



# The Morning Email: Treasuries

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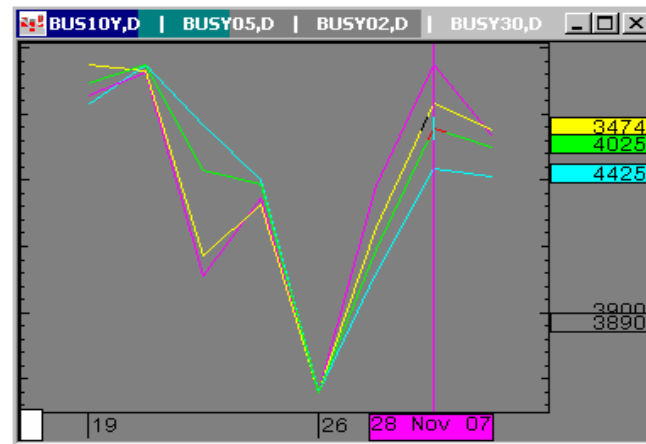
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I'VE ROLLED TO MARCH 2008 FOR THE ECBOT FUTURES.

They go "top step" Friday. A few trader's asked if I'd roll early.

11/29/2007 5:41

### Daily Yield Curve



Source: CQG, Inc. © 2007

Thu Nov 29 2007 05:15:27

30y 10y 5y 2y

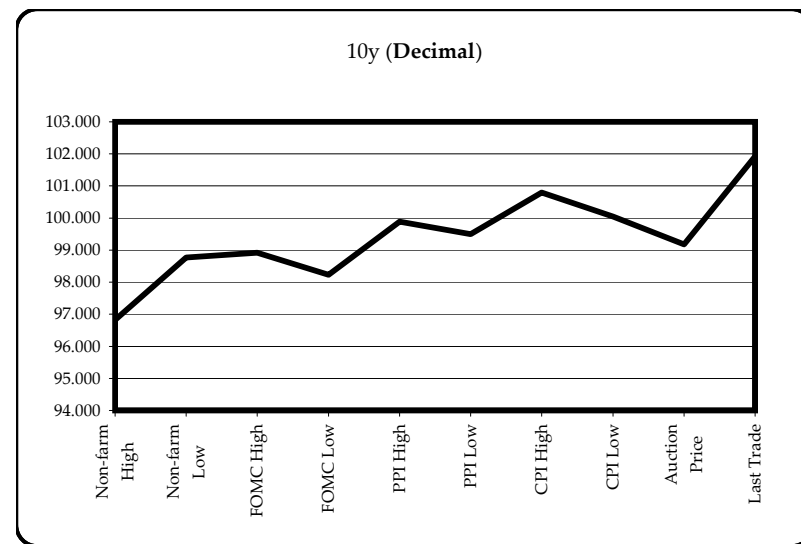
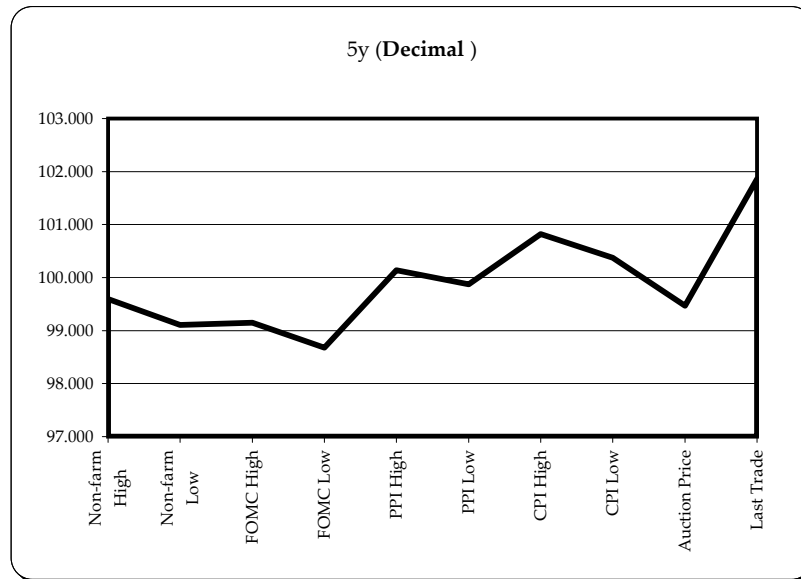
LOOK

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

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Economic Releases - 32nds					
	5y	10y	ZNH8	ZBH8	Date
Non-farm High	99.1900	96.265	110.250	114.22	11/2/2007
Non-farm Low	99.0350	98.245	109.235	113.11	11/2/2007
FOMC High	99.0475	98.295	109.290	113.20	10/31/2007
FOMC Low	98.2175	98.075	109.085	112.18	10/31/2007
PPI High	100.0450	99.285	111.010	114.17	11/14/2007
PPI Low	99.2800	99.160	110.185	113.27	11/14/2007
CPI High	100.2625	100.255	111.200	115.18	10/15/2007
CPI Low	100.1200	100.015	111.035	114.17	10/15/2007
Auction Price	99.1504	99.056			
Last Trade	101.2750	101.295	112.265	116.31	11/29/2007 5:41

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.299	99.150	99.056	105.103
Auction Yield Stop	3.159	3.993	4.350	5.059
Actual Auction Date	11/28/2007	10/25/2007	11/7/2007	11/8/2007



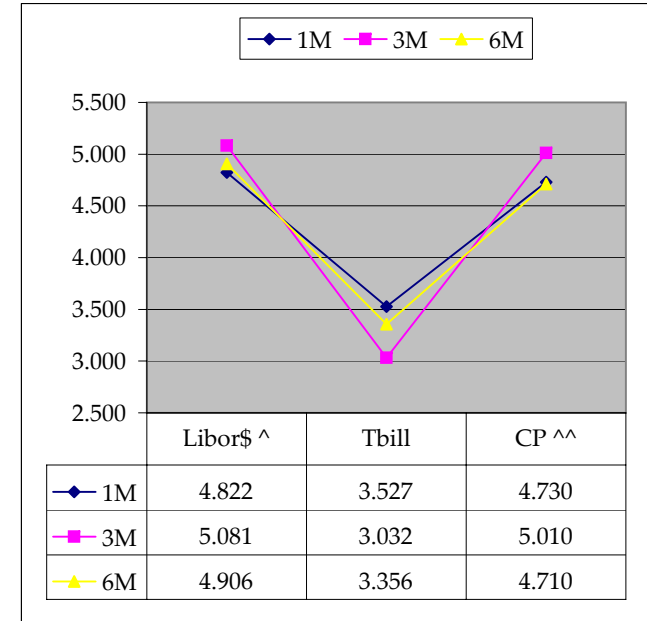
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 {Dec07 to Mch08 Futures roll: ZF = (-9); ZN = (-22); ZB = (+1) [tics]}  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	104.317	0.0	105.000	104.262	104.270	51,760	2y Fut
FVAH8	109.275	0.1	109.275	109.160	109.205	83,914	5y Fut
TYAH8	112.265	0.0	112.265	112.140	112.210	173,878	10y Fut
USAH8	116.310	0	116.310	116.140	116.230	39,136	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.015	(24.5)	100.015	99.280	99.307	na	2y Cash
BUS05P	#VALUE!	6.0	101.275	101.160	101.205	na	5y Cash
BUS10P	101.290	7.5	101.295	101.155	101.220	na	10y Cash
BUS30P	109.180	9	109.150	108.255	109.065	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.097	(8.40)	3.215	3.093	3.15	na	2y Yield
BUS05Y	3.459	(4.30)	3.543	3.457	3.495	na	5y Yield
BUS10Y	4.012	(2.70)	4.071	4.01	4.04	na	10y Yield
BUS30Y	4.412	(1.80)	4.462	4.412	4.425	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.822	3.527	4.730
3M	5.081	3.032	5.010
6M	4.906	3.356	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	3.186	87.50	3.693
5y	3.458	80.25	
10y	4.015	66.75	



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

#### Yesterday:

15:38 11/28 **US TSYS/RECAP:** Mkt weakened Wed after 1) risk aversion wanes (for now - some expect resumes Thu) 2) US stocks surge as Fed Vice Chair Kohn hints Dec. ease (briefly helped Tsys; helped riskier debt mkts daylong). 3) Also was weak US\$20B 2Y auction, 24.4% indirects. 4) Tsys 2-way flow, pre-auction short-setting. 5) Also afternoon short-covering; 6) Russian selling in 10-yr notes, foreign central bk, lvrgd buying in 5Ys; 7) morning buying in off-run 5Ys, bank buying in WI 2Ys, lvrgd 2Y/5Y curve steepeners, but others unwound curve steepeners done with 2Ys. 8) Also was lvrgd accts bought 10Ys, 9) Agency, swaps, MBS tighter; was month-end buying but away from Tsys; 10) Fincl stocks led US stocks higher. 11) Fed did 3 system RP to aid year-end funding nerves such as US\$8B 43-day system. 11) Corp bd issuance resumes. 12) Vol sellers in Tsys options; MBS convexity recvg in fronts, intermediates. 13) Some said others short 3Ys/bought option ARMS; need to exit by Nov 30. 14) 2-way tech tradg in 10Y futures; 15) CDS spds in sharply. 16) Fyrend Fri for 4 dealers (More)

15:04 11/28 **US SWAPS:** Spds continue to march tighter. Earlier, swap-tied flow skewed towards convexity receiving, sources said, especially in fronts to intermediates. Others, however, said flow remains light and two way in the first half, reacting more to various factors that included the unwind of front end sponsorship, flatter curve, slight ease in overnight repo specials, and return of some decent corporate supply that spurred some modest rate locks. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Close	-8.00/84.00	-5.50/81.50	-2.50/68.00	-1.25/58.50
1:40	-8.25/83.75	-5.25/81.75	-2.75/67.75	-1.75/58.00
12:45	-5.25/86.75	-4.00/83.00	-2.00/68.50	-1.00/58.75
10:00	-7.00/85.00	-6.00/81.00	-3.50/67.00	-2.50/57.25
9:45	-4.25/87.75	-4.25/82.75	-2.25/68.25	-1.75/58.25
9:05	-3.50/88.50	-2.50/84.50	-1.50/69.00	-1.50/58.50
Wed Open	-2.00/90.00	-2.25/84.75	-1.75/68.75	-1.00/59.00
Wed 7:55	-2.00/90.00	-2.00/85.00	-1.25/69.25	-0.75/59.00

(cont)

#### Overnight:

05:11 11/29 **TSYS:** Treasuries are trading lower across the curve in London Thursday, although losses had been pared from those seen earlier in the session. Volumes were seen as light, with many players awaiting the slew of US data expected later in the session. Prices were lower across the curve in Tokyo trade, with longer-dated paper leading the way lower. However, traders said the move in prices was a defensive mark-down by traders, with flows seen as light and largely interdealer. In London, real money names were sellers of the belly of the curve, although again volumes remained light. Trader said a lack of fresh fundamental news was keeping many players sidelined ahead of the US open. The 10-year Bund/US T-Note spread was trading at -4 bps, narrowing 1 bps on the day. Ahead of the U.S. session, the 2-yr note was trading unchanged at 99 31/32 to yield 3.14%. The 10-yr note was down 1/32 at 101 23/32 (4.04%), while the Bond was 8/32 lower at 109 8/32 (4.43%).



14:51 11/28 **US BONDS/LEHMAN:** While some brisk month-end buying of Tsys was done Monday, there could be a bit more to do as Friday, Nov. 30, brings month-end, and a large expected 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 will be crunched after U.S. markets close 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

12:45 11/28 **US AGENCIES: FHLB** of Atlanta sent a letter to members reiterating the Bank's credit and collateral policies in light of recent mkt disruptions, says: "Bank's policies also include its "Guidelines to Promote Responsible Lending," which prohibit members from pledging collateral exhibiting predatory characteristics. The Bank requires each member to certify compliance with these guidelines each time the member submits its periodic collateral reports. It also tests for compliance... Any loan found to fail these tests is not eligible collateral and must be withdrawn... In addition, each member must comply with the Bank's Guidelines for Subprime and Nontraditional Loans," which require the member to provide periodic confirmation that its pledged residential first mortgage collateral and HELOC and second mortgage collateral do not violate applicable laws and regulations regarding subprime and nontraditional mortgage loans." See 8k on [www.sec.gov/edgar](http://www.sec.gov/edgar).




### US 2Yr Bidding Details ... Everyone Backs Away by John Canavan

**Stone & McCarthy (Princeton)** -- As we reported earlier, this month's \$20.0 bln 2-year note auction went terribly. The auction stopped above the 100pm bid side for the first time since August 2006, and the stop was more than a full bps above the 100pm bid side. The bid cover was the lowest since the July 2006 auction. The indirect takedown was slightly improved from last month's record matching low, but was still very light. Everyone backed away from the auction this month.

[...]

**Beige book** prepared for Dec 11 FOMC meeting says "national economy continued to expand" thru mid-Nov but at a reduced pace from Oct; seven Districts reported a slower pace (Cleveland, Richmond, Atlanta, Chicago, St Louis, Dallas, SF). "Glut of avail homes continued"; prices fell; hsg demand is 'quite depressed' and builders continue to shelve projects. Overall retail spending was soft, mfg mixed, nonfinl services expanding. Price increases were modest except for food/energy; labor mkts are tight and wage increases continued at a modest pace. Bank lending was slowing. Book was summarized at SF Fed based on info available prior to Nov 16 (hsg starts/permits data came out Nov 20). -Prior beige book said "activity continued to expand in all Districts in September and early Oct but the pace of growth decelerated since Aug." [Thanks Howard]

14:18 11/28 **US TSYS:** The current 2Y vs. current 5Y spread has gone from 30.7 bps before the 2Y auction to +28.5 bps post auction. Several traders offer one possible explanation: due to year-end balance sheet constraints, traders cannot hedge the way they normally would. One trader says, if a trader was long the new 2Y auction and it went sour, he would normally sell some Wl 5s ahead of the next day's auction to hedge the 2Y position. But because of the balance sheet constraints he cannot do that and must just puke out the 2s he just bought. These traders also note that even day traders are suffering from these year end constraints - they are nervous because the market is no longer moving as it usually does.

REFLECTS THE ROLL TO MARCH 2008

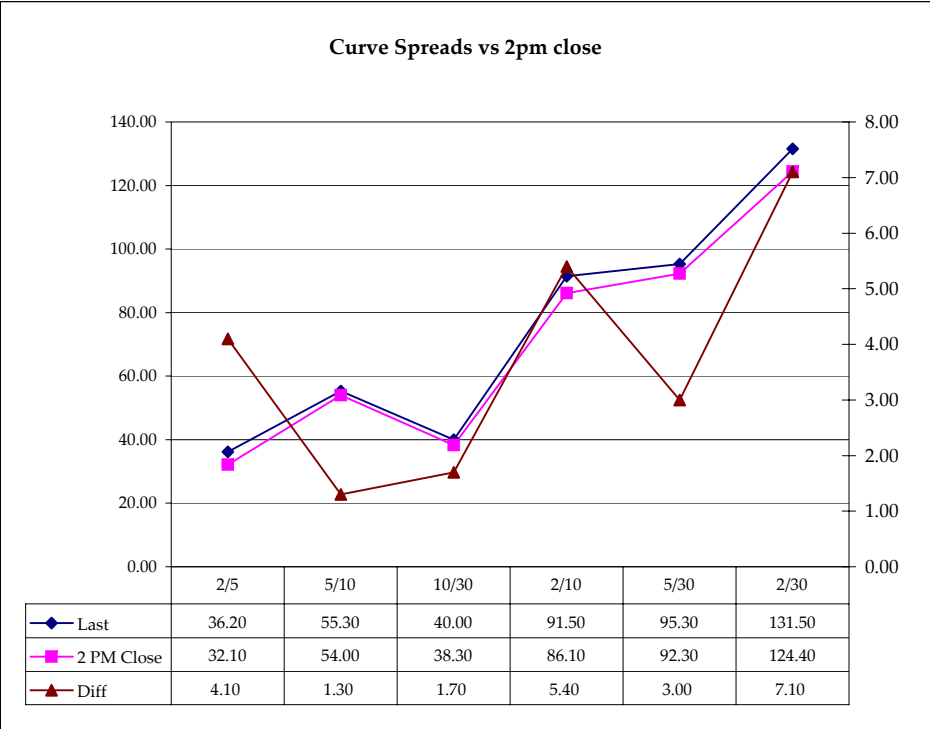
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.84	5.62	\$1,757	11.25	n/a
10y	8.07	2.63	\$823	5.27	n/a
5y	4.44	1.45	\$454	5.81	n/a
2y	1.92	0.01	\$2	0.02	n/a
ZB	9.90	3.97	\$124	3.97	0.8633
ZN	5.75	2.18	\$68	4.36	0.8747
ZF	3.81	1.43	\$45	2.86	0.9159
ZT	1.93	0.66	\$21	2.64	0.9593

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	36.20	32.10	4.10
5/10	55.30	54.00	1.30
10/30	40.00	38.30	1.70
2/10	91.50	86.10	5.40
5/30	95.30	92.30	3.00
2/30	131.50	124.40	7.10

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)	0.980	1.700	2.700	2.900
Bobl (Z)	0.530	0.960	1.500	1.570
Shatz (Z)	0.210	0.380	0.580	0.630

## US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.55	3.66	6.64	14.17
ZN	2.83	6.66	12.10	25.82
ZF	4.31	10.16	18.44	39.35
ZT	4.68	11.01	20.00	42.67

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.822	2.778	3.012
ZN	0.549		1.524	1.653
ZF	0.360	0.656		1.084
ZT	0.332	0.605	0.922	

## 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		2.355	4.276	9.124
5y	0.425		1.815	3.874
10y	0.234	0.551		2.134
30y	0.110	0.258	0.469	

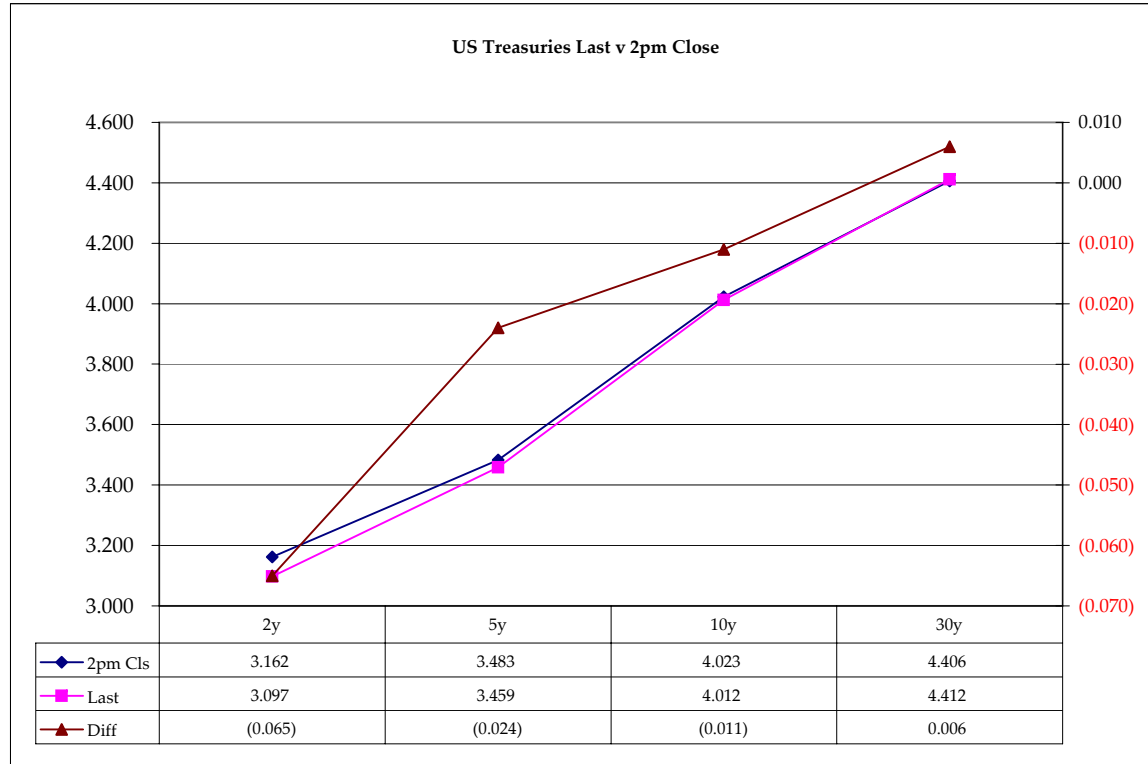
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	99.2975	3.162	3.097	(0.065)			- 3 bps	FVAH8	109.215	109.275
5y	3.875	10/30/12	101.2425	3.483	3.459	(0.024)	41.90	39.65	+1.25/-0.75	TYAH8	112.230	112.265
10y	4.250	11/17/17	101.270	4.023	4.012	(0.011)	103.96	103.40		USAH8	116.31	116.310
30y	5.000	5/15/37	109.24	4.406	4.412	0.006	280.67	271.67				

Curve Spreads		
	Close bps	Last bps
2/5	32.1	36.2
5/10	54.0	55.3
10/30	38.3	40.0
2/10	86.1	91.5
5/30	92.3	95.3
2/30	124.4	131.5

TUAR1	-1.7
FVAR1	9.5
TYAR1	22.7
USAR1	-0.5

These are the 1/4 tic spreads. They are quoted in tics.  
 .2 = 1/4  
 .5 = 1/2  
 .7 = 3/4



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%	135%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$193			
5	\$197	\$454		
10	\$196	\$453	\$823	
30	\$213	\$492	\$895	\$1,757
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$4)			
10	(\$4)	\$0		
30	(\$21)	(\$39)	(\$71)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-2.08%			
10	-1.98%	0.10%		
30	-9.79%	-7.88%	-7.97%	

**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		0.94	2.20	4.00	8.53
ZF		0.43	1.02	1.84	3.93
ZN		0.28	0.67	1.21	2.58
ZB		0.16	0.37	0.66	1.42

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		0.94	2.20	8.00	17.07
ZF		0.43	2.03	3.69	7.87
ZN		0.57	1.33	1.21	2.58
ZB		0.62	1.46	1.33	2.83

		2y	5y	10y	30y
2y		1.00	2.36	4.28	9.12
5y		0.42	1.00	1.82	3.87
10y		0.23	0.55	1.00	2.13
30y		0.11	0.26	0.47	1.00

		2y	5y	10y	30y
2y			2.36	2.14	4.56
5y		0.42		0.45	1.94
10y		0.47	2.20		2.13
30y		0.22	0.52	0.47	

		ZT	ZF	ZN	ZB
ZT		1.00	2.17	3.31	6.02
ZF		0.46	1.00	1.52	2.78
ZN		0.30	0.66	1.00	1.82
ZB		0.17	0.36	0.55	1.00

		2y	5y	10y	30y
ZT			2.17	6.61	24.09
ZF		0.46		1.52	5.56
ZN		0.15	0.66		3.64
ZB		0.04	0.18	0.27	

**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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