



## The Morning Email: Treasuries

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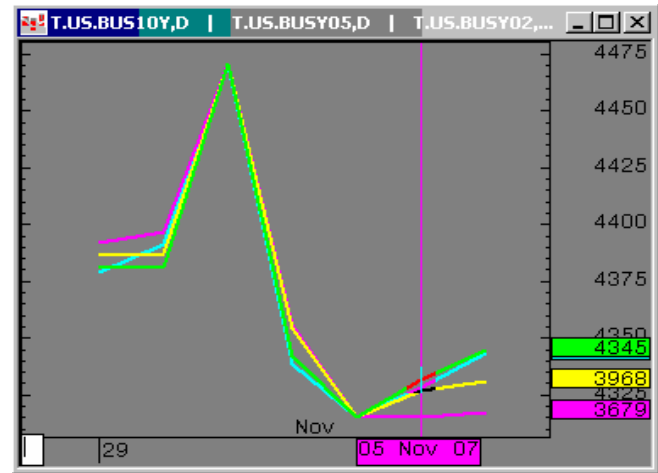
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Daily Yield Curve



Source: CQG, Inc. © 2007

Tue Nov 06 2007 05:19:51

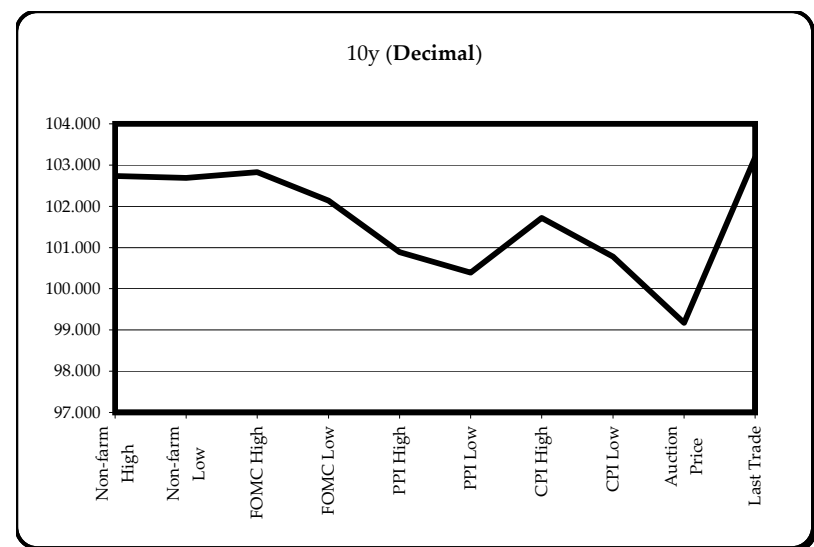
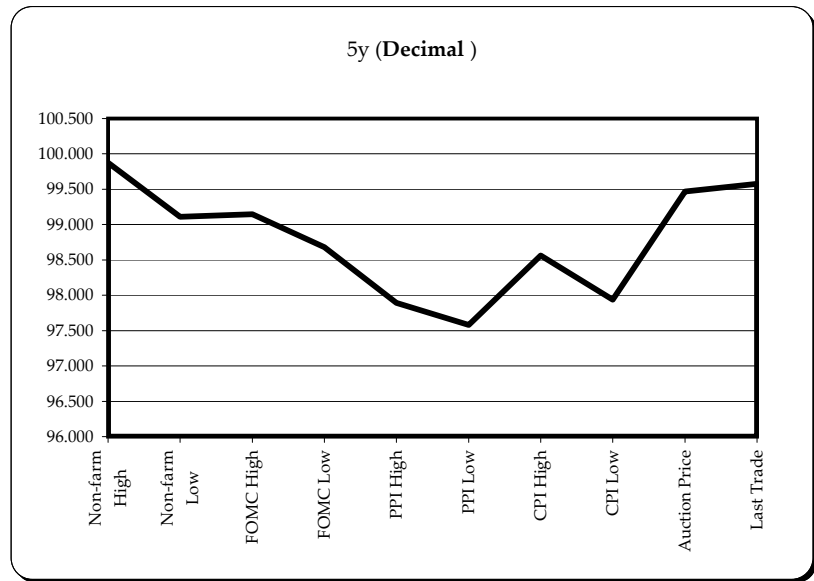


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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	99.1850	103.060	110.300	113.30	11/6/2007 5:26

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



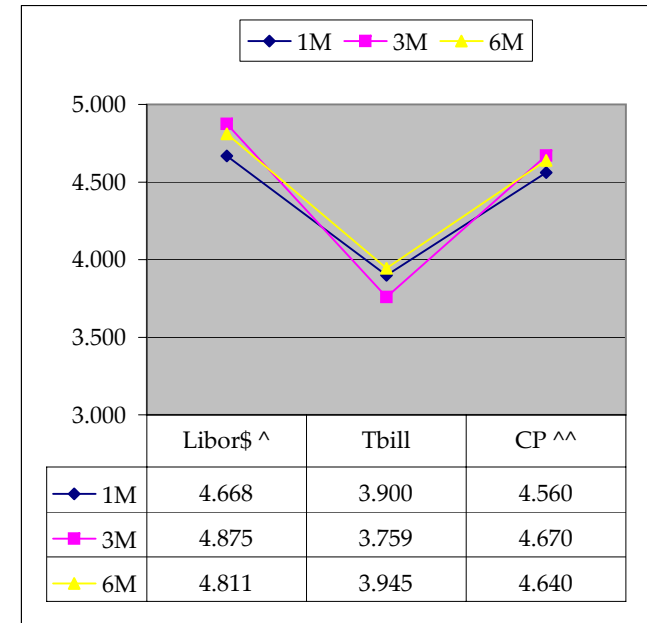
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	103.310	(0.0)	103.315	103.295	103.312	15,765	2y Fut
FVAZ7	108.060	(0.0)	108.075	108.030	108.075	48,801	5y Fut
TYAZ7	110.300	(0.1)	111.015	110.265	111.015	104,922	10y Fut
USAZ7	113.300	(0)	114.020	113.230	114.020	18,832	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.280	(1.0)	99.287	99.272	99.287	na	2y Cash
BUS05P	99.182	(0.7)	99.195	99.160	99.180	na	5y Cash
BUS10P	103.055	(3.0)	103.075	103.025	103.070	na	10y Cash
BUS30P	105.250	(6)	105.260	105.180	105.260	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.683	0.80	3.712	3.658	3.696	na	2y Yield
BUS05Y	3.968	0.60	3.99	3.954	3.973	na	5y Yield
BUS10Y	4.341	0.90	4.363	4.328	4.341	na	10y Yield
BUS30Y	4.637	1.20	4.655	4.624	4.63	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.668	3.900	4.560
3M	4.875	3.759	4.670
6M	4.811	3.945	4.640

	Libor\$ ^	Repos
0/N	4.629	4.430
1week	4.646	4.450
2week	4.649	4.450

	TSY	Swap	ED Pks ^^
2y	3.691	75.75	4.335
5y	3.967	74.50	
10y	4.347	71.00	



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**

15:20 11/05 **US TSYS/RECAP:** US Tsys had a topsy-turvy Monday amid on-and-off US weak stocks but afternoon Tsys weakness as stocks trimmed loss. Morning had fast, real money sales in Tsys. Despite move lower, sources said flows in Tsys, swaps and MBS light as many awaited fiscal year-end. Swap spreads were wider, reflecting concerns. But swaps widening kept the convexity bid at bay, which weighed on Tsys. Into Treasury downtick, sources reported fast money selling on profit-taking and new shorts by those that believe the economic data is not all that weak. Fast money took profit mostly in 10Ys but there were reports of supply-linked selling ahead of the Treasury auctions this week. Earlier, there was some Tsys buying vs German Bunds and reports of ongoing foreign buying in Treasury bills. But into weakness, dealers bought 10YS, hedge funds bought both 3Y, 5S; portfolios bought 5-year notes. There was talk of some general receiving in 3Y and receiving in 10Y swaps versus sold MBS. Fed fund options saw more plays that benefit from 50-bps Dec ease.

15:38 11/05 **US SWAPS:** Spds are wider in late NY trade amid more widening associated with ongoing credit woes. Earlier, there was receiving in the 3Y and also some receiving in 10Y vs selling MBS by fast money. Flows relatively light, sources said, with spds following stocks and headline news closely.

According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
3:30	+3.00/75.25	+2.75/75.25	+2.50/70.25	+2.50/66.75
2:20	+2.75/75.00	+2.50/75.00	+2.50/70.25	+2.75/67.00
12:10	+2.25/74.50	+2.00/73.00	+2.00/69.75	+2.25/66.50
11:10	+2.25/74.50	+2.00/73.00	+1.75/69.50	+2.50/66.75
9:45	+3.25/75.50	+3.00/74.00	+2.75/70.50	+2.75/67.00
9:05	+2.50/74.75	+2.00/73.00	+2.25/70.00	+2.25/66.50
Mon Open	+1.75/74.00	+1.75/72.75	+2.00/69.75	+2.00/66.25
Mon 7:45	+1.50/73.75	+2.00/73.00	+2.00/69.75	+1.75/66.00
Fri 3:00	+4.50/72.25	+3.25/71.00	+3.00/67.75	+2.75/64.25

(cont)

04:53 11/06 TSYS: Treasuries are trading lower across the board in London trade Tuesday, building on a sell-off that started after Monday's Chicago close. With stockmarkets bouncing off their lows, safe haven flows slowed and there appeared a return - if only slight - of less risk adverse investors. Tokyo saw prices inch lower, although volumes were light. Traders said ranges were tight, with flows largely interdealer. London saw the market accelerate to the downside, although there were light bids helping support close to the session lows. Real money names were initially sellers of the belly of the curve, but were buyers of two-year notes close to the bottom. The 10-year note saw light selling from leveraged and real money names, unwinding recent cross border traders. However, the Bund/Treasury spread remained close to multi-year lows. The Bund/T-note spread widened just 1 bps on overnight levels, to stand at 21 bps.

04:52 11/06 TSYS: (2) Ahead of the U.S. session, the 2-yr note was trading 1/32 lower at 99 28/32 to yield 3.69%. The 10-yr note was 5/32 lower at 103 4/32 (4.35%), with the Bond 9/32 higher at 105 22/32 (4.64%). The 2-yr/5-yr yield curve was unchanged on Monday's levels, trading at +29 bps. The 2-/10-yr curve was unchanged, trading at +66 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 9/32 lower at 110 28/32 and the Bond was down 11/32 at 113 27/32




09:00 11/05 **FED**: Gov Mishkin's speech on financial instability -- if Fed overshoots ease, they "need to be willing to expeditiously remove at least part of that ease before inflationary pressures become a threat." In considering future Fed policy "I will monitor inflation developments carefully." Says Fed "has a responsibility to take mon policy actions to minimize the damage that financial instability can do to the economy" - but Fed wants to help Main St, not bail out Wall St. Action "can help lift asset prices" but still means mkt participants pay a price. Says mkts "have not yet fully recovered" and mkt instability could hurt econ performance - info flows are disrupted and this impairs price discovery (valuation risk), hurts the consumer, and causes spending to decline (macroeconomic risk). Fed wants to avoid 'adverse feedback loop' and policy needs to be "timely, decisive, and flexible."

10:06 11/05 **FED REACT**: Economist Drew Matus of Lehman says Fed Gov Mishkin's "comments are more hawkish than has been the norm for him in the past, and the blunt nature of his comments may suggests some frustration on the part of the FOMC with the market's expectations for future rate cuts based on financial conditions and not the real economy. I would look for Bernanke to have a very similar tone on Thursday as the Fed begins to communicate its views more aggressively to a marketplace that seems unwilling to pay attention to more subtle guidance."

11:55 11/05 **US MBS**: One strategist says convexity is not an issue right now as swaps remain under widening pressure due to credit concerns. In addition, dollar prices need to move higher on key 30Y MBS before convexity issues come back. Another strategist says 4.00% is a key area as that is when 30Y 5.5s get to par. Market talk is if 10s get to 4.15% vs. current 4.32% is when convexity will come back into focus. MBS opened wider today with better selling seen.

**Fed Governor Mishkin spoke** this morning. Regarding last week's rate cut, he said that "with an unchanged policy interest rate, I saw downside risks to the outlook for growth." But he went on to say that "should the easing eventually appear to have been unnecessary, it could be removed." The only other item on the calendar today will be Fed Governor Kroszner's speech this afternoon. The direction of equity markets is likely to drive the afternoon Treasury market trade. Treasury prices have already anticipated further equity downside though. Given that, it would likely take a break at least through this morning's lows for Treasuries to push through this morning's high prices/low yields. **--John Canavan**

14:00 11/05 **US DATA**: Oct Senior Loan Officer survey (taken prior to Oct 18) finds tighter standards and terms for consumer loans and res mortgages; demand also weakened for mtgs. The tightening is due to a less favorable econ outlook, decreased 2ndary mkt liquidity, reduced tolerance for risk. About 40% tightened standards on prime mtgs, while 60% tightened on nontraditional mtgs. Also tightened standards on backup CP credit lines. More on the MNI main wire.



#### Banking

- \*CITIGROUP CUTS 3Q EPS TO 44C FROM 47C ON REVISION
- \*CITIGROUP CITES REVISION TO VALUATION CORRECTION
- \*CITIGROUP SHARE FORECAST CUT TO \$48 FROM \$51 AT GOLDMAN SACHS
- \*GOLDMAN SAYS IT WOULDN'T BE SURPRISED IF MORE CITI WRITEDOWNS [From Howard]

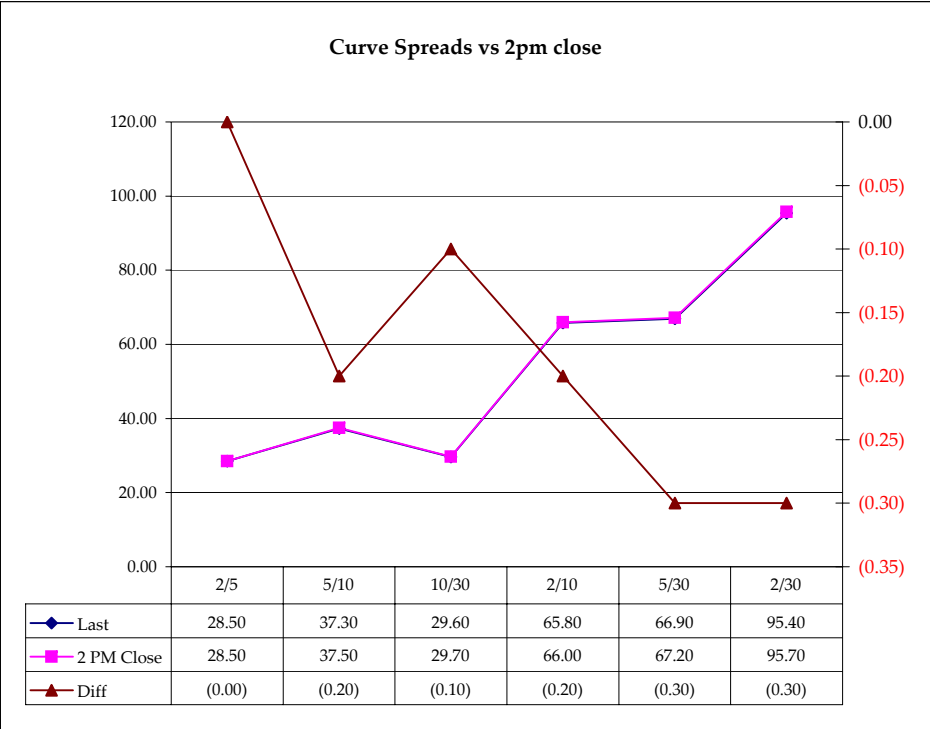
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.64	5.35	\$1,672	10.70	n/a
10y	7.72	2.57	\$805	5.15	n/a
5y	4.48	1.43	\$447	5.72	n/a
2y	1.90	0.62	\$193	2.47	n/a
ZB	9.88	3.66	\$114	3.66	1.1103
ZN	5.78	2.07	\$65	4.15	0.9069
ZF	3.86	1.35	\$42	2.70	0.9119
ZT	1.81	0.60	\$19	2.41	0.9593

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	28.50	28.50	(0.00)
5/10	37.30	37.50	(0.20)
10/30	29.60	29.70	(0.10)
2/10	65.80	66.00	(0.20)
5/30	66.90	67.20	(0.30)
2/30	95.40	95.70	(0.30)

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

## 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	2.713	6.064
ZN	0.000		1.539	3.439
ZF	0.369	0.650		2.235
ZT	0.165	0.291	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	1.69	3.91	7.04	14.63
ZN	2.97	6.90	12.41	25.80
ZF	4.58	10.61	19.10	39.70
ZT	5.11	11.86	21.34	44.37

## 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		2.318	4.173	8.674
5y	0.431		1.800	3.742
10y	0.240	0.556		2.079
30y	0.115	0.267	0.481	

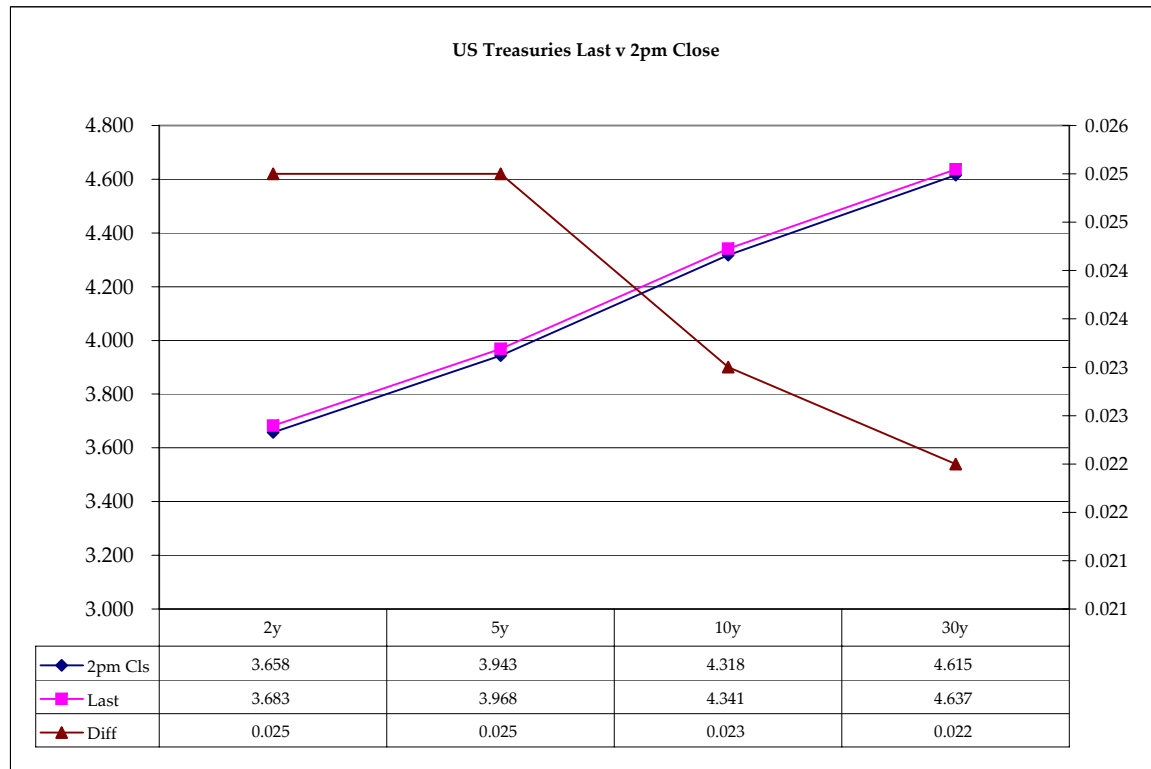
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

**Closes: 2pm CST vs this Morning**

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	99.3000	3.658	3.683	0.025			
5y	3.875	10/30/12	99.2225	3.943	3.968	0.025	30.06	29.50	
10y	4.750	8/15/17	103.130	4.318	4.341	0.023	83.16	82.51	-.25/+50
30y	5.000	5/15/37	106.06	4.615	4.637	0.022	-659.54	-663.65	+.25/ even

	Close 32	Last
ZFZ7	108.095	108.060
ZNZ7	111.050	110.300
ZBZ7	114.06	113.300

Curve Spreads		
	Close bps	Last bps
2/5	28.5	28.5
5/10	37.5	37.3
10/30	29.7	29.6
2/10	66.0	65.8
5/30	67.2	66.9
2/30	95.7	95.4



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	\$447		
10	\$198	\$468	\$805	
30	\$203	\$479	\$825	\$1,672
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$3			
10	(\$6)	(\$21)		
30	(\$11)	(\$32)	(\$20)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	1.69%			
10	-2.79%	-4.40%		
30	-5.19%	-6.76%	-2.46%	

**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	2.37	4.27	8.87
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

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.37	8.54	17.75
ZF	0.46	2.12	3.82	7.94
ZN	0.59	1.38	1.24	2.58
ZB	0.67	1.56	1.41	2.93

	2y	5y	10y	30y
2y	1.00	2.32	4.17	8.67
5y	0.43	1.00	1.80	3.74
10y	0.24	0.56	1.00	2.08
30y	0.12	0.27	0.48	1.00

	2y	5y	10y	30y
2y		2.32	2.09	4.34
5y	0.43		0.45	1.87
10y	0.48	2.22		2.08
30y	0.23	0.53	0.48	

	ZT	ZF	ZN	ZB
ZT	1.00	2.23	3.44	6.06
ZF	0.45	1.00	1.54	2.71
ZN	0.29	0.65	1.00	1.76
ZB	0.16	0.37	0.57	1.00

	2y	5y	10y	30y
ZT		2.23	6.88	24.25
ZF	0.45		1.54	5.43
ZN	0.15	0.65		3.53
ZB	0.04	0.18	0.28	

**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		
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.

<p><b>Notes:</b>                  ^ DC = Delivery Curve. See morning email, US Deliverable Basket for full basket.                  PS = Parallel Shift                  NPS = Non-Parallel Shift.                  BNOc = Basis Net of Change</p>	<p>yc = yield curve                  HDB = High Duration Bond/Note                  LDB = Low Duration Bond/Note</p>
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