

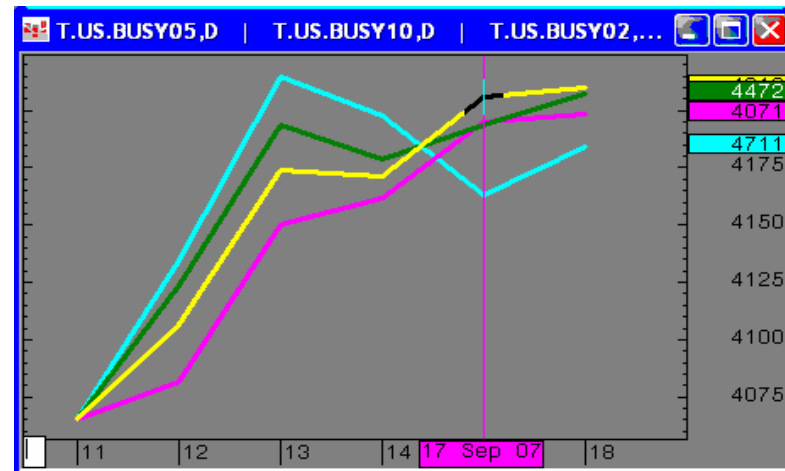


The Morning Email: Treasuries

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Daily Yield Curve



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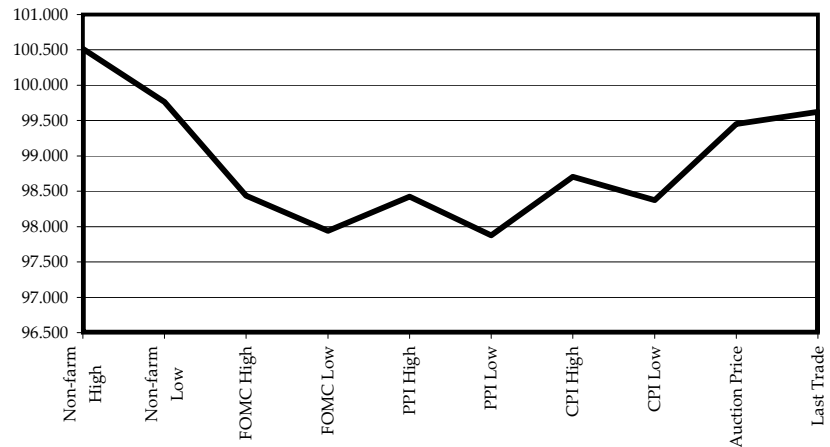
Want something added? Let me know: jgoulding@ghco.com

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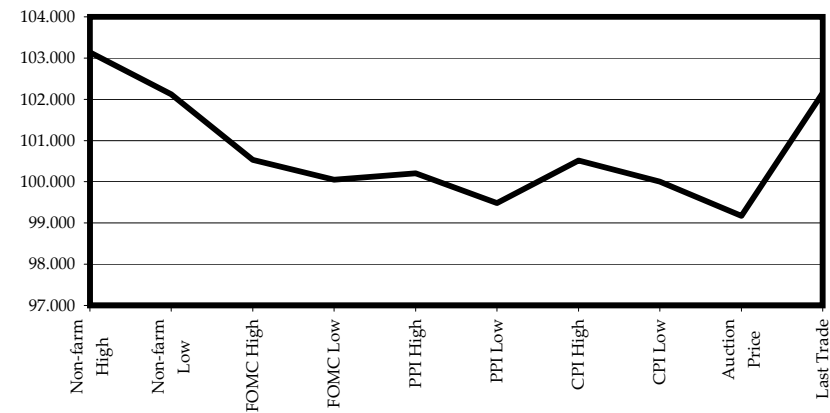
Economic Releases - 32nds					
	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	100.1650	103.045	110.195	113.15	9/7/2007
Non-farm Low	99.2450	102.040	109.185	112.08	9/7/2007
FOMC High	98.1400	100.170	108.105	110.23	8/7/2007
FOMC Low	97.3000	100.015	107.265	110.07	8/7/2007
PPI High	98.1350	100.065	108.100	110.03	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	99.2000	102.050	109.235	112.26	9/18/2007 6:04

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

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	103.102	(0.0)	103.120	103.100	103.102	27,048	2y Fut
FVAZ7	107.000	(0.0)	107.035	107.000	107.000	34,996	5y Fut
TYAZ7	109.235	(0.0)	109.290	109.230	109.245	80,202	10y Fut
USAZ7	112.260	(0)	113.030	112.260	112.310	13,305	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.272	(0.5)	99.287	99.272	99.277	na	2y Cash
BUS05P	99.190	(1.2)	99.222	99.197	99.200	na	5y Cash
BUS10P	#VALUE!	(3.5)	102.120	102.050	102.090	na	10y Cash
BUS30P	104.155	(7)	104.280	104.165	104.275	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.067	0.00	4.088	4.042	4.084	na	2y Yield
BUS05Y	4.215	0.90	4.217	4.188	4.208	na	5y Yield
BUS10Y	4.478	1.60	4.48	4.446	4.466	na	10y Yield
BUS30Y	4.714	1.40	4.718	4.685	4.701	na	30y Yield

Notes: SYM = Symbol

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

15:08 09/17 **US TSYS/RECAP:** US Tsys mkt ebbs Mon morning in 1) some unwind of safe- haven bid in Tsys tied to UK debt markets/N. Rock bank woe; 2) Tsys later held tight afternoon range at mainly lower prices except 30Ys amid weak US stks. 3) Some sold US Tsys/buy German Bunds; 4) Ivrgd accts took profits in long end Tsys but 5) 30Y bonds had bank bid and 6) NY Fed Empire state index: weaker headline at 14.70 Sept, higher employment at 18.22, higher prices paid, 35.11 7) Traders said US\$113B in ECP paper to roll by Tues. appears going without major holdups; now eye Tues. rollover for Thu settle of Euro ABCP. 8) EGB longer issues outperform, flatter Bund curve after earlier safe-haven gain pared. 11) Tsys aided by weak stks; 12) UK Libor rose to 4.57%, 3M UK libor dip to 6.75%. 13) UK bank jitters anew as 2 other banks saw shares fall. 14) Oct FF 95-00 put trades 5,000 paper to paper; and earlier was seller of Oct 95-12 calls, likely not to be faded. Late trade involves buying of some "what if they do not go" plays as good buying in Sep 93 puts, Oct 87 puts.

15:08 09/17 **EURODLR FUTURES:** Eurodlr futures finished off session lows, at or near midrange on the session as the curve came off earlier flatter levels. On the bell the Red/Gold pack spd (Dec08-Sep09) vs (Dec11-Sep12), steepened 0.375 bps at 71.625. In the Fronts (Dec07-Sep08), the Dec07 were 2.0 bps lower at 95-09 on combined Globex and pit volume of 250,000, the Mar08 lower 4.5 bps at 95-43.5 on volume of 192,000, the Jun08 3.5 bps lower at 95-56.5 on volume of 229,000, while the Sep08 were 3.0 bps lower at 95-61 on volume of 268,000. The 2yr proxy Red pack (Dec08-Sep09), settled 3.5 to 4.5 bps lower across the pack with 489,000 contracts traded.

15:03 09/17 **US EURODLR/SWAPS:** Spds ended session wider, off early tights ahead of the next FOMC announcement. In early trade sources reported generally light, two-way swap-tied flow as many accts plied sidelines ahead next Fed rate announcement. Specifically, light two-way reported in fronts to intermediate Tsys while Eurodollar sources reported some light paying-tied flow in Red packs (Dec08-Sep09) and 2-year bundles early. According to GovPX:

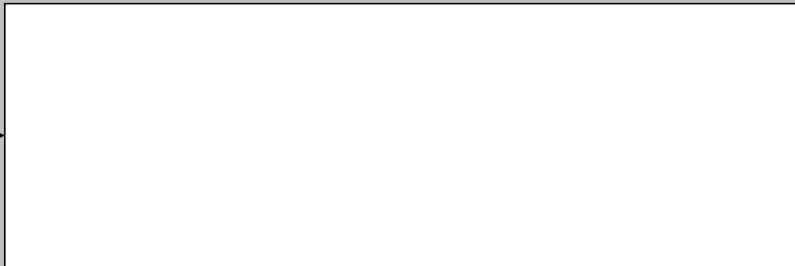
Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Mon 3:00	+0.00/69.50	+0.50/68.25	+1.00/68.25	+1.25/66.25
2:00	+0.00/69.50	+0.50/68.25	+1.00/68.25	+1.25/66.25
12:30	+0.25/69.75	+0.75/68.50	+1.00/68.25	+1.50/66.50
11:00	-0.25/69.25	+0.25/68.00	+1.00/68.25	+1.25/66.25
10:15	-0.25/69.25	+0.50/68.25	+1.25/68.50	+1.25/66.25
9:15	-0.75/68.75	+0.00/67.75	+0.50/67.75	+0.75/65.75
Mon Open	-1.00/68.50	-0.50/67.25	-0.50/66.75	-0.50/64.50
Fri 3:00	-3.00/69.50	-0.25/67.75	+0.75/67.25	+2.25/65.00

(continued)**Overnight:**

05:28 09/18 **TSYS:** Treasuries are marking time in London trade Tuesday, as markets await the Federal Reserve's rate decision due at 1815GMT. Prices opened modestly higher in early Tokyo trade, with dip-buying seen from regional names returning from the long holiday weekend in Japan. But overall volumes were seen as muted, with many players sidelined ahead of the Fed and the Bank of Japan decision due Wednesday. Treasuries across the curve slipped from their best levels in London, but their was little to attract traders to the table. However, despite higher stocks, the front of the curve found modest safe-haven demand as the global credit crunch continued. The Bund/T-note widened 0.5 bps on Monday's levels, with the spread standing at 36 bps. Ahead of the U.S. session, the 2-yr note was trading 1/64 higher at 99 28/32 to yield 4.06%. The 10-yr note was 1+32 higher at 102 9/32 (4.46%), with the Bond 3/32 lower at 104 22/32 (4.70%). The 2-yr/5-yr yield curve was unchanged on Monday's levels, trading at +14 bps. The 2-/10-yr curve was also unchanged at +40 bps.



“We've been noting that into the first ease in a cycle 2s TYPICALLY trade 125-150 bp THROUGH funds, and never traded less than 120 bp through. 2s/10s have NOT surpassed 50 bp on these occasions, either. The point here is that on the approach to 3.75% in 10s, 50 bp in 2s/10s, the market was RICH by historic measures.”
David Ader, Head of Government Bond Strategy
Ian Lyngen, Strategist
Market Strategy Team
RBS



	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.69	5.27	\$1,647	10.54	n/a
10y	7.83	2.57	\$803	5.14	n/a
5y	4.42	1.41	\$441	5.65	n/a
2y	1.85	0.59	\$185	2.37	n/a
ZB	9.98	3.63	\$114	3.63	1.1103
ZN	5.90	2.08	\$65	4.17	0.9069
ZF	3.98	1.37	\$43	2.74	0.9246
ZT	1.90	0.63	\$20	2.51	0.9569

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	14.80	14.00	(0.80)
5/10	26.30	26.60	0.30
10/30	23.60	24.50	0.90
2/10	41.10	40.60	(0.50)
5/30	49.90	51.10	1.20
2/30	64.70	65.10	0.40

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

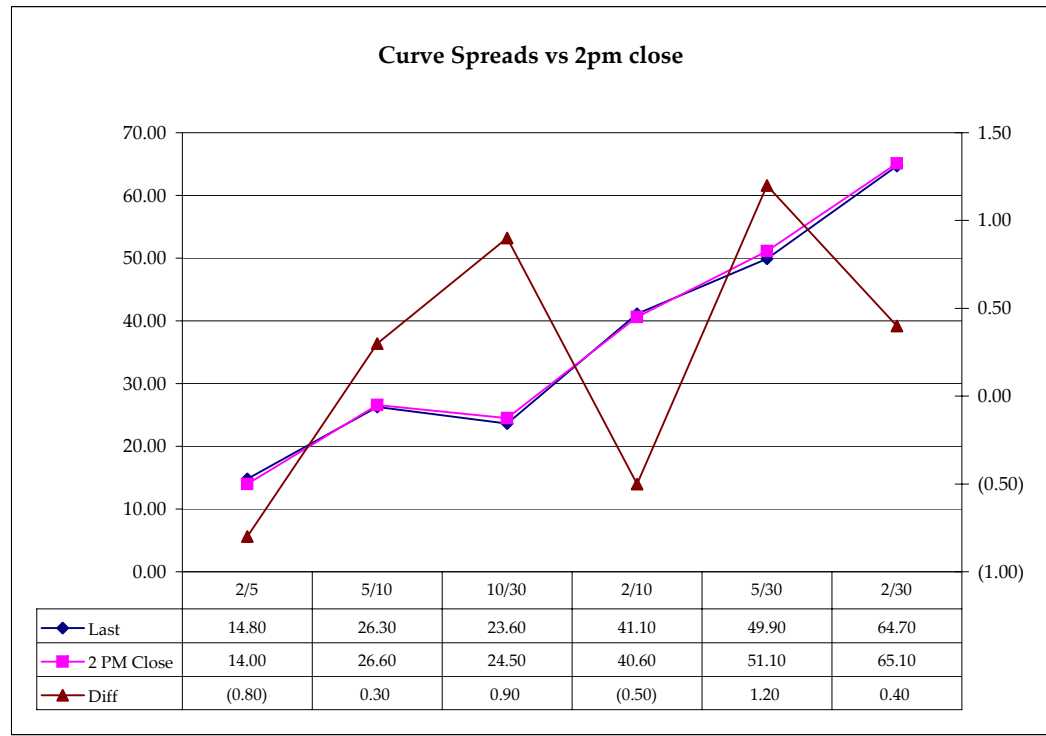
CF = Conversion Factor

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		1.743	2.655	5.788
ZN	0.550		1.523	3.320
ZF	0.377	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	1.67	3.99	7.26	14.88
ZN	2.97	7.07	12.87	26.38
ZF	4.33	10.32	18.78	38.51
ZT	4.72	11.25	20.47	41.97

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	4.335	8.888
5y	0.420		1.820	3.731
10y	0.231	0.550		0.000
30y	0.113	0.268	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	291,631	243,224	48,407	262,889	243,065	19,824	1,207,323	1,275,554	(68,231)	ZF
ZN	337,734	433,029	(95,295)	640,760	283,342	357,418	1,610,473	1,872,595	(262,122)	ZN
ZB	152,320	180,025	(27,705)	152,462	179,955	(27,493)	702,448	647,249	55,199	ZB

WoW^ Position Change				As of 9/11/2007
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	
ZF	48,517	10,707	(59,223)	
ZN	(34,976)	(2,343)	37,320	
ZB	(3,233)	8,638	(5,405)	

^WoW = Week over week

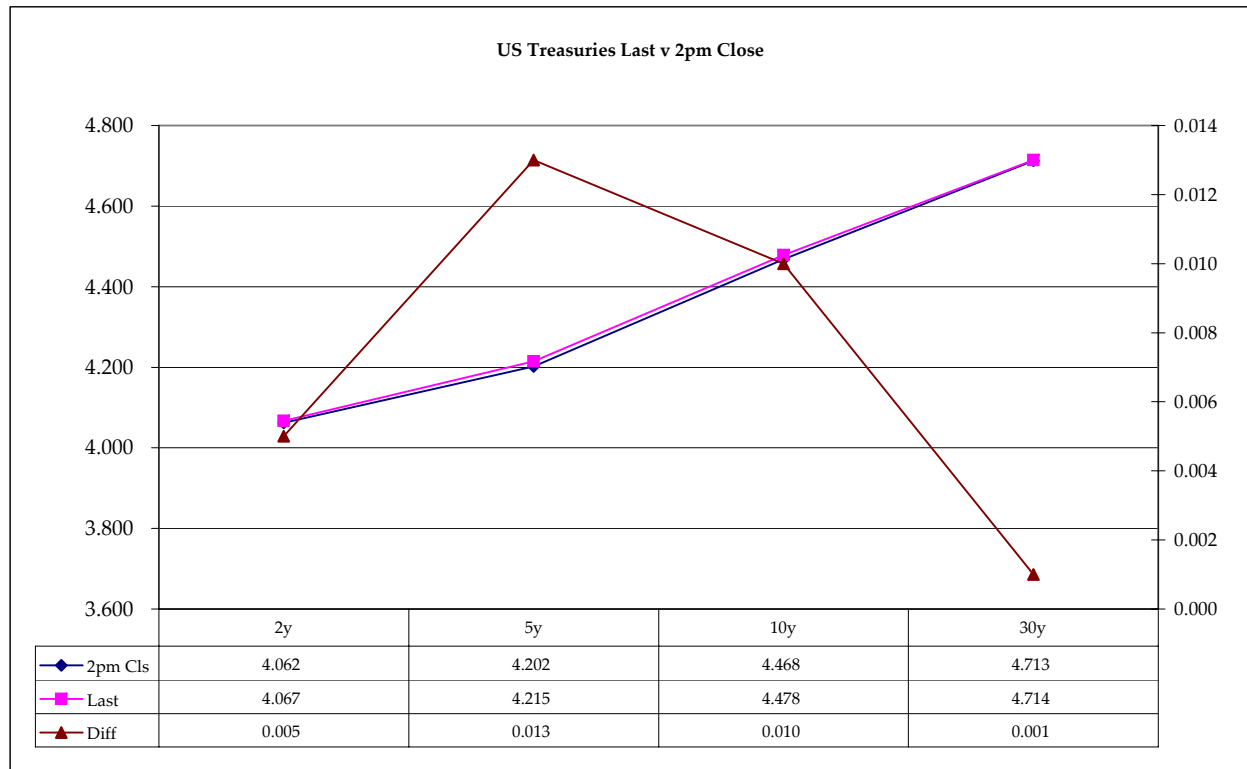
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	8/31/09	99.2825	4.062	4.067	0.005			
5y	4.125	7/31/09	99.2100	4.202	4.215	0.013	21.78	22.17	
10y	4.750	8/15/17	102.075	4.468	4.478	0.010	86.01	84.42	
30y	5.000	5/15/37	107.18	4.713	4.714	0.001	-568.90	-663.68	

	Close 32	Last	Roll ^
ZFZ7	107.015	107.000	
ZNZ7	109.245	109.235	
ZBZ7	112.28	112.260	
ZFU7		107.050	3.5
ZNU7		110.015	9.5
ZNU7		112.310	3.5

^ Reduced tic spread, last trade

Curve Spreads		
	Close bps	Last bps
2/5	14.0	14.8
5/10	26.6	26.3
10/30	24.5	23.6
2/10	40.6	41.1
5/30	51.1	49.9
2/30	65.1	64.7



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%	56%	100%	
30	12%	28%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$185			
5	\$185	\$441		
10	\$190	\$454	\$803	
30	\$187	\$446	\$790	\$1,587
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$0			
10	(\$5)	(\$12)		
30	(\$2)	(\$5)	\$13	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.24%			
10	-2.48%	-2.72%		
30	-0.88%	-1.13%	1.64%	

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	0.94	2.25	4.09	8.09
ZF	0.43	1.03	1.88	3.71
ZN	0.28	0.68	1.23	2.44
ZB	0.17	0.40	0.73	1.43

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.94	2.25	8.19	16.18
ZF	0.43	2.06	3.76	7.42
ZN	0.57	1.36	1.23	2.44
ZB	0.67	1.59	1.45	2.87

	2y	5y	10y	30y
2y	1.00	2.38	4.34	8.57
5y	0.42	1.00	1.82	3.60
10y	0.23	0.55	1.00	1.98
30y	0.12	0.28	0.51	1.00

	2y	5y	10y	30y
2y		2.38	2.17	4.28
5y	0.42		0.45	1.80
10y	0.46	2.20		1.98
30y	0.23	0.56	0.51	

	ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.32	5.64
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	6.64	22.57
ZF	0.46		1.52	5.18
ZN	0.15	0.66		3.40
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

Sept	avg target	450	475	500	525
9/13/2007	4.9%	6.2%	48.1%	44.5%	0.0%
9/14/2007	4.9%	5.0%	50.5%	43.3%	0.0%

October	avg target	400	425	450	475	500
9/13/2007	4.7%	3.7%	17.1%	27.2%	15.8%	31.8%
9/14/2007	4.7%	4.3%	11.3%	30.3%	19.8%	28.7%

December	avg target	375	400	425	450	475	500	525
9/13/2007	4.5%	12.0%	13.3%	4.8%	16.0%	34.5%	13.7%	5.8%
9/14/2007	4.6%	11.7%	8.7%	7.9%	16.7%	34.5%	14.7%	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

