



## The Morning Email: Treasuries

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7/11/2007 5:49

From Howard :  
 -MOODYS CUT 399 **SUBPRIME** RESIDENTIAL MORTGAGE BACKED SECURITIES  
 -32 ADDITIONAL SECURITIES PLACED ON REVIEW FOR POSSIBLE DOWNGRADE

Tuesday, 2:57 PM CST



Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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From Howard -

### **Bernanke**

- energy prices haven't led to 'persistent' inflation
- doesn't discuss outlook for economy or rates
- says expectations still remain 'imperfectly anchored'
- energy price increases haven't led to recession
- inflation expectations more anchored since 1970's

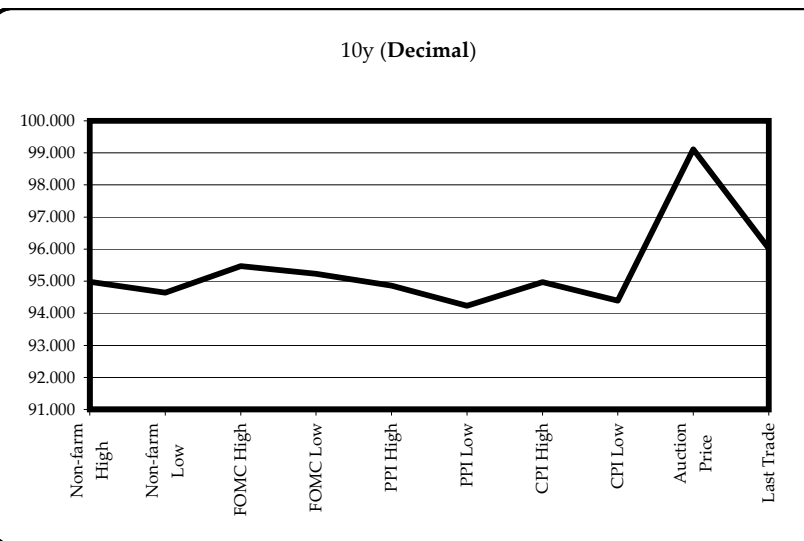
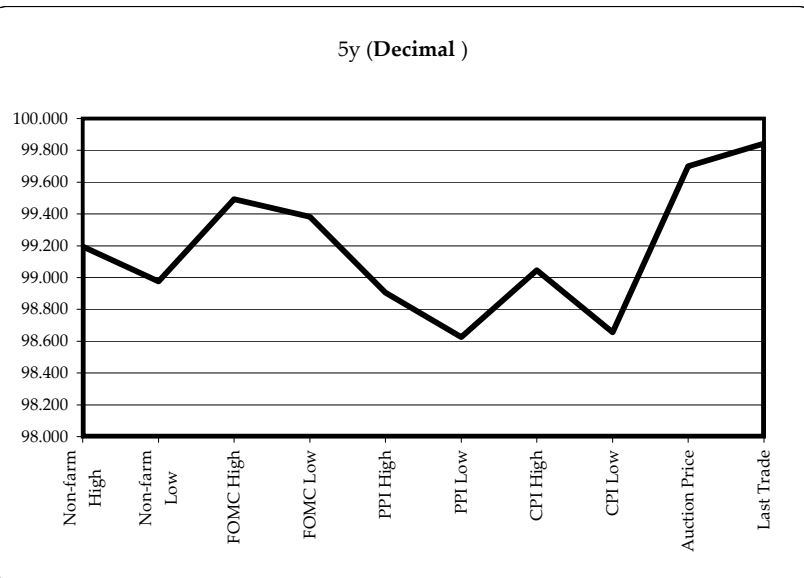
Stone & McCarthy  
 RESEARCH ASSOCIATES

Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.0625	94.315	104.305	106.16	7/6/2007
Non-farm Low	98.3125	94.205	104.175	105.31	7/6/2007
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	99.2700	96.005	105.245	107.27	7/11/2007 5:49

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

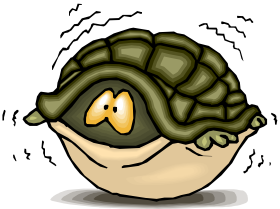
Notes: Cash and futures are adjusted roll  
 Release times are from release to 2pm cdt  
 (Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)



32 nds								
	ls	net	high	low	open	Volume	SYM NAME	
TUAU7	101.307	1.7	102.007	101.295	101.307	51,544	2y Fut	
FVAU7	104.070	3.5	104.120	104.045	104.060	80,358	5y Fut	
TYAU7	105.245	4.5	106.005	105.215	105.230	345,157	10y Fut	
USAU7	107.270	6	108.070	107.220	107.260	65,167	30y Fut	
	ls	net	high	low	open	Volume	SYM NAME	
BUS02P	100.022	0.5	100.040	100.010	100.020	na	2y Cash	
BUS05P	99.270	1.2	100.002	99.250	99.260	na	5y Cash	
BUS10P	96.000	1.0	96.090	95.290	95.315	na	10y Cash	
BUS30P	94.135	2	94.275	94.090	94.160	na	30y Cash	
	ls	net	high	low	open	Volume	SYM NAME	
BUS02Y	4.833	(0.80)	4.862	4.799	4.858	na	2y Yield	
BUS05Y	4.909	(0.90)	4.929	4.87	4.927	na	5y Yield	
BUS10Y	5.015	(0.80)	5.036	4.978	5.028	na	10y Yield	
BUS30Y	5.115	(0.50)	5.129	5.084	5.119	na	30y Yield	

**Collateralized debt obligations (CDOs)** are a type of asset-backed security and structured credit product. CDOs gain exposure to the credit of a portfolio fixed income assets and divide the credit risk among different tranches: senior tranches (rated AAA), mezzanine tranches (AA to BB), and equity tranches (unrated). Losses are applied in reverse order of seniority and so junior tranches offer higher coupons to compensate for the added risk. Using CDO technology, a range of products are created from one portfolio of generally risky assets, from the risky equity tranche to the relatively lower-risk senior debt.

SOURCE: WIKIPEDIA



Is it OK to come out and trade?

**News Recap for the United States - Yesterday**

**15:15 07/10 US TSYS/RECAP:** Tsys rally on 1) post-Bernanke relief(no bad urprises); 2) risk-aversion buying still main theme; 3) some asset-allocation buying as some exit US stocks/buy US Tsys; 4) asset-allocation: others sell riskier debt/buy US Tsys. Also was 5) pension buying in 30Ys Tsys, and also 6) foreign central bank buying in intermediates, later same type buying in long end; part (not necessarily heavy) could be Asian central banks. Meanwhile there also was 7) brisk European central bank selling in intermediates. And 8) hedge funds bought good-sized 10Y futures around 05 16/32 cited. 9) Swaps spreads widened, 5Y spreads near 5-year wides, credit contagion fear main driver; better paying type flows in fronts, intermediates. 10) some eyed Citigroup report: Tsy cd possibly do Tsys debt buyback; 11) German Bunds gained on risk aversion, stop-loss buying; 12) S&P put 612 RMBS classes backed by subprime collateral on review for possible dngade; 13) Home Depot cut EPS forecast, spurred EGB buying;14)DJIA -0.83%,S&P 500 -1.17%;Nasdaq -1.12%

**15:17 07/10 EURODLR FUTURES:** Eurodlr futures finished broadly higher as U.S. equities continue to notch lower. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, steepened 1.75 bps to 49.125. The Fronts (Sep07-Jun08), settled 1.0 to 12.0 bps higher, the Sep07 up 1.0 bps at 94-66 on combined Globex and pit volume of 172,000, the Dec07 up 5.5 bps at 94-69.5 on volume of 455,000, the Mar08 up 9.5 bps at 94-76.5 on volume of 492,000, while the Jun08 was 12.0 bps higher at 94-81.5 on volume of 508,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 13.5 to 13.5 bps higher across the pack with 1,066,000 contracts traded.

**15:12 07/10 US SWAPS:** By the bell, Spreads continued to push to multi-year wides amid consistent paying-tied flow in fronts to intermediates, pick up in credit concerns cited as major factor behind the disconnection of Tsy ylds and spreads. Sources reported sellers of 2-, 3-year bundles as well as Reds (Sep08-Jun09) and Greens (Sep09-Jun10) after early, modest curve flattener and fly trade. Some of the paying tied flow was tied to rate locks, sources added. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:05	+2.25/50.50	+2.75/58.25	+2.75/66.75	+2.25/73.00
1:00	+1.75/50.00	+1.75/57.25	+1.75/65.75	+1.50/72.25
10:30	+1.50/49.75	+1.50/57.00	+1.50/65.50	+1.50/72.25
9:45	+2.00/50.25	+2.00/57.50	+2.00/66.00	+1.75/72.50
9:05	+1.25/49.50	+1.75/57.25	+1.75/65.75	+1.50/72.25
Tue Open	+1.00/49.25	+1.00/56.50	+1.00/65.00	+1.00/71.75
Mon 3:05	-0.25/48.25	+0.00/55.50	-0.25/64.00	+0.25/70.75

**News Recap for the United States - Overnight**

05:09 07/11 TSYS: Treasuries are trading higher in London Wednesday, with the curve flattening as the market builds on gains seen in the U.S overnight. However, prices were off their very best levels, as two-way flows started to emerge around the key 5.00% level in the 10-year note.

The market was higher from the getgo in Tokyo, despite a sharp early dollar fall, as regional players reacted to the late warnings on the sub-prime market from ratings agencies Moody's and Standard & Poors.

Real money names were buyers across the curve, although some profit-taking was seen in the 10-year sector from hot money accounts. Light buying was still seen in London trade, with longer-dated paper to the fore. However, traders said flows were slowing and late morning trade was largely inter-dealer, as many players seemed unprepared to chase prices higher.

Bunds were trading 1 bps lower against the US 10-year T-notes, with the spread standing at +52 bps. the 2-yr note was unchanged, trading at 100 2/32 to yield 4.83%. The 10-yr note was 3+/32 higher at 96 3/32 (5.01%).

From Howard:

- S&P may cut ratings on \$12Bln of subprime mortgage bonds
- S&P puts 612 classes of subprime bonds on creditwatch negative
- S&P changes ratings methodology for mortgage backed bonds
- S&P reviewing ratings of CDO's backed by bonds on creditwatch

**09:33 [EDT] 07/10 US TSYS/SUBPRIME:** One trader quipped that this "is the day of reckoning, it's the perfect storm" amid CDX weakness, **subprime** jitters, safe-haven buying in Tsys amid asset-allocation moves out of weaker bonds, and geopolitical jitters. "There is also some pension money being put to work" buying the long end, said the trader.

**10:16 07/10 US ABS/ABX:** As the ABX continues its sharp sell off, S&P is now giving a conference call regarding their credit downgrade of \$12.07B, or 2.13%, of US subprime RMBS rated by S&P, as well as a change in their ratings methodology for CDOs. S&P say that they expect losses in subprime to peak around late 2008 or even 2009. The call quickly filled to capacity as the song "Wildfire" played in the background as participants waited on hold.

**10:48 07/10 US ABS/SubPrime:** New RMBS - ABS transaction backed by subprime deals will, starting from tomorrow, will be put under a different credit ratings methodology entailing higher subordination requirements. Thus, some new deals now in the pipeline will be temporarily put on hold while they are assessed under the new methodology. As far as deals that have already priced, "We will be re-analyzing any transaction that has not yet closed and making a judgment as to whether or not the capital structure will need to change," says S & P.

**10:56 07/10 US ABS/SubPrime:** S&P is continuing conference call on downgrading credit rating on subprime. 1)deals downgraded are those from the Q4'05 to Q4'06 vintages, 2)downgrades for now are confined solely to first lien debt. A review of closed end seconds are to soon follow, 3)deals backed by mortgage insurance will also be subject to review, albeit under a different criteria.

MarketNews  
international

MarketNews  
international

**10:50 07/10 US MBS/CDO:** Market sources hearing rumors of a CDO bid list out there this morning (no further details but talk is \$1B.) Following S&P credit watch actions on subprime today (conf call still ongoing) sources say real concern is that CDOs will come under downgrade pressure as well and that could cause liquidations. "Some buy-side accounts can only keep paper on their books if they have a certain rating so any downgrades could cause selling," one trader said.

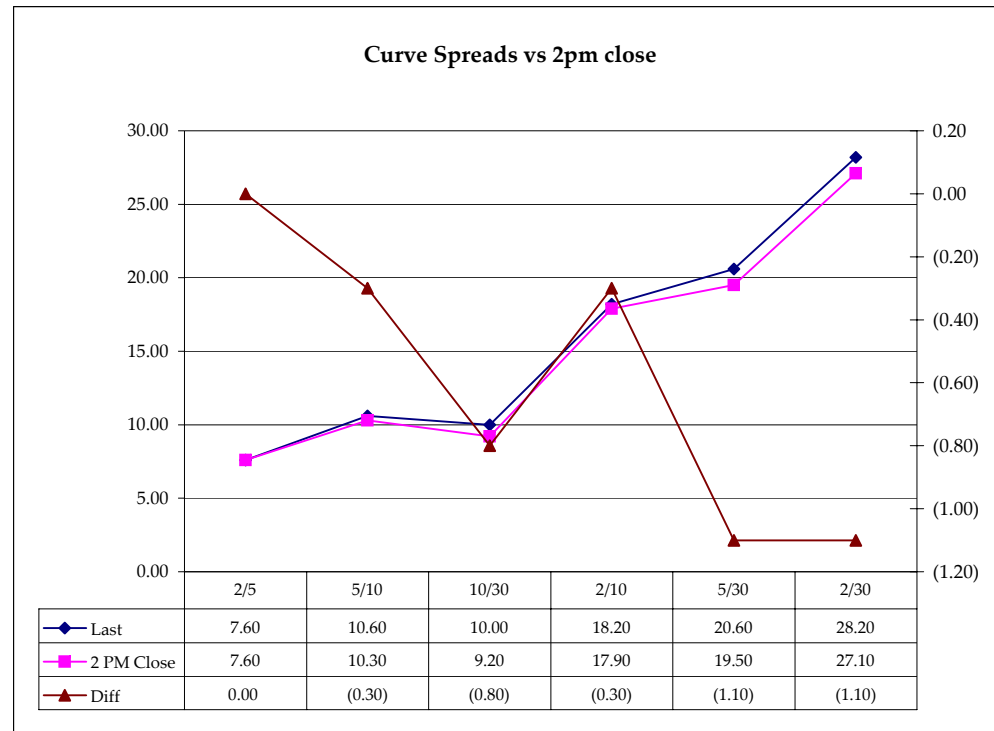
**10:59 07/10 US CDOs:** S&P is continuing conference call on changing methodology of US originated CDOs. However, S & P say that CDOs originated outside the US as well as CDOs-squared are, for the time being, not under review for a change in methodology or possible downgrade. However, in the next several weeks, a new review of CDO squared deals is expected.



	M Duration	DV01 32	DV01 \$	CF
30y	15.09	4.65	\$1,454	n/a
10y	7.76	2.40	\$751	n/a
5y	4.36	1.39	\$436	n/a
2y	1.96	0.62	\$194	n/a
ZB	9.63	3.37	\$105	0.8285
ZN	5.73	1.96	\$61	0.8926
ZF	3.91	1.31	\$41	0.9540
ZT	1.82	1.19	\$37	0.9815

Yield Curve Spreads

	Last	2pm close	Diff
2/5	7.60	7.60	0.00
5/10	10.60	10.30	(0.30)
10/30	10.00	9.20	(0.80)
2/10	18.20	17.90	(0.30)
5/30	20.60	19.50	(1.10)
2/30	28.20	27.10	(1.10)



Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

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

## 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		1.715	2.569	2.781
ZN	0.583		1.498	1.621
ZF	0.389	0.668		1.082
ZT	0.360	0.617	0.924	

## Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.8	4.5
Bobl (U)	0.6	1.0	2.5
Shatz (U)	0.2	0.4	1.0

## US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.76	4.14	7.14	13.82
ZN	3.03	7.11	12.24	23.71
ZF	4.53	10.64	18.34	35.52
ZT	4.91	11.52	19.85	38.44

## 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		2.347	4.045	7.833
5y	0.426		1.723	3.337
10y	0.247	0.558		1.937
30y	0.128	0.288	0.516	

Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. 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.

Current Positions										
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	222,768	280,946	(58,178)	243,517	345,160	(101,643)	1,159,879	1,000,058	159,821	ZF
ZN	295,116	495,592	(200,476)	782,736	407,860	374,876	2,045,576	2,219,976	(174,400)	ZN
ZB	124,065	211,281	(87,216)	147,140	247,613	(100,473)	792,431	604,742	187,689	ZB

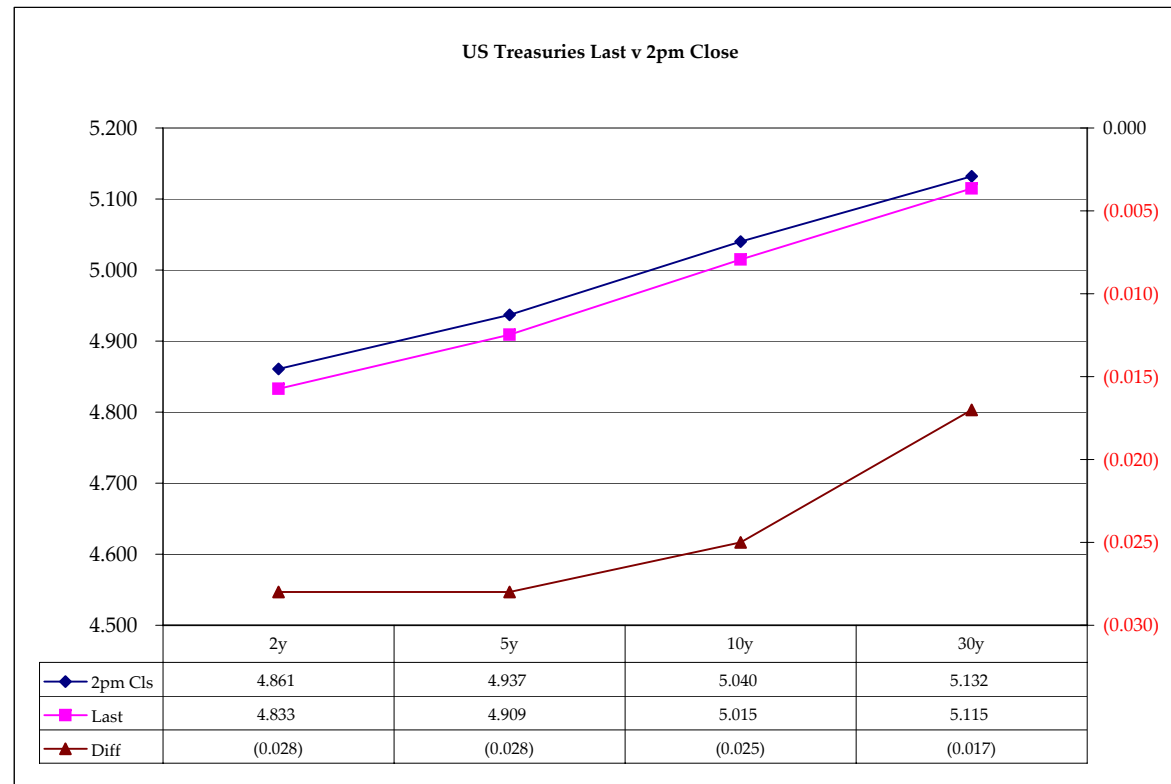
WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	2,869	73,040	(75,909)	7/3/2007
ZN	(3,919)	24,756	(20,836)	
ZB	(31,467)	17,326	14,140	

^WoW = Week over week

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	100.0075	4.861	4.833	(0.028)			
5y	4.875	6/30/12	99.2325	4.937	4.909	(0.028)	13.00	13.41	
10y	4.500	5/15/17	95.270	5.040	5.015	(0.025)	50.01	51.50	
30y	4.750	2/15/37	94.07	5.132	5.115	(0.017)	160.82	163.35	

	Close 32	Last
ZF	104.035	104.070
ZN	105.200	105.245
ZB	107.21	107.270

Curve Spreads		
	Close bps	Last bps
2/5	7.6	7.6
5/10	10.3	10.6
10/30	9.2	10.0
2/10	17.9	18.2
5/30	19.5	20.6
2/30	27.1	28.2



Notes:

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

Mduration for Curve Spreads:

Longer duration minus shorter duration

32 = price is quoted in 32nds

Symbol	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	97.5	97.2	96.8	(96.9)	(96.6)	(94.8)	(97.2)
5yr Yield	97.5	100.0	99.7	98.7	(95.8)	(98.5)	(98.9)	(99.2)
10yr Yield	97.2	99.7	100.0	99.5	(94.6)	(97.7)	(98.6)	(99.6)
30yr Yield	96.8	98.7	99.5	100.0	(92.5)	(96.1)	(97.0)	(99.3)
ZT	(96.9)	(95.8)	(94.6)	(92.5)	100.0	98.5	96.2	95.6
ZF	(96.6)	(98.5)	(97.7)	(96.1)	98.5	100.0	99.2	98.3
ZN	(94.8)	(98.9)	(98.6)	(97.0)	96.2	99.2	100.0	98.7
ZB	(97.2)	(99.2)	(99.6)	(99.3)	95.6	98.3	98.7	100.0

Symbol	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
emini SP	47.6	49.2	51.6	50.5	(70.1)	(65.7)	(64.3)	(67.6)
Dow Futures	36.7	44.5	44.5	39.3	(49.0)	(50.3)	(53.4)	(44.7)
USDJPY	79.4	72.7	72.1	74.1	(78.6)	(77.4)	(71.2)	(74.5)
EURUSD	(41.1)	(25.4)	(27.3)	(33.7)	28.2	23.9	16.8	29.6
Crude	(2.1)	14.2	11.2	3.6	(13.0)	(17.5)	(23.2)	(9.0)

**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	\$194			
5	\$197	\$408		
10	\$194	\$401	\$740	
30	\$189	\$391	\$722	\$1,454
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	\$0	\$7		
30	\$5	\$17	\$18	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.70%			
10	0.03%	1.75%		
30	2.57%	4.34%	2.54%	

**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				
	2y	5y	10y	30y
ZT	0.52	1.09	1.99	3.90
ZF	0.47	1.00	1.81	3.55
ZN	0.32	0.66	1.21	2.37
ZB	0.18	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	2.10	3.82	7.50
5y	0.48	1.00	1.82	3.57
10y	0.26	0.55	1.00	1.97
30y	0.13	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	1.10	1.65	2.82
ZF	0.91	1.00	1.50	2.57
ZN	0.61	0.67	1.00	1.72
ZB	0.35	0.39	0.58	1.00

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



