The Morning Email: Treasuries

9/7/2007 5:52

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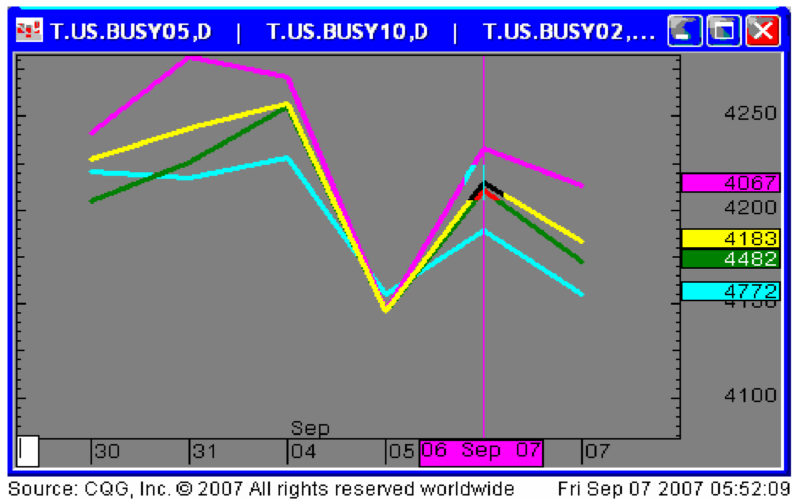
Daily Yield Curve



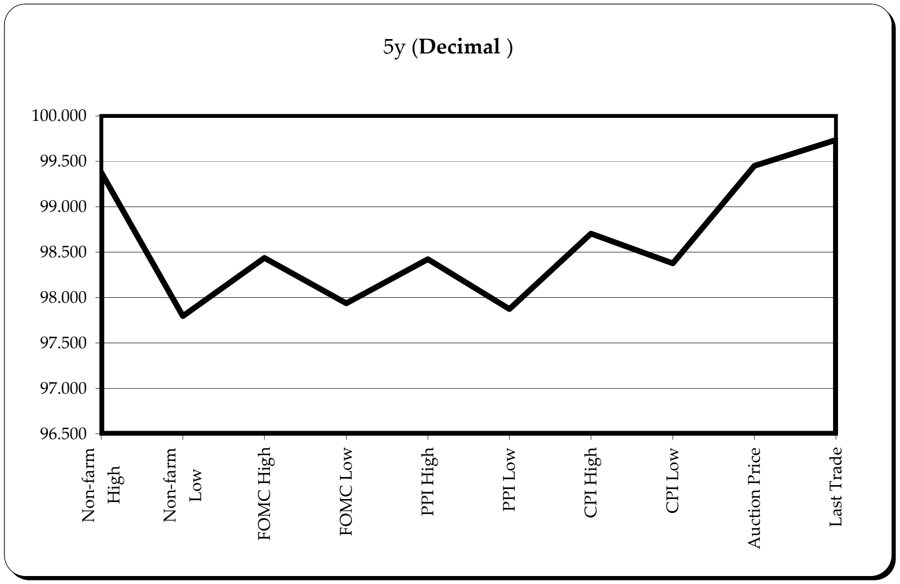
30y 10y 5y 2y

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

Important Econon Releases, Highs & Lows

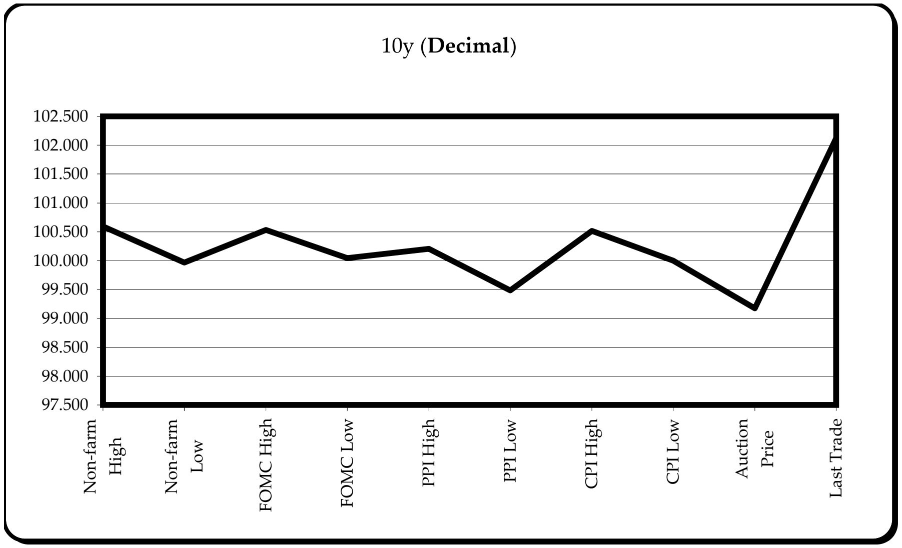
Economic Releases - 32nds

	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	99.2350	102.040	109.190	112.08	9/7/2007 5:52



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	103.082	(0.0)	103.092	103.070	103.072	20,587	2y Fut
FVAZ7	107.015	0.0	107.035	106.295	106.295	35,330	5y Fut
TYAZ7	109.190	0.0	109.200	109.125	109.135	76,499	10y Fut
USAZ7	112.080	0	112.090	111.280	111.290	14,268	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.277	1.2	99.285	99.275	99.275	na	2y Cash
BUS05P	99.235	4.2	99.245	99.205	99.205	na	5y Cash
BUS10P	102.035	8.5	102.045	101.290	101.290	na	10y Cash
BUS30P	#VALUE!	15	103.200	103.070	103.070	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.067	(2.00)	4.1	4.05	4.096	na	2y Yield
BUS05Y	4.183	(3.20)	4.229	4.174	4.213	na	5y Yield
BUS10Y	4.482	(3.10)	4.519	4.478	4.513	na	10y Yield
BUS30Y	4.772	(2.90)	4.802	4.766	4.796	na	30y Yield

Notes: SYM = Symbol

All times Eastern

15:03 09/06 **US TSYS/RECAP** US Tsys ebbed Thurs amid better hedge fund, portfolio, real money selling in belly, but also foreign central bank buying in short end & 5s, buying of US Tsys intermediates/MBS selling, end-user buying shorter Tsys. Afternoon saw lower range-trade, some profit-taking, short-setting ahead of Aug. jobs out Fri, and also corps receiving in US swaps, real money receiving in intermediates, servicers rolling to higher Tsys options strikes, and heavy put buying in event of downside on Fri. But there also was some late short-covering off lows. 2/30Y Tsys curve flattened: was better 30Y buying vs. 2Ys, mixed action in 10-yrs as levered accounts, banking portfolios and real money sold the sector while overseas accounts including bk portfolios were buyers of 10-Yrs. Fed speakers seemed to downplay odds of a US rate cut. In futures, sources said real money corporate related accounts bought Dec T-bds and were moderate sellers of Dec 2s. Some eyed mild ABCP bid. ECB 3mo refi allotment for Sep 12, which has no preset allotment amt.(More)

15:18 09/06 **US TSYS/RECAP II**: On a 3p.m. Wed to 3:00 pm ET Thu basis close, the cash 2-year note yield rose 5.6 bps to 4.068%. The 3-year yield rose 5.1 bps to 4.073%, while the 5-year rose 3.9 bps to 4.194%. The 10-year yield rose 2.9 bps to 4.502%, and the 30-year yield rose 1.1 bps to 4.791%. The 2-year/5-year curve flattened 1.7 bps to +12.6 bps, the 2-year/10-year flattened 2.7 bps to +43.4 bps, and the 2-year/30-year flattened 4.5 bps to +72.3 bps.

15:02 09/06 **US EURODLR/SWAPS**: Spreads tightened througout the session in what dealers described as busier activity. The corp calender brought in decent receiving and there too was some outright real money receiving in the belly as some have gotten "more comfortable" with the current money market situation, some say. Lots of 3-month resets going through in eurodollar futures which has sparked lots of Sep/Dec trading and activity in the Sep 43 puts, sources say.According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thurs 3:00	-2.25/77.25	-2.50/71.75	-2.25/68.00	-1.50/63.25
Thurs 9:30	-2.00/77.50	-1.50/72.75	-1.75/68.50	-1.50/63.00
Thurs 8:00	-1.25/78.25	-1.25/73.00	-1.50/68.75	-1.00/63.50
Wed 3:20	+2.00/79.50	+1.00/74.25	+0.25/70.25	+0.00/64.50
Tues 3:20	+2.75/77.75	+1.75/73.25	+0.75/70.25	+2.00/64.75
Fri 1:00	-1.25/74.00	-1.00/71.25	-1.75/69.50	+0.00/63.25

(continued)

05:04 09/07 TSYS: (1) Treasuries are trading modestly higher across the board in London Friday, helped by short-covering after the sell-off in the U.S. overnight. However, traders said volumes were light and trading ranges narrow, with many players sidelined ahead of the U.S. employment report due at 1230GMT. Prices were higher from the start of Tokyo trade, with regional names taking advantage of the overnight weakness. Real money names were better buyers of the two-year note, with some buying seen from Asian central banks. Life funds were buyers of the 10-year note and off the run long bonds, but again, its was stressed in only modest size.

The better bid continued into the London flow, although demand remained muted. Flows slowed and were seen as largely interdealer position squaring ahead of the data. Leveraged players were seen as sellers of the 10-year note, largely tied to cross-border trades as European bonds again outperformed. The Bund/T-note are little changed on Thursday's levels, with the spread standing at 34 bps, 1 bps wider.

05:04 09/07 TSYS: (2)Ahead of the U.S. session, the 2-yr note was trading 1/32 higher at 99 28/32 to yield 4.07%. The 10-yr note was 4/32 higher at 102 1/32 (4.49%), with the Bond 4/32 lower at 103 10/32 (4.79%). The 2-yr/5-yr yield curve was unchanged on Thursday's levels, trading at +13 bps. The 2-/10-yr curve was unchanged, trading at +43 bps, while the 2-yr/30-yr curve was steeper by 1 bps, standing at +72 bps. September expiry futures contracts on the CBOT electronic system are trading lower on Thursday's closing levels. the Sep T-note was 1/32 lower at 109 30/32 and the Bond was down 2/32 at 112 7/32.

MarketNews international

06:54 09/06 **LIBOR**: 3-month sterling Libor rate fixing at 6.8775% -- highest level since November 1998.

11:01 09/06 **US-CHINA/FED:** SF Fed conference on "Asian Banking: Challenges and Opportunities" is the final conference in SF Fed's Asian Financial Crisis series and gets underway now with SF Fed Pres Yellen making introductory remarks. Featured speakers include Dominic Barton, Chairman of McKinsey & Co.-Asia, Andrew Crockett, President of JPMorgan Chase International, and Tarisa Watanagase, Governor of the Bank of Thailand.

11:00 09/06 **FED**: St Louis Fed Pres Poole (FOMC voter), in a London speech on 'Jobs and Trade,' says it is incumbent upon policy makers "to maintain a commitment to free and open trade," and argues this is beneficial to all in the long-run. He says US labor mkt is 'strong' but does not comment on the overall economy or Fed policy.

[QUOTES OF THE DAY]
12:29 09/06 **FED:** Poole said Fed will not be pushed into rate cuts by mkts.
12:32 09/06 **FED**: Poole said Fed never cuts rates just to bail out mkts.

Stone & McCarthy RESEARCH ASSOCIATES

Table I—Forecast Summary	July	SMRA Est August	Survey Medians MNI Sep 5	BBG Sep 5
Payrolls (000s)	92	95	100	102
Private (000s)	120	87		
Construction (000s)	-12	-4		
Manufacturing Payrolls (000s)	-2	-15	-10	-11
Workweek (hours)	33.8	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	0.3
Unemployment Rate (%)	4.6	4.7	4.7	4.6

Raymond Stone, rstone@smra.com
--Stone & McCarthy (Princeton)-- "Initial Unemployment Claims in the week ended September 1 dipped 19,000 to 318,000, from an upwardly revised (and elevated 337,000) in the prior week.
"....Initial Unemployment Claims is one of the few truly timely indicators, thus the behavior of this series in the weeks immediately ahead may be more influential than usual in policy deliberations."

David Ader - U.S. Government Bond Strategist--- [on nonfarm release]
In skewing the risks based on aggregating anecdotes and history and think the risk is for a soft report.

Federal Reserve State of Play - By Steve Beckner, 6 Sept 2007 12:40 EDT / Sep 06
"...But, while the Fed has certainly indicated a readiness to ease policy to supplement the extensive provision of liquidity it has undertaken, the Fed has made no guarantees."

14:15 09/06 **US TSYS/FED**: While some eyed the Fed speakers basically appearing not to promise any US rate cut, one trader said the Fed should cut the fed funds rate by 25 bps more so to assuage liquidity crisis worries, than to spur major economic relief. "If 25 bps more is not going to kill the economy, then 25 bps less will not hurt the economy, but it will make people feel better," said one trader. "We are having a liquidity crisis," he added. Speaking of liquidity the Fed added today about US$31B in liquidity to the banking system, in 3 rounds of open market operations.

Duration, DV01s, Curve Spreads, CF

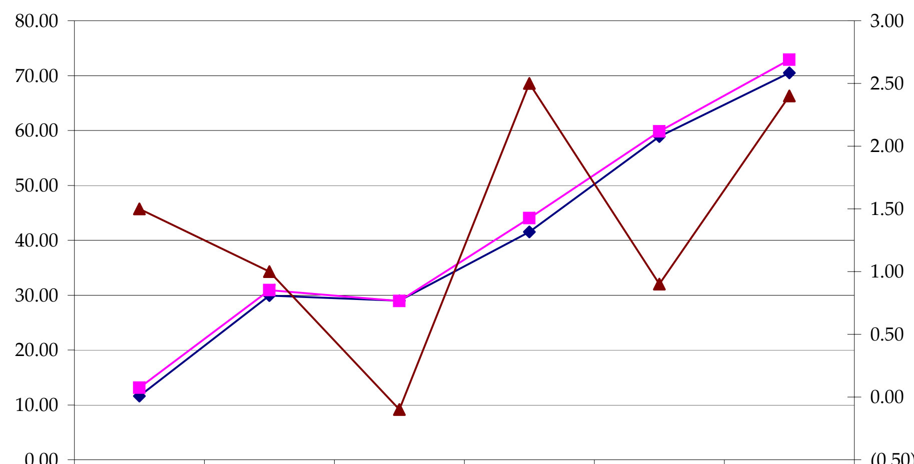
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.64	5.20	$1,626	10.41	n/a
10y	7.85	2.57	$805	5.15	n/a
5y	4.45	1.42	$444	5.68	n/a
2y	1.88	0.60	$188	2.40	n/a
ZB	9.99	3.61	$113	3.61	1.1103
ZN	5.93	2.09	$65	4.17	0.9069
ZF	4.01	1.38	$43	2.75	0.9246
ZT	1.89	0.63	$20	2.54	0.9569

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	11.60	13.10	1.50
5/10	29.90	30.90	1.00
10/30	29.00	28.90	(0.10)
2/10	41.50	44.00	2.50
5/30	58.90	59.80	0.90
2/30	70.50	72.90	2.40



	2/5	5/10	10/30	2/10	5/30	2/30
Last	11.60	29.90	29.00	41.50	58.90	70.50
2 PM Close	13.10	30.90	28.90	44.00	59.80	72.90
Diff	1.50	1.00	(0.10)	2.50	0.90	2.40

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 (Z)	1.000	1.700	2.600	2.800
Bobl (Z)	0.550	0.960	1.450	1.570
Shatz (Z)	0.246	0.424	0.644	0.690

US Financial Futures

	ZB	ZN	ZF	ZT
ZB		1.731	2.625	5.692
ZN	0.555		1.516	3.288
ZF	0.381	0.686		2.169
ZT	0.176	0.304	0.461	

Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.6	3.7
Bobl (Z)	0.6	1.0	2.3
Shatz (Z)	0.3	0.4	1.0

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.70	4.03	7.30	14.76
ZN	2.99	7.08	12.83	25.94
ZF	4.36	10.32	18.71	37.81
ZT	4.73	11.19	20.28	40.99

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

US Treasuries

	2y	5y	10y	30y
2y		2.368	4.289	8.669
5y	0.422		1.812	3.662
10y	0.233	0.552		0.000
30y	0.115	0.273	0.495	

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)	8/28/2007
ZN	(25,083)	(107,443)	132,525	
ZB	(11,562)	54,402	(42,840)	

^WoW = Week over week

9/7/2007 5:52

Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	8/31/09	99.2800	4.060	4.067	0.007			
5y	4.125	7/31/09	99.2250	4.191	4.183	(0.008)	24.21	24.28	
10y	4.750	8/15/17	101.315	4.500	4.482	(0.018)	85.72	87.50	
30y	5.000	5/15/37	103.10	4.789	4.772	(0.017)	-675.54	-673.20	

	Close 32	Last	Roll ^
ZFZ7	107.005	107.015	
ZNZ7	109.160	109.190	
ZBZ7	112.02	112.080	
ZFU7		107.035	3.7
ZNU7		110.010	13.7
ZNU7		112.130	6.7

^ Reduced tic spread, last trade

Curve Spreads

	Close bps	Last bps
2/5	13.1	11.6
5/10	30.9	29.9
10/30	28.9	29.0
2/10	44.0	41.5
5/30	59.8	58.9
2/30	72.9	70.5

	2y	5y	10y	30y
2pm Cls	4.060	4.191	4.500	4.789
Last	4.067	4.183	4.482	4.772
Diff	0.007	(0.008)	(0.018)	(0.017)

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%	**133%**

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

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$188**			
5	$187	**$444**		
10	$192	$456	**$805**	
30	$187	$444	$785	**$1,567**

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	$0			
10	($5)	($12)		
30	$0	($0)	$20	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.13%			
10	-2.43%	-2.55%		
30	0.05%	-0.08%	2.53%	

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 & Box for Box Matrix

Tic for Tic Matrix

	2y	5y	10y	30y
ZT	0.95	2.24	4.06	7.90
ZF	0.44	1.03	1.87	3.64
ZN	0.29	0.68	1.23	2.40
ZB	0.17	0.40	0.73	1.42

	2y	5y	10y	30y
2y	1.00	2.37	4.29	8.36
5y	0.42	1.00	1.81	3.53
10y	0.23	0.55	1.00	1.95
30y	0.12	0.28	0.51	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.17	3.29	5.55
ZF	0.46	1.00	1.52	2.56
ZN	0.30	0.66	1.00	1.69
ZB	0.18	0.39	0.59	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.95	2.24	8.11	15.80
ZF	0.44	2.06	3.74	7.29
ZN	0.58	1.36	1.23	2.40
ZB	0.68	1.61	1.46	2.85

	2y	5y	10y	30y
2y		2.37	2.14	4.18
5y	0.42		0.45	1.76
10y	0.47	2.21		1.95
30y	0.24	0.57	0.51	

	2y	5y	10y	30y
ZT		2.17	6.58	22.22
ZF	0.46		1.52	5.12
ZN	0.15	0.66		3.38
ZB	0.05	0.20	0.30	

Fed Funds Probability of Tightening or Easing

Sept	450	475	500	525	550
9/4/2007	20.8%	30.7%	30.6%	17.6%	0.3%
9/5/2007	26.1%	32.8%	29.1%	11.0%	1.0%

October	450	475	500	525	550	575
9/4/2007	72.8%	0.0%	10.1%	16.8%	0.0%	0.3%
9/5/2007	79.4%	0.0%	4.3%	15.9%	0.0%	0.3%

December	375	400	425	450	475	500	525	550
9/4/2007	17.7%	12.5%	0.0%	30.3%	11.9%	16.4%	8.7%	1.4%
9/5/2007	16.5%	15.3%	10.1%	17.7%	11.7%	17.9%	8.8%	0.5%

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