

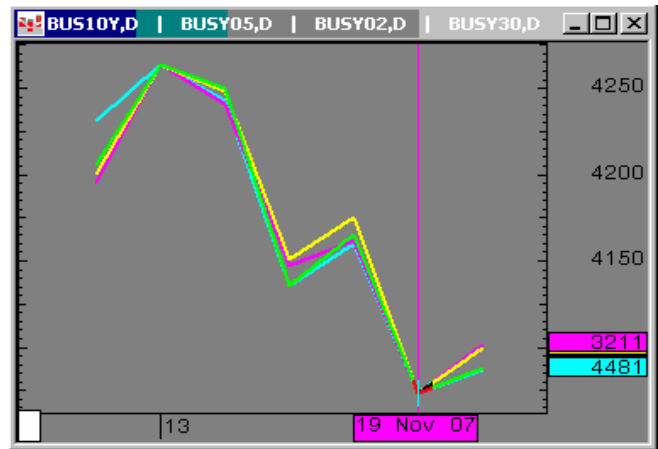


The Morning Email: Treasuries

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Daily Yield Curve



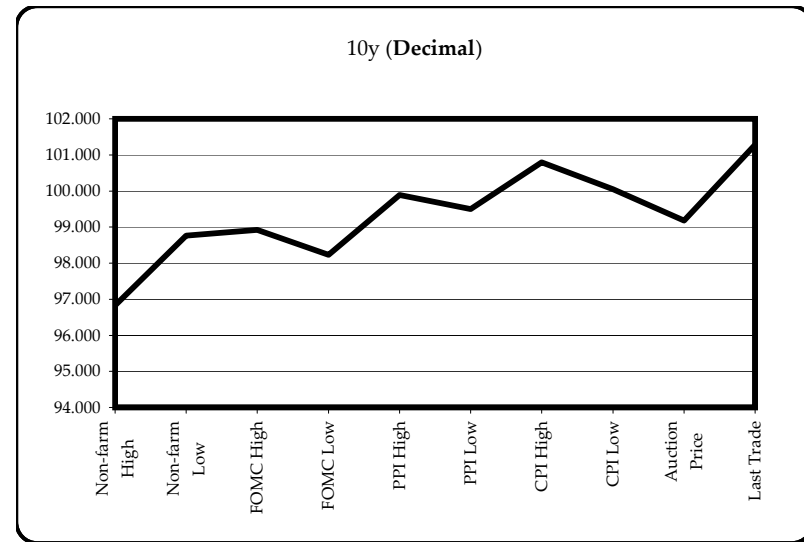
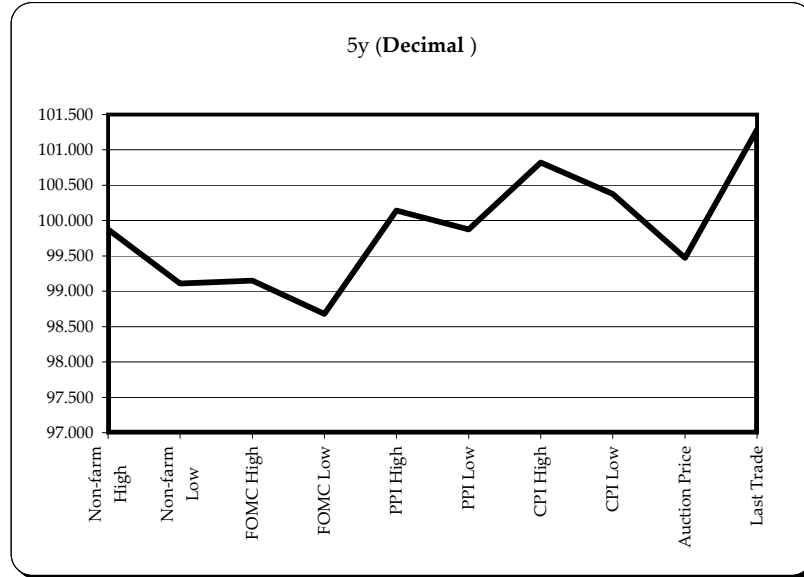
Source: CQG, Inc. © 2007 Tue Nov 20 2007 05:26:41



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	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	101.0920	101.090	112.260	116.03	11/20/2007 5:31

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



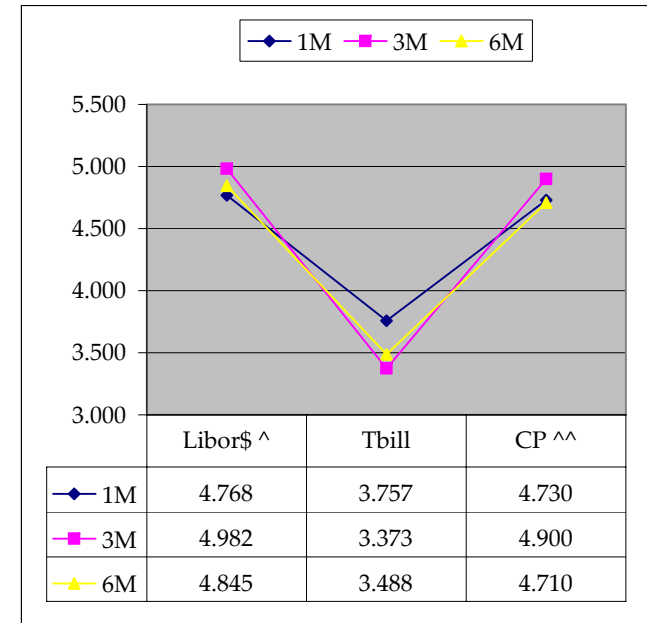
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.237	(0.0)	104.282	104.225	104.265	40,923	2y Fut
FVAZ7	109.185	(0.1)	109.275	109.170	109.240	84,331	5y Fut
TYAZ7	112.260	(0.1)	113.045	112.240	113.005	160,330	10y Fut
USAZ7	116.030	(0)	116.110	115.290	116.050	29,611	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.245	(3.5)	100.285	100.232	100.270	na	2y Cash
BUS05P	101.090	(6.2)	101.175	101.075	101.135	na	5y Cash
BUS10P	101.085	(4.5)	101.175	101.050	101.105	na	10y Cash
BUS30P	108.125	(2)	108.180	108.030	108.115	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.211	5.80	3.244	3.124	3.19	na	2y Yield
BUS05Y	3.584	4.20	3.602	3.528	3.562	na	5y Yield
BUS10Y	4.092	1.90	4.113	4.049	4.081	na	10y Yield
BUS30Y	4.481	1.10	4.503	4.466	4.484	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.768	3.757	4.730
3M	4.982	3.373	4.900
6M	4.845	3.488	4.710

	Libor\$ ^	Repos
0/N	4.649	#VALUE!
1week	4.730	#VALUE!
2week	4.743	#VALUE!

	TSY	Swap	ED Pks ^^
2y	3.213	95.00	3.948
5y	3.587	88.00	
10y	4.092	77.75	



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

Stone & McCarthy
RESEARCH ASSOCIATES

MarketNews
international



All times Eastern

15:24 11/19 **US TSYS/RECAP:** Tsys rallied Mon. in wild action amid 1) position-driven short squeeze as primary dealers, hedge funds had gone short and so got caught amid 2) risk-aversion rally that saw accounts sell/shun riskier spread product bonds to buy Tsys; 3) mutual funds scrambled to buy Tsys, shunned ABCP; 4) hedge funds, dealers covered 5Y shorts; big 5Y short squeeze, RP special; 5Y notes 0.35% earlier in RP. 5Y special to exist Tue too: is already tight at 1.75% RP rate for Tues. reg. delivery RP. 5) fincl institution buying in 10Ys, Street buying in 2Y, 10Ys; 6) some real money afternoon selling in 5Ys/buying 30Ys amid big curve move; 7) anybody with spread risk has to sell in unfortunately illiquid conditions; 8) some appear to do window-dressing early to show safe debt on books; 9) could be big Tsy bond index extension at month-end as is refunding month; Citi Tsys index 0.19 yrs; 10) ongoing front-end swaps paying in morn; 11) options-tied Tsys futures buying too; 12) US stocks slide: DJIA - 1.48%; 13) Tight funding fuels panic in riskier debt mkts.

15:15 11/19 **US EURODLR FUTURES:** Eurodlr futures finished sharply higher, save the lower Dec and Mar contracts, curve bull steepening as credit crunch fears contribute to pick up in rate cut expectations onto the curve. By the bell, the Red/Gold pack spd steepened 4.875 bps. In the Fronts (Dec07-Sep08), the Dec07 was in 1.25 bps at 95-10.75 on combined Globex and pit volume of 266,000, the Mar08 in 3.5 bps at 95-70.5 on volume of 304,000, the Jun08 steady at 96-07.5 on volume of 394,000, while the Sep08 contract was 4.5 bps higher at 96-27 on volume of 394,000. The 2yr proxy Red pack (Dec08-Sep09), settled 7.5 to 10.0 bps higher across the pack with 895,000 contracts traded.

15:08 11/19 **US SWAPS:** Spreads gapped to new wides, particularly in front end as they approached 100+ wides not seen since 1988. Illiquidity noted as front end spds move in 2.0 bps increments late in the session, credit-crunch anxiety a large factor, and US LIBOR gapping higher. Flow fairly light, turning two-way in fronts to intermediates. According to GovPX:

Time (ET) 2Y Swap/Mid 5Y Swap/Mid 10Y Swap/Mid 30Y Swap/Mid

Mon 3:00	+8.25/94.00	+6.50/88.00	+3.50/77.25	+2.00/68.75
2:30	+10.00/95.75	+8.50/90.00	+4.00/77.75	+1.50/68.25
11:40	+5.50/91.25	+4.25/85.75	+2.00/75.75	+1.25/68.00
11:00	+2.50/88.25	+1.50/83.00	+1.00/74.75	+0.75/67.50
10:15	+2.50/88.25	+1.50/83.00	+1.00/74.75	+0.75/67.50
9:30	+1.25/87.00	+0.75/82.25	+0.50/74.25	+0.50/67.25
Mon Open	+1.25/87.00	+0.75/82.25	+0.50/74.25	+0.50/67.25
Fri 3:00	+1.75/85.75	+1.25/81.75	+0.00/73.75	-0.25/66.50

(cont)

05:04 11/20 **TSYS:1)** Treasuries are trading lower across the curve in London Tuesday,

as an article in the Financial Times weighed on bonds and sent the dollar higher. The FT alluded that today's Federal Reserve quarterly forecasts, to be released later today, will underline that the Fed is more upbeat on the domestic economy than many economists. Without citing any direct sources, the article also noted the Fed may be more hesitant in cutting rates in 2008 than the market is currently betting.

Treasuries were better bid in early Tokyo, helped by weaker stocks.

However, they reversed course later in the session, as the FT article helped the dollar and Japanese stocks rally. The front of the curve

underperformed, with the two-year sector of the curve leading the way lower. However, real money names were also modest sellers of the 10-year

sector of the curve.

05:04 11/20 **IMF LIPSKY:** Disorderly currency movements not desirable

- Dollar depreciation consistent with goal of preserving growth
- Dollar probably still on strong side on medium term basis
- Market turmoil has increased risks to global economy
- Risks have probably slowed growth in US, EMU
- Underlying global economic fundamentals still solid, favourable.




08:51 11/19 **US MBS:** Mortgage passthru ended Friday wider as swaps continued to widen and news on the credit front did not get better. Market opened wider despite some real money buying and widened further on about \$1B in origination selling in 5.5s and some bank selling of discounts. Lack of GSE buying and concerns they could sell more a negative along with difficult financing conditions. Late Fri, Fed reported C&I loans for large domestic banks at \$732.1B in 11/07 week vs. \$733.6B prev. Total Passthru holdings \$457.6B vs. 459.5B prev. Total CMO, REMIC, OTHER up slightly at \$198.3B. This morning several shops reported Asian buying of MBS. News headlines of note this AM; 1) GS cuts price target of CITI, JPM, LEH, and BS. Also, Swiss Re said it would take writedown of about \$1B for exposure to CDS. On the docket this week FRE earnings tomorrow, Oct housing starts this week and FOMC minutes from 10/30-31 meeting. Thanksgiving on Thursday. ABX monthly remittance usually come out late on 24th and bulk on 25th. So should be out by Monday. Reminder that LB, MS, BS, GS all close books at end of Nov.

12:42 11/19 **US CORPORATES:** From BlackRock's Bob Doll - "Credit markets remain a source of concern and will likely continue to act as a drag on the overall economy. There is no question that recession fears have escalated recently, but we believe the most likely scenario is continued positive, albeit sluggish, growth...a fairly healthy corporate sector, means to us that the economy should be able to weather the housing slump, provided the Fed is able to prevent a full-blown credit crunch."

12:46 11/19 **US DATA: Bankruptcy cases** filed in federal courts totaled 801,269 for the 12-month period ending September 30, 2007, down 28 percent when compared to the 1,112,542 filings in Fiscal Yr 2006 (new law). However, according to the Administrative Office of the U.S. Courts, the September 2007 filings are the highest of any previous 12-month period since September 2006.



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.79	5.54	\$1,732	11.09	n/a
10y	8.08	2.62	\$819	5.24	n/a
5y	4.46	1.45	\$453	5.79	n/a
2y	1.90	0.61	\$192	2.45	n/a
ZB	9.90	3.73	\$117	3.73	0.8628
ZN	5.77	2.11	\$66	4.22	0.8721
ZF	3.83	1.36	\$42	2.72	0.9119
ZT	1.77	0.60	\$19	2.39	0.9593

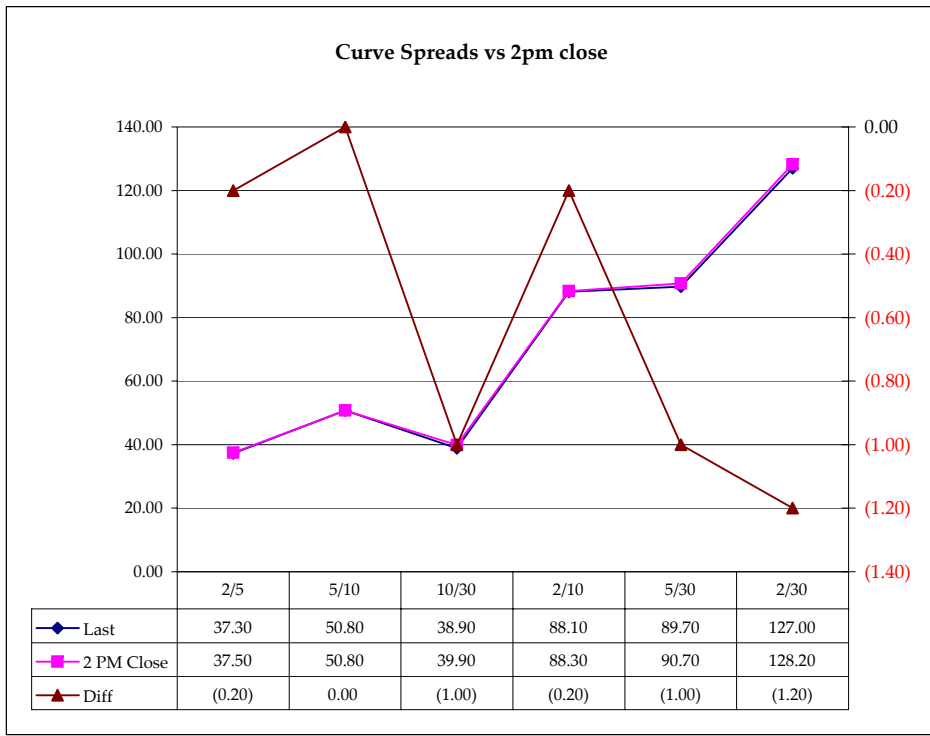
ZB CF has been corrected

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	37.30	37.50	(0.20)
5/10	50.80	50.80	0.00
10/30	38.90	39.90	(1.00)
2/10	88.10	88.30	(0.20)
5/30	89.70	90.70	(1.00)
2/30	127.00	128.20	(1.20)

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	1.61	3.88	7.02	14.85
ZN	2.85	6.86	12.41	26.25
ZF	4.42	10.66	19.29	40.79
ZT	5.03	12.12	21.93	46.38

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.767	2.747	3.123
ZN	0.566		1.554	1.767
ZF	0.364	0.644		1.137
ZT	0.320	0.566	0.879	

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	4.2
Bobl (Z)	0.6	1.0	2.5
Shatz (Z)	0.2	0.4	1.0

US Treasuries

	2y	5y	10y	30y
2y		2.410	4.361	9.224
5y	0.423		1.810	3.827
10y	0.234	0.553		2.115
30y	0.111	0.261	0.473	

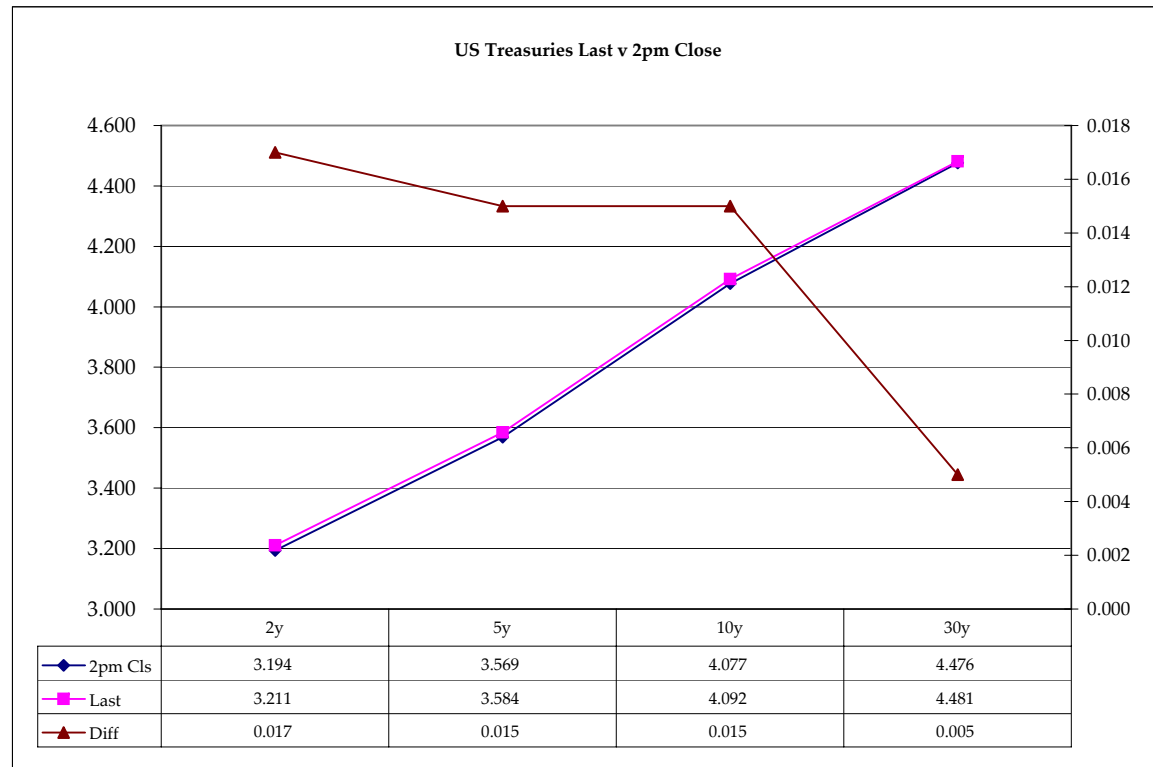
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	100.2878	3.194	3.211	0.017			
5y	3.875	10/30/12	101.1200	3.569	3.584	0.015	41.86	43.62	
10y	4.250	11/17/17	101.130	4.077	4.092	0.015	91.05	92.72	
30y	5.000	5/15/37	108.17	4.476	4.481	0.005	264.25	263.70	

	Close 32	Last
ZFZ7	109.235	109.185
ZNZ7	113.005	112.260
ZBZ7	116.07	116.030

Curve Spreads		
	Close bps	Last bps
2/5	37.5	37.3
5/10	50.8	50.8
10/30	39.9	38.9
2/10	88.3	88.1
5/30	90.7	89.7
2/30	128.2	127.0



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	\$192			
5	\$193	\$453		
10	\$193	\$452	\$819	
30	\$209	\$489	\$887	\$1,732
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$2)			
10	(\$1)	\$1		
30	(\$17)	(\$37)	(\$68)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.83%			
10	-0.67%	0.16%		
30	-8.26%	-7.50%	-7.64%	

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	4.39	9.28
ZF		0.45	1.07	1.93	4.08
ZN		0.29	0.69	1.24	2.63
ZB		0.16	0.39	0.70	1.49

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		1.03	2.42	8.77	18.55
ZF		0.45	2.13	3.86	8.16
ZN		0.58	1.37	1.24	2.63
ZB		0.66	1.55	1.40	2.97

		2y	5y	10y	30y
2y		1.00	2.36	4.28	9.04
5y		0.42	1.00	1.81	3.83
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	2.14	4.52
5y		0.42		0.45	1.91
10y		0.47	2.21		2.11
30y		0.22	0.52	0.47	

		ZT	ZF	ZN	ZB
ZT		1.00	2.27	3.53	6.25
ZF		0.44	1.00	1.55	2.75
ZN		0.28	0.64	1.00	1.77
ZB		0.16	0.36	0.57	1.00

		2y	5y	10y	30y
ZT			2.27	7.07	24.98
ZF		0.44		1.55	5.49
ZN		0.14	0.64		3.53
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>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</p>	<p>yc = yield curve HDB = High Duration Bond/Note LDB = Low Duration Bond/Note</p>
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