



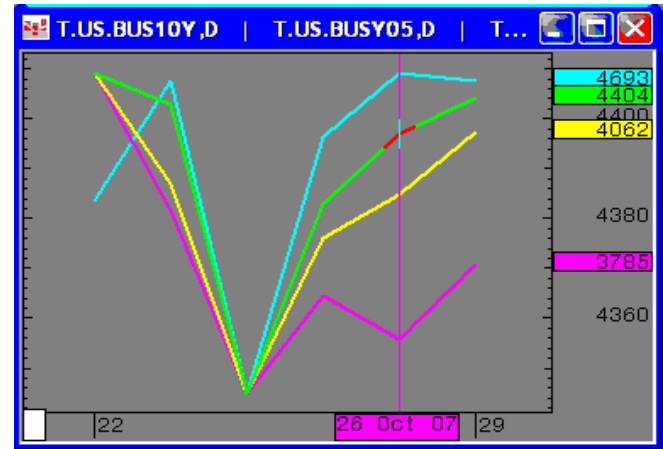
# The Morning Email: Treasuries

10/29/2007 5:56

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### Daily Yield Curve



Source: CQG, Inc. © 2007      Mon Oct 29 2007 05:52:49

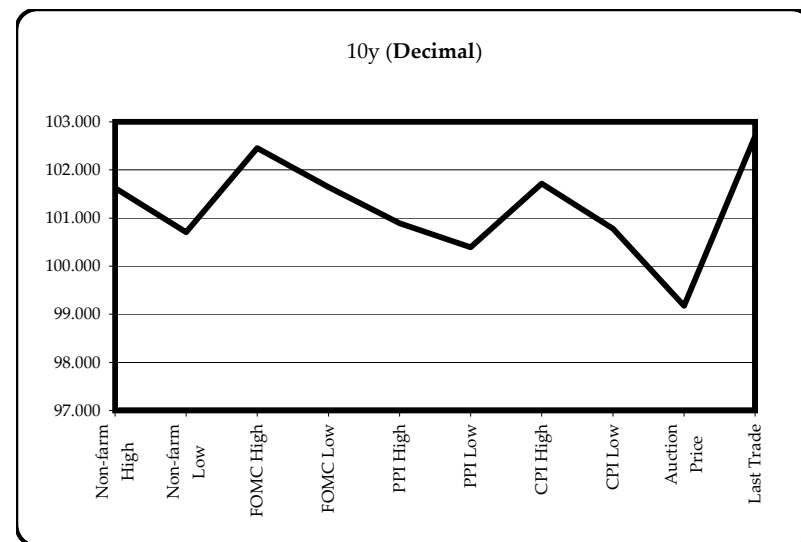
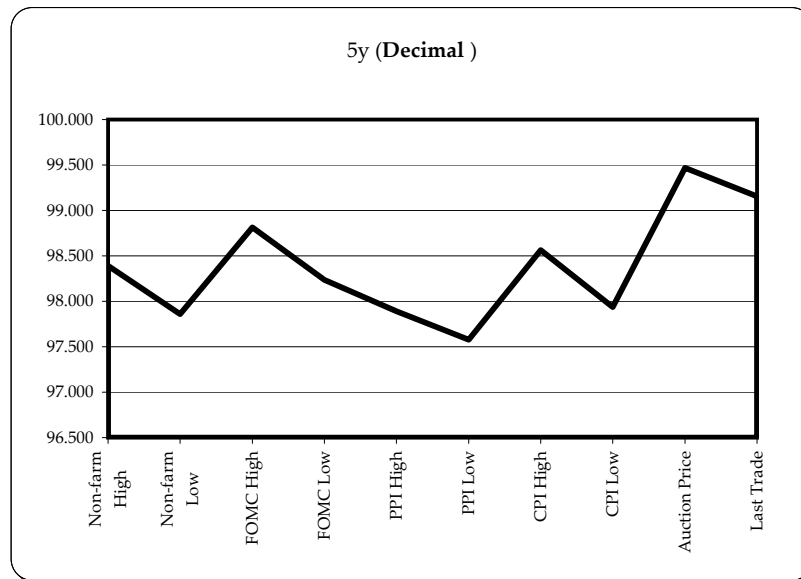


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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	99.0500	102.225	110.160	113.10	10/29/2007 5:56

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



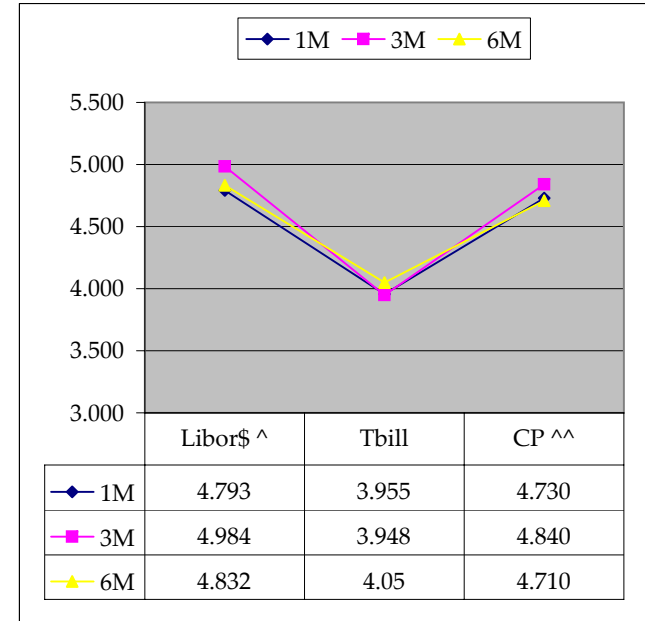
Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))  
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	103.255	(0.0)	103.275	103.255	103.272	18,088	2y Fut
FVAZ7	107.250	(0.0)	107.285	107.245	107.280	26,450	5y Fut
TYAZ7	110.160	(0.0)	110.195	110.150	110.190	70,104	10y Fut
USAZ7	113.100	(0)	113.150	113.090	113.120	15,309	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	#VALUE!	(1.5)	99.230	99.217	99.225	na	2y Cash
BUS05P	99.045	(2.5)	99.075	99.047	99.060	na	5y Cash
BUS10P	102.225	(1.0)	102.260	102.225	102.235	na	10y Cash
BUS30P	104.265	(1)	104.310	104.270	104.280	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.789	3.20	3.802	3.753	3.773	na	2y Yield
BUS05Y	4.064	2.00	4.069	4.041	4.055	na	5y Yield
BUS10Y	4.404	0.70	4.41	4.389	4.405	na	10y Yield
BUS30Y	4.693	(0.10)	4.699	4.682	4.695	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.793	3.955	4.730
3M	4.984	3.948	4.840
6M	4.832	4.05	4.710

	Libor\$ ^	Repos
0/N	4.794	4.420
1week	4.800	4.550
2week	4.799	4.500

	TSY	Swap	ED Pks ^^
2y	3.789	64.75	4.364
5y	4.067	65.75	
10y	4.404	63.75	



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**

Prices had steadied into the open in the U.S. and cash market prices were mixed at the open, although Treasury futures prices were lower as they played catch up with the late losses in the cash market Thursday. After that, Treasuries zigged as equities zagged. The mid-morning final October University of Michigan Consumer Sentiment release was the only item on the calendar. That was weaker than expected, but did little to move the market.

Instead, equities initially jumped at the open on very strong earnings news from Microsoft and Countrywide's positive outlook for Q4. The strong equity market open had Treasury prices fading into mid-morning. Countrywide's strong outlook was released along with their much weaker than expected Q3 earnings report, however, which may have limited the upside. As Countrywide fell back after a strong open for their stock, the rest of the equity markets did as well, allowing Treasuries to drift higher through the middle of the day. Market News International noted leveraged buying in 2s and buy-and-hold interest in 5s on the way up.

Stocks turned higher again in the afternoon though, with all the major indexes rising to new highs on the day. Treasuries fell, but remained above the morning's lows. The downside was limited a bit despite equities as a number of issues remain tight in repo trading, which was underpinning some support. The Fed lent a huge \$4.6 bln of the current 10-year note Friday, which was another sign that a scramble for some of these issues is supporting Treasuries to some degree even as stocks rise. Also, the ABX indexes continue to tumble, aiding the safe-haven bid to a degree regardless of stocks.

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(cont)

06:21 10/29 **TSYS**: Treasuries are trading mixed in London trade Monday, with the curve flattening as the long-end of the curve outperforms. But traders said the looming two-day Federal Reserve FOMC meeting, along with the earlier appearance of U.S. traders, was keeping many players on the sidelines. Prices were little changed in Tokyo, with many players sidelined ahead of the European open. In London, the front of the curve was lower, weighed by a sell-off in shorter-date European paper. Leveraged names were reported as sellers of both the Euribor and short-sterling strips, helping push the two-year Treasury lower. The Bond was higher, helping the curve flatten, as month-end duration demand from life and pension funds pushed the Bond higher. The Bund/T-note spread was standing unchanged on Friday's levels, standing at 26 bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 lower at 99 22/32 to yield 3.78%. The 10-yr note was unchanged at 102 24/32 (4.47%), with the Bond 4/32 higher at 104 30/32 (4.69%).




11:03 10/26 **US TSYS/ABX:** US Tsys rise, cutting losses a bit as stocks are off the day's price highs, and slightly weaker Univ. of Mich consumer sentiment. Meanwhile traders eyed the ABX indexes being hammered lower today amid weak loan remittance data for the month; the 06-02 "AA" index is down 4.5 points in recent trading; 07-02 "A" down 6.5 points, 07-02 "AA" down 7.5 points.

11:05 10/26 **US ABS/ABX:** The market is still digesting yet another round of dismal ABS remittance reports released yesterday with ABX indexes selling off across the board. Sources point out the following: 1)delinquency and loss severity assumptions in loss models continually have to be ramped up to show more potential stress, 2)assumptions are ramping up so early, that credit support is also being threatened much sooner than expected, 3)the AA and As are now actually at risk for at least some principal write down, as a result, the steepest falls are in these tranches, 4)most investors did not think A-rated bonds would face a true principal risk without a deep, deep recession; but now even without consensus on a moderate recession, there are concerns about the very top of the capital structure.

**FedEx** said it will raise its express air-shipping rate by 4.9% effective Jan. 7 and will announce a ground-shipping increase later this year. [SOURCE: WSJ]

12:41 10/26 **US BONDS:** In addition to Fed next week, also get Q3 earnings. UBS on 10/30, DB on 10/31, CS on 11/1. Ottimo Funding \$2.8B public list via collateral agent DB takes place 10/29 thru 11/1 and is all non-agency, mostly Alt A floaters.

US TSYS: According to Lehman Bros, **the month-end extensions for Nov 1** are:  
 U.S. Treasury extension at 0.04 years  
 U.S. Aggregate at 0.05 years  
 Euro Treasury at 0.11 years  
 Sterling Gilts at 0.04 years

### Funds Rate Traded as High as 15% Yesterday by Ray Stone, PhD

--Stone & McCarthy (Princeton)--According to data from the FRBNY the funds rate traded in a range of 4.65% to 15% yesterday, with the effective rate being 4.86%, just slightly over the Fed target of 4.75%. The 15% high on the funds rate was the highest high in a very long time. The FRBNY has data going back to January 2000, and for this range the highest was yesterday's 15%.

Yesterday was the first day of the 14-day reserve maintenance period. As such there shouldn't have been any unusual settlement pressures. Moreover, given next week's FOMC meeting, and some probability of a lower funds target thereafter, one might expect that banks would maintain reserve balances which fall short of required reserves early in the period, with the hopes of running higher reserve balances after the funds rate target is reduced.

Who borrowed at 15%? We don't have a clue. But, we have to ask, why didn't this bank simply go to the discount window and borrow at 5-1/4%. Is it because the bank regarded discount window borrowings as still having a stigma, a perception that the Fed has worked hard to nullify since changing the rate to a penalty rate in January 2003?

While we can't explain this behavior towards reserve management, we do not attribute any policy inference to this development. We also think it unlikely that this borrowing is indicative of a specific credit issue, i.e. the bank paid up in the funds market because it didn't want to show its hand to the Fed.

That said, this bank by paying up in the funds market, rather than turning to the window, raises questions that would have probably not moved onto the radar screen had it simply gone to the window.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.60	5.29	\$1,652	10.57	n/a
10y	7.73	2.56	\$801	5.13	n/a
5y	4.42	1.41	\$439	5.62	n/a
2y	1.92	0.62	\$194	2.49	n/a
ZB	9.88	3.63	\$114	3.63	1.1103
ZN	5.80	2.07	\$65	4.14	0.9069
ZF	3.88	1.35	\$42	2.70	0.9119
ZT	1.83	0.61	\$19	2.43	0.9593

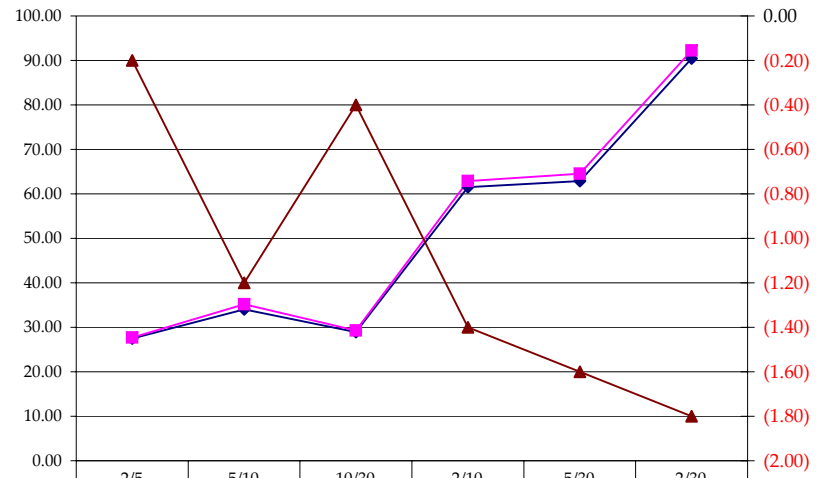
Yield Curve Spreads			
	Last	2pm close	Diff
2/5	27.50	27.70	(0.20)
5/10	34.00	35.20	(1.20)
10/30	28.90	29.30	(0.40)
2/10	61.50	62.90	(1.40)
5/30	62.90	64.50	(1.60)
2/30	90.40	92.20	(1.80)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	27.50	34.00	28.90	61.50	62.90	90.40
2 PM Close	27.70	35.20	29.30	62.90	64.50	92.20
Diff	(0.20)	(1.20)	(0.40)	(1.40)	(1.60)	(1.80)

**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	14.55
ZN	3.01	6.80	12.40	25.57
ZF	4.61	10.43	19.02	39.22
ZT	5.11	11.56	21.08	43.46

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.758	2.696	5.975
ZN	0.000		1.534	3.399
ZF	0.371	0.652		2.216
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		2.263	4.126	8.506
5y	0.442		1.824	3.760
10y	0.242	0.548		2.062
30y	0.118	0.266	0.485	

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	256,768	226,115	30,653	408,281	257,493	150,788	1,113,600	1,295,041	(181,441)	ZF
ZN	366,688	460,597	(93,909)	707,391	299,537	407,854	1,813,525	2,127,470	(313,945)	ZN
ZB	158,351	174,964	(16,613)	137,040	157,487	(20,447)	723,267	686,207	37,060	ZB

WoW^ Position Change				
	Sml Spec	Lrg Spec	Comm	As of
	Net	Net	Net	
ZF	19,688	(46,434)	26,745	10/9/2007
ZN	20,311	56,768	(77,079)	
ZB	10,245	25,007	(35,253)	

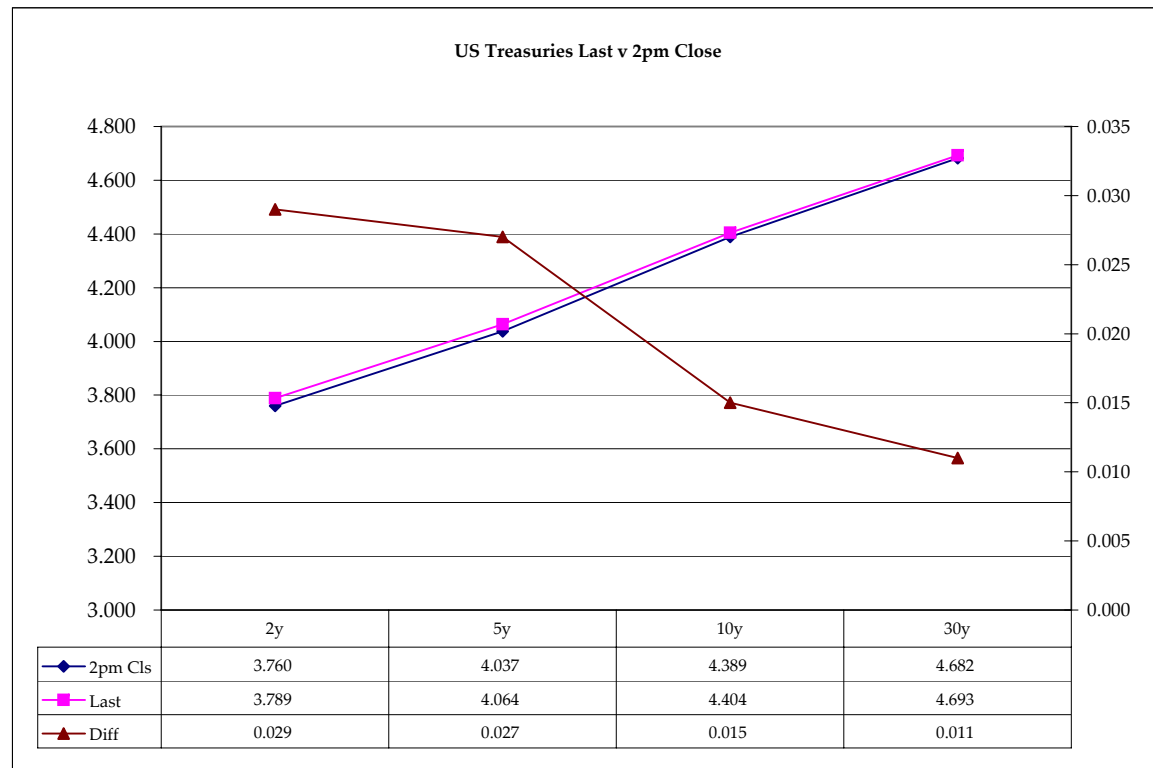
^WoW = Week over week

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	99.2375	3.760	3.789	0.029			
5y	3.875	10/30/12	99.0875	4.037	4.064	0.027	27.96	27.86	
10y	4.750	8/15/17	102.270	4.389	4.404	0.015	80.12	79.70	
30y	5.000	5/15/37	105.02	4.682	4.693	0.011	-670.61	-670.45	

	Close 32	Last
ZFZ7	107.290	107.250
ZNZ7	110.205	110.160
ZBZ7	113.16	113.100

Curve Spreads		
	Close bps	Last bps
2/5	27.7	27.5
5/10	35.2	34.0
10/30	29.3	28.9
2/10	62.9	61.5
5/30	64.5	62.9
2/30	92.2	90.4



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%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$194			
5	\$191	\$439		
10	\$199	\$458	\$801	
30	\$204	\$468	\$818	\$1,652
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$3			
10	(\$5)	(\$18)		
30	(\$9)	(\$28)	(\$17)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	1.54%			
10	-2.55%	-4.03%		
30	-4.58%	-6.03%	-2.09%	

**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	8.69
ZF		0.46	1.04	1.90	3.92
ZN		0.30	0.68	1.24	2.56
ZB		0.17	0.39	0.71	1.45

		Box for Box Matrix			
		2y	5y	10y	30y
ZT		1.02	2.31	8.43	17.38
ZF		0.46	2.09	3.80	7.84
ZN		0.60	1.36	1.24	2.56
ZB		0.68	1.55	1.41	2.91

		2y	5y	10y	30y
2y		1.00	2.26	4.13	8.51
5y		0.44	1.00	1.82	3.76
10y		0.24	0.55	1.00	2.06
30y		0.12	0.27	0.49	1.00

		2y	5y	10y	30y
2y			2.26	2.06	4.25
5y		0.44		0.46	1.88
10y		0.48	2.19		2.06
30y		0.24	0.53	0.49	

		ZT	ZF	ZN	ZB
ZT		1.00	2.22	3.40	5.98
ZF		0.45	1.00	1.53	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	6.80	23.90
ZF		0.45		1.53	5.39
ZN		0.15	0.65		3.52
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>10/25/2007</b>	4.5%	1.0%	21.7%	69.0%	8.0%	0.0%
<b>10/26/2007</b>	4.5%	0.6%	19.6%	68.7%	10.8%	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>10/25/2007</b>	4.3%	0.0%	21.9%	48.2%	29.5%	0.0%	0.4%	0.0%
<b>10/26/2007</b>	4.3%	0.0%	20.0%	47.3%	30.7%	1.7%	0.3%	0.0%

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

**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	Deliver	Deliver		
Fed stops selling issue	x		Flatten	Deliver	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	Deliver	Deliver		
Cost-to-Carry up		x	<p><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</p>				
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.

<p><b>Notes:</b>                  ^ DC = Delivery Curve. See morning email, US Deliverable Basket for full basket.                  PS = Parallel Shift                  NPS = Non-Parallel Shift.                  BNOc = Basis Net of Change</p>	<p>yc = yield curve                  HDB = High Duration Bond/Note                  LDB = Low Duration Bond/Note</p>
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