The Morning Email: Treasuries

7/2/2007 5:57

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12:55 06/29 US AGENCIES/OPINION: **SubPrime/GSEs -** "Reports indicate that, before the whistle sounded, AAA paper was being discounted ten or fifteen percent at Bear Stearns. Queen's Walk Investment reports a 50% write-down in its subprime paper and Caliber was discounting its 2005 subprime book 53% before it folded...for purposes of analysis, we will assume that the GSEs valued their private-label paper much as everyone else has done and they are thus being hit in the same fashion...retained earnings for either Fannie or Freddie could potentially be reduced to a level where the 30% capital cushion would be breached, with Freddie more at risk in this case because of its thinner capital cushion. Were a writedown also required for AAA-rated subprime holdings, the earnings impact would be profound. A mere 10% writedown on all subprime holdings would mean a $4.4 billion hit for Fannie and a $12 billion hit for Freddie, with the latter GSE seeing its capital drop below the statutory minimum capital level." - Federal Financial Analytics (www.fedfin.com).

MarketNews international

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Important Econ Releases, Highs & Lows

Economic Releases - 32nds	5y	10y	ZNU7	ZBU7	Date
Non-farm High	100.0550	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.2250	96.145	105.290	108.15	6/1/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	6/28/2007
PPI High	98.2900	94.275	104.185	106.11	6/14/2007
PPI Low	98.2000	94.075	104.045	105.23	6/14/2007
CPI High	99.0150	94.310	104.225	106.12	6/15/2007
CPI Low	98.2100	94.125	104.040	105.21	6/15/2007
Auction Price	99.2243	99.035			
Last Trade	99.2570	95.285	105.230	107.21	7/2/2007 5:57

Notes: Cash and futures are adjusted roll
Release times are from release to 2pm cdt
(Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)

Auctions - 32nds	2 y	5y	10y	30y
Auction Price	99.313	99.224	99.035	98.194
Auction Yield Stop	4.906	4.94	4.612	4.838
Actual Auction Date	6/26/2007	6/27/2007	5/8/2007	5/11/2007 r

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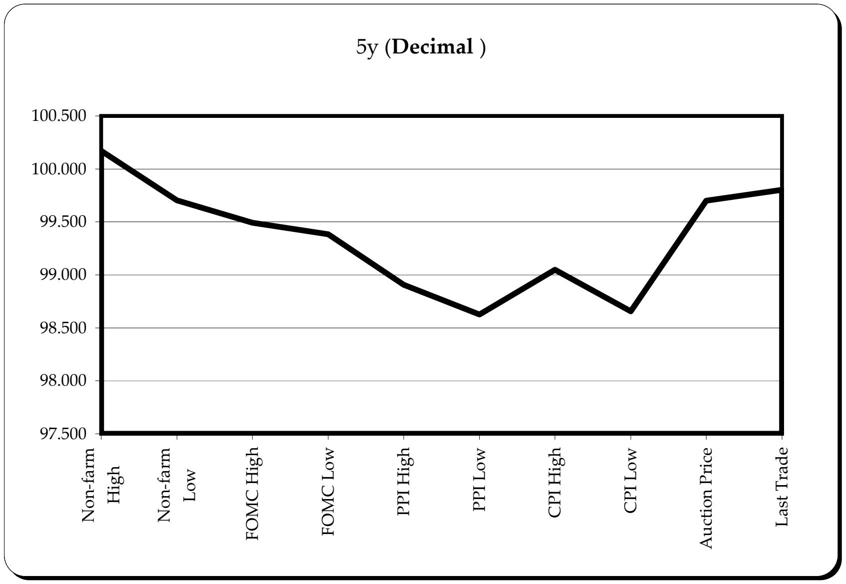

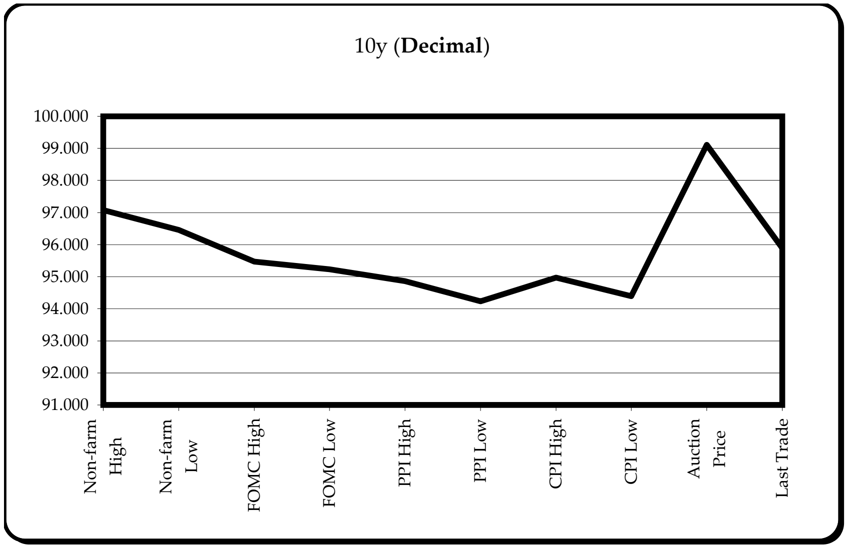

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Quotes

	32 nds						
	ls	net	high	low	open	Volume	SYM NAME
TUAU7	101.295	1.2	101.307	101.282	101.287	16,922	2y Fut
FVAU7	104.040	1.0	104.060	104.020	104.025	46,590	5y Fut
TYAU7	105.230	0.0	105.250	105.205	105.220	93,050	10y Fut
USAU7	107.210	(3)	107.250	107.190	107.210	13,994	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	100.007	0.2	100.020	100.000	100.005	na	2y Cash
BUS05P	99.257	1.0	99.275	99.235	99.240	na	5y Cash
BUS10P	95.285	(2.0)	95.315	95.260	95.280	na	10y Cash
BUS30P	94.050	(6)	94.095	94.050	94.070	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.859	0.00	4.892	4.834	4.892	na	2y Yield
BUS05Y	4.918	0.00	4.945	4.904	4.939	na	5y Yield
BUS10Y	5.029	1.30	5.047	5.016	5.037	na	10y Yield
BUS30Y	5.134	1.40	5.141	5.124	5.128	na	30y Yield

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MarketNews international

News Recap for the United States
Yesterday

Treasury Market Summary: Friday, June 29
by John Canavan
Treasuries surged on Friday. Prices rallied early on a terrorism related flight bid, helped by weak personal income and PCE data. A second push higher followed in the afternoon on renewed subprime risk concerns.
The Market

Treasuries opened flat to a shade lower in the Far East overnight and held to quiet range. The long-end edged to marginally higher levels as the session went on ahead of the open in Europe, flattening the curve, but really doing little else. The FOMC statement yesterday reinforced the idea that the Fed is remaining quite vigilant on inflation despite the fact that "core inflation [has] improved modestly in recent months." That has argued for slightly better near-term flattening trades. Prices rose further in Europe on a safe-haven bid after a car bomb was found in London, although the curve continued to flatten.

Treasuries were off of their best overnight levels to open the U.S. morning ahead of the busy data calendar. That calendar kicked off with solidly weaker than expected income and PCE figures, however, and Treasuries made a break to new highs across the curve. The weaker data did nothing to slow the day's flattening trend.

The long-end was still testing the upside into mid-morning amid the data, terror concerns and flattening trades. The Chicago PMA index, construction spending and the final University of Michigan numbers were all stronger than expected, however, knocking prices down a bit into the late morning.

The market steadied into the afternoon, still holding a slightly firmer tone on terror concerns. The subprime concerns returned to the forefront in the afternoon, sparking more safe-haven buying of Treasuries. In addition, Market News International noted buying of Treasuries related to month-end buying needs in MBS and Agencies. The better safe-haven bid was led by the front-end, erasing the morning's curve flattening as prices continued to grind higher into the close.

News Recap for the United States
Overnight

06:21 07/02 TSYS SUMMARY: US Treasuries traded little changed in the Toyko session, with bias marginally lower on profit-taking following strong safe-haven buying on Friday. Unwinding of flattening trades by leverage accounts were also noted, albeit in thin volume trading, as Hong Kong was on holiday in observance of its Special Administrative Region (SAR) Establishment Day. Prices then moved higher in the London session,
taking direction from gains in European Government Bonds on the back of risk aversion buying after the UK raised the threat level to "critical" -- the highest alert grading, indicating other imminent attacks. This comes in the wake of a failed car-bomb attack at Glasgow airport on Saturday. Also underpinning sentiment is report that Germany's federal net new borrowing will be reduced to E12.9bln next year, markedly below the E21.5bln projected. In addition, Bunds are outperforming US Treasuries on back of strong redemptions for E30.0 bln and coupon payments due this week for around E15.0 bln.

MarketNews international

14:05 06/29 **US ABS/ABX**: Traders indicate several end of quarter - book closing factors, all highly inter-related, taking place today that may possibly play out in the market during the first 2 weeks of July: 1)Leveraged hedge funds getting hit by margin calls due to a mark down of their CDO collateral, 2)Said fund(s) possibly being forced to liquidate, or at least sell a wide range of other securities to raise cash for margin calls, 3)Funds reporting lower-than expected NAV as a result of new lower marked-to-market prices for illiquid holdings. Lower NAVand thus lower performance results could cause investors in hedge funds to re-consider their asset allocation strategy - and possibly what hedge funds they do, or do not, want to continue with, 4)Notional prices entered today for end of quarter may not be identical to real cash prices obtainable in market. Starting with today's marked to market pricing, investors will see what cash prices they can actually obtain - a process that could take several days at least given the "selling by appointment only" nature of many structured credit products.

Stone & McCarthy RESEARCH ASSOCIATES

Preview June Employment

by Ray Stone, PhD

--Stone & McCarthy (Princeton)-- Forecasting monthly changes in Nonfarm Payrolls can be viewed as an exercise not in forecasting the actual employment change, but rather as an attempt to forecast the BLS's estimate of the monthly change.This distinction is important because there is

reason to believe that that BLS's estimates have been too high, and the underlying trend in payrolls of late is somewhat below the trajectory estimated by the BLS.

That said, as a payroll forecaster, my job is not to seek truth in my monthly projections, but rather to guess what the BLS's estimate of the number might be. Financial markets care far more about the BLS's monthly estimate of payrolls, than what the data may reveal after the next benchmarking.

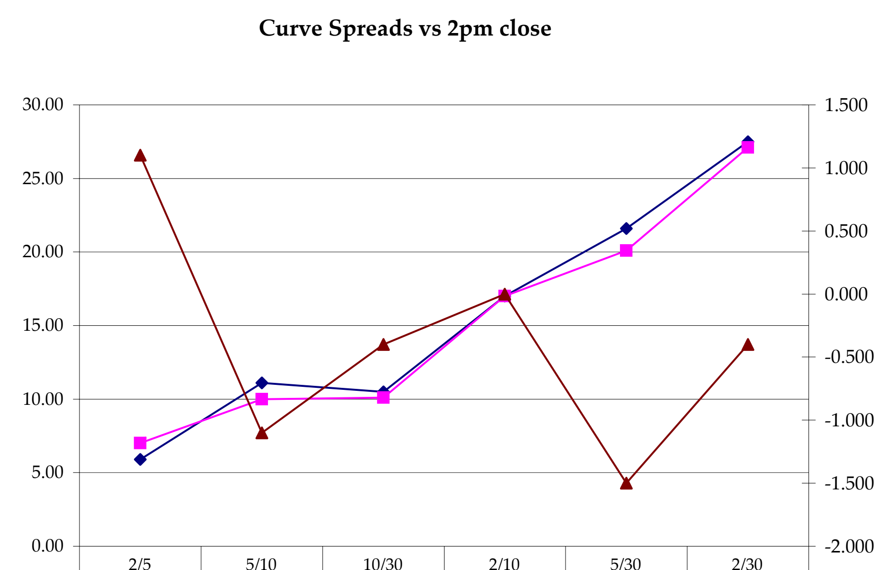
Table I—Forecast Summary	May	SMRA Est June	Survey Medians MNI June 28	BBG June 28
Payrolls (000s)	157	100	130	120
Private (000s)	135	79		
Construction (000s)	0	-16		
Manufacturing Payrolls (000s)	-15	19		-13
Workweek (hours)	33.9	33.8		33.9
Index of Hours Worked (% chg)	0.5	-0.2		
Average Hourly Earnings (% chg)	0.3	0.3		0.3
Unemployment Rate (%)	4.5	4.5	4.5	4.5

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	CF
30y	15.09	4.64	$1,449	
10y	7.79	2.40	$751	
5y	4.38	1.40	$437	
2y	1.98	0.63	$196	
ZB	9.65	3.36	$105	0.8285
ZN	5.76	1.97	$61	0.8926
ZF	3.93	1.32	$41	0.9540
ZT	1.85	1.21	$38	0.9815

Yield Curve Spreads

	Last	2pm close	Diff
2/5	5.90	7.00	1.100
5/10	11.10	10.00	-1.100
10/30	10.50	10.10	-0.400
2/10	17.00	17.00	0.000
5/30	21.60	20.10	-1.500
2/30	27.50	27.10	-0.400



	2/5	5/10	10/30	2/10	5/30	2/30
Last	5.90	11.10	10.50	17.00	21.60	27.50
2 PM Close	7.00	10.00	10.10	17.00	20.10	27.10
Diff	1.100	-1.100	-0.400	0.000	-1.500	-0.400

Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

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

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Hedge Ratio's

US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (U)	1.000	1.800	2.700	2.900
Bobl (U)	0.570	1.000	1.500	1.600
Shatz (U)	0.240	0.410	0.610	0.660

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.712	2.557	2.748
ZN	0.584		1.494	1.606
ZF	0.391	0.670		1.075
ZT	0.364	0.623	0.930	

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.79	4.16	7.15	13.78
ZN	3.06	7.12	12.23	23.59
ZF	4.57	10.64	18.27	35.23
ZT	4.91	11.43	19.64	37.87

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (U)	1.7	4.0	6.8	13.0
Bobl (U)	3.1	7.2	12.3	23.5
Shatz (U)	6.9	16.1	28.2	54.3

US Treasuries

	2y	5y	10y	30y
2y		2.330	4.002	7.716
5y	0.429		1.717	3.312
10y	0.250	0.560		1.928
30y	0.130	0.290	0.519	

Notes:
Bloomberg ratio's are static.
They are updated every week, or at auctions & rolls.

Note: Eurex ratio's are from Bloomberg and they are static. All other ratio's are from GH Trader's LLC (me) and they are live.

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Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	215,522	278,650	(63,128)	183,938	395,060	(211,122)	1,308,338	1,034,088	274,250	ZF
ZN	331,339	504,278	(172,939)	732,860	487,724	245,136	2,177,970	2,250,167	(72,197)	ZN
ZB	158,186	209,328	(51,142)	161,033	266,243	(105,210)	773,549	617,197	156,352	ZB

	WoW* Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	(1,586)	(10,484)	12,070	6/19/2007
ZN	(13,324)	1,698	11,626	
ZB	3,986	1,900	(5,886)	

**WoW = Week over week

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Closes - 2pm CST

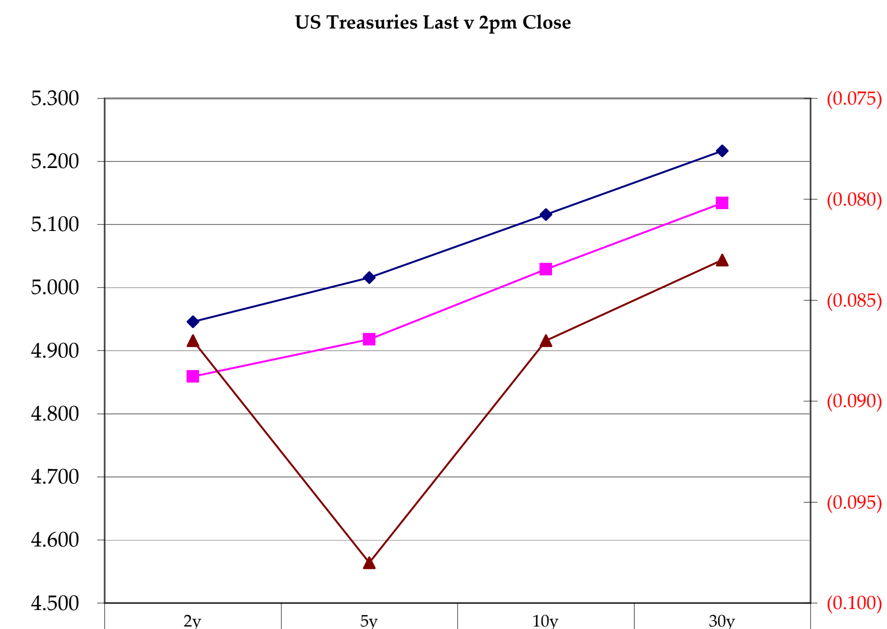
	Cpn	Mty	Close 32	Close	Last	Diff	Roll	Basis
2y	4.875	6/30/09	99.2775	4.946	4.859	(0.087)		
5y	4.875	6/30/12	99.1225	5.016	4.918	(0.098)		12.49
10y	4.500	5/15/17	95.085	5.116	5.029	(0.087)		43.56
30y	4.750	2/15/37	92.32	5.217	5.134	(0.083)		144.52

	Close 32
ZF	103.245
ZN	105.065
ZB	106.25

Curve Spreads

	bps
2/5	7.0
5/10	10.0
10/30	10.1
2/10	17.0
5/30	20.1
2/30	27.1

Old 5 y
99.045



	2y	5y	10y	30y
2pm Cls	4.946	5.016	5.116	5.217
Last	4.859	4.918	5.029	5.134
Diff	(0.087)	(0.098)	(0.087)	(0.083)

Notes:
Basis = (Cash Decimal - (Futures Decimal * CF))*32
Mduration for Curve Spreads:
Longer duration minus shorter duration
32 = price is quoted in 32nds

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Correlations

Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
2yr Yield	100.0	93.4	82.3	76.0	-92.3	-87.4	-81.7	-71.5
5yr Yield	93.4	100.0	96.6	93.6	-94.7	-97.4	-96.4	-91.0
10yr Yield	82.3	96.6	100.0	99.0	-86.0	-94.4	-97.3	-97.5
30yr Yield	76.0	93.6	99.0	100.0	-81.4	-91.7	-96.4	-97.7
ZT	-92.3	-94.7	-86.0	-81.4	100.0	96.9	92.3	82.2
ZF	-87.4	-97.4	-94.4	-91.7	96.9	100.0	98.5	92.7
ZN	-81.7	-96.4	-97.3	-96.4	92.3	98.5	100.0	97.2
ZB	-71.5	-91.0	-97.5	-97.7	82.2	92.7	97.2	100.0

Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
emini SP	63.8	49.6	35.1	32.5	(54.1)	(41.8)	(36.7)	(21.1)
Dow Futures	66.0	49.9	33.5	30.6	(56.6)	(43.1)	(36.5)	(19.3)
USDJPY	48.5	70.3	73.6	76.8	(69.0)	(75.0)	(79.5)	(77.4)
EURUSD	(79.9)	(86.7)	(85.1)	(84.9)	81.5	83.5	85.1	83.5

Correlations for the US Cash Treasuries are done on a YIELD basis.
Therefore, you'll see negative values against certain fixed income instruments.

Notes:

All correlations based on 10 day historical

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Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	**100%**			
5	49%	~~100%~~		
10	26%	54%	**100%**	
30	13%	27%	50%	**130%**
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$196**			
5	$199	~~$409~~		
10	$196	$402	**$741**	
30	$190	$391	$721	**$1,449**
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($4)			
10	($0)	$7		
30	$5	$18	$20	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.81%			
10	-0.05%	1.79%		
30	2.69%	4.58%	2.75%	

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

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	0.52	1.09	1.97	3.85
ZF	0.48	1.00	1.80	3.52
ZN	0.32	0.67	1.21	2.36
ZB	0.19	0.39	0.70	1.38

What is this? (1):
The 30 yr cash moves X.XX tics for every 1 tic ZT moves.

	2y	5y	10y	30y
2y	1.00	2.09	3.79	7.41
5y	0.48	1.00	1.81	3.54
10y	0.26	0.55	1.00	1.96
30y	0.14	0.28	0.51	1.00

What is this? (2):
ZN moves X.XX tics for every 1 tic ZF moves.

	ZT	ZF	ZN	ZB
ZT	1.00	1.09	1.63	2.79
ZF	0.92	1.00	1.49	2.56
ZN	0.61	0.67	1.00	1.71
ZB	0.36	0.39	0.58	1.00

For US vs German Tic for Tic matrix, go to Morning Email, US&GER