



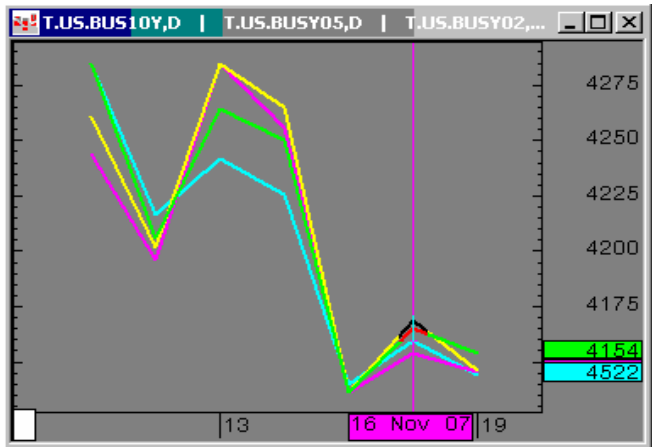
# The Morning Email: Treasuries

11/19/2007 5:42

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### Daily Yield Curve



Source: CQG, Inc. © 2007 Mon Nov 19 2007 05:34:45

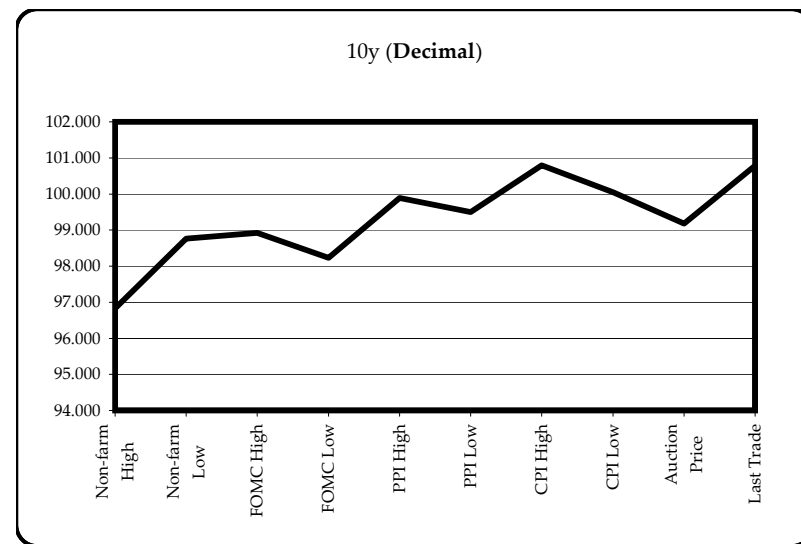
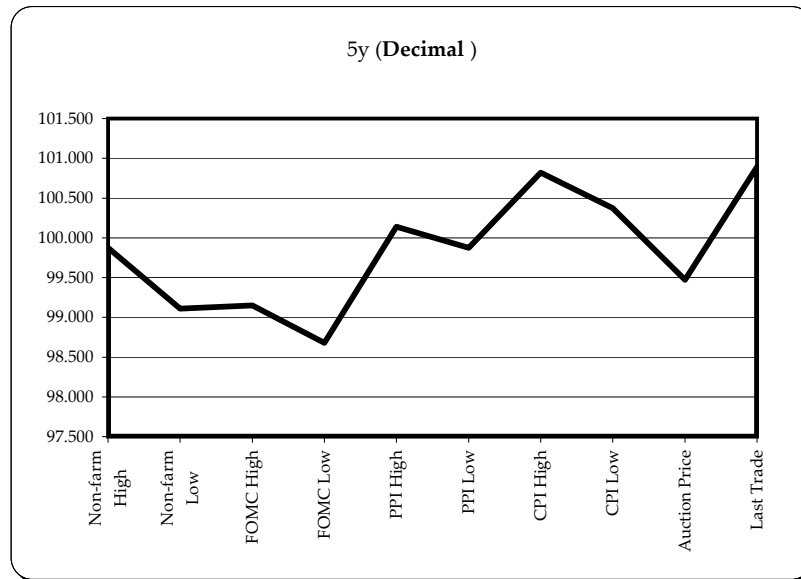


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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	100.2850	100.250	112.145	115.18	11/19/2007 5:42

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



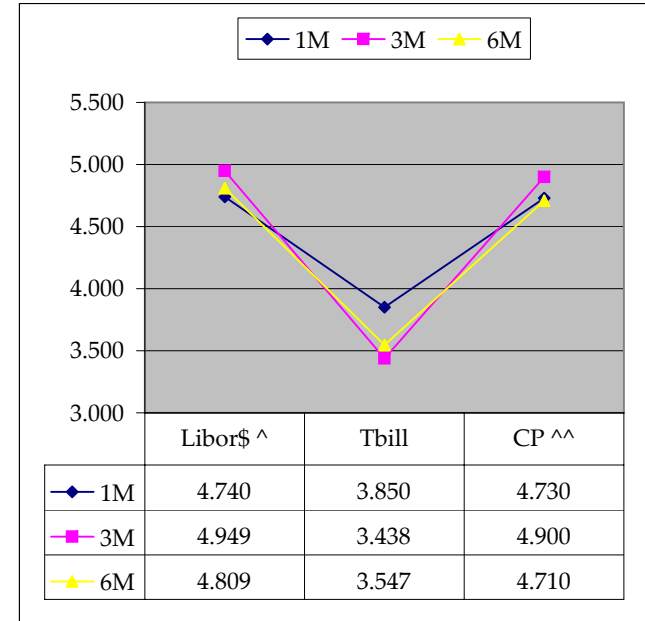
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.182	0.0	104.187	104.155	104.155	24,076	2y Fut
FVAZ7	109.095	0.0	109.110	109.030	109.040	42,610	5y Fut
TYAZ7	112.145	0.0	112.160	112.060	112.070	93,213	10y Fut
USAZ7	115.180	0	115.210	115.060	115.080	31,352	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.182	1.2	100.185	100.155	100.157	na	2y Cash
BUS05P	#VALUE!	3.7	100.292	100.232	100.232	na	5y Cash
BUS10P	100.255	6.0	100.265	100.175	100.180	na	10y Cash
BUS30P	107.250	10	107.270	107.100	107.150	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.320	(1.30)	3.374	3.307	3.357	na	2y Yield
BUS05Y	3.673	(2.90)	3.721	3.668	3.701	na	5y Yield
BUS10Y	4.150	(1.50)	4.192	4.144	4.171	na	10y Yield
BUS30Y	4.519	(1.80)	4.549	4.513	4.537	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.740	3.850	4.730
3M	4.949	3.438	4.900
6M	4.809	3.547	4.710

	Libor\$ ^	Repos
0/N	4.743	4.200
1week	4.743	4.200
2week	4.743	4.200

	TSY	Swap	ED Pks ^^
2y	3.314	86.75	4.014
5y	3.676	81.75	
10y	4.150	74.00	



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

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##### Friday:

As U.S. equity futures pushed higher ahead of the cash market open early Friday morning, Treasuries fell to new lows. Fed Governor Kroszner and Fed President Poole were both over the wires in the morning, adding to the Treasury market woes. In a Dow Jones interview, Poole said "I am an optimist on the credit market problems clearing up," and that "the contagion to the other parts of the credit market is already along the way to be cleared up." Regarding the expected slowdown in Q4, Poole said that "if the fourth quarter comes in exactly as anticipated, and given that there's already been 75 basis points of easing, and given that we can't affect the fourth quarter anyway - the fourth quarter is going to be irrelevant to the December decision unless it tells us something about next year we don't already know." Kroszner stated that "The current stance of monetary policy should help the economy get through the rough patch during the next year, with growth then likely to return to its longer-run sustainable rate." Taken together, the Fed comments suggest less inclination at the Fed for another rate cut at the December FOMC meeting.

There was a sharp improvement in the September TIC flows as overseas investors were net buyers of \$26.252 bln in Treasury notes and bonds during the month after having been net sellers of \$2.7 bln and \$9.4 bln during the prior in August and July, respectively. That release was followed by a much weaker than expected production and capacity utilization report. Treasuries began to improve in response, and the cash equity market failed to maintain the better tone of the futures trading when it opened shortly thereafter, offering Treasuries further support.

Prices pushed back into positive territory into the late morning before equities regained their footing. Stocks rebounded into the early afternoon, pulling the bid from Treasuries once again. Prices were lower after that, but the fall only sent Treasuries back to around the middle of the day's ranges and both equities and Treasuries settled in for most of the rest of the afternoon until a small, late-day profit-taking move knocked the front-end back to the lows.

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(cont)

##### Overnight:

04:39 11/19 **TSYS:** U.S. Treasuries are trading lower across the board in Asian trade Monday, weighed by follow-through selling in Europe after Friday's weakness. However, trades are quick to note that overall volumes are light, with many players awaiting the open of U.S. markets. Prices were initially mixed in Tokyo trade, with the front of the curve underperforming, helping the curve flattening modestly. But longer-dated paper started to move lower toward the European open. Real money players were modest sellers of the 2-year note, but were largely sidelined. Leveraged players were outright sellers of the 10-year note, although there were bids from cross-border trades. However, new 2/10-year steepening trades offered modest support at the front of the curve. The Bund/T-note spread was 1 bps narrower on Friday's levels, to stand at 10 bps. Ahead of the U.S. session, the 2-yr note was trading 1/32 lower at 100 16/32 to yield 3.36%. The 10-yr note was down 2/32 at 100 19/32 (4.18%), with the Bond 4/32 lower at 107 12/32 (4.54%).




08:45 11/16 **FED:** Fed Gov Kroszner's outlook at IIF: Data since Oct FOMC "have not changed my thinking" - which is detailed in the Oct FOMC statement of balanced risks. Fed currently is operating on a risk management principle, must decide on likely US economic path and judge risks around the path. Mkt turmoil contributes to risks. Outlook had weakened in Sept, saw "intensification of hsg correction" in Oct. Says each ease lowers its possible benefits and raises possible costs. He'd be esp concerned if inflation expectations become unmoored, but so far they are "reasonably well anchored." Conditions for subprime will get worse before better - most rate adjustments are ahead, and falling home prices inhibit refi's. Sees "rough patch" for econ in coming mos, growth "at a noticeably slower pace" than in summer.

10:08 11/16 **US DATA REACT:** From SoGen's Stephen Gallagher on TICS: "modest inflow of \$26.4 bln in September. This still falls short of the roughly \$57bln needed every month to offset trade-related flows... The biggest area of concern longer-term is US corporate debt which has financed about half of the US trade deficits in recent years. Europeans, who have been the largest buyers, continues to sell debt assets in September, but the Japanese picked up some slack. Still, net inflows have collapsed relative to pre-crisis flows. Foreign official purchases improved somewhat in September.. .The impact on the dollar may prove to be the most lasting implication of the crisis. Halting the dollar's slide will require a return of European investors to US corporate debt markets, or replacing the lost demand for credit with purchases of US equities, agency debt or Treasuries."

10:03 11/16 **US CMBS:** Recent volatility in the CMBS cash market which has blown out spreads just short of all time historic wides has been cause by the perfect storm of all the usual suspects hitting the market at once: 1) flight to quality (as evidenced by rally in UST), 2) spill over from subprime meltdown, 3) fears over bank liquidity/balance sheet protection trades, 4) steep sell off in CMBX by macro funds looking for a "cheap short" bet, 5) Congressional testimony by Bernanke who stated economy is confronted with a sharp downside risk to growth from the housing market contraction and an inflationary surge from record high oil prices and the weaker dollar. Benchmark SS 10Y AAAs widened 24 basis points to S+92, with some secondary trades hitting the S+10 mark. By comparison, indicating that the SS benchmark hit S+100 the all-time wide in 10Y AAAs CMBS in Oc.'98 98 at S+108 - during height the LTCM crisis. "CMBS is poised to remain very volatile through year-end, implying good pockets of opportunity to leg into trades at close to historically wide levels, says CMBS strategists at BBS Greenwich.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.74	5.50	\$1,717	10.99	n/a
10y	8.08	2.61	\$815	5.21	n/a
5y	4.46	1.44	\$451	5.77	n/a
2y	1.90	0.61	\$191	2.45	n/a
ZB	9.89	3.71	\$116	3.71	0.8628
ZN	5.76	2.10	\$66	4.20	0.8721
ZF	3.83	1.35	\$42	2.71	0.9119
ZT	1.77	0.60	\$19	2.39	0.9593

ZB CF has been corrected

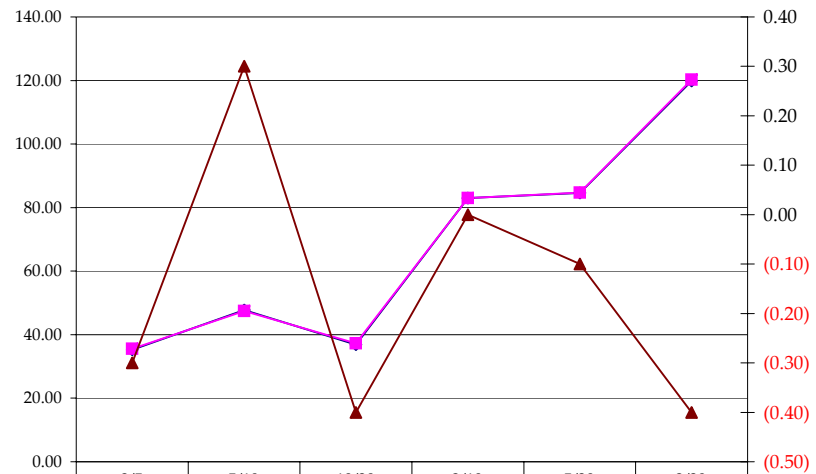
Yield Curve Spreads			
	Last	2pm close	Diff
2/5	35.30	35.60	(0.30)
5/10	47.70	47.40	0.30
10/30	36.90	37.30	(0.40)
2/10	83.00	83.00	0.00
5/30	84.60	84.70	(0.10)
2/30	119.90	120.30	(0.40)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	35.30	47.70	36.90	83.00	84.60	119.90
2 PM Close	35.60	47.40	37.30	83.00	84.70	120.30
Diff	(0.30)	0.30	(0.40)	0.00	(0.10)	(0.40)

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	7.02	14.80
ZN	2.86	6.88	12.43	26.19
ZF	4.43	10.65	19.25	40.57
ZT	5.03	12.08	21.84	46.03

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.770	2.742	3.111
ZN	0.565		1.549	1.758
ZF	0.365	0.646		1.135
ZT	0.321	0.569	0.881	

## 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		2.403	4.343	9.153
5y	0.424		1.807	3.809
10y	0.235	0.553		2.108
30y	0.111	0.263	0.474	

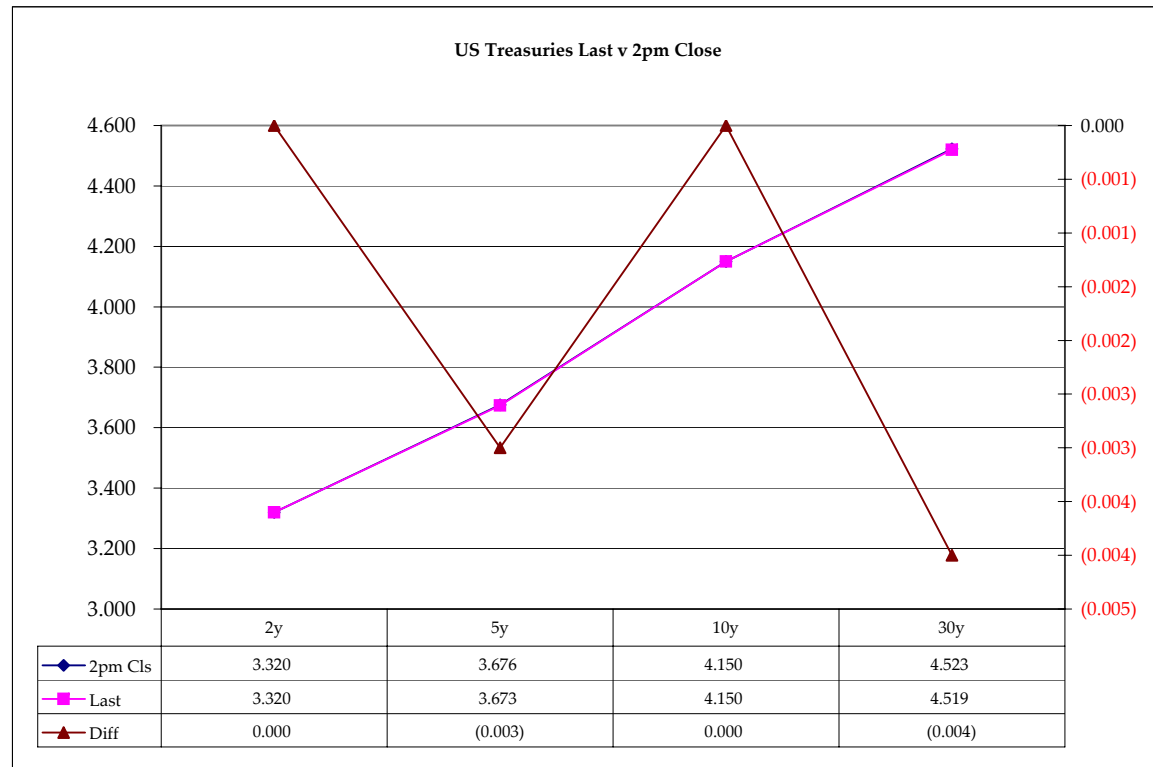
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

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

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	100.1825	3.320	3.320	0.000			
5y	3.875	10/30/12	100.2850	3.676	3.673	(0.003)	39.13	39.13	
10y	4.250	11/17/17	100.260	4.150	4.150	0.000	87.75	86.75	
30y	5.000	5/15/37	107.23	4.523	4.519	(0.004)	256.37	257.37	

	Close 32	Last
ZFZ7	109.095	109.095
ZNZ7	112.145	112.145
ZBZ7	115.18	115.180

Curve Spreads		
	Close bps	Last bps
2/5	35.6	35.3
5/10	47.4	47.7
10/30	37.3	36.9
2/10	83.0	83.0
5/30	84.7	84.6
2/30	120.3	119.9



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%	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	-0.65%			
10	-0.42%	0.23%		
30	-7.91%	-7.30%	-7.52%	

**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		1.03	2.42	4.37	9.21
ZF		0.45	1.07	1.92	4.06
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		1.03	2.42	8.74	18.41
ZF		0.45	2.13	3.85	8.11
ZN		0.58	1.38	1.24	2.62
ZB		0.66	1.55	1.40	2.96

		2y	5y	10y	30y
2y		1.00	2.36	4.26	8.98
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			2.36	2.13	4.49
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	3.52	6.22
ZF		0.44	1.00	1.55	2.74
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	24.89
ZF		0.44		1.55	5.48
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.

**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