



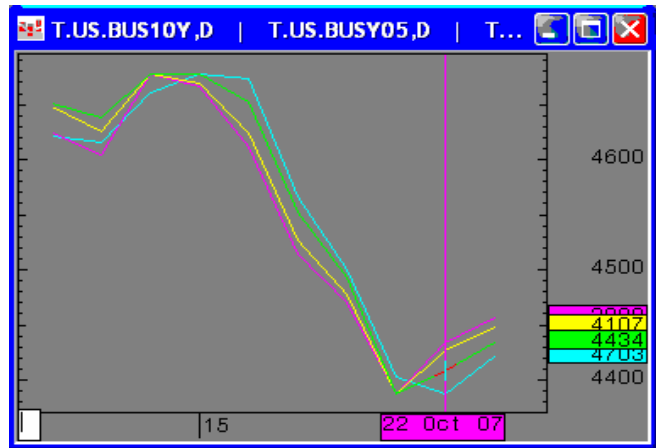
# The Morning Email: Treasuries

10/23/2007 5:50

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Daily Yield Curve



Source: CQG, Inc. © 2007      Tue Oct 23 2007 05:41:09

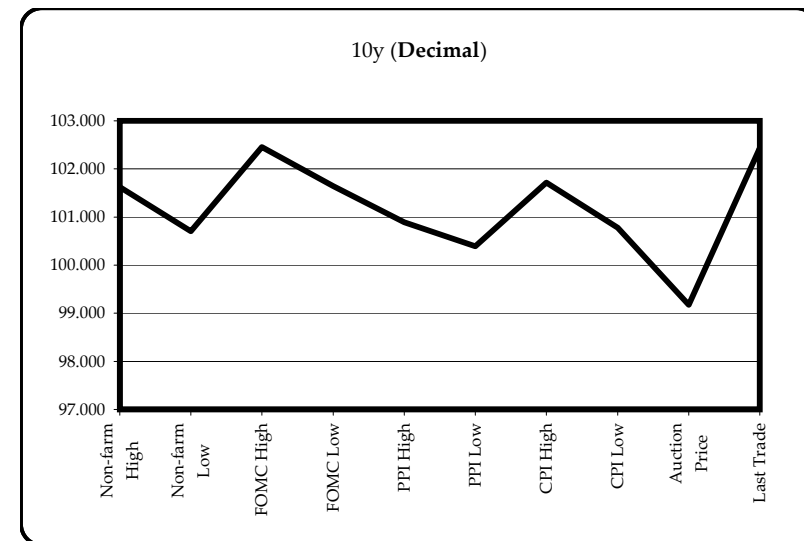
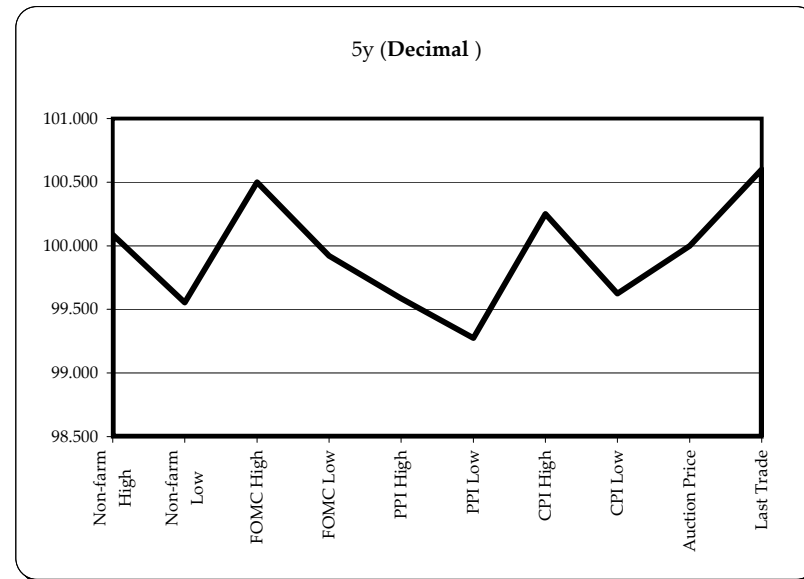


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

**Disclaimer:** All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

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	100.1920	102.140	110.065	112.30	10/23/2007 5:50

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



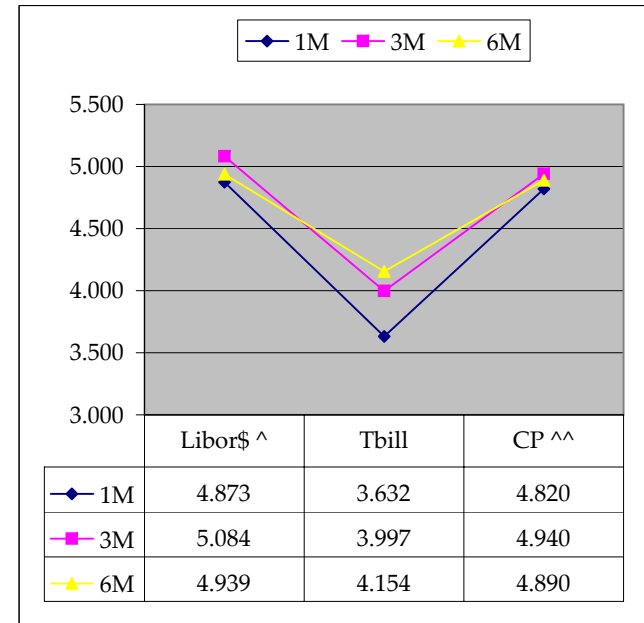
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	32 nds						
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAZ7	103.192	(0.0)	103.220	103.190	103.220	25,213	2y Fut
FVAZ7	107.165	(0.1)	107.215	107.155	107.215	49,647	5y Fut
TYAZ7	110.065	(0.1)	110.140	110.060	110.135	95,346	10y Fut
USAZ7	112.300	(0)	113.090	112.280	113.060	21,708	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.060	(1.7)	100.087	100.060	100.087	na	2y Cash
BUS05P	100.190	(4.2)	100.242	100.185	100.237	na	5y Cash
BUS10P	102.135	(8.0)	102.225	102.125	102.220	na	10y Cash
BUS30P	104.180	(13)	104.305	104.155	104.295	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.890	3.40	3.906	3.835	3.868	na	2y Yield
BUS05Y	4.112	3.30	4.123	4.075	4.089	na	5y Yield
BUS10Y	4.440	3.10	4.45	4.401	4.413	na	10y Yield
BUS30Y	4.709	3.30	4.719	4.681	4.688	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.873	3.632	4.820
3M	5.084	3.997	4.940
6M	4.939	4.154	4.890

	Libor\$ ^	Repos
0/N	4.810	4.630
1week	4.849	4.600
2week	4.856	4.600

	TSY	Swap	ED Pks ^^
2y	3.889	65.75	4.452
5y	4.112	65.50	
10y	4.442	62.50	



Notes

^Quoted in US Dollars  
 ^^CP = Commercial Paper  
 ^^ED Pks are colored for pack identifications. Example, the red pack is a 2-yr proxy and is colored red.  
 Lastly, SYM = Symbol

**All times Eastern**

15:09 10/22 **US TSYS/RECAP:** US Tsys ended Mon midrange after early slide on profit-taking after 4th day of rally since Wed, then had bargain-hunting bounce off low. Mkt early had: 1) Some Asian profit-taking in intermediates (not heavy); 2) Some selling as US stocks futures choppy, not weak as hoped; 3) Early black-box selling and European hedge fund selling in Tsys intermediates; real money selling shorter Tsys. 4) Some sold US Tsys/bought German Bunds;5) Decent hedge fund selling in MBS. 6) Dealers did pre-auction short-setting before Tsy's \$6B 5Y TIPS reopen Tue, US\$20B 2Y Wed, US\$13 5Y Thu. 7) BUT Tsys rebounded off lows amid risk aversion buying; bargain-hunting, MBS-tied buying in 5Y Tsys, MBS-tied accounts buying Tsys. 8) European funds bought Tsys at low. 9) Tsys aided as major servicer that Fri bought Tsys futures, did swap receiving is back Mon, receiving in swaps, buying MBS outright; other servicers also buy MBS. 10) MBS drew late US accts bid. 11) Tsys gained too as US stocks ebbed late. 10) Surprise at \$20B 2Y auction for Wed; \$13B 5Y Thu.

15:00 10/22 **SWAP:** Spreads remain tighter on the futures close after an early round of servicer receiving in the belly but mostly in 10Y. Other than that, not much going on, dealers confirmed. Sources note one servicer in particular has been named in the past two days and sources add that this acct has been both opportunistic and successful in hedging their huge servicing book. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon Close	-1.50/67.75	-0.75/66.75	-0.75/63.75	-0.50/60.00
Mon 10:44	-1.50/67.75	-1.00/66.50	-1.00/63.50	-0.50/60.00
Mon 9:23	-0.75/68.50	-0.75/66.75	-0.75/63.75	-0.50/60.00
Mon 8:07	+1.00/70.25	+0.75/68.25	+0.50/65.00	+0.25/60.75
Fri 3:10	+0.75/69.50	+0.75/68.00	+0.00/64.50	-0.75/60.50

(cont)

06:40 10/23 **TSYS SUMMARY:** US Treasuries opened lower in the Tokyo session, taking cue from weakness in JGBs prices, which were knocked lower as Japanese stocks moved higher and in turn triggering unwinding of recent risk-aversion buying. Gains in stocks comes in the wake of better than expected results from Apple in after-hours session. Traders reported Asian real money accounts selling 2s in the Tokyo session, and also decent selling in 10-year Notes. However, prices bounced back on market rumours that Merrill Lynch's third-quarter earnings report due on Wednesday, will show a substantial losses on top of the \$5 billion write-down it pre-announced less than two weeks ago. Whilst the rumours have been circulating for some time, the fact that the write-down is rumoured to be closer to \$12bln in trading losses, added to the safe-haven bid. Traders reported light buying from a central bank in 10s and fast money accounts buying the belly of the curve. European real money account was seen buying intermediate corporate paper.

06:40 10/23 **US: Reported comments from US officials overnight,**

\*\* EVANS: Charles Evans, president and chief executive officer of the Federal Reserve Bank of Chicago, said late Monday that in resolving the current credit conditions associated with the subprime mortgage fallout, "some markets have to sort of take care of" themselves. Evans said further spillover from the subprime markets could be seen if the process by which mortgages are originated "gets worse." By this Evans meant that a slower mortgage origination process will inherently "slow up the process by which houses on the market are taken off the market."

**Barclays, RBS Line Up Emergency Fed Funds****By KATHARINA BART**

October 22, 2007 8:05 a.m.

**[WSJ]**

Two major United Kingdom banks have lined up a total of \$30 billion in emergency funds from the U.S. Federal Reserve, with analysts expecting other European investment banks to follow.

The Fed recently lifted requirements on how much Barclays PLC and Royal Bank of Scotland Group PLC can lend U.S. broker affiliates, according to the central bank's Web site. The move allows Barclays to lend up to \$20 billion and RBS to lend up to \$10 billion, following similar easing of requirements for Citigroup Inc., Bank of America Corp. and Deutsche Bank AG in recent months.

**[From RBS Greenwich Capital Markets]****Date/Time: 22 Oct 2007 7:10 AM**

[...]We are unwilling to stand in front of this rally, but expect this week will be characterized by a sideways/consolidation-trade as the 2- and 5-year supply weighs on any follow-through upgrade. With the data limited to Durable Goods and Housing, we see the fundamental story for this FOMC meeting as told.

[...] Between the second Fed ease in a cycle and the third (and there has always been a third in our sample set), there are a few trends which we have noticed. Namely, 10-year yields tend to fall on average 17.6 bps after the second ease but before the third, the 2s/10s curve steepens on average 11.7 bps, and the 2s/Funds spread inverts an additional 22 bps.

The exception (and excluded from our averages) to these trends was 1998 (LTCM, etc) -- in that cycle the 10-year sold off 29 bps between the second and third eases, the 2s/10s curve was 31 bps flatter and the 2s/Funds spread disinverted by 51 bps. While '98 as an anomaly is no news -- given the risk-environment at the time, this distinction refocuses us on the question: Are we in a 1998-type rally or a more traditional shift in the monetary policy -- we are increasingly favoring the latter.

Also of note are the moves on the exact days of the second ease -- calculated on a close to close basis -- 10-year yields moved lower on the day of every ease -- an average of 11.5 bps. Similarly (and understandably), 2/Funds disinverted by 21 bps on average. As for the 2s/10s curve, it has historically had a mixed performance -- unchanged once, steeper once and flattening once.

David Ader, Head of Government Bond Strategy  
Ian Lyngen, Strategist  
Market Strategy Team  
[RBS Greenwich Capital Markets]

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.60	5.27	\$1,646	10.54	n/a
10y	7.74	2.56	\$800	5.12	n/a
5y	4.40	1.42	\$444	5.69	n/a
2y	1.84	0.59	\$185	2.37	n/a
ZB	9.89	3.62	\$113	3.62	1.1103
ZN	5.81	2.07	\$65	4.14	0.9069
ZF	3.89	1.35	\$42	2.70	0.9285
ZT	1.84	0.61	\$19	2.45	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	22.20	24.00	(1.80)
5/10	32.80	33.40	(0.60)
10/30	26.90	28.20	(1.30)
2/10	55.00	57.40	(2.40)
5/30	59.70	61.60	(1.90)
2/30	81.90	85.60	(3.70)

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**

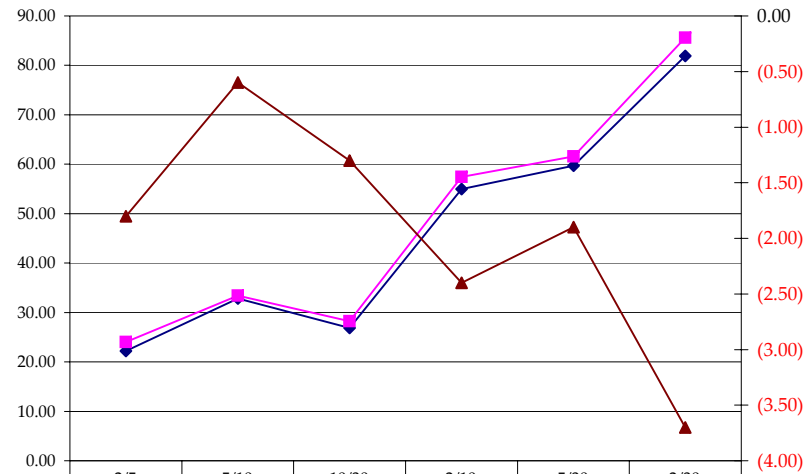
CF = Conversion Factor

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	22.20	32.80	26.90	55.00	59.70	81.90
2 PM Close	24.00	33.40	28.20	57.40	61.60	85.60
Diff	(1.80)	(0.60)	(1.30)	(2.40)	(1.90)	(3.70)

## US Financial Futures / Eurex Bond

	ZB	ZN	ZF	ZT
Bund (Z)	1.000	1.700	2.700	3.000
Bobl (Z)	0.550	0.970	1.450	1.570
Shatz (Z)	0.230	0.400	0.620	0.680

## US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.63	3.92	7.06	14.54
ZN	2.86	6.87	12.37	25.46
ZF	4.39	10.54	18.98	39.07
ZT	4.84	11.62	20.92	43.06

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.752	2.687	5.924
ZN	0.000		1.534	3.382
ZF	0.372	0.652		2.204
ZT	0.169	0.296	0.454	

## 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	1.7	4.0
Bobl (Z)	0.6	1.0	2.4
Shatz (Z)	0.3	0.4	1.0

## US Treasuries

	2y	5y	10y	30y
2y		2.402	4.326	8.903
5y	0.424		1.834	3.774
10y	0.231	0.555		2.058
30y	0.112	0.270	0.486	

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.

Current Positions										
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	247,905	236,940	10,965	408,666	211,444	197,222	1,060,243	1,268,429	(208,186)	ZF
ZN	343,958	458,178	(114,220)	694,738	343,652	351,086	1,734,349	1,971,215	(236,866)	ZN
ZB	149,906	176,764	(26,858)	117,724	163,178	(45,454)	744,820	672,507	72,313	ZB

WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	(16,180)	34,334	(18,153)	10/9/2007
ZN	(18,515)	(5,502)	24,018	
ZB	7,947	7,894	(15,838)	

^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	100.1075	3.817	3.890	0.073			+50 / -.25
5y	4.125	8/31/12	100.2725	4.057	4.112	0.055	25.78	24.70	+.25
10y	4.750	8/15/17	102.265	4.391	4.440	0.049	82.79	79.82	
30y	5.000	5/15/37	105.07	4.673	4.709	0.036	-662.78	-666.12	

	Close 32	Last
ZFZ7	107.240	107.165
ZNZ7	110.170	110.065
ZBZ7	113.13	112.300

Curve Spreads		
	Close bps	Last bps
2/5	24.0	22.2
5/10	33.4	32.8
10/30	28.2	26.9
2/10	57.4	55.0
5/30	61.6	59.7
2/30	85.6	81.9



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%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$185			
5	\$186	\$444		
10	\$190	\$455	\$800	
30	\$194	\$465	\$817	\$1,646
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$1)			
10	(\$5)	(\$11)		
30	(\$9)	(\$20)	(\$17)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.43%			
10	-2.80%	-2.37%		
30	-4.81%	-4.40%	-2.07%	

**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	2.32	4.18	8.61
ZF	0.44	1.05	1.90	3.91
ZN	0.29	0.69	1.24	2.55
ZB	0.16	0.39	0.71	1.45

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.32	8.37	17.22
ZF	0.44	2.11	3.80	7.81
ZN	0.57	1.37	1.24	2.55
ZB	0.65	1.57	1.41	2.91

	2y	5y	10y	30y
2y	1.00	2.40	4.33	8.90
5y	0.42	1.00	1.80	3.71
10y	0.23	0.56	1.00	2.06
30y	0.11	0.27	0.49	1.00

	2y	5y	10y	30y
2y		2.40	2.16	4.45
5y	0.42		0.45	1.85
10y	0.46	2.22		2.06
30y	0.22	0.54	0.49	

	ZT	ZF	ZN	ZB
ZT	1.00	2.20	3.38	5.92
ZF	0.45	1.00	1.53	2.69
ZN	0.30	0.65	1.00	1.75
ZB	0.17	0.37	0.57	1.00

	2y	5y	10y	30y
ZT		2.20	6.76	23.70
ZF	0.45		1.53	5.37
ZN	0.15	0.65		3.50
ZB	0.04	0.19	0.29	

<b>October</b>	<b>avg target</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>
<b>10/19/2007</b>	4.5%	0.8%	16.7%	57.9%	24.3%	0.0%
<b>10/22/2007</b>	4.5%	0.5%	12.2%	61.8%	25.4%	0.0%

<b>December</b>	<b>avg target</b>	<b>375</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>
<b>10/19/2007</b>	4.3%	2.3%	15.9%	38.1%	36.2%	7.1%	0.0%	0.3%
<b>10/22/2007</b>	4.3%	3.0%	9.6%	50.0%	28.4%	8.7%	0.0%	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

The 2 /10 Curve		
If,	Then	Comment
Stocks Down	Steepen	
Stocks Up	Flatten	
Fed Tightens	Flatten	
Fed Eases	Steepen	
Month End Duration Up (Extension)	Flatten	
Month End Duration Down	Steepen	
Foreign Buying	Flatten	
Foreign Selling	Steepen	
Coupon Payments	Flatten	Cash hitting the market
Maturing Secutities	Flatten	Cash hitting the market

### Valuing the Basis

This page is based on the work of Galen Burghardt.

	Basis		Delivery Basket			Futures Price	
	Bullish	Bearish	DB Curve ^	HDB	LDB	Up	Down
Repo in GC		x					
Repo on Special	x		Steepen				
Repo Rate Down	x						x
Repo Rate Up		x				x	
Fed buys back issue	x		Flatten	Expensive to Deliver	Cheap to Deliver		
Fed stops selling issue	x		Flatten	Expensive to Deliver	Cheap to Deliver		
Volatility Up (in general)	x						x
Volatility Down (in general)		x				x	
Volatility Up PS		x				x	
Volatility Down NPS	x						x
Volatility Down PS		x				x	
Volatility Up NPS	x						x
Fed Raising Rates			Flattens	Expensive to Deliver	Cheap to Deliver		
Cost-to-Carry up		x					
Cost-to-Carry down	x						
Market Rallying	x						
Market Breaking		x					
BNOC is Negative		x					
BNOC is Positive	x						
OTR, CTD curve steepens							
OTR, CTD curve flattens							
Curve Steepening (in general)	x						
Curve Flattening (in general)		x					
Curve Parallel (in general)		x					

Please see the morning email, US Deliverable Basket for charts of the Deliverables.

If you're long the basis and the markets going up but the basis is barely going up, then check to see if there's a parallel shift going on in the curve.

Long basis and a parallel shift lowers the value of being long the basis. You won't make as much as you thought. You might even lose money.

**I will be adding to this matrix as time goes on. It is not complete.**

**Notes:**

^ DB = Delivery Curve. See morning email, US Deliverable Basket for full basket.

PS = Parallel Shift ; NPS = Non-Parallel Shift.

BNOC = Basis Net of Change