7/9/2007 5:53

The Morning Email: Treasuries

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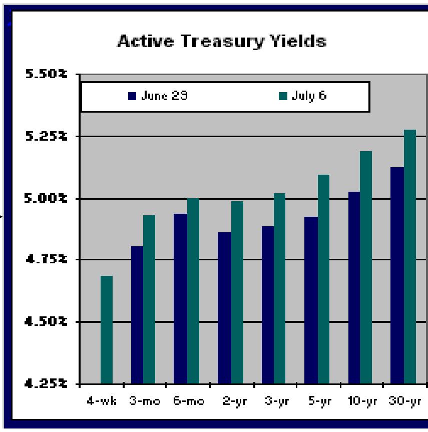

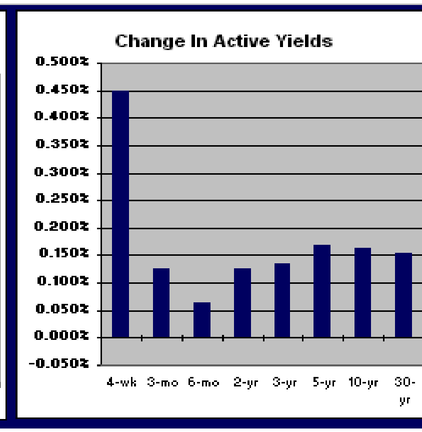

DJ MARKET TALK: Fed May Be Questioning Labor-Market Tightness-Ip(DJ)
Contact us in New York. Darlene Ross, 201 938-2085; darlene.ross@dowjones.com

1743 GMT [Dow Jones] **Greg Ip**, in the WSJ's Real Economics blog, asks whether Fed is questioning labor mkt tightness, citing SF Pres Yellen's speech overnight in Singapore. Yellen said in her speech that "labor markets may not actually be particularly tight," citing the restrained growth in employment costs. She also noted that the Conference Board's index of job market perceptions suggests that labor markets are "only very slightly on the tight side." Ip writes, "Yellen suggested she was sympathetic to these "benign explanations.'"

MarketNews international

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

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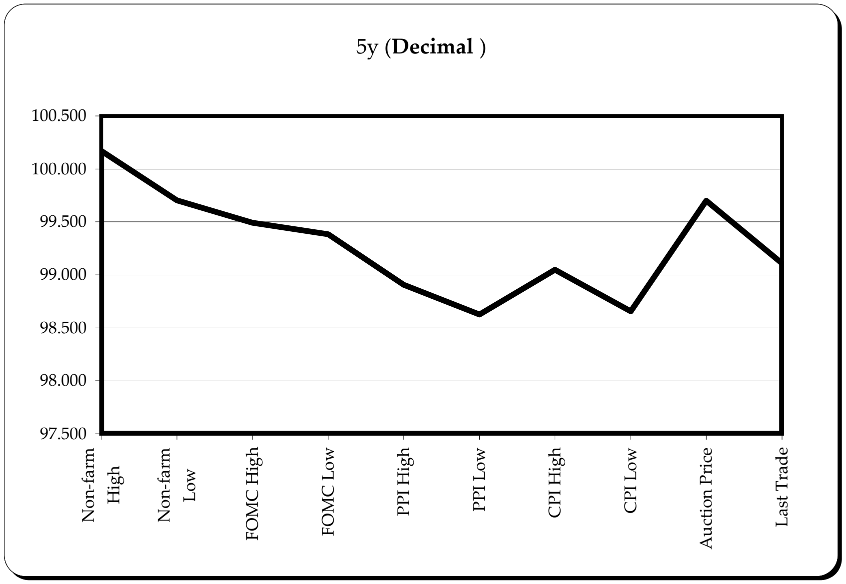
Important Econ Releases, Highs & Lows

Economic Releases - 32nds

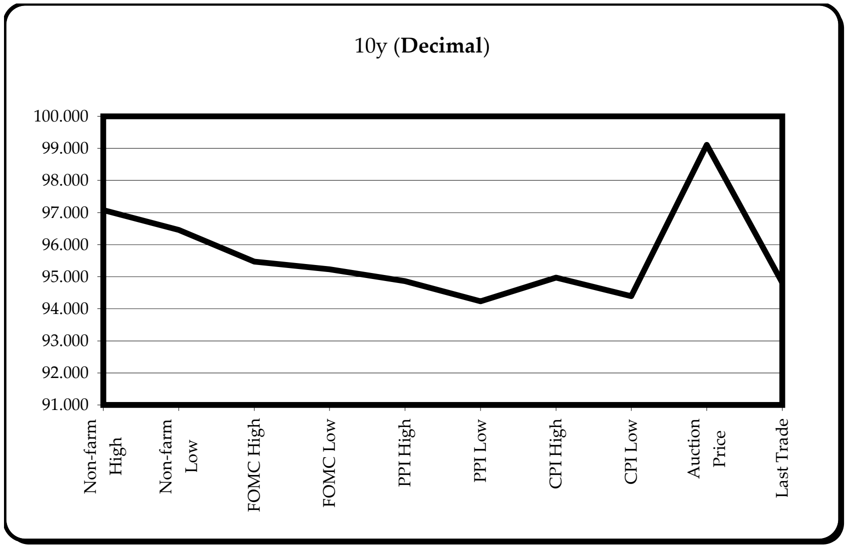
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	100.0550	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.2250	96.145	105.290	108.15	6/1/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	6/28/2007
PPI High	98.2900	94.275	104.185	106.11	6/14/2007
PPI Low	98.2000	94.075	104.045	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	99.0350	94.260	104.235	106.07	7/9/2007 5:53



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

r = reopen



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)

Quotes

	32 nds						
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
TUAU7	101.227	1.2	101.227	101.210	101.215	22,654	2y Fut
FVAU7	103.170	2.0	103.175	103.140	103.150	29,678	5y Fut
TYAU7	104.235	4.0	104.240	104.190	104.210	77,196	10y Fut
USAU7	106.070	4	106.090	106.010	106.070	19,787	30y Fut
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
BUS02P	99.260	0.5	99.262	99.250	99.250	na	2y Cash
BUS05P	99.032	1.2	99.040	99.005	99.007	na	5y Cash
BUS10P	94.260	1.5	94.260	94.215	94.235	na	10y Cash
BUS30P	92.080	1	92.100	92.035	92.040	na	30y Cash
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
BUS02Y	4.972	(0.40)	5.005	4.963	5.005	na	2y Yield
BUS05Y	5.078	(1.10)	5.105	5.073	5.096	na	5y Yield
BUS10Y	5.176	(0.60)	5.202	5.174	5.187	na	10y Yield
BUS30Y	5.266	(0.20)	5.287	5.263	5.268	na	30y Yield

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MarketNews international

News Recap for the United States
Yesterday

15:11 07/06 **US TSYS/RECAP:** Tsys end Fri lower after 1) morning slide on June jobs report (+132K June jobs gain, 0.346% AHE, May Apr jobs revised upward), but had 2) later bounce off lows amid big two-way flows today, some buying in 5s, and "very heavy buying in 2s," some cited US$2B-$3B buying in 2Ys by foreign central banks. Tsys also 3) drew some support off the lows as German Bunds also firmed up. Earlier, 4) buy-and-hold accounts bought intermediates, Street bought lows after initial selling by hedge funds, buy-and-hold accts after June jobs. There was 5) financial institution buying in front end Tsys, 6) and later, fast money covered shorts. 7) FOB curve trades: local shop sold 7,000 Sep 5Y futures at 103 14/32 vs. 2,800 Sep 30Y futures at 106 3/32. 8) Swap spreads pushed wider this pm, esp. in long end as futures curves steepened; was early paying in front end to intermediates, paying out to 30Y swaps, some on anticipation of corporate supply pickup next wk.9)$7B in 2 CMBS next wk.10) MBS:2-way flows: retail buying, originatn selling.

15:06 07/06 **US SWAPS**: By the bell, spds continued to push wider, especially in the long end as futures curves steepen. In addition to early paying in the fronts to intermediates, some sources reporting paying out to 30s, some tied to anticipation of pick up in corporate supply next week. Swap yield sprads pushed to new recent wides as well. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:05	+0.75/48.50	+0.50/55.50	+0.75/64.00	+1.00/70.25
12:50	+0.75/48.50	+0.50/55.50	+0.75/64.00	+1.25/70.50
11:25	+0.75/48.50	+0.25/55.25	+0.25/63.50	+0.50/69.75
10:15	+0.50/48.25	+0.25/55.25	+0.25/63.50	+0.50/69.75
9:30	+0.50/48.25	+0.00/55.00	+0.00/63.25	+0.25/69.50
Fri Open	+0.25/48.00	+0.25/55.25	+0.00/63.25	+0.25/69.50
Thu 3:05	-0.75/47.75	+0.25/55.00	+0.75/63.25	+1.25/69.25

15:15 07/06 **EURODLR FUTURES:** Eurodlr futures finished off session lows, the curve bear steepening post jobs. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, pushed out 3.375 bps to 48.0. The Fronts (Sep07-Jun08), settled 0.5 to 3.0 bps lower, the Sep07 in 0.5 bps at 94-65 on combined Globex and pit volume of 155,000, the Dec07 lower 1.0 bps at 94-64 on volume of 477,000, the Mar08 in 2.0 bps at 94-66 on volume of 436,000, while the Jun08 was 3.0 bps lower at 94-67.5 on volume of 453,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 3.0 to 5.5 bps lower across the pack with 914,000 contracts traded.

News Recap for the United States
Overnight

05:02 07/09 TSYS: (1) Treasuries are trading modestly higher in London trade, as dip-buying and short-covering sends prices higher after the sharp sell-off in the U.S. Friday. The market sold off on Friday after the latest government employment report remained tight, with the unemployment rate unchanged at 4.5%. This encouraged traders to bet the tightness of the labor market would continue to affect the Federal Reserve's options on rate decisions. Prices were initially lower in Tokyo, weighed by follow-through selling as regional investors reacted to the jobs data. However, late trade saw bargain hunters emerge, pushing prices off their lows ahead of the London session. However, traders said volumes were modest, at best. In London, light buying was seen across the board, although the curve steepened as the front-end outperformed. Real money names were buyers of the 2-year note, with interest noted from Asian semi-official names. Leveraged funds were buyers of the 10-year note, largely seen as profit-taking.

Fixed Income Focus: Tracking Issuers & Owners...Contained Risk? **by Ward McCarthy, PhD**

"...Swap spreads to Treasuries were little changed this past week, on a Friday to Friday basis, apart from one bp of tightening for 5-year spreads and 1 bp of widening for 30-year spreads. Over the last two weeks, however, swap spreads have pretty much hit or exceeded the widest spreads of mid June. Agency debt spreads to Treasuries were mixed, on a Friday to Thursday basis. Agency spreads were generally one to two bps wider for 2s, 3s, 10s and 30s, but a bp tighter for 5-year agencies. Agency MBS spreads bucked the trend and narrowed by four to five bps this past week..".

"...Corporate spreads to Treasuries continued to widen during the first week of July, although the pace slowed. Investment grade spreads were approximately 1 bps wider on the week through Thursday, and are now at levels not experienced since May, 2005. High yield spreads were approximately 3 bps wider on the week, and back to levels of mid-March. June was a rough month for corporate bond spreads, as investment grade spreads widened by approximately 5 bps and high yield spreads widened by about 43 bps. Year-to-date, investment grade spreads are now about 10 bps wider and high yield spreads are also about 10 bps wider..."

"...Dealer net short position in Treasuries surged to a record $177.0 bln from the prior week's $166.2 bln..."

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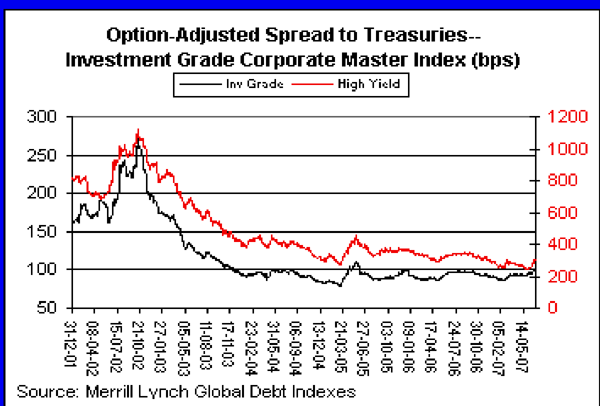
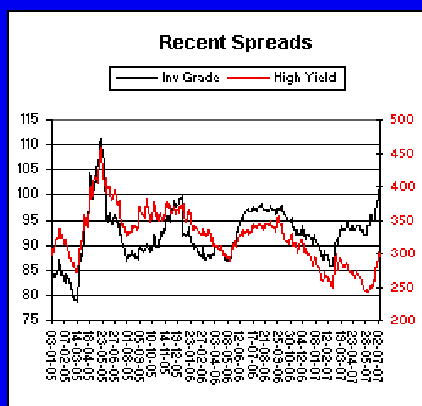
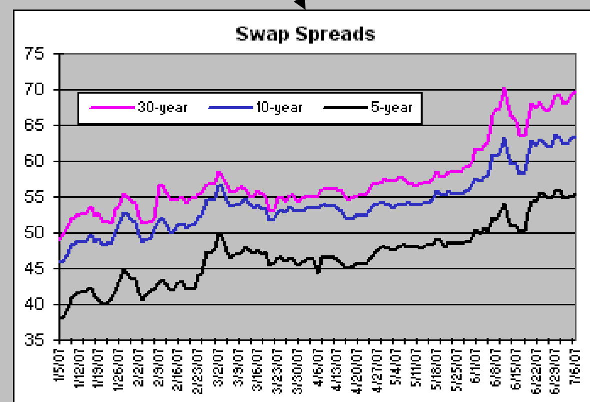




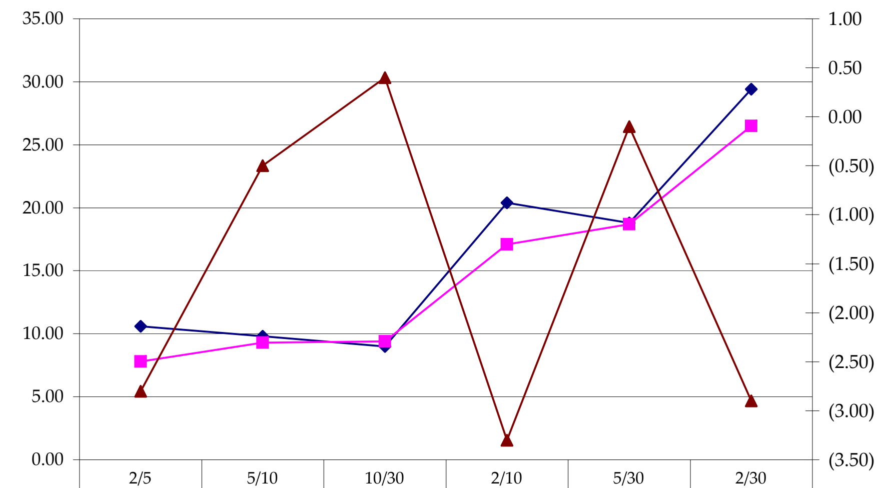


Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	CF
30y	14.92	4.50	$1,405	n/a
10y	7.75	2.37	$740	n/a
5y	4.36	1.38	$432	n/a
2y	1.96	0.62	$193	n/a
ZB	9.59	3.30	$103	0.8285
ZN	5.72	1.93	$60	0.8926
ZF	3.91	1.30	$41	0.9540
ZT	1.83	1.19	$37	0.9815

Yield Curve Spreads

	Last	2pm close	Diff
2/5	10.60	7.80	(2.80)
5/10	9.80	9.30	(0.50)
10/30	9.00	9.40	0.40
2/10	20.40	17.10	(3.30)
5/30	18.80	18.70	(0.10)
2/30	29.40	26.50	(2.90)



	2/5	5/10	10/30	2/10	5/30	2/30
Last	10.60	9.80	9.00	20.40	18.80	29.40
2 PM Close	7.80	9.30	9.40	17.10	18.70	26.50
Diff	(2.80)	(0.50)	0.40	(3.30)	(0.10)	(2.90)

Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

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

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 Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.80	4.19	7.17	13.62
ZN	3.07	7.15	12.24	23.24
ZF	4.56	10.63	18.20	34.56
ZT	4.91	11.44	19.57	37.17

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.706	2.537	2.728
ZN	0.586		1.487	1.599
ZF	0.394	0.673		1.076
ZT	0.367	0.625	0.930	

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

Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.8	4.4
Bobl (U)	0.6	1.0	2.5
Shatz (U)	0.2	0.4	1.0

US Treasuries

	2y	5y	10y	30y
2y		2.330	3.988	7.574
5y	0.429		1.712	3.250
10y	0.251	0.562		1.899
30y	0.132	0.296	0.527	

Note:
Bloomberg hedge ratio's are static. Meaning, I only update them once a week and on rolls. My hedge ratio's are live, meaning, they're updated in real-time. I've managed to get the Eurex to Eurex ratio's updating live as of 07/05/2007. I'll be working on Eurex to the USA ratio's soon.

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	217,946	278,993	(61,047)	208,087	382,770	(174,683)	1,233,741	998,011	235,730	ZF
ZN	320,022	516,579	(196,557)	749,705	399,585	350,120	2,029,200	2,182,764	(153,564)	ZN
ZB	146,062	201,811	(55,749)	147,769	265,568	(117,799)	773,153	599,604	173,549	ZB

	WoW* Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	2,081	36,439	(38,520)	6/26/2007
ZN	(23,618)	104,984	(81,367)	
ZB	(4,607)	(12,589)	17,197	

**WoW = Week over week

Closes - 2pm CST

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.875	6/30/09	99.2625	4.971	4.972	0.001			
5y	4.875	6/30/12	99.0775	5.049	5.078	0.029	11.81	10.90	
10y	4.500	5/15/17	95.025	5.142	5.176	0.034	45.15	42.45	
30y	4.750	2/15/37	92.23	5.236	5.266	0.030	141.82	135.93	

	Close 32
ZF	103.205
ZN	104.300
ZB	106.18

Curve Spreads

	bps
2/5	7.8
5/10	9.3
10/30	9.4
2/10	17.1
5/30	18.7
2/30	26.5

	2y	5y	10y	30y
2pm Cls	4.971	5.049	5.142	5.236
Last	4.972	5.078	5.176	5.266
Diff	0.001	0.029	0.034	0.030

Notes:

Basis = (Cash Decimal - (Futures Decimal * CF))*32

Mduration for Curve Spreads:

Longer duration minus shorter duration

32 = price is quoted in 32nds

Correlations

	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	96.5	93.1	86.3	(95.3)	(93.8)	(91.7)	(87.1)
5yr Yield	96.5	100.0	99.1	95.3	(95.6)	(98.6)	(98.6)	(95.9)
10yr Yield	93.1	99.1	100.0	98.4	(92.7)	(97.5)	(98.9)	(98.5)
30yr Yield	86.3	95.3	98.4	100.0	(86.3)	(93.4)	(96.4)	(99.0)
ZT	(95.3)	(95.6)	(92.7)	(86.3)	100.0	97.5	95.0	90.3
ZF	(93.8)	(98.6)	(97.5)	(93.4)	97.5	100.0	99.3	96.1
ZN	(91.7)	(98.6)	(98.9)	(96.4)	95.0	99.3	100.0	98.2
ZB	(87.1)	(95.9)	(98.5)	(99.0)	90.3	96.1	98.2	100.0

	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
emini SP	46.7	38.6	32.5	21.9	(42.2)	(43.9)	(46.1)	(40.0)
Dow Futures	57.1	48.4	40.6	26.5	(48.9)	(45.1)	(41.7)	(27.6)
USDJPY	40.9	56.7	61.2	69.2	(47.2)	(57.1)	(60.5)	(65.9)
EURUSD	29.4	24.1	15.9	1.9	(28.9)	(25.5)	(21.7)	(5.1)

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

Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	**100%**			
5	48%	~~**100%**~~		
10	26%	54%	**100%**	
30	13%	27%	50%	**131%**

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$193**			
5	$196	~~**$405**~~		
10	$192	$396	**$730**	
30	$185	$382	$704	**$1,405**

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($3)			
10	$2	$9		
30	$8	$23	$26	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.37%			
10	0.85%	2.26%		
30	4.54%	6.00%	3.66%	

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	1.96	3.77
ZF	0.48	1.00	1.79	3.46
ZN	0.32	0.67	1.21	2.32
ZB	0.19	0.39	0.71	1.36

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	3.77	7.26
5y	0.48	1.00	1.80	3.47
10y	0.27	0.55	1.00	1.93
30y	0.14	0.29	0.52	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	1.62	2.77
ZF	0.92	1.00	1.49	2.54
ZN	0.62	0.67	1.00	1.71
ZB	0.36	0.39	0.59	1.00

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