The Morning Email: Treasuries

10/19/2007 5:37

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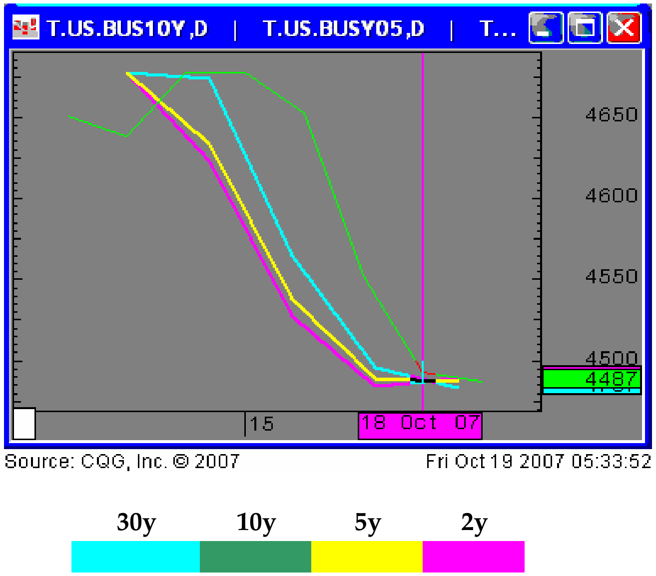
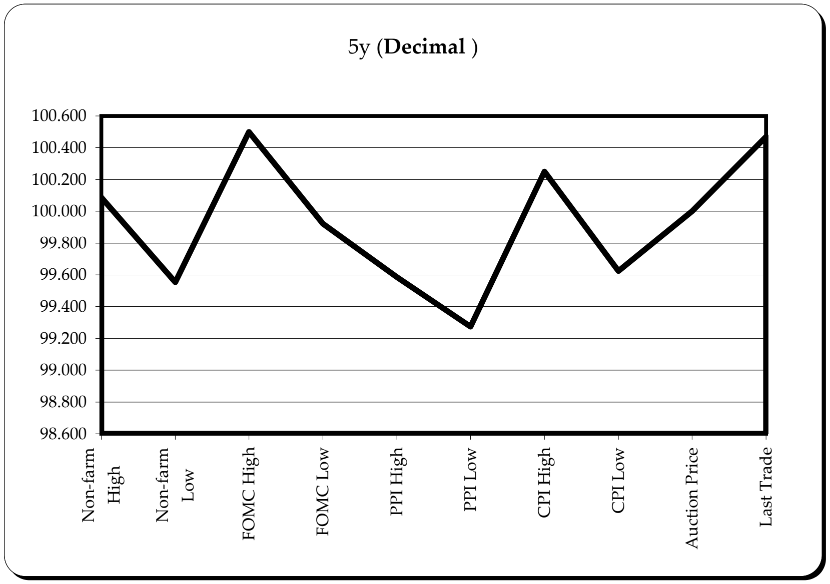


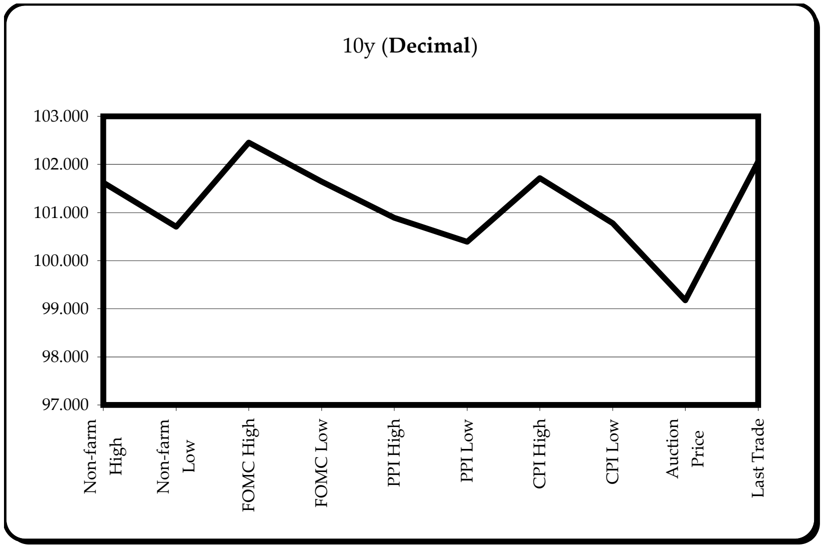
Want something added? Let me know: jgoulding@ghco.com

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	100.1500	102.020	109.305	112.10	10/19/2007 5:37

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	103.175	(0.0)	103.222	103.170	103.185	43,633	2y Fut
FVAZ7	107.125	0.0	107.200	107.120	107.130	61,355	5y Fut
TYAZ7	109.305	0.0	110.070	109.280	109.280	126,915	10y Fut
USAZ7	112.100	0	112.210	112.060	112.060	24,369	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.045	(0.5)	100.087	100.045	100.050	na	2y Cash
BUS05P	100.147	0.7	100.217	100.147	100.147	na	5y Cash
BUS10P	102.015	1.5	102.100	101.310	101.315	na	10y Cash
BUS30P	103.250	5	104.070	103.185	103.185	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.919	0.70	3.941	3.844	3.941	na	2y Yield
BUS05Y	4.140	(0.60)	4.161	4.093	4.161	na	5y Yield
BUS10Y	4.487	(0.60)	4.509	4.452	4.509	na	10y Yield
BUS30Y	4.757	(1.00)	4.782	4.73	4.782	na	30y Yield

Term	Libor$ ^	Tbill	CP ^^
1M	4.998	3.238	4.890
3M	5.180	3.825	5.010
6M	5.079	4.118	5.020
	TSY	Swap	ED Pks ^^^
2y	3.919	68.00	4.517
5y	4.145	67.75	4.866
10y	4.489	64.50	

Term	Libor$ ^	Repos
0/N	4.841	4.600
1week	4.886	4.600
2week	4.938	4.600

Notes

^Quoted in US Dollars

^^CP = Commercial Paper

^^^ED Pks are colored for pack identifications. Exanple, the red pack is a 2-yr proxy and is colored red.

Lastly, SYM = Symbol

MarketNews international

All times Eastern

15:15 10/18 US TSYS/RECAP: Tsys gained Thu amid 1) short-covering after +28K rise in US wkly jobless claims, weaker 6.8 Oct Phila Fed (vs. 10.9 Sep); 2) safe-haven buying amid SIV/ABCP/credit/funding jitters after sweeping downgrades Wed; 3) morning repo collateral squeeze, many issues on special, then eased; 4) fears of more SIV/hedge fund problem; 5) p.m. real money buying in front end, 5Ys, bank 5Y/10Y flatteners; 5) ongoing a.m. hedge fund buying and swap receivers; 5) heavy securities lending to dealers from Fed esp. 3Y, 10Y; 6) rate-lock unwinds vs. US$3B FHLB 10Ys; 7) Wed rally forced Street, hedge funds to cover deep shorts, still there were shorts to cover Thu; 8) But into Tsys strength, levered money this morning sold both 2- and 5-years, although buy-and-hold accts bought there. 9) Options flows included buyers of volatility, put buying from mortgage servicers and 2-way flows in calls. 10) Also heavy front-end receiver flows in 2Y. 11) Levered accounts bought Dec 10Y, 30Y futures prior to claims. 12)Some sold Tsys to go to German Bunds,Schatz.

15:10 10/18 **US EURODLR FUTURES:** Eurodlr futures finished off session highs, curve bull steepening again as the front end outperforms, the Red/Gold pack spd 2.0 bps steeper at 81.125 by the bell--nearly 12 bps steeper for the week. In the Fronts (Dec07-Sep08), the Dec07 was 6.5 bps higher at 95-19 on combined Globex and pit volume of 291,000, the Mar08 5.5 bps higher at 95-48 on volume of 294,000, the Jun08 5.5 bps higher at 95-64 on volume of 301,000, while the Sep08 contract was 6.0 bps higher at 95-71.5 on volume of 327,000. The 2yr proxy Red pack (Dec08-Sep09), settled 4.5 to 6.0 bps higher across the pack with 682,000 contracts traded.

15:01 10/18 **US SWAPS:** Spds ended session well off highs as FI mkts gradually gave back early gains. On heels of good-sized Asian swap receiving in belly & follow-through buying by U.S., Japanese and Asian real money in Tokyo, sources reported healthy swap tied buying in fronts to intermediates early in NY. Coinciding with the moment 2yr spds tightened off wides, Eurodlr sources reported a Chicago FCM and a NY dealer +2.3k 2yr bundles while Tsy sources reported ongoing receiver interest in belly.

According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	+0.00/68.75	+0.75/67.25	+0.75/64.50	+0.00/61.25
12:00	+0.50/69.25	+1.25/67.75	+0.75/64.50	+0.50/61.75
10:05	+1.00/69.75	+1.25/67.75	+0.75/64.50	+0.25/61.50
9:35	+0.50/69.25	+1.25/67.75	+0.75/64.50	+0.25/61.50
9:05	+1.50/70.25	+1.50/68.00	+0.75/64.50	+0.00/61.25
Thu Open	+1.25/70.00	+1.50/68.00	+1.50/65.25	+0.25/61.50
Wed 3:00	+4.50/68.75	+2.25/66.50	+0.75/63.75	+0.00/61.25

(cont)

04:42 10/19 **TSYS**: Treasuries are trading higher across the board in London Friday, as the market is boosted by safe haven flows ahead of the weekend. Traders said renewed market concerns over the state of the credit market has again weighed on global equities and underpinned bonds. Prices were higher from the getgo in Tokyo, with the market trading to the day's best levels early in the session. However, profit-taking saw prices ease from the highs. Japanese names were solid buyers of the 2-year note, helping the front of the curve outperform initially. Although unable to recover the highs seen in the Asian session, Treasuries remained well bid across the curve in London trade, with light buying seen from leveraged names and real money accounts. But overall volumes were muted, with trade confined to narrow ranges at the higher levels.

04:41 10/19 **TSYS:** (2) The Bund/T-note spread was standing unchanged on overnight levels, standing at 23 bps. Ahead of the U.S. session, the 2-yr note was trading 1/32 higher at 100 6/32 to yield 3.89%. The 10-yr note was 4/32 higher at 102 6/32 (4.47%), with the Bond 11/32 higher at 103 31/32 (4.75%). 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 on overnight levels, trading at +58 bps, as was the 2-yr/30-yr curv, standing at +86 bps.

03:20 10/19 **GREENSPAN:** Former Fed chair Greenspan warns that plans to launch a so-called credit market "super fund" could have dire repercussions. In an interview with Emerging Markets magazine, Greenspan said that the $75 bln Master Liquidity Enhancement Conduit (MLEC) runs the risk of further undermining already brittle confidence in besieged markets. Greenspan drew a distinction between the bail-out of a single large hedge fund to prevent the widespread sell-off of assets - as happened with LTCM in 1998 - and efforts to prop up an entire asset class, as in the case of the proposed superfund.

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

12:33 10/18 **US MBS/SubPrime**: The fall out is continuing from yesterday's announcement by S&P on downgrading a massive 1,713 tranches of 1H 2007 vintage subprime first-lien, Alt-A and second-lien RMBS, many which were originated as recently as 1H'07. According to 1 market source: 1) the downgrades are particularly important since they affect deals first issued only a few months ago (Jan-June '07), 2) For CDOs and SIVs which hold some of this paper, credit protection triggers might get hit and covenants breached, 3) bid lists are now in circulation with asset sales across the board - particularly hybrid ARMS and mortgage-linked ABS.

12:42 10/18 **US RMBS**: In addition to S&P RMBS downgrades, Moody's downgraded SLNs/Extended Notes of Ottimo Funding Ltd to Not Prime from Prime-1 on Wed. Moodys said, "Ottimo uses the proceeds from the issuance of the notes to invest in a portfolio of Aaa-rated residential mortgage-backed securities. All assets in the portfolio are currently rated Aaa. Following the extension of SLNs during the first week of August, the conduit's overcollateralization fell below the required amount as a result of market value deterioration of the assets in the portfolio. The program sponsor and administrator Aladdin Capital Management LLC and its investors have since agreed to postpone the liquidation of the securities as required by the program documents. However, they have not been able to reach an agreement regarding a long-term extension of the notes or restructuring of the conduit. Some of the extended notes have reached their legal final maturity. Moody's rating action reflects the current market value of the assets held by the program relative to the required enhancement and likely continued price volatility."

US RMBS: More on 12:42 bullet. Market sources say S&P downgrades of 1,713 classes of RMBS issued Jan to June 2007 and Moodys Ottimo Funding downgrade on Wednesday have realy shaken the market as models are now ruined and all funds have various bucket requirements -- this means there could be other victims, they say. Today are reports of more Hybrid ARM and ABS HEQ bidlists. Market sources say the execution of the public sale of $2.8B in AAA Alt-A paper from Ottimo Funding between 10/29 and 11/1 will be interesting and very important. "That list will be the beginning of meaningful, public price discovery," one mortgage veteran said. Several traders say this is a necessary step. "People haven't been selling any of this paper because they say the bidside is too cheap compared to valuations," one trader said. "People can wish and hope all they want, but at times like this, the bidside is all that matters." Market sources also suspect that as painful as this process might be, setting some public price levels and perhaps getting new investors involved could be very healthy for the markets.

At this juncture, a rough estimate for the October ISM index is 51-52, which compares with 52.0 in September. The October ISM report is scheduled for release on Thursday, November 1 at 10AM ET. [Stone & McCarthy]

13:19 10/18 US DATA REACT: JPM says after the Phila and NY mfg data, their prelim est for mfg ISM is 51. [Source: MNI]

13:50 10/18 US OUTLOOK: RBSGC looks for mfg ISM to print 52.5 in Oct, up from 52 in Sept. On an ISM basis, Philly Fed index fell to 50.5 in October and the Empire State survey strengthened to 59.7, RBSGC says, suggesting mprovement across the nation. [Source: MNI]

[Note from Jim: Why is this so important? Because when ISM heads under 50 the fed cuts rates.]

Duration, DV01s, Curve Spreads, CF

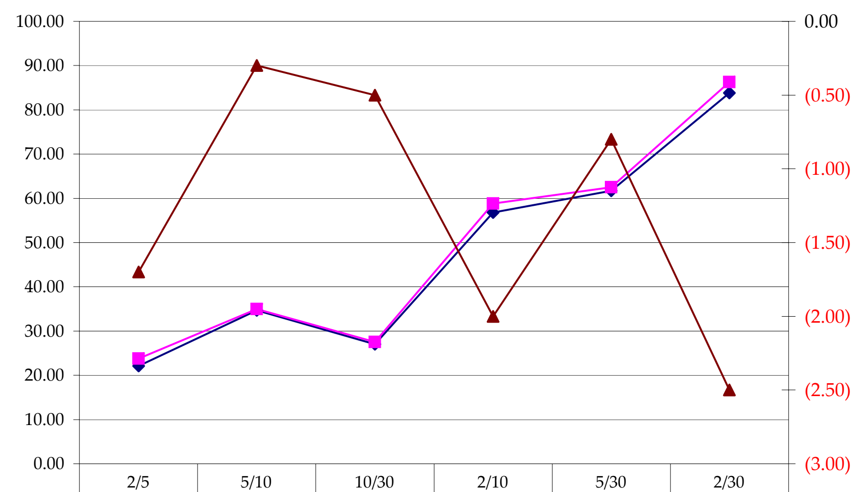
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.55	5.21	$1,628	10.42	n/a
10y	7.74	2.55	$797	5.10	n/a
5y	4.41	1.42	$444	5.68	n/a
2y	1.85	0.59	$185	2.37	n/a
ZB	9.87	3.60	$112	3.60	1.1103
ZN	5.82	2.06	$65	4.13	0.9069
ZF	3.90	1.35	$42	2.70	0.9285
ZT	1.85	0.61	$19	2.45	0.9569

Yield Curve Spreads	Last	2pm close	Diff
2/5	22.10	23.80	(1.70)
5/10	34.70	35.00	(0.30)
10/30	27.00	27.50	(0.50)
2/10	56.80	58.80	(2.00)
5/30	61.70	62.50	(0.80)
2/30	83.80	86.30	(2.50)

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	22.10	34.70	27.00	56.80	61.70	83.80
2 PM Close	23.80	35.00	27.50	58.80	62.50	86.30
Diff	(1.70)	(0.30)	(0.50)	(2.00)	(0.80)	(2.50)

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		1.741	2.667	5.866
ZN	0.000		1.532	3.368
ZF	0.375	0.653		2.199
ZT	0.170	0.297	0.455	

Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.6	4.0
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	1.65	3.95	7.09	14.49
ZN	2.87	6.88	12.35	25.23
ZF	4.40	10.53	18.91	38.65
ZT	4.84	11.58	20.80	42.50

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		2.395	4.300	8.789
5y	0.425		1.828	3.736
10y	0.233	0.557		2.044
30y	0.114	0.273	0.489	

Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. So, the Bloomberg hedge ratios, in this spreadsheet, are static. Meaning, I only update them once in a while but always on rolls. My hedge ratio's are live, meaning, they're updated in real-time.

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

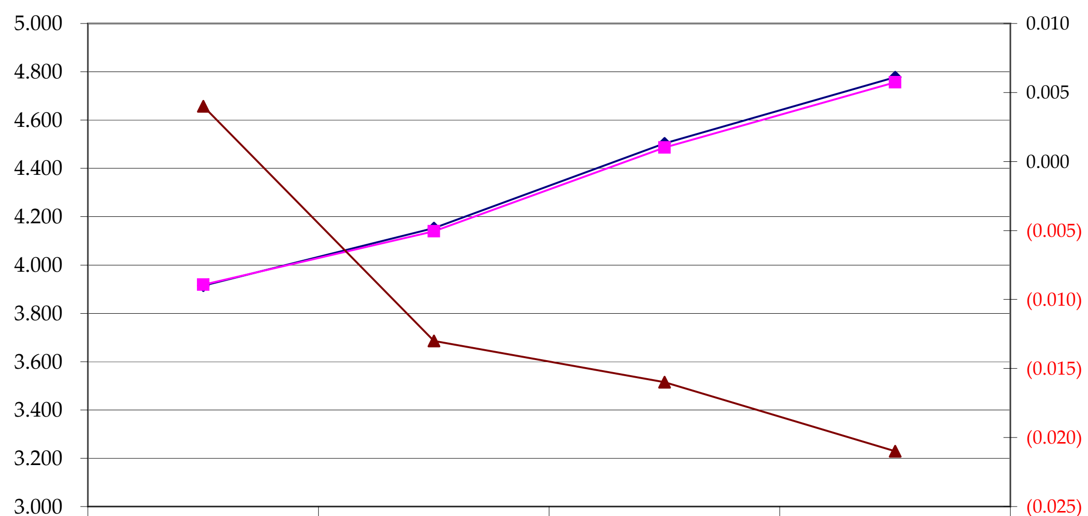
	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	9/30/09	100.0500	3.915	3.919	0.004			
5y	4.125	8/31/12	100.1375	4.153	4.140	(0.013)	23.42	24.21	
10y	4.750	8/15/17	101.300	4.503	4.487	(0.016)	72.89	75.07	
30y	5.000	5/15/37	103.16	4.778	4.757	(0.021)	-672.87	-668.92	

	Close 32	Last
ZFZ7	107.120	107.125
ZNZ7	109.285	109.305
ZBZ7	112.05	112.100

Curve Spreads

	Close bps	Last bps
2/5	23.8	22.1
5/10	35.0	34.7
10/30	27.5	27.0
2/10	58.8	56.8
5/30	62.5	61.7
2/30	86.3	83.8

US Treasuries Last v 2pm Close



	2y	5y	10y	30y
2pm Cls	3.915	4.153	4.503	4.778
Last	3.919	4.140	4.487	4.757
Diff	0.004	(0.013)	(0.016)	(0.021)

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	**$185**			
5	$186	**$444**		
10	$190	$454	**$797**	
30	$193	$461	$811	**$1,628**

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	($1)			
10	($5)	($10)		
30	($8)	($18)	($14)	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.33%			
10	-2.48%	-2.16%		
30	-4.14%	-3.83%	-1.70%	

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 & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	0.97	2.32	4.16	8.50
ZF	0.44	1.05	1.89	3.86
ZN	0.29	0.69	1.23	2.52
ZB	0.16	0.39	0.71	1.45

	2y	5y	10y	30y
2y	1.00	2.40	4.30	8.79
5y	0.42	1.00	1.80	3.67
10y	0.23	0.56	1.00	2.04
30y	0.11	0.27	0.49	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.20	3.37	5.87
ZF	0.45	1.00	1.53	2.67
ZN	0.30	0.65	1.00	1.74
ZB	0.17	0.37	0.57	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.97	2.32	8.32	17.00
ZF	0.44	2.11	3.78	7.73
ZN	0.57	1.38	1.23	2.52
ZB	0.66	1.58	1.42	2.90

	2y	5y	10y	30y
2y		2.40	2.15	4.39
5y	0.42		0.45	1.83
10y	0.47	2.23		2.04
30y	0.23	0.55	0.49	

	2y	5y	10y	30y
ZT		2.20	6.74	23.46
ZF	0.45		1.53	5.33
ZN	0.15	0.65		3.48
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

October	avg target	400	425	450	475	500
10/16/2007	4.7%	0.2%	4.5%	29.8%	65.4%	0.0%
10/17/2007	4.6%	0.4%	8.4%	37.2%	53.9%	0.0%

December	avg target	375	400	425	450	475	500	525
10/16/2007	4.5%	0.0%	4.6%	21.7%	32.3%	39.7%	1.1%	0.6%
10/17/2007	4.5%	0.0%	8.7%	34.2%	25.3%	30.8%	0.7%	0.4%

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