

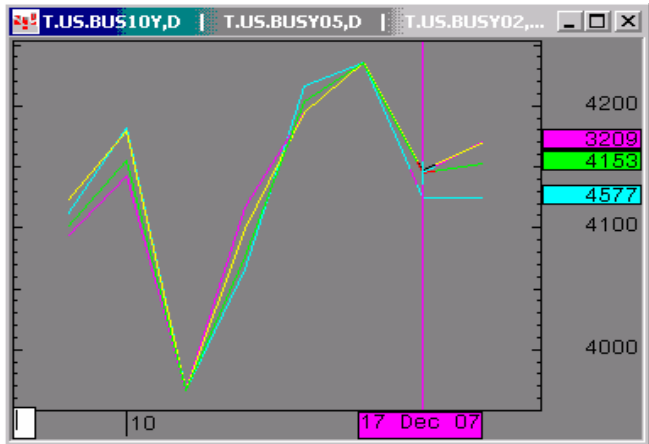


## The Morning Email: Treasuries

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Daily Yield Curve



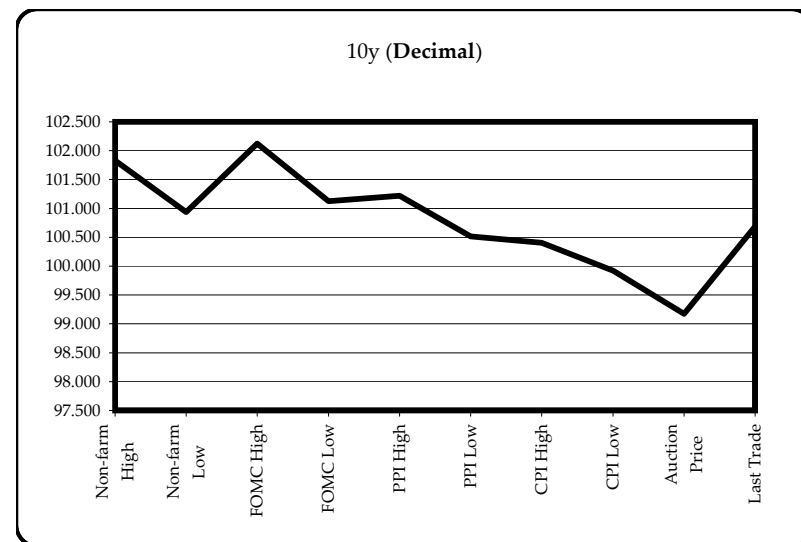
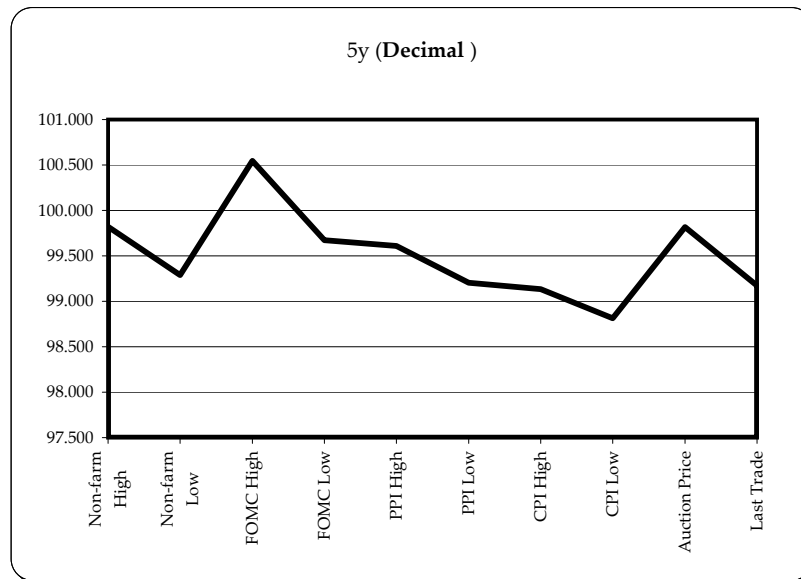
Source: CQG, Inc. © 2007 Tue Dec 18 2007 05:33:53



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	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	99.0550	100.220	112.140	114.21	12/18/2007 5:55

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



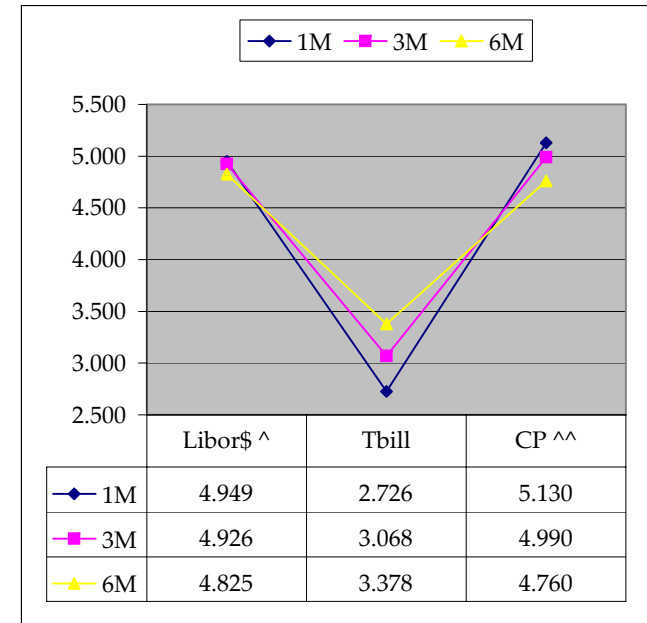
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 {Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	104.235	0.0	104.275	104.232	104.257	26,831	2y Fut
FVAH8	109.200	0.0	109.270	109.195	109.235	41,325	5y Fut
TYAH8	112.140	0.0	112.240	112.135	112.200	101,562	10y Fut
USAH8	114.210	0	115.010	114.190	114.210	20,676	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.257	(2.7)	99.295	99.255	99.287	na	2y Cash
BUS05P	99.057	(4.5)	99.130	99.055	99.102	na	5y Cash
BUS10P	100.220	(4.0)	101.000	100.220	100.250	na	10y Cash
BUS30P	106.215	(2)	107.040	106.200	106.245	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.225	5.40	3.242	3.163	3.209	na	2y Yield
BUS05Y	3.556	3.90	3.563	3.503	3.538	na	5y Yield
BUS10Y	4.162	1.70	4.168	4.124	4.156	na	10y Yield
BUS30Y	4.582	0.50	4.593	4.554	4.59	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.949	2.726	5.130
3M	4.926	3.068	4.990
6M	4.825	3.378	4.760

	Libor\$ ^	Repos
0/N	4.400	3.900
1week	4.386	3.900
2week	5.104	3.750

	TSY	Swap	ED Pks ^^
2y	3.225	90.00	3.970
5y	3.557	86.25	
10y	4.164	67.25	



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

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[ All Times Eastern unless otherwise marked ]

**Yesterday:**

15:22 12/17 **US TSYS/RECAP:** US Tsys ended Mon higher due to safe-haven bid on US stocks losses, monoline insurer/credit jitters, short-covering. Tsys opened NY higher in quiet 2-way flow, aided by overnight bid due to weak global stks, credit jitters. Afternoon then saw sizable US real money buyers in US 10Ys around 100 12/32 area, while some lvrgd accts bought 5Ys, (but others took profits in intermediates.) Morning saw US accts buying when 10-year yield neared 4.23%, bank profit-taking earlier in 10s, foreign central bank profit-tkg in 5s, Street 10Y bid, early bid on weak Dec NY Fed Empire St Mfrg Index. Buy-and-hold acct buying in 5s, lvrgd accts selling there. 3M bill auction tailed. In options, servicer rolled longs from Mar 10Y 115.5 calls to 113.5 calls, in size. Swaps had mild paying in intermeds on spread; decent/sporadic buying &/or covering shorts in upside call structures in Mar, Jun expiry-anticipating more rate cuts. US\$20B 1st TAF auction done; result Wed. Moodys Fri put FGIC on watch for dnggrade; cut outlk to neg on MBIA, CIFG, some CDS hurt. More

15:08 12/17 **US EURODLR FUTURES:** Eurodlr futures drifted at or near top end of range for most of session, curve steepening with the long end underperforming: the Red/Gold pack spd finished 1.75 bps steeper at 120.25. In the Fronts (Mar08-Dec08), the Mar08 were up 0.5 bps at 95-57.5 on combined Globex and pit volume of 211,000, the Jun08 up 2.5 bps at 95-96 on volume of 234,000, the Sep08 up 5.0 bps at 96-20 on volume of 202,000, while the Dec08 contract was 6.5 bps higher at 96-30.5 on volume of 251,000. The 2Yr proxy Red pack (Mar09-Dec09), settled 7.0 to 7.5 bps higher across the pack with some 438,000 contracts traded.

15:05 12/17 **US SWAPS:** While results from the Fed's first Taf won't be made public until Wed, spds moved off early wides near the close of today's auction amid ongoing light supportive flow. In sharp contrast to last week, light flow kicked off the week with some in-line paying-tied flow early in 10s by real money accounts, sources related, possibly an "unwind of an existing portfolio given who s involved," one desk added. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:00	+0.25/88.75	-0.75/85.50	-1.25/67.25	-0.75/58.25
12:25	+0.75/89.25	-0.25/86.00	-1.00/67.50	-0.25/58.75
10:45	+2.00/90.50	+1.00/87.25	+0.25/68.75	+0.75/59.75
9:30	+2.75/91.25	+1.25/87.50	+0.75/69.25	+1.25/60.25
8:50	+2.25/90.75	+1.25/87.50	+1.00/69.50	+1.25/60.25
Mon Open	+1.00/89.50	+1.00/87.25	+0.50/69.00	+0.50/59.50
Mon 7:50	+1.50/90.00	+0.75/87.00	+0.25/68.75	+0.00/59.00
Fri 3:15	-0.75/88.50	+1.50/86.25	+2.50/68.50	+3.50/59.00

(cont)

**Overnight:**

06:51 12/18 **TSYS SUMMARY:** USTs traded moderately lower overnight on back of profit-taking following sharp gains the previous session. However, USTs reversed direction, taking cue from gains in Bunds as European equity bourses opened lower. The long-dated issues outperformed on duration extension buying, with Japanese real money accounts seen buying the belly of the curve, albeit in thin volume trading. Prices then came off their highs, after strong take up of money auctions held by the ECB and the BoE, as part of the co-ordinated central bank year-end funding plans, which were announced last week. USTs came under further pressure, taking direction from reversal lower in Bunds following hawkish comments from ECB's Mersch. Ahead of the U.S. session, the 2-yr note was trading 2 bps lower at 99 26/32 to yield 3.21%. The 10-yr note was 3/32 lower at 100 23/32 (4.16%), while the Bond was 1/32 lower at 106 22/32 (4.58%). Focus turns to Federal Reserve Board of Governors opening meeting on mortgage rules at 1500GMT and quarterly earnings from Goldman Sachs.

**ITC\_Markets2 FT: ECB steps up fight to safeguard liquidity..... Emergency help for financial markets entered new territory on Monday as the European Central Bank announced it would on Tuesday offer unlimited funds at below market interest rates in a special operation to head off a year-end liquidity crisis. The surprise move, which follows last week's co-ordinated barrage of measures by the world's central banks to increase market liquidity, suggests the ECB is still frustrated at the failure to ease financial market tensions.**

05:06 12/18 **CREDIT:2)** Lastly, the Treasury announced this morning that the guarantee arrangements for the bank have been extended to cover all uncollateralised and unsubordinated wholesale deposits, all payments under any uncollateralised derivative transactions and all obligations of Northern Rock to make payments on the repurchase of mortgages under the documentation for the 'Granite' securitisation programme. What has become obvious now is that time is running out for the treasury to broker a deal before next February and as a result it seems resigned to nationalise and break-up the bank if all else fails. Shares in Northern Rock are up 2.5p so far this morning trading at the 93.9p level, whilst CDS spreads are around 255 bps.



09:10 12/17 **US DATA REACT:** From Steve Wood at Insight Economics: "Factory activity of New York based firms grew much more moderately in December than it had in October and November. Demand conditions softened but remained strong. With lean inventories, shipments also decelerated. Surprisingly, factories say they are still hiring at a moderate pace. Price pressures slowed, reflecting the recent dip in energy costs. This report portends a small drop in national manufacturing activity, which will have to be confirmed by the other regional surveys as well as the ISM Manufacturing Survey itself on January 2." Also "The current account deficit improved moderately and has clearly passed its peak. Although the long term trend deterioration has been halted it has been difficult to improve substantially on a sustained basis on a dollar basis but there has been a significant improvement when measured as a percent of GDP."

09:11 12/17 **US OUTLOOK:** From Goldman: "economic data suggest that real GDP probably will eke out a modest gain in the fourth quarter, and that the labor market remains intact. But the mood among both consumers and businesses is souring quickly. Moreover, with inflation surprising on the upside in November, the Fed's room for maneuver appears more limited, at least for now. Nevertheless, we expect the hard economic data in 2008 to be weak enough to overcome the current inflation worries and ultimately trigger significantly more monetary easing."

09:13 12/17 **US DATA REACT:** Ian Shepherdson, Chief U.S. Economist at HFE, says of C/A, "a surge in the net foreign income surplus to \$20.5B from \$12.7B accounts for the better-than-expected current account. No further details are provided in the data but the BEA says interest, dividend and earnings on direct investments abroad all rose, more than offsetting higher interest payments on US debt, public and private, owned by foreigners. The financing details show a huge swing in net private portfolio flows (to -\$76B from +\$162B) offset by a \$56B rise in net foreign direct investment and a \$126B swing in net non-banking flows."

09:57 12/17 **US TSYS/RESEARCH:** BNP Paribas bond analysts noted on the **TAF** auction that the "impact on the FF rate should be limited as the overall level of reserves will remain unchanged. We continue to believe the Fed, as other central banks, is willing to limited tensions on overnight rate going through the year end. As far Libor is concerned, even though Libor is not collateralised, increasing borrowing on terms and through the discount window should have a positive impact on the level of rates. It is a key step in the right direction even though the levels involved so far are unlikely to be enough." Today's TAF operation at 10am ET to 1pm ET is for US\$20B.

11:00 12/17 **US MKTS:** Morgan Stanley's Ldn analyst Stephen Jen says there are 3 possible outcomes of **TAF**: "1-There is for some reason little interest in this auction and the marginal bidder sets the auction rate close to the OIS rate. (Right now, the 3M LIBOR-OIS spread is around 82bp, down only slightly from the prior week of 103bp.) 2-There is a lot of demand in this auction and the auction rate approaches or exceeds 4.75% - the interest rate of the discount window. 3-There is intermediate demand that puts the auction rate somewhere between 4.25% and 4.75%." He says outcome 2 means the Fed would need to raise the size of future auctions to satiate demand. He says TAF is "an unstigmatised version of the discount window," and will eventually affect markets-witness pastcoordinated currency interventions that caused mkts to succumb.

13:20 12/17 **US ABS/CDO:** The fall out will be immediate from Moodys decision last Friday PM to place FGIC and XL Capital on review for possible downgrade as well as MBIA and CIFG on negative watch. As direct result, some 90,549 securities will be put on negative watch an unprecedented number, according to CDO strategists at UBS. The vast majority of affected securities are public finance issues. In addition, market sources indicate several other possible ramifications of monoline downgrades: 1) public sector issuers who have monoline insured debt in market may be in breach of covenants if insurer falls below AAA and may be forced to find alternative insurance coverage (easier said than done) 2) further liquidity crunch for public sector issuers, 3) a near freeze on any upcoming debt deals in pipeline that involved monoline guaranty again adding to liquidity squeeze. Whatever the resolution of FGICs and XLs ratings watches, we believe monoline credit quality will be a persistent issue over the coming months, UBS adds.

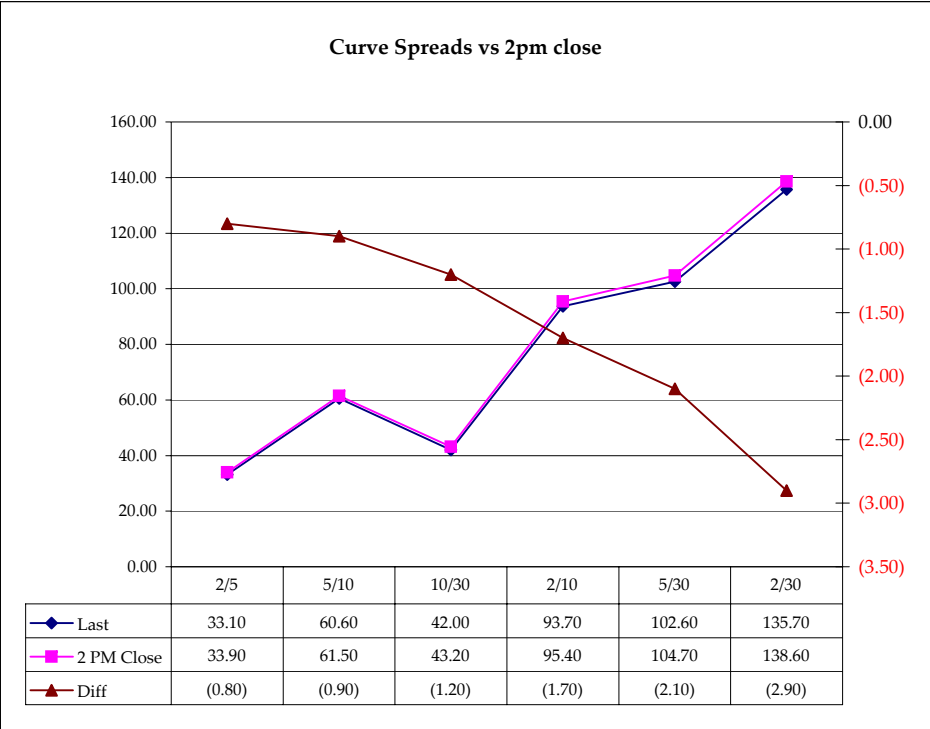
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.60	5.41	\$1,691	10.82	n/a
10y	8.00	2.59	\$808	5.17	n/a
5y	4.51	1.44	\$449	5.75	n/a
2y	1.87	0.60	\$187	2.40	n/a
ZB	10.27	3.86	\$121	3.86	0.8633
ZN	5.93	2.15	\$67	4.31	0.8747
ZF	3.99	1.41	\$44	2.82	0.9159
ZT	1.91	0.64	\$20	2.56	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	33.10	33.90	(0.80)
5/10	60.60	61.50	(0.90)
10/30	42.00	43.20	(1.20)
2/10	93.70	95.40	(1.70)
5/30	102.60	104.70	(2.10)
2/30	135.70	138.60	(2.90)

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	1.55	3.73	6.71	14.03
ZN	2.78	6.68	12.01	25.13
ZF	4.25	10.20	18.36	38.41
ZT	4.68	11.23	20.21	42.27

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.791	2.738	3.013
ZN	0.558		1.529	1.682
ZF	0.365	0.654		1.100
ZT	0.332	0.594	0.909	

## 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		2.400	4.319	9.033
5y	0.417		1.800	3.764
10y	0.232	0.556		2.092
30y	0.111	0.266	0.478	

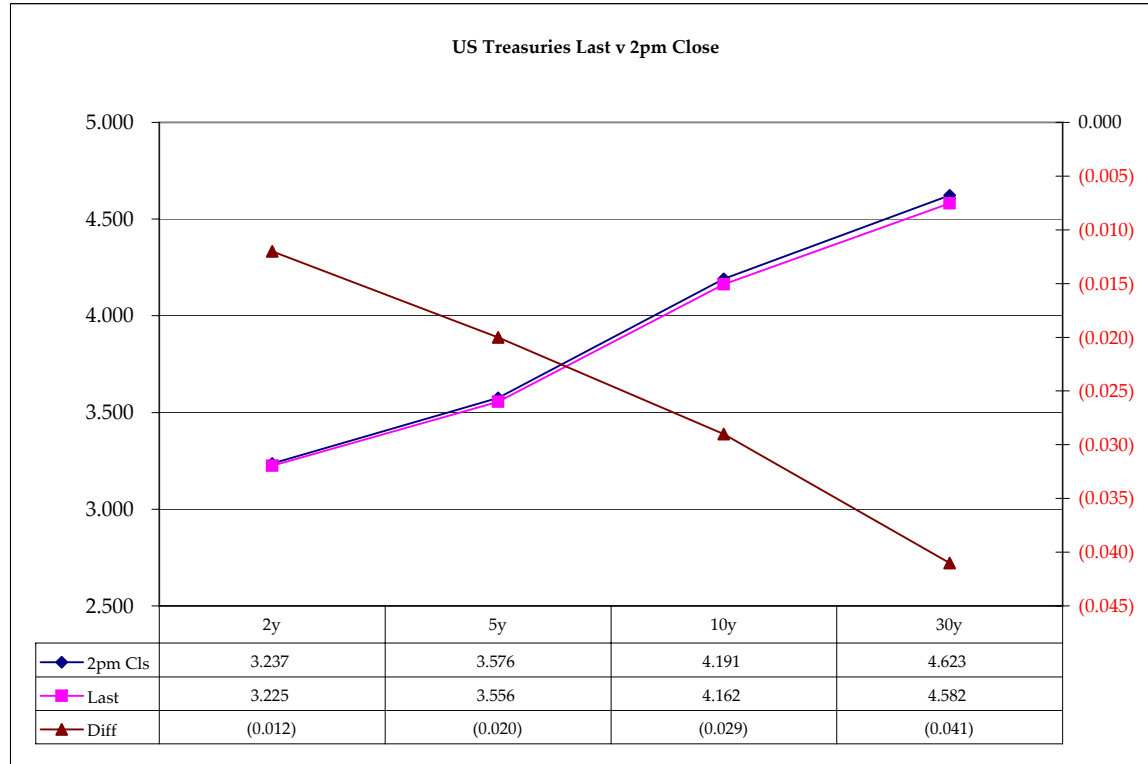
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	99.2525	3.237	3.225	(0.012)				FVAH8	109.170	109.200
5y	3.375	11/30/12	99.0300	3.576	3.556	(0.020)	-39.23	-39.48		TYAH8	112.100	112.140
10y	4.250	11/17/17	100.150	4.191	4.162	(0.029)	71.33	74.83		USAH8	114.11	114.210
30y	5.000	5/15/37	106.10	4.623	4.582	(0.041)	243.19	247.05				

Curve Spreads		
	Close bps	Last bps
2/5	33.9	33.1
5/10	61.5	60.6
10/30	43.2	42.0
2/10	95.4	93.7
5/30	104.7	102.6
2/30	138.6	135.7

TUAR1	-0.2
FVAR1	11.5
TYAR1	27.7
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	23%	56%	100%	
30	12%	29%	51%	135%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$187			
5	\$187	\$449		
10	\$189	\$456	\$808	
30	\$203	\$489	\$867	\$1,691
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$2)	(\$7)		
30	(\$16)	(\$40)	(\$59)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.36%			
10	-1.10%	-1.45%		
30	-7.79%	-8.11%	-6.76%	

**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	2.25	4.04	8.45
ZF	0.43	1.02	1.84	3.84
ZN	0.28	0.67	1.20	2.51
ZB	0.16	0.37	0.67	1.40

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.94	2.25	8.08	16.91
ZF	0.43	2.04	3.67	7.68
ZN	0.56	1.34	1.20	2.51
ZB	0.62	1.49	1.34	2.81

	2y	5y	10y	30y
2y	1.00	2.40	4.32	9.03
5y	0.42	1.00	1.80	3.76
10y	0.23	0.56	1.00	2.09
30y	0.11	0.27	0.48	1.00

	2y	5y	10y	30y
2y		2.40	2.16	4.52
5y	0.42		0.45	1.88
10y	0.46	2.22		2.09
30y	0.22	0.53	0.48	

	ZT	ZF	ZN	ZB
ZT	1.00	2.20	3.36	6.03
ZF	0.45	1.00	1.53	2.74
ZN	0.30	0.65	1.00	1.79
ZB	0.17	0.37	0.56	1.00

	2y	5y	10y	30y
ZT		2.20	6.73	24.10
ZF	0.45		1.53	5.48
ZN	0.15	0.65		3.58
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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