6/12/2007 5:29

The Morning Email: Treasuries

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

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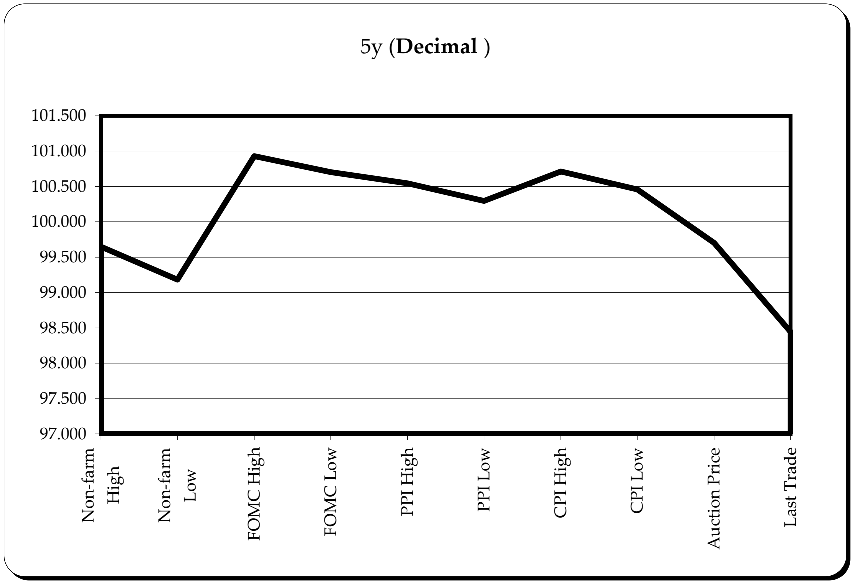
Important Econ Releases, Highs & Lows

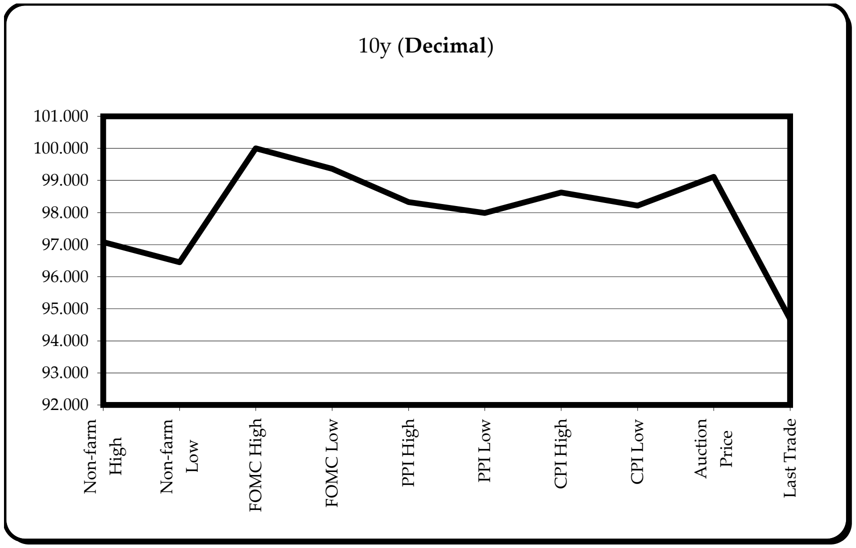
	Economic Releases - 32nds				
	5y*	10y*	ZNU7**	ZBU7**	Date
Non-farm High	99.2075	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.0580	96.145	105.290	108.15	6/1/2007
FOMC High	100.2975	100.000	108.075	111.24	5/9/2007
FOMC Low	100.2250	99.115	107.305	111.08	5/9/2007
PPI High	100.1750	98.105	107.195	110.23	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	98.1420	94.215	104.170	105.31	6/12/2007 5:29

*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	101.200	(1.7)	101.210	101.200	101.205	22,990	2y Fut
FVAU7	103.115	(6.5)	103.170	103.115	103.150	62,034	5y Fut
TYAU7	104.170	(10.5)	104.250	104.160	104.230	200,564	10y Fut
USAU7	105.310	(20)	106.130	105.300	106.100	36,646	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.230	(0.2)	99.242	99.230	99.235	na	2y Cash
BUS05P	98.140	(3.5)	98.197	98.140	98.185	na	5y Cash
BUS10P	94.215	(5.5)	94.310	94.215	94.290	na	10y Cash
BUS30P	91.290	(10)	92.115	91.300	92.100	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	5.023	0.50	5.035	4.989	5.027	na	2y Yield
BUS05Y	5.108	2.70	5.114	5.061	5.078	na	5y Yield
BUS10Y	5.191	2.30	5.198	5.145	5.154	na	10y Yield
BUS30Y	5.291	2.20	5.294	5.252	5.258	na	30y Yield

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MarketNews international

News Recap for the United States
Yesterday

15:04 06/11 **US TSYS:** Treasury market was fairly steady Monday but the curve continues with its steepening bias. At 3PM Monday, 2Y at 5.001% vs. 5.005% 3PM Fri. 3Y at 5.028% vs. 5.024%. 5Y at 5.057% vs. 5.053%. 10Y at 5.137% vs. 5.118%. 30Y bond at 5.240% vs. 5.221%. 2/30Y curve at +23.9 bps vs +21.6 Fri. 2/10Y at 13.6 bps vs. +11.3 bps. 2/5Y +5.6 bps vs. +4.8. Market sources say this week's data (retail sales, PPI, CPI and Beige Book for June Fed meeting) will determine where yields go from here. Technical selling as 10s broke 5.00%, MBS duration shedding,
concerns about higher rates abroad and the dashing of Fed rate cut fears all conspired to produce the huge backup in yields since May 11. MBS duration shedding is largely over for now unless rates take another leg up and sources are not willing to rule that out just yet. Thus far, market sources say real money buying, both domestic and foreign, has not been seen in any great size at the higher yields so they are also monitoring this. But more tanking in stocks and higher yields in Tsys
could also spur some asset allocation trading from pension-types.

15:05 06/11 **US Swaps**: Spds finished out the session mostly tighter after pushing directionally wider in the first half w/higher Tsy ylds. Early flow had moderate paying in 10s by a spec after two-way on spd in the front end. Some late receiving reported in 3yr bundles. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:05	+0.25/45.25	-0.25/52.00	-0.25/60.50	-0.50/67.00
1:30	+0.25/45.25	-0.25/52.00	-0.25/60.50	-0.50/67.00
12:45	+0.25/45.25	+0.25/52.50	+0.00/60.75	-0.25/67.25
11:30	+0.50/45.50	+0.50/52.75	+0.50/61.25	+0.00/67.50
10:45	+0.50/45.50	+0.75/53.00	+0.50/61.25	+0.25/67.75
9:30	+0.25/45.25	+0.50/52.75	+0.75/61.50	+0.75/68.25
Mon Open	+0.25/45.25	+0.00/52.25	+0.25/61.00	+0.25/67.75
Fri 3:15	+0.50/45.00	+1.00/52.25	+1.00/60.75	+2.00/67.50

15:11 06/11 **EURODLR FUTURES**: Eurodlr futures settled steady to mixed across the board on lighter volume as the curve continued to steepen. The Red/Gold
pack spd (Jun08-Mar09) vs (Jun11-Mar12) a 2s/10s proxy, bear steepened 0.875 bps to 40.875, out 16.875 in 3 sessions. The Fronts (Jun07-Mar08), settled steady to 0.5 bps lower, the Jun07 at 94-63.75 on combined Globex and pit volume of 29,000, the Sep07 in 0.5 bps at 94-64.5 on volume of 136,000, the Dec07 steady at 94-64.5 on volume of 223,000, while the Mar08 was steady at 94-68 on volume of 223,000. The Red pack (Jun08-Mar09) a 2yr proxy, settled steady to 0.5 bps higher across the
pack with 581,000 contracts traded.

News Recap for the United States
Overnight

06:00 06/12 **TSYS SUMMARY**: US Treasuries are lower on Tuesday, amid reports of swap paying interest in the 10-year sector, which is once again weighing on sentiment. The long-dated issues underperformed ahead of the $8.0bln 10-year Note re-opening auction, in turn steepening the US Treasury curve. The 10-year Note was last sold on May 8 (refunding auction) for $13.0bln and then awarded at 4.612% high yield and covered 2.30 times vs 2.64 cover at the previous auction on March 13. However, historical data suggests that 'buyside accounts', as reflected primarily by the Indirect
Bidding in the auctions, tends to be less aggressive in the auctions for the 10-year reopenings than in the 10-year refunding auctions.

Elsewhere, in other trading flows, European bank was seen selling 10s. Overnight, in the Tokyo session, traders reported buying from Asian real money accounts in the belly of the curve. In cross border flows, Bunds were trading 0.9 bps higher against the US 10-year T-notes, with the spread standing at +66 bps -- hitting widest level since April 9.

MarketNews international

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10:17 06/11 **US TSYS/MBS**: Bond strategists at Deutsche Bank say 3 main reasons caused the rout in Tsys yields: 1) Reduced expectations for Fed ease; 2) Expectations of stronger growth outside of US is causing concern about higher rates in Europe; 3) Lengthening of mortgage durations causing forced selling. On the mortgage front, DB says increased supply is coming at a time of less demand for MBS for the following reasons: 1) Commercial banks had been good buyers from '03 until recently but are unlikely to buy in greater size until the Fed eases; 2) Real money managers already overweight MBS as an asset class; 3) Foreign central banks "have been increasingly focusing on the money markets and away from longer-term bonds," DB says. "There is also a greater emphasis on investing the marginal dollar into the equity markets." On the duration front, DB says 30Y 6s have extended by as much as 1.5 years recently and investors concentrated in these are facing "serious duration extension." DB says it "would not be surprised" to see selling from these types of investors "which tends to include foreign bank portfolios."

[Review last week]

Fixed Income Focus: A Look at Risk Profiles & Overseas Investors
by Ward McCarthy, PhD

Stone & McCarthy (Princeton) -- Treasury market rates soared and the slope of the coupon curve steepened significantly last week. The market was very active, with swap related selling, massive steepening flows, mortgage convexity selling and technical selling all being notable. The market disintegrated on Thursday, as rates on active coupon issues burst through 5%. The slope of the Treasury curve steepened from stem to stern, and the 2s-vs-5s spread becoming positive for the first time since May, 2006. Despite the ferocity of the market sell-off, the catalysts for Thursday's meltdown were elusive, which could be indicative of an eruption of imbalances that had been lurking under the market surface. The most intriguing market scuttlebutt related to paying in swaps by a broader group of investors, in part to hedge mortgage portfolios in a rapidly rising rate environment. Bad news on the primary mortgage market was a trigger for wider spreads earlier this year, and the recent and sudden spike in long-term rates will not help the struggling housing market or borrowers with ARMs trying to refinance into-fixed-rate loans.

Ward McCarthy is **The Man**. Let's listen to what he has to say.
--jim

10:35 06/11 **US MBS/SWAPS/VOL**: MBS strategists at RBS Greenwich say according to their convexity tables, last week's rise in yields of about 25 bps should have triggered about $44B in 10Y equivalent selling and last Thurs' 13 bps move by itself should have resulted in about $22B in hedging. If rates rise another 25 bps, Greenwich model projects $37B of potential selling. Greenwich says some convexity hedgers have "already sold out their excess duration but "others are behind the curve and hoping interest rates will rally." Convexity hedging typically takes 1-2 weeks to run its course, Greenwich says, "and then we think swaps spreads and vol will probably drop from their recent highs, allowing MBS to outperform."

AND…RBS is **The Company**. Let's listen to them too.
--jim

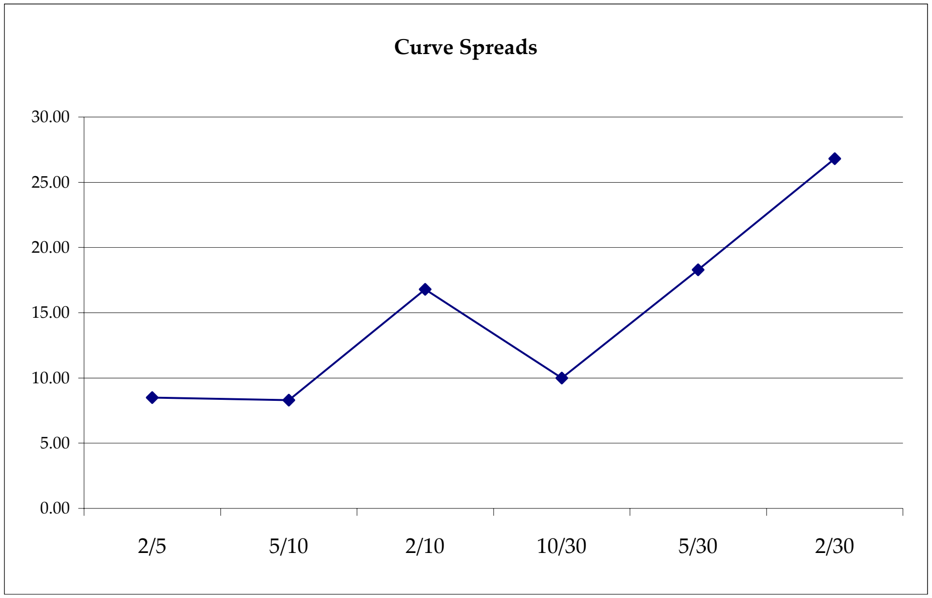
Duration, DV01s, Curve, Flys, CFs

	M Duration	DV01 32	DV01 $
30y	14.97	4.48	$1,399
10y	7.82	2.38	$743
5y	4.36	1.38	$430
2y	2.04	0.64	$200
ZB	9.66	3.31	$103
ZN	5.79	1.95	$61
ZF	3.98	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	8.50
5/10	8.30
2/10	16.80
10/30	10.00
5/30	18.30
2/30	26.80



Fly's

2/5/10	0.20
2/10/30	6.80
5/10/30	-1.70

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		1.699	2.509	2.683
ZN	0.589		1.477	1.580
ZF	0.399	0.677		1.069
ZT	0.373	0.633	0.935	

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	1.93	4.16	7.19	13.54
ZN	3.28	7.06	12.21	23.00
ZF	4.84	10.43	18.04	33.98
ZT	5.18	11.16	19.29	36.33

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		2.382	4.119	7.757
5y	0.464		1.729	3.257
10y	0.269	0.566		1.884
30y	0.143	0.301	0.531	

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Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	256,798	330,182	(73,384)	ZF	165,049	342,655	(177,606)	ZF	1,306,480	**ZF**
ZN	327,272	488,027	(160,755)	ZN	681,321	481,870	199,451	ZN	2,046,172	**ZN**
ZB	154,416	210,454	(56,038)	ZB	114,431	256,007	(141,576)	ZB	695,045	**ZB**

	WoW* Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	(28,262)	(9,047)	37,380	6/5/2007
ZN	(15,841)	(131,799)	147,640	
ZB	22,229	(18,989)	(3,239)	

**WoW = Week over week

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Closes2pm

	Cpn	Mty	32nds	Yield
2y	4.875	5/31/09	99.2475	4.966
5y	4.750	5/31/12	98.2125	5.057
10y	4.500	5/15/17	95.035	5.135
30y	4.750	2/15/37	92.21	5.240

	CF Basis* (decimal)	GHCO Basis		32nds
5y	0.22	29.025	ZF	103.185
10y	(2.31)	-11.683	ZN	104.275
30y	(30.88)	252.004	ZB	106.18

	Curve Spreads bps
2/5	0.091
5/10	0.078
2/10	0.169
10/30	0.105
5/30	0.183
2/30	0.274

CF = Conversion Factor

Cash - (Futures * CF)

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Correlations

All correlations based on 10 day historical

Symbol	US Cash Treasuries (Yield) 2yr Yield	5yr Yield	10yr Yield	30yr	US Bonds/Notes (CBOT) ZT	ZF	ZN	ZB
2yr Yield	100.0	93.8	89.2	85.2	-97.2	-91.5	-88.3	-82.6
5yr Yield	93.8	100.0	99.2	97.8	-95.4	-98.7	-98.4	-96.6
10yr Yield	89.2	99.2	100.0	99.6	-91.7	-98.3	-99.1	-98.7
30yr Yield	85.2	97.8	99.6	100.0	-88.1	-96.9	-98.5	-99.1
ZT	-97.2	-95.4	-91.7	-88.1	100.0	96.2	93.2	88.2
ZF	-91.5	-98.7	-98.3	-96.9	96.2	100.0	99.5	97.5
ZN	-88.3	-98.4	-99.1	-98.5	93.2	99.5	100.0	99.1
ZB	-82.6	-96.6	-98.7	-99.1	88.2	97.5	99.1	100.0

Symbol	US Cash Treasuries (Yield) 2yr Yield	5yr Yield	10yr Yield	30yr Yield	US Bonds/Notes (CBOT) ZT	ZF	ZN	ZB
emini SP	(63.8)	(81.1)	(82.5)	(84.4)	66.9	76.8	79.1	83.0
Dow Futures	(67.0)	(82.6)	(83.2)	(84.6)	70.2	78.3	79.8	82.8
USDJPY	(14.2)	(16.6)	(12.6)	(13.2)	12.4	8.9	6.9	8.0
EURUSD	(36.2)	(59.5)	(67.9)	(71.8)	41.7	62.2	68.7	75.0

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

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Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	**100%**			
5	49%	~~**100%**~~		
10	27%	55%	**100%**	
30	14%	28%	50%	**130%**
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$200**			
5	$202	~~**$410**~~		
10	$198	$400	**$732**	
30	$190	$386	$705	**$1,399**
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($3)			
10	$2	$9		
30	$9	$24	$27	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.35%			
10	0.91%	2.29%		
30	4.81%	6.25%	3.87%	

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	1.06	1.90	3.63
ZF	0.48	0.99	1.78	3.40
ZN	0.33	0.67	1.20	2.30
ZB	0.19	0.40	0.71	1.35

	2y	5y	10y	30y
2y	1.00	2.05	3.67	7.01
5y	0.49	1.00	1.79	3.42
10y	0.27	0.56	1.00	1.91
30y	0.14	0.29	0.52	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	1.07	1.58	2.68
ZF	0.94	1.00	1.48	2.51
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.