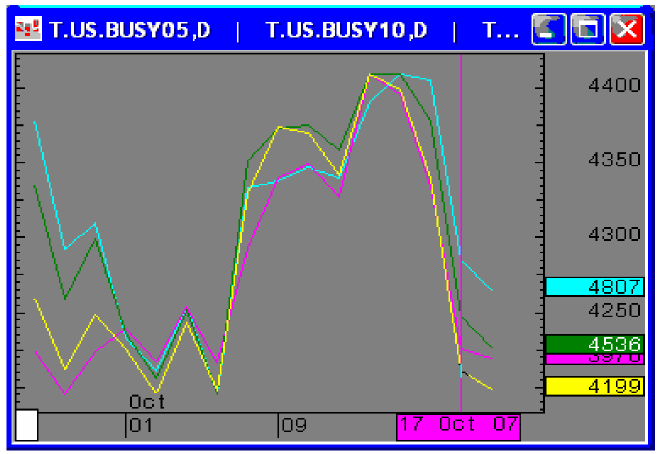
10/18/2007 5:52

The Morning Email: Treasuries

Table of Contents

Daily Yield Curve



Source: CQG, Inc. © 2007 Thu Oct 18 2007 05:37:10

30y	10y	5y	2y

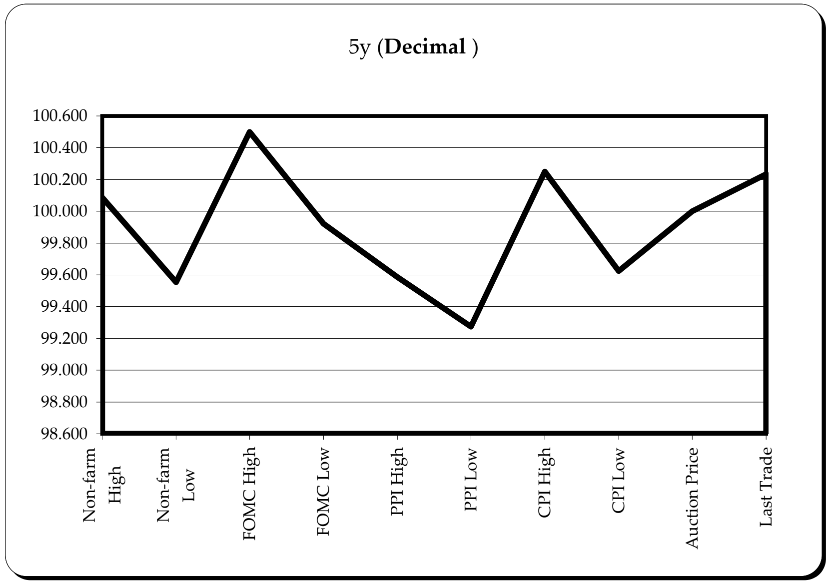
Important Econ Releases, Highs & Lows

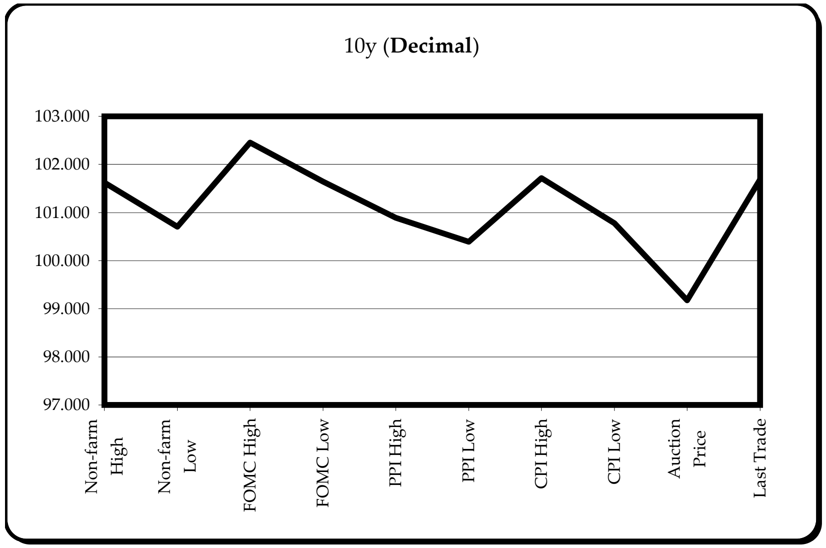
Economic Releases - 32nds

	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	100.0800	101.230	109.220	111.27	10/17/2007
CPI Low	99.2000	100.250	108.260	110.15	10/17/2007
Auction Price	99.3199	99.056			
Last Trade	100.0750	101.220	109.205	111.25	10/18/2007 5:52

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	103.155	(0.0)	103.157	103.130	103.150	31,469	2y Fut
FVAZ7	107.060	0.0	107.070	107.005	107.045	54,127	5y Fut
TYAZ7	109.205	0.0	109.210	109.130	109.170	124,919	10y Fut
USAZ7	111.250	0	111.270	111.130	111.160	22,426	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.017	0.5	100.017	99.317	100.010	na	2y Cash
BUS05P	100.075	2.5	100.077	100.017	100.050	na	5y Cash
BUS10P	101.220	5.0	101.230	101.130	101.170	na	10y Cash
BUS30P	103.025	13	103.050	102.200	102.235	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.966	(1.30)	4.012	3.962	4.008	na	2y Yield
BUS05Y	4.195	(1.60)	4.241	4.192	4.23	na	5y Yield
BUS10Y	4.532	(2.00)	4.574	4.527	4.564	na	10y Yield
BUS30Y	4.802	(2.00)	4.838	4.796	4.83	na	30y Yield

Notes: SYM = Symbol

MarketNews international

All times Eastern

Yesterday:

15:03 10/17 US TSYS: Tsys rallied sharply and the curve steepened Wed for a very long list of both fundamental and technical reasons. Mostly a giant short squeezed ensued coupled with asset allocation and good pension fund buying forced the move. On a 3PM to 3PM basis, 2Y stands at 3.974% vs. 4.129% Tuesday. 3s at 3.993% vs. 4.141%. 5s at 4.211% vs. 4.342%. 10s at 4.546% vs. 4.657%. 30s at 4,809% vs. 4.914%. 2/5Y curve at +23.7 bps vs. +21.3 bps. 2/10Y at +57.2 bps vs. +52.8 bps. 2/10Y at +83.5 vs. +78.5.

15:12 10/17 **US EURODLR FUTURES**: Eurodlr futures finished at session highs, curve bull steepening on various factors while odds of 25 bps Fed rate cut moves to 100% by yr end, Oct goes from appr 20% at start of week to just over 50% today. The Red/Gold pack spd 4.0 bps steeper at 79.75 by the bell--nearly 10 bps steeper for the week. In the Fronts (Dec07-Sep08), the Dec07 was 5.0 bps higher at 95-12.5 on combined Globex and pit volume of 230,000, the Mar08 11.0 bps higher at 95-42.5 on volume of 331,000, the Jun08 12.5 bps higher at 95-58.5 on volume of 382,000, while the Sep08 contract was 12.5 bps higher at 95-65.5 on volume of 415,000. The 2yr proxy Red pack (Dec08-Sep09), settled 12.5 to 13.5 bps higher across the pack with 750,000 contracts traded.

15:05 10/17 **US EURODLR/SWAPS:** Spds ended session broadly wider in the front end, extending the inversion of the 2s/10s spd of spds as Tsy mkts continue to make new session highs w/equities chopping lower. After better steepener and receiver-tied flow in fronts to intermediates in the first half, sources reporting pick up in paying tied flow as some accts taking profits, others possibly setting rate locks. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	+4.50/68.75	+2.25/66.50	+0.75/63.75	+0.00/61.25
1:30	+3.25/67.50	+1.75/66.00	+0.75/63.75	-0.25/61.00
12:00	+2.50/66.75	+1.25/65.50	+0.00/63.00	-0.50/60.75
10:15	+2.25/66.50	+1.25/65.50	+0.25/63.25	-0.50/60.75
9:05	+2.00/66.25	+0.75/65.00	-0.25/62.75	-0.50/60.75
Wed Open	+1.25/65.50	+0.50/64.75	+0.25/63.25	+0.25/61.50
Wed 8:00	+1.25/65.50	+0.50/64.75	+0.25/63.25	+0.25/61.50
Tue 3:00	+1.50/64.25	+0.25/64.25	+0.00/63.00	-0.50/61.25

(cont)

Overnight:

05:48 10/18 **TSYS:** Treasuries are trading higher across the board in London trade Thursday, building on the strong gains seen in the U.S. overnight. Prices were higher from the getgo in Tokyo trade, aided by follow-through buying from Stateside buyers and Japanese names. The front-end of the curve initially led the way higher, although longer-dated paper soon outperformed. The longer-end continued to outperform into the London session, with both real money and leveraged players noted as buyers of the 10-year note and Japanese investors buyers of the 30-year note. But overall volumes are light, with flows largely seen as interdealer. The Bund/T-note spread was 1 bps narrower on overnight levels, standing at 23 bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 higher at 100 2/32 to yield 3.97%. The 10-yr note was 4/32 higher at 101 21/3 (4.53%), with the Bond 11/32 higher at 103 2/32 (4.80%).

MarketNews international

12:04 10/17 US TSYS: Analyst Tony Crescenzi of Miller, Tabak says nothing major has happened today, but these factors are helping Tsys: asset allocation from stocks to bonds, an increase in the fear trade that pushed T-bill rates lower (likely a result of weak housing data), pension fund buying in long-dated maturities, worries about Turkey allowing its army to launch anti-rebel operations in Iraq, and more job layoff announcements.

[From the WSJ]

Beige Book Sees Slower Growth

The economy slowed at the end of the third quarter and into the start of the fourth, while businesses grew even more uncertain about the future, the Fed said in its latest beige book.

Stone & McCarthy RESEARCH ASSOCIATES

Fed Beige Book: High Levels of Uncertainty

by Ken Kim

--Stone & McCarthy (Princeton)-- According to the Fed's latest beige book, the U.S. economy continued to expand but at a slower pace of growth than what was reported previously. "Anecdotal reports from the Federal Reserve Banks suggest economic activity continued to expand in all Districts in September and early October but the pace of growth decelerated since August," reported the Dallas Fed based on information collected on or before October 5, 2007.

By Sebastian Boyd and Neil Unmack

Oct. 17 (Bloomberg) -- **Cheyne Finance Plc**, the structured investment vehicle managed by hedge fund Cheyne Capital Management Ltd., may not be able to pay its debts, receiver Deloitte & Touche LLP said today.

The receiver declared an ``insolvency event,'' it said today in an e-mailed statement. An insolvency event means the SIV ``is, or is about to become, unable to pay its debts as they fall due,'' according to its prospectus. [Thanks Howard]

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.51	5.16	$1,612	10.32	n/a
10y	7.74	2.54	$794	5.08	n/a
5y	4.41	1.42	$443	5.67	n/a
2y	1.85	0.59	$186	2.38	n/a
ZB	9.87	3.58	$112	3.58	1.1103
ZN	5.82	2.06	$64	4.12	0.9069
ZF	3.90	1.35	$42	2.70	0.9285
ZT	1.85	0.61	$19	2.46	0.9569

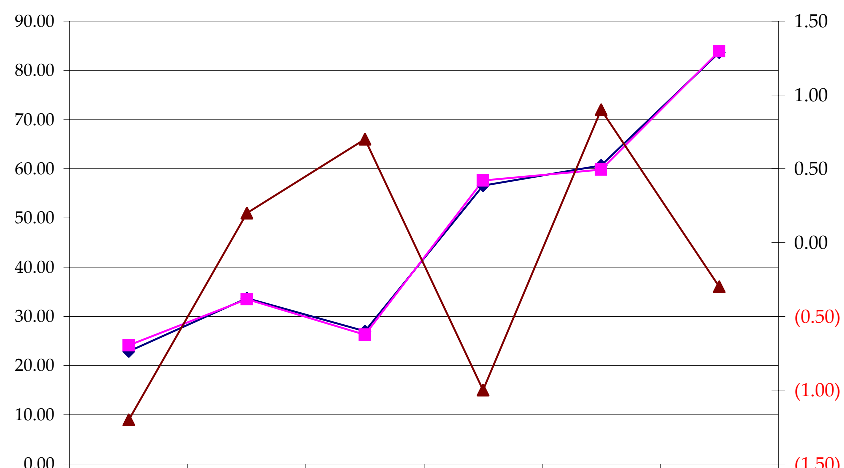
Yield Curve Spreads

	Last	2pm close	Diff
2/5	22.90	24.10	(1.20)
5/10	33.70	33.50	0.20
10/30	27.00	26.30	0.70
2/10	56.60	57.60	(1.00)
5/30	60.70	59.80	0.90
2/30	83.60	83.90	(0.30)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	22.90	33.70	27.00	56.60	60.70	83.60
2 PM Close	24.10	33.50	26.30	57.60	59.80	83.90
Diff	(1.20)	0.20	0.70	(1.00)	0.90	(0.30)

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 Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.66	3.97	7.10	14.43
ZN	2.89	6.89	12.33	25.05
ZF	4.41	10.52	18.83	38.25
ZT	4.84	11.54	20.66	41.96

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.736	2.651	5.816
ZN	0.000		1.527	3.350
ZF	0.377	0.655		2.194
ZT	0.172	0.299	0.456	

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		2.386	4.272	8.676
5y	0.427		1.822	3.701
10y	0.234	0.559		0.000
30y	0.115	0.275	0.492	

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

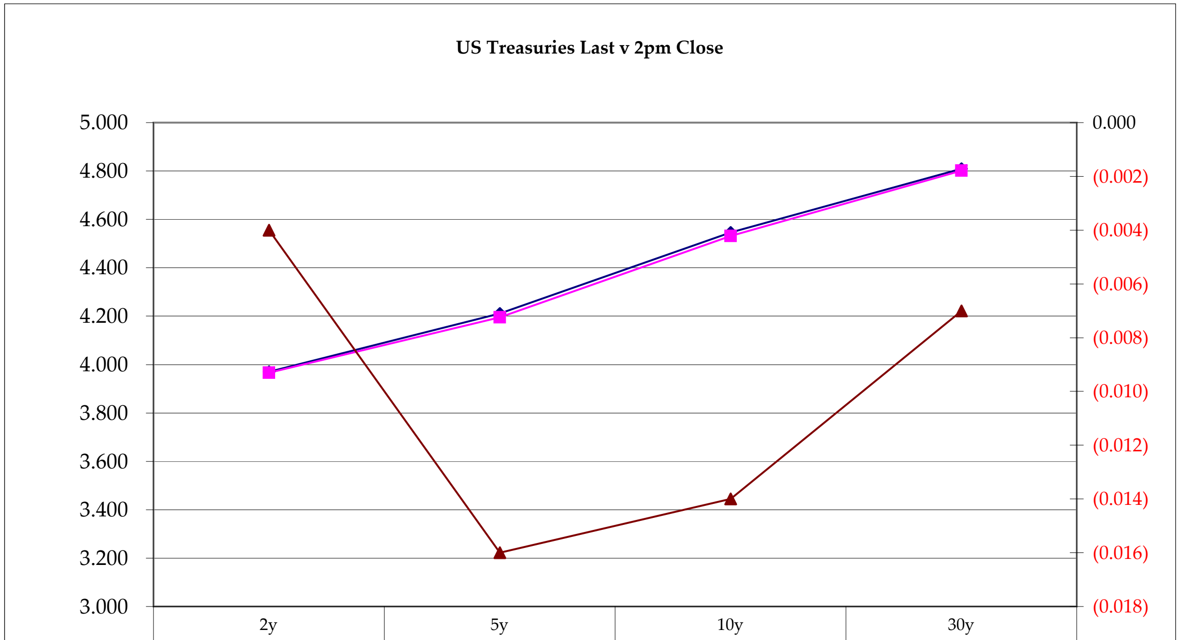
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	9/30/09	100.0175	3.970	3.966	(0.004)			
5y	4.125	8/31/12	100.0550	4.211	4.195	(0.016)	21.67	22.75	
10y	4.750	8/15/17	101.190	4.546	4.532	(0.014)	71.41	72.14	
30y	5.000	5/15/37	103.00	4.809	4.802	(0.007)	-672.21	-673.04	

	Close 32	Last
ZFZ7	107.050	107.060
ZNZ7	109.180	109.205
ZBZ7	111.22	111.250

Curve Spreads

	Close bps	Last bps
2/5	24.1	22.9
5/10	33.5	33.7
10/30	26.3	27.0
2/10	57.6	56.6
5/30	59.8	60.7
2/30	83.9	83.6



	2y	5y	10y	30y
2pm Cls	3.970	4.211	4.546	4.809
Last	3.966	4.195	4.532	4.802
Diff	(0.004)	(0.016)	(0.014)	(0.007)

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%	28%	50%	**133%**

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

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$186**			
5	$186	**$443**		
10	$190	$452	**$794**	
30	$193	$459	$805	**$1,612**

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	($4)	($9)		
30	($7)	($15)	($11)	

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	-0.20%			
10	-2.21%	-2.01%		
30	-3.56%	-3.37%	-1.38%	

Tic for Tic & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	0.97	2.31	4.13	8.39
ZF	0.44	1.05	1.88	3.83
ZN	0.29	0.69	1.23	2.50
ZB	0.17	0.40	0.71	1.44

	2y	5y	10y	30y
2y	1.00	2.39	4.27	8.68
5y	0.42	1.00	1.79	3.64
10y	0.23	0.56	1.00	2.03
30y	0.12	0.28	0.49	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.19	3.35	5.82
ZF	0.46	1.00	1.53	2.65
ZN	0.30	0.65	1.00	1.74
ZB	0.17	0.38	0.58	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.97	2.31	8.26	16.78
ZF	0.44	2.10	3.77	7.65
ZN	0.58	1.38	1.23	2.50
ZB	0.67	1.59	1.42	2.89

	2y	5y	10y	30y
2y		2.39	2.14	4.34
5y	0.42		0.45	1.82
10y	0.47	2.23		2.03
30y	0.23	0.55	0.49	

	2y	5y	10y	30y
ZT		2.19	6.70	23.27
ZF	0.46		1.53	5.30
ZN	0.15	0.65		3.47
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

October	avg target	400	425	450	475	500
10/15/2007	4.7%	0.0%	3.1%	27.2%	69.6%	0.0%
10/16/2007	4.7%	0.2%	4.5%	29.8%	65.4%	0.0%

December	avg target	375	400	425	450	475	500	525
10/15/2007	4.6%	0.4%	2.7%	14.2%	36.6%	44.2%	1.6%	0.3%
10/16/2007	4.5%	0.0%	4.6%	21.7%	32.3%	39.7%	1.1%	0.6%

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