



The Morning Email: Treasuries

6/27/2007 5:49

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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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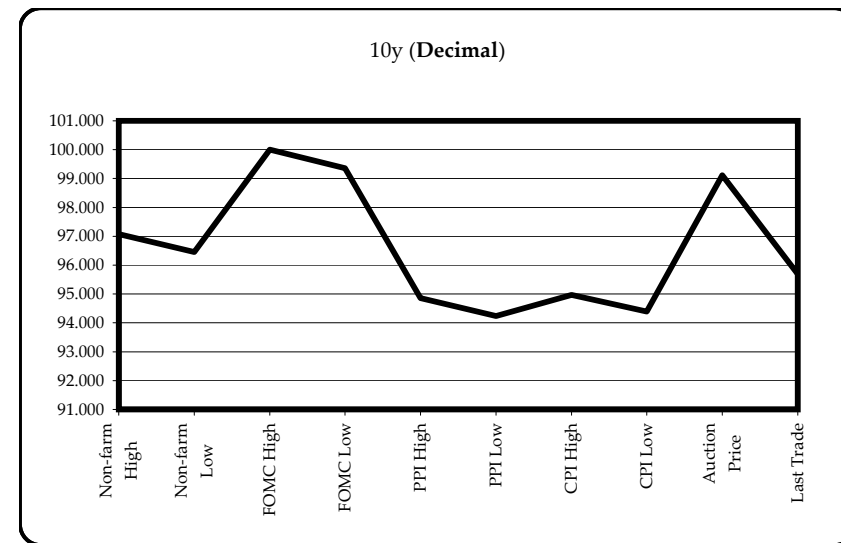
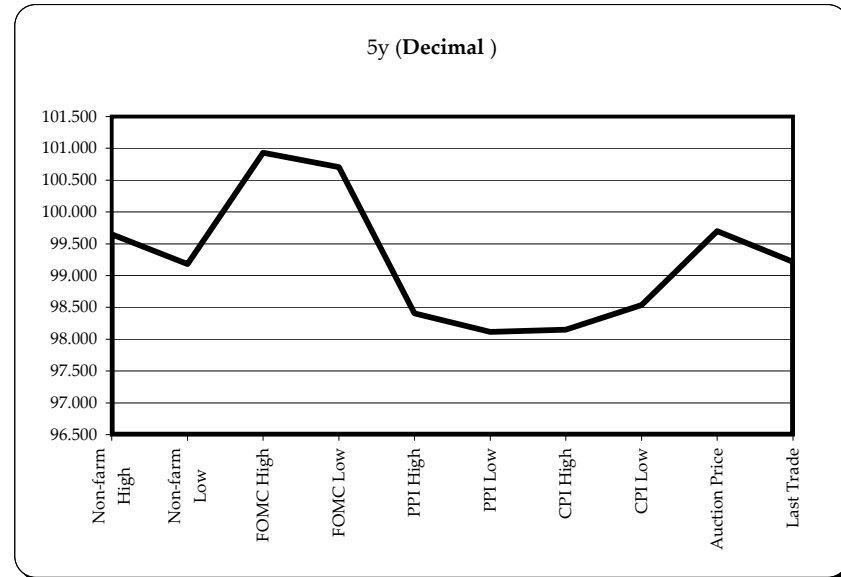
Jim Goulding, jgoulding@ghco.com

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	99.0700	95.220	105.170	107.06	6/27/2007 5:49

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					
	ls	net	high	low	open	Volume	SYM NAME
TUAU7	101.302	3.5	101.315	101.282	101.282	58,651	2y Fut
FVAU7	104.030	6.5	104.050	103.305	103.305	70,265	5y Fut
TYAU7	105.170	8.5	105.205	105.125	105.130	232,159	10y Fut
USAU7	107.060	12	107.100	106.310	107.000	41,965	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	100.020	1.7	100.030	100.010	100.010	na	2y Cash
BUS05P	99.070	4.0	99.087	99.035	99.040	na	5y Cash
BUS10P	#VALUE!	5.0	95.245	95.170	95.170	na	10y Cash
BUS30P	#VALUE!	7	93.195	93.060	93.060	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.838	(2.30)	4.901	4.817	4.901	na	2y Yield
BUS05Y	4.928	(2.90)	4.979	4.914	4.979	na	5y Yield
BUS10Y	5.059	(2.10)	5.097	5.045	5.097	na	10y Yield
BUS30Y	5.183	(1.60)	5.214	5.171	5.214	na	30y Yield



News Recap for the United States

Yesterday

15:28 06/26 **US TSYS/RECAP:** US Tsys ebb in choppy day but subprime safe-haven bid underpins as did weak -1.6% May new home sales, weaker 10.39 June Conf Bd. Cons Conf. Richmond Fed at 4 June vs -10 May. Foreign central bank buying in intermediates as some sold older intermediates. 2Ys drew 2-way flow in morn: buy-and-hold bid earlier, fast money bid later, dealer-led short-setting in 2Ys. There were buy-and-hold accts, fast money and Street selling in 5s but overseas bank bid there. Buy-and-hold accts bought T-bills. Fast money accounts roll forward in 2Ys. Afternoon had Asian buy-and-hold acct bid in 10s, but also Street selling in 10s. 2Y, 3Y swaps paying after hsg data. 5Ys in afternoon drew fast money bid and some buying amid 2Y/5Y, 2Y/10Y steepeners. MBS players: buyers of size in Dec 10Y 103 puts. Asian swap-tied selling in 10Y Eurodlr futures to US\$750M, better buying in 2Y Eurodlrs. US\$18B 2Y sale: 4.906% high yield, 28.81% indirects, 1.20% directs, 69.99% dealers. China eyed for clues on next move after recent T-bill buys. Countrywide CDS 5Y wider.

15:17 06/26 **EURODLR FUTURES:** Retrace, Eurodlr futures settled lower across the board, the curve giving back more recent steepening. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 2.75 bps to 45.25. The Fronts (Sep07-Jun08), settled 1.0 to 2.0 bps lower, the Sep07 in 1.0 bps at 94-67 on combined Globex and pit volume of 188,000, the Dec07 in 2.0 bps at 94-72 on volume of 343,000, the Mar08 in 1.5 bps at 94-78.5 on volume of 422,000, while the Jun08 was 2.0 bps lower at 94-81 on volume of 388,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 2.5 to 3.0 bps lower across the pack with 636,000 contracts traded.

15:08 06/26 **US SWAPS:** Spds finished out the session off tighter levels as debt markets firmed off lows amid ongoing equity weakness. Initial swap-tied flo proved two-way in front end as well, though spds tightened as Tsy yld climbed after mixed data. After smaller cross current front end swap flow, sources reported a NY dealer +1k Red packs (Sep08-Jun09) while some decent paying tied flow in 2- and 3yr bundles emerged as mkt dipped around the data. Sources also reported some Asian swap-tied selling in 10-year equivalents to the tune of \$750 million. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:05	-0.50/49.00	+0.00/55.00	-0.25/62.25	-0.50/67.25
1:30	-1.00/48.50	-0.50/54.50	-0.50/62.00	-1.00/66.75
11:20	-1.00/48.50	-0.25/54.75	-0.25/62.25	-0.50/67.25
10:30	-1.00/48.50	-0.25/54.75	-0.25/62.25	-0.50/67.25
9:55	-0.75/48.75	+0.00/55.00	+0.00/62.00	-0.25/67.50
Tue Open	-0.75/48.75	+0.25/55.25	+0.50/63.00	+0.25/68.00
Mon 3:05	+0.50/49.50	+0.50/55.00	+0.25/62.50	+0.25/67.75

News Recap for the United States

Overnight

05:05 06/27 **TSYS:** Treasuries are trading higher across the board in London Weds, as the continuing weakness in global stocks underpins debt investor sentiment. However, traders noted many market players were sidelined ahead of the Fed's 2-day FOMC meet. Prices were higher in early Tokyo trade, with the curve initially flattening as month-end duration demand boosted the Long Bond. However, the front-end soon found support, helping the curve to steady. Although prices continued to push higher across the board in London, the 2-year sector of the curve led the way higher, unhampered by the overnight supply. The 5-year was also well bid ahead of the 5-year auction later in the day. Real money demand was ongoing in the 10-year note and the Bond, with leveraged accounts also seen on the bid. However, traders said offers from hedge funds looking to take quick profits could start to emerge the closer the 10-year yield got to the 5.00% level. Bunds were trading 1 bps higher against the US 10-year T-notes, with the spread standing at +57 bps.

China: Signals Point to Deposit Interest Tax Cut First, Rate Hike Later by Logan Wright 27 June 2007

The publication of two stories today, one in the China Securities Journal and one on the website of China's official Xinhua News Agency, signal that China's National People's Congress may be very close to approving a reduction or elimination of the 20 percent tax on interest income from bank deposits, as a response to inflation indicators pushing real deposit rates toward negative territory.

The removal of the deposit tax, originally imposed in 1999 in order to encourage domestic consumption, would be equivalent to a 61 bps increase in real after-tax deposit rates. The China Securities Journal story also discussed the possibility of a reduction of the tax to 10 percent. 1-year benchmark deposit rates are currently 3.06%. The attractiveness of the move to economic authorities lies in the fact that it could encourage depositors to keep funds in the banking system without a significant impact on the state's fiscal bottom line and without increasing banks' cost of funds.



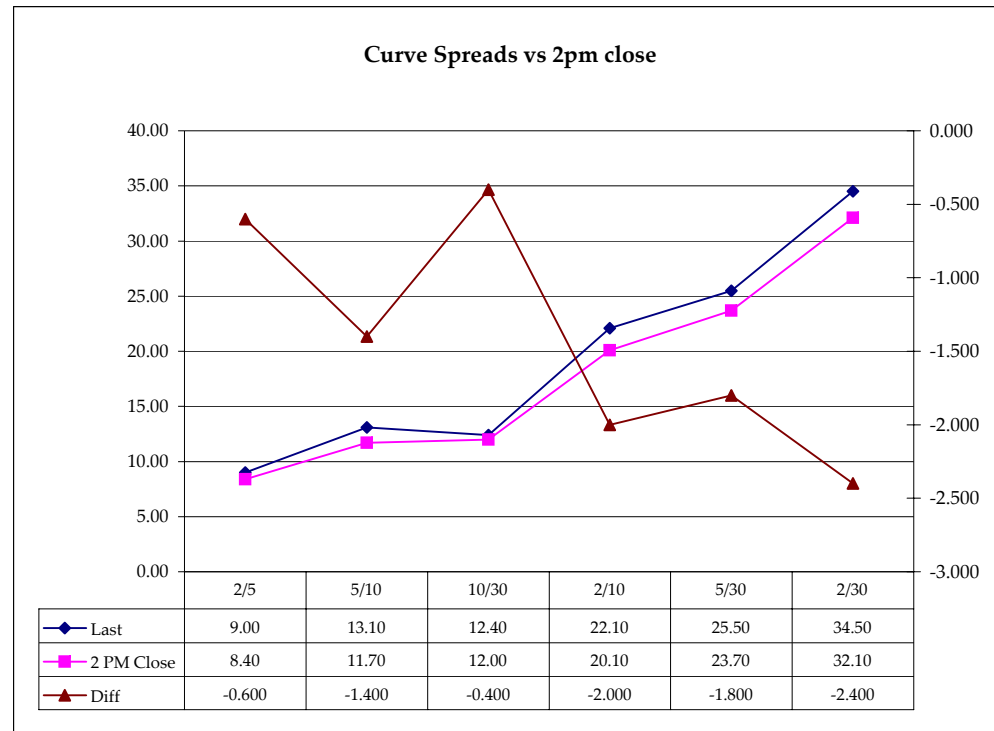
"...Abandoned by fellow banks, Bear Stearns has now put up \$3.2bn of its own money to rescue one of the funds, a quarter of its capital. This is the biggest bail-out since the Long-Term Capital Management crisis in 1998, which Bear Stearns refused to join at the time. Bear Stearns is now alone, a case of rough justice being served." -source: Unkonwn.

Stone & McCarthy
RESEARCH ASSOCIATES

	M Duration	DV01 32	DV01 \$	CF
30y	15.04	4.58	\$1,432	
10y	7.80	2.40	\$750	
5y	4.32	1.38	\$431	
2y	2.00	0.63	\$197	
ZB	9.74	3.43	\$107	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	9.00	8.40	-0.600
5/10	13.10	11.70	-1.400
10/30	12.40	12.00	-0.400
2/10	22.10	20.10	-2.000
5/30	25.50	23.70	-1.800
2/30	34.50	32.10	-2.400



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		1.748	2.600	2.824
ZN	0.572		1.487	1.615
ZF	0.385	0.673		1.086
ZT	0.354	0.619	0.921	

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	1.84	4.02	7.00	13.37
ZN	3.21	7.03	12.24	23.38
ZF	4.78	10.45	18.20	34.76
ZT	5.19	11.35	19.77	37.76

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		2.425	4.225	8.068
5y	0.457		1.742	3.327
10y	0.263	0.562		1.909
30y	0.137	0.294	0.524	

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

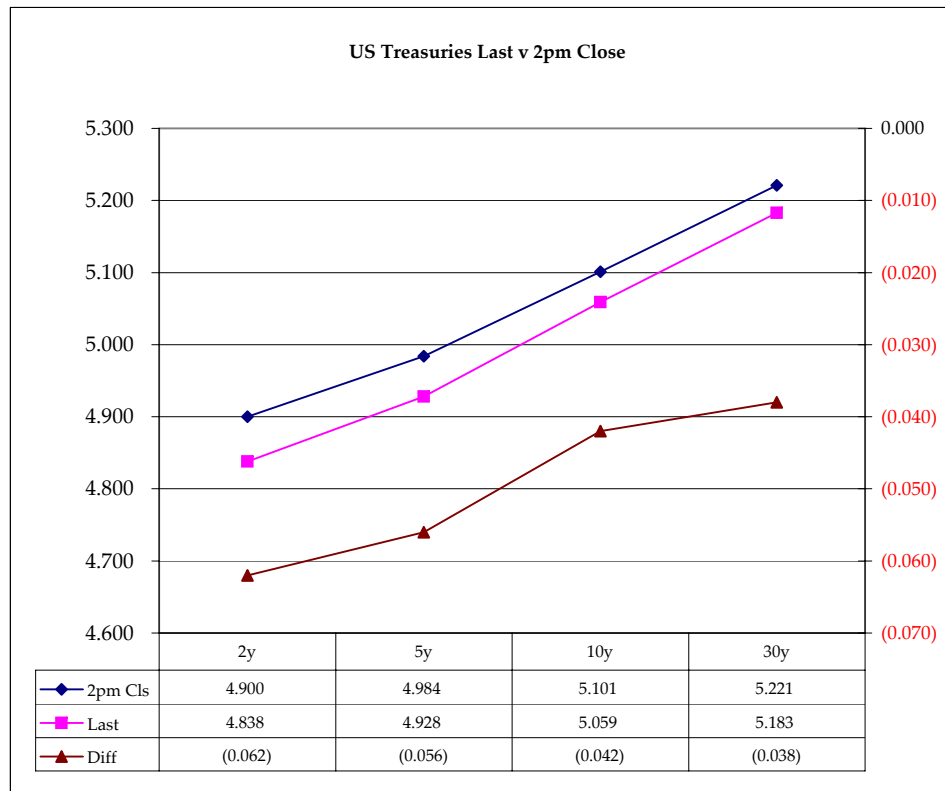
	Cpn	Mty	Close 32	Close	Last	Diff	Roll	Basis
2y	4.875	6/30/09	99.3050	4.900	4.838	(0.062)	0	
5y	4.750	5/31/12	98.3150	4.984	4.928	(0.056)		10.70
10y	4.500	5/15/17	95.120	5.101	5.059	(0.042)	0.50	45.28
30y	4.750	2/15/37	92.30	5.221	5.183	(0.038)		143.02

	Close 32
ZF	103.280
ZN	105.085
ZB	106.25

Curve Spreads

	bps
2/5	8.4
5/10	11.7
10/30	12.0
2/10	20.1
5/30	23.7
2/30	32.1

Old 2 y
99-30.75



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	98.1	90.9	82.9	-98.4	-96.9	-95.3	-84.3
5yr Yield	98.1	100.0	97.2	91.1	-97.8	-98.9	-98.7	-92.5
10yr Yield	90.9	97.2	100.0	97.1	-91.3	-95.9	-97.5	-97.3
30yr Yield	82.9	91.1	97.1	100.0	-84.2	-89.4	-92.1	-96.7
ZT	-98.4	-97.8	-91.3	-84.2	100.0	98.4	96.6	87.6
ZF	-96.9	-98.9	-95.9	-89.4	98.4	100.0	99.6	93.9
ZN	-95.3	-98.7	-97.5	-92.1	96.6	99.6	100.0	96.3
ZB	-84.3	-92.5	-97.3	-96.7	87.6	93.9	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	79.1	71.7	59.7	55.3	(79.1)	(70.9)	(66.8)	(52.2)
Dow Futures	80.2	71.9	58.9	53.7	(79.4)	(71.1)	(66.5)	(50.5)
USDJPY	12.4	16.3	18.7	30.9	(22.9)	(18.6)	(18.0)	(27.0)
EURUSD	(89.0)	(88.1)	(83.7)	(73.5)	82.9	84.5	83.9	73.1

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

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	\$196	\$402	\$739	
30	\$190	\$389	\$716	\$1,432
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	\$0	\$8		
30	\$7	\$21	\$23	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.73%			
10	0.24%	2.00%		
30	3.51%	5.33%	3.27%	

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	3.78
ZF	0.48	1.00	1.79	3.48
ZN	0.32	0.67	1.21	2.34
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	7.27
5y	0.48	1.00	1.80	3.49
10y	0.27	0.55	1.00	1.94
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	2.76
ZF	0.92	1.00	1.49	2.54
ZN	0.62	0.67	1.00	1.71
ZB	0.36	0.39	0.59	1.00

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

