

## The Morning Email: Treasuries



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Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)  
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	Economic Releases - 32nds				Date
	5y*	10y*	ZNU7**	ZBU7**	
Non-farm High	99.208	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.058	96.145	105.290	108.15	6/1/2007
FOMC High	100.298	100.000	108.075	111.24	5/9/2007
FOMC Low	100.225	99.115	107.305	111.08	5/9/2007
PPI High	100.175	98.105	107.195	110.23	4/13/2007
PPI Low	100.095	97.315	107.080	110.02	4/13/2007
CPI High	100.228	98.200	107.305	111.11	5/15/2007
CPI Low	100.148	98.070	107.185	110.21	5/15/2007
Auction Price	99.224	99.035			
Last Trade	99.072	96.160	105.295	108.21	6/5/2007 5:43

\*Adjusted for New Issue

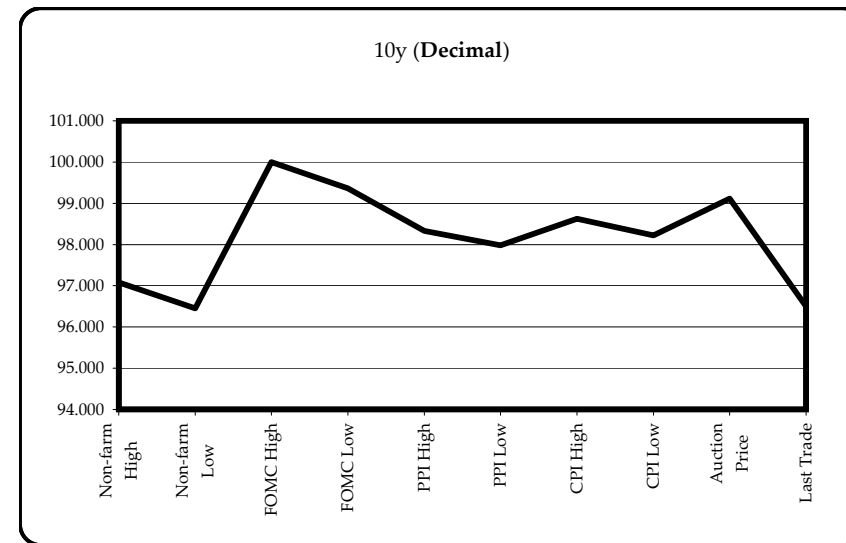
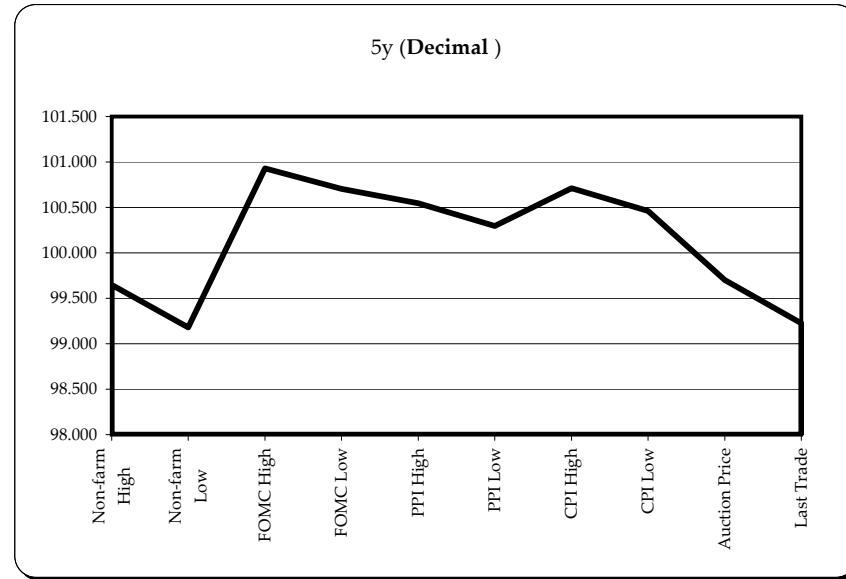
\*\*Adjusted for Futures Roll

(Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)

Release times are from release to 2pm cdt

	Auctions - 32nds			
	2 y	5y	10y	30y
Auction Price	99.313	99.224	99.035	98.194
Auction Yield Stop	4.886	4.818	4.612	4.838
Actual Auction Date	5/29/2007	5/30/2007	5/8/2007	5/11/2007 r

r = reopen



## Quotes

32 nds							
	ls	net	high	low	open	Volume	SYM NAME
TUAU7	101.245	(0.7)	101.260	101.242	101.250	8,669	2y Futures
FVAU7	104.035	(2.5)	104.070	104.030	104.055	41,856	5y Futures
TYAU7	105.295	(5.0)	106.030	105.285	106.010	106,681	10y Futures
USAU7	108.210	(8)	108.290	108.190	108.270	24,750	30y Futures
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	#VALUE!	(0.7)	99.272	99.260	99.267	na	2y
BUS05P	99.070	(3.5)	99.107	99.072	99.097	na	5y
BUS10P	96.160	(6.0)	96.220	96.160	96.200	na	10y
BUS30P	95.160	(13)	95.285	95.165	95.245	na	30y
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.976	1.70	4.984	4.942	4.984	na	2y Yield
BUS05Y	4.927	2.30	5.04	4.898	4.918	na	5y Yield
BUS10Y	4.948	2.70	4.954	4.921	4.937	na	10y Yield
BUS30Y	5.041	2.40	5.045	5.014	5.03	na	30y Yield



## News Recap for the United States

### Yesterday

15:10 06/04 **US TSYS/RECAP:** Tsys gained Mon amid

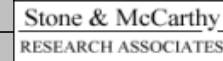
- 1) 2Y/10Y, 2Y/30Y flatteners;
- 2) less MBS pressure,
- 3) technical buying and
- 4) weaker stks,
- 5) some buying US Tsys 10s/selling 10Y German Bunds,
- 6) short-covering,
- 7) let-up of early corp rate-lock selling. There was
- 8) large mortgage servicer call buying in Sep 10-yr 107 calls aiding as local traders bought futures after taking other side. And
- 9) Tsys worked off deeply oversold condition,
- 10) various technicians recommending "buys" on 10Y cash at 4.945%. And
- 11) buy-and-hold, lvrgd accts buying 5s, with Street buying in 10Ys, bank buying in front end.
- 12) 30Y bd, bd futures outperform amid buy-and-hold STRIPS bid as 30Ys near 5.0%
- 13) Mortgage originators had not sold as many MBS as dealers expected (origination est light \$1B) so Tsy selloff abated; that group still selling, but more selling "off cpns", while fast money buying MBS. GSEs said involved in another area earlier, which cut mkt duration. Real money did up-in-cpn trade to shed duration. Swaps 2-way. ECB mtg Wed: 25 bps hike expected.

15:10 06/04 **EURODLR FUTURES:** Eurodlr futures settled modestly higher as the board on lighter volume, while the curve continues to flatten--the long end outpacing. The Red/Gold pack spd (Jun08-Mar09) vs (Jun11-Mar12) a 2s/10s proxy, contracted 1.625 bps at 22.375. The Fronts (Jun07-Mar08), settled steady to 1.0 bps higher, the Jun07 unched at 94-63.75 on combined Globex and pit volume of 49,000, the Sep07 up 0.50 bps at 94-65.5 on volume of 359,000, the Dec07 up 0.5 bps at 94-67 on volume of 458,000, while the Mar08 closed 1.0 bps higher at 94-72 on volume of 374,000. The Red pack (Jun08-Mar09) a 2yr proxy, settled 1.0 to 1.5 bps higher across the pack with 642,000 contracts traded.

## News Recap for the United States

### Overnight

**05:05 06/05 TSYS:** Treasuries are trading lower across the board in London Tues, as Asian name investors made the most of modest overnight gains. However, traders said volumes in Europe were light, with flows largely interdealer book squaring. With prices opening the Tokyo session higher than where many Asia players left them Monday, light profit-taking was seen from the getgo. Cash prices consolidated at the lower levels in London, although there was little in the way of fresh trading incentives. Real money accounts were largely sidelined ahead of the New York session, with little to tempt either fresh buying or selling ahead of comments from Fed officials. Bunds were trading 1 bps lower against the US 10-year T-notes, with the spread standing at +54 bps. The 2-yr note was 1/64 lower, trading at 99 26/32 to yield 4.97%. The 10-yr note was 2/32 lower at 96 19/32 (4.94%), with the Bond 4/32 lower at 95 21/32 (5.03%). The 2-/10-yr curve was unchanged, trading at -3 bps, as was the 2-yr/30-yr curve, standing at +7 bps.



Primary Dealer Outright Position Data							
	US Govt.	Bills	GSEs	DSC Notes	MBS	Corporate	Total
Latest	-\$167,523	-\$14,703	\$104,197	\$45,460	\$41,022	\$238,392	\$216,088
Prior Wk	-\$168,674	-\$21,388	\$113,101	\$46,929	\$49,770	\$245,021	\$239,218
4-wk MA	-\$166,598	-\$18,093	\$108,291	\$43,500	\$44,734	\$244,046	\$230,472
6-month	-\$144,597	-\$8,214	\$105,496	\$39,378	\$42,582	\$229,358	\$232,839
1-year	-\$140,551	-\$8,996	\$107,003	\$42,393	\$40,690	\$210,801	\$217,943
Hist. Low	-\$169,958	-\$29,691	\$16,832	\$10,185	-\$3,110	\$38,729	-\$14,270
Hist. High	\$36,275	\$63,405	\$131,535	\$67,575	\$74,736	\$257,616	\$284,168

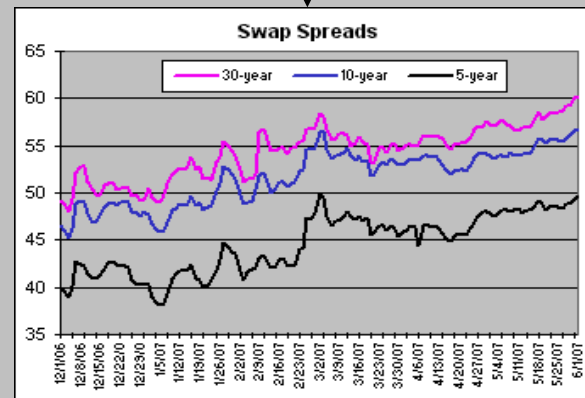
We are interested in the US Govt. column. [chart from SMRA.com]. I have all data relevant to primary dealers going back to 12/08/2005. Simply email me and I'll forward it to you.

**A note from Jim**

When will the break in price end? We need to watch the swap spreads. They've been rising in yield this whole move down in price. That told us that the break in price was for real. I'll start to get bullish when these yields begin to show signs of deterioration. [swap spread chart from SMRA.com]

By Michael S. Derby  
A DOW JONES NEWSWIRES COLUMN

NEW YORK (Dow Jones)--Economists at investment bank **Merrill Lynch (MER)** have abandoned their **projection** that the Federal Reserve will cut interest rates this year. The bank's shift represents a fairly substantial u-turn in their monetary policy outlook.



## Duration, DV01s, Curve, Flys, CFs

	M Duration	DV01 32	DV01 \$
30y	15.27	4.74	\$1,480
10y	7.87	2.44	\$761
5y	4.38	1.39	\$435
2y	2.06	0.65	\$202
ZB	9.75	3.41	\$107
ZN	5.83	1.98	\$62
ZF	4.00	1.33	\$42
ZT	1.88	1.25	\$39

## Yield Curve Spreads

2/5	-4.90
5/10	2.10
2/10	-2.80
10/30	9.30
5/30	11.40
2/30	6.50

## Fly's

2/5/10	-7.00
2/10/30	-12.10
5/10/30	-7.20

## CF

ZB	1.1593
ZN	0.9335
ZF	0.9497
ZT	0.9799

## Notes

- 1) CF = Conversion Factor
- 2) MDuration = Modified Macaulay Duration
- 3) MDuration & DV01s for Futures are based on proxy issue (CTD)

## US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (M)	1.000	1.700	2.600	2.800
Bobl (M)	0.540	0.930	1.400	1.500
Shatz (M)	0.220	0.370	0.550	0.590

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.724	2.559	2.741
ZN	0.580		1.484	1.590
ZF	0.391	0.674		1.071
ZT	0.365	0.629	0.934	

Note: Eurex ratio's are from Bloomberg and they are static. All other ratio's are from GH Trader's LLC (me) and they are live.

## US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.89	4.08	7.14	13.88
ZN	3.26	7.03	12.30	23.92
ZF	4.83	10.44	18.26	35.50
ZT	5.18	11.18	19.56	38.03

## US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (M)	1.7	3.9	6.8	13.2
Bobl (M)	3.0	7.1	12.3	23.9
Shatz (M)	6.9	16.2	28.3	54.8

## US Treasuries

	2y	5y	10y	30y
2y		2.387	4.176	8.121
5y	0.463		1.749	3.402
10y	0.265	0.560		1.945
30y	0.136	0.288	0.514	

## Commitment of Traders (COT)

Current Positions										
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	312,769	357,891	(45,122)	180,580	349,139	(168,559)	1,331,901	1,118,219	213,682	ZF
ZN	357,687	502,601	(144,914)	793,871	462,621	331,250	1,965,289	2,151,624	(186,335)	ZN
ZB	170,532	248,799	(78,267)	119,517	242,104	(122,587)	757,606	556,753	200,853	ZB

WoW* Position Change				
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	(16,490)	(36,536)	59,656	5/29/2007
ZN	(22,513)	(66,906)	89,420	
ZB	(16,876)	(19,415)	36,290	

\*\*WoW = Week over week

## Closes2pm

	Cpn	Mty	32nds	Yield
2y	4.875	5/31/09	99.2675	4.962
5y	4.750	5/31/12	99.1050	4.903
10y	4.500	5/15/17	96.215	4.927
30y	4.750	2/15/37	95.27	5.020

	CF Basis* (decimal)	GHCO Basis		32nds
5y	0.28	31.871	ZF	104.060
10y	(2.75)	3.263	ZN	106.020
30y	(30.27)	294.334	ZB	108.29

## Curve Spreads bps

2/5	(0.059)
5/10	0.024
2/10	(0.035)
10/30	0.093
5/30	0.117
2/30	0.058

CF = Conversion Factor

Cash - (Futures \* CF)

## Correlations

All correlations based on 10 day historical

Symbol	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
2yr	100.0	60.8	-62.0	-43.5	-75.0	-71.4	-68.0	-58.0
5yr	60.8	100.0	-61.9	-46.5	-68.5	-64.4	-63.0	-49.2
10yr	-62.0	-61.9	100.0	94.2	97.5	98.6	99.3	96.3
30yr	-43.5	-46.5	94.2	100.0	85.3	88.3	91.1	96.9
ZT	-75.0	-68.5	97.5	85.3	100.0	99.6	98.7	91.2
ZF	-71.4	-64.4	98.6	88.3	99.6	100.0	99.7	94.0
ZN	-68.0	-63.0	99.3	91.1	98.7	99.7	100.0	96.1
ZB	-58.0	-49.2	96.3	96.9	91.2	94.0	96.1	100.0

Symbol	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
emini SP	82.9	63.5	(78.5)	(64.8)	(86.1)	(82.4)	(80.3)	(70.0)
Dow Futures	89.0	63.6	(80.5)	(66.7)	(88.3)	(84.9)	(82.5)	(73.2)
USDJPY	42.4	48.3	(73.0)	(77.8)	(66.5)	(66.7)	(68.7)	(72.1)
EURUSD	25.7	52.3	(61.6)	(47.8)	(62.4)	(61.6)	(61.7)	(48.2)

## Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	100%			
5	50%	100%		
10	27%	55%	100%	
30	13%	27%	50%	130%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$202			
5	\$206	\$445		
10	\$203	\$410	\$750	
30	\$199	\$402	\$736	\$1,480
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$4)			
10	(\$2)	\$5		
30	\$2	\$13	\$14	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.94%			
10	-0.81%	1.16%		
30	1.12%	3.12%	1.94%	

**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

Tic for Tic Matrix					
	2y	5y	10y	30y	
ZT	0.52	1.07	1.93	3.80	
ZF	0.48	0.99	1.80	3.55	
ZN	0.33	0.67	1.21	2.39	
ZB	0.19	0.39	0.70	1.39	
Tic for Tic Matrix					
	2y	5y	10y	30y	
2y	1.00	2.06	3.72	7.34	
5y	0.49	1.00	1.81	3.57	
10y	0.27	0.55	1.00	1.97	
30y	0.14	0.28	0.51	1.00	
Tic for Tic Matrix					
	ZT	ZF	ZN	ZB	
ZT	1.00	1.07	1.59	2.74	
ZF	0.93	1.00	1.48	2.56	
ZN	0.63	0.67	1.00	1.72	
ZB	0.36	0.39	0.58	1.00	

**What is this? (1):**

The 30 yr cash moves X.XX tics for every 1 tic ZT moves.

**What is this? (2):**

ZB moves X.XX tics for every 1 tic ZN moves.



