60	(3.70)
2/30	147.70	151.90	(4.20)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	36.80	62.40	48.50	99.20	110.90	147.70
2 PM Close	37.30	64.90	49.70	102.20	114.60	151.90
Diff	(0.50)	(2.50)	(1.20)	(3.00)	(3.70)	(4.20)

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

Hedge Ratio's

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 Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.796	2.744	3.011
ZN	0.557		1.527	1.676
ZF	0.364	0.655		1.098
ZT	0.332	0.597	0.911	

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 v US Financial Futures

	2y	5y	10y	30y
ZB	1.55	3.72	6.71	14.02
ZN	2.79	6.68	12.06	25.19
ZF	4.26	10.21	18.42	38.47
ZT	4.68	11.21	20.21	42.23

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

US Treasuries

	2y	5y	10y	30y
2y		2.394	4.319	9.022
5y	0.418		1.804	3.768
10y	0.232	0.554		2.089
30y	0.111	0.265	0.479	

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.

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	3.125	11/30/09	100.0975	2.964	3.059	0.095			
5y	3.375	11/30/12	100.0550	3.337	3.427	0.090	-33.12	-33.60	
10y	4.250	11/17/17	102.045	3.986	4.051	0.065	88.53	86.34	
30y	5.000	5/15/37	108.13	4.483	4.536	0.053	251.48	241.34	

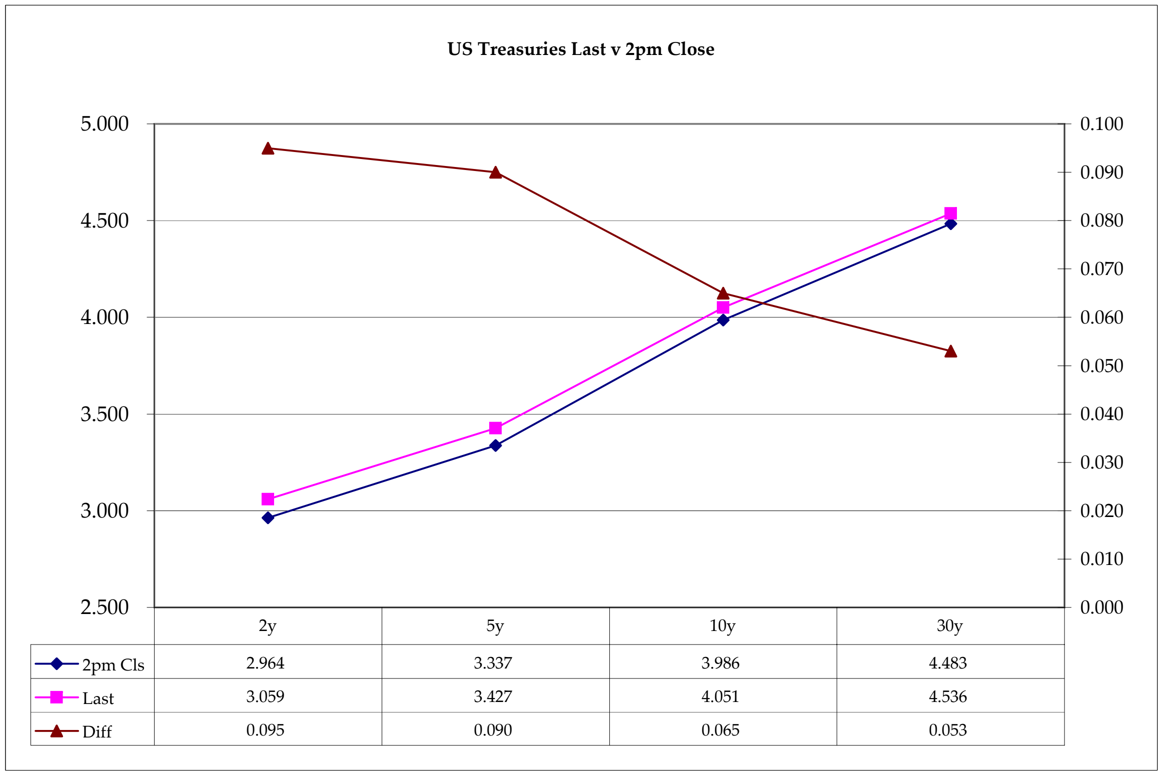
	Close 32	Last
FVAH8	110.160	110.020
TYAH8	113.195	113.020
USAH8	116.15	115.240

	Roll
TUAR1	0.2
FVAR1	11.5
TYAR1	26.5
USAR1	-0.7

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

Curve Spreads

	Close bps	Last bps
2/5	37.3	36.8
5/10	64.9	62.4
10/30	49.7	48.5
2/10	102.2	99.2
5/30	114.6	110.9
2/30	151.9	147.7



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				
	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	**$189**			
5	$189	**$454**		
10	$193	$462	**$818**	
30	$206	$494	$876	**$1,709**

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	$0			
10	($3)	($8)		
30	($17)	($41)	($58)	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.09%			
10	-1.66%	-1.75%		
30	-8.13%	-8.21%	-6.58%	

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 & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	0.94	2.24	4.04	8.45
ZF	0.43	1.02	1.84	3.85
ZN	0.28	0.67	1.21	2.52
ZB	0.16	0.37	0.67	1.40

	2y	5y	10y	30y
2y	1.00	2.39	4.32	9.02
5y	0.42	1.00	1.80	3.77
10y	0.23	0.55	1.00	2.09
30y	0.11	0.27	0.48	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.20	3.35	6.02
ZF	0.46	1.00	1.53	2.74
ZN	0.30	0.65	1.00	1.80
ZB	0.17	0.36	0.56	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.94	2.24	8.09	16.89
ZF	0.43	2.04	3.68	7.69
ZN	0.56	1.34	1.21	2.52
ZB	0.62	1.49	1.34	2.80

	2y	5y	10y	30y
2y		2.39	2.16	4.51
5y	0.42		0.45	1.88
10y	0.46	2.22		2.09
30y	0.22	0.53	0.48	

	2y	5y	10y	30y
ZT		2.20	6.71	24.09
ZF	0.46		1.53	5.49
ZN	0.15	0.65		3.59
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		
Volitility Up (in general)	x						x
Volitility 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					
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					

<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

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.

<u>Notes:</u>
^ 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