

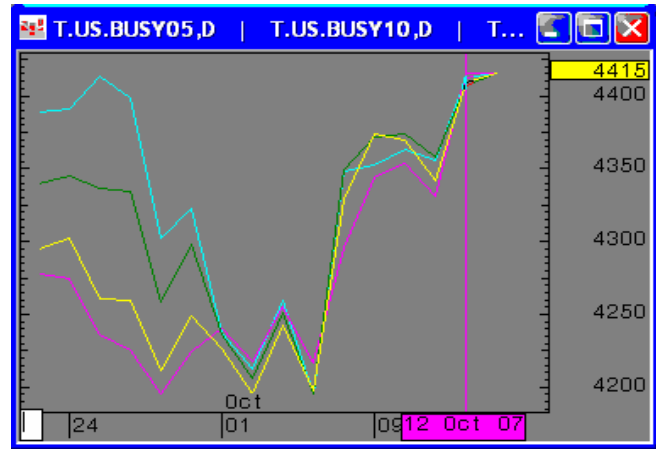


The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 Mon Oct 15 2007 05:46:42

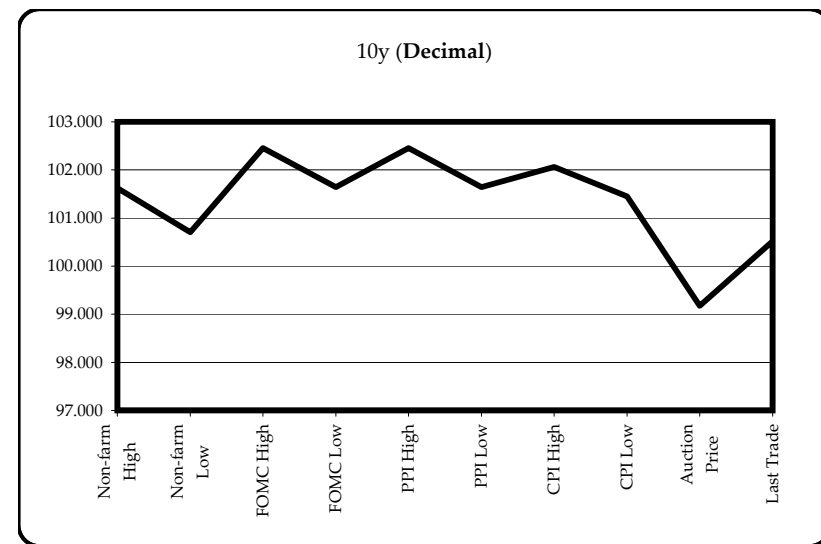
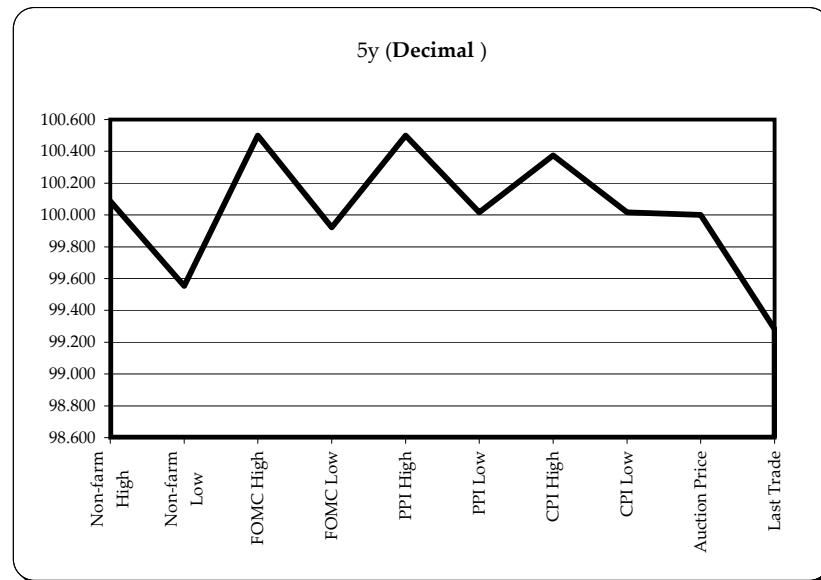


Want something added? Let me know: jgoulding@ghco.com

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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	99.0900	100.165	108.150	110.14	10/15/2007 5:59

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	103.007	(0.0)	103.015	103.000	103.002	17,825	2y Fut
FVAZ7	106.080	(0.0)	106.095	106.065	106.075	33,404	5y Fut
TYAZ7	108.150	(0.0)	108.170	108.125	108.130	80,849	10y Fut
USAZ7	110.140	0	110.160	110.080	110.100	12,931	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.182	0.0	99.190	99.180	99.182	na	2y Cash
BUS05P	99.087	(0.2)	99.097	99.072	99.077	na	5y Cash
BUS10P	100.165	0.0	100.180	100.140	100.160	na	10y Cash
BUS30P	101.175	2	101.205	101.115	101.120	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.227	0.00	4.244	4.197	4.244	na	2y Yield
BUS05Y	4.413	0.40	4.429	4.404	4.42	na	5y Yield
BUS10Y	4.681	0.40	4.697	4.673	4.685	na	10y Yield
BUS30Y	4.898	(0.10)	4.916	4.892	4.903	na	30y Yield

Notes: SYM = Symbol

**All times Eastern****Friday:**

15:04 10/12 **US TSYS/RECAP:** Tsys end choppy Fri lower after 1) early fall on varied selling in 10s, leveraged acct selling in 2Ys on 1.1% Sept PPI (though tame core 0.1%) and higher than expected 0.6% Sept retail sales. 2) But that got followed by banks buying 5ys, and then bond-friendly Univ. of Mich data: lower 82 Oct prelim vs. 83.4 Sept, 1Y inflation expectations at 3%. 3) Midmorning, there was light mixed flow by foreign central banks, buy-and-hold acct bid in 3Ys, bank 10Ys buyings, also Street selling in 5Ys, the lvrgrd accts bought there. 4) Tsys hurt later in day by US stocks gains, delayed reaction to Bund declines, corporate rate-lock selling, some doing 5Y/10Y steepeners (after many unwound 2Y/10Y steepeners earlier, though that remains a crowded trade as some still need to adjust after diminished rate cut hopes.) 5) While much weaker earlier, ABX indices managed to cut losses a bit, late, but then began to weaken anew late in the day. 6) There was light European central bank buying in 10Ys today, and some day shorts covered. 7) But big thing might be what's next: Monday's 7pm ET Fed Bernanke speech.

15:10 10/12 **US EURODLR FUTURES:** Eurodlr futues finished at or near session lows as the curve bear flattened, the Dec contract near steady. The Red/Gold pack spd was 4.75 bps flatterer at 69.50 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 0.5 bps higher at 95-04 on combined Globex and pit volume of 260,000, the Mar08 5.5 bps lower at 95-24 on volume of 323,000, the Jun08 8.0 bps lower at 95-36.5 on volume of 280,000, while the Sep08 contract was 8.0 bps lower at 95-42.5 on volume of 287,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.5 to 8.0 bps lower across the pack with 644,000 contracts traded.

15:02 10/12 **US EURODLR/SWAPS:** Spds ended session well off early tight--5s to 30s widening in the last hour, while the 2s/10s spd of spds continued to move off inversion as the front end remained tighter by the bell. Apparently focused on continued LIBOR compression, spds continued to improve despite relatively light swap-tied flows, sources said. Paying-tied flow in the front end early, a NY dealer sold 500 Reds (Dec08-Sep09) at -3.25, while swap-tied acts bought 5s versus selling 30s. Possible additional paying came from real money as an acct sold 10-yr and 30-yr Tsy futures, both mtg related. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Fri 3:00	-0.75/63.75	+1.00/63.75	+1.00/61.75	+1.00/60.75
1:15	-0.75/63.75	-0.25/62.50	-0.50/60.25	-0.25/59.50
10:30	-2.75/61.75	-1.00/61.75	-1.00/59.75	-1.00/58.75
9:20	-2.50/62.00	-0.75/62.00	-0.75/60.00	-0.75/59.00
Fri Open	-1.00/63.50	-0.50/62.25	-0.75/60.00	-1.00/58.75
Thu 3:00	-5.00/64.50	-2.00/62.75	-1.25/60.75	-1.75/59.75

(cont)

Overnight:

05:18 10/15 **CREDIT:** A big talking point of the morning has been the report that large US banks are about to announce/set up a super conduit that would be able to absorb any fire sale type situation that might arise from ongoing credit crises problems. The US treasury has reportedly been talking with Citigroup, Bank of America and JP Morgan about setting up the super-conduit as the Treasury pushed the banks for a private sector solution to recent liquidity problems. there is speculation that the fund size could reach \$100bln, however details are very sketchy. Whether the fund will take CDO/CLO structures and indeed, at what price is unclear with the market unlikely to see too much bullish reaction until these issues are known. Some analysts also point out that the move may be aimed more at ensuring US mortgage market liquidity does not dry up, rather than a means to bail out over-leveraged funds.

05:17 10/15 **CREDIT:2**, The situation remains vague, however on the face of it the super conduit should free up the balance sheets of the 3 banks involved, who would then be able to theoretically start using this capital to kick start the market again. It should be noted that despite the talk, which started last Friday high beta ABX indices all finished on new lows for the year, with higher grade tranches also seeing a renewed downturn. There have already been rumours of European banks setting up a similar fund to Aid European liquidity problems, although banks have been fast to deny such talk this morning.




09:59 10/12 **US DATA REACT:** From RBSGC: "It does not appear that there has been any dramatic shift in underlying spending patterns. Depending on the behavior of gasoline prices, the weather, and other key variables going forward, our sense is that consumer spending was tepid in September, may remain lackluster for another month or two in the fall, then get back to "normal" by around the turn of the year."

09:28 10/12 **US DATA REACT:** Economists at Nomura say on close inspection, retail sales were not strong: "Strong sales growth at gasoline (2.0%) food (+0.8%) stores accounted for about 75% of the growth in non-auto retail sales. Data from the PPI report showing big increases in both gasoline and food prices suggests most if not all of those sales gains reflected the impact of higher prices rather than increased consumption." They say the data "reinforce the presumption that higher prices of food and energy and a bit gloomier mood about the economy are cutting into discretionary spending" and they note more aggressive retail pricing will lower sales further.

12:08 10/12 **US FI VOL:** Implieds continue to notch lower on the range, some say "reaching oversold" levels as they look to buy vol now on further dips. Given move higher in yields and speculation of when (note: not if) rates will ease, others say vol is not a sale anymore as credit-tied issues/challenges for US economy remain. Anecdotal evidence, one fund that has profited by being short massive amounts of Tsy vol since the Fed eased, has been a scale buyer in the past week while a second scale seller of vol has begun buying OTM Tsy calls. On the other side of the coin, Morgan Stanley strategists suggest being short gamma as "near-term risk dynamics are not properly discounting for the possibility of a less active Fed and economic rebound in 4Q." Relating to OTC swaptions, Morgan Stanley said "though there has been some correction, short expiry volatility on short tails are still trading at too dear a premium to longer expiries on longer tails."

Inferences for Q3 GDP:

Following the previous day's print of a narrower trade deficit for August, we raised our estimate for the advance report of Q3 real GDP growth to 3.5%, up about 1% from our previous estimate. The retail control group, which is total sales excluding autos and building materials, rose by 5.6% in September and is up 4.6% for Q3. These data are still consistent with our forecast of +3.5% for Q3 real GDP.

"Despite, the larger than expected increase in the headline September retail sales report this is not a strong report. Indeed, a careful study of the data reveals troublesome indications that the housing and mortgage market turmoil has been increasingly apparent at retail establishments." **Ray Stone, PhD**

The September **PPI** data present some upside risks for the **CPI** report. However our forecast for consumer prices remains for an increase of 0.3% overall and a 0.2% rise at the core. --Terry Sheehan

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.41	5.05	\$1,578	10.10	n/a
10y	7.73	2.51	\$783	5.01	n/a
5y	4.41	1.40	\$439	5.62	n/a
2y	1.86	0.59	\$185	2.37	n/a
ZB	9.84	3.52	\$110	3.52	1.1103
ZN	5.82	2.04	\$64	4.07	0.9069
ZF	3.90	1.34	\$42	2.67	0.9285
ZT	1.86	0.61	\$19	2.45	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	18.60	19.00	(0.40)
5/10	26.80	27.40	(0.60)
10/30	21.70	21.90	(0.20)
2/10	45.40	46.40	(1.00)
5/30	48.50	49.30	(0.80)
2/30	67.10	68.30	(1.20)

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

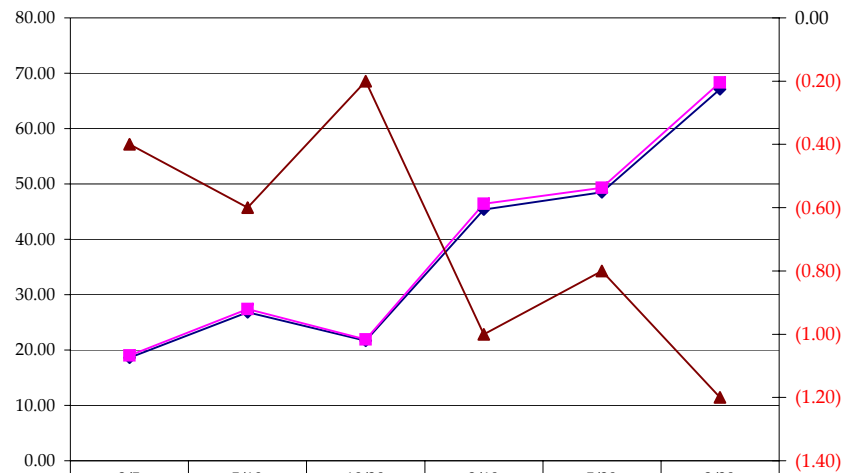
CF = Conversion Factor

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



◆ Last	18.60	26.80	21.70	45.40	48.50	67.10
■ 2 PM Close	19.00	27.40	21.90	46.40	49.30	68.30
▲ Diff	(0.40)	(0.60)	(0.20)	(1.00)	(0.80)	(1.20)

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 Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.68	3.99	7.12	14.34
ZN	2.91	6.90	12.31	24.80
ZF	4.44	10.52	18.77	37.81
ZT	4.84	11.45	20.43	41.15

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.730	2.637	5.740
ZN	0.000		1.524	3.318
ZF	0.379	0.656		2.177
ZT	0.174	0.301	0.459	

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

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

	2y	5y	10y	30y
2y		2.368	4.225	8.510
5y	0.430		1.816	3.659
10y	0.237	0.560		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	263,840	236,695	27,145	399,275	236,387	162,888	1,057,302	1,247,335	(190,033)	ZF
ZN	339,411	435,116	(95,705)	693,307	336,719	356,588	1,680,651	1,941,535	(260,884)	ZN
ZB	151,149	185,954	(34,805)	111,633	164,981	(53,348)	735,791	647,640	88,151	ZB

WoW^ Position Change				
	Sml Spec	Lrg Spec	Comm	As of
	Net	Net	Net	
ZF	(19,921)	(29,160)	49,081	10/9/2007
ZN	(23,687)	(56,912)	80,598	
ZB	(8,283)	9,454	(1,173)	

^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	99.1875	4.221	4.227	0.006			
5y	4.125	8/31/12	99.0925	4.411	4.413	0.002	19.89	20.10	
10y	4.750	8/15/17	100.160	4.685	4.681	(0.004)	68.15	68.65	
30y	5.000	5/15/37	101.16	4.904	4.898	(0.006)	-674.08	-673.30	

	Close 32	Last
ZFZ7	106.085	106.080
ZNZ7	108.150	108.150
ZBZ7	110.12	110.140

Curve Spreads		
	Close bps	Last bps
2/5	19.0	18.6
5/10	27.4	26.8
10/30	21.9	21.7
2/10	46.4	45.4
5/30	49.3	48.5
2/30	68.3	67.1



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	\$185			
5	\$185	\$439		
10	\$188	\$447	\$783	
30	\$190	\$452	\$792	\$1,578
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$3)	(\$8)		
30	(\$5)	(\$13)	(\$9)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.29%			
10	-1.54%	-1.82%		
30	-2.60%	-2.88%	-1.08%	

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	8.23
ZF	0.44	1.05	1.88	3.78
ZN	0.29	0.69	1.23	2.48
ZB	0.17	0.40	0.71	1.43

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.29	8.17	16.46
ZF	0.44	2.10	3.75	7.56
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	8.51
5y	0.42	1.00	1.78	3.59
10y	0.24	0.56	1.00	2.01
30y	0.12	0.28	0.50	1.00

	2y	5y	10y	30y
2y		2.37	2.11	4.25
5y	0.42		0.45	1.80
10y	0.47	2.24		2.01
30y	0.24	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
10/10/2007	4.7%	0.0%	3.6%	30.6%	65.6%	0.0%
10/11/2007	4.6%	0.0%	4.6%	32.6%	62.7%	0.0%

December	avg target	375	400	425	450	475	500	525
10/10/2007	4.5%	2.1%	1.3%	22.6%	41.1%	29.2%	3.2%	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