

## The Morning Email: Treasuries

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Want something added?

Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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.

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### Important Econ Releases, Highs & Lows

	5y*	10y*	ZNH7**	ZBH7**	Date
Non-farm High	100.2350	101.0450	109.0400	114.0500	12/8/2006
Non-farm Low	99.1200	100.1800	108.1850	113.0700	12/8/2006
FOMC High	100.2450	101.0350	109.0400	114.0100	12/12/2006
FOMC Low	100.1650	100.2350	108.2450	113.1400	12/12/2006
PPI High	100.1050	100.1300	108.1650	112.2800	12/19/2006
PPI Low	100.0250	100.0550	108.0200	112.0700	12/19/2006
CPI High	100.2100	100.3000	109.0000	113.2400	12/15/2006
CPI Low	100.0450	100.0400	108.0850	112.1700	12/15/2006

\*Adjusted for New Issue

\*\*Adjusted for Roll

Prices are recorded from econ release to 2pm CDT

## Quotes

		32 nds									
	ls	net	high	low	open	Volume					
TUAH7	102.082	1.5	102.082	102.070	102.072	12,101				2y Futures	
FVAH7	105.185	4.5	105.190	105.155	105.160	35,368				5y Futures	
TYAH7	108.075	5.5	108.085	108.040	108.045	83,598				10y Futures	
USAH7	112.230	11	112.250	112.160	112.170	26,918				30y Futures	
BUS02P	100.037	0.7	100.040	100.027	100.027	na				2y	
BUS05P	100.062	2.0	100.067	100.040	100.040	na				5y	
BUS10P	100.075	3.0	100.085	100.045	100.045	na				10y	
BUS30P	96.275	6	96.305	96.200	96.205	na				30y	
BUS02Y	4.683	(0.90)	4.712	4.679	4.708	na				2y Yield	
BUS05Y	4.577	(1.10)	4.6	4.574	4.597	na				5y Yield	
BUS10Y	4.588	(1.20)	4.61	4.587	4.606	na				10y Yield	
BUS30Y	4.697	(0.90)	4.717	4.691	4.713	na				30y Yield	

Source: CQG

## Yesterday

01/04 14:47 US Tsys: Sources say unconfirmed rumors persist of HF liquidation in crude and that a multi billion fund-of-fund has requested money be returned from a variety of CTAs. While this could be true, sources note CTA redemptions typically occur at month-end, but in certain cases the FOF can request a special date for withdrawal. Thus, this could be responsible for the selling over the last few sessions.

01/04 14:16 US TSYs: One trader said Tsys "market is pricing tomorrow's news today," as it expects "softer number" on Dec. jobs data. "In general, for the New Year, people are bearish on vol, bearish on credit, as spreads are so tight," said the veteran. "And they think that inflation has peaked amid what (weakness) is going on in raw commodities. They think that (US) interest rates have peaked, and that the softening in the economy is real. They are bullish on fixed income." But since Tsys traders feel that generally speaking, that risk is somewhat mis-priced, i.e., not enough spread built in for riskier debt so "there is no room for error," said the trader. While some had cited earlier that hedge funds had been selling US stocks/buying US Tsys, as had occurred also on Wed. midafternoon amid brisk model-driven selling of S&Ps/buying of US Tsy 10-year notes, the trader suggested that this afternoon, it's also possible that hedge funds could also be selling emerging mkt equities, as many are closely tied to commodities whose prices are mainly weaker. [Source - MNI]

## Overnight

01/05 05:27 EGBs: EGBs are trading modestly higher across the board in London trade Friday, as the overnight U.S. Treasury rally helped push yields lower across the curve. In late morning trade, the lead March Bund futures contract was higher by 0.09 at 116.42. However, prices were shy of their best levels, slipping on profit-taking and a monetary tightening by the Chinese central bank. Elsewhere, flows

were largely interdealer, with many players sidelined ahead of the key U.S. employment report due later in the session. [Source - MNI]

## Today

### Econ Releases for today & this week

Date	ET	Release	For	Briefing.com	Consensus	Prior
Jan 05	08:30	<a href="#">Nonfarm Payrolls</a>	Dec	115K	110K	132K
Jan 05	08:30	<a href="#">Unemployment Rate</a>	Dec	4.5%	4.5%	4.5%
Jan 05	08:30	<a href="#">Hourly Earnings</a>	Dec	0.4%	0.3%	0.2%
Jan 05	08:30	<a href="#">Average Workweek</a>	Dec	33.9	33.9	33.9

[Source: DailyFX.com]

Note, the consensus for NFP is changing: 01/03 10:52 US data react: We have the following notes on [Dec payroll ests](#): Lehman: at +80k, down from +100k prior; HSBC: staying at +70k; JPM: initially at +100k, but now at +50k.

[Source - MNI]

### Upcoming Speakers/Events (Chi/NY/London Times)

USD: Jan 5 at 18:30 - [Fed's Bernanke speaks in Chicago](#).

[Source: MNI, todayfx.com]

[Other Sources: FXStreet.com, Briefing.com, MNI, Reuters, Dow Jones, Bloomberg, icap]

**Yield Curve Spreads & Flies, DV01s, CFs**

**M Duration**

30y	15.53
10y	7.79
5y	4.40
3y	2.63
2y	1.87
ZB	9.95
ZN	5.84
ZF	3.90
ZT	1.87

**DV01s (32nds)**

30y	4.90
10y	2.52
5y	1.41
3y	0.84
2y	0.60
ZB	3.63
ZN	2.03
ZF	1.32
ZT	1.22

**DV01s (\$s)**

30y	\$1,532
10y	\$787
5y	\$441
3y	\$263
2y	\$187
ZB	\$113
ZN	\$64
ZF	\$41
ZT	\$38

**Yield Curve Spreads**

2/3	-8.00
3/5	-2.60
2/5	-10.60
5/10	1.10
2/10	-9.50
10/30	10.90
5/30	12.00
2/30	1.40

**Fly's**

2/3/5	-5.40
2/5/10	-11.70
2/10/30	-20.40
5/10/30	-9.80

**CFs**

ZB	0.7956
ZN	0.9105
ZF	0.9438
ZT	0.9794

\*CF OTR Basis = Conversion Factor On-the-Run Basis  
(Cash price - (Futures price\* OTR CF))= CF OTR Basis

MDuration & DV01s for Futures are based on proxy issue (CTD)

MDuration = Modified Macaulay Duration

**Hedge Ratios: US Financial Futures / Eurex Bund, Bobl, Schatz,**

**US Financial Futures / Eurex Bond Hedge Ratios**  
Short Number of Contracts

	ZB	ZN	ZF	ZT	
Bund (H)	1.000	1.800	2.800	3.000	Number of contracts LONG
Bobl (H)	0.550	0.970	1.500	1.600	
Schatz (H)	0.200	0.400	0.600	0.660	

Eurex Hedge Ratio's source: Bloomberg

**US Financial Futures Hedge Ratios**

	ZB	ZN	ZF	ZT
ZB		0.561	0.365	0.338
ZN	1.782		0.651	0.602
ZF	2.737	1.536		0.925
ZT	0.675	1.204	1.849	

**Month Codes:**

H=Mch      M=Jun  
U=Sep      Z=Dec

### Hedge Ratios: US Treasury Cash / Eurex Bund, Bobl, Shatz

#### US Treasuries v US Financial Futures Hedge Ratios

	2y	3y	5y	10y	30y
ZB	1.65	2.32	3.82	6.94	13.52
ZN	2.95	4.13	6.81	12.37	24.10
ZF	4.53	6.35	10.47	19.01	37.02
ZT	4.90	6.86	11.32	20.56	40.04

#### US Treasuries v Eurex Bonds Hedge Ratios

	2y	3y	5y	10y	30y
Bund (H)	1.7	2.4	3.9	7.0	13.1
Bobl (H)	3.1	4.7	7.3	13.5	25.2
Shatz (H)	7.1	10.4	16.7	30.0	56.1

Eurex Hedge Ratio's source: Bloomberg

#### Eurex Hedge Ratios

	Bund (H)	Bobl (H)	Shatz (H)
Bund (H)		1.900	4.600
Bobl (H)	0.530		2.500
Shatz (H)	0.220	0.400	

Eurex Hedge Ratio's source: Bloomberg

#### Month Codes:

H=Mch M=Jun  
U=Sep Z=Dec

**Hedge Ratios: US Cash Treasuries / Eurodollar**

	US Treasuries v US Treasuries					
	2y	3y	5y	10y	30y	
2y		1.402	2.312	4.198	8.177	
3y	0.713		1.649	2.995	5.833	
5y	0.433	0.606		1.816	3.537	
10y	0.238	0.334	0.551		1.948	
30y	0.122	0.171	0.283	0.513		

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			Net
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	244,185	255,999	(11,814)	172,734	255,539	(82,805)	967,518	872,900	94,618	ZF
ZN	282,576	381,262	(98,686)	556,494	275,401	281,093	1,521,682	1,704,089	(182,407)	ZN
ZB	141,639	156,245	(14,606)	120,519	180,272	(59,753)	571,179	496,820	74,359	ZB

	WoW** Position Change				
	Sml Spec		Lrg Spec		Comm
	Net	Net	Net	Net	
ZF	(5,440)	2,511	2,929	As of	
ZN	(10,984)	(14,407)	25,390	12/26/2006	
ZB	(7,606)	(317)	7,922		

\*\*WoW = Week over week

2 PM CDT Closes: US Treasuries, US Financial Futures, YC Spreads, Basis

	Cpn	Mty	32nds	Yield
2y	4.750	12/31/08	99.2925	4.670
3y	4.625	11/15/09	99.2400	4.717
5y	4.625	12/31/11	99.2400	4.557
10y	4.625	11/15/16	99.160	4.688
30y	4.500	2/15/36	95.16	4.788

## GHCO

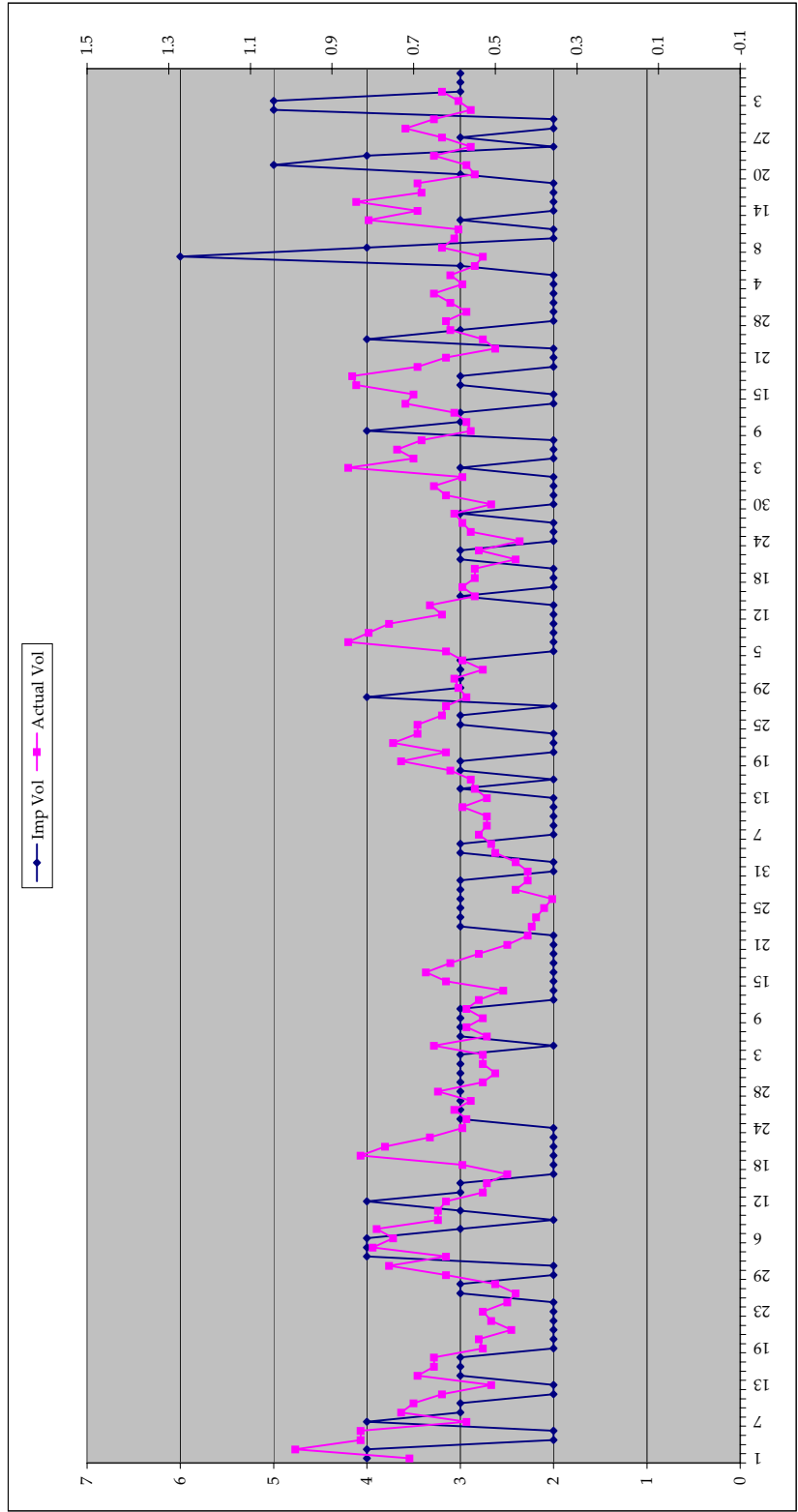
CF Basis*	Basis	32nds
5y	(0.04)	16.585
10y	1.57	49.149
30y	6.68	211.730
		ZF 105.0450
		ZN 107.1900
		ZB 111.23

## Curve Spreads bps

2/3	0.047
3/5	(0.160)
2/5	(0.113)
5/10	0.131
2/10	0.018
10/30	0.100
5/30	0.231
2/30	0.118

CF = Conversion Factor  
Cash - (Futures \* CF)

### Implied Volatility (Daily)



Imp Vol Actual Vol

Begins Jun 1, 2006. No weekends

Scale is 1-9 (left axis)  
1,2 = very slow  
3 = moderate  
4,5 = volatile  
6-9 = very volatile

Implied Volatility on left axis.  
Actual Volatility on right axis.  
Actual Vol based on 3 day MA  
of the 30yr T-Bond Futures.

**Implied Volatility (3-Hour)**

CDT Time	UT Time	EDT Time	1/5/2007	1/0/1900	1/0/1900
1900-2200	0000-0300	2000-2300	3	0	0
2200-0100	0300-0600	2300-0200	3	0	0
0100-0400	0600-0900	0200-0500	3	0	0
0400-0700	0900-1200	0500-0800	2	0	0
0700-1000	1200-1500	0800-1100	2	0	0
1000-1300	1500-1800	1100-1400	2	0	0
1300-1600	1800-2100	1400-1700	2	0	0
1600-1900	2100-0000	1700-2000	1	0	0

Shaded boxes denote market hours 4am to 4pm CDT

Scale is 1-9

1,2 = very slow

3 = moderate

4,5 = volatile

6-9 = very volatile