



9/4/2007 5:59

## The Morning Email: Treasuries

### Table of Contents

- Pg 1 Important Econ Releases, Highs & Lows
- Pg 2 Quotes
- Pg 3 News: Yesterday & Overnight Recap for the United States
- Pg 4 News: Snapshots throughout the day
- Pg 5 Duration, DV01s, Curve Spreads, CF
- Pg 6 Hedge Ratio's
- Pg 7 Commitment of Traders (COT)
- Pg 8 Closes: 2pm CST vs this Morning
- Pg 9 Cash Duration Matrix
- Pg 10 Tic for Tic & Box for Box Matrix
- Pg 12 Fed Funds Probability of Tightening or Easing

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

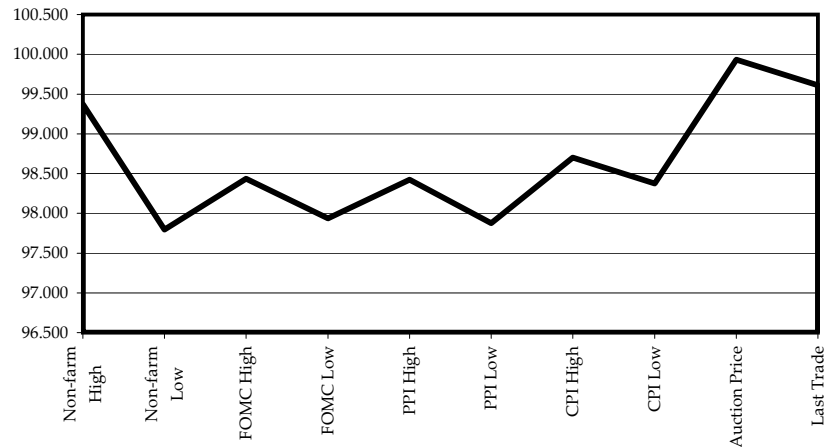
**Disclaimer:** All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.



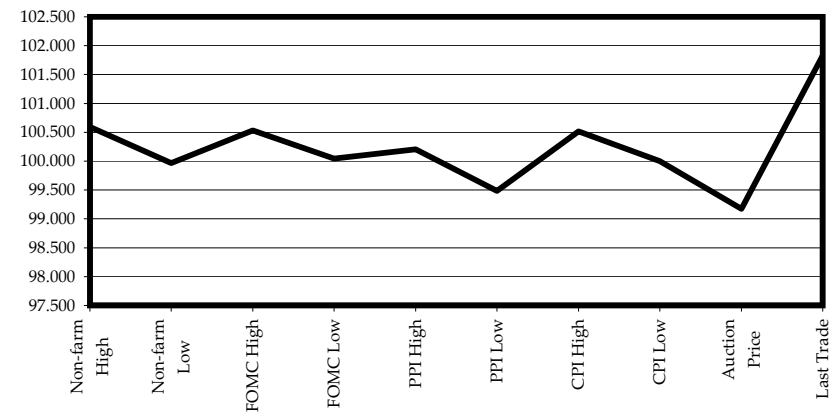
Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	99.1200	100.190	108.105	110.28	8/3/2007
Non-farm Low	97.2550	99.310	107.240	110.03	8/3/2007
FOMC High	98.1400	100.170	108.105	110.23	8/7/2007
FOMC Low	97.3000	100.015	107.265	110.07	8/7/2007
PPI High	98.1350	100.065	108.100	110.03	8/14/2007
PPI Low	97.2800	99.155	107.195	109.06	8/14/2007
CPI High	98.2250	100.165	108.215	110.05	8/15/2007
CPI Low	98.1200	100.000	108.055	109.16	8/15/2007
Auction Price	99.2988	99.056			
Last Trade	99.1950	101.265	109.095	111.25	9/4/2007 5:59

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.254	99.299	99.056	99.026
Auction Yield Stop	4.115	4.248	4.855	5.059
Actual Auction Date	8/29/2007	8/30/2007	8/8/2007	8/9/2007

5y (Decimal)



10y (Decimal)



Notes: Cash and futures are adjusted for roll.  
 Release times are from release to 2pm cdt  
 (Sep07 to Dec07 Futures roll: ZF = +3; ZN = +12.5; ZB = +5 (tics))  
 r = reopen

## Quotes

32 nds							
	Last	Net	High	Low	Open	Volume	SYM NAME
TUAZ7	103.082	0.1	103.085	103.030	103.040	25,542	2y Fut
FVAZ7	107.005	0.1	107.015	106.235	106.235	70,005	5y Fut
TYAZ7	109.095	0.1	109.120	109.010	109.040	123,251	10y Fut
USAZ7	111.250	0	111.260	111.160	111.170	23,535	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.267	3.2	99.270	99.240	99.250	na	2y Cash
BUS05P	99.190	4.2	99.195	99.140	99.140	na	5y Cash
BUS10P	101.260	1.5	101.275	101.205	101.205	na	10y Cash
BUS30P	102.230	(1)	102.290	102.200	102.210	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.079	(5.80)	4.158	4.075	4.158	na	2y Yield
BUS05Y	4.213	(3.10)	4.255	4.209	4.255	na	5y Yield
BUS10Y	4.515	(1.00)	4.549	4.514	4.531	na	10y Yield
BUS30Y	4.821	(0.40)	4.838	4.809	4.828	na	30y Yield

Notes: SYM = Symbol

**All times Eastern****Friday:**

13:16 08/31 **US TSYS/RECAP:** Tsys end mid-range, lower amid late slide, earlier month-end buying, short-covering, window-dressing bid in choppy mkt. 5 of 22 dealers close qtr-end books today so moves exaggerated. Stocks higher. Tsys gained earlier as deemed Pres. Bush's hsg aid not enough to cure subprime/ABCP mkt ills. MNI Main Wire's Beckner story said Fed Chair Bernanke said ready to do what's needed to prevent mkt turbulence from damaging US economy, but not directly hinting at impending fed funds rate cut. Mixed flows in US 5Y, 10Ys but also 3Y, 10Y buying, earlier fast money and buy-and-hold acct 5Y bid. Tsys saw month-end 10Y buying, foreign central bk, overseas institutions buying in 5Ys. MBS drew leveraged buying. Some banks did US 5Y/30y flatteners, others did 2y/10y steepeners. Lvrgd accts bought under 5-yrs maturity, buy-and-hold accts bought 2s,intermediates. Payer-tie flow in front to intermediate Eurodlr futures, real money modest sellers of 10y-,30y- Tsy futures,corp deal-tied.Bunds hurt as MNI story said Sep. 6 ECB mtg outcome uncertain.

13:09 08/31 **EURODLR FUTURES:** Eurodlr futures finished lower, near mid-range, curve bear flattening, the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), flattened 8.375 bps. In the Fronts (Sep07-Jun08), the Sep07 were 5.25 bps lower at 94-49.25 on combined Globex and pit volume of 309,000, the Dec07 lower 4.5 bps at 95-06.5 on volume of 281,000, the Mar08 7.5 bps lower at 95-36 on volume of 264,000, while the Jun08 were 9.0 bps lower at 95-44.5 on volume of 297,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 7.5 to 9.0 bps lower across the pack with 630,000 contracts traded.

13:01 08/31 **US EURODLR/SWAPS:** Spds near top end of range, still improved on move. Sources reported payer-tie flow in front to intermediate Eurodollarfutures, while real money accounts were modest sellers of 10- and30-year Treasury futures, both corporate deal related.According to GovPX:

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

Fri 1:00	-1.25/74.00	-1.00/71.25	-1.75/69.50	+0.00/63.25
12:00	-1.00/74.25	-0.50/71.75	-1.50/69.75	+0.25/63.50
10:20	-1.75/73.50	-0.25/72.00	-1.25/70.00	+0.25/63.50
10:05	-2.00/73.25	-0.25/72.00	-1.25/70.00	+0.50/63.75
9:45	-2.25/73.00	-0.50/71.75	-1.25/70.00	+0.00/63.25
9:00	-2.25/73.00	-0.25/72.00	-1.25/70.00	+0.00/63.25
Fri Open	-3.75/71.50	-0.50/71.75	-1.25/70.00	-0.50/62.75
Fri 7:40	-4.25/71.00	-1.00/71.25	-1.50/69.75	-0.75/62.50
Thu 3:15	+2.00/75.25	+0.75/72.25	+1.00/71.25	+0.75/63.25

**(continued)****Overnight**

05:06 09/04 **TSYS:** Treasuries are trading mixed in London trade Tuesday, as the market awaits the return of the U.S. markets after the Labor Day holiday weekend. Prices opened higher in Tokyo and maintained a bid throughout the session. However, volumes were light, with players seemingly unprepared to second-guess the New York opening. Traders said the bid was largely inspired by unwinding of flattening trades seen Friday. Treasuries continued to edge higher through the London session, again with the front of the curve leading the way. However, despite the underlying bid, volumes were light i both cash and futures trade. The Bund/T-note are little changed on Friday's levels, with the spread standing at 34 bps. The 2-yr/5-yr yield curve was 1 bps steeper on Tuesday's levels, trading at +12 bps. The 2-/10-yr curve was steeper by 2 bps, trading at +42 bps, while the 2-yr/30-yr curve was steeper er by 3 bps, standing at +72 bps. Sept futures contracts are trading higher, with the Sep T-note was 9/32 higher at 109 24/32.

MarketNews  
International

Stone & McCarthy  
RESEARCH ASSOCIATES

10:00 08/31 **FED: Chairman Bernanke's speech:** very dovish. Says Fed "stands ready to take additional actions as needed to provide liquidity and promote the orderly functioning of mkts." Reiterates FOMC "will act as needed to limit the adverse effects on the broader economy that may arise from the disruptions in fin'l mkts." Reviews that hsg downturn has been sharp and outlook "will depend on unfolding developments in mtg mkts." Says "Obviously if current conditions persist in mtg mkts, the demand for homes could weaken further, with poss. implications for the broader economy. We are following these developments closely." Says financial stress has not been confined to mtg mkts. Global fin'l losses have far exceeded even the most pessimistic projections. Investor uncertainty has increased. "econ data bearing on past mos or qtrs may be less useful than usual" and Fed will pay close attention to the timeliest indicators as well as anecdotal evidence.

12:06 08/31 **FED REACT:** Bottom line from analyst Tony Crescenzi of Miller, Tabak: "Fed Chairman Ben Bernanke reinforced current expectations for future interest rate cuts by the Federal Reserve, including expectations for at least a 25 basis point cut by the September 18th FOMC meeting. There is nothing within the speech, however, that indicates any urgency toward a rate cut."

Table I—Forecast Summary	SMRA Est		Survey Medians	
	July	August	MNI Aug29	BBG Aug29
Payrolls (000s)	92	95	125	115
Private (000s)	120	87		
Construction (000s)	-12	-4		
Manufacturing Payrolls (000s)	-2	-15		-10
Workweek (hours)	33.8	33.8		33.8
Index of Hours Worked (% chg)	-0.1	0.1		
Average Hourly Earnings (% chg)	0.3	0.3		0.3
Unemployment Rate (%)	4.6	4.7	4.6	4.6

#### Treasury Announces Market Financing Estimates

Washington- Treasury announced its current estimates of net marketable financing for the July – September 2007 and October – December 2007 quarters:

Over the July – September 2007 quarter, the Treasury expects to borrow \$73 billion of net marketable debt, assuming an end-of-September cash balance of \$60 billion. The current estimate is \$31 billion greater than announced in April 2007. The increase in borrowing is primarily the result of higher outlays, lower net issuances of State and Local Government Series securities and adjustments in quarterly cash balances. Over the October – December 2007 quarter, the Treasury expects to borrow \$74 billion of net marketable debt, assuming an end-of-December cash balance of \$30 billion.

During the April – June 2007 quarter, Treasury paid down \$139 billion of net marketable debt, finishing with a cash balance of \$25 billion at the end of June. In April 2007, Treasury announced an estimated pay down in net marketable borrowing of \$145 billion, assuming an end-of-June cash balance of \$30 billion. The increase in borrowing was primarily the result of slightly lower receipts.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.60	5.14	\$1,607	10.29	n/a
10y	7.86	2.57	\$803	5.14	n/a
5y	4.46	1.42	\$445	5.69	n/a
2y	1.89	0.60	\$189	2.42	n/a
ZB	9.99	3.60	\$112	3.60	1.1103
ZN	5.94	2.09	\$65	4.18	0.9069
ZF	4.02	1.38	\$43	2.76	0.9246
ZT	1.91	0.64	\$20	2.57	0.9569

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	13.40	11.10	(2.30)
5/10	30.20	28.20	(2.00)
10/30	30.60	29.00	(1.60)
2/10	43.60	39.30	(4.30)
5/30	60.80	57.20	(3.60)
2/30	74.20	68.30	(5.90)

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**

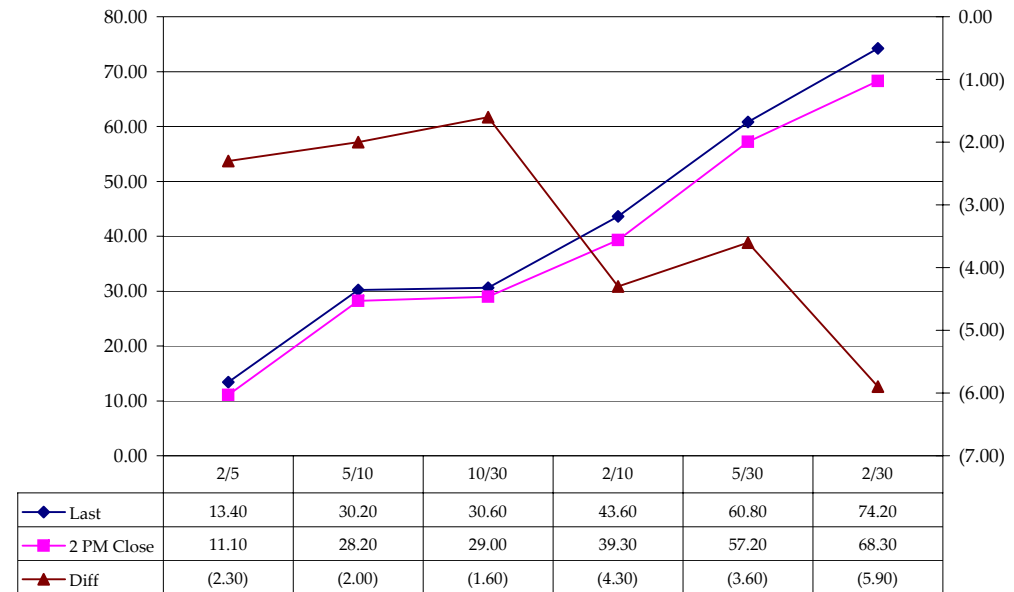
CF = Conversion Factor

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 (U)	1.000	1.700	2.600	2.800
Bobl (U)	0.550	0.940	1.420	1.520
Shatz (U)	0.210	0.360	0.550	0.590

## US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.722	2.609	5.600
ZN	0.557		1.515	3.252
ZF	0.383	0.688		2.146
ZT	0.179	0.308	0.466	

## Eurex Bonds

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.0	1.9	4.7
Bobl (U)	0.6	1.0	2.4
Shatz (U)	0.2	0.4	1.0

## US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.72	4.05	7.32	14.65
ZN	3.02	7.10	12.82	25.67
ZF	4.38	10.32	18.63	37.30
ZT	9.40	22.14	39.99	80.06

## US Treasuries v Eurex Bonds

	2y	5y	10y	30y
Bund (U)	1.7	4.0	7.1	13.9
Bobl (U)	3.1	7.3	13.1	25.5
Shatz (U)	7.8	18.6	33.3	65.0

## US Treasuries

	2y	5y	10y	30y
2y		2.355	4.252	8.513
5y	0.425		1.806	3.615
10y	0.235	0.554		0.000
30y	0.117	0.277	0.499	

Note: Any ratio with the Bund, Bobl, or Shatz is from Bloomberg. Bloomberg hedge ratio's are static. Meaning, I only update them once a week and on rolls. My hedge ratio's are live, meaning, they're updated in real-time. I've managed to get the Eurex to Eurex ratio's updating live as of 07/05/2007. I'll be working on Eurex to the USA ratio's soon.

Current Positions										
Small Spec			Large Spec			Commercials (Hedgers)				
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	273,882	242,698	31,184	234,376	299,416	(65,040)	1,273,631	1,239,774	33,857	ZF
ZN	353,577	398,651	(45,074)	831,112	301,625	529,487	2,015,695	2,500,107	(484,412)	ZN
ZB	148,817	166,569	(17,752)	138,355	212,222	(73,867)	785,697	694,078	91,619	ZB

WoW^ Position Change				
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	15,514	(1,971)	(13,542)	As of 8/21/2007
ZN	40,273	(128,543)	88,271	
ZB	(4,871)	46,783	(41,912)	

^WoW = Week over week

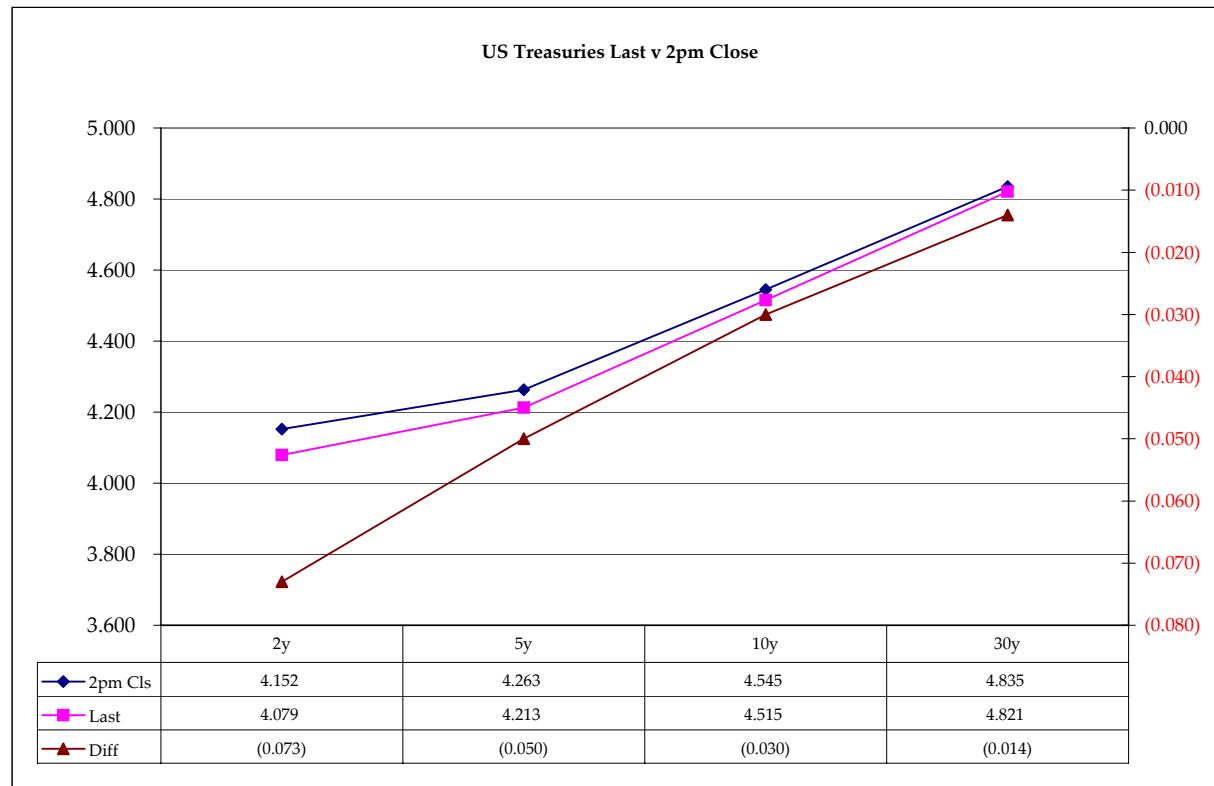
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	8/31/09	99.2275	4.152	4.079	(0.073)			-75
5y	4.125	7/31/09	99.1225	4.263	4.213	(0.050)			-50
10y	4.750	8/15/17	101.200	4.545	4.515	(0.030)			
30y	5.000	5/15/37	102.19	4.835	4.821	(0.014)			

	Close 32	Last	Roll
			As of 08/30
ZF		107.005	-2 tics
ZN		109.095	+12.5 tics
ZB		111.250	+5 tics

Curve Spreads		
	Close bps	Last bps
2/5	11.1	13.4
5/10	28.2	30.2
10/30	29.0	30.6
2/10	39.3	43.6
5/30	57.2	60.8
2/30	68.3	74.2

New 2y has not been rolled yet.  
Ignore data.



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%	29%	50%	132%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$0			
5	\$188	\$445		
10	\$193	\$455	\$803	
30	\$187	\$442	\$779	\$1,550
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	(\$188)			
10	(\$193)	(\$11)		
30	(\$187)	\$3	\$24	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-100.00%			
10	-100.00%	-2.39%		
30	-100.00%	0.58%	3.04%	

**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	0.00	2.21	4.00	7.72
ZF	0.00	1.03	1.86	3.60
ZN	0.00	0.68	1.23	2.37
ZB	0.00	0.41	0.73	1.41

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.00	2.21	8.00	15.44
ZF	0.00	2.06	3.73	7.20
ZN	0.00	1.36	1.23	2.37
ZB	0.00	1.62	1.46	2.83

	2y	5y	10y	30y
2y	1.00	#DIV/0!	#DIV/0!	#DIV/0!
5y	0.00	1.00	1.81	3.49
10y	0.00	0.55	1.00	1.93
30y	0.00	0.29	0.52	1.00

	2y	5y	10y	30y
2y	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
5y	#DIV/0!		0.45	1.74
10y	#DIV/0!	2.22		1.93
30y	#DIV/0!	0.57	0.52	

	ZT	ZF	ZN	ZB
ZT	1.00	2.15	3.25	5.46
ZF	0.47	1.00	1.52	2.55
ZN	0.31	0.66	1.00	1.68
ZB	0.18	0.39	0.60	1.00

	2y	5y	10y	30y
ZT		2.15	6.50	21.86
ZF	0.47		1.52	5.09
ZN	0.15	0.66		3.36
ZB	0.05	0.20	0.30	

## Fed Funds Probability of Tightening or Easing

<b>Sept</b>		<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>	<b>550</b>
<b>8/28/2007</b>		18.6%	26.9%	26.6%	27.7%	0.2%
<b>8/29/2007</b>		26.5%	18.2%	28.2%	27.1%	0.0%

<b>October</b>		<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>	<b>550</b>	<b>575</b>
<b>8/28/2007</b>		67.5%	0.0%	12.8%	18.8%	0.6%	0.3%
<b>8/29/2007</b>		67.9%	0.0%	13.2%	18.5%	0.0%	0.4%

<b>December</b>		<b>375</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>	<b>525</b>	<b>550</b>
<b>8/28/2007</b>		28.0%	3.0%	5.4%	14.4%	11.4%	20.9%	15.1%	0.0%
<b>8/29/2007</b>		26.1%	5.7%	0.0%	6.5%	40.8%	4.2%	13.9%	1.6%

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



