The Morning Email: Treasuries

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MarketNews international

14:18 09/05 **US TSYS**: Sources point to today's huge tenders for the 4wk at auction as a sign that all is not yet normal and safe instruments are still in demand. 4wk tenders totaled $97.073 bln vs a record $98.284 bln last week. In today's auction, dealers submitted $77.471 bln of the total.

14:32 09/05 **US TSYS/FED/ABCP:** While some market players eyed the Fed's discount window borrowing expansion and noted that ABCP in certain types can only get a 60% margin loan, the Fed noted that that is at the low end of the loan margin spectrum. "Posting ABCP as collateral could mean receiving as low as 60% of the total collateral," said a NY Fed spokesman. However he added "we are evaluating collateral on a case-by-case basis" and there can be a "wide variety" of ABCP types with also a difference being made as to whether a borrowing entity is a liquidity provider or not.

Stone & McCarthy RESEARCH ASSOCIATES

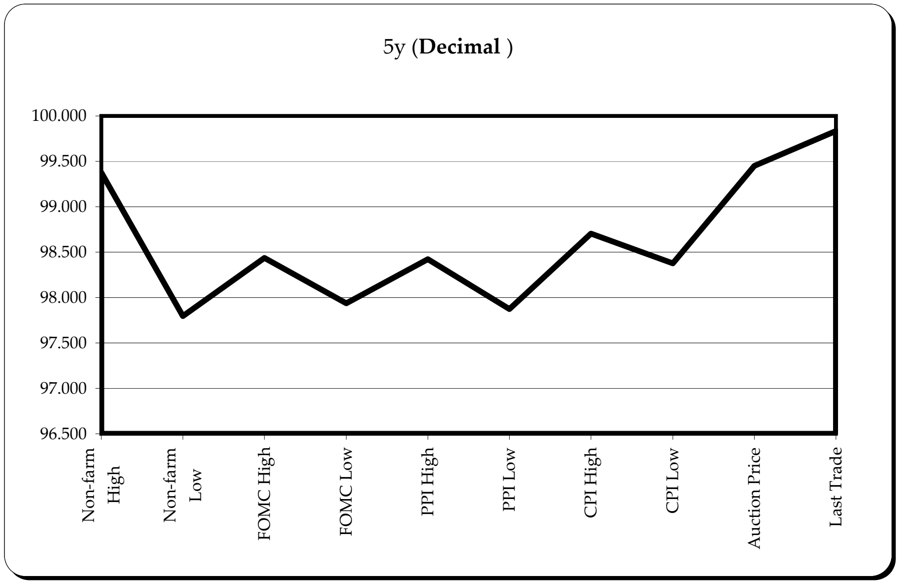
Important Econon Releases, Highs & Lows

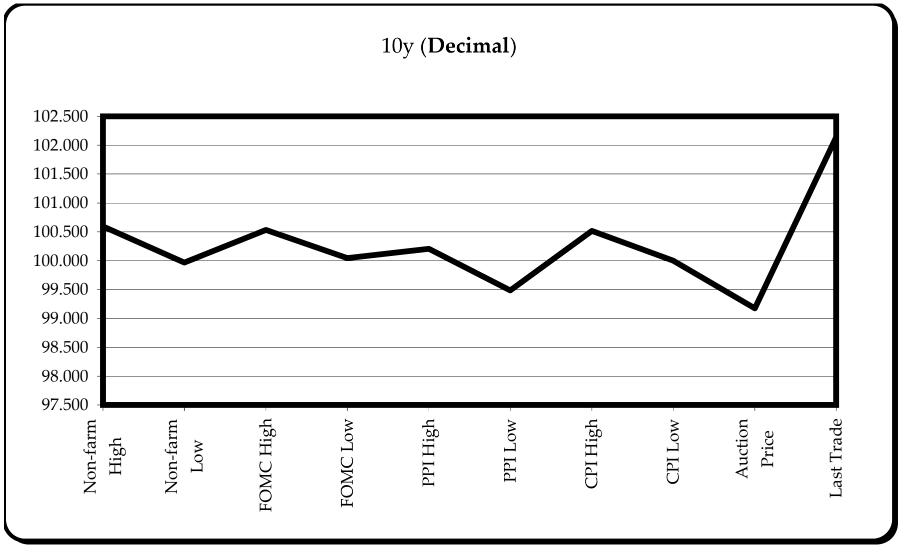
Economic Releases - 32nds

	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	99.1444	99.056			
Last Trade	99.2670	102.045	109.215	112.05	9/6/2007 5:50

Auctions - 32nds

	2 y	5y	10y	30y
Auction Price	99.250	99.144	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





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	103.105	(0.0)	103.115	103.085	103.115	18,519	2y Fut
FVAZ7	107.055	(0.0)	107.085	107.020	107.080	31,171	5y Fut
TYAZ7	109.215	(0.0)	109.245	109.170	109.245	104,389	10y Fut
USAZ7	112.050	(0)	112.100	112.000	112.100	12,474	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.302	(1.0)	99.315	99.290	99.315	na	2y Cash
BUS05P	99.267	(2.5)	99.282	99.235	99.282	na	5y Cash
BUS10P	102.040	(4.5)	102.070	102.005	102.070	na	10y Cash
BUS30P	103.155	(1)	103.175	103.090	103.170	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.025	2.50	4.058	3.996	4.034	na	2y Yield
BUS05Y	4.160	1.40	4.188	4.137	4.16	na	5y Yield
BUS10Y	4.480	1.90	4.5	4.465	4.476	na	10y Yield
BUS30Y	4.775	0.30	4.793	4.769	4.779	na	30y Yield

Notes: SYM = Symbol

MarketNews international

All times Eastern

15:32 09/05 **US TSYS/RECAP**: US Tsys rallied Wed on 1) weak economic data (-12.2% NAR July pending home sales, +38K ADP Aug. private payrolls;); 2) Weak global stocks: DJIA -1.14%; 3) morning short-covering as ABCP woe resumes; 4) ECB said wd "contribute to orderly conditions" if euro money mkt volatility persisted; 5) fast money, bank buying 2Ys, similar bid in 3Ys, 6) some Street and buy-and-hold acct profit-taking in 2Ys, also later profit-taking in intermediates. 7) US$ 3m LIBOR rate "not coming off;" 8) T-bills bid amid ABCP jitters; 9) fast money profit-taking in intermediates; 9) real money sold 2Y futures while 10) corporate real money acct bought 10Y, 30Y futures; 11) swap flows light. 12) Lots of Eurodlr option flows around ECB comment above; 13) There is also buy Tsys/sell risky assets. 14) Some mixed MBS buying. 15) 5Y/30Y flattener too. 16) WSJ:Radian/MGIC merger off. 17) Safe-haven bid earlier as German police arrest 3 accused of plot to target US base; 18) beige Bk: All but 4 Fed districts saw continuing growth pre-Aug 27,4 distrs slowed.

15:07 09/05 **US EURODLR/SWAPS**: Spreads end wider but off intraday wides. Flows said to be light but focused on curve steepener plays. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed CLOSE	+2.00/79.50	+1.00/74.25	+0.25/70.25	+0.00/64.50
Wed 10:25	+3.00/80.50	+2.25/75.50	+1.50/71.50	+1.50/66.00
Wed 8:20	+3.25/80.75	+2.00/75.25	+1.75/71.75	+1.50/66.00
Tues: 3:20	+2.75/77.75	+1.75/73.25	+0.75/70.25	+2.00/64.75
Tues 8:10	+1.00/76.00	+1.25/72.75	+0.25/69.75	+0.75/63.50
Fri 1:00	-1.25/74.00	-1.00/71.25	-1.75/69.50	+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)

05:21 09/06 **TSYS: (1)** Treasuries are trading modestly lower across the board Thurs, weighed by light profit-taking after solid overnight gains. However, traders said volumes had slowed by mid-morning, with many players sidelined ahead of the Bank of England and ECB policy meetings. An article in the UK's Daily Telegraph, posing the question as to whether China was unloading Treasuries also weighed at the margins. The paper drew its inference from Wednesday's data released by the New York Fed that shows that foreign central banks have cut their holdings of US Treasuries by $48bn since late July, with falls of $32bn in the last two weeks alone. Prices ran into profit-taking from the getgo in Asia, with regional names seen as sellers of the 2 and 10-year notes. Hot money names were sellers of the 5-year and other leveraged names taking some money off the table in the 10-year sector. However, the downside was underpinned by pension fund buying at the longer-end of the curve.

05:21 09/06 **TSYS: (2)** Prices continued lower in London, although edging off of the session's worst levels. The front of the curve found continuing support from real money accounts on the Continent. However, volumes slowed and flows were largely interdealer ahead of the central bank meets. The Bund/T-note are little changed on Friday's levels, with the spread standing at 32 bp , 0.5 bps wider. Ahead of the U.S. session, the 2-yr note was trading 1/32 lower at 99 30/32 to yield 4.03%. The 10-yr note was 5/32 lower at 102 3/32 (4.49%), with the Bond 8/32 lower at 103 12/32 (4.79%). The 2-yr/5-yr yield curve was steeper by 1 bps on Wednesday's levels, trading at +14 bps. The 2-/10-yr curve was unchanged, trading at +46 bps, while the 2-yr/30-yr curve was steeper by 1 bps, standing at +75 bps.

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08:32 09/05 **US DATA REACT**: Ian Shepherdson, Chief U.S. Economist at HFE, says "evidence is starting to emerge that the labor market is finally cracking - and of course these data do not reflect the fallout from the market turbulence." He says 2 soft mos in ADP "is more than curious, especially given the increase in jobless claims." He's lowered his est for Aug payrolls to +100k (was +120k).

14:00 09/05 **US DATA:** Fed beige book prepared for Sept 18 FOMC: "econ activity has continued to expand" -- but a slower pace is seen in Philly, Richmond, Dallas and SF dists. "Outside of real estate, reports that the turmoil in fin'l mkts had affected econ activity during the survey pd were limited." Tighter lending for residential mtgs "was having a noticeable effect" on housing. Book was prepared using info gathered before Aug 27, was compiled at Cleveland Fed. This could have been too early to show the full effects of credit problems. Retail sales were positive, mfg activity expanded, employment had modest gains. Little change in overall prices pressures seen, and wage pressures were intense only in isolated professions.

08:32 09/05 **US DATA REACT**: Ian Shepherdson, Chief U.S. Economist at HFE, says "evidence is starting to emerge that the labor market is finally cracking - and of course these data do not reflect the fallout from the market turbulence." He says 2 soft mos in ADP "is more than curious, especially given the increase in jobless claims." He's lowered his est for Aug payrolls to +100k (was +120k).

[Excerpt from] Preview-> Q2:07 Productivity and Unit Labor Cost Revisions by Joe Liro, PhD---IMPLICATIONS FOR MONETARY POLICY

Last month's benchmark revision to the National Income and Products Account data which impacted productivity growth caused the Federal Reserve to lower its internal estimate of what it believes to be potential non-inflationary economic growth. The upward revision to second quarter productivity and the downward adjustment to unit labor costs should be welcomed news by both the Federal Reserve and by financial market participants. Stronger growth in productivity could give Federal Reserve policy-makers more confidence that they can address the turmoil in the financial markets without running an undue risk of triggering greater inflation.

The next FOMC meeting is on September 18 and we expect the FOMC to validate its 50 basis point cut in the discount rate on August 17 by lowering the target funds rate to 5% from its current 5.25%. Based on a SMR forecast that second half GDP growth will be well below trend and that headline inflation numbers will continue to improve, we expect the Federal Reserve to slowly lower the fed funds rate steady over the balance of the year to end 2007 at 4.5% or so.

10:00 09/05 **US DATA:** July NAR pending home sales index -12.2% to 89.9, vs 102.4 in June. It is also -16.1% YOY and fell in all regions. NAR blames mortgage disruptions -- contracts are not closing because mtg commitments are falling through at the last minute.

10:25 09/05 **US DATA REACT**: From economist Chris Low at FTN: "pending home sales index plunged 12.2% in July, suggesting weak home sales were in the works in August and September even before wholesale funding dried up in August." He also says ADP employment report "does not correlate very well with the national employment series on a month-to-month basis," but it does suggest "that job growth continues to slow."

Fed Will Resist Discount-Rate Cut Before Meeting, Goldman Says 2007-09-05 06:48 (New York)

By Agnes Lovasz

Sept. 5 (Bloomberg) -- The U.S. Federal Reserve will resist cutting its discount lending rate before the next scheduled meeting because doing so may cause ``significant turbulence" to global markets, according to Goldman Sachs Group Inc....

[Thanks Gabe!]

Duration, DV01s, Curve Spreads, CF

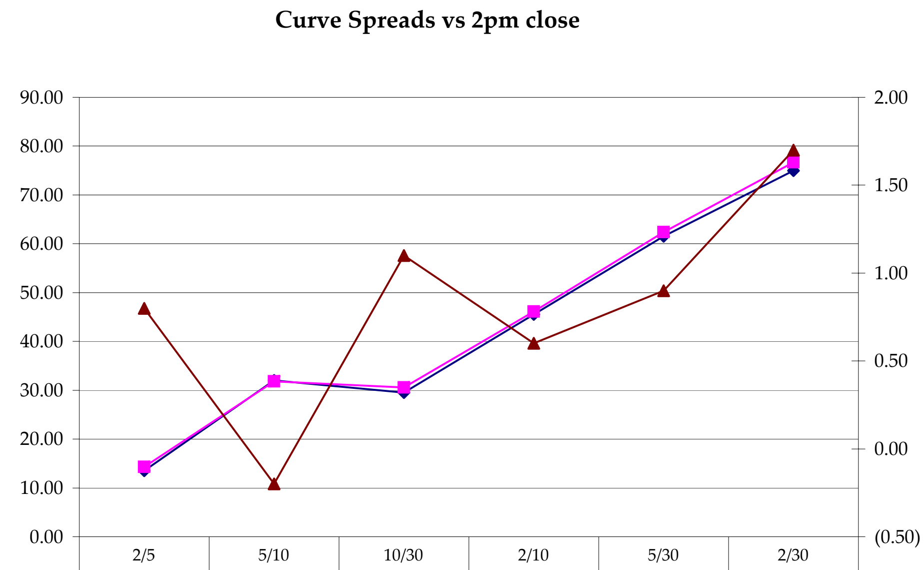
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.65	5.20	$1,625	10.40	n/a
10y	7.86	2.58	$805	5.15	n/a
5y	4.46	1.42	$445	5.70	n/a
2y	1.88	0.60	$189	2.41	n/a
ZB	9.99	3.61	$113	3.61	1.1103
ZN	5.94	2.10	$66	4.20	0.9069
ZF	4.02	1.38	$43	2.76	0.9246
ZT	1.90	0.64	$20	2.57	0.9569

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.

Yield Curve Spreads

	Last	2pm close	Diff
2/5	13.50	14.30	0.80
5/10	32.00	31.80	(0.20)
10/30	29.50	30.60	1.10
2/10	45.50	46.10	0.60
5/30	61.50	62.40	0.90
2/30	75.00	76.70	1.70



	2/5	5/10	10/30	2/10	5/30	2/30
Last	13.50	32.00	29.50	45.50	61.50	75.00
2 PM Close	14.30	31.80	30.60	46.10	62.40	76.70
Diff	0.80	(0.20)	1.10	0.60	0.90	1.70

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

Hedge Ratio's

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		1.719	2.613	5.623
ZN	0.558		1.520	3.272
ZF	0.383	0.686		2.152
ZT	0.178	0.306	0.465	

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	1.71	4.05	7.32	14.76
ZN	3.00	7.08	12.79	25.81
ZF	4.37	10.32	18.66	37.65
ZT	9.40	22.21	40.15	81.01

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		2.362	4.271	8.617
5y	0.423		1.808	3.648
10y	0.234	0.553		0.000
30y	0.116	0.274	0.496	

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.

Commitment of Traders (COT)

	Current Positions									
	Small Spec			Large Spec			Commercials (Hedgers)			
	Long	Short	Net	Long	Short	Net	Long	Short	Net	
ZF	272,526	256,829	15,697	209,612	226,765	(17,153)	1,240,753	1,239,297	1,456	**ZF**
ZN	327,573	397,730	(70,157)	708,326	286,282	422,044	1,687,423	2,039,310	(351,887)	**ZN**
ZB	150,292	179,606	(29,314)	153,593	173,058	(19,465)	732,147	683,368	48,779	**ZB**

	WoW^ Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	**(15,487)**	**47,887**	**(32,401)**	**8/21/2007**
ZN	**(25,083)**	**(107,443)**	**132,525**	
ZB	**(11,562)**	**54,402**	**(42,840)**	

^WoW = Week over week

Closes: 2pm CST vs this Morning

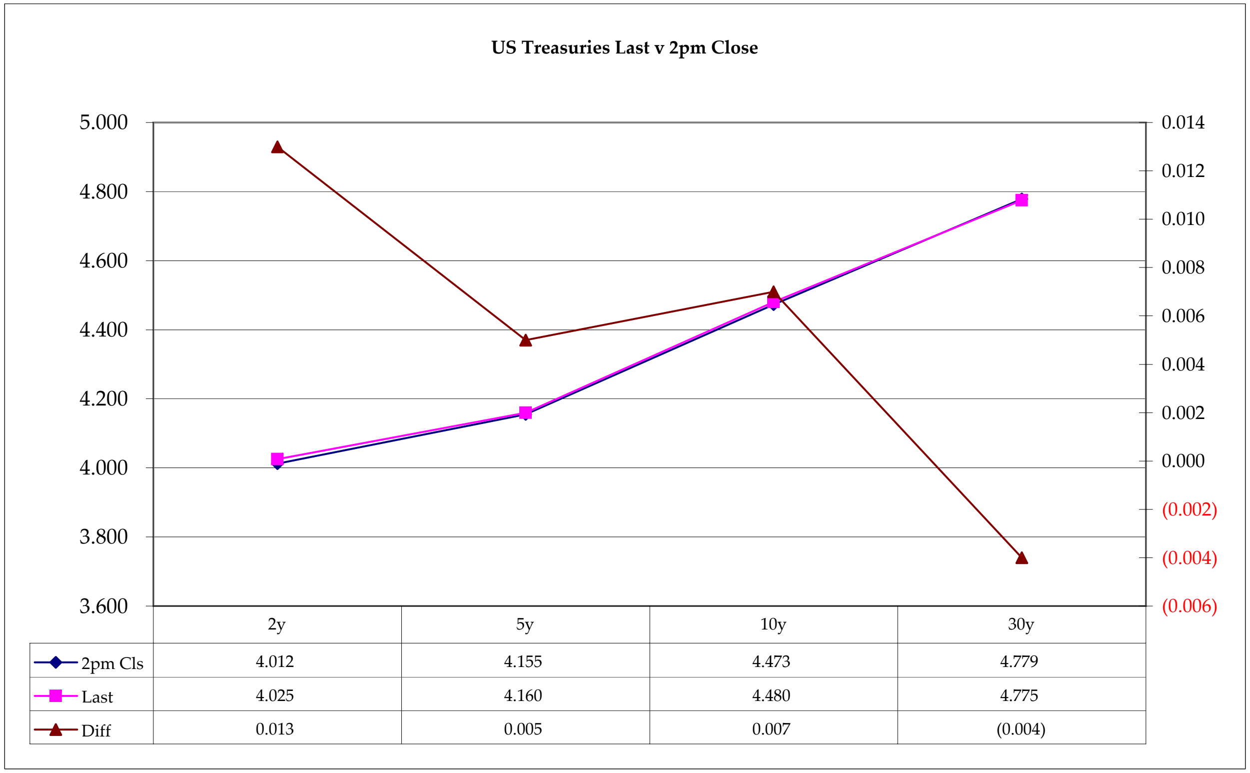
	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	8/31/09	99.3125	4.012	4.025	0.013			
5y	4.125	7/31/09	99.2775	4.155	4.160	0.005	22.99	23.78	
10y	4.750	8/15/17	102.065	4.473	4.480	0.007	86.37	85.73	
30y	5.000	5/15/37	103.16	4.779	4.775	(0.004)	-675.59	-672.87	

	Close 32	Last	Roll ^
ZFZ7	107.075	107.055	
ZNZ7	109.230	109.215	
ZBZ7	112.07	112.050	
ZFU7		107.085	2.7
ZNU7		110.050	16.2
ZNU7		112.150	8.7

^ Reduced tic spread, last trade

Curve Spreads

	Close bps	Last bps
2/5	14.3	13.5
5/10	31.8	32.0
10/30	30.6	29.5
2/10	46.1	45.5
5/30	62.4	61.5
2/30	76.7	75.0



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%	50%	**132%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$0**			
5	$188	**$445**		
10	$193	$457	**$805**	
30	$188	$445	$785	**$1,566**

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.

Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	($188)			
10	($193)	($11)		
30	($188)	$0	$21	

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.

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-100.00%			
10	-100.00%	-2.46%		
30	-100.00%	0.09%	2.61%	

Or you can look at the over/under value as a percentage instead of dollar terms.

Tic for Tic & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	0.00	2.22	4.02	7.81
ZF	0.00	1.03	1.87	3.63
ZN	0.00	0.68	1.23	2.39
ZB	0.00	0.40	0.73	1.42

	2y	5y	10y	30y
2y	1.00	#DIV/0!	#DIV/0!	#DIV/0!
5y	0.00	1.00	1.81	3.52
10y	0.00	0.55	1.00	1.94
30y	0.00	0.28	0.51	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.15	3.27	5.49
ZF	0.46	1.00	1.52	2.55
ZN	0.31	0.66	1.00	1.68
ZB	0.18	0.39	0.60	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.00	2.22	8.03	15.62
ZF	0.00	2.06	3.73	7.26
ZN	0.00	1.36	1.23	2.39
ZB	0.00	1.62	1.46	2.85

	2y	5y	10y	30y
2y		#DIV/0!	#DIV/0!	#DIV/0!
5y	#DIV/0!		0.45	1.76
10y	#DIV/0!	2.21		1.94
30y	#DIV/0!	0.57	0.51	

	2y	5y	10y	30y
ZT		2.15	6.54	21.95
ZF	0.46		1.52	5.10
ZN	0.15	0.66		3.35
ZB	0.05	0.20	0.30	

Fed Funds Probability of Tightening or Easing

Sept	450	475	500	525	550
8/31/2007	23.2%	18.9%	39.1%	18.4%	0.5%
9/4/2007	20.8%	30.7%	30.6%	17.6%	0.3%

October	450	475	500	525	550	575
8/31/2007	69.1%	0.0%	11.2%	19.4%	0.0%	0.3%
9/4/2007	72.8%	0.0%	10.1%	16.8%	0.0%	0.3%

December	375	400	425	450	475	500	525	550
8/31/2007	19.4%	9.9%	0.0%	20.4%	23.0%	10.3%	14.3%	1.6%
9/4/2007	17.7%	12.5%	0.0%	30.3%	11.9%	16.4%	8.7%	1.4%

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