

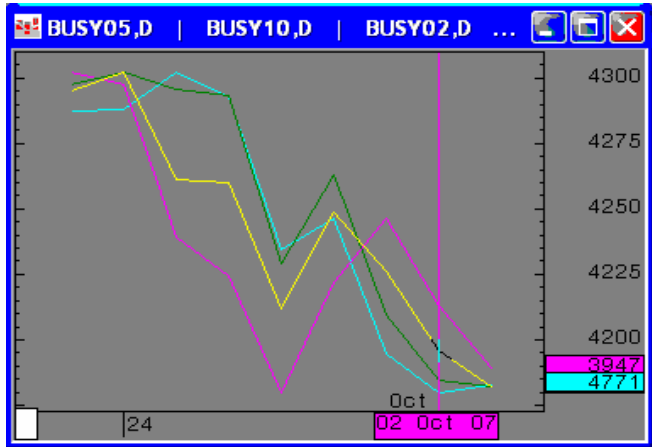


# The Morning Email: Treasuries

## Table of Contents

- Pg 1 Important Econ Releases, Highs & Lows
- Pg 2 Quotes
- Pg 3 News: Yesterday & Overnight Recap for the United States
- Pg 4 News: Snapshots throughout the day
- Pg 5 Duration, DV01s, Curve Spreads, CF
- Pg 6 Hedge Ratio's
- Pg 7 Commitment of Traders (COT)
- Pg 8 Closes: 2pm CST vs this Morning
- Pg 9 Cash Duration Matrix
- Pg 10 Tic for Tic & Box for Box Matrix
- Pg 12 Fed Funds Probability of Tightening or Easing

Daily Yield Curve



Source: CQG, Inc. © 2007 Wed Oct 03 2007 05:37:35



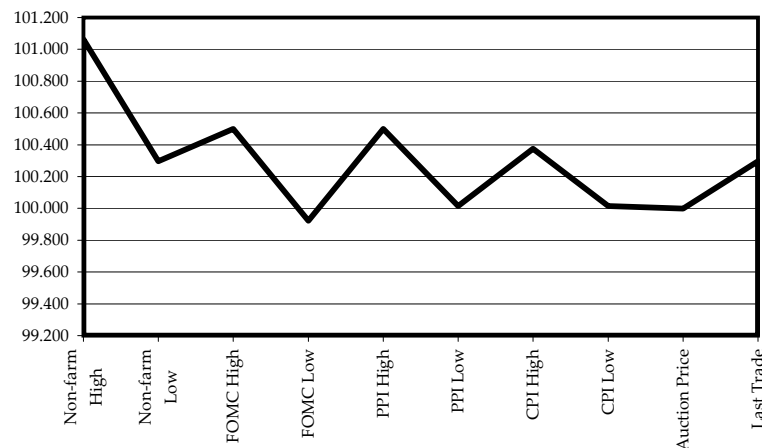
Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

**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. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

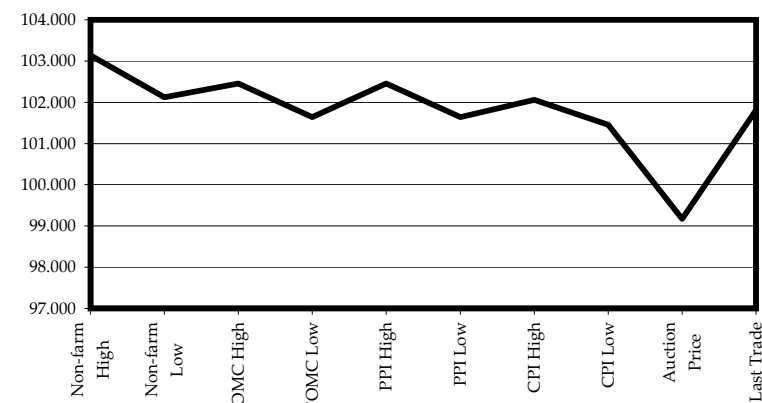
Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	101.0200	103.045	110.195	113.15	9/7/2007
Non-farm Low	100.0950	102.040	109.185	112.08	9/7/2007
FOMC High	100.1600	102.145	110.300	112.30	9/18/2007
FOMC Low	99.2950	101.205	109.115	111.27	9/18/2007
PPI High	100.1600	102.145	110.300	112.30	9/18/2007
PPI Low	100.0050	101.205	109.115	111.27	9/18/2007
CPI High	100.1200	102.020	109.265	112.10	9/19/2007
CPI Low	100.0050	101.145	109.075	111.11	9/19/2007
Auction Price	99.3199	99.056			
Last Trade	100.0950	101.260	109.220	112.03	10/3/2007 5:38

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.320	99.320	99.056	99.026
Auction Yield Stop	4	4.25	4.855	5.059
Actual Auction Date	9/26/2007	9/27/2007	8/8/2007	8/9/2007

5y (Decimal)



10y (Decimal)



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

32 nds							
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAZ7	103.172	0.0	103.177	103.155	103.160	16,139	2y Fut
FVAZ7	107.065	0.0	107.080	107.035	107.050	23,933	5y Fut
TYAZ7	109.220	0.0	109.240	109.175	109.210	89,687	10y Fut
USAZ7	112.030	0	112.070	111.290	112.020	19,451	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.030	1.2	100.032	100.017	100.017	na	2y Cash
BUS05P	100.092	2.0	100.100	100.062	100.072	na	5y Cash
BUS10P	101.260	1.5	101.275	101.220	101.245	na	10y Cash
BUS30P	103.190	(1)	103.230	103.140	103.200	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.947	(2.10)	3.988	3.939	3.988	na	2y Yield
BUS05Y	4.182	(1.40)	4.21	4.177	4.206	na	5y Yield
BUS10Y	4.518	(0.20)	4.539	4.51	4.529	na	10y Yield
BUS30Y	4.771	0.30	4.785	4.762	4.772	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

15:19 10/02 **US TSYS/RECAP:** Tsys end off the day's highs after 1) quiet afternoon short-covering, corporate rate-lock unwinds, followed 2) morning gain on foreign customer buying in 5Y, 10Y, 30Y Tsys futures from dealers, overseas houses; heavy foreign buyers of Tsys/selling of Europe. 3) Weak -6.5% dip in NAR Aug. pending home sales aided Tsys, as did 4) on-and-off US stocks decline off Mon all-time DJIA high. 5) Morning also saw black-box buying in the 10Y futures, 30Y futures but also 6) leveraged accts selling 5Y, 10Y. And 7) had been morning short-covering after brief post-NAR profit-taking on gains, 2-way flows. 8) Yld curves slightly steeper after early flattening moves, big flattener move Mon; 10) fast money earlier sold 10Ys to go out curve, with banks, fast money accounts selling 5s. 11) Also had been earlier 2-way flows in 2Ys. 12) Credit concerns underpin Tsys. 13) There also was some option-tied receiving. 14) Commodities mixed: silver, cotton, gold, nickel lower. 15) ECB mtg. Thu, then key US Sept jobs data Fri.

15:16 10/02 **US EURODLR FUTURES:** Eurodlr futures finished a little above mid-range as mkt rallied/curve re-steepened following weaker than expected pending home sales data. The Red/Gold pack spd was 1.125 bps steeper at 81.875 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 3.0 bps lower at 95-07.5 on combined Globex and pit volume of 223,000, the Mar08 0.5 bps higher at 95-42 on volume of 277,000, the Jun08 2.5 bps higher at 95-60 on volume of 277,000, while the Sep08 contract was 4.0 bps higher at 95-68.5 on volume of 243,000. The 2yr proxy Red pack (Dec08-Sep09), settled 5.0 to 6.5 bps higher across the pack with 568,000 contracts traded.

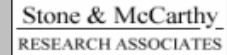
15:03 10/02 **US EURODLR/SWAPS:** Spds ended session mixed, improved in 10s to 30s on rally. While Tsy sources reported light 2-way in fronts to belly, Eurodlr sources reported some early front end receiving, a German bank +1k Jun08 1-yr bundles, followed by light paying, profit taking after FI curves re-steepened as some rate cut fanatics took heart following the weak housing data. Sources said 2-year spds were underpinned by another higher set in 3-month LIBOR overnight, a reminder of ongoing credit issues at hand. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+0.75/68.75	+0.25/65.50	-0.50/62.25	-0.50/61.25
12:10	+0.75/68.75	+0.25/65.50	-0.25/62.50	-0.50/61.25
10:15	+0.75/68.75	+0.25/65.50	+0.00/62.75	+0.25/62.00
9:25	+0.75/68.75	+0.50/65.75	+0.25/63.00	+0.25/62.00
Tue Open	+0.50/68.50	+0.25/65.50	+0.00/62.75	+0.25/62.00
Mon 3:00	-0.25/68.00	+1.00/65.25	+0.25/62.75	+0.25/61.75

(cont)

05:00 10/03 **TSYS:** Treasuries are trading modestly higher in London trade Wednesday, building on overnight gains in the U.S. However, the flows are light, with many players awaiting U.S. data later in the session. Treasuries were mixed in Asia Wednesday, with the curve steepening as the front of the curve again outperformed. However, traders noted overall volumes were muted. The curve maintained its steepening bias throughout the London session, again with light volumes noted. Real money accounts continued to buy the front of the curve, with leveraged accounts also seen moving flows into shorter-dated paper. Leveraged players were also light buyers of 10-year paper, but volumes remained muted ahead of the New York open. Traders said flows were largely interdealer. The Bund/T-note was unchanged on Tuesday's levels, with the spread standing at 27 bps.

05:00 10/03 **TSYS: (2)** Ahead of the U.S. session, the 2-yr note was trading 1+32 higher at 100 3/32 to yield 3.94%. The 10-yr note was 2/32 higher at 101 27/32 (4.51%), with the Bond 2/32 higher at 103 23/32 (4.76%). The 2-yr/5-yr yield curve was steeper by 1 bps on Tuesday's levels, trading at +24 bps. The 2-/10-yr curve was 2 bps steeper, trading at +57 bps. The 2-yr/30-yr curve was also 2 bps steeper, standing at +82 bps.



[Times for Market News International stories are ET]

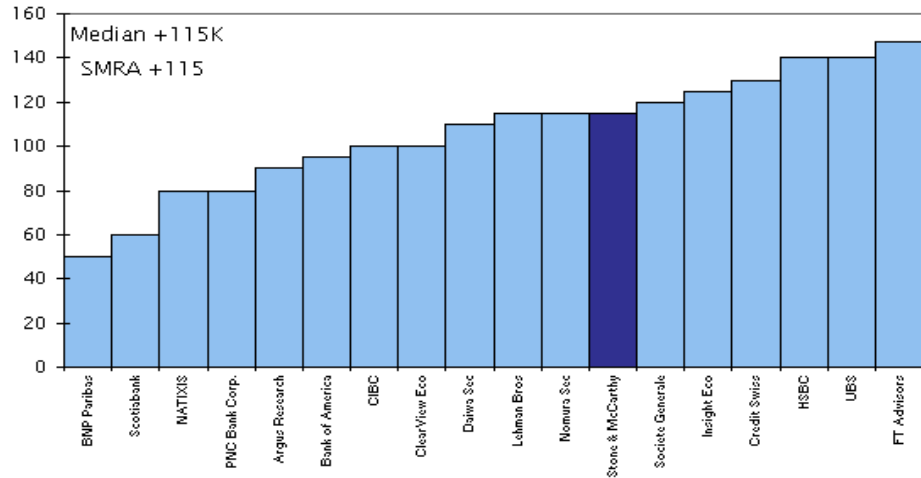
10:28 10/02 US DATA REACT: from RBC: A "renewed deterioration in pending sales activity suggests another leg down for sales in coming months. In turn, the renewed downturn should weigh on prices and personal consumption." From HFE's Ian Shepherdson: home sales data are "still absolutely awful, confirming that the existing homes market is now in freefall. We had expected a broadly flat index, simply on the grounds that the July number was so bad that a repeat performance was unlikely, yet August was nearly as bad. This is consistent with existing home sales falling to just 5M or so, compared to 5.50M in August and a sustained peak of about 7.2M in the summer of 2005 - a drop of 30%. Moreover, there is no sign yet that the bottom of the market is near."

**NEWS ALERT  
from The Wall Street Journal  
Oct. 2, 2007**

Auto makers posted weak sales for September. General Motors reported a slight gain of 0.3% in U.S. sales, despite last week's strike. Ford, down 21% for the month, ceded more ground to Toyota, which posted a 4.4% decline. Overall, September sales were weighed down by the credit crunch, high gasoline prices and housing-market weakness.

11:21 10/02 DOLLAR VIEW: The greenback's slightly improved tone on the day is due to fears of verbal intervention by either ECB president Trichet at this Thursday's ECB meeting and Q&A session or by the G-7 in their communique Oct 19. Analysts remain skeptical of any overt measures to turn the dollar around given that its slide has up to now been orderly. Barbara Rockefeller of Rockefeller Treasury Services puts the probability of ECB or G7 intervention at "nearly zero, especially if it depends on US participation." The Fed does not appear to be worried about the dollar and the Treasury is unlikely to be either, with exports up over 12.0%. While the US says "strong dollar, best interests" it does nothing to support such a policy. "The real policy is 'let the markets decide' and that means no US intervention," Rockefeller says. As for the euro, she reminds that the eurozone wanted a currency that would be a competitor to the dollar, i.e. a reserve currency - "now let them live with it," she says.

**September Payroll Estimates (chgs 000s, MNI)**



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.58	5.20	\$1,625	10.40	n/a
10y	7.78	2.55	\$798	5.10	n/a
5y	4.45	1.43	\$447	5.72	n/a
2y	1.89	0.61	\$190	2.43	n/a
ZB	9.92	3.60	\$112	3.60	1.1103
ZN	5.86	2.07	\$65	4.15	0.9069
ZF	3.94	1.36	\$43	2.72	0.9285
ZT	1.89	0.63	\$20	2.51	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	23.50	23.00	(0.50)
5/10	33.60	32.80	(0.80)
10/30	25.30	26.90	1.60
2/10	57.10	55.80	(1.30)
5/30	58.90	59.70	0.80
2/30	82.40	82.70	0.30

DV01 32 said differently is how many TICS is in a basis point. Example, If ZN moves 1-basis point, it's moved 1.94 tics.

Since it trades in half tics 4 boxes = 1 basis point in ZN.

**Notes**

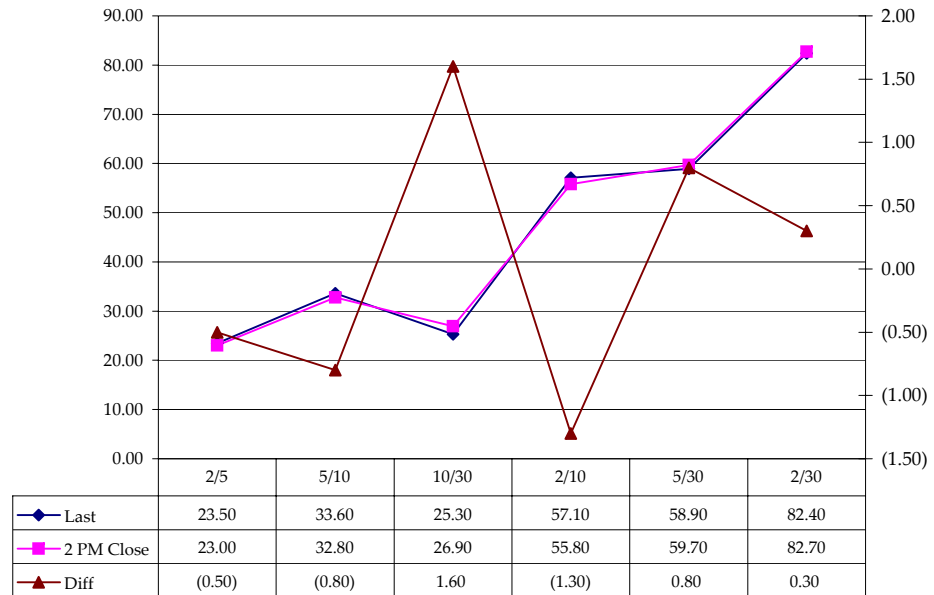
CF = Conversion Factor

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

Curve Spreads vs 2pm close



## US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (Z)	1.000	1.700	2.600	2.800
Bobl (Z)	0.550	0.960	1.450	1.570
Shatz (Z)	0.246	0.424	0.644	0.690

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.735	2.644	5.734
ZN	0.000		1.524	3.304
ZF	0.378	0.656		2.168
ZT	0.174	0.303	0.461	

## Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.6	3.9
Bobl (Z)	0.6	1.0	2.4
Shatz (Z)	0.3	0.4	1.0

## US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.69	3.98	7.09	14.45
ZN	2.93	6.90	12.31	25.08
ZF	4.46	10.51	18.76	38.22
ZT	4.84	11.40	20.34	41.44

## 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		2.357	4.206	8.568
5y	0.432		1.817	3.701
10y	0.238	0.560		0.000
30y	0.117	0.275	0.491	

Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. Bloomberg hedge ratio's are static. Meaning, I only update them once a week and on rolls. My hedge ratio's are live, meaning, they're updated in real-time. I've managed to get the Eurex to Eurex ratio's updating live as of 07/05/2007. I'll be working on Eurex to the USA ratio's soon.

Current Positions										
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	260,574	229,104	31,470	306,108	197,200	108,908	1,090,268	1,230,646	(140,378)	ZF
ZN	341,216	407,020	(65,804)	644,591	293,792	350,799	1,548,714	1,833,708	(284,994)	ZN
ZB	150,325	184,560	(34,235)	106,843	156,672	(49,829)	706,926	622,861	84,065	ZB

WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	(1,083,266)	24,759	(5,367)	9/25/2007
ZN	1,495	9,072	(10,567)	
ZB	(25,216)	(2,489)	27,706	

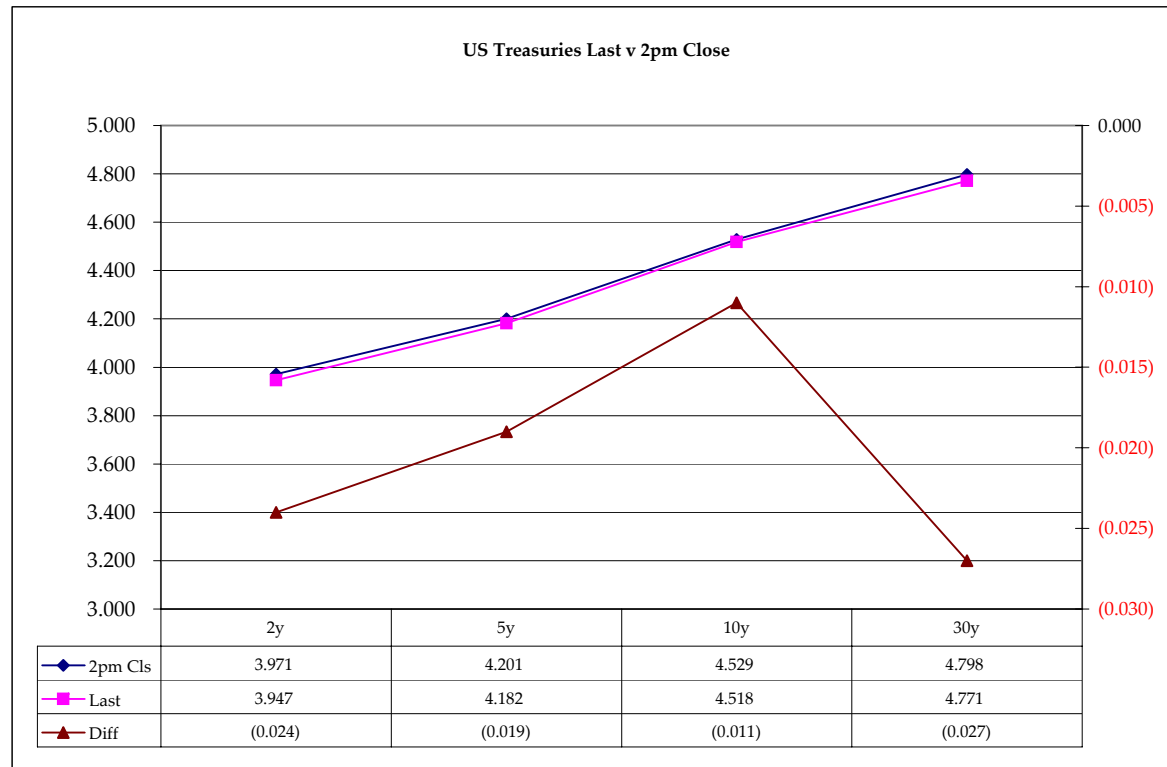
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	100.0175	3.971	3.947	(0.024)			
5y	4.125	8/31/12	100.0700	4.201	4.182	(0.019)	23.64	24.28	
10y	4.750	8/15/17	101.235	4.529	4.518	(0.011)	90.46	74.78	
30y	5.000	5/15/37	103.15	4.798	4.771	(0.027)	-668.32	-667.65	

	Close 32	Last
ZFZ7	107.045	107.065
ZNZ7	109.020	109.220
ZBZ7	112.00	112.030

Curve Spreads		
	Close bps	Last bps
2/5	23.0	23.5
5/10	32.8	33.6
10/30	26.9	25.3
2/10	55.8	57.1
5/30	59.7	58.9
2/30	82.7	82.4



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%	57%	100%	
30	12%	29%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$190			
5	\$190	\$447		
10	\$194	\$456	\$798	
30	\$197	\$464	\$812	\$1,625
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$0)			
10	(\$4)	(\$9)		
30	(\$8)	(\$17)	(\$14)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.21%			
10	-2.26%	-2.06%		
30	-3.97%	-3.76%	-1.74%	

**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	0.97	2.28	4.07	8.29
ZF	0.45	1.05	1.88	3.82
ZN	0.29	0.69	1.23	2.51
ZB	0.17	0.40	0.71	1.45

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.28	8.14	16.57
ZF	0.45	2.10	3.75	7.64
ZN	0.59	1.38	1.23	2.51
ZB	0.67	1.59	1.42	2.89

	2y	5y	10y	30y
2y	1.00	2.36	4.21	8.57
5y	0.42	1.00	1.78	3.64
10y	0.24	0.56	1.00	2.04
30y	0.12	0.28	0.49	1.00

	2y	5y	10y	30y
2y		2.36	2.10	4.28
5y	0.42		0.45	1.82
10y	0.48	2.24		2.04
30y	0.23	0.55	0.49	

	ZT	ZF	ZN	ZB
ZT	1.00	2.17	3.30	5.73
ZF	0.46	1.00	1.52	2.64
ZN	0.30	0.66	1.00	1.74
ZB	0.17	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.17	6.61	22.93
ZF	0.46		1.52	5.29
ZN	0.15	0.66		3.47
ZB	0.04	0.19	0.29	

<b>October</b>	<b>avg target</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>
<b>9/28/2007</b>	4.5%	2.6%	17.2%	45.0%	34.3%	0.0%
<b>10/1/2007</b>	4.6%	1.0%	15.4%	43.9%	38.1%	0.6%

<b>December</b>	<b>avg target</b>	<b>375</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>
<b>9/28/2007</b>	4.3%	6.4%	15.8%	32.0%	27.2%	16.6%	0.8%	1.2%

These probabilities take options into account and are much better at forecasting the FOMC intentions than the 'day-count' equation most analysts on the street use.

## Notes:

All probabilities are taken from The Cleveland Federal Reserve