

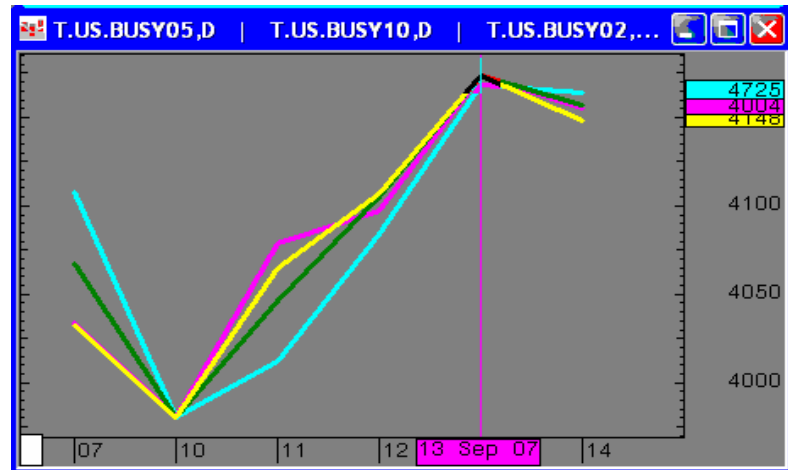


The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 All rights reserved worldwide Fri Sep 14 2007 05:49:03

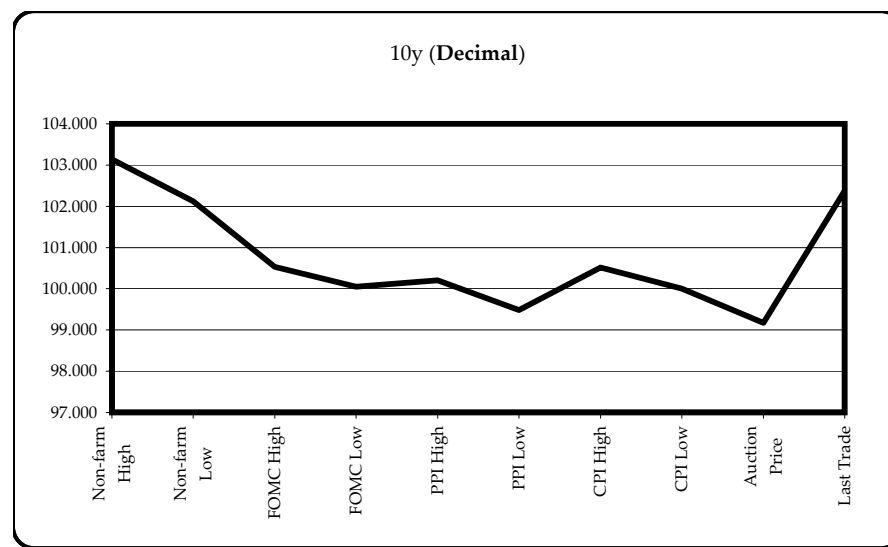
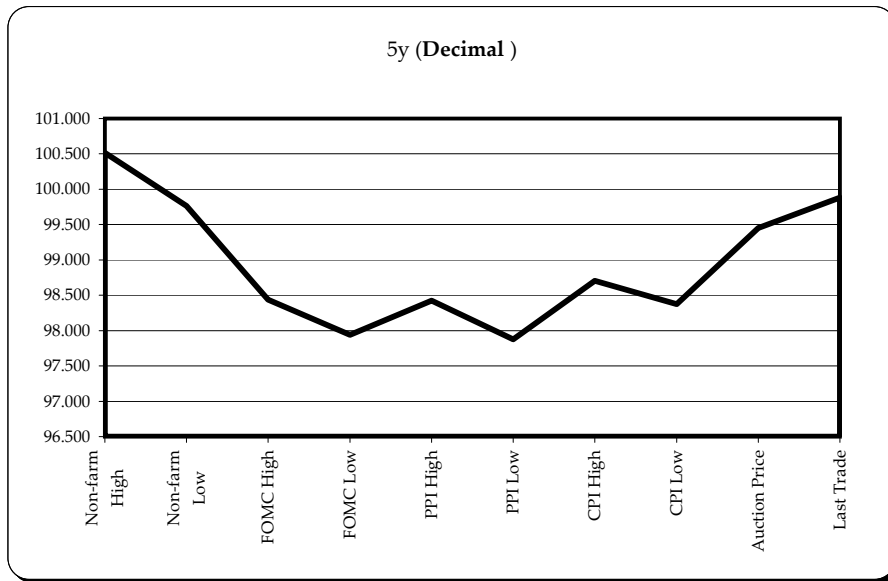


Want something added? Let me know: jgoulding@ghco.com

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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	99.2820	102.120	109.305	112.29	9/14/2007 5:51

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	103.140	0.0	103.145	103.112	103.130	36,400	2y Fut
FVAZ7	107.070	0.1	107.075	107.010	107.040	55,993	5y Fut
TYAZ7	109.305	0.1	109.310	109.225	109.260	118,215	10y Fut
USAZ7	112.290	0	112.310	112.200	112.260	22,390	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.312	1.0	99.315	99.292	99.310	na	2y Cash
BUS05P	99.282	3.5	99.285	99.230	99.272	na	5y Cash
BUS10P	102.115	3.0	102.125	102.050	102.110	na	10y Cash
BUS30P	104.100	1	104.140	104.010	104.130	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.004	(1.70)	4.067	3.996	4.067	na	2y Yield
BUS05Y	4.150	(2.40)	4.195	4.146	4.195	na	5y Yield
BUS10Y	4.449	(1.30)	4.482	4.445	4.48	na	10y Yield
BUS30Y	4.726	(0.10)	4.747	4.717	4.737	na	30y Yield

Notes: SYM = Symbol

**All times Eastern****Yesterday:**

15:33 09/13 **US TSYS/RECAP:** US Tsys mkt weakens Thurs amid 1) dealer short-setting into US\$8B10Y reopening auction, which drew better than expected 22.5% indirect bid. Tsys 2) pressured from firmer stocks, DJIA up 132 pts to 13,427; 3) earlier German Bund stop-loss selling this morning; 4) corporate rate-lock selling out of Europe ahead of big bond deal; 5) some cautious giveback of safe-haven buying of credit crunch; And 6) some exited curve steepeners as hopes moved from 50-bps cut Tue to 25-bps cut; Fed Chairman Bernanke meanwhile sets Sep 20 speech. And 7) Tsys had leveraged account selling in 2Ys; this occurs as 2Y/10Y, 2Y/30Y curves flatten. 8) Leveraged accounts buying in 10Ys, buy- and-hold account buying in 5Ys. 9) Fed data showed total C/P had US\$8.2B overall decline (SA) on week ended Sept. 12, -21.6B decline in ABCP but data showed US\$11.1B gain in financial C/P issuance; suggests bks use own credit to guarantee short-term financg. 10) Goldman's Global Alpha hedge fund fell 22.5% in Aug amid FX, stock losses.

15:10 09/13 **EURODLR FUTURES:** Save the very front end, Eurodrlr futures finished broadly lower, at or near session lows while the curve came off earlier flatter levels. On the bell the Red/Gold pack spd (Sep08-Jun09) vs (Sep11-Jun12), steepened 0.125 bps at 67.875. In the Fronts (Sep07-Jun08), the Sep07 were 5.5 bps higher at 94-36.75 on combined Globex and pit volume of 327,000, the Dec07 higher 2.5 bps at 95-05.5 on volume of 414,000, the Mar08 3.5 bps lower at 95-45.5 on volume of 297,000, while the Jun08 were 8.0 bps lower at 95-57.5 on volume of 340,000. The Red pack (Sep08-Jun09) a 2yr proxy, settled 10.0 to 10.5 bps lower across the pack with 978,000 contracts traded.

15:04 09/13 **US EURODLR/SWAPS:** Spds ended session tighter in the front end, the spd of spds curve steepening because of the lower LIBOR set. Flows were relatively light but some early front end paying, Reds and Greens was reported amid some rate locking as well. According to GovPX:

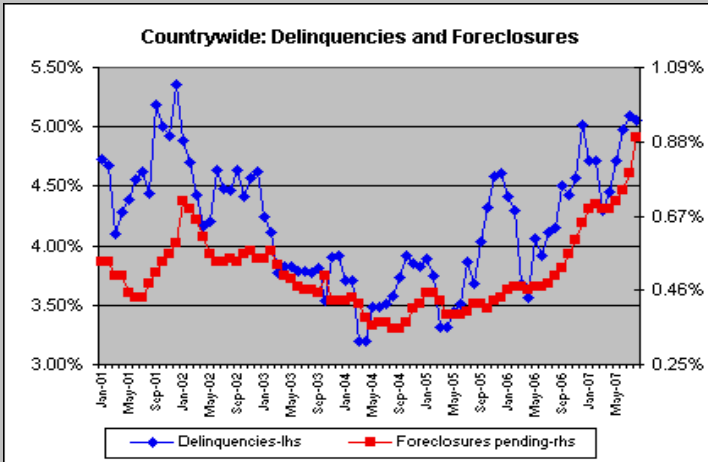
Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Thu 3:00	-4.75/72.50	-0.50/68.00	+1.25/66.25	+1.75/62.75
1:30	-4.75/72.50	-0.50/68.00	+1.25/66.25	+2.00/63.00
12:00	-4.50/72.75	-0.50/68.00	+1.50/66.50	+2.00/63.00
10:50	-4.25/73.00	-1.25/67.25	+0.75/66.00	+1.00/62.00
10:10	-4.25/73.00	-1.50/67.00	-0.25/65.00	+0.25/61.25
9:30	-3.75/73.50	-1.75/66.75	-0.25/65.00	+0.00/61.00
Thu Open	-5.00/72.25	-2.25/66.25	-1.25/64.00	-1.00/60.00
Thu 8:00	-4.00/73.25	-2.00/66.50	-1.00/64.25	-1.00/60.00
Wed 3:00	-0.50/77.25	-1.25/68.50	-0.75/65.25	-0.75/61.00

(continued)**Overnight:**

05:26 09/14 TSYS: U.S. Treasuries are trading narrowly mixed in London trade Friday, with the front of the curve again benefitting from a safe-haven bid as European equities fall. Stocks were weighed in Europe on news that the Bank of England had stepped in to provide mortgage Bank Northern Rock PLC with a guarantee of emergency funding. Treasuries were initially higher in Tokyo, despite an early advance seen in Japanese stocks and held gains on dip-buying ahead of the long holiday weekend. However, traders said volumes were largely muted. London also saw outperformance at the front of the curve, with a steepening bias as the safe haven flow continued. However, flows were again below recent averages, with many traders saying flows were largely interdealer. The Bund/T-note widened 2 bps on Monday's levels, with the spread standing at 37 bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 higher at 99 31/32 to yield 4.02%. The 10-yr note was unchanged at 102 8/32 (4.46%), with the Bond 2/32 lower at 104 5/32 (4.74%).

WSJ Headlines

China Raises Interest Rates Again
U.K. to Give Credit Support to Northern Rock



Raymond Stone, rstone@smra.com
 --Stone & McCarthy (Princeton)

"The drop in Asset-Backed CP outstanding, while slowing in recent weeks, still underscores the current strains in the credit markets. These strains are likely to intensify as the remaining \$945 billion of outstanding Asset-back CP matures in the weeks ahead. How much of this will the markets allow to be rolled-over, and how much of this will require other sources of funding?"

"The data of late would suggest that issuers have having somewhat better success in rolling over paper than a few weeks ago. Presumably, the Fed's lowering of the discount rate, encouragement to borrow from the window, extending the duration of discount window advances, and the advertising that asset back paper is eligible collateral for discount window advances have collectively improved issuers success in rolling over maturing paper."

It's important to remember that Countrywide's portfolio is made up predominantly of conventional and not subprime loans.--Nancy Vanden Houten, Stone & McCarthy (Princeton)

Countrywide Financial Corporation: Recent Mortgage Funding by Loan Type

	Purchase	Non-Purchase	ARM	Nonprime	Fixed Rate	Fixed Rate %	Nonprime %
Aug-06	\$19,605	\$21,921	\$19,323	\$3,722	\$22,203	53%	9%
Sep-06	\$17,677	\$20,410	\$15,778	\$3,058	\$22,309	59%	8%
Oct-06	\$17,403	\$24,493	\$16,259	\$3,254	\$25,637	61%	8%
Nov-06	\$15,960	\$22,318	\$14,303	\$3,058	\$23,975	63%	8%
Dec-06	\$17,147	\$24,583	\$15,222	\$3,739	\$26,508	64%	9%
Jan-07	\$13,268	\$23,845	\$13,748	\$2,939	\$23,365	63%	8%
Feb-07	\$12,633	\$21,936	\$12,533	\$2,587	\$22,036	64%	7%
Mar-07	\$17,265	\$26,017	\$14,677	\$2,355	\$28,605	66%	5%
Apr-07	\$15,866	\$24,614	\$11,424	\$1,682	\$29,056	72%	4%
May-07	\$18,642	\$25,778	\$10,667	\$2,186	\$33,753	76%	5%
Jun-07	\$20,739	\$24,524	\$12,599	\$1,853	\$32,664	72%	4%
Jul-07	\$18,711	\$20,350	\$10,972	\$1,804	\$28,089	72%	5%
Aug-07	\$17,193	\$17,158	\$8,687	\$1,267	\$25,664	75%	4%
Aug 07 vs Jul 07:	-8.1%	-15.7%	-20.8%	-29.8%	-8.6%		
Aug 07 vs Aug 06:	-12.3%	-21.7%	-55.0%	-66.0%	15.6%		
3-month average	\$18,881	\$20,677	\$10,753	\$1,641	\$28,806	73%	4%
12-month average	\$16,875	\$23,002	\$13,072	\$2,482	\$26,805	67%	6%

Source: Countrywide Financial Corporation. In billions.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.68	5.26	\$1,643	10.51	n/a
10y	7.84	2.58	\$806	5.16	n/a
5y	4.43	1.42	\$443	5.67	n/a
2y	1.86	0.60	\$186	2.38	n/a
ZB	9.99	3.63	\$114	3.63	1.1103
ZN	5.91	2.09	\$65	4.18	0.9069
ZF	3.99	1.37	\$43	2.75	0.9246
ZT	1.91	0.63	\$20	2.52	0.9569

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	14.60	13.90	(0.70)
5/10	29.90	28.70	(1.20)
10/30	27.70	26.20	(1.50)
2/10	44.50	42.60	(1.90)
5/30	57.60	54.90	(2.70)
2/30	72.20	68.80	(3.40)

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

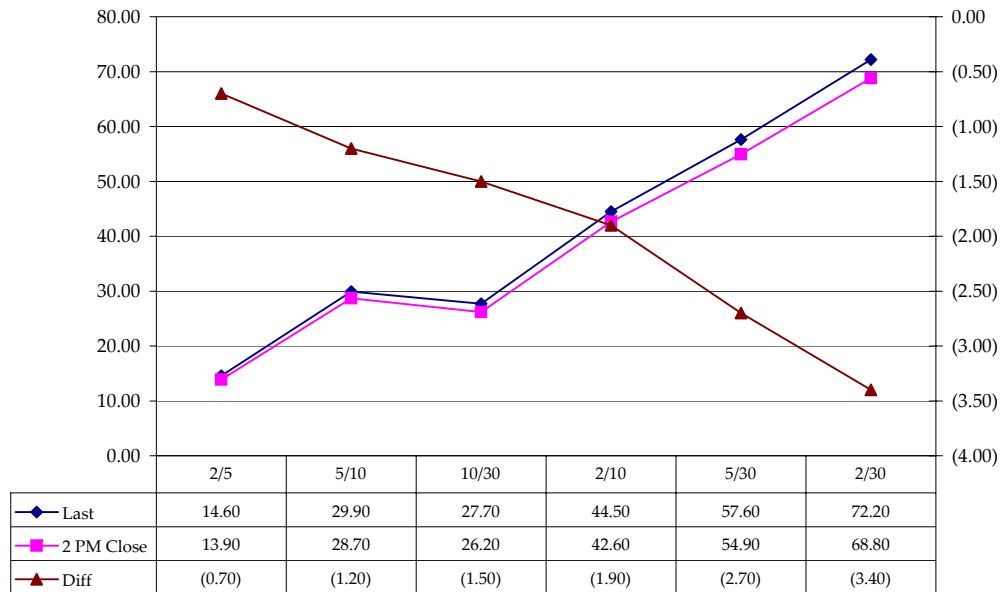
CF = Conversion Factor

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		1.737	2.646	5.768
ZN	0.552		1.523	3.320
ZF	0.378	0.685		2.180
ZT	0.173	0.301	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	4.00	7.27	14.83
ZN	2.97	7.07	12.86	26.21
ZF	4.34	10.33	18.77	38.27
ZT	4.73	11.26	20.46	41.71

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		2.382	4.330	8.827
5y	0.420		1.817	3.705
10y	0.231	0.550		0.000
30y	0.113	0.270	0.490	

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

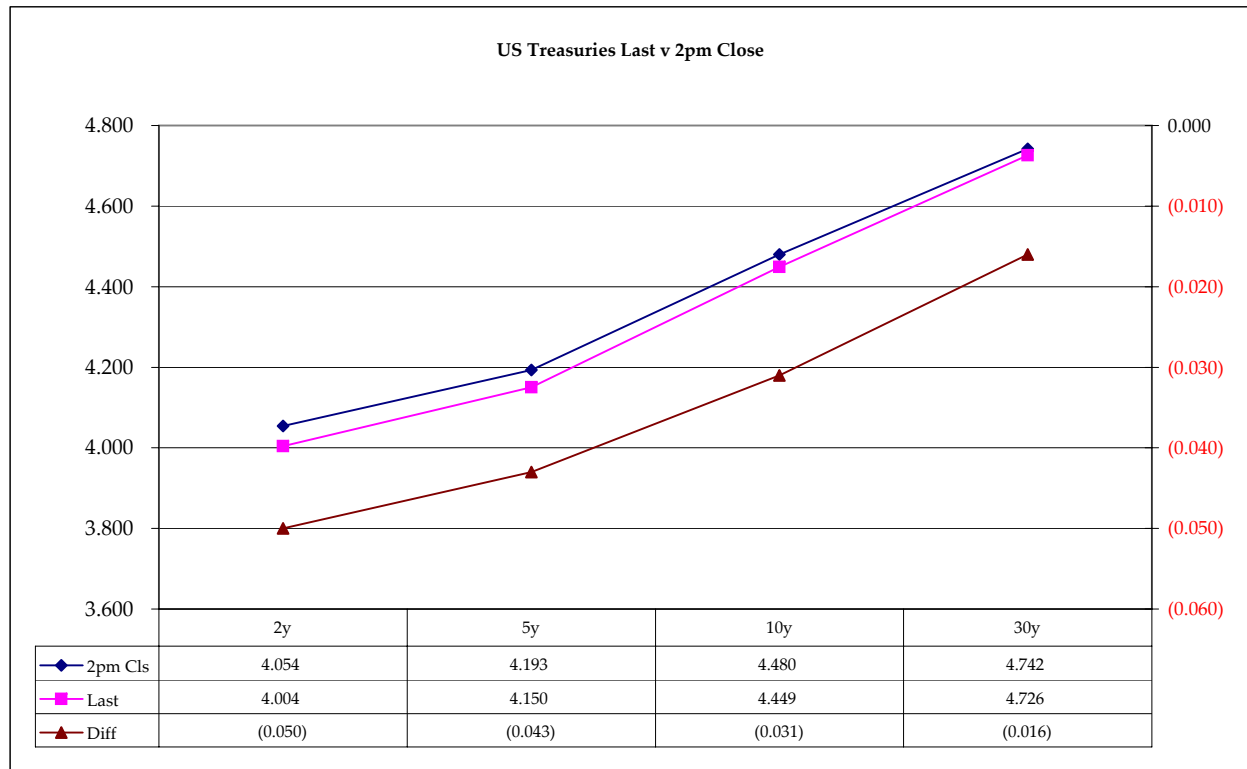
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	8/31/09	99.2750	4.054	4.004	(0.050)			
5y	4.125	7/31/09	99.2225	4.193	4.150	(0.043)	23.96	23.90	
10y	4.750	8/15/17	102.045	4.480	4.449	(0.031)	86.19	85.07	
30y	5.000	5/15/37	104.03	4.742	4.726	(0.016)	-672.13	-673.01	

	Close 32	Last	Roll ^
ZFZ7	107.005	107.070	
ZNZ7	109.210	109.305	
ZBZ7	112.21	112.290	
ZFU7		107.060	4.2
ZNU7		110.080	11.2
ZNU7		113.020	5

Curve Spreads		
	Close bps	Last bps
2/5	13.9	14.6
5/10	28.7	29.9
10/30	26.2	27.7
2/10	42.6	44.5
5/30	54.9	57.6
2/30	68.8	72.2

^ 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	\$186			
5	\$186	\$443		
10	\$191	\$455	\$806	
30	\$187	\$446	\$789	\$1,583
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$5)	(\$12)		
30	(\$1)	(\$3)	\$16	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.09%			
10	-2.57%	-2.65%		
30	-0.56%	-0.64%	2.06%	

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	8.04
ZF	0.43	1.03	1.88	3.69
ZN	0.28	0.68	1.23	2.42
ZB	0.17	0.40	0.73	1.43

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.95	2.25	8.18	16.08
ZF	0.43	2.07	3.75	7.38
ZN	0.57	1.36	1.23	2.42
ZB	0.67	1.60	1.45	2.86

	2y	5y	10y	30y
2y	1.00	2.38	4.33	8.51
5y	0.42	1.00	1.82	3.57
10y	0.23	0.55	1.00	1.96
30y	0.12	0.28	0.51	1.00

	2y	5y	10y	30y
2y		2.38	2.16	4.25
5y	0.42		0.45	1.79
10y	0.46	2.20		1.96
30y	0.24	0.56	0.51	

	ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.32	5.62
ZF	0.46	1.00	1.52	2.58
ZN	0.30	0.66	1.00	1.69
ZB	0.18	0.39	0.59	1.00

	2y	5y	10y	30y
ZT		2.18	6.64	22.50
ZF	0.46		1.52	5.16
ZN	0.15	0.66		3.39
ZB	0.04	0.19	0.30	

Fed Funds Probability of Tightening or Easing

Sept		450	475	500	525	550
9/10/2007	4.8%	15.6%	46.3%	37.2%	0.0%	
9/11/2007	4.8%	11.1%	51.6%	36.6%	0.0%	

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

December	avg target	375	400	425	450	475	500	525
9/10/2007	4.4%	13.8%	19.4%	29.1%	7.8%	9.0%	15.3%	5.7%
9/11/2007	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

