

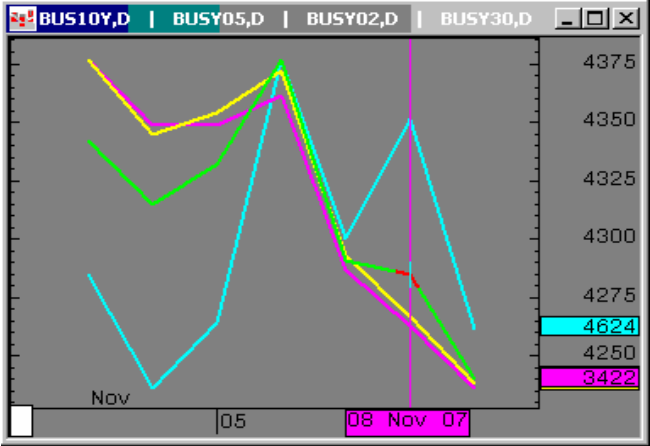


The Morning Email: Treasuries

Table of Contents

- Pg 1 Important Econ Releases, Highs & Lows
- Pg 2 Quotes
- 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 Closes: 2pm CST vs this Morning
- Pg 8 Cash Duration Matrix
- Pg 9 Tic for Tic & Box for Box Matrix
- Pg 10 Valuing the Basis

Daily Yield Curve



Source: CQG, Inc. © 2007 Fri Nov 09 2007 05:35:56



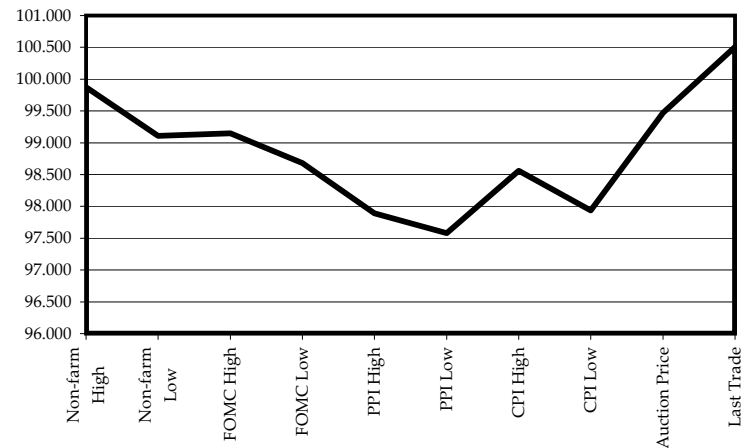
Want something added? Let me know: jgoulding@ghco.com

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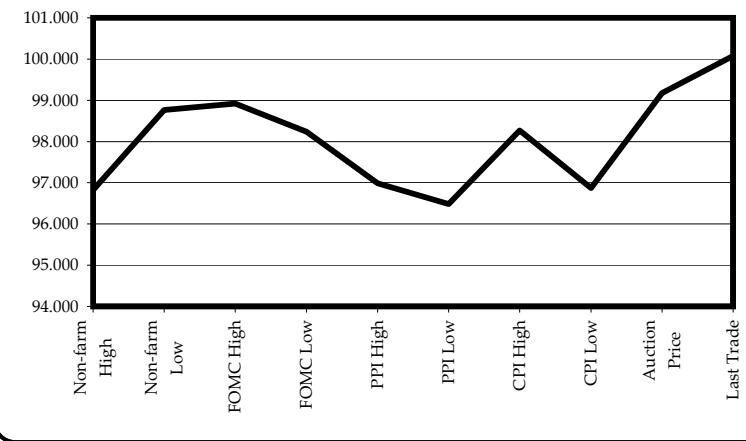
Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	99.2800	96.265	111.140	114.21	11/2/2007
Non-farm Low	99.0350	98.245	110.125	113.10	11/2/2007
FOMC High	99.0475	98.295	110.190	113.19	10/31/2007
FOMC Low	98.2175	98.075	109.305	112.17	10/31/2007
PPI High	97.2850	96.315	108.260	110.31	10/12/2007
PPI Low	97.1850	96.155	108.120	110.05	10/12/2007
CPI High	98.1800	98.085	109.220	111.27	10/17/2007
CPI Low	97.3000	96.280	108.260	110.15	10/17/2007
Auction Price	99.1504	99.056			
Last Trade	100.1620	100.025	111.290	114.13	11/9/2007 5:43

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.260	99.150	99.056	105.103
Auction Yield Stop	3.723	3.993	4.350	5.059
Actual Auction Date	10/24/2007	10/25/2007	11/7/2007	11/8/2007

5y (Decimal)



10y (Decimal)



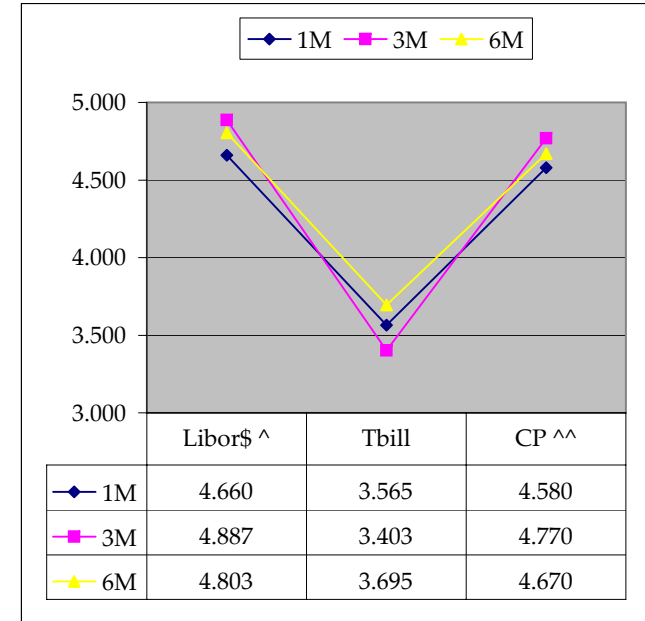
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.135	0.0	104.137	104.075	104.100	42,710	2y Fut
FVAZ7	109.005	0.1	109.015	108.205	108.240	83,115	5y Fut
TYAZ7	111.290	0.1	111.300	111.125	111.165	178,673	10y Fut
USAZ7	114.130	0	114.140	113.230	113.290	37,544	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.122	3.7	100.125	100.065	100.075	na	2y Cash
BUS05P	100.162	7.7	100.167	100.042	100.045	na	5y Cash
BUS10P	100.020	11.0	100.030	99.180	99.200	na	10y Cash
BUS30P	105.290	18	105.315	105.045	105.045	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.418	(5.90)	3.526	3.41	3.509	na	2y Yield
BUS05Y	3.758	(5.30)	3.849	3.755	3.833	na	5y Yield
BUS10Y	4.240	(4.50)	4.306	4.236	4.298	na	10y Yield
BUS30Y	4.627	(3.20)	4.685	4.623	4.669	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.660	3.565	4.580
3M	4.887	3.403	4.770
6M	4.803	3.695	4.670

	Libor\$ ^	Repos
0/N	4.558	4.300
1week	4.628	4.350
2week	4.639	4.350

	TSY	Swap	ED Pks ^^
2y	3.417	80.25	4.125
5y	3.760	81.25	
10y	4.244	75.25	



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:**

15:04 11/08 **US TSYS/RECAP:** Tsys rallied strongly Thu daylong with only 1) minor late profit-taking, amid 2) voracious risk-aversion buying in Tsys as sister markets basically got hammered. This afternoon saw 3) leveraged accounts buying 5Ys today, a 4) host of bid lists in hybrid agency ARMS and AAA-rated Home Equity floaters, some in CMBS; 5) selling of various riskier debt markets/buying of Tsys; 6) falling US stocks spurred risk aversion buying in Tsys; 7) CDS indexes are flying wider and near or have pierced in some cases the summer wides. 8) Selling of MBS/buying of US Tsys; 9) financial institutions also bought 3Ys, leveraged accounts bought 2Ys. This morning Tsys also rose 10) amid ongoing dip buyers, U.S. and foreign and real money sponsorship, on-and-off stocks weakness, and 11) fairly dovish comments out of Fed Chairman Ben Bernanke to Jt Econ Comm as said FOMC grapples with "resilient" data but persistent financial strains. Foreign central bank bid surfaced in front-end Tsys, as did leveraged accts, bank bid. Some financial institutions sold 5s.

15:14 11/08 **US EURODLR FUTURES:** Eurodlr futures finished session a little off session highs, curve still steeper, the Red/Gold pack spd out another 9.5 bps at 112.25 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was up 7.0 bps at 95-25 on combined Globex and pit volume of 312,000, the Mar08 up 11.0 bps at 95-72.5 on volume of 459,000, the Jun08 up 14.0 bps at 95-96.5 on volume of 497,000, while the Sep08 contract was 14.5 bps higher at 96-07.5 on volume of 499,000. The 2yr proxy Red pack (Dec08-Sep09), settled 9.5 to 13.0 bps higher across the pack with 1,189,000 contracts traded.

15:03 11/08 **US SWAPS:** Spds succumb to FI rally, well off early tights, wider in fronts to belly--snapping back to recent credit-crunch sensitive trend. Long end still outperforms. After light flow earlier, sources reporting some receiver-tied flow in 2-, 3-yr Eurodlr bundles, this after decent receiving and steepener interest across curve overnight. Some had tied early tightening to spds being "overly-wide" Wed, while one desk posited that "Dollar" was the key. "There is an out of risk mindset and the rate directional bias for spreads is not there with the curve steepening." Therefore, "the dollar trade takes out the buyer of assets," the source concluded. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	+1.75/82.25	+2.50/82.00	+2.50/76.00	-0.50/69.00
11:55	+1.00/81.50	+1.50/81.00	+1.50/75.00	-1.00/68.50
10:45	-2.25/78.25	-0.75/78.75	-0.75/72.75	-2.50/67.00
Thu Open	-1.25/79.25	-0.75/78.75	-0.50/73.00	-1.75/67.75
Wed 3:05	+5.00/80.50	+4.50/79.50	+2.00/73.50	+0.75/69.50

(cont)

Overnight:

06:16 11/09 **TSYS SUMMARY:** US Treasuries opened little changed in the Tokyo session, with traders reporting profit-taking from fast money accounts in the wake of recent safe-haven gains. That said, market rumours of further writedowns related to subprime exposure underpinned bond markets along with a report by S&P ratings agency that it has downgraded CDO managed by State Street Corp. as much as 18 notches. Prices were also underpinned by comments from Fed Chairman Ben Bernanke, who told the Joint Economic committee on Thursday that the FOMC expects growth to "slow noticeably" in the fourth quarter. Bernanke also said that that the FOMC grapples with "resilient" data but persistent financial strains. In the London session, prices squeezed higher in line with short-covering in European Government Bond markets, albeit in thin volume session, ahead of the Veterans' Day holiday. In cross-border flows, US Treasuries are little changed against Bunds as the 10-year UST/Bund yield spread trades unchanged at +20 bps, despite \$ weakness.




10:57 11/08 **US TSYS:** Tsys again hold the highs, as US stocks remain weaker. Some are surprised at the morning's Bernanke comments and added that "he did not want to be too hawkish" thus softened down his tone quite a bit amid turbulent financial markets. "It looks like, after this, the Fed will have to cut at the next meeting," said one observer. "At the last meeting, the Fed said there was less uncertainty. But now, he is citing more uncertainty" amid credit crunch issues. He added that "the U.S. dollar continues to tank," which is "bearish for the back end Treasuries," but noted that Bernanke said when oil goes up as the dollar weakens, "that takes away from growth."

10:56 11/08 **ECB VIEW:** The ECB kept the minimum refi rate unchanged at 4.0% earlier as expected. Laurent Bilke of Lehman Brothers says the main takeaway from the accompanying statement "is that the ECB retains a wait-and-see posture." The central bank subtly used "adverbs" to voice concern about both inflation developments and downside growth risks. "Our call is unchanged," Bilke says, "The ECB will most likely stay on hold for a while." Lehman's view is that the eurozone economy already hit a turning point, he notes. However, even with a slowing economy, the risk of "late cycle inflation pressures and commodity price increases obliges the ECB to stay on hold with a tightening bias," Bilke says.

14:44 11/08 **US/EMERGING MARKETS:** Tensions are rising, that is clear. The CBO[E]'s volatility index or VIX, viewed as a barometer of the market's attitude toward risk, holds at \$28.37 down from an earlier high of 29.15. The VIX hit a low of 16.08 on Oct 11, before rising risk aversion sent the index higher. At the peak of the credit crunch on August 16, the day before the Fed cut the discount rate by 50bps, the VIX hit a high near 37.50. In Emerging Markets, the EMBI-plus stands at +220 Thursday afternoon, up from opening levels near +212 and early Monday rates near +205. The EMBI-plus spread (versus similar U.S. Treasury securities) stood at +219 basis points at the end of July, and rose to +251 basis points at the peak of market turmoil in August.

[9:30 am CT]
NEWS ALERT
from The Wall Street Journal
Nov. 8, 2007

Fed Chairman Ben Bernanke said that while the most recent data suggest a "resilient" economy, growth should slow "noticeably" this quarter and into 2008 as the housing slump intensifies. In prepared testimony to the Joint Economic Committee of Congress, he said he expects the economy to strengthen later next year, and that the Fed's recent rate reductions have put risks to growth and inflation roughly in balance. His remarks suggest that, from a broad economic perspective, another rate reduction in December is unlikely, though he left the door open for future moves.



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.64	5.36	\$1,676	10.73	n/a
10y	7.92	2.54	\$793	5.07	n/a
5y	4.48	1.44	\$451	5.77	n/a
2y	1.89	0.62	\$193	2.47	n/a
ZB	9.88	3.67	\$115	3.67	0.8628
ZN	5.78	2.09	\$65	4.18	0.8721
ZF	3.85	1.36	\$42	2.71	0.9119
ZT	1.79	0.60	\$19	2.41	0.9593

ZB CF has been corrected

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	34.00	34.70	(0.70)
5/10	48.20	47.10	1.10
10/30	38.70	38.80	(0.10)
2/10	82.20	81.80	0.40
5/30	86.90	85.90	1.00
2/30	120.90	120.60	0.30

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

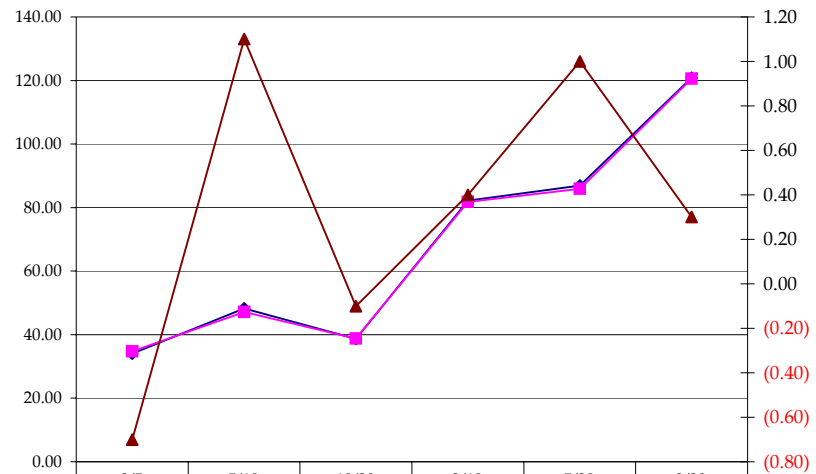
Example, If ZN moves 1~basis point, then, it's moved 2.08 tics (Today, 10/25/07, the value in the box is 2.08).

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

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	34.00	48.20	38.70	82.20	86.90	120.90
2 PM Close	34.70	47.10	38.80	81.80	85.90	120.60
Diff	(0.70)	1.10	(0.10)	0.40	1.00	0.30

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	3.92	6.91	14.60
ZN	2.95	6.89	12.13	25.63
ZF	4.55	10.63	18.70	39.53
ZT	5.12	11.96	21.05	44.50

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.756	2.708	6.097
ZN	0.000		1.542	3.472
ZF	0.369	0.648		2.251
ZT	0.164	0.288	0.444	

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		2.337	4.113	8.693
5y	0.428		1.760	3.719
10y	0.243	0.568		2.114
30y	0.115	0.269	0.473	

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	100.1025	3.455	3.418	(0.037)			
5y	3.875	10/30/12	100.1050	3.802	3.758	(0.044)	34.81	35.04	
10y	4.250	11/17/17	99.260	4.273	4.240	(0.033)	78.86	79.51	+0.50
30y	5.000	5/15/37	105.13	4.661	4.627	(0.034)	223.78	231.29	+0.25

	Close 32	Last
ZFZ7	108.265	109.005
ZNZ7	111.200	111.290
ZBZ7	114.02	114.130

Curve Spreads		
	Close bps	Last bps
2/5	34.7	34.0
5/10	47.1	48.2
10/30	38.8	38.7
2/10	81.8	82.2
5/30	85.9	86.9
2/30	120.6	120.9



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	24%	57%	100%	
30	12%	29%	51%	137%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$193			
5	\$190	\$451		
10	\$189	\$448	\$793	
30	\$203	\$480	\$848	\$1,676
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$2			
10	\$3	\$2		
30	(\$10)	(\$29)	(\$56)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	1.27%			
10	1.79%	0.51%		
30	-4.87%	-6.07%	-6.55%	

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	2.39	4.21	8.90
ZF	0.45	1.06	1.87	3.95
ZN	0.29	0.69	1.21	2.56
ZB	0.17	0.39	0.69	1.46

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.39	8.42	17.80
ZF	0.45	2.13	3.74	7.91
ZN	0.59	1.38	1.21	2.56
ZB	0.67	1.57	1.38	2.92

	2y	5y	10y	30y
2y	1.00	2.34	4.11	8.69
5y	0.43	1.00	1.76	3.72
10y	0.24	0.57	1.00	2.11
30y	0.12	0.27	0.47	1.00

	2y	5y	10y	30y
2y		2.34	2.06	4.35
5y	0.43		0.44	1.86
10y	0.49	2.27		2.11
30y	0.23	0.54	0.47	

	ZT	ZF	ZN	ZB
ZT	1.00	2.25	3.47	6.10
ZF	0.44	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		2.25	6.94	24.39
ZF	0.44		1.54	5.42
ZN	0.14	0.65		3.51
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