



The Morning Email: Treasuries

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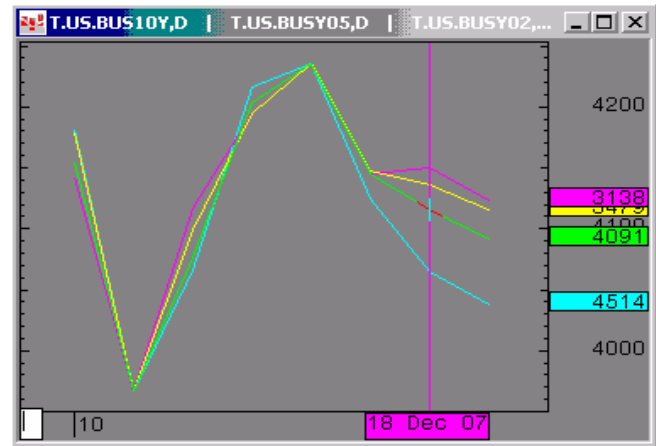
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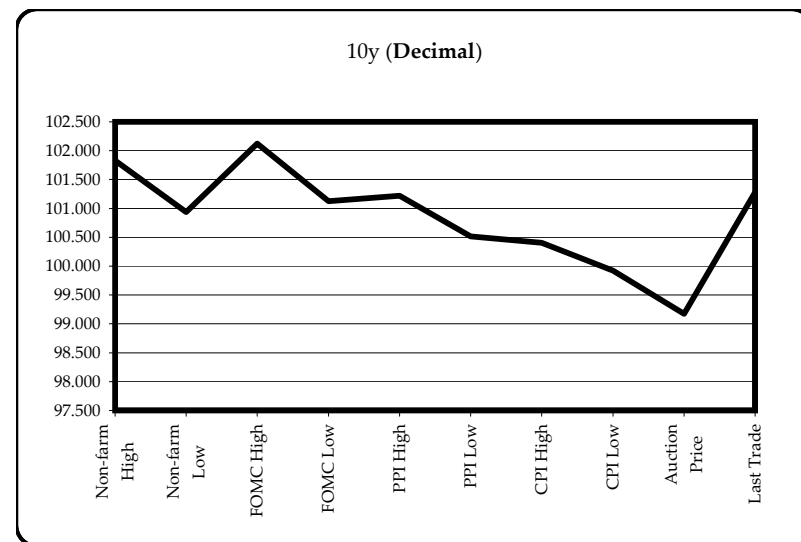
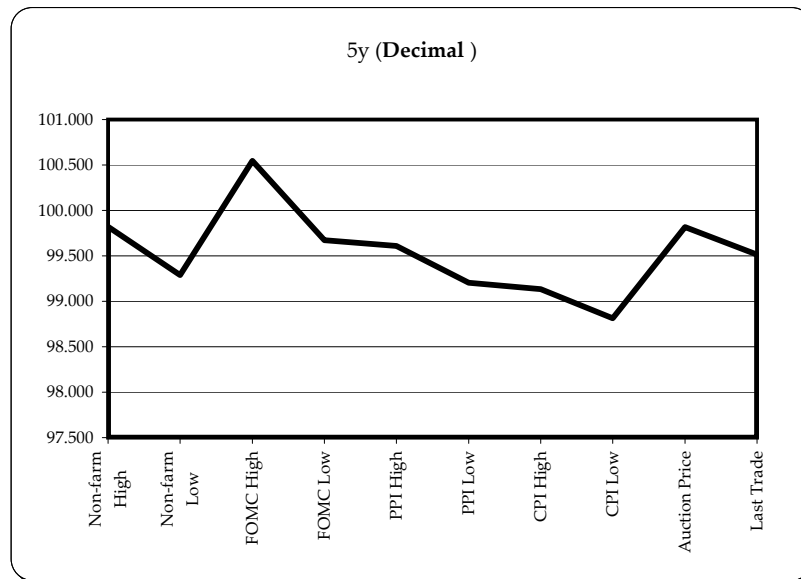
Source: CQG, Inc. © 2007 Wed Dec 19 2007 05:44:45



Want something added? Let me know: 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	99.1650	101.090	113.025	115.25	12/19/2007 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



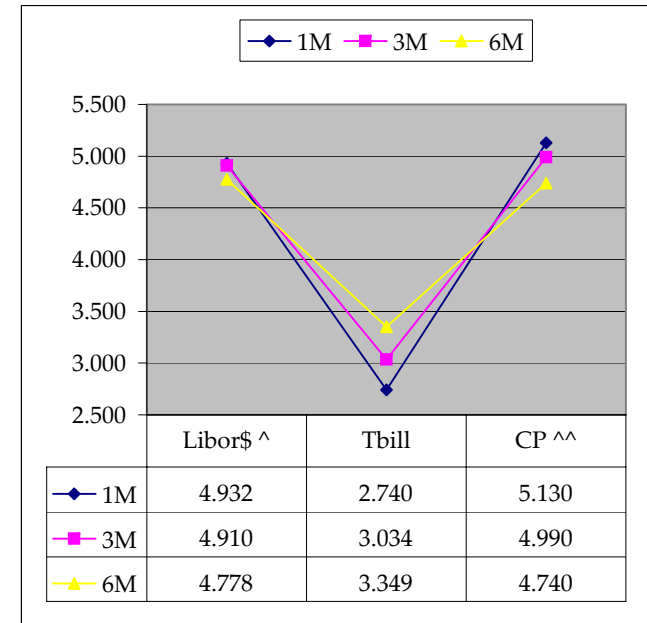
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 {Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	104.305	0.0	104.315	104.247	104.252	31,995	2y Fut
FVAH8	110.005	0.1	110.030	109.245	109.260	45,744	5y Fut
TYAH8	113.025	0.1	113.055	112.230	112.245	78,980	10y Fut
USAH8	115.250	0	115.290	115.110	115.130	17,342	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.312	3.2	100.002	99.270	99.272	na	2y Cash
BUS05P	99.162	4.2	99.187	99.100	99.102	na	5y Cash
BUS10P	101.085	7.0	101.115	100.305	100.305	na	10y Cash
BUS30P	107.265	12	108.010	107.145	107.145	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.133	(4.60)	3.217	3.113	3.213	na	2y Yield
BUS05Y	3.481	(2.20)	3.535	3.465	3.522	na	5y Yield
BUS10Y	4.091	(2.50)	4.145	4.078	4.127	na	10y Yield
BUS30Y	4.513	(2.10)	4.542	4.502	4.539	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.932	2.740	5.130
3M	4.910	3.034	4.990
6M	4.778	3.349	4.740

	Libor\$ ^	Repos
0/N	4.345	3.150
1week	4.389	3.750
2week	5.088	3.750

	TSY	Swap	ED Pks ^^
2y	3.133	86.75	3.848
5y	3.480	83.00	
10y	4.091	65.25	



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



[All Times Eastern unless otherwise marked]

15:18 12/18 US TSYS/RECAP: Tsys end Tues higher after morn short-covering rally tied to US stocks weakness fades a bit late. Tsys gained this morning on 1) short-covering, bargain-hunting as US stks lower; 2) Money had to be invested in Tsys; 3) German Bunds rose. 4) Financial stocks ebb. 5) Brisk a.m. buying earlier in 10Ys, while lvrgrd acct, others selling front end, 5Ys. 7) Swaps had a.m. light receiving in fronts & intermediate swaps, after 2-year paying overnight. 8) In Eurodlr futures, London comml this a.m. sold 500 Red packs (Mar09-Dec09) from +9.5 to +9.75. 9) Early pm. saw brisk buying in bond futures/vs. swaps paying, good bid in off-run Tsys, 2Y/10Y & 2Y/30Y steepeners reversed; 10) also had sizable put buying in Eurodollar options late; 11) Servicers were active rollers in 10Y Tsys options late amid position adjusting; 12) Late Tsys put flows had local shop paying 9.0 for 10K Jun 56/58 put sds; 13) And great curiosity into 10am ET Wed result of US\$20B Term Adjustmt Facil (TAF) auction done Mon; most: TAF seems good idea[.]

15:11 12/18 US EURODLR FUTURES: Eurodlr futures drifted at or near upper end of range for most of session, curve flattened as Golds outpaced: the Red/Gold pack spd finished 1.375 bps flatter at 118.75. In the Fronts (Mar08-Dec08), the Mar08 was up 8.0 bps at 95-65.5 on combined Globex and pit volume of 190,000, the Jun08 up 11.0 bps at 96-07 on volume of 246,000, the Sep08 up 11.0 bps at 96-31 on volume of 209,000, while the Dec08 contract was 10.5 bps higher at 96-41 on volume of 246,000. The 2yr proxy Red pack (Mar09-Dec09), settled 10.0 to 10.5 bps higher across the pack with some 406,000 contracts traded.

15:03 12/18 US SWAPS: Spds end session tighter after very light receiver-tied interest in the fronts to intermediates on the heels of light paying in 2s overnight; several sources agreed that it "felt like there was a large buyer of MBS" in early trade, mirrored by tighter spreads for both mortgages and swaps. Early focus on the ECB with plans to inject more liquidity. Decent paying on spd in 30s vs Tsys in second half, along with reports of 2s/10s and 2s/30s steepener unwinds. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	-3.25/85.50	-4.00/81.50	-3.75/63.75	-3.75/54.75
1:30	-3.00/85.75	-4.00/81.50	-3.00/64.50	-3.00/55.50
12:00	-2.75/86.00	-3.00/82.50	-2.25/65.25	-2.00/56.50
11:00	-3.25/85.50	-3.00/82.50	-2.75/64.75	-2.00/56.50
10:30	-2.75/86.00	-3.25/82.25	-2.50/65.00	-2.00/56.50
9:15	-2.25/86.50	-2.00/83.50	-2.00/65.50	-1.75/56.75
Tue Open	-2.25/86.50	-1.50/84.00	-1.50/66.00	-1.50/57.00
Mon 3:00	+0.25/88.75	-0.75/85.50	-1.00/67.50	-0.50/58.50

(cont)

06:10 12/19 TSYS SUMMARY: US Treasuries opened little changed, with duration extension buying in long-dated issues in the Tokyo session. Prices then squeezed higher in the London session, taking cue from short-covering in German Bunds following market rumour that Merrill Lynch is due to report Q4 earnings report early, and may include a \$6.0bln writedown. Treasuries also rose on back of strong gains in UK Gilts after release of Bank of England minutes, which showed that the Monetary Policy Committee voted an unanimous 9:0 to cut rates at the December meeting. In cross-border flows, US Treasuries underperformed against German Bunds, as the 10-year UST/Bund yield spread narrowed to -14 bps vs -15 bps Tuesday. However, volumes were once again extremely thin, amid lack of liquidity ahead of the year-end period. Attention now turns to the result of the inaugural \$20.0 billion "Term Auction Facility" TAF auction at 1500GMT, which was held on Monday.



09:16 12/18 **US DATA REACT:** From Nomura: "The drop in (Nov) permits suggests further declines in starts are likely in the months ahead and that home-building will remain a drag on overall economic growth throughout the first half of 2008 and probably beyond. Indeed, builders are not likely to start stepping up production until a substantial chunk of the record inventory of new homes has been sold and, so far, the weak new home sales shows little sign of leveling off. The multi-family segment of the market may be stabilizing."

09:40 12/18 **FED: Chair Bernanke's statement** on regulatory amendments to Fed rules says they are meant to protect consumers from fraud & deception, but Board needs public comments. Deceptive lending hurts consumers and the economy. Gov Kroszner says the proposals are under Home Ownership, Reg. Z, and Truth in Lending Acts, and are comprehensive. Rules cover consumer ability to pay, documentation, prepaids, escrow accts, coercion, and misleading practices like misrepresentation, and will provide robust protections for consumers.



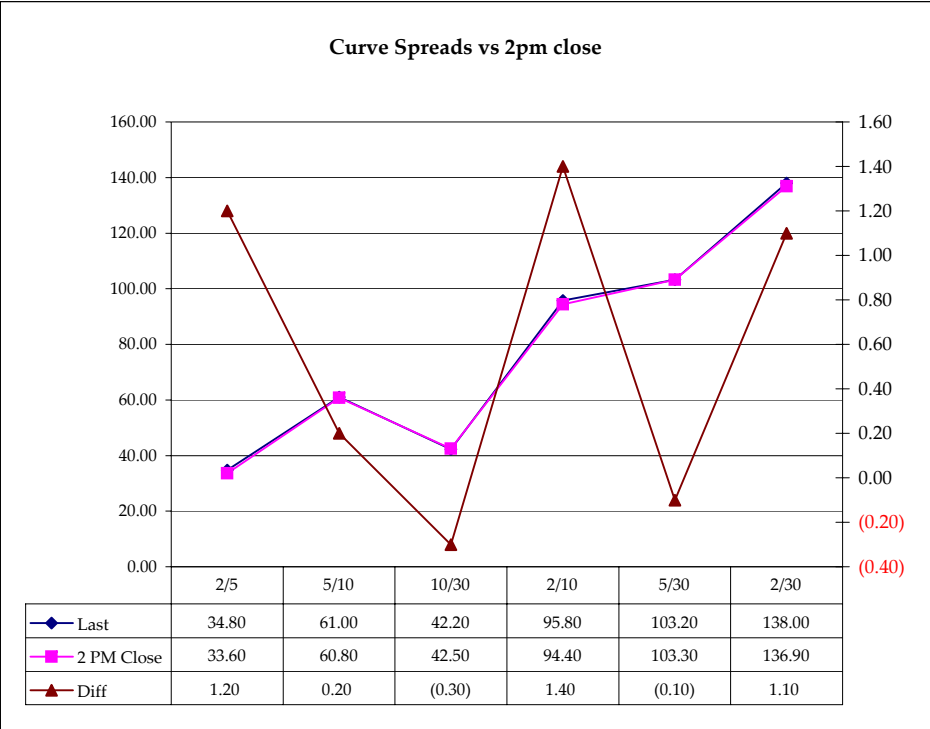
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.67	5.49	\$1,717	10.99	n/a
10y	8.00	2.60	\$814	5.21	n/a
5y	4.51	1.44	\$451	5.77	n/a
2y	1.87	0.60	\$187	2.40	n/a
ZB	10.31	3.92	\$123	3.92	0.8633
ZN	5.94	2.17	\$68	4.33	0.8747
ZF	3.99	1.41	\$44	2.82	0.9159
ZT	1.91	0.64	\$20	2.56	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	34.80	33.60	1.20
5/10	61.00	60.80	0.20
10/30	42.20	42.50	(0.30)
2/10	95.80	94.40	1.40
5/30	103.20	103.30	(0.10)
2/30	138.00	136.90	1.10

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 Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.53	3.68	6.64	14.01
ZN	2.77	6.66	12.02	25.37
ZF	4.25	10.24	18.48	39.00
ZT	4.68	11.26	20.33	42.89

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.811	2.785	3.062
ZN	0.552		1.537	1.691
ZF	0.359	0.651		1.100
ZT	0.327	0.592	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		2.406	4.345	9.166
5y	0.416		1.806	3.810
10y	0.230	0.554		2.110
30y	0.109	0.262	0.474	

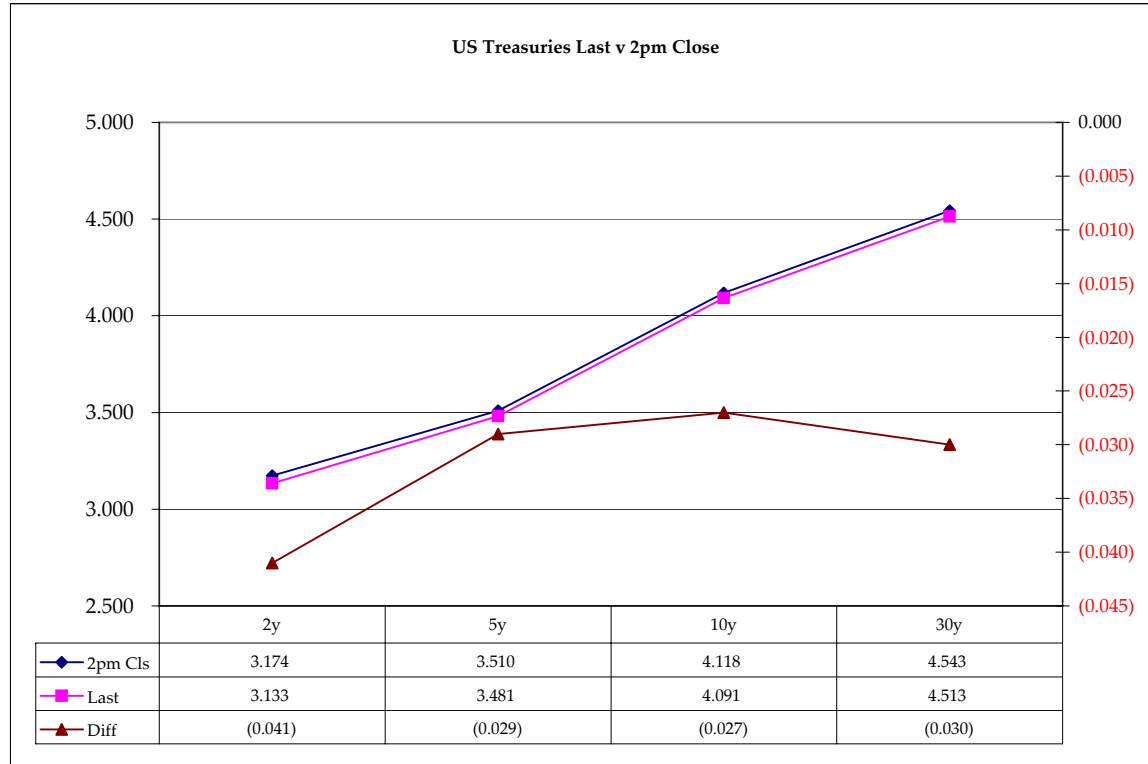
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	99.2900	3.174	3.133	(0.041)				FVAH8	109.275	110.005
5y	3.375	11/30/12	99.1250	3.510	3.481	(0.029)	-39.35	-39.93		TYAH8	112.265	113.025
10y	4.250	11/17/17	101.020	4.118	4.091	(0.027)	75.90	75.90		USAH8	115.12	115.250
30y	5.000	5/15/37	107.12	4.543	4.513	(0.030)	248.70	252.47				

Curve Spreads		
	Close bps	Last bps
2/5	33.6	34.8
5/10	60.8	61.0
10/30	42.5	42.2
2/10	94.4	95.8
5/30	103.3	103.2
2/30	136.9	138.0

TUAR1	-2.5
FVAR1	11.2
TYAR1	26.0
USAR1	-4.5

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	41%	100%		
10	23%	56%	100%	
30	12%	29%	51%	135%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$187			
5	\$187	\$451		
10	\$190	\$458	\$814	
30	\$205	\$494	\$877	\$1,717
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$3)	(\$8)		
30	(\$18)	(\$43)	(\$63)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.18%			
10	-1.51%	-1.69%		
30	-8.59%	-8.76%	-7.19%	

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	4.07	8.58
ZF		0.43	1.02	1.85	3.90
ZN		0.28	0.67	1.20	2.54
ZB		0.15	0.37	0.66	1.40

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		0.94	2.25	8.13	17.16
ZF		0.43	2.05	3.70	7.80
ZN		0.55	1.33	1.20	2.54
ZB		0.61	1.47	1.33	2.80

		2y	5y	10y	30y
2y		1.00	2.41	4.34	9.17
5y		0.42	1.00	1.81	3.81
10y		0.23	0.55	1.00	2.11
30y		0.11	0.26	0.47	1.00

		2y	5y	10y	30y
2y			2.41	2.17	4.58
5y		0.42		0.45	1.90
10y		0.46	2.22		2.11
30y		0.22	0.52	0.47	

		ZT	ZF	ZN	ZB
ZT		1.00	2.20	3.38	6.12
ZF		0.45	1.00	1.54	2.78
ZN		0.30	0.65	1.00	1.81
ZB		0.16	0.36	0.55	1.00

		2y	5y	10y	30y
ZT			2.20	6.76	24.50
ZF		0.45		1.54	5.57
ZN		0.15	0.65		3.62
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.

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