12/13/2007 5:45

The Morning Email: Treasuries

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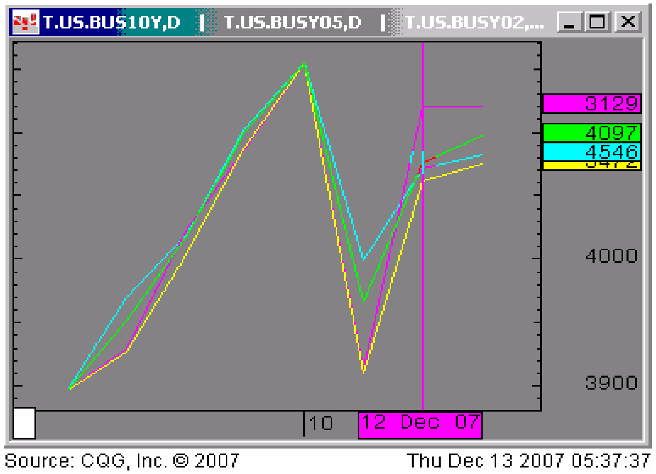
Daily Yield Curve



30y	10y	5y	2y

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

Disclaimer: All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. Th material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

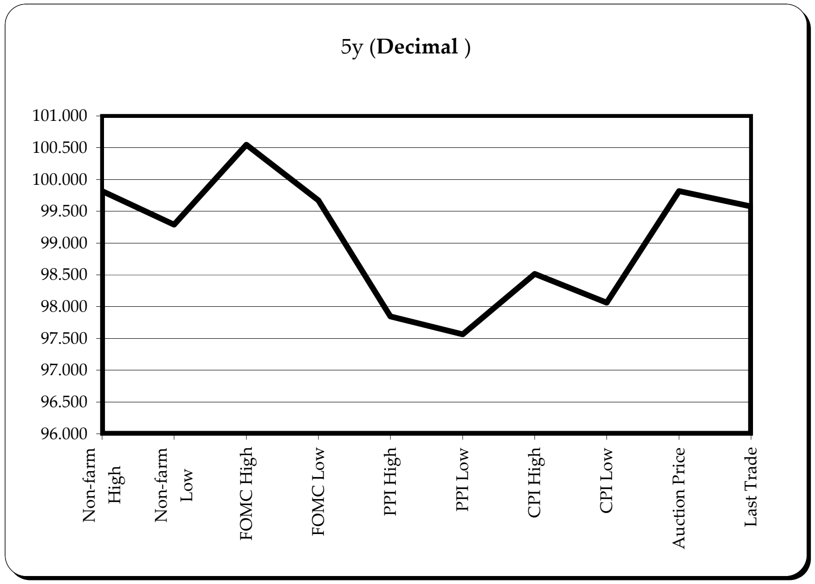
Important Econ Releases, Highs & Lows

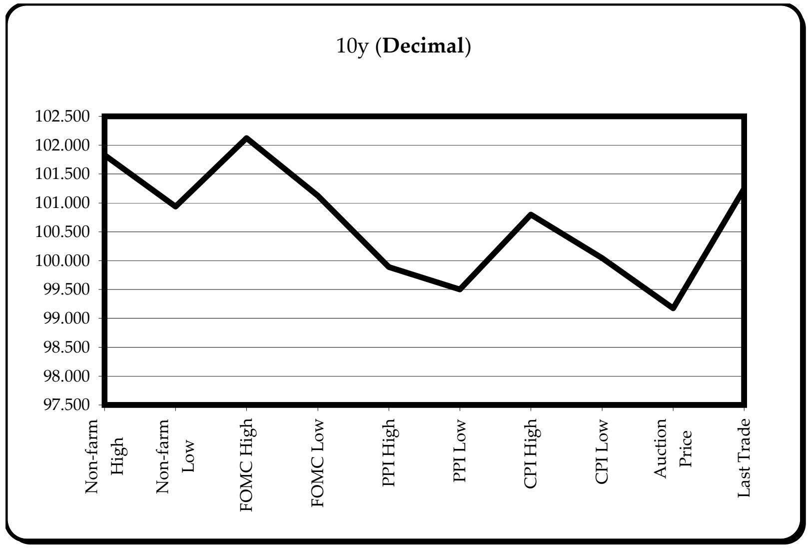
Economic Releases - 32nds

	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	100.1750	102.040	113.200	116.16	12/11/2007
FOMC Low	99.2150	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	99.1850	101.080	112.240	115.15	12/13/2007 5:45

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

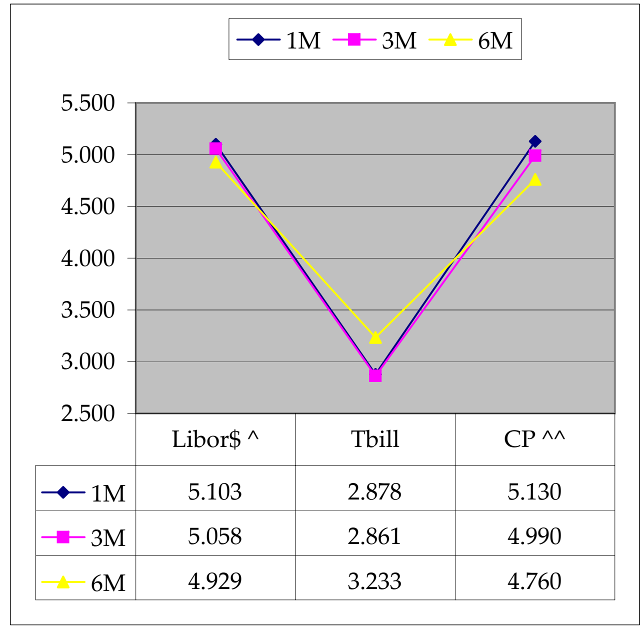




Notes: Cash and futures are adjusted for roll.
Release times are from release to 2pm cdt
{Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}
r = reopen

Quotes

			32 nds				
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAH8	104.295	(0.0)	105.007	104.282	104.292	25,654	2y Fut
FVAH8	109.270	(0.0)	110.045	109.250	109.300	51,772	5y Fut
TYAH8	112.240	(0.1)	113.055	112.220	112.300	127,588	10y Fut
USAH8	115.150	(0)	115.290	115.100	115.170	18,172	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.317	0.5	100.027	99.307	100.002	na	2y Cash
BUS05P	99.185	(0.5)	99.262	99.167	99.247	na	5y Cash
BUS10P	101.080	(3.0)	101.200	101.060	101.160	na	10y Cash
BUS30P	107.125	(1)	107.255	107.080	107.240	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.125	(0.40)	3.154	3.072	3.125	na	2y Yield
BUS05Y	3.467	0.90	3.484	3.41	3.456	na	5y Yield
BUS10Y	4.093	1.70	4.107	4.043	4.099	na	10y Yield
BUS30Y	4.539	0.40	4.552	4.506	4.535	na	30y Yield



	Libor$ ^	Tbill	CP ^^
1M	5.103	2.878	5.130
3M	5.058	2.861	4.990
6M	4.929	3.233	4.760
	TSY	Swap	ED Pks ^^^
2y	3.124	89.50	3.734
5y	3.468	85.50	
10y	4.095	68.75	

	Libor$ ^	Repos
0/N	4.340	4.100
1week	4.369	3.950
2week	4.381	3.750

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

15:15 12/12 **US TSYS:** Major whipsaw in 24 hours sends 2Y notes from 3.12% pre-Fed on Tue to +2.95% at the close Tue. Then today, liquidity measures announced by Fed sent 2s to 3.25% at the lows. Curve has also been roiled with 2/10Y settling at +96 Wed vs +102.2 yesterday. Intra-day Wed it was +91 in the morning. On a 3PM to 3PM basis, 2Y at 3.108% vs. 2.968% Tue. 5Y at 3.444% vs. 3.343%. 10Y at 4.068% vs. 3.990%. 30Y at 4.528% vs. 4.486%.

15:22 12/12 **US EURODLR FUTURES**: Eurodlr futures retrace after Tue's post FOMC moonshot, lower most of Wed's session but firming late as equities turn into the red after trading sharply higher. The Red/Gold pack spd finished 7.125 bps flatter at 120.125. In the Fronts (Dec07-Sep08), the Dec07 were up 14.25 bps at 95-06.5 on combined Globex and pit volume of 750,000, the Mar08 up 10.5 bps at 95-66.5 on volume of 421,000, the Jun08 up 2.5 bps at 96-10.5 on volume of 365,000, while the Sep08 contract was 3.5 bps lower at 96-34.5 on volume of 394,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.5 to 8.0 bps lower across the pack with some 1,321,000 contracts traded.

15:12 12/12 **US SWAPS:** Spds off best lvls of session by close, initial impetus from lower US$ LIBOR set overnight, while roller coaster picked up speed after Fed TAF news. Some payer-tied flow noted prior to NY open. Two-way flow turned better receivers in fronts to intermediates by midmorning. Modest unwinds, paying as mkt drifted off lows in second half. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-10.00/93.50	-5.50/87.00	-4.25/69.75	-3.00/58.75
1:10	-12.50/91.00	-7.00/85.50	-4.00/70.00	-2.50/59.25
10:55	-14.50/89.00	-8.00/84.50	-5.75/68.25	-3.75/58.00
9:30	-15.75/87.75	-9.50/83.00	-6.50/67.50	-4.25/57.50
8:55	-9.25/94.25	-5.75/86.75	-5.00/69.00	-4.75/57.00
Wed Open	-6.00/97.50	-4.75/87.75	-4.50/69.50	-4.25/57.50
Tue 3:00	+5.25/103.50	+3.00/92.50	+1.50/74.00	+0.75/61.75

(cont)

05:09 12/13 TSYS: Treasuries are trading higher across the curve in London Thursday, with the front of the curve leading the way higher on renewed safe haven flows. Also, dip-buying was seen in early trade, after Treasuries fell in the wake of the concerted action by the Fed and other central banks to add liquidity to the global credit markets. Treasuries were modestly higher in Tokyo trade, helped by safe-haven flows as Asian stocks fell - led by the financials. With the overnight central bank action largely discounted in the market, yields edged lower across the curve. The light buying continued into the London session, with real money names again picking up two-year paper. Hedge funds unwinding steepener trades put on in previous sessions also boosted the two-year note, helping the curve continue flattening. Leveraged names were light sellers of the 10-year note at the highs, hedging position ahead of the $8 billion 10-year auction. However, there was again buying of the T-note against European debt. The 10-year Bund/US T-Note spread was trading at -17 bps.

05:20 12/13 **CREDIT:1,** European CDS spreads are a tad wider in some sectors this morning, however the uniform weakness that has been seen in European equity markets has not been reflected in credit spreads and although there is some weakness in places, overall the market is mixed to slightly wider in most sectors. While the post Fed rate cute and TAF plan have basically been met with a degree of scepticism over how far the moves will really be able to support the troubled financial sector, it should also be noted that the sell off in stocks comes from respectable levels, in terms of the range seen in the past few months and in fairness prices still have a long way to go to test range lows.

The Federal Reserve joined with other major central banks to announce new measures designed to inject added cash into global money markets. The Fed plans to create a new "term auction facility" under which it would lend at least $40 billion and potentially far more, in four separate actions starting this week. The loans would be at rates far below those charged on direct loans from the Fed to banks from its "discount window." The European Central Bank, Bank of England, Bank of Canada and Swiss National Bank simultaneously announced parallel measures. U.S. stock futures surged on the news. **[Source: WSJ]**

ECB Statement >>
12 December 2007 - Measures designed to address elevated pressures in short-term
funding markets Today, the Bank of Canada, the Bank of England, the European Central Bank (ECB), the Federal Reserve, and the Swiss National Bank are announcing measures designed to address elevated pressures in short-term funding markets.

ECB Decisions
The Governing Council of the ECB has decided to take joint action with the Federal Reserve by offering US dollar funding to Eurosystem counterparties. The Eurosystem shall conduct two US dollar liquidity-providing operations, in connection with the US dollar Term Auction Facility, against ECB-eligible collateral for a maturity of 28 and 35 days. The submission of bids will take place on 17 and 20 December 2007 for settlement on 20 and 27 December 2007, respectively. The operational details can be obtained from the ECB's website (www.ecb.europa.eu). The US dollars will be provided by the Federal Reserve to the ECB, up to $20 billion, by means of a temporary reciprocal currency arrangement (swap line).

It is reminded that the Governing Council previously decided on 8 November 2007 to renew at maturity the two supplementary longer-term refinancing operations (LTROs) that were allotted in August and September 2007. As an additional measure, the Governing Council decided on 13 November to lengthen the maturity of the main refinancing operation settling on 19 December 2007 to two weeks, thereby maturing on 4 January 2008 instead of 28 December 2007.

09:25 12/12 **FED REACT:** From HFE: "The Fed has offered $20B and $4B to the ECB and SNB respectively via six-month swap lines, presumably so these central banks can intervene in some way in the euro-dollar market. The Fed says they may conduct additional TAF auctions in coming months, "depending in part on evolving market conditions". Clearly, the Fed is feeling its way in the dark here; current conditions are unprecedented in modern times. We think these measures are a step in the right direction, but there is simply no way to know for sure how effective they will be. The big question, though, is why the Fed did not make this announcement yesterday, instead of allowing the markets to be hugely disappointed by their actions."

09:33 12/12 **FED REACT:** From FTN: "By allowing the Federal Reserve to inject term funds through a broader range of counterparties and against a broader range of collateral than open market operations, this facility (TAF) could help promote the efficient dissemination of liquidity when the unsecured interbank markets are under stress."

09:42 12/12 **CREDIT:** US credit markets are seeing a fairly upbeat tone in the wake of the Fed announcing its TAF (Temporary Auction Facility) and coordination to ease liquidity in short term money markets with other central banks. It does beg the question, what do they know about potential upcoming liquidity crunch event risk, comments one trader, but for the time being the move has buoyed credit and stock markets. This follows a rather negative reaction to yesterdays Fed rate cut, which saw stocks sell off (although the reaction in credit markets was much more muted). Spreads in the financial sector are quite sharply tighter on the TAF news, with high grade institutions up to 5bps better following the announcement. In the wider credit market, spreads are 2-3bps tighter for many benchmark indices and single names. The longevity of this move (tightening) will be debatable, and if markets fail to establish a more positive medium term outlook, central banks could see themselves extending and enhancing to current market support, according to one analyst.

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.66	5.46	$1,707	10.93	n/a
10y	8.02	2.61	$815	5.21	n/a
5y	4.53	1.45	$452	5.79	n/a
2y	1.89	0.60	$189	2.42	n/a
ZB	10.31	3.90	$122	3.90	0.8633
ZN	5.95	2.16	$68	4.33	0.8747
ZF	4.01	1.42	$44	2.84	0.9159
ZT	1.89	0.65	$20	2.58	0.9486

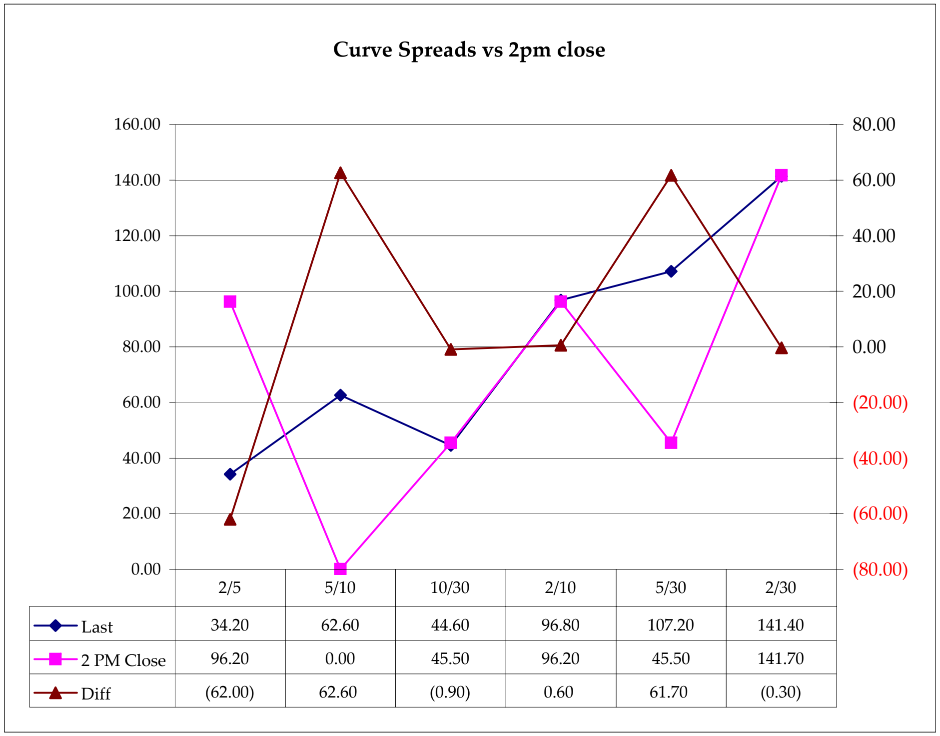
Yield Curve Spreads

	Last	2pm close	Diff
2/5	34.20	96.20	(62.00)
5/10	62.60	0.00	62.60
10/30	44.60	45.50	(0.90)
2/10	96.80	96.20	0.60
5/30	107.20	45.50	61.70
2/30	141.40	141.70	(0.30)

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

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		1.802	2.749	3.018
ZN	0.555		1.525	1.675
ZF	0.364	0.656		1.098
ZT	0.331	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	3.71	6.69	14.02
ZN	2.79	6.69	12.05	25.26
ZF	4.26	10.21	18.38	38.54
ZT	4.68	11.21	20.18	42.31

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		2.395	4.313	9.040
5y	0.418		1.801	3.774
10y	0.232	0.555		2.096
30y	0.111	0.265	0.477	

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

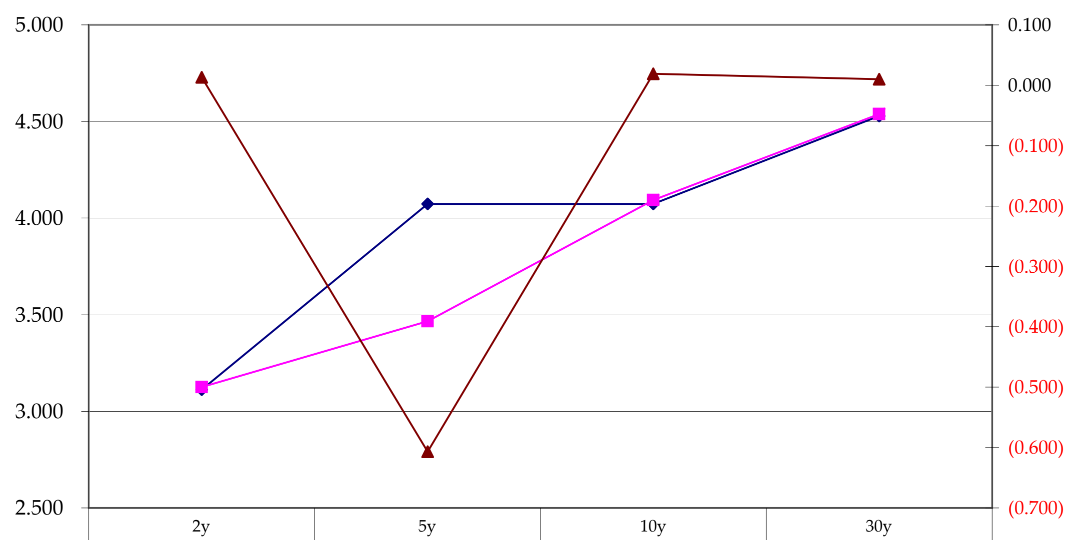
	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	3.125	11/30/09	100.0075	3.112	3.125	0.013			
5y	3.375	11/30/12	99.2125	4.074	3.467	(0.607)	-34.26	-32.89	
10y	4.250	11/17/17	101.135	4.074	4.093	0.019	83.90	84.08	
30y	5.000	5/15/37	107.20	4.529	4.539	0.010	248.43	247.11	
								TUAR1	-0.5
								FVAR1	11.2
								TYAR1	25.5
								USAR1	-1.2

	Close 32	Last
FVAH8	109.315	109.270
TYAH8	112.305	112.240
USAH8	115.21	115.150

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	96.2	34.2
5/10	0.0	62.6
10/30	45.5	44.6
2/10	96.2	96.8
5/30	45.5	107.2
2/30	141.7	141.4



	2y	5y	10y	30y
2pm Cls	3.112	4.074	4.074	4.529
Last	3.125	3.467	4.093	4.539
Diff	0.013	(0.607)	0.019	0.010

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	**$189**			
5	$189	~~**$452**~~		
10	$192	$460	**$815**	
30	$206	$493	$874	**$1,707**
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	$0			
10	($3)	($7)		
30	($17)	($41)	($60)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.14%			
10	-1.45%	-1.59%		
30	-8.19%	-8.32%	-6.84%	

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	8.46
ZF	0.43	1.02	1.84	3.85
ZN	0.28	0.67	1.21	2.53
ZB	0.16	0.37	0.67	1.40

	2y	5y	10y	30y
2y	1.00	2.40	4.31	9.04
5y	0.42	1.00	1.80	3.77
10y	0.23	0.56	1.00	2.10
30y	0.11	0.26	0.48	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.20	3.35	6.04
ZF	0.46	1.00	1.53	2.75
ZN	0.30	0.66	1.00	1.80
ZB	0.17	0.36	0.55	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.94	2.24	8.07	16.92
ZF	0.43	2.04	3.68	7.71
ZN	0.56	1.34	1.21	2.53
ZB	0.62	1.49	1.34	2.80

	2y	5y	10y	30y
2y		2.40	2.16	4.52
5y	0.42		0.45	1.89
10y	0.46	2.22		2.10
30y	0.22	0.53	0.48	

	2y	5y	10y	30y
ZT		2.20	6.70	24.15
ZF	0.46		1.53	5.50
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		
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					

What affects the basis?

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.

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