

## The Morning Email: Treasuries



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	Economic Releases - 32nds				Date
	5y*	10y*	ZNM7**	ZBM7**	
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	98.207	97.045	106.190	109.08	5/30/2007 5:51

\*Adjusted for New Issue

\*\*Adjusted for Futures Roll

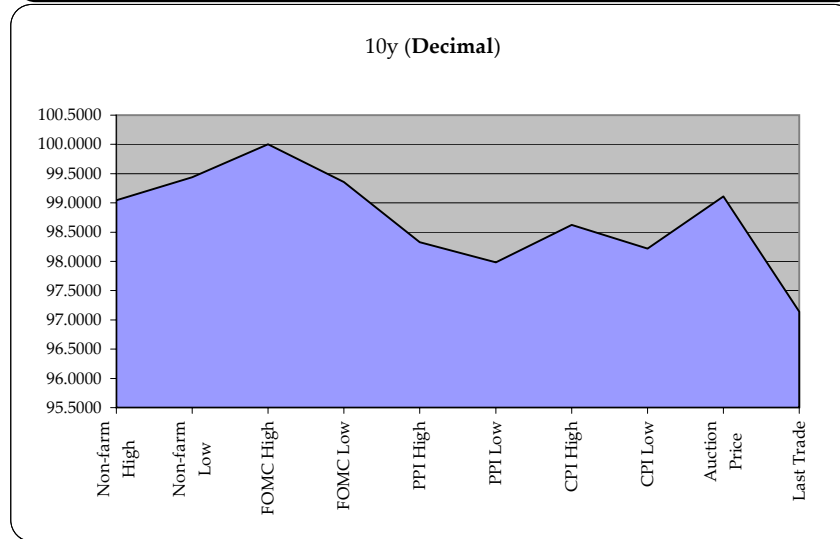
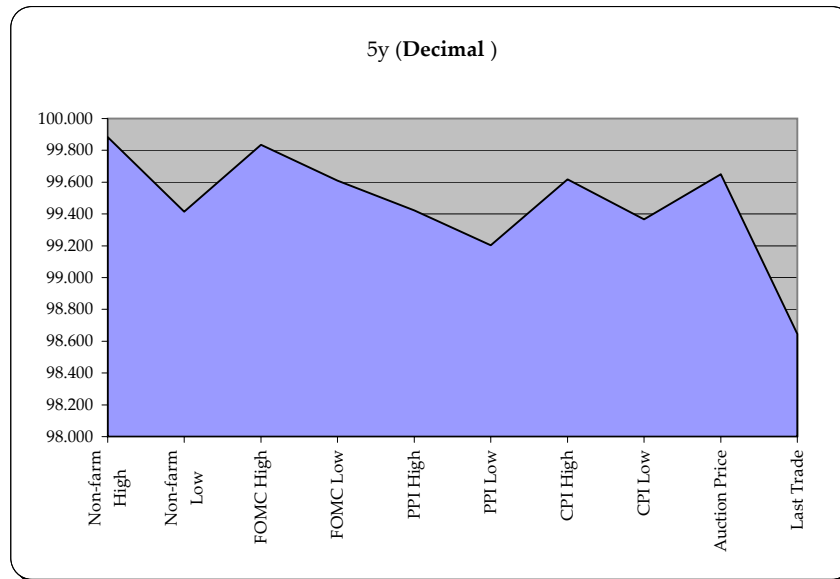
Prices are recorded from econ release to 2pm CDT

ZBH/ZBM Rolled at -2 tics

ZNH/ZNM Rolled at +.5 tics

	Auctions - 32nds			
	2 y	5y	10y	30y
Auction Price	99.313	99.208	99.035	98.194
Auction Yield Stop	4.886	4.579	4.612	4.838
Actual Auction Date	5/29/2007	4/26/2007	5/8/2007	5/11/2007 r

r = reopen



## Quotes

32 nds							
	ls	net	high	low	open	Volume	SYM NAME
TUAM7	101.270	0.7	101.277	101.260	101.260	29,204	2y Futures
FVAM7	104.170	2.5	104.190	104.140	104.145	64,309	5y Futures
TYAM7	106.190	3.0	106.215	106.150	106.150	157,469	10y Futures
USAM7	109.080	4	109.110	109.010	109.010	40,697	30y Futures
	ls	net	high	low	open	Volume	SYM NAME
BUS02P	100.005	23.2	100.010	100.000	100.000	na	2y
BUS05P	98.205	2.7	98.220	98.177	98.180	na	5y
BUS10P	97.045	5.0	97.065	97.000	97.000	na	10y
BUS30P	96.040	8	96.085	96.000	96.000	na	30y
	ls	net	high	low	open	Volume	SYM NAME
BUS02Y	4.863	(2.00)	4.905	4.851	4.905	na	2y Yield
BUS05Y	4.812	(1.80)	4.842	4.799	4.842	na	5y Yield
BUS10Y	4.863	(1.70)	4.89	4.853	4.89	na	10y Yield
BUS30Y	4.999	(1.70)	5.023	4.991	5.02	na	30y Yield



## News Recap for the United States

### Yesterday

15:23 05/29 **US TSYS/RECAP:** Tsys dipped Tues. amid 1) a weak US\$18B 2Y sale (22.9% indirects); 2) weak German Bunds and JGBS too; but also got small boost off lows amid some weak U.S. stocks, with some citing also China stamp duty hike to take effect Wed. as hurting stocks, helping Tsys, though others eyed weaker oil as hurting US stocks. 4) MBS sources say In addition to Asian MBS buying earlier, there too was some fast money buying today. But, limited followthrough and some servicer MBS selling to shed duration led to wider spds. Originatn estimated \$500M-\$1B. 5) Light Asian bid in US Tsys; if returns, could mark mkt bottom. 6) Was earlier pre-2Y-auction short-setting, overnight JGB pressure (strong data, Nikkei gain), Bund weakness, ECB comments.) 7) Tsys a.m. better selling in belly; buy-and-hold, banks sold 2Ys, lvrgd accts sold 5Ys; butterflies too; buy-&-hold, intl entities bought belly; 8) June Bund futures hit new low below 112.18; 10Y Bunds well over 4.4%; buying Tsys/selling 10Y Bund. 9) Some mull mo-end Tsys buy time; Lehman Tsy +0.22 yrs.

15:07 05/29 **US EURODLR/SWAPS:** Spds finished session mixed, tighter in the front end despite front end paying, and directionally wider out the curve. Sources reported modest front end paying in 1-, 2- and 3-year proxies, a "fairly muted response to expectations of more corporate supply," one trader said, while others noted some MBS-tied paying in 30s later in the morning.

15:15 05/29 **Eurodlr Futures:** Eurodlr futures settled lower while the curve continued to flatten as the front end lagged--odds of ease 0% for '07. The Red/Gold pack spd (Jun08-Mar09) vs (Jun11-Mar12) a 2s/10s proxy, contracted 2.25 bps at 29.875. The Fronts (Jun07-Mar08), settled 0.25 to 4.0 bps lower, the Jun07 in 0.25 bps at 94-64 on combined Globex and pit volume of 97,000, the Sep07 in 1.50 bps at 94-67.5 on volume of 185,000, the Dec07 in 3.0 bps at 94-74.5 on volume of 298,000, while the Mar08 closed 4.0 bps lower at 94-83 on volume of 322,000. The Red pack (Jun08-Mar09) a 2yr proxy, settled 5.0 bps lower across the pack with 611,000 contracts traded.

## News Recap for the United States

### Overnight

05:20 05/30 **TSYS: Treasuries** are trading higher across the board in London Wednesday, as the weaker Chinese stockmarkets prompted a safe-haven bid for global debt markets. Rattled by the Chinese governments decision to triple stamp duty costs on share transactions, the Shanghai Composite Index fell 6.5%. Treasuries were better bid from the getgo in Tokyo, and held their bid through the session as regional stocks were weighed by the China market sell-off. Additionally, Chinese accounts were better buyers of the longer-end of the curve ahead of the month end. The market remained well bid through the London session, with the Chinese worries still underpinning. But the duration extension trades continued to offer additional support. The belly of the curve also saw good demand from leveraged accounts, although hedge selling by primary dealers ahead of the auction capped the upside. Bunds are trading 0.5 bps lower against US 10-year T-notes, standing at 54 bps. Ahead of the U.S. session, the 2-yr note trading at 4.85% and the 10-yr note was at 4.86%.



**NFP** - Median Est are for +135k  
 Range: +45k to +175k  
 AHE: +.3  
 URate: 4.5

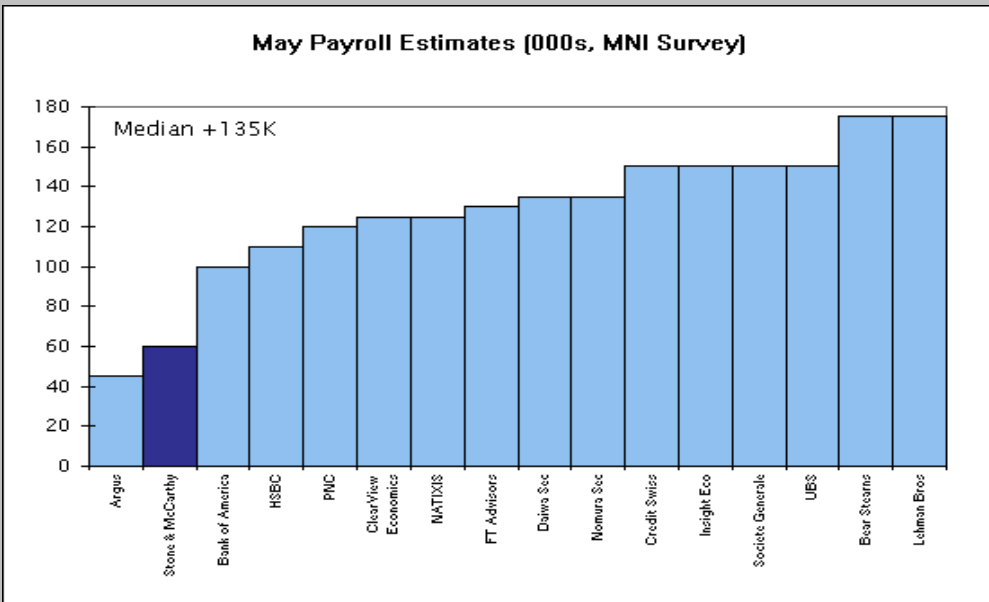
Earl Spencer (05/29/07 08:31:18):  
**US TSYS/LEHMAN:** The very latest estimate from Lehman Bros shows U.S. Tsy index at +0.22 yrs so heavy month-end buying in Tsys at some point could show up.

**FOMC minutes** from May 9 meeting will be released at 2pm ET Weds. They will expound on the themes in the short statement - that "economic growth slowed in the first part of this year and the adjustment in the housing sector is ongoing" and "core inflation remains somewhat elevated." Street will be looking at the minutes to see if there is a level for inflation that we should be targeting.

**SMRA UNEMP, NFP & AHE FORECAST**  
 NFP: +60,000  
 AHE: +.3  
 URate: 4.5  
 "How Have Forecasters Done in Predicting May Payrolls? Over the past 11 years the standard error of the median May payroll forecast was 82,000, about the same as the average standard error for all months."

10:50 05/29 **US TSYS/CHINA/RESEARCH:** **RBS** Greenwich Capital bond strategists noted that "we acknowledge the great fear that China will be a diminished buyer of US debt in favor of equity" and added that "it's possible, even likely." But they also believed that "to that, we need to point out that there will be fewer Treasuries around, offsetting some of the reduced buying potential. How's that? The deficit this year, estimated at -\$148 bn, will be \$61bn less than last year, \$174 bn less than the year before, and \$263 bn less than 2004."

Earl Spencer (05/29/07 12:40:12) : **CHINA:** Reuters reports that China will raise the stock trading stamp to 0.3% from 0.1% starting Wednesday. A People's Daily report reminds that China imposed a 0.6 percent stamp tax on stock transactions when its stock markets were created since 1990. The tax rate has since been adjusted in both direction at various times. The Shanghai Composite Index (both A & B shares) closed at 4,334.92, a record high close, with the index hitting a record high of 4,335.96 earlier. At the close, the Shanghai Index is up 62% y-t-d. Only last week, China's MOF maintained that the stamp tax would not be raised in the near-term. Analysts however have maintained that a higher stamp tax would help to cool overheated gains in Chinese stocks.



## Duration, DV01s, Curve, Flys, CFs

	M Duration	DV01 32	DV01 \$
30y	15.33	4.78	\$1,495
10y	7.89	2.46	\$768
5y	4.34	1.38	\$430
2y	1.81	0.58	\$180
ZB	9.64	3.43	\$107
ZN	5.72	1.98	\$62
ZF	3.77	1.28	\$40
ZT	1.73	1.13	\$35

## Yield Curve Spreads

2/5	-5.10
5/10	5.10
2/10	0.00
10/30	13.60
5/30	18.70
2/30	13.60

## Fly's

2/5/10	-10.20
2/10/30	-13.60
5/10/30	-8.50

## 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)

## 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		1.731	2.688	3.026
ZN	0.578		1.553	1.748
ZF	0.372	0.644		1.000
ZT	0.331	0.572	0.889	

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	4.01	7.17	13.95
ZN	2.91	6.94	12.40	24.13
ZF	4.52	10.78	19.27	37.49
ZT	5.08	12.13	21.68	42.19

## 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		2.488	4.447	8.652
5y	0.419		1.788	3.478
10y	0.234	0.559		1.946
30y	0.121	0.288	0.514	

## Commitment of Traders (COT)

Current Positions										
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	248,484	277,116	(28,632)	199,225	364,635	(165,410)	1,286,243	1,092,201	194,042	ZF
ZN	280,920	394,519	(113,599)	811,779	457,750	354,029	2,092,227	2,332,657	(240,430)	ZN
ZB	149,957	209,092	(59,135)	127,264	243,423	(116,159)	780,987	605,693	175,294	ZB

WoW* Position Change				
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	(23,120)	(36,536)	59,656	5/22/2007
ZN	(22,513)	(66,906)	89,420	
ZB	(16,876)	(19,415)	36,290	

\*\*WoW = Week over week

	Cpn	Mty	32nds	Yield
2y	4.500	5/31/09	99.0925	4.893
5y	4.500	4/30/12	98.1875	4.826
10y	4.500	5/15/17	97.005	4.882
30y	4.750	2/15/37	95.31	5.013

	CF Basis* (decimal)	GHCO Basis		32nds
5y	(0.42)	-0.373	ZF	105.1500
10y	2.48	1.516	ZN	106.1600
30y	5.02	293.065	ZB	109.03

## Curve Spreads bps

2/5	(0.067)
5/10	0.056
2/10	(0.011)
10/30	0.131
5/30	0.187
2/30	0.120

	Cpn	Mty	32nds	Yield
New 2yr	4.875	5/31/09	99.3150	4.883
New 5yr				

CF = Conversion Factor

Cash - (Futures \* CF)

**Correlations**

All correlations based on 10 day historical

Symbol	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
2yr	100.0	0.4	5.1	11.4	-0.7	0.3	4.7	8.5
5yr	0.4	100.0	99.6	97.9	99.5	99.8	99.1	97.7
10yr	5.1	99.6	100.0	99.4	98.9	99.6	99.7	99.1
30yr	11.4	97.9	99.4	100.0	97.0	98.2	99.3	99.6
ZT	-0.7	99.5	98.9	97.0	100.0	99.5	98.5	96.7
ZF	0.3	99.8	99.6	98.2	99.5	100.0	99.5	98.3
ZN	4.7	99.1	99.7	99.3	98.5	99.5	100.0	99.6
ZB	8.5	97.7	99.1	99.6	96.7	98.3	99.6	100.0

Symbol	US Cash Treasuries (price)				US Bonds/Notes (CBOT)			
	2yr	5yr	10yr	30yr	ZT	ZF	ZN	ZB
emini SP	(31.5)	2.4	0.7	(2.6)	(0.1)	5.4	3.2	3.2
Dow Futures	(40.0)	6.1	4.5	1.3	4.4	9.3	7.9	8.3
USDJPY	1.3	(86.6)	(86.8)	(85.8)	(86.1)	(86.3)	(86.4)	(86.5)
EURUSD	(17.3)	84.9	83.8	81.8	83.4	85.1	85.4	85.5





