



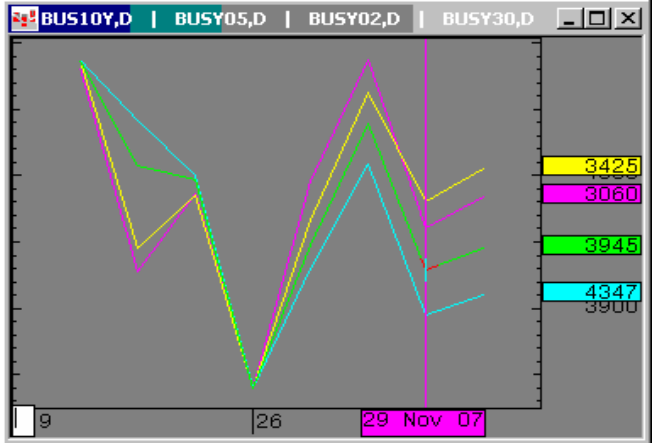
The Morning Email: Treasuries

11/30/2007 5:44

We are trading MARCH 2008 FOR THE ECBOT FUTURES.

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Daily Yield Curve



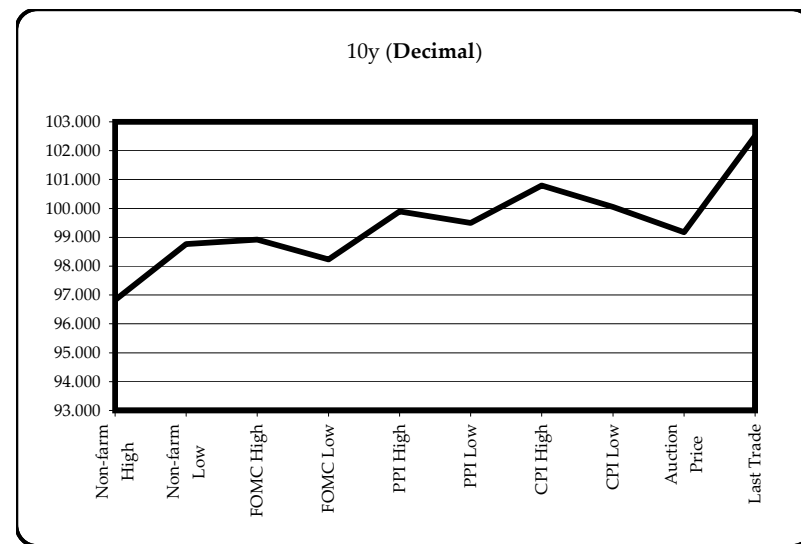
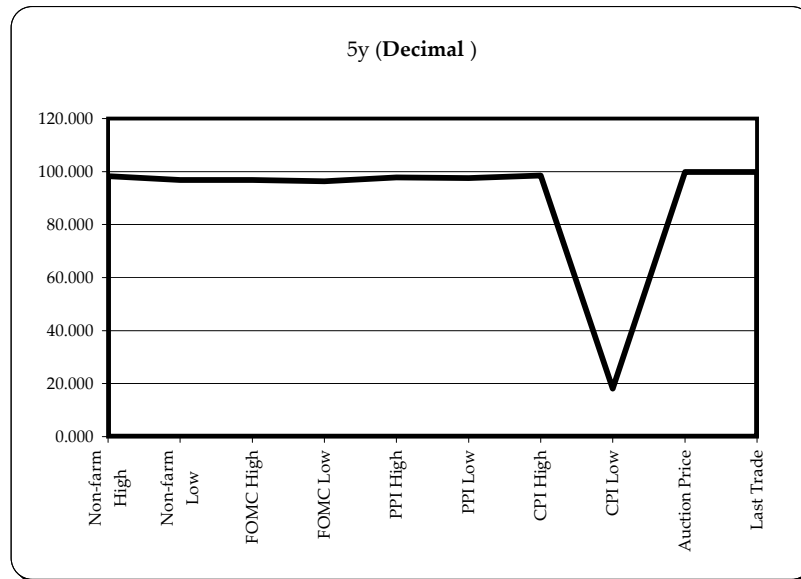
Source: CQG, Inc. © 2007
 30y 10y 5y 2y
 Fri Nov 30 2007 05:39:53

LOOK

Want something added? Let me know: jgoulding@ghco.com
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Economic Releases - 32nds					
	5y	10y	ZNH8	ZBH8	Date
Non-farm High	98.0900	96.265	110.250	114.22	11/2/2007
Non-farm Low	96.2500	98.245	109.235	113.11	11/2/2007
FOMC High	96.2700	98.295	109.290	113.20	10/31/2007
FOMC Low	96.1200	98.075	109.085	112.18	10/31/2007
PPI High	97.2700	99.285	111.010	114.17	11/14/2007
PPI Low	97.1800	99.160	110.185	113.27	11/14/2007
CPI High	98.1650	100.255	111.200	115.18	10/15/2007
CPI Low	18.0200	100.015	111.035	114.17	10/15/2007
Auction Price	99.2616	99.056			
Last Trade	99.2550	102.165	113.080	117.24	11/30/2007 5:44

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.299	99.262	99.056	105.103
Auction Yield Stop	3.159	3.415	4.353	4.666
Actual Auction Date	11/28/2007	11/29/2007	11/7/2007	11/8/2007



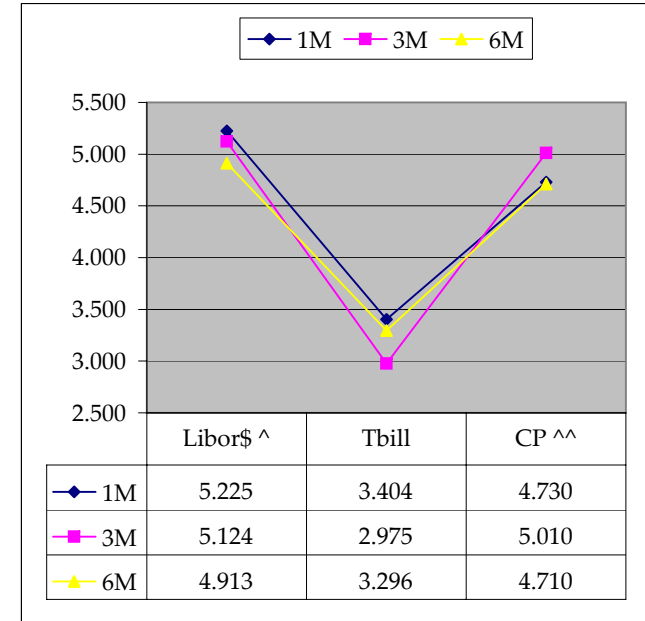
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 {Dec07 to Mch08 Futures roll: ZF = (-9); ZN = (-22); ZB = (+1) [tics]}
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAH8	105.010	0.0	105.040	104.307	105.012	36,031	2y Fut
FVAH8	110.015	(0.0)	110.085	109.280	110.065	77,744	5y Fut
TYAH8	113.080	0.0	113.175	113.005	113.125	164,727	10y Fut
USAH8	117.240	(0)	118.050	117.140	117.300	30,830	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.040	(1.7)	100.075	100.012	100.040	na	2y Cash
BUS05P	99.250	(211.7)	100.017	99.212	99.230	na	5y Cash
BUS10P	102.160	(4.0)	102.265	102.070	102.170	na	10y Cash
BUS30P	110.255	(7)	111.065	110.200	110.230	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.056	2.40	3.109	2.995	3.032	na	2y Yield
BUS05Y	3.420	2.70	3.471	3.358	3.43	na	5y Yield
BUS10Y	3.940	1.10	3.981	3.902	3.929	na	10y Yield
BUS30Y	4.345	1.00	4.358	4.319	4.343	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	5.225	3.404	4.730
3M	5.124	2.975	5.010
6M	4.913	3.296	4.710

	Libor\$ ^	Repos
0/N	4.694	3.050
1week	4.868	3.250
2week	4.870	3.250

	TSY	Swap	ED Pks ^^^
2y	3.084	89.50	3.639
5y	3.370	78.50	
10y	3.944	65.50	



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

15:37 11/29 **US TSYS/RECAP:** Tsys rallied most of Thu on 1) safe-haven bid; 2) Fear UK bk writedwn; 3) Risk aversion high: 3M Dec OIS/Libor 73. 4) 1m US\$ Libor up 40 bps Thu (now covers yrend pd.) 5) Sears stk: weak earns; E-Trade weak earlier too; 6) 1M US\$ LIBOR rose 40 bps to 5.225%; 7) Tsys dipped off rally high in p.m. after MNI story said mkt shd be less certain on ease signs after mkt read Fed VC Kohn Wed as being Dec ease hint; 8) 4.9% 3Q GDP, jobless claims +23K in Nov 24 wk; 9) 5Y RP special. 10) Higher oil; will be SPR tap; 11) Home sales weak; OFHEO 3Q home prices -0.4% drop, first qtr decline in 13 yrs. 12) Lvrge accts did brisk morn buying in 2Ys, buy-&-hold accts buy 10Ys. 13) Morning had foreign buying 5s, Tbills jump, buy-&-hold accts sold 5s, Street 5/10Y flatteners; p.m.: Asian 10Y buying. 14) Foreign central bk buy new 2s. 15) Swaps steepeners; 16) US\$20B 5Y sale okay: 3.415% rate, 21.4% indirect. 17) Swaps out, 2-way flow, morn payg esp front end. 18) Mo-end bid: Leh +0.21-yr Tsy index. 19) Fla halted withdrawal from state inv fnd.

16:00 11/29 **US TSYS/RECAP II:** On a 3:00 p.m. Wed to 3:00 pm ET Thu basis close, the cash 2-year note yield declined 11.3 bps to 3.056%. The 3-year yield fell 10.4 bps to 3.03%, while the 5-year yield fell 7.6 bps to 3.408%. The 10-year yield fell 8.3 bps to 3.940%, and the 30-year yield fell 5.7 bps to 4.349%. The 2-year/5-year curve steepened 3.7 bps to +35.2 bps, the 2-year/10-year steepened 3.0 bps to +88.4 bps, and the -year/30-year steepened 5.6 bps to +129.3 bps. (Please see 15:37 bullet for full Tsys market summary with trading flows.)

15:30 11/29 **US BONDS/LEHMAN:** While some brisk month-end buying of Tsys was done Monday and Thurs too, there could be a bit more to do Friday as 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

(cont)

05:22 11/30 **TSYS:** Treasuries are trading higher across the board in London trade Friday, aided by comments late Thursday from Fed Chairman Ben Bernanke. The comments, coming at the start of the Tokyo session, helped underpin prices in Tokyo initially, although profit-taking soon pushed the market into the red across the curve. But the weakness was short-lived, turning higher again as London trade started. The 10-year note found good support from both leveraged and real money players, with cross border trades continuing to see U.S. Treasuries outperform. The 10-year Bund/US T-Note spread was trading at -14 bps, widening 1 bps on the day, close to the recent multi-year lows. Ahead of the U.S. session, the 2-yr note was trading 2+32 higher at 100 7/32 to yield 3.00%. The 10-yr note was up 7+32 at 102 25/32 (3.91%), while the Bond was 10/32 higher at 111 4/32 (4.33%).

02:15 11/30 **FX:** Comments from FOMC Chair Ben Bernanke late Thursday viewed as dovish, along with a report in today's WSJ suggesting that the Bush Administration is close to an agreement with major banks to freeze interest rates on some sub prime loan agreements, helped to boost equity markets into the Asian session, in turn prompting flows back toward yen carry trades during the Asian session. Dollar-yen pushed higher on these flows, along with month end Japanese corporate demand, to a high of Y110.44. Japanese exporter interest to Y110.50 contained the move, but underlying tone remains firm into early European dealing. Euro-yen traded up from Y161.86 to Y162.80 on the yen sales. Euro-dollar was contained within a tight \$1.4739/81 range with moves within directed by a mix of yen and dollar moves. A Swiss private bank has been reported helping the containment, bids seen placed around \$1.4740 vs offers above \$1.4775. Stock markets to again provide direction during the day with month end fixings also to play a prominent part later.

13:38 11/29 **US TSY FUTURES:** Tomorrow March Tsy futures will take lead month status as today is first position day for Dec Tsy futures and Friday and marks first notice day on Dec Tsy futures. First delivery day is Dec 3 and last trading day and final settlement for Dec 10- and 30-yr bonds is December 19 with last delivery day being Dec 31. For the 2- and 5-yr contracts, the last trade and final settlement is Dec 31 while last delivery day is Jan 4, 2008. Sources say calendar spreads have gone bid with lower ylds in the last month. Indications are as below
 FVZ/FVH 9-9.25 TYZ/TYH 23-23.5 USZ/USH -1.75/-1.5

08:33 11/29 **CDS:** Early indications are for wider 5Y protection on banks, brokers and finance names:

	Tues Close	Wed Open	Wed Close	Thurs Open
Bear Stearns (BSC)	190/200	190/200	174/179	176/184
Lehman (LEH)	130/140	130/140	112/117	117/125
Merrill (MER)	135/145	135/145	116/121	117/125
Morgan Stanley (MS)	102/112	101/109	87/92	90/97
Goldman (GS)	78/85	76/84	67/72	68/75
Bank of Amer (BAC)	60/65	61/66	51/56	55/62
JP Morgan (JPM)	60/65	61/66	51/56	55/62

10:32 11/29 **PIPELINE:** Hearing substantial interest in several of today's deals. TXT already launched at better than "talk" spreads. Guidance now heard as follows vs "talk" of +130-135.\$Bnchmk PepsiCo Inc(PEP) Aa2/A+ Sen 6Y (Feb'13) Guid +130 ML/MS/UBS. In GSE-land -- FFCB's \$2B 3Y Designated Bond will probably price by day's end, according to a manager. Says +76 area/context of the market. Initial talk was +72 area - all swap spread machinations and not anything related to client interest which is reported as being "way substantial." Foreign and domestic alike - not surprising. Freddie Mac Pfd also expected now by day's end. The full \$6 billion is expected near 8.50% and the wild-card is that it will be thru that level.

Raymond Stone rstone@smra.com

--**Stone & McCarthy (Princeton)**-- Initial Unemployment Claims in the week ended November 24 surged by 23,000 to 352,000 the highest since February 10, 2007. But, more important that the rise in initial claims was the rise in Continuing Claims to 2.665 mln, the highest since the aftermath of Hurricanes Katrina and Rita.

The current week's claims data bridges the Thanksgivings week, and is subjected to more noise than otherwise. But, the general direction of claims is clearly upward, and this does not appear to be an artifact of the "writers' strike", but more fundamentally a slowing of economic activity.

Policy-makers will get another look at claims prior to the December 11 FOMC meeting, and we suspect that reading on initial claims will be less severe than the current reading. Our early call is for a retreat to a still elevated 332,000 for next's week report. But, the outlook for continuing claims is for a troublesome upward drift. On balance, the claims data will probably be regarded as factoring in on the easier side of the policy ledger.[...]

[...] **The Federal Reserve** has little choice but to ease monetary policy again at the upcoming FOMC meeting on December 11. The question is how much? Given the deteriorating outlook for the U.S. economy and the deterioration in money markets, we believe the Fed should cut rates by 1/2 percent and reduce the target on the federal funds rate to 4.0%. As indicated by Kohn yesterday, "the behavior of these rates is symptomatic of caution among key marketmakers about taking and funding positions, and this is probably impeding the reestablishment of broader market trading liquidity."

We strongly feel the Federal Reserve needs to get out ahead of the situation. We believe a 1/4 percent reduction in the federal funds rate target will be insufficient in re-establishing broader market liquidity. In regards to the asset-backed CP market, sustainable funding is essential to the institutions that rely on ABCP. Without such funding these institutions will have little choice but to sell assets, much of which can only be unloaded at distressed prices. --Ken Kim

REFLECTS THE ROLL TO MARCH 2008

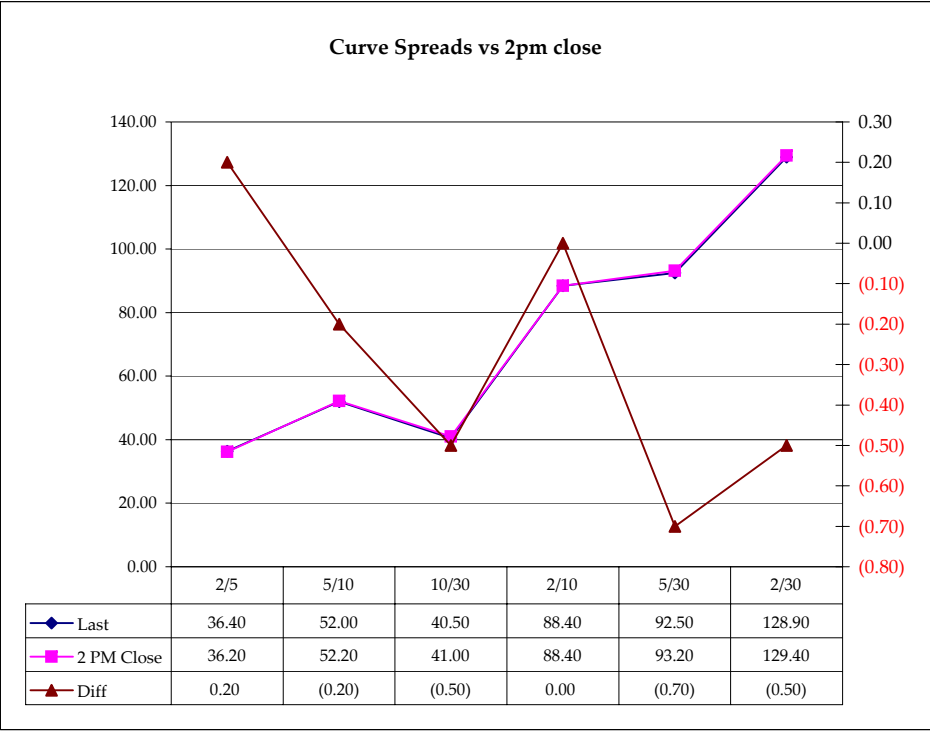
	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.91	5.72	\$1,786	11.43	n/a
10y	8.07	2.65	\$829	5.30	n/a
5y	4.56	1.46	\$456	5.84	n/a
2y	1.92	0.61	\$192	2.46	n/a
ZB	10.40	4.00	\$125	4.00	0.8633
ZN	5.98	2.18	\$68	4.36	0.8747
ZF	4.04	1.43	\$45	2.86	0.9159
ZT	1.92	0.66	\$21	2.63	0.9486

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	36.40	36.20	0.20
5/10	52.00	52.20	(0.20)
10/30	40.50	41.00	(0.50)
2/10	88.40	88.40	0.00
5/30	92.50	93.20	(0.70)
2/30	128.90	129.40	(0.50)

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	1.54	3.65	6.62	14.28
ZN	2.82	6.69	12.16	26.22
ZF	4.30	10.20	18.54	39.96
ZT	4.68	11.11	20.19	43.52

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.836	2.798	3.047
ZN	0.545		1.524	1.660
ZF	0.357	0.656		1.089
ZT	0.328	0.602	0.918	

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		2.375	4.316	9.303
5y	0.421		1.817	3.917
10y	0.232	0.550		2.156
30y	0.107	0.255	0.464	

**We are trading
MARCH 2008 FOR THE ECBOT
FUTURES. Ratio's reflect that
change.**

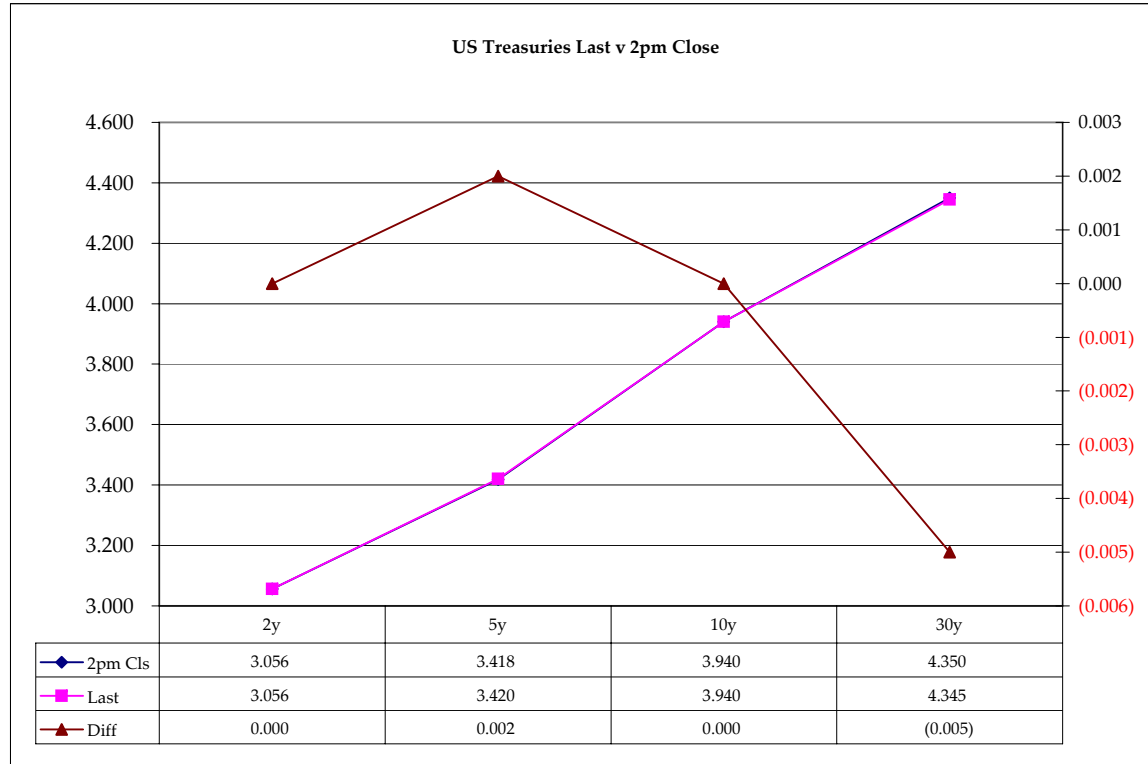
Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll		Close 32	Last
							Close	Last				
2y	3.125	11/30/09	100.0425	3.056	3.056	0.000			- 3 bps	FVAH8	110.020	110.015
5y	3.375	11/30/12	99.2575	3.418	3.420	0.002	-32.05	-31.84	+1.25/-0.75	TYAH8	113.085	113.080
10y	4.250	11/17/17	102.170	3.940	3.940	0.000	110.65	110.59		USAH8	117.26	117.240
30y	5.000	5/15/37	110.24	4.350	4.345	(0.005)	288.86	291.59				

Curve Spreads		
	Close bps	Last bps
2/5	36.2	36.4
5/10	52.2	52.0
10/30	41.0	40.5
2/10	88.4	88.4
5/30	93.2	92.5
2/30	129.4	128.9

TUAR1	-1.2
FVAR1	8.7
TYAR1	23.2
USAR1	-0.7

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	42%	100%		
10	24%	56%	100%	
30	12%	29%	51%	135%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$192			
5	\$192	\$456		
10	\$197	\$468	\$829	
30	\$215	\$511	\$906	\$1,786
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$5)	(\$12)		
30	(\$23)	(\$56)	(\$77)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.08%			
10	-2.48%	-2.56%		
30	-10.78%	-10.85%	-8.51%	

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
2y	ZT	0.94	2.22	4.04	8.70
5y	ZF	0.43	1.02	1.85	4.00
10y	ZN	0.28	0.67	1.22	2.62
30y	ZB	0.15	0.36	0.66	1.43

		Box for Box Matrix			
		2y	5y	10y	30y
2y	ZT	0.94	2.22	8.08	17.41
5y	ZF	0.43	2.04	3.71	7.99
10y	ZN	0.56	1.34	1.22	2.62
30y	ZB	0.61	1.46	1.32	2.86

		2y	5y	10y	30y
2y	1.00	2.37	4.32	9.30	
5y	0.42	1.00	1.82	3.92	
10y	0.23	0.55	1.00	2.16	
30y	0.11	0.26	0.46	1.00	

		2y	5y	10y	30y
2y	2.37	2.16	4.65		
5y	0.42	0.45	1.96		
10y	0.46	2.20	2.16		
30y	0.21	0.51	0.46		

		ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.32	6.09	
ZF	0.46	1.00	1.52	2.80	
ZN	0.30	0.66	1.00	1.84	
ZB	0.16	0.36	0.54	1.00	

		2y	5y	10y	30y
ZT	2.18	6.64	24.38		
ZF	0.46	1.52	5.60		
ZN	0.15	0.66	3.67		
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.

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

yc = yield curve

HDB = High Duration Bond/Note

LDB = Low Duration Bond/Note