The Morning Email: Treasuries

7/13/2007 5:45

Table of Contents

MarketNews international

10:29 **07/12 US CDO/SubPrime**: Moody's is now giving a conference call detailing move yesterday to place 184 tranches of 91 different subprime-backed CDOs under review.

Points:

1) Assessed credit ratings, which have been relatively stagnant, represent purely probability of default. Market spreads, by contrast, factor in a far greater number of variables, such as liquidity risk,

2) Ratings on AAA and AA so far unchanged,

3)Most downgrades were at Baa level or lower,

4)Ratings changes affected primarily a small number of originators - thus there are clear cut differences in credit performance among different originators,

5)Only in recent months has credit performance for 2006 vintage deals deteriorated sharply - previously to that, performance was poor, but not enough to warrant downgrade,

6)Freemont and Long Beach originated deals have significantly performed below average - Wells Fargo and Options One have performed better,

7)2 key factors: "roll rate to default" = % of delinqencies ending in default, "Severity of Loss" = % of principal lost after default, which could=0 if property is sold at profit.

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

Stone & McCarthy RESEARCH ASSOCIATES

Important Econ Releases, Highs & Lows

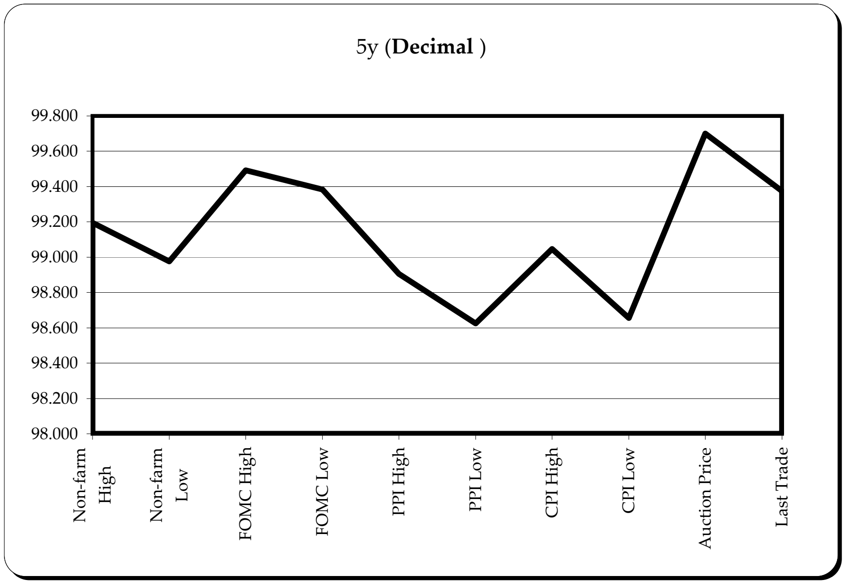
Economic Releases - 32nds

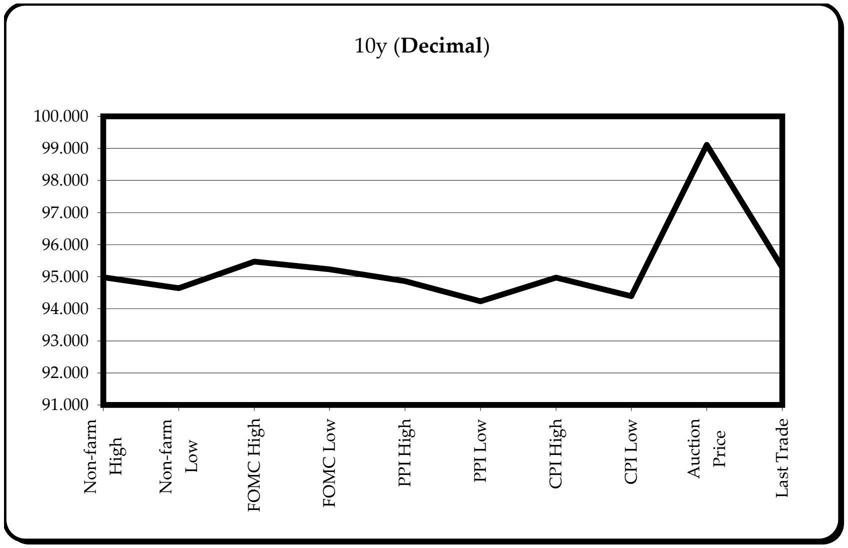
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.0625	94.315	104.305	106.16	7/6/2007
Non-farm Low	98.3125	94.205	104.175	105.31	7/6/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	6/28/2007
PPI High	98.2900	94.275	104.185	106.11	6/14/2007
PPI Low	98.2000	94.075	104.045	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	99.1200	95.090	105.030	106.25	7/13/2007 5:45

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

	ls	net	high	low	open	Volume	SYM NAME
	32 nds						
TUAU7	101.250	0.2	101.252	101.240	101.247	17,598	2y Fut
FVAU7	103.235	(0.5)	103.245	103.205	103.230	37,595	5y Fut
TYAU7	105.030	(0.5)	105.040	104.300	105.015	130,085	10y Fut
USAU7	106.250	(1)	106.270	106.170	106.210	22,692	30y Fut
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
BUS02P	99.285	0.7	99.287	99.277	99.280	na	2y Cash
BUS05P	99.117	1.0	99.122	99.090	99.102	na	5y Cash
BUS10P	95.085	1.5	95.095	95.025	95.050	na	10y Cash
BUS30P	93.000	4	93.020	92.220	92.220	na	30y Cash
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
BUS02Y	4.930	(0.40)	4.964	4.921	4.964	na	2y Yield
BUS05Y	5.019	(0.50)	5.044	5.013	5.039	na	5y Yield
BUS10Y	5.116	(0.80)	5.147	5.112	5.141	na	10y Yield
BUS30Y	5.214	(0.80)	5.244	5.209	5.233	na	30y Yield

MarketNews international

All times Eastern

15:19 07/12 **US TSYS/RECAP**: US Tsys end lower after choppy day saw 1) morning slide on firmer stocks, 2) slightly reduced subprime jitters; 3) dealer short-setting before US$8B 10Y auction, which turned out reasonably good at 43.8% indirects, 2.749% high yield; 4) corporate rate-lock selling, bank selling in Tsys intermediates; but then 5) saw some rebound off low amid 6) leveraged account buying in 10s; afternoon brisk buying of 2YS by Continental buyer, possibly central bank; cd be more from that bid, and others saw same-type buys but in long end; 7) afternoon buying of long end; 8) apparent corporate rate-lock unwinds as TVA priced US$1B
10Y, Lehman Bros to price US$5B between 5Y, 10Y, 30Ys. 9) Also p.m. buy-and-hold buying in intermediates, fast money buying there too. 10) Moody's conf. call on rtg cuts did not unleash bombshells. 11) Also mixed US$8B US 10y TIPS sale: 2.749% rate, low 1.97 cvr, 43.8% indirect, 0.2% Direct, 56% Dealers. 13) US$9.5B in investmt grade new bonds eyed Thu. 14) Dealer bought 1,000 Green Packs in Eurodlr futures, 3Y proxy.

15:13 07/12 **EURODLR FUTURES**: Eurodlr futures finished lower again, while the curve gave back much of Wed's steepening. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 2.0 bps to 49.875. The Fronts (Sep07-Jun08), settled steady to 5.0 bps lower, the Sep07 unched at 94-66 on combined Globex and pit volume of 133,000, the Dec07 in 1.0 bps at 94-66.5 on volume of 245,000, the Mar08 in 3.0 bps at 94-71 on volume of 332,000, while the Jun08 was 5.0 bps lower at 94-74.5 on volume of 325,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 4.0 to 6.0 bps lower across the pack with 719,000 contracts traded.

15:08 07/12 US SWAPS: Spreads improved throughout the session, tightest in the long end, while 30s pushed out 1.0 bps off tights late. After heavy receiving in the overnight session, sources had reported light 2-way swap-tied flow in fronts/intermediates in the first half. Volume remained light in the second half, while others suspect some rate lock unwinds after large $5B 5/10/30 Lehm deal priced. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:05	-1.75/48.75	-2.00/56.75	-2.00/65.25	-2.00/72.75
1:30	-1.75/48.75	-2.25/56.50	-2.75/64.50	-3.00/71.75
1:00	-1.75/48.75	-2.25/56.50	-2.50/64.75	-2.50/71.25
12:00	-1.50/49.00	-2.25/56.50	-2.00/65.25	-2.25/71.50
10:30	-1.00/49.50	-1.50/57.25	-2.00/65.25	-2.00/71.75
9:30	-0.75/49.75	-1.00/57.75	-1.00/66.25	-1.25/72.50
Thu Open	-0.75/49.75	-1.00/57.75	-1.00/66.25	-1.25/72.50
Wed 3:05	+0.00/50.50	+0.50/58.75	+0.50/67.25	+0.75/73.75

(continued)

05:01 07/13 **TSYS:** Treasuries are trading flat in London Friday, with most market players sidelined ahead of the New York open. With a lack of fresh direction and trading incentives, prices were flat, consolidating at overnight levels. T

raders said flows were light in Asia, with many Tokyo players unprepared to open fresh trading positions ahead of the long holiday weekend in Japan. However, following the overnight reversals, traders said the downside seemed protected by dip-buying.

London saw little change in the overall trend, with flows directionless and largely inter-dealer. Bunds were trading 1 bps higher against the US 10-year T-notes, with the spread standing at +56 bps. Ahead of the U.S. session, the 2-yr note was unchanged, trading at 99 28/32 to yield 4.93%. The 10-yr note was unchanged at 95 7/32 (5.07%), with the Bond unchanged at 92 29/32 (5.22%).

News: Snapshots throughout the day

Duration, DV01s, Curve Spreads, CF

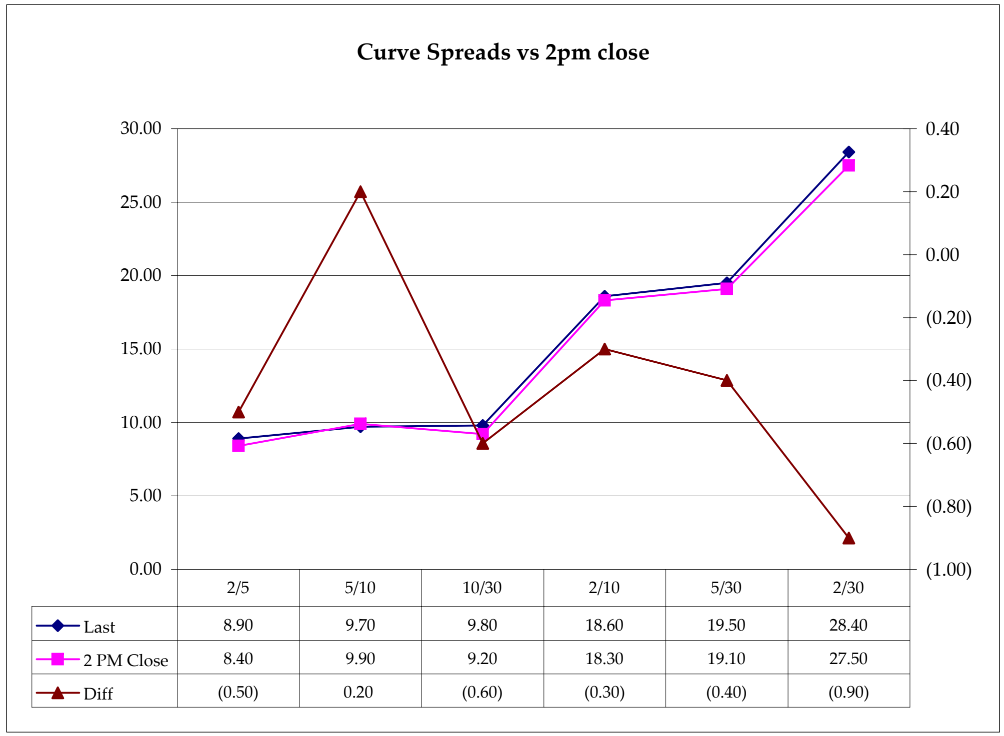
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	14.96	4.55	$1,421	9.10	n/a
10y	7.74	2.38	$743	4.76	n/a
5y	4.34	1.38	$432	5.54	n/a
2y	1.95	0.61	$192	2.46	n/a
ZB	9.59	3.32	$104	3.32	0.8285
ZN	5.71	1.94	$61	3.87	0.8926
ZF	3.90	1.30	$41	2.60	0.9540
ZT	1.81	1.18	$37	4.73	0.9815

Yield Curve Spreads

	Last	2pm close	Diff
2/5	8.90	8.40	(0.50)
5/10	9.70	9.90	0.20
10/30	9.80	9.20	(0.60)
2/10	18.60	18.30	(0.30)
5/30	19.50	19.10	(0.40)
2/30	28.40	27.50	(0.90)

DV01 32 said differently is how many TICS is in a basis point. Example, If ZN moves 1-basis point, it's moved 1.94 tics.

Since it trades in half tics 4 boxes = 1 basis point in ZN.



Notes

CF = Conversion Factor

MDuration = Modified Macaulay Duration

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

DV01 Box = Dollar Value of 1 basis point move per Box

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		1.716	2.555	2.766
ZN	0.583		1.489	1.612
ZF	0.391	0.671		1.083
ZT	0.362	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	7.16	13.68
ZN	3.04	7.14	12.28	23.47
ZF	4.53	10.64	18.29	34.96
ZT	4.91	11.52	19.80	37.84

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	4.034	7.712
5y	0.426		1.719	3.286
10y	0.248	0.559		1.912
30y	0.130	0.293	0.523	

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.

Commitment of Traders (COT)

	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			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
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

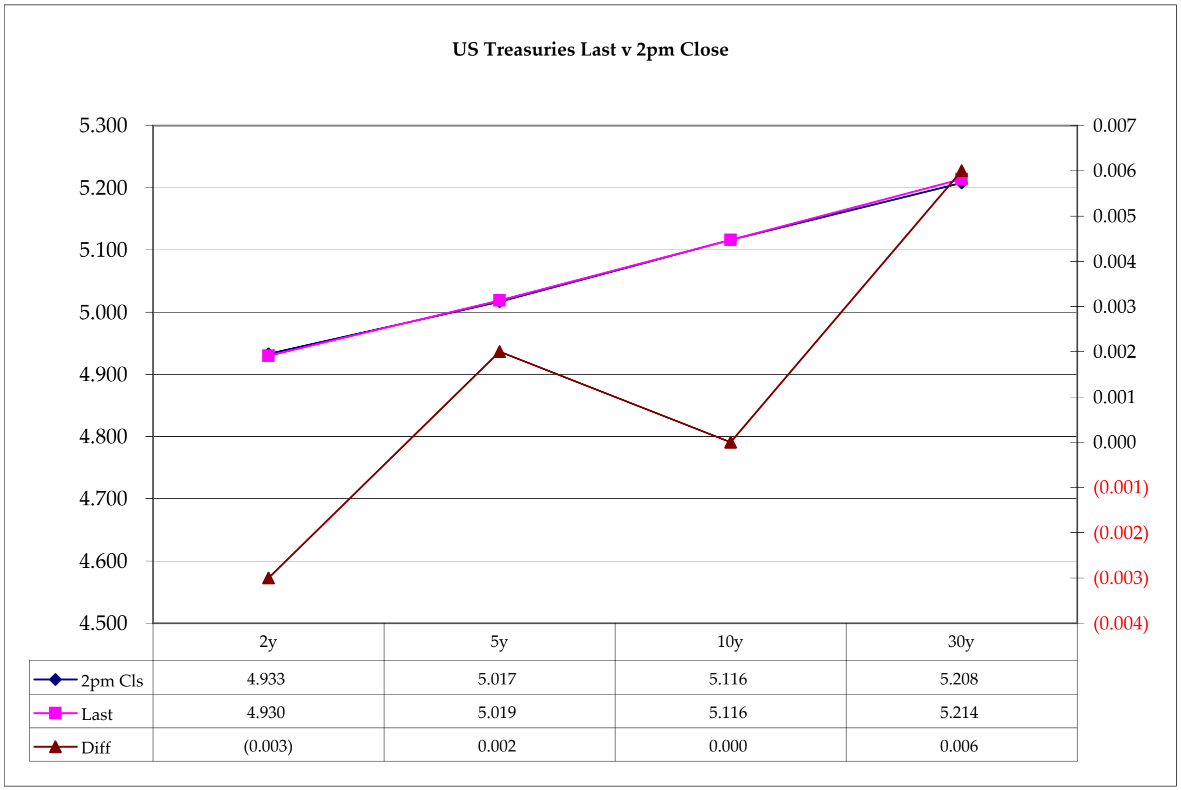
Closes - 2pm CST

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.875	6/30/09	98.2850	4.933	4.930	(0.003)			
5y	4.875	6/30/12	99.1225	5.017	5.019	0.002	12.97	13.20	
10y	4.500	5/15/17	95.090	5.116	5.116	0.000	46.29	47.19	
30y	4.750	2/15/37	93.04	5.208	5.214	0.006	147.36	147.02	

	Close 32	Last
ZF	103.240	103.235
ZN	105.040	105.030
ZB	106.27	106.250

Curve Spreads

	Close bps	Last bps
2/5	8.4	8.9
5/10	9.9	9.7
10/30	9.2	9.8
2/10	18.3	18.6
5/30	19.1	19.5
2/30	27.5	28.4



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

	Daily Correlations				Daily 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	98.4	98.1	97.7	(96.5)	(97.0)	(96.2)	(97.2)
5yr Yield	98.4	100.0	99.8	99.5	(95.5)	(98.3)	(98.6)	(99.1)
10yr Yield	98.1	99.8	100.0	99.8	(95.1)	(98.0)	(98.5)	(99.3)
30yr Yield	97.7	99.5	99.8	100.0	(93.4)	(96.9)	(97.5)	(98.5)
ZT	(96.5)	(95.5)	(95.1)	(93.4)	100.0	98.6	97.5	97.0
ZF	(97.0)	(98.3)	(98.0)	(96.9)	98.6	100.0	99.5	99.1
ZN	(96.2)	(98.6)	(98.5)	(97.5)	97.5	99.5	100.0	99.7
ZB	(97.2)	(99.1)	(99.3)	(98.5)	97.0	99.1	99.7	100.0
emini SP	63.0	61.7	61.5	63.3	(54.8)	(58.6)	(54.4)	(55.9)
Dow Futures	54.6	56.4	57.7	60.0	(45.7)	(52.1)	(51.3)	(53.4)
USDJPY	59.0	54.4	53.1	52.4	(67.2)	(62.7)	(58.6)	(57.7)
EURUSD	5.8	15.1	17.4	20.5	7.4	(4.4)	(9.2)	(11.0)
Crude	47.0	59.2	61.3	61.6	(41.6)	(52.3)	(59.0)	(59.4)

	Daily R-Squared				Daily R-Squared			
	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield		0.97	0.96	0.95	0.93	0.94	0.93	0.94
5yr Yield	0.97		1.00	0.99	0.91	0.97	0.97	0.98
10yr Yield	0.96	1.00		1.00	0.90	0.96	0.97	0.99
30yr Yield	0.95	0.99	1.00		0.87	0.94	0.95	0.97
ZT	0.93	0.91	0.90	0.87		0.97	0.95	0.94
ZF	0.94	0.97	0.96	0.94	0.97		0.99	0.98
ZN	0.93	0.97	0.97	0.95	0.95	0.99		0.99
ZB	0.94	0.98	0.99	0.97	0.94	0.98	0.99	
emini SP	0.40	0.38	0.38	0.40	0.30	0.34	0.30	0.31
Dow Futures	0.30	0.32	0.33	0.36	0.21	0.27	0.26	0.28
USDJPY	0.35	0.30	0.28	0.27	0.45	0.39	0.34	0.33
EURUSD	0.00	0.02	0.03	0.04	0.01	0.00	0.01	0.01
Crude	0.22	0.35	0.38	0.38	0.17	0.27	0.35	0.35

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%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$192**			
5	$195	**$405**		
10	$191	$396	**$733**	
30	$185	$384	$709	**$1,421**

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.

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($3)			
10	$1	$8		
30	$7	$21	$23	

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.

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.54%			
10	0.48%	2.05%		
30	3.80%	5.42%	3.30%	

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	1.98	3.84
ZF	0.47	1.00	1.80	3.50
ZN	0.32	0.67	1.21	2.35
ZB	0.19	0.39	0.71	1.37

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	7.40
5y	0.47	1.00	1.81	3.51
10y	0.26	0.55	1.00	1.94
30y	0.14	0.28	0.52	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	1.10	1.64	2.81
ZF	0.91	1.00	1.49	2.55
ZN	0.61	0.67	1.00	1.72
ZB	0.36	0.39	0.58	1.00

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

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