



The Morning Email: Treasuries

10/31/2007 5:36

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Daily Yield Curve



Source: CQG, Inc. © 2007

Wed Oct 31 2007 05:25:39

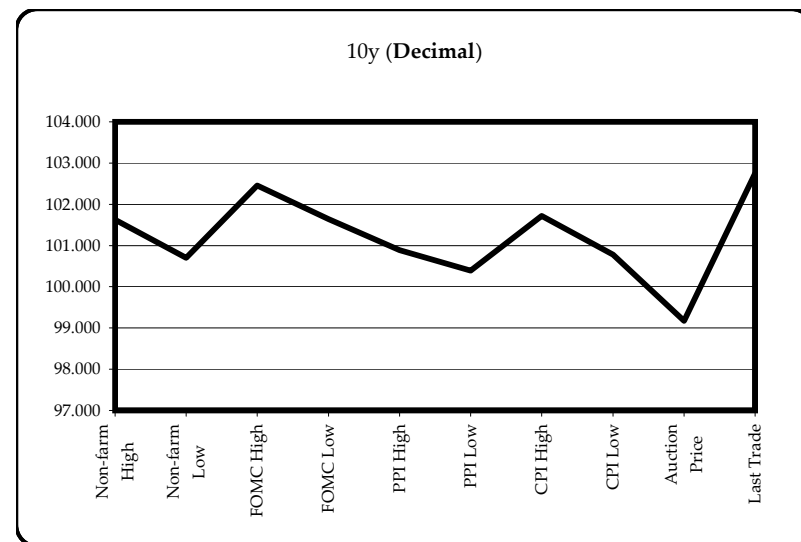
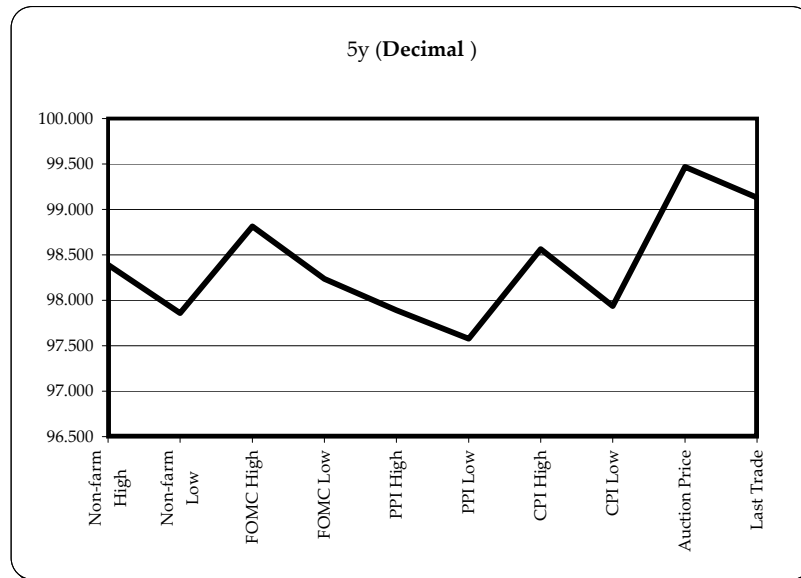


Want something added? Let me know: jgoulding@ghco.com

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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	99.0420	102.240	110.170	113.13	10/31/2007 5:36

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



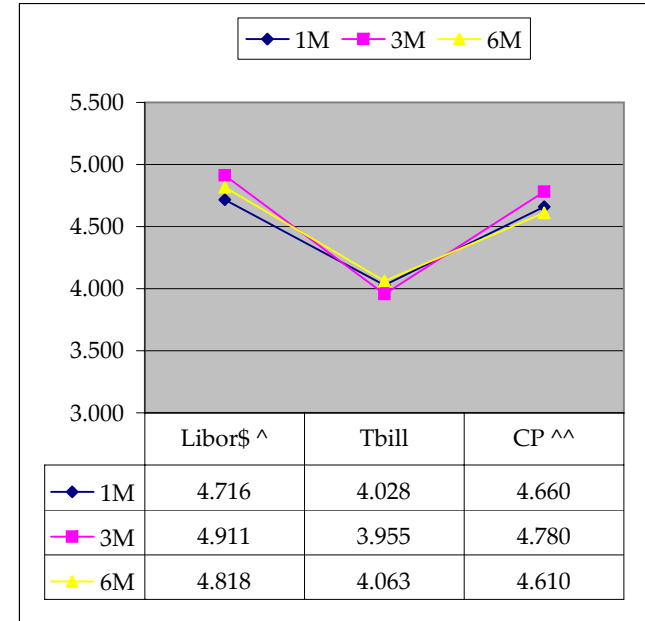
Notes: Cash and futures are adjusted for roll.
 Release times are from release to 2pm cdt
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +9.5; ZB = +5 (tics))
 r = reopen

	Last	Net	32 nds			Volume	SYM NAME
			High	Low	Open		
TUAZ7	103.240	(0.0)	103.255	103.237	103.252	13,203	2y Fut
FVAZ7	107.240	(0.0)	107.275	107.235	107.270	22,901	5y Fut
TYAZ7	110.170	(0.0)	110.220	110.160	110.215	71,054	10y Fut
USAZ7	113.130	(0)	113.200	113.120	113.190	9,940	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.197	(1.0)	99.212	99.197	99.207	na	2y Cash
BUS05P	99.040	(2.5)	99.070	99.040	99.067	na	5y Cash
BUS10P	102.240	(4.0)	102.295	102.240	102.280	na	10y Cash
BUS30P	104.300	(5)	105.090	104.300	105.040	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.823	1.70	3.835	3.781	3.827	na	2y Yield
BUS05Y	4.069	2.00	4.074	4.039	4.055	na	5y Yield
BUS10Y	4.398	1.70	4.404	4.375	4.385	na	10y Yield
BUS30Y	4.687	1.10	4.691	4.667	4.674	na	30y Yield

	Libor\$ ^	Tbill	CP ^^
1M	4.716	4.028	4.660
3M	4.911	3.955	4.780
6M	4.818	4.063	4.610

	Libor\$ ^	Repos
0/N	4.935	4.750
1week	4.751	4.550
2week	4.735	4.500

	TSY	Swap	ED Pks ^^
2y	3.822	64.75	4.407
5y	4.069	65.50	5.060
10y	4.400	63.25	



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**

15:22 10/30 **US TSYS/RECAP:** US Tsys ended Tues in upper end of day's range amid 1) late safe-haven bid, short-covering, Asian T-bill bid; was 2) earlier range trade amid morning gains on weaker US stocks; 3) weaker Oct. Conf Bd consumer confidence; 4) cross-border selling of Bunds/buying US Tsys; 5) earlier weak 197.16 Aug. S&P/Case Shiller home prices (off 0.7 vs. July). 6) But Tsys also had a back-and-forth tug-of-war with German Bunds pressuring Tsys amid speculation on unchanged ECB policy or rate hike; MNI ECB sources story said conflicting concerns over inflation and slower growth stayed ECB policy hand for now though another rate hike possible but unlikely soon. And 7) ECB's Weber said very important long-term inflation expectations stay anchored. 8) That followed early Tsys weakness amid corp rate-lock selling, Street selling 2Ys, 3Y, intermediates; buy- and-hold selling 5Ys. 10) All await 2:15pm ET-ish

FOMC mtg end Wed, also 8:15am Wed ADP private payrolls, 9am ET Wed Refunding Tsy annt (small?); some set shorts Tue to prepare, then buy Wed.

15:12 10/30 **US EURODLR FUTURES:** Eurodlr futures finished session lower in the front end, near middle of the range as the curve see-sawed flatter again, the Red/Gold pack spd was 1.25 bps flatter at 88.375 by the bell. In the Fronts (Dec07-Sep08), the Dec07 was in 1.5 bps at 95-30 on combined Globex and pit volume of 189,000, the Mar08 in 2.0 bps at 95-61.5 on volume of 256,000, the Jun08 in 2.0 at 95-75 on volume of 261,000, while the Sep08 contract was 1.5 bps lower at 95-83 on volume of 279,000. The 2yr proxy Red pack (Dec08-Sep09), settled mixed across the pack with 559,000 contracts traded.

15:05 10/30 **US SWAPS:** Spds ended the session off tight amid light 2-way/position square flow in second half. Early, some light front end paying, interest in steepener unwinds. Sources cited ongoing mkt factors for front end move as 2s/10s spd of spd close to being off inversion: easing credit anxieties, or more likely accts becoming inured to the summer's credit issues as they bleed into the fall months, FI markets giving back "aggressive" Fed ease opinion, and ongoing LIBOR compression. Longer dated spreads reacted to a modest squeeze in overnight repo, sources added. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	+0.25/64.75	+0.25/65.50	+1.00/63.75	+0.75/59.75
1:45	+0.50/65.00	+0.50/65.75	+1.00/63.75	+1.00/60.00
11:35	-0.25/64.25	+0.00/65.25	+0.75/63.50	+0.75/59.75
10:10	-0.75/63.75	+0.00/65.25	+0.75/63.50	+0.50/59.50
Tue Open	-0.75/63.75	-0.25/65.00	+0.00/62.75	+0.25/59.25
Mon 3:00	-1.50/64.50	-1.00/65.25	-1.25/62.75	-1.25/59.00

(cont)

06:24 10/31 **TSYS:** Treasuries are trading flat to modestly lower in very narrow ranges in London trade Wednesday, as the markets takes stock ahead of the Federal Reserve rate decision later in the day. With the markets largely expecting the Fed to pare the Fed Funds rate by 25 bps to 4.50%, traders said many players were sidelined ahead of the release. Prices were largely flat in Tokyo, with few players prepared to open fresh positions ahead of the Fed. However, there was light buying of the 2-yr note from Asian central banks, perhaps driven by the weaker dollar. London trade was largely interdealer book-squaring, with little seen in the ways of end-investor flows. However, cross border spreads were active, as European debt markets were hit in late morning trade, weighed by stronger-than-expected core CPI data from the eurozone. The Bund/T-note spread thus narrowed 3 bps on Tuesday's levels, to stand at 23 bps. This was close to support at the 21 bps multi-year low.

06:23 10/31 **TSYS: (2)** Ahead of the U.S. session, the 2-yr note was trading unchanged at 99 21/32 to yield 3.81%. The 10-yr note was 1/32 lower at 102 28/32 (4.38%), with the Bond 1/32 lower at 105 5/32 (4.68%). The 2-yr/5-yr yield curve was 1 bps steeper on Tuesday's levels, trading at + bps. The 2-/10-yr curve was also 1 bps steeper, trading at +56 bps, while the 2-yr/30-yr curve was unchanged, standing at +87 bps. December expiry futures contracts on the CBOT electronic system are trading lower on Monday's closing levels. The Sep T-note was 2/32 lower at 110 19/32 and the Bond was down 2/32 at 113 17/32.

03:06 10/31 **FX:** (European Open) European trade opens with sterling trading on a buoyant note thanks to a surprisingly strong Nationwide UK house price survey. Cable has hit fresh 26-year highs just shy of \$2.0730 at time of writing. Euro-dollar also extended recent gains overnight, trading up to \$1.4748 in Asia, remaining buoyed into early Europe, with all eyes now switching to tonight's key FOMC decision on US interest rates. Dollar-yen is largely unchanged following the BOJ decision to leave interest rates unchanged as expected, still contained on a Y114 handle with good interest from exporters countering Toshiin-related demand.

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News: Snapshots throughout the day

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MarketNews
international

Stone & McCarthy
RESEARCH ASSOCIATES



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.60	5.29	\$1,654	10.59	n/a
10y	7.72	2.56	\$801	5.13	n/a
5y	4.50	1.43	\$446	5.71	n/a
2y	1.92	0.62	\$194	2.48	n/a
ZB	9.88	3.64	\$114	3.64	1.1103
ZN	5.80	2.07	\$65	4.14	0.9069
ZF	3.87	1.35	\$42	2.69	0.9119
ZT	1.82	0.61	\$19	2.43	0.9593

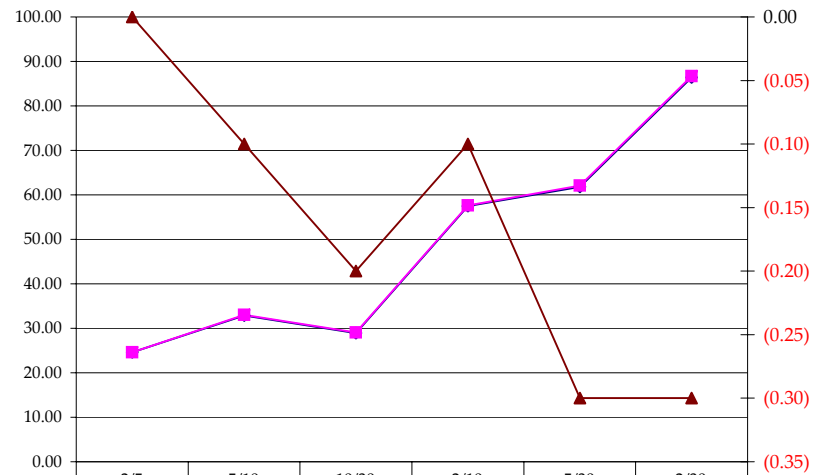
Yield Curve Spreads			
	Last	2pm close	Diff
2/5	24.60	24.60	0.00
5/10	32.90	33.00	(0.10)
10/30	28.90	29.10	(0.20)
2/10	57.50	57.60	(0.10)
5/30	61.80	62.10	(0.30)
2/30	86.40	86.70	(0.30)

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. So, I think you can get the idea I'm trying to get across.

Curve Spreads vs 2pm close



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	1.70	3.92	7.05	14.56
ZN	2.99	6.90	12.40	25.58
ZF	4.60	10.60	19.05	39.32
ZT	5.11	11.77	21.15	43.65

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.758	2.701	5.998
ZN	0.000		1.537	3.413
ZF	0.370	0.651		2.220
ZT	0.167	0.293	0.450	

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		2.303	4.139	8.543
5y	0.434		1.797	3.709
10y	0.242	0.556		2.064
30y	0.117	0.270	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.

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Commitment of Traders (COT)

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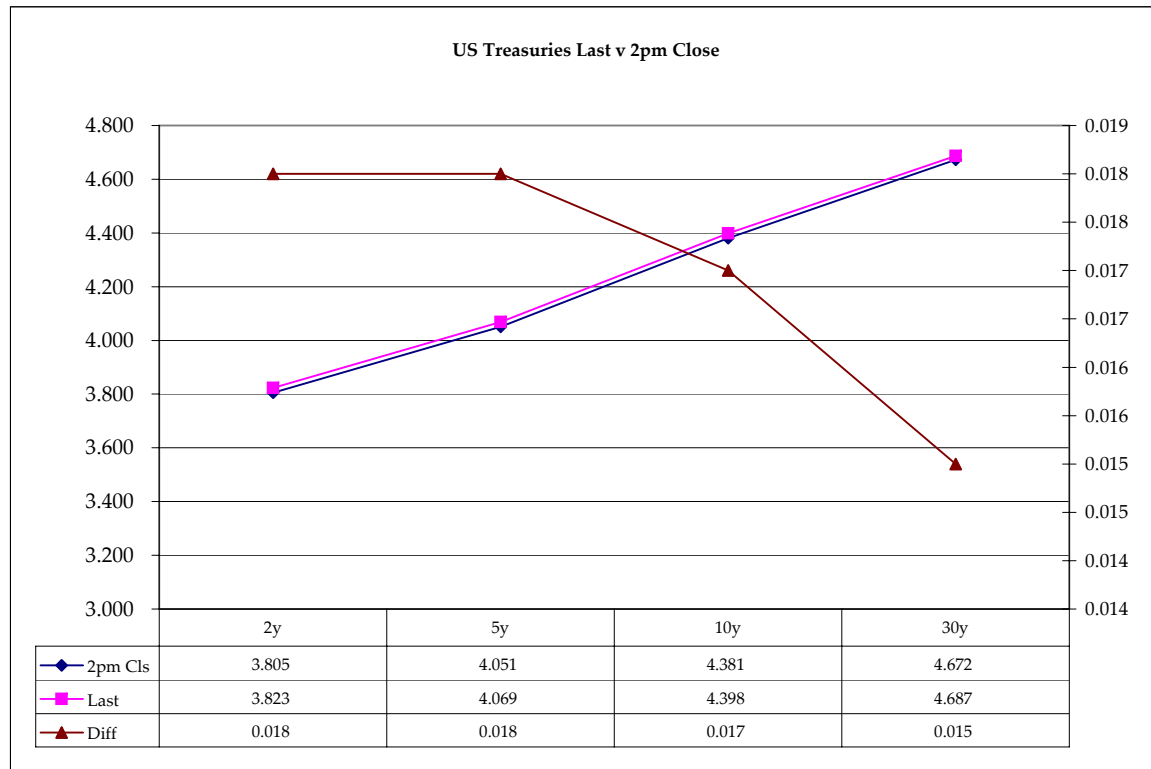
All COT data has been moved to Morning Email: CoT&DP

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	3.625	10/31/09	99.2100	3.805	3.823	0.018			
5y	3.875	10/30/12	99.0675	4.051	4.069	0.018	28.24	27.97	
10y	4.750	8/15/17	102.290	4.381	4.398	0.017	81.67	80.29	
30y	5.000	5/15/37	105.07	4.672	4.687	0.015	-668.94	-670.78	

	Close 32	Last
ZFZ7	107.265	107.240
ZNZ7	110.210	110.170
ZBZ7	113.19	113.130

Curve Spreads		
	Close bps	Last bps
2/5	24.6	24.6
5/10	33.0	32.9
10/30	29.1	28.9
2/10	57.6	57.5
5/30	62.1	61.8
2/30	86.7	86.4



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	43%	100%		
10	25%	58%	100%	
30	12%	29%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$194			
5	\$190	\$446		
10	\$199	\$467	\$801	
30	\$203	\$477	\$819	\$1,654
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$4			
10	(\$5)	(\$21)		
30	(\$10)	(\$31)	(\$17)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	1.88%			
10	-2.63%	-4.43%		
30	-4.71%	-6.46%	-2.13%	

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	2.35	4.23	8.73
ZF	0.46	1.06	1.91	3.93
ZN	0.30	0.69	1.24	2.56
ZB	0.17	0.39	0.71	1.46

Box for Box Matrix				
	2y	5y	10y	30y
ZT	1.02	2.35	8.46	17.46
ZF	0.46	2.12	3.81	7.86
ZN	0.60	1.38	1.24	2.56
ZB	0.68	1.57	1.41	2.91

	2y	5y	10y	30y
2y	1.00	2.30	4.14	8.54
5y	0.43	1.00	1.80	3.71
10y	0.24	0.56	1.00	2.06
30y	0.12	0.27	0.48	1.00

	2y	5y	10y	30y
2y		2.30	2.07	4.27
5y	0.43		0.45	1.85
10y	0.48	2.23		2.06
30y	0.23	0.54	0.48	

	ZT	ZF	ZN	ZB
ZT	1.00	2.22	3.41	6.00
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	6.83	23.99
ZF	0.45		1.54	5.40
ZN	0.15	0.65		3.52
ZB	0.04	0.19	0.28	

October	avg target	400	425	450	475	500
10/29/2007	4.5%	1.9%	10.7%	72.6%	14.5%	0.0%
10/30/2007	4.5%	1.5%	8.6%	73.8%	15.9%	0.0%

December	avg target	375	400	425	450	475	500	525
10/29/2007	4.3%	0.0%	13.9%	41.3%	44.6%	0.0%	0.0%	0.2%
10/30/2007	4.3%	0.0%	10.6%	50.4%	38.6%	0.0%	0.4%	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>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</p>	<p>yc = yield curve HDB = High Duration Bond/Note LDB = Low Duration Bond/Note</p>
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