12/20/2007 5:33

The Morning Email: Treasuries

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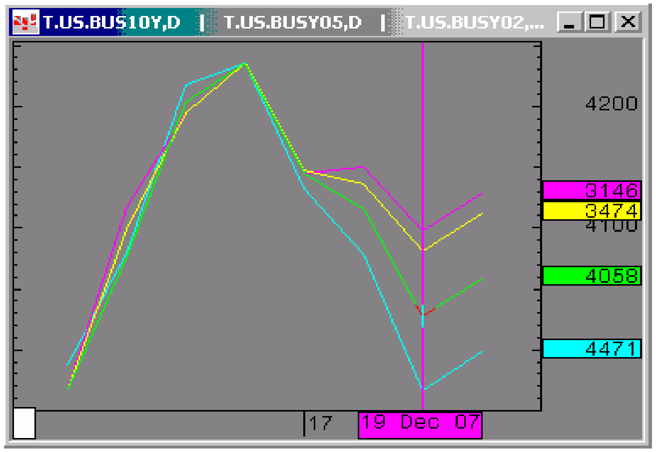


Source: CQG, Inc. © 2007 Thu Dec 20 2007 05:31:48

30y	10y	5y	2y

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

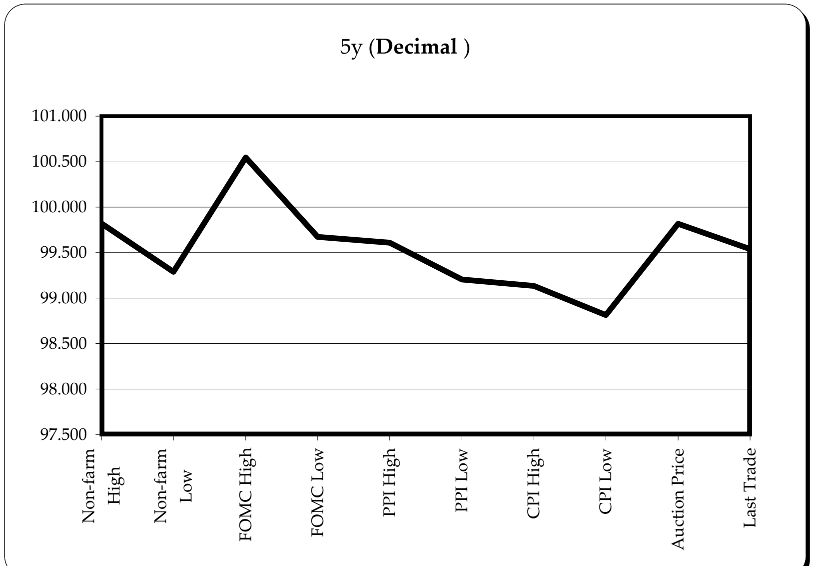
Important Econ Releases, Highs & Lows

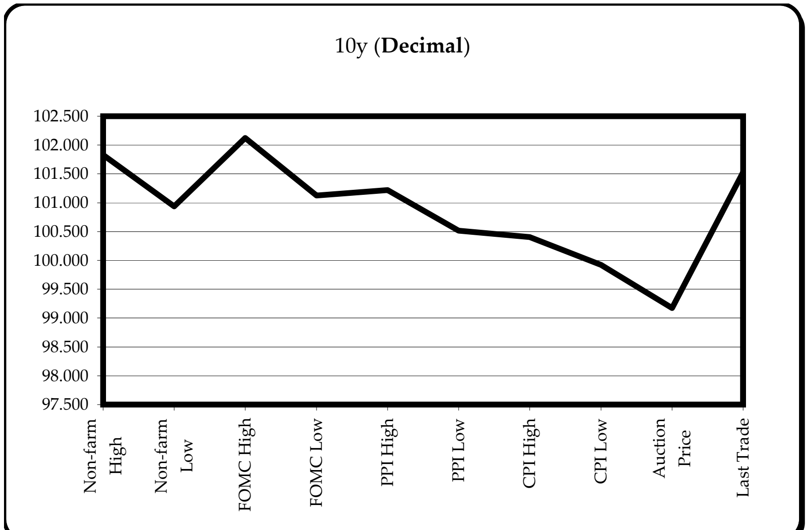
Economic Releases - 32nds

	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	99.1720	101.170	113.085	116.07	12/20/2007 5:33

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





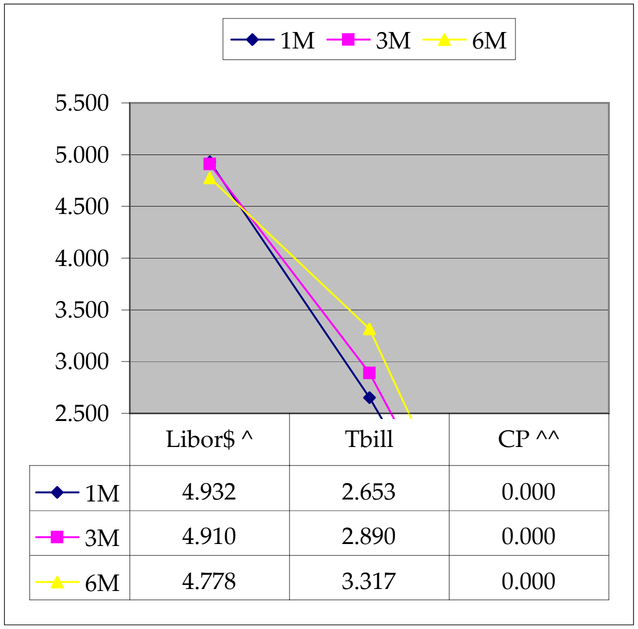
Notes: Cash and futures are adjusted for roll.
Release times are from release to 2pm cdt
{Dec07 to Mch08 Futures roll: ZF = (-12); ZN = (-25); ZB = (+1) [tics]}
r = reopen

Quotes

			32 nds				
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAH8	104.290	(0.0)	105.000	104.277	105.000	10,151	2y Fut
FVAH8	110.010	(0.0)	110.070	109.315	110.070	26,682	5y Fut
TYAH8	113.085	0.0	113.170	113.055	113.165	45,159	10y Fut
USAH8	116.070	0	116.140	116.020	116.130	10,985	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.305	(2.5)	100.007	99.292	100.000	na	2y Cash
BUS05P	99.165	(5.0)	99.212	99.160	99.200	na	5y Cash
BUS10P	101.170	(7.5)	101.235	101.155	101.215	na	10y Cash
BUS30P	108.190	(11)	108.255	108.150	108.150	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.146	4.60	3.171	3.104	3.121	na	2y Yield
BUS05Y	3.476	3.90	3.495	3.434	3.437	na	5y Yield
BUS10Y	4.058	3.00	4.07	4.03	4.041	na	10y Yield
BUS30Y	4.471	2.50	4.483	4.451	4.452	na	30y Yield

	Libor$ ^	Tbill	CP ^^
1M	4.932	2.653	#VALUE!
3M	4.910	2.890	#VALUE!
6M	4.778	3.317	#VALUE!
	TSY	Swap	ED Pks ^^^
2y	3.149	82.00	3.779
5y	3.475	78.00	
10y	4.060	63.75	

	Libor$ ^	Repos
0/N	4.345	3.350
1week	4.389	3.450
2week	5.088	3.300



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]

15:01 12/19 **US TSYS/RECAP:** Tsys end higher, well off rally highs, after wild day: 1) Early Tsys slide after results of well-bid US$20B TAF done Mon. seemed to ease yrend funding fear, so risky debt bought/Tsys sold; 2) Tsys stage midday rally as European central banks bought front-end Tsys, and safe-haven buying in Tsys arises S&P cuts ACA Financial Guar rtg to junk; S&P put AMBAC, MBIA on negative outlook review; ABXs hammered. 3) Tsys gain more to day's high amid S&P downgrade of 3 CDOS; one had tranches cut from AAA to CCC in space of 1 yr; 4)Pension buying aids long end Tsys; 5) Late, Tsys drift off highs but mkt whippy.
6) Mkt stabilizes later, amid buying of US$2B-$3B in P-STRIPS. 7) European selling in US 5YS/buying 2Ys in a.m; 8) Buy-and-hold accts sold 5Ys in morn, also 10Y Tsys futures liquidation, real money asset bkd accts buying earlier in Mar 2Y, 10Y futures. 9) Swaps spreads open wider, then a.m. real money long-end paying, corp-deal-tied recvg in front end; then servicers receiving across curve on rally esp 5Y,10Y.

15:30 12/19 US **TSYS/RECAP II:** Tsys end Wed higher after wild day. On a 3:00 p.m. Tues to 3:00 pm ET Wed basis close, the cash 2-year note yield fell 3.9 bps to 3.473%. The 5-year yield fell 3.9 bps to 3.473%. The 10-year yield fell 5.0 bps to 4.07%, and the 30-year yield 5.0 bps to 4.493%. The 2-year/5-year curve steepened 0.7 bps to +34.0 bps, the 2-year/10-year flattened 0.4 bps to +93.7 bps, and the 2-year/30-year flattened 0.4 bps to +136.0 bps. (Please see 15:02 bullet for full Tsys market summary with trading flows.)

15:06 12/19 **US SWAPS**: Spreads all over the map today but narrow in afternoon trade amid mtg servicer receiving across the curve but mostly in 5Y and 10Y. Earlier, flows 2-way with real money paying seen in longer-dated stuff earlier, tempered by front-end corp receiving.
According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed Close	-2.75/82.75	-3.00/78.50	+0.00/64.00	+1.25/56.00
2:00	-2.25/83.25	-3.50/78.00	-1.25/62.75	+0.25/55.00
11:25	-1.50/84.00	-1.25/80.25	+0.25/64.25	+1.25/56.00
10:40	-3.50/82.00	-1.50/80.00	+0.00/64.00	+1.00/55.75
9:45	-0.25/85.25	+0.50/82.00	+1.25/65.25	+1.75/56.50
9:15	+0.00/85.50	+1.00/82.50	+1.25/65.25	+2.00/56.75
Wed 8:06	+1.25/86.75	+1.50/83.00	+1.75/65.75	+2.25/57.00
Tue 3:00	-3.25/85.50	-4.00/81.50	-3.75/63.75	-3.75/54.75
Tue Open	-2.25/86.50	-1.50/84.00	-1.50/66.00	-1.50/57.00

(cont)

06:07 12/20 **TSYS SUMMARY**: US Treasuries are lower on Thursday following recovery the previous session towards the Chicago close, on the back of safe-haven buying after Standard & Poor's Ratings cut bond insurer ACA Financial Guaranty rating to junk status. S&P also put AMBAC, MBIA on negative outlook review. In addition, buying in US Treasuries was also noted after CIBC said it may take a further writedown of about $2 billion on U.S. subprime investments in the wake of the S&P decision. Bond markets also eased lower after the People's Bank of China said that it will raise benchmark one-year deposit rate by 27 basis points to 4.14% and the equivalent lending rate to 7.47%, effective Friday. This was the sixth time China has raised rates this year in an attempt to tackle economic overheating and rising domestic inflation. Attention now turns to the 2nd 'Term Facility Auction' (TAF) also for $20 billion following the well bid inaugural auction, which received about $61 billion in bids for $20 billion in 28-day loans.

MarketNews international

For release at 10:00 a.m. EST
On December 17, 2007, the Federal Reserve conducted an auction of $20 billion in 28-day credit through its Term Auction Facility. Following are the results of the auction:
Stop-out rate: 4.65 percent
Total propositions submitted: $61.553 billion
Total propositions accepted: $20.000 billion
Bid/cover ratio: 3.08
Number of bidders: 93

Bids at the stop-out rate were prorated at 1.96% and resulting awards were rounded to the nearest $10,000 (except that all awards below $10,000 are rounded up to $10,000).
The awarded loans will settle on December 20, 2007, and will mature on January 17, 2008. The stop-out rate shown above will apply to all awarded loans.

Institutions that submitted winning bids will be contacted by their respective Reserve Banks by Noon EST on December 19, 2007. Participants have until 3:00 p.m. EST on December 19, 2007 to inform their local Reserve Bank of any error.

11:26 12/19 **U.S. Industry:** S&P has taken ratings action of 6 bond insurance firms, with most being put on negative watch. One ratings downgrade is seen though as the firm cuts ACA Financial Gty to CCC, junk status. NY Times today said that officials at several US investment banks were in talks to bail out ACA should its rating fall below A, a move that would avoid banks "having to take back billions in losses from the insurer under terms of the credit protection that the bought from the co."

11:32 12/19 **US TSYS/RISK/RATINGS:** Further to 11:31 am ET: **MBIA** shares sliding sharply, off more than 5% on day, and AMBAC Financial also weaker too.

11:32 12/19 **US SWAPS:** Spreads **reacting** to news that S&P has taken ratings action of 6 bond insurance firms, with most being put on negative watch. One ratings downgrade is seen though as the firm cuts ACA Financial Gty to CCC, junk status.[...]

12:00 12/19 **FED/TAF**: Fed announces second TAF auction to be $20b 35-day (Jan 31, 2008 maturity) credit for 10am-1pm Thurs auction, notification at 10am Friday, and settlement Dec 27. Min bid rate is 4.15% and max award $2b.Two more auctions are expected for Jan 14 and Jan 28.

11:37 12/19 **US CMBS:** One of the key drivers to the strong rally at the top of the CMBS stack in AAA tranches over the last week has undoubtedly been year-end short covering by speculators causing significant tightening in CMBX tranches and setting tone for improved investor sentiment in cash market. However, CMBS strategists at JP Morgan thing CMBX is still far from being out of woods and recommends investors look at taking short synthetic positions again particularly tranches rated A to BBB-. Specifically, JP thinks several bearish factors will soon drive CMBX wider: 1)low mezz tranche subordination, 2)very thin tranche thickness (that is, losses can very quickly seep up stack), 3)aggressively underwritten loans, and 4)non-homogenous loan size distribution offer little protection for lower-rated classes. "We expect CMBX prices will continue to decline as we move through '08, even more quickly than a scan of the fundamentals might indicate, as investors increasingly decide not to wait for a dramatic increase in delinquencies and defaults before they buy protection," JP says.

[Note from Jim: this was the cause for the late day rally]

13:56 12/19 **US TSYS/RISK/CDOS:** Tsys rally more as S&P cuts 3 CDO ratings: S&P cut rtgs on 17 classes of notes from three CDO transactions after notified by trustees of controlling noteholders' intent to liquidate collateral, terminate CDOs. S&P said CDOs: "1) Tricadia CDO 2007-8 Ltd, CDO of SF (SF) CDOs, for which a notice dated Dec. 14, 2007, has been received stating that a majority of the controlling noteholders and the CDS counterparty are directing the trustee to proceed with the liquidation of the collateral supporting the notes. 2) TABS 2007-7 Ltd., a mezzanine SF CDO of ABS for which a notice dated Dec. 14, 2007, has been received stating that a majority of the controlling class is directing the trustee to proceed with the liquidation of the collateral supporting the notes;" notice followed a prevs notice declaring EOD as of Nov. 9, 2007, under section 5.1(h) of indenture. 3) TABS 2006-5 Ltd., a mezzanine SF CDO of ABS; S&P got Dec. 12 notice sayg "maj of controllg class directg trustee to proceed with liquidation of collateral supporting the notes.

Stone & McCarthy RESEARCH ASSOCIATES

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.72	5.55	$1,734	11.10	n/a
10y	8.00	2.61	$816	5.22	n/a
5y	4.51	1.44	$451	5.77	n/a
2y	1.87	0.60	$187	2.39	n/a
ZB	10.30	3.91	$122	3.91	0.8633
ZN	5.93	2.17	$68	4.34	0.8747
ZF	3.99	1.41	$44	2.83	0.9159
ZT	1.90	0.64	$20	2.56	0.9486

Yield Curve Spreads

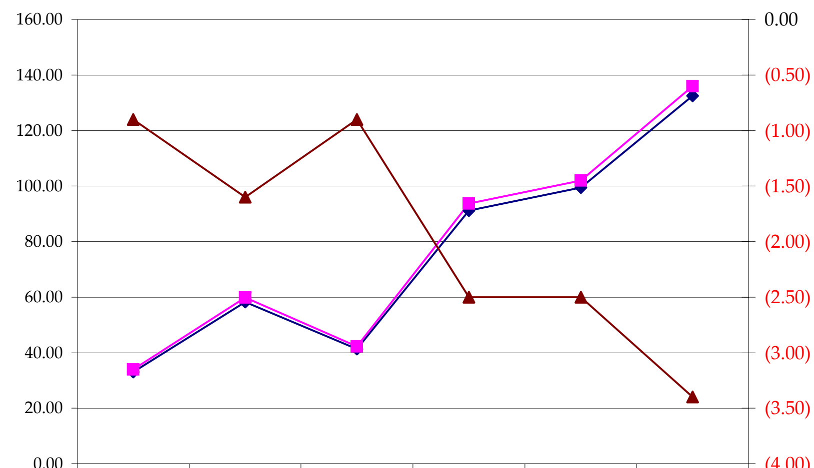
	Last	2pm close	Diff
2/5	33.00	33.90	(0.90)
5/10	58.20	59.80	(1.60)
10/30	41.30	42.20	(0.90)
2/10	91.20	93.70	(2.50)
5/30	99.50	102.00	(2.50)
2/30	132.50	135.90	(3.40)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	33.00	58.20	41.30	91.20	99.50	132.50
2 PM Close	33.90	59.80	42.20	93.70	102.00	135.90
Diff	(0.90)	(1.60)	(0.90)	(2.50)	(2.50)	(3.40)

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 Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.53	3.69	6.68	14.19
ZN	2.76	6.65	12.04	25.59
ZF	4.23	10.20	18.48	39.27
ZT	4.68	11.27	20.41	43.37

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.803	2.767	3.056
ZN	0.555		1.535	1.695
ZF	0.361	0.652		1.104
ZT	0.327	0.590	0.905	

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		2.410	4.364	9.273
5y	0.415		1.811	3.848
10y	0.229	0.552		2.125
30y	0.108	0.260	0.471	

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	99.3150	3.133	3.146	0.013			
5y	3.375	11/30/12	99.1800	3.472	3.476	0.004	-39.34	-39.68	
10y	4.250	11/17/17	101.145	4.070	4.058	(0.012)	77.90	78.65	
30y	5.000	5/15/37	108.08	4.492	4.471	(0.021)	261.52	264.39	

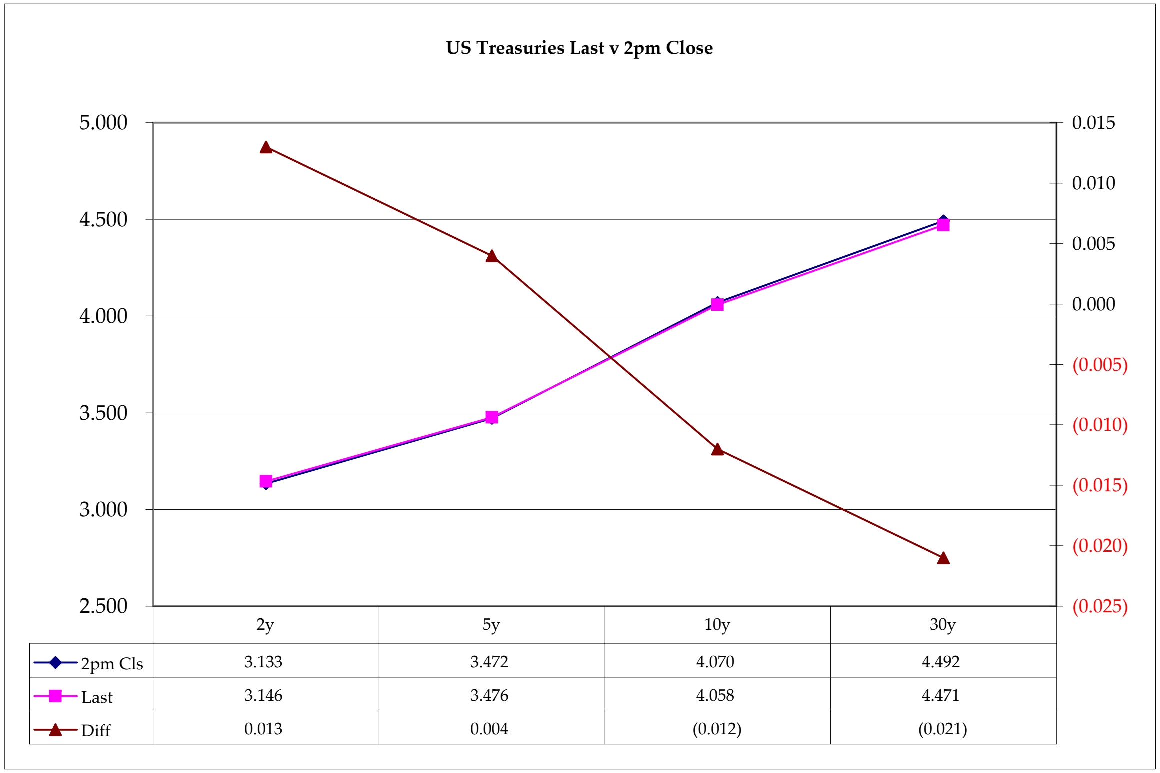
	Close 32	Last
FVAH8	110.015	110.010
TYAH8	113.065	113.085
USAH8	115.29	116.070

TUAR1	-1.0
FVAR1	10.5
TYAR1	27.2
USAR1	21.7

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	33.9	33.0
5/10	59.8	58.2
10/30	42.2	41.3
2/10	93.7	91.2
5/30	102.0	99.5
2/30	135.9	132.5



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	$459	**$816**	
30	$206	$497	$883	**$1,734**

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	$0			
10	($3)	($9)		
30	($19)	($47)	($67)	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.12%			
10	-1.78%	-1.91%		
30	-9.25%	-9.36%	-7.60%	

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	2.25	4.08	8.67
ZF	0.42	1.02	1.85	3.93
ZN	0.28	0.66	1.20	2.56
ZB	0.15	0.37	0.67	1.42

	2y	5y	10y	30y
2y	1.00	2.41	4.36	9.27
5y	0.41	1.00	1.81	3.85
10y	0.23	0.55	1.00	2.13
30y	0.11	0.26	0.47	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.21	3.39	6.11
ZF	0.45	1.00	1.53	2.77
ZN	0.30	0.65	1.00	1.80
ZB	0.16	0.36	0.55	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.94	2.25	8.16	17.35
ZF	0.42	2.04	3.70	7.85
ZN	0.55	1.33	1.20	2.56
ZB	0.61	1.47	1.34	2.84

	2y	5y	10y	30y
2y		2.41	2.18	4.64
5y	0.41		0.45	1.92
10y	0.46	2.21		2.13
30y	0.22	0.52	0.47	

	2y	5y	10y	30y
ZT		2.21	6.78	24.45
ZF	0.45		1.53	5.53
ZN	0.15	0.65		3.61
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.

<u>Notes:</u>

^ 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