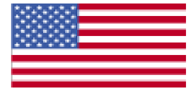
6/6/2007 5:40

The Morning Email: Treasuries



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

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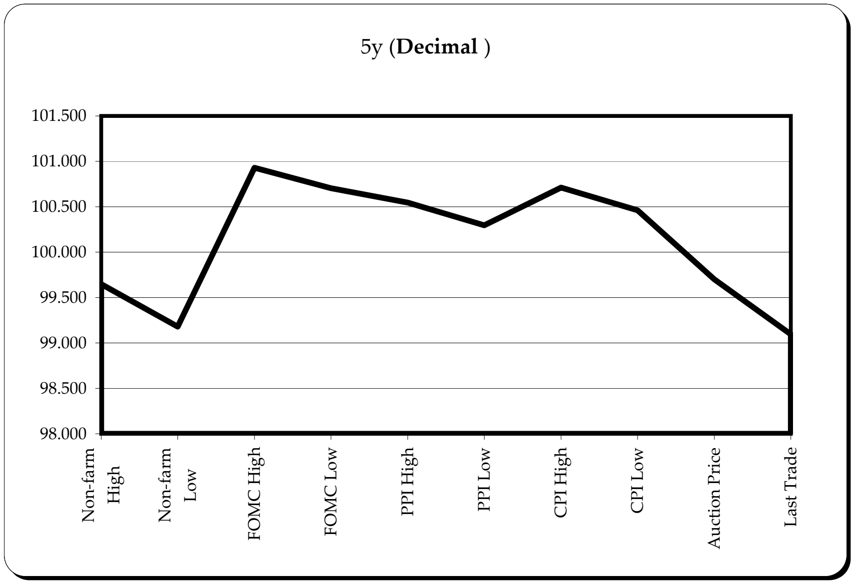
Important Econ Releases, Highs & Lows

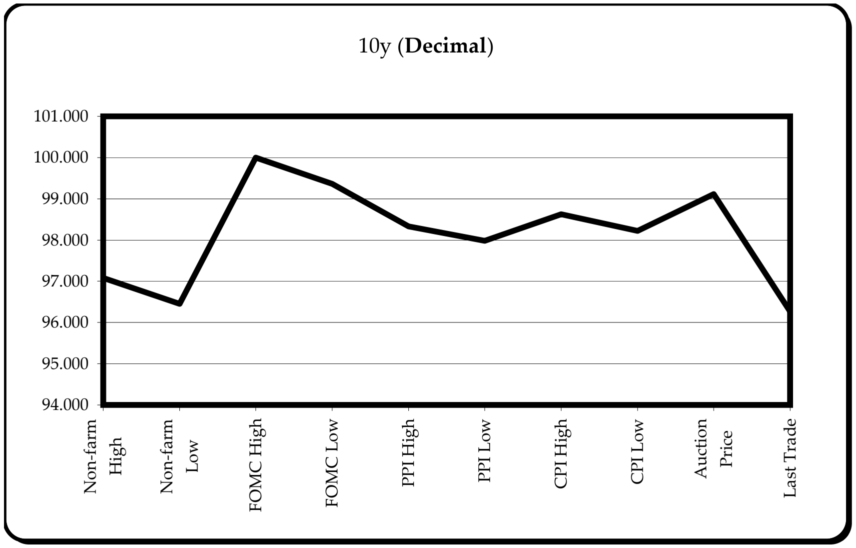
	Economic Releases - 32nds				
	5y*	10y*	ZNU7**	ZBU7**	Date
Non-farm High	99.2075	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.0580	96.145	105.290	108.15	6/1/2007
FOMC High	100.2975	100.000	108.075	111.24	5/9/2007
FOMC Low	100.2250	99.115	107.305	111.08	5/9/2007
PPI High	100.1750	98.105	107.195	110.23	4/13/2007
PPI Low	100.0950	97.315	107.080	110.02	4/13/2007
CPI High	100.2275	98.200	107.305	111.11	5/15/2007
CPI Low	100.1475	98.070	107.185	110.21	5/15/2007
Auction Price	99.2243	99.035			
Last Trade	99.0300	96.085	105.235	108.10	6/6/2007 5:40

*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



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Quotes

	ls	net	high	low	open	Volume	SYM NAME
	32 nds						
TUAU7	101.230	0.0	101.232	101.222	101.225	16,737	2y Futures
FVAU7	103.310	0.0	104.000	103.290	103.295	48,026	5y Futures
TYAU7	105.235	(0.5)	105.245	105.205	105.210	116,483	10y Futures
USAU7	108.100	(2)	108.130	108.050	108.060	29,520	30y Futures
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.250	0.7	99.252	99.245	99.247	na	2y
BUS05P	#VALUE!	2.2	99.035	99.015	99.020	na	5y
BUS10P	96.080	3.5	96.090	96.060	96.065	na	10y
BUS30P	#VALUE!	6	95.015	94.280	94.300	na	30y
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.988	(1.30)	5.022	4.976	5.022	na	2y Yield
BUS05Y	4.956	(1.20)	4.977	4.95	4.977	na	5y Yield
BUS10Y	4.981	(1.20)	4.997	4.974	4.997	na	10y Yield
BUS30Y	5.077	(1.10)	5.088	5.072	5.087	na	30y Yield

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MarketNews international

News Recap for the United States

Yesterday

15:19 06/05 US **TSYS/RECAP**: Tsys had wild day: gain on Bernanke, then slide to new low after strong non-mfrg 59.7 May ISM, dealer selling; German Bund hurt as Bund 10Y futures hit contract low. Lvrgd accts sold US 2Y, 10s earlier, rate-locks sales. But European central bank buying in 2Y, 3Ys, foreign bid in shorter agencies.Asian, China dom money mgrs, lvrgd money bid in MBS, and US real money buying but little MBS selling; US$600M origination. There was buy-and-hold accts 5Y selling, black-box seller of 10,000 5Y futures, but bank bid in intermediates, swaps receiving in front end on rate-lock unwinds, later 3Y receiving. Huge a.m. call
buying in Eurodlr options. Asia quiet in Tsys. 10Y briefly touched 4.99%; last there July 31, 2006. 10Y Bund yld hit 4.50% highest since Nov 2002. Bernanke said subprime problem, tighter lending wd restrain hsg; not big spillover. Weak US stks helped Tsys stabilize. Was buyer of Sept 5Y 103.5- 104.5 strangle. Heavy put selling all day in Tsys; better call buying in Eurodlr futures. 10Y RP special. ECB mtg Wed; hike eyed.

15:14 06/05 **EURODLR FUTURES**: Eurodlr futures settled lower across the board on heavier volume, while the curve rebounded from recent flattening. The Red/Gold pack spd (Jun08-Mar09) vs (Jun11-Mar12) a 2s/10s proxy, steepened 1.75 bps at 24.0. The Fronts (Jun07-Mar08), settled steady to 2.5 bps lower, the Jun07 unched at 94-63.75 on combined Globex and pit volume of 75,000, the Sep07 in 0.5 bps at 94-65 on volume of 247,000, the Dec07 in 1.0 bps at 94-66 on volume of 402,000, while the Mar08 closed 2.5 bps lower at 94-69.5 on volume of 460,000. The Red pack (Jun08-Mar09) a 2yr proxy, settled 3.5 to 5.0 bps lower across the pack with 1,108,000 contracts traded.

15:06 06/05 **US EURODLR/SWAPS**: Spds finished session steady to mixed, wider in the wings in a directional move w/higher Tsy ylds. Net swaps flow turned two-way, as a couple swap desks tried to pay in 3-years on the downtick after some initial receiver interest. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:05	-0.25/42.75	+0.00/49.75	+0.00/57.25	+0.50/61.75
1:30	-0.25/42.75	+0.00/49.75	+0.00/57.25	+0.50/61.75
11:30	-0.25/42.75	+0.00/49.75	+0.00/57.25	+0.25/61.75
10:30	-0.25/42.75	+0.00/49.75	+0.00/57.25	+0.25/61.75
9:00	-0.25/42.75	+0.00/49.75	-0.25/57.00	+0.25/61.75
Tue Open	+0.00/43.00	+0.25/50.00	+0.25/57.50	+0.75/62.25
Mon 3:05	+0.00/43.00	-0.50/49.75	-0.25/57.25	+0.00/61.50

News Recap for the United States

Overnight

05:20 06/06 **TSYS: USTs** are trading modestly higher in London trade Weds, helped by light buying across the curve from Asian investors. However, traders say volumes are modest, with many players unprepared to commit fresh funds as the 10-year note toys with the 5% yield level. Prices were better bid from the getgo in Tokyo trade, as Japanese investors took advantage of the higher yields on offer after overnight weakness. Life and pension funds were better buyers of the intermediate sector of the curve, looking to lock in the 10-year rates around 5%. Light buying from the Asian players continued into the London session, but gains were capped by supply from leveraged accounts. Real money European investors were also seen as light buyers of the 5-year note, although modest sellers of the Long Bond. Bunds were trading 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 1/32 higher, trading at 99 25/32 to yield 4.98%. The 10-yr note was at 96 9/32 (4.98%), with the Bond 4/32 lower at 5.08%.

MarketNews international

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09:46 06/05 **FED REACT**: Michael Feroli, US Economist at JPMorgan Economics, says there were no surprises from Bernanke. He says, "The main take-away from Bernanke's speech is that his assessment of the economic outlook, and the risks to that outlook, have changed little since the last FOMC meeting almost a month ago. In fact, much of the wording borrowed directly from the most recent FOMC minutes. In particular, the economy should grow at a moderate pace and inflation should ebb, though the risks to the inflation forecast remain to the upside. Bernanke's comments on housing did not reveal much in the way of detail on the Fed's way of thinking about this topic."

And the story of the day goes to...

12:13 06/05 **US OUTLOOK**: GS changed their outlook to call for no Fed easing in 2007. "Previously we expected 75 basis points of rate cuts, beginning at the September FOMC meeting. However, although real GDP growth has slowed as anticipated, the absence of any tangible evidence of rising unemployment makes it unlikely that Fed officials will cut the funds rate target. We have boosted our estimates for real GDP in Q2/Q3 to 3% and 2-1/2% (annual rates) from 2% previously for both quarters on accumulating evidence of an impending rebound in manufacturing output. We have not changed growth rates beyond Q3. Annual averages are 2.1% for 2007 and 2.6% for 2008, each 0.1 point high er than where they were prior to last week's downward revision to Q1 growth last week."

[a note from jim: MLynch tossed in the towel yesterday. Today GS. This screams market bottom.]

10:03 06/05 **US DATA: May nonmfg ISM report says** "Non-manufacturing business activity increased for the 50th consecutive month in May... Business Activity, New Orders and Employment increased at a faster rate in May than in April. The Prices Index increased this month to 66.4 percent. Twelve non-manufacturing industries reported increased activity in May. Members' comments in May are mostly positive about business conditions. There is continued concern with rising fuel costs." **WHAT RESPONDENTS ARE SAYING:** "Business activity remains stable. Fuel prices remain outrageously high." (Professional, Scientific & Technical Services) "Commercial business is solid...retail very competitive...inverse yield curve squeezing margins." (Finance & Insurance) "Increasing pressure on cost reduction as energy costs remain high." (Accommodation & Food Services) "Housing market is still depressed." (Construction) "Business growing." (Management of Companies & Support Services)

But let's not ignore Big Ben...

Bernanke Sees Moderate GrowthDespite Continued Housing Drag
By BRIAN BLACKSTONEJune 5, 2007 10:55 a.m. [WSJ]

WASHINGTON -- Despite an "ongoing" drag from the housing sector, the U.S. economy should expand at a moderate pace near its underlying potential in coming months as other factors limiting growth reverse, Federal Reserve Chairman Ben Bernanke said.

Meanwhile, underlying inflation, which has already seen a "gradual ebbing," should continue to moderate, although risks remain tilted to the upside, Mr. Bernanke said in remarks suggesting that he is quite comfortable with the current stance of interest-rate policy.

Duration, DV01s, Curve, Flys, CFs

	M Duration	DV01 32	DV01 $
30y	15.23	4.70	$1,469
10y	7.86	2.43	$759
5y	4.38	1.39	$434
2y	2.05	0.64	$201
ZB	9.74	3.40	$106
ZN	5.82	1.98	$62
ZF	4.00	1.33	$42
ZT	1.88	1.24	$39

Yield Curve Spreads

2/5	-3.20
5/10	2.50
2/10	-0.70
10/30	9.60
5/30	12.10
2/30	8.90

Fly's

2/5/10	-5.70
2/10/30	-10.30
5/10/30	-7.10

	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)

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Hedge Ratio's

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		1.718	2.554	2.733
ZN	0.582		1.486	1.591
ZF	0.392	0.673		1.070
ZT	0.366	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	4.09	7.14	13.83
ZN	3.25	7.02	12.27	23.75
ZF	4.84	10.44	18.24	35.31
ZT	5.18	11.17	19.52	37.79

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	4.171	8.073
5y	0.463		1.747	3.382
10y	0.265	0.560		1.936
30y	0.137	0.289	0.517	

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

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Closes2pm

	Cpn	Mty	32nds	Yield
2y	4.875	5/31/09	99.2525	4.987
5y	4.750	5/31/12	99.0350	4.954
10y	4.500	5/15/17	96.100	4.974
30y	4.750	2/15/37	95.06	5.066

	CF Basis* (decimal)	GHCO Basis
5y	0.92	31.006
10y	(2.14)	0.868
30y	(30.29)	286.359

	32nds
ZF	103.315
ZN	105.240
ZB	108.12

Curve Spreads bps	
2/5	(0.033)
5/10	0.020
2/10	(0.013)
10/30	0.092
5/30	0.112
2/30	0.079

CF = Conversion Factor

Cash - (Futures * CF)

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Correlations

All correlations based on 10 day historical

	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
Symbol	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
2yr	100.0	59.5	-50.3	-33.4	-67.1	-62.1	-58.0	-46.8
5yr	59.5	100.0	-47.6	-31.9	-59.4	-54.6	-52.5	-39.4
10yr	-50.3	-47.6	100.0	96.3	96.5	98.1	99.0	97.7
30yr	-33.4	-31.9	96.3	100.0	86.5	90.0	92.5	97.3
ZT	-67.1	-59.4	96.5	86.5	100.0	99.6	98.8	92.9
ZF	-62.1	-54.6	98.1	90.0	99.6	100.0	99.7	95.4
ZN	-58.0	-52.5	99.0	92.5	98.8	99.7	100.0	97.2
ZB	-46.8	-39.4	97.7	97.3	92.9	95.4	97.2	100.0

	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
Symbol	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
emini SP	81.4	58.9	(58.0)	(41.7)	(71.3)	(66.3)	(63.1)	(51.8)
Dow Futures	82.3	56.6	(43.9)	(25.9)	(59.8)	(53.8)	(49.8)	(37.2)
USDJPY	4.7	18.0	28.0	37.2	19.3	24.4	25.8	31.9
EURUSD	25.2	38.1	(81.7)	(80.0)	(75.9)	(78.3)	(79.4)	(76.1)

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Cash Duration Matrix				
	2	5	10	30
2	**100%**			
5	50%	**100%**		
10	27%	55%	**100%**	
30	13%	27%	50%	**130%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$201**			
5	$205	**$414**		
10	$202	$409	**$748**	
30	$198	$400	$732	**$1,469**

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.

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($4)			
10	($1)	$5		
30	$3	$14	$16	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.83%			
10	-0.58%	1.27%		
30	1.61%	3.51%	2.21%	

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	1.06	1.92	3.78
ZF	0.48	0.99	1.80	3.53
ZN	0.33	0.67	1.21	2.38
ZB	0.19	0.39	0.70	1.38

	2y	5y	10y	30y
2y	1.00	2.06	3.72	7.30
5y	0.49	1.00	1.81	3.55
10y	0.27	0.55	1.00	1.96
30y	0.14	0.28	0.51	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	1.07	1.59	2.73
ZF	0.93	1.00	1.49	2.55
ZN	0.63	0.67	1.00	1.72
ZB	0.37	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.