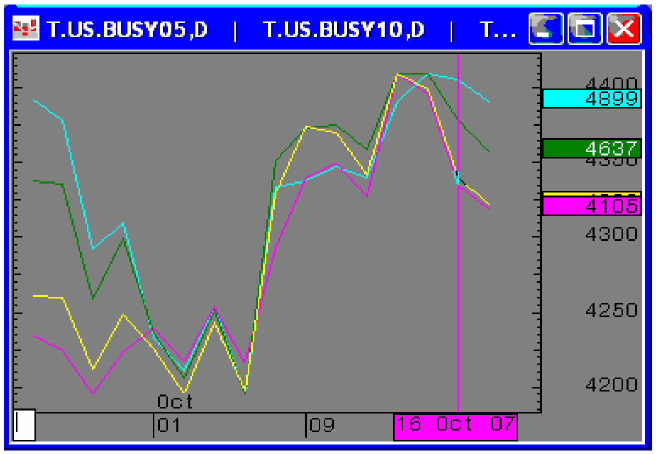
10/17/2007 5:42

The Morning Email: Treasuries

Table of Contents

Daily Yield Curve



Source: CQG, Inc. © 2007 Wed Oct 17 2007 05:41:39

30y	10y	5y	2y

Important Econ Releases, Highs & Lows

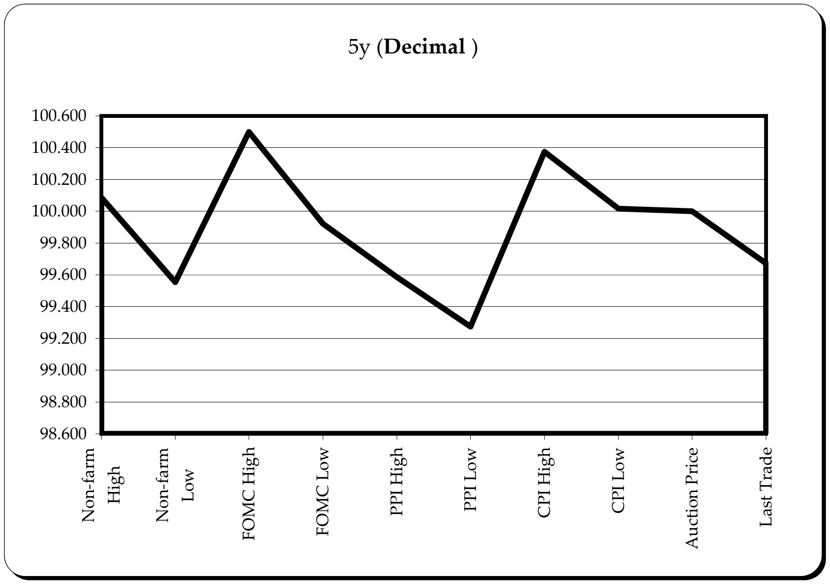
Economic Releases - 32nds

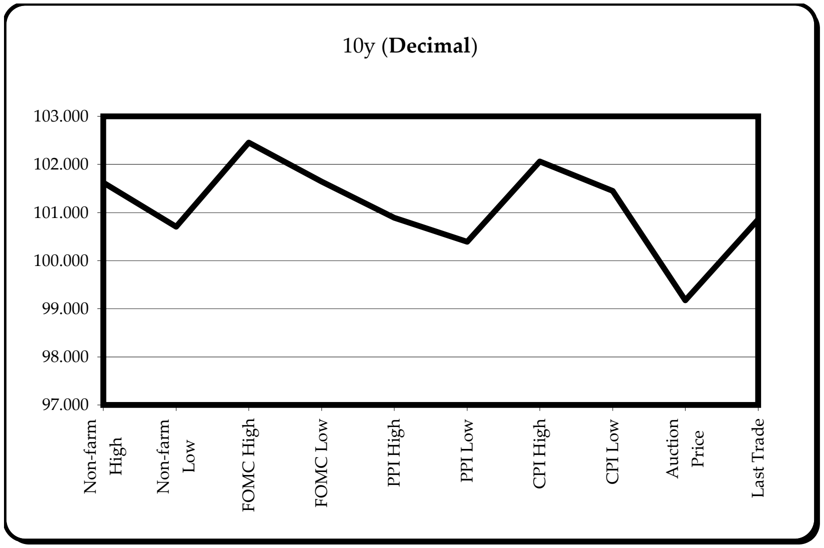
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	100.0275	101.200	109.160	111.30	10/5/2007
Non-farm Low	99.1775	100.225	108.210	110.15	10/5/2007
FOMC High	100.1600	102.145	110.300	112.30	9/18/2007
FOMC Low	99.2950	101.205	109.115	111.27	9/18/2007
PPI High	99.1875	100.285	108.260	110.31	10/12/2007
PPI Low	99.0875	100.125	108.120	110.05	10/12/2007
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	99.2150	100.275	108.285	110.20	10/17/2007 5:42

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	103.085	0.0	103.102	103.055	103.057	25,353	2y Fut
FVAZ7	106.215	0.0	106.260	106.170	106.185	47,600	5y Fut
TYAZ7	108.285	0.0	109.020	108.240	108.255	125,665	10y Fut
USAZ7	110.200	0	110.260	110.130	110.150	15,935	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.255	1.5	99.275	99.240	99.240	na	2y Cash
BUS05P	99.212	2.0	99.252	99.177	99.180	na	5y Cash
BUS10P	100.275	4.0	101.005	100.225	100.235	na	10y Cash
BUS30P	101.170	5	101.240	101.135	101.135	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.105	(2.10)	4.151	4.067	4.135	na	2y Yield
BUS05Y	4.322	(1.80)	4.354	4.294	4.338	na	5y Yield
BUS10Y	4.637	(1.60)	4.663	4.615	4.647	na	10y Yield
BUS30Y	4.898	(1.10)	4.918	4.881	4.902	na	30y Yield

Notes: SYM = Symbol

All times Eastern

15:02 10/16 **US TSYS/RECAP:** Tsys end Tues just off highs after 1) weaker 18 Oct. NAHB, 2) slumping stocks, 3) some feeling economy is going to see more weakness and so Fed could do some rate cut(s) at some point. 4) There could be still corporate-tied bid to Tsys as unwinds of rate-lock sales should occur amid still large deals left to price today, esp. 5Ys.5) Morning flow were muted and 2-way, afternoon flows basically the same type. 6) Tsys traders downplayed weak Aug. TICS weakness, some say Japan let some Tsys holdings mature and did not immediately replace, but replacd in Sept; some noted choppy stks in Aug. and said was not surpriing to see a decline in foreigners' holdings. 7) Buy-hold account buying in 3Ys, similar selling in intermeidates, while 5s draw levrgd bid (vs 10s) and financial institution bid too. 8) Morning had sell Dec German Bunds/buy US Tsys trade; 2-way flow: foreign central bank modest selling in 2Ys, 5Ys, though buy-and-hold bid in 10Ys, similar selling 2Ys. 9) Active US corp. issuance 10) Wed 8:30am ET Sept CPI, hsg starts.

15:07 10/16 **US EURODLR FUTURES**: Eurodlr futures finished at or near session highs, curve rebounds from last Fri's bear flattening, the Red/Gold pack spd 4.0 bps steeper at 75.75 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was 3.0 bps higher at 95-07.5 on combined Globex and pit volume of 162,000, the Mar08 6.5 bps higher at 95-31.5 on volume of 207,000, the Jun08 7.0 bps higher at 95-46 on volume of 257,000, while the Sep08 contract was 7.5 bps higher at 95-53 on volume of 245,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.0 to 7.5 bps higher across the pack with 560,000 contracts traded.

15:03 10/16 **US EURODLR/SWAPS**: Spds ended session mixed, the 2s/10s spd of spds re-inverting w/near end underperforming as credit-tied fears increased overnight. Sources confirmed a Chicago FCM was a scale seller of 800 Eurodollar 2-year bundles early, possibly in anticipation of increased corporate supply they said. Treasury sources reported some modest two-way on spread in the fronts to intermediates while staunch steepener holders took heart on the early Tsy curve expansion. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+1.50/64.25	+0.25/64.25	+0.00/63.00	-0.50/61.25
12:45	+1.50/64.25	+0.00/64.00	+0.25/63.25	-0.25/61.50
10:50	+1.50/64.25	+0.25/64.25	+0.50/63.50	-0.25/61.50
10:15	+1.75/64.50	+0.50/64.50	+0.50/63.50	-0.25/61.50
9:20	+1.75/64.50	+0.50/64.50	+0.50/63.50	+0.25/62.00
Tue Open	+1.75/64.50	+0.50/64.50	+0.50/63.50	+0.25/62.00
Tue 7:55	+1.50/64.25	+0.25/64.25	+0.50/63.50	+0.25/62.00
Mon 3:00	-1.00/62.75	+0.25/64.00	+1.25/63.00	+1.00/61.75

(cont)

05:15 10/17 **TSYS:** Treasuries are trading modestly higher across the board in London trade Wednesday, building on gains seen in the U.S. overnight. However, prices were tied to narrow trading ranges, with little in the way of fresh trading incentives. Prices were better bid from the getgo in Tokyo, helped by light follow-through buying and stronger JGBs. An early uptick in US stock index futures, helped by the afterhours earnings releases from Yahoo! and Google, failed to dampen the strength in Treasuries. London saw prices continue to edge higher, with light buying seen from real money accounts and leveraged names. But overall flows were low and largely seen as interdealer. The Bund/T-note spread was little changed on overnight levels, standing at 28 bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 higher at 99 25/32 to yield 4.12%. The 10-yr note was 2/32 higher at 100 27/32 (4.64%), with the Bond 2/32 higher at 103 31/32 (4.90%). The 2-/10-yr curve was unchanged, trading at +52 bps.

MarketNews international

10:20 10/16 **US DATA REACT:** Analyst Tony Crescenzi of Miller, Tabak says Aug TICS means "foreign investors were net sellers of $69.3 billion of U.S. securities during the month" but this was "fits with the performance of the U.S. stocks, credit securities, and the dollar in August, a harrowing month that would not have turned out as it did if foreigner investment had continued at its normal pace. This is what makes the estimates for $60 billion in inflow difficult to understand; the performance of the markets tipped it off. Looking forward, in light of the strong performance of the U.S. securities markets in September, inflows of foreign capital likely resumed." He points out Japan's $24.8 billion sale of U.S. Treasuries and notes despite this yields remained low in the face of Fed ease.

Stone & McCarthy RESEARCH ASSOCIATES

"September **industrial production** rose by 0.1% while August industrial production was revised lower to no change from the previously reported rise of 0.2%. Given the somewhat large downward revision to the August data, industrial output is on a softer track than what was thought previously.

"....There is supporting evidence that some single economic indicators, such as industrial production, do nearly as well as the Chicago Fed's National Activity Index in detecting oncoming recessions. For industrial production, the threshold is -1 standard deviation below the long-term mean as a **possible signal point of the U.S. economy having entered a recession.** In September, the standardized measure of the 3-month moving average of industrial production was 0.0, right in line with its long-term mean. In August, the corresponding measure was +0.3 SD and in July, +0.2 SD." ---Ken Kim
[my emphasis]

Duration, DV01s, Curve Spreads, CF

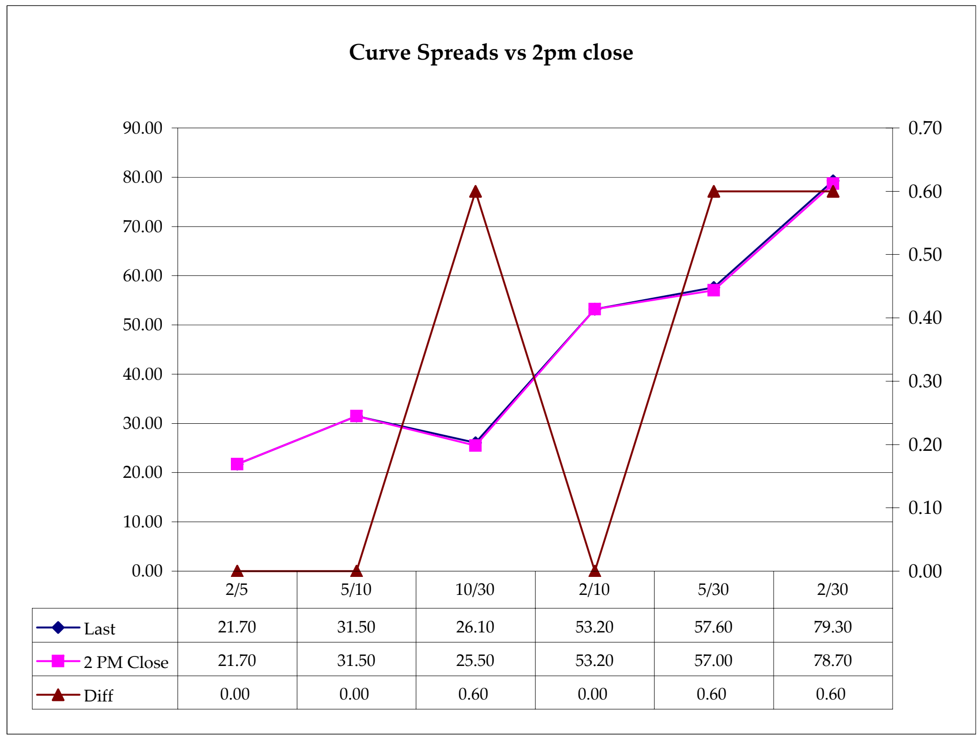
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.40	5.05	$1,577	10.09	n/a
10y	7.73	2.52	$786	5.03	n/a
5y	4.41	1.41	$441	5.64	n/a
2y	1.85	0.59	$185	2.37	n/a
ZB	9.84	3.53	$110	3.53	1.1103
ZN	5.82	2.04	$64	4.09	0.9069
ZF	3.90	1.34	$42	2.68	0.9285
ZT	1.85	0.61	$19	2.45	0.9569

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.

Yield Curve Spreads

	Last	2pm close	Diff
2/5	21.70	21.70	0.00
5/10	31.50	31.50	0.00
10/30	26.10	25.50	0.60
2/10	53.20	53.20	0.00
5/30	57.60	57.00	0.60
2/30	79.30	78.70	0.60



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

Hedge Ratio's

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		1.726	2.631	5.749
ZN	0.000		1.525	3.331
ZF	0.380	0.656		2.185
ZT	0.174	0.300	0.458	

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	4.00	7.13	14.31
ZN	2.90	6.90	12.31	24.69
ZF	4.43	10.52	18.77	37.65
ZT	4.84	11.49	20.50	41.13

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		2.376	4.239	8.504
5y	0.429		1.817	3.644
10y	0.236	0.560		0.000
30y	0.118	0.279	0.498	

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.

Commitment of Traders (COT)

	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	
	Net	Net	Net	As of
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 Close	Basis Last	Roll
2y	4.000	9/30/09	99.2450	4.125	4.105	(0.020)			
5y	4.125	8/31/12	99.1900	4.342	4.322	(0.020)	19.89	20.07	
10y	4.750	8/15/17	100.230	4.657	4.637	(0.020)	65.63	67.41	
30y	5.000	5/15/37	101.12	4.912	4.898	(0.014)	-679.19	-680.96	

	Close 32	Last
ZFZ7	106.190	106.215
ZNZ7	108.255	108.285
ZBZ7	110.13	110.200

Curve Spreads

	Close bps	Last bps
2/5	21.7	21.7
5/10	31.5	31.5
10/30	25.5	26.1
2/10	53.2	53.2
5/30	57.0	57.6
2/30	78.7	79.3

	2y	5y	10y	30y
2pm Cls	4.125	4.342	4.657	4.912
Last	4.105	4.322	4.637	4.898
Diff	(0.020)	(0.020)	(0.020)	(0.014)

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%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$185**			
5	$185	**$441**		
10	$189	$449	**$786**	
30	$190	$452	$792	**$1,577**

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.

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	$0			
10	($3)	($8)		
30	($4)	($11)	($6)	

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.

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.13%			
10	-1.66%	-1.78%		
30	-2.36%	-2.48%	-0.71%	

Tic for Tic & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	0.97	2.30	4.10	8.23
ZF	0.44	1.05	1.88	3.76
ZN	0.29	0.69	1.23	2.47
ZB	0.17	0.40	0.71	1.43

	2y	5y	10y	30y
2y	1.00	2.38	4.24	8.50
5y	0.42	1.00	1.78	3.58
10y	0.24	0.56	1.00	2.01
30y	0.12	0.28	0.50	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.33	5.75
ZF	0.46	1.00	1.52	2.63
ZN	0.30	0.66	1.00	1.73
ZB	0.17	0.38	0.58	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.97	2.30	8.20	16.45
ZF	0.44	2.10	3.75	7.53
ZN	0.58	1.38	1.23	2.47
ZB	0.67	1.60	1.43	2.86

	2y	5y	10y	30y
2y		2.38	2.12	4.25
5y	0.42		0.45	1.79
10y	0.47	2.24		2.01
30y	0.24	0.56	0.50	

	2y	5y	10y	30y
ZT		2.18	6.66	22.99
ZF	0.46		1.52	5.26
ZN	0.15	0.66		3.45
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

October	avg target	400	425	450	475	500
10/12/2007	4.7%	0.4%	3.7%	24.6%	71.3%	0.0%
10/15/2007	4.7%	0.0%	3.1%	27.2%	69.6%	0.0%

December	avg target	375	400	425	450	475	500	525
10/12/2007	4.6%	0.5%	3.8%	13.3%	40.5%	40.0%	1.8%	0.0%
10/15/2007	4.6%	0.4%	2.7%	14.2%	36.6%	44.2%	1.6%	0.3%

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