

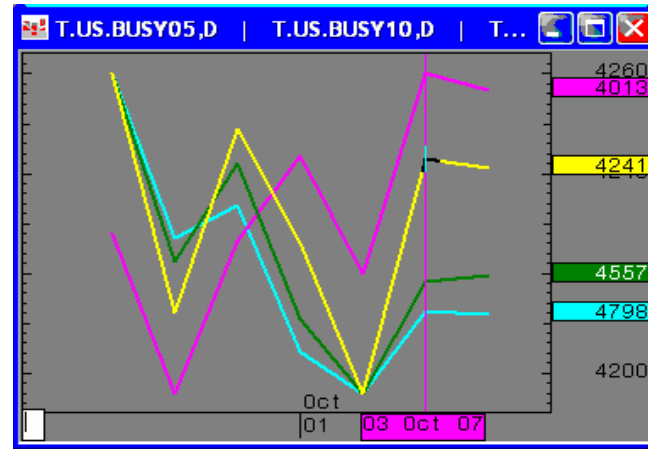


The Morning Email: Treasuries

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

Thu Oct 04 2007 05:39:08

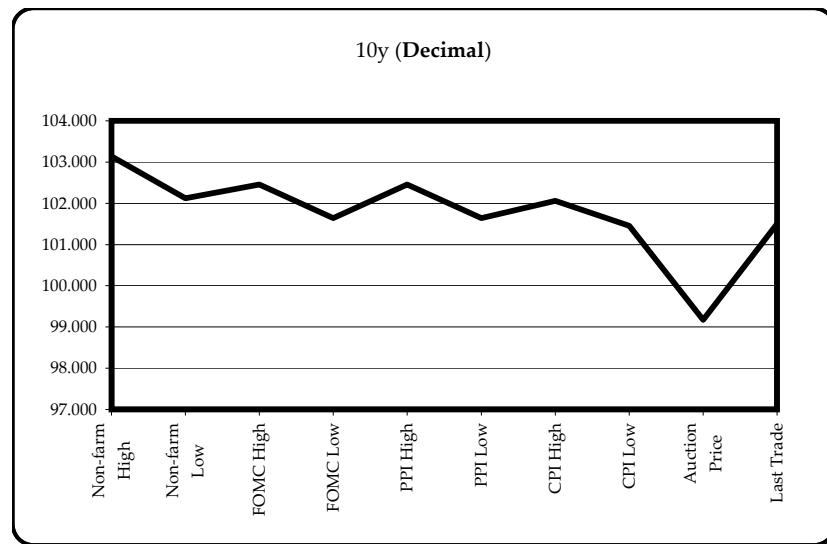
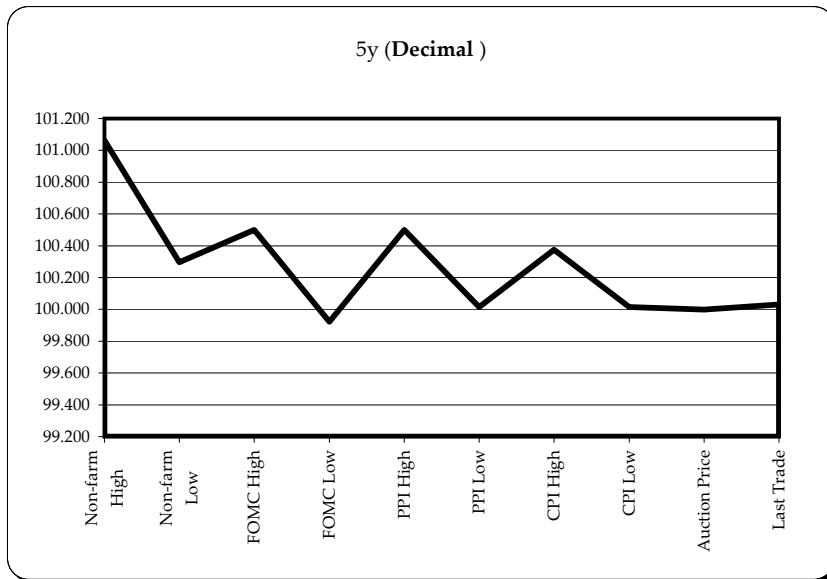


Want something added? Let me know: jgoulding@ghco.com

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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	100.0100	101.160	109.115	111.21	10/4/2007 5:46

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



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	103.132	(0.0)	103.137	103.127	103.127	10,209	2y Fut
FVAZ7	106.295	(0.0)	106.310	106.285	106.285	15,767	5y Fut
TYAZ7	109.115	(0.0)	109.130	109.100	109.105	50,427	10y Fut
USAZ7	111.210	(0)	111.240	111.190	111.200	9,836	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.310	0.2	99.315	99.305	99.305	na	2y Cash
BUS05P	100.005	0.0	100.017	100.002	100.005	na	5y Cash
BUS10P	101.155	0.5	101.170	101.150	101.160	na	10y Cash
BUS30P	103.045	0	103.080	103.035	103.050	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.013	(0.40)	4.034	3.988	4.025	na	2y Yield
BUS05Y	4.243	0.00	4.252	4.227	4.243	na	5y Yield
BUS10Y	4.557	0.20	4.567	4.547	4.557	na	10y Yield
BUS30Y	4.799	0.00	4.807	4.791	4.796	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

15:30 10/03 **US TSYS/RECAP:** Tsys end Wed lower, off a.m. low amid p.m. bargain-hunting on 1) weaker IS stocks; 2) corp rate-lock unwind buys; 3) Mid- morning selloff had heavy black-box selling, lighter selling by Asian bank, Asian central bank in 5Ys, banks & servicer selling intermediates, after stronger 52.7 Sep non-mfrg ISM employment vs. 47.9 Aug; (was earlier hedge fund selling prior to ISM also); 6) Lvrgrd accts did post-ISM selling, esp. front end; 7) was aggressive seller of Dec 10-yr from 10-11am ET, who sold more than 35k contracts on screen in 2,000 lot increments from 109-24+ to 109-12 (talk too of similar Dec 5Y seller, but electronic flows do not confirm.) 8) post-ISM intermediate selling, also 30Y bid, mixed hedge funds trading in intermediates. 9) MBS-tied selling in 10s, Dec 2y, 5Y futures; 10) Earlier buy-and-hold buying 5Y, 10Y, 2-way intermediate flow. 11) Some sold Tsys to buy new \$3B FHLB 5Y. 12) Bk buying in intermediates, earlier foreign buying in 5Y, 10s. 13) Street caught long after ISM, forced to sell. 14) 58K Sep ADP priv payrls.

15:14 10/03 **US EURODLR FUTURES:** Eurodlr futures finished off session lows as mkt sold off/curve flattened following the employment and prices component of Services ISM. The Red/Gold pack spd was 4.0 bps flatter at 77.875 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 3.0 bps lower at 95-04.5 on combined Globex and pit volume of 220,000, the Mar08 4.0 bps lower at 95-38 on volume of 251,000, the Jun08 4.5 bps lower at 95-55.5 on volume of 251,000, while the Sep08 contract was 4.5 bps lower at 95-64 on volume of 248,000. The 2yr proxy Red pack (Dec08-Sep09), settled 3.0 to 4.5 bps lower across the pack with 547,000 contracts traded.

15:04 10/03 **US EURODLR/SWAPS:** Spds ended session mostly tighter, the swap curve continues to invert w/the 2yr pushing wider. After decent 2way overnight, sources reported mild two-way flows in the fronts to intermediates, some receiver-tied interest in front end Eurodollars on the early up-tick in addition to some convexity-tied receiving in Treasuries. As fixed income markets pushed to new session lows after stronger than expected ISM employment data, one dealer reported decent selling of Treasury 2-year and 5-year futures for a MBS related account. According to GovPX:

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

Wed 3:00 +1.00/69.75 -0.25/65.25 -0.50/61.75 -0.50/60.75

12:30 +0.00/68.75 -0.25/65.25 -0.25/62.00 -0.25/61.00

11:10 +0.25/69.00 -0.25/65.25 +0.00/62.25 -0.50/60.75

9:15 +0.75/69.50 +0.25/65.75 +0.25/62.50 +0.25/61.50

Wed Open +1.00/69.75 +0.50/66.00 +0.50/62.75 +0.25/61.50

Tue 3:00 +0.75/68.75 +0.25/65.50 -0.50/62.25 -0.50/61.25

(cont)

04:51 10/04 **TSYS:** With the U.S. employment report looming large on the horizon, Treasuries are trading barely changed in London, as flows slow and volumes dry up. With the monetary policy decisions also due from both the European Central Bank and Bank of England on Thursday, many traders found it easy to find reasons to stay sidelined. Prices were narrowly mixed in early Asian trade, with the front of the curve finding light support from real money players. The long end also found light buying demand from regional Japanese banks. In London, flows were largely inter-dealer, with end users largely sidelined. The belly of the curve initially found buying interest, but demand was easily met by leveraged account selling of both the 5 and 10-year note.

04:51 10/04 **TSYS: (2)** Hedge funds were noted as potential buyers of 10-year Treasuries against European bonds, looking for the yield spread to break recent tech levels. The Bund/T-note was last unchanged on Wednesday's levels, with the spread standing at 27 bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 higher at 99 31/32 to yield 4.01%. The 10-yr note was 1/32 higher at 101 17/32 (4.55%), with the Bond unchanged at 103 6/32 (4.80%). The 2-yr/5-yr yield curve was unchanged on Wednesday's levels, trading at +23 bps. The 2-/10-yr curve was 2 bps steeper, trading at +55 bps. The 2-yr/30-yr curve was 1 bps steeper, standing at +79 bps.



07:42 10/03 **FED:** News report being discussed that Bernanke's August-September schedule included telephone calls to Robert Rubin, mortgage trader Lou Ranieri, Bridewater founder Raymond Dalio and BOE Gov. Mervyn King as well as 35 Fed conference calls. "At least no one can accuse him of complacency" says Chris Low at FTN.

08:36 10/03 **US DATA REACT:** Economist Ian Shepherdson at HFE says +58k ADP private payrolls was in line with consensus and "still very soft." He says "we are inclined still to expect a rebound in Friday's payroll number to about 100K, but the trend is now clearly slowing. The three-month average ADP gain is now just 42K, down from 166K in January. We expect a further deterioration over the next few months as housing weakens more."

**NEWS ALERT
from The Wall Street Journal
Oct. 3, 2007**

Deutsche Bank said it will take charges of up to \$3.09 billion for the third quarter on leveraged loans, structured credit products and mortgage-backed securities, although it will still achieve around \$2 billion in net profit due to tax credits and other gains. The German banking giant said the charge on leveraged loans and loan commitments will be up to \$991, while charges taken on structured credit products, residential mortgage-backed securities and other valuation losses will be about \$2.1 billion.

Does the 58,000 estimated gain in Private Sector **payrolls** per the ADP data warrant an adjustment to our +115,000 Nonfarm Payroll estimate? We are not revising up or down our estimate. Our forecast for September Private Sector Payrolls is +37,000, only about 20,000 less than the 58,000 ADP estimate.

	SMR Money Manager Survey Asset Allocation					Spread
	Treasury	Corporate	Agency	MBS	ABS	Expectations
This week 10/02/07						
% Held In	27.1%	26.2%	11.8%	26.7%	3.7%	5.23
Prior Week						
% held in	27.6%	25.9%	11.6%	26.5%	3.8%	4.92
Two Weeks Prior						
% held in	28.5%	25.1%	12.4%	26.0%	4.1%	4.62
Three Weeks Prior						
% held in	29.2%	24.0%	12.7%	25.8%	4.1%	4.46

13:21 10/03 **FED:** The search for the next president of the Federal Reserve Bank of St. Louis is just getting underway, but already some candidates have been mentioned by knowledgeable observers. Possible choices include Mickey Levy, chief economist of the Bank of America, and Marvin Goodfriend, former director of research at the Richmond Federal Reserve Bank.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.55	5.17	\$1,614	10.33	n/a
10y	7.78	2.54	\$794	5.08	n/a
5y	4.45	1.42	\$445	5.70	n/a
2y	1.89	0.61	\$189	2.42	n/a
ZB	9.90	3.58	\$112	3.58	1.1103
ZN	5.86	2.06	\$65	4.13	0.9069
ZF	3.94	1.36	\$42	2.71	0.9285
ZT	1.89	0.63	\$20	2.50	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	23.00	22.80	(0.20)
5/10	31.40	31.70	0.30
10/30	24.20	24.40	0.20
2/10	54.40	54.50	0.10
5/30	55.60	56.10	0.50
2/30	78.60	78.90	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

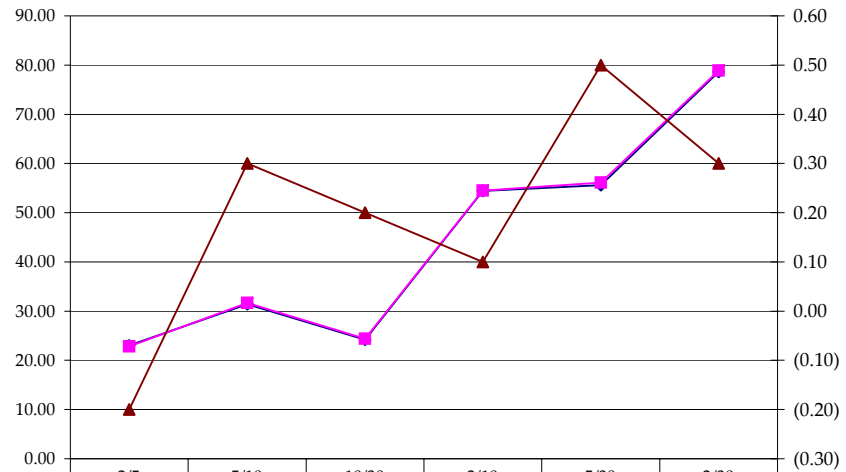
CF = Conversion Factor

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



	2/5	5/10	10/30	2/10	5/30	2/30
Last	23.00	31.40	24.20	54.40	55.60	78.60
2 PM Close	22.80	31.70	24.40	54.50	56.10	78.90
Diff	(0.20)	0.30	0.20	0.10	0.50	0.30

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		1.733	2.641	5.720
ZN	0.000		1.524	3.300
ZF	0.379	0.656		2.166
ZT	0.175	0.303	0.462	

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	7.10	14.44
ZN	2.93	6.90	12.31	25.02
ZF	4.47	10.51	18.76	38.12
ZT	4.84	11.39	20.32	41.29

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		2.355	4.202	8.538
5y	0.432		1.816	3.691
10y	0.238	0.560		0.000
30y	0.117	0.276	0.492	

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			
	Sml Spec	Lrg Spec	Comm
	Net	Net	Net
ZF	(1,083,266)	24,759	(5,367)
ZN	1,495	9,072	(10,567)
ZB	(25,216)	(2,489)	27,706

As of 9/25/2007

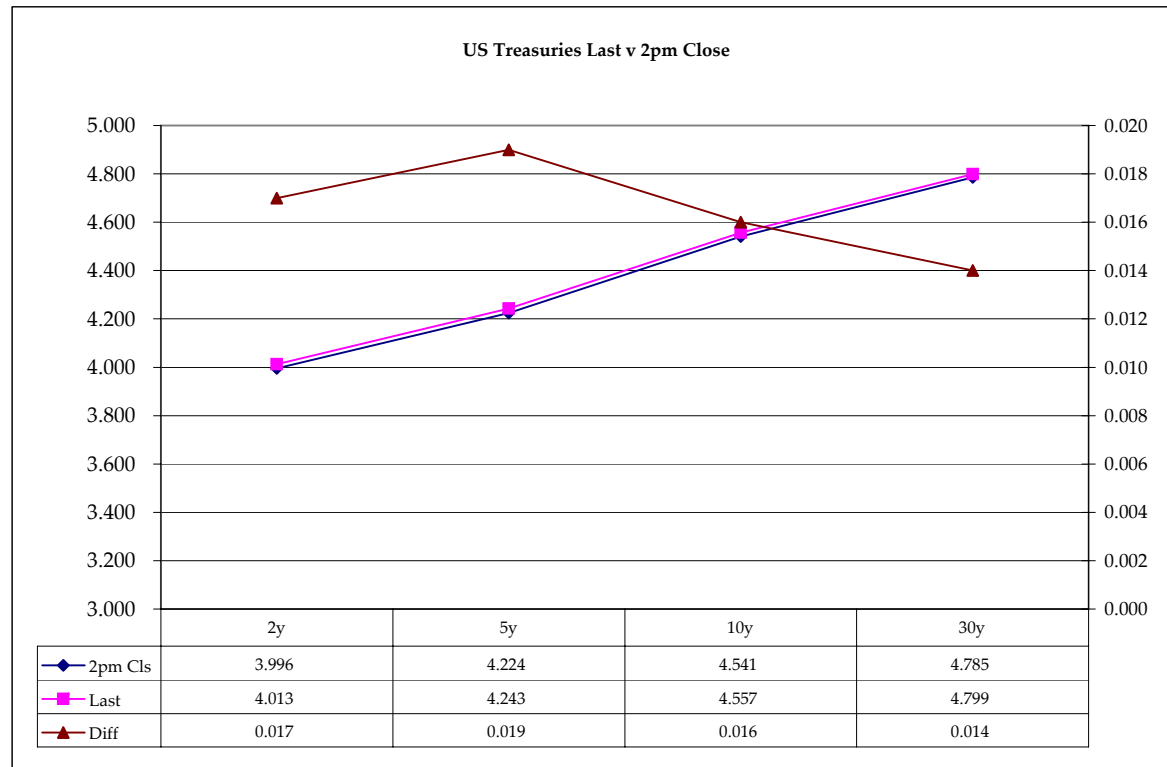
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	100.0025	3.996	4.013	0.017			
5y	4.125	8/31/12	100.0375	4.224	4.243	0.019	24.10	24.14	
10y	4.750	8/15/17	101.205	4.541	4.557	0.016	75.63	74.30	
30y	5.000	5/15/37	103.12	4.785	4.799	0.014	-665.76	-666.60	

	Close 32	Last
ZFZ7	107.005	106.295
ZNZ7	109.150	109.115
ZBZ7	111.27	111.210

Curve Spreads		
	Close bps	Last bps
2/5	22.8	23.0
5/10	31.7	31.4
10/30	24.4	24.2
2/10	54.5	54.4
5/30	56.1	55.6
2/30	78.9	78.6



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%	57%	100%	
30	12%	29%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$189			
5	\$189	\$445		
10	\$193	\$454	\$794	
30	\$196	\$462	\$807	\$1,614
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$0)			
10	(\$4)	(\$9)		
30	(\$7)	(\$17)	(\$13)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.05%			
10	-2.09%	-2.04%		
30	-3.67%	-3.62%	-1.61%	

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	4.06	8.26
ZF	0.45	1.05	1.88	3.81
ZN	0.29	0.69	1.23	2.50
ZB	0.17	0.40	0.71	1.44

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.28	8.13	16.52
ZF	0.45	2.10	3.75	7.62
ZN	0.59	1.38	1.23	2.50
ZB	0.68	1.59	1.42	2.89

	2y	5y	10y	30y
2y	1.00	2.35	4.20	8.54
5y	0.42	1.00	1.78	3.63
10y	0.24	0.56	1.00	2.03
30y	0.12	0.28	0.49	1.00

	2y	5y	10y	30y
2y		2.35	2.10	4.27
5y	0.42		0.45	1.81
10y	0.48	2.24		2.03
30y	0.23	0.55	0.49	

	ZT	ZF	ZN	ZB
ZT	1.00	2.17	3.30	5.72
ZF	0.46	1.00	1.52	2.64
ZN	0.30	0.66	1.00	1.73
ZB	0.17	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.17	6.60	22.88
ZF	0.46		1.52	5.28
ZN	0.15	0.66		3.47
ZB	0.04	0.19	0.29	

October	avg target	400	425	450	475	500
10/1/2007	4.6%	1.0%	15.4%	43.9%	38.1%	0.6%
10/2/2007	4.6%	0.9%	16.2%	41.8%	40.5%	0.0%

December	avg target	375	400	425	450	475	500	525
10/1/2007	4.4%	7.5%	9.5%	32.0%	31.9%	16.3%	2.0%	0.8%

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