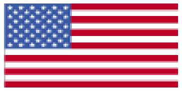
6/11/2007 5:32



The Morning Email: Treasuries

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

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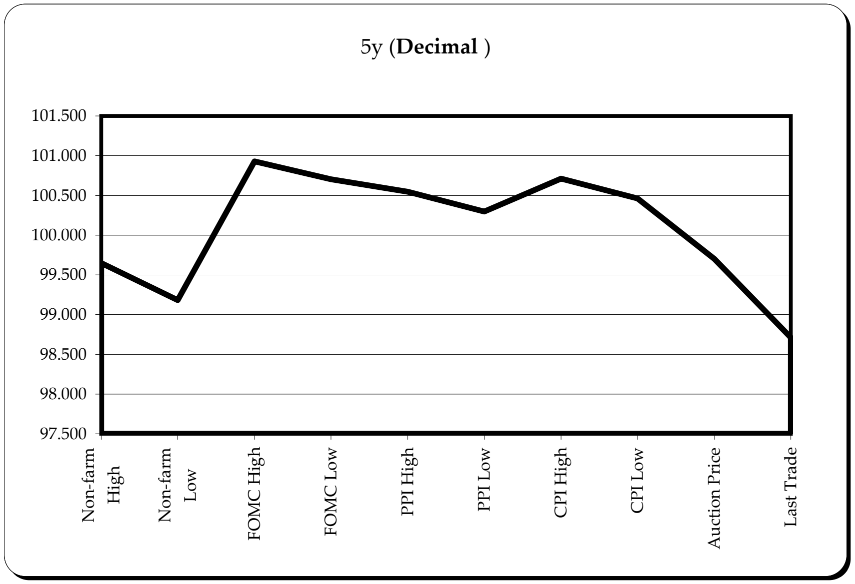
Important Econ Releases, Highs & Lows

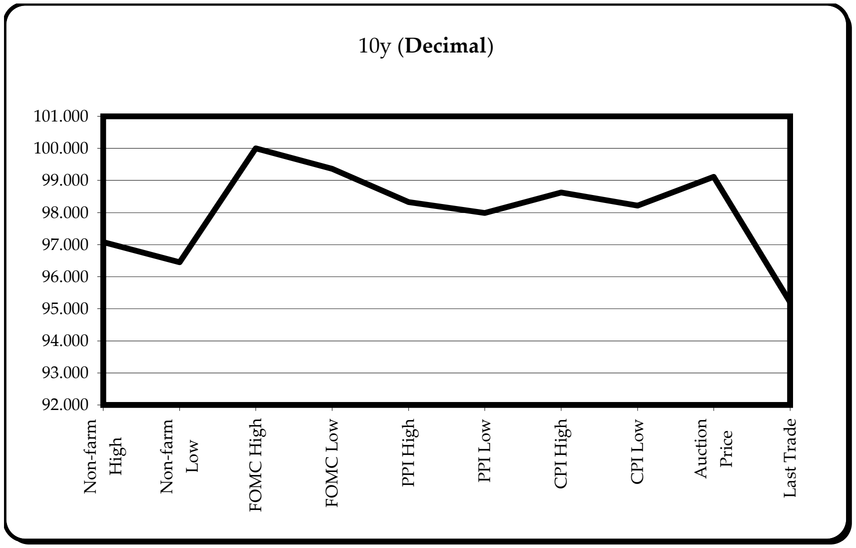
Economic Releases - 32nds					
	5y*	10y*	ZNU7**	ZBU7**	Date
Non-farm High	99.2075	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.0580	96.145	105.290	108.15	6/1/2007
FOMC High	100.2975	100.000	108.075	111.24	5/9/2007
FOMC Low	100.2250	99.115	107.305	111.08	5/9/2007
PPI High	100.1750	98.105	107.195	110.23	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	98.2270	95.065	104.300	106.19	6/11/2007 5:32

*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

	32 nds						
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
TUAU7	101.220	0.5	101.225	101.205	101.210	15,631	2y Fut
FVAU7	103.190	0.5	103.200	103.150	103.175	43,268	5y Fut
TYAU7	104.300	(0.5)	105.000	104.250	104.300	139,056	10y Fut
USAU7	106.190	(3)	106.250	106.110	106.180	34,310	30y Fut
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
BUS02P	99.242	(0.7)	99.247	99.235	99.237	na	2y Cash
BUS05P	98.227	(0.7)	98.230	98.187	98.210	na	5y Cash
BUS10P	#VALUE!	(3.5)	95.085	95.015	95.060	na	10y Cash
BUS30P	92.250	(11)	93.010	92.195	92.265	na	30y Cash
	ls	**net**	**high**	**low**	**open**	**Volume**	**SYM NAME**
BUS02Y	4.997	0.40	5.031	4.98	5.018	na	2y Yield
BUS05Y	5.045	0.60	5.079	5.041	5.057	na	5y Yield
BUS10Y	5.120	1.70	5.147	5.11	5.12	na	10y Yield
BUS30Y	5.229	2.60	5.246	5.211	5.219	na	30y Yield

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MarketNews international

News Recap for the United States
Yesterday

Treasury Market Summary: Friday, June 8
by John Canavan
The Market

Mortgage convexity related selling, reports of a drop in demand out of China, global economic strength and rising global central bank rates, and inflation concerns on fears that global capacity is being stretched, meaning the end of importing deflationary trends, all played a role in sparking the selloff over the past month. Technical/black-box trading also helped to exacerbate the extent of the downturn. The hammering seen Thursday and Friday overnight did look a bit like a final capitulation, however, at least for the very near-term, and that finally offered the market a chance to catch its breath Friday.

On Friday, sharp equity market losses in the Far East Friday allowed Treasuries to steady after Thursday's enormous sell-off. U.S. equity futures held steady, however, and European equity markets were also able to find a bid back to unchanged levels in early European trading after opening lower. That caused Treasuries out the curve to collapse yet again in European activity. The price on the long bond fell by as much as another 51+/32 before bottoming. The 10-year note yield came very close to 5.25% and the 10-year note futures contract tested the lows from last June.

At the same time those levels were holding ahead of the U.S., U.S. equity futures and European equity markets were falling. The combination finally sparked a better bid and prices began to bounce into the open in the U.S. The front-end of the curve, which had been holding in well throughout the night amid the curve steepening, pushed back into positive territory. There was only the smallest dip on the smaller than expected trade deficit that kicked off the U.S. morning and Treasury prices pushed on higher again following that.

Prices across the cash market made it back into slightly positive territory through mid-morning, although only the front-end of the Treasury futures market reached into the black, with 5-year, 10-year and bond futures failing to erase all of the overnight gains. Stocks, however, also rebounded through mid-morning, grinding out small to moderate gains and steadying in quiet, narrow ranges at those levels since. With no help from equities, Treasuries were unable to maintain the positive tone and fell back from the best levels into the afternoon. Bonds fell nearly a full point from the best levels, but that actually looks like a relatively small move on an intra-day chart, given the extent of the movement overnight.

News Recap for the United States
Overnight

06:20 06/11 UST SUMMARY: US Treasuries are trading lower on Monday, with the long-dated issues underperforming, in turn steepening the curve. Prices eased lower in the Tokyo session, taking cue from fall in Japanese Government Bonds in the wake of the upward revision to Japanese Q1 final GDP data. Traders described flows as 2-way, with Asian central bank buyer in the belly of the curve and European real money buying 2s and 5s in early Europe session. However, selling in 10-year Notes was then seen from Japanese real money accounts and talk of US 10-year swap paying. The move came following MNI's exclusive interview with ECB Governing Council member Nout Wellink, who sounded hawkish noises by saying that the European Central Bank's monetary tightening cycle has probably not yet reached its end if the recovery in the eurozone remains on track. In cross border flows, traders reported buying USTs and selling Bunds as the 10-year UST/Bund yield spread narrowed to +64 bps.

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10:06 06/08 **US TSYS/RESEARCH**: Credit Suisse's bond strategists said that "in the US, **we revise our 10-year yield forecast** for the second half of the year to 5.40% but maintain our outlook for lower yields in 2008. Rather than market pricing of Fed tightening, we believe higher yields reflect the added impetus for conundrum unwinds. Empirical data shows that single-day sell-offs of 13 bps or greater in 10-year yields have generally been followed by bearish market movements over the next two-week period." They also noted that "yield beta in the US has been about one over the past month, implying that the sell-off in nominals has been matched almost one-for-one with the sell-off in TIPS." So they say that there are "2 conclusions to draw from this are: 1) the US growth outlook has improved with the recent turnaround in data, leading to higher real yields and, 2) the Fed remains vigilant on inflation." [my emphasis]

10:01 06/08 **US TSYS/US MBS**: Barclays Capital bond strategists noted for Tsys, "over the short term, economic data could take a back seat to other factors" with "the most important number over the next several days is the CPI report on the June 15. If that comes on consensus, the payroll report in July should be the next big market mover. For now, longer rates should be driven mainly by two factors" with the first factor as "expectation of Fed cuts as both domestic and foreign real money accounts have been buyers of longer rates based on the following two-step argument. 1) Housing should get the economy into trouble and force the Fed to ease. 2) The best way to position for easing is by buying longer bonds with more duration. As a result, longer rates are now closely tied to changes in expectations about the Fed." The second factor driving longer rates is "duration hedging by the mortgage market: Higher rates and weak housing have now combined to extend mortgage durations sharply. This should be a significant influence on longer rates over the near future."

10:31 06/08 **US TSYS/RESEARCH**: ABN AMRO strategists noted Thu bond yld spike had gone on overnight as US 10Y yield "rose to as high as 5.24% overnight, after rising above 5.00% for the first time in 10 months just Wednesday. By contrast, benchmark 10-year Bund yields have risen just 13bp and the comparable JGB has risen just 5bp over that time frame. It may seem a bit curious that the US dollar has rallied, even as US bond and stocks have underperformed Japanese and European equivalents so badly. The likely explanation for that phenomenon is that leveraged positions are being forcibly unwound across all mkts where they are prevalent. With the mkt have been holding large EUR-USD longs for months, a liquidation of those positions at a time when the US bond mkt is in the midst of a 6-sigma move makes sense. However, what is curious is that only certain highly crowded FX trades are being unwound.. Because of the strange price action, conspiracy theories are being whispered that" conundrum bg "unwound by the same sources (BRIC central bks) that were behind it."

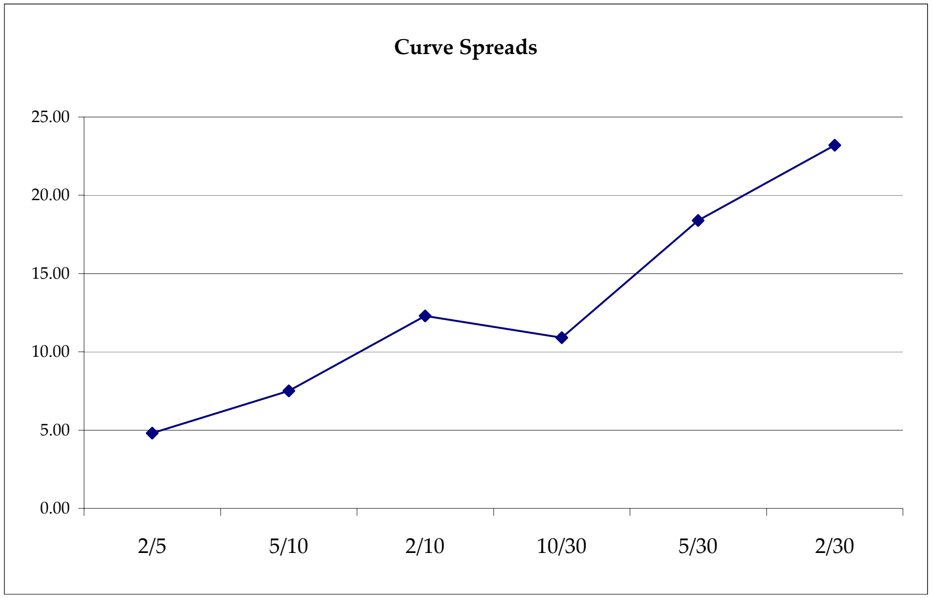
Duration, DV01s, Curve, Flys, CFs

	M Duration	DV01 32	DV01 $
30y	15.04	4.54	$1,419
10y	7.83	2.39	$748
5y	4.36	1.38	$431
2y	2.04	0.64	$200
ZB	9.68	3.33	$104
ZN	5.80	1.95	$61
ZF	3.99	1.32	$41
ZT	1.86	1.23	$39

	CF
ZB	1.1593
ZN	0.9335
ZF	0.9497
ZT	0.9799

Yield Curve Spreads

2/5	4.80
5/10	7.50
2/10	12.30
10/30	10.90
5/30	18.40
2/30	23.20



Fly's

2/5/10	-2.70
2/10/30	1.40
5/10/30	-3.40

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 (U)	1.000	1.800	2.700	2.900
Bobl (U)	0.580	1.000	1.500	1.600
Shatz (U)	0.250	0.430	0.650	0.700

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.704	2.516	2.695
ZN	0.587		1.476	1.582
ZF	0.398	0.677		1.071
ZT	0.371	0.632	0.933	

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	1.92	4.15	7.19	13.64
ZN	3.28	7.07	12.26	23.25
ZF	4.84	10.43	18.09	34.33
ZT	5.18	11.18	19.39	36.78

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (U)	1.7	3.9	6.8	13.1
Bobl (U)	3.0	7.0	12.2	23.6
Shatz (U)	6.9	16.1	28.2	54.3

US Treasuries

	2y	5y	10y	30y
2y		2.387	4.140	7.854
5y	0.464		1.735	3.291
10y	0.267	0.564		1.897
30y	0.141	0.297	0.527	

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	99.2725	4.954
5y	4.750	5/31/12	99.0650	4.932
10y	4.500	5/15/17	96.110	4.970
30y	4.750	2/15/37	94.29	5.084

	CF Basis* (decimal)	GHCO Basis
5y	0.27	30.702
10y	(2.16)	-1.319
30y	(31.02)	280.246

	32nds
ZF	104.030
ZN	105.275
ZB	108.09

Curve Spreads bps	
2/5	(0.022)
5/10	0.038
2/10	0.016
10/30	0.114
5/30	0.152
2/30	0.130

CF = Conversion Factor
Cash - (Futures * CF)

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Correlations

All correlations based on 10 day historical

	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr	ZT	ZF	ZN	ZB
2yr Yield	100.0	93.6	88.0	81.6	-97.1	-91.2	-87.5	-78.7
5yr Yield	93.6	100.0	98.9	96.4	-94.9	-98.3	-97.9	-94.6
10yr Yield	88.0	98.9	100.0	99.2	-90.5	-97.8	-98.9	-98.0
30yr Yield	81.6	96.4	99.2	100.0	-84.7	-95.2	-97.5	-98.8
ZT	-97.1	-94.9	-90.5	-84.7	100.0	96.1	92.8	84.9
ZF	-91.2	-98.3	-97.8	-95.2	96.1	100.0	99.4	96.1
ZN	-87.5	-97.9	-98.9	-97.5	92.8	99.4	100.0	98.4
ZB	-78.7	-94.6	-98.0	-98.8	84.9	96.1	98.4	100.0

	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
Symbol	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
emini SP	(51.3)	(75.2)	(80.8)	(85.6)	53.2	69.4	74.5	81.6
Dow Futures	(56.1)	(78.0)	(82.4)	(86.3)	58.2	72.3	76.5	82.1
USDJPY	(29.5)	(38.0)	(36.2)	(37.5)	26.6	28.0	27.8	28.5
EURUSD	(15.7)	(40.2)	(51.1)	(57.7)	24.2	45.5	53.2	63.7

Correlations for the US Cash Treasuries are done on a YIELD basis.
Therefore, you'll see negative values against certain fixed income instruments.

Cash Duration Matrix

Cash Duration Matrix

	2	5	10	30
2	**100%**			
5	49%	**100%**		
10	27%	55%	**100%**	
30	14%	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	**$200**			
5	$203	**$411**		
10	$199	$403	**$737**	
30	$192	$390	$713	**$1,419**

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	($3)			
10	$1	$8		
30	$8	$22	$25	

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.

Cash Matrix [DV01 over / (under) as %]

	2	5	10	30
2				
5	-1.54%			
10	0.44%	2.02%		
30	3.91%	5.54%	3.45%	

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	1.91	3.68
ZF	0.48	0.99	1.78	3.43
ZN	0.33	0.67	1.21	2.33
ZB	0.19	0.40	0.71	1.36

	2y	5y	10y	30y
2y	1.00	2.06	3.69	7.10
5y	0.49	1.00	1.79	3.45
10y	0.27	0.56	1.00	1.92
30y	0.14	0.29	0.52	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	1.07	1.58	2.70
ZF	0.93	1.00	1.48	2.52
ZN	0.63	0.68	1.00	1.70
ZB	0.37	0.40	0.59	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.