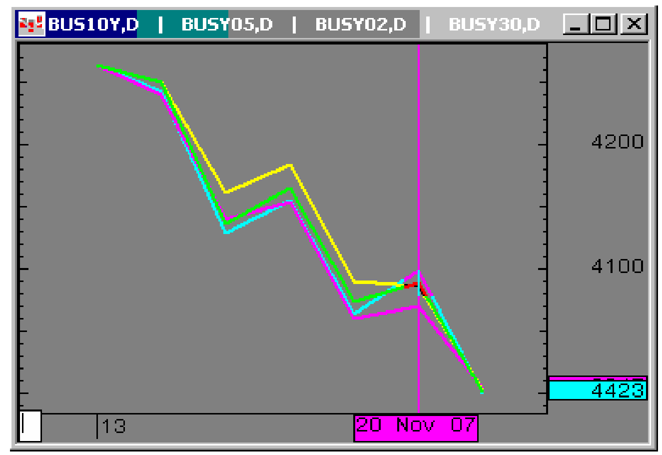
11/21/2007 5:52

The Morning Email: Treasuries

Table of Contents

Daily Yield Curve



Source: CQG, Inc. © 2007 Wed Nov 21 2007 05:49:39

30y **10y** **5y** **2y**

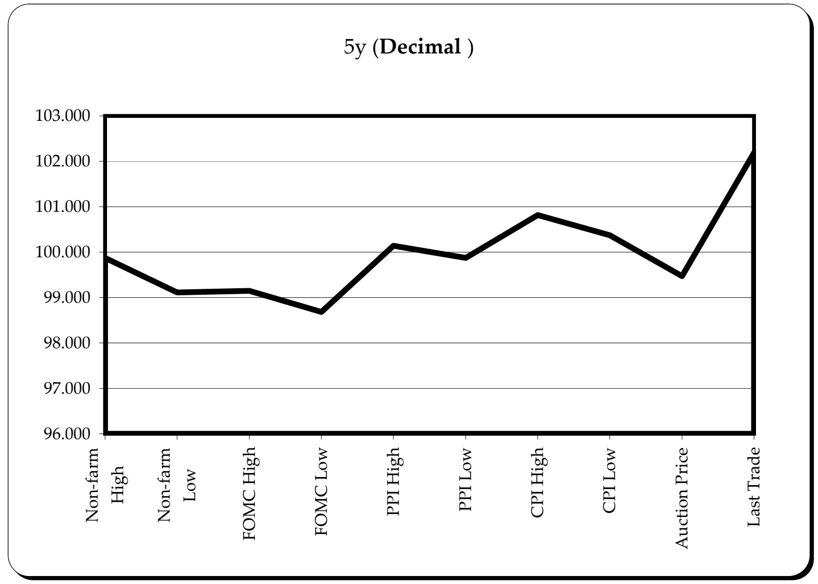
Want something added? Let me know: jgoulding@ghco.com

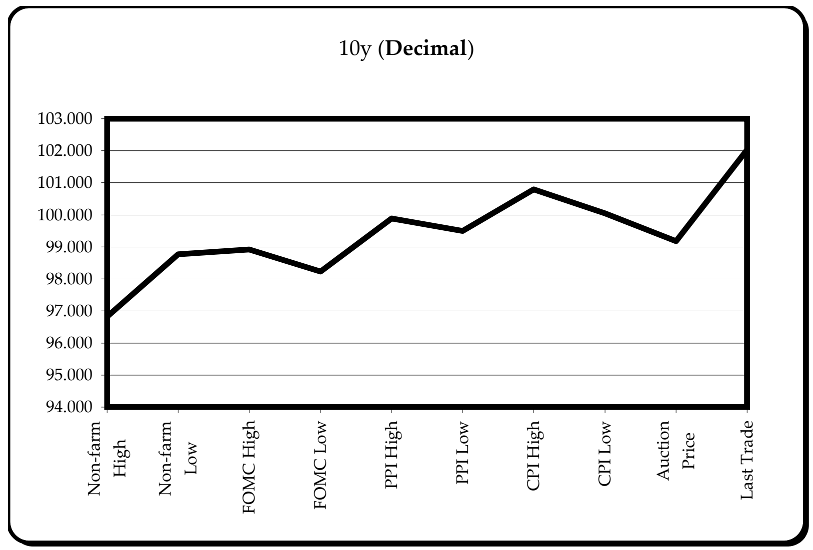
Disclaimer: All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. Th material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

Important Econon Releases, Highs & Lows

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	102.0600	102.010	113.170	116.28	11/21/2007 5:52

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





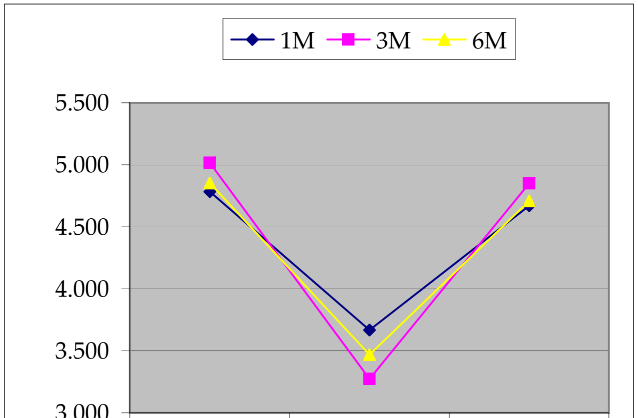
Notes: Cash and futures are adjusted for roll.
Release times are from release to 2pm cdt
(Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
r = reopen

Quotes

	Last	Net	High (32 nds)	Low (32 nds)	Open (32 nds)	Volume (32 nds)	SYM NAME (32 nds)
TUAZ7	104.295	0.0	105.002	104.237	104.237	56,579	2y Fut
FVAZ7	110.040	0.1	110.060	109.195	109.200	121,697	5y Fut
TYAZ7	113.170	0.1	113.190	112.275	112.280	233,462	10y Fut
USAZ7	116.280	0	116.290	115.300	115.310	40,137	30y Fut
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02P	101.022	7.7	101.032	100.265	100.270	na	2y Cash
BUS05P	102.062	21.2	102.077	101.170	101.180	na	5y Cash
BUS10P	102.005	23.5	102.025	101.105	101.125	na	10y Cash
BUS30P	109.130	109	109.140	108.070	108.070	na	30y Cash
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02Y	3.047	(12.70)	3.197	3.023	3.189	na	2y Yield
BUS05Y	3.387	(14.80)	3.562	3.373	3.548	na	5y Yield
BUS10Y	3.997	(9.10)	4.107	3.986	4.096	na	10y Yield
BUS30Y	4.423	(7.30)	4.502	4.423	4.502	na	30y Yield

	Libor$ ^	Tbill	CP ^^
1M	4.783	3.668	4.670
3M	5.015	3.272	4.850
6M	4.853	3.47	4.710
	TSY	**Swap**	**ED Pks ^^^**
2y	3.048	102.50	3.836
5y	3.387	101.00	4.827
10y	4.003	83.75	5.175

	Libor$ ^	Repos
0/N	4.654	4.300
1week	4.750	4.250
2week	4.761	4.200



	Libor$ ^	Tbill	CP ^^
1M	4.783	3.668	4.670
3M	5.015	3.272	4.850
6M	4.853	3.47	4.710

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

15:21 11/20 **US TSYS/RECAP:** Tsys gained Tues. amid ongoing 1) safe-haven buying; 2) short-covering 3) tight 5-year note special: 0.30% in O/N RP; 4) yr-end funding fear; 5) 2) only brief dip in 2Ys after Oct 30-31 FOMC mins release, which had bond-bullish talk of dnside econ. risk; FOMC mins: Oct rate cut "close call"; 3) ongoing tight funding for end-Nov, end-Dec yrends; 6) US stks weak: DJIA -0.62%; 7) PIMCO's Paul McCulley: growth concern makes Fed biased to ease; 8) talk of 3:30pm ET US$2B prime non-agency hybrid ARMs bid list; 8) high-grade ABX indexes mainly severely smacked lower except BBB-; 9) 10Y/30Y swaps saw flatteners; 10) swaps: some ongoing fading of 2Y widening, which not working out too well. 11) central banks did 2-way flow in 5Y zone; better selling in off-run 5Ys; 12) brisk selling in older 3Ys as current 3YS hot in cash, RP; current 3Y was at 2.50% earlier in O/N RP. 13) brisk buying in 3M T-bills by money fnds, dealrs. 14) accts move shorts from 3s to 5s. 15) Light 10Y convexity swaps recvg but big swaps widening lessens need bit.

15:19 11/20 **US SWAPS:** []: Near 20Y wides, spds moved off session wides post-FOMC minutes, lack of liquidity significant factor while credit crunch, fiscal/year end risk aversion, holiday illiquidity, ongoing repo squeeze and higher US LIBOR sets ongoing factors. Sources had reported front end paying and 2way curve flow in intermediates early followed by 10s/30s flatteners late while some still tried to fade the move in the front end. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:10	+5.50/99.50	+8.50/96.50	+4.50/81.75	+3.50/72.25
1:55	+5.50/98.50	+8.00/94.50	+4.50/81.75	+3.50/70.50
12:40	+4.50/98.50	+6.50/94.50	+3.50/80.75	+1.75/70.50
10:40	+1.50/95.50	+3.00/91.00	+1.50/78.75	+1.25/70.00
9:40	+2.50/96.50	+2.25/90.25	+1.50/78.75	+0.75/69.50
Tue Open	+0.50/94.50	+1.50/89.50	+1.00/78.25	+1.25/70.00
Tue 8:00	+3.00/97.00	+1.50/89.50	+1.25/78.50	+1.25/70.00
Mon 3:00	+6.50/94.00	+8.50/88.00	+3.50/77.25	+2.00/68.75

(cont)

05:03 11/21 **TSYS:** Treasuries are trading sharply higher in London trade Wednesday, as a aversion to risk sees an apparent unwind of carry trades helping push yields sharply lower. Traders said the rise in Treasuries - along with the unwind of carry trades - was in part a reaction to the Federal Reserve's downgraded forecasts for U.S. growth in 2008. This again triggered hopes of lower Fed rates in coming months. Also, comments from U.S. Treasury Secretary Henry Paulson, in an interview in Wednesday's Wall Street Journal, weighed on the market. Paulson said the number of potential mortgage defaults in 2008 could be "significantly bigger" than this year, as mortgage interest rates reset to higher market rates from the lower teaser levels in the first few years of the mortgage contract. In Tokyo, prices were little changed in morning trade, but accelerated to the upside in the afternoon as stocks headed south. Demand was seen at the front of the curve from real money names, with buying of the two-year note by Asian central banks.

05:03 11/21 **TSYS**: (2) In early London trade, the yield on the benchmark 10-year note fell below the key 4.00% level for the first time since June 2007. However, the front of the curve continued to gain the main benefit from the safe haven flows, with the yield on the two-year note falling to 3.06%. Real money and leveraged players were seen as buyers across the curve. Life and pension funds were seen buying the Bond, along with Japanese regional banks. Hedge fund buying was seen in the 10-year, again largely a result of unwinds of riskier investments. This helped US paper outperform European bonds. The Bund/T-note spread narrowed sharply on Tuesday's late levels, standing at 2 bps - the tighest since April 2004. Ahead of the U.S. session, the 2-yr note was trading 8/32 higher at 101 2/32 to yield 3.06%. The 10-yr note was up 23/32 at 101 30/32 (4.01%), with the Bond a whole point higher at 109 5/32 (4.44%). The 2-/10-yr curve was flatter by 5 bps, trading at +95 bps, with the 2-yr/30-yr curve steeper by 8, standing at +138 bps.

MarketNews international

10:53 11/20 **US TSYS**: Sources say one major theme today in addition to sell-stops, profit taking and trading off gyrations in Freddie Mac has been waves of short covering, which generally support prices briefly only for them to back off once this flow is done. Sources note this has happened several times today.

10:51 11/20 **US TSYS:** Sources at one big shop say for the past 2-days, guys have been trading Tsys off movement in Freddie Mac shares in anticipation of their report. Stock off now 25.28% or $9.48 per share and there has been talk of a big buyer of 2Y cash with traders noting the basis widened with cash outperforming futures. Still, on net, the above flow has mostly been in house type stuff or proprietary in nature as customer flows remain stalled.

10:49 11/20 **US CMBS:** Bottom fishers hovering around the CMBS secondary market, where spreads have blown out to hover near historic wides, may still want to wait a while before diving in as there still is potential for further volatility and even more widening, according to CMBS strategists at JP Morgan. On the upside: 1) Q4 issuance is extremely light and Q1'08 might be the same, thus perhaps creating a technical new supply shortage, 2) 10Y SS AAAs, which enjoy relatively high liquidity and 30% subordination, are at their widest levels since the early '90s, which was effectively the beginning of the market. On downside: 1) general credit market weakness, 2) tighter future credit standards amidst a system-wide de-levering, 3) typical end-of-year slowing of demand, 4) pipeline still contains aggressively underwritten collateral which may add to bearish risk aversion sentiment. "Spreads are currently near the cheapest level in years, but technical pressures will continue to weigh on spreads over the near term causing them to continue to move wider as the path of least resistance," JP says.

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

Repo Follow-up: 5s Tighten Further
by Tom Simons

--Stone & McCarthy (Princeton)-- As was mentioned in our previous repo update, current 5-year notes are trading extremely tight this morning. In fact, since that update the issue is not trading even tighter at 0.30%. According to our colleagues at MNI, primary dealers and hedge funds are short the issue, with perhaps another party holding some back. Apparently there are few sellers in the market as the risk aversion bid gains strength. We will monitor the situation throughout the rest of the morning.

13:16 11/20 **DOLLAR**: Despite a handful of analysts calls for concerted intervention to prevent a larger dollar slide from current low levels, FX strategists at Credit Suisse maintain they odds are against direct intervention. History suggests the following conditions would need to exist:
"1) a clear cut one-way trend in the dollar
2) extreme levels of implied volatility combines with skew in the direction of the move
3) official assessment that the dollar was significantly away from fundamentals
4) US Tsy belief that dollar depreciation was having a significant negative effect on US financial markets" Credit Suisse puts the highest chances of unilateral intervention for the BOJ, "particularly if dollar-yen were to fall rapidly below Y104."

14:00 11/20 **FED/US DATA**: Oct 30-31 FOMC data: Our frank reading is bond-bullish as minutes are fraught with references to downside econ risks that belie the neutral statement. Text says financial mkts improved somewhat. Housing drop was anticipated, pers. consumption was holding up. Oct ease "was a close call" but with downside econ risks it was insurance because policy was still restrictive. KC Fed's Hoenig dissented for unch policy, saying Fed funds were close to neutral. Much discussion plus 8pg add-on on forecasts. Q3 econ growth upgraded, Q4 expected considerably slower; 2008 est a bit below potential; 2009 above potential. PCE infltn expectd little changed if energy has limited feed-thru. Headline CPI in same range as core in 2008-09 if energy levels off, then turns down assuming infl expectations remain anchored and resource util. is low. Unemploymnt to rise near-term; growth back to trend by '09. Risks are lower growth and more unemployment than est. Tables compare Oct to June ests.

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.85	5.62	$1,756	11.24	n/a
10y	8.09	2.64	$826	5.29	n/a
5y	4.46	1.46	$457	5.85	n/a
2y	1.90	0.61	$192	2.46	n/a
ZB	9.89	3.72	$116	3.72	0.8628
ZN	5.77	2.13	$67	4.26	0.8721
ZF	3.83	1.37	$43	2.73	0.9119
ZT	1.77	0.60	$19	2.40	0.9593

ZB CF has been corrected

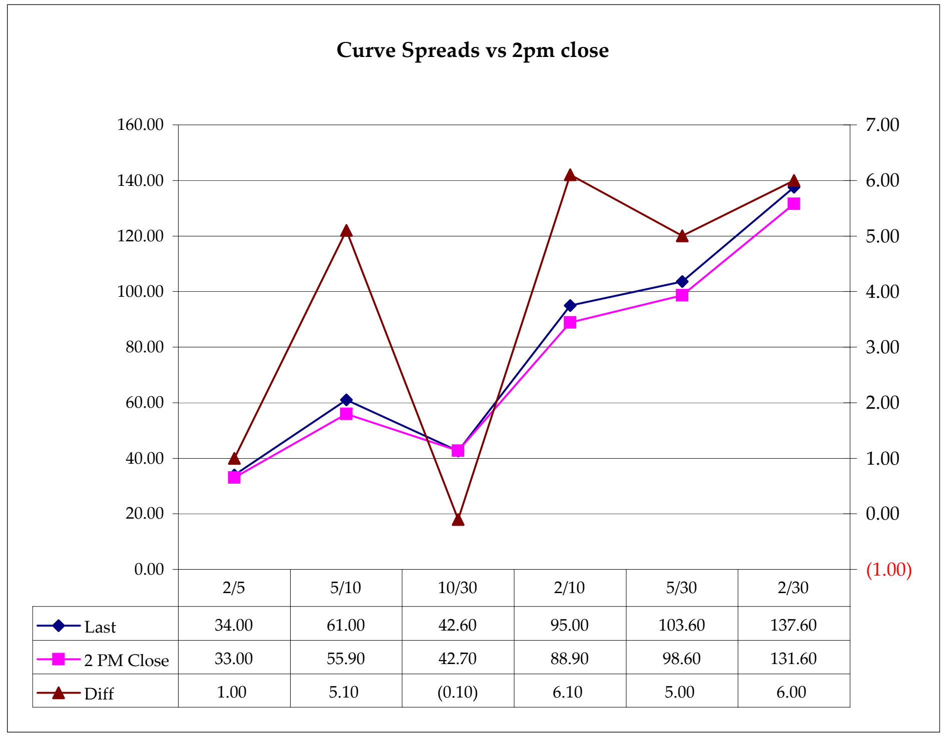
Yield Curve Spreads

	Last	2pm close	Diff
2/5	34.00	33.00	1.00
5/10	61.00	55.90	5.10
10/30	42.60	42.70	(0.10)
2/10	95.00	88.90	6.10
5/30	103.60	98.60	5.00
2/30	137.60	131.60	6.00

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

Hedge Ratio's

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		1.743	2.720	3.102
ZN	0.574		1.560	1.780
ZF	0.368	0.641		1.141
ZT	0.322	0.562	0.877	

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 v US Financial Futures

	2y	5y	10y	30y
ZB	1.62	3.94	7.11	15.12
ZN	2.83	6.86	12.40	26.35
ZF	4.41	10.71	19.34	41.12
ZT	5.03	12.21	22.06	46.91

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		2.428	4.387	9.326
5y	0.420		1.807	3.841
10y	0.233	0.553		2.126
30y	0.109	0.260	0.470	

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.

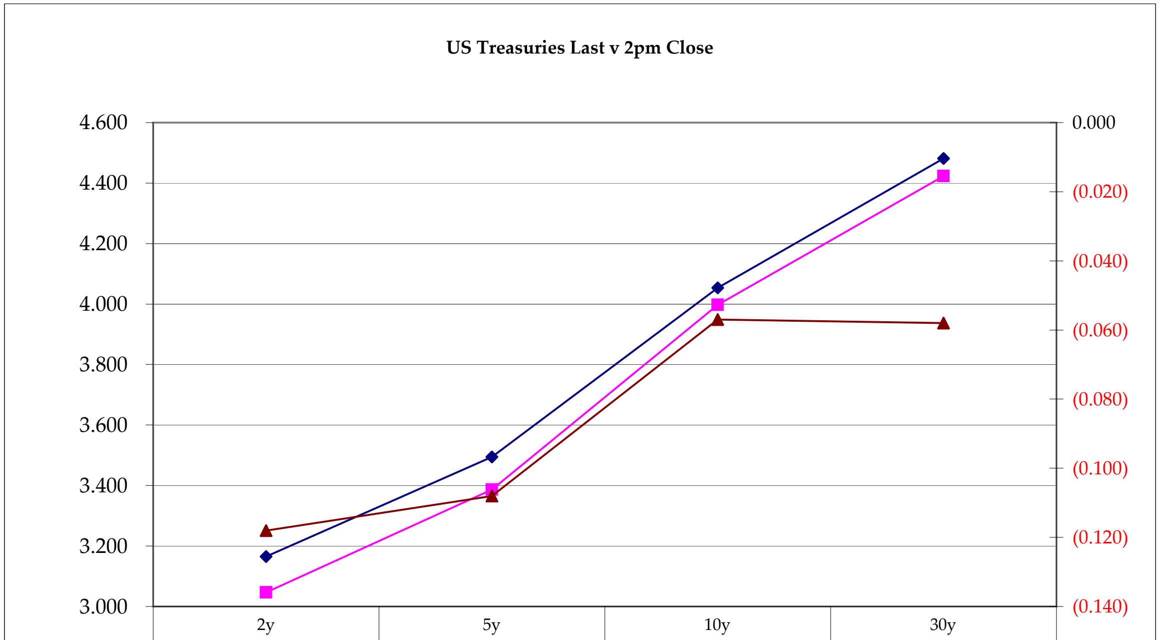
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	3.625	10/31/09	100.2750	3.165	3.047	(0.118)			
5y	3.875	10/30/12	101.2275	3.495	3.387	(0.108)	47.14	56.46	
10y	4.250	11/17/17	101.190	4.054	3.997	(0.057)	93.13	96.66	
30y	5.000	5/15/37	108.14	4.481	4.423	(0.058)	260.38	275.13	

	Close 32	Last
ZFZ7	109.295	110.040
ZNZ7	113.050	113.170
ZBZ7	116.08	116.280

Curve Spreads

	Close bps	Last bps
2/5	33.0	34.0
5/10	55.9	61.0
10/30	42.7	42.6
2/10	88.9	95.0
5/30	98.6	103.6
2/30	131.6	137.6



	2y	5y	10y	30y
2pm Cls	3.165	3.495	4.054	4.481
Last	3.047	3.387	3.997	4.423
Diff	(0.118)	(0.108)	(0.057)	(0.058)

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%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$192**			
5	$195	~~**$457**~~		
10	$194	$456	**$826**	
30	$211	$494	$896	**$1,756**

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.

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($3)			
10	($2)	$1		
30	($19)	($37)	($70)	

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.

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.40%			
10	-1.08%	0.32%		
30	-8.83%	-7.54%	-7.84%	

Or you can look at the over/under value as a percentage instead of dollar terms.

Tic for Tic & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	1.03	2.44	4.41	9.38
ZF	0.45	1.07	1.93	4.11
ZN	0.29	0.69	1.24	2.64
ZB	0.17	0.39	0.71	1.51

	2y	5y	10y	30y
2y	1.00	2.38	4.30	9.14
5y	0.42	1.00	1.81	3.84
10y	0.23	0.55	1.00	2.13
30y	0.11	0.26	0.47	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.28	3.56	6.20
ZF	0.44	1.00	1.56	2.72
ZN	0.28	0.64	1.00	1.74
ZB	0.16	0.37	0.57	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	1.03	2.44	8.83	18.76
ZF	0.45	2.14	3.87	8.22
ZN	0.58	1.37	1.24	2.64
ZB	0.66	1.57	1.42	3.02

	2y	5y	10y	30y
2y		2.38	2.15	4.57
5y	0.42		0.45	1.92
10y	0.47	2.21		2.13
30y	0.22	0.52	0.47	

	2y	5y	10y	30y
ZT		2.28	7.12	24.82
ZF	0.44		1.56	5.44
ZN	0.14	0.64		3.49
ZB	0.04	0.18	0.29	

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		
Volitility Up (in general)	x						x
Volitility 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					
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					

<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

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.

<u>Notes:</u>

^ 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