

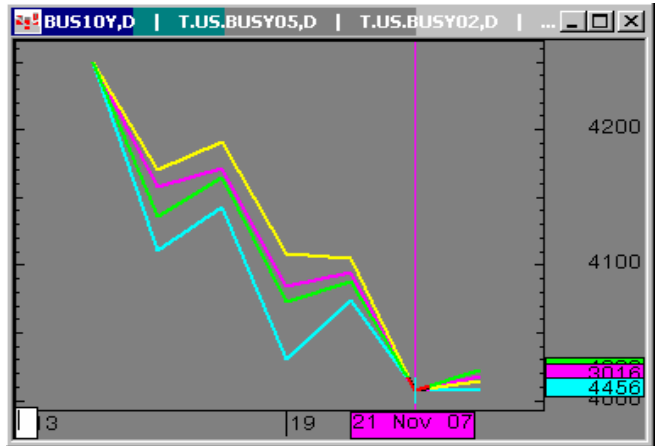


# The Morning Email: Treasuries

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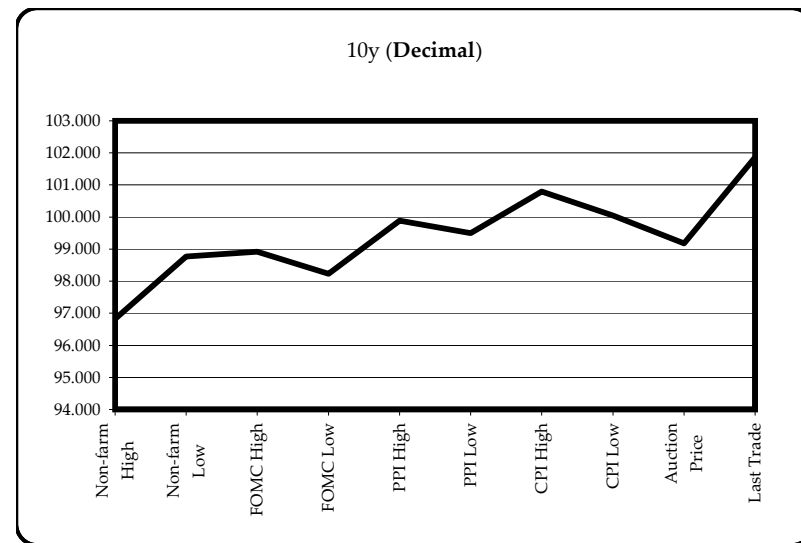
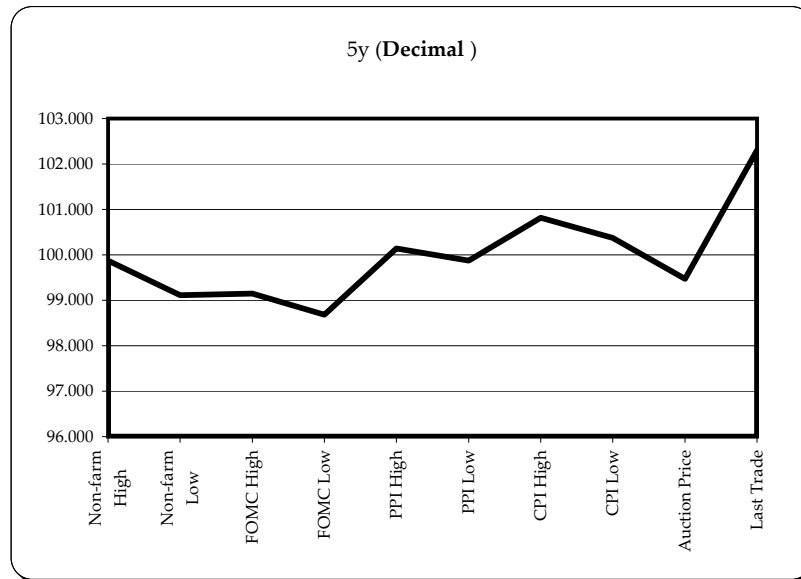
Source: CQG, Inc. © 2007 Fri Nov 23 2007 05:40:42



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	102.0970	101.275	113.140	116.20	11/23/2007 5:48

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



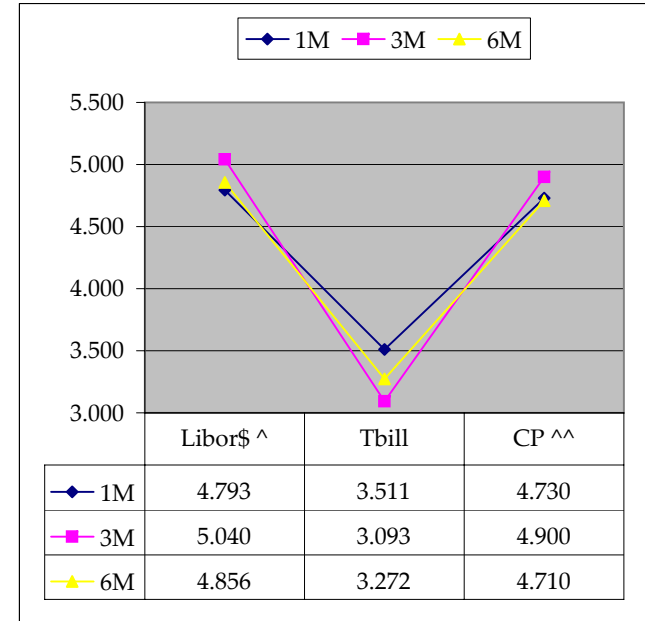
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.317	(0.0)	105.030	104.312	105.007	26,258	2y Fut
FVAZ7	109.310	(0.0)	110.060	109.290	110.010	46,580	5y Fut
TYAZ7	113.140	0.0	113.200	113.115	113.150	73,702	10y Fut
USAZ7	116.200	0	116.270	116.160	116.170	15,126	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	101.035	(1.5)	101.045	101.022	101.035	na	2y Cash
BUS05P	102.097	(2.2)	102.127	102.090	102.115	na	5y Cash
BUS10P	101.270	(4.0)	102.010	101.235	101.310	na	10y Cash
BUS30P	108.240	(1)	109.085	108.210	109.085	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.020	2.70	3.057	3.003	3.045	na	2y Yield
BUS05Y	3.362	1.60	3.372	3.34	3.35	na	5y Yield
BUS10Y	4.022	1.50	4.041	3.995	4.012	na	10y Yield
BUS30Y	4.460	0.30	4.47	4.431	4.46	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.793	3.511	4.730
3M	5.040	3.093	4.900
6M	4.856	3.272	4.710

	Libor\$ ^	Repos
0/N	4.673	4.300
1week	4.770	4.250
2week	4.778	4.200

	TSY	Swap	ED Pks ^^
2y	3.027	102.25	3.820
5y	3.363	102.00	4.819
10y	4.022	81.50	5.169



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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#### All times Eastern

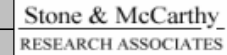
11:15 11/22 **EGB CLOSING SUMMARY:** EGBs were trading mixed on Thursday afternoon with long dates underperforming, in turn flattening the Bund curve. Volumes were thin in the absence of US market participants in light of the US Thanksgiving public holiday. EGBs opened lower on Thursday morning on profit taking following sharp risk aversion gains in the previous session. Bunds reversed losses on flight to quality bids after European stocks came under pressure and as investors continued to favour core issues offering liquidity provision and safe-haven qualities instead of peripherals. Long dates underperformed and traders observed a lack of bids at the long-end of the curve with ALM related paying interest noted in 30-year issue. In supply news, demand for BTAN issuance from the AFT was mixed. The Tresor sold E1.083bln of the 4.00% Sept 2009 BTAN at average yield 3.77%, covered 4.73 and E1.97bln of the 4.50% July 2012 BTAN at average yield 3.85%, covered 2.883 times. The AFT also sold OATi and OATei linker issues.

11:38 11/22 **CRUDE OIL:** Crude oil prices easing lower, amid thin volume session given US markets are closed in observance of Thanksgiving holiday. Prices fell yesterday after US weekly crude oil inventory data showed a rise in supplies at Cushing, Oklahoma by 1.14mln barrels -- WTI Nymex crude oil is at \$96.87, down 42 cents.

00:42 11/23 **FOREX:** The greenback was sharply lower against the majors in Asian trade Friday, with the euro hitting a fresh lifetime high at \$1.4966. The pair spiked higher, taking out stops and option barriers, helped by the very light volumes and liquidity due to a Tokyo holiday. However, the pair slipped from the highs, trading at \$1.4925 just ahead of the European open. Dollar-yen also fell to multi-month lows, with the pair at Y107.78, having touched a low at Y107.55.

(cont)

05:29 11/23 **TSYS:** Treasuries are trading narrowly mixed in London Friday, as trades unwind a little of the recent curve steepening. Traders said a lack of fresh trading incentives saw some light profit-taking, although the overall theme of "flight-to-liquidity" trades remained the dominant theme. Tokyo markets were closed for a national holiday, helping keep many players sidelined in Europe ahead of the New York open. Flows were light in London trade, with interdealer position squaring ahead of the weekend the main driver. This helped the longer-end of the curve higher and the two-year underperformed. But volumes remained light, helping exaggerate moves. The Bund/T-note spread widened modestly from Wednesday's multi-year lows, to stand at 4 bps. Ahead of the U.S. session, the 2-yr note was trading 2/32 lower at 101 3/32 to yield 3.03%. The 10-yr note was down 33/32 at 101 28/32 (4.02%), while the Bond was 4/32 higher at 108 30/32 (4.45%). The 2-10-yr curve was flatter by 2 bps, trading at +99 bps.



08:44 11/21 **US BONDS/LEHMAN:** Advance month-end estimates from Lehman Bros show there will be a large month-end index extension in the U.S. Tsy bond index extensions, as would normally be expected in a refunding month. Other index advance estimates are as follows: (final figures crunched after U.S. markets close Fri, Nov. 30)

- U.S. Tsy Index duration will extend by +0.21 yrs
- Agencies will extend by +0.12 yrs,
- U.S. Credit extends by +0.07 yrs
- MBS are estimated at +0.05 yrs.
- U.S. Aggregate Index duration increase by +0.09 yrs
- U.S. High-Yield Index will expand by +0.05 years.
- U.S. Gov/Credit to increase by +0.14 yrs

09:57 11/21 **US FED:** The Fed has now added US\$37B to US banking system via three different operations; this should not be considered unusual as the Fed is addressing the holiday-time add need to get money into the banking system before the Thursday US holiday and shopping needs. Normally, the Fed would layer a few different operations for its Thursday operations; today it appears those are being done. There are no policy implications; the Fed is operating at what would be a normal Thurs. adding time. **So far today the Fed did:**

- US\$12B in 15-day system repos;
- US\$20B in a 7-day system repo;
- US\$5B in a 2-day system repos;



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.80	5.57	\$1,740	11.14	n/a
10y	8.08	2.64	\$824	5.27	n/a
5y	4.45	1.46	\$457	5.85	n/a
2y	1.89	0.61	\$191	2.45	n/a
ZB	9.89	3.74	\$117	3.74	0.8628
ZN	5.76	2.11	\$66	4.23	0.8721
ZF	3.82	1.36	\$43	2.72	0.9119
ZT	1.76	0.60	\$19	2.38	0.9593

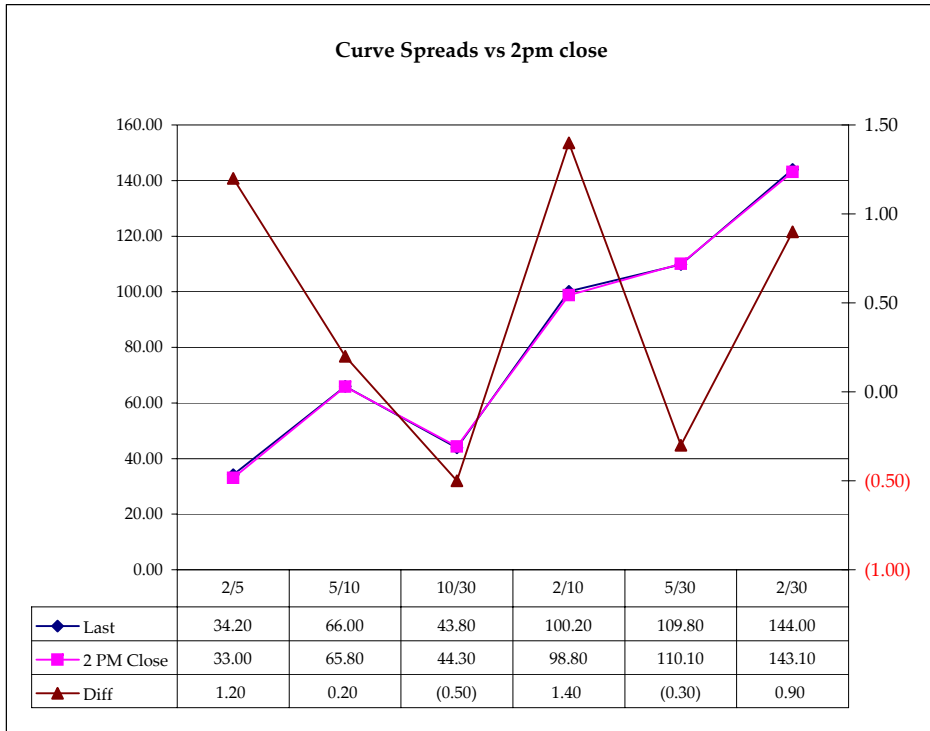
ZB CF has been corrected

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	34.20	33.00	1.20
5/10	66.00	65.80	0.20
10/30	43.80	44.30	(0.50)
2/10	100.20	98.80	1.40
5/30	109.80	110.10	(0.30)
2/30	144.00	143.10	0.90

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	1.60	3.91	7.05	14.89
ZN	2.84	6.91	12.47	26.34
ZF	4.40	10.73	19.35	40.90
ZT	5.03	12.27	22.12	46.74

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.769	2.747	3.139
ZN	0.565		1.553	1.774
ZF	0.364	0.644		1.143
ZT	0.319	0.564	0.875	

## 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		2.438	4.397	9.290
5y	0.419		1.803	3.810
10y	0.232	0.555		2.113
30y	0.110	0.262	0.473	

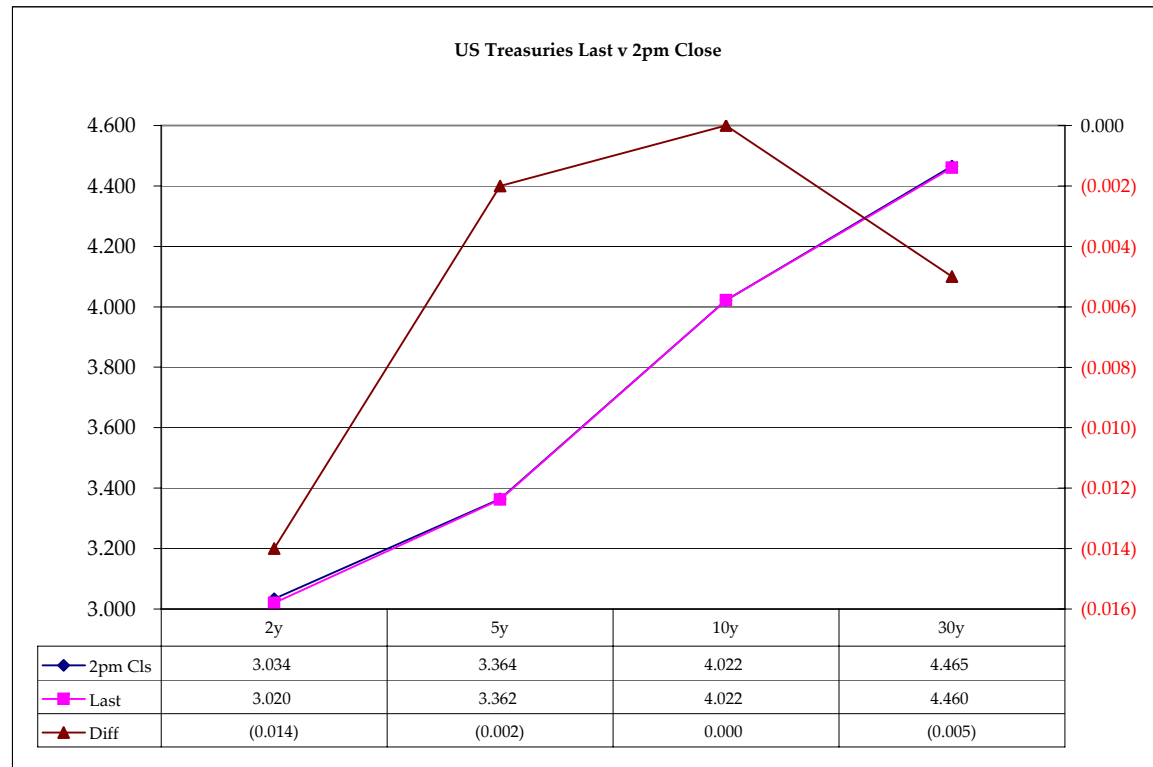
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

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

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	101.0325	3.034	3.020	(0.014)			
5y	3.875	10/30/12	102.0975	3.364	3.362	(0.002)	63.41	64.72	
10y	4.250	11/17/17	101.275	4.022	4.022	0.000	95.09	93.78	
30y	5.000	5/15/37	108.23	4.465	4.460	(0.005)	262.48	261.03	

	Close 32	Last
ZFZ7	110.005	109.310
ZNZ7	113.125	113.140
ZBZ7	116.16	116.200

Curve Spreads		
	Close bps	Last bps
2/5	33.0	34.2
5/10	65.8	66.0
10/30	44.3	43.8
2/10	98.8	100.2
5/30	110.1	109.8
2/30	143.1	144.0



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				
	2	5	10	30
2	100%			
5	42%	100%		
10	23%	55%	100%	
30	12%	28%	51%	140%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$191			
5	\$194	\$457		
10	\$193	\$454	\$824	
30	\$208	\$491	\$890	\$1,740
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$3)			
10	(\$2)	\$3		
30	(\$17)	(\$34)	(\$66)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.45%			
10	-0.87%	0.58%		
30	-8.24%	-6.90%	-7.44%	

**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	2.45	4.42	9.35
ZF	0.45	1.07	1.94	4.09
ZN	0.29	0.69	1.25	2.63
ZB	0.16	0.39	0.70	1.49

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.03	2.45	8.85	18.70
ZF	0.45	2.15	3.87	8.18
ZN	0.58	1.38	1.25	2.63
ZB	0.65	1.56	1.41	2.98

	2y	5y	10y	30y
2y	1.00	2.39	4.31	9.10
5y	0.42	1.00	1.80	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		2.39	2.15	4.55
5y	0.42		0.45	1.91
10y	0.46	2.22		2.11
30y	0.22	0.52	0.47	

	ZT	ZF	ZN	ZB
ZT	1.00	2.29	3.55	6.28
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		2.29	7.10	25.11
ZF	0.44		1.55	5.49
ZN	0.14	0.64		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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