12/17/2007 5:58

The Morning Email: Treasuries

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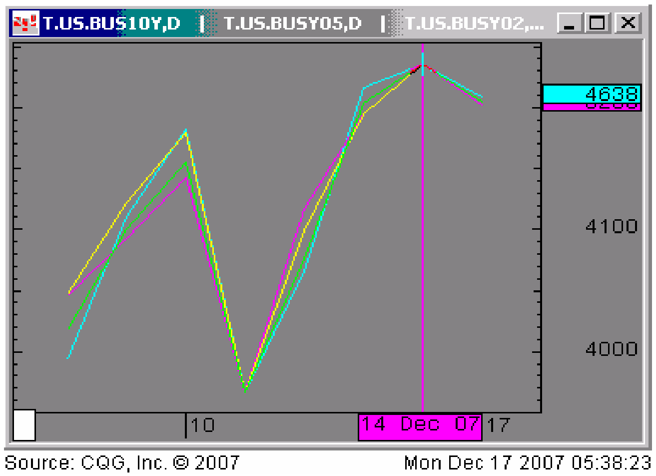
Daily Yield Curve



30y **10y** **5y** **2y**

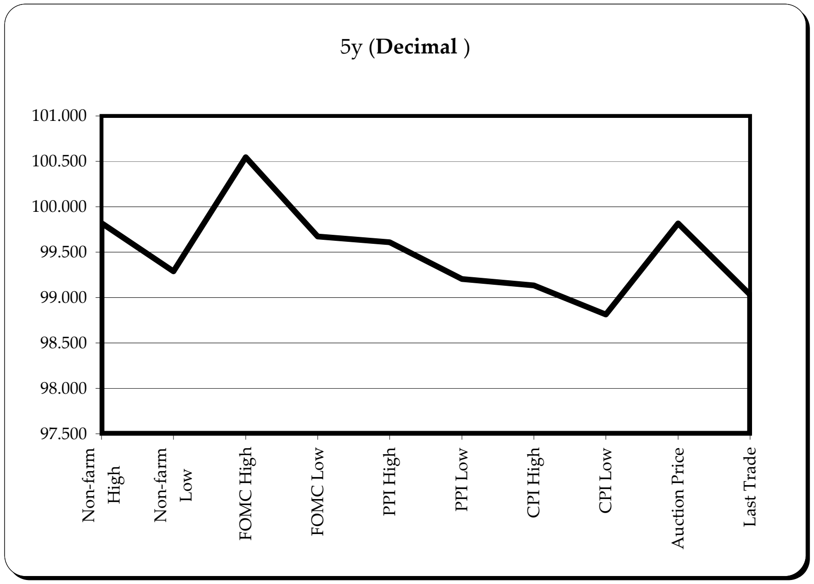
Important Econ Releases, Highs & Lows

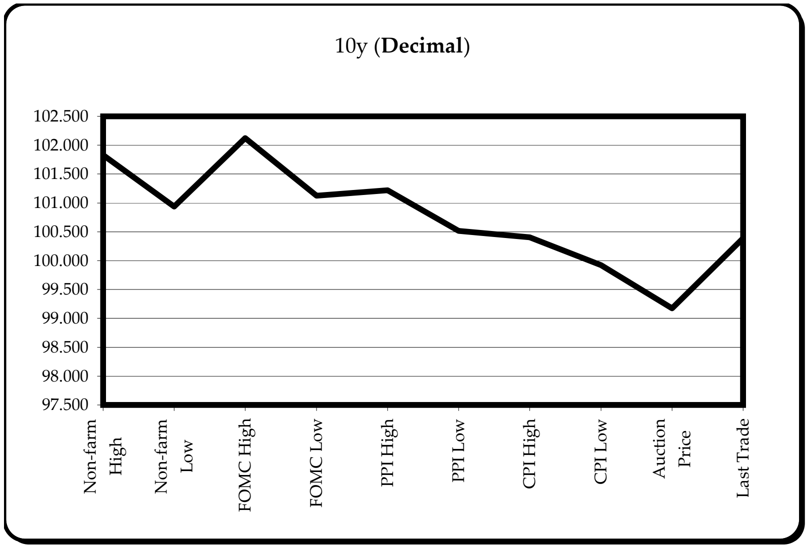
Economic Releases - 32nds

	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	99.1950	101.070	112.240	115.13	12/13/2007
PPI Low	99.0650	100.165	112.085	114.08	12/13/2007
CPI High	99.0425	100.130	112.075	114.07	12/14/2007
CPI Low	98.2600	99.295	111.240	113.19	12/14/2007
Auction Price	99.2616	99.056			
Last Trade	99.0100	100.125	112.055	114.06	12/17/2007 5:58

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

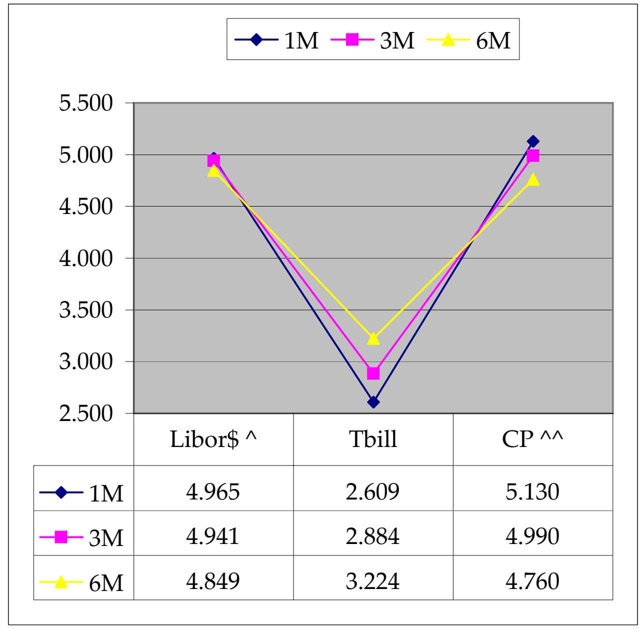




Notes: Cash and futures are adjusted for roll.
Release times are from release to 2pm cdt
{Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}
r = reopen

Quotes

	Last	Net	High	Low	Open	Volume	SYM NAME
			32 nds				
TUAH8	104.207	0.0	104.227	104.170	104.172	19,671	2y Fut
FVAH8	109.140	0.1	109.175	109.040	109.055	36,221	5y Fut
TYAH8	112.055	0.1	112.100	111.265	111.275	67,908	10y Fut
USAH8	114.060	0	114.120	113.200	113.240	17,142	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.232	2.7	99.255	99.210	99.210	na	2y Cash
BUS05P	99.007	5.2	99.050	98.272	98.275	na	5y Cash
BUS10P	100.120	9.0	100.175	100.035	100.040	na	10y Cash
BUS30P	105.290	16	106.035	105.180	105.180	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.267	(4.10)	3.334	3.225	3.334	na	2y Yield
BUS05Y	3.590	(3.20)	3.643	3.559	3.643	na	5y Yield
BUS10Y	4.199	(3.70)	4.242	4.178	4.24	na	10y Yield
BUS30Y	4.627	(3.10)	4.661	4.616	4.66	na	30y Yield



	Libor$ ^	Tbill	CP ^^
1M	4.965	2.609	5.130
3 M	4.941	2.884	4.990
6M	4.849	3.224	4.760
	TSY	Swap	ED Pks ^^^
2y	3.270	89.50	3.926
5y	3.592	86.00	
10y	4.203	68.50	

	Libor$ ^	Repos
0/N	4.418	4.170
1week	4.364	3.950
2week	5.094	3.800

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

Friday:
US Treasuries Holding To Quiet Ranges at Lower Levels
by John Canavan

--Stone & McCarthy (Princeton)-- Treasuries opened weaker in Asia overnight but most of the curve rebounded over the remainder of the session ahead of the open in Europe. Bonds were the exception as the curve steepened. The market was steady in Europe before ebbing from the highs into the open in the U.S. In addition to concerns about the CPI release given the jump in yesterday's PPI figures, the fade was a result of Citi's news that it will bring about $49 bln in SIVs onto its balance sheet.The CPI numbers were above expectations and Treasuries tanked. Market News International reported mortgage servicers selling MBS and dealers hedging by selling the belly of the curve. The selloff quickly hit a wall, however, and bounced ahead of the IP and capacity release on a better bottom fishing bid. Equities also were hit by the CPI figures and that added to the better support for Treasuries. The IP and Capacity numbers were mixed and there was very little market reaction

Treasuries held to quiet ranges at lower levels through midmorning, but as equities rebounded in the late morning, Treasuries headed lower. Equities have been fading back to their early lows since the late morning though, allowing Treasuries to stabilize. Given the CPI figures on top of yesterday's PPI, it's been a pretty quiet session. The curve began to flatten as prices started lower in Europe ahead of the open in the U.S. and has continued to flatten in U.S. trading. Barring any significant late day movements in stocks, the markets are likely to hold to quieter ranges through the close.
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(cont)

Overnight:
06:01 12/17 **TSYS SUMMARY**: U.S. Treasuries are trading higher in the London session on Monday on risk-aversion buying following the sharp losses on global stocks. However, volumes were extremely thin, amid lack of liquidity ahead of the year-end period. USTs traded higher overnight, taking direction from weakness in Asian equity bourses and underpinned by persistent market rumours of further writedown by Merril Lynch. Traders reported buying from Asian real money accounts in the front-end of the curve, with leverage buying in the belly of the curve. Focus turns to the first "Term Auction Facility" TAF auction of $20bln- where the Federal Reserve will auction term funds to depository institutions against the wide variety of collateral that can be used to secure loans at the discount window, which is scheduled for today; results of the first TAF auction will be announced on Dec 19 at 1000EDT. If there is expectional demand at the first TAF auction then the Fed is seen providing more funds at the second auction scheduled for Thurs, Dec 20.

06:47 12/17 **FX:** Euro-dollar was under pressure again on Monday morning, last week's technical-based selling gaining momentum as the pair lost 100-points to $1.4332 from the early morning highs. Traders did however report thin conditions exacerbating current moves. Euro-yen slippage prevented any significant rallies in dollar-yen, with rate ending the morning still within the recent range at Y113.25, the cross remaining heavy around Y162.85. Continued demand for dollars extended recent cable losses toward $2.0100, but the pound was able to make gains against a generally pressured euro to stg0.7125. Aussie was again under pressure, sliding to three-month lows around $0.8560, though again the move was seen on thin volume, traders said.

MarketNews international

08:55 12/14 **US DATA REACT:** HFE economist Ian Shepherdson says CPI headline "was boosted by energy prices, with gasoline up 9.3%. Heating oil, gas and electricity also rose. In the core, the damage was done by primary rents and apparel. Rents rose 0.5%, compared to the 0.3% trend. No reason to think this will persist. Apparel was up 0.8%, biggest gain since Apr 99. The y/y trend remains downwards and the m/m data are erratic, but this might be the start of a firming induced by the falling dollar." He says alternatively it could be Thanksgiving noise!

09:05 12/14 **US DATA REACT:** From Bear: "All three inflation reports for November have shown a sharp pickup in overall inflation. Moreover, this report shows that core CPI inflation has edged higher for two consecutive months (and November's increase is likely to be mirrored in core PCE prices). Although we still think it likely that the Fed will cut rates again in January, it is a central part of our forecast that higher inflation in 2008 will force the Fed to reverse course on rate cuts in the second half of the year."

12:00 12/14 **FED**: Fed formally announces $20b 28-day TAF auction for 10am-1pm on Mon, Dec 17. Notification is Dec 19 10am-noon (participants have until 3pm to DK), settlement Dec 20. Max bid is $2b and minimum bid rate is 4.17%. Results will be posted on web at 10am Dec 19.

09:42 12/14 **US BONDS:** There will be lots of opinions -- good and bad -- about Citi's move to take about $50B in SIV onto balance sheet and there are many ramifications, sources say. But at the end of the day, one market veteran says any decisions the bank has made or will make in the future on this issue will depend solely on 3 factors: protecting the bank's capital, the survival of the bank and the recovery on these assets.

12:03 12/14 **US RMBS/SIV/MLEC:** Even before the late news last night that Citgroup would be taking about $49B of SIV assets onto its balance sheet, market sources surmised that the establishment of the super SIV, better known as MLEC, might not happen. By this week, the size of the superfund was being talked at only $30B vs. the originally touted level of $100B about 2 months ago. As hopes for MLEC waned, at least 5 or more banks took matters into their own hands bringing SIV assets onto balance sheets. "Citibank's move was not the invention of the light bulb," one buyside account said. Commenting on SIV assets, the buyer reminds that some of the duration are only 1, 2 or 3 years, so banks could very well just hold these assets to maturity. More to follow.

12:04 12/14 **US RMBS/SIV/MLEC: More on 12:03 bullet.** One market veteran said it's easy to see how banks would chose self-help over waiting for the details to be ironed out. "One of the market's biggest problems right now is uncertainty," he said, "and waiting for this plan (MLEC) to solidify actually introduced more uncertainty." He also noted that the thrift crises of the 1980s might offer some guidance. "It's an extreme solution, but a GSE, much like the RTC, that could start buying better rated paper, might in the end be what's needed to get the market moving again." As UBS mortgage strategists recently wrote, the RTC "cleared a log jam of inadequately documented, non-performing, and apparently unmarketable assets, and established trading levels for assets that had become largely illiquid. That the government-sponsored, sunset-dated RTC accomplished this feat should provide a ray of hope for today's structured product markets."

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.55	5.35	$1,673	10.71	n/a
10y	7.99	2.58	$806	5.16	n/a
5y	4.51	1.44	$449	5.74	n/a
2y	1.87	0.60	$187	2.40	n/a
ZB	10.26	3.84	$120	3.84	0.8633
ZN	5.93	2.15	$67	4.30	0.8747
ZF	3.99	1.41	$44	2.81	0.9159
ZT	1.91	0.64	$20	2.56	0.9486

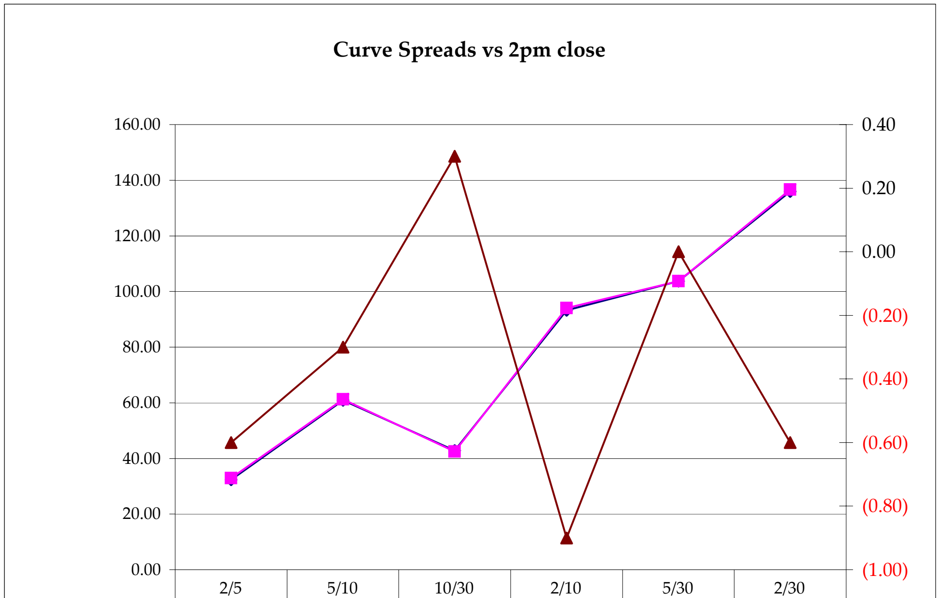
Yield Curve Spreads

	Last	2pm close	Diff
2/5	32.30	32.90	(0.60)
5/10	60.90	61.20	(0.30)
10/30	42.80	42.50	0.30
2/10	93.20	94.10	(0.90)
5/30	103.70	103.70	0.00
2/30	136.00	136.60	(0.60)

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.



	2/5	5/10	10/30	2/10	5/30	2/30
Last	32.30	60.90	42.80	93.20	103.70	136.00
2 PM Close	32.90	61.20	42.50	94.10	103.70	136.60
Diff	(0.60)	(0.30)	0.30	(0.90)	0.00	(0.60)

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	3.74	6.72	13.96
ZN	2.79	6.68	12.00	24.93
ZF	4.26	10.21	18.33	38.07
ZT	4.68	11.21	20.13	41.82

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.786	2.727	2.995
ZN	0.560		1.527	1.677
ZF	0.367	0.655		1.098
ZT	0.334	0.596	0.910	

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		2.396	4.303	8.937
5y	0.417		1.796	3.730
10y	0.232	0.557		2.077
30y	0.112	0.268	0.481	

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	99.2200	3.291	3.267	(0.024)			
5y	3.375	11/30/12	98.2875	3.620	3.590	(0.030)	-37.69	-38.48	
10y	4.250	11/17/17	100.045	4.232	4.199	(0.033)	70.89	72.76	
30y	5.000	5/15/37	105.15	4.657	4.627	(0.030)	230.36	235.00	

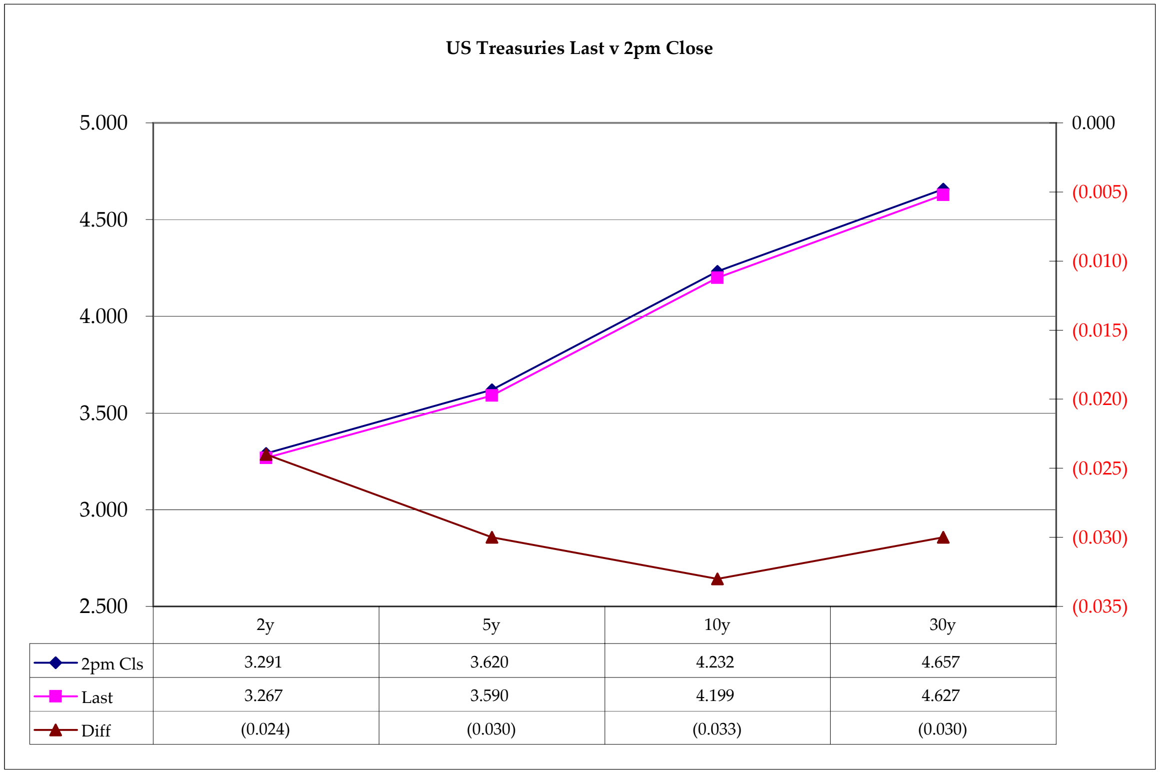
	Close 32	Last
FVAH8	109.085	109.140
TYAH8	111.305	112.055
USAH8	113.26	114.060

	Roll
TUAR1	-1.5
FVAR1	12.0
TYAR1	28.0
USAR1	2.0

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	32.9	32.3
5/10	61.2	60.9
10/30	42.5	42.8
2/10	94.1	93.2
5/30	103.7	103.7
2/30	136.6	136.0



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%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]

	2	5	10	30
2	**$187**			
5	$186	**$449**		
10	$189	$454	**$806**	
30	$202	$485	$860	**$1,673**

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.

Cash Matrix [DV01 over / (under) valued]

	2	5	10	30
2				
5	$1			
10	($2)	($6)		
30	($15)	($37)	($55)	

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.

Cash Matrix [DV01 over / (under) as %]

	2	5	10	30
2				
5	0.43%			
10	-0.87%	-1.30%		
30	-7.19%	-7.59%	-6.37%	

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	4.03	8.36
ZF	0.43	1.02	1.83	3.81
ZN	0.28	0.67	1.20	2.49
ZB	0.16	0.37	0.67	1.40

	2y	5y	10y	30y
2y	1.00	2.40	4.30	8.94
5y	0.42	1.00	1.80	3.73
10y	0.23	0.56	1.00	2.08
30y	0.11	0.27	0.48	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.20	3.35	5.99
ZF	0.46	1.00	1.53	2.73
ZN	0.30	0.65	1.00	1.79
ZB	0.17	0.37	0.56	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.94	2.24	8.05	16.73
ZF	0.43	2.04	3.67	7.61
ZN	0.56	1.34	1.20	2.49
ZB	0.62	1.50	1.34	2.79

	2y	5y	10y	30y
2y		2.40	2.15	4.47
5y	0.42		0.45	1.86
10y	0.46	2.23		2.08
30y	0.22	0.54	0.48	

	2y	5y	10y	30y
ZT		2.20	6.71	23.96
ZF	0.46		1.53	5.45
ZN	0.15	0.65		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		
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.

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