6/25/2007 5:51

The Morning Email: Treasuries

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14:55 06/22 **FED/OPINION:** "The Fed will leave its Federal funds rate target at 5.25% once again at this week's meeting, ensuring a full year with policy on hold. The statement released after the meeting will likely note firming production and improving readings on core inflation in recent months.

However, we expect a cautious view at midyear, with continued moderation in inflation remaining the Fed's predominant policy concern. We expect that economic growth will gradually return toward trend line in 2H 2007;however, with substantial uncertainty surrounding housing and its impact on the overall economy, including the labor market, the risk of modest Fed easing later in the year persists." - Peter Kretzmer, BASecs.

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

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Important Econ Releases, Highs & Lows

Economic Releases - 32nds

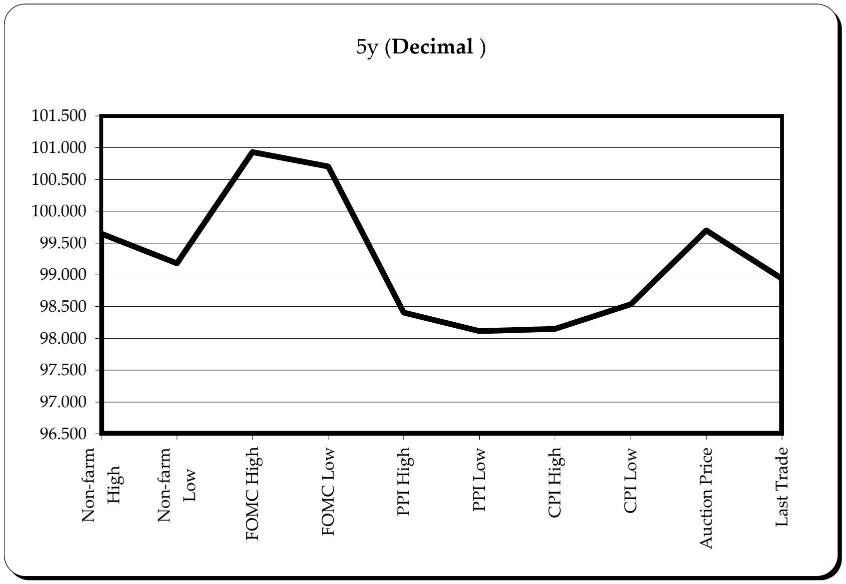
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	99.2075	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.0580	96.145	105.290	108.15	6/1/2007
FOMC High	100.2975	100.000	108.075	111.24	5/9/2007
FOMC Low	100.2250	99.115	107.305	111.08	5/9/2007
PPI High	98.1300	94.275	104.185	106.11	6/14/2007
PPI Low	98.0375	94.075	104.045	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	98.3000	95.075	105.050	106.18	6/25/2007 5:51

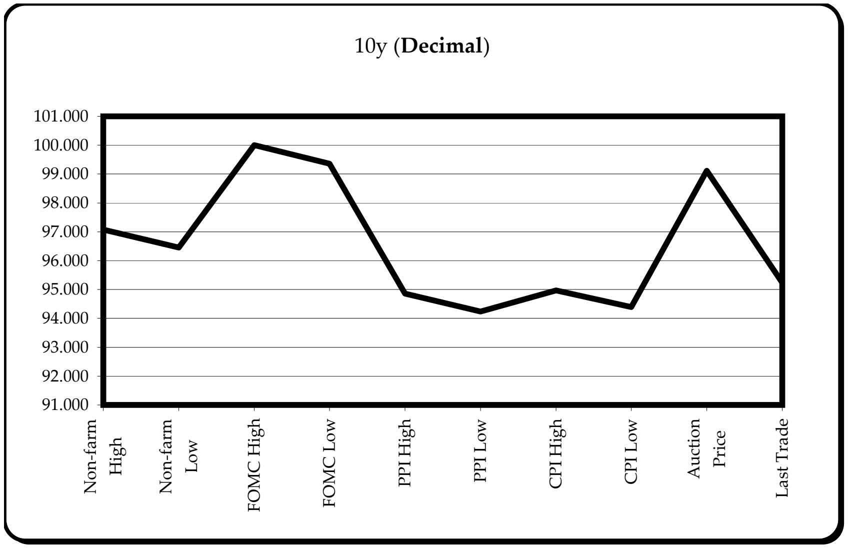
Notes: Cash and futures are adjusted roll
Release times are from release to 2pm cdt
(Jun07 to Sep07 Futures roll: ZN & ZB even) (ZF = +3tics)

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





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Quotes

	32 nds						
	ls	net	high	low	open	Volume	SYM NAME
TUAU7	101.255	1.0	101.260	101.247	101.247	24,774	2y Fut
FVAU7	103.265	4.5	103.275	103.235	103.240	49,136	5y Fut
TYAU7	105.050	6.0	105.060	105.005	105.010	147,728	10y Fut
USAU7	106.180	5	106.200	106.120	106.150	36,371	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	#VALUE!	0.5	99.310	99.300	99.307	na	2y Cash
BUS05P	98.297	2.2	98.307	98.277	98.297	na	5y Cash
BUS10P	95.075	3.5	95.090	95.035	95.080	na	10y Cash
BUS30P	92.185	4	92.215	92.135	92.215	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.904	0.00	4.93	4.878	4.93	na	2y Yield
BUS05Y	4.992	(2.00)	5.021	4.986	5.021	na	5y Yield
BUS10Y	5.120	(1.00)	5.141	5.109	5.139	na	10y Yield
BUS30Y	5.244	(0.50)	5.259	5.23	5.255	na	30y Yield

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Stone & McCarthy
RESEARCH ASSOCIATES

MarketNews international

News Recap for the United States
Yesterday

15:04 06/22 **US TSYS/RECAP**: US Tsys close higher amid risk-aversion buying on weak US stocks, fear of weak Asian stks Mon. Traders cited stealth move from riskier assets; popular trade of past several years has been to short risk-averse assets such as Tsys/buy riskier assets; amid subprime woes, some cut risk. US Tsys bounced off morning low amid foreign buying in intermediates from European central bank and Asia. Mkt weakened earlier amid real money sales in Tsys, sister mkt product, payers in interest rate swaps and rate locks. There also was Asian/China T-bill selling; China had been buying T-bills since May 7. Some eyed Asian/China buying in intermediate US Tsys, with talk of overnight buys Fri in MBS. Corp issuance next wk spurred rate-locking. Sizeable payers in long end pressured Tsys early. Real money accts sold Tsys on downtick. Others unwound 2Y/ 10Y steepeners, or 2Y/30Ys. There were real money sellers of MBS but also some buying from same type accts. German Bunds earlier extended loss on technical stop-loss tradg but Bunds recovered.

15:07 06/22 **US SWAPS**: Spds finished out the session mostly wider across the curve, off earlier wides as ylds moved lower late in the first half. Sources reported sellers of 1- and 2yr bundles, Reds (Sep08-Jun09) and Greens (Sep09-Jun10), while Tsy sources reported decent paying in intermediates to long end. Spds came off wides around midmorning as ylds dipped, sources reported real money accounts expressed interest to receive instead. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:05	+0.75/49.00	+1.00/54.50	+0.50/62.25	+0.00/67.25
12:55	+0.25/48.50	+0.50/54.00	+0.25/62.00	+0.25/67.50
11:45	+0.50/48.75	+0.50/54.00	+0.25/62.00	+0.00/67.25
10:50	+0.50/48.75	+0.75/54.25	+0.50/62.25	+0.50/67.75
9:20	+0.50/48.75	+1.25/54.75	+1.00/62.75	+1.00/68.25
Fri Open	+0.75/49.00	+1.25/54.75	+1.50/63.25	+1.25/68.50
Thu 3:05	+0.75/48.25	+1.50/53.50	+1.75/61.75	+2.25/67.25

15:11 06/22 **EURODLR FUTURES**: Eurodlr futures settled higher across the board, the curve moving steeper again. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, expanded 1.75 bps to 47.75--new highs. The Fronts (Sep07-Jun08), settled 1.5 to 5.5 bps higher, the Sep07 up 1.5 bps at 94-67 on combined Globex and pit volume of 142,000, the Dec07 up 4.5 bps at 94-71 on volume of 342,000, the Mar08 up 5.0 bps at 94-74.5 on volume of 372,000, while the Jun08 was 5.5 bps higher at 94-76.5 on volume of 304,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 3.5 to 5.0 bps higher across the pack with 701,000 contracts traded.

News Recap for the United States
Overnight

05:13 06/25 TSYS: Treasuries are modestly higher in London Monday, holding on to the bullish tone seen in late New York trade Friday and overnight trade in Tokyo. Traders said renewed weakness in global equities was also helping underpin global bonds. However, trader said volumes were modest, with only light end-user flows noted. Treasuries were modestly higher across the board in Asian trade, helped by light follow-through buying. Prices were higher from the getgo, boosted by the strength in the US Friday.Despite 2-year and 5-year auctions later in the week, London trade saw a modest steepening of the curve, as the 10-year note and the Bond underperformed. Real money accounts were largely sidelined, with flows seen as interdealer book squaring. Light hedge fund buying of 10-year notes was seen in early trade, linked to cross border trades, although the demand was well satisfied. Ahead of the U.S. session, the 2-yr was 1/32 higher, trading at 99 31/32 to yield 4.89%. The 10-yr was up 3/32 at 95 8/32 (5.12%), with the Bond 2/32 higher at 92 20/32 (5.24%).

MarketNews international

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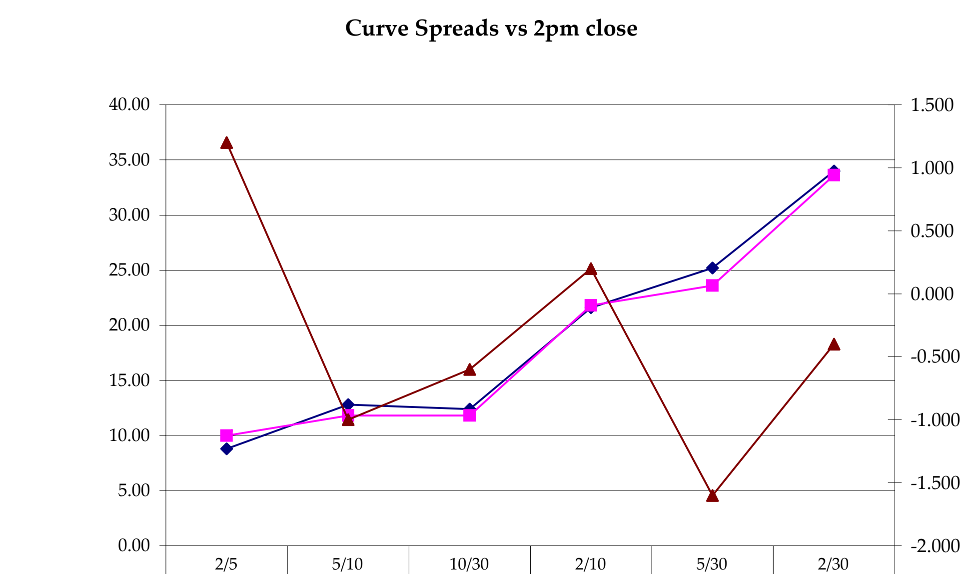
11:33 06/22 **JAPAN/YEN**: Dollar-yen posted new four and a half year highs earlier over Y124 and the yen remains weak on the cross, with euro-yen posting a new life high around Y166.94 earlier. "The persistent upward pressure on dollar-yen reflects continued Japanese retail capital outflows via foreign investment trusts (heavy launch schedule this month), offshore interests for short JPY funding trades and underlying outward investment pressures via the FDI account - dynamics that we expect to continue for the rest of 2007," say global FX strategists at JPMorgan Chase. They note also that domestic confidence in the yen has been waning and retail players are now entering yen shorts, which is exacerbating the yen selling. There is a chance that euro-yen meets their end-of-year target of Y170, six months early, JPMC says.

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	CF
30y	14.98	4.52	$1,413	
10y	7.79	2.39	$746	
5y	4.33	1.37	$430	
2y	2.00	0.63	$197	
ZB	9.64	3.32	$104	0.8285
ZN	5.77	1.95	$61	0.8926
ZF	3.95	1.32	$41	0.9497
ZT	1.87	1.21	$38	0.9799

Yield Curve Spreads

	Last	2pm close	Diff
2/5	8.80	10.00	1.200
5/10	12.80	11.80	-1.000
10/30	12.40	11.80	-0.600
2/10	21.60	21.80	0.200
5/30	25.20	23.60	-1.600
2/30	34.00	33.60	-0.400



	2/5	5/10	10/30	2/10	5/30	2/30
Last	8.80	12.80	12.40	21.60	25.20	34.00
2 PM Close	10.00	11.80	11.80	21.80	23.60	33.60
Diff	1.200	-1.000	-0.600	0.200	-1.600	-0.400

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	2.524	2.735
ZN	0.588		1.485	1.609
ZF	0.396	0.673		1.084
ZT	0.366	0.621	0.923	

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	1.90	4.14	7.19	13.61
ZN	3.23	7.03	12.22	23.14
ZF	4.79	10.44	18.14	34.36
ZT	5.19	11.32	19.66	37.23

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		2.417	4.198	7.950
5y	0.459		1.737	3.290
10y	0.264	0.563		1.894
30y	0.139	0.298	0.528	

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	215,522	278,650	(63,128)	183,938	395,060	(211,122)	1,308,338	1,034,088	274,250	ZF
ZN	331,339	504,278	(172,939)	732,860	487,724	245,136	2,177,970	2,250,167	(72,197)	ZN
ZB	158,186	209,328	(51,142)	161,033	266,243	(105,210)	773,549	617,197	156,352	ZB

	WoW* Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	(1,586)	(10,484)	12,070	6/19/2007
ZN	(13,324)	1,698	11,626	
ZB	3,986	1,900	(5,886)	

**WoW = Week over week

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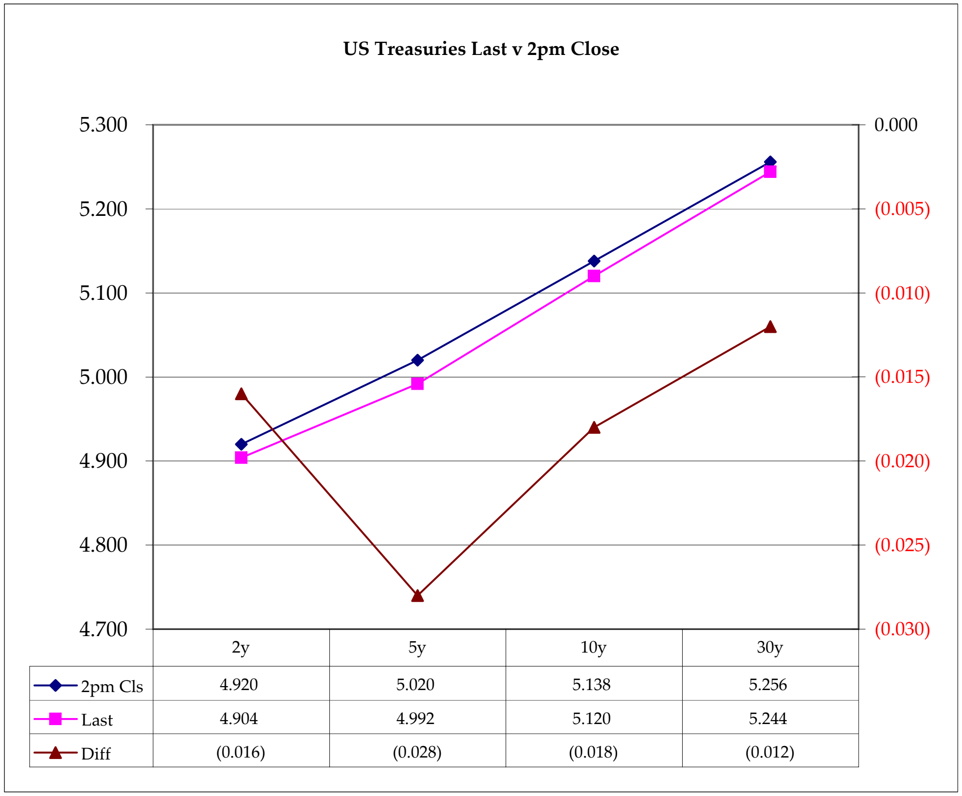
Closes - 2pm CST

	Cpn	Mty	Close 32	Close	Last	Diff	Roll	Basis
2y	4.875	5/31/09	99.2925	4.920	4.904	(0.016)	0.75	
5y	4.750	5/31/12	98.2650	5.020	4.992	(0.028)		10.92
10y	4.500	5/15/17	95.030	5.138	5.120	(0.018)	0.50	44.76
30y	4.750	2/15/37	92.14	5.256	5.244	(0.012)		137.79

	Close 32
ZF	103.225
ZN	104.310
ZB	106.12

Curve Spreads

	bps
2/5	10.0
5/10	11.8
10/30	11.8
2/10	21.8
5/30	23.6
2/30	33.6



Notes:

Basis = (Cash Decimal - (Futures Decimal * CF))*32

Mduration for Curve Spreads:

Longer duration minus shorter duration

32 = price is quoted in 32nds

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Correlations

Symbol	US Cash Treasuries (Yield) 2yr Yield	5yr Yield	10yr Yield	30yr Yield	US Bonds/Notes (CBOT) ZT	ZF	ZN	ZB
2yr Yield	100.0	96.7	85.7	71.1	-98.3	-97.4	-95.4	-80.2
5yr Yield	96.7	100.0	95.6	85.4	-93.4	-98.0	-98.7	-92.0
10yr Yield	85.7	95.6	100.0	96.0	-79.6	-90.1	-94.2	-98.5
30yr Yield	71.1	85.4	96.0	100.0	-61.9	-76.2	-82.7	-96.2
ZT	-98.3	-93.4	-79.6	-61.9	100.0	97.4	94.0	74.8
ZF	-97.4	-98.0	-90.1	-76.2	97.4	100.0	99.2	87.5
ZN	-95.4	-98.7	-94.2	-82.7	94.0	99.2	100.0	92.8
ZB	-80.2	-92.0	-98.5	-96.2	74.8	87.5	92.8	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	(6.6)	(24.6)	(46.1)	(58.0)	(3.9)	11.8	22.5	49.3
Dow Futures	(2.5)	(20.7)	(43.0)	(55.3)	(8.0)	8.4	19.6	47.3
USDJPY	(76.6)	(80.0)	(81.8)	(76.6)	65.6	70.5	73.8	74.1
EURUSD	(97.7)	(95.6)	(86.5)	(72.2)	95.4	94.4	92.9	79.1

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

Notes:

All correlations based on 10 day historical

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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	**$409**		
10	$196	$401	**$736**	
30	$189	$386	$709	**$1,413**

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($3)			
10	$1	$9		
30	$8	$23	$26	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.56%			
10	0.58%	2.17%		
30	4.33%	5.98%	3.73%	

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	1.08	1.94	3.72
ZF	0.48	0.99	1.79	3.44
ZN	0.32	0.67	1.20	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	2.08	3.73	7.17
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

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

	ZT	ZF	ZN	ZB
ZT	1.00	1.08	1.61	2.73
ZF	0.92	1.00	1.49	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