

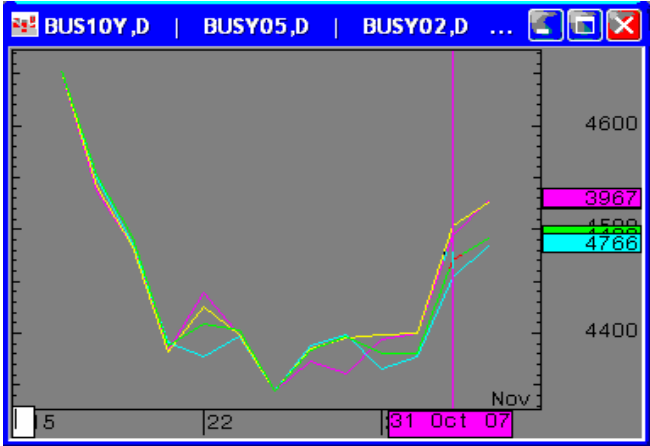


The Morning Email: Treasuries

Table of Contents

- Pg 1 Important Econ Releases, Highs & Lows
- Pg 2 Quotes New: Key Rates Matrix
- Pg 3 News: Yesterday & Overnight Recap for the United States
- Pg 4 News: Snapshots throughout the day
- Pg 5 Duration, DV01s, Curve Spreads, CF
- Pg 6 Hedge Ratio's
- Pg 7 Commitment of Traders (COT)
- Pg 8 Closes: 2pm CST vs this Morning
- Pg 9 Cash Duration Matrix
- Pg 10 Tic for Tic & Box for Box Matrix
- Pg 11 Fed Funds Probability of Tightening or Easing
- Pg 12 Valuing the Basis NEW

Daily Yield Curve



Source: CQG, Inc. © 2007 Thu Nov 01 2007 05:30:56

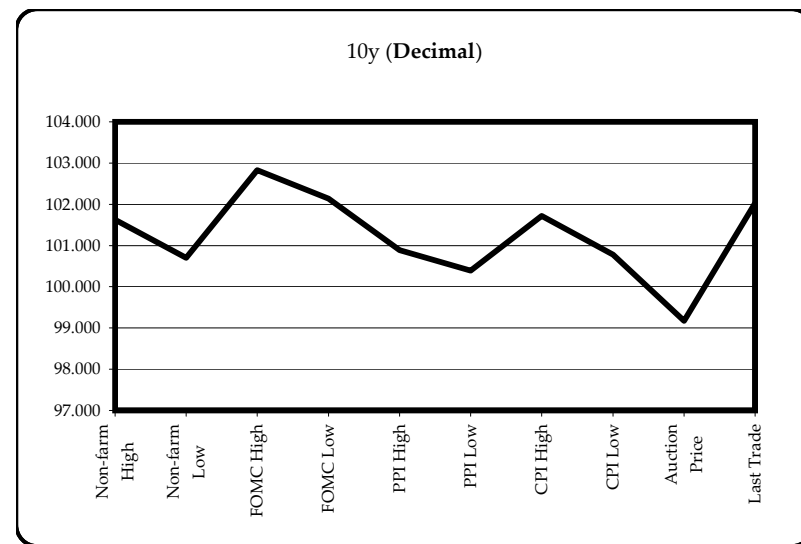
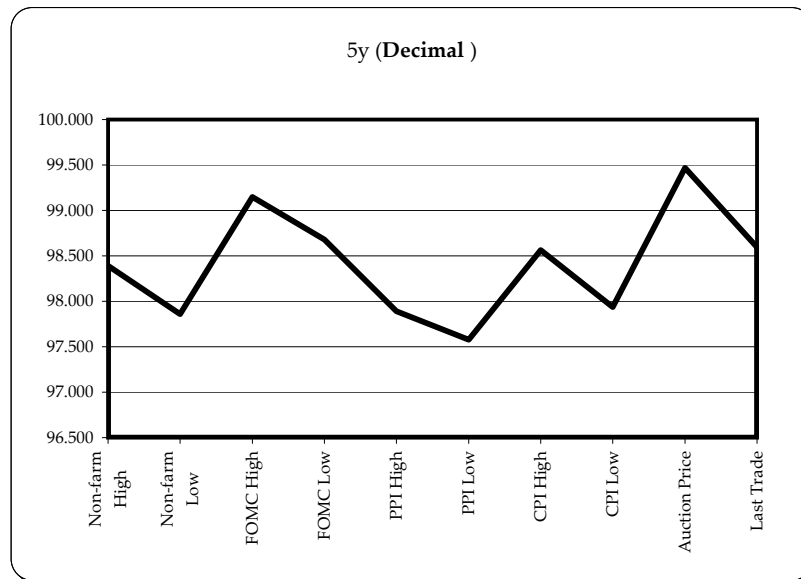


Want something added? Let me know: jgoulding@ghco.com

Disclaimer: All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	98.1250	101.200	109.160	111.30	10/5/2007
Non-farm Low	97.2750	100.225	108.210	110.15	10/5/2007
FOMC High	99.0475	102.265	110.190	113.19	10/31/2007
FOMC Low	98.2175	102.045	109.305	112.17	10/31/2007
PPI High	97.2850	100.285	108.260	110.31	10/12/2007
PPI Low	97.1850	100.125	108.120	110.05	10/12/2007
CPI High	98.1800	101.230	109.220	111.27	10/17/2007
CPI Low	97.3000	100.250	108.260	110.15	10/17/2007
Auction Price	99.1504	99.056			
Last Trade	98.1900	102.010	109.270	112.13	11/1/2007 5:53

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.260	99.150	99.056	99.026
Auction Yield Stop	3.723	3.993	4.855	5.059
Actual Auction Date	10/24/2007	10/25/2007	8/8/2007	8/9/2007



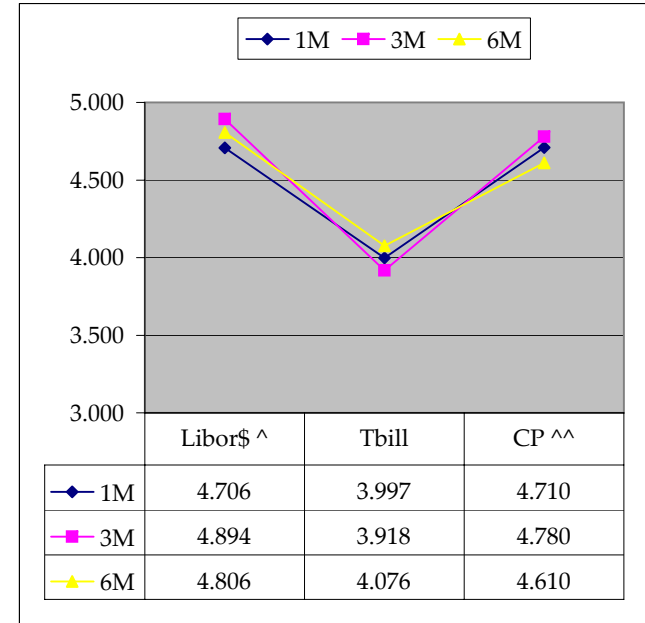
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	103.152	(0.0)	103.162	103.140	103.162	34,036	2y Fut
FVAZ7	107.075	(0.0)	107.100	107.050	107.100	82,826	5y Fut
TYAZ7	109.270	(0.1)	109.305	109.235	109.300	148,042	10y Fut
USAZ7	112.130	(0)	112.190	112.070	112.190	23,905	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.112	(1.0)	99.120	99.105	99.115	na	2y Cash
BUS05P	98.187	(2.7)	98.200	98.165	98.197	na	5y Cash
BUS10P	102.005	(5.5)	102.035	101.285	102.025	na	10y Cash
BUS30P	103.220	(10)	103.285	103.140	103.270	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.959	3.40	3.984	3.926	3.959	na	2y Yield
BUS05Y	4.189	2.00	4.211	4.157	4.173	na	5y Yield
BUS10Y	4.490	1.90	4.512	4.463	4.473	na	10y Yield
BUS30Y	4.764	2.30	4.782	4.744	4.748	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.706	3.997	4.710
3M	4.894	3.918	4.780
6M	4.806	4.076	4.610

	Libor\$ ^	Repos
0/N	5.006	4.750
1week	4.714	4.550
2week	4.709	4.500

	TSY	Swap	ED Pks ^^
2y	3.967	63.75	4.574
5y	4.192	65.50	
10y	4.492	63.75	



Notes

^Quoted in US Dollars
 ^^CP = Commercial Paper
 ^^ED Pks are colored for pack identifications. Example, the red pack is a 2-yr proxy and is colored red.
 Lastly, SYM = Symbol

**All times Eastern****Yesterday:**

15:37 10/31 **US TSYS/RECAP:** US Tsys slide after FOMC cuts U.S. fed funds, discount rates but fails to give hoped-for soothing language, instead cited inflation concern. After, accounts rushed to unwind recently crowded - steepeners - but not all could get done at once, so a few waves of steepener unwind, amid choppy post-Fed curve action. As US\$ dollar sank after Fed action, there also was Japanese selling in US Tsy intermediates, with others citing carry trade unwinds. But there also were intermediate buyers in slide, curve flatteners too. Morning had mixed flow, data: +108K ADP Oct private payrolls, 3Q 3.9% GDP & 1.8% 3Q core PCE px deflator; 0.3% Sept constructn spendg; weaker 49.7 Oct Chic Purchasers, caution as Chic prices-pd 74.7 Oct. Morn 2-way flow: fast money bid in US front end, 2s; Street bid in 5s; tech buying in 10Y cash, futures; profit-taking by fast money and banks in Tsys, heavy Bund selling by lvgd accts, US 2/10Y Tsy steepeners. T-bills bid PIMCO's Gross expects 3%-3.5% funds tgt (Bbg.)Fed Chair Bernanke at JEC Nov 8.

15:13 10/31 **US EURODLR FUTURES:** Eurodlr futues finished session sharply lower across the board as Fed rate cut spurred curve steepener unwinds. On the bell, the Red/Gold pack spd was 5.0 bps flatter at 83.5. In the Fronts (Dec07-Sep08), the Dec07 was in 5.0 bps at 95-25 on combined Globex and pit volume of 355,000, the Mar08 in 11.0 bps at 95-50.5 on volume of 365,000, the Jun08 in 13.0 bps at 95-62 on volume of 427,000, while the Sep08 contract was 14.0 bps lower at 95-69 on volume of 424,000. The 2yr proxy Red pack (Dec08-Sep09), settled 13.0 to 13.5 bps lower across the pack with 785,000 contracts traded.

15:04 10/31 **US SWAPS:** Spds ended the session tighter in the front end, 2s/10s spd of spd near even as long end spds were steady to wider on the bell. Eurodollar sources reported slightly better receiver interest in the fronts to intermediates interspersed by some sporadic payers in the first half as Treasuries moved off early lows. Treasury sources, on the other hand, reported some steepener interest south of 10s, in 2s/5s and 3s/7s as well as some flow in the 2/5/10 swap fly. "Otherwise, fairly quiet," one swap desk reported. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-0.75/64.00	+0.00/65.75	+0.00/63.75	+0.75/60.75
2:20	-0.75/64.00	-0.25/65.50	+0.00/63.75	+0.50/60.50
12:00	-0.25/64.50	-0.50/65.25	-0.25/63.50	+0.00/60.00
10:55	+0.00/64.75	-0.50/65.25	-0.50/63.25	-0.25/59.75
9:00	-0.75/64.00	-0.75/65.00	-0.50/63.25	-0.50/59.50
Wed Open	-0.50/64.25	-0.75/65.00	-0.75/63.00	-0.75/59.25
Tue 3:00	+0.25/64.75	+0.50/65.75	+1.00/63.75	+1.00/60.00

(cont)

Overnight:

06:09 11/01 **TSYS:** Treasuries are trading lower across the curve Thursday, as follow-through selling from European accounts helped extend overnight losses. Traders said the overnight rate move by the Federal Reserve, along with the statement, was weighing on the market. Although the Fed met market expectations with a 25 bps cut in the Federal Funds rate, the accompanying statement appeared to play down chances of further cuts this year. Prices were lower from the getgo in Tokyo trade, with the front of the curve initially leading the way lower. The long-end of the curve found initial support, helped by late duration weighted demand from life and pension funds. However, prices accelerated lower across the curve as European trade opened, as Continental debt markets all headed lower. However, traders said overall volumes were muted, with flows again largely interdealer.

06:09 11/01 **TSYS: (2)**Real money names were early sellers of the 2-year note, playing catch-up with the overnight falls. Leveraged accounts were early sellers of the 10-year note, although there was some intraday profit-taking seen late in the morning session. The Bund/T-note spread was little changed on overnight levels, standing at 23 bps. Ahead of the U.S. session, the 2-yr note was trading 1/32 lower at 99 11/32 to yield 3.96%. The 10-yr note was 4/32 lower at 102 1/32 (4.49%), with the Bond 8/32 lower at 103 25/32 (4.76%). The 2-yr/5-yr yield curve was 1 bps steeper on Tuesday's levels, trading at +23 bps. The 2-/10-yr curve was unchanged, trading at +53 bps, as was the 2-yr/30-yr curve, standing at +80 bps.

04:35 11/01 **FED FUNDS:** The market and Fed watchers took the view that the Fed will be reluctant to cut the key Fed funds rate again, given the continued rise in crude oil prices to fresh record highs. In addition, the Fed's favorite inflation gauge -- the core price index for personal consumption expenditures -- was reported up 1.8% in the third quarter after rising 1.4% in the second quarter. And the prices paid component of the Chicago purchasing managers index was up very sharply. "Federal Reserve policymakers fulfilled Wall Street hopes and cut key short-term interest rates for the second time in six weeks, but they withheld judgment on whether further rate cuts will be needed", wrote MNI's Steve Beckner. The Fed funds futures market is now pricing in 30% chance of another 25bps rate cut at the December 11 FOMC meeting. Beyond that, prices get dicey and liquidity thinned, but ongoing easing in Q2 are still being reflected in the strip.




14:15 10/31 **FED: FOMC** cut Fed funds target 25 bp to 4.5% and Fed cut DR 25 to 5%, citing on-going mkt strains and says now up infl/down growth risks are roughly balanced (ie bias is neutral). Says "some inflation risks remain" and Fed will continue to monitor carefully. Vote was 9-1, with KC's Hoenig dissenting for no change. NY, Richmond, Atl, Chi, St Louis, Sf Banks asked for DR cut. Fed says 'pace of econ expansion will likely slow in the near-term, partly refl. the intensification of hsg correction.'

[FED React]

14:25 10/31 **US TSYS:** Jeffries' U.S. Treasury bond strategist John Spinello said that the Fed "came out with a balanced bias toward inflation and economic growth" whereas "in the last meeting, economic growth was the main concern. They are probably not opening the door right now to a succession of rate cuts."

14:42 10/31 **FED REACT:** Max Bublitz, Chief Strategist at SCM Advisors says mkts are struggling to interpret what the Fed was trying to accomplish. "The initial hang-up seems to revolve around the notion that risks between inflation and growth are balanced. It seems the market is less concerned about inflation than the Fed... There is plenty of time until the next meeting to measure the data and gauge an appropriate response. All they accomplished is buying more time and tossing a bone to the bond vigilantes." He expects more rate cuts.

14:36 10/31 **FED REACT:** Ian Shepherdson at HFE says "a significant minority of investors were looking for 50 (cut) and/or a clear signal of more eases ahead. They got neither; the statement says that 'after this action, the upside risks to inflation roughly balance the downside risks to growth'. In other words, unless the incoming data signal a net increase in downside growth risk, they think they're done." But his forecast is for slow holiday sales and more Fed ease.

"Assuming Government **payrolls** retreat by around 15,000 owing to the reversal of an usually strong gain in State Government (educational) payrolls in September, the ADP sample base estimate would be consistent with an October payroll outcome of +80,000, almost identical to the market consensus, but well above the SMRA estimate of +10,000." Raymond Stone, stone@smra.com

--Stone & McCarthy (Princeton)-- The **Chicago PMA** index fell abruptly, dropping below the break-even 50 threshold to 49.7 in October from 54.2 in September. While the October index was sharply below the median consensus estimate of 53.0, it was not a surprise to us as we were forecasting a very weak index level of 50.1 for the month.

[...] So what do we expect for the October ISM index? We'll stick with our original forecast, which is for the ISM index to drop to 50.6 in October from 52.0 in September. --Ken Kim

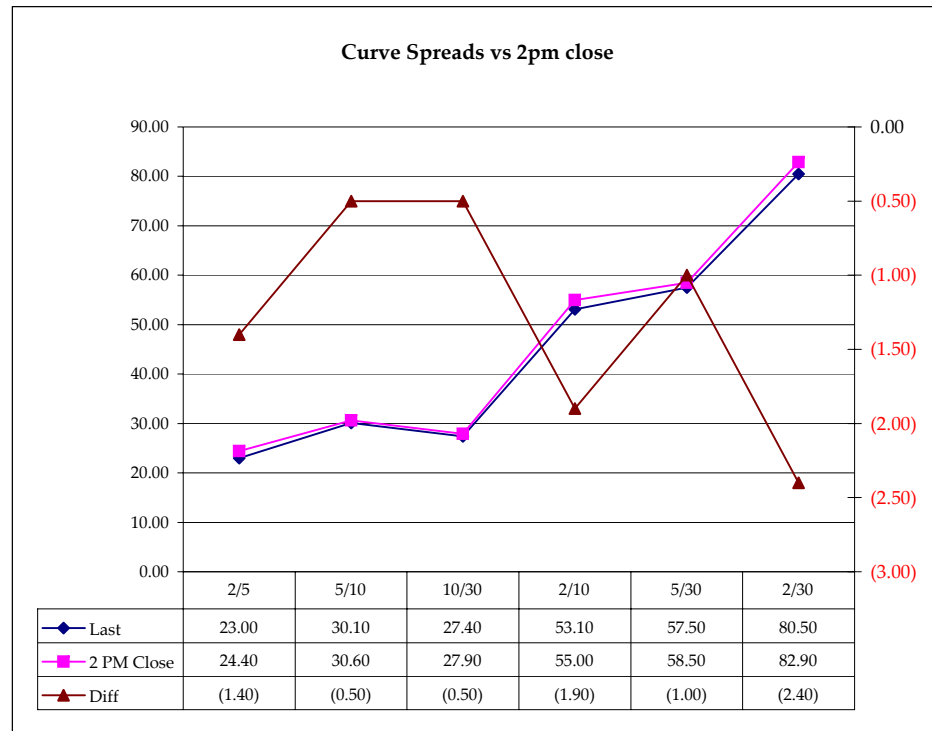
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.51	5.20	\$1,626	10.40	n/a
10y	7.71	2.54	\$795	5.09	n/a
5y	4.49	1.42	\$443	5.67	n/a
2y	1.91	0.62	\$193	2.47	n/a
ZB	9.85	3.60	\$112	3.60	1.1103
ZN	5.79	2.06	\$64	4.11	0.9069
ZF	3.87	1.34	\$42	2.68	0.9119
ZT	1.82	0.60	\$19	2.41	0.9593

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	23.00	24.40	(1.40)
5/10	30.10	30.60	(0.50)
10/30	27.40	27.90	(0.50)
2/10	53.10	55.00	(1.90)
5/30	57.50	58.50	(1.00)
2/30	80.50	82.90	(2.40)

DV01 32, said differently, is "how many TICS is in a basis point?".

Example, If ZN moves 1~basis point, then, it's moved 2.08 tics (Today, 10/25/07, the value in the box is 2.08).

Since ZN trades in half tics, then, 4.17 boxes = 1 basis point in ZN. (Again, today, 10/25/07, the value in the box is 4.17). Of course the values will be different as you look at this. But, they won't be that much different. So, I think you can get the idea I'm trying to get across.



Notes

CF = Conversion Factor

MDuration = Modified Macaulay Duration

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

DV01 Box = Dollar Value of 1 basis point move per Box

US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (Z)	1.000	1.700	2.700	3.000
Bobl (Z)	0.550	0.970	1.450	1.570
Shatz (Z)	0.230	0.400	0.620	0.680

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.71	3.94	7.07	14.47
ZN	3.00	6.90	12.37	25.31
ZF	4.61	10.60	19.01	38.89
ZT	5.11	11.74	21.06	43.09

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.749	2.688	5.957
ZN	0.000		1.537	3.405
ZF	0.372	0.651		2.216
ZT	0.168	0.294	0.451	

US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (Z)	1.7	3.9	7.1	14.3
Bobl (Z)	3.1	7.1	12.8	25.8
Shatz (Z)	7.8	15.9	28.8	58.1

Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.7	4.0
Bobl (Z)	0.6	1.0	2.4
Shatz (Z)	0.2	0.4	1.0

US Treasuries

	2y	5y	10y	30y
2y		2.298	4.123	8.436
5y	0.435		1.794	3.671
10y	0.243	0.557		2.046
30y	0.119	0.272	0.489	

Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

Commitment of Traders (COT)

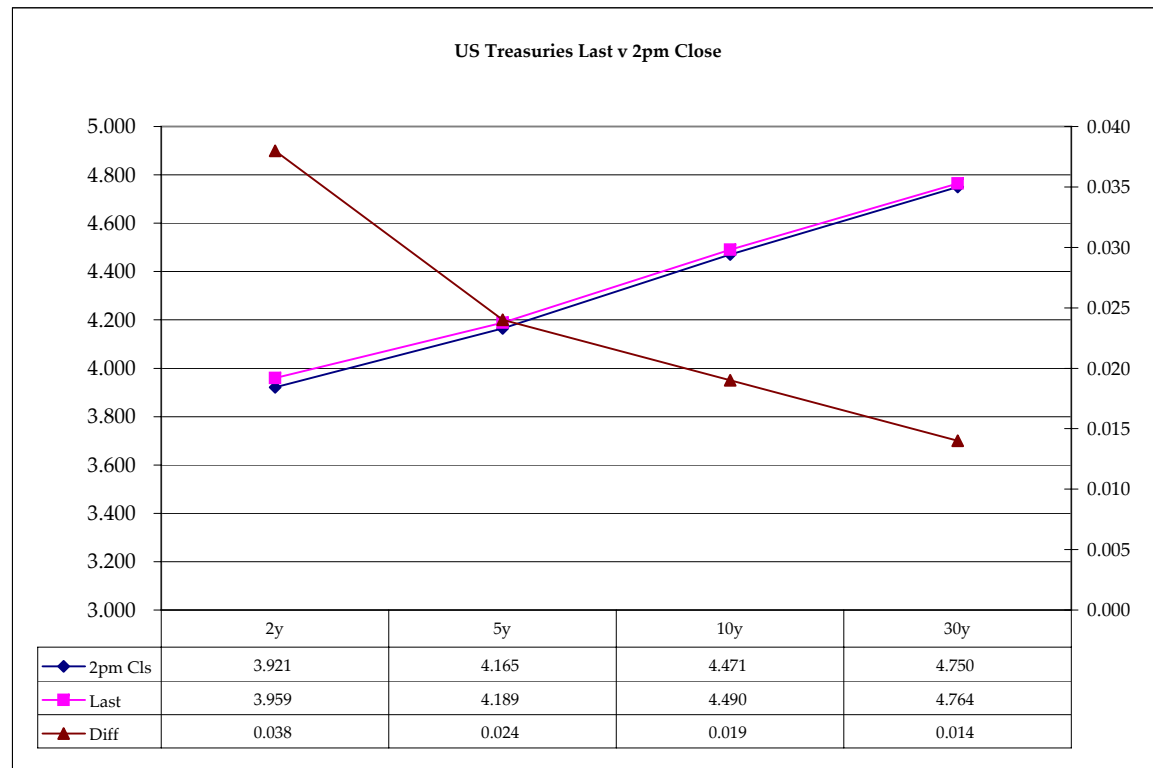
All COT data has been moved to Morning Email: CoT&DP

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	99.1400	3.921	3.959	0.038			
5y	3.875	10/30/12	98.2250	4.165	4.189	0.024	26.12	25.82	
10y	4.750	8/15/17	102.060	4.471	4.490	0.019	77.26	77.25	even/+ .25
30y	5.000	5/15/37	103.31	4.750	4.764	0.014	-673.91	-674.75	

	Close 32	Last
ZFZ7	107.110	107.075
ZNZ7	110.005	109.270
ZBZ7	112.19	112.130

Curve Spreads		
	Close bps	Last bps
2/5	24.4	23.0
5/10	30.6	30.1
10/30	27.9	27.4
2/10	55.0	53.1
5/30	58.5	57.5
2/30	82.9	80.5



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

Cash Duration Matrix

Cash Duration Matrix				
	2	5	10	30
2	100%			
5	43%	100%		
10	25%	58%	100%	
30	12%	29%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$193			
5	\$189	\$443		
10	\$197	\$463	\$795	
30	\$200	\$471	\$808	\$1,626
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$4			
10	(\$4)	(\$20)		
30	(\$8)	(\$28)	(\$13)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	2.16%			
10	-2.23%	-4.29%		
30	-3.85%	-5.88%	-1.66%	

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	1.02	2.35	4.21	8.62
ZF	0.46	1.06	1.90	3.89
ZN	0.30	0.69	1.24	2.53
ZB	0.17	0.39	0.71	1.45

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.35	8.42	17.24
ZF	0.46	2.12	3.80	7.78
ZN	0.60	1.38	1.24	2.53
ZB	0.69	1.58	1.41	2.89

	2y	5y	10y	30y
2y	1.00	2.30	4.12	8.44
5y	0.44	1.00	1.79	3.67
10y	0.24	0.56	1.00	2.05
30y	0.12	0.27	0.49	1.00

	2y	5y	10y	30y
2y		2.30	2.06	4.22
5y	0.44		0.45	1.84
10y	0.49	2.23		2.05
30y	0.24	0.54	0.49	

	ZT	ZF	ZN	ZB
ZT	1.00	2.22	3.41	5.96
ZF	0.45	1.00	1.54	2.69
ZN	0.29	0.65	1.00	1.75
ZB	0.17	0.37	0.57	1.00

	2y	5y	10y	30y
ZT		2.22	6.81	23.83
ZF	0.45		1.54	5.38
ZN	0.15	0.65		3.50
ZB	0.04	0.19	0.29	

October	avg target	400	425	450	475	500
10/29/2007	4.5%	1.9%	10.7%	72.6%	14.5%	0.0%
10/30/2007	4.5%	1.5%	8.6%	73.8%	15.9%	0.0%

December	avg target	375	400	425	450	475	500	525
10/29/2007	4.3%	0.0%	13.9%	41.3%	44.6%	0.0%	0.0%	0.2%
10/30/2007	4.3%	0.0%	10.6%	50.4%	38.6%	0.0%	0.4%	0.0%

These probabilities take options into account and are much better at forecasting the FOMC intentions than the 'day-count' equation most analysts on the street use.

Notes:

All probabilities are taken from The Cleveland Federal Reserve

Valuing the Basis

This page is based on the work of Galen Burghardt.

	Basis		Delivery Basket			Futures Price	
	Bullish	Bearish	DC^	HDB	LDB	Up	Down
Repo in GC		x					
Repo on Special	x		Steepen				
Repo Rate Down	x						x
Repo Rate Up		x				x	
Fed buys back issue	x		Flatten	Deliver	Deliver		
Fed stops selling issue	x		Flatten	Deliver	Deliver		
Volatility Up (in general)	x						x
Volatility Down (in general)		x				x	
Volatility Up, PS		x				x	
Volatility Down, NPS	x						x
Volatility Down, PS		x				x	
Volatility Up, NPS	x						x
Fed Raising Rates			Flattens	Deliver	Deliver		
Cost-to-Carry up		x	<p><u>What affects the basis?</u> changes in rp rates changes in the slope of the yc and dc changes in yield spreads changes in yield volatility carry convergence</p>				
Cost-to-Carry down	x						
Market Rallying	x						
Market Breaking		x					
BNOc is Negative		x					
BNOc is Positive	x						
Curve Steepening (in general)	x						
Curve Flattening (in general)		x					
Curve Parallel (in general)		x					

Please see the morning email "US Deliverable Basket" for charts of the Deliverables.

If you're long the basis and the markets going up but the basis is barely going up, then check to see if there's a parallel shift going on in the curve.

Long basis and a parallel shift lowers the value of being long the basis. You won't make as much as you thought. You might even lose.

Notes:

^ DC = Delivery Curve. See morning email, US Deliverable Basket for full basket.

PS = Parallel Shift

NPS = Non-Parallel Shift.

BNOc = Basis Net of Change

yc = yield curve

HDB = High Duration Bond/Note

LDB = Low Duration Bond/Note