5/18/2007 5:40

The Morning Email: Treasuries

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Want something added?
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Important Econ Releases, Highs & Lows

	Economic Releases - 32nds				
	5y*	10y*	ZNM7**	ZBM7**	Date
Non-farm High	99.283	99.015	108.090	111.30	5/4/2007
Non-farm Low	99.133	99.140	107.180	110.15	5/4/2007
FOMC High	99.268	100.000	108.075	111.24	5/9/2007
FOMC Low	99.195	99.115	107.305	111.08	5/9/2007
PPI High	99.135	98.105	107.195	110.23	4/13/2007
PPI Low	99.065	97.315	107.080	110.02	4/13/2007
CPI High	99.198	98.200	107.305	111.11	5/15/2007
CPI Low	99.118	98.070	107.185	110.21	5/15/2007
Auction Price	99.208	99.035			
Last Trade	99.080	98.015	107.130	110.16	5/18/2007 5:40

*Adjusted for New Issue
**Adjusted for Futures Roll
Prices are recorded from econ release to 2pm CDT
ZBH/ZBM Rolled at -2 tics
ZNH/ZNM Rolled at +.5 tics

	Auctions - 32nds			
	2 y	5y	10y	30y
Auction Price	99.256	99.208	99.035	98.194
Auction Yield Stop	4.606	4.579	4.612	4.838
Actual Auction Date	4/25/2007	4/26/2007	5/8/2007	5/11/2007

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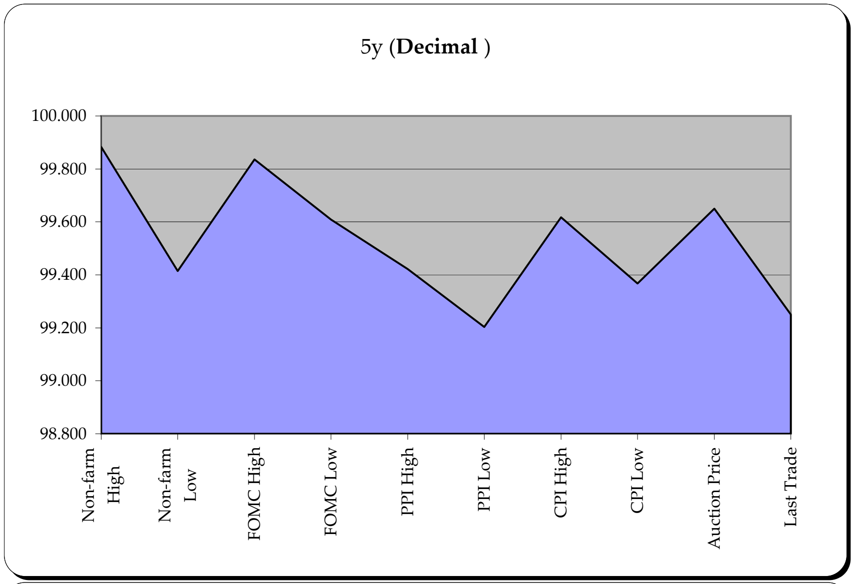

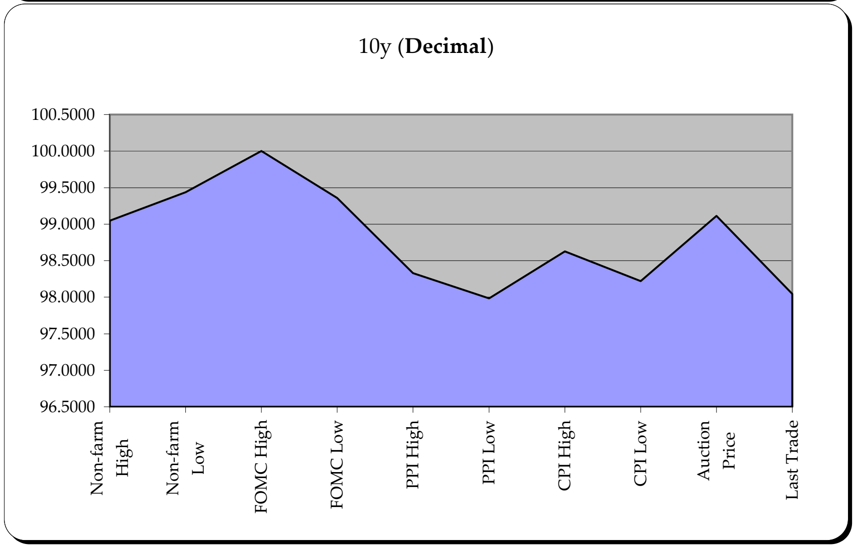

Quotes

	32 nds						
	ls	net	high	low	open	Volume	SYM NAME
TUAM7	102.007	0.5	102.015	102.002	102.002	17,047	2y Futures
FVAM7	105.025	0.5	105.045	105.020	105.020	38,914	5y Futures
TYAM7	107.130	1.0	107.150	107.115	107.120	118,822	10y Futures
USAM7	110.160	3	110.190	110.140	110.150	18,199	30y Futures
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	99.155	0.2	99.162	99.157	99.157	na	2y
BUS05P	99.075	0.5	99.092	99.077	99.080	na	5y
BUS10P	#VALUE!	2.5	98.035	98.005	98.005	na	10y
BUS30P	#VALUE!	5	97.200	97.155	97.180	na	30y
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.776	(0.30)	4.802	4.759	4.802	na	2y Yield
BUS05Y	4.671	(0.40)	4.682	4.661	4.682	na	5y Yield
BUS10Y	4.744	(1.00)	4.76	4.736	4.76	na	10y Yield
BUS30Y	4.907	(0.70)	4.916	4.899	4.916	na	30y Yield

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MarketNews international

News Recap for the United States

Yesterday

14:42 05/17 **US TSYS:** Tsys have faced a host of pressures today;
1) some shops citing better selling in 10Y, 5Y futures by macro funds and CTAs, while others cited some two-ways flows with some short-covering in 5Y, 10Y futures.
2) Some cited some pressures from a well-known West Coast investor in the longer-end of the curve, and in the Red Pack Eurodollar futures (2Y proxy) for several weeks.
3) Meanwhile this afternoon had seen further leveraged account selling, as some eyed apparent sell stops around 4.75% 10Y yield. Such accounts may have been "long and wrong," said one trader.
4) Some eyed T-bills; China had been rumored to have bought heavily in that area; so did other foreign central banks and leveraged accounts, who might have sold T-bills and bought intermediates this morning.
5) German Bunds meanwhile have their own selling pressures as some sell to ready for ECB rate hikes beyond just an expected June hike to 4%.

15:03 05/17 US EURODL/SWAPS: Spds finished session directionally wider in the intermediates to long end as Tsy ylds continued to rise. Spds were steady earlier. Sources reported swap receiving in the 2-year sector and interest in the 2-year/3-year steepeners via swaps--popular for several sessions, while a NY dealer bought 750 Red/Gold pack spds in first half. Additionally, light 2-way in the fronts to intermediates continued--partially deal related.

15:11 05/17 **Eurodlr Futures**: Eurodlr futures settled lower across the board, the curve stuck in flattener mode as the front end underperforms. The Red/Gold pack spd (Jun08-Mar09) vs (Jun11-Mar12) a 2s/10s proxy, was 0.875 bps flatter on at bell--off 1.50 bps lows. The Fronts (Jun07-Mar08), settled 0.25 to 6.0 bps lower, the Jun07 in 0.25 bps at 94-65 on combined Globex and pit volume of 132,000, the Sep07 in 1.5 bps at 94-72.5 on volume of 282,000, the Dec07 in 4.5 bps at 94-83 on volume of 451,000, while the Mar08 closed 6.0 bps higher at 94-95.5 on volume of 403,000. The Red pack (Jun08-Mar09) a 2yr proxy, settled 6.5 to 7.0 bps lower across the pack with 906,000 contracts traded.

News Recap for the United States

Overnight

06:26 05/18 **CHINA: PBOC** widens yuan-dollar trading band to 0.5% vs 0.3%, effective May21
06:39 05/18 **CHINA: PBOC**; Hikes one year deposit rate 27bp, lending rate by 18bp
06:38 05/18 **CHINA: PBOC**; Raises commercial banks' reserve requirement

05:04 05/18 **UST FLOWS:** Traders report Far East buyer of 3 and 5-year paper, and Asian real money accounts buying 10-year Notes to take advantage of yield at 4.75%. In cross-border flows, Bunds are outperforming against US Treasuries, amid unwinding of short Bund/long UST trades -- as the 10-year UST/Bund yield spread widens to +50.0 bps. This yield spread narrowed to +45 bps on Tuesday -- level not seen since November 5 2004.

06:34 05/18 **UST SUMMARY**: US Treasuries are trading higher on bargain-hunting on Friday after the benchmark 10-year Note hit 4.75%. Treasuries were higher across the board in Asia, helped by light dip-buying and short-covering from regional accounts. However, the upside was capped by offers in the belly of the curve from leveraged players. Traders report Far East buyer of 3 & 5-year paper, and Asian real money accounts buying 10-year Notes to take advantage of yield at 4.75%. Elsewhere, there was little impact in bond markets to news that China's PBOC has widened its trading band to 0.5% vs 0.3%, effective May 21. The move comes after the Chinese Yuan hits a new post revaluation high of Cny7.6680. In addition, this comes after widespread unsubstantiated rumors of a possible PBOC rate hike either tonight or this weekend. No comment from the PBOC so far. Traders noted that such rumors have been common on Fridays in recent weeks. Elsewhere, Bunds outperformed against UST, amid unwinding of short Bund/long UST trades -- 10-year UST/Bund yield spread +50.0bps.

MarketNews international

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""As before, **Bernanke** maintains that he does "not expect significant spillovers from the subprime market to the rest of the economy or to the financial system. The vast majority of mortgages, including even subprime mortgages, continue to perform well.""

Early Non-Farm Calls
(05/17/07 11:21:53): US DATA REACT: "We hear Goldman has a +150k est for may payrolls….Economists at Morgan Stanley say "Our preliminary forecast is for a 175,000 gain in nonfarm payrolls

US OUTLOOK: So far we are hearing ests of 52-55 for May mfg **ISM** (vs 54.7 in Apr) and +120k to +175k for May payrolls (vs +88k in Apr). Both
data sets are released on Jun 1st.

[A note on Core CPI]
Rounding and the Impact of News: A Simple Test of Market Rationality
Meredith Beechey and Jonathan H. Wright
Certain prominent scheduled macroeconomic news releases contain a rounded number on the first page of the release that is widely cited by newswires and the press and a more precise number in the text of the release. The whole release comes out at once. We propose a simple test of whether markets are paying attention to the rounded or unrounded numbers by studying the high-frequency market reaction to such news announcements. In the case of inflation releases, we find evidence that markets systematically ignore some of the information in the unrounded number. This is most pronounced for core CPI, a prominent release for which the rounding in the headline number is large relative to the information content of the release. **[email me for article: jgoulding@ghco.com]**

<u>Two-year Split FIFO/Pro-Rata trading algorithm</u>
On May 7, 2007, the Exchange [CBOT] implemented a Split FIFO/Pro-Rata trading algorithm for the outright Two-Year U.S. Treasury Note futures. The new algorithm was introduced based on feedback that a distribution algorithm which incorporates a significant blend of FIFO which is not strictly an allocation of residual tails from the initial Pro-Rata distribution would be a positive enhancement for the Two-Year U.S. Treasury Note contract. The CBOT has set the initial allocation percentage at 40% FIFO and 60% Pro-Rata. Market participants will be notified if these percentages are changed.

Duration, DV01s, Curve, Flys, CFs

	M Duration	DV01 32	DV01 $
30y	15.47	4.89	$1,528
10y	7.94	2.49	$779
5y	4.37	1.39	$435
2y	1.83	0.59	$183
ZB	9.71	3.49	$109
ZN	5.75	2.01	$63
ZF	3.80	1.29	$40
ZT	1.75	1.15	$36

Yield Curve Spreads

2/5	-10.50
5/10	7.30
2/10	-3.20
10/30	16.30
5/30	23.60
2/30	13.10

Fly's

2/5/10	-17.80
2/10/30	-19.50
5/10/30	-9.00

CF

ZB	0.8281
ZN	0.8904
ZF	0.9378
ZT	0.9742

Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

3) MDuration & DV01s for Futures are based on proxy issue (CTD)

Hedge Ratio's

US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (M)	1.000	1.800	2.700	3.000
Bobl (M)	0.540	0.950	1.500	1.600
Shatz (M)	0.220	0.390	0.600	0.660

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.740	2.703	3.031
ZN	0.575		1.553	1.742
ZF	0.370	0.644		1.000
ZT	0.330	0.574	0.892	

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	1.68	3.99	7.14	14.01
ZN	2.92	6.94	12.42	24.37
ZF	4.53	10.78	19.29	37.85
ZT	5.08	12.09	21.63	42.46

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (M)	1.7	3.9	6.9	13.9
Bobl (M)	3.1	7.3	13.0	26.1
Shatz (M)	7.6	18.0	31.9	64.2

US Treasuries

	2y	5y	10y	30y
2y		2.478	4.436	8.706
5y	0.420		1.790	3.513
10y	0.235	0.559		1.963
30y	0.120	0.285	0.510	

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	281,241	276,035	5,206	291,889	373,681	(81,792)	1,215,751	1,139,165	76,586	ZF
ZN	336,821	424,421	(87,600)	770,389	346,080	424,309	1,782,270	2,118,980	(336,710)	ZN
ZB	139,450	185,278	(45,828)	138,725	198,905	(60,180)	658,557	552,549	106,008	ZB

	WoW* Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	(937)	33,162	(32,226)	5/8/2007
ZN	33,725	17,104	(50,830)	
ZB	4,748	31,367	(36,115)	

**WoW = Week over week

Closes2pm

	Cpn	Mty	32nds	Yield
2y	4.500	3/31/09	99.1800	4.736
5y	4.500	4/30/12	99.1450	4.624
10y	4.500	5/15/17	98.115	4.708
30y	4.750	2/15/37	98.02	4.874

	CF Basis* (decimal)	GHCO Basis
5y	0.59	2.366
10y	2.65	9.917
30y	6.68	313.620

	32nds
ZF	105.0950
ZN	107.2200
ZB	110.30

Curve Spreads bps	
2/5	(0.112)
5/10	0.084
2/10	(0.028)
10/30	0.166
5/30	0.250
2/30	0.138

CF = Conversion Factor

Cash - (Futures * CF)

Correlations 1

	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
Symbol	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
2yr	100.0	98.6	91.4	96.7	99.6	97.9	98.2	97.9
5yr	98.6	100.0	88.4	97.7	99.1	99.4	99.6	98.7
10yr	91.4	88.4	100.0	94.0	90.8	87.4	89.3	93.3
30yr	96.7	97.7	94.0	100.0	96.8	96.7	97.7	99.2
ZT	99.6	99.1	90.8	96.8	100.0	99.1	99.2	98.5
ZF	97.9	99.4	87.4	96.7	99.1	100.0	99.8	98.6
ZN	98.2	99.6	89.3	97.7	99.2	99.8	100.0	99.2
ZB	97.9	98.7	93.3	99.2	98.5	98.6	99.2	100.0

Correlation is based on 10 day historical

	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
Symbol	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
emini SP	(45.9)	(48.1)	(17.7)	(35.5)	(44.2)	(45.2)	(44.1)	(36.0)
Dow Futures	(85.6)	(90.3)	(69.9)	(85.4)	(86.0)	(88.9)	(89.0)	(85.4)
USDJPY	(86.6)	(90.3)	(68.9)	(85.8)	(88.6)	(91.4)	(90.5)	(86.4)
EURUSD	43.7	39.0	52.1	48.3	44.2	42.4	42.4	46.1

Based on yields

	US Cash Treasuries (yield)				US Bonds/Notes (CBOT)				[jims notes]	
Symbol	2yr yield	5yr yield	10yr yield	30yr yield	ZT	ZF	ZN	ZB	yield	price
2/5	69.4								[q47]	[q38]
2/10	24.2		This matrix is under construction						[q45]	[q39]
2/30	12.3								[q46]	[q41]
5/10	(83.9)								[q48]	[q40]
5/30	(51.8)								[q49]	[q42]
10/30	(19.2)								[q44]	[q43]

Correlation is based on 10 day historical

Spreads calculated as follows: Example, 2/5 = 5yr yield minus 2yr yield

Correlations 2

Symbol	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB	[jims notes]
	US Cash Treasuries (price)				US Bonds/Notes (CBOT)				
NOB 1^	74.1	67.9	94.1	77.6	72.5	66.3	69.1	75.5	[Q1]
FYT ^^									[Q50]

^NOB 1: (BUS10P-(USA*.7))*32

^^ FYT: ((FVAM7*1.5)-TYAM)

Notes

1) Correlation is based on 10 day historical

2) All contracts electronic

3) CQG quotes in 32nds, not decimal