

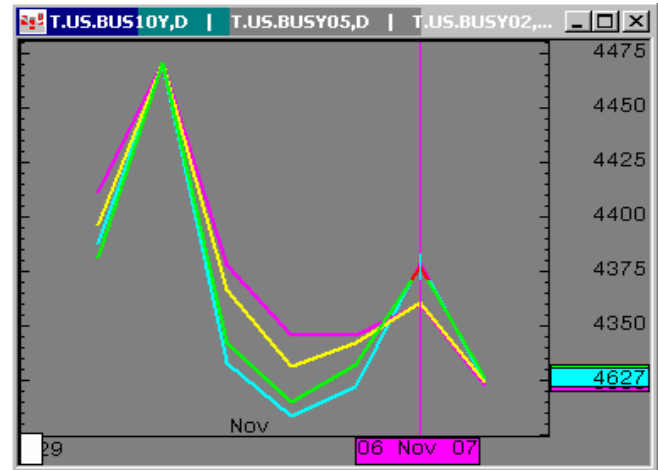


The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 Wed Nov 07 2007 05:25:48

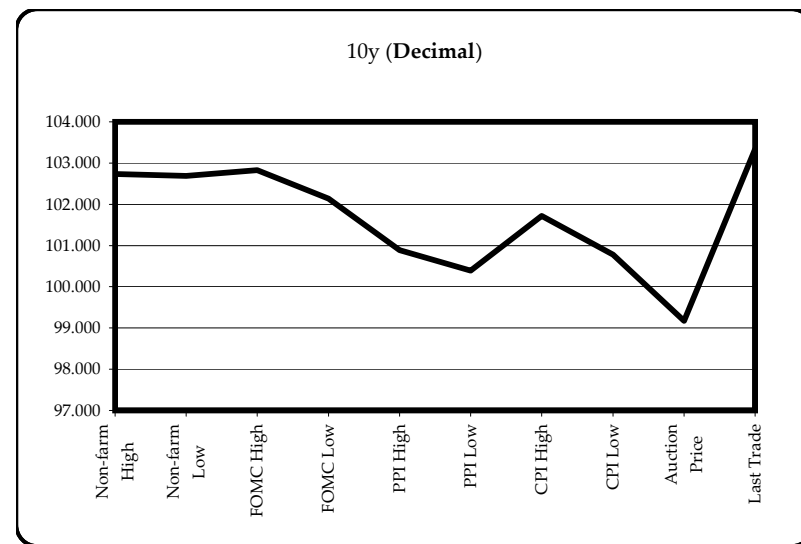
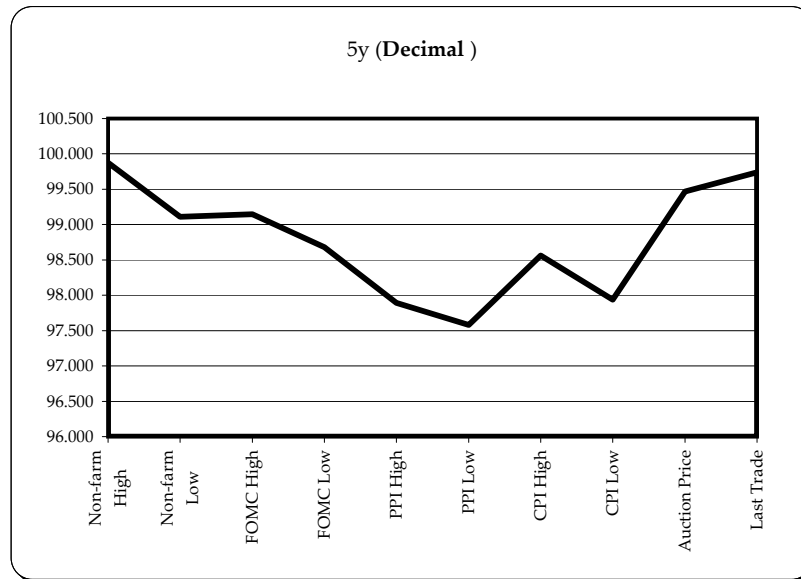


Want something added? Let me know: jgoulding@ghco.com

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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	99.2370	103.110	111.035	114.02	11/7/2007 5:43

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



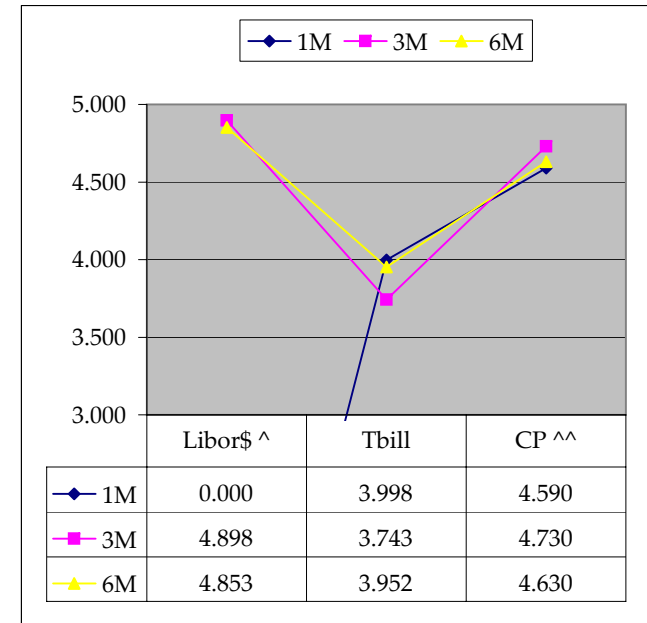
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.020	0.0	104.035	103.290	103.292	36,291	2y Fut
FVAZ7	108.115	0.1	108.145	108.010	108.020	74,342	5y Fut
TYAZ7	111.035	0.1	111.070	110.230	110.245	189,296	10y Fut
USAZ7	114.020	0	114.060	113.160	113.190	40,767	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.315	4.7	100.010	99.267	99.267	na	2y Cash
BUS05P	99.237	9.0	99.267	99.142	99.150	na	5y Cash
BUS10P	103.110	13.5	103.145	102.300	102.305	na	10y Cash
BUS30P	105.305	24	106.040	105.090	105.090	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.630	(7.40)	3.72	3.601	3.708	na	2y Yield
BUS05Y	3.931	(6.10)	4.003	3.908	4.001	na	5y Yield
BUS10Y	4.324	(5.30)	4.38	4.308	4.378	na	10y Yield
BUS30Y	4.626	(4.30)	4.671	4.616	4.668	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	#VALUE!	3.998	4.590
3M	4.898	3.743	4.730
6M	4.853	3.952	4.630

	Libor\$ ^	Repos
0/N	#VALUE!	#VALUE!
1week	#VALUE!	#VALUE!
2week	#VALUE!	#VALUE!

	TSY	Swap	ED Pks ^^
2y	3.629	76.25	4.288
5y	3.931	75.25	5.043
10y	4.324	71.25	



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:**

15:18 11/06 **US TSYS/RECAP:** Tsys ended Tues lower as 1) on-and-off stocks strength pressured Tsys (despite credit crunch worries: monoline bond insurer concern, bank writedown fear); 2) sister mkt spreads widened: agencies widened; many tried to shore up positions before fiscal yr-end end-Nov; 3) fast money sold MBS vs. swap receiving, with also outright selling in MBS product by bk portfolios; 4) also was options-tied selling in US 10Ys as servicer acct also bought up to 50K March 10Y 109 puts. 5) Citigrp said Mon it provided US\$7.6B in emergency funding to seven SIVS it runs after they struggled to repay maturing debt (BBG). 6) Muted foreign central bank buying in Tsys, bills this morn. 7) Earlier, there was heavy selling in Dec 2Y, 10Y 30Y Tsys futures by real money corporate, MBS-tied accounts too. 8) Morning corporate rate-lock sales; may unwind later. 9) 3M US\$ Libor rose 2d day, Dec OIS/LIBOR also did; credit jitters for yrend, ABCP fear). 10) Shorter Tsys had safe-haven bid. 11) Will be US\$13B 10Y auction Wed.

15:10 11/06 **US EURODLR FUTURES:** Eurodlr futues finished session a little below the middle of the range, curve still steeper after writedown rumors roiled financials, the Red/Gold pack spd bull steepening 4.5 bps at 97.25 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was in 1.0 bps at 95-14 on combined Globex and pit volume of 206,000, the Mar08 in 2.0 bps at 95-58.5 on volume of 196,000, the Jun08 in 2.0 bps at 95-77.5 on volume of 234,000, while the Sep08 contract was 2.0 bps lower at 95-87.5 on volume of 285,000. The 2yr proxy Red pack (Dec08-Sep09), settled 1.5 to 3.5 bps lower across the pack with 572,000 contracts traded. Of note, futures trading 1.0 to 2.0 bps lower than settle on the screen.

15:02 11/06 **US SWAPS:** Spds ended session mostly wider, the front end outperforming despite some decent paying in the vicinity, talk of early rate locks as well while some fast money selling MBS vs receiving in swaps, which was seen yesterday as well. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+0.25/75.50	+1.25/75.00	+1.25/71.50	+2.00/68.75
12:30	+0.75/76.00	+1.25/75.00	+1.50/71.75	+2.00/68.75
11:10	+0.25/75.50	+1.00/74.75	+1.00/71.25	+1.00/67.75
10:20	-1.00/74.25	+0.00/73.75	+0.50/70.75	+0.75/67.50
9:00	-1.75/73.50	+0.00/73.75	+0.00/70.25	+0.25/67.00
Tue Open	-0.50/74.75	+0.25/74.00	+0.50/70.75	+1.00/67.75
Tue 7:40	-0.50/74.75	+0.25/74.00	+0.50/70.75	+1.00/67.75
Mon 3:30	+3.00/75.25	+2.75/73.75	+2.50/70.25	+2.50/66.75

(cont) Overnight:

LONDON, (MNI) - U.S. Treasuries are trading higher across the board in London Wednesday, as a weaker dollar and ongoing fears over the health of global credit markets helps push yields lower. Traders said despite supply due Wednesday and Thursday, prices were higher across the curve. However, the upcoming 10 and 30-year sales were helping the curve steepen. Prices were better bid from the getgo in Tokyo trade, boosted initially by dip-buying from regional accounts and by buying of the front of the curve by Asian central banks. Traders noted the weaker yen was helping attract buyers to the front of the curve.

London trade saw prices accelerate higher across the board, although the front of the curve continued to lead the way higher. Real money names were active across the board, with leverage players also buyers of the 5 and 10-year sectors of the curve.

Some hedge fund selling was seen in the 10-year note, mainly positioning ahead of the first leg of the quarterly refunding. Asian regional banks and lifers were also active buyers of the Bond.

The Bund/T-note spread widened just 0.5 bps on overnight levels, to stand at 22 bps, still hovering close to the recent low.

European equity markets are mixed this morning. In London, the FTSE-100 was down 0.2%. In Paris the CAC was up 0.2% and in Frankfurt, the DAX was up 0.3%. U.S. index futures are trading lower. The S&P Dec contract was down 7.1 points at 1517.9 and the Nasdaq Dec contract was 7.25 points higher at 2226.25.

Ahead of the U.S. session, the 2-yr note was trading 4/32 higher at 99 31/32 to yield 3.64%. The 10-yr note was 8/32 lower at 103 10/32 (4.33%), with the Bond 19/32 higher at 105 29/32 (4.63%).

The 2-yr/5-yr yield curve was 2 bps steeper on Monday's levels, trading at +30 bps. The 2-/10-yr curve was 3 bps steeper, trading at +69 bps, with the 2-yr/30-yr curve 4 bps steeper, standing at +100 bps.

December expiry futures contracts on the CBOT electronic system are trading in line with Monday's closing levels. The Sep T-note was unchanged at 110 28/32 and the Bond was flat at 113 24/32.




13:52 11/06 **US TSYS/EUROPE/RESEARCH:** ABN analysts said European bond market "concern with bank balance sheet weakness will persist" until at least year-end amid "earnings and asset writedown disclosures in the runup to full-year reporting season. The U.S. bank sector should lead the results season in terms of timing, but European bank results (many in January) will also be keenly watched given the relative dearth of news in various Euro area regions." They added year-end demand " for cash is set to remain high and is symptomatic of funding issues for ABCP. Our working hypothesis is that a much more normal interbank mkt will emerge in Q1-08 but that is not the same as saying the broken business model of SIVs will be resurrected" so "bloated bank balance sheets and the possible need to raise capital will remain a factor in market thinking" and "quick fix for banking sector concerns is not expected, and to put it bluntly, we have trouble believing that the firms that have disclosed large write-downs and losses are that much more inept than the rest of the Street."

14:07 11/06 **US TSYS/RESEARCH:** The US\$18B 3Q quarterly refunding auctions -- the smallest in 20 years -- begin Wed. with 1pm ET US\$13B 10-year note auction and conclude with the \$5b 30-year bond reopening Thursday. Stone & McCarthy's Ward McCarthy said "the combined paydown for the refunding will be \$32.7 bln upon settlement on Nov. 15" which is "hefty by historical standards" paydown but "falls short of the August paydown of \$40.6 bln, the largest on record." And he adds that SMRA projects Treasury "will pay out a combined \$24.7 bln with the mid-quarter coupon interest payment on Nov. 15" so "total Treasury-generated cash flows from the November Refunding package will generate approximately \$57.4 bln in excess of what will be necessary to absorb the entire Refunding package" which is "potentially a very favorable development for both the auction process and the post-auction distribution process. The market will be very liquid due to this enormous inflow of cash that will be available to invest on these issues."

The Refunding (10s and 30s) will likely aid the steepening that has been the theme of the last several sessions -- but with just \$13 bn 10s and \$5 bn 30s, we struggle to imagine any major back-up in rates will be needed to take down the supply. The biggest risk to the market remains the ongoing concerns in the credit markets and news spilling out of the major banks as we near the impending fiscal year-end.--David Ader, Head of Government Bond Strategy, Ian Lyngen, Strategist Market Strategy Team, [RBS Greenwich]

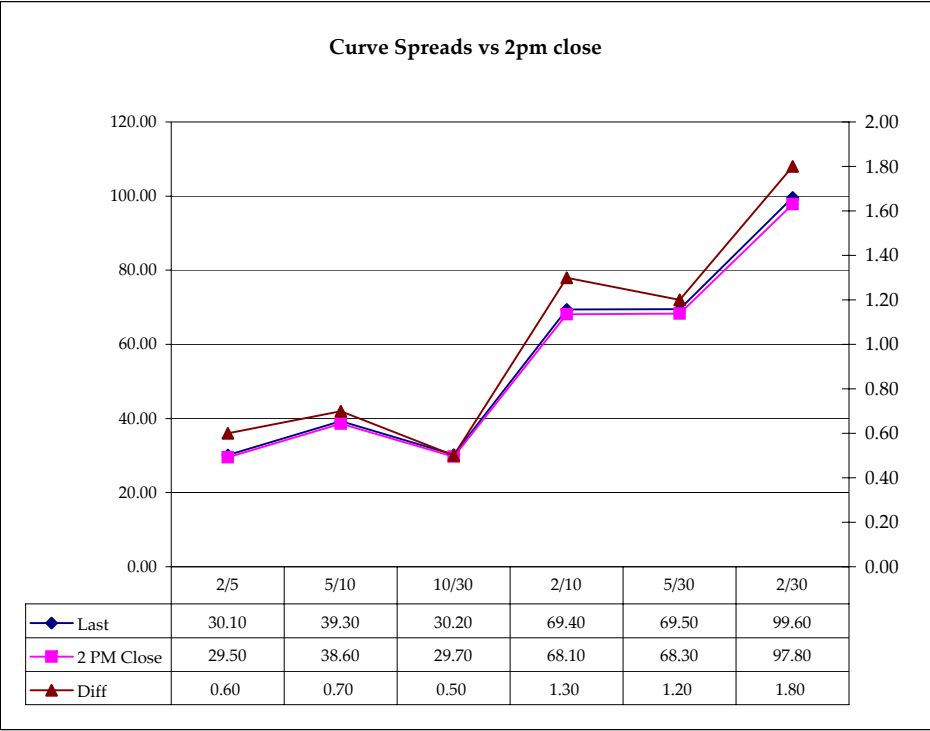
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.65	5.37	\$1,677	10.73	n/a
10y	7.72	2.58	\$806	5.16	n/a
5y	4.48	1.43	\$448	5.73	n/a
2y	1.90	0.62	\$193	2.47	n/a
ZB	9.88	3.66	\$114	3.66	1.1103
ZN	5.78	2.08	\$65	4.16	0.9069
ZF	3.86	1.35	\$42	2.70	0.9119
ZT	1.80	0.60	\$19	2.41	0.9593

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	30.10	29.50	0.60
5/10	39.30	38.60	0.70
10/30	30.20	29.70	0.50
2/10	69.40	68.10	1.30
5/30	69.50	68.30	1.20
2/30	99.60	97.80	1.80

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 Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.68	3.91	7.04	14.65
ZN	2.97	6.89	12.41	25.82
ZF	4.57	10.61	19.10	39.75
ZT	5.12	11.88	21.39	44.51

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.762	2.713	6.075
ZN	0.000		1.539	3.447
ZF	0.369	0.650		2.239
ZT	0.165	0.290	0.447	

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	4.1
Bobl (Z)	0.6	1.0	2.5
Shatz (Z)	0.2	0.4	1.0

US Treasuries

	2y	5y	10y	30y
2y		2.322	4.180	8.698
5y	0.431		1.800	3.746
10y	0.239	0.556		2.081
30y	0.115	0.267	0.481	

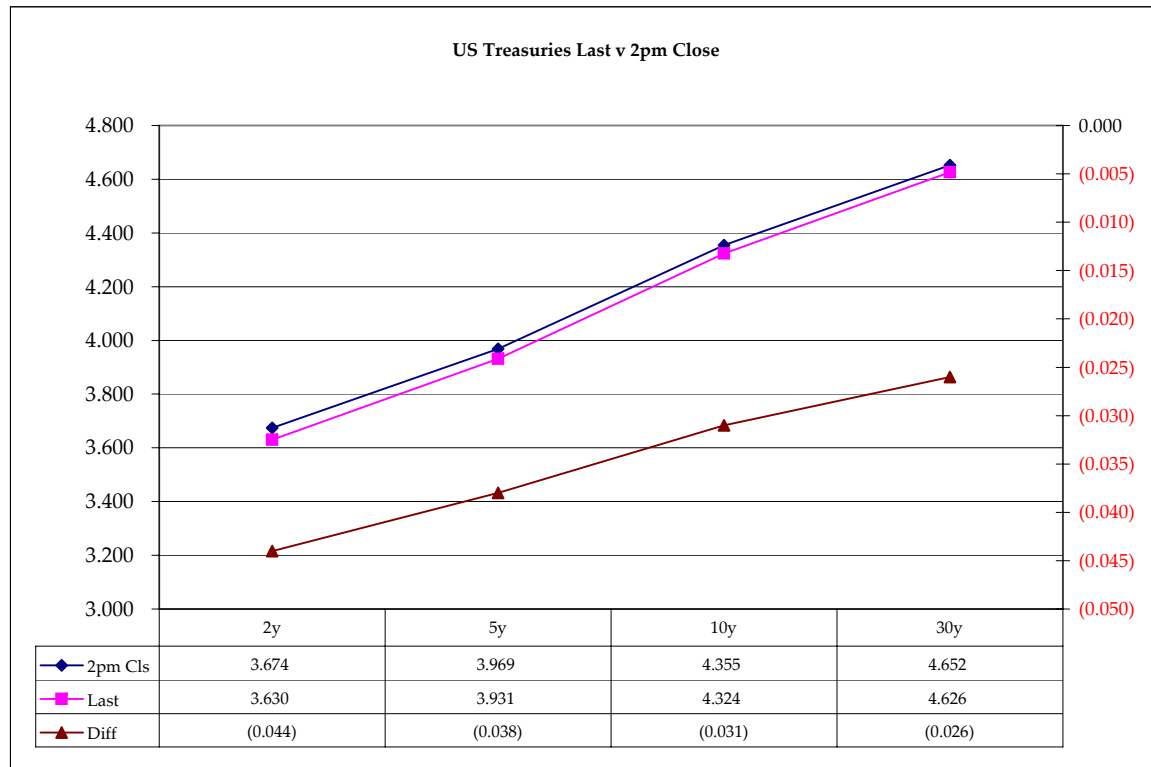
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	99.2900	3.674	3.630	(0.044)			
5y	3.875	10/30/12	99.1850	3.969	3.931	(0.038)	30.41	29.69	
10y	4.750	8/15/17	103.035	4.355	4.324	(0.031)	81.82	82.52	even /+.50
30y	5.000	5/15/37	105.18	4.652	4.626	(0.026)	-663.49	-661.60	+.25/ even

	Close 32	Last
ZFZ7	108.050	108.115
ZNZ7	110.280	111.035
ZBZ7	113.24	114.020

Curve Spreads		
	Close bps	Last bps
2/5	29.5	30.1
5/10	38.6	39.3
10/30	29.7	30.2
2/10	68.1	69.4
5/30	68.3	69.5
2/30	97.8	99.6



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	\$198	\$468	\$806	
30	\$204	\$480	\$826	\$1,677
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	1.61%			
10	-2.85%	-4.39%		
30	-5.28%	-6.78%	-2.50%	

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	2.38	4.28	8.90
ZF	0.46	1.06	1.91	3.98
ZN	0.30	0.69	1.24	2.58
ZB	0.17	0.39	0.70	1.47

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.38	8.55	17.80
ZF	0.46	2.12	3.82	7.95
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	4.18	8.70
5y	0.43	1.00	1.80	3.75
10y	0.24	0.56	1.00	2.08
30y	0.11	0.27	0.48	1.00

	2y	5y	10y	30y
2y		2.32	2.09	4.35
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	2.24	3.45	6.07
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		2.24	6.89	24.30
ZF	0.45		1.54	5.43
ZN	0.15	0.65		3.52
ZB	0.04	0.18	0.28	

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		Flatten				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 money.

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