



The Morning Email: Treasuries

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ABX	16-Jul	19-Jul
BBB- 07-1	45.02	44.86

7/20/2007 5:48

15:06 07/19 **FED REACT:** "From the minutes it is fairly clear that collectively policy-markets see no urgency to move in either direction, and if the economy and inflation play out as they expect the status quo will remain for an extended period." - economist Ray Stone at SMRA.

Stone & McCarthy
 RESEARCH ASSOCIATES

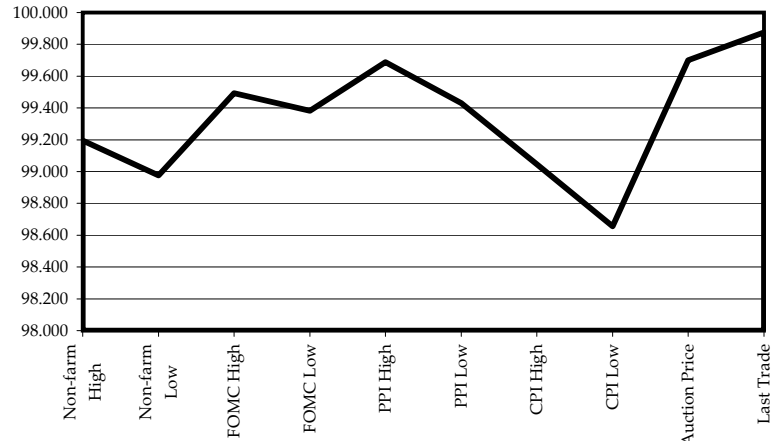
Want something added? Let me know: jgoulding@ghco.com
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Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.0625	94.315	104.305	106.16	7/6/2007
Non-farm Low	98.3125	94.205	104.175	105.31	7/6/2007
FOMC High	99.1575	95.150	105.130	107.07	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	99.2800	96.025	105.265	107.29	7/20/2007 5:48

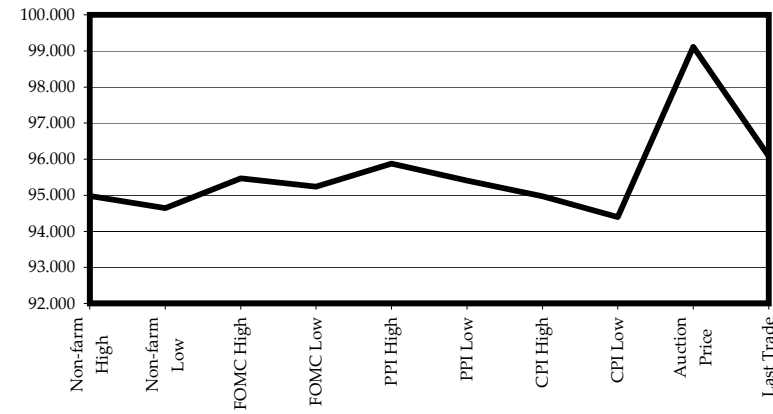
Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.313	99.224	99.035	98.194
Auction Yield Stop	4.906	4.94	4.612	4.838
Actual Auction Date	6/26/2007	6/27/2007	5/8/2007	5/11/2007

r = reopen

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							
	Last	Net	High	High	High	Volume	SYM NAME
TUAU7	101.305	1.0	101.312	101.292	101.300	13,442	2y Fut
FVAU7	104.075	3.0	104.090	104.040	104.055	28,473	5y Fut
TYAU7	105.265	3.0	105.295	105.220	105.255	116,665	10y Fut
USAU7	107.290	3	108.000	107.230	107.270	22,465	30y Fut
	Last	Net	High	low	open	Volume	SYM NAME
BUS02P	100.022	1.0	100.027	100.012	100.015	na	2y Cash
BUS05P	#VALUE!	2.0	99.292	99.247	99.250	na	5y Cash
BUS10P	96.025	2.5	96.050	95.305	95.310	na	10y Cash
BUS30P	94.195	2	94.235	94.165	94.170	na	30y Cash
	Last	Net	High	low	open	Volume	SYM NAME
BUS02Y	4.831	(0.90)	4.861	4.819	4.861	na	2y Yield
BUS05Y	4.900	(1.60)	4.93	4.891	4.929	na	5y Yield
BUS10Y	5.008	(1.00)	5.031	4.995	5.027	na	10y Yield
BUS30Y	5.102	(0.40)	5.117	5.094	5.113	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

15:14 07/19 **US TSYS/RECAP:** Tsys prices firmed Thurs amid: 1) real money buying cash 30Y German Bunds; 2) safe-haven bid tied to subprime/junk bond fears amid private equity deals said to struggle a bit, still subprime woe around; 3) Bernanke cited estimates of US\$50B-\$100B in subprime loan losses; 4) CMBS deals priced, spurred rate-lock unwind buying of Tsys. 5) Some Street buying surfaced in US 2Ys in morning, buy-and-hold account bid there too; also was leveraged buying in intermediates. 6) FOMC minutes spurred scant reaction as deemed old, and Bernanke talked past 2 days. 7) De-leveraging goes on: spurring buying of Tsys/selling of riskier debt. 8) In Eurodollar futures, flows light early on, with some light swap-tied buying in 3-year proxies, and a London account selling in front end. 9) Options had mixed vol flows while some accounts built upside call positions. 10) Earlier, there was lvrgrd acct selling 5Ys, also fast money bid for front end. 11) There was Street buying in 10Ys, foreign central bk bid in front end. 12) US stks gain. 13) CRB up.

15:18 07/19 **EURODLR FUTURES:** Eurodlr futures finished off session lows, the curve off flatter levels late. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 0.5 bps to 51.625. In the Fronts (Sep07-Jun08), the Sep07 were steady at 94-66 on combined Globex and pit volume of 141,000, the Dec07 steady at 94-70 on volume of 197,000, the Mar08 in 1.0 bps at 94-77 on volume of 260,000, while the Jun08 was 1.5 bps lower at 94-82.5 on volume of 222,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 1.0 to 1.5 bps lower across the pack with 526,000 contracts traded.

15:09 07/19 **US SWAPS:** Mirroring moves in subprime index levels, spreads moved tighter across the curve Thursday, with credit spreads in general improving as subprime concerns eased slightly, while flow volume remained light. Swap desks confirmed light supportive volume, on the heels of talk of Asian central bank receiving in fronts to intermediates Wednesday. Eurodollar sources reported light receiving-tied flow in first half, light two way in front end midsession. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:05	-1.00/50.25	-0.75/58.00	-0.75/66.75	-0.75/73.00
1:35	-1.25/50.00	-1.00/57.75	-1.25/66.25	-1.00/72.75
11:00	-1.00/50.25	-1.00/57.75	-1.00/66.50	-1.00/72.75
9:20	-1.50/49.75	-1.25/57.50	-1.25/66.25	-1.25/72.50
Thu Open	-0.50/50.75	-0.50/58.25	-0.75/66.75	-0.75/73.00
Wed 3:01	+1.25/51.25	+1.25/58.75	+1.00/67.50	+0.50/73.75

(continued)

05:36 07/20 **TSYS:** Treasuries are trading flat in London Friday, having slipped from their better levels. With little data to look forward to, many traders were sidelined and unprepared to open fresh positions. Futures are trading higher, playing catch-up with Chicago closing levels. However, cash markets are little changed on late New York closing levels.

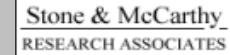
Prices were initially lower in Tokyo, as week end book squaring saw light sellers across the board. But volumes were seen as modest at best and a lack of follow-through selling saw prices rally. Volumes picked up a little in London, but still remained at summr levels. A good bid developed late in the morning, helped by a spike higher in Bund futures, propelled by short-covering. Prices soon slipped back on intraday profit-taking, with prices soon standing unchanged on the session.

Bunds were 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 4.84%. The 10-yr note was unchanged at 5.02%.

05:26 07/20 CHINA: PBOC: Raises benchmark deposit, lending rates 27bps

05:29 07/20 **CHINA:** PBOC; One-year deposit, lending rates up 27bp, effective July21

- Hikes currnet account depositi rates 9bp
- Hikes 6 month, 5 year lending rates 18bp
- Hike to guide reasonable credit, invest growth
- Hike to maintain price stability.



Fed Bernanke Testimony - Inflation Still Predominant Risk
by Ken Kim

--Stone & McCarthy (Princeton)-- The economic outlook provided by Federal Reserve Chairman Ben Bernanke suggests a steady monetary policy course over the near-term. Although Bernanke spoke at length about the ongoing deterioration in the residential housing market, addressed the sub-prime mortgage problem, and presented new initiatives by the Federal Reserve and other regulatory agencies to stop abusive lending practices, the economic outlook remains more or less the same as before.

Economic Actuals and Projections - %					Feb07	Jul07	Feb07	Jul07
Central Tendency					MPR	MPR	MPR	MPR
Real GDP (Q4/Q4)	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2008</u>	
Lower Band	2.5	4.5	3.5	3.25	2.5	2.25	2.75	2.5
Upper Band	2.75	4.75	3.5	3.5	3	2.5	3	2.75
Actual	3.7	3.4	3.1	3.1				
Inflation (Q4/Q4) - PCE (2000-03), Core PCE (2004 =>)								
Lower Band	1.25	1.75	1.75	2.25	2	2	1.75	1.75
Upper Band	1.5	2	2	2.5	2.25	2.25	2	2
Actual	1.9	2.2	2.1	2.2				
Civilian Unemployment Rate (Q4 Avg)								
Lower Band	6	5.25	5	4.75	4.5	4.5	4.5	About
Upper Band	6.25	5.5	5	5	4.75	4.75	4.75	4.75
Actual	5.8	5.4	5	4.5				

GDP projections lowered for 2007 & 2008 from previous testimony.

However, core inflation and unemployment rate left intact.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.07	4.66	\$1,457	9.32	n/a
10y	7.74	2.40	\$750	4.80	n/a
5y	4.33	1.39	\$434	5.55	n/a
2y	1.93	0.61	\$191	2.44	n/a
ZB	9.61	3.36	\$105	3.36	0.8285
ZN	5.70	1.95	\$61	3.90	0.8926
ZF	3.88	1.30	\$41	2.61	0.9540
ZT	1.79	1.17	\$37	4.70	0.9815

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	6.90	44.30	37.40
5/10	10.80	9.90	(0.90)
10/30	9.40	9.20	(0.20)
2/10	17.70	54.20	36.50
5/30	20.20	19.10	(1.10)
2/30	27.10	63.40	36.30

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

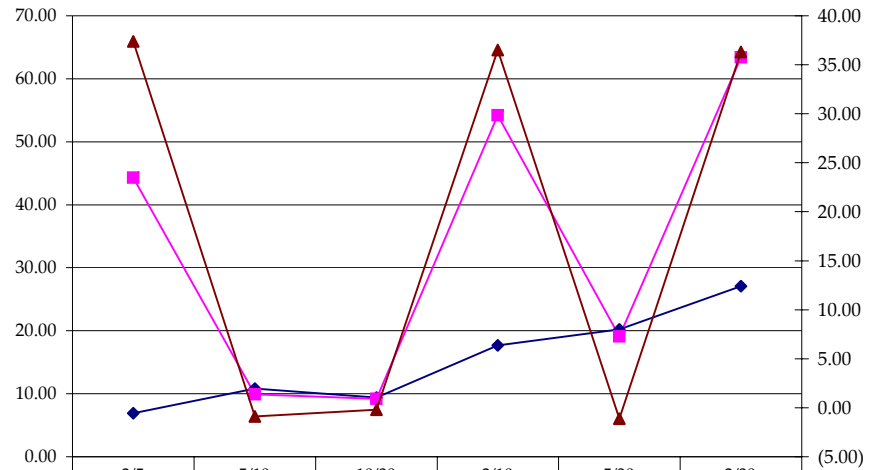
CF = Conversion Factor

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	6.90	10.80	9.40	17.70	20.20	27.10
—■— 2 PM Close	44.30	9.90	9.20	54.20	19.10	63.40
—▲— Diff	37.40	(0.90)	(0.20)	36.50	(1.10)	36.30

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	2.581	2.819
ZN	0.580		1.497	1.635
ZF	0.387	0.668		1.092
ZT	0.355	0.612	0.916	

Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.8	4.5
Bobl (U)	0.6	1.0	2.6
Shatz (U)	0.2	0.4	1.0

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.74	4.12	7.13	13.85
ZN	3.00	7.11	12.30	23.89
ZF	4.49	10.64	18.40	35.76
ZT	4.91	11.63	20.10	39.06

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		2.369	4.096	7.959
5y	0.422		1.729	3.360
10y	0.244	0.556		1.943
30y	0.126	0.286	0.515	

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

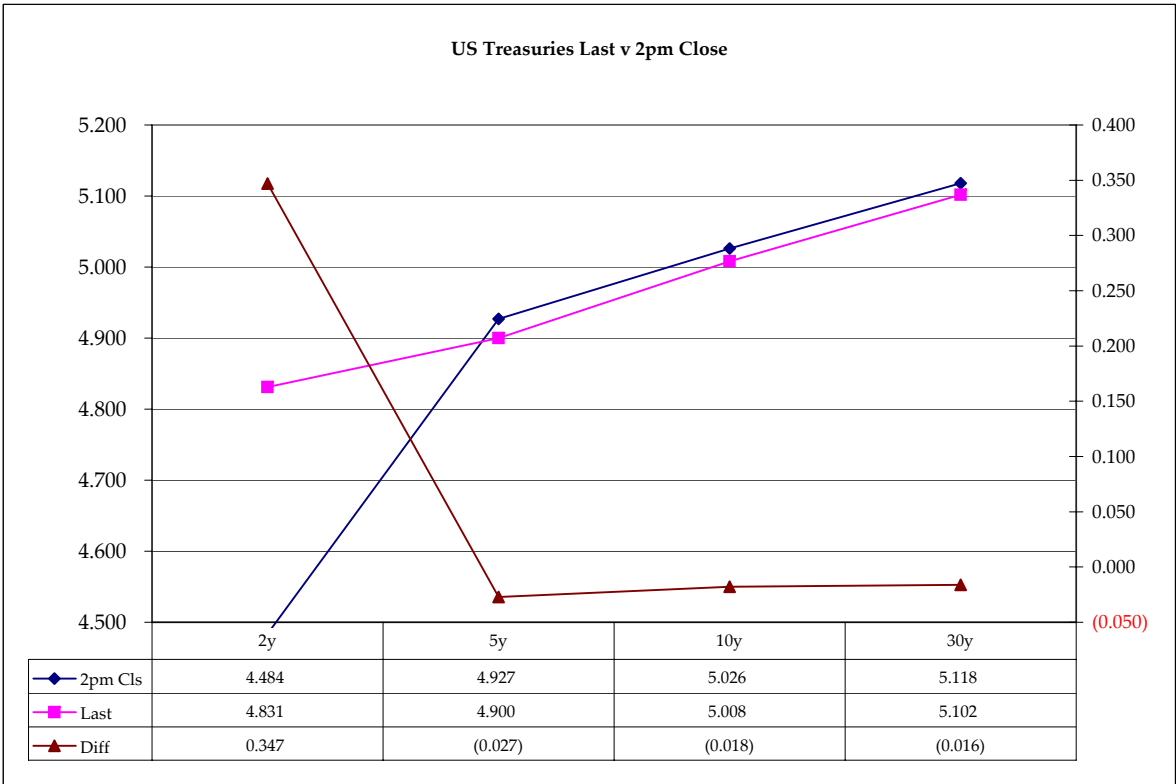
WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	21,320	24,790	(46,109)	7/10/2007
ZN	37,809	(50,594)	12,785	
ZB	24,472	(15,583)	(8,888)	

^WoW = Week over week

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	100.0150	4.484	4.831	0.347			
5y	4.875	6/30/12	99.2475	4.927	4.900	(0.027)	13.55	13.93	
10y	4.500	5/15/17	95.305	5.026	5.008	(0.018)	50.39	51.71	
30y	4.750	2/15/37	94.14	5.118	5.102	(0.016)	164.00	167.19	

	Close 32	Last
ZF	104.045	104.075
ZN	105.235	105.265
ZB	107.25	107.290

Curve Spreads		
	Close bps	Last bps
2/5	44.3	6.9
5/10	9.9	10.8
10/30	9.2	9.4
2/10	54.2	17.7
5/30	19.1	20.2
2/30	63.4	27.1



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	98.1	97.4	96.9	(89.0)	(91.5)	(91.3)	(93.4)
5yr Yield	98.1	100.0	99.3	97.7	(91.8)	(94.2)	(93.9)	(94.9)
10yr Yield	97.4	99.3	100.0	99.3	(89.7)	(92.6)	(92.8)	(94.9)
30yr Yield	96.9	97.7	99.3	100.0	(85.7)	(89.3)	(90.1)	(93.5)
ZT	(89.0)	(91.8)	(89.7)	(85.7)	100.0	99.6	99.2	97.1
ZF	(91.5)	(94.2)	(92.6)	(89.3)	99.6	100.0	99.7	98.4
ZN	(91.3)	(93.9)	(92.8)	(90.1)	99.2	99.7	100.0	99.1
ZB	(93.4)	(94.9)	(94.9)	(93.5)	97.1	98.4	99.1	100.0
emini SP	(8.9)	(3.6)	(9.0)	(17.2)	0.2	4.1	9.0	14.1
Dow Futures	(31.4)	(27.7)	(33.5)	(40.7)	23.3	27.6	32.4	37.3
USDJPY	71.9	63.3	64.7	64.6	(66.5)	(65.0)	(66.2)	(69.6)
EURUSD	(57.3)	(53.5)	(56.3)	(56.6)	63.2	62.3	65.1	65.5
Crude	(77.3)	(75.6)	(75.6)	(78.2)	70.2	74.0	75.9	76.8

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	0.95	0.94	0.79	0.84	0.83	0.87
5yr Yield	0.96		0.99	0.95	0.84	0.89	0.88	0.90
10yr Yield	0.95	0.99		0.99	0.80	0.86	0.86	0.90
30yr Yield	0.94	0.95	0.99		0.73	0.80	0.81	0.87
ZT	0.79	0.84	0.80	0.73		0.99	0.98	0.94
ZF	0.84	0.89	0.86	0.80	0.99		0.99	0.97
ZN	0.83	0.88	0.86	0.81	0.98	0.99		0.98
ZB	0.87	0.90	0.90	0.87	0.94	0.97	0.98	
emini SP	0.01	0.00	0.01	0.03	0.00	0.00	0.01	0.02
Dow Futures	0.10	0.08	0.11	0.17	0.05	0.08	0.10	0.14
USDJPY	0.52	0.40	0.42	0.42	0.44	0.42	0.44	0.48
EURUSD	0.33	0.29	0.32	0.32	0.40	0.39	0.42	0.43
Crude	0.60	0.57	0.57	0.61	0.49	0.55	0.58	0.59

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	(18.3)	(18.7)	(21.7)	(25.4)	(14.6)	(14.6)	(14.4)	(8.6)
10YR BASIS	(43.7)	(42.4)	(46.9)	(52.2)	11.2	10.6	11.2	19.3
30YR BASIS	(83.9)	(83.6)	(87.1)	(90.1)	68.9	62.3	63.1	68.9

	Daily R-Squared				Daily R-Squared			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
5YR BASIS	0.03	0.03	0.05	0.06	0.02	0.02	0.02	0.01
10YR BASIS	0.19	0.18	0.22	0.27	0.01	0.01	0.01	0.04
30YR BASIS	0.70	0.70	0.76	0.81	0.47	0.39	0.40	0.47

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	\$191			
5	\$195	\$406		
10	\$191	\$399	\$739	
30	\$187	\$389	\$721	\$1,457
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$4)			
10	(\$0)	\$7		
30	\$4	\$16	\$18	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.81%			
10	-0.11%	1.73%		
30	2.32%	4.20%	2.43%	

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	2.01	3.97
ZF	0.47	1.00	1.81	3.58
ZN	0.31	0.67	1.21	2.39
ZB	0.18	0.39	0.70	1.39

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.52	1.10	4.03	7.94
ZF	0.47	1.00	3.63	7.15
ZN	0.63	1.33	1.21	2.39
ZB	0.73	1.54	1.41	2.77

	2y	5y	10y	30y
2y	1.00	2.12	3.87	7.63
5y	0.47	1.00	1.82	3.59
10y	0.26	0.55	1.00	1.97
30y	0.13	0.28	0.51	1.00

	2y	5y	10y	30y
2y		2.12	1.93	3.81
5y	0.47		0.46	1.80
10y	0.52	2.20		1.97
30y	0.26	0.56	0.51	

	ZT	ZF	ZN	ZB
ZT	1.00	1.11	1.66	2.87
ZF	0.90	1.00	1.50	2.58
ZN	0.60	0.67	1.00	1.72
ZB	0.35	0.39	0.58	1.00

	2y	5y	10y	30y
ZT		1.11	3.32	11.46
ZF	0.90		1.50	5.16
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

