



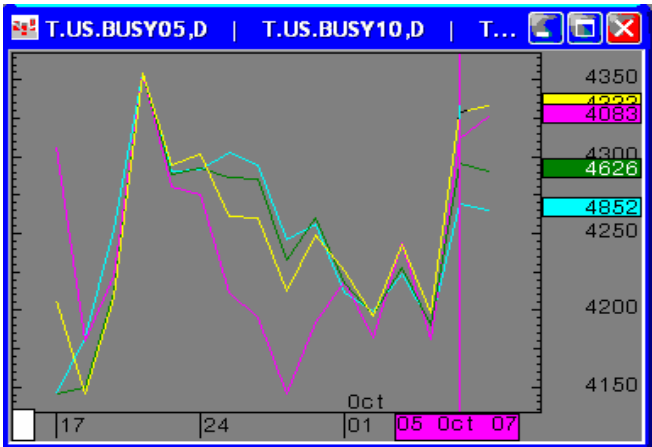
# The Morning Email: Treasuries

10/9/2007 6:00

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### Daily Yield Curve



Source: CQG, Inc. © 2007 Tue Oct 09 2007 05:54:55

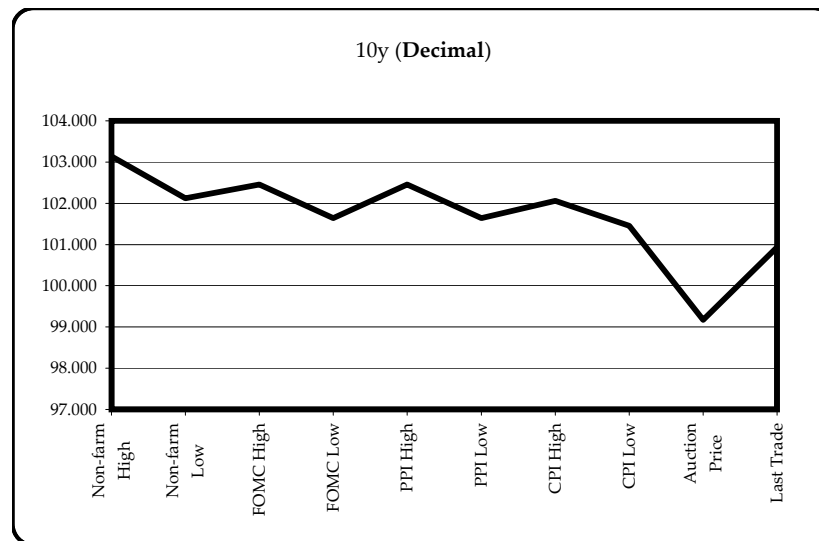
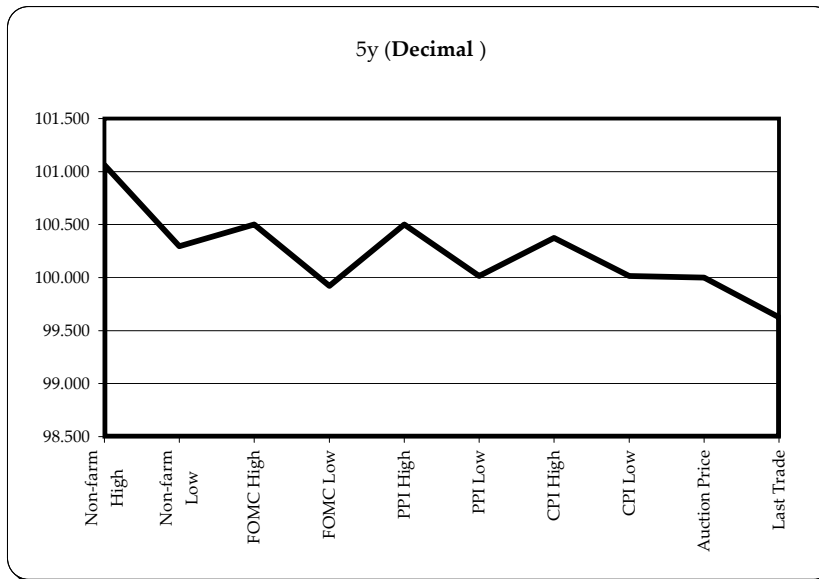


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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	99.2000	100.300	108.260	110.29	10/9/2007 6:00

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	103.092	(0.0)	103.112	103.087	103.095	32,049	2y Fut
FVAZ7	106.180	0.0	106.190	106.160	106.175	42,707	5y Fut
TYAZ7	108.260	0.0	108.270	108.215	108.250	101,835	10y Fut
USAZ7	110.290	0	110.310	110.180	110.220	23,651	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.265	(1.0)	99.280	99.245	99.267	na	2y Cash
BUS05P	99.195	0.0	99.207	99.180	99.182	na	5y Cash
BUS10P	100.295	1.0	100.310	100.240	100.245	na	10y Cash
BUS30P	102.060	(4)	102.090	101.250	101.250	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.083	1.20	4.133	4.058	4.096	na	2y Yield
BUS05Y	4.338	0.90	4.359	4.324	4.338	na	5y Yield
BUS10Y	4.630	(0.20)	4.659	4.622	4.638	na	10y Yield
BUS30Y	4.856	(0.10)	4.891	4.851	4.861	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

13:05 10/05 US **TSYS/RECAP:** Tsys had major selloff Fri amid 1) +110K Sept US jobs, upward prior month revisions, 0.4% AHE; which spurred 2) bank portfolio did swaps paying mainly in 5Y/buying of MBS; 3) also was a few rounds of leveraged accounts selling too in 10s, 10Y futures; 4) midday sell US Tsys/buy MBS trades, and also duration shedding in MBS via paying in 5Y, 10Y swaps; 5) mkt earlier had temporarily stabilized at low on \$1B buy by European central bank in cash 10Ys, US\$1B buy by European central bk(s) in 2s; 6) also had been earlier Street, others buying at 4.60% 10Ys yield level earlier but then later, Street buyers, others who bought earlier sold 10Ys; 7) earlier were 2Y/10Y steepeners at +50bp in 20 mins after jobs; 8) also earlier sell US 2Y/buy Schatz, but some buy US/sell German action; later around 11am was sell Bunds/Buy UK Gilts action. 9) was early fincl institutution buying in 5Ys, other 2Y, 10Y buying, with also quasi-off bid in 5Ys. 10) Earlier, had been leveraged selling in 5s but also Street, hedge fund buying, short-cvrg.

13:10 10/05 US **EURODLR FUTURES:** Eurodlr futures finished off session lows on late position squaring, profit taking. While rate cut odds get deferred flattening front end spds, longer curve ends up steeper late. The Red/Gold pack spd was 3.875 bps steeper at 82.0 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 7.0 bps lower at 94-97.5 on combined Globex and pit volume of 293,000, the Mar08 10.5 bps lower at 95-27 on volume of 314,000, the Jun08 12.5 bps lower at 95-43 on volume of 365,000, while the Sep08 contract was 13.0 bps lower at 95-51 on volume of 415,000. The 2yr proxy Red pack (Dec08-Sep09), settled 11.5 to 12.0 bps lower across the pack with 1,050,000 contracts traded.

13:07 10/05 US **EURODLR/SWAPS:** Spds ended session wider after see-sawing through shortened session. Sources reported a bank portfolio paid on spd versus MBS, which really got things going wider. Spd paying was done largely in 5s but one dealer desk said "it really filtered" into every part of curve. Sources also reported real money acts were moderate sellers of 2yr futures, both corp and MBS related. Paying also noted in 10s. Eurodlr sources initially reported sellers of 1-, 3yr bundles and Red packs (Dec08-Sep09), while dip buyers, profit takers around midmorning, a NY dealer +1k Reds at -9.0 coincided with spds coming off wides. According to GovPX:

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

Fri 1:00 +0.75/71.00 +0.25/66.75 +0.75/63.00 +1.00/62.00

10:10 +0.50/70.75 -0.25/66.25 +0.75/63.00 +0.75/61.75

9:45 +1.75/72.00 +0.25/66.75 +1.25/63.50 +1.25/62.25

Fri Open +1.50/71.75 +0.25/66.75 +0.25/62.50 +0.25/61.25

Thu 3:00 +0.50/70.25 +1.25/66.50 +0.50/62.25 +0.25/61.00

(cont)

05:02 10/09 **TSYS:** USTs are trading modestly lower across the board in London trade Tuesday, although volumes are light with players awaiting the return of the U.S. markets after the long holiday weekend. Prices drifted in Tokyo, with a lack of fresh trading incentives keeping many players sidelined. However, light selling was initially seen at the front of the curve, as real money names lightened positions in the wake of the U.S. employment report released Friday. In London, real money names were light sellers of the belly of the curve, although the slack was taken up without any real impact. The 10-yr also found some selling interest, with leveraged players seen unwinding cross border trades against EGBs. But traders said overall volumes were muted, with ranges narrow and flows largely interdealer. The Bund/T note was last 1 bps wider on Friday's levels, with the spread standing at 35 bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 lower at 99 27/32 to yield 4.08%. The 10-yr note was at 4.64%, with the Bond at 4.87%.

06:34 10/09 **FX:** The dollar was relatively subdued in European trade Tuesday morning, traders saying positions had largely been reduced or squared ahead of the FOMC minutes at 1800GMT. After slipping to a \$1.4015 low in Asia, euro-dollar pared losses en-route to highs just shy of \$1.4060, with dollar-yen also subdued between Y117.10/45. Sterling squeezed lower in late European morning trade, with cable dipping under \$2.0300 as euro-sterling lifted back from its brief show under stg0.6900 on profit-taking. Elsewhere, Aussie pared the majority of its overnight losses, traders noting strong demand coming from a Dutch name.



Stone & McCarthy  
RESEARCH ASSOCIATES

[7:44 am CT]

**NEWS ALERT**

from The Wall Street Journal

Oct. 5, 2007

U.S. employment rebounded last month on robust public education and other service-sector hiring, and August's decline was revised to a gain, signaling resilience in the labor market and reining in hopes for further aggressive easing by the Federal Reserve. Nonfarm payrolls rose 110,000 in September, and August was revised to an 89,000 rise from a previous estimate of a 4,000 decline. The unemployment rate rose 0.1 percentage point in September to 4.7%.

[Excerpted]

**Part IV--Observations From The Household Survey  
by Ray Stone, PhD**

"While the national unemployment rate inched up to 4.7% from 4.6% in July and August. The recent uptrend in the unemployment rate is not a surprise and is consistent with other aspects of the employment data.

"For policy-makers the unemployment rate provides an indication of labor market utilization, a theme that has been highlighted frequently by Fed officials. The increase in the unemployment rate reduces the reluctance towards a more accommodative posture".

08:55 10/05 **US DATA REACT:** Economist Ian Shepherdson at HFE says "these latest payroll numbers fit quite well with the claims, ISM and help wanted numbers. Government hiring flatters both Aug/Sep; private payrolls up only 105K combined and the trend has halved over the past six months to just 60K per month. Temp hiring is tanking, signalling a further downshift in private payrolls... A rising unemployment rate is more or less a done deal; nothing motivates the Fed to cut rates more than a loosening labor market. Ignore the wages uptick; will slow as unemployment rises."

09:41 10/05 **FED:** Street has focused on this part of Fed VC Kohn's text, referring to the Sept 18 rate cut: "I thought that economic performance would be better served by the Federal Reserve taking its chances on responding too much, or too rapidly, to the turmoil in financial markets rather than acting too little, or too slowly. Sluggish or inadequate easing risked a weaker real economy that might cause lenders to pull back even more, leading to a deteriorating situation that could prove difficult to reverse. With the news on inflation relatively favorable of late and with inflation expectations seemingly well anchored, I believed that we would be able to offset the cut in the federal funds rate--if it turned out to be larger than needed--in time to preserve price stability."

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.47	5.10	\$1,593	10.20	n/a
10y	7.75	2.52	\$788	5.04	n/a
5y	4.43	1.41	\$442	5.66	n/a
2y	1.88	0.60	\$188	2.40	n/a
ZB	9.88	3.55	\$111	3.55	1.1103
ZN	5.84	2.05	\$64	4.10	0.9069
ZF	3.92	1.35	\$42	2.69	0.9285
ZT	1.88	0.62	\$19	2.48	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	25.50	25.80	0.30
5/10	29.20	30.40	1.20
10/30	22.60	23.00	0.40
2/10	54.70	56.20	1.50
5/30	51.80	53.40	1.60
2/30	77.30	79.20	1.90

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**

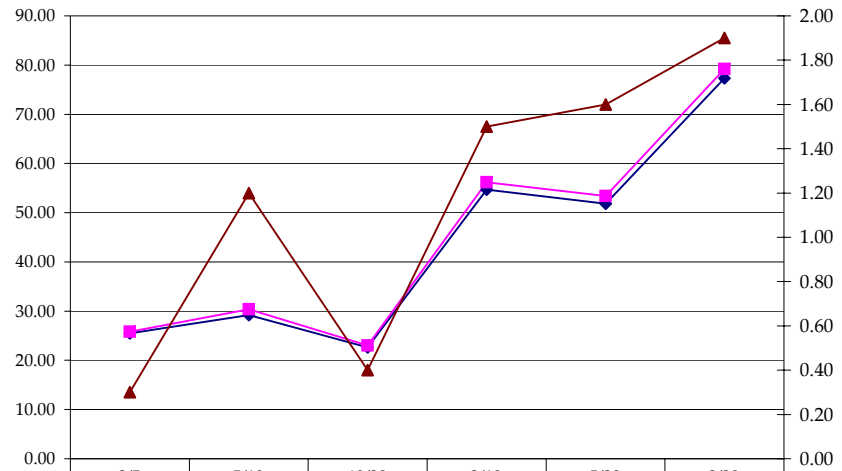
CF = Conversion Factor

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	25.50	29.20	22.60	54.70	51.80	77.30
—■— 2 PM Close	25.80	30.40	23.00	56.20	53.40	79.20
—▲— Diff	0.30	1.20	0.40	1.50	1.60	1.90

## 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		1.732	2.637	5.720
ZN	0.000		1.522	3.302
ZF	0.379	0.657		2.169
ZT	0.175	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	3.99	7.11	14.37
ZN	2.93	6.91	12.31	24.89
ZF	4.46	10.51	18.74	37.87
ZT	4.84	11.40	20.33	41.08

## 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		2.358	4.204	8.495
5y	0.432		1.815	3.669
10y	0.238	0.561		0.000
30y	0.118	0.278	0.495	

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	276,437	229,371	47,066	377,157	185,109	192,048	1,024,217	1,263,331	(239,114)	ZF
ZN	349,215	421,233	(72,018)	723,790	310,290	413,500	1,579,756	1,921,238	(341,482)	ZN
ZB	152,352	178,874	(26,522)	108,542	171,344	(62,802)	727,631	638,307	89,324	ZB

WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	15,596	83,140	(98,736)	10/2/2007
ZN	(6,214)	62,701	(56,488)	
ZB	7,713	(12,973)	5,259	

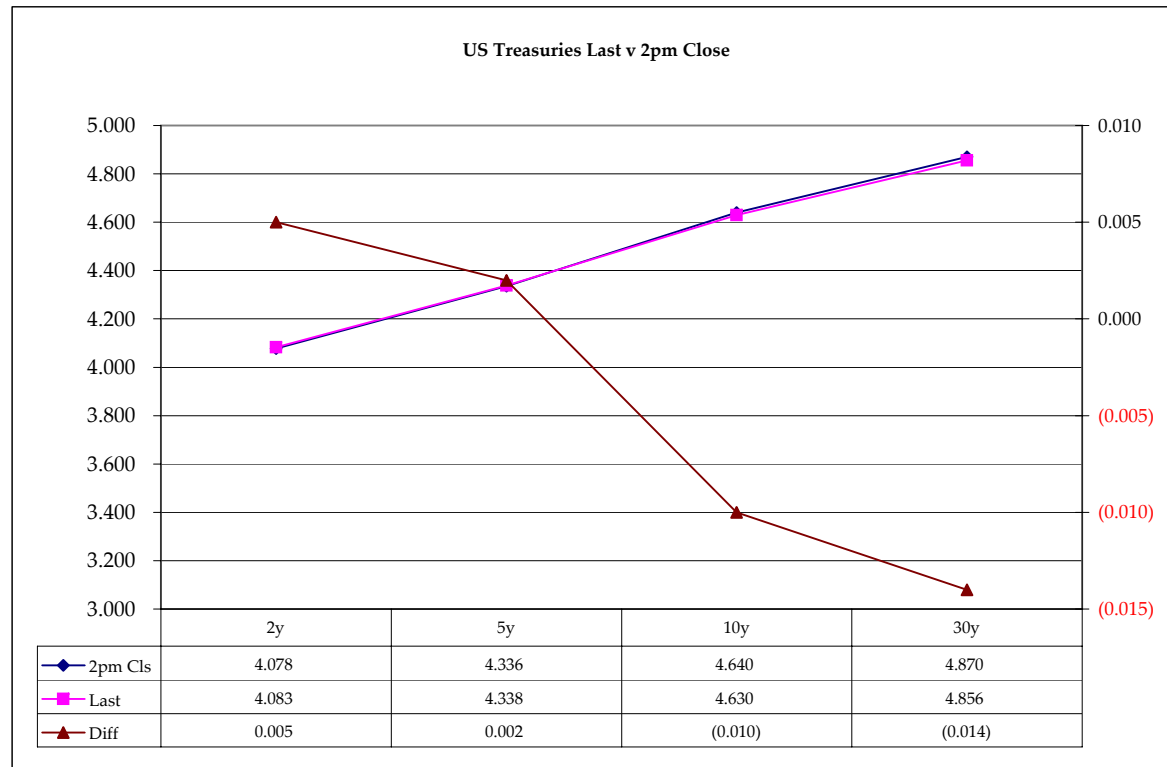
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	99.2725	4.078	4.083	0.005			
5y	4.125	8/31/12	99.1975	4.336	4.338	0.002	21.56	21.81	
10y	4.750	8/15/17	100.275	4.640	4.630	(0.010)	71.03	72.17	
30y	5.000	5/15/37	102.01	4.870	4.856	(0.014)	-671.51	-669.45	

	Close 32	Last
ZFZ7	106.180	106.180
ZNZ7	108.245	108.260
ZBZ7	110.25	110.290

Curve Spreads		
	Close bps	Last bps
2/5	25.8	25.5
5/10	30.4	29.2
10/30	23.0	22.6
2/10	56.2	54.7
5/30	53.4	51.8
2/30	79.2	77.3



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	\$187	\$442		
10	\$191	\$451	\$788	
30	\$193	\$456	\$798	\$1,593
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$3)	(\$8)		
30	(\$6)	(\$14)	(\$10)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.20%			
10	-1.69%	-1.88%		
30	-2.95%	-3.14%	-1.28%	

**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	8.22
ZF	0.45	1.05	1.87	3.79
ZN	0.29	0.69	1.23	2.49
ZB	0.17	0.40	0.71	1.44

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.28	8.13	16.43
ZF	0.45	2.10	3.75	7.57
ZN	0.59	1.38	1.23	2.49
ZB	0.68	1.59	1.42	2.87

	2y	5y	10y	30y
2y	1.00	2.36	4.20	8.50
5y	0.42	1.00	1.78	3.60
10y	0.24	0.56	1.00	2.02
30y	0.12	0.28	0.49	1.00

	2y	5y	10y	30y
2y		2.36	2.10	4.25
5y	0.42		0.45	1.80
10y	0.48	2.24		2.02
30y	0.24	0.56	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	5.27
ZN	0.15	0.66		3.46
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>10/4/2007</b>	4.6%	0.4%	11.4%	49.9%	38.2%	0.0%
<b>10/5/2007</b>	4.6%	0.5%	3.3%	41.5%	54.7%	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>10/4/2007</b>	4.4%	6.2%	5.5%	37.1%	31.2%	13.9%	5.7%	0.5%

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