



# The Morning Email: Treasuries

10/26/2007 5:47

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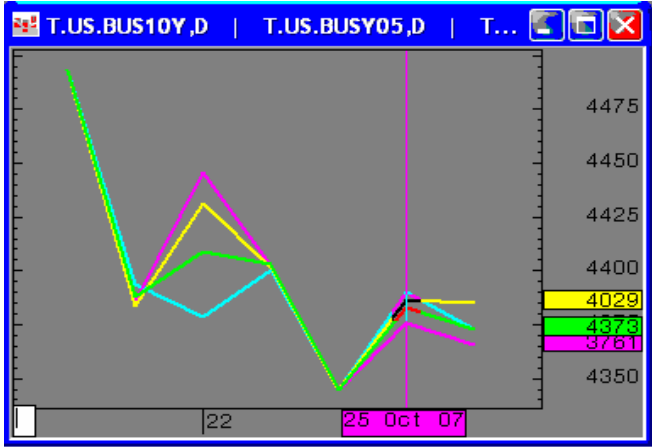
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### Daily Yield Curve



Source: CQG, Inc. © 2007      Fri Oct 26 2007 05:29:39

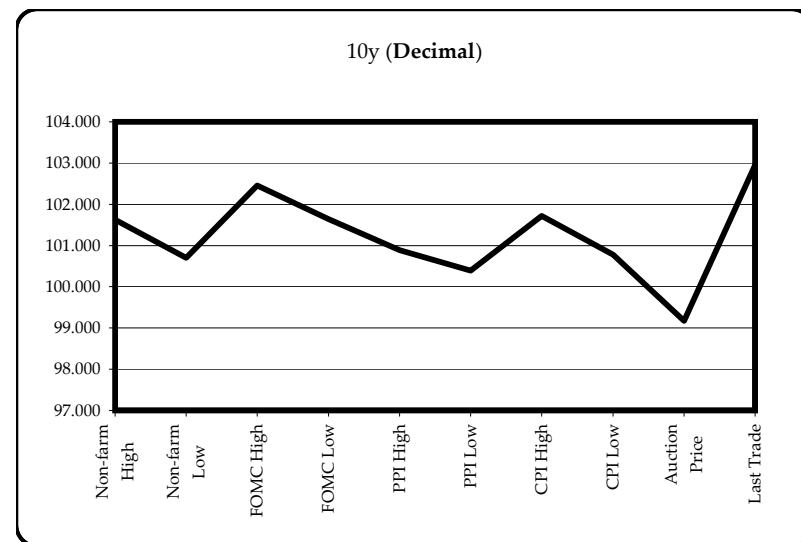
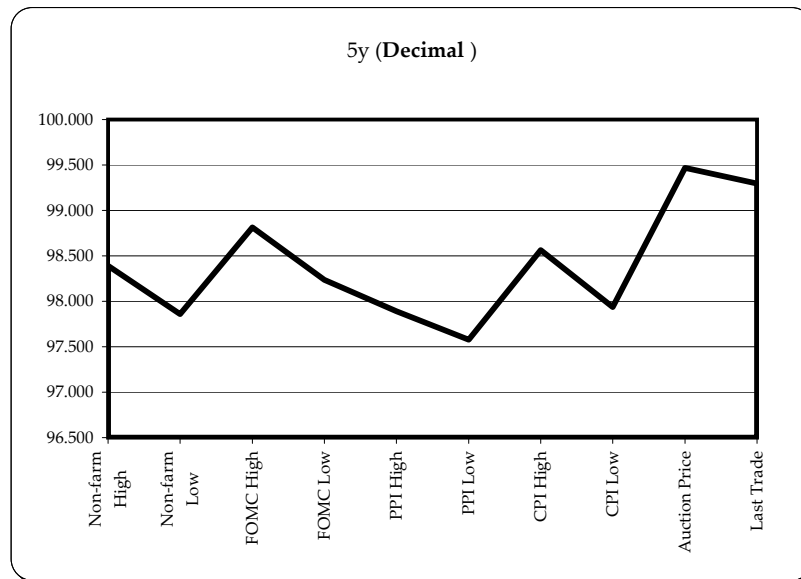


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	98.1250	101.200	109.160	111.30	10/5/2007
Non-farm Low	97.2750	100.225	108.210	110.15	10/5/2007
FOMC High	98.2600	102.145	110.300	112.30	9/18/2007
FOMC Low	98.0750	101.205	109.115	111.27	9/18/2007
PPI High	97.2850	100.285	108.260	110.31	10/12/2007
PPI Low	97.1850	100.125	108.120	110.05	10/12/2007
CPI High	98.1800	101.230	109.220	111.27	10/17/2007
CPI Low	97.3000	100.250	108.260	110.15	10/17/2007
Auction Price	99.1504	99.056			
Last Trade	99.0950	102.305	110.225	113.18	10/26/2007 5:47

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.260	99.150	99.056	99.026
Auction Yield Stop	3.723	3.993	4.855	5.059
Actual Auction Date	10/24/2007	10/25/2007	8/8/2007	8/9/2007



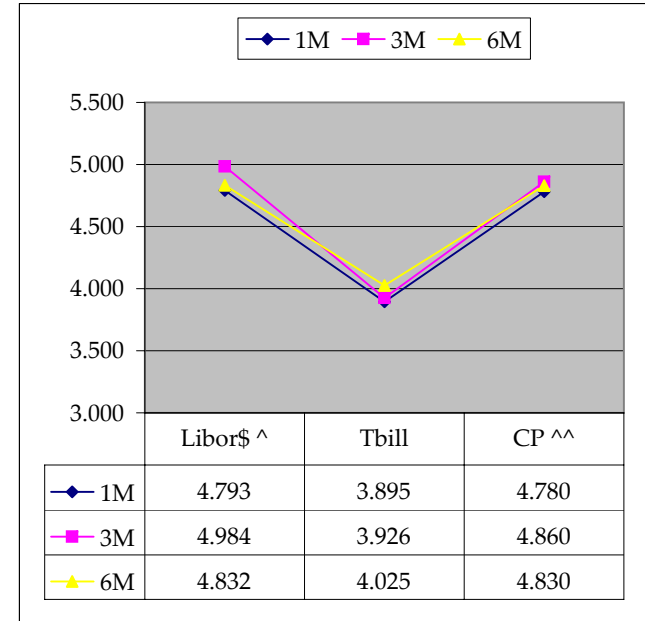
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	103.275	(0.0)	103.287	103.260	103.275	20,357	2y Fut
FVAZ7	107.285	(0.0)	107.310	107.260	107.290	49,089	5y Fut
TYAZ7	110.225	(0.0)	110.250	110.195	110.220	88,028	10y Fut
USAZ7	113.180	(0)	113.200	113.130	113.150	16,014	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.230	(0.2)	99.245	99.220	99.240	na	2y Cash
BUS05P	99.092	(121.2)	99.112	99.077	99.110	na	5y Cash
BUS10P	102.300	2.5	103.005	102.270	102.305	na	10y Cash
BUS30P	105.070	8	105.080	105.020	105.060	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.773	0.00	3.798	3.74	3.785	na	2y Yield
BUS05Y	4.030	(0.10)	4.048	4.009	4.023	na	5y Yield
BUS10Y	4.375	(0.80)	4.393	4.364	4.379	na	10y Yield
BUS30Y	4.670	(1.50)	4.683	4.667	4.677	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.793	3.895	4.780
3M	4.984	3.926	4.860
6M	4.832	4.025	4.830

	Libor\$ ^	Repos
0/N	4.794	4.600
1week	4.800	4.600
2week	4.799	4.500

	TSY	Swap	ED Pks ^^
2y	3.773	64.00	4.322
5y	4.021	64.25	5.022
10y	4.375	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****Yesterday:**

15:38 10/25 **US TSYS/RECAP:** Tsys hold lower range but ended off day's low, 2-way flow: 1) stocks-vs-bonds choppy trading; 2) stocks ending weaker on insurer/ABCP/credit jitters; 3) dealers set shorts into US\$13B 5Y auction (3.993% high yield, 21.3% indirects, 77.4% dealer bid); 4) safe-haven bid waxed, waned w/ stocks; 5) earlier swaps paying in 2Y, 5Y; 6) early brisk buying in Dec. 10Ys futures by real money, and little bit less buying in Dec 2Ys (had sold Dec. 30s); 7) +4.8% gain in Sept home sales to +770K SAR but Aug revised to +735K (vs +795k prior.) 8) Accounts exited 2Y/10Y steepeners. 9) Afternoon saw more customer adding to 2Y/10Y steepener: had bought 12k Dec 2Ys/sold 7K Dec 10Ys by day's end. 10) Cash 10Y, 3Ys special in repo. 11) Earlier bargain-hunting in 2Ys after early NY selling at 3.75% 2Y psychological resistance area; earlier lvrgd fincl selling in 5Ys, pension selling in intermediates. 11) Sept remittances weak; ABXs weak; some eyed 30-day, 60day delinqs on 06-01 vintage due to upcoming resets, increased default chances. (more)

15:13 10/25 **US EURODLR FUTURES:** Eurodlr futures finished session mixed, near the bottom end of the range in the longer expiries as the curve bear steepened, the Red/Gold pack spd was 2.5 bps steeper at 91.5 by the bell--new highs. In the Fronts (Dec07-Sep08), the Dec07 was in 1.0 bps at 95-35.5 on combined Globex and pit volume of 202,000, the Mar08 up 0.5 bps at 95-69.5 on volume of 261,000, the Jun08 steady at 95-84.5 on volume of 297,000, while the Sep08 contract was 0.5 bps lower at 95-93 on volume of 302,000. The 2yr proxy Red pack (Dec08-Sep09), settled 0.5 to 2.0 bps lower across the pack with 706,000 contracts traded.

15:05 10/25 **US SWAPS:** Spds ended session steady to tighter in the front end as the 2s/10s spd of spds works to move off inversion by 1.25 bps. Sources said the early flow was linked to the LIBOR compression as several accounts received in 2-years. But, also sources said the narrowing was also linked to the 2-year roll after Wednesday's \$20 billion U.S. Treasury 2-year auction. Early trading also had payers in 2- and 5-year swap spreads. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	-1.25/65.75	-0.50/65.00	+0.00/62.25	+0.00/58.50
1:30	-1.25/65.75	-0.50/65.00	+0.25/62.50	+0.00/58.50
11:59	-2.00/65.00	-1.00/64.50	-0.50/61.75	-0.50/58.00
10:00	-1.50/65.50	-0.75/64.75	-0.25/62.00	-0.25/58.25
Thu Ope	-2.75/64.25	-1.50/64.00	-0.50/61.75	-0.75/57.75
Thu 7:50	-2.75/64.25	-1.25/64.25	-0.50/61.75	-0.75/57.75
Wed 3:0	-0.25/67.00	+0.00/65.75	-0.25/62.25	-0.25/58.50

(cont)

**Overnight:**

06:41 10/26 **TSYS SUMMARY:** US Treasuries opened higher in the Tokyo session, amid continued market rumour of another US financial institution due to unveil large subprime writedown. However, prices then reversed direction as the Nikkei-225 squeezed higher, largely on back of short-covering. In the London session, prices continued to decline in line with weaker open in European Government Bonds, and further asset-allocation trades out of stocks. The decline was short-lived, with short-covering noted amid duration extension buying in longer-dated issues, in turn flattening the US Treasury curve. Elsewhere, the long-bond was underpinned by the further rise in crude oil, where WTI Nymex crude hits fresh record highs above \$92.19 level, amid geo-political jitters, supply worries ahead of the winter season and the continued weakness in the dollar. Trader also reported safe-haven buying on back of large selling in Argentinian bonds on reports that the current President has manipulated inflation data to increase chances for his wife to succeed him.

06:39 10/26 **FX:** The dollar slipped to record lows versus the euro on Friday morning as the fragile nature of the US economy and increasing rate cut expectations ahead of the FOMC announcement next Wednesday continued to weigh on the greenback. Euro-dollar pushed through \$1.4350 to \$1.4376. topping out just shy of option barriers at \$1.4380 and \$1.4400. Dollar-yen meanwhile remained relatively contained, caught between the crossfire of a weaker dollar and strong demand for the higher-yielding currencies, with euro-yen advancing strongly through Y164.00. Cable extended recent gains during European morning trade, posting fresh threemonth highs at \$2.0573 before faltering ahead of a reported option barrier at \$2.0580. Sterling's move was also a reaction to a generally softer dollar, with the pound losing further ground to the euro. Thursday's warnings on the fragile condition of the UK economy and financial system in the Bank of England's Stability Report continued to counter the UK currency's upside progress.



10:38 10/25 **GLOBAL MARKETS/OPINION:** What's the greatest risk facing global markets over the last two months of 2007? - The latest Lehman client poll.

1. Another systematic credit flare - 31%;
2. Further poor performance revelations by financial institutions and/or Hedge Funds - 9%;
3. Global Political Risk - 6%;
4. Negative rethink of 2008 outlook - 38%;
5. SIV resolution stasis - 3%;
6. Underinvestment in risk assets: cyclical second wind on the way- 13%.

Lehman says - "Among the most pressing capital market concerns, readers see the highest risk coming from a negative sentiment shift rather than actual fundamental deterioration. This should not be entirely surprising, although we were struck that SIVs ranked last in terms of worries. The annual forecast season is just two months away. Few prognosticators will be unequivocally sanguine."

11:56 10/25 **US ABS:** The ABX is trading lower across the board in part due to yet another round of dismal monthly remittance reports that are coming out today. The ABX07-2 AA is down 6.5 points to 63.5 midmarket, the 06-1 A is down 2.5 points to 74.25 midmarket, and the 07-2 BBB- is down 3 points to 20. The continued slowing trend in prepayment speeds suggests that hard pressed buyers are facing difficulties in refinancing and/or difficulties in finding a buyer for their homes.

11:58 10/25 **FED:** Sources are looking at a FT story that quotes Vincent Reinhart, a former top staff member at the Board. FT says "Mr Reinhart said that although the 50 basis point rate cut last month was intended to frontload the easing required to offset the credit squeeze, it was 'probably not a sufficient frontloading of the needed easing' to allow the Fed to sit tight at the October 31 meeting."

Raymond Stone

**--Stone & McCarthy (Princeton)-- Initial Unemployment Claims in the week ended October 20 declined 8,000 to a still elevated 331,000 reading.**

The claims data will not go unnoticed as we approach next week's FOMC meeting. Policy-makers have been keeping a keen eye out for signs of contagion from the mortgage market/housing debacle. The recent elevation in claims provides evidence of contagion, and should tilt the debate in favor of taking action. Our bet is the FOMC cuts the funds target by 25bps to 4-1/2%, with a similar cut in the discount rate.

NEWS ALERT [8:17am CT]

from **The Wall Street Journal**, Oct. 25, 2007

The Bush administration imposed sweeping new sanctions against Iran's defense ministry, its Revolutionary Guard Corps and a number of banks for purported support for terrorist organizations in Iraq and the Middle East.

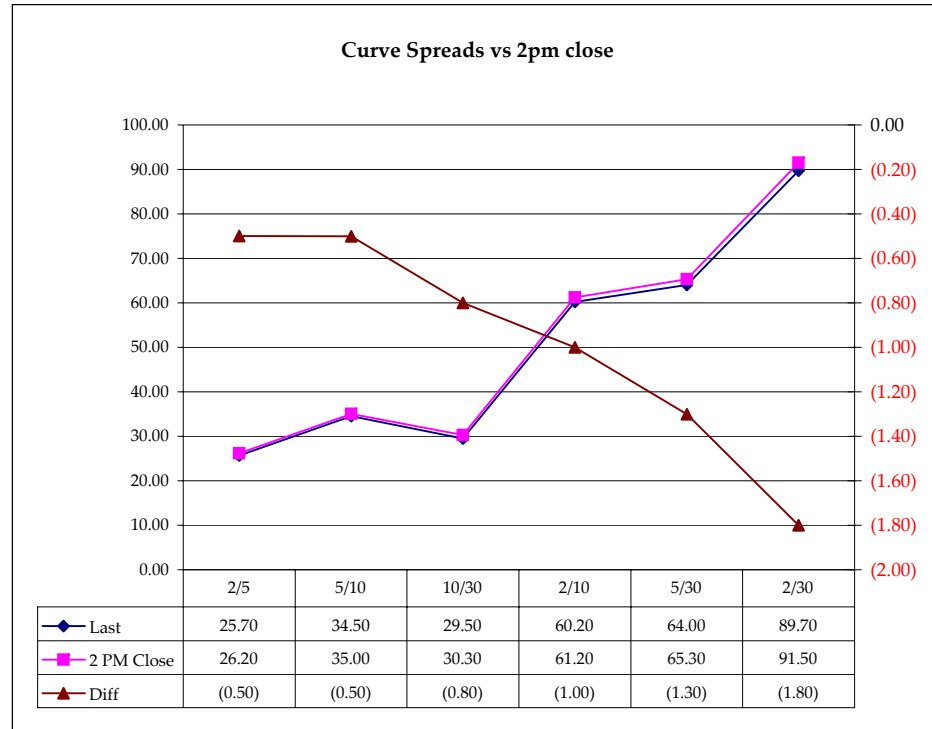
13:13 10/25 **US MKTS:** Joint Economic Comm report titled, "The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values and Tax Revenues, and How We Got Here" says 2 mln subprime mortgage homes could be foreclosed, resulting in blns in losses. The report argues in favor of foreclosure prevention. See [www.jec.senate.gov](http://www.jec.senate.gov).



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.63	5.32	\$1,661	10.63	n/a
10y	7.74	2.57	\$804	5.14	n/a
5y	4.42	1.41	\$441	5.64	n/a
2y	1.93	0.62	\$195	2.49	n/a
ZB	9.89	3.64	\$114	3.64	1.1103
ZN	5.81	2.08	\$65	4.15	0.9069
ZF	3.88	1.35	\$42	2.70	0.9119
ZT	1.83	0.61	\$19	2.44	0.9593

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	25.70	26.20	(0.50)
5/10	34.50	35.00	(0.50)
10/30	29.50	30.30	(0.80)
2/10	60.20	61.20	(1.00)
5/30	64.00	65.30	(1.30)
2/30	89.70	91.50	(1.80)

DV01 32, said differently, is "how many TICS is in a basis point?".  
 Example, If ZN moves 1~basis point, then, it's moved 2.08 tics (Today, 10/25/07, the value in the box is 2.08).  
 Since ZN trades in half tics, then, 4.17 boxes = 1 basis point in ZN. (Again, today, 10/25/07, the value in the box is 4.17). Of course the values will be different as you look at this. But, they won't be that much different. You can still get the idea I'm trying to get across.



**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

## 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	1.71	3.87	7.06	14.58
ZN	3.00	6.79	12.39	25.61
ZF	4.61	10.43	19.04	39.34
ZT	5.11	11.57	21.11	43.62

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.756	2.698	5.982
ZN	0.000		1.536	3.406
ZF	0.371	0.651		2.217
ZT	0.167	0.294	0.451	

## 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		2.264	4.131	8.536
5y	0.442		1.825	3.771
10y	0.242	0.548		2.066
30y	0.117	0.265	0.484	

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)	

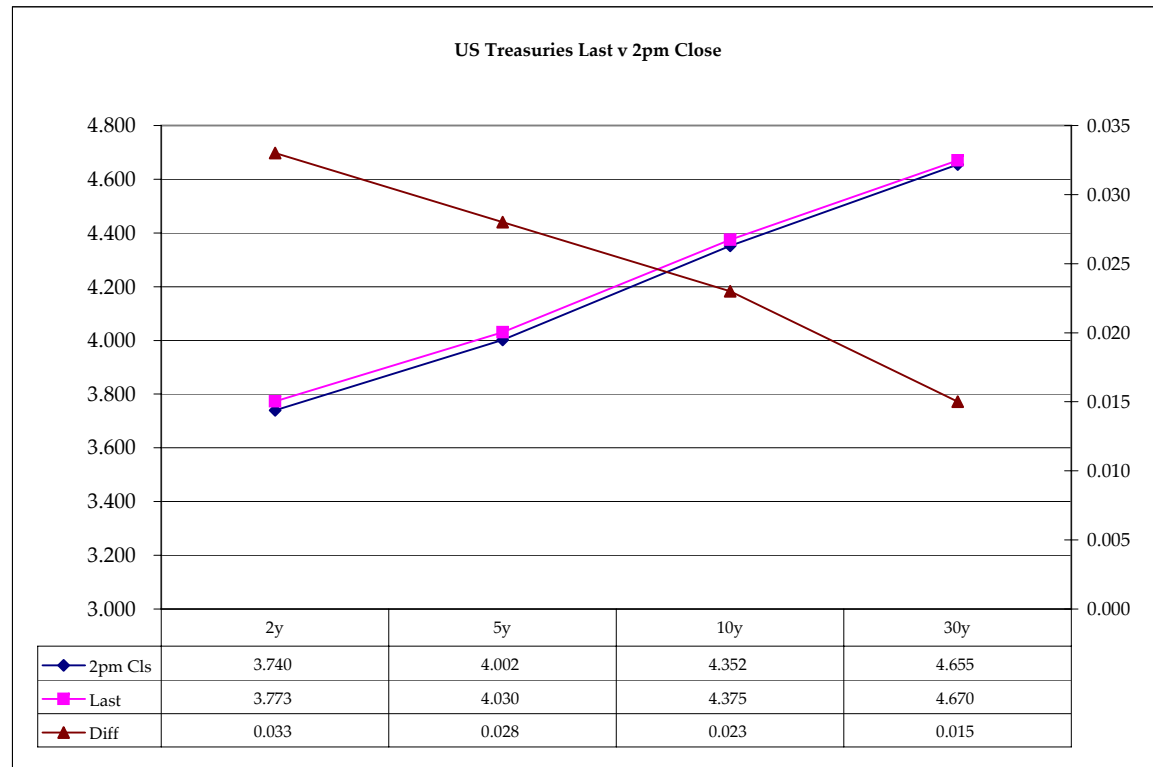
^WoW = Week over week

**Closes: 2pm CST vs this Morning**

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	9/30/09	99.2500	3.740	3.773	0.033			
5y	3.875	8/31/12	99.1375	4.002	4.030	0.028	117.31	29.17	+.50
10y	4.750	8/15/17	103.045	4.352	4.375	0.023	83.27	81.81	
30y	5.000	5/15/37	105.16	4.655	4.670	0.015	-666.60	-666.83	

	Close 32	Last
ZFZ7	105.005	107.285
ZNZ7	110.275	110.225
ZBZ7	113.25	113.180

Curve Spreads		
	Close bps	Last bps
2/5	26.2	25.7
5/10	35.0	34.5
10/30	30.3	29.5
2/10	61.2	60.2
5/30	65.3	64.0
2/30	91.5	89.7



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	44%	100%		
10	25%	57%	100%	
30	12%	28%	49%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$195			
5	\$192	\$441		
10	\$200	\$459	\$804	
30	\$205	\$470	\$822	\$1,661
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$3			
10	(\$5)	(\$19)		
30	(\$10)	(\$29)	(\$18)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	1.42%			
10	-2.74%	-4.10%		
30	-4.88%	-6.22%	-2.21%	

**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		1.02	2.31	4.22	8.72
ZF		0.46	1.04	1.90	3.93
ZN		0.30	0.68	1.24	2.56
ZB		0.17	0.39	0.71	1.46

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		1.02	2.31	8.44	17.45
ZF		0.46	2.09	3.81	7.87
ZN		0.60	1.36	1.24	2.56
ZB		0.68	1.55	1.41	2.92

		2y	5y	10y	30y
2y		1.00	2.26	4.13	8.54
5y		0.44	1.00	1.82	3.77
10y		0.24	0.55	1.00	2.07
30y		0.12	0.27	0.48	1.00

		2y	5y	10y	30y
2y			2.26	2.07	4.27
5y		0.44		0.46	1.89
10y		0.48	2.19		2.07
30y		0.23	0.53	0.48	

		ZT	ZF	ZN	ZB
ZT		1.00	2.22	3.41	5.98
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			2.22	6.81	23.93
ZF		0.45		1.54	5.40
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>10/24/2007</b>	4.5%	0.5%	22.6%	68.9%	7.1%	0.0%
<b>10/25/2007</b>	4.5%	1.1%	20.8%	70.2%	7.1%	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>10/24/2007</b>	4.3%	0.0%	21.9%	47.3%	29.6%	0.0%	0.0%	1.1%
<b>10/25/2007</b>	4.3%	0.0%	21.2%	48.5%	29.3%	0.0%	0.0%	1.0%

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	DC^	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	<u>What affects the basis?</u> changes in rp rates changes in the slope of the yc and dc changes in yield spreads changes in yield volatility carry convergence				
Cost-to-Carry down	x						
Market Rallying	x						
Market Breaking		x					
BNOC is Negative		x					
BNOC is Positive	x						
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.

**Notes:**

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

PS = Parallel Shift

NPS = Non-Parallel Shift.

BNOC = Basis Net of Change

yc = yield curve

HDB = High Duration Bond/Note

LDB = Low Duration Bond/Note