



The Morning Email: Treasuries

7/24/2007 5:44



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11:13 07/23 **US ABS/ABX:** Some ABX indices decline: the 07-02 BBB-index has declined now to 45.5 (vs. 48 opening, 50.33 Fri close), while the 07-01 BBB- index stable at 41.5, which was weaker than 42.1 prior close level.

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

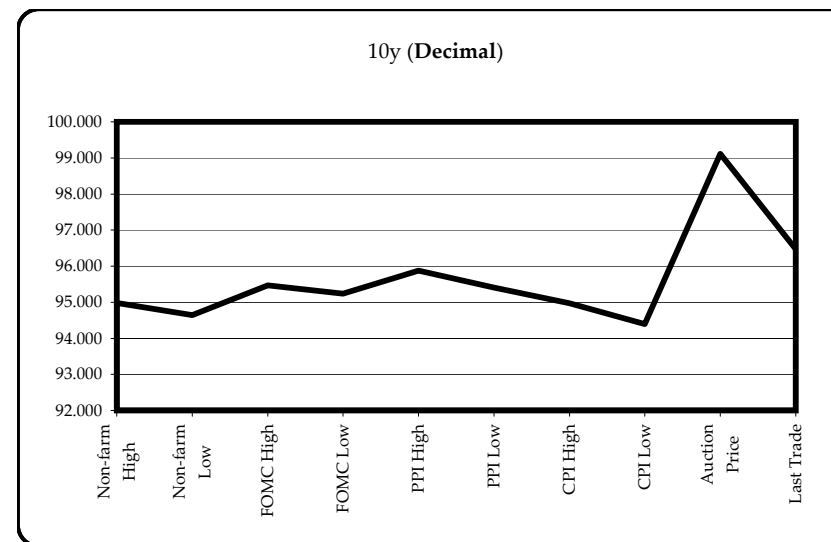
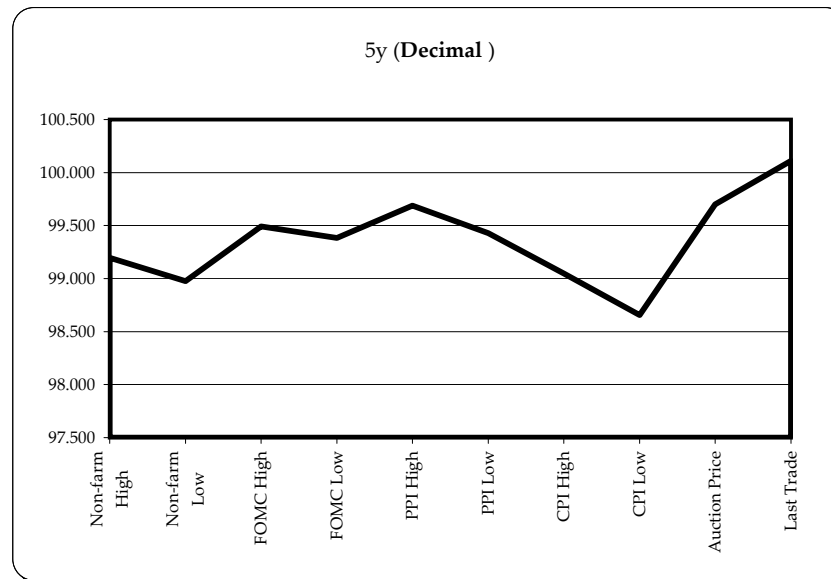
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Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.0625	94.315	104.305	106.16	7/6/2007
Non-farm Low	98.3125	94.205	104.175	105.31	7/6/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	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	100.0350	96.150	106.060	108.13	7/24/2007 5:44

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	102.012	0.2	102.025	102.010	102.015	17,466	2y Fut
FVAU7	104.140	1.0	104.175	104.140	104.155	32,317	5y Fut
TYAU7	106.060	1.0	106.110	106.055	106.080	94,447	10y Fut
USAU7	108.130	1	108.210	108.120	108.150	20,237	30y Fut
	Last	Net	High	low	open	Volume	SYM NAME
BUS02P	100.045	(0.2)	100.057	100.047	100.055	na	2y Cash
BUS05P	100.030	(1.2)	100.060	100.032	100.047	na	5y Cash
BUS10P	96.145	(2.0)	96.205	96.150	96.180	na	10y Cash
BUS30P	95.070	(5)	95.165	95.080	95.140	na	30y Cash
	Last	Net	High	low	open	Volume	SYM NAME
BUS02Y	4.784	0.00	4.814	4.767	4.814	na	2y Yield
BUS05Y	4.849	0.90	4.86	4.828	4.86	na	5y Yield
BUS10Y	4.958	0.80	4.962	4.931	4.962	na	10y Yield
BUS30Y	5.062	0.90	5.064	5.039	5.064	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

15:16 07/23 **US TSYS/RECAP:** US Tsys end Mon slightly lower, curves flattening slightly, after quiet muted day; did not give back much of Fri rally gains though stocks rebounded from Fri weakness. There early on was mild corporate rate-lock selling, German Bunds pressure, pressure amid stronger US stocks, MBS-tied pressure in Tsys (US 2Y, 10Y, 30Y futures by real money) after MBS selling earlier by hedge funds originators, (though was MBS buying at the wides later cited by some). There also was US supply short-setting to prepare for the US\$6B 20Y TIPS reopening Tues and the US\$18B 2Y auction Wed, US\$13B 5Y auction Thurs. There was talk of small CMBS bid list around this morning, said traders, who eyed 4 CMBS deals that could go ahead this week. And in corporates, issuance could soon surface: could be benchmark-sized Wachovia Corp. (Aa3/AA-) 3Y FRN SEC-Reg Sr FRN 3ML+. US stocks gained. In US Eurodlr options, sources say NY dealer sold 2,000 short Sep 47 puts at 8.0. Eurodlr futures had light buying in morn by UK shop, some selling of 1Y spreads.

15:13 07/23 **EURODLR FUTURES:** Eurodlr futures finished the session lower in the front end, the curve giving back all of Fri's steepening and then some. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 2.875 bps to 50.875. In the Fronts (Sep07-Jun08), the Sep07 were steady at 94-66.5 on combined Globex and pit volume of 102,000, the Dec07 in 2.5 bps at 94-71 on volume of 193,000, the Mar08 in 3.0 bps at 94-80 on volume of 226,000, while the Jun08 was 2.5 bps lower at 94-87 on volume of 173,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 2.0 to 2.5 bps lower across the pack with 489,000 contracts traded.

15:03 07/23 **US SWAPS:** Spreads see-sawed to steady levels by close, 0.75 bps range, amid light swap-tied flow. After reports of heavy paying in fronts to intermediates on Friday, sources said some mortgage-tied real money spread selling persisted in the intermediates. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:02	+0.00/53.00	+0.25/60.50	+0.00/68.75	-0.25/74.00
12:45	-0.25/52.75	+0.00/60.25	-0.25/68.50	-0.25/74.00
11:30	-0.50/52.50	+0.75/61.00	+0.50/69.25	+0.50/74.75
10:15	+0.00/53.00	+0.75/61.00	+0.50/69.25	+0.50/74.75
9:30	+0.00/53.00	+0.75/61.00	+0.50/69.25	+0.50/74.75
Mon Open	+0.00/53.00	+0.75/61.00	+0.75/69.50	+0.50/74.75
Fri 3:05	+2.75/53.00	+2.25/60.25	+2.00/68.75	+1.25/74.25

(continued)

04:54 07/24 **TSYS:** Treasuries are modestly lower across the board in London trade Tuesday, as prices consolidate close to overnight levels. However, with the market still unnerved by developments in the credit markets, traders said the downside appeared underpinned at current levels.

The unease in the credit market saw the iTraxx Crossover index widen further Tuesday, with the spread pushing out a further 15 bps to stand at 375 bps. USTs were initially higher in Tokyo trade, edging higher as JGBs rallied. Demand was seen from real money names in the 2-year and 10-yr sector of the curve, with the front end boosted by central bank demand as the dollar slipped.

Early London trade saw prices slip from their highs, dipping into the red. However, volumes were modest, with flows largely interdealer position squaring. Ten-year paper saw light early selling from hedge funds, largely against Bunds. However, the Bund-T-note spread only widened 1 bps to 58 bps, still firmly entrenched in the recent range of 50 to 60 bps.

MarketNews
international

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10:58 07/23 US HOUSING: MBS strategists at Merrill Lynch in a report published last Friday attempt to put out some rough estimates on possible default related losses. ML says subprime (\$1.3T outstanding, 7 mln loans) and **Alt-A** (\$1T, 3.5 mln loans) represent about 27% of US mortgage market. Potential losses depend on path of housing.

If HPA is flat over next few years, losses could be \$119B. If HPA fall 5% over the first year before stabilizing, losses could be \$170B. ML stresses these are rough estimates. "It is challenging to pin down default rates in a rapidly evolving environment and it is equally difficult to project the future path of home prices," ML says. "Widespread loan modifications could improve these numbers, while further home price depreciation could result in higher losses."

ML also notes these are losses directly associated with defaulting mortgage loans but there may be additional losses via the synthetic ABS market. More to follow on ABS and types of accounts involved.

11:18 07/23 US HOUSING: More to 10:58am bullet. In addition to possible \$119-170B in direct mortgage default related losses depending upon the path of HPA, Merrill Lynch says more losses could come via the synthetic ABS market. These are not net losses, ML says, since the seller of protection incurs a loss while the buyer of the protection gains -- so it is a net transfer of P&L rather than a net loss in the financial system.

"Nonetheless, for the institution on the losing side these losses are just as real," ML says. "It is extremely difficult to quantify, but there could easily be another \$100 billion in the synthetic subordinate ABS in one form or another." More to follow.

Note from Jim: Alt-A is a level above subprime. These loans are considered a much safer bet than subprime. The street is worried the subprime problem will carry over to Alt-A. That would be big problem if it did.

14:31 07/23 **US DATA VIEW:** The Chicago Fed's National Activity Index (NAI) is "in effect, a darned good coincident indicator of real GDP growth," says Paul Kasriel of Northern Trust. "The NAI is a weighted average of 85 existing monthly indicators of economic activity drawn from five broad categories, he reminds. The correlation between the Chicago Fed's NAI and actual real GDP growth is 0.70. Currently, the NAI would suggest Q2 US GDP growth of about 2.7% (also Northern Trust's expectation), - well below the consensus estimate of 3.2% (MNI median), Kasriel says. MNI estimates range from +2.9% to 3.9%. Advance Q2 US GDP data is due out Friday at 8:30 am EDT.

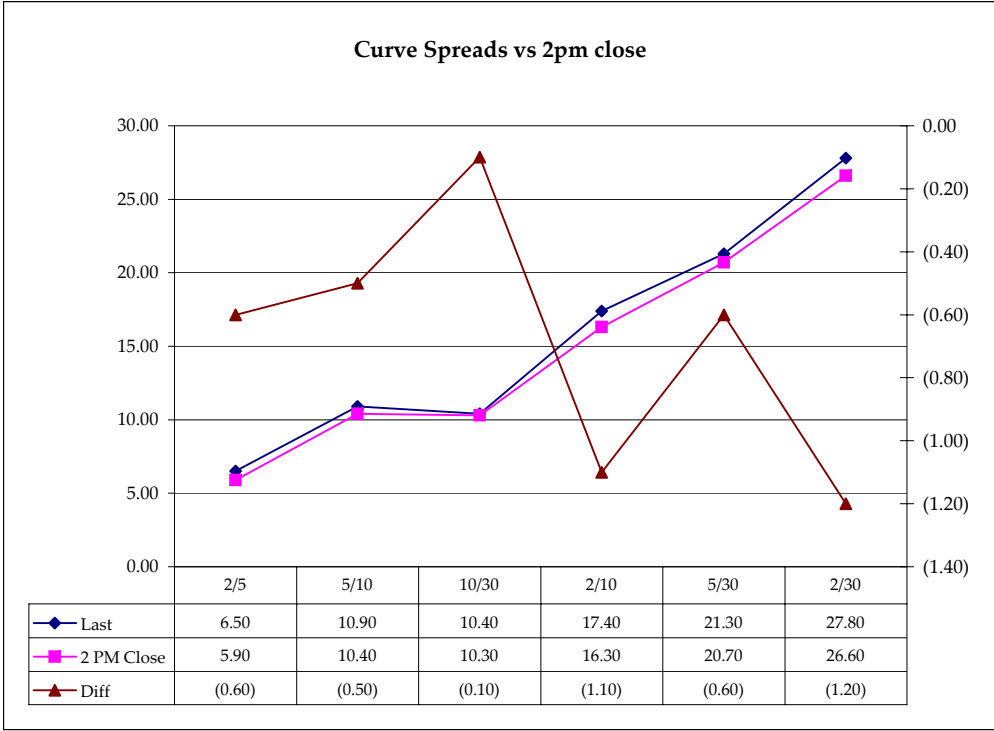
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.11	4.71	\$1,470	9.41	n/a
10y	7.74	2.41	\$753	4.82	n/a
5y	4.32	1.39	\$434	5.56	n/a
2y	1.93	0.61	\$191	2.44	n/a
ZB	9.62	3.38	\$106	3.38	0.8285
ZN	5.70	1.96	\$61	3.91	0.8926
ZF	3.88	1.30	\$41	2.61	0.9540
ZT	1.79	1.17	\$37	4.69	0.9815

	Yield Curve Spreads		Diff
	Last	2pm close	
2/5	6.50	5.90	(0.60)
5/10	10.90	10.40	(0.50)
10/30	10.40	10.30	(0.10)
2/10	17.40	16.30	(1.10)
5/30	21.30	20.70	(0.60)
2/30	27.80	26.60	(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



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		1.730	2.595	2.841
ZN	0.578		1.500	1.643
ZF	0.385	0.667		1.095
ZT	0.352	0.609	0.913	

Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.8	4.6
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	1.73	4.11	7.12	13.90
ZN	2.99	7.10	12.31	24.05
ZF	4.48	10.65	18.47	36.07
ZT	4.91	11.67	20.23	39.50

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		2.377	4.122	8.048
5y	0.421		1.734	3.386
10y	0.243	0.555		1.953
30y	0.124	0.284	0.512	

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	237,446	261,893	(24,447)	295,739	359,983	(64,244)	1,117,350	1,028,659	88,691	ZF
ZN	296,077	464,340	(168,263)	824,088	444,794	379,294	2,106,273	2,317,303	(211,030)	ZN
ZB	144,847	205,432	(60,585)	111,530	231,043	(119,513)	800,341	620,243	180,098	ZB

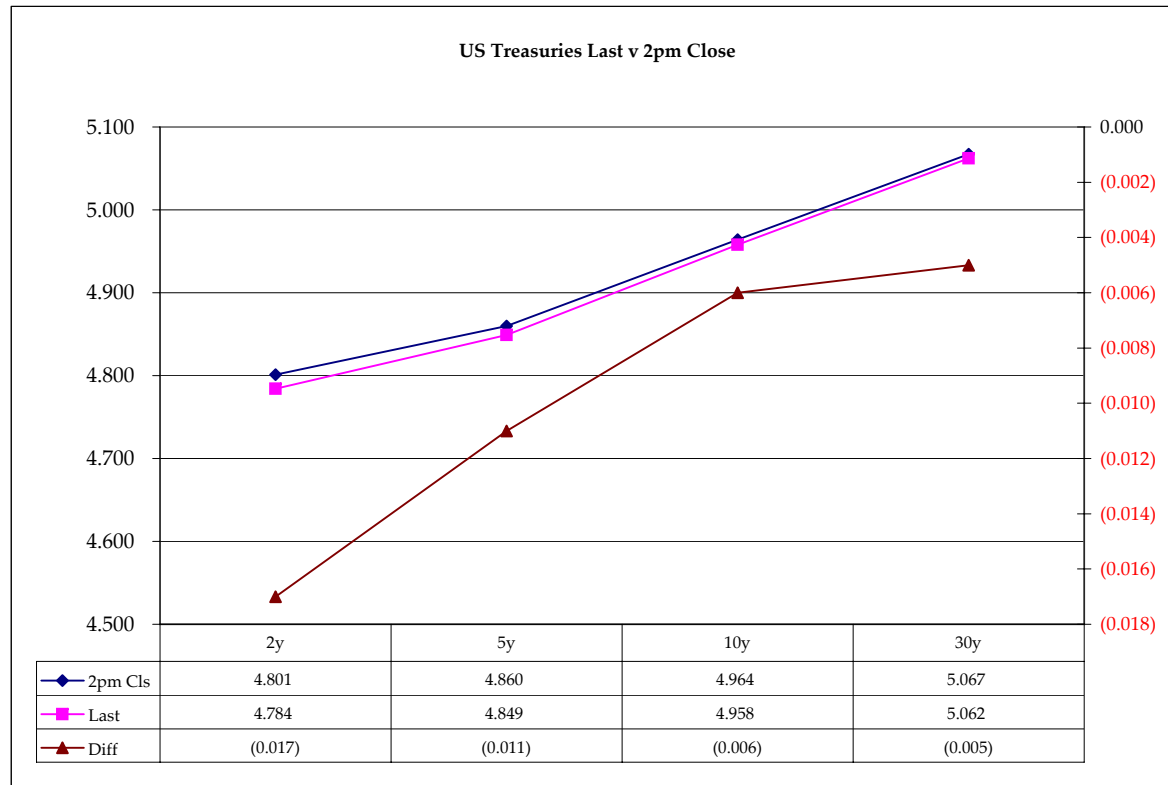
WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	12,411	12,609	(25,021)	7/17/2007
ZN	(5,596)	55,012	(49,415)	
ZB	2,159	(3,457)	1,297	

^WoW = Week over week

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.875	6/30/09	100.0425	4.801	4.784	(0.017)			-0.75 / +1
5y	4.875	6/30/12	100.0200	4.860	4.849	(0.011)	14.21	15.23	-0.50 / 0.75
10y	4.500	5/15/17	96.135	4.964	4.958	(0.006)	52.89	53.95	
30y	4.750	2/15/37	95.06	5.067	5.062	(0.005)	172.26	173.93	

	Close 32	Last
ZF	104.135	104.140
ZN	106.055	106.060
ZB	108.12	108.130

Curve Spreads		
	Close bps	Last bps
2/5	5.9	6.5
5/10	10.4	10.9
10/30	10.3	10.4
2/10	16.3	17.4
5/30	20.7	21.3
2/30	26.6	27.8



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	98.6	98.0	96.8	(93.9)	(95.0)	(95.3)	(95.1)
5yr Yield	98.6	100.0	99.6	98.0	(95.4)	(96.8)	(97.2)	(96.8)
10yr Yield	98.0	99.6	100.0	99.2	(93.9)	(95.8)	(96.3)	(96.8)
30yr Yield	96.8	98.0	99.2	100.0	(90.7)	(93.3)	(94.1)	(96.0)
ZT	(93.9)	(95.4)	(93.9)	(90.7)	100.0	99.7	99.4	97.6
ZF	(95.0)	(96.8)	(95.8)	(93.3)	99.7	100.0	99.9	98.8
ZN	(95.3)	(97.2)	(96.3)	(94.1)	99.4	99.9	100.0	99.2
ZB	(95.1)	(96.8)	(96.8)	(96.0)	97.6	98.8	99.2	100.0
emini SP	20.3	25.0	19.3	8.5	(37.9)	(33.4)	(30.0)	(19.8)
Dow Futures	(31.0)	(29.1)	(35.2)	(44.9)	13.7	19.6	23.0	33.0
USDJPY	91.0	89.4	87.9	85.8	(83.9)	(85.2)	(86.0)	(86.3)
EURUSD	(73.7)	(69.7)	(70.2)	(71.3)	66.7	67.5	69.9	71.1
EURJPY	82.6	82.5	80.5	77.6	(76.4)	(77.8)	(77.8)	(78.1)
Crude	(67.3)	(62.9)	(64.7)	(70.2)	60.0	61.8	62.7	66.1

NEW

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		0.97	0.96	0.94	0.88	0.90	0.91	0.91
5yr Yield	0.97		0.99	0.96	0.91	0.94	0.94	0.94
10yr Yield	0.96	0.99		0.98	0.88	0.92	0.93	0.94
30yr Yield	0.94	0.96	0.98		0.82	0.87	0.88	0.92
ZT	0.88	0.91	0.88	0.82		0.99	0.99	0.95
ZF	0.90	0.94	0.92	0.87	0.99		1.00	0.98
ZN	0.91	0.94	0.93	0.88	0.99	1.00		0.98
ZB	0.91	0.94	0.94	0.92	0.95	0.98	0.98	
emini SP	0.04	0.06	0.04	0.01	0.14	0.11	0.09	0.04
Dow Futures	0.10	0.08	0.12	0.20	0.02	0.04	0.05	0.11
USDJPY	0.83	0.80	0.77	0.74	0.70	0.73	0.74	0.74
EURUSD	0.54	0.49	0.49	0.51	0.45	0.46	0.49	0.51
EURJPY	0.68	0.68	0.65	0.60	0.58	0.60	0.61	0.61
Crude	0.45	0.40	0.42	0.49	0.36	0.38	0.39	0.44

One contract may be correlating with another but does that mean there's causation? Is one causing the other?

That's what the R-Squared is for. See the morning email 'Oil' for a complete explanation. There are correlation and r-squared measurements inside that email also.

Correlations & R-Squared (continued)

Daily Correlations US Cash Treasuries (Yield)					Daily Correlations US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
5YR BASIS	(59.2)	(60.0)	(62.3)	(63.8)	34.5	38.5	40.5	42.1
10YR BASIS	(70.9)	(70.8)	(74.3)	(77.7)	47.0	51.9	53.7	57.7
30YR BASIS	(89.0)	(89.6)	(92.1)	(94.4)	73.4	77.3	78.6	81.6
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
5YR BASIS	0.35	0.36	0.39	0.41	0.12	0.15	0.16	0.18
10YR BASIS	0.50	0.50	0.55	0.60	0.22	0.27	0.29	0.33
30YR BASIS	0.79	0.80	0.85	0.89	0.54	0.60	0.62	0.67
Daily Correlations Treasury Basis								
	5YR BASIS	10YR BASIS	30YR BASIS					
emini SP	10.3	21.4	5.5					
Dow Futures	42.4	60.0	54.7					
USDJPY	(54.7)	(64.2)	(77.6)					
EURUSD	40.9	54.4	65.7					
EURJPY	(51.8)	(58.2)	(69.9)					
Crude	31.4	49.9	66.4					
Daily R-Squared Treasury Basis								
	5YR BASIS	10YR BASIS	30YR BASIS					
emini SP	0.01	0.05	0.00					
Dow Futures	0.18	0.36	0.30					
USDJPY	0.30	0.41	0.60					
EURUSD	0.17	0.30	0.43					
EURJPY	0.27	0.34	0.49					
Crude	0.10	0.25	0.44					

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%	49%	131%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$191			
5	\$194	\$406		
10	\$191	\$400	\$742	
30	\$187	\$391	\$726	\$1,470
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$4)			
10	(\$1)	\$6		
30	\$3	\$15	\$16	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.92%			
10	-0.41%	1.55%		
30	1.76%	3.75%	2.17%	

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	1.11	2.02	4.01
ZF	0.47	1.00	1.82	3.61
ZN	0.31	0.66	1.21	2.40
ZB	0.18	0.38	0.70	1.39

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.52	1.11	4.05	8.03
ZF	0.47	1.00	3.64	7.21
ZN	0.62	1.33	1.21	2.40
ZB	0.72	1.54	1.40	2.78

	2y	5y	10y	30y
2y	1.00	2.13	3.89	7.71
5y	0.47	1.00	1.83	3.62
10y	0.26	0.55	1.00	1.98
30y	0.13	0.28	0.50	1.00

	2y	5y	10y	30y
2y		2.13	1.94	3.86
5y	0.47		0.46	1.81
10y	0.51	2.19		1.98
30y	0.26	0.55	0.50	

	ZT	ZF	ZN	ZB
ZT	1.00	1.11	1.67	2.89
ZF	0.90	1.00	1.50	2.59
ZN	0.60	0.67	1.00	1.73
ZB	0.35	0.39	0.58	1.00

	2y	5y	10y	30y
ZT		1.11	3.34	11.55
ZF	0.90		1.50	5.19
ZN	0.30	0.67		3.46
ZB	0.09	0.19	0.29	

Fed Funds Probability of Tightening or Easing

FOMC Meeting



August/07/2007	
Target Rate	Probability
4.75	-8.4
5.00	6.3
5.25	97.8
5.50	-1.8

September/18/2007	
Target Rate	Probability
4.75	3
5.00	2.5
5.25	94.6
5.50	-1.1

October/31/2007	
Target Rate	Probability
4.75	1.8
5.00	7.5
5.25	87.5
5.50	2.5

as of 07/23/07

Notes:

All probabilities are taken from The Cleveland Federal Reserve

