

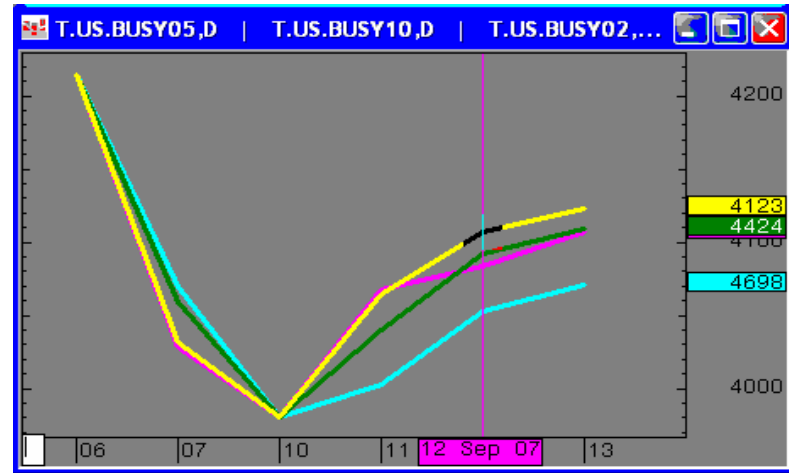


### The Morning Email: Treasuries

#### 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

Daily Yield Curve



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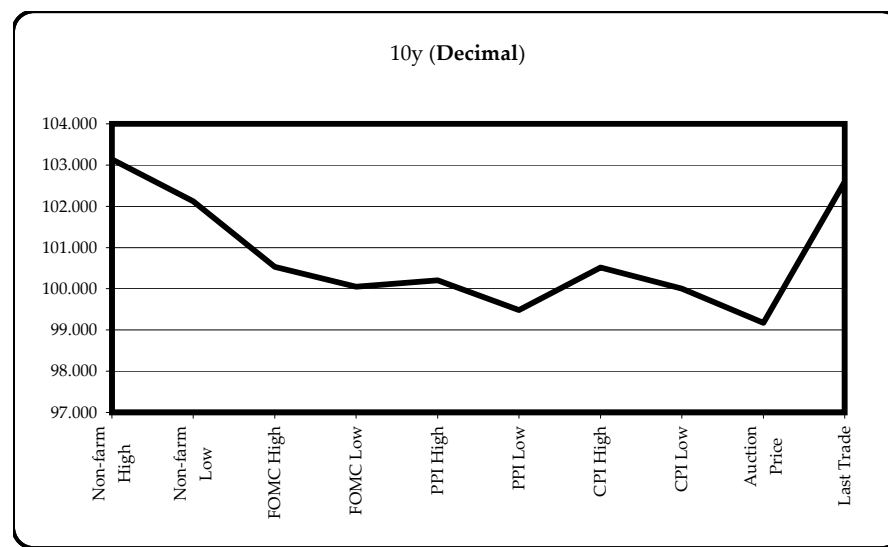
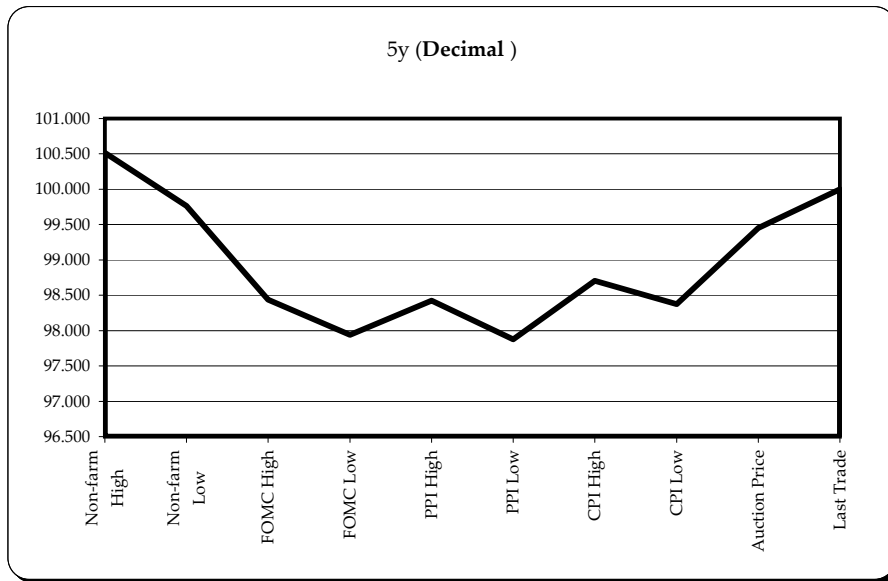


Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	100.1650	103.045	110.195	113.15	9/7/2007
Non-farm Low	99.2450	102.040	109.185	112.08	9/7/2007
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	100.0000	102.190	110.010	113.06	9/13/2007 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	103.142	(0.0)	103.175	103.137	103.150	25,084	2y Fut
FVAZ7	107.095	(0.0)	107.155	107.085	107.110	46,536	5y Fut
TYAZ7	110.010	(0.0)	110.100	110.000	110.040	97,305	10y Fut
USAZ7	113.060	(0)	113.170	113.040	113.110	15,763	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.012	(1.5)	100.040	100.012	100.030	na	2y Cash
BUS05P	100.000	(1.5)	100.062	100.000	100.035	na	5y Cash
BUS10P	#VALUE!	(3.0)	102.285	102.180	102.245	na	10y Cash
BUS30P	104.270	(5)	105.090	104.240	105.060	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.975	2.50	3.992	3.925	3.971	na	2y Yield
BUS05Y	4.121	1.40	4.128	4.078	4.107	na	5y Yield
BUS10Y	4.420	1.00	4.431	4.385	4.406	na	10y Yield
BUS30Y	4.694	0.90	4.703	4.663	4.68	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

15:48 09/12 **US TSYS/RECAP:** US Tsys slid Wed amid 1) Afternoon rangebound action, eyeing mixed US stocks amid higher oil; 2) Morning hedge funds selling in longer Tsys, varied other accts too; 3) earlier US hedge fund selling in short end; 4) a.m. US\$2B Mideast seller of 5Ys; 5) brisk Asian selling in 2Y, 5Ys (shifting money into agencies); 6) US\$ weakness could spur foreign selling; 7) corporate rate-lock selling in 2Ys; 8) US rate cut hopes deemed overdone; 9) technical Tsys selling earlier; 9) front end Tsys deemed less bid as ABCP bid emerges slightly; 10) some eyed reduced risk aversion on emerging market assets; 11) Tsys pressured earlier by German Bund stop-loss selling; 12) Light volume exaggerated action; may be thin before Sept. 18 FOMC mtg. 13) others deemed oil gain Tsys-friendly as will pinch consumer spending. 14) There also was heavy options activity. 15) Tbill bid; 16) ABCP rates dipped as some calm returns but big ABCP rollover this around later wk/Mon/Tue. 17) NYMEX crude oil hit all-time US\$80.18 record high, ebbed off by late;TIPS bid.

15:21 09/12 **US EURODLR/SWAPS:** Sources said the mkt was well bid on the open as geopol concerns wer abound but around 8:30-9am NY time, there was a bunch of selling, the bulk of which was rate locking. But, there too was some heavy paying on rate reported, which was believed to be an unwind of a naked long position. There too has been some mtg paying in 5Y and 10Y as some players got too long. Overnight there was Japanese receiving in 4-5Y sectors and other receiving in the front-end.

According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed Close	-0.25/77.50	-1.25/68.50	-0.75/65.25	-0.75/61.00
Wed 1:30	-0.75/77.00	-1.25/68.50	-0.50/65.50	-0.50/61.25
Wed 12:20	-1.00/76.25	-1.25/68.50	-0.50/65.60	-0.50/61.25
Wed 10:30	-1.00/76.25	-1.25/68.50	-0.75/65.25	-1.25/60.50
Wed open	-1.00/76.75	-0.25/69.50	-0.25/65.75	-0.25/61.50

**(continued)**

05:19 09/13 **TSYS:** Treasuries are trading higher across the board in London trade Thursday, with the curve steepening as the front end leads the way. Treasuries were modestly higher across the board in Tokyo trade Thurs, helped by dip-buying and short-covering after the overnight falls in the U.S. However, overall volumes were modest, with many Tokyo players sidelined ahead of the long Japanese holiday weekend. Light selling was seen in the 10-year sector ahead of the \$8 billion auction expected later in the day. Prices are continuing to trade higher in London, with the ongoing hopes for a Fed rate hike still driving yields lower. The FOMC meets Sept 18 and markets are expecting a 25 bps cut, with the possibility the Fed may cut 50 bps. Real money names were buyers across the curve, although interest was biased to shorter-dated paper. The 10-year note was higher on end-user interest, although light selling was seen from leveraged players ahead of the auction.

05:19 09/13 **TSYS: (2)** Two-way flows were seen from Middle East accounts, with some traders pointing to book squaring ahead of the start of Ramadan. Traders also noted flows out of Treasuries into U.K. Gilts, as the sterling markets played catch-up on hopes of possible rate cuts in coming months. The Bund/T-note widened 2 bps on Monday's levels, with the spread standing at 33 bps. Ahead of the U.S. session, the 2-yr note was trading 2/32 higher at 100 4/32 to yield 3.92%. The 10-yr note was 6/32 higher at 102 29/32 (4.39%), with the Bond 8/32 higher at 105 8/32 (4.67%). The 2-yr/5-yr yield curve was 1 bps steeper on Wednesday's levels, trading at +15 bps. The 2-/10-yr curve also steepened 1 bps, trading at +46 bps. The 2-yr/30-yr curve was 2 bps steeper, standing at +75 bps.



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.72	5.30	\$1,655	10.59	n/a
10y	7.85	2.59	\$808	5.17	n/a
5y	4.44	1.42	\$445	5.69	n/a
2y	1.87	0.60	\$187	2.39	n/a
ZB	10.01	3.66	\$114	3.66	1.1103
ZN	5.92	2.10	\$66	4.20	0.9069
ZF	4.00	1.38	\$43	2.76	0.9246
ZT	1.88	0.63	\$20	2.53	0.9569

	Yield Curve Spreads		Diff
	Last	2pm close	
2/5	14.60	15.10	0.50
5/10	29.90	30.80	0.90
10/30	27.40	27.50	0.10
2/10	44.50	45.90	1.40
5/30	57.30	58.30	1.00
2/30	71.90	73.40	1.50

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**

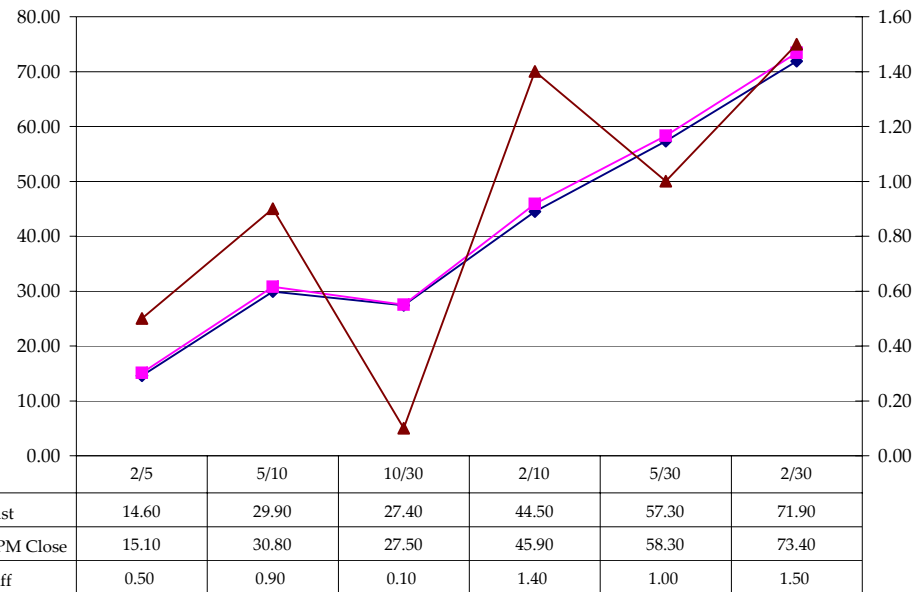
CF = Conversion Factor

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 (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		1.742	2.653	5.775
ZN	0.550		1.523	3.315
ZF	0.377	0.685		2.176
ZT	0.173	0.302	0.459	

## Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.6	3.8
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	1.68	3.99	7.26	14.87
ZN	2.98	7.08	12.86	26.34
ZF	4.34	10.33	18.78	38.45
ZT	4.73	11.24	20.43	41.84

## 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		2.378	4.323	8.852
5y	0.421		1.818	3.722
10y	0.231	0.550		0.000
30y	0.113	0.269	0.488	

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	261,894	262,004	(110)	248,738	239,621	9,117	1,198,819	1,207,827	(9,008)	ZF
ZN	343,315	403,634	(60,319)	633,543	273,782	359,761	1,559,119	1,858,561	(299,442)	ZN
ZB	157,018	181,490	(24,472)	152,761	188,892	(36,131)	682,464	621,860	60,604	ZB

WoW^ Position Change				As of
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	(15,807)	26,270	(10,464)	9/4/2007
ZN	9,838	(62,283)	52,445	
ZB	4,842	(16,666)	11,825	

^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	100.0300	3.949	3.975	0.026			
5y	4.125	7/31/09	100.0350	4.100	4.121	0.021	26.11	25.39	
10y	4.750	8/15/17	102.230	4.408	4.420	0.012	90.18	89.81	
30y	5.000	5/15/37	105.02	4.683	4.694	0.011	2887.40	-665.51	

	Close 32	Last	Roll ^
ZFZ7	107.125	107.095	
ZNZ7	110.050	110.010	
ZBZ7	13.11	113.060	
ZFU7		107.150	5.2
ZNU7		110.145	13.5
ZNU7		113.130	6.2

Curve Spreads		
	Close bps	Last bps
2/5	15.1	14.6
5/10	30.8	29.9
10/30	27.5	27.4
2/10	45.9	44.5
5/30	58.3	57.3
2/30	73.4	71.9

^ Reduced tic spread, last trade



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%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$187			
5	\$187	\$445		
10	\$192	\$457	\$808	
30	\$189	\$449	\$794	\$1,595
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$5)	(\$12)		
30	(\$2)	(\$4)	\$14	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.02%			
10	-2.71%	-2.73%		
30	-0.98%	-1.00%	1.78%	

**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	0.95	2.25	4.09	8.06
ZF	0.43	1.03	1.88	3.70
ZN	0.29	0.68	1.23	2.43
ZB	0.17	0.40	0.73	1.43

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.95	2.25	8.17	16.12
ZF	0.43	2.07	3.76	7.41
ZN	0.57	1.36	1.23	2.43
ZB	0.67	1.60	1.45	2.86

	2y	5y	10y	30y
2y	1.00	2.38	4.32	8.53
5y	0.42	1.00	1.82	3.59
10y	0.23	0.55	1.00	1.97
30y	0.12	0.28	0.51	1.00

	2y	5y	10y	30y
2y		2.38	2.16	4.26
5y	0.42		0.45	1.79
10y	0.46	2.20		1.97
30y	0.23	0.56	0.51	

	ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.32	5.63
ZF	0.46	1.00	1.52	2.59
ZN	0.30	0.66	1.00	1.70
ZB	0.18	0.39	0.59	1.00

	2y	5y	10y	30y
ZT		2.18	6.63	22.52
ZF	0.46		1.52	5.17
ZN	0.15	0.66		3.40
ZB	0.04	0.19	0.29	

## 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>9/10/2007</b>	4.8%	15.6%	46.3%	37.2%	0.0%
<b>9/11/2007</b>	4.8%	11.1%	51.6%	36.6%	0.0%

<b>October</b>	<b>avg target</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>
<b>9/10/2007</b>	4.6%	6.1%	22.2%	33.4%	17.3%	15.9%
<b>9/11/2007</b>	4.6%	3.8%	20.9%	31.3%	20.7%	18.1%

<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>9/10/2007</b>	4.4%	13.8%	19.4%	29.1%	7.8%	9.0%	15.3%	5.7%
<b>9/11/2007</b>	4.4%	12.7%	14.9%	20.0%	16.9%	9.9%	19.9%	5.7%

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



