

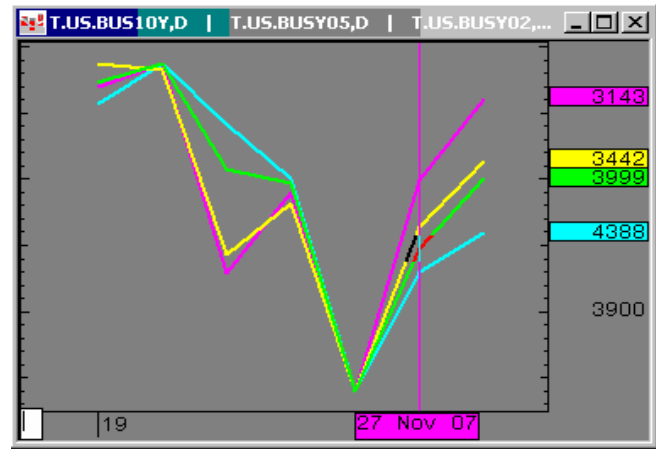


# The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 Wed Nov 28 2007 05:42:53

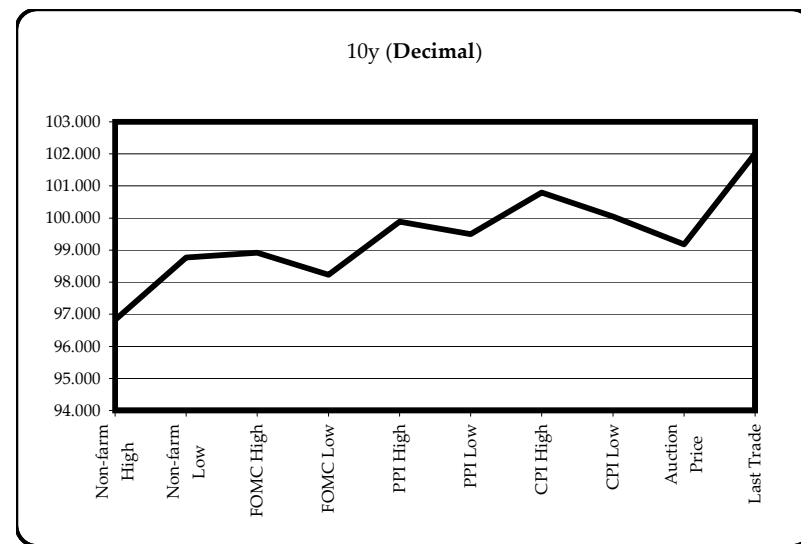
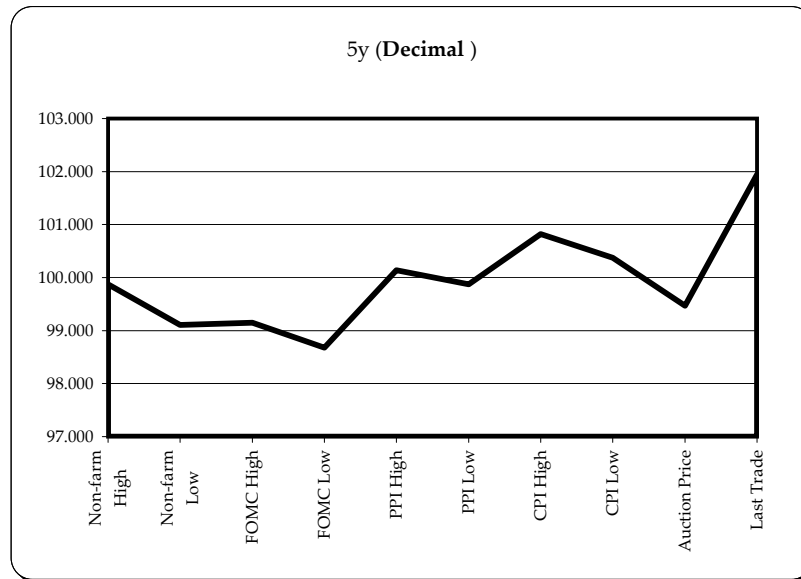


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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	101.3020	102.005	113.155	116.31	11/28/2007 5:47

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



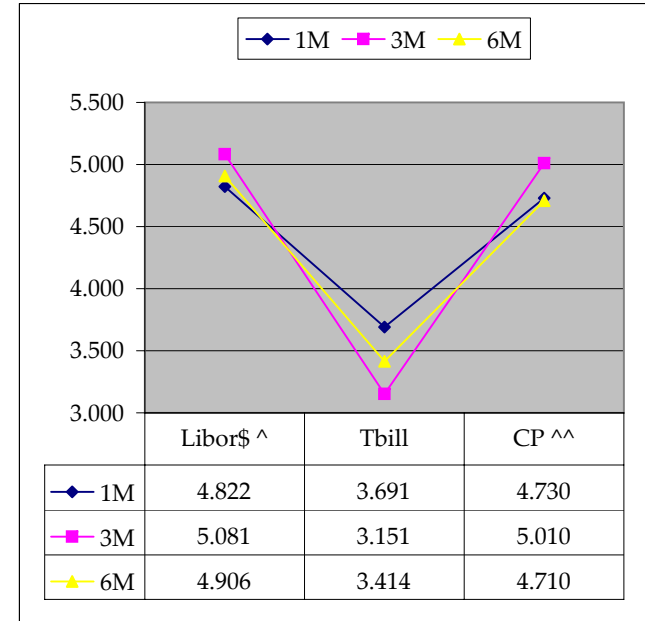
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	104.260	(0.1)	105.007	104.260	104.295	50,701	2y Fut
FVAZ7	110.020	(0.1)	110.140	110.010	110.085	116,191	5y Fut
TYAZ7	113.155	(0.2)	114.005	113.150	113.265	159,096	10y Fut
USAZ7	116.310	(0)	117.240	116.290	117.170	41,244	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.287	(3.5)	101.022	100.285	101.002	na	2y Cash
BUS05P	101.300	(9.5)	102.130	101.300	102.075	na	5y Cash
BUS10P	102.005	(14.0)	102.215	102.000	102.130	na	10y Cash
BUS30P	109.290	(18)	110.240	109.285	110.170	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.131	5.80	3.152	3.03	3.063	na	2y Yield
BUS05Y	3.440	6.50	3.447	3.335	3.388	na	5y Yield
BUS10Y	4.001	5.30	4.008	3.919	3.948	na	10y Yield
BUS30Y	4.394	3.00	4.404	4.344	4.404	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.822	3.691	4.730
3M	5.081	3.151	5.010
6M	4.906	3.414	4.710

	Libor\$ ^	Repos
0/N	4.799	4.110
1week	4.843	3.850
2week	4.839	3.800

	TSY	Swap	ED Pks ^^
2y	3.133	90.75	3.743
5y	3.443	85.75	
10y	4.001	69.75	



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

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### All times Eastern

#### Yesterday:

15:17 11/27 **US TSYS/RECAP:** Tsys end Tues midrange, weaker, after 1) partial reversal of Mon big safe-haven rally. Tsys 2) slid most of day but then drew 3) some brisk buying at low as US stks gave up some gain. 4) Some cited afternoon Goldman economic conf. call as perhaps aiding Tsys too. 5) Earlier, cooling of 5Y RP special; 6) pre- 2Y and 5Y auction short- setting; 7) Tsy asks position reports on 5Y;annual "test;" 8) risk aversion aided Tsys Mon (selloff in riskier debt, stks, FX mkt) but abated Tue tho was Tues. p.m., some risk-aversion again amid monoline insurer worry; 9) US 5-yr note selling in UK session; 10) Tsys overnight selling as Abu Dhabi sov wealth fund will invest in Citi; 10) Servicer selling Tue in MBS, Tsys; up-in-cpn trades; 11) big positn rolls from Dec to Mar still on: 5y roll volume at some 550,000 earlier, 400,000 10s and 225,000 T-bd. 13) Lvrgd, real money, bks did 2-way flow in intermediates, where Asian buying arose. 14) Lvrgd, cntrl bk selling in 30s.2-way flow, front end selling in Eurodlr futs.Dec 3M OIS/LIBOR 69 bp

15:11 11/27 **US EURODLR FUTURES:** Eurodlr futures finished lower, giving back some of Mon's rally. Curve bear flattened, the Red/Gold pack spd in 3.25 bps at 119.125. In the Fronts (Dec07-Sep08), the Dec07 was in 4.0 bps at 95-13.5 on combined Globex and pit volume of 301,000, the Mar08 in 10.0 bps at 95-78 on volume of 282,000, the Jun08 in 12.5 bps at 96-21 on volume of 445,000, while the Sep08 contract was 11.5 bps lower at 96-44 on volume of 515,000. The 2yr proxy Red pack (Dec08-Sep09), settled 9.0 to 10.5 bps lower across the pack with 1,287,000 contracts traded.

15:02 11/27 **US SWAPS:** Spds remain improved by bell, front end in nearly 15 bps from last Wed's 20yr wides. On the heels of swap-tied selling in belly receiving in 30s overnight, flow in the first half proved 2-way. Sources reported modest two-way flows including front-end paying via Eurodollar 2yr bundles and Red June 1-year bundles while some receiver-tied flow noted in the 2- and 5-year sectors, which was in line with spread tightening. According to GovPX:

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

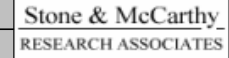
Tue 3:00	-2.25/92.00	-2.75/87.00	-0.25/70.75	-0.50/59.75
1:30	-2.75/91.50	-2.75/87.00	-0.25/70.75	-0.25/60.00
11:00	-3.25/91.00	-1.50/88.25	+0.00/71.00	+0.50/60.75
10:20	+0.00/94.25	-1.50/88.25	+0.75/71.75	+0.50/60.75
10:10	-1.75/92.50	-2.50/87.25	+0.25/71.25	+0.25/60.50
9:20	-3.00/91.25	-2.25/87.50	+0.50/71.50	+0.50/60.75
Tue Open	-1.50/92.75	-2.25/87.50	-1.00/70.00	-1.50/58.75
Mon 3:00	-1.50/94.25	-4.25/89.75	-5.25/71.00	-5.25/60.25

(cont)

#### Overnight:

05:22 11/28 **TSYS:** Treasuries are trading narrowly mixed in London trade Wednesday, with the curve steepening a little, reversing a little of the previous session's flattening. However, traders said overall volumes were light, with flows mainly interdealer. Prices were modestly higher across the board in early Tokyo trade, although flows were very light. Real money names, with talk of Asian central bank interest, were buyers of the two-year note, while Japanese regional banks were buyers of the Long Bond. London trade saw light two-way flows across the curve, although there was no clear direction ahead of the U.S. open. Real money accounts were buyers of the 2 and 5-year note, although there was light hedge selling of the two-year note ahead of the auction. A total of \$20 billion 2-year note are due to be sold. The size of the auction was raised from \$18 billion in September, which was the first increase in the size since February last year.

05:22 11/28 **TSYS: (2)** The Bund/T-note spread was little changed from Tuesday's levels, trading close to multi-year lows, standing at -7bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 lower at 101 1/32 to yield 3.03%. The 10-yr note was down 1/32 at 102 13/32 (3.95%), while the Bond was 3/32 lower at 110 12/32 (4.37%). The 2-yr/5-yr yield curve was unchanged on overnight levels, trading at +31 bps. The 2-/10-yr curve was steeper by 1 bps, trading at +89 bps, with the 2-yr/30-yr curve steeper by 2 bps, standing at +131 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



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.86	5.65	\$1,767	11.31	n/a
10y	8.07	2.64	\$825	5.28	n/a
5y	4.44	1.45	\$454	5.81	n/a
2y	1.88	0.61	\$190	2.43	n/a
ZB	9.90	3.76	\$117	3.76	0.8628
ZN	5.75	2.12	\$66	4.24	0.8721
ZF	3.81	1.36	\$42	2.71	0.9119
ZT	1.75	0.59	\$18	2.37	0.9593

ZB CF has been corrected

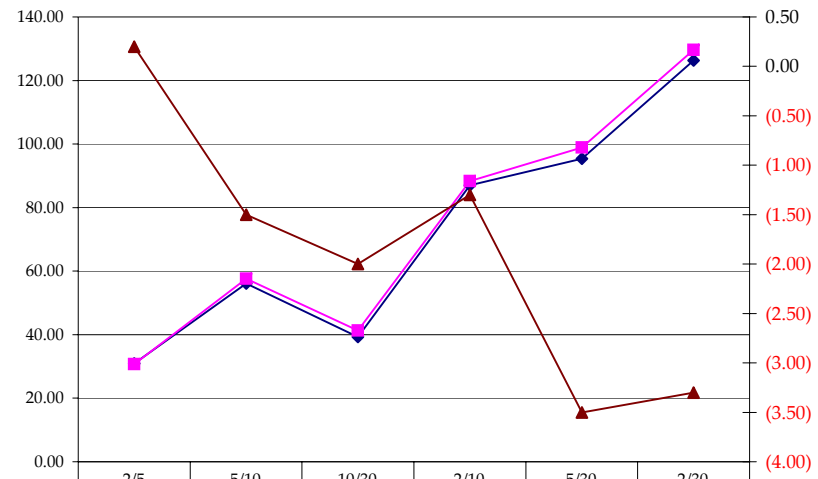
Yield Curve Spreads			
	Last	2pm close	Diff
2/5	30.90	30.70	0.20
5/10	56.10	57.60	(1.50)
10/30	39.30	41.30	(2.00)
2/10	87.00	88.30	(1.30)
5/30	95.40	98.90	(3.50)
2/30	126.30	129.60	(3.30)

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	30.90	56.10	39.30	87.00	95.40	126.30
2 PM Close	30.70	57.60	41.30	88.30	98.90	129.60
Diff	0.20	(1.50)	(2.00)	(1.30)	(3.50)	(3.30)

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	1.58	3.87	7.02	15.04
ZN	2.81	6.86	12.46	26.69
ZF	4.39	10.71	19.45	41.66
ZT	5.03	12.28	22.30	47.78

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.775	2.770	3.177
ZN	0.563		1.561	1.790
ZF	0.361	0.641		1.147
ZT	0.315	0.559	0.872	

## 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		2.440	4.432	9.494
5y	0.418		1.816	3.890
10y	0.230	0.551		2.142
30y	0.107	0.257	0.467	

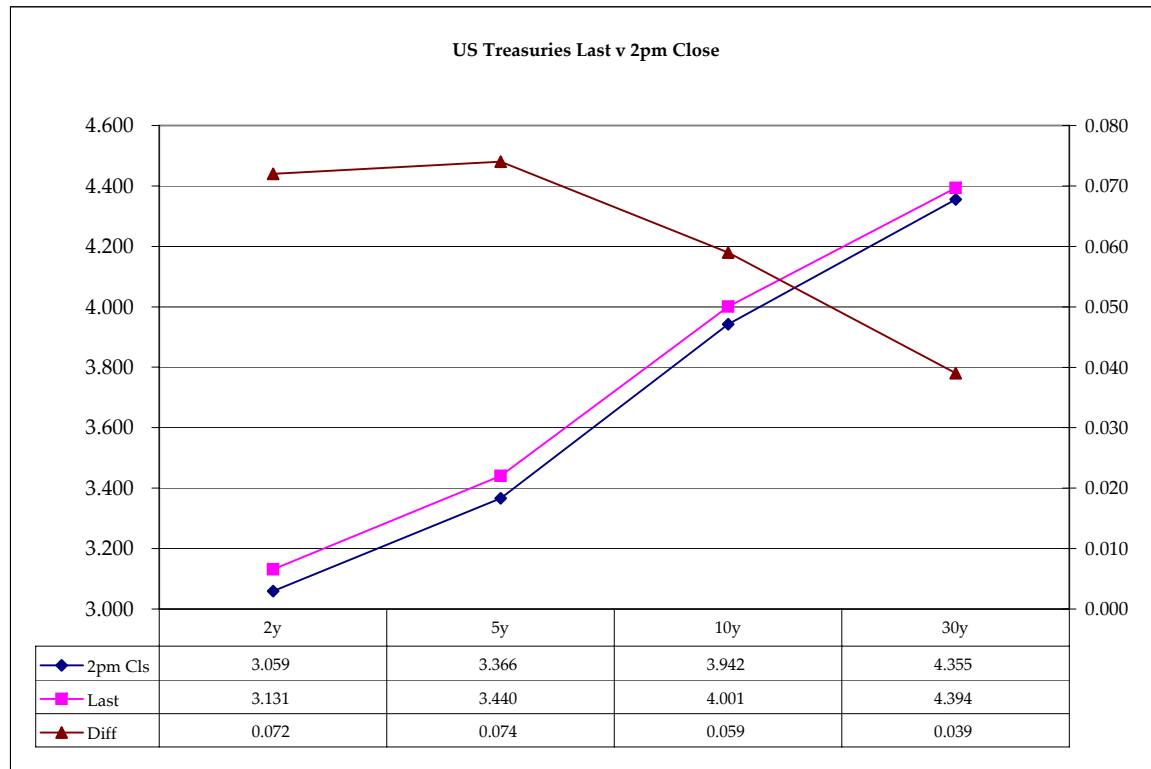
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	101.0150	3.059	3.131	0.072			
5y	3.875	10/30/12	102.0925	3.366	3.440	0.074	52.88	50.49	
10y	4.250	11/17/17	102.165	3.942	4.001	0.059	100.39	97.47	
30y	5.000	5/15/37	110.21	4.355	4.394	0.039	292.92	288.54	

	Close 32	Last
ZFZ7	110.115	110.020
ZNZ7	113.305	113.155
ZBZ7	117.20	116.310

Curve Spreads		
	Close bps	Last bps
2/5	30.7	30.9
5/10	57.6	56.1
10/30	41.3	39.3
2/10	88.3	87.0
5/30	98.9	95.4
2/30	129.6	126.3



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	42%	100%		
10	23%	55%	100%	
30	12%	28%	51%	140%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$190			
5	\$192	\$454		
10	\$192	\$454	\$825	
30	\$210	\$495	\$899	\$1,767
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$2)			
10	(\$2)	\$0		
30	(\$20)	(\$41)	(\$74)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.29%			
10	-1.24%	0.05%		
30	-9.38%	-8.20%	-8.24%	

**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	2.46	4.46	9.56
ZF	0.45	1.07	1.94	4.17
ZN	0.29	0.69	1.25	2.67
ZB	0.16	0.39	0.70	1.50

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.03	2.46	8.92	19.11
ZF	0.45	2.14	3.89	8.33
ZN	0.57	1.37	1.25	2.67
ZB	0.65	1.55	1.40	3.01

	2y	5y	10y	30y
2y	1.00	2.39	4.34	9.30
5y	0.42	1.00	1.82	3.89
10y	0.23	0.55	1.00	2.14
30y	0.11	0.26	0.47	1.00

	2y	5y	10y	30y
2y		2.39	2.17	4.65
5y	0.42		0.45	1.95
10y	0.46	2.20		2.14
30y	0.21	0.51	0.47	

	ZT	ZF	ZN	ZB
ZT	1.00	2.29	3.58	6.35
ZF	0.44	1.00	1.56	2.77
ZN	0.28	0.64	1.00	1.77
ZB	0.16	0.36	0.56	1.00

	2y	5y	10y	30y
ZT		2.29	7.16	25.42
ZF	0.44		1.56	5.54
ZN	0.14	0.64		3.55
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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