



The Morning Email: Treasuries

Table of Contents

- Pg 1 Important Econ Releases, Highs & Lows
- Pg 2 Quotes
- Pg 3 News: United States
- Pg 4 News: Snapshots throughout the day
- Pg 5 Duration, DV01s, Curve, Flats, CFs
- Pg 6 Hedge Ratio's
- Pg 7 Commitment of Traders (COT)
- Pg 8 Closes2pm
- Pg 9 Correlations
- Pg 10 Cash Duration Matrix
- Pg 11 Tic for Tic Matrix

"The Bernanke Fed isn't just looking for inflation to stabilize, but to decline, in contrast to the Fed under Greenspan. Additionally, under the Greenspan Fed it was rare to hear any discussion of the actual inflation rate. However, with more with more Fed officials, including Bernanke, focusing on a particular figure as a goal, the level of inflation has become a hot topic." --Greg Ip

13:22 06/14 US OUTLOOK: **From Goldman:** "We are slightly changing our forecasts for tomorrow's **CPI** release based on information in this morning's PPI. Specifically, we are increasing our forecast of core CPI to +0.13% (from +0.11% previously). Our forecast for overall inflation increases more, rising to +0.67% (from +0.49%) based on the quite fast increases in energy prices reported in the PPI."

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

Disclaimer: All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

| | Economic Releases - 32nds | | | | Date |
|---------------|---------------------------|---------|---------|--------|----------------|
| | 5y* | 10y* | ZNU7** | ZBU7** | |
| 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 | 98.1300 | 94.275 | 104.185 | 106.11 | 6/14/2007 |
| PPI Low | 98.0375 | 94.075 | 104.045 | 105.23 | 6/14/2007 |
| 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 | 98.0550 | 94.120 | 104.050 | 105.23 | 6/15/2007 5:42 |

*Adjusted for New Issue

**Adjusted for Futures Roll

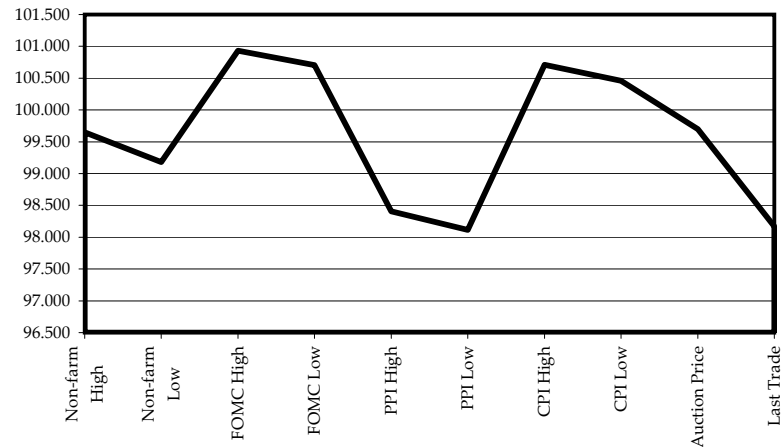
(Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)

Release times are from release to 2pm cdt

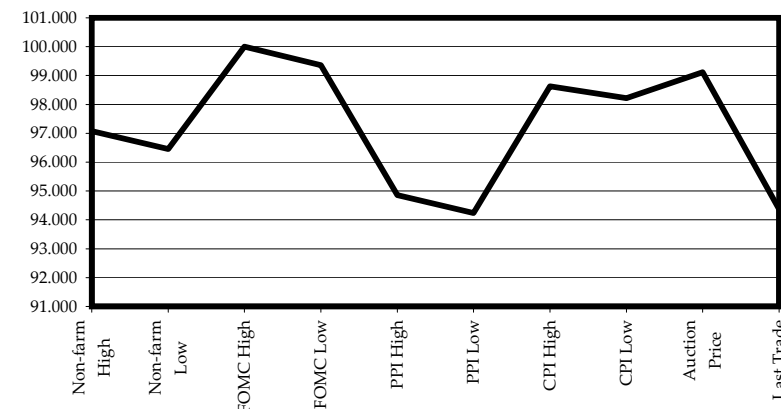
| | Auctions - 32nds | | | |
|---------------------|------------------|-----------|----------|-------------|
| | 2 y | 5y | 10y | 30y |
| Auction Price | 99.313 | 99.224 | 99.035 | 98.194 |
| Auction Yield Stop | 4.886 | 4.818 | 4.612 | 4.838 |
| Actual Auction Date | 5/29/2007 | 5/30/2007 | 5/8/2007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

r = reopen

5y (Decimal)



10y (Decimal)



| | 32 nds | | | | | Volume | SYM NAME |
|--------|---------|-------|---------|---------|---------|---------|-----------|
| | ls | net | high | low | open | | |
| TUAU7 | 101.152 | (1.0) | 101.165 | 101.145 | 101.157 | 14,632 | 2y Fut |
| FVAU7 | 103.030 | (2.0) | 103.060 | 103.015 | 103.045 | 45,569 | 5y Fut |
| TYAU7 | 104.050 | (3.0) | 104.090 | 104.030 | 104.080 | 123,378 | 10y Fut |
| USAU7 | 105.230 | (3) | 105.260 | 105.170 | 105.260 | 27,435 | 30y Fut |
| | ls | net | high | low | open | Volume | SYM NAME |
| BUS02P | 99.187 | (0.2) | 99.200 | 99.180 | 99.197 | na | 2y Cash |
| BUS05P | 98.055 | (1.2) | 98.082 | 98.040 | 98.080 | na | 5y Cash |
| BUS10P | 94.120 | (2.5) | 94.155 | 94.095 | 94.155 | na | 10y Cash |
| BUS30P | 91.230 | (1) | 91.260 | 91.170 | 91.260 | na | 30y Cash |
| | ls | net | high | low | open | Volume | SYM NAME |
| BUS02Y | 5.096 | 0.90 | 5.121 | 5.066 | 5.104 | na | 2y Yield |
| BUS05Y | 5.169 | 0.90 | 5.188 | 5.146 | 5.164 | na | 5y Yield |
| BUS10Y | 5.232 | 1.10 | 5.249 | 5.213 | 5.224 | na | 10y Yield |
| BUS30Y | 5.305 | 0.50 | 5.323 | 5.292 | 5.297 | na | 30y Yield |



News Recap for the United States

Yesterday

15:09 06/14 **US TSYS**: Finally some short-term stability came into the market and prices held in a relatively tight range all session. Some decent buying in long end and in mortgages report. Selling also appeared to dry up for now. Still some unsure if "all clear" can be sounded and others worry there will be selling into strength. At 3PM Thursday, 2Y at 5.086% vs. 5.073% Tues. 3Y at 5.126% vs. 5.108%. 5Y at 5.156% vs. 5.135%. 10Y at 5.217% vs 5.200%. 30Y bond at 5.294% vs. 5.276%. 2/5Y at +7.0 vs +6.2 bps. 2/10Y at +13.1 vs. +12.7. 2/30Y at +21.0 vs. +20.3.

15:09 06/14 **US SWAPS**: Spds finished out the session tighter across the board, extending previous session's move as the curve continued to flatten. "Somebody decided to pull the rug out on 10-year spreads," around midmorning, spds tightening off initial wides, sources reported some decent receiver interest in the intermediates to long end, echoing the good Asian receiving in 10s overnight. Sources added curve unwinds and buyers of spread vs mortgages contributed to move. According to GovPX:
Time (ET) 2Y Swap/Mid 5Y Swap/Mid 10Y Swap/Mid 30Y Swap/Mid
Thu 3:05 -0.25/44.25 -1.00/51.00 -1.50/59.50 -1.25/66.50
12:30 -0.25/44.25 -0.75/51.25 -1.25/59.75 -1.00/66.75
10:30 -0.75/43.75 -1.00/51.00 -1.50/59.50 -1.25/66.50
9:55 -0.25/44.25 -1.25/50.75 -1.50/59.50 -1.75/66.00
9:15 +0.50/45.00 +0.25/52.25 +0.00/61.00 +0.25/68.00
Thu Open +0.50/45.00 +0.25/52.25 +0.50/61.50 +0.25/68.00
Wed 3:05 -0.75/44.75 -1.00/52.75 -1.00/61.75 -0.50/69.50

15:08 06/14 **EURODLR FUTURES**: Eurodlr futures settled lower in the fronts to intermediates on lower volume as the curve continued to unwind some recent steepening. The Red/Gold pack spd (Jun08-Mar09) vs (Jun11-Mar12) a 2s/10s proxy, flattened 1.625 bps to 36.875. The Fronts (Jun07-Mar08), settled steady to 1.0 bps lower, the Jun07 at 94-63.75 on combined Globex and pit volume of 84,000, the Sep07 at 94-63 on volume of 204,000, the Dec07 at 94-60 on volume of 383,000, while the Mar08 was 1.0 bps lower at 94-60.5 on volume of 369,000. The Red pack (Jun08-Mar09) a 2yr proxy, settled 1.5 to 2.0 bps lower across the pack with 1,071,000 contracts traded.

News Recap for the United States

Overnight

05:34 06/15 **TSYS**: Treasuries are trading lower in London Friday, weighed by renewed weakness in the European bond markets. However, traders say end-user volumes have been light, with many players sidelined ahead of the consumer price data due later in the session. Prices were flat to unchanged in Tokyo, with prices consolidating at late New York levels. There was buying of the front of the curve from official names and light selling of the 10-year sector. London flows were largely interdealer book squaring ahead of the inflation data due later in the session. Additionally, flows were largely futures led, with end users happy to sit out before the New York session. Bunds were trading 1 bps lower against the US 10-year T-notes, with the spread standing at +64 bps. Ahead of the U.S. session, the 2-yr note was 1/64 lower, trading at 99 19/32 to yield 5.09%. The 10-yr note was 3+/32 lower at 94 11/32 (5.24%), with the Bond 5/32 lower at 91 20/32 (5.31%).



[SMRA on PPI / CPI]

What Does This Mean for the May CPI?
 Month-to-month, changing one's CPI forecast based on a surprise in the PPI is generally unwise. There are varying lags between wholesale and retail prices, and the weights and seasonal factors at play in the two surveys are different.

That said, the wholesale-to-retail price transmission of food and energy prices is a bit more streamlined. With energy prices coming in much higher-than-expected in PPI and food prices coming in lower, we are comfortable with our above-consensus call of +0.7% on the headline May CPI (due out tomorrow), and we see no need to change our Core CPI forecast of +0.1%.

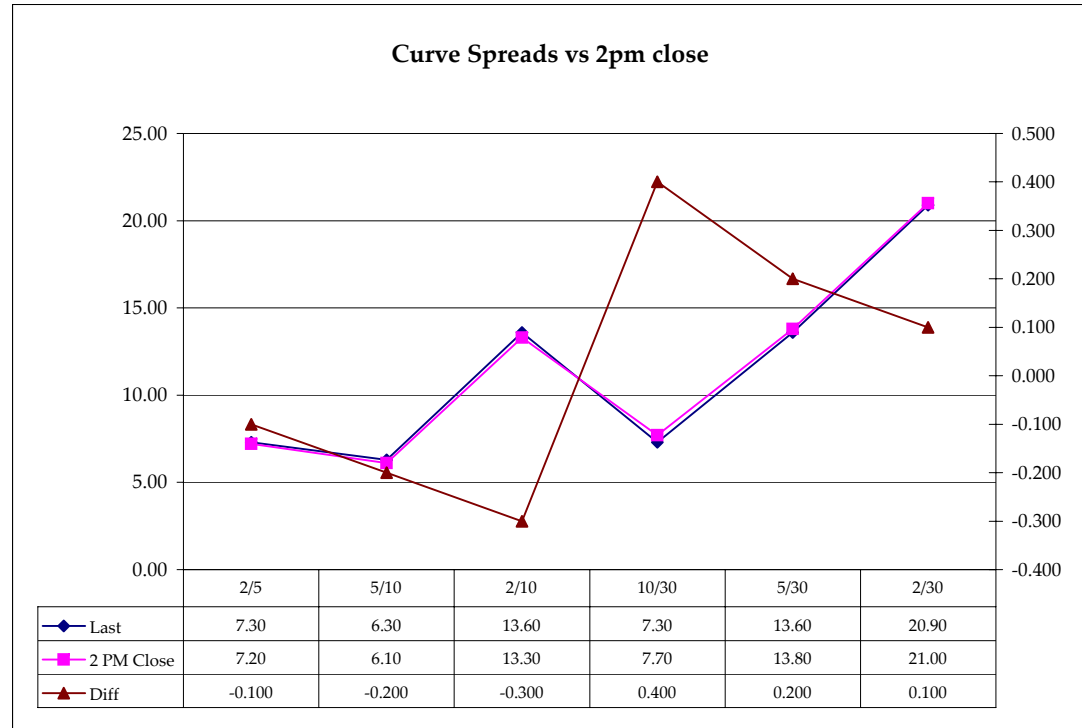
Before PPI, 06/14/2007
RBS levels for 10yr and 2/10: " in the case of 10s we see that ats about 5.12% and 5.30%. Second, we think the curve, barring, shocks, has found a ceiling at 21 bp and a base at 6 bp (this has worked technically). We do not rule out a further break down, in 10s, to 5.45% but sense that the next downleg will find active buyers."
 -David Ader, Head of Government Bond Strategy
 Lyngen, Strategist Market Strategy Team

| | M Duration | DV01 32 | DV01 \$ |
|-----|------------|---------|---------|
| 30y | 14.93 | 4.46 | \$1,394 |
| 10y | 7.80 | 2.37 | \$739 |
| 5y | 4.34 | 1.37 | \$427 |
| 2y | 2.02 | 0.63 | \$198 |
| ZB | 9.63 | 3.29 | \$103 |
| ZN | 5.78 | 1.94 | \$61 |
| ZF | 3.97 | 1.31 | \$41 |
| ZT | 1.89 | 1.22 | \$38 |

| | CF |
|----|--------|
| ZB | 1.1593 |
| ZN | 0.9335 |
| ZF | 0.9497 |
| ZT | 0.9799 |

| | Fly's |
|---------|-------|
| 2/5/10 | 1.00 |
| 2/10/30 | 6.30 |
| 5/10/30 | -1.00 |

| Yield Curve Spreads | | | |
|---------------------|-------|-----------|--------|
| | Last | 2pm close | Diff |
| 2/5 | 7.30 | 7.20 | -0.100 |
| 5/10 | 6.30 | 6.10 | -0.200 |
| 2/10 | 13.60 | 13.30 | -0.300 |
| 10/30 | 7.30 | 7.70 | 0.400 |
| 5/30 | 13.60 | 13.80 | 0.200 |
| 2/30 | 20.90 | 21.00 | 0.100 |



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 (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 | | 1.696 | 2.511 | 2.692 |
| ZN | 0.590 | | 1.480 | 1.587 |
| ZF | 0.398 | 0.676 | | 1.072 |
| ZT | 0.372 | 0.630 | 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 | 1.93 | 4.15 | 7.19 | 13.56 |
| ZN | 3.27 | 7.05 | 12.20 | 23.00 |
| ZF | 4.84 | 10.43 | 18.05 | 34.04 |
| ZT | 5.18 | 11.18 | 19.35 | 36.49 |

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 | | 2.389 | 4.133 | 7.793 |
| 5y | 0.463 | | 1.730 | 3.263 |
| 10y | 0.268 | 0.566 | | 1.885 |
| 30y | 0.142 | 0.300 | 0.530 | |

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 | |
| ZF | (28,262) | (9,047) | 37,380 | As of |
| ZN | (15,841) | (131,799) | 147,640 | 6/5/2007 |
| ZB | 22,229 | (18,989) | (3,239) | |

**WoW = Week over week

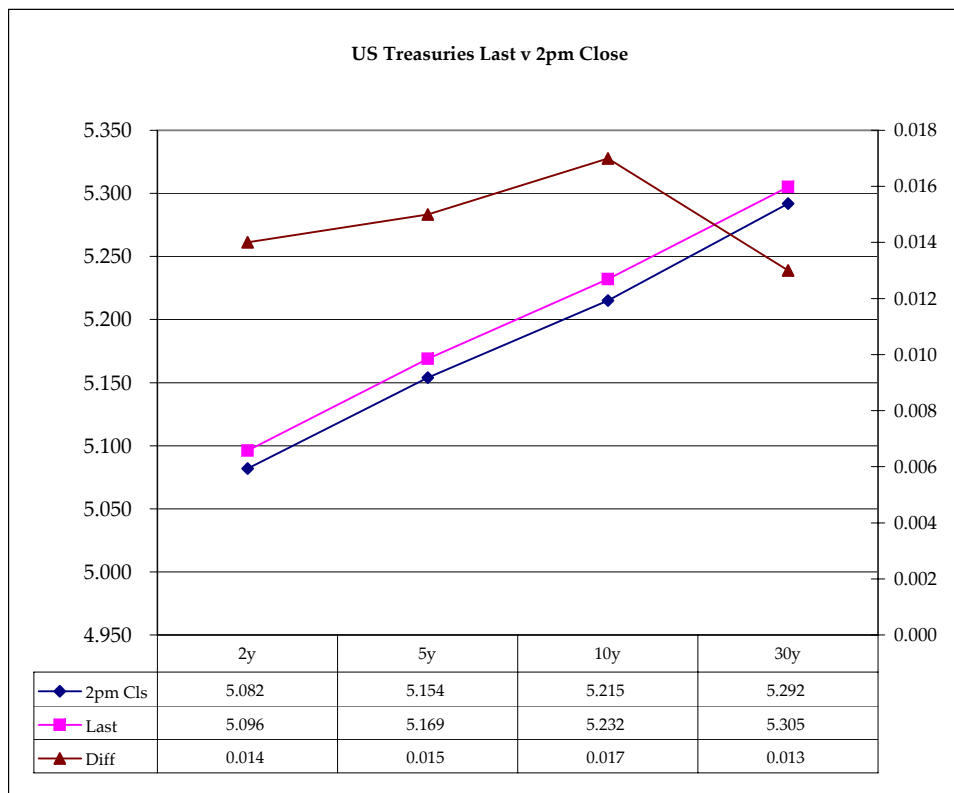
| | Cpn | Mty | 32nds | Yield | Last | Diff |
|-----|-------|---------|---------|-------|-------|-------|
| 2y | 4.875 | 5/31/09 | 99.1975 | 5.082 | 5.096 | 0.014 |
| 5y | 4.750 | 5/31/12 | 98.0800 | 5.154 | 5.169 | 0.015 |
| 10y | 4.500 | 5/15/17 | 94.165 | 5.215 | 5.232 | 0.017 |
| 30y | 4.750 | 2/15/37 | 91.30 | 5.292 | 5.305 | 0.013 |

| | 32nds |
|----|---------|
| ZF | 103.055 |
| ZN | 104.085 |
| ZB | 105.27 |

| | CF Basis* (decimal) | GHCO Basis |
|-----|------------------------|---------------|
| 5y | 0.21 | 28.044 |
| 10y | (3.00) | -13.383 |
| 30y | (30.74) | 246.803 |

| Curve Spreads (bps) | |
|---------------------|------|
| 2/5 | 7.2 |
| 5/10 | 6.1 |
| 2/10 | 13.3 |
| 10/30 | 7.7 |
| 5/30 | 13.8 |
| 2/30 | 21.0 |

CF = Conversion Factor
Cash - (Futures * CF)



Correlations

All correlations based on 10 day historical

| Symbol | US Cash Treasuries (Yield) | | | | US Bonds/Notes (CBOT) | | | |
|------------|----------------------------|-----------|------------|-------|-----------------------|-------|-------|-------|
| | 2yr Yield | 5yr Yield | 10yr Yield | 30yr | ZT | ZF | ZN | ZB |
| 2yr Yield | 100.0 | 96.8 | 94.2 | 91.2 | -96.3 | -96.5 | -95.5 | -93.0 |
| 5yr Yield | 96.8 | 100.0 | 99.4 | 98.2 | -92.9 | -98.1 | -98.5 | -98.7 |
| 10yr Yield | 94.2 | 99.4 | 100.0 | 99.5 | -90.7 | -97.5 | -98.4 | -99.5 |
| 30yr Yield | 91.2 | 98.2 | 99.5 | 100.0 | -86.5 | -95.1 | -96.6 | -98.9 |
| ZT | -96.3 | -92.9 | -90.7 | -86.5 | 100.0 | 97.4 | 95.9 | 91.5 |
| ZF | -96.5 | -98.1 | -97.5 | -95.1 | 97.4 | 100.0 | 99.8 | 98.2 |
| ZN | -95.5 | -98.5 | -98.4 | -96.6 | 95.9 | 99.8 | 100.0 | 99.1 |
| ZB | -93.0 | -98.7 | -99.5 | -98.9 | 91.5 | 98.2 | 99.1 | 100.0 |

| Symbol | US Cash Treasuries (Yield) | | | | US Bonds/Notes (CBOT) | | | |
|-------------|----------------------------|-----------|------------|------------|-----------------------|--------|--------|--------|
| | 2yr Yield | 5yr Yield | 10yr Yield | 30yr Yield | ZT | ZF | ZN | ZB |
| emini SP | (32.3) | (50.0) | (54.4) | (60.4) | 19.6 | 36.7 | 41.1 | 52.0 |
| Dow Futures | (25.4) | (43.4) | (48.1) | (54.6) | 13.3 | 30.1 | 34.6 | 45.7 |
| USDJPY | 65.4 | 54.0 | 50.3 | 43.0 | (80.2) | (67.5) | (64.0) | (53.8) |
| EURUSD | (90.2) | (92.6) | (93.3) | (91.3) | 93.7 | 96.4 | 96.8 | 95.0 |

**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% | 28% | 50% | 130% |
| Cash Matrix [DV01 x Duration] | | | | |
| | 2 | 5 | 10 | 30 |
| 2 | \$198 | | | |
| 5 | \$200 | \$407 | | |
| 10 | \$196 | \$398 | \$729 | |
| 30 | \$189 | \$384 | \$703 | \$1,394 |
| Cash Matrix [DV01 over / (under) valued] | | | | |
| | 2 | 5 | 10 | 30 |
| 2 | | | | |
| 5 | (\$2) | | | |
| 10 | \$2 | \$9 | | |
| 30 | \$9 | \$24 | \$26 | |
| Cash Matrix [DV01 over / (under) as %] | | | | |
| | 2 | 5 | 10 | 30 |
| 2 | | | | |
| 5 | -1.21% | | | |
| 10 | 1.06% | 2.29% | | |
| 30 | 4.87% | 6.15% | 3.77% | |

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 | 1.07 | 1.91 | 3.65 |
| 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 | 1.36 |

What is this? (1):
 The 30 yr cash moves X.XX tics for every 1 tic ZT moves.

| | 2y | 5y | 10y | 30y |
|-----|------|------|------|------|
| 2y | 1.00 | 2.06 | 3.68 | 7.04 |
| 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 |

What is this? (2):
 ZN moves X.XX tics for every 1 tic ZF moves.

| | ZT | ZF | ZN | ZB |
|----|------|------|------|------|
| ZT | 1.00 | 1.07 | 1.59 | 2.69 |
| ZF | 0.93 | 1.00 | 1.48 | 2.51 |
| ZN | 0.63 | 0.68 | 1.00 | 1.70 |
| ZB | 0.37 | 0.40 | 0.59 | 1.00 |

For US vs German Tic for Tic matrix, go to Morning Email, US&GER

