



The Morning Email: Treasuries

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7/16/2007 6:01

Stone & McCarthy
RESEARCH ASSOCIATES

"The Fed is more concerned about price stability and employment rather than specific inflation numbers..." --Janet Yellen, 07/12/2007 (Non-Voter, FOMC)

Raymond Stone, rstone@smra.com
--Stone & McCarthy (Princeton)

"The interesting aspect of the recent retail trade data is that the housing contraction is now showing up in the retail sales data. The weakness in housing is now having the textbook impact on spending for household durable goods, which until recently appeared to be unaffected. The long awaited "contagion" is now apparent. Weakness is not only apparent in the housing sensitive building material sector, but also in furniture and electronic store sales, providing evidence the housing story is no longer contained."

Iran Asks Japan to Pay Yen for All Oil, Starting Immediately
-BBG 2007-07-13 09:19 (New York)

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

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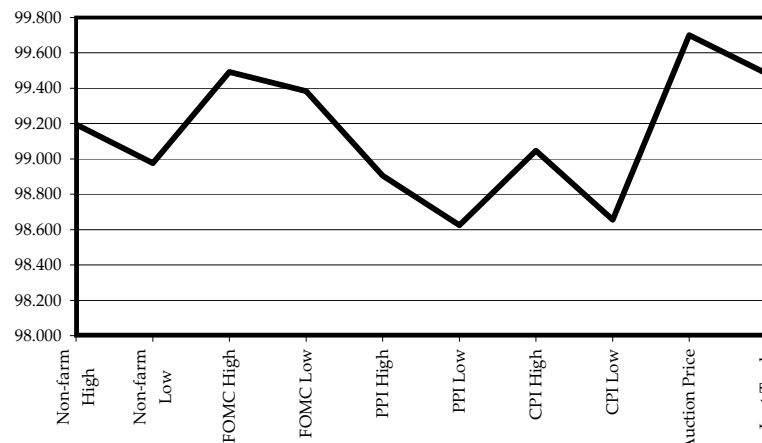


Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.0625	94.315	104.305	106.16	7/6/2007
Non-farm Low	98.3125	94.205	104.175	105.31	7/6/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	6/28/2007
PPI High	98.2900	94.275	104.185	106.11	6/14/2007
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	99.1550	95.150	105.085	107.05	7/16/2007 6:01

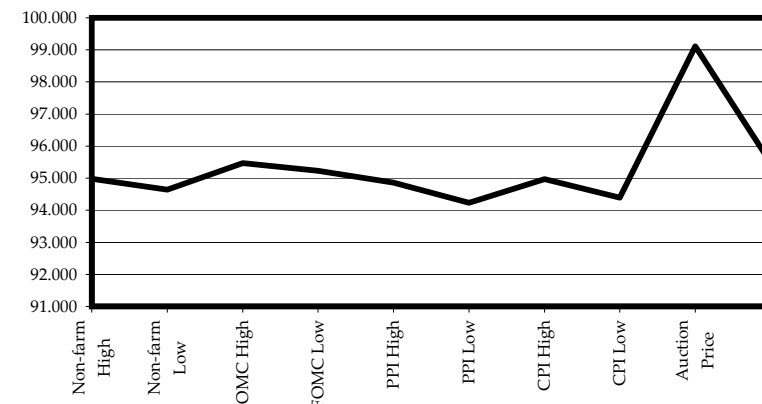
Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.313	99.224	99.035	98.194
Auction Yield Stop	4.906	4.94	4.612	4.838
Actual Auction Date	6/26/2007	6/27/2007	5/8/2007	5/11/2007 r

r = reopen

5y (Decimal)



10y (Decimal)



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	101.265	1.0	101.275	101.255	101.257	14,111	2y Fut
FVAU7	103.285	3.0	103.310	103.265	103.265	37,505	5y Fut
TYAU7	105.085	3.5	105.125	105.060	105.065	107,913	10y Fut
USAU7	107.050	5	107.090	107.010	107.030	21,408	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.295	0.7	99.307	99.297	99.297	na	2y Cash
BUS05P	99.155	1.5	99.182	99.152	99.170	na	5y Cash
BUS10P	95.150	2.0	95.185	95.140	95.180	na	10y Cash
BUS30P	93.165	2	93.220	93.150	93.190	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.908	2.50	4.942	4.887	4.942	na	2y Yield
BUS05Y	4.992	0.20	5.013	4.97	5.013	na	5y Yield
BUS10Y	5.089	(0.40)	5.103	5.072	5.103	na	10y Yield
BUS30Y	5.178	(0.50)	5.19	5.164	5.19	na	30y Yield


All times Eastern

15:14 07/13 US **TSYS/RECAP:** Tsys rose Fri amid late short-covering after morning slide as German Bunds slid amid 30Y Bund swaps paying (profit-taking on 4:30am ET-ish strong swap receiving in German 30Y swaps that aided Bunds). There also was a.m. US 10Y swaps receiving in UK, NY, and a.m. Tsys short-covering after global macro accts set new Tsys shorts (after had Thu covered shorts). There was heavy real money selling in 5Y, 10Y futures, and early, 2-way flow, short-covering on weak -0.9% June US retail sales, leveraged accounts buying 10s, with also front end, 5Y selling, 5Y/10Y flatteners. There was some stocks-vs-bonds interplay, and subprime area; ABX 07-01 was lower, did not seem to upset stocks after big US stk rally Thu, mild stock gain Fri. Earlier, there was light rate locking in 2- and 3yr bundles in Eurodlrs. Real money moved out Tsys curve. Mon may be quiet with Japan out for Marine Day. Traders await Fed Chair Bernanke congressional testimony on policy Wed-Thu; may reiterate inflation risks but not tip hand on policy future.

15:16 07/13 **US SWAPS:** Spreads managed to improve across the curve, save a slightly wider front end with Tsy ylds lower by the bell. As to flow, Eurodollar sources reported light deal related flow in 2- and 3-year bundles, some rate locks and unwinds later in session. Treasury sources reported some brisk receiving by dealers in 10s on two waves, first in the UK session, then again in the New York session around midmorning. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:05	+0.25/49.00	-0.75/56.00	-0.50/64.75	-0.50/71.25
12:20	-0.50/48.25	-1.25/55.50	-1.00/64.25	-0.75/71.00
11:00	-1.25/47.50	-1.50/55.25	-1.50/63.75	-1.25/70.50
10:30	-0.75/48.00	-1.25/55.50	-1.00/64.25	-1.00/70.75
9:25	-0.75/48.00	-1.50/55.25	-1.25/64.00	-1.50/70.25
Fri Open	-1.00/47.75	-1.25/55.50	-1.25/64.00	-1.25/70.50
Thu 3:05	-1.75/48.75	-2.00/56.75	-2.00/65.25	-2.00/71.75

15:24 07/13 **EURODLR FUTURES:** Giving back early gains, Eurodlr futures finished steady in the very front, slightly higher in Reds. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 1.625 bps to 48.25. In the Fronts (Sep07-Jun08), the Sep07 was at 94-66 on combined Globex and pit volume of 108,000, the Dec07 at 94-66.5 on volume of 246,000, the Mar08 at 94-71 on volume of 277,000, while the Jun08 was at 94-74.5 on volume of 308,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled steady to 1.0 bps higher across the pack with 614,000 contracts traded.

(continued)

05:20 07/16 **TSYS:** Treasuries are trading modestly higher in London trade Monday, with traders noting a light safe-haven bid ahead of the U.S. open. However, traders say that volumes are modest, with no early lead from Asia, as Tokyo was closed for a holiday. Although no real major incidents occurred overnight, an earthquake in Japan, along with a subsequent fire at a nuclear plant and minor explosions at the UK embassy in Chile unnerved markets a little. Real money players were largely absent, with any real activity taking place in the futures, helping pull cash prices higher. Leveraged accounts were modest buyers of 10-year paper, helping push yields lower from the New York close. Bunds were trading 1 bps lower against the US 10-yr, with the spread standing at +55 bps. The 2-yr was 1/32 higher, trading at 99 30/32 to yield 4.90%. The 10-yr note was 3/32 higher at 95 18/32 (5.08%), with the Bond unch at 93 21/32 (5.17%). The 2-yr/5-yr yield curve was unch on Fri's levels, trading at +8 bps The 2-/10-yr curve was at +18 bps.

MarketNews
international

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11:42 07/13 US **TSYS/SUBPRIME**: Some noted that for this very moment, there appears to have been a US stocks/subprime decoupling. DJIA is mildly firmer, while ABX BBB- 07-01 in recent past was at 48.25, weaker on the day, and quite weak on the week. "There has been a bit of a decoupling," said one trader. "That's an impressive rally in stocks, so when stocks go down, there will be buyers on dips. Maybe the ABX is having trouble because GE is selling their subprime subsidiary. And, partly it's a summer Friday so a lot of people are not around. Probably people who have positions in ABX are getting out. They might take another peek on Monday" at ABX. One other thing to look at for next week: Japan is out for Monday, Japan's Marine Day.

11:32 07/13 **US VIEW**: Market players eagerly await two days of testimony by **Fed Chair Ben Bernanke**, who will address the House Financial Services Committee Weds and the Senate Banking Committee Thurs. Matthew Moore of BOA notes that in all three of Bernanke's prior semi-annual testimonies, US yields "have ended the Friday following the testimony lower than they closed on the day preceding the start of the testimony." Also, he says, the "most dovish" aspects of Bernanke's appearance may come in Q&A as the Fed chair is likely asked about risks from sub-prime mortgage delinquencies and foreclosures. The market will await any discussion about inflation and whether the focus may shift from core to headline. "Chairman Bernanke can clarify the issue with his testimony, and we expect him to reiterate the Fed's focus on the core measure," Moore says.

14:08 07/13 US **TSYS/FOREIGN**: BMO Capital Mkts' Michael Gregory eyes Tue 9am ET May Tsy Intl Capital (**TIC**) report on foreign hldgs of U.S. Tsys. "The Tsy mkt selloff during May and June largely reflected the realization that the Fed could be on hold for a long time," he said. But "the month before, net purchases of Tsy notes and bonds by foreigners fell of US\$0.4Bln, as Chinese hldgs (including bills) posted their largest decline in a decade.

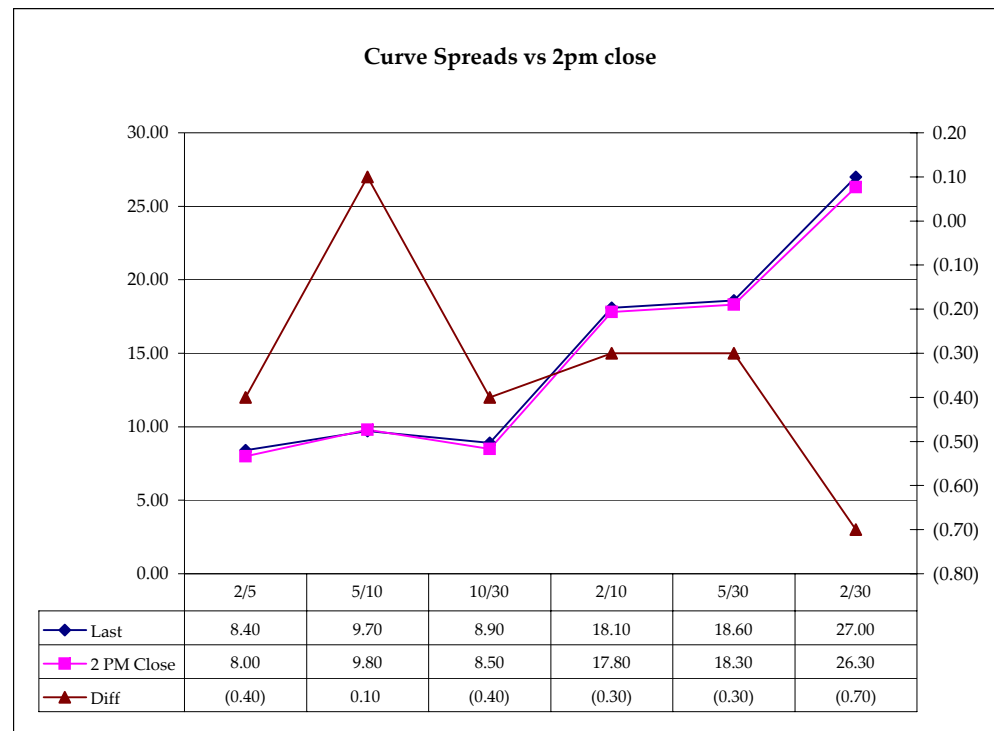
Only 3 monthly readings during the past 5 yrs have been smaller, suggesting that an ebbing appetite for Treasuries among foreign investors might have also contributed to the selloff, particularly since the U.S. dollar also slid to new lows." He said TIC data "should shed more light, but these events emphasize" U.s. bond mkt, dollar's "vulnerability" to "vagaries of global FX reserve management." He added FX reserve diversification trend by currency, asset class "is negative for U.S. bonds and the dollar" but only issue "is whether this will be a mild headwind or a hurricane."

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.00	4.58	\$1,433	9.17	n/a
10y	7.74	2.38	\$745	4.77	n/a
5y	4.34	1.39	\$433	5.54	n/a
2y	1.95	0.61	\$192	2.46	n/a
ZB	9.60	3.34	\$104	3.34	0.8285
ZN	5.71	1.94	\$61	3.89	0.8926
ZF	3.89	1.30	\$41	2.60	0.9540
ZT	1.81	1.18	\$37	4.73	0.9815

	Yield Curve Spreads		Diff
	Last	2pm close	
2/5	8.40	8.00	(0.40)
5/10	9.70	9.80	0.10
10/30	8.90	8.50	(0.40)
2/10	18.10	17.80	(0.30)
5/30	18.60	18.30	(0.30)
2/30	27.00	26.30	(0.70)

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

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	2.562	2.778
ZN	0.583		1.493	1.619
ZF	0.390	0.670		1.084
ZT	0.360	0.618	0.922	

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	4.15	7.15	13.75
ZN	3.03	7.13	12.27	23.59
ZF	4.53	10.64	18.31	35.22
ZT	4.91	11.54	19.85	38.18

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		2.351	4.046	7.780
5y	0.425		1.721	3.310
10y	0.247	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	236,073	272,931	(36,858)	281,935	358,788	(76,853)	1,143,087	1,029,375	113,712	ZF
ZN	320,669	483,336	(162,667)	776,188	451,906	324,282	2,103,322	2,264,937	(161,615)	ZN
ZB	149,583	212,327	(62,744)	119,759	235,815	(116,056)	805,444	626,643	178,801	ZB

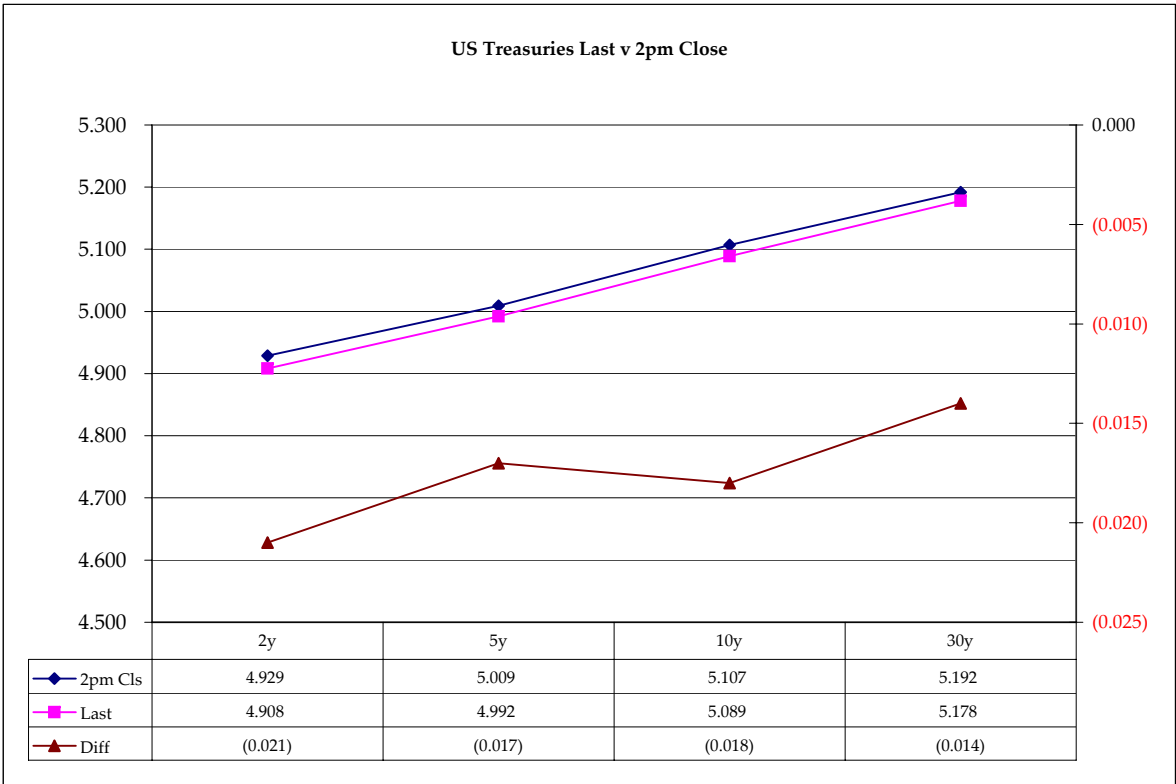
WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	21,320	24,790	(46,109)	7/10/2007
ZN	37,809	(50,594)	12,785	
ZB	24,472	(15,583)	(8,888)	

^WoW = Week over week

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	99.2875	4.929	4.908	(0.021)			
5y	4.875	6/30/12	99.1325	5.009	4.992	(0.017)	12.54	11.93	
10y	4.500	5/15/17	95.110	5.107	5.089	(0.018)	47.40	48.28	
30y	4.750	2/15/37	93.11	5.192	5.178	(0.014)	151.04	151.07	

	Close 32	Last
ZF	103.255	103.285
ZN	105.050	105.085
ZB	106.31	107.050

Curve Spreads		
	Close bps	Last bps
2/5	8.0	8.4
5/10	9.8	9.7
10/30	8.5	8.9
2/10	17.8	18.1
5/30	18.3	18.6
2/30	26.3	27.0



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

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	96.5	96.2	96.2	(93.5)	(93.7)	(92.7)	(94.5)
5yr Yield	96.5	100.0	99.9	99.2	(94.8)	(97.8)	(98.1)	(98.6)
10yr Yield	96.2	99.9	100.0	99.6	(94.7)	(97.8)	(98.2)	(98.9)
30yr Yield	96.2	99.2	99.6	100.0	(92.9)	(96.4)	(96.7)	(98.1)
ZT	(93.5)	(94.8)	(94.7)	(92.9)	100.0	98.6	97.2	97.1
ZF	(93.7)	(97.8)	(97.8)	(96.4)	98.6	100.0	99.5	99.3
ZN	(92.7)	(98.1)	(98.2)	(96.7)	97.2	99.5	100.0	99.5
ZB	(94.5)	(98.6)	(98.9)	(98.1)	97.1	99.3	99.5	100.0
emini SP	35.5	45.0	44.5	41.9	(34.7)	(38.1)	(37.9)	(33.2)
Dow Futures	20.9	33.4	33.1	30.9	(24.8)	(29.9)	(31.4)	(26.8)
USDJPY	69.0	59.5	61.1	63.1	(70.6)	(66.5)	(62.2)	(67.3)
EURUSD	(23.3)	(6.5)	(6.5)	(6.1)	28.2	16.6	11.1	15.2
Crude	11.6	32.2	31.3	27.8	(16.3)	(26.4)	(33.3)	(27.0)

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		0.93	0.93	0.92	0.87	0.88	0.86	0.89
5yr Yield	0.93		1.00	0.98	0.90	0.96	0.96	0.97
10yr Yield	0.93	1.00		0.99	0.90	0.96	0.96	0.98
30yr Yield	0.92	0.98	0.99		0.86	0.93	0.94	0.96
ZT	0.87	0.90	0.90	0.86		0.97	0.94	0.94
ZF	0.88	0.96	0.96	0.93	0.97		0.99	0.99
ZN	0.86	0.96	0.96	0.94	0.94	0.99		0.99
ZB	0.89	0.97	0.98	0.96	0.94	0.99	0.99	
emini SP	0.13	0.20	0.20	0.18	0.12	0.15	0.14	0.11
Dow Futures	0.04	0.11	0.11	0.10	0.06	0.09	0.10	0.07
USDJPY	0.48	0.35	0.37	0.40	0.50	0.44	0.39	0.45
EURUSD	0.05	0.00	0.00	0.00	0.08	0.03	0.01	0.02
Crude	0.01	0.10	0.10	0.08	0.03	0.07	0.11	0.07

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	\$192			
5	\$195	\$405		
10	\$191	\$396	\$732	
30	\$186	\$386	\$713	\$1,433
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	\$1	\$9		
30	\$6	\$19	\$20	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.60%			
10	0.56%	2.20%		
30	3.32%	5.00%	2.74%	

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	1.10	1.98	3.88
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	1.37

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.52	1.10	3.96	7.76
ZF	0.47	1.00	3.60	7.04
ZN	0.63	1.33	1.21	2.36
ZB	0.74	1.55	1.40	2.75

	2y	5y	10y	30y
2y	1.00	2.11	3.81	7.46
5y	0.47	1.00	1.81	3.54
10y	0.26	0.55	1.00	1.96
30y	0.13	0.28	0.51	1.00

	2y	5y	10y	30y
2y		2.11	1.91	3.73
5y	0.47		0.45	1.77
10y	0.52	2.21		1.96
30y	0.27	0.57	0.51	

	ZT	ZF	ZN	ZB
ZT	1.00	1.10	1.64	2.82
ZF	0.91	1.00	1.49	2.56
ZN	0.61	0.67	1.00	1.72
ZB	0.35	0.39	0.58	1.00

	2y	5y	10y	30y
ZT		1.10	3.29	11.29
ZF	0.91		1.49	5.12
ZN	0.30	0.67		3.43
ZB	0.09	0.20	0.29	

Fed Funds Probability of Tightening or Easing

FOMC Meeting →

August/07/2007	
Target Rate	Probabiltiy
4.50	4.90
4.75	-8.80
5.00	6.40
5.25	97.80
5.50	-1.70

September/18/2007	
Target Rate	Probabiltiy
4.50	0.10
4.75	2.60
5.00	3.50
5.25	92.50
5.50	1.10

October/31/2007	
Target Rate	Probabiltiy
4.50	0.70
4.75	3.10
5.00	7.80
5.25	84.10
5.50	4.40

as of 07/13/07

