



The Morning Email: Treasuries

7/12/2007 5:51

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← I'M NEW TO THIS EMAIL

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

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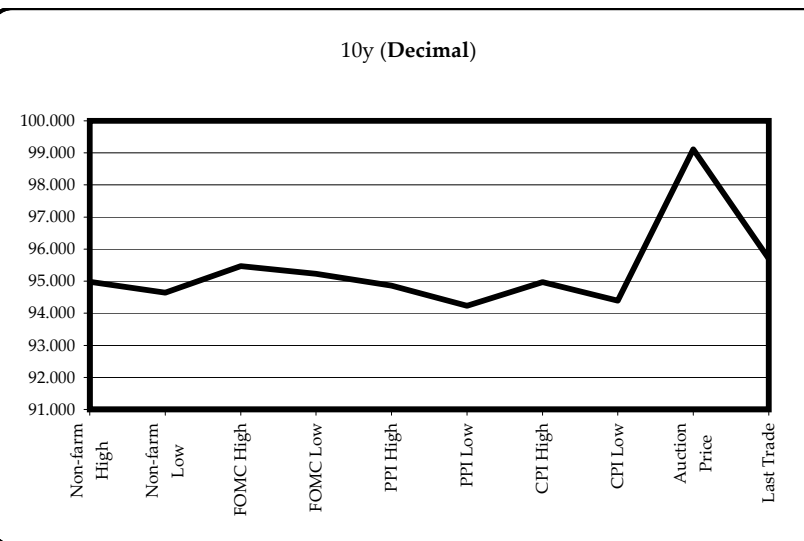
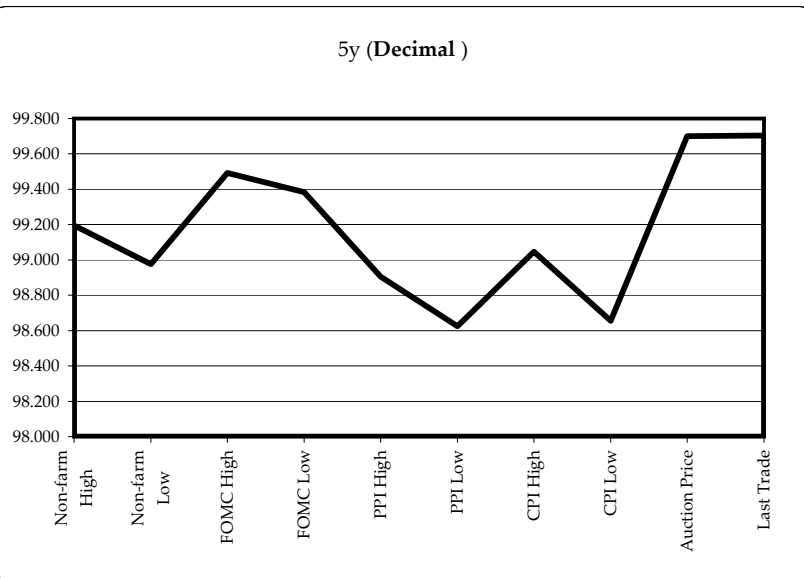


Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.0625	94.315	104.305	106.16	7/6/2007
Non-farm Low	98.3125	94.205	104.175	105.31	7/6/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	6/28/2007
PPI High	98.2900	94.275	104.185	106.11	6/14/2007
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	99.2250	95.225	105.175	107.11	7/12/2007 5:51

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

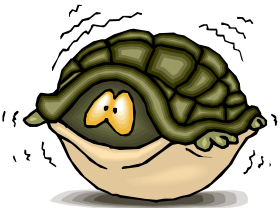
Notes: Cash and futures are adjusted roll
 Release times are from release to 2pm cdt
 (Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)



32 nds							
	ls	net	high	low	open	Volume	SYM NAME
TUAU7	101.295	1.7	101.302	101.270	101.275	27,416	2y Fut
FVAU7	104.025	3.0	104.045	103.290	103.300	40,528	5y Fut
TYAU7	105.175	4.0	105.195	105.090	105.100	145,260	10y Fut
USAU7	107.110	6	107.140	106.310	107.010	26,985	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	100.007	2.5	100.015	99.310	99.310	na	2y Cash
BUS05P	99.225	4.7	99.235	99.172	99.180	na	5y Cash
BUS10P	95.225	8.0	95.245	95.145	95.145	na	10y Cash
BUS30P	93.235	12	93.280	93.100	93.130	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.858	(3.80)	4.908	4.841	4.908	na	2y Yield
BUS05Y	4.943	(3.10)	4.986	4.932	4.979	na	5y Yield
BUS10Y	5.059	(2.30)	5.097	5.046	5.09	na	10y Yield
BUS30Y	5.163	(2.50)	5.201	5.153	5.19	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?

13:39 07/11 US TSYS/SUBPRIME: Tsys stable, came off lows as certain ABX indexes weaken amid the Moody's review for possible downgrade of US\$5B in CDOS based on subprime RMBSs; it would appear that the next anticipated subprime event might be the Thurs 10am ET Moody's conference call to explain that decision. Meanwhile, on other issues, some will be watching the progress of the DaimlerChrysler/Cerberus deal; company said buyout will close in the 3Q. Any big problem with any of the buyout financing deals would be a negative for stocks, thus a positive for US Tsys. SOURCE:MNI



News Recap for the United States - Yesterday - All times Eastern

15:10 07/11 **US TSYS/RECAP:** Tsys end Wed lower after morning slide amid 1) leveraged funds sold Tsys amid FX-tied reasons; 2) two rounds of 5Y swaps paying in UK, NY by a W. Coast player; 3) later afternoon black-box type selling in 10Y futures cited (vs. buying in tocks). But there also was 4) real money MBS-tied morning bid for 2Y futures too; 5) also afternoon short-covering too as some who went short early in day covered later. 6) 2Y/10Y, 2Y/30Y yield curves steepened as pension funds stopped buying long end for now after 2 days of buying. [7] Some cited Fed's Plosser speech as upbeat, but others noted said severity of hedge funds/ subprime problems "remains to be seen." [8] 2-way flows in central bank action: better Latam, European buyers; Asian central banks mixed in Tsys. [9] Could be some caution before 10am ET Thu Moody's conf call by Moody's on recent review for possible downgrade of \$5B in CDOS bckd by subprime RMBS. [10] US Tsy: June 10Y reopen drew 5.5% foreign buyers;23.8% foreign bid in June 2Y sale; 29.2% foreign bid in 5Y Jun sale.

15:29 07/11 **EURODLR FUTURES:** Eurodlr futures finished moderately lower, in from earlier gains while equities continue to firm into the NY close. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, steepened 2.75 bps to 51.875. The Fronts (Sep07-Jun08), settled steady to 2.0 bps lower, the Sep07 unched at 94-66 on combined Globex and pit volume of 166,000, the Dec07 in 2.0 bps at 94-67.5 on volume of 436,000, the Mar08 in 2.5 bps at 94-74 on volume of 487,000, while the Jun08 was 2.0 bps lower at 94-79.5 on volume of 443,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 1.5 to 3.0 bps lower across the pack with 1,046,000 contracts traded.

15:19 07/11 **US SWAPS:** After see-sawing through the session, spreads turned wider by the bell, off wides from the open. Spds had seen tighter levels around midsession as mkt gave back early gains. After heavy paying across curve in overnight and in early NY session in 5s, sources reported decent receiving in fronts to intermediates. one source reported "decent buying of mortgages this morning that has had dealers receiving."

According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:05	+0.25/50.75	+0.50/58.75	+0.50/67.25	+0.75/73.75
12:10	-0.50/50.00	-0.25/58.00	-0.25/66.50	+0.00/73.00
10:30	+0.75/51.25	+0.50/58.75	+0.25/67.00	+0.25/73.25
10:00	+0.75/51.25	+0.50/58.75	+0.50/67.25	+0.75/73.75
9:20	+0.50/51.00	+0.25/58.50	+0.25/67.00	+0.50/73.50
Wed Open	+1.00/51.50	+1.00/59.25	+1.00/67.75	+0.75/73.75
Tue 3:05	+2.25/50.50	+2.75/58.25	+2.75/66.75	+2.25/73.00

News Recap for the United States - Overnight

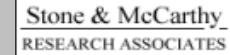
05:40 07/12 **TSYS:(1) USTs** are trading higher across the curve Thursday, boosted by dip-buying and short-covering, as credit spreads recovered a little after the recent sell-off.

However, traders noted modest volumes in both the cash and futures market, despite the higher prices. Prices opened modestly bid in Tokyo, as Asian players looked to pick up cheap paper after the overnight reversals. Real money accounts were buyers of the belly of the curve, with life funds picking up 10-year paper.

Elsewhere, Asian central bank buying was noted in the 2-year sector. Prices continued to rally in the London session, with the curve flattening as the front of the curve saw ongoing demand from both Asian and continental names. The 5-year also saw bids from real money names. The 10-year note saw ongoing demand from life funds, but selling from leveraged names and cross-border accounts capped gains in the sector, helping the curve steepen.

05:40 07/12 **TSYS: (2)** Bunds were trading 1 bps higher against the US 10-year T-notes, with the spread standing at +54 bps.

Ahead of the U.S. session, the 2-yr note was 1+32 higher, trading at 100 even to yield 4.87%. The 10-yr note was 4+32 higher at 95 20/32 (5.07%), with the Bond 8/32 higher at 93 19/32 (5.17%). The 2-yr/5-yr yield curve was 1 bps steeper on Monday's levels, trading at +9 bps The 2-/10-yr curve was 1 bps steeper, trading at +20 bps, as was the 2-yr/30-yr curve, standing at +31 bps.



U.S. Portfolio Survey: Abruptly Bearish & Straddling Neutrality
by Ward McCarthy, PhD

--Stone & McCarthy---.Measures of market sentiment turned negative for the first time since April this past week. Duration risk profiles were adjusted accordingly, and straddled neutrality in the SMR U.S. Portfolio Manager Survey in the week ended July 10. Based on the magnitude of the deterioration in market sentiment, there is a risk that risk profiles will be further reduced in the weeks immediately ahead.

The biggest changes in asset allocations this week were increases in Treasury and corporate bond allocations, and a reduction in Agency allocations. MBS and ABS allocations were steady. The Spread Expectations Index was also little changed and remain negative, but improved marginally.

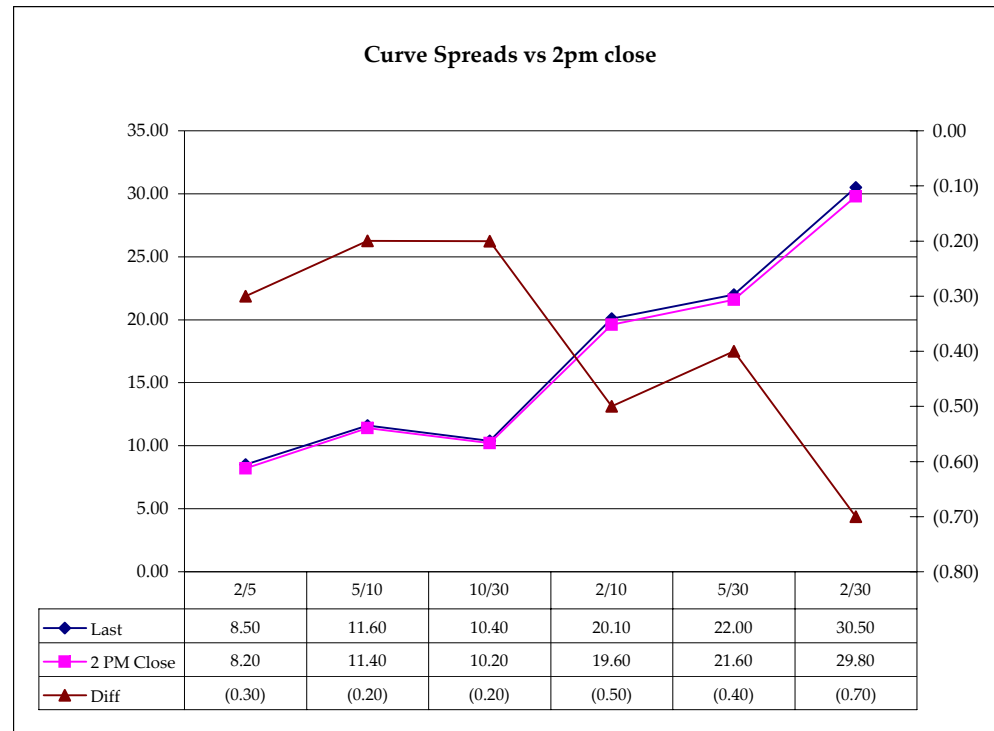
The following table summarizes the most recent survey structural statistics, and compares them with the prior week.

SMR Weekly Money Manager Survey Summary				
07/10/07	Survey Average	Range	Prior Week	Range
Cash/Assets		0% - 10%	0% - 10%
Arithmetic	3.0%		3.2%	
Weighted	3.3%		3.7%	
Actual/Target Duration		98% - 103%	98% - 103%
Arithmetic	99.9%		100.8%	
Weighted	100.7%		101.1%	
Bear/Bull Index		3 - 6	3 - 7
Arithmetic	4.7		5.2	
Asset Weighted	4.7		5.2	
*Intending to adjust portfolio in coming week				
Actual/Bogey	100.6%		101.2%	
Bear/Bull Index	4.7		4.5	
% Planning to be Active	23%		15%	

	M Duration	DV01 32	DV01 \$	CF
30y	15.03	4.60	\$1,438	n/a
10y	7.76	2.39	\$748	n/a
5y	4.35	1.39	\$435	n/a
2y	1.96	0.62	\$193	n/a
ZB	9.62	3.35	\$105	0.8285
ZN	5.72	1.95	\$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	8.50	8.20	(0.30)
5/10	11.60	11.40	(0.20)
10/30	10.40	10.20	(0.20)
2/10	20.10	19.60	(0.50)
5/30	22.00	21.60	(0.40)
2/30	30.50	29.80	(0.70)



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		1.717	2.558	2.768
ZN	0.582		1.490	1.612
ZF	0.391	0.671		1.082
ZT	0.361	0.620	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	1.77	4.16	7.15	13.76
ZN	3.04	7.14	12.28	23.62
ZF	4.53	10.64	18.30	35.18
ZT	4.91	11.51	19.80	38.07

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		2.346	4.035	7.758
5y	0.426		1.720	3.307
10y	0.248	0.559		1.923
30y	0.129	0.291	0.520	

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

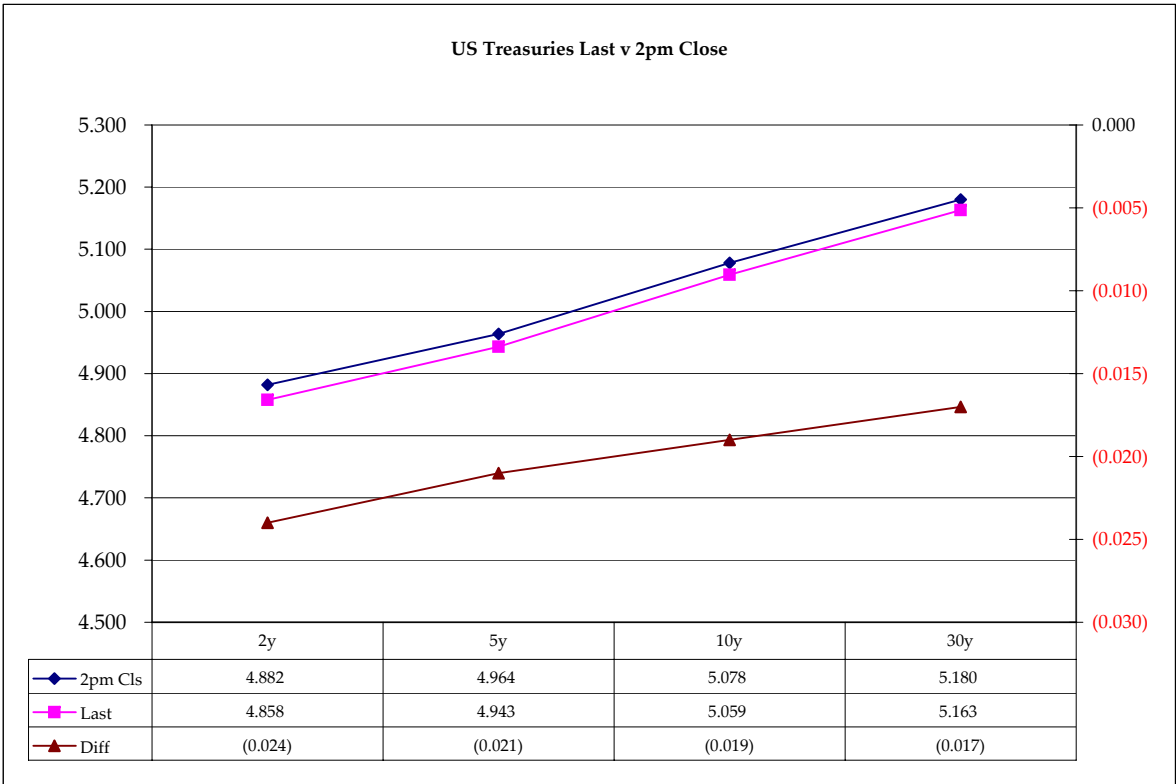
WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	2,869	73,040	(75,909)	7/3/2007
ZN	(3,919)	24,756	(20,836)	
ZB	(31,467)	17,326	14,140	

^WoW = Week over week

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	99.3150	4.882	4.858	(0.024)			
5y	4.875	6/30/12	99.1950	4.964	4.943	(0.021)	13.06	13.20	
10y	4.500	5/15/17	95.180	5.078	5.059	(0.019)	46.81	47.74	
30y	4.750	2/15/37	93.17	5.180	5.163	(0.017)	150.75	153.60	

	Close 32	Last
ZF	103.315	104.025
ZN	105.135	105.175
ZB	107.06	107.110

Curve Spreads		
	Close bps	Last bps
2/5	8.2	8.5
5/10	11.4	11.6
10/30	10.2	10.4
2/10	19.6	20.1
5/30	21.6	22.0
2/30	29.8	30.5



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

Correlations & R-Squared

Symbol	Daily Correlations US Cash Treasuries (Yield)				Daily Correlations US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	97.1	95.9	95.0	(97.3)	(96.5)	(94.5)	(95.8)
5yr Yield	97.1	100.0	99.6	99.0	(94.6)	(98.2)	(98.8)	(99.3)
10yr Yield	95.9	99.6	100.0	99.7	(92.7)	(97.1)	(98.5)	(99.5)
30yr Yield	95.0	99.0	99.7	100.0	(90.8)	(95.7)	(97.4)	(99.0)
ZT	(97.3)	(94.6)	(92.7)	(90.8)	100.0	98.1	95.2	94.6
ZF	(96.5)	(98.2)	(97.1)	(95.7)	98.1	100.0	99.1	98.3
ZN	(94.5)	(98.8)	(98.5)	(97.4)	95.2	99.1	100.0	99.2
ZB	(95.8)	(99.3)	(99.5)	(99.0)	94.6	98.3	99.2	100.0
emini SP	66.2	63.4	66.3	65.3	(72.8)	(69.5)	(65.6)	(67.4)
Dow Futures	30.2	41.1	46.3	46.9	(29.5)	(38.8)	(46.4)	(45.0)
USDJPY	76.5	69.5	66.2	65.9	(80.1)	(76.6)	(69.3)	(68.9)
EURUSD	(40.9)	(22.7)	(16.9)	(14.7)	46.6	32.1	19.8	21.1
Crude	(3.9)	17.0	21.7	22.5	6.8	(9.5)	(21.5)	(17.9)

Symbol	Daily R-Squared US Cash Treasuries (Yield)				Daily R-Squared US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield		0.94	0.92	0.90	0.95	0.93	0.89	0.92
5yr Yield	0.94		0.99	0.98	0.89	0.96	0.98	0.99
10yr Yield	0.92	0.99		0.99	0.86	0.94	0.97	0.99
30yr Yield	0.90	0.98	0.99		0.82	0.92	0.95	0.98
ZT	0.95	0.89	0.86	0.82		0.96	0.91	0.90
ZF	0.93	0.96	0.94	0.92	0.96		0.98	0.97
ZN	0.89	0.98	0.97	0.95	0.91	0.98		0.98
ZB	0.92	0.99	0.99	0.98	0.90	0.97	0.98	
emini SP	0.44	0.40	0.44	0.43	0.53	0.48	0.43	0.45
Dow Futures	0.09	0.17	0.21	0.22	0.09	0.15	0.22	0.20
USDJPY	0.59	0.48	0.44	0.43	0.64	0.59	0.48	0.47
EURUSD	0.17	0.05	0.03	0.02	0.22	0.10	0.04	0.04
Crude	0.00	0.03	0.05	0.05	0.00	0.01	0.05	0.03

Thanks to Dave Cohen, in Development at Penson GHCO, for the help with the R-Squared correlation.

All correlations based on 10 day historical .

Correlations for the US Cash Treasuries are done on a YIELD basis.

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	\$197	\$407		
10	\$193	\$399	\$737	
30	\$187	\$388	\$716	\$1,438
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	\$0	\$8		
30	\$6	\$19	\$21	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.72%			
10	0.17%	1.93%		
30	3.16%	4.97%	2.98%	

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	1.98	3.87
ZF	0.47	1.00	1.80	3.52
ZN	0.32	0.67	1.21	2.36
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	2.11	3.81	7.44
5y	0.47	1.00	1.81	3.53
10y	0.26	0.55	1.00	1.95
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	1.64	2.81
ZF	0.91	1.00	1.49	2.56
ZN	0.61	0.67	1.00	1.72
ZB	0.36	0.39	0.58	1.00

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

Fed Funds Probability of Tightening or Easing

August/07/2007	
Target Rate	Probabiltiy
4.50	4.90
4.75	-9.00
5.00	6.50
5.25	97.80
5.50	-1.60

September/18/2007	
Target Rate	Probabiltiy
4.50	0.00
4.75	1.70
5.00	4.50
5.25	90.60
5.50	3.70

October/31/2007	
Target Rate	Probabiltiy
4.50	0.90
4.75	1.70
5.00	3.80
5.25	90.20
5.50	2.10

Under construction

