

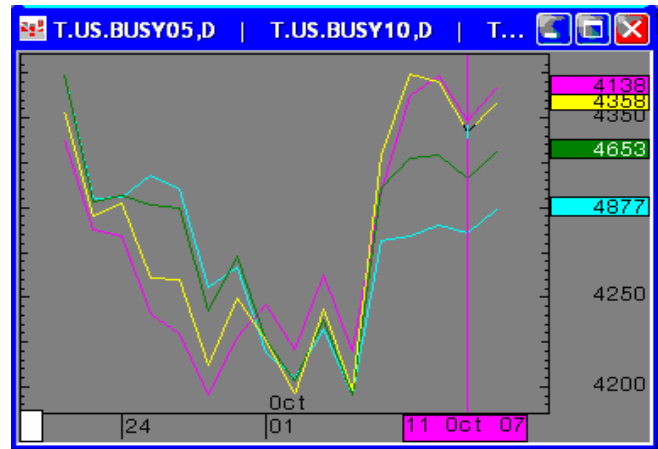


The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007

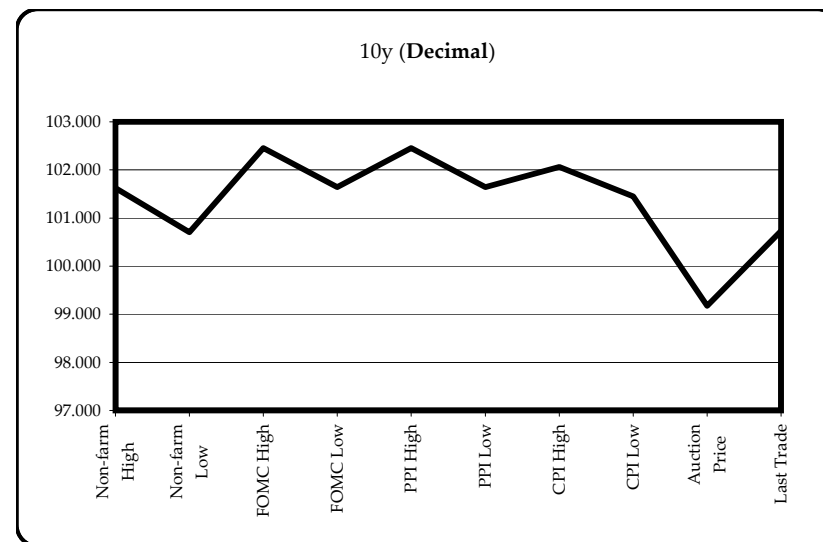
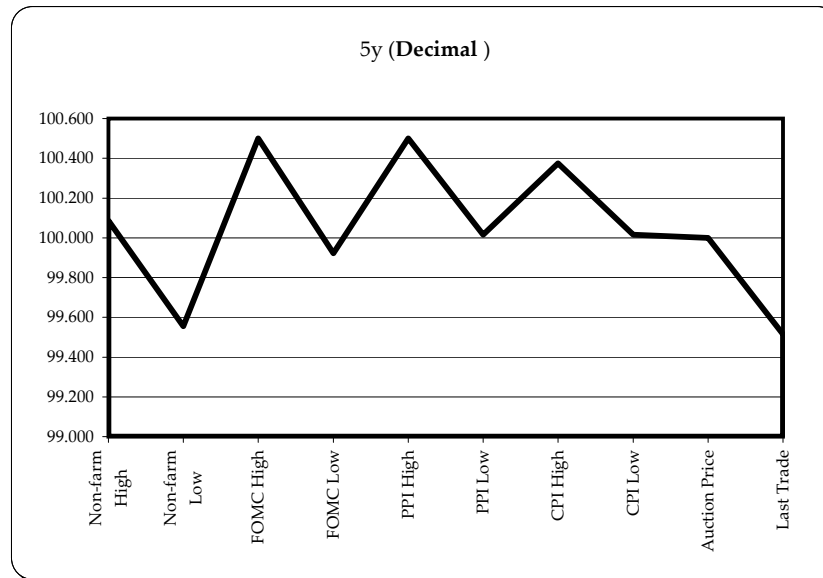
Fri Oct 12 2007 05:28:28



Want something added? Let me know: 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	99.1650	100.235	108.225	110.21	10/12/2007 5:39

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	103.060	0.0	103.080	103.060	103.077	15,208	2y Fut
FVAZ7	106.155	0.0	106.195	106.155	106.190	31,497	5y Fut
TYAZ7	108.225	0.0	108.270	108.220	108.260	86,331	10y Fut
USAZ7	110.210	0	110.280	110.210	110.280	14,530	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.232	(1.5)	99.250	99.235	99.245	na	2y Cash
BUS05P	99.162	(2.0)	99.195	99.162	99.185	na	5y Cash
BUS10P	100.235	(4.0)	100.285	100.235	100.275	na	10y Cash
BUS30P	101.275	(9)	102.045	101.285	102.020	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.134	1.70	4.151	4.105	4.143	na	2y Yield
BUS05Y	4.360	1.80	4.365	4.335	4.354	na	5y Yield
BUS10Y	4.653	1.50	4.659	4.631	4.645	na	10y Yield
BUS30Y	4.877	1.50	4.88	4.86	4.874	na	30y Yield

Notes: SYM = Symbol

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

15:35 10/11 **US TSYS/RECAP:** US Tsys market ended mainly higher after 1) sharp afternoon reversal higher, short-covering, after US stocks suddenly weakened (tech stocks esp. eyed: Apple, RIM, Yahoo, Google weaker after JPM trimmed revenue forecast on China's Baidu.com); 2) stocks worries as ECB Weber said may need to act in coming mos on inflation risk; 3) stk profit-taking on fear of retail sales 8:30am Fri 4) Corporate rate-lock unwinds in Tsys as Goldman priced US\$2B 5Y; 5) Earlier, had been quiet trade: leveraged accounts bought 5Y earlier, foreign central bank buying in 2Ys, leveraged buying either 2Ys or 10s, buy-and-hold accts buying 2Ys, some banks buy intermediates, and two-way morning flows too; 6) Was so-so US\$6B 9Y 9M TIPS auction (10Y TIPS reopening): 2.360% high yield, 37.4% indirect bid vs. 44% indirect at new 10Y TIPS auction in July; 7) US\$1.75B CMBS priced. 8) Earlier was selling around 308k US initial wky claims, +1% Sept. US import prices; also was lvrgrd 10Y, 2Y buying, 2-way flows in 5Ys; 9) Cash 10Y yld held key 4.70%, technically positive(More)

15:15 10/11 **US EURODLR FUTURES:** Eurodlr futures finished at or near session highs, front four outperform while Reds to Golds firm late on equity weakness, curve turns steeper after trading flatter most of the session. The Red/Gold pack spd was 1.125 bps steeper at 75.625 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 8.5 bps higher at 95-03.5 on combined Globex and pit volume of 340,000, the Mar08 9.0 bps higher at 95-29.5 on volume of 336,000, the Jun08 7.0 bps higher at 95-44.5 on volume of 311,000, while the Sep08 contract was 4.5 bps higher at 95-50.5 or volume of 311,000. The 2yr proxy Red pack (Dec08-Sep09), settled 0.5 to 2.5 bps higher across the pack with 729,000 contracts traded.

15:07 10/11 **US EURODLR/SWAPS:** Spds ended session tighter across the board, 2s/10s curve makes strides to move off inversion. Spds off tight after late slide in equities, FI mkts firm. Flows were 2-way on net in fronts to intermediates, curve flow 2-way as well. Early flow corp/CMBS driven while surprise low set in 1m LIBOR overnight provided initial impetus. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	-5.00/64.50	-1.75/63.00	-1.25/60.75	-1.75/59.75
12:20	-6.25/63.25	-2.75/62.00	-2.00/60.00	-2.75/58.75
11:40	-5.25/64.25	-2.25/62.50	-1.25/60.75	-2.00/59.50
10:40	-4.25/65.25	-2.00/62.75	-1.25/60.75	-1.50/60.00
10:00	-4.00/65.50	-1.75/63.00	-1.00/61.00	-1.25/60.25
9:00	-3.00/66.50	-1.25/63.50	-0.75/61.25	-0.75/60.75
Thu Open	-2.25/67.25	-1.50/63.25	-1.50/60.50	-1.50/60.00
Thu 7:35	-2.50/67.00	-1.25/63.50	-1.25/60.75	-1.25/60.25
Wed 3:00	-1.25/69.50	-0.75/64.75	-0.50/62.00	-0.25/61.50

(cont)

Overnight:

04:26 10/12 **TSYS:** Treasuries are trading modestly lower across the curve in London trade Friday, weighed by light profit-taking after late gains in the U.S. However, traders say the market still retains an underlying bid, with many players looking to square positions ahead of the retail sales data due later in the day. Prices inched lower in Tokyo trade, although flows were light and futures led. Real money names were better buyers of the 2-year sector for choice, with leveraged accounts looking to sell the belly of the curve. Flows were muted in London, with flows largely seen as interdealer book-squaring ahead of the data. Hot money names continued to unwind their cross boarder trades, although the Bund/T-note spread was little changed. The spread was flat on Thursday's levels, standing at 34 bps.

05:54 10/12 **CREDIT:** Credit crisis/liquidity issues have been making the rounds this morning amongst brokers and dealers, which has weighed marginally on the financial sector. Firstly, there appears to be renewed focus on house prices. In the UK this week, a couple of surveys have shown surprising weakness which has seen a reaction in FX and fixed income markets, but more limited impact in CDS. Financials traded off their best levels of the week, starting Thursday, although so far the widening is just a minor retracement (not helped by poor Countrywide mortgage stats yesterday). Also this morning the rumour that two Russian banks had to access the Russian central banks discount window spread through the money market very quickly. Although the talk was never confirmed, it did highlight continued event risk around the subject, although notably reaction to the rumour was very composed.



"From a purely technical perspective, we are looking at things -- 2s, TY, for instance -- testing the weak extremes of Sept. We'd don't want to be short against those extremes, but are open to a crack and would sell that for a QUICK momentum move. We note overnight that the curve STEEPENED into weakness and at the risk of reading too much into nothing this took place with stocks firmer. It might be a sign of increasingly limited interest in running against the grain of steepening AND that weak curve longs have largely exited the trade.

"**TACTICAL BIAS:** Our bias remains little changed -- we continue to favor the bullish steepener and continue to hold out for better positioning -- we are eyeing a move below 50 bps in 2s/10s before we consider RE-ENTRY. We continue to advocate letting the market test our key targets/level with its modest momentum and buying when those levels are hit. Clearly, this is a technical trade at this point as we, and the Fed, simply need more information to get either a lot more bullish or bearish"

RBSGC

David Ader, Head of Government Bond Strategy

Ian Lyngen, Strategist

Market Strategy Team

Treasury Requests Public Input on Regulatory Blueprint

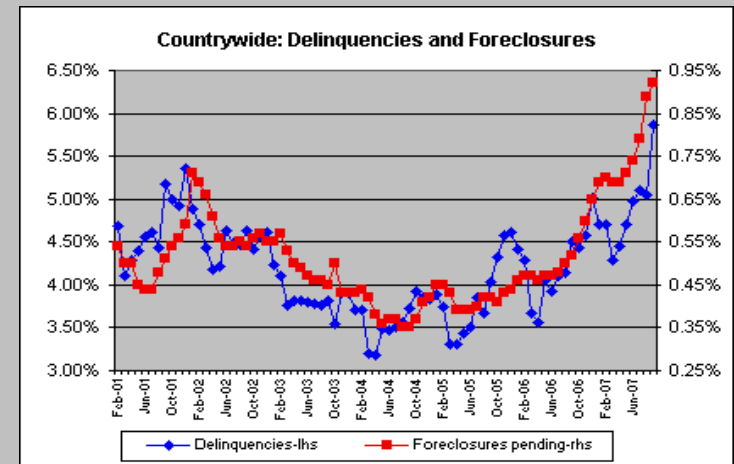
October 11, 2007

Washington- The Department of the Treasury today released a request for public input as it prepares a blueprint for an improved U.S. financial regulatory structure. Secretary Paulson first announced his plans to review and recommend improvements to the regulatory structure in June as part of his initiative to strengthen U.S. financial markets' ability to compete in the global economy.

-- Stone & McCarthy (Princeton) -- "On balance the **trade data** continue to reflect relative strength of US trading partners in comparison to domestic activity. A phenomenon that has been reinforced by the decline in the dollar, which is making US exports less expensive, and imports more expensive. These factors should result in a continued contribution to GDP in the quarters ahead. And will be quite apparent in the Q3-07 GDP data."

-- Stone & McCarthy (Princeton) -- The September **import price** index rose 1.0% overall, in line with our forecast, but was down 0.2% excluding petroleum. The index level has been moving in concert with oil prices for some time and remained consistent for the month.

--Stone & McCarthy (Princeton)--**Countrywide Financial** released its operational statistics for September this morning, and the report underscores how much mortgage lenders are pulling back. Overall loan fundings were down sharply, and nonprime lending all but evaporated. ARM fundings also fell sharply. Delinquency and foreclosure rates rose to record levels, even when calendar quirks are taken into consideration.



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.43	5.07	\$1,585	10.15	n/a
10y	7.74	2.51	\$786	5.03	n/a
5y	4.42	1.41	\$440	5.64	n/a
2y	1.86	0.60	\$186	2.38	n/a
ZB	9.85	3.53	\$110	3.53	1.1103
ZN	5.82	2.04	\$64	4.08	0.9069
ZF	3.91	1.34	\$42	2.68	0.9285
ZT	1.86	0.62	\$19	2.46	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	22.60	21.80	0.80
5/10	29.30	28.70	0.60
10/30	22.40	22.20	0.20
2/10	51.90	50.50	1.40
5/30	51.70	50.90	0.80
2/30	74.30	72.70	1.60

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

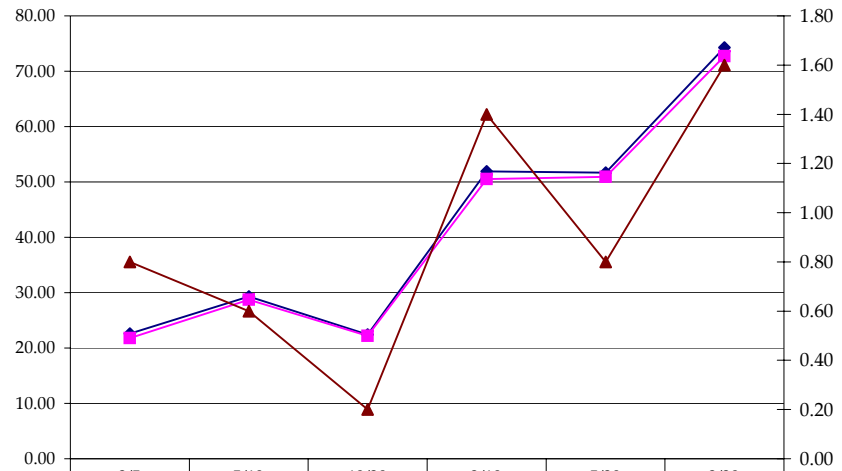
CF = Conversion Factor

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	22.60	29.30	22.40	51.90	51.70	74.30
2 PM Close	21.80	28.70	22.20	50.50	50.90	72.70
Diff	0.80	0.60	0.20	1.40	0.80	1.60

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		1.730	2.636	5.739
ZN	0.000		1.524	3.318
ZF	0.379	0.656		2.177
ZT	0.174	0.301	0.459	

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	7.12	14.36
ZN	2.92	6.90	12.31	24.84
ZF	4.44	10.52	18.76	37.86
ZT	4.84	11.45	20.42	41.21

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		2.367	4.222	8.521
5y	0.430		1.816	3.665
10y	0.237	0.561		0.000
30y	0.117	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	

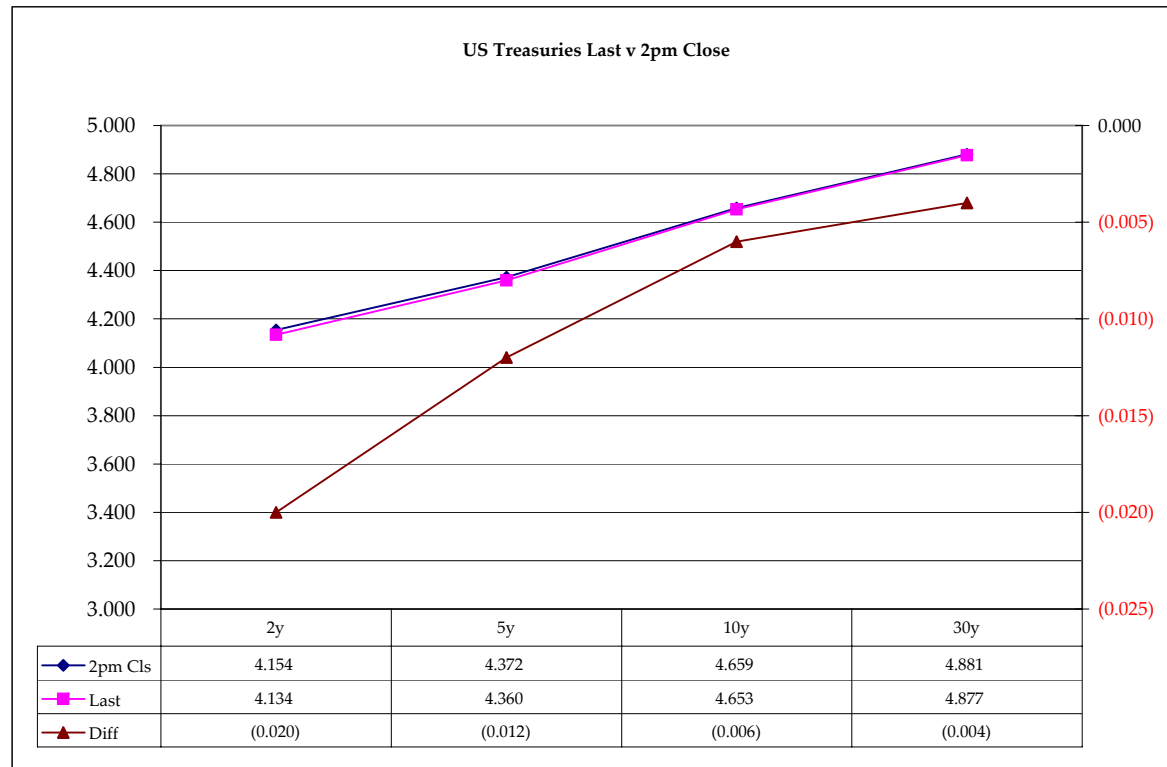
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	99.2275	4.154	4.134	(0.020)			
5y	4.125	8/31/12	99.1475	4.372	4.360	(0.012)	19.81	20.64	
10y	4.750	8/15/17	100.225	4.659	4.653	(0.006)	69.21	68.85	
30y	5.000	5/15/37	101.27	4.881	4.877	(0.004)	-671.46	-670.57	

	Close 32	Last
ZFZ7	106.145	106.155
ZNZ7	108.210	108.225
ZBZ7	110.20	110.210

Curve Spreads		
	Close bps	Last bps
2/5	21.8	22.6
5/10	28.7	29.3
10/30	22.2	22.4
2/10	50.5	51.9
5/30	50.9	51.7
2/30	72.7	74.3



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	\$186			
5	\$186	\$440		
10	\$189	\$449	\$786	
30	\$191	\$454	\$795	\$1,585
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$3)	(\$8)		
30	(\$5)	(\$13)	(\$9)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.21%			
10	-1.60%	-1.80%		
30	-2.76%	-2.96%	-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	2.29	4.08	8.24
ZF	0.44	1.05	1.88	3.79
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	2.29	8.17	16.48
ZF	0.44	2.10	3.75	7.57
ZN	0.58	1.38	1.23	2.48
ZB	0.67	1.60	1.42	2.87

	2y	5y	10y	30y
2y	1.00	2.37	4.22	8.52
5y	0.42	1.00	1.78	3.60
10y	0.24	0.56	1.00	2.02
30y	0.12	0.28	0.50	1.00

	2y	5y	10y	30y
2y		2.37	2.11	4.26
5y	0.42		0.45	1.80
10y	0.47	2.24		2.02
30y	0.23	0.56	0.50	

	ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.32	5.74
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		2.18	6.64	22.96
ZF	0.46		1.52	5.27
ZN	0.15	0.66		3.46
ZB	0.04	0.19	0.29	

October	avg target	400	425	450	475	500
10/4/2007	4.6%	0.4%	11.4%	49.9%	38.2%	0.0%
10/5/2007	4.6%	0.5%	3.3%	41.5%	54.7%	0.0%

December	avg target	375	400	425	450	475	500	525
10/4/2007	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