

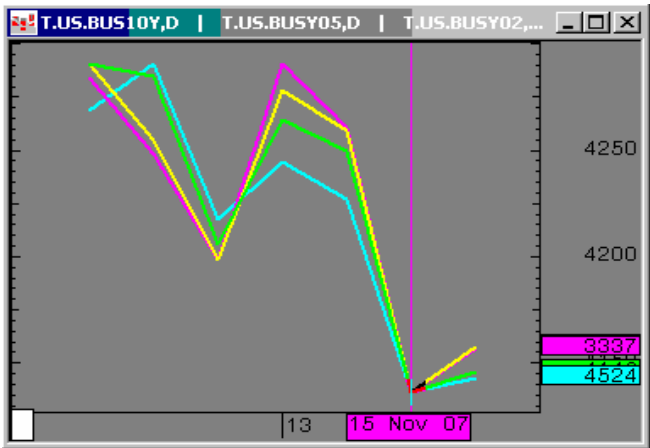


# The Morning Email: Treasuries

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Daily Yield Curve



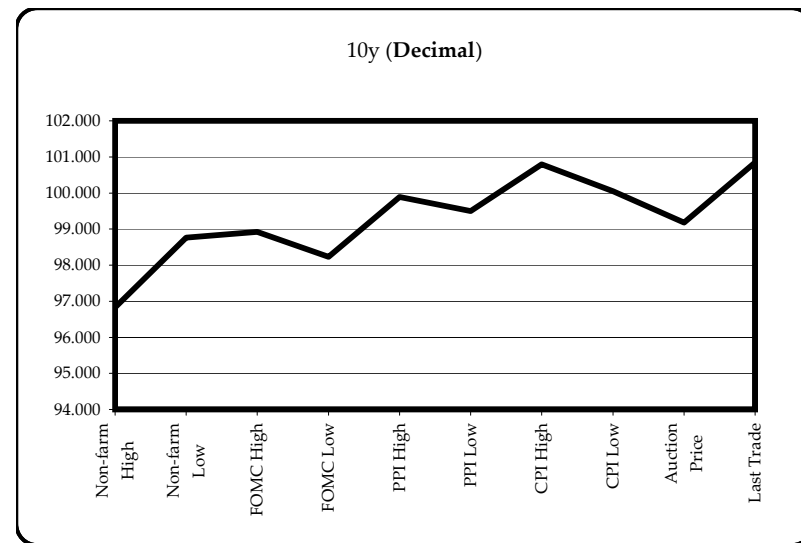
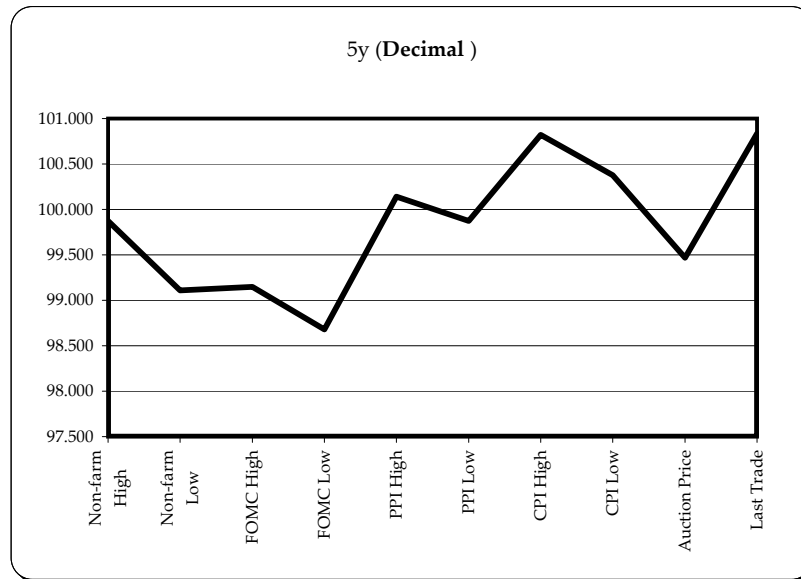
Source: CQG, Inc. © 2007 Fri Nov 16 2007 05:23:39



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	100.0450	99.285	111.230	114.16	11/14/2007
PPI Low	99.2800	99.160	111.085	113.26	11/14/2007
CPI High	100.2625	100.255	112.130	115.17	10/15/2007
CPI Low	100.1200	100.015	111.255	114.16	10/15/2007
Auction Price	99.1504	99.056			
Last Trade	100.2670	100.270	112.155	115.18	11/16/2007 5:28

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



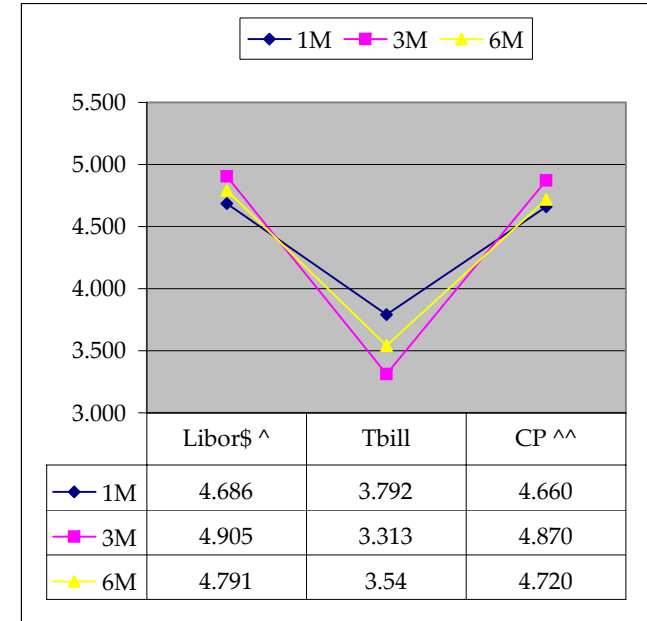
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.172	0.0	104.200	104.162	104.182	50,227	2y Fut
FVAZ7	109.085	0.0	109.130	109.050	109.110	76,717	5y Fut
TYAZ7	112.155	0.0	112.200	112.090	112.165	162,427	10y Fut
USAZ7	115.180	0	115.220	115.060	115.170	37,905	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.175	(1.2)	100.200	100.167	100.182	na	2y Cash
BUS05P	#VALUE!	(3.2)	100.305	100.225	100.297	na	5y Cash
BUS10P	100.265	(2.5)	100.310	100.195	100.280	na	10y Cash
BUS30P	107.225	0	107.255	107.070	107.190	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.329	2.40	3.353	3.287	3.349	na	2y Yield
BUS05Y	3.689	2.60	3.722	3.656	3.668	na	5y Yield
BUS10Y	4.142	0.60	4.179	4.127	4.152	na	10y Yield
BUS30Y	4.522	0.40	4.555	4.516	4.525	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.686	3.792	4.660
3M	4.905	3.313	4.870
6M	4.791	3.54	4.720

	Libor\$ ^	Repos
0/N	4.955	4.250
1week	4.714	4.250
2week	4.705	4.200

	TSY	Swap	ED Pks ^^
2y	3.332	86.00	4.029
5y	3.688	81.25	4.893
10y	4.148	74.75	5.177



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:**

14:55 11/15 **US TSYS:** Tsys rallied this afternoon amid weaker stocks, DJIA -0.77%:

- 1) Leveraged accounts buying long end on screens, hoping to catch dealers still short off guard;
- 2) Risk aversion buying too as many different small bid lists floating around to prepare for year-end.
- 3) Today is final 45-day notice deadline for hedge fund redemptions.
- 4) 10-year yields hit 2-year low; still going lower still;
- 5) Tsys futures saw momentum buyers in size (pls see 14:43 bullet).
- 6) New longs had come in on 5Y, 10Y notes, with some of those system traders, but others real money buyers who had sought better entry levels but never got them (please see 14:41 bullet.)
- 7) Also likely was brisk reinvestment today of matured coupons, coupon interest payments as was US\$57B that could have come into Tsys amid big cash flows.
- 8) CPI came out as expected earlier today too.

15:16 11/15 **US EURODLR FUTURES:** EuroDlr futures finished sharply higher, save the lower Dec07 contract, curve bull steepening as credit crunch fears contribute to pick up in rate cut expectations. By the bell, the Red/Gold pack spd steepened 9.25 bps to 110.75. In the Fronts (Dec07-Sep08), the Dec07 was in 7.5 bps at 95-11.5 on combined Globex and pit volume of 405,000, the Mar08 up 8.5 bps at 95-76.5 on volume of 332,000, the Jun08 up 15.5 bps at 96-07.5 on volume of 423,000, while the Sep08 contract was 18.5 bps higher at 96-21 on volume of 441,000. The 2yr proxy Red pack (Dec08-Sep09), settled 18.5 to 20.0 bps higher across the pack with 961,000 contracts traded.

15:07 11/15 **US SWAPS:** Spreads march wider throughout session, ending on wides while 2s/10s spd of spds moves further into inversion w/front end underperforming on return of credit-crunch fears. Overall flow light though sources did note some "counter trend trading" amid widening, some swap accts took profits on front end steepeners, "doing some small unwinds" after three consecutive sessions of flattening. Bigger flows are likely to come next month when more companies close yr-end books, sources said. Overnight repo squeeze, bounce in US LIBOR adds to move. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	+6.50/84.00	+3.50/80.50	+2.25/73.50	+1.50/66.75
1:35	+5.50/83.00	+2.75/79.75	+1.75/73.25	+1.25/66.50
10:15	+4.75/82.25	+2.50/79.50	+1.50/73.00	+1.25/66.50
9:15	+4.75/82.25	+3.00/80.00	+2.25/73.75	+1.50/66.75
Thu Open	+4.00/81.50	+2.25/79.25	+1.25/72.75	+1.00/66.25
Wed 3:00	-1.25/77.50	-2.50/77.00	-2.25/71.50	-1.50/65.25

(cont)

**Overnight:**

04:44 11/16 **TSYS:** Treasuries are trading lower across the board Friday, weighed by profit-taking from both Asian and European accounts after recent gains. However, despite the across-the-board weakness, the curve continues to steepen, as ongoing concerns over the credit market prompted safe-haven flows. Prices eased from the getgo in Tokyo, as traders in Asia seemed unnerved by overnight news that the Federal Reserve had pumped the largest amount of emergency funds into the market since the Sept 11 attacks. London continued to ease, with light selling noted in all maturities. Real money names were outright sellers of the 2-through 10-year sector of the curve, with leveraged players seen as sellers of the 10-year note. However, new 2/10-year steepening trades offered modest support at the front of the curve. The Bund/T-note spread was unch on Thurs levels, to stand at 16 bps. Ahead of the US, the 2-yr was trading 1+32 lower at 100 17/32 to yield 3.34%. The 10-yr was down 8/32 at 100 20/32 (4.17%), with the Bond 16/32 lower at 107 8/32 (4.55%).

01:57 11/16 **FX:** Early demand for yen crosses, Toushin fund issuance suggested, greeted the Asian market, the demand taking dollar-yen from Y110.25 to an early high of Y110.66, euro-yen from Y161.10 to Y161.80. Move reversed after the Tokyo fix, with downside momentum boosted as market reacted to news of a US fund in trouble. Dollar-yen broke below Y110.00 to Y109.87, but ran into decent demand below the figure. Euro-yen slipped to Y160.59 as yen crosses came under general pressure. Euro-dollar was pressured lower on these moves, but continued demand from a Swiss name around the \$1.4610 level (same name a noted buyer in NY at \$1.4610/05) kept rate buoyed. Realisation that the US fund news was old allowed for a correction, euro-dollar edging to \$1.4633, while dollar-yen moved back above Y110.00, euro-yen above Y161.00.



06:50 11/15 **MONEY MARKET:** US dollar and sterling money market rates were squeezed up this morning as concerns over year-end funding reignited jitters in the credit markets. As a result, the spreads between overnight and 1-month term rates widened appreciably this morning, traders said. Dollar money market rates are being squeezed, with no offers above 1-month amid fears that over \$1.0 trillion worth of funds need to be rolled over into year-end. Funding issues also helped pile the pressure on front-month European short-term interest rate futures, in particular Dec short-sterling. Traders said some banks are opting to do their year-end funding for the turn of year now, rather than wait and be exposed to a potential rate cut from the Bank of England in December. Dec short-sterling is down 9 ticks at 93.750, and the June 2009 contract is up 5 ticks at 94.660. The approach of the US quarterly tax payment deadline -- also helped push up US dollar money market rates.

12:04 11/15 **US DATA: Nov Philly Fed text** sees "a continuation of modest growth in the region's manufacturing sector in November. Forty-four percent of firms surveyed continued to report cost pressures, and 23 percent reported higher prices for their manufactured goods. Overall, firms expect improvement in manufacturing business over the next six months, although most six-month indicators were down dramatically from last month. Over one-quarter of the firms surveyed indicated that fourth-quarter production cutbacks are planned and that they are attributable to recent changes in business conditions."

13:07 11/15 **US DATA REACT:** From Nomura: Philly "index has turned negative prior to each of the last five recessions, suggesting manufacturers in the Philly Fed district sense a developing economic contraction earlier than most others. We might take comfort from the still positive reading of this expectations index, but the marked deterioration in confidence about the outlook is a troubling sign that the housing slump might indeed be spreading."

--**Stone & McCarthy (Princeton)-- Initial Unemployment Claims** in the week ended November 10 rose 20,000 to 339,000. This was among the highest reading of 2007. The rise in claims may an indication of the long-awaited softening labor market conditions, but we should probably wait a couple weeks before attaching too much emphasis to the elevation in claims. The rise in claims could be an artifact of the timing of the Veteran's Day holiday, which was shifted by a week this year in comparison to 2006, a phenomena that often cuases quirky seasonal adjustment problems.

14:48 11/15 **US BONDS:** In addition to general risk aversion, year end etc, market sources say a main theme driving the flight to quality today is connected to the news of much earlier today that GE Asset Mgmt bought out some investors at \$.96 cents vs. 100. One market veteran said, "it is not the loss, it is the type of fund because it was offered in a pension fund." These types of stories "will make people less willing to put their money anywhere but under the pillow," he said. Another added, "there is fear the GE story will snowball, stinging 'mom and pop' accounts and huting their long-term investing confidence."



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.74	5.49	\$1,717	10.99	n/a
10y	8.08	2.61	\$815	5.22	n/a
5y	4.46	1.44	\$451	5.77	n/a
2y	1.91	0.61	\$191	2.45	n/a
ZB	9.89	3.72	\$116	3.72	0.8628
ZN	5.77	2.10	\$66	4.20	0.8721
ZF	3.83	1.35	\$42	2.71	0.9119
ZT	1.78	0.60	\$19	2.39	0.9593

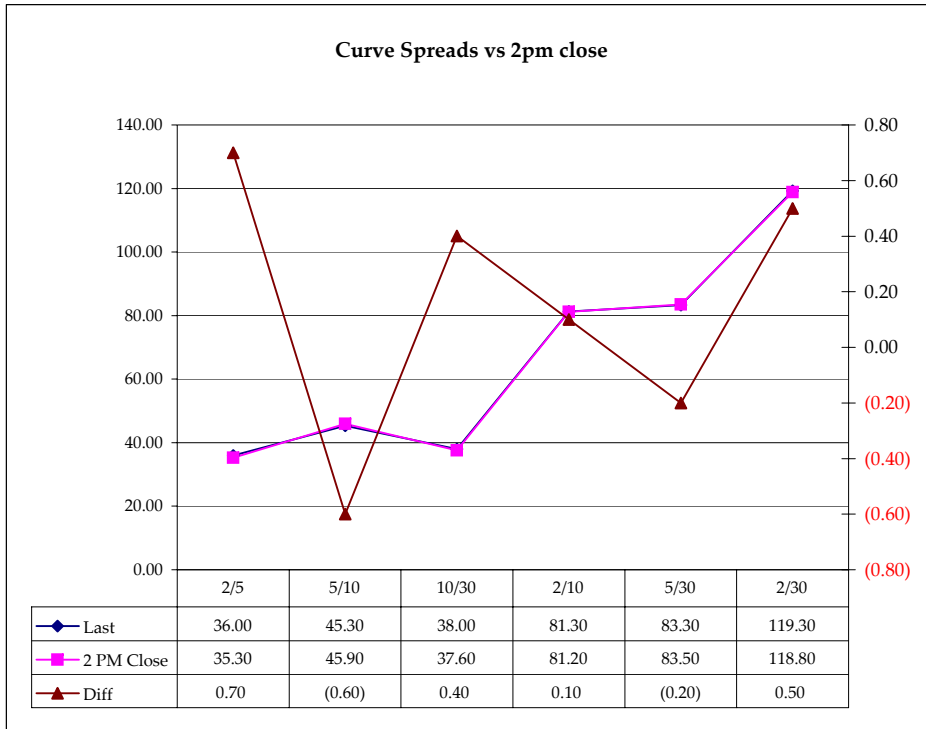
ZB CF has been corrected

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	36.00	35.30	0.70
5/10	45.30	45.90	(0.60)
10/30	38.00	37.60	0.40
2/10	81.30	81.20	0.10
5/30	83.30	83.50	(0.20)
2/30	119.30	118.80	0.50

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	1.62	3.88	7.01	14.77
ZN	2.86	6.87	12.42	26.16
ZF	4.44	10.65	19.25	40.55
ZT	5.03	12.07	21.82	45.96

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.772	2.746	3.112
ZN	0.564		1.550	1.757
ZF	0.364	0.645		1.133
ZT	0.321	0.569	0.882	

## 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		2.400	4.340	9.142
5y	0.425		1.808	3.809
10y	0.235	0.553		2.106
30y	0.112	0.263	0.475	

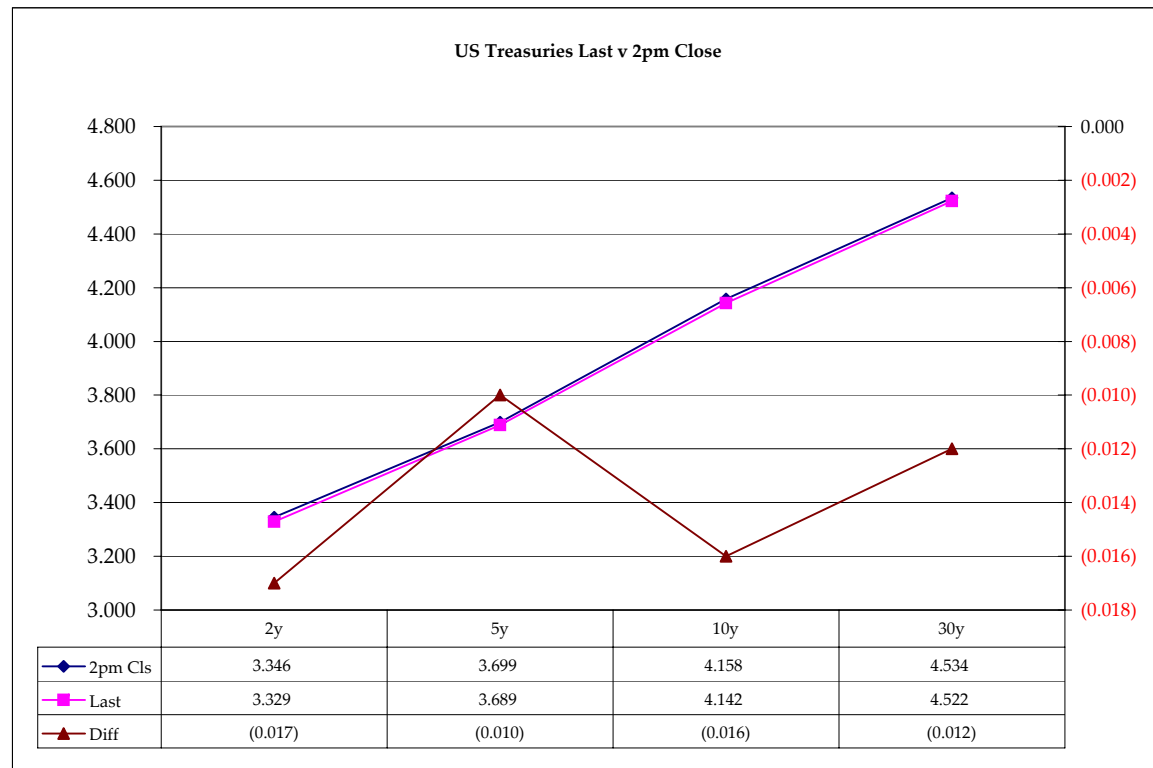
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

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

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	100.1675	3.346	3.329	(0.017)			
5y	3.875	10/30/12	100.2525	3.699	3.689	(0.010)	37.70	38.24	
10y	4.250	11/17/17	100.240	4.158	4.142	(0.016)	87.93	87.88	
30y	5.000	5/15/37	107.18	4.534	4.522	(0.012)	255.18	256.87	

	Close 32	Last
ZFZ7	109.075	109.085
ZNZ7	112.120	112.155
ZBZ7	115.13	115.180

Curve Spreads		
	Close bps	Last bps
2/5	35.3	36.0
5/10	45.9	45.3
10/30	37.6	38.0
2/10	81.2	81.3
5/30	83.5	83.3
2/30	118.8	119.3



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%	28%	51%	140%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$191			
5	\$193	\$451		
10	\$192	\$450	\$815	
30	\$208	\$486	\$881	\$1,717
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$1)			
10	(\$1)	\$1		
30	(\$16)	(\$36)	(\$66)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.63%			
10	-0.47%	0.16%		
30	-7.92%	-7.34%	-7.49%	

**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	2.41	4.36	9.19
ZF		0.45	1.06	1.93	4.05
ZN		0.29	0.69	1.24	2.62
ZB		0.16	0.39	0.70	1.48

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		1.02	2.41	8.73	18.38
ZF		0.45	2.13	3.85	8.11
ZN		0.58	1.37	1.24	2.62
ZB		0.66	1.55	1.40	2.95

		2y	5y	10y	30y
2y		1.00	2.35	4.26	8.97
5y		0.42	1.00	1.81	3.81
10y		0.23	0.55	1.00	2.11
30y		0.11	0.26	0.47	1.00

		2y	5y	10y	30y
2y			2.35	2.13	4.48
5y		0.42		0.45	1.90
10y		0.47	2.21		2.11
30y		0.22	0.53	0.47	

		ZT	ZF	ZN	ZB
ZT		1.00	2.27	3.51	6.22
ZF		0.44	1.00	1.55	2.75
ZN		0.28	0.65	1.00	1.77
ZB		0.16	0.36	0.56	1.00

		2y	5y	10y	30y
ZT			2.27	7.03	24.90
ZF		0.44		1.55	5.49
ZN		0.14	0.65		3.54
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.

<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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