

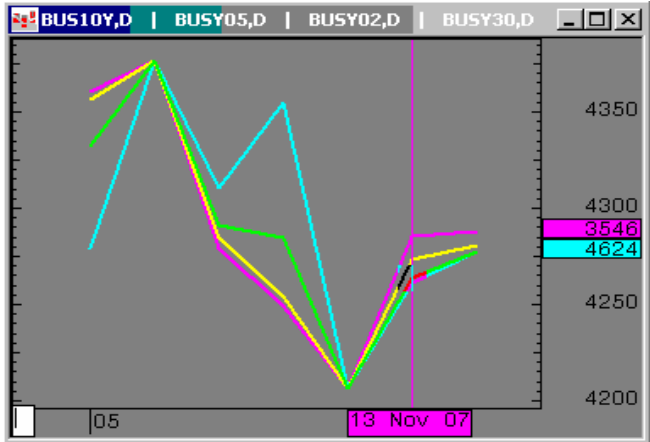


## The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 Wed Nov 14 2007 05:30:33

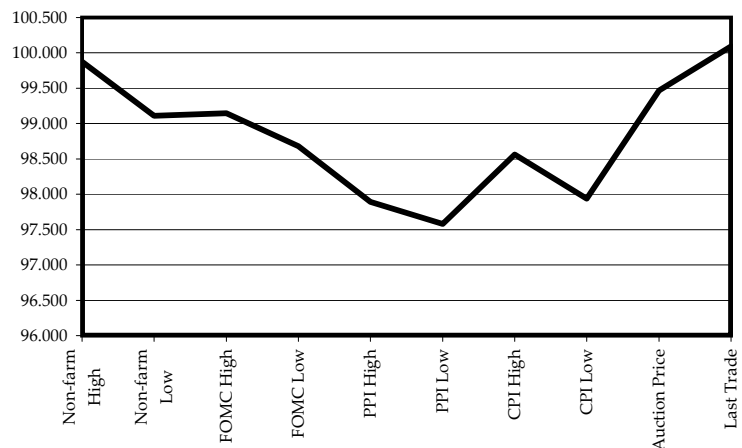


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)  
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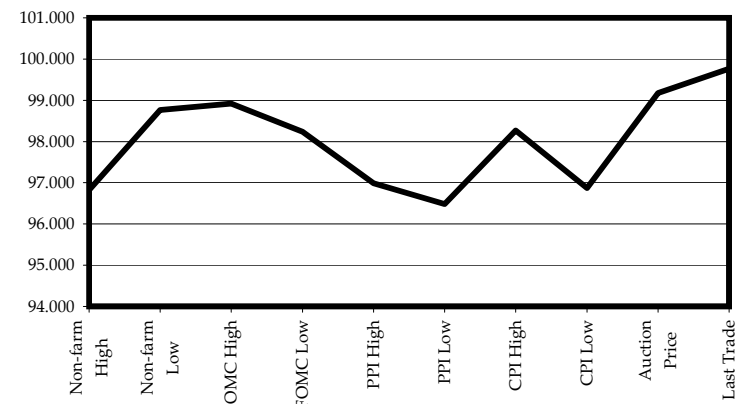
Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	99.2800	96.265	111.140	114.21	11/2/2007
Non-farm Low	99.0350	98.245	110.125	113.10	11/2/2007
FOMC High	99.0475	98.295	110.190	113.19	10/31/2007
FOMC Low	98.2175	98.075	109.305	112.17	10/31/2007
PPI High	97.2850	96.315	108.260	110.31	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	100.0300	99.245	111.170	114.04	11/14/2007 5:34

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)



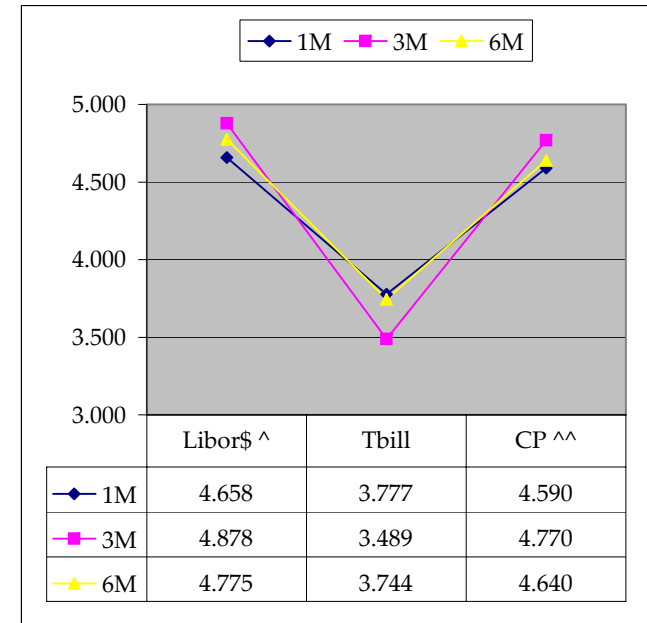
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.060	(0.0)	104.070	104.035	104.062	33,784	2y Fut
FVAZ7	108.190	(0.0)	108.205	108.135	108.195	73,396	5y Fut
TYAZ7	111.170	(0.1)	111.200	111.110	111.200	192,436	10y Fut
USAZ7	114.040	(0)	114.110	113.270	114.100	43,107	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.045	(0.2)	100.055	100.027	100.040	na	2y Cash
BUS05P	100.030	(1.7)	100.047	99.297	100.020	na	5y Cash
BUS10P	99.240	(4.0)	99.265	99.170	99.240	na	10y Cash
BUS30P	105.310	(5)	106.025	105.150	105.300	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.546	0.40	3.588	3.525	3.538	na	2y Yield
BUS05Y	3.852	1.20	3.894	3.838	3.84	na	5y Yield
BUS10Y	4.277	1.30	4.312	4.25	4.262	na	10y Yield
BUS30Y	4.625	0.80	4.662	4.618	4.629	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.658	3.777	4.590
3M	4.878	3.489	4.770
6M	4.775	3.744	4.640

	Libor\$ ^	Repos
0/N	4.774	4.250
1week	4.664	4.150
2week	4.654	4.150

	TSY	Swap	ED Pks ^^^
2y	3.549	76.75	4.218
5y	3.854	77.25	
10y	4.281	72.25	



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:**

15:22 11/13 **US TSYS/RECAP:** Tsys ratcheted lower Tues, pressured somewhat by US stocks strength, some earlier asset-allocation out of bonds to US stocks. Tsys traders said US stocks said underpinned by strong Wal-Mart results: Q3 profits +8% to \$2.86B. DJIA up 2.04%. Some noted hedge funds asset allocation out of bonds into US stocks and steeper unwinds, with 3 banks agreeing to start super-SIV M-LEC entity and reports billionaire investor Warren Buffet could eye potential investmt in bd insurers. Real, lvrgrd money took profits on US, European bd steepeners. Foreign central bks sold Tsys earlier and then bought similar Tsys. There was earlier corporate rate-lock selling as deals prepared in 5Y, 10Y, 30Ys. 2Y/10Y, 2Y/30Y curves flatter amid steeper unwinds. But swap spreads had steepening bias; CDS wider (such as homebuilders) tho fincl. CDS did better; some feel Tsys' weakness Tue cd be 1-day affair. Tsys traders felt same, expected turbulent Wed resumption of ABCP trading from Canadian SIVS. Some eyed Nov 15 45-day notice pd for yrnd hedge fund redemptions.

15:19 11/13 **US EURODLR FUTURES:** Eurodlr futres finished at or near session lows with the curve continuing to unwind recent steeper move, the Red/Gold pack spd in 1.875 bps at 104.25 by the bell, -1.875 bps from Friday. In the Fronts (Dec07-Sep08), the Dec07 was in 4.0 bps at 95-22.55 on combined Globex and pit volume of 198,000, the Mar08 in 6.0 bps at 95-70.5 on volume of 258,000, the Jun08 in 7.0 bps at 95-93 on volume of 275,000, while the Sep08 contract was 7.0 bps lower at 96-03.5 on volume of 310,000. The 2yr proxy Red pack (Dec08-Sep09), settled 4.0 to 6.0 bps lower across the pack with 626,000 contracts traded.

15:10 11/13 **US SWAPS:** Spds improvement picks up steam late in the session, strong positive performance in equities a sign of oversold conditions after multiple sessions of punishment, credit-tied anxieties taking back seat for the moment. Flow light and 2way in front end early after better payers in 2s and 5s out of London overnight. Accts still maintaining steeper positions despite curve unwinds elsewhere. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	-4.25/78.75	-2.75/79.50	-2.50/73.50	-1.75/66.75
1:30	-3.50/79.50	-2.50/79.75	-2.25/73.75	-1.50/67.00
11:30	-2.75/80.25	-2.50/79.75	-2.50/73.50	-2.00/66.50
10:20	-2.75/80.25	-2.50/79.75	-2.25/73.75	-1.75/66.75
9:25	-2.50/80.50	-2.00/80.25	-2.00/74.00	-1.50/67.00
Tue Open	-2.50/80.50	-1.75/80.50	-1.50/74.50	-1.00/67.50
Tue 7:55	-2.25/80.75	-1.50/80.75	-1.50/74.50	-1.00/67.50
Fri 1:00	+0.75/83.00	+0.50/82.25	-1.00/76.00	-0.50/68.50

(cont)

**Overnight:**

05:22 11/14 **TSYS:** Treasuries are trading lower across the board in London trade Wednesday, building on losses seen in the previous U.S. session. With Tokyo stocks rallying hard in the wake of Wall Street's gains, Treasuries were weaker from the getgo in Asian trade, helped by a return of risk investors. But the front of the curve still remained in vogue, with demand seen from Asian real money accounts. The market continued to trade lower in London, as global equities continued to rally. Traders said volumes were light, with the price action largely a mark-down by traders. End users remained sidelined, with light interdealer flows helping push yields higher. The curve was steeper, as the front-end of the curve outperformed modestly. The Bund/T-note spread narrowed 1 bps on Tuesday's levels, to stand at 17 bps. Ahead of the U.S. session, the 2-yr note was trading 1/32 lower at 100 3/32 to yield 3.56%. The 10-yr note was down 8/32 at 99 20/32 (4.29%), with the Bond 13/32 lower at 105 24/32 (4.64%).




13:43 11/13 **US TSY FUTURES:** Barclays research says according to the latest CFTC COT report dated for Nov 6, combined futures and options total bond long positions reached the highest level in 3 years as total Tsy positions increased from 6.47% to 7.84% and total rate positions were increased from 5.45% to 6.20%. On net, 10-year note long positions were increased by 132k to 574k contracts while 30-year bond shorts were cut by 33k to long 25k. Speculators continue to hover near record levels in 3m Euro\$ long positions. The latest report shows that Euro\$ longs were increased by 29k contracts to 973k. Record levels of 1,192k had been reached just a few weeks ago. Combined 30 day fed funds shorts were increased by 16k to short 25k. Meanwhile, 2-year note longs were cut by 12k contracts to short 8.5k and 5-yr note longs were pared back sharply by 77k to 16k contracts, just 0.76% of open interest.

12:30 11/13 **US STOCKS/BONDS/BANKS:** Goldman Sachs CEO Lloyd Blankfein had said the firm would not take any significant writedowns on MBS-tied assets, and that firm was still expecting that MBS, CDOs would decline in value so GS was "net short in these markets" (Bloomberg.) The remarks were made in response to a question at a Merrill Lynch conference.

15:00 11/13 **U.S. STOCKS: Dow up 253 points after 3 pm data surprised with strength. Nasdaq is up 69.**

**Goldman Shares Rally 5.5% As CEO Says No Plans For Sign >>**

- \*GOLDMAN SACHS SHARES GAIN \$11.79, OR 5.5%, TO \$226.50
- \*BLANKFEIN SAYS GOLDMAN HAS 'GOOD GRIP' ON LEVEL 3 ASSET VALUES
- \*BLANKFEIN COMMENTS AT MERRILL LYNCH BANKING CONFERENCE
- \*GOLDMAN'S BLANKFEIN SAYS NO PLANS FOR 'SIGNIFICANT WRITEDOWN'
- \*GOLDMAN SACHS IS 'NET SHORTING' MORTGAGE CDO MAREKTS, CEO SAYS
- \*GOLDMAN'S BLANKFEIN COMMENTS ON CDO MARKETS

**BofA Headlines:**

- \*BANK OF AMERICA SEES FOURTH QUARTER 'MARK' ABOUT \$3B PRETAX
- \*BANK OF AMERICA TARGETS LONG-TERM EPS GROWTH AVG. 10% PER YEAR
- \*BANK OF AMERICA SEES EXPENSE ABOUT \$230M FROM VISA SETTLEMENT
- \*BANK OF AMERICA SEES IMPAIRMENT \$300M ON MEZZANINE INVESTMENT
- \*BANK OF AMERICA SAW IMPAIRMENT ON 1 MEZZANINE INVESTMENT
- \*BANK OF AMERICA MAY SEE GAIN OVER \$30B ON PAPER ON CCB :BAC US
- \*BANK OF AMERICA CONSOLIDATING 1,200 JOBS ON SALES FORCE PLANS
- \*BANK OF AMERICA SAYS PART OF ANNOUNCED JOB CUTS INCLUDE SALES
- \*BAC BOOSTING RESERVES ON HOME EQUITY PORTFOLIO GROWTH :BAC US
- \*BANK OF AMERICA SAYS SUPPORT PACT ON UNCERTAINTY AROUND SIVS
- \*BANK OF AMERICA SAYS PROVIDED SUPPORT PACT TO CASH FUND \$300M
- \*BANK OF AMERICA TARGETS LONG-TERM REV GROWTH AVG. 6-9% PER YR

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.64	5.37	\$1,678	10.74	n/a
10y	8.07	#NUM!	#NUM!	#NUM!	n/a
5y	4.47	1.43	\$448	5.73	n/a
2y	1.92	#NUM!	#NUM!	#NUM!	n/a
ZB	9.86	3.66	\$114	3.66	0.8628
ZN	5.77	2.08	\$65	4.16	0.8721
ZF	3.84	1.35	\$42	2.70	0.9119
ZT	1.78	0.60	\$19	2.39	0.9593

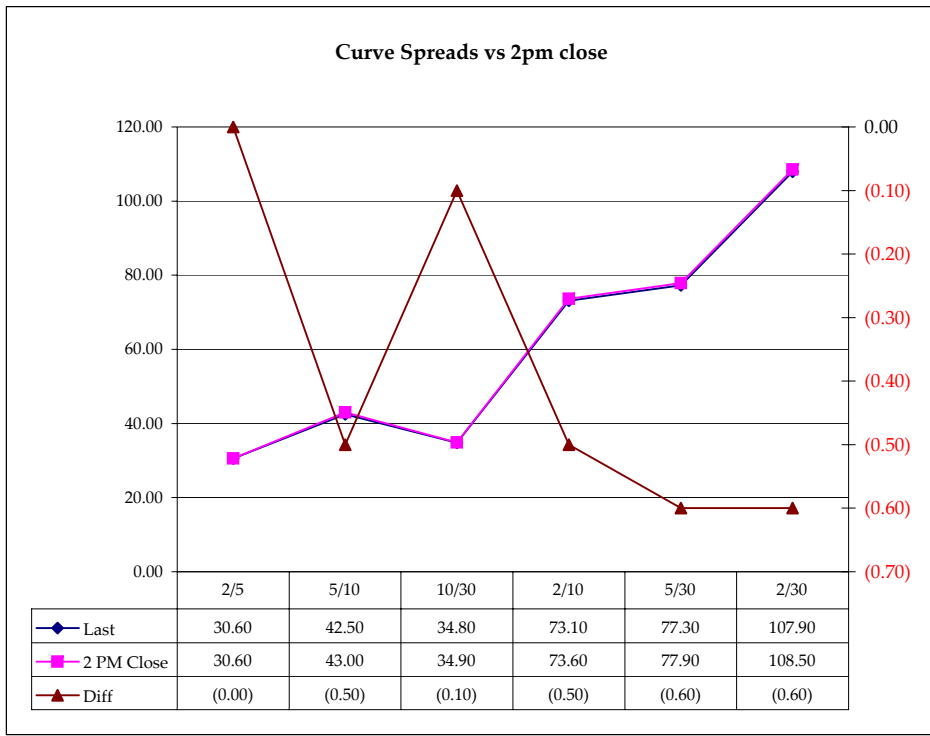
ZB CF has been corrected

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	30.60	30.60	(0.00)
5/10	42.50	43.00	(0.50)
10/30	34.80	34.90	(0.10)
2/10	73.10	73.60	(0.50)
5/30	77.30	77.90	(0.60)
2/30	107.90	108.50	(0.60)

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		1.759	2.716	3.061
ZN	0.569		1.545	1.740
ZF	0.368	0.647		1.127
ZT	0.327	0.575	0.888	

## 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 v US Financial Futures

	2y	5y	10y	30y
ZB	1.64	3.91	#NUM!	14.66
ZN	2.89	6.88	#NUM!	25.79
ZF	4.46	10.63	#NUM!	39.83
ZT	5.02	11.98	#NUM!	44.88

## 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		2.384	#NUM!	8.933
5y	#NUM!		#NUM!	3.747
10y	#NUM!	#NUM!		#NUM!
30y	#NUM!	0.267	#NUM!	

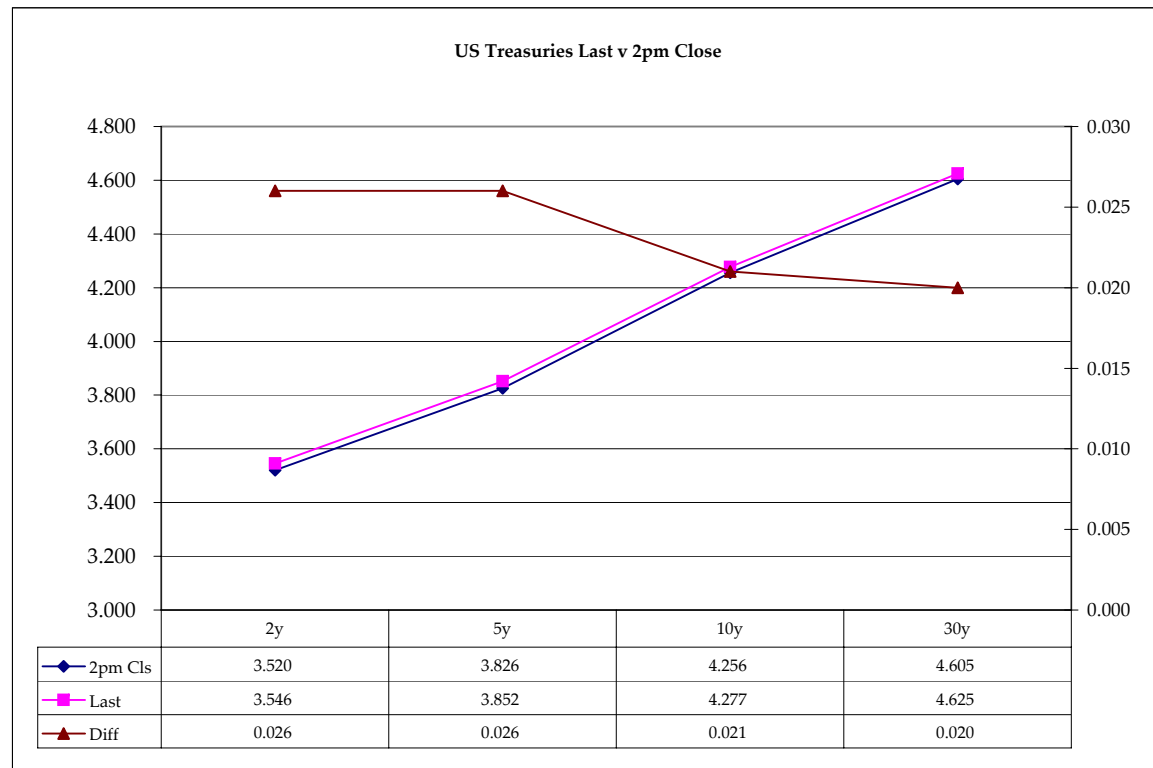
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	100.0625	3.520	3.546	0.026			
5y	3.875	10/30/12	100.0700	3.826	3.852	0.026	35.41	34.15	
10y	4.250	11/17/17	99.305	4.256	4.277	0.021	80.74	79.98	
30y	5.000	5/15/37	106.11	4.605	4.625	0.020	244.29	242.55	

	Close 32	Last
ZFZ7	108.220	108.190
ZNZ7	111.230	111.170
ZBZ7	114.13	114.040

Curve Spreads		
	Close bps	Last bps
2/5	30.6	30.6
5/10	43.0	42.5
10/30	34.9	34.8
2/10	73.6	73.1
5/30	77.9	77.3
2/30	108.5	107.9



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	43%	100%		
10	24%	55%	100%	
30	12%	29%	52%	140%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	#NUM!			
5	\$192	\$448		
10	#NUM!	#NUM!	#NUM!	
30	\$206	\$479	\$866	\$1,678
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	#NUM!			
10	#NUM!	#NUM!		
30	#NUM!	(\$31)	#NUM!	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	#NUM!			
10	#NUM!	#NUM!		
30	#NUM!	-6.56%	#NUM!	

**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	#NUM!	2.40	#NUM!	8.98
ZF	#NUM!	1.06	#NUM!	3.98
ZN	#NUM!	0.69	#NUM!	2.58
ZB	#NUM!	0.39	#NUM!	1.47

Box for Box Matrix				
	2y	5y	10y	30y
ZT	#NUM!	2.40	#NUM!	17.95
ZF	#NUM!	2.13	#NUM!	7.97
ZN	#NUM!	1.38	#NUM!	2.58
ZB	#NUM!	1.57	#NUM!	2.93

	2y	5y	10y	30y
2y	1.00	#NUM!	#NUM!	#NUM!
5y	#NUM!	1.00	#NUM!	3.75
10y	#NUM!	#NUM!	1.00	#NUM!
30y	#NUM!	0.27	#NUM!	1.00

	2y	5y	10y	30y
2y	#NUM!	#NUM!	#NUM!	#NUM!
5y	#NUM!	#NUM!	#NUM!	1.87
10y	#NUM!	#NUM!	#NUM!	#NUM!
30y	#NUM!	0.53	#NUM!	#NUM!

	ZT	ZF	ZN	ZB
ZT	1.00	2.25	3.48	6.12
ZF	0.44	1.00	1.54	2.72
ZN	0.29	0.65	1.00	1.76
ZB	0.16	0.37	0.57	1.00

	2y	5y	10y	30y
ZT	#NUM!	2.25	6.96	24.48
ZF	0.44	#NUM!	1.54	5.43
ZN	0.14	0.65	#NUM!	3.52
ZB	0.04	0.18	0.28	#NUM!

**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