



The Morning Email: Treasuries

6/26/2007 5:54

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FEDERAL RESERVE STATE OF PLAY -
By Steve Beckner, 25 June '07
14:05 EDT / Jun 25

Hedge funds and the risks they take have long been on the Fed's radar screen. Whole conferences have been devoted to it. So, while it might not have anticipated Bear Stearns' exact problems, the Fed can't have been shocked that a firm betting on subprime mortgage-backed securities ran into trouble.

... The "predominant policy concern," the FOMC is likely to repeat, is the risk core inflation will not continue to moderate as expected. High resource utilization, the FOMC has said, could sustain inflation pressures. Globalization is no longer seen as a safety valve. On June 5, Fed Chairman Ben Bernanke acknowledged "a gradual ebbing" of core inflation, but said risks are to the upside. Rising bond yields tend to reinforce inflation concerns. The FOMC seems likely to keep a gentle tightening bias, but stay firmly on hold.

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

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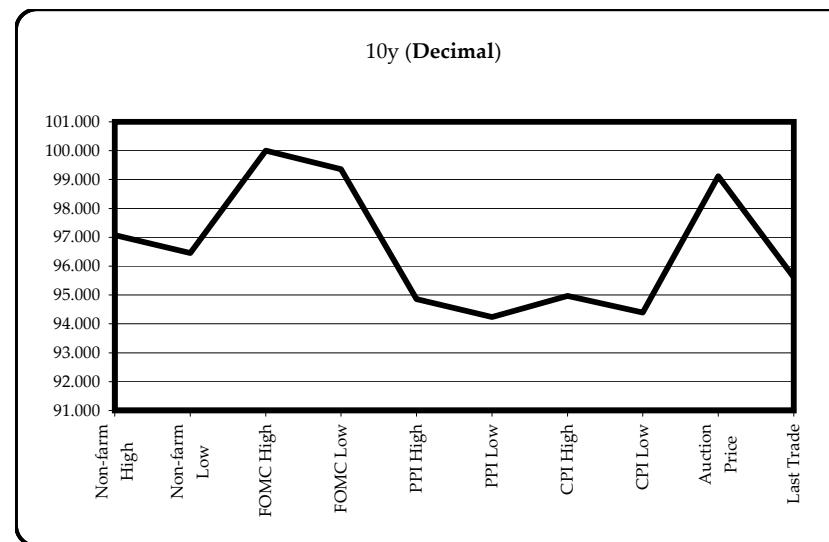
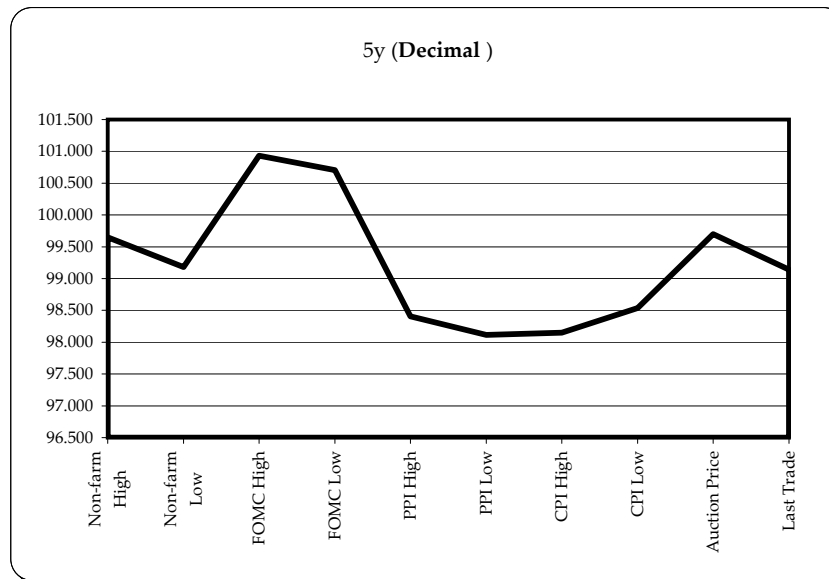
Jim Goulding, jgoulding@ghco.com

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	99.0450	95.195	105.155	107.03	6/26/2007 5:54

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



Quotes

32 nds							
	ls	net	high	low	open	Volume	SYM NAME
TUAU7	101.275	(0.5)	101.285	101.267	101.270	30,092	2y Fut
FVAU7	104.010	1.0	104.020	103.290	103.300	53,625	5y Fut
TYAU7	105.155	2.5	105.170	105.100	105.125	151,432	10y Fut
USAU7	107.030	1	107.060	106.280	106.300	24,823	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.317	0.0	100.007	99.315	99.315	na	2y Cash
BUS05P	99.042	1.7	99.055	99.012	99.015	na	5y Cash
BUS10P	95.190	3.5	95.215	95.145	95.150	na	10y Cash
BUS30P	93.100	3	93.140	93.045	93.050	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.874	0.00	4.9	4.852	4.895	na	2y Yield
BUS05Y	4.948	(1.30)	4.975	4.937	4.972	na	5y Yield
BUS10Y	5.065	(1.50)	5.095	5.057	5.088	na	10y Yield
BUS30Y	5.192	(0.80)	5.212	5.183	5.205	na	30y Yield



News Recap for the United States

Yesterday

15:09 06/25 **US TSYS/RECAP:** US Tsys end rollercoaster Mon higher: early gains amid weaker European & Asian stocks, safe-haven bid on subprime jitters, German Bunds strength, fast money buying in 2Ys, buy-and-hold accounts buying in 5Ys, 10Ys, Street buying 30s. Tsys gave up some gains as German Bunds dip back to midranges after month-end buying into 10Ys related to 3Q cut in German Bund issuance. Tsys midmorning back off highs amid corporate rate-lock selling; no word as yet on Home Depot but first portion expected as US\$5B 3-pt deal. Tsys also gave up gains as US, European stks improve. But Tsys jumped this afternoon as US stocks gave up all gains, turned weaker on day amid ongoing subprime jitters as May remittance reports deemed basically to be weak so far, suggesting more subprime woe. There was morning buying in Eurodollar futures amid safe-haven bid. Some 2-way spd flow in the front end Eurodlrs. MBS open tighter amid better real money buying, reports of worse than expected May ABS subprime remittances spurred spreads wider, & buying dried up.

15:08 06/25 **US SWAPS:** Spds finished out the session wider across the curve, disconnected from lower Tsy ylds. Light overall volume after nil overnight flow, early two-way in front end 2- and 3yr proxies. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:05	+0.50/49.50	+0.50/55.00	+0.25/62.50	+0.25/67.75
11:30	+0.25/49.25	+0.25/54.75	+0.00/62.25	-0.25/67.25
10:20	+0.75/49.75	+0.75/55.25	+0.50/62.75	+0.50/68.00
Mon Open	-0.50/48.50	-0.25/54.25	-0.25/62.00	-0.25/67.25
Fri 3:05	+0.50/48.75	+0.75/54.25	+0.50/62.25	+0.25/67.50

15:12 06/25 EURODLR FUTURES: Eurodlr futures settled higher across the board, the curve giving back some recent steepening. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 0.375 bps to 47.375. The Fronts (Sep07-Jun08), settled 1.0 to 6.0 bps higher, the Sep07 up 1.0 bps at 94-68 on combined Globex and pit volume of 206,000, the Dec07 up 3.0 bps at 94-74 on volume of 430,000, the Mar08 up 5.5 bps at 94-80 on volume of 450,000, while the Jun08 was 6.0 bps higher at 94-83 on volume of 447,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 6.5 to 7.0 bps higher across the pack with 766,000 contracts traded.

News Recap for the United States

Overnight

06:30 06/26 **TSYS FLOWS:** Traders reported paying in 2-year US swaps, with Street setting up for the 2-year Note auction. Hot money accounts were seen selling 5-year Notes, albeit in light volumes. Asian real money was seen buying 10-year Notes, along with light buying of long-end from Japanese pension names, amid month-end duration extension buying. Elsewhere, CTA was seen buying in the belly of the curve. In cross-border flows, Bunds outperformed moderately against US Treasuries, as the 10-year UST/Bund yield spread widened to +53.8 bps vs +52.5 bps.

05:31 06/26 **[US TSYS]** Treasuries are trading narrowly mixed in London Tuesday, with modest outperformance in the longer-dated paper helping push a light curve flattening. Prices opened lower in Tokyo overnight, as light follow-through selling weighed after the late U.S. gains. However, traders said buyers soon emerged, helping push prices back above the gain line. Japanese life and pension funds were buyers of the 10-year note and the Bond, as month-end duration demand kicked in. Hedging of the 2-year note ahead of the \$18 billion auction later in the day also helped drive the flattening trade. In London, real money names were buyers along the curve, although flows were light. However, the 2-year note remained under water ahead of the auction. Bunds were trading 1 bps lower against the US 10-year T-notes, with the spread standing at +54 bps. Ahead of the U.S. session, the 2-yr note was 1/64 lower, trading at 99 31+/32 to yield 4.87%. The 10-yr note was 1+/32 higher at 95 18/32 (5.07%), with the Bond 2/32 higher at 93 7/32 (5.20%).



13:23 06/25 **US ABS/REMITTANCES:** Several market sources say the May remittance reports that have been reviewed so far show that subprime continues to deteriorate and some say they are worse than expected. Specifically, 06-02 and 06-01 continue to perform poorly and even some more seasoned vintages have higher cumulative losses. "Resets are prepaying slowly," one veteran said, "and people are having difficulty refinancing." Sources also report that 07-01 is also doing more poorly than expected, but several sources note players that are short this index might like to pump up the bad news. Those involved in subprime bets had been hoping these reports today might indicate the worst was over for subprime. But others say, the worst is not yet over. Tsys continue to be bid on subprime worries and alert for any further fallout.

2-Year Auction Allotments By Investor Class

	Depository Institutions	Individuals	Dealers & Brokers	Investment Funds	Foreign & International
2000	1.4%	11.4%	65.1%	4.4%	17.7%
2001	0.4%	7.2%	63.9%	6.8%	21.6%
2002	0.7%	5.9%	73.1%	3.9%	16.3%
2003	0.2%	2.9%	61.1%	10.9%	24.8%
2004	0.3%	3.8%	52.5%	11.9%	31.5%
2005	0.3%	4.0%	60.8%	13.2%	21.7%
2006	0.2%	4.4%	64.7%	7.9%	22.9%

2-year Note Auction Bidding Participation History

Date	Dealer Bid Share	Dealer Takedown	Dealer Hit Ratio	Indirect Bid Share	Indirect Takedown	Indirect Hit Ratio
Average*	80.4%	61.2%	33.8%	17.9%	37.5%	92.3%
05/29/07	88.6%	76.6%	33.0%	11.2%	22.9%	78.0%
04/25/07	84.7%	57.3%	22.5%	15.0%	42.2%	93.3%
03/28/07	89.0%	70.0%	27.2%	10.6%	29.3%	95.7%
02/21/07	83.0%	47.8%	18.4%	16.7%	52.2%	99.8%
01/24/07	89.6%	72.5%	25.9%	9.6%	26.6%	88.4%
12/27/06	85.9%	65.0%	30.0%	13.8%	34.7%	100.0%
11/28/06	79.7%	42.1%	16.9%	19.2%	56.0%	93.6%
10/24/06	88.6%	68.8%	26.0%	11.0%	30.8%	93.6%
09/27/06	84.1%	62.2%	26.0%	15.4%	36.8%	84.1%
08/29/06	88.8%	76.6%	36.2%	11.0%	22.8%	87.4%
07/28/06	79.7%	64.8%	38.9%	17.4%	33.8%	92.8%
06/27/06	84.2%	69.3%	35.1%	12.6%	29.5%	100.0%

*Includes all auctions dating back to May, 2003

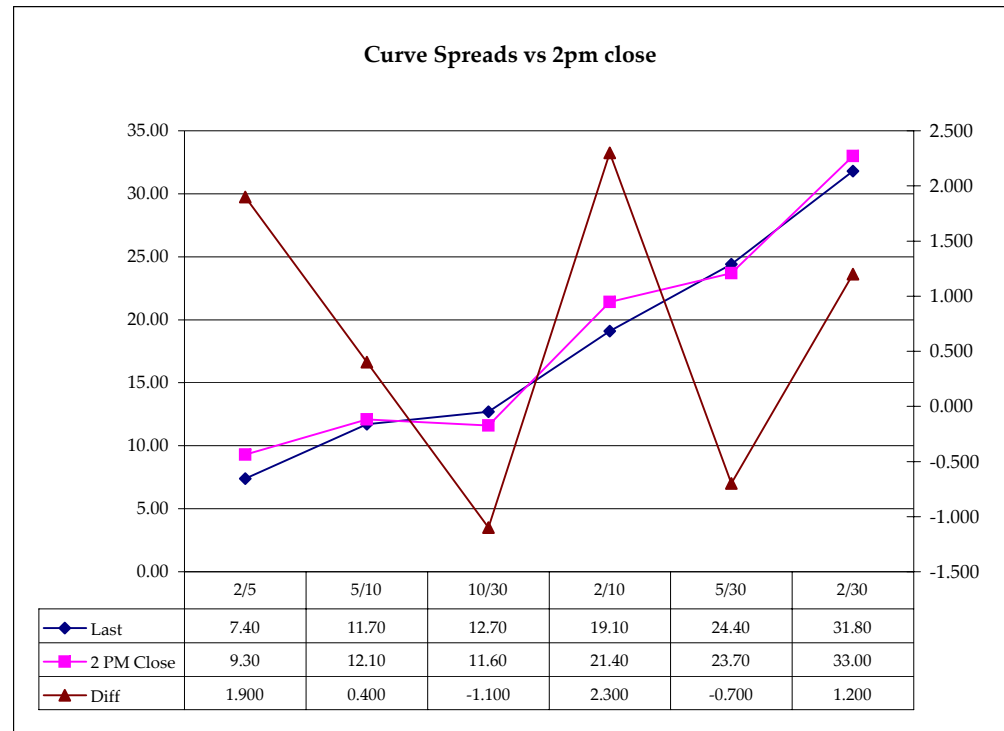
Stone & McCarthy
RESEARCH ASSOCIATES

The lack of indirect demand at last month's 2-year and 5-year note auctions remains a potential concern at this month's auctions.

	M Duration	DV01 32	DV01 \$	CF
30y	15.03	4.57	\$1,429	
10y	7.80	2.40	\$750	
5y	4.33	1.38	\$430	
2y	2.00	0.63	\$197	
ZB	9.65	3.34	\$105	0.8285
ZN	5.77	1.96	\$61	0.8926
ZF	3.95	1.32	\$41	0.9497
ZT	1.86	1.21	\$38	0.9799

Yield Curve Spreads

	Last	2pm close	Diff
2/5	7.40	9.30	1.900
5/10	11.70	12.10	0.400
10/30	12.70	11.60	-1.100
2/10	19.10	21.40	2.300
5/30	24.40	23.70	-0.700
2/30	31.80	33.00	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		1.704	2.538	2.754
ZN	0.587		1.490	1.616
ZF	0.394	0.671		1.085
ZT	0.363	0.619	0.922	

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	1.89	4.12	7.17	13.67
ZN	3.21	7.02	12.22	23.29
ZF	4.78	10.45	18.20	34.70
ZT	5.19	11.34	19.75	37.65

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		2.423	4.220	8.044
5y	0.458		1.742	3.320
10y	0.263	0.562		1.906
30y	0.138	0.295	0.525	

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

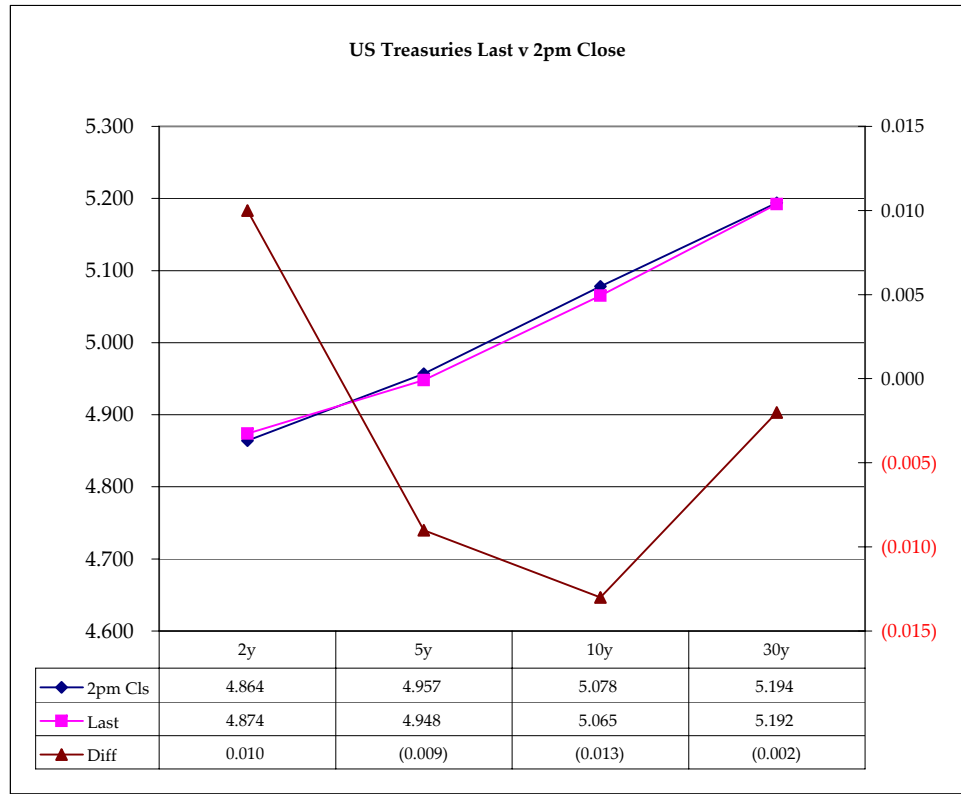
**WoW = Week over week

	Cpn	Mty	Close 32	Close	Last	Diff	Roll	Basis
2y	4.875	5/31/09	100.0050	4.864	4.874	0.010	0.5	
5y	4.750	5/31/12	99.0325	4.957	4.948	(0.009)		11.12
10y	4.500	5/15/17	95.175	5.078	5.065	(0.013)	0.50	46.76
30y	4.750	2/15/37	93.10	5.194	5.192	(0.002)		148.39

	Close 32
ZF	103.315
ZN	105.130
ZB	107.01

Curve Spreads

	bps
2/5	9.3
5/10	12.1
10/30	11.6
2/10	21.4
5/30	23.7
2/30	33.0



Notes:
 Basis = (Cash Decimal - (Futures Decimal * CF))*32
 Mduration for Curve Spreads:
 Longer duration minus shorter duration
 32 = price is quoted in 32nds

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	97.7	90.6	78.9	-99.0	-97.3	-95.8	-85.5
5yr Yield	97.7	100.0	97.3	89.0	-98.2	-99.4	-99.2	-93.9
10yr Yield	90.6	97.3	100.0	95.9	-92.0	-96.3	-97.7	-98.3
30yr Yield	78.9	89.0	95.9	100.0	-81.5	-87.8	-90.4	-97.3
ZT	-99.0	-98.2	-92.0	-81.5	100.0	98.7	97.3	88.4
ZF	-97.3	-99.4	-96.3	-87.8	98.7	100.0	99.6	94.1
ZN	-95.8	-99.2	-97.7	-90.4	97.3	99.6	100.0	96.3
ZB	-85.5	-93.9	-98.3	-97.3	88.4	94.1	96.3	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	57.6	51.5	39.8	34.7	(60.7)	(55.2)	(50.3)	(37.7)
Dow Futures	59.2	52.7	40.4	35.3	(61.6)	(55.6)	(50.2)	(37.0)
USDJPY	(48.3)	(37.5)	(28.4)	(8.6)	41.2	34.1	32.6	18.2
EURUSD	(90.4)	(93.9)	(93.4)	(82.8)	92.2	93.5	94.6	90.6

**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

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	\$440		
10	\$197	\$402	\$739	
30	\$190	\$389	\$715	\$1,429
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	\$1	\$8		
30	\$7	\$21	\$24	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.65%			
10	0.27%	1.96%		
30	3.64%	5.38%	3.36%	

What is this? (1):
 2yr cash has X% duration of 5yr cash .

What is this? (2):
 -2yr cash has DV01 of \$200
 -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	1.95	3.76
ZF	0.48	1.00	1.79	3.47
ZN	0.32	0.67	1.20	2.33
ZB	0.19	0.39	0.71	1.37

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	3.75	7.25
5y	0.48	1.00	1.80	3.49
10y	0.27	0.55	1.00	1.93
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	1.09	1.62	2.75
ZF	0.92	1.00	1.49	2.54
ZN	0.62	0.67	1.00	1.70
ZB	0.36	0.39	0.59	1.00

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

