



The Morning Email: Treasuries

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ABX	16-Jul	17-Jul	Change
BBB- 07-1	45.28	45.02	-0.26



7/18/2007 5:23

12:11 07/17 **US SWAPS/LBOS**: Swaps spreads are widening, because dealers are stuck with debt from buyouts, presumably lesser-quality debt tied to recent leveraged buyouts, "that they cannot sell, so swaps are the natural hedge, and they bang" the swaps spreads "out wider," said one trader. That occurs amid an environment that is seeing very light two-way flows in swaps with some sidelined to await Bernanke at Wed 10am ET.

US OUTLOOK: Goldman says it has made a revision to **CPI** ests-- Changing to headline +0.13% (from +0.05%), core to +0.22% from +0.16%).

Generally speaking the **PPI** data suggest a stabilization of inflationary pressures, at a reasonably contained rate. The Core PPI on a 12-mo basis has stayed in a narrow range of 1.5% to 2% over the past 6 months.

....Excluding car and light truck prices the Core PPI would have increased by only 0.1% instead of the reported 0.3% gain.



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

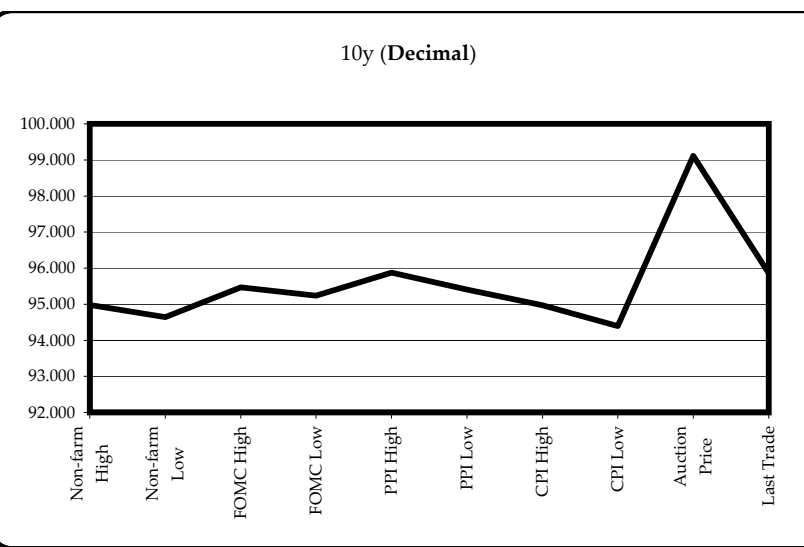
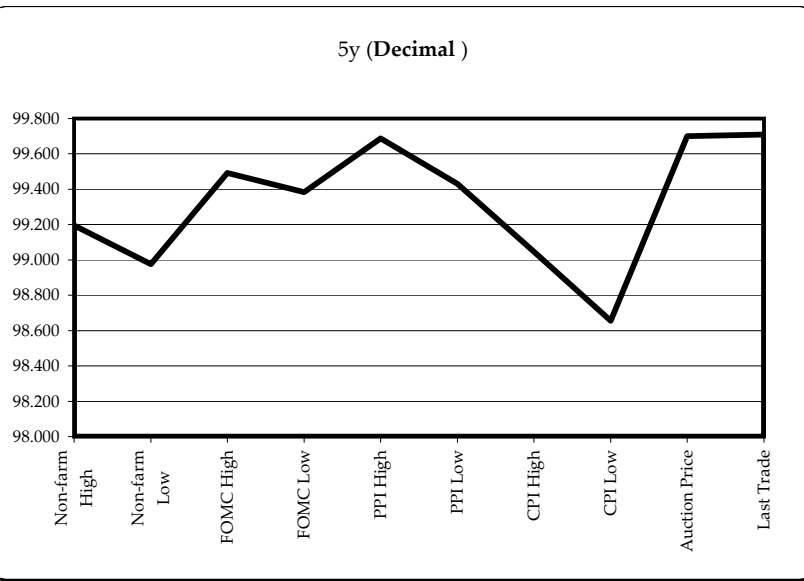
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Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.0625	94.315	104.305	106.16	7/6/2007
Non-farm Low	98.3125	94.205	104.175	105.31	7/6/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	6/28/2007
PPI High	99.2200	95.280	105.190	107.23	7/17/2007
PPI Low	99.1375	95.130	105.065	107.02	7/17/2007
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	99.2270	95.275	105.190	107.22	7/18/2007 5:23

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 = 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							
	Last	Net	High	High	High	Volume	SYM NAME
TUAU7	101.287	2.2	101.307	101.282	101.297	26,251	2y Fut
FVAU7	104.025	5.0	104.070	104.015	104.020	54,583	5y Fut
TYAU7	105.190	8.0	105.255	105.180	105.185	202,463	10y Fut
USAU7	107.220	13	107.310	107.190	107.210	52,282	30y Fut
	Last	Net	High	low	open	Volume	SYM NAME
BUS02P	100.005	1.0	100.020	100.002	100.010	na	2y Cash
BUS05P	99.222	2.2	99.267	99.217	99.247	na	5y Cash
BUS10P	95.270	3.0	96.020	95.265	95.305	na	10y Cash
BUS30P	94.080	3	94.210	94.060	94.130	na	30y Cash
	Last	Net	High	low	open	Volume	SYM NAME
BUS02Y	4.862	(1.70)	4.908	4.828	4.908	na	2y Yield
BUS05Y	4.941	(1.60)	4.974	4.909	4.974	na	5y Yield
BUS10Y	5.039	(0.80)	5.066	5.007	5.066	na	10y Yield
BUS30Y	5.127	(0.80)	5.146	5.097	5.146	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

15:18 07/17 **US TSYS/RECAP:** Tsys end lower, midrange, 1) pressured as DJIA above 14,000 late; 2) 2-way flow amid p.m. profit-taking on earlier Tsys gain, trading choppy. 3) P.m. had buying in 10Y futures, 2Y EuroDlr futures, T-bills, 10Y lvrgrd acct buying, 2-way action. In a.m., 4) Tsys slid amid negative reaction to 0.3% core June PPI, 5) stronger stks; 6) May TICS data; 7) apparent lack of negative news from subprime area. Also 8) muted 2-way flow by US accts as all await Bernanke Wed 10am ET; 9) lvrgrd accts bought 10Ys this morn, and also in intermediates. 10) Real money accts took advantage of softer prices around PPI to buy 2Ys, 30Y bonds futures, in corp-related action. 11) Buy-and-hold types took profits in 5Ys, similar accts buy 10Ys. 12) Some mulled if was some foreign/Asian profit-taking in 5Y zone. 13) German Bunds gained on weak ZEW, weakened after ECB Garganis (though small bargain-hunting off low) on BBG saying ECB will need to raise rates more amid strong economic growth, rising risk to price stability. 14) Traders confused, hope for subprime clarity.

15:13 07/17 **EURODLR FUTURES:** EuroDlr futures finished the session at or near session lows, the curve bear flattened, giving back nearly half of Mon's steepening. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, contracted 1.125 bps to 49.75. In the Fronts (Sep07-Jun08), the Sep07 were in 0.5 bps at 94-65.5 on combined Globex and pit volume of 84,000, the Dec07 in 2.0 bps at 94-67 on volume of 259,000, the Mar08 in 4.5 bps at 94-72 on volume of 317,000, while the Jun08 was 5.5 bps lower at 94-76 on volume of 316,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 6.0 to 6.5 bps lower across the pack with 668,000 contracts traded.

15:08 07/17 **US SWAPS:** Spreads finished Wider across the curve in a directional move w/lower Tsy ylds. On light two-way flow, sources reported modest deal related hedges and/or unwinds while one swap desk reported some mortgage account tied paying in 5s. Of note, while corporate supply is behind last week's torrid pace, the market was poised for nearly \$18 billion in CMBS supply in the next week. Modest front end paying continued into the second half. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:05	+0.25/50.00	+1.00/57.75	+1.25/66.75	+1.00/73.25
1:25	+0.25/50.00	+0.75/57.50	+0.75/66.25	+0.50/72.75
11:05	-0.25/49.50	+0.75/57.50	+0.75/66.25	+0.50/72.75
10:30	-0.25/49.50	+0.75/57.50	+0.75/66.25	+0.75/73.00
9:30	+0.00/49.75	+0.50/57.25	+0.50/66.00	+0.75/73.00
Tue Open	+0.50/50.25	+0.50/57.25	+0.50/66.00	+0.75/73.00
Mon 3:05	+0.75/49.75	+0.75/56.75	+0.75/65.50	+1.25/72.25

(continued)

05:13 07/18 **TSYS:** Treasuries are trading higher across the board in London Wednesday, as renewed concerns over the sub-prime market prompted a safe-haven bid. However, traders said flows were largely defensive, with few players prepared to open fresh positions ahead Federal Reserve Chairman Bernanke's testimony to Congress.

Bernanke is due to face the Hous Financial Services Committee, before facing the Senate Banking Committee Thursday. Prices were higher from the getgo in Tokyo, as the concerns over CDO's along with worries over equity valuations, triggered buying across the curve from Asian names. The belly of the curve initially led the way higher, but the curve ended little changed, despite solid gains in all sectors. London trade saw prices consolidate at higher levels, helped the credit woes and a sharp rally in European debt markets. The unease in the credit market saw the iTraxx crossover index initially jump 40 bps, before retracing some of the spike to stand at +312 bps.

05:12 07/18 **TSYS: (2)** Although leveraged names were buyers across the curve, traders said hedge funds were largely tied to the 5 and 10-year sector. Real money names were buyers of the 2-year and 5-year notes, with Japanese names again seen buying the Bond. Bunds were little changed 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 1/32 to yield 4.86%. The 10-yr note was 3/32 higher at 95 28/32 (5.03%), with the Bond 7/32 higher at 94 11/32 (5.14%). The 2-yr/5-yr yield curve was unchanged on Monday's levels, trading at +8 bps. The 2-/10-yr curve was also unchanged, trading at +18 bps, as was the 2-yr/30-yr curve, standing at +27 bps.

MarketNews
internationalStone & McCarthy
RESEARCH ASSOCIATES

10:02 07/17 **US MBS/SubPrime:** In what may be the very first foray into implementing new subprime and mortgage regulatory standards, federal regulators issued guidance on subprime lending that credit strategists at Banc of America think will have wide ranging impact on subprime borrowing.

The guidance so far requires for mortgage qualification to be based on the fully indexed and amortized mortgage rate including taxes and insurance - as opposed to the rock bottom introductory teaser rates that cause subprime origination to explode in volume over the last few years.

According to Banc of America, "The key implication of the new Federal guidance is that in the problematic 2005 and 2006 subprime mortgage vintages, we estimate that 50% of borrowers would not qualify based on the fully indexed rate, which has strong implications given that 80% of these mortgages are so-called 2/28, meaning borrowers are poised for payment shock this year and the next as interest rates reset." These new guidelines apply only to federally regulated lending institutions and thus still exclude independent mortgage broker.

13:50 07/17 **US CDO/Subprime:** After last week's CreditWatch action by S&P, followed the same day by Moody's mass downgrade which alone affected 19% of all Baa subprime mortgage bonds issued in 2006 and 42% of all Ba bonds issued that year, what's next? According to credit strategists at UBS, far more slash and burn downgrade action on debt backed by subprime collateral may be in store from the agencies.

After examining 4,800 subprime and second-lien mortgage bonds in 90 ABS CDOs, UBS concludes: 1)the mortgage bonds that were downgraded weren't downgraded far enough, 2many more mortgage bonds need to be downgraded now or in very near future. Specifically, UBS thinks that in the Baa rating categories (Baa1, Baa2, Baa3), some 50-56% of downgraded or negative watch-listed bonds will be partially or fully written down. The first downgrade, more often than not, is the usually the beginning of the road toward principal loss and thus write down. In other words, on a comparative basis, bonds downgraded to Baa are much weaker than bonds originally rated Baa at the time of issuance.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.05	4.64	\$1,449	9.27	n/a
10y	7.74	2.39	\$748	4.79	n/a
5y	4.34	1.39	\$434	5.55	n/a
2y	1.94	0.61	\$192	2.45	n/a
ZB	9.61	3.36	\$105	3.36	0.8285
ZN	5.71	1.95	\$61	3.89	0.8926
ZF	3.89	1.30	\$41	2.61	0.9540
ZT	1.80	1.18	\$37	4.72	0.9815

	Yield Curve Spreads		Diff
	Last	2pm close	
2/5	7.90	7.60	(0.30)
5/10	9.80	9.40	(0.40)
10/30	8.80	8.30	(0.50)
2/10	17.70	17.00	(0.70)
5/30	18.60	17.70	(0.90)
2/30	26.50	25.30	(1.20)

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

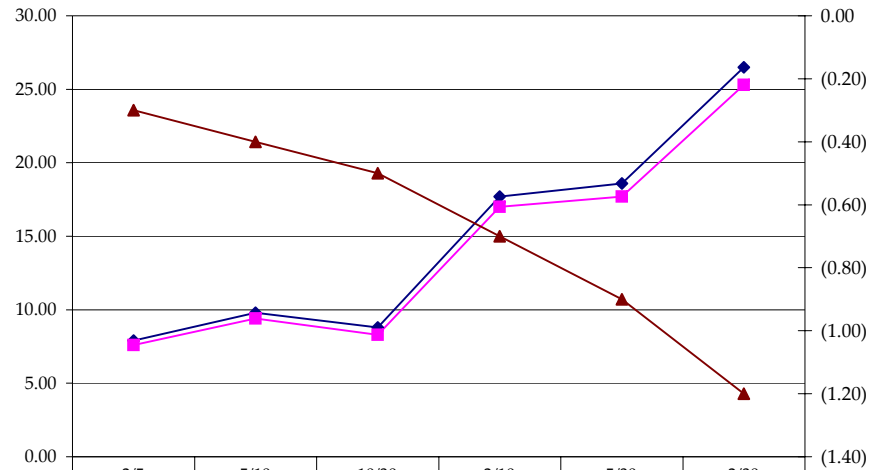
CF = Conversion Factor

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

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	7.90	9.80	8.80	17.70	18.60	26.50
2 PM Close	7.60	9.40	8.30	17.00	17.70	25.30
Diff	(0.30)	(0.40)	(0.50)	(0.70)	(0.90)	(1.20)

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	0.670

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.724	2.575	2.800
ZN	0.580		1.494	1.624
ZF	0.388	0.670		1.087
ZT	0.357	0.616	0.920	

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	1.75	4.13	7.13	13.81
ZN	3.02	7.13	12.30	23.82
ZF	4.51	10.64	18.37	35.57
ZT	4.91	11.57	19.97	38.68

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (U)	1.6	3.9	6.7	12.9
Bobl (U)	3.0	7.0	12.1	23.5
Shatz (U)	7.3	17.1	29.4	57.3

US Treasuries

	2y	5y	10y	30y
2y		2.358	4.070	7.882
5y	0.424		1.726	3.343
10y	0.246	0.557		1.937
30y	0.127	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	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

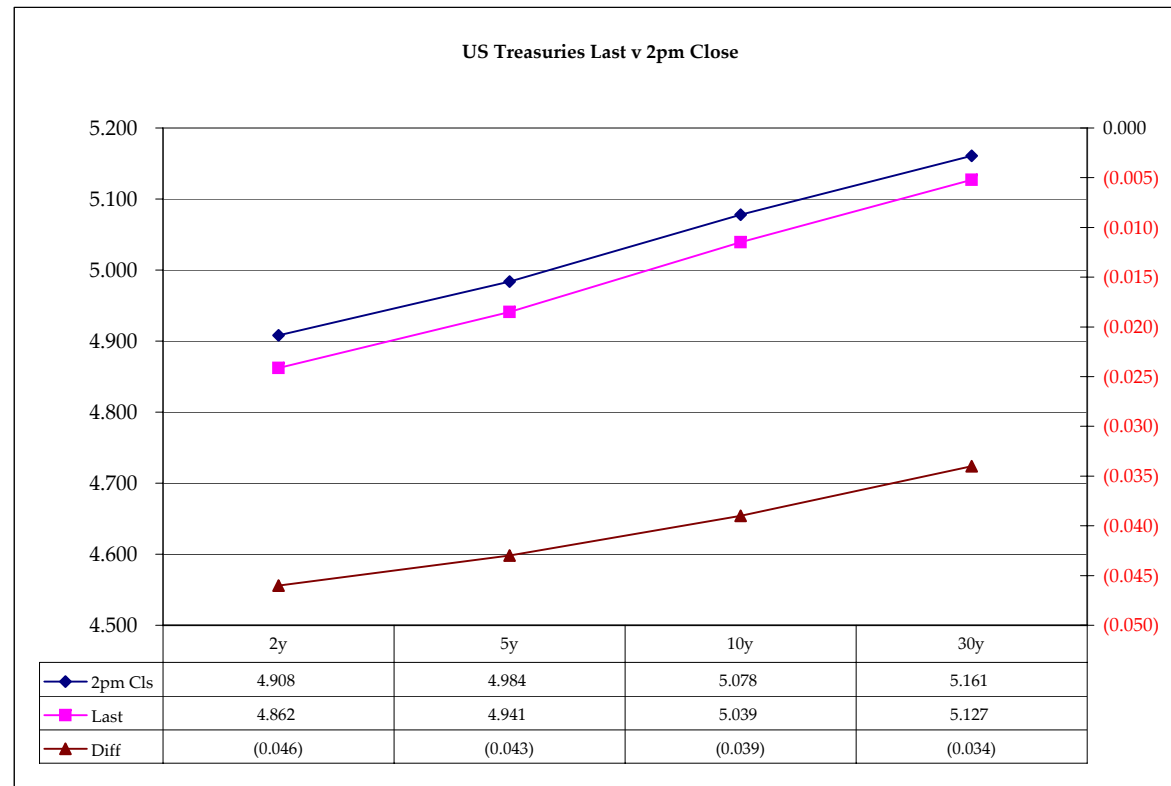
WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	21,320	24,790	(46,109)	7/10/2007
ZN	37,809	(50,594)	12,785	
ZB	24,472	(15,583)	(8,888)	

^WoW = Week over week

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	99.3000	4.908	4.862	(0.046)			
5y	4.875	6/30/12	99.1675	4.984	4.941	(0.043)	12.70	13.40	
10y	4.500	5/15/17	95.180	5.078	5.039	(0.039)	49.05	51.40	
30y	4.750	2/15/37	93.26	5.161	5.127	(0.034)	157.26	161.49	

	Close 32	Last
ZF	103.290	104.025
ZN	105.110	105.190
ZB	107.09	107.220

Curve Spreads		
	Close bps	Last bps
2/5	7.6	7.9
5/10	9.4	9.8
10/30	8.3	8.8
2/10	17.0	17.7
5/30	17.7	18.6
2/30	25.3	26.5



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	97.8	97.0	96.2	(92.9)	(93.7)	(93.1)	(94.8)
5yr Yield	97.8	100.0	99.5	97.9	(94.9)	(97.2)	(97.0)	(97.6)
10yr Yield	97.0	99.5	100.0	99.3	(93.4)	(96.2)	(96.3)	(97.8)
30yr Yield	96.2	97.9	99.3	100.0	(90.2)	(93.6)	(93.9)	(96.7)
ZT	(92.9)	(94.9)	(93.4)	(90.2)	100.0	99.0	98.5	96.8
ZF	(93.7)	(97.2)	(96.2)	(93.6)	99.0	100.0	99.8	98.7
ZN	(93.1)	(97.0)	(96.3)	(93.9)	98.5	99.8	100.0	99.2
ZB	(94.8)	(97.6)	(97.8)	(96.7)	96.8	98.7	99.2	100.0
emini SP	(8.9)	(0.7)	(5.5)	(11.6)	(4.3)	(3.5)	0.6	7.9
Dow Futures	(37.9)	(32.1)	(37.1)	(42.6)	26.6	28.2	31.8	38.9
USDJPY	89.5	86.2	85.6	84.7	(87.0)	(87.4)	(88.0)	(88.8)
EURUSD	(77.4)	(72.6)	(72.7)	(71.1)	77.3	74.4	75.7	76.3
Crude	(69.4)	(59.8)	(64.0)	(69.7)	55.4	55.2	56.1	63.1

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		0.96	0.94	0.92	0.86	0.88	0.87	0.90
5yr Yield	0.96		0.99	0.96	0.90	0.94	0.94	0.95
10yr Yield	0.94	0.99		0.99	0.87	0.93	0.93	0.96
30yr Yield	0.92	0.96	0.99		0.81	0.88	0.88	0.93
ZT	0.86	0.90	0.87	0.81		0.98	0.97	0.94
ZF	0.88	0.94	0.93	0.88	0.98		1.00	0.97
ZN	0.87	0.94	0.93	0.88	0.97	1.00		0.98
ZB	0.90	0.95	0.96	0.93	0.94	0.97	0.98	
emini SP	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.01
Dow Futures	0.14	0.10	0.14	0.18	0.07	0.08	0.10	0.15
USDJPY	0.80	0.74	0.73	0.72	0.76	0.76	0.77	0.79
EURUSD	0.60	0.53	0.53	0.51	0.60	0.55	0.57	0.58
Crude	0.48	0.36	0.41	0.49	0.31	0.30	0.31	0.40

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 for YIELD, not price.

Correlations & R-Squared (continued)

	Daily Correlations				Daily Correlations			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
5YR BASIS	(61.7)	(60.9)	(63.3)	(66.2)	41.5	41.5	41.2	47.2
10YR BASIS	(70.9)	(69.5)	(73.0)	(77.4)	52.4	52.2	52.4	59.7
30YR BASIS	(87.3)	(87.4)	(90.7)	(93.9)	82.2	76.9	77.1	82.2

	Daily R-Squared				Daily R-Squared			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
5YR BASIS	0.38	0.37	0.40	0.44	0.17	0.17	0.17	0.22
10YR BASIS	0.50	0.48	0.53	0.60	0.27	0.27	0.27	0.36
30YR BASIS	0.76	0.76	0.82	0.88	0.68	0.59	0.59	0.68

Notes: BASIS = CASH - (FUTURES * CF)

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	\$406		
10	\$192	\$398	\$737	
30	\$187	\$388	\$719	\$1,449
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	-1.72%			
10	0.05%	1.80%		
30	2.63%	4.42%	2.57%	

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	2.00	3.93
ZF	0.47	1.00	1.81	3.56
ZN	0.32	0.67	1.21	2.38
ZB	0.18	0.39	0.70	1.38

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.52	1.10	4.00	7.86
ZF	0.47	1.00	3.62	7.11
ZN	0.63	1.33	1.21	2.38
ZB	0.73	1.55	1.41	2.76

	2y	5y	10y	30y
2y	1.00	2.11	3.84	7.56
5y	0.47	1.00	1.82	3.57
10y	0.26	0.55	1.00	1.97
30y	0.13	0.28	0.51	1.00

	2y	5y	10y	30y
2y		2.11	1.92	3.78
5y	0.47		0.45	1.79
10y	0.52	2.20		1.97
30y	0.26	0.56	0.51	

	ZT	ZF	ZN	ZB
ZT	1.00	1.10	1.65	2.84
ZF	0.91	1.00	1.49	2.58
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	3.30	11.38
ZF	0.91		1.49	5.15
ZN	0.30	0.67		3.45
ZB	0.09	0.19	0.29	

Fed Funds Probability of Tightening or Easing

FOMC Meeting →

August/07/2007	
Target Rate	Probabiltiy
4.50	4.9
4.75	-8.8
5.00	6.4
5.25	97.8
5.50	-1.7

September/18/2007	
Target Rate	Probabiltiy
4.50	0.1
4.75	2.6
5.00	3.5
5.25	92.5
5.50	1.1

October/31/2007	
Target Rate	Probabiltiy
4.50	0.7
4.75	3.1
5.00	7.8
5.25	84.1
5.50	4.4

as of 07/13/07

Notes:
All probablilities are taken from The Cleveland Federal Reserve

