



The Morning Email: Treasuries

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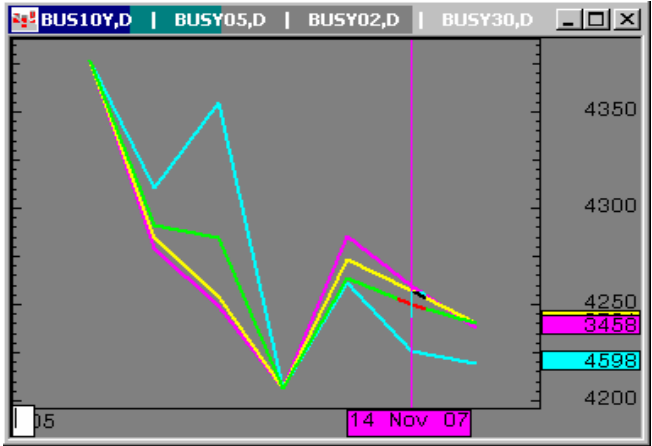
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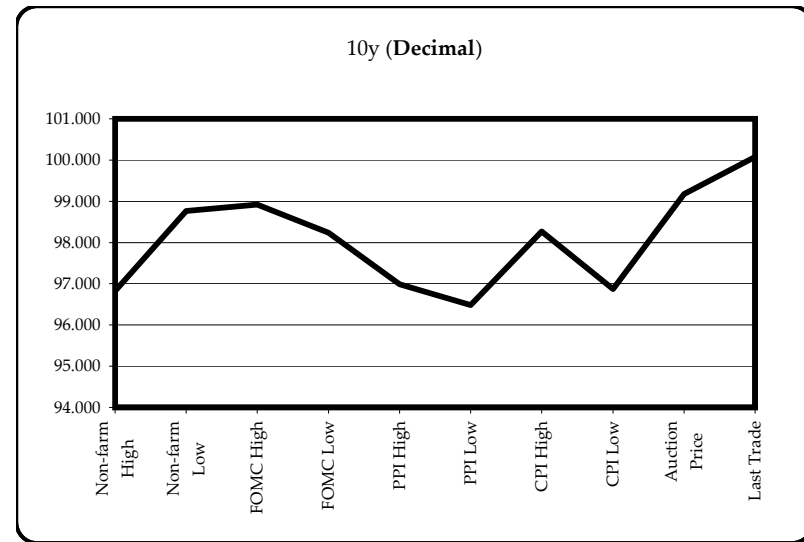
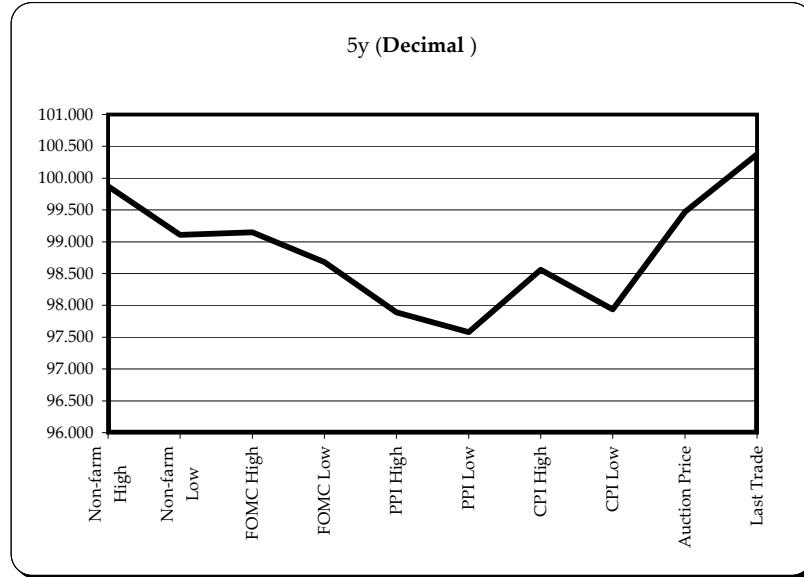
Source: CQG, Inc. © 2007 Thu Nov 15 2007 05:30:12



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	100.1200	100.025	111.265	114.18	11/15/2007 5:40

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

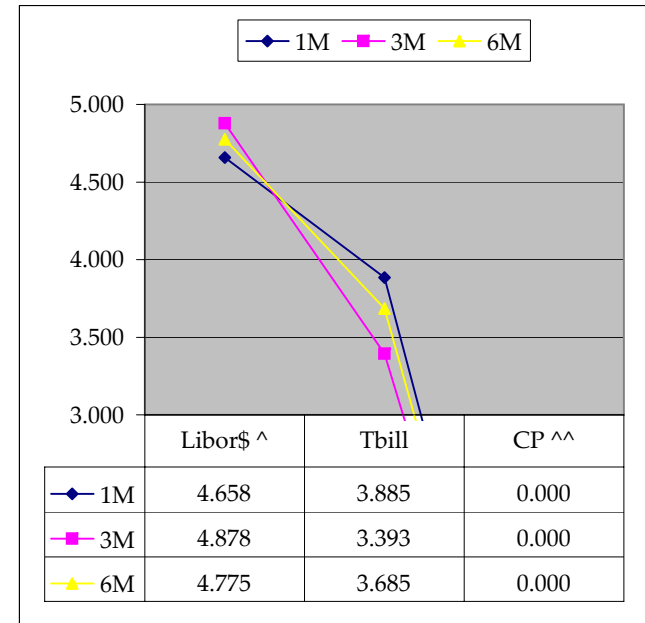


Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.105	0.0	104.117	104.062	104.085	45,831	2y Fut
FVAZ7	108.270	0.1	108.290	108.195	108.235	71,313	5y Fut
TYAZ7	111.265	0.1	111.290	111.180	111.230	119,541	10y Fut
USAZ7	114.180	0	114.220	114.080	114.170	26,982	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.097	2.5	100.105	100.060	100.075	na	2y Cash
BUS05P	100.120	4.5	100.135	100.047	100.077	na	5y Cash
BUS10P	100.025	4.0	100.045	99.255	99.305	na	10y Cash
BUS30P	106.150	3	106.170	106.040	106.125	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.458	(3.80)	3.529	3.442	3.525	na	2y Yield
BUS05Y	3.788	(2.80)	3.845	3.777	3.833	na	5y Yield
BUS10Y	4.238	(1.20)	4.277	4.229	4.264	na	10y Yield
BUS30Y	4.597	(0.40)	4.622	4.59	4.603	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.658	3.885	#VALUE!
3M	4.878	3.393	#VALUE!
6M	4.775	3.685	#VALUE!
	TSY	Swap	ED Pks ^^^
2y	3.457	81.25	4.156
5y	3.787	78.50	5.009
10y	4.238	72.50	5.281

	Libor\$ ^	Repos
0/N	4.774	4.290
1week	4.664	4.150
2week	4.654	4.150



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:**

15:23 11/14 **US TSYS/RECAP:** Tsys ended lower but did recover off lows, amid mixed US stocks, on/off risk aversion, deleveraging bid for Tsys as some sold sister mkt bds/bought T-bills. Others citing mild Tsys reinvestment bid as \$57B over the \$18B needed to digest Nov refunding cd be coming back to Tsys after Thu, Nov. 15, refunding settlement as issues matured, cpn interest payments go out. Tsys earlier gyrated with US stks, drew buying when stocks weaker, Tsys sold when stocks rose. Data supportive: both Oct retail sales and sales ex-motor vehs +0.2%. Oct PPI +0.1%, unch core PPI. Midmorn saw 10Y buying, fast money bid in 3Y, 5Ys, buy-and- hold bid in 2Ys, 10s. There also was foreign central bank 10Y buying, other central banks shifted in front end. Street, bks bought 2Ys. Earlier, there was corp rate-lock selling, buy-and-hold acct sellin in 2s, 3Y selling, intermediate buying. Lower vol earlier, fast money sold 1Y/10Y swaptns, similar flow in Eurodlr, Tsys options as vols sold via various straggles. Some buying of 2Y Tsy futures by MBS-tied acct.

15:08 11/14 **US EURODLR FUTURES:** Eurodlr futres finished at or near session lows with the curve continuing to unwind recent steepener 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.

(cont)

Overnight:

05:53 11/15 **TSYS:** U.S. Treasuries are trading mixed in London Thursday, with the curve steepening as the front-end of the curve outperforms on renewed concerns over the global credit markets and fall out from the U.S. subprime issue. Prices were higher in early Asian trade, although volumes were very light, with many players awaiting the release of the U.S. inflation data. However, even in Asia, the front of the curve led the way higher, helped by demand from Asian central banks. Treasuries were stable in early London trade, but the front of the curve soon rallied as stocks fell from their early highs. Real money demand was seen in the two-year note, with Asian and Continental central banks seen as buyers. The belly of the curve also found support, with leveraged players buying the 5 and 10-year notes. But the upside was capped ahead of the U.S. data. Ahead of the U.S. session, the 2-yr note was trading 2+32 higher at 100 10/32 to yield 3.46%. The 10-yr note was up 3/32 at 100 2/32 (4.24%), with the Bond 1/32 lower at 106 13/32 (4.60%).

03:24 11/15 **BONDS:** Traders note some key events due to take place today and seen underpinning bond markets. The much talked about new rule from the US Financial Accounting Standards Board - known as FASB regulation 157, comes into play on Thursday and affects the "level-3" assets. Today is also the deadline for the 45-day notice period for year-end hedge fund redemptions. In addition, strong reinvestment cash flows are also noted in US Treasuries related to last week's quarterly refunding where the 2 combined auctions of the 10 & 30-year Bond will paydown \$32.7 bln upon settlement today. The size of the paydown is the second largest on record, according to SMR, with the paydown in august being the largest. On top of this, \$24.7 bln mid-quarter coupon interest payment is also due today and therefore \$57.4 bln excess is calculated over the \$18 bln needed to digest last week's November refunding.




11:33 11/14 **FED REACT:** From JPM economist Michael Feroli: "The changes announced today -- which amount to a regime of inflation targeting-lite -- could be seen as a compromise on the part of the inflation targeting advocates on the committee, led by the Chairman himself. Not only is it a compromise with the inflation-targeting skeptics on the committee, such as Vice Chair Kohn, but just as importantly with Congress and the vocal opponents of inflation targeting in that institution, such as Rep. Barney Frank. Increases in Fed transparency since 1994 have proceeded piece-meal and often in an ad hoc fashion. The changes announced today, however, were the result of committee-wide deliberations over the past year and will likely remain in place for several years."

--**Stone & McCarthy (Princeton)**-- The MBA's broad mortgage application index jumped 5.5% in the week ended November 9, following a decline of 1.6% in the previous week. The increase reflected a gain of 4.8% in the purchase index and an increase of 6.4% in the refinancing application index. The ARM index increased 15.1%. Mortgage rates were unchanged to four basis points higher. It's a hard thing to verify, but we think that more borrowers are filing multiple applications, and/or a higher share of applications is being rejected. As a result, we think that increases in applications like the one in the latest week shouldn't be interpreted to mean that a full-fledged housing recovery is underway. [my emphasis]

11:13 11/14 **US CMBX:** In CMBX, spreads gapped wider across all tranches in line with the general weakness in the cash market over the last week. Tranches have now hit their historically widest spread levels and lowest dollar prices on renewed selling interest amidst negative headlines and liquidity concerns surrounding banks and mono-line insurers. According to CMBX strategists at JP Morgan, "We remain extremely defensive with respect to the direction that CMBX spreads may take over the next few months and while we believe that lower-rated CMBX tranches are close to becoming fundamentally oversold on a near term, we recommend investors remain short CMBX risk." Specifically, JP thinks that despite the huge sell off further up the capital structure, there may still be more selling to go and thus it may make sense to take short position at the AA or even AAA level. Over longer-term, spreads may continue to trade wider as negative sentiment looms over commercial real estate, reference obligations underlying CMBX are downgraded, and losses begin to roll in over the next few years as the underlying collateral seasons.

12:11 11/14 **US:** The market is focused on US (Financial Accounting Standards Board) **FASB regulation 157**, which comes into play Thursday. FASB 157, "effective for financial statements issued for fiscal years beginning after Nov.15 and interim periods within those fiscal years," requires banks to split their tradable assets into 3 tiers or "levels," with Level 1 assets easily able to be marked-to-market (quotable prices/active markets) and Level 3 assets valued by bank models instead. Stewart Newnam of Morgan Stanley says FASB 157 "is set to intensify the deflationary debit spiral in the US." He maintains that "as financial risks increase, so too should the Fed's likely policy response." Marshall Gittler of Deutsche Bank Private Wealth Management says FASB 157 will "set guidelines for financial institutions' capital allocations for assets for which there are no directly observable market prices." He says if there are no new writedown announcements this week, "some of the current fear gripping the market should dissipate."

12:17 11/14 **CDS:** Sources say the 2-day rally materialized amid a lack of bad headline news, talk of Buffett stepping in on a few monolines and also short covering. Sources say on the rally today, the IG9 trades at 70.5-71 bps while the HVOL9 is at 191-193 bps, after dipping below 200 bps late yesterday. A few indications on the rallying financials and mtg insurers are below:

Merrill Lynch (MER): 110-120 bps vs 133 bps at midday yest

Lehman (LEH): 110-120 bps vs 142 bps at midday yest

Bear Stearns (BSC) 120-130 bps

Goldman (GS) 68-72 bps

Citigroup (C): 70-75 bps vs 78 bps at midday yest

Radian (RDN): 730-760 bps, -50 bps on the day

PMI Group (PMI): 390-410 bps, -30 bps on the day.



13:22 11/14 **US TSYS:** Sources confirm macro accts doing some delevering in the past few days with common themes being unwinding of steepeners, exiting longs in the front-end, unwinding spread wideners, unwinding long vol positions -- all based on the fact that the subprime mess has not spilled into the broader economy.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.67	5.40	\$1,688	10.80	n/a
10y	8.08	2.59	\$809	5.17	n/a
5y	4.47	1.44	\$449	5.75	n/a
2y	1.91	0.61	\$192	2.45	n/a
ZB	9.87	3.68	\$115	3.68	0.8628
ZN	5.77	2.09	\$65	4.18	0.8721
ZF	3.84	1.35	\$42	2.70	0.9119
ZT	1.78	0.60	\$19	2.39	0.9593

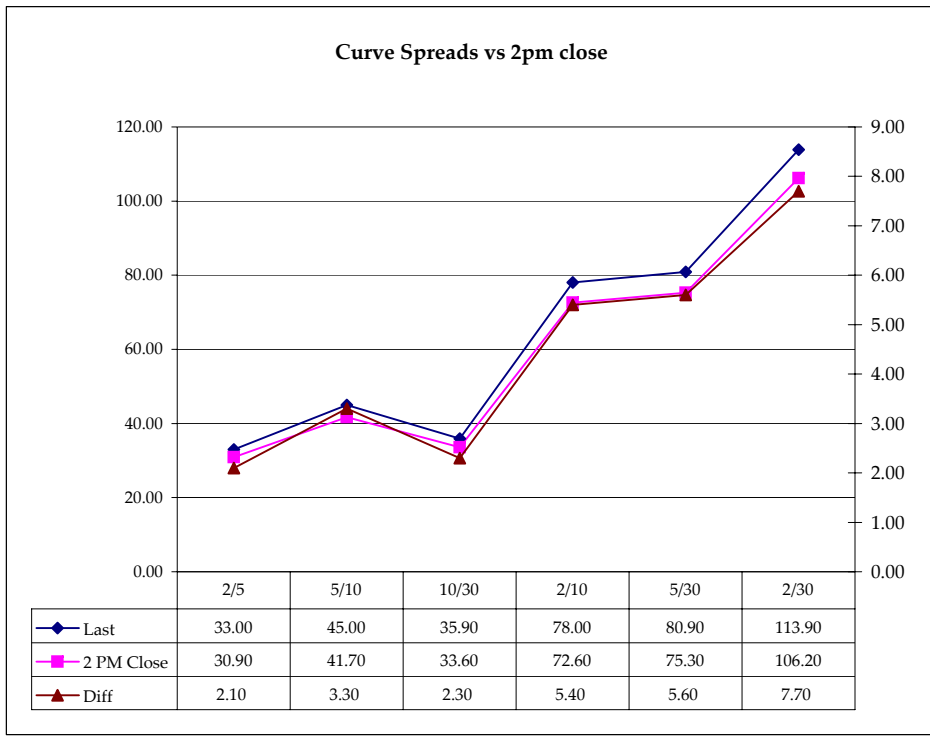
ZB CF has been corrected

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	33.00	30.90	2.10
5/10	45.00	41.70	3.30
10/30	35.90	33.60	2.30
2/10	78.00	72.60	5.40
5/30	80.90	75.30	5.60
2/30	113.90	106.20	7.70

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	1.64	3.91	7.03	14.68
ZN	2.88	6.88	12.39	25.87
ZF	4.45	10.64	19.15	39.98
ZT	5.02	12.00	21.61	45.11

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.762	2.722	3.072
ZN	0.568		1.545	1.744
ZF	0.367	0.647		1.128
ZT	0.326	0.573	0.886	

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		2.389	4.301	8.978
5y	0.427		1.800	3.758
10y	0.237	0.555		2.087
30y	0.114	0.266	0.479	

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	100.0500	3.541	3.458	(0.083)			
5y	3.875	10/30/12	100.0350	3.850	3.788	(0.062)	34.19	35.85	
10y	4.250	11/17/17	99.275	4.267	4.238	(0.029)	81.23	81.69	
30y	5.000	5/15/37	106.12	4.603	4.597	(0.006)	245.29	243.98	

	Close 32	Last
ZFZ7	108.195	108.270
ZNZ7	111.190	111.265
ZBZ7	114.13	114.180

Curve Spreads		
	Close bps	Last bps
2/5	30.9	33.0
5/10	41.7	45.0
10/30	33.6	35.9
2/10	72.6	78.0
5/30	75.3	80.9
2/30	106.2	113.9



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	\$192			
5	\$192	\$449		
10	\$192	\$447	\$809	
30	\$206	\$481	\$870	\$1,688
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$1)			
10	\$0	\$2		
30	(\$14)	(\$32)	(\$62)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.40%			
10	0.05%	0.46%		
30	-7.03%	-6.66%	-7.08%	

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	2.40	4.32	9.02
ZF		0.45	1.06	1.92	4.00
ZN		0.29	0.69	1.24	2.59
ZB		0.17	0.39	0.70	1.47

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		1.02	2.40	8.64	18.04
ZF		0.45	2.13	3.83	8.00
ZN		0.59	1.38	1.24	2.59
ZB		0.67	1.56	1.41	2.94

		2y	5y	10y	30y
2y		1.00	2.34	4.22	8.81
5y		0.43	1.00	1.80	3.76
10y		0.24	0.56	1.00	2.09
30y		0.11	0.27	0.48	1.00

		2y	5y	10y	30y
2y			2.34	2.11	4.40
5y		0.43		0.45	1.88
10y		0.47	2.22		2.09
30y		0.23	0.53	0.48	

		ZT	ZF	ZN	ZB
ZT		1.00	2.26	3.49	6.14
ZF		0.44	1.00	1.55	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			2.26	6.98	24.58
ZF		0.44		1.55	5.44
ZN		0.14	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