

The Morning Email: TERM TEDS & Dirty TEDS

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Correlations for the US Cash Treasuries are done on a YIELD basis. Therefore, you'll see negative values. The reason for this is due to the new issues. Every new issue takes too long to 'catch up' because the correlation formula looks back 10days.

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

Disclaimer: All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

Quotes

| F.I. Futures and Cash | | | | |
|-----------------------|-----------------|------------|----------------|-----------|
| | Last Decimal | Last 32 | Last Yield* | MDuration |
| ZT | 104.7656 | 104.245 | 3.196 | 1.88 |
| ZF | 109.4063 | 109.130 | 3.622 | 3.97 |
| ZN | 112.1719 | 112.055 | 3.938 | 5.90 |
| 2y | 99.819 | 99.2620 | 3.263 | 1.90 |
| 5y | 98.922 | 98.2950 | 3.658 | 4.48 |
| 10y | 100.484 | 100.1550 | 4.230 | 7.96 |

| Eurodollars (ED) | | | | | | |
|------------------|---------------|-------------------|-------------------|---------------------|-------|---------------|
| | Last Price | Last Imp Yield | Days til Expr. | Fraction of year | Month | |
| EDAH08 | 95.650 | 4.350 | 81 | 0.221 | MAR | White Pack |
| EDAM08 | 96.105 | 3.895 | 172 | 0.471 | JUN | |
| EDAU08 | 96.320 | 3.680 | 263 | 0.720 | SEP | |
| EDAZ08 | 96.410 | 3.590 | 354 | 0.969 | DEC | |
| EDAH09 | 96.375 | 3.625 | 445 | 1.219 | MAR | Red Pack |
| EDAM09 | 96.245 | 3.755 | 536 | 1.468 | JUN | |
| EDAU09 | 96.095 | 3.905 | 627 | 1.717 | SEP | |
| EDAZ09 | 95.950 | 4.050 | 718 | 1.966 | DEC | |
| EDAH10 | 95.820 | 4.180 | 809 | 2.216 | MAR | Green Pack |
| EDAM10 | 95.670 | 4.330 | 900 | 2.465 | JUN | |
| EDAU10 | 95.540 | 4.460 | 991 | 2.714 | SEP | |
| EDAZ10 | 95.435 | 4.565 | 1082 | 2.964 | DEC | |
| EDAH11 | 95.350 | 4.650 | 1173 | 3.213 | MAR | Blue Pack |
| EDAM11 | 95.250 | 4.750 | 1264 | 3.462 | JUN | |
| EDAU11 | 95.165 | 4.835 | 1362 | 3.731 | SEP | |
| EDAZ11 | 95.075 | 4.925 | 1453 | 3.980 | DEC | |
| EDAH12 | 94.945 | 5.055 | 1544 | 4.229 | MAR | Gold Pack |
| EDAM12 | 94.950 | 5.050 | 1635 | 4.479 | JUN | |
| EDAU12 | 94.875 | 5.125 | 1726 | 4.728 | SEP | |
| EDAU12 | 94.875 | 5.125 | 1726 | 4.728 | SEP | |

Notes

Futures use CTD for Last Yield

Mduration = Modified Macaulay Duration

#VALUE! = no quote being provided by exchange.

| | Last Yield | Net Yield | Last Price | |
|------------|------------|-----------|------------|----------------|
| Q.ED.White | 3.969 | 3.750 | 9612.375 | Pack Prices |
| Q.ED.Red | 3.965 | 4.750 | 9612.750 | |
| Q.ED.Green | 4.560 | 4.000 | 9555.250 | |
| Q.ED.Blue | | 0.000 | 9511.250 | |
| Q.ED.Gold | | 0.000 | 9481.500 | |

Red pack is a 2yr proxy
 Gold pack is a 10yr proxy
 Red /Gold is a 2/10 proxy
 Blue pack is a 5yr proxy
 Blue/Gold is a 5/10 proxy

Overview of Hedging

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How many ways can you hedge the TED? Let me count...there's lots and lots, like:

- 1 Regression
 - 2 Engineered
 - 3 Strip with and without Stubs
 - 4 Convexity Bias
 - 5 Weighted
 - 6 Unweighted
- and more...

Most of us are interested in the *unweighted hedge* which is simply a curve trade hedge. There are so many ways to hedge the TED trade that I can't possibly list them all.

If you email me and ask for a specific hedge, I'll get it to you.

jgoulding@ghco.com

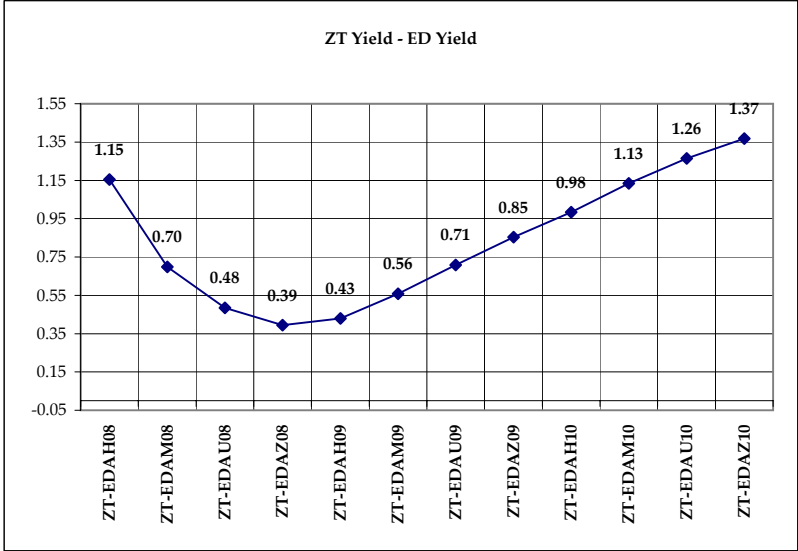
Eurodollar Color Codes for Individual Year Strips:

| Color | Year | Contracts |
|--------|-------|-----------|
| White | One | 1 – 4 |
| Red | Two | 5 – 8 |
| Green | Three | 9 – 12 |
| Blue | Four | 13 – 16 |
| Gold | Five | 17 – 20 |
| Purple | Six | 21 – 24 |
| Orange | Seven | 25 – 28 |
| Pink | Eight | 29 – 32 |
| Silver | Nine | 33 – 36 |
| Copper | Ten | 37 – 40 |

Dirty TED: ZT vs Eurodollar Contracts

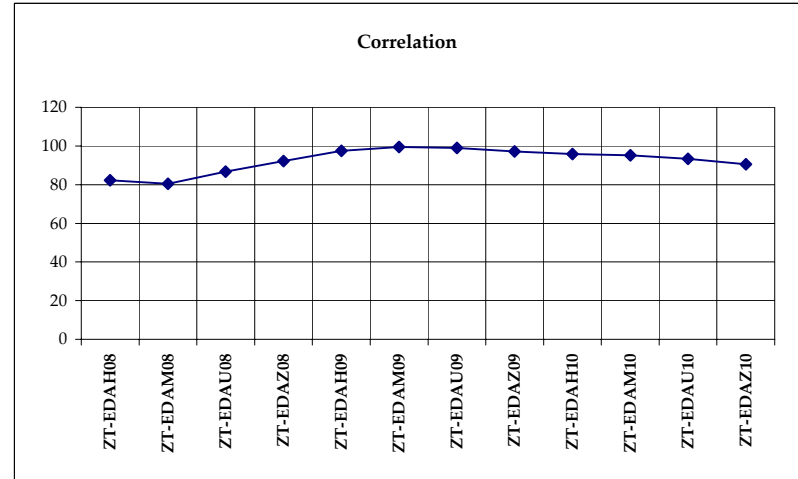
| ZT | | | | |
|--------|--------------|--------------|-------------|------------------------|
| | Spread Price | Spread Yield | Spread Name | Correlation* (percent) |
| EDAH08 | 9.116 | 1.15 | ZT-EDAH08 | 82.286 |
| EDAM08 | 8.661 | 0.70 | ZT-EDAM08 | 80.409 |
| EDAU08 | 8.446 | 0.48 | ZT-EDAU08 | 86.675 |
| EDAZ08 | 8.356 | 0.39 | ZT-EDAZ08 | 92.237 |
| EDAH09 | 8.391 | 0.43 | ZT-EDAH09 | 97.438 |
| EDAM09 | 8.521 | 0.56 | ZT-EDAM09 | 99.415 |
| EDAU09 | 8.671 | 0.71 | ZT-EDAU09 | 98.931 |
| EDAZ09 | 8.816 | 0.85 | ZT-EDAZ09 | 97.195 |
| EDAH10 | 8.946 | 0.98 | ZT-EDAH10 | 95.875 |
| EDAM10 | 9.096 | 1.13 | ZT-EDAM10 | 95.222 |
| EDAU10 | 9.226 | 1.26 | ZT-EDAU10 | 93.342 |
| EDAZ10 | 9.331 | 1.37 | ZT-EDAZ10 | 90.535 |

Price = Outright Decimal Price - Euro Contract Price
 Yield = ABS(Proxy Yield - Implied Euro Contract yield)
 *Correlation = ED Correlation to Treasury Future over 10 days



| GE Duration as Fraction of year | | | | |
|---------------------------------|-------------|-----------------|--------|-----------|
| | ZT Duration | Spread Duration | | |
| EDAH08 | 0.221 | 1.88 | 1.66 | ZT-EDAH08 |
| EDAM08 | 0.471 | 1.88 | 1.41 | ZT-EDAM08 |
| EDAU08 | 0.720 | 1.88 | 1.16 | ZT-EDAU08 |
| EDAZ08 | 0.969 | 1.88 | 0.91 | ZT-EDAZ08 |
| EDAH09 | 1.219 | 1.88 | 0.67 | ZT-EDAH09 |
| EDAM09 | 1.468 | 1.88 | 0.42 | ZT-EDAM09 |
| EDAU09 | 1.717 | 1.88 | 0.17 | ZT-EDAU09 |
| EDAZ09 | 1.966 | 1.88 | (0.08) | ZT-EDAZ09 |
| EDAH10 | 2.216 | 1.88 | (0.33) | ZT-EDAH10 |
| EDAM10 | 2.465 | 1.88 | (0.58) | ZT-EDAM10 |
| EDAU10 | 2.714 | 1.88 | (0.83) | ZT-EDAU10 |
| EDAZ10 | 2.964 | 1.88 | (1.08) | ZT-EDAZ10 |

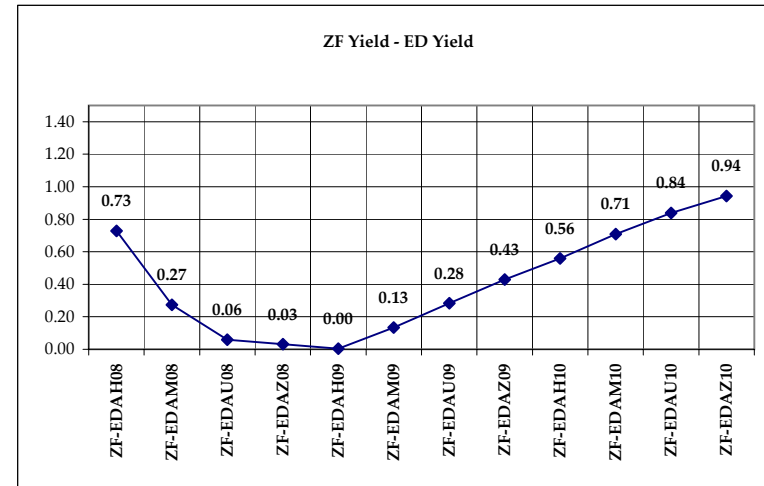
The farther away from 0 the spread duration is the riskier the trade.



Dirty TED: ZF vs Eurodollar Contracts

| ZF | | | | |
|--------|--------------|--------------|-------------|------------------------|
| | Spread Price | Spread Yield | Spread Name | Correlation* (percent) |
| EDAH08 | 13.76 | 0.73 | ZF-EDAH08 | 59.556 |
| EDAM08 | 13.30 | 0.27 | ZF-EDAM08 | 53.611 |
| EDAU08 | 13.09 | 0.06 | ZF-EDAU08 | 62.182 |
| EDAZ08 | 13.00 | 0.03 | ZF-EDAZ08 | 72.171 |
| EDAH09 | 13.03 | 0.00 | ZF-EDAH09 | 83.864 |
| EDAM09 | 13.16 | 0.13 | ZF-EDAM09 | 91.397 |
| EDAU09 | 13.31 | 0.28 | ZF-EDAU09 | 95.366 |
| EDAZ09 | 13.46 | 0.43 | ZF-EDAZ09 | 97.806 |
| EDAH10 | 13.59 | 0.56 | ZF-EDAH10 | 98.520 |
| EDAM10 | 13.74 | 0.71 | ZF-EDAM10 | 98.853 |
| EDAU10 | 13.87 | 0.84 | ZF-EDAU10 | 99.318 |
| EDAZ10 | 13.97 | 0.94 | ZF-EDAZ10 | 99.028 |

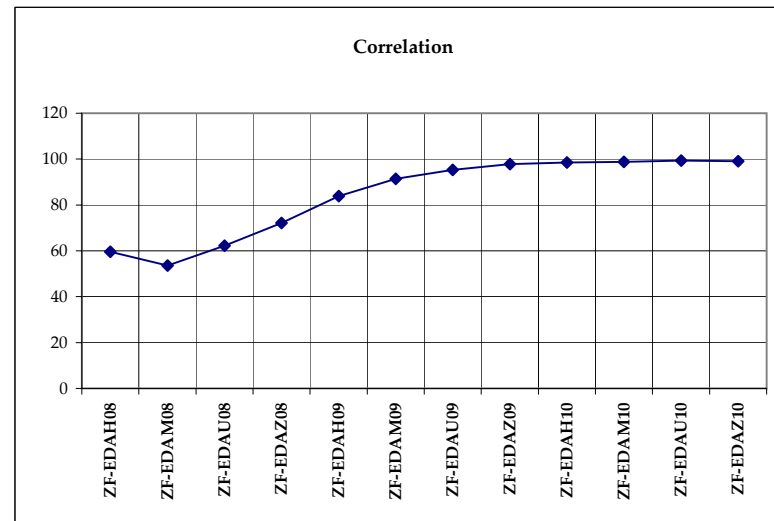
Price = Outright Decimal Price - Euro Contract Price
 Yield = ABS(Proxy Yield - Implied Euro Contract yield)
 *Correlation = ED Correlation to Treasury Future over 10 days



GE Duration as Fraction of year

| | GE Duration as Fraction of year | ZF Duration | Spread Duration | |
|--------|---------------------------------|-------------|-----------------|-----------|
| EDAH08 | 0.221 | 3.97 | 3.75 | ZF-EDAH08 |
| EDAM08 | 0.471 | 3.97 | 3.50 | ZF-EDAM08 |
| EDAU08 | 0.720 | 3.97 | 3.25 | ZF-EDAU08 |
| EDAZ08 | 0.969 | 3.97 | 3.00 | ZF-EDAZ08 |
| EDAH09 | 1.219 | 3.97 | 2.75 | ZF-EDAH09 |
| EDAM09 | 1.468 | 3.97 | 2.50 | ZF-EDAM09 |
| EDAU09 | 1.717 | 3.97 | 2.25 | ZF-EDAU09 |
| EDAZ09 | 1.966 | 3.97 | 2.00 | ZF-EDAZ09 |
| EDAH10 | 2.216 | 3.97 | 1.75 | ZF-EDAH10 |
| EDAM10 | 2.465 | 3.97 | 1.50 | ZF-EDAM10 |
| EDAU10 | 2.714 | 3.97 | 1.25 | ZF-EDAU10 |
| EDAZ10 | 2.964 | 3.97 | 1.00 | ZF-EDAZ10 |

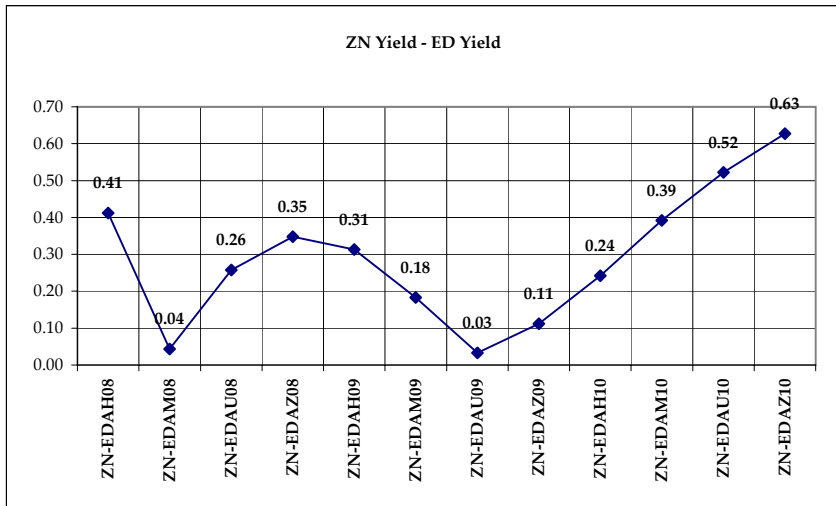
The farther away from 0 the spread duration is the riskier the trade.



Dirty TED: ZN vs Eurodollar Contracts

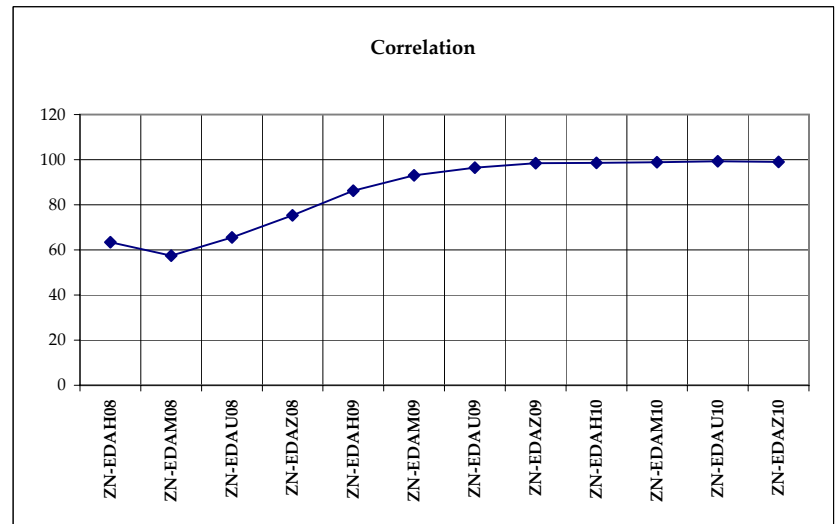
| ZN | | | | |
|--------|--------------|--------------|-------------|------------------------|
| | Spread Price | Spread Yield | Spread Name | Correlation* (percent) |
| EDAH08 | 16.52 | 0.41 | ZN-EDAH08 | 63.42 |
| EDAM08 | 16.07 | 0.04 | ZN-EDAM08 | 57.46 |
| EDAU08 | 15.85 | 0.26 | ZN-EDAU08 | 65.59 |
| EDAZ08 | 15.76 | 0.35 | ZN-EDAZ08 | 75.26 |
| EDAH09 | 15.80 | 0.31 | ZN-EDAH09 | 86.23 |
| EDAM09 | 15.93 | 0.18 | ZN-EDAM09 | 92.99 |
| EDAU09 | 16.08 | 0.03 | ZN-EDAU09 | 96.45 |
| EDAZ09 | 16.22 | 0.11 | ZN-EDAZ09 | 98.45 |
| EDAH10 | 16.35 | 0.24 | ZN-EDAH10 | 98.52 |
| EDAM10 | 16.50 | 0.39 | ZN-EDAM10 | 98.85 |
| EDAU10 | 16.63 | 0.52 | ZN-EDAU10 | 99.32 |
| EDAZ10 | 16.74 | 0.63 | ZN-EDAZ10 | 99.03 |

Price = Outright Decimal Price - Euro Contract Price
 Yield = ABS(Proxy Yield - Implied Euro Contract yield)
 *Correlation = ED Correlation to Treasury Future over 10 days



| | GE Duration as Fraction of year | ZN Duration | Spread Duration | |
|--------|---------------------------------|-------------|-----------------|-----------|
| EDAH08 | 0.221 | 5.90 | 5.68 | ZN-EDAH08 |
| EDAM08 | 0.471 | 5.90 | 5.43 | ZN-EDAM08 |
| EDAU08 | 0.720 | 5.90 | 5.18 | ZN-EDAU08 |
| EDAZ08 | 0.969 | 5.90 | 4.93 | ZN-EDAZ08 |
| EDAH09 | 1.219 | 5.90 | 4.68 | ZN-EDAH09 |
| EDAM09 | 1.468 | 5.90 | 4.44 | ZN-EDAM09 |
| EDAU09 | 1.717 | 5.90 | 4.19 | ZN-EDAU09 |
| EDAZ09 | 1.966 | 5.90 | 3.94 | ZN-EDAZ09 |
| EDAH10 | 2.216 | 5.90 | 3.69 | ZN-EDAH10 |
| EDAM10 | 2.465 | 5.90 | 3.44 | ZN-EDAM10 |
| EDAU10 | 2.714 | 5.90 | 3.19 | ZN-EDAU10 |
| EDAZ10 | 2.964 | 5.90 | 2.94 | ZN-EDAZ10 |

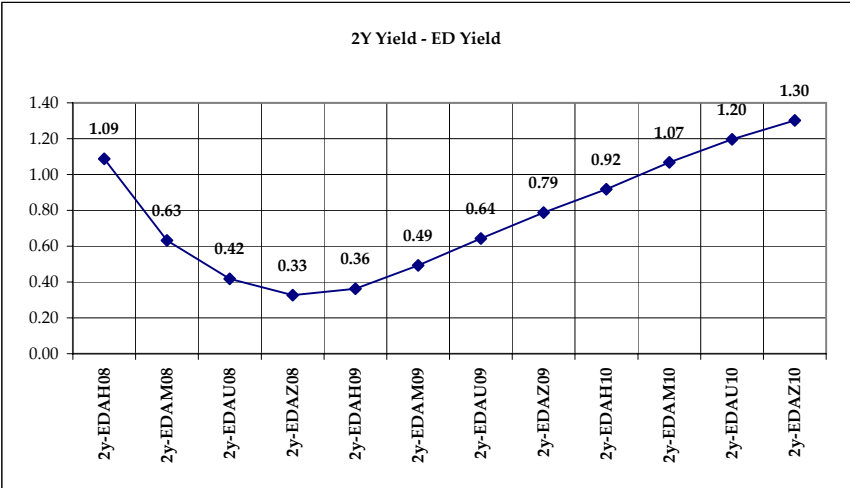
The farther away from 0 the spread duration is the riskier the trade.



TERM TED: 2y vs Eurodollar Contracts

| | 2y | | | |
|--------|--------------|--------------|-------------|------------------------|
| | Spread Price | Spread Yield | Spread Name | Correlation* (percent) |
| EDAH08 | 4.17 | 1.09 | 2y-EDAH08 | -65.003 |
| EDAM08 | 3.71 | 0.63 | 2y-EDAM08 | -60.975 |
| EDAU08 | 3.50 | 0.42 | 2y-EDAU08 | -67.995 |
| EDAZ08 | 3.41 | 0.33 | 2y-EDAZ08 | -60.975 |
| EDAH09 | 3.44 | 0.36 | 2y-EDAH09 | -85.455 |
| EDAM09 | 3.57 | 0.49 | 2y-EDAM09 | -89.327 |
| EDAU09 | 3.72 | 0.64 | 2y-EDAU09 | -91.068 |
| EDAZ09 | 3.87 | 0.79 | 2y-EDAZ09 | -91.944 |
| EDAH10 | 4.00 | 0.92 | 2y-EDAH10 | -91.741 |
| EDAM10 | 4.15 | 1.07 | 2y-EDAM10 | -91.400 |
| EDAU10 | 4.28 | 1.20 | 2y-EDAU10 | -90.386 |
| EDAZ10 | 4.38 | 1.30 | 2y-EDAZ10 | -89.500 |

Price = Outright Decimal Price - Euro Contract Price
 Yield = ABS(Proxy Yield - Implied Euro Contract yield)
 *Correlation = ED Correlation to Treasury Future over 10 days.
 These are measuring YIELD correlations.

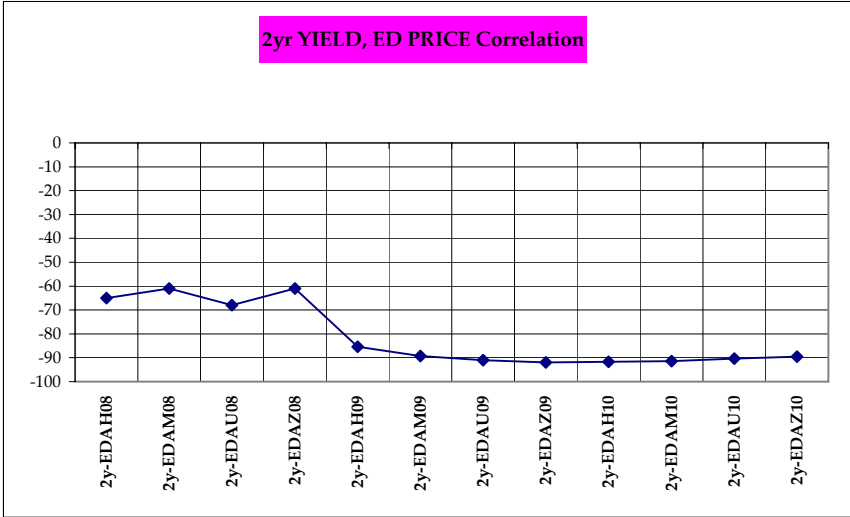


GE Duration as Fraction of year

| | 2Y Duration | Spread Duration | |
|--------|-------------|-----------------|-----------|
| EDAH08 | 0.221 | 1.90 | 2y-EDAH08 |
| EDAM08 | 0.471 | 1.90 | 2y-EDAM08 |
| EDAU08 | 0.720 | 1.90 | 2y-EDAU08 |
| EDAZ08 | 0.969 | 1.90 | 2y-EDAZ08 |
| EDAH09 | 1.219 | 1.90 | 2y-EDAH09 |
| EDAM09 | 1.468 | 1.90 | 2y-EDAM09 |
| EDAU09 | 1.717 | 1.90 | 2y-EDAU09 |
| EDAZ09 | 1.966 | 1.90 | 2y-EDAZ09 |
| EDAH10 | 2.216 | 1.90 | 2y-EDAH10 |
| EDAM10 | 2.465 | 1.90 | 2y-EDAM10 |
| EDAU10 | 2.714 | 1.90 | 2y-EDAU10 |
| EDAZ10 | 2.964 | 1.90 | 2y-EDAZ10 |

The farther away from 0 the spread duration is the riskier the trade.

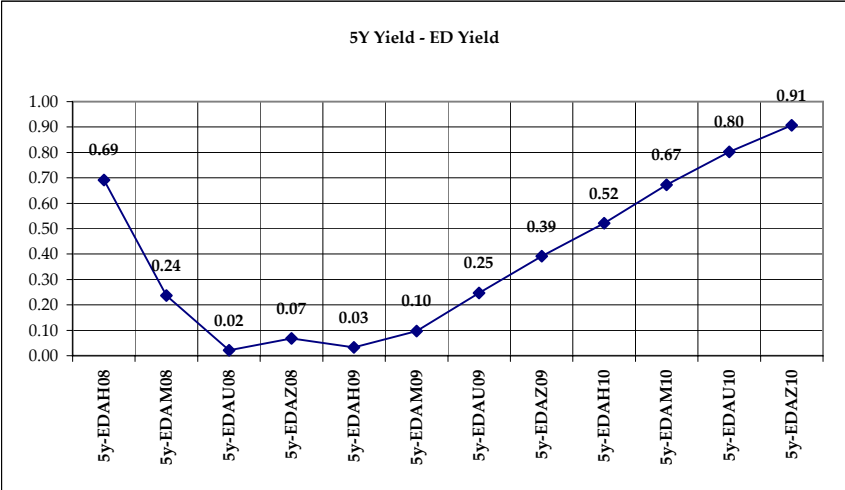
2yr YIELD, ED PRICE Correlation



TERM TED: 5y vs Eurodollar Contracts

| | 5y | | | |
|--------|--------------|--------------|-------------|------------------------|
| | Spread Price | Spread Yield | Spread Name | Correlation* (percent) |
| EDAH08 | 3.27 | 0.69 | 5y-EDAH08 | -40.139 |
| EDAM08 | 2.82 | 0.24 | 5y-EDAM08 | -32.855 |
| EDAU08 | 2.60 | 0.02 | 5y-EDAU08 | -42.109 |
| EDAZ08 | 2.51 | 0.07 | 5y-EDAZ08 | -32.855 |
| EDAH09 | 2.55 | 0.03 | 5y-EDAH09 | -68.561 |
| EDAM09 | 2.68 | 0.10 | 5y-EDAM09 | -78.137 |
| EDAU09 | 2.83 | 0.25 | 5y-EDAU09 | -83.902 |
| EDAZ09 | 2.97 | 0.39 | 5y-EDAZ09 | -88.586 |
| EDAH10 | 3.10 | 0.52 | 5y-EDAH10 | -90.255 |
| EDAM10 | 3.25 | 0.67 | 5y-EDAM10 | -91.086 |
| EDAU10 | 3.38 | 0.80 | 5y-EDAU10 | -92.807 |
| EDAZ10 | 3.49 | 0.91 | 5y-EDAZ10 | -93.550 |

Price = Outright Decimal Price - Euro Contract Price
 Yield = ABS(Proxy Yield - Implied Euro Contract yield)
 *Correlation = ED Correlation to Treasury Future over 10 days
 These are measuring YIELD correlations.

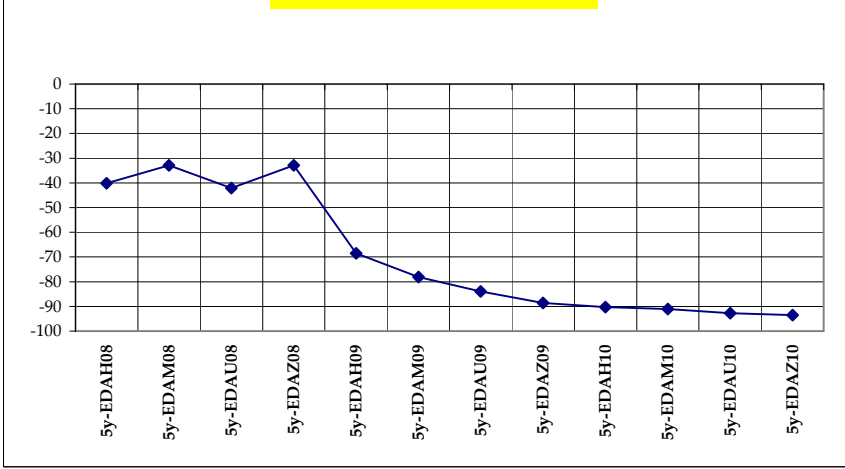


GE Duration as Fraction of year

| | 5Y Duration | Spread Duration | |
|--------|-------------|-----------------|----------------|
| EDAH08 | 0.221 | 4.48 | 4.26 5y-EDAH08 |
| EDAM08 | 0.471 | 4.48 | 4.01 5y-EDAM08 |
| EDAU08 | 0.720 | 4.48 | 3.76 5y-EDAU08 |
| EDAZ08 | 0.969 | 4.48 | 3.51 5y-EDAZ08 |
| EDAH09 | 1.219 | 4.48 | 3.26 5y-EDAH09 |
| EDAM09 | 1.468 | 4.48 | 3.01 5y-EDAM09 |
| EDAU09 | 1.717 | 4.48 | 2.76 5y-EDAU09 |
| EDAZ09 | 1.966 | 4.48 | 2.51 5y-EDAZ09 |
| EDAH10 | 2.216 | 4.48 | 2.27 5y-EDAH10 |
| EDAM10 | 2.465 | 4.48 | 2.02 5y-EDAM10 |
| EDAU10 | 2.714 | 4.48 | 1.77 5y-EDAU10 |
| EDAZ10 | 2.964 | 4.48 | 1.52 5y-EDAZ10 |

The farther away from 0 the spread duration is the riskier the trade.

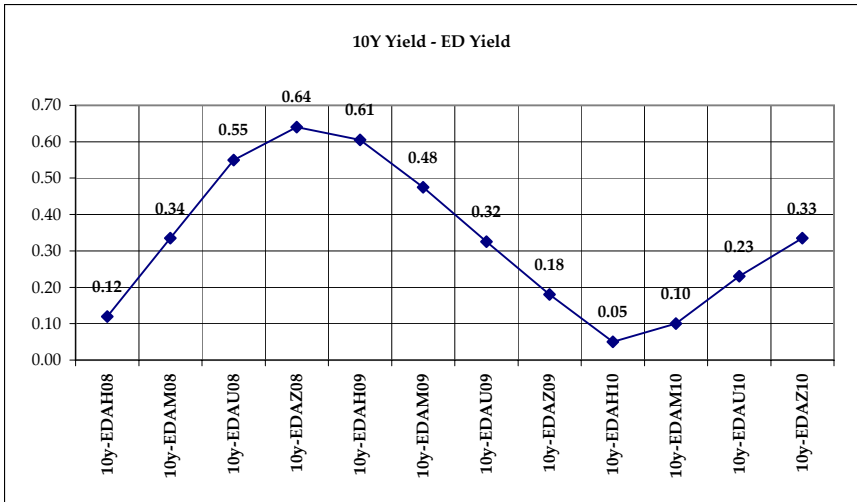
5yr YIELD, ED PRICE Correlation



TERM TED: 10y vs Eurodollar Contracts

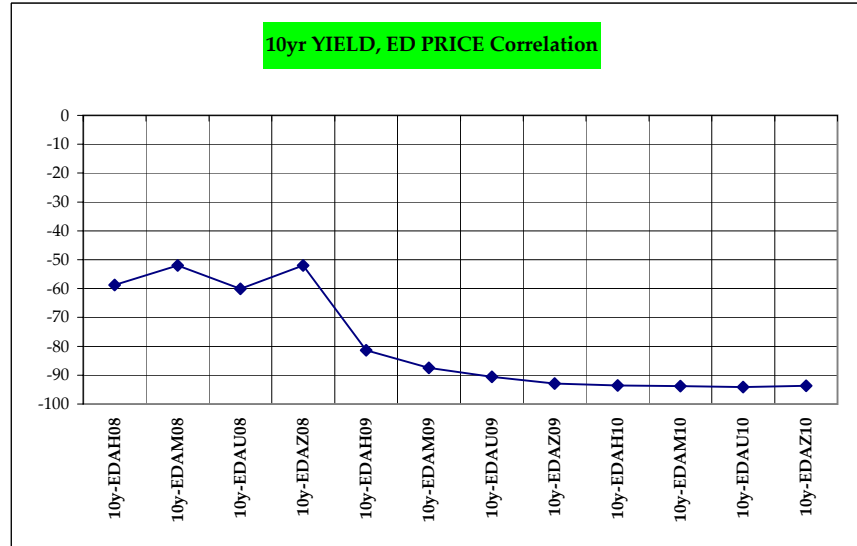
| | 10y | | | |
|--------|--------------|--------------|-------------|------------------------|
| | Spread Price | Spread Yield | Spread Name | Correlation* (percent) |
| EDAH08 | 3.27 | 0.12 | 10y-EDAH08 | -58.707 |
| EDAM08 | 2.82 | 0.34 | 10y-EDAM08 | -52.048 |
| EDAU08 | 2.60 | 0.55 | 10y-EDAU08 | -60.096 |
| EDAZ08 | 2.51 | 0.64 | 10y-EDAZ08 | -52.048 |
| EDAH09 | 2.55 | 0.61 | 10y-EDAH09 | -81.366 |
| EDAM09 | 2.68 | 0.48 | 10y-EDAM09 | -87.455 |
| EDAU09 | 2.83 | 0.32 | 10y-EDAU09 | -90.561 |
| EDAZ09 | 2.97 | 0.18 | 10y-EDAZ09 | -92.897 |
| EDAH10 | 3.10 | 0.05 | 10y-EDAH10 | -93.515 |
| EDAM10 | 3.25 | 0.10 | 10y-EDAM10 | -93.765 |
| EDAU10 | 3.38 | 0.23 | 10y-EDAU10 | -94.178 |
| EDAZ10 | 3.49 | 0.33 | 10y-EDAZ10 | -93.692 |

Price = Outright Decimal Price - Euro Contract Price
 Yield = ABS(Proxy Yield - Implied Euro Contract yield)
 *Correlation = ED Correlation to Treasury Future over 10 days
 These are measuring YIELD correlations.



| | GE Duration as Fraction of year | 10Y Duration | Spread Duration | |
|--------|---------------------------------|--------------|-----------------|------------|
| EDAH08 | 0.221 | 7.96 | 7.74 | 10y-EDAH08 |
| EDAM08 | 0.471 | 7.96 | 7.49 | 10y-EDAM08 |
| EDAU08 | 0.720 | 7.96 | 7.24 | 10y-EDAU08 |
| EDAZ08 | 0.969 | 7.96 | 7.00 | 10y-EDAZ08 |
| EDAH09 | 1.219 | 7.96 | 6.75 | 10y-EDAH09 |
| EDAM09 | 1.468 | 7.96 | 6.50 | 10y-EDAM09 |
| EDAU09 | 1.717 | 7.96 | 6.25 | 10y-EDAU09 |
| EDAZ09 | 1.966 | 7.96 | 6.00 | 10y-EDAZ09 |
| EDAH10 | 2.216 | 7.96 | 5.75 | 10y-EDAH10 |
| EDAM10 | 2.465 | 7.96 | 5.50 | 10y-EDAM10 |
| EDAU10 | 2.714 | 7.96 | 5.25 | 10y-EDAU10 |
| EDAZ10 | 2.964 | 7.96 | 5.00 | 10y-EDAZ10 |

The farther away from 0 the spread duration is the riskier the trade.

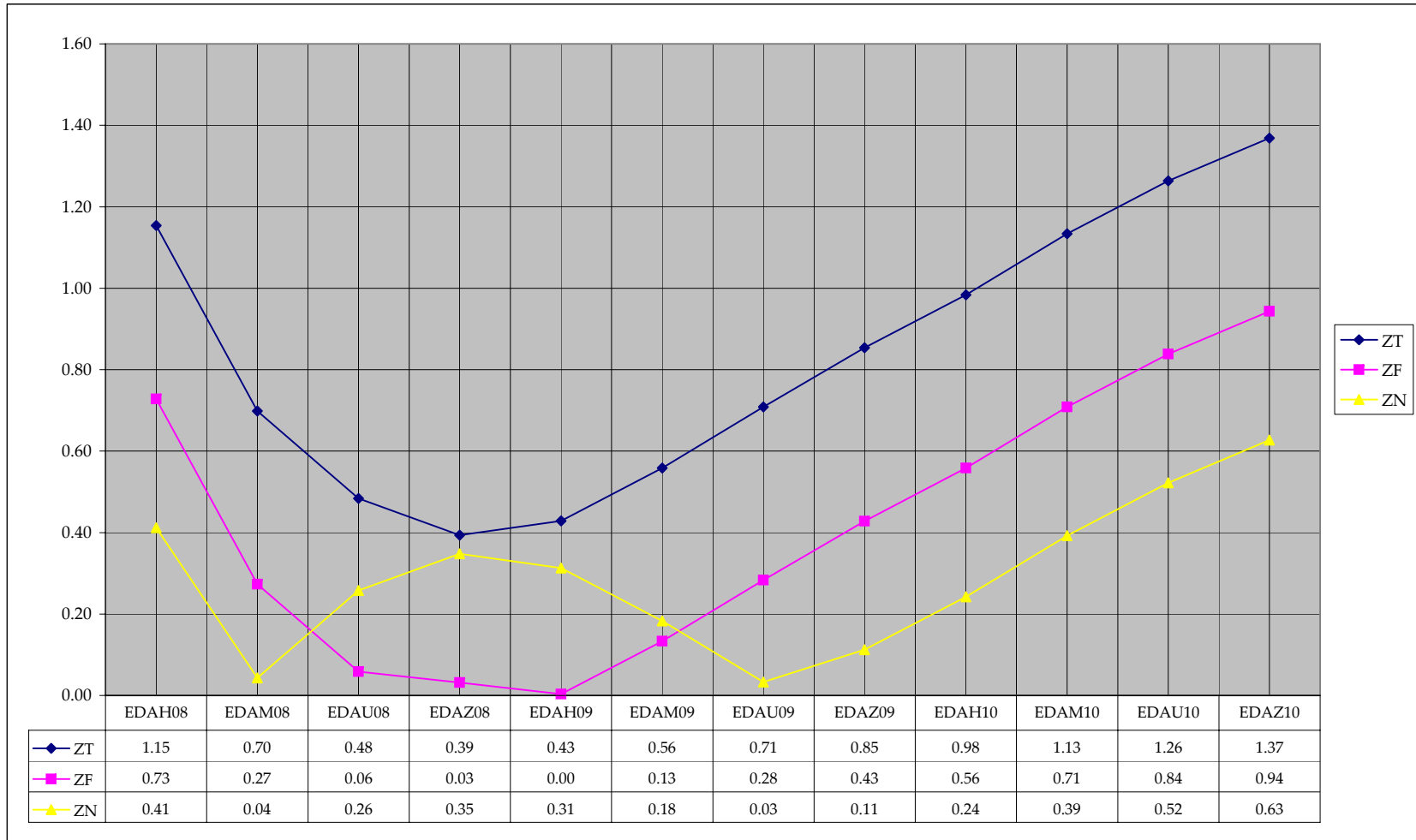


Dirty TED Curve

12/27/2007 5:51

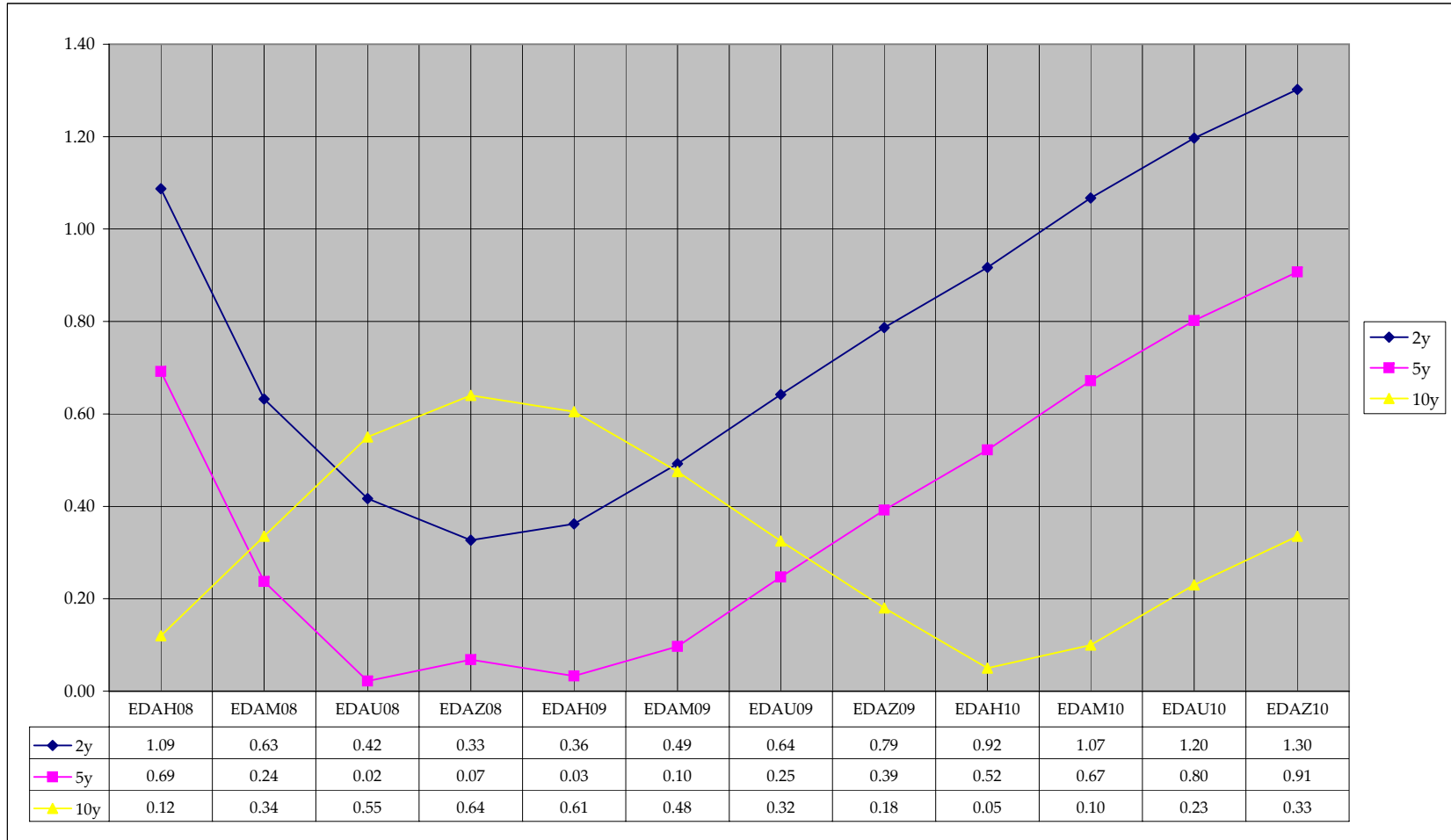
Page 7

Chart values show the differences between ED contract and Treasury Futures contract. Those values can be seen in the table at the bottom of the chart. Each cash treasury is then plotted on the chart to compare differences in the durations and basis point values.

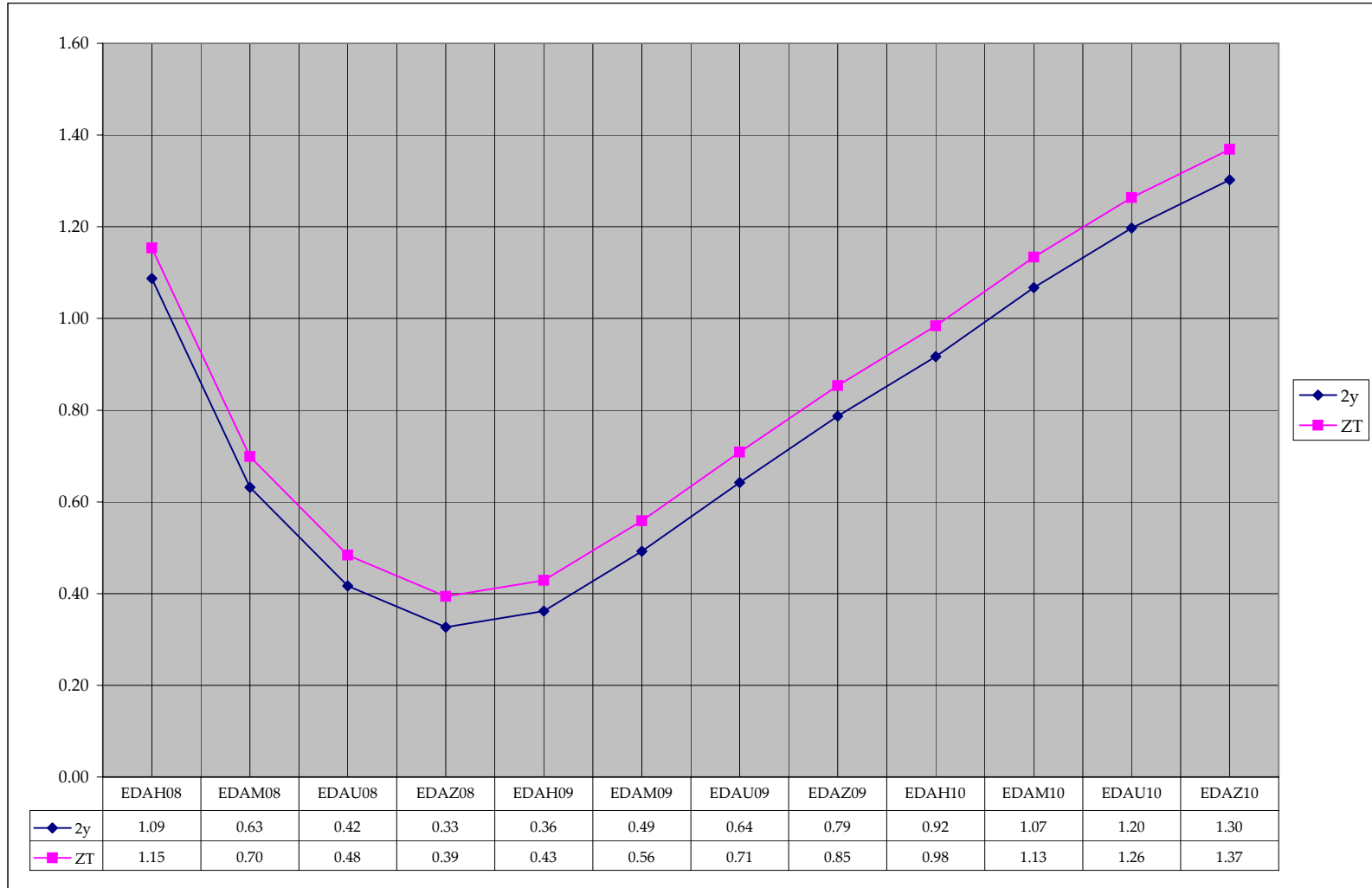


TED Curve

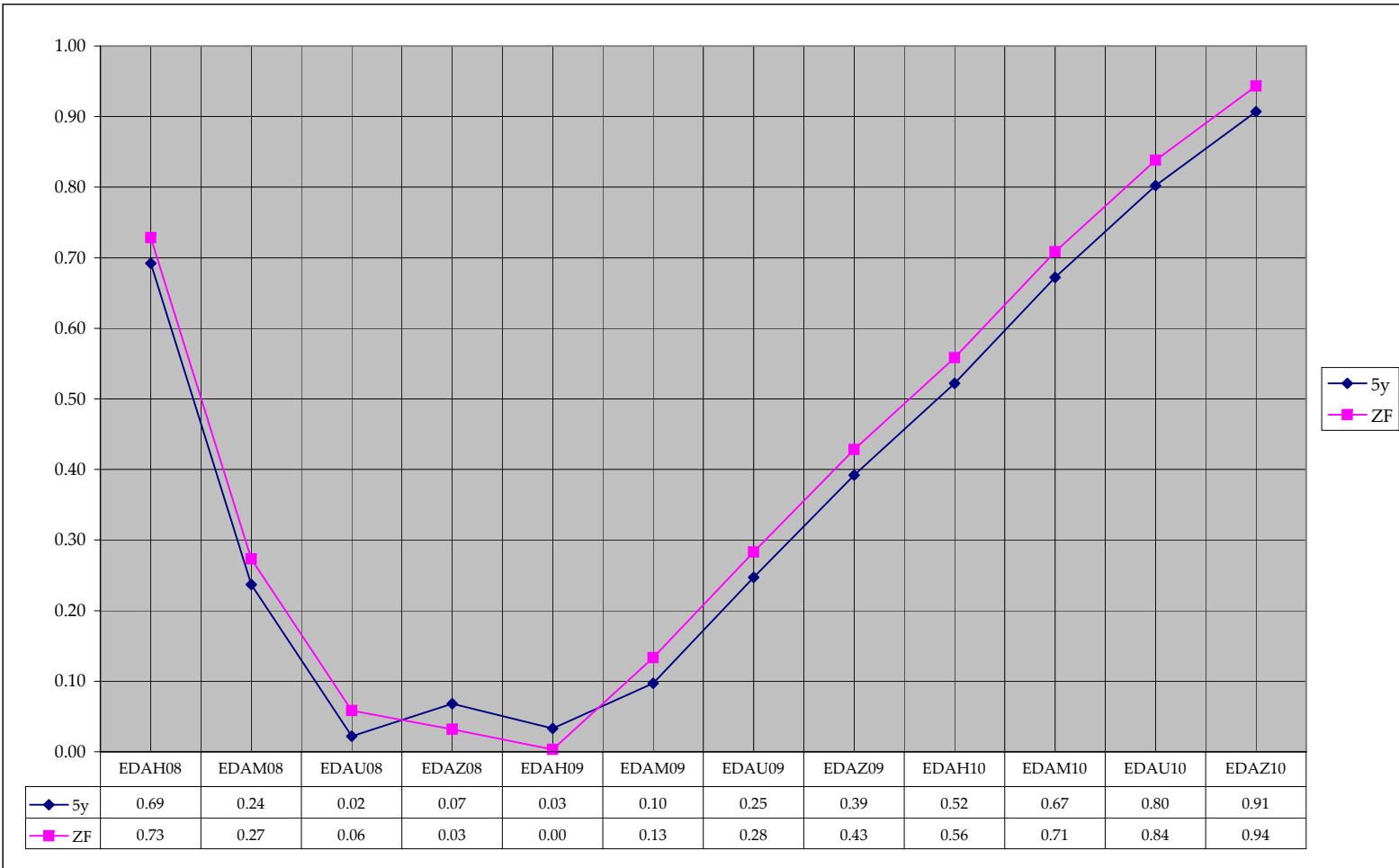
Chart values show the differences between ED contract and Treasury Cash contract. Those values can be seen in the table at the bottom of the chart. Each cash treasury is then plotted on the chart to compare differences in the durations and basis point values.



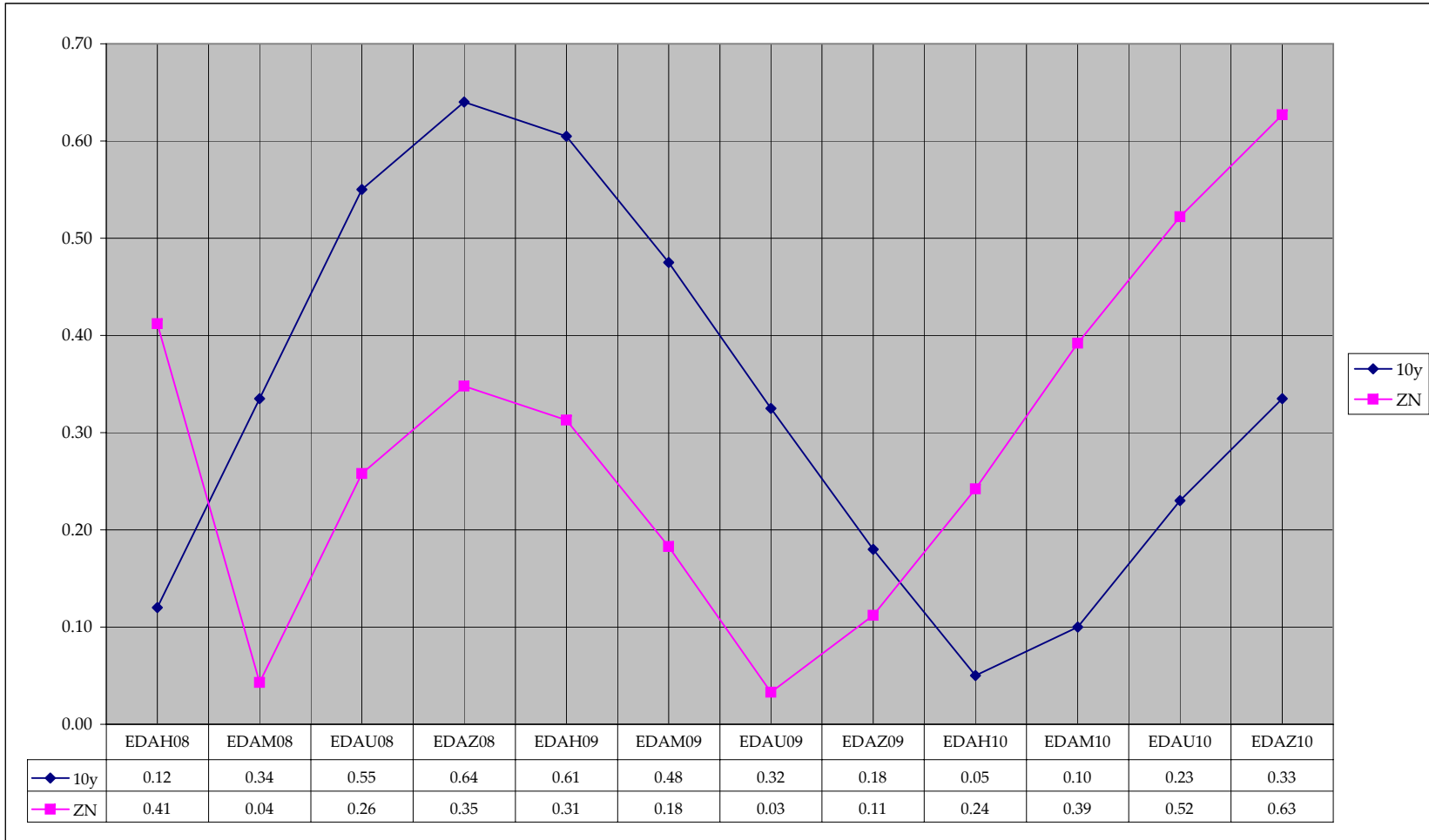
2y Basis TED Curve



5y Basis TED Curve



10y Basis TED Curve



Packs

| | last Yield | Net Last Yield | Last Price |
|------------|------------|----------------|------------|
| Q.ED.White | 3.969 | 3.750 | 9612.375 |
| Q.ED.Red | 3.965 | 4.750 | 9612.750 |
| Q.ED.Green | 4.560 | 4.000 | 9555.250 |
| Q.ED.Blue | | 0.000 | 9511.250 |
| Q.ED.Gold | | 0.000 | 9481.500 |

