



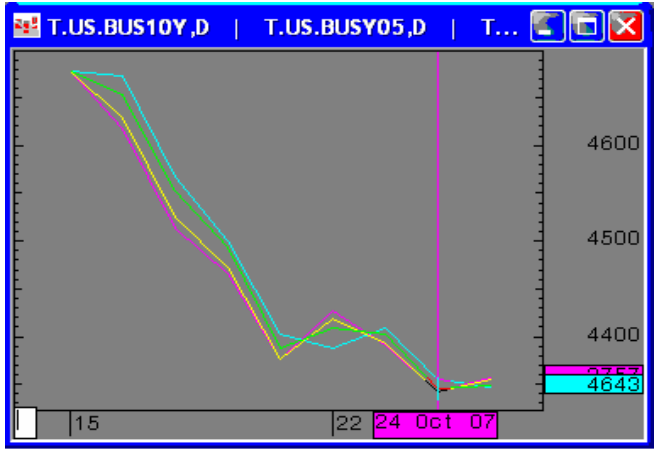
# The Morning Email: Treasuries

10/25/2007 6:30

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### Daily Yield Curve



Source: CQG, Inc. © 2007      Thu Oct 25 2007 05:42:23

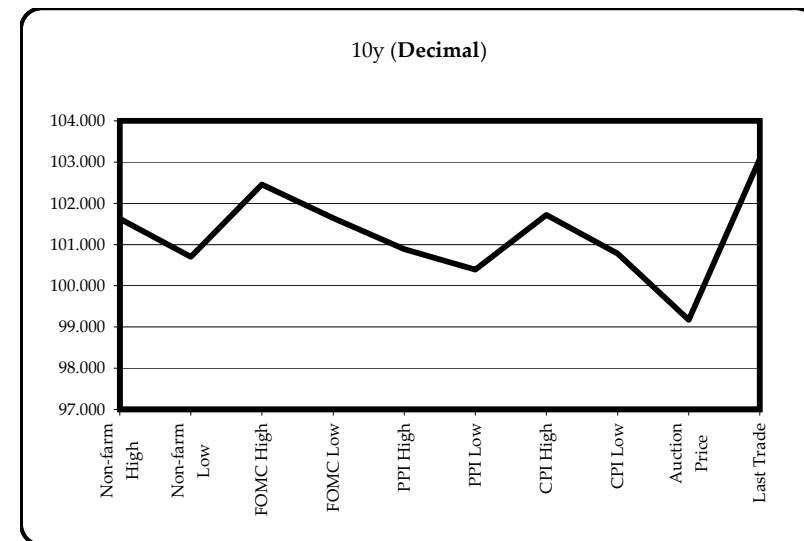
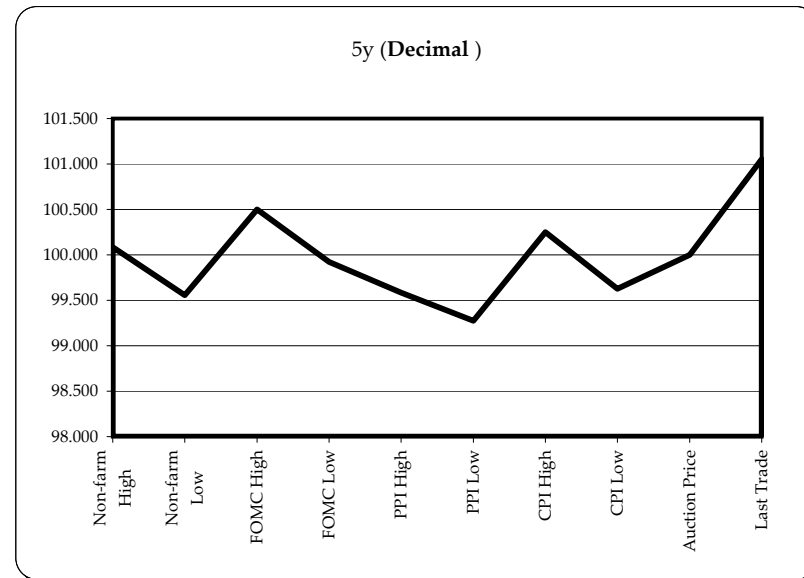


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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	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	101.0170	103.025	110.250	113.22	10/25/2007 6:30

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

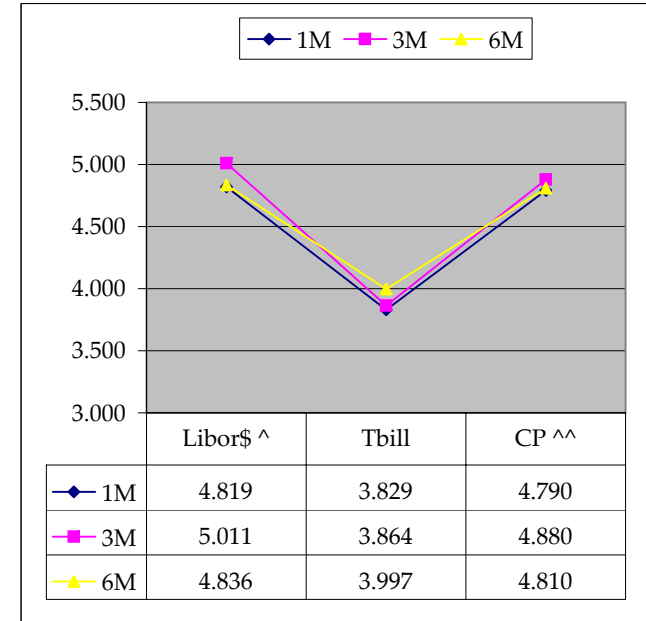


Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	32 nds						
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAZ7	103.272	(0.0)	103.297	103.267	103.287	37,917	2y Fut
FVAZ7	107.300	(0.1)	108.055	107.295	108.025	86,122	5y Fut
TYAZ7	110.250	(0.1)	111.025	110.240	110.285	141,034	10y Fut
USAZ7	113.220	(0)	114.020	113.200	113.260	26,856	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.230	(24.0)	99.257	99.230	99.245	na	2y Cash
BUS05P	101.015	(3.5)	101.085	101.010	101.047	na	5y Cash
BUS10P	103.025	(4.0)	103.120	103.020	103.060	na	10y Cash
BUS30P	105.155	(6)	106.000	105.145	105.185	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.765	2.80	3.847	3.72	3.847	na	2y Yield
BUS05Y	4.012	2.60	4.021	3.961	3.986	na	5y Yield
BUS10Y	4.356	1.10	4.366	4.319	4.339	na	10y Yield
BUS30Y	4.658	0.90	4.66	4.621	4.639	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.819	3.829	4.790
3M	5.011	3.864	4.880
6M	4.836	3.997	4.810
	TSY	Swap	ED Pks ^^
2y	3.760	64.50	4.311
5y	4.011	64.50	4.983
10y	4.360	61.75	

	Libor\$ ^	Repos
O/N	4.783	4.650
1week	4.809	4.600
2week	4.813	4.550



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****Yesterday:**

15:07 10/24 **US TSYS/RECAP:** Tsys rallied Wed. on 1) weak US stocks; 2) Merrill Lynch had US\$7.5B 3Q writedown; 3) rumor, unconfirmed, of a U.S. bank to write down some losses after US mkt close; 4) earlier was heavy asset- allocation moves from stocks into US Tsys, 5) short-covering this afternoon, two-way flow, and had been 6) some Chinese profit-taking in Tsys earlier, similar selling in agencies, also rumored Asian buying in MBS and Asian buying in 2Y Tsys too. 7) Leveraged accounts and buy-and-hold accounts had bought US 10Ys in afternoon, while leveraged accounts sold 2Ys. 8) Had also been bank portfolio buying in Tsys, and morning fast money selling at the highs; 8) some cited "capital preservation" moves to exit riskier assets; 9) had been earlier MBS servicer buying; 10) Also was bank buying in 5Ys; 10) US\$20B 2Y auction drew 3.723% high yield, 22.8% indirects, 76.1% dealer, 1.1% directs. 11) Tsys had safe-haven bid on SIV/ABCP jitters; 3 banks hope to outline M-LEC SIV bailout entity by next wk to show bk partners, funds.

15:19 10/24 **US EURODLR FUTURES:** Eurodlr futures finished session near at or near highs, curve bull steepening again as the front end outperformed, the Red/Gold pack spd 3.25 bps steeper at 89.00 by the bell--new highs. In the Fronts (Dec07-Sep08), the Dec07 was up 8.0 bps at 95-36.5 on combined Globex and pit volume of 291,000, the Mar08 up 10.5 bps at 95-69 on volume of 351,000, the Jun08 up 10.5 bps at 95-84.5 on volume of 404,000, While the Sep08 contract was 10.0 bps higher at 95-93.5 on volume of 397,000. The 2yr proxy Red pack (Dec08-Sep09), settled 9.5 to 10.5 bps higher across the pack with 845,000 contracts traded.

15:08 10/24 **US SWAPS:** Spds ended session marginally directionally tighter w/lower Tsy ylds, in a tight range all session, however, despite uptick in credit concerns. Sources had reported some light paying-tied flow in front end while a dealer desk reported small receiver-tied flow in 2s, 10s and 30s for real money accounts, all tied to corporate flows. Servicers, more active hedgers earlier in week as they added duration by moving down in coupon and/or received in swaps, were quiet in swaps early Wednesday, while some convexity induced receiving was reported by some later in session. According to GovPX:

Time (ET) 2Y Swap/Mid 5Y Swap/Mid 10Y Swap/Mid 30Y Swap/Mid

Wed 3:00 -0.25/67.00 -0.25/64.75 -0.25/62.25 -0.25/58.50

12:00 -0.25/67.00 +0.25/65.25 +0.25/62.75 +0.00/58.75

10:10 -0.25/67.00 +0.00/65.75 +0.25/62.75 +0.00/58.75

9:15 +0.00/67.25 +0.00/65.75 +0.25/62.75 +0.00/58.75

Wed Open -0.25/67.00 +0.00/65.75 +0.00/62.50 -0.25/58.50

Tue 3:00 -0.75/67.25 -1.00/65.75 -1.25/62.50 -1.25/58.75

(cont)

**Overnight:**

07:07 10/25 **TSYS SUMMARY:** U.S. Treasuries are trading lower on Thursday on back of profit-taking, amid 2-way flows and thin volume conditions. Prices opened lower in the Tokyo session, on continued profit-taking following sharp gains the previous session, after Merrill Lynch suffered a ratings downgrade in the wake of reporting a \$2.24-billion Q3 loss, or \$2.82/share, with a \$7.9bln writedown. In addition, rumour of another US Investment bank due to report \$9bln writedown also injected a bid in bond markets. However, the sharp recovery in Wall Street stocks towards the close took the shine off bonds. In addition, stock futures are also higher after Amazon.com beat third-quarter forecasts by a penny as revenue jumped 41% from a year ago, in after-hours session. Prices then edged higher as the Nikkei-225 came under pressure, but reversed gains at the start of the London session as European Government Bonds eased, amid profit-taking. Attention turns US new home sales data and 5-year Note auction to give the next directional view.

06:45 10/25 **FX:** Euro-dollar pushed back above \$1.4300 on Thursday morning, the greenback remaining under pressure following Wednesday's weaker than forecast US housing data which prompted further concerns over the health of the US economy. A stronger than expected German Ifo survey gave the euro an added boost. Rate ended the morning making highs around \$1.4309, bringing the life high at \$1.4349 back into focus. Cable was in consolidative mode through most of the morning, the underlying positive tone in sterling countered by the overnight release of the Bank of England's downbeat Stability Report. However, strong demand at the 1100 London fix provided a late morning lift to take rate to fresh recovery highs at \$2.0532. Dollar-yen saw early demand from a Canadian and a US name, taking the pair up to highs around Y114.40, ending the morning subdued at Y114.25.

05:14 10/25 **MONTH-END EXTENSIONS:** Lehman Bros month-end extensions are in and early indications suggest that the US Treasury extentends by +0.04 years, which is average, according to traders. The US aggregate index extends by +0.05 years (average). The Euro Treasury index extends by +0.11 year, which is above average of +0.05 years. The sterling Gilt index extends by +0.04 years (average) and the Japanese index by +0.04 years (average), add traders. The iBoxx Euro sovereign index extends by +0.10 yrs into November and is higher than the historical average for this time of the year (+0.08 yrs), according to strategists. In the UK, the iBoxx sterling index extends by around +0.03 yrs, given the auction of the new 4.75% Dec 2030 Gilt and no Gilts left the index.



Stone & McCarthy  
RESEARCH ASSOCIATES

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.65	5.33	\$1,667	10.67	n/a
10y	7.75	2.58	\$806	5.16	n/a
5y	4.40	1.43	\$446	5.71	n/a
2y	1.84	0.59	\$184	2.35	n/a
ZB	9.90	3.65	\$114	3.65	1.1103
ZN	5.81	2.08	\$65	4.16	0.9069
ZF	3.89	1.35	\$42	2.71	0.9285
ZT	1.84	0.61	\$19	2.43	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	24.70	24.50	0.20
5/10	34.40	36.30	(1.90)
10/30	30.20	31.10	(0.90)
2/10	59.10	60.80	(1.70)
5/30	64.60	67.40	(2.80)
2/30	89.30	91.90	(2.60)

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**

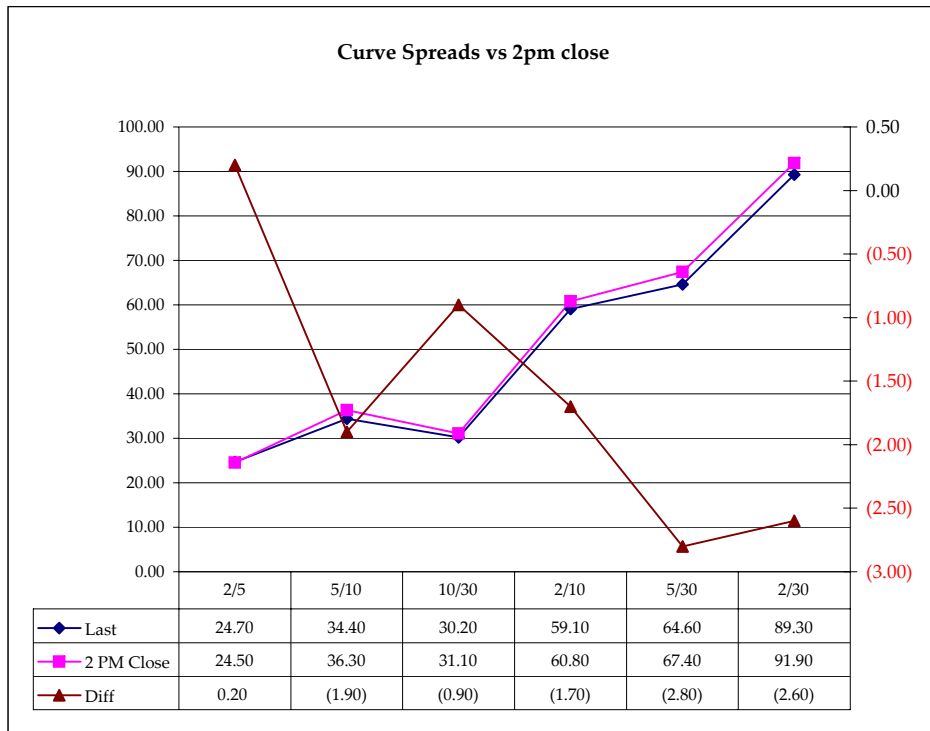
CF = Conversion Factor

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



## 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	1.61	3.91	7.06	14.60
ZN	2.83	6.86	12.40	25.64
ZF	4.34	10.54	19.04	39.38
ZT	4.84	11.74	21.21	43.88

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.756	2.697	6.010
ZN	0.000		1.536	3.423
ZF	0.371	0.651		2.229
ZT	0.166	0.292	0.449	

## 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)	0.2	0.4	1.0

## US Treasuries

	2y	5y	10y	30y
2y		2.428	4.386	9.074
5y	0.419		1.839	3.804
10y	0.228	0.554		2.069
30y	0.110	0.268	0.483	

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

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	99.2600	3.723	3.765	0.042			+50 / -.25
5y	4.125	8/31/12	101.0800	3.968	4.012	0.044	26.46	26.66	+50 / -.25
10y	4.750	8/15/17	103.100	4.331	4.356	0.025	83.78	83.54	
30y	5.000	5/15/37	105.23	4.642	4.658	0.016	-665.15	-663.27	

	Close 32	Last
ZFZ7	108.050	107.300
ZNZ7	111.010	110.250
ZBZ7	113.30	113.220

Curve Spreads		
	Close bps	Last bps
2/5	24.5	24.7
5/10	36.3	34.4
10/30	31.1	30.2
2/10	60.8	59.1
5/30	67.4	64.6
2/30	91.9	89.3



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%	49%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$184			
5	\$186	\$446		
10	\$191	\$458	\$806	
30	\$196	\$469	\$825	\$1,667
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$2)			
10	(\$7)	(\$12)		
30	(\$12)	(\$23)	(\$19)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-1.33%			
10	-3.84%	-2.55%		
30	-6.08%	-4.81%	-2.32%	

**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	2.35	4.24	8.78
ZF	0.43	1.05	1.90	3.94
ZN	0.28	0.69	1.24	2.56
ZB	0.16	0.39	0.71	1.46

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.35	8.48	17.55
ZF	0.43	2.11	3.81	7.88
ZN	0.57	1.37	1.24	2.56
ZB	0.64	1.56	1.41	2.92

	2y	5y	10y	30y
2y	1.00	2.43	4.39	9.07
5y	0.41	1.00	1.81	3.74
10y	0.23	0.55	1.00	2.07
30y	0.11	0.27	0.48	1.00

	2y	5y	10y	30y
2y		2.43	2.19	4.54
5y	0.41		0.45	1.87
10y	0.46	2.21		2.07
30y	0.22	0.54	0.48	

	ZT	ZF	ZN	ZB
ZT	1.00	2.23	3.42	6.01
ZF	0.45	1.00	1.54	2.70
ZN	0.29	0.65	1.00	1.76
ZB	0.17	0.37	0.57	1.00

	2y	5y	10y	30y
ZT		2.23	6.85	24.04
ZF	0.45		1.54	5.39
ZN	0.15	0.65		3.51
ZB	0.04	0.19	0.28	

<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