



## The Morning Email: Treasuries

6/29/2007 5:43

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**14:14 06/28 FOMC:** Fed funds target unch at 5.25%. Text: Core inflation improved modestly (removes 'elevated') but sustained moderation in inflation pressures is 'yet to be convincingly demonstrated'; keeps worry about high level of resource utilization. Keeps predominant policy concern as 'risk that inflation will fail to moderate as expected.' Future policy depends on the evolution of the outlook for both inflation and economic growth. Econ growth 'moderate' in H1, sees ongoing adj in Housing and expects 'moderate pace' ahead.

Unanimous vote 10-0. Thus, main change is in how inflation is characterized -- for the better, which is good for Tsys, bad for US\$.

**[Note from Jim] There's a blow-by-blow on page 4 with FOMC data reaction from the street too.**

Since 1990, the number of months between policy reversals by the Federal Reserve has ranged from 5 to 18 months with the average coming in at 12 months. It has now been 12 months since the Fed last adjusted monetary policy.

Stone & McCarthy  
RESEARCH ASSOCIATES

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

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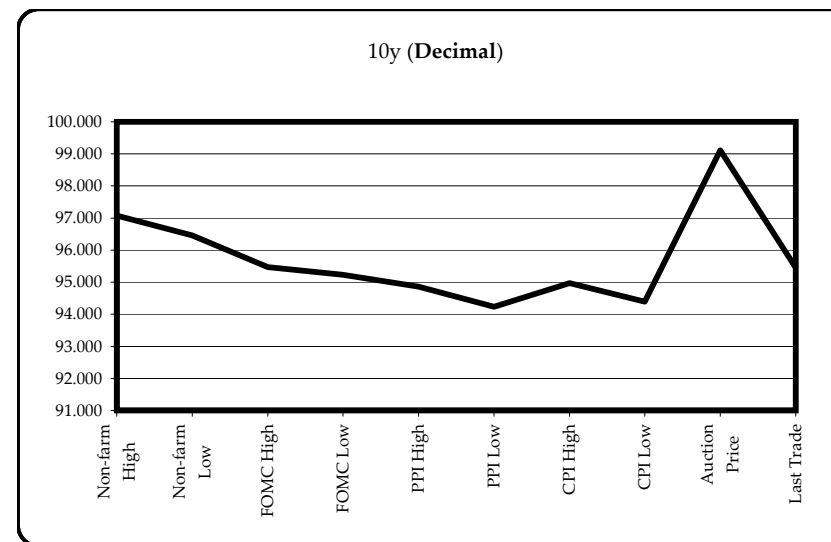
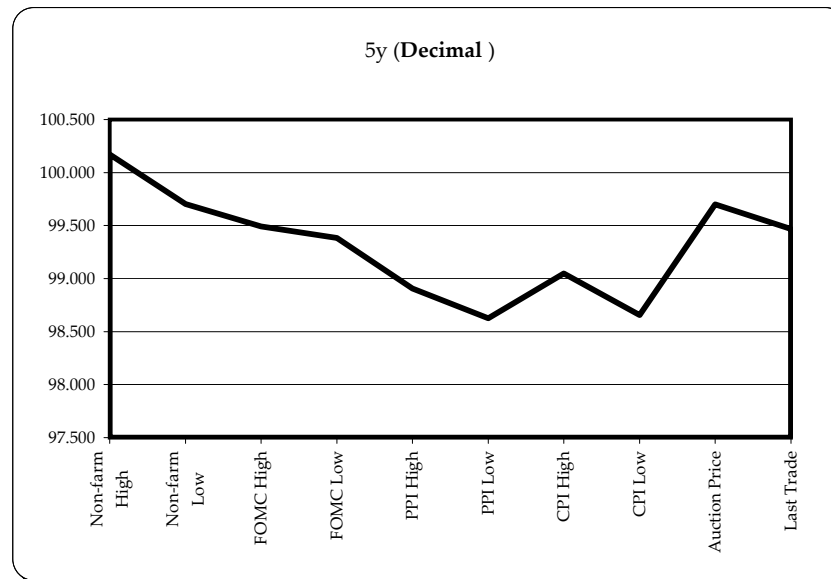
Jim Goulding, [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

Economic Releases - 32nds					
	5y	10y	ZNU7	ZBU7	Date
Non-farm High	100.0550	97.025	106.155	109.10	6/1/2007
Non-farm Low	99.2250	96.145	105.290	108.15	6/1/2007
FOMC High	99.1575	95.150	105.130	107.07	6/28/2007
FOMC Low	99.1225	95.075	105.045	106.23	6/28/2007
PPI High	98.2900	94.275	104.185	106.11	6/14/2007
PPI Low	98.2000	94.075	104.045	105.23	6/14/2007
CPI High	99.0150	94.310	104.225	106.12	6/15/2007
CPI Low	98.2100	94.125	104.040	105.21	6/15/2007
Auction Price	99.2243	99.035			
Last Trade	99.1500	95.145	105.100	107.03	6/29/2007 5:43

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	4.906	4.94	4.612	4.838
Actual Auction Date	6/26/2007	6/27/2007	5/8/2007	5/11/2007 r

r = reopen



32 nds							
	ls	net	high	low	open	Volume	SYM NAME
TUAU7	101.242	0.2	101.260	101.230	101.237	23,313	2y Fut
FVAU7	103.260	2.0	103.290	103.235	103.245	32,939	5y Fut
TYAU7	105.100	3.5	105.135	105.055	105.070	84,427	10y Fut
USAU7	107.030	9	107.070	106.260	106.280	24,271	30y Fut
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.277	0.0	99.292	99.270	99.275	na	2y Cash
BUS05P	99.147	1.0	99.172	99.122	99.132	na	5y Cash
BUS10P	95.140	3.0	95.175	95.095	95.100	na	10y Cash
BUS30P	93.120	6	93.165	93.030	93.035	na	30y Cash
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.942	0.00	4.975	4.913	4.963	na	2y Yield
BUS05Y	4.997	(0.90)	5.024	4.977	5.013	na	5y Yield
BUS10Y	5.091	(1.40)	5.116	5.074	5.11	na	10y Yield
BUS30Y	5.187	(1.40)	5.214	5.177	5.205	na	30y Yield

Preview June Employment  
 by Ray Stone, PhD  
 --Stone & McCarthy (Princeton)-- Forecasting monthly changes in Nonfarm Payrolls can be viewed as an exercise not in forecasting the actual employment change, but rather as an attempt to forecast the BLS's estimate of the monthly change. This distinction is important because there is reason to believe that that BLS's estimates have been too high, and the underlying trend in payrolls of late is somewhat below the trajectory estimated by the BLS.

That said, as a payroll forecaster, my job is not to seek truth in my monthly projections, but rather to guess what the BLS's estimate of the number might be. Financial markets care far more about the BLS's monthly estimate of payrolls, than what the data may reveal after the next benchmarking.

Table I—Forecast Summary	May	SMRA Est June	Survey Medians	
			MNI June 28	BBG June 28
Payrolls (000s)	157	100	130	120
Private (000s)	135	79		
Construction (000s)	0	-16		
Manufacturing Payrolls (000s)	-15	19		-13
Workweek (hours)	33.9	33.8		33.9
Index of Hours Worked (% chg)	0.5	-0.2		
Average Hourly Earnings (% chg)	0.3	0.3		0.3
Unemployment Rate (%)	4.5	4.5	4.5	4.5

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## News Recap for the United States

### Yesterday

15:14 06/28 **US TSYS/RECAP:** US Tsys decline Thu amid some selling, 2-way flow, after FOMC reiterated inflation watch. The 2Y/10Y, 2Y/30Y curves flattened after FOMC news but then had choppy trades. In post-FOMC trades, leveraged accounts bought or sold the front end, fast money sold 2s, 5s Tsys, while buy-and-hold accounts bought intermediates. Foreign banks sold the front end. Stocks gyrated wildly; remains concern about deals esp. in LBO area being tough to do, thus funding tightens. Some eyed Asian buying in intermediates in NY, overnight. Was rumored multi- billion-\$ 2Y/30Y Tsys steepener unwind Wed. p.m. Earlier, Tsys mixed, rangebound before FOMC as safe-haven bid, month-end nears, with lvrgd bid in 5s, 10s, with bank bid in 5s, with Street 10/30Y steepeners done. Tsys ebbed earlier amid upwardly revised 2.4% 1Q GDP PCE deflator, lower initial jobless claimis. MBS origination US\$1Bln. Swaps wider in 10s to 30s after Tsys curve bear-flattened. May Conf Bd Help Wtd lower at 27; Lower NAR May hsg affordability index also bond-supportive at 109.9.

15:08 06/28 **US SWAPS:** Spds wider in 10s to 30s after the Tsy curve bear flattened in response to the steady Fed rate announcement, front end still tighthter. Sources had reported muted flow on the session as many plied sidelines ahead of the FOMC, two-way in the front end, receivers in 10yr proxies, followed by talk of pension fund receiving in 30s about an hour before the Fed. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:05	-0.50/48.00	-0.25/54.50	+0.50/62.25	+0.50/67.00
12:30	-0.50/48.00	-0.25/54.50	+0.00/61.75	+0.00/66.50
11:20	-0.50/48.00	-0.25/54.50	+0.00/61.75	+0.25/66.75
10:30	-0.25/48.25	-0.25/54.50	+0.00/61.75	+0.00/66.50
9:30	-0.25/48.25	+0.00/54.75	+0.00/61.75	+0.00/66.50
Thu Open	+0.00/48.50	+0.00/54.75	+0.00/61.75	+0.00/66.50
Wed 3:02	-0.50/48.50	-0.25/54.75	-0.75/61.75	-0.75/66.50

15:15 06/28 **EURODLR FUTURES:** At or near session lows, Eurodlr futures move south after the steady Fed announcement, the curve bear flattening. The Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12) a 2s/10s proxy, flattened 4.125 bps to 41.75. The Fronts (Sep07-Jun08), settled 1.5 to 8.5 bps lower, the Sep07 in 1.5 bps at 94-66 on combined Globex and pit volume of 192,000, the Dec07 in 5.0 bps at 94-68 on volume of 358,000, the Mar08 in 7.5 bps at 94-72 on volume of 457,000, while the Jun08 was 8.5 bps lower at 94-74 on volume of 374,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 7.0 to 9.0 bps lower across the pack with 722,000 contracts traded.

## News Recap for the United States

### Overnight

06:09 06/29 **CHINA MOF:** Will ensure market stability in special bond issue  
 -- PBOC will gradually sell bonds to soak up liquidity  
 -- China MOF gives no indication on special T-Bond issuance sked.

04:53 06/29 **TSYS:**(1) Treasuries are trading higher across the board in London trade, building on early Asian gains as the month, quarter and half-year draw to a close. The markets saw solid early gains in Asia and pushed higher still following news of an apparent bombing attempt in London. The long end of the curve outperformed initially in Asia, as continuing month-end demand from life and pension funds offered support. Real money demand from a range of Asian accounts also helped push prices higher. Prices were holding modest gains in light early London trade, as many were sidelined ahead of the weekend. However, news that the police had diffused what appeared to be an explosive device in Central London soon put a bid into the market, as it again underlined the ongoing terror threat. Asian names continued to pick up paper, appearing to concentrate on the 2 and 10-year sector. However, traders said the upside was capped by layered offers from real money names, looking to profit from any spikes.

04:53 06/29 **TSYS:** (2) Bunds were trading 1 bps higher against the US 10-year T-notes, with the spread standing at +61 bps. Ahead of the U.S. session, the 2-yr note was 1/32 higher, trading at 99 29/32 to yield 4.92%. The 10-yr note was 5/32 higher at 95 16/32 (5.06%), with the Bond 9/32 higher at 93 15/32 (5.18%). The 2-yr/5-yr yield curve was unchanged on overnight levels, trading at +6 bps The 2-/10-yr curve was also unchanged, trading at +16 bps, as was the 2-yr/30-yr curve, standing at +26 bps. September expiry futures contracts on the CBOT electronic system are trading higher on Tuesday's closing levels. The Sept T-note was 3/32 higher at 105 10/32, while the Bond was 10/32 higher at 107 3/32.

**MarketNews**  
international

**Stone & McCarthy**  
RESEARCH ASSOCIATES

14:28 06/28 **FED REACT:** TJ Marta at **RBC** says the Fed's "tight-lite stance continues, with inflation as the predominant risk." And there is nothing to change RBC's base case that the "economy will recover, inflation pressures will remain, and the Fed will re-enter the global tightening fray Q108."

14:30 06/28 **FED REACT:** Jill King, Sr Portfolio Manager at **Horizon Cash Management**, said: "Inflation will continue to be the Fed's primary policy concern. Although there has been some easing of inflationary pressure, core inflation is still outside the Fed's comfort zone." Rate cut is the next likely move, King says, and housing remains a concern.

14:33 06/28 **FED REACT:** Economist Ian Shepherdson of **HFE** says Fed "will only ease if unemployment rises, reducing resource utilization, or core inflation falls so fast it scares them. We think these are both decent bets, but not for the next few months. On hold till Dec at the soonest, we think."

14:35 06/28 **FED REACT:** Analyst Marc Chandler at **BBH** says "Inflation remains the (Fed's) dominant concern. The market seems to respect this assessment and has taken the Fed funds futures strip lower, implying reduced perceptions of the probability of a cut... The take away point from the Fed statement is that the easing of price pressures thus far have not been sufficient to change the Fed's risk assessment."

14:43 06/28 **FED REACT:** From economist Steve Wood at **Insight Economics**: "The Fed is on hold and probably will be for months, if not quarters, into the future. Although the Committee is still biased toward tightening to fight inflation, that bias seems less severe now that core inflation has been trending lower and is now at or inside of the top of their comfort zone. If the economy grows moderately as the FOMC expects and core inflation continued to fade as they anticipate, then the current stance of monetary policy is likely to still be in place at year end."

14:48 06/28 **FED REACT:** From economist Annalisa Piazza at **FIMAT-Cube Strategy** sees only "subtle changes" in the FOMC statement. Also says "Recent economic indicators have pointed upwards and the Fed might have been surprised by the resiliency of economic activity that - in Q2 - is expected to rise at around 2.5-3%. We remain skeptical on the future economic activity in H2 this year but the Fed seems to assume a quite relaxed tone." FOMC statement "doesn't give any clear sign that the Fed is willing to relax monetary policy in the near term. However, with the new wording on inflation, we would say that today's statement swipes away all the remaining risks that Fed Funds could be hiked any time soon."

14:29 06/28 **US TSYS:** Tsys bounce off the lows amid bargain-hunting after a dip slide on the FOMC statement, which reemphasized the Fed inflation concern. The 10-year yield is now at 5.096%, but had hit as high as 5.11% in post-FOMC reaction, vs. 5.092% before FOMC outcome. The 2Y is at 4.946%, but had high a high yield of 4.96% at 2:20pm ET; that commpared with 4.919% prior to data. 2/10Y, 2Y/30Y curves till flattening after FOMC still emphasizes inflation risk through core inflation readings improved modestly.

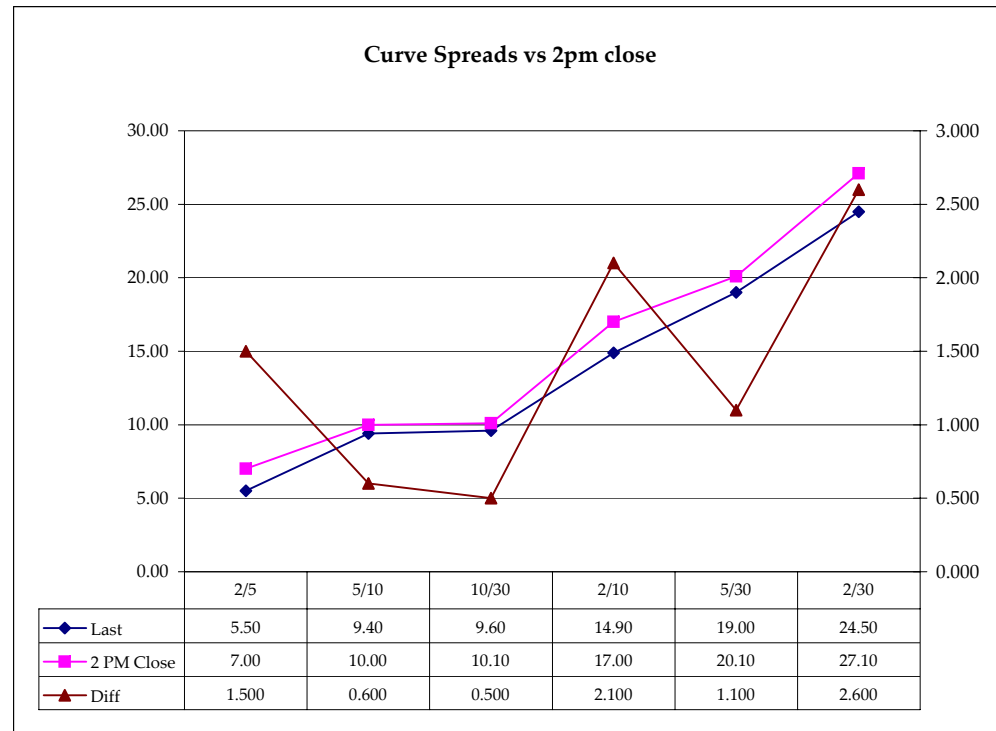
14:40 06/28 **US TSYS/FED:** Leveraged accounts are buying the front end Tsys, with some similar accounts selling 10s. One trader eyed the FOMC statement and said, "I think they will sell the curve (front end), and wait to see some housing numbers, and to see what the Fed says next." He noted choppy equities action as stocks zigzagged, and then added, "Be careful owning equities: if people can't get (LBO) deals done, that is not good for equities."

14:51 06/28 **US TSYS:** Foreign banks are selling the front end.

	M Duration	DV01 32	DV01 \$	CF
30y	15.03	4.58	\$1,430	
10y	7.78	2.39	\$747	
5y	4.38	1.39	\$436	
2y	1.99	0.63	\$195	
ZB	9.73	3.43	\$107	0.8285
ZN	5.75	1.95	\$61	0.8926
ZF	3.93	1.31	\$41	0.9540
ZT	1.85	1.20	\$38	0.9815

**Yield Curve Spreads**

	Last	2pm close	Diff
2/5	5.50	7.00	1.500
5/10	9.40	10.00	0.600
10/30	9.60	10.10	0.500
2/10	14.90	17.00	2.100
5/30	19.00	20.10	1.100
2/30	24.50	27.10	2.600



**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)	0.570	1.000	1.500	1.600
Shatz (U)	0.240	0.410	0.610	0.660

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.754	2.612	2.800
ZN	0.570		1.489	1.597
ZF	0.383	0.671		1.072
ZT	0.357	0.626	0.933	

## US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.75	4.07	6.98	13.36
ZN	3.07	7.14	12.24	23.43
ZF	4.58	10.64	18.24	34.90
ZT	4.91	11.40	19.55	37.42

## US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (U)	1.7	4.0	6.8	13.0
Bobl (U)	3.1	7.2	12.3	23.5
Shatz (U)	6.9	16.1	28.2	54.3

## US Treasuries

	2y	5y	10y	30y
2y		2.323	3.984	7.624
5y	0.430		1.715	3.282
10y	0.251	0.561		1.914
30y	0.131	0.293	0.522	

## Notes:

Bloomberg ratio's are static.

They are updated every week, or at auctions & rolls.

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.

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	99.2775	4.946	4.942	(0.004)		
5y	4.875	6/30/12	99.1225	5.016	4.997	(0.019)		12.49
10y	4.500	5/15/17	95.085	5.116	5.091	(0.025)		43.56
30y	4.750	2/15/37	92.32	5.217	5.187	(0.030)		144.52

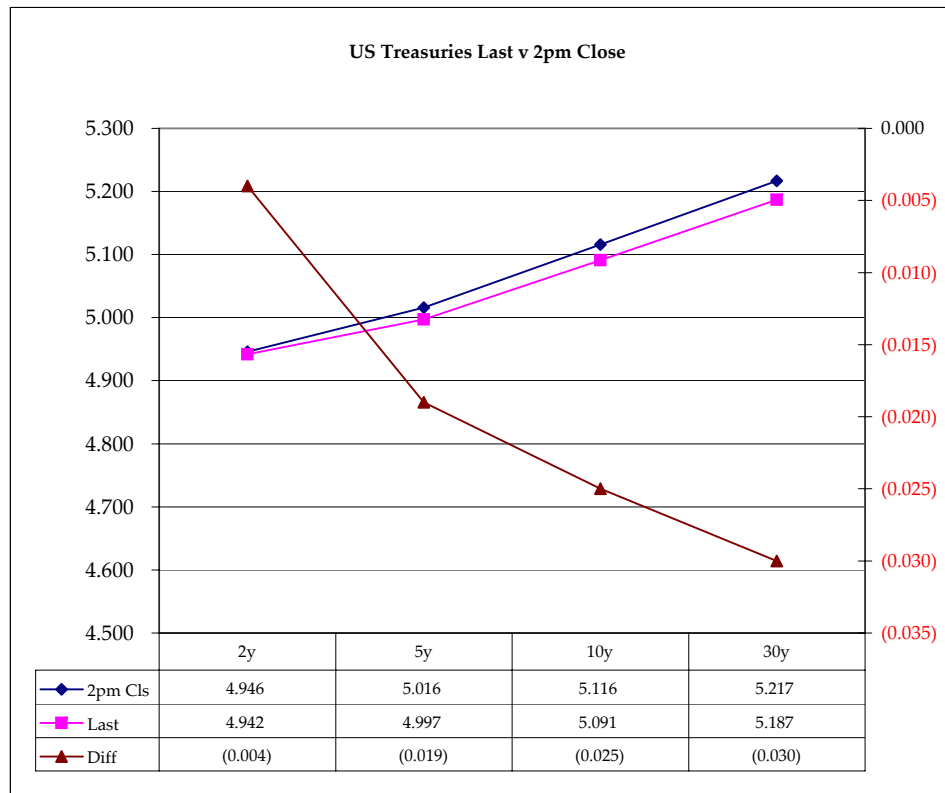
	Close 32
ZF	103.245
ZN	105.065
ZB	106.25

Curve Spreads

bps

2/5	7.0
5/10	10.0
10/30	10.1
2/10	17.0
5/30	20.1
2/30	27.1

Old 5 y  
99.045



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	90.5	69.0	56.9	-91.0	-83.6	-72.9	-50.5
5yr Yield	90.5	100.0	92.4	85.3	-93.1	-96.2	-93.0	-80.7
10yr Yield	69.0	92.4	100.0	97.0	-76.6	-89.6	-92.9	-93.3
30yr Yield	56.9	85.3	97.0	100.0	-67.1	-83.8	-92.0	-95.3
ZT	-91.0	-93.1	-76.6	-67.1	100.0	95.6	87.7	68.4
ZF	-83.6	-96.2	-89.6	-83.8	95.6	100.0	97.4	86.1
ZN	-72.9	-93.0	-92.9	-92.0	87.7	97.4	100.0	94.0
ZB	-50.5	-80.7	-93.3	-95.3	68.4	86.1	94.0	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	70.7	63.4	44.3	44.4	(65.4)	(56.6)	(54.4)	(32.7)
Dow Futures	72.7	64.7	44.1	44.2	(68.0)	(58.6)	(55.6)	(32.8)
USDJPY	31.1	58.4	65.9	71.4	(54.8)	(64.3)	(72.6)	(71.5)
EURUSD	(58.3)	(69.5)	(65.6)	(70.6)	60.4	65.2	69.4	62.8

**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	26%	54%	100%	
30	13%	27%	50%	130%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$195			
5	\$199	\$408		
10	\$195	\$400	\$737	
30	\$189	\$388	\$714	\$1,430
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	\$0	\$8		
30	\$6	\$20	\$22	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.67%			
10	0.23%	1.94%		
30	3.38%	5.13%	3.14%	

**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	1.96	3.80
ZF	0.48	1.00	1.80	3.49
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	2.09	3.77	7.32
5y	0.48	1.00	1.81	3.51
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	2.77
ZF	0.92	1.00	1.49	2.55
ZN	0.62	0.67	1.00	1.71
ZB	0.36	0.39	0.58	1.00

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



