



## The Morning Email: Treasuries

6/22/2007 5:37

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### **With Unemployment Low, Officials May Emphasize Risk Factors in Outlook**

By GREG IP

June 21, 2007; Page A3

WSJ

- The Scenario: Fed policy makers meet next week with inflation nearing their "comfort zone" of 1% to 2% but are expected to shift their emphasis to future inflation.
- The Debate: The Fed still sees risks of inflation rising but is less certain that the current inflation rate can be described as "elevated."
- What It Means: Lower inflation makes an eventual increase in the Fed's target for short-term interest rates, now 5.25%, less likely.

Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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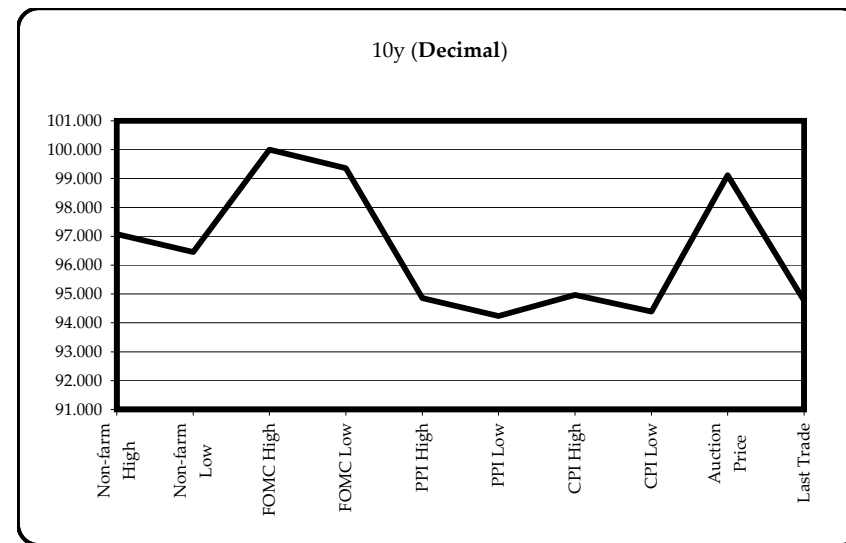
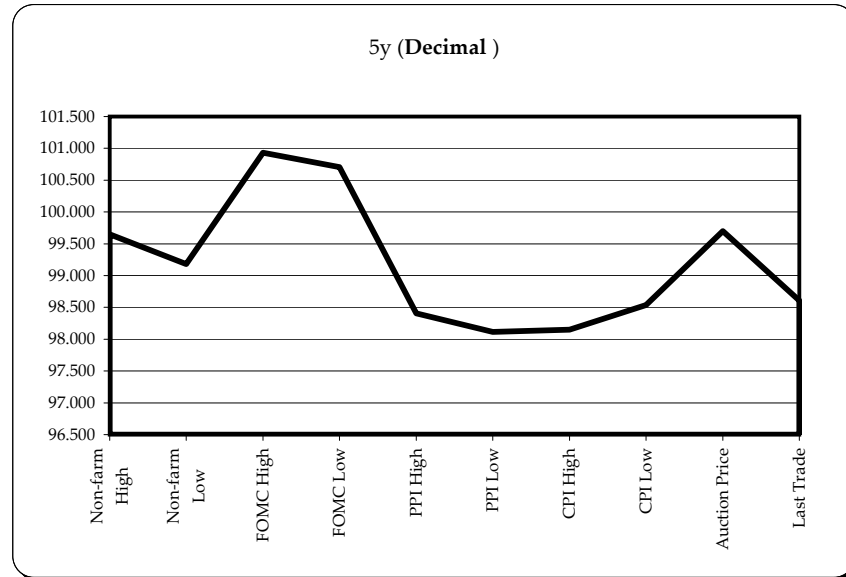
Jim Goulding, [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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	98.1950	94.245	104.225	105.29	6/22/2007 5:37

Notes: Cash and futures are adjusted roll  
 Release times are from release to 2pm cdt  
 (Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)

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



	32 nds					Volume	SYM NAME
	ls	net	high	low	open		
TUAU7	101.212	(0.2)	101.222	101.205	101.210	20,781	2y Fut
FVAU7	103.160	(1.0)	103.195	103.135	103.150	54,429	5y Fut
TYAU7	104.225	(1.5)	104.275	104.180	104.200	178,985	10y Fut
USAU7	105.290	(6)	106.050	105.240	105.290	39,717	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.260	0.5	99.272	99.255	99.257	na	2y Cash
BUS05P	98.195	0.5	98.227	98.175	98.180	na	5y Cash
BUS10P	94.245	(0.5)	94.295	94.210	94.220	na	10y Cash
BUS30P	91.235	(2)	92.000	91.190	91.190	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.973	0.10	4.994	4.947	4.99	na	2y Yield
BUS05Y	5.070	(0.10)	5.09	5.044	5.086	na	5y Yield
BUS10Y	5.178	0.00	5.202	5.157	5.195	na	10y Yield
BUS30Y	5.304	0.40	5.321	5.283	5.308	na	30y Yield

**News Recap for the United States****Yesterday**

15:30 06/21 **US TSYS/RECAP:** Tsys ended Thurs lower after quiet session awaiting more subprime/Bear Stearns-tied hedge funds news; (amid talk of 2 CDO bid lists this afternoon & US\$200M hybrid ARMs bid list). Tsys dipped initially on 18 June Philly Fed then did short-covering on June Philly Fed prices-paid at 29.7 vs. 32.3, employment index was at 5.6. Tsys holds range amid some suspense on subprime situation (was morning mtg between Bear Stearns-tied hedge funds, creditors, appears to be some progress). Morning Tsys market had 2-way flows, fund manager buying in 10ys, financial institutions and lvrgrd accounts buying 2Ys, 3Ys and curve steepeners to hedge subprime risk. A.m. real money buyers surfaced in Sep 2-yr notes but sellers of 10Y, 30Y all in futures. TIPS drew end-user buyers as crude oil rose. Was a.m. selling vol via Aug 10-yr 105 straddles both outright, covered. Tsys early bid as Bunds short-covering after US initial jobless claims rise. US Tsy offl said China, Russia will devote some of Sov Wealth Funds to US stocks, corps. (More)

15:10 06/21 **US SWAPS:** Spds finished out the session near wides in 10s to 30s, directional w/lower Tsy ylds/flatter curve. After the unconfirmed reports of receiving in the long end early, sources reported decent paying-tied flow in the intermediates on rate and spread; ongoing credit concerns pushed spds wider as well. Receivers in the second half contributed to spds tightening of wides for a short period. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:05	+0.75/48.25	+1.50/53.50	+1.75/61.75	+2.25/67.25
12:20	+0.50/48.00	+0.50/52.50	+0.75/60.75	+1.25/66.25
10:50	+1.25/48.75	+1.00/53.00	+1.00/61.00	+1.50/66.50
9:45	+1.75/49.25	+1.75/53.75	+2.00/62.00	+2.25/67.25
8:50	+1.50/49.00	+1.75/53.75	+1.75/61.75	+2.00/67.00
Thu Open	+1.75/49.25	+1.75/53.75	+2.00/62.00	+2.25/67.25
Wed 3:05	+1.75/47.50	+2.00/52.00	+1.75/60.00	+1.50/65.00

15:15 06/21 **EURODLR FUTURES:** Eurodlr futures settled lower in Reds on out the board, the curve moving steeper again. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, expanded 5.75 bps to 45.375--back to recent highs. The Fronts (Sep07-Jun08), settled mixed, the Sep07 up 0.5 bps at 94-65.5 on combined Globex and pit volume of 187,000, the Dec07 up 1.0 bps at 94-66.5 on volume of 390,000, the Mar08 up 0.5 bps at 94-69.5 on volume of 482,000, while the Jun08 was 0.5 bps lower at 94-71 on volume of 427,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 2.0 to 4.0 bps lower across the pack with 832,000 contracts traded.

**News Recap for the United States****Overnight**

05:29 06/22 **TSYS:** Treasuries are trading modestly higher across the curve in London Friday, buoyed by dip buying after the late sell-off in New York. However, traders say volumes are subdued, with flows largely interdealer position-squaring. Treasuries were flat to very modestly higher in Asian trade, with the long end showing slight outperformance. However, traders say volumes are light, with the market coasting into the weekend.

The longer-end of the curve continued to outperform in London, as the market maintained a light flattening bias, but with a lack of fresh trading incentives, prices were rangebound at the higher levels. The upside was also capped by offers from leveraged accounts in the 10-year sector. Bunds were trading 1 bps higher against the US 10-year T-notes, with the spread standing at +59 bps. Ahead of the U.S. session, the 2-yr note was 1/32 higher, trading at 99 27/32 to yield 4.95%. The 10-yr note was 6/32 higher at 94 29/32 (5.16%), with the Bond up 9/32 at 92 1/32 (5.28%). The 2-/10-yr curve was 1 bps flatter, trading at +21 bps.

**MarketNews**  
international

**Stone & McCarthy**  
RESEARCH ASSOCIATES

10:49 06/21 **US TSYS/SUBPRIME:** There is market talk that the creditors are meeting with Bear Stearns-tied hedge funds all this morning. The situation is like a Catch-22, market sources said: on the one hand, people want to get rid of this paper but that might mean it goes at bargain-basement levels. But on the other hand, creating transparency and actual price levels will force all players involved to mark to market at dramatically lower levels, said some. In this particular delicate situation, transparency could be both helping and hurting.

11:00 06/21 **US TSYS/SUPPLY:** \$18b 2y notes to be auctioned Tue and \$13b 5y notes to be auctioned Weds for a combined \$11.3b new cash. Also, on Mon \$14b 3m and \$14b 6m bills to be sold for \$6b paydown.

12:04 06/21 **US DATA: June Philly Fed** text confirms manufacturing "picked up in June," says "Indicators for general activity and new orders improved notably this month. Firms continued to report higher input costs, but price increases for finished manufactured goods are not widespread. The outlook for growth diminished somewhat in June, although manufacturing executives still expect conditions to improve over the next six months." In employment: "While 62 percent of the firms reported steady employment levels in June, the percentage of firms reporting increases (21 percent) was higher than the percentage reporting decreases (16 percent). The current employment index fell back seven points but remained positive. The average workweek index suggests that hours worked this month remained virtually steady."

**Treasuries Mixed, Sub-Prime Jitters...Early Steepening Reversing**  
**by John Canavan**

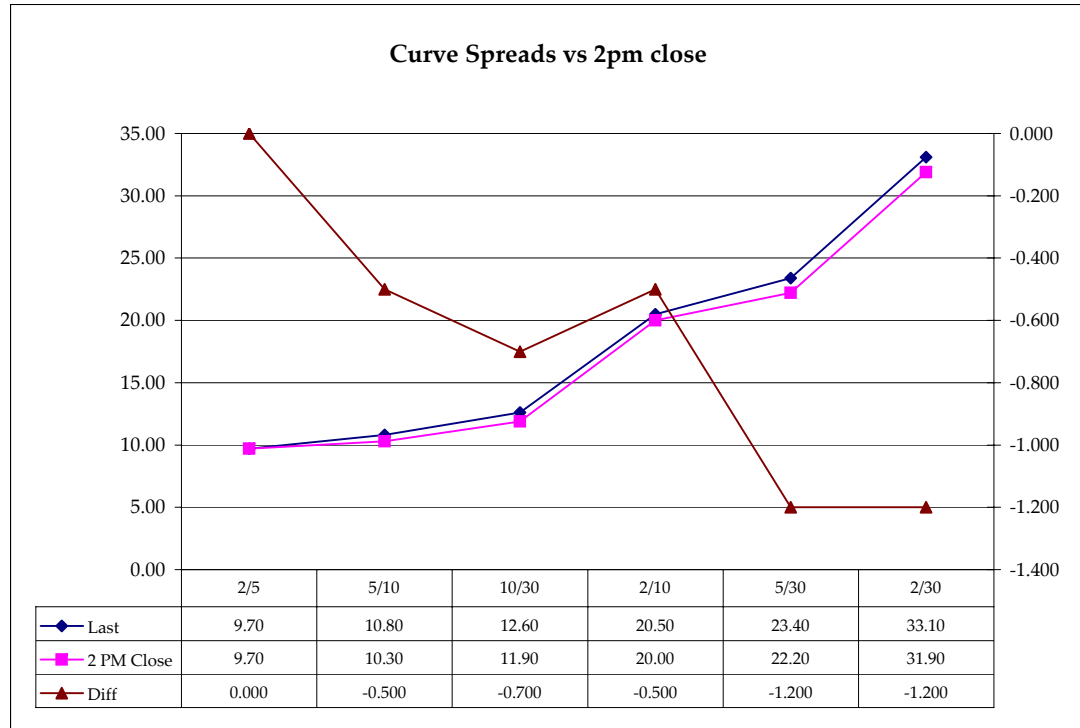
Merrill Lynch seized \$850 mln of assets from Bear Stearns that had been used as collateral and there were concerns about the impact of the sale of those assets. As Bloomberg news put it, "a sale would give banks, brokerages and investors the one thing they want to avoid: a real price on the bonds in the fund that could serve as a benchmark." As it turned out, Merrill only sold \$100 mln of the \$850 mln -- mostly CDOs according to Dow Jones -- and they plan to keep or securitize the remainder.

	M Duration	DV01 32	DV01 \$
30y	14.91	4.46	\$1,394
10y	7.79	2.37	\$742
5y	4.33	1.37	\$428
2y	2.00	0.63	\$197
ZB	9.62	3.30	\$103
ZN	5.76	1.94	\$61
ZF	3.95	1.31	\$41
ZT	1.87	1.21	\$38

	CF
ZB	0.8285
ZN	0.8926
ZF	0.9497
ZT	0.9799

	Fly's
2/5/10	-1.10
2/10/30	7.90
5/10/30	-1.80

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	9.70	9.70	0.000
5/10	10.80	10.30	-0.500
10/30	12.60	11.90	-0.700
2/10	20.50	20.00	-0.500
5/30	23.40	22.20	-1.200
2/30	33.10	31.90	-1.200



**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		1.698	2.517	2.719
ZN	0.589		1.482	1.601
ZF	0.397	0.675		1.080
ZT	0.368	0.625	0.926	

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	4.15	7.19	13.51
ZN	3.24	7.05	12.21	22.94
ZF	4.80	10.44	18.10	34.00
ZT	5.19	11.28	19.55	36.73

## 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		2.409	4.175	7.841
5y	0.460		1.733	3.256
10y	0.265	0.565		1.878
30y	0.141	0.301	0.532	

## 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	As of
	Net	Net	Net	
ZF	11,842	(23,032)	11,118	6/12/2007
ZN	1,140	43,987	(45,128)	
ZB	910	34,466	(35,376)	

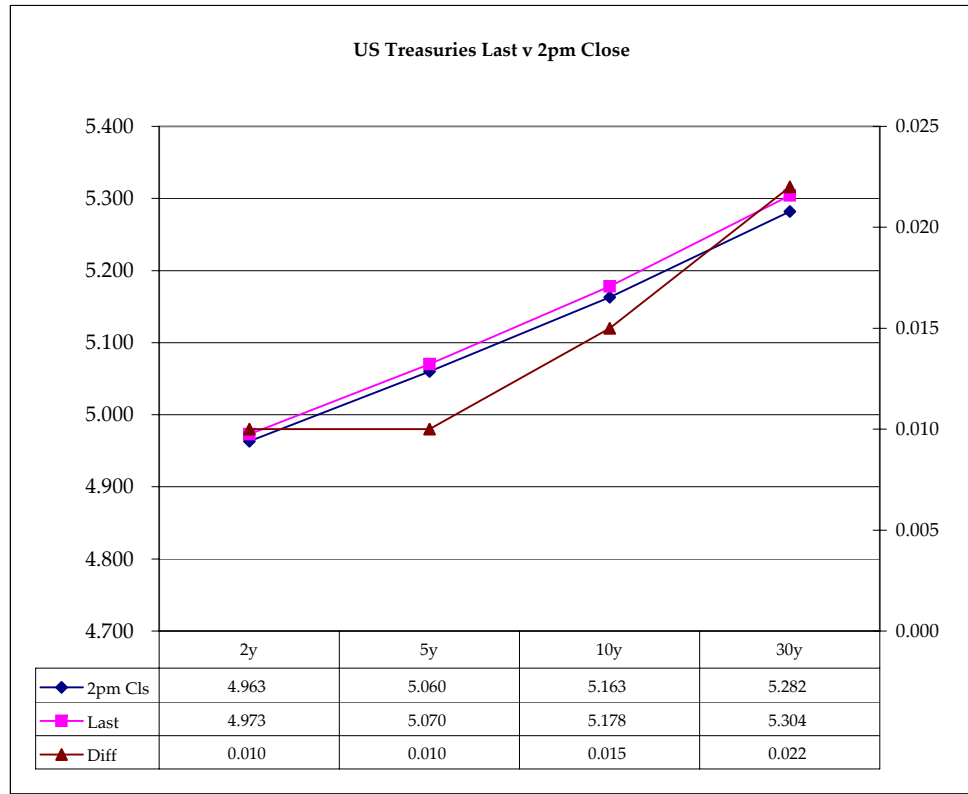
\*\*WoW = Week over week

	Cpn	Mty	32nds	Yield	Last	Diff	Roll	Basis
2y	4.875	5/31/09	99.2675	4.963	4.973	0.010	0.5	
5y	4.750	5/31/12	98.2100	5.060	5.070	0.010		10.64
10y	4.500	5/15/17	94.290	5.163	5.178	0.015	0.5	45.00
30y	4.750	2/15/37	92.02	5.282	5.304	0.022		132.41

	32nds
ZF	103.170
ZN	104.240
ZB	106.04

Curve Spreads

	bps
2/5	9.7
5/10	10.3
10/30	11.9
2/10	20.0
5/30	22.2
2/30	31.9



Notes:  
 Basis = (Cash Decimal - (Futures Decimal \* CF))\*32  
 Mduration for Curve Spreads:  
 Longer duration minus shorter duration

**Correlations**

All correlations based on 10 day historical

Symbol	US Cash Treasuries (Yield)				US Bonds/Notes (CBOT)			
	2yr Yield	5yr Yield	10yr Yield	30yr Yield	ZT	ZF	ZN	ZB
2yr Yield	100.0	95.7	85.6	68.0	-96.7	-96.7	-95.3	-77.5
5yr Yield	95.7	100.0	96.6	85.2	-91.4	-97.3	-98.5	-91.2
10yr Yield	85.6	96.6	100.0	95.4	-79.1	-90.5	-94.2	-96.8
30yr Yield	68.0	85.2	95.4	100.0	-59.0	-75.5	-82.0	-95.8
ZT	-96.7	-91.4	-79.1	-59.0	100.0	96.9	94.3	74.6
ZF	-96.7	-97.3	-90.5	-75.5	96.9	100.0	99.4	87.3
ZN	-95.3	-98.5	-94.2	-82.0	94.3	99.4	100.0	91.8
ZB	-77.5	-91.2	-96.8	-95.8	74.6	87.3	91.8	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	(48.3)	(60.3)	(70.8)	(76.4)	32.9	45.7	51.8	64.3
Dow Futures	(51.2)	(62.0)	(72.1)	(77.1)	34.6	47.5	53.5	64.7
USDJPY	(66.1)	(60.2)	(56.5)	(45.4)	47.6	51.1	51.1	36.7
EURUSD	(95.5)	(91.6)	(82.8)	(64.5)	90.2	89.5	88.6	70.0

**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%	54%	100%	
30	13%	27%	50%	130%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$197			
5	\$200	\$408		
10	\$195	\$399	\$731	
30	\$187	\$383	\$702	\$1,394
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	\$2	\$9		
30	\$9	\$25	\$29	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.44%			
10	0.87%	2.35%		
30	5.07%	6.61%	4.16%	

**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	1.93	3.67
ZF	0.48	1.00	1.78	3.40
ZN	0.32	0.67	1.20	2.29
ZB	0.19	0.40	0.71	1.35

**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	3.72	7.08
5y	0.48	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	1.08	1.60	2.72
ZF	0.93	1.00	1.48	2.52
ZN	0.62	0.67	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



