6/19/2007 5:32

The Morning Email: Treasuries

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"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

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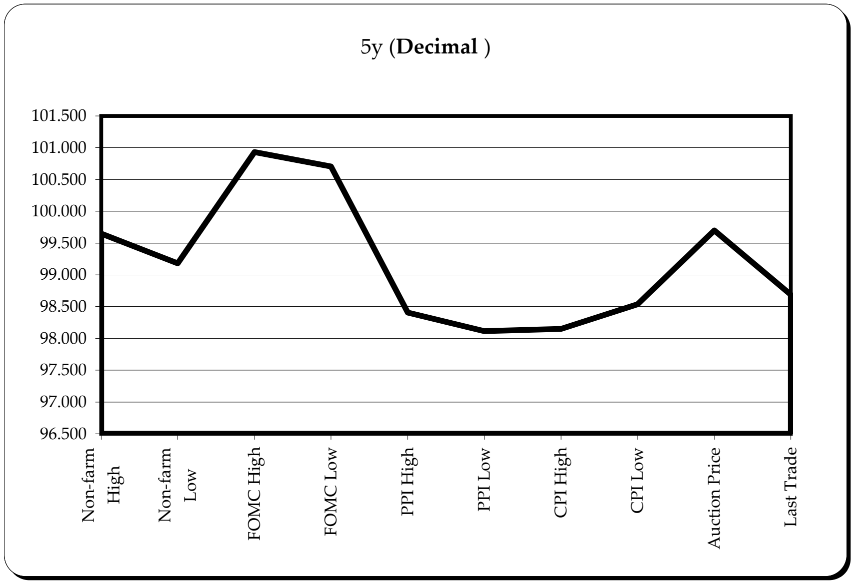
Important Econ Releases, Highs & Lows

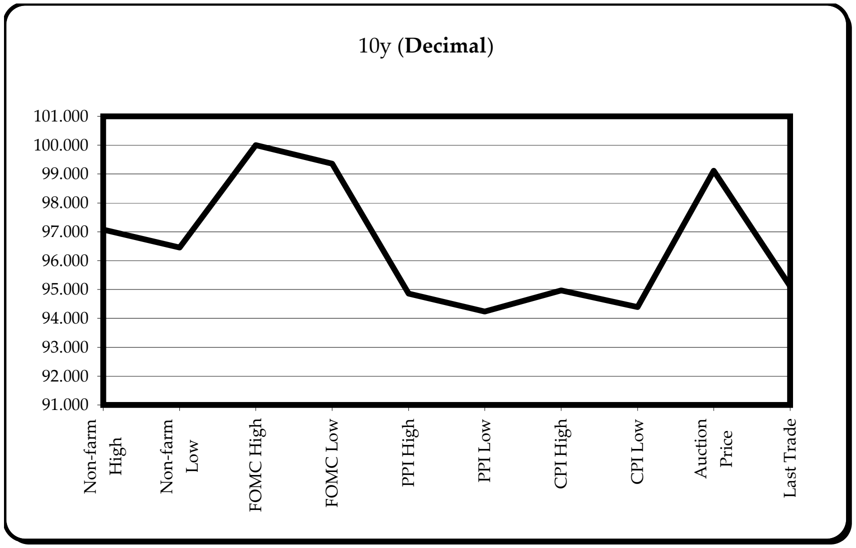
Economic Releases - 32nds	5y*	10y*	ZNU7**	ZBU7**	Date
Non-farm High	99.2075	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.0580	96.145	105.290	108.15	6/1/2007
FOMC High	100.2975	100.000	108.075	111.24	5/9/2007
FOMC Low	100.2250	99.115	107.305	111.08	5/9/2007
PPI High	98.1300	94.275	104.185	106.11	6/14/2007
PPI Low	98.0375	94.075	104.045	105.23	6/14/2007
CPI High	98.0475	94.310	104.225	106.12	6/15/2007
CPI Low	98.1725	94.125	104.040	105.21	6/15/2007
Auction Price	99.2243	99.035			
Last Trade	98.2200	95.035	104.280	106.14	6/19/2007 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	101.215	0.2	101.215	101.200	101.212	14,212	2y Fut
FVAU7	103.190	2.0	103.195	103.155	103.180	48,252	5y Fut
TYAU7	104.280	2.0	104.280	104.235	104.270	112,778	10y Fut
USAU7	106.140	0	106.160	106.090	106.140	26,209	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.247	0.2	99.247	99.235	99.245	na	2y Cash
BUS05P	98.220	0.5	98.220	98.187	98.210	na	5y Cash
BUS10P	95.030	0.0	95.040	94.315	95.020	na	10y Cash
BUS30P	92.145	1	92.160	92.110	92.120	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.994	0.10	5.023	4.981	5.019	na	2y Yield
BUS05Y	5.051	(0.20)	5.08	5.049	5.073	na	5y Yield
BUS10Y	5.134	0.30	5.157	5.129	5.146	na	10y Yield
BUS30Y	5.251	0.10	5.271	5.247	5.258	na	30y Yield

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MarketNews international

News Recap for the United States
Yesterday

15:18 06/18 **US TSYS/RECAP**: Tsys end Mon slightly firmer amid late short-covering, corporate rate-lock unwinds, Eurodlr call buying, some safe-haven bid amid subprime hsg jitters. There was corporate rate-lock selling earlier then unwinds later. German Bunds pressured Tsys earlier as 10Y Bund futures broke 110 support, then recovered, pulling Tsys up off lows, with Bund flatteners done. Dealers saw 2Y/30Y, 5Y/30Y Tsy flatteners early. US intermediates drew overseas bank buying, with also Street buying, and lvrgd accts bought 10s. Buy-and-hold accts bought 5s. Euro-denom swaps had 10Y/30Y spread flatten, then steepen to +12.5 bps, highest since April 24 (amid hedge fund steepeners, rate-locking from Scandin. bk). Some MBS profit-tkg arose, some saw origination selling. Tsys firm on weak 28 NAHB for June vs 30 May.Tbills special in repo. US$14B 6-month Tbill sale saw good demand:25% indirect, highest since May 29 6M 26% indirect. In Eurodollar options, a French shop bought 5,000 Dec 47 calls at 5.5 while NY shop bought 4k Dec. 46 calls at 8.5.

15:10 06/18 **US SWAPS**: Spds finished out the session mostly tighter, the long end outpacing slightly wider 2yr spds. Monday's swap-tied flow was in sharp contrast to last week's heavier activity, as several swap desks reported light volume in first half. Debt markets had traded off firmer opening levels as the morning progressed, swap sources reported some modest selling in front end Tsys that helped get the ball rolling, while weak German bunds also cited. Spd tightening picked up steam late on rate lock unwinds and lower Tsy ylds. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:05	+0.50/45.50	-0.25/50.50	-1.00/58.50	-1.75/64.00
1:20	+0.50/45.50	-0.25/50.50	-0.75/58.75	-1.50/64.25
10:50	+0.75/45.75	+0.50/51.25	+0.00/59.50	-0.50/65.25
9:15	+0.25/45.25	+0.00/50.75	-0.50/59.00	-0.75/65.00
Mon Open	+0.25/45.25	+0.00/50.75	-0.50/59.00	-0.75.65.00
Fri 3:15	+0.50/45.00	-0.25/50.75	-0.25/59.50	-0.75.65.75

15:10 06/18 EURODLR FUTURES: After see-sawing earlier, Eurodlr futures settled higher across the board, the curve steeper as front end demand built on decent demand. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, expanded 1.25 bps to 36.5. The Fronts (Sep07-Jun08), settled 0.5 to 4.0 bps higher, the Sep07 up 0.5 bps at 94-64 on combined Globex and pit volume of 143,000, the Dec07 up 1.5 bps at 94-63.5 on volume of 255,000, the Mar08 up 3.0 bps at 94-67 on volume of 268,000, while the Jun08 was 4.0 bps higher at 94-69.5 on volume of 254,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 4.5 bps higher across the pack with 510,000 contracts traded.

News Recap for the United States
Overnight

05:08 06/19 TSYS: Treasuries are trading flat to modestly lower, with prices largely consolidating at late New York levels in thin volumes. However, the curve flattened a little, weighed by unwinds of recent curve flattening trades. Prices were lower across the curve for much of the Tokyo session, as lower JGBs set the early tone. But a lack of fresh selling pressure soon had the day traders covering shorts, with prices ending little changed. In London, a dearth of new trading incentives saw prices rangebound, with flows largely interdealer book-squaring. Volumes in both the cash and futures markets were sharply down on recent levels. Bunds were trading 1 bps lower 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 unchanged, trading at 99 25/32 to yield 4.99%. The 10-yr note was 1+/32 lower at 95 2/32 (5.14%), with the Bond 1/32 lower at 92 14/32 (5.25%). The 2-/10-yr curve was 1 bps steeperer, trading at +15 bps, while the 2-yr/30-yr curve was unchanged, standing at +26 bps.

MarketNews international

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10:42 06/18 US MBS/TSYS: Was lots of chatter this morning that weekend press reports about the BS hedge fund woes could turn into a "credit" event that might support Tsys. Most players said despite the well publicized problems at the fund, the price action last week had nothing to do with this topic.Thus, market sources say there was no bid from subprime in Tsys this morning and thus it is not responsible for this morning's sell off either. Sources say the dip in Tsy prices today is probably rate lock selling, profit taking after good run, pressure from MBS as profit taking comes into that market as well. Is also some reports of origination selling. German bund selloff also hurts. Finally, there is lots of unconfirmed chatter in the subprime market about bid lists, cash injections, the pulling of bid lists, meetings etc all pertaining this hedge fund. Nothing can be confirmed or solidly reported at this point.

11:13 06/18 US OUTLOOK: Richard Berner of Morgan Stanley says "Core inflation has declined in the past three months, possibly bringing it back inside the Fed's presumed 1-2% "comfort zone." We still believe that the fundamentals point to lingering upside risks to inflation, but the current low starting point means that those risks are somewhat smaller than we thought a month ago."

Duration, DV01s, Curve, Flys, CFs

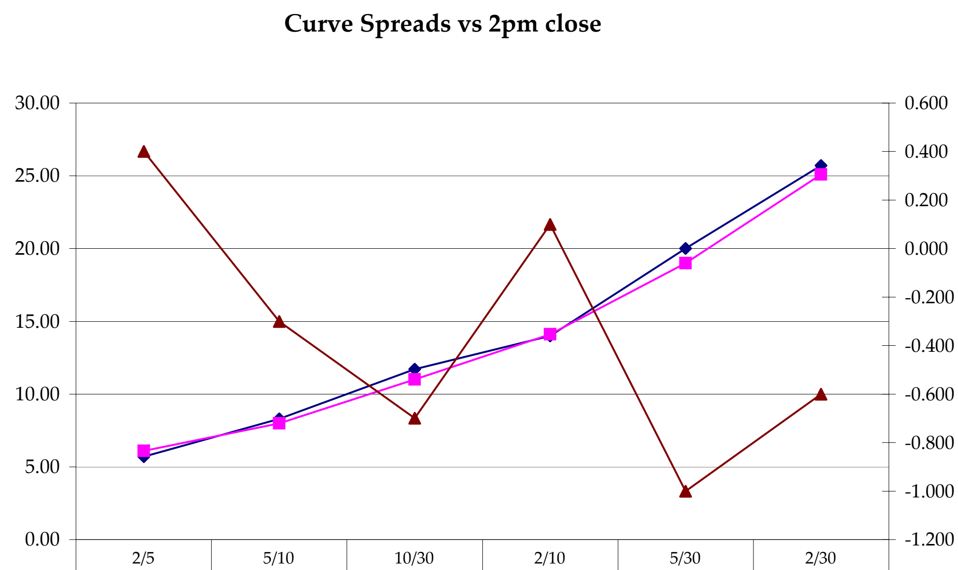
	M Duration	DV01 32	DV01 $
30y	14.98	4.51	$1,410
10y	7.81	2.39	$746
5y	4.34	1.37	$430
2y	2.02	0.63	$198
ZB	9.65	3.32	$104
ZN	5.78	1.95	$61
ZF	3.96	1.32	$41
ZT	1.88	1.22	$38

	CF
ZB	1.1593
ZN	0.9335
ZF	0.9497
ZT	0.9799

	Fly's
2/5/10	-2.60
2/10/30	2.30
5/10/30	-3.40

Yield Curve Spreads

	Last	2pm close	Diff
2/5	5.70	6.10	0.400
5/10	8.30	8.00	-0.300
10/30	11.70	11.00	-0.700
2/10	14.00	14.10	0.100
5/30	20.00	19.00	-1.000
2/30	25.70	25.10	-0.600



	2/5	5/10	10/30	2/10	5/30	2/30
Last	5.70	8.30	11.70	14.00	20.00	25.70
2 PM Close	6.10	8.00	11.00	14.10	19.00	25.10
Diff	0.400	-0.300	-0.700	0.100	-1.000	-0.600

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		1.700	2.521	2.715
ZN	0.588		1.483	1.597
ZF	0.397	0.674		1.077
ZT	0.368	0.626	0.928	

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	1.91	4.14	7.19	13.60
ZN	3.25	7.04	12.23	23.12
ZF	4.81	10.44	18.13	34.27
ZT	5.18	11.24	19.52	36.92

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		2.402	4.172	7.888
5y	0.461		1.737	3.284
10y	0.265	0.564		1.891
30y	0.140	0.298	0.529	

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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	214,844	276,386	(61,542)	152,570	353,208	(200,638)	1,335,549	1,073,369	262,180	ZF
ZN	365,496	525,111	(159,615)	727,818	484,380	243,438	2,276,855	2,360,678	(83,823)	ZN
ZB	158,064	213,192	(55,128)	152,511	259,621	(107,110)	744,652	582,414	162,238	ZB

	WoW* Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	11,842	(23,032)	11,118	6/5/2007
ZN	1,140	43,987	(45,128)	
ZB	910	34,466	(35,376)	

**WoW = Week over week

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Closes2pm

	Cpn	Mty	32nds	Yield	Last	Diff
2y	4.875	5/31/09	99.2450	5.001	4.994	(0.007)
5y	4.750	5/31/12	98.2075	5.062	5.051	(0.011)
10y	4.500	5/15/17	95.020	5.142	5.134	(0.008)
30y	4.750	2/15/37	92.16	5.252	5.251	(0.001)

	32nds
ZF	103.175
ZN	104.260
ZB	106.14

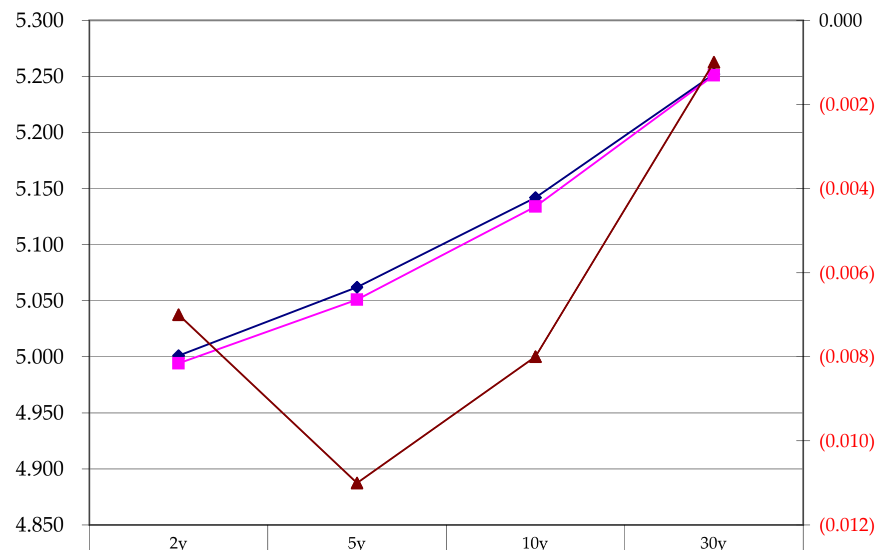
	CF Basis* (decimal)	GHCO Basis
5y	0.22	29.469
10y	(2.31)	-11.817
30y	(30.89)	249.686

Curve Spreads (bps)	
2/5	6.1
5/10	8.0
10/30	11.0
2/10	14.1
5/30	19.0
2/30	25.1

CF = Conversion Factor

Cash - (Futures * CF)

US Treasuries Last v 2pm Close



	2y	5y	10y	30y
2pm Cls	5.001	5.062	5.142	5.252
Last	4.994	5.051	5.134	5.251
Diff	(0.007)	(0.011)	(0.008)	(0.001)

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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 Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	96.7	92.2	86.5	-93.9	-91.6	-89.9	-85.7
5yr Yield	96.7	100.0	98.8	95.6	-93.1	-96.0	-95.9	-94.9
10yr Yield	92.2	98.8	100.0	98.7	-90.0	-96.0	-97.0	-97.8
30yr Yield	86.5	95.6	98.7	100.0	-83.4	-91.7	-94.0	-97.3
ZT	-93.9	-93.1	-90.0	-83.4	100.0	97.2	95.4	89.5
ZF	-91.6	-96.0	-96.0	-91.7	97.2	100.0	99.6	96.9
ZN	-89.9	-95.9	-97.0	-94.0	95.4	99.6	100.0	98.5
ZB	-85.7	-94.9	-97.8	-97.3	89.5	96.9	98.5	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	(30.7)	(24.2)	(19.5)	(19.4)	(2.2)	0.6	0.0	3.2
Dow Futures	(25.4)	(18.0)	(13.1)	(13.4)	(8.0)	(6.2)	(6.8)	(3.8)
USDJPY	8.4	20.7	26.8	28.7	(37.8)	(39.6)	(42.3)	(43.1)
EURUSD	(89.3)	(91.0)	(91.0)	(86.4)	91.8	95.1	94.8	91.8

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	13%	27%	50%	**130%**

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$198**			
5	$201	**$409**		
10	$197	$401	**$735**	
30	$190	$387	$709	**$1,410**

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($3)			
10	$1	$8		
30	$8	$23	$26	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.54%			
10	0.52%	2.09%		
30	4.25%	5.88%	3.71%	

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	1.92	3.69
ZF	0.48	0.99	1.79	3.43
ZN	0.32	0.67	1.21	2.31
ZB	0.19	0.39	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	2.07	3.71	7.12
5y	0.48	1.00	1.80	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	1.08	1.60	2.72
ZF	0.93	1.00	1.48	2.52
ZN	0.63	0.67	1.00	1.70
ZB	0.37	0.40	0.59	1.00

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

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