

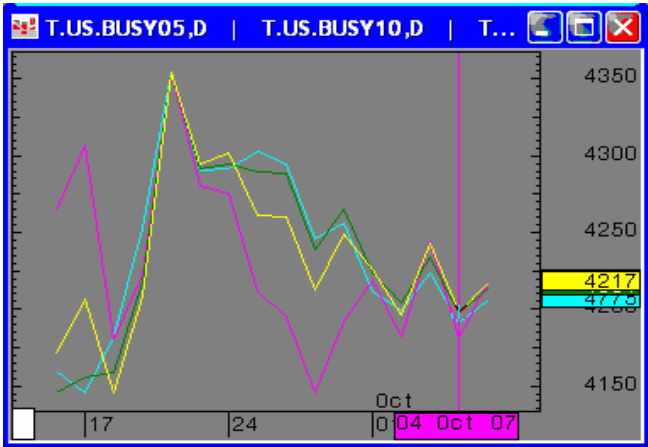


# The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 Fri Oct 05 2007 05:41:05

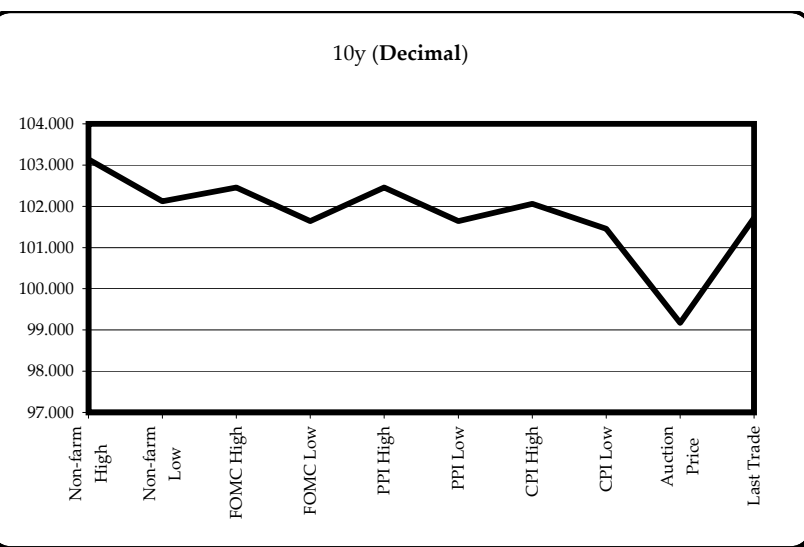
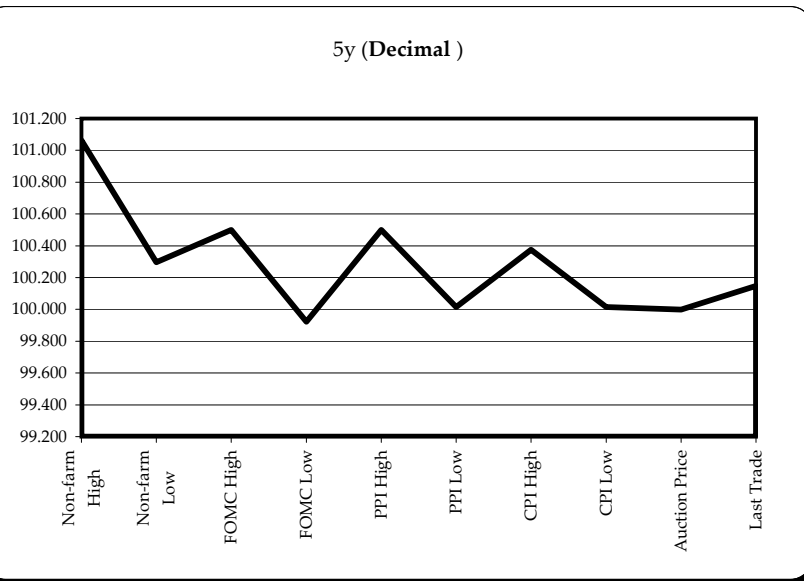


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	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	100.0470	101.230	109.180	112.00	10/5/2007 5:57

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	103.142	(0.0)	103.157	103.135	103.155	16,922	2y Fut
FVAZ7	107.020	(0.0)	107.055	107.010	107.045	30,594	5y Fut
TYAZ7	109.180	(0.0)	109.225	109.170	109.215	49,339	10y Fut
USAZ7	112.000	(0)	112.070	111.300	112.050	12,358	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.002	(1.0)	100.012	99.315	100.012	na	2y Cash
BUS05P	100.045	(2.5)	100.072	100.040	100.072	na	5y Cash
BUS10P	101.230	(4.5)	101.280	101.220	101.280	na	10y Cash
BUS30P	103.185	(7)	103.225	103.165	103.220	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.992	2.50	4.017	3.963	4.009	na	2y Yield
BUS05Y	4.217	1.90	4.225	4.189	4.213	na	5y Yield
BUS10Y	4.529	1.70	4.539	4.508	4.519	na	10y Yield
BUS30Y	4.772	1.50	4.779	4.754	4.766	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

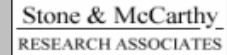
15:07 10/04 **US TSYS:** US Tsys had a very choppy final session before the very important jobs report on Friday. Prices ended marginally higher on the day but the curve seesawed, at times steepening and at times flattening. Traders stressed, however, that volume was very light and the price action undoubtedly reflected some position squaring ahead of the number as opposed to any action based on firm conviction. On a 3PM to 3PM basis, 2Y note at 3.991% vs. 4.000% on Wed. 3Y note at 4.015% vs. 4.023%. 5Y note at 4.208% vs. 4.224%. 10Y note at 4.523% vs. 4.543%. 30Y at 4.768% vs. 4.787%. 2/5Y curve at +21.7 bps vs. +22.4 bps. 2/10Y at +53.2 bps vs. +54.3 bps. 2/30Y at +77.7 bps vs. +78.7 bps. 15:14 10/04 US TSY FUTURES: Tsys closed better on the day amid light volume with the Dec T-bond ended up 8/32 at 112-03 with 182K traded while the Dec 10-yr settled up 5/32 at 109-20 with 696K traded. The Dec 5-yr notes settled 3/32 higher at 107-03.5 with 350K traded while the Dec 2-yr closed better by .5/32 at 103-15 with 163K changing hands.

15:07 10/04 **US EURODLR/SWAPS:** Spds ended session mixed on the heels of a light session earmarked by 2-way position adjusting pre-jobs. However, late buying for fear of weakish jobs report tightened spds off their wider levels. Curve flow was also two-way in the front to intermediate sector, Eurodollar sources noted interest in the Red/Blue (Dec08-Sep09) vs (Dec10-Sep11) and Red/Gold pack spreads (Dec08-Sep09) vs (Dec11-Sep12). Overnight, Asian buying of 5Y spread product and interest in 2s/10s spread steepeners was reported. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
CLOSE	+0.50/70.25	+1.25/66.50	+0.50/63.25	+0.25/61.00
11:45	+1.50/71.25	+1.75/67.00	+1.00/62.75	+1.00/61.75
10:40	+1.75/71.50	+1.25/66.50	+1.00/62.75	+0.75/61.50
9:45	+1.00/70.75	+1.25/66.50	+1.00/62.75	+0.75/61.50
Thu Open	+0.50/70.25	+0.75/66.00	+0.75/62.50	+0.50/61.25
Thu 7:45	+0.00/69.75	+0.00/65.25	+0.25/62.00	+0.00/60.75
Wed 3:00	+1.00/69.75	-0.25/65.25	-0.50/61.75	-0.50/60.75

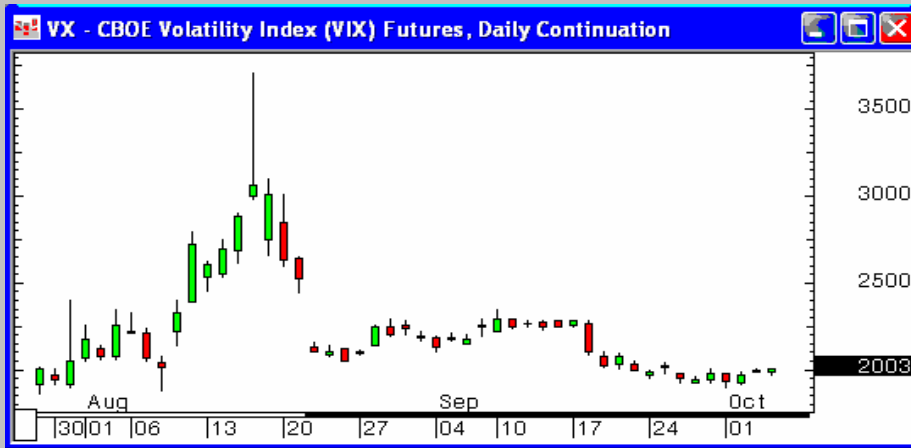
(cont)

05:28 10/05 **TSYS:** Treasuries are trading lower across the curve in London trade Friday, as traders look to square their books ahead of the key U.S. employment report later in the day. Tokyo trade saw prices little changed, consolidating at their overnight levels, with many players sidelined ahead of long holiday weekends in both Japan and the US. Flows remain stagnant in London trade, with the light flows seen largely interdealer. There was light real money book-squaring in the 10-year sector of the curve, as recent cross-border trades were unwound. The Bund/T-note was last 1 bps wider on Thursday's levels, with the spread standing at 29 bps. Ahead of the U.S. session, the 2-yr note was trading 1/32 lower at 100 even to yield 3.99%. The 10-yr note was 5/32 lower at 101 23/32 (4.53%), with the Bond unchanged at 103 18/32 (4.77%). The 2-yr/5-yr yield curve was unchanged on Thursday's levels, trading at +22 bps. The 2-/10-yr curve was 1 bps steeper, trading at +54 bps. The 2-yr/30-yr curve was 1 bps steeper, standing at +79 bps.



12:32 10/04 US: **The CBOE's volatility index or VIX**, watched as a "fear factor" by market players, holds around 18.41, down from Wed's close at 18.80. This week, into Friday's non-farm payroll release, the VIX has been holding on a 18 "handle" compared to last week where it was mostly on a 17 "handle". In any case, the VIX is well down from the pre-Fed rate cut high of 26.23 of Sept. 18. The VIX last traded below 18 on July 25, just before a wave of subprime mortgage woes began to drive credit spreads substantially wider. Analysts maintain that a break below 15 would suggest a larger return to risk appetite buying, while a move over 20 would suggest increased risk aversion.

This is the VIX futures, not the VIX mentioned above. However, they're very similar. We'll be keeping an eye on this index in the coming months. -jim



Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com Thu Oct 04 2007

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.57	5.20	\$1,624	10.39	n/a
10y	7.77	2.55	\$796	5.09	n/a
5y	4.44	1.42	\$445	5.70	n/a
2y	1.88	0.60	\$188	2.41	n/a
ZB	9.90	3.59	\$112	3.59	1.1103
ZN	5.85	2.07	\$65	4.13	0.9069
ZF	3.93	1.35	\$42	2.71	0.9285
ZT	1.88	0.62	\$19	2.49	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	22.50	21.90	(0.60)
5/10	31.20	31.50	0.30
10/30	24.30	24.50	0.20
2/10	53.70	53.40	(0.30)
5/30	55.50	56.00	0.50
2/30	78.00	77.90	(0.10)

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**

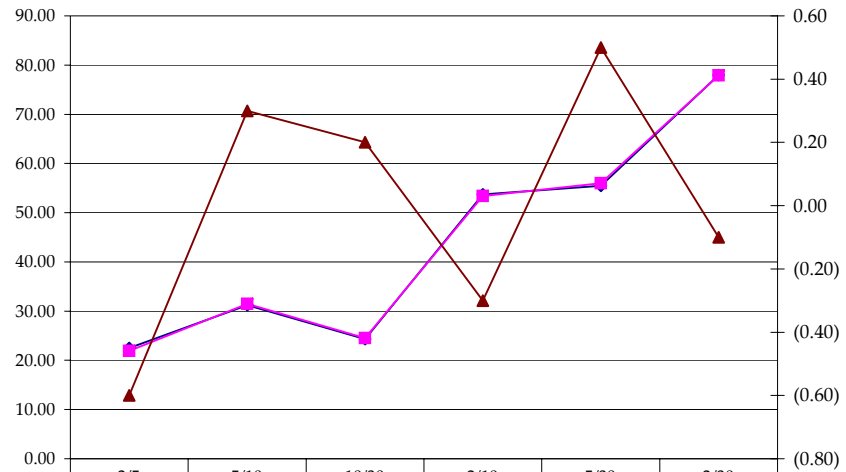
CF = Conversion Factor

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	22.50	31.20	24.30	53.70	55.50	78.00
2 PM Close	21.90	31.50	24.50	53.40	56.00	77.90
Diff	(0.60)	0.30	0.20	(0.30)	0.50	(0.10)

## 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		1.736	2.649	5.756
ZN	0.000		1.526	3.316
ZF	0.378	0.655		2.173
ZT	0.174	0.302	0.460	

## 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	1.68	3.97	7.10	14.48
ZN	2.92	6.89	12.32	25.14
ZF	4.45	10.52	18.80	38.36
ZT	4.84	11.43	20.43	41.68

## 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		2.363	4.224	8.619
5y	0.431		1.820	3.714
10y	0.237	0.559		0.000
30y	0.116	0.274	0.490	

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	

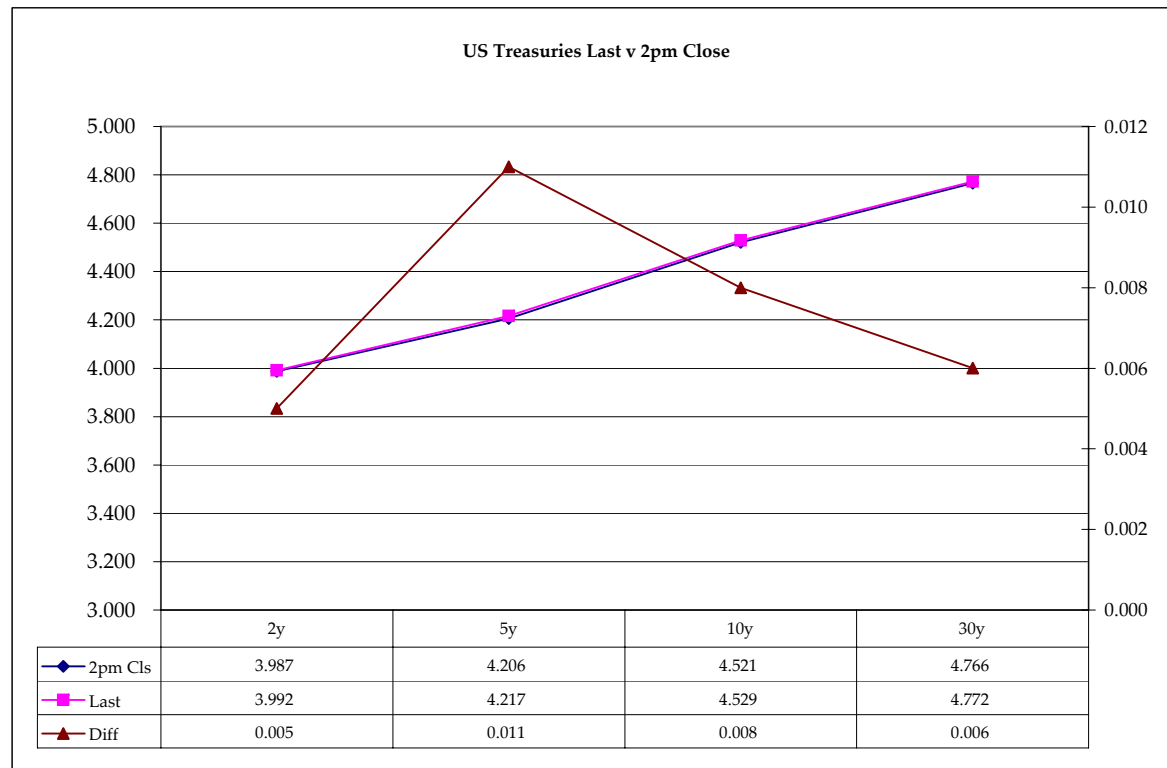
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	100.0075	3.987	3.992	0.005			
5y	4.125	8/31/12	100.0625	4.206	4.217	0.011	23.82	23.66	
10y	4.750	8/15/17	101.255	4.521	4.529	0.008	76.09	75.41	
30y	5.000	5/15/37	103.22	4.766	4.772	0.006	-664.65	-664.82	

	Close 32	Last
ZFZ7	107.035	107.020
ZNZ7	109.200	109.180
ZBZ7	112.03	112.000

Curve Spreads		
	Close bps	Last bps
2/5	21.9	22.5
5/10	31.5	31.2
10/30	24.5	24.3
2/10	53.4	53.7
5/30	56.0	55.5
2/30	77.9	78.0



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	\$188			
5	\$189	\$445		
10	\$193	\$455	\$796	
30	\$196	\$463	\$811	\$1,624
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$0)			
10	(\$4)	(\$10)		
30	(\$8)	(\$18)	(\$15)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.14%			
10	-2.27%	-2.13%		
30	-4.04%	-3.91%	-1.82%	

**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	2.29	4.09	8.34
ZF	0.45	1.05	1.88	3.84
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	2.29	8.17	16.67
ZF	0.45	2.10	3.76	7.67
ZN	0.58	1.38	1.23	2.51
ZB	0.67	1.59	1.42	2.90

	2y	5y	10y	30y
2y	1.00	2.36	4.22	8.62
5y	0.42	1.00	1.79	3.65
10y	0.24	0.56	1.00	2.04
30y	0.12	0.27	0.49	1.00

	2y	5y	10y	30y
2y		2.36	2.11	4.31
5y	0.42		0.45	1.82
10y	0.47	2.24		2.04
30y	0.23	0.55	0.49	

	ZT	ZF	ZN	ZB
ZT	1.00	2.17	3.32	5.76
ZF	0.46	1.00	1.53	2.65
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	6.63	23.02
ZF	0.46		1.53	5.30
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>10/1/2007</b>	4.6%	1.0%	15.4%	43.9%	38.1%	0.6%
<b>10/2/2007</b>	4.6%	0.9%	16.2%	41.8%	40.5%	0.0%

<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>10/1/2007</b>	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