11/5/2007 6:05

The Morning Email: Treasuries

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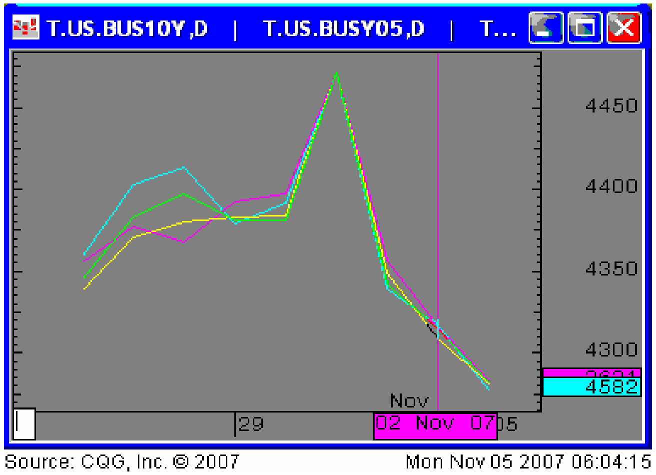
Daily Yield Curve



30y	10y	5y	2y

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

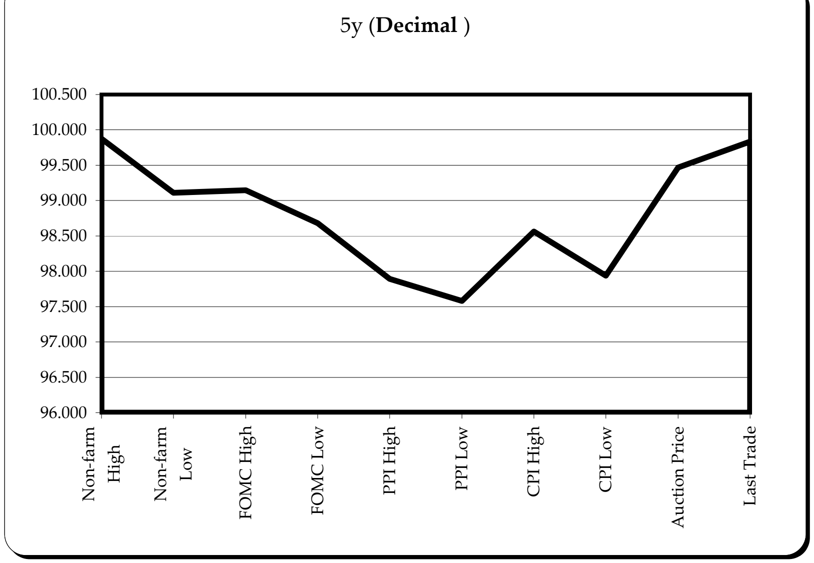
Important Econ Releases, Highs & Lows

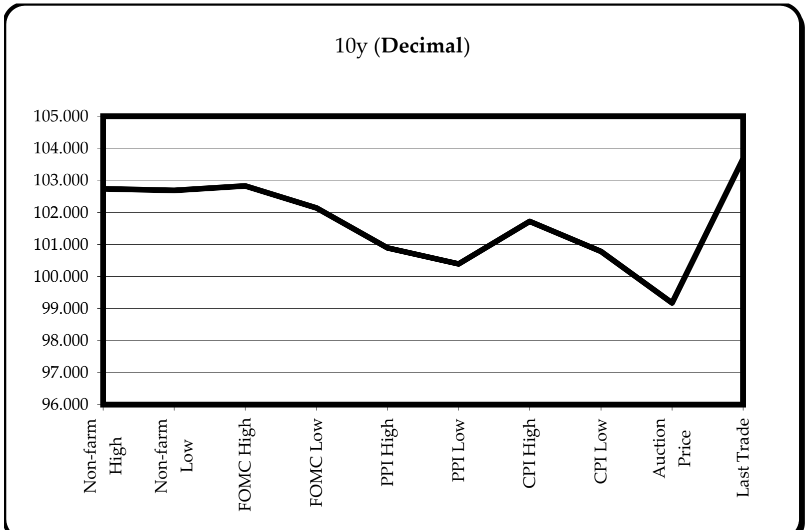
Economic Releases - 32nds

	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	99.2800	102.235	111.140	114.21	11/2/2007
Non-farm Low	99.0350	102.220	110.125	113.10	11/2/2007
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	99.2670	103.215	111.120	114.19	11/5/2007 6:05

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



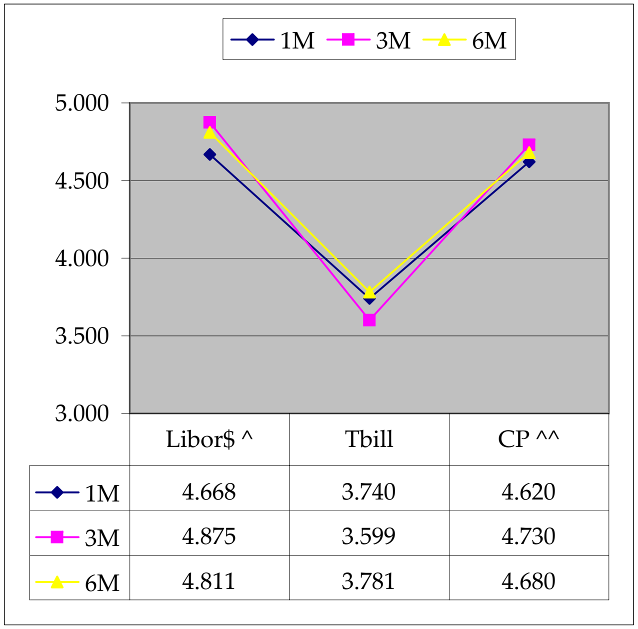


Notes: Cash and futures are adjusted for roll.
Release times are from release to 2pm cdt
(Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
r = reopen

	Last	Net	High	Low	Open	Volume	SYM NAME
			32 nds				
TUAZ7	104.025	0.0	104.035	103.305	104.007	29,571	2y Fut
FVAZ7	108.135	0.0	108.155	108.065	108.090	74,524	5y Fut
TYAZ7	111.120	0.0	111.145	111.025	111.050	132,584	10y Fut
USAZ7	114.190	0	114.250	114.060	114.100	24,910	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.317	2.7	100.007	99.285	99.295	na	2y Cash
BUS05P	99.265	4.5	99.280	99.200	99.220	na	5y Cash
BUS10P	103.205	8.0	103.245	103.115	103.145	na	10y Cash
BUS30P	106.205	16	106.290	105.285	105.285	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.625	(5.00)	3.696	3.609	3.683	na	2y Yield
BUS05Y	3.908	(3.70)	3.962	3.9	3.948	na	5y Yield
BUS10Y	4.285	(3.00)	4.326	4.27	4.316	na	10y Yield
BUS30Y	4.585	(2.90)	4.634	4.57	4.617	na	30y Yield

	Libor$ ^	Tbill	CP ^^
1M	4.668	3.740	4.620
3M	4.875	3.599	4.730
6M	4.811	3.781	4.680
	TSY	Swap	ED Pks ^^^
2y	3.629	73.75	4.253
5y	3.913	72.25	
10y	4.285	69.25	

	Libor$ ^	Repos
0/N	4.629	4.450
1week	4.646	4.450
2week	4.649	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

15:14 11/02 **US TSYS/RECAP**: US Tsys slid Fri after +166K Oct jobs then rallied on credit crunch fear, dealer short-covering, Asian/other buyers, buy-and-hold accts buying 10s, lvrgd accts buying 5Ys, fast money buying intermediates. Amid brief slide lower on US jobs, lvrgd accts sold US 2Ys, earlier fast money selling. But Tsys rallied amid safe-haven bid, concern on yrend financing; O/I/S/ Dec Libor spread moved 2 bps Fri after 5bp move Thu to over 50 (for Dec-March pd) amid yrend fear. T-Bills see big steady bid. Fear of more writedowns hurt US stks, esp. financial stocks amid fear on risky debt, ABCP but also some monoline bond insurers hurt. Swaps had light flow: lvrgd accts steepeners, fwd steepeners, butterflies, unwound flatteners. Sources reported earlier 5/10Y flattener at 2,000:1300. Foreign central banks did 2-way flows, moved out to intermediates; Mideast bid in Tsys too. Some mulled if big ABCP buyer leaving. If safe-haven bid on, some see brisk bid at $18B refdg (smallest in 20 yrs) Wed (US$13B 5Y), Thu (US$5B 30Y bd reopen).

15:12 11/02 **US EURODLR FUTURES**: Eurodlr futures finished session broadly higher across the board again, the curve making up for Wed's bear flattening, the Red/Gold pack spd bull steepening 9.75 bps at 93.75. In the Fronts (Dec07-Sep08), the Dec07 was in 2.5 bps at 95-23 on combined Globex and pit volume of 451,000, the Mar08 up 10.0 bps at 95-67.5 on volume of 516,000, the Jun08 up 12.5 bps at 95-86.5 on volume of 545,000, while the Sep08 contract was 13.5 bps higher at 95-96 on volume of 574,000. The 2yr proxy Red pack (Dec08-Sep09), settled 12.5 to 13.5 bps higher across the pack with 1,244,000 contracts traded.

15:04 11/02 **US SWAPS**: Spds ended session off widest lvls of session, while 2s/10s spd of spd moved deeper into inversion as front end underperforms. In addition to early two-way, swap-tied flow had dealers buying 2s and 10s for mortgage accounts before and after the data, while moderate buyers of Reds emerged on midmorning upleg. Others tied lighter swap-tied volume to accts trying to stay flat going into weekend. They did note, however, HFs did forward steepeners w/leveraged acct interest in either flattener unwinds or new steeps a well, while fast$ accounts were receivers in 2s.According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:00	+4.50/72.25	+3.25/71.00	+3.25/68.00	+2.75/64.25
12:15	+4.00/71.75	+2.75/70.50	+2.75/67.50	+2.50/64.00
11:03	+5.25/73.00	+3.00/70.75	+2.75/67.50	+2.50/64.00
9:30	+2.25/70.00	+2.00/69.75	+2.00/66.75	+2.25/63.75
Fri Open	+2.50/70.25	+2.25/70.00	+2.25/67.00	+2.00/63.50
Thu 3:00	+3.75/67.75	+2.00/67.75	+1.00/64.75	+0.75/61.50

(cont)

04:32 11/05 **TSYS:** Treasuries are trading modestly higher in MLondon trade Monday, boosted by sharply weaker U.S. stock futures. Safe haven flows, triggered by renewed concerns over the global credit markets, were also offering support. Globex traded U.S. index futures were sold off in early London trade, weighed by the overnight news that Citigroup CEO Charles Prince had stepped down and the group was increasing its write-downs by between $8 and $11 billion. Treasuries were little changed in Tokyo trade, although a light safe-haven bid offered support. Real money names were light buyers of the 2-year sector of the curve, largely seen as Asian central banks. Treasuries moved higher in early London, as the weaker stock market offered a boost to debt prices. However, overall volumes were muted ahead of the U.S. open.

04:32 11/05 **TSYS: (2)** The Bund/T-note spread narrowed 1 bps on overnight levels, standing at 19 bps. Ahead of the U.S. session, the 2-yr note was trading 1+/32 higher at 99 30/32 to yield 3.65%. The 10-yr note was 4/32 higher at 103 18/32 (4.30%), with the Bond 10/32 higher at 106 14/32 (4.60%). The 2-yr/5-yr yield curve was 1 bps steeper on Friday's levels, trading at +28 bps. The 2-/10-yr curve was unchanged, trading at +65 bps, as was the 2-yr/30-yr curve, standing at +95 bps. December expiry futures contracts on the CBOT electronic system are trading lower on Friday's closing levels. The Sep T-note was 3/32 lower at 111 8/32 and the Bond was down 2/32 at 114 14/32.

MarketNews international

08:55 11/02 **US TSYS/RESEARCH:** Jim Caron, head of US interest rate strategy at Morgan Stanley, said he felt the "market will rally from here as dip buyers will emerge due to recent tape bombs (on bank problems). But the market is already long" and "the average guy is long and looking to sell out after this number. Dip buyers will add insult to injury and get whipsawed." He suggested adding to 2-year note sales by exiting at 3.75% (2Y is at 3.78% currently) with a stop-out at 3.675%.

09:00 11/02 **US DATA REACT:** From economist Chris Low of FTN: "Today's report was better than expected and was characterized (by Bbg) as good enough to signal a resilient labor market that will keep the economy out of recession despite the housing slump. We expect the Fed will see it the same way. Despite all that, payroll growth was once again inadequate to prevent another increase in the unemployment rate, from 4.70% to 4.73%, which means the growth recession that began in April, when the unemployment rate first rose off its low of 4.40%, continues. Also, bear in mind that with wage growth slowing now that slack is coming back into the job market, consumers will be more reliant on credit to keep the expansion going than they have been in years, yet credit standards continue to tighten." He says that is why bonds stabilized.

13:25 11/02 **US BONDS**: One veteran trader said it has been a "hairy, hairy day" with Tsys skyrocketing higher over rumors that could not be confirmed and talk of losses in "magnitudes that almost seem unfathomable" and losses "that peole have no way of quantifying." He also notes while ML tried to calm fears in a statement, the stock is still down 12% on the day so the Street has not been placated. In addition, the trader notes that there could be problems in other areas of the market besides CDOs, subprime and SIV funding. "Gold got to $807 and crude oil to almost $96" and that could be indicating pressures elsewhere. Other sources continue to be amazed at stories that the "bid is too cheap to hit" and "the paper is worth more than the market thinks" so they will hold onto it. In the old, unsophisticated days, if a trader had to sell, he sold, took the loss and cleared the decks to get back in the game. "It seems like all anyone is doing today with these complex instruments is changing deck chairs on the Titanic," one funny guy said.

Stone & McCarthy
RESEARCH ASSOCIATES

How do we characterize the recent payroll data? Clearly the October gain was well in excess of our expectations, and therefore we have to acknowledge that the report represents an upside surprise, and probably is welcomed at the Fed.

[...]For policy-makers the unemployment rate provides an indication of labor market utilization, a theme that has been highlighted frequently by Fed officials. The increase in the unemployment rate has reduced the reluctance towards a more accommodative posture.
--by Ray Stone, PhD

From: DAVID A ADER, RBS GREENWICH CAPITAL
At: 11/02 8:39:13
*U.S. OCT. PAYROLLS JUMP 166,000; UNEMPLOYMENT RATE AT 4.7%
-- 130k was PRIVATE
-- FACTORY JOBS FALL 21,000; CONSTRUCTION DOWN 5,000,
-- JOBLESS RATE AT 4.727% AFTER 4.696% IN SEPTEMBER
-- SEPTEMBER PAYROLLS RISE 96,000; REVISED FROM 110,000
-- AUGUST PAYROLLS RISE 93,000; REVISED FROM 89,000
*U.S. OCT. AVERAGE HOURLY EARNINGS RISE 0.2% VS 0.3% FORECAST
** Considerably stronger than forecast, private gains came in services
** Silver lining? Wages were tamer than expected, a 'high' 4.7% unemployment rate. Stephen says report was not as strong as headline suggests, 6 mo averageis down 25K from prior month so trend is softer.
** Market holding VERY well, curve 'behaving'. We note that there's a big market profile level on TY at 11017 and single prints to 11012 serving as support. Resistance at a tested trendline 11107.
** Flows saw bank/HF selliing in 2s and 10s just after report, sellers BEFORE REPORT are UNDERWATER, seeing 2s/10s steepening interest, bank buying 5s.
** We like this price action, supportive, BUT DON'T SEE ANY UPSIDE BREAK BASED ON THE DATA OR FLOWS, just firm action.

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.71	5.42	$1,693	10.84	n/a
10y	7.73	2.59	$809	5.18	n/a
5y	4.49	1.44	$448	5.74	n/a
2y	1.91	0.62	$193	2.48	n/a
ZB	9.90	3.68	$115	3.68	1.1103
ZN	5.79	2.08	$65	4.17	0.9069
ZF	3.86	1.35	$42	2.71	0.9119
ZT	1.81	0.60	$19	2.42	0.9593

Yield Curve Spreads

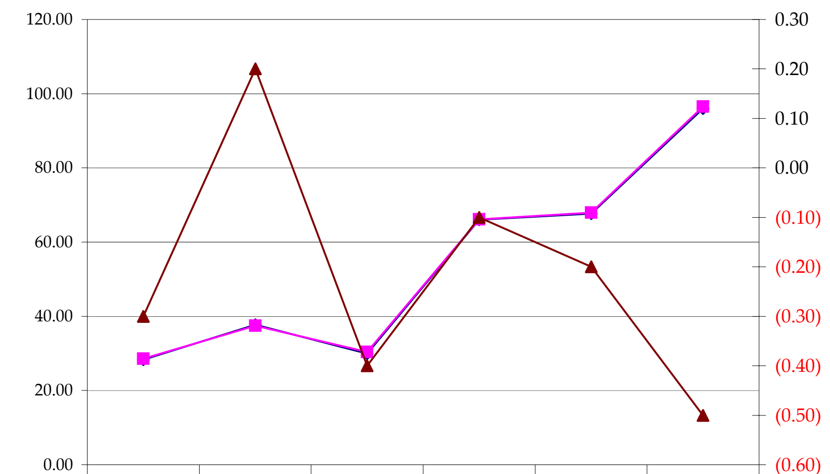
	Last	2pm close	Diff
2/5	28.30	28.60	(0.30)
5/10	37.70	37.50	0.20
10/30	30.00	30.40	(0.40)
2/10	66.00	66.10	(0.10)
5/30	67.70	67.90	(0.20)
2/30	96.00	96.50	(0.50)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	28.30	37.70	30.00	66.00	67.70	96.00
2 PM Close	28.60	37.50	30.40	66.10	67.90	96.50
Diff	(0.30)	0.20	(0.40)	(0.10)	(0.20)	(0.50)

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

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		1.766	2.720	6.088
ZN	0.000		1.540	3.447
ZF	0.368	0.649		2.238
ZT	0.164	0.290	0.447	

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	1.68	3.90	7.03	14.71
ZN	2.97	6.89	12.42	25.99
ZF	4.57	10.60	19.13	40.02
ZT	5.12	11.86	21.41	44.79

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		2.319	4.185	8.756
5y	0.431		1.804	3.775
10y	0.239	0.554		2.092
30y	0.114	0.265	0.478	

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

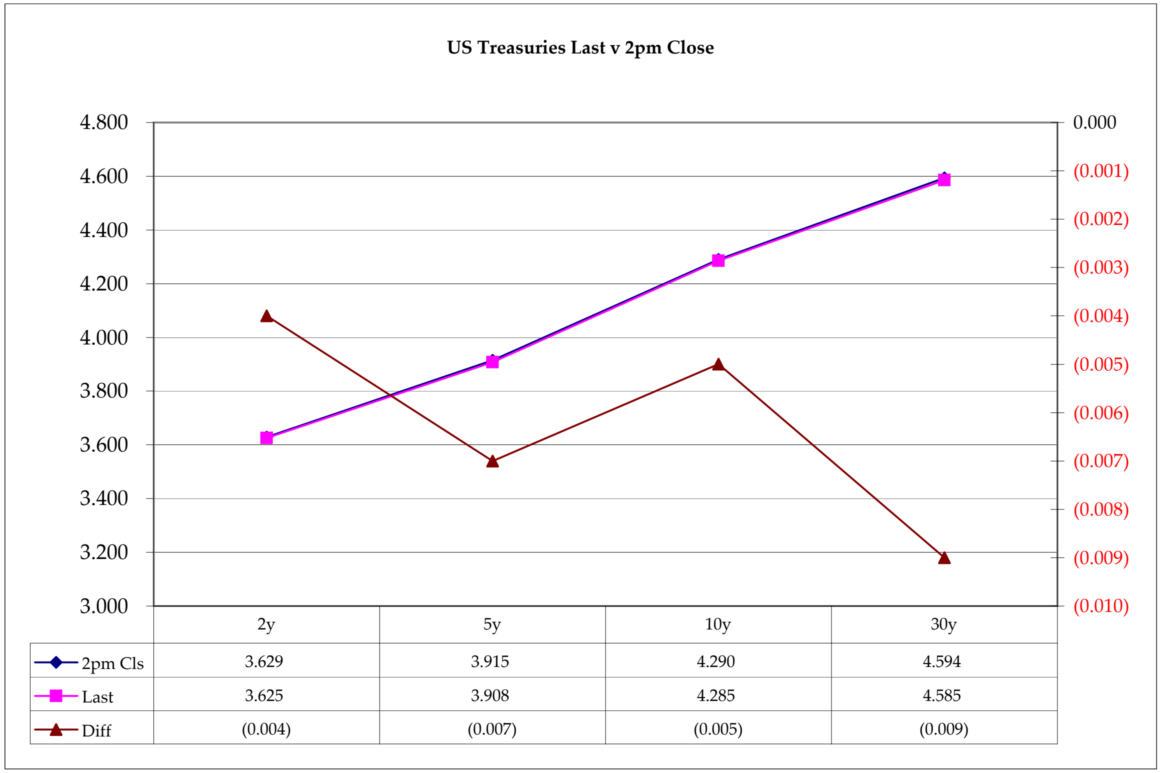
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	3.625	10/31/09	99.3175	3.629	3.625	(0.004)			
5y	3.875	10/30/12	99.2625	3.915	3.908	(0.007)	30.41	30.86	
10y	4.750	8/15/17	103.205	4.290	4.285	(0.005)	85.22	85.31	even/+.25
30y	5.000	5/15/37	106.17	4.594	4.585	(0.009)	-659.14	-657.97	

	Close 32	Last
ZFZ7	108.135	108.135
ZNZ7	111.110	111.120
ZBZ7	114.16	114.190

Curve Spreads

	Close bps	Last bps
2/5	28.6	28.3
5/10	37.5	37.7
10/30	30.4	30.0
2/10	66.1	66.0
5/30	67.9	67.7
2/30	96.5	96.0



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%**

Cash Matrix [DV01 x Duration]

	2	5	10	30
2	**$193**			
5	$190	**$448**		
10	$200	$470	**$809**	
30	$205	$484	$833	**$1,693**

Cash Matrix [DV01 over / (under) valued]

	2	5	10	30
2				
5	$3			
10	($6)	($22)		
30	($12)	($35)	($24)	

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

	2	5	10	30
2				
5	1.57%			
10	-3.12%	-4.61%		
30	-5.87%	-7.32%	-2.84%	

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 & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	1.02	2.37	4.28	8.96
ZF	0.46	1.06	1.91	4.00
ZN	0.30	0.69	1.24	2.60
ZB	0.17	0.39	0.70	1.47

	2y	5y	10y	30y
2y	1.00	2.32	4.18	8.76
5y	0.43	1.00	1.80	3.78
10y	0.24	0.55	1.00	2.09
30y	0.11	0.26	0.48	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.24	3.45	6.09
ZF	0.45	1.00	1.54	2.72
ZN	0.29	0.65	1.00	1.77
ZB	0.16	0.37	0.57	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	1.02	2.37	8.56	17.92
ZF	0.46	2.12	3.83	8.00
ZN	0.59	1.38	1.24	2.60
ZB	0.67	1.56	1.41	2.94

	2y	5y	10y	30y
2y		2.32	2.09	4.38
5y	0.43		0.45	1.89
10y	0.48	2.22		2.09
30y	0.23	0.53	0.48	

	2y	5y	10y	30y
ZT		2.24	6.89	24.35
ZF	0.45		1.54	5.44
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