11/2/2007 5:34

The Morning Email: Treasuries

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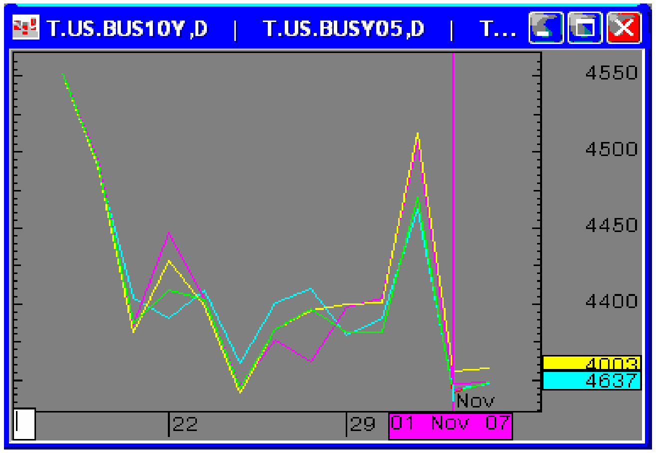
Daily Yield Curve



Source: CQG, Inc. © 2007 Fri Nov 02 2007 05:25:00

30y 10y 5y 2y

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

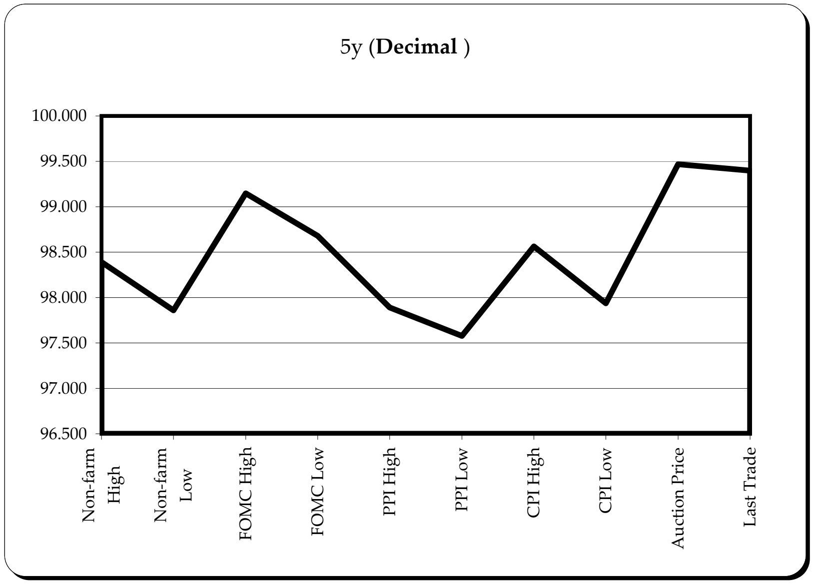
Important Econ Releases, Highs & Lows

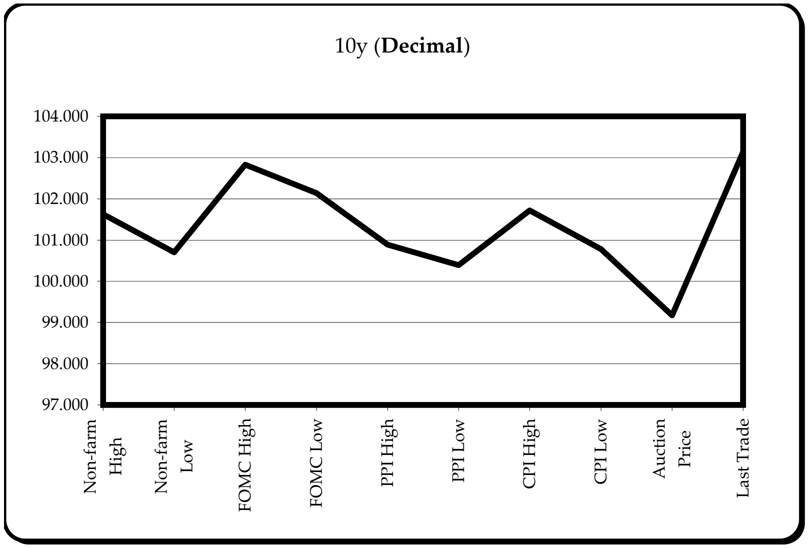
Economic Releases - 32nds

	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	99.1270	103.045	110.275	113.29	11/2/2007 5:34

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

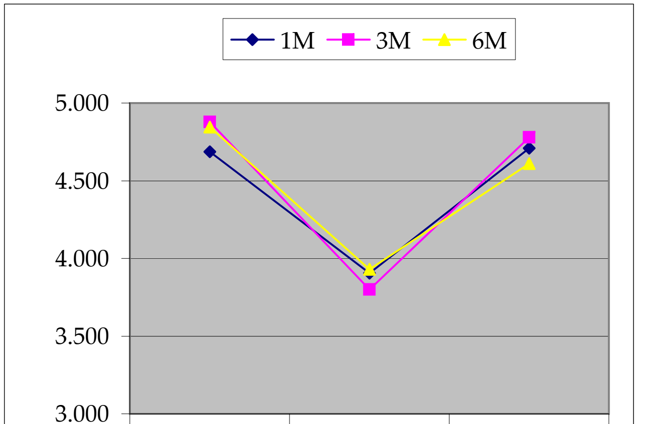




Notes: Cash and futures are adjusted for roll.
Release times are from release to 2pm cdt
(Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
r = reopen

Quotes

	Last	Net	High	Low	Open	Volume	SYM NAME
			32 nds				
TUAZ7	103.282	0.0	103.287	103.262	103.270	37,095	2y Fut
FVAZ7	108.010	0.0	108.025	107.285	107.300	51,348	5y Fut
TYAZ7	110.275	0.0	110.315	110.230	110.260	131,795	10y Fut
USAZ7	113.290	0	114.010	113.210	113.270	21,025	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.247	0.5	99.255	99.230	99.235	na	2y Cash
BUS05P	99.130	(0.2)	99.150	99.087	99.087	na	5y Cash
BUS10P	103.040	(2.5)	103.065	102.310	103.030	na	10y Cash
BUS30P	105.245	(1)	106.000	105.150	105.195	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.737	(0.30)	3.782	3.728	3.782	na	2y Yield
BUS05Y	4.006	0.50	4.039	3.99	4.025	na	5y Yield
BUS10Y	4.349	0.70	4.375	4.34	4.351	na	10y Yield
BUS30Y	4.637	0.40	4.661	4.623	4.637	na	30y Yield



	Libor$ ^	Tbill	CP ^^
1M	4.688	3.905	4.710
3M	4.878	3.799	4.780
6M	4.846	3.93	4.610

	Libor$ ^	Tbill	CP ^^
1M	4.688	3.905	4.710
3 M	4.878	3.799	4.780
6M	4.846	3.93	4.610
	TSY	Swap	ED Pks ^^^
2y	3.740	69.75	4.371
5y	4.007	69.25	
10y	4.353	66.25	5.265

	Libor$ ^	Repos
0/N	4.641	4.430
1week	4.650	4.500
2week	4.655	4.450

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

15:36 11/01 **US TSYS/RECAP:** US Tsys saw 1) safe-haven/short-covering rally Thu amid 2) stocks slide, fear riskier debt problems, bank writedowns, safe- haven Tsys buying. Europe saw 3) similar moves: selling European stocks/ buying of German Bunds, Schatz; selling UK stks/buying UK Gilts. 4)Lvgd accts unwound big swaps flatteners, did steepeners amid FTQ. 5)There was servicer paying in 5Y, 10Y swaps to shed duration. 6)Vols rose. 7) A.m. 2-way flow: safe-haven bid, weak stocks/bk stocks amid fear writedowns of risky debt, selling of weaker debt, buy-and-hold accts buying 3Ys, foreign buying in longer US Tsys; lvrgd accts buying 5Y, 10Ys. 8) CIBC said Citi may have to cut dividend or raise cash or sell assets to raise over $30B to shore up capital but Bernstein analyst said may not need to cut div (Bbg) 9) Some cite new credit crunch; OIS for year-end show funding pressures. 10) Fed added US$41B in reserves in 3 operations. 2s.10) Bid lists (Alt-A, CMBS, HEQ,hybrid ARMS, priv label floaters, $425M (orig face) mezz floaters. 11) ISM Oct Purch 50.9 vs. 52 Sep(more)

15:10 11/01 **US EURODLR FUTURES:** Eurodlr futures finished session broadly higher across the board, nearly erasing Wed's post FOMC sell-off, though the curve didn't recover from yesterday's bear flattening. The Red/Gold pack spd was 0.5 bps steeper at 84.25, off 85.625 earlier in the session. In the Fronts (Dec07-Sep08), the Dec07 was up 0.5 bps at 95-25.5 on combined Globex and pit volume of 421,000, the Mar08 up 7.0 bps at 95-57.5 on volume of 493,000, the Jun08 up 12.0 bps at 95-74 on volume of 554,000, while the Sep08 contract was 13.5 bps higher at 95-82.5 on volume of 564,000. The 2yr proxy Red pack (Dec08-Sep09), settled 11.5 to 13.0 bps higher across the pack with 1,050,000 contracts traded.

15:06 11/01 **US SWAPS:** Spds ended the session broadly wider, front end underperformed as the 2s/10s spd of spd reinverted. Mixed flow on net: some swap accts buyers of 2-, 3yr bundles, as well as Reds (Dec08-Sep09), Green (Dec09-Sep10) and Blue packs (Dec10-Sep11); early receivers in front-intermediate Tsys met better lvgd and Mtg acct payors on spd later in A.M. Steepener interest was reported across fronts to intermediates, especially 2s/10s, 5s/10s.
According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	+3.75/67.75	+2.00/67.75	+1.00/64.75	+0.75/61.50
1:15	+3.50/67.50	+1.75/67.50	+1.00/64.75	+0.50/61.25
12:00	+3.75/67.75	+2.25/68.00	+1.25/65.00	+1.00/61.75
10:30	+2.75/66.75	+1.75/67.50	+1.00/64.75	+0.75/61.50
8:45	+1.50/65.50	+0.50/66.25	+0.50/64.25	+0.75/61.50
Thu Open	+0.75/64.75	+0.25/66.00	+0.25/64.00	+0.75/61.50
Wed 3:00	-0.75/64.00	+0.00/65.75	+0.00/63.75	+0.75/60.75

(cont)

06:28 11/02 **TSYS:** Treasuries are trading narrowly mixed in London Friday, with the front of the curve outperforming on the back of further safe haven flows. However, volumes are seen as modest ahead of the payrolls data. Payroll numbers are expected to rise only 80,000 in October after rising 110k in September on another rise in local education workers. Prices were initially higher in Tokyo, helped by follow-through buying from Asian names after the solid overnight gains.
However, volumes and trading ranges were modest, as many players remained sidelined ahead of the U.S. employment report. Traders in London also moved to square their books ahead of the data, selling the long end. This was largely seen as booking profits after the strong overnight gains. The Bund/T-note spread narrowed 1 bps on overnight levels, standing at 21 bps. Ahead of the U.S. session, the 2-yr note was trading 1/32 higher at 99 25/32 to yield 3.74%. The 10-yr note was 3/32 lower at 103 2/32 (4.36%), with the Bond 8/32 lower at 105 18/32 (4.65%)

MarketNews international

Seven **collateralized debt obligations [CDOs]** made up of asset-backed bonds, the type usually linked to U.S. subprime mortgages, have recently experienced ``events of default,'' according to Standard & Poor's.

The default events, triggered by ratings cuts to holdings of the **CDOs**, may force the transactions to liquidate, New York- based S&P said in a statement today. Another possibility is that payments from their collateral may only be used to pay senior- most classes, whose owners may vote on the issue, S&P said.

S&P, which disclosed it may lower ratings on $20.6 billion of CDOs on Oct. 22, said it would announce reviews of all CDO bonds affected by default events as it receives notices. S&P, the largest ratings company, is a unit of McGraw-Hill Cos. of New York.

Subprime mortgages are given to borrowers with poor credit or high levels of debt. CDOs are used to repackage pools of assets such as mortgage bonds or high-yield loans into new securities with varying degrees of risk.
[from Howard]

09:25 11/01 **CDS**: Sources say the Business Week article is not new news as several names within the article including MBIA (MBI) and Ambac (AMBAC) have been widening for 2-weeks and it is logical that smaller players such as the mentioned ACA Capital too would be hit. **<u>The bigger story today is CIBC's downgrade of Citigroup (C)</u>** whereby the analyst said C may sell assets or cut its dividend in an effort to take a $30B capital reduction, which has taken the stock down $3. Five-yr protection on Citi opened up around 55 bps and traded to a wide of 60 bps, which is compared to a close yest at 51-55 bps. CDS indexes too are wider with the IG9 +4 bps at 65.5 bps while the HVOL9 is +10bps to 171-173 bps.

Stone & McCarthy RESEARCH ASSOCIATES

[ISM]
"...the percentage of those reporting better new orders in October fell off the cliff, plummeting to 18% in October from 29% in September...Why are we so concerned about a teen result for this particular measure? The reason is that such a low figure has been associated with U.S. economic recessions. While we do concede there have been false recession signals in the past, it has been more right in signalling a possible recession than not so we believe this signal merits considerable attention in the current slowing economy environment." --Stone McCarthy Research
[my emphasis]

From the WSJ
The Federal Reserve pumped a total $41 billion to the U.S. financial system in three separate operations Thursday, amounting to the largest injection of funds since the liquidity crisis took hold this summer.

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.65	5.35	$1,673	10.70	n/a
10y	7.72	2.57	$804	5.15	n/a
5y	4.49	1.43	$446	5.72	n/a
2y	1.91	0.62	$193	2.47	n/a
ZB	9.89	3.66	$114	3.66	1.1103
ZN	5.79	2.07	$65	4.15	0.9069
ZF	3.86	1.35	$42	2.70	0.9119
ZT	1.81	0.60	$19	2.42	0.9593

DV01 32, said differently, is "how many TICS are 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

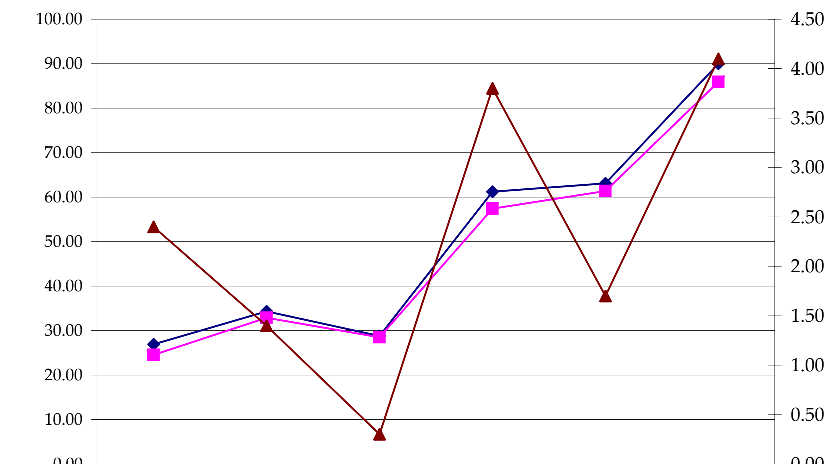
MDuration = Modified Macaulay Duration

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

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

Yield Curve Spreads

	Last	2pm close	Diff
2/5	26.90	24.50	2.40
5/10	34.30	32.90	1.40
10/30	28.80	28.50	0.30
2/10	61.20	57.40	3.80
5/30	63.10	61.40	1.70
2/30	90.00	85.90	4.10



	2/5	5/10	10/30	2/10	5/30	2/30
Last	26.90	34.30	28.80	61.20	63.10	90.00
2 PM Close	24.50	32.90	28.50	57.40	61.40	85.90
Diff	2.40	1.40	0.30	3.80	1.70	4.10

Hedge Ratio's

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 Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.763	2.712	6.052
ZN	0.000		1.538	3.432
ZF	0.369	0.650		2.231
ZT	0.165	0.291	0.448	

Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.7	4.1
Bobl (Z)	0.6	1.0	2.4
Shatz (Z)	0.2	0.4	1.0

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.69	3.91	7.04	14.64
ZN	2.98	6.89	12.41	25.81
ZF	4.58	10.60	19.09	39.70
ZT	5.11	11.82	21.30	44.29

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

US Treasuries

	2y	5y	10y	30y
2y		2.313	4.168	8.665
5y	0.432		1.802	3.746
10y	0.240	0.555		2.079
30y	0.115	0.267	0.481	

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

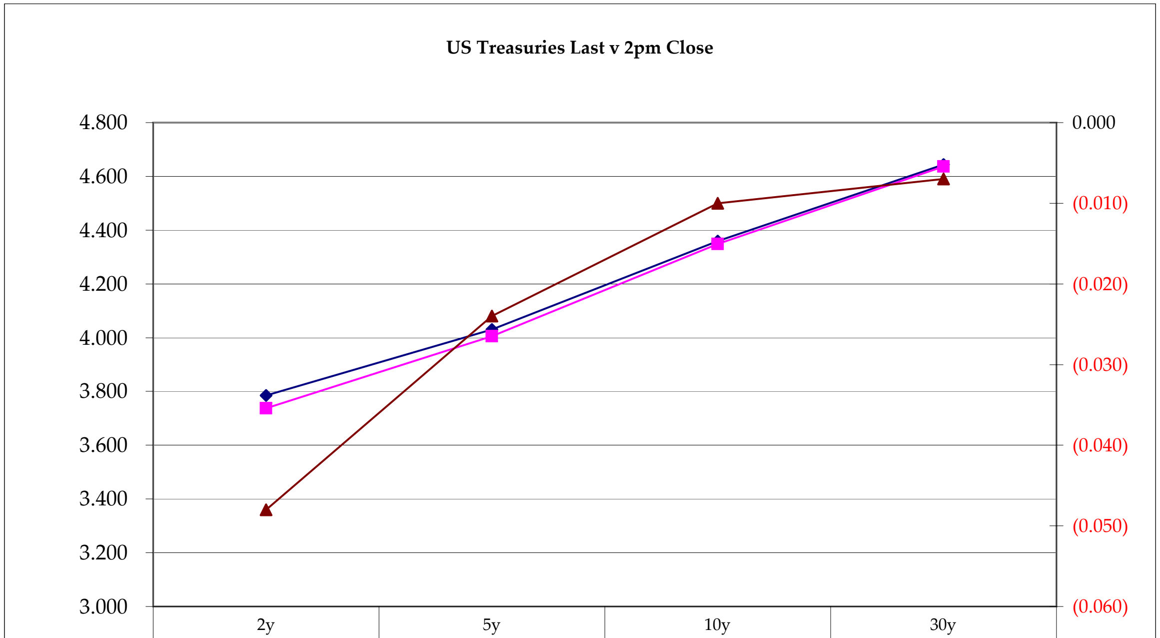
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	3.625	10/31/09	99.2225	3.785	3.737	(0.048)			
5y	3.875	10/30/12	99.0975	4.030	4.006	(0.024)	28.50	28.26	
10y	4.750	8/15/17	103.025	4.359	4.349	(0.010)	83.09	83.27	even/+.25
30y	5.000	5/15/37	105.22	4.644	4.637	(0.007)	-662.82	-662.54	

	Close 32	Last
ZFZ7	107.295	108.010
ZNZ7	110.255	110.275
ZBZ7	113.27	113.290

Curve Spreads

	Close bps	Last bps
2/5	24.5	26.9
5/10	32.9	34.3
10/30	28.5	28.8
2/10	57.4	61.2
5/30	61.4	63.1
2/30	85.9	90.0



	2y	5y	10y	30y
2pm Cls	3.785	4.030	4.359	4.644
Last	3.737	4.006	4.349	4.637
Diff	(0.048)	(0.024)	(0.010)	(0.007)

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	42%	**100%**		
10	25%	58%	**100%**	
30	12%	29%	49%	**133%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]

	2	5	10	30
2	**$193**			
5	$190	**$446**		
10	$199	$468	**$804**	
30	$204	$480	$825	**$1,673**

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.

Cash Matrix [DV01 over / (under) valued]

	2	5	10	30
2				
5	$3			
10	($6)	($21)		
30	($11)	($33)	($21)	

Cash Matrix [DV01 over / (under) as %]

	2	5	10	30
2				
5	1.75%			
10	-2.86%	-4.53%		
30	-5.29%	-6.92%	-2.51%	

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	2.36	4.26	8.86
ZF	0.46	1.06	1.91	3.97
ZN	0.30	0.69	1.24	2.58
ZB	0.17	0.39	0.70	1.46

	2y	5y	10y	30y
2y	1.00	2.31	4.17	8.67
5y	0.43	1.00	1.80	3.75
10y	0.24	0.56	1.00	2.08
30y	0.12	0.27	0.48	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.23	3.43	6.05
ZF	0.45	1.00	1.54	2.71
ZN	0.29	0.65	1.00	1.76
ZB	0.17	0.37	0.57	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	1.02	2.36	8.52	17.72
ZF	0.46	2.12	3.82	7.94
ZN	0.60	1.38	1.24	2.58
ZB	0.68	1.56	1.41	2.93

	2y	5y	10y	30y
2y		2.31	2.08	4.33
5y	0.43		0.45	1.87
10y	0.48	2.22		2.08
30y	0.23	0.53	0.48	

	2y	5y	10y	30y
ZT		2.23	6.86	24.21
ZF	0.45		1.54	5.42
ZN	0.15	0.65		3.53
ZB	0.04	0.18	0.28	

Fed Funds Probability of Tightening or Easing

This page has been moved to Morning Email ED&FF, pg4.

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		
Volitility Up (in general)	x						x
Volitility 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					
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					

<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

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

<u>Notes:</u>

^ 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