

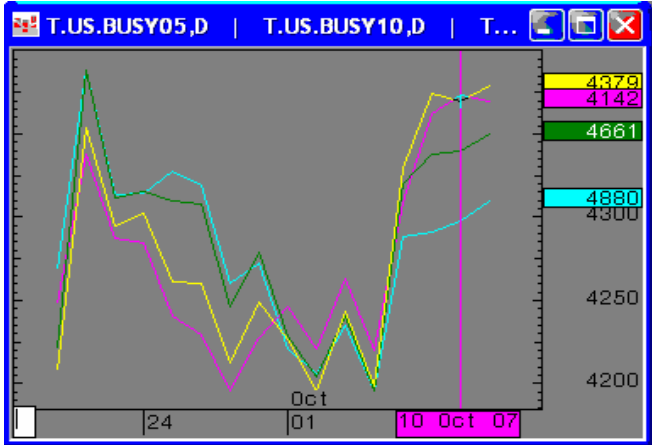


# The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 Thu Oct 11 2007 05:43:31

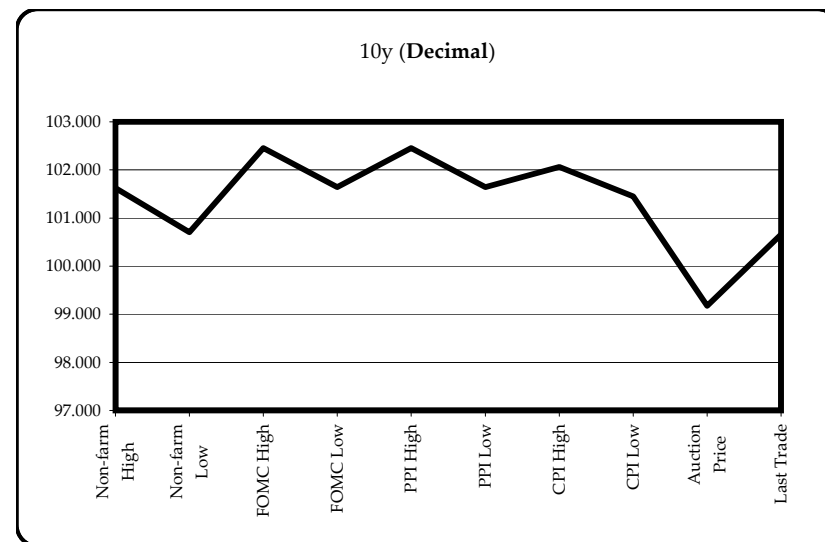
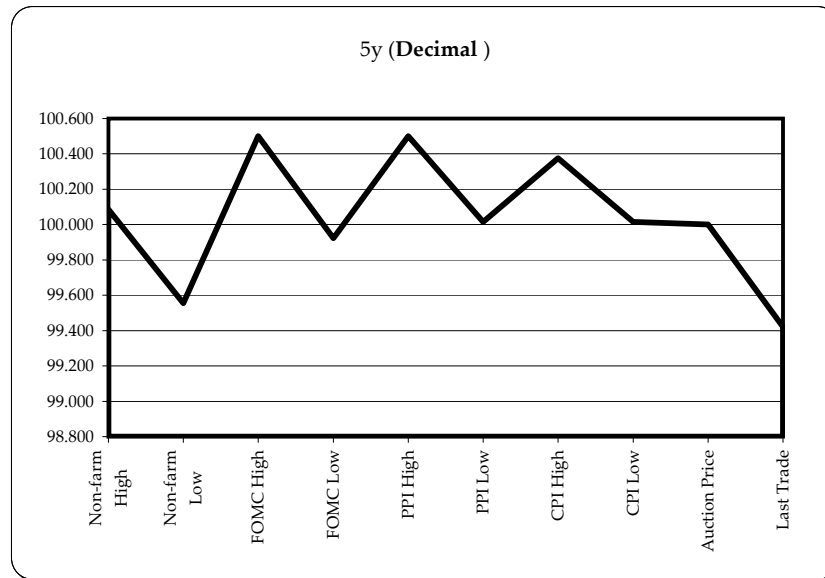


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	100.0275	101.200	109.160	111.30	10/5/2007
Non-farm Low	99.1775	100.225	108.210	110.15	10/5/2007
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	99.1350	100.210	108.190	110.17	10/11/2007 5:49

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	103.057	0.0	103.065	103.047	103.060	13,898	2y Fut
FVAZ7	106.125	(0.0)	106.150	106.110	106.140	37,861	5y Fut
TYAZ7	108.190	(0.0)	108.230	108.165	108.225	94,442	10y Fut
USAZ7	110.170	(0)	110.250	110.150	110.230	19,200	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.230	0.2	99.237	99.222	99.227	na	2y Cash
BUS05P	99.132	(1.2)	99.157	99.122	99.147	na	5y Cash
BUS10P	100.205	(3.5)	100.260	100.195	100.245	na	10y Cash
BUS30P	101.240	(8)	102.030	101.225	102.025	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.146	0.00	4.167	4.13	4.155	na	2y Yield
BUS05Y	4.381	1.10	4.393	4.361	4.375	na	5y Yield
BUS10Y	4.665	1.40	4.675	4.641	4.647	na	10y Yield
BUS30Y	4.884	1.70	4.893	4.863	4.872	na	30y Yield

Notes: SYM = Symbol

**All times Eastern****Yesterday:**

15:01 10/10 **US TSYS/RECAP:** Tsys ended mixed Wed amid 1) 2-way flows, weaker US stocks; 2) expected corporate rate-lock unwind bid as large deals price; 3) real money buying in longer Tsys; 4) some asset-allocation trades from US stocks into US Tsys; 5) was earlier heavy 2Y selling; 6) earlier front- end buying, deal-tied flows aided Tsys; 7) swap spreads tightened earlier amid higher Tsys, and amid MBS spread widening (profit-taking); 8) better buyers in 2Ys, 3Y, and scale buying in 3Y Eurodlr futures, w/ also real money buying 2Ys too; 9) earlier selling of 10Ys/buying MBS, selling 10Ys/buying older 10Ys; 10) morning flow had fast money selling in 10Ys, real money selling intermediates, which cd have been unwound in later uptick; 11) Tsys futures saw early selling futures/buying Bunds (while was some selling of Bunds/buying Tsys overnight); 12) MBS accts had earlier big buying in Eurodlr futures, while hedge funds sold at- money calls in Eurodlr options. 13) P.m. had modest front-end short-cvrg earlier amid weak stks, Greenspan credit rhetoric. 14) Vol depressed.

15:00 10/10 **US EURODLR/SWAPS:** Spds ended session tighter across the curve, the 2s/10s spd of spds still well inverted. Sources reported ongoing receiver-tied interest in the fronts to intermediates, buyers of Red packs (Dec08-Sep09) and 3yr bundles--related to ongoing corporate supply and return of healthy CMBS supply. Sources also reported some modest interest in steepener unwinds. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-1.25/69.50	-0.75/64.75	-0.50/62.00	-0.25/61.50
1:15	-0.75/70.00	-0.75/64.75	-0.50/62.00	-0.25/61.50
12:00	-1.00/69.75	-1.00/64.50	-0.75/61.75	-0.75/61.00
10:45	-0.75/70.00	-0.25/65.25	-0.25/62.25	+0.00/61.75
9:30	-0.50/70.25	+0.00/65.50	+0.00/62.50	+0.25/62.00
Wed Open	+0.00/70.75	+0.25/65.75	+0.00/62.50	+0.50/62.25
Wed 7:55	+0.00/70.75	+0.25/65.75	+0.00/62.50	+0.50/62.25
Tue 3:00	-0.75/70.75	-1.00/65.50	-0.25/62.50	+0.00/61.75

(cont)

**Overnight:**

04:39 10/11 **TSYS:** Treasuries are trading modestly lower in London Thursday, weighed by early weakness in the European government bond markets. However, traders say volumes are once again muted, with flows largely interdealer. Prices were modestly lower in Tokyo trade, with traders saying follow-through selling was seen after the ongoing weakness in the U.S. The belly of the curve lead the way lower, with both real money names seen selling the 5 and 10-year note. Unusually, Japanese names were seen as sellers of off-the-run 5-year paper. In London, prices continued to drift, although the move was more to do with market lethargy than any great trend. Real money names sold the 2 and 5-year note, with leveraged players outright sellers of the 10-year note. However, the 10-year did see light buying from cross-border trades, with saw 10-year Treasuries narrow over comparable Bunds. The Bund/T-note narrowed 1 bps on Wed's levels, with the spread standing at 34 bps.

04:38 10/11 **TSYS:** (2) Ahead of the U.S. session, the 2-yr note was trading 1/32 lower at 99 22/32 to yield 4.16%. The 10-yr note was 4/32 lower at 100 21/32 (4.67%), with the Bond 10/32 lower at 101 24/32 (4.89%). The 2-yr/5-yr yield curve was unchanged on Tuesday's levels, trading at +23 bps. The 2-/10-yr curve was also unchanged, trading at +51 bps. The 2-yr/30-yr curve was unchanged, standing at +73 bps.




08:05 10/10 **FED/Rosengren:** The Boston Fed Pres saying a further dip in house prices would hurt consumption more. Fin mkts are improved, but still seeing wider spreads, lower volume and subprime is likely to continue to have problems. Banks, he says in a speech text prepared for a Portland, Maine, appearance, must play a greater role in providing liquidity. See more on the MNI main wire.

12:23 10/10 **DOLLAR/CENTRAL BANKS:** With the dollar under pressure across the board in recent sessions, several central banks have been seen or rumored to have been seen, buying dollars to prevent their currency from appreciating at a too fast clip. As examples, in Asia, the Bank of Korea and MAS were said to have intervened, and in Latam, Banxico has been seen buying dollar-reals recently. Whether these central banks use the dollar proceeds to buy new US Treasuries will not be known until the October TICS report. August TICS data, due out next Tuesday, will be closely eyed. Since August was a month when global investors were racing to get out of their emerging market holdings, there was less need, if any, for central banks to intervene to prevent currency appreciation versus the dollar. July TICS showed that Brazil increased their Tsy holdings by \$11bn, Korea by \$0.7bn and Singapore by 0.3bn.

12:35 10/10 **US STOCKS: Carry trade** positioning (euro-yen, sterling-yen etc...) is being weighed by lower US stock prices as the Dow Jones Industrial Average slips over 100 pts lower (off 110 pts at 14,055 currently). The Nasdaq Composite is off less than a point and the S&P500 is down only 6 points. Traders say the DJIA is being hurt by Boeing (off 2.8%) which announced it would delay the deliveries on its 787 Dreamliners by 6 months after hitting assembly problems. Chevron also under pressure (off 1.8%) as it warns of lower Q3 earnings due out Nov 1.

13:04 10/10 **US TSYS/CORPS/MBS/RESEARCH:** Stone & McCarthy's Ward McCarthy says their U.S. Portfolio Survey showed "mixed" results as "measures of duration exposure slipped marginally into defensive territory, yet readings on market sentiment were steady to improved. After breaking into bullish territory for the first time in more than 2 years, the survey Spread Expectations Index slipped back into marginally bearish territory" but "changes in asset allocations were mixed, as Treasury allocations continued to slip, while Corporate, Agency and MBS allocations all edged higher. Spread product allocations rose to 69% of assets in the latest survey." He also added "despite the volatile and mixed readings on market sentiment, risk profiles edged into marginally defensive territory, but remain close to neutral." The Survey Mean Actual/Target Duration Ratio edged off from 100.1% of bogey to 99.8% of bogey, while the Asset-Weighted Actual/Target Duration Ratio declined to 99% from 100.1% of bogey.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.43	5.07	\$1,584	10.13	n/a
10y	7.74	2.51	\$785	5.03	n/a
5y	4.43	1.41	\$441	5.64	n/a
2y	1.87	0.60	\$187	2.39	n/a
ZB	9.85	3.53	\$110	3.53	1.1103
ZN	5.83	2.04	\$64	4.08	0.9069
ZF	3.92	1.34	\$42	2.68	0.9285
ZT	1.87	0.62	\$19	2.47	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	23.50	21.80	1.70
5/10	28.40	27.90	0.50
10/30	21.90	21.50	0.40
2/10	51.90	49.70	2.20
5/30	50.30	49.40	0.90
2/30	73.80	71.20	2.60

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**

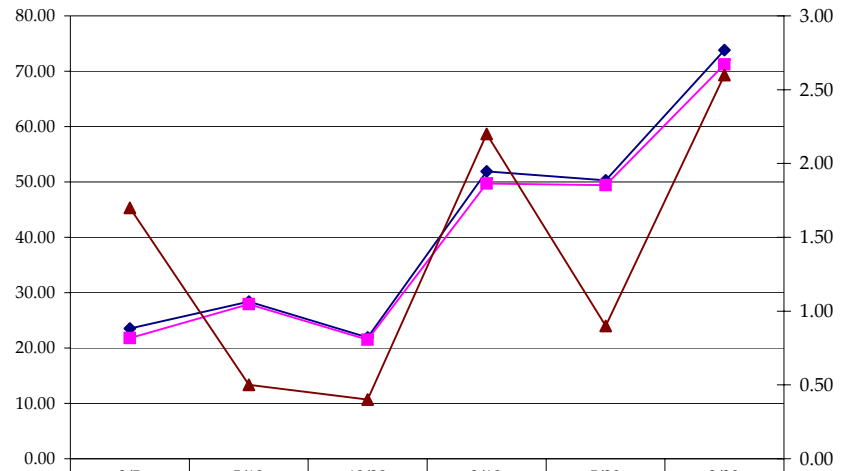
CF = Conversion Factor

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	23.50	28.40	21.90	51.90	50.30	73.80
2 PM Close	21.80	27.90	21.50	49.70	49.40	71.20
Diff	1.70	0.50	0.40	2.20	0.90	2.60

## 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		1.728	2.632	5.711
ZN	0.000		1.523	3.306
ZF	0.380	0.656		2.170
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	4.00	7.12	14.36
ZN	2.93	6.90	12.30	24.81
ZF	4.46	10.51	18.74	37.79
ZT	4.84	11.41	20.34	41.01

## 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		2.359	4.205	8.480
5y	0.432		1.815	3.659
10y	0.238	0.561		0.000
30y	0.118	0.278	0.496	

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	

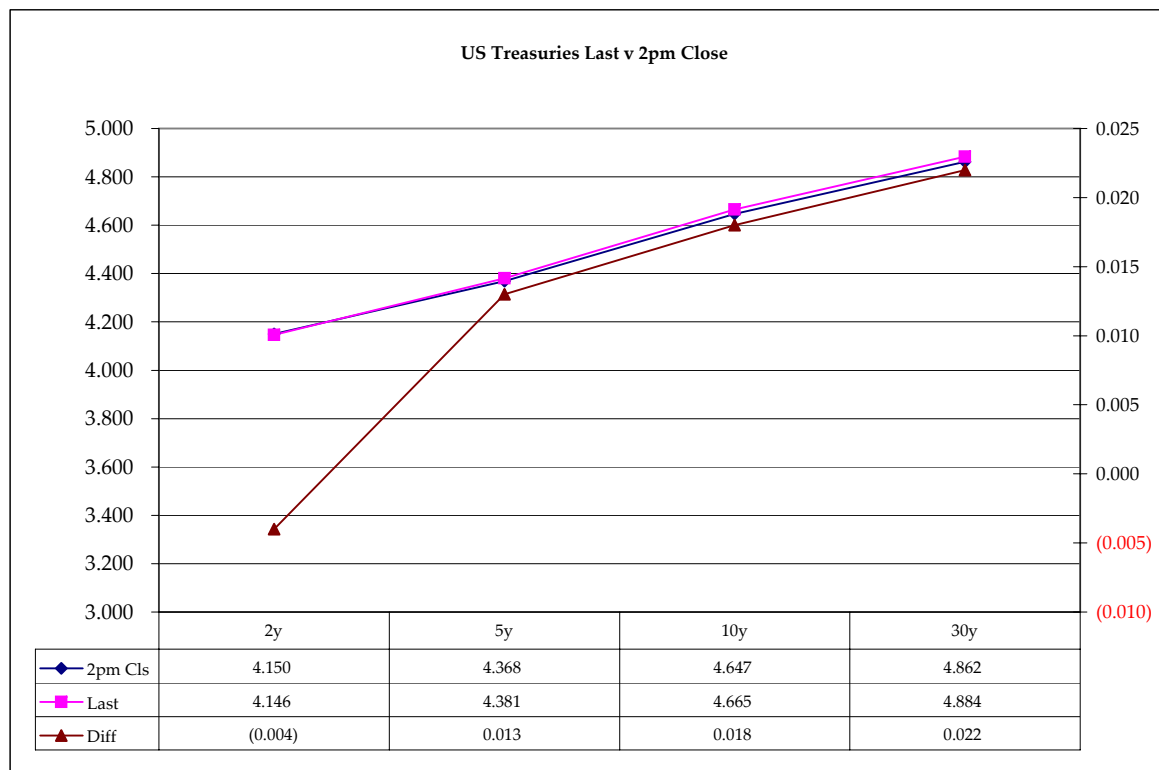
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	99.2300	4.150	4.146	(0.004)			
5y	4.125	8/31/12	99.1525	4.368	4.381	0.013	20.78	20.42	
10y	4.750	8/15/17	100.255	4.647	4.665	0.018	70.85	69.52	
30y	5.000	5/15/37	102.05	4.862	4.884	0.022	-667.01	-668.63	

	Close 32	Last
ZFZ7	106.140	106.125
ZNZ7	108.225	108.190
ZBZ7	110.25	110.170

Curve Spreads		
	Close bps	Last bps
2/5	21.8	23.5
5/10	27.9	28.4
10/30	21.5	21.9
2/10	49.7	51.9
5/30	49.4	50.3
2/30	71.2	73.8



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	\$187			
5	\$186	\$441		
10	\$190	\$449	\$785	
30	\$192	\$454	\$795	\$1,584
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$3)	(\$8)		
30	(\$5)	(\$14)	(\$9)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.30%			
10	-1.53%	-1.83%		
30	-2.70%	-2.99%	-1.18%	

**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	8.20
ZF	0.45	1.05	1.87	3.78
ZN	0.29	0.69	1.23	2.48
ZB	0.17	0.40	0.71	1.44

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.28	8.13	16.40
ZF	0.45	2.10	3.75	7.56
ZN	0.59	1.38	1.23	2.48
ZB	0.68	1.60	1.42	2.87

	2y	5y	10y	30y
2y	1.00	2.36	4.21	8.48
5y	0.42	1.00	1.78	3.59
10y	0.24	0.56	1.00	2.02
30y	0.12	0.28	0.50	1.00

	2y	5y	10y	30y
2y		2.36	2.10	4.24
5y	0.42		0.45	1.80
10y	0.48	2.24		2.02
30y	0.24	0.56	0.50	

	ZT	ZF	ZN	ZB
ZT	1.00	2.17	3.31	5.71
ZF	0.46	1.00	1.52	2.63
ZN	0.30	0.66	1.00	1.73
ZB	0.18	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.17	6.61	22.84
ZF	0.46		1.52	5.26
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