

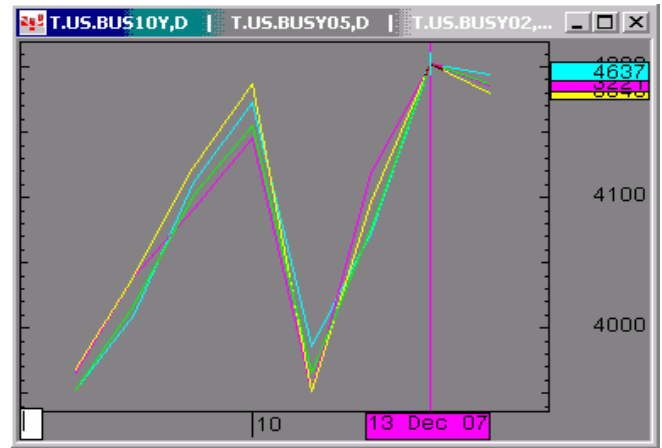


# The Morning Email: Treasuries

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### Daily Yield Curve



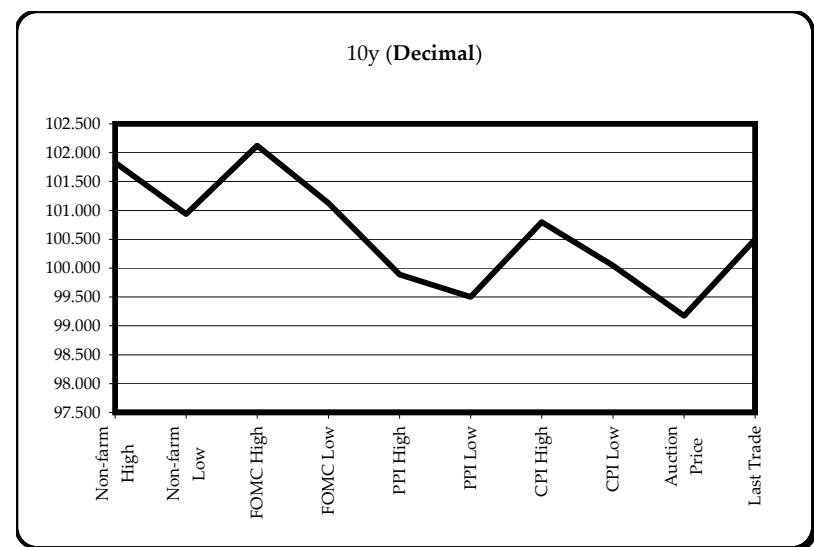
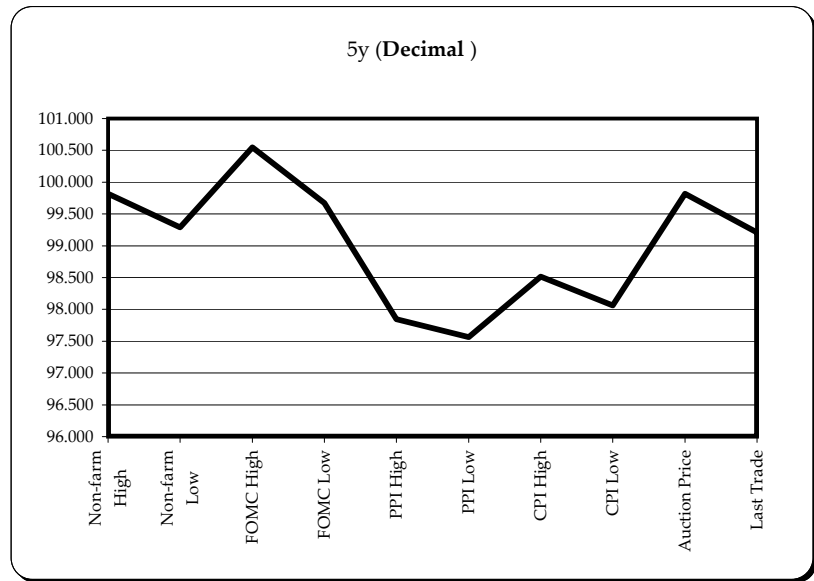
Source: CQG, Inc. © 2007      Fri Dec 14 2007 05:28:26



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	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	99.0670	100.160	112.075	114.05	12/14/2007 5:36

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



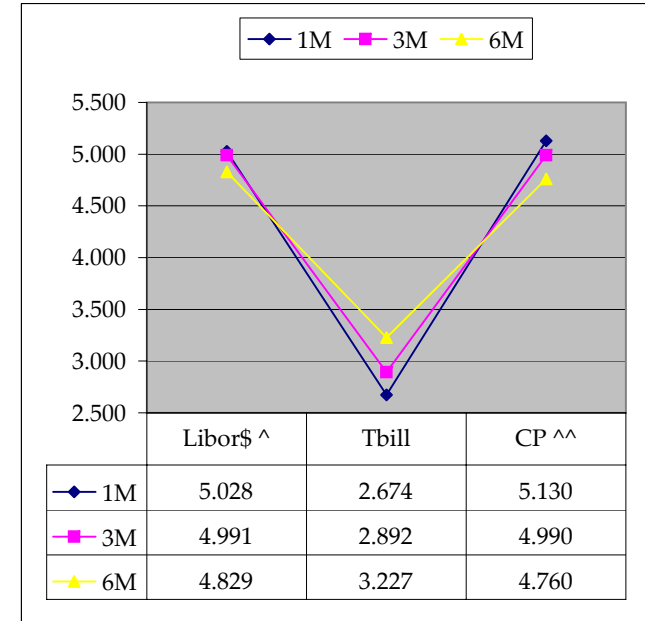
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 {Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	104.235	(0.0)	104.245	104.210	104.227	13,898	2y Fut
FVAH8	109.160	(0.0)	109.190	109.100	109.130	37,028	5y Fut
TYAH8	112.075	(0.0)	112.110	112.005	112.030	80,297	10y Fut
USAH8	114.050	(0)	114.100	114.000	114.040	15,865	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.260	1.5	99.272	99.242	99.252	na	2y Cash
BUS05P	99.067	3.5	99.087	99.020	99.050	na	5y Cash
BUS10P	100.155	4.5	100.195	100.090	100.125	na	10y Cash
BUS30P	#VALUE!	3	105.300	105.190	105.280	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.221	(2.40)	3.262	3.196	3.254	na	2y Yield
BUS05Y	3.548	(2.50)	3.585	3.533	3.58	na	5y Yield
BUS10Y	4.186	(1.70)	4.218	4.172	4.217	na	10y Yield
BUS30Y	4.638	(0.60)	4.652	4.624	4.649	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	5.028	2.674	5.130
3M	4.991	2.892	4.990
6M	4.829	3.227	4.760

	Libor\$ ^	Repos
0/N	4.300	4.200
1week	4.361	4.150
2week	4.380	4.050

	TSY	Swap	ED Pks ^^
2y	3.220	89.00	3.860
5y	3.550	85.25	4.770
10y	4.189	66.25	



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

Stone & McCarthy  
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#### All Times Eastern unless otherwise marked

15:11 12/13 **US TSYS CLOSE:** On a 3PM to 3PM basis Treasuries ended lower and despite a great deal of intra-day volatility, the curves ended surprisingly little changed. The \$8B 10Y reopening tailed at 4.164% vs. 4.157% into the bid. It was termed lousy, but a trader said given extreme market conditions it was not that bad. He cited: 1) year-end constraints; 2) dealers typically take down most re-openings; 3) volatility at huge levels; 4) uncertainty prevails; 5) hard to set-up in current environment. Another summed up the climate succinctly. "Every day brings us one day closer to year end, and major companies and major hedge funds have major things to do." But he also said these trades were put on over the course of years so they will not be unwound in the course of weeks. "Things will still be unravelling into January and February," he said. 2Y at 3.195% vs. 3.108%. 5Y at 3.528% vs. 3.444%. 10Y 4.170% vs. 4.068%. 30Y at 4.612% vs. 4.528%. 2/5Y at +33.5 vs. +33.6. 2/10Y at 97.5 vs. 96.0. 2/30Y at +141.7 vs. +142.0

15:10 12/13 **US EURODLR FUTURES:** After trading near midrange for most of session Eurodlr futures drifted to near session lows late w/equities paring losses and crude lower. Curve flattening with the front end underperforming, the Red/Gold pack spd finished 1.125 bps flatter at 120.875. In the Fronts (Dec07-Sep08), the Dec07 were in 1.5 bps at 95-05 on combined Globex and pit volume of 277,000, the Mar08 in 5.5 bps at 95-61 on volume of 233,000, the Jun08 in 7.5 bps at 96-03 on volume of 264,000, while the Sep08 contract was 8.5 bps lower at 96-26 on volume of 279,000. The 2yr proxy Red pack (Dec08-Sep09), settled 8.0 to 9.0 bps lower across the pack with some 925,000 contracts traded.

15:03 12/13 **US SWAPS:** Spds near best levels of session by the close, though flow was well behind the frenetic pace of the last few sessions, however. Light and mostly two-way on spread in the fronts to intermediates while sources pointed to another lower set in U.S. dollar LIBOR for the initial impetus again. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	-3.50/88.75	-1.50/84.50	-3.00/66.00	-2.75/55.50
1:30	-3.00/89.25	-1.25/84.75	-2.25/66.75	-2.50/55.75
12:15	-2.75/89.50	-1.00/85.00	-1.75/67.25	-2.00/56.25
11:05	-3.75/88.50	-1.50/84.50	-2.00/67.00	-2.25/56.00
10:25	-2.25/90.00	-1.25/84.75	-1.50/67.50	-1.25/57.00
9:20	-2.00/90.25	-1.25/84.75	-1.00/68.00	+0.00/58.25
Thu 8:40	-2.75/89.50	-1.00/85.00	-0.25/68.75	+0.00/58.25
Thu 7:55	-1.00/91.25	-0.25/85.75	+0.50/69.50	+0.75/59.00
Wed 3:00	-11.25/92.25	-6.50/86.00	-5.00/69.00	-3.50/58.25

(cont)

#### USTs Mixed Ahead Of Weekend; Light Volumes by Market News

14 December 2007

LONDON (MNI) - U.S. Treasuries are trading mixed in London Friday, as the longer-end of the curve is weighed by selling from real money accounts. However, traders said overall volumes were light, with many players sidelined ahead of the weekend.

Treasuries were narrowly mixed in Asian trade Friday, with the belly of the curve again helped by dip-buying from regional accounts after the overnight slide. The front and belly of the curve found good support, although the Long Bond ran into selling pressure.

Volumes remained light in London, with light buying demand underpinning the belly of the curve. However, traders said the upside was capped by real money selling.

The 10-year T-note/Bund spread narrowed 1 bp to -9 bps. The spread narrowed in the previous session, weighed in part by the fresh 10-year supply.

European equity markets are trading higher. In London, the FTSE-100 was up 0.6%. In Paris the CAC was higher by 0.3% and in Frankfurt, the DAX was up 0.4%. U.S. index futures are trading mixed. The S&P Dec contract was down 0.4 point at 1498.1 and the Nasdaq Dec contract was 1.0 point higher at 2115.0.

Ahead of the U.S. session, the 2-yr note was trading 1/32 higher at 100 1/32 to yield 3.21%. The 10-yr note was 4/32 higher at 100 16/32 (4.18%), while the Bond was 11/32 lower at 105 28/32 (4.63%).

The 2-yr/5-yr yield curve was unchanged on overnight levels, trading at +33 bps. The 2-yr/10-yr curve was 2 bps steeper trading at +97 bps, with the 2-yr/30-yr curve also 2 bps steeper, standing at +142 bps.

March expiry futures contracts on the CBOT electronic system are trading lower on Thursday's closing levels. The Mar T-note was down 10/32 at 112 7/32 and the Bond was 9/32 lower at 114 7/32.



08:56 12/13 **US DATA REACT:** From HFE's Ian Shepherdson: retail sales "were greatly boosted by rising gas and food prices; sales in these two sectors contributed 1.0% to the rise in sales ex-autos. Still, our measure of core sales, which excludes autos, gas and food, rose 1.1%, the first meaningful gain since July, thanks to hefty gains in furniture (1.0%), electronics (2.5%), building materials (1.2%) and apparel (2.6%). Some of these gains likely reflect early aggressive discounts, which did lift the weekly chainstore numbers for Thanksgiving weekend. But the late st sales numbers are much weaker, and Dec will be hard work for retailers."

12:57 12/13 **US OUTLOOK:** From JPM: "The details of the PPI report point to a 0.45% rise in the PCE medical care services deflator, which comprises 22% of the core PCE deflator. The PCE medical care deflator has averaged smaller 0.2% gains in the prior six months."

12:05 12/13 **US BONDS:** Just looking at the screens, some might assume it is quiet in the market but it is anything but quiet one trader said. "In the course of 12 hrs yesterday, the 2Y note had a swing of 34 bps from top to bottom," he said, "and that does not happen unless people are getting blindsided or hedging and unhedging positions." He says, "Every day brings us one day closer to year end, and major companies and major hedge funds have major things to do." He notes those "things" could be connected to bills, or commercial paper or currencies or commodities or corporates. Normally, the information flow is such that the market get wind of some of these "things," he said. But right now he says there are lots of things "in the closet" that have to be addressed that are not being made public. Finally, trader said these trades were put on over the course of years so they will not be unwound in the course of weeks. "Things will still be unravelling into January and February," he said. \$8B 10Y reopening goes off at 1PM. Real money does not like reopenings normally.

11:16 12/13 **FED: NY Fed says** On Thursday, December 20, 2007, the Federal Reserve's System Open Market Account will redeem the full amount of maturing Treasury bill holdings (\$15,163,249,000). The Federal Reserve Open Market Trading Desk will continue to evaluate the need for the use of other tools, including further Treasury bill redemptions, reverse repurchase agreements and Treasury bill sales.

14:17 12/13 **US TSYS:** Some call the 10Y reopening lousy and indeed market continues to weaken with 2s getting back near high yield of day of 3.21% and 10Y reaching new high yield of 4.186%. But one trader said all things considered, the auction was not all that bad given the extreme circumstances in place: 1) year-end constraints; 2) dealers typically take down most re-openings; 3) volatility at huge levels; 4) uncertainty prevails; 5) hard to set-up in current environment.

13:02 12/13 **US TSYS/AUCTION RESULTS:** 10y reopening set a rate of 4.164% (34.46% allot) with 2.23 coverage and \$528m or 6.7% awards to Indirects. The prior 10y reopening in Sept had 22.5% Indirects.

11:25 12/13 **US MBS:** Countrywide Financial, once the biggest U.S. mortgage originator, may have adjusted to lower origination volumes but still faces deteriorating credit performance in its loan book, Merrill strategists say. On the upside, CFC lending volume rose in Nov. by 4% to \$23.2B, and their closing ratio rose to 56% from 54% in Oct. and 40% in Sept., CFC reported Thursday. But better operating data were offset by continued deterioration in credit as delinquencies and foreclosure rates both jumped from Oct. Delinquencies for CFC loans are now 6.34% while foreclosures approach 1%. "Since falling 39% in Sept., lending volume appears to have normalized at a lower level, suggesting that CFC's restructuring program has right-sized the company for a new volume paradigm," says Merrill. "However, for the third consecutive month CFC reported the highest delinquencies on record since 2001. Its portfolio likely incorporates higher concentrations of sub-prime and Alt-A loans now, so we think new records are likely to be set in coming months."

12:00 12/13 **CDS:** Sources say as financials underperform, volume still remains light. Countrywide (CFC) among the underperformers amid its news earlier today as its 5Y CDS trades at 11-12.5 points up front, plus 500 bps running, vs 9-10.5 points, plus 500 bps running yest. Sources also note news that Assured Guaranty Ltd. agreed to insure \$29b of Ambac Financial Group Inc.'s (ABK) bond insurance policies in theory should have been friendly. But, analysts shunned it noting that Ambac has some \$600B in obligations and of the \$29B in guarantees is mostly on higher quality items or in other words not on paper that is the real problem.



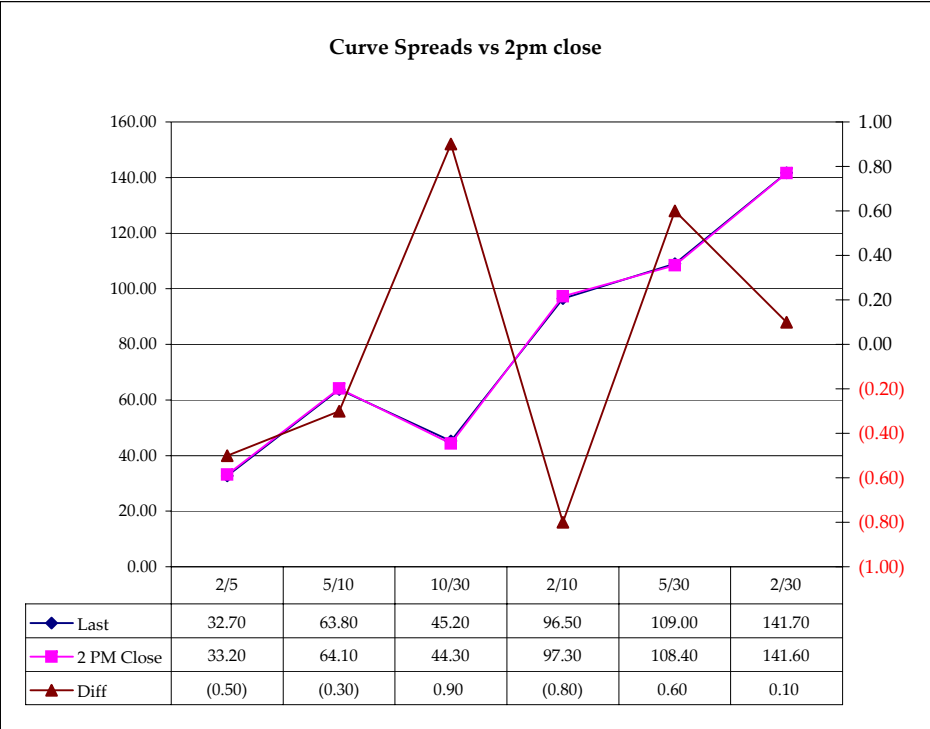
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.54	5.34	\$1,670	10.69	n/a
10y	8.00	2.58	\$807	5.16	n/a
5y	4.51	1.44	\$450	5.76	n/a
2y	1.88	0.60	\$188	2.40	n/a
ZB	10.26	3.84	\$120	3.84	0.8633
ZN	5.94	2.15	\$67	4.30	0.8747
ZF	4.00	1.41	\$44	2.82	0.9159
ZT	1.91	0.64	\$20	2.57	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	32.70	33.20	(0.50)
5/10	63.80	64.10	(0.30)
10/30	45.20	44.30	0.90
2/10	96.50	97.30	(0.80)
5/30	109.00	108.40	0.60
2/30	141.70	141.60	0.10

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 Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.784	2.723	2.988
ZN	0.561		1.526	1.675
ZF	0.367	0.655		1.097
ZT	0.335	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	1.57	3.75	6.73	13.93
ZN	2.79	6.69	12.01	24.85
ZF	4.26	10.22	18.33	37.93
ZT	4.68	11.21	20.11	41.62

## 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		2.396	4.299	8.896
5y	0.417		1.794	3.712
10y	0.233	0.557		2.070
30y	0.112	0.269	0.483	

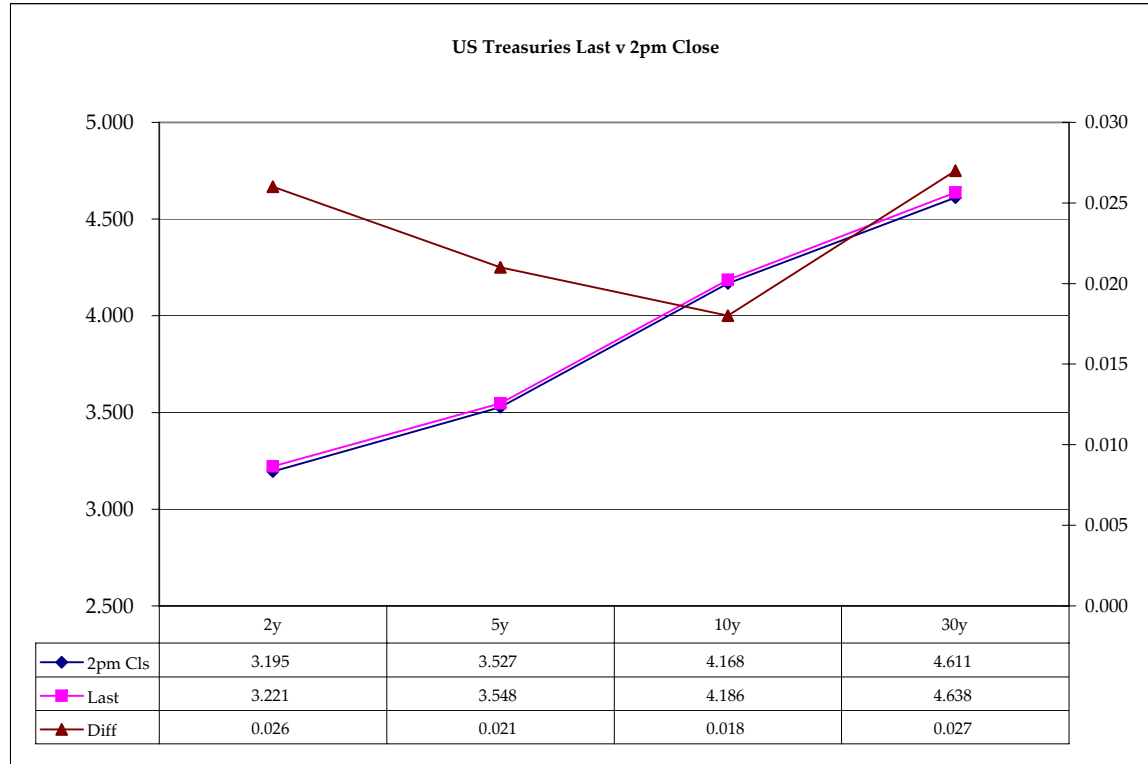
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	99.2775	3.195	3.221	0.026				FVAH8	109.195	109.160
5y	3.375	11/30/12	99.1000	3.527	3.548	0.021	-34.52	-34.61		TYAH8	112.125	112.075
10y	4.250	11/17/17	100.210	4.168	4.186	0.018	75.14	74.51		USAH8	114.16	114.050
30y	5.000	5/15/37	106.08	4.611	4.638	0.027	236.37	231.37				

Curve Spreads		
	Close bps	Last bps
2/5	33.2	32.7
5/10	64.1	63.8
10/30	44.3	45.2
2/10	97.3	96.5
5/30	108.4	109.0
2/30	141.6	141.7

TUAR1	-0.5
FVAR1	12.0
TYAR1	26.5
USAR1	0.0

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	23%	56%	100%	
30	12%	29%	51%	135%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$188			
5	\$187	\$450		
10	\$189	\$455	\$807	
30	\$202	\$485	\$860	\$1,670
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$2)	(\$6)		
30	(\$14)	(\$35)	(\$53)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.33%			
10	-0.89%	-1.21%		
30	-6.98%	-7.29%	-6.15%	

**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	4.02	8.32
ZF		0.43	1.02	1.83	3.79
ZN		0.28	0.67	1.20	2.48
ZB		0.16	0.38	0.67	1.39

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		0.94	2.24	8.04	16.65
ZF		0.43	2.04	3.67	7.59
ZN		0.56	1.34	1.20	2.48
ZB		0.63	1.50	1.35	2.79

		2y	5y	10y	30y
2y		1.00	2.40	4.30	8.90
5y		0.42	1.00	1.79	3.71
10y		0.23	0.56	1.00	2.07
30y		0.11	0.27	0.48	1.00

		2y	5y	10y	30y
2y			2.40	2.15	4.45
5y		0.42		0.45	1.86
10y		0.47	2.23		2.07
30y		0.22	0.54	0.48	

		ZT	ZF	ZN	ZB
ZT		1.00	2.19	3.35	5.98
ZF		0.46	1.00	1.53	2.72
ZN		0.30	0.66	1.00	1.78
ZB		0.17	0.37	0.56	1.00

		2y	5y	10y	30y
ZT			2.19	6.70	23.91
ZF		0.46		1.53	5.45
ZN		0.15	0.66		3.57
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	<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