9/19/2007 5:48

The Morning Email: Treasuries

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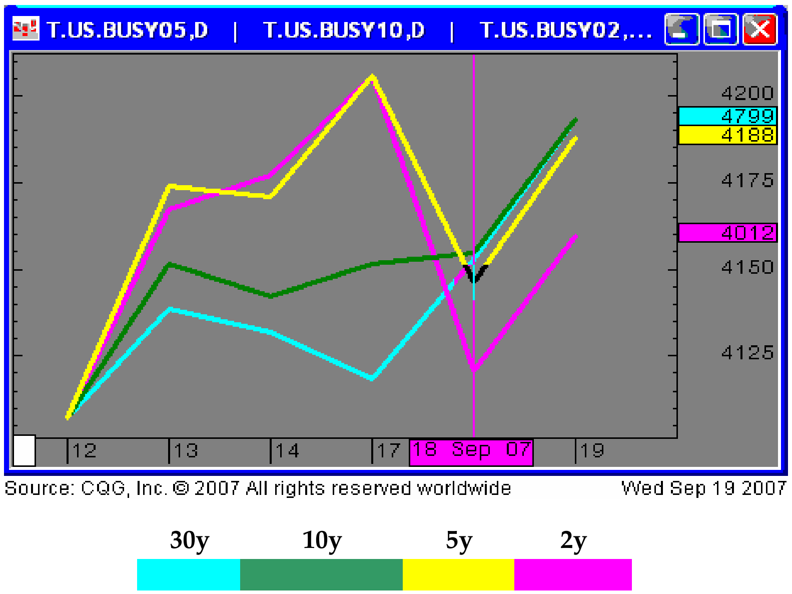
Daily Yield Curve



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

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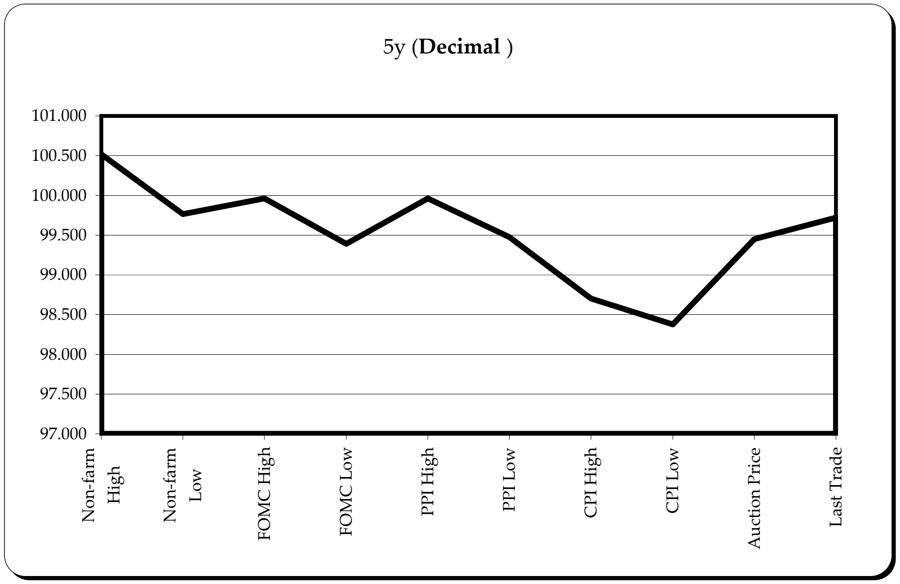
Important Econ Releases, Highs & Lows

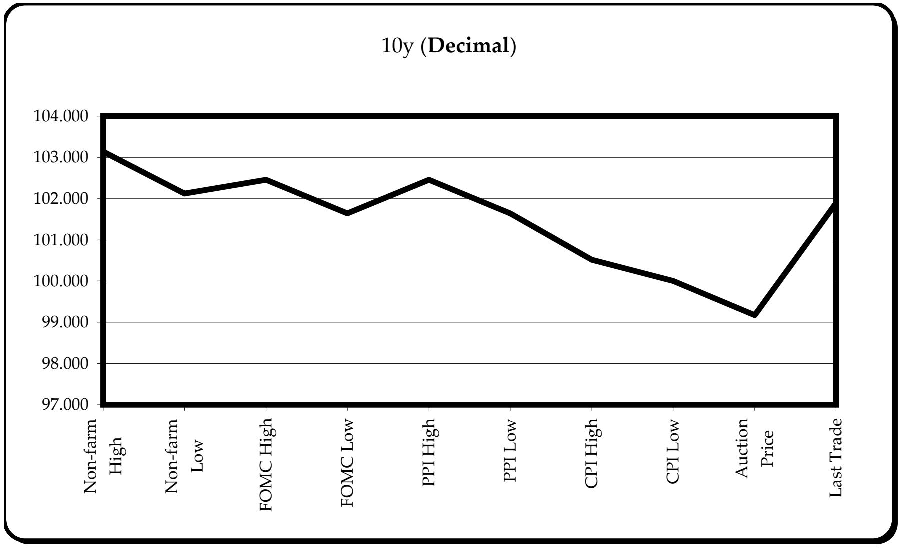
Economic Releases - 32nds

	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	99.3075	102.145	110.300	112.30	9/18/2007
FOMC Low	99.1250	101.205	109.115	111.27	9/18/2007
PPI High	99.3075	102.145	110.300	112.30	9/18/2007
PPI Low	99.1525	101.205	109.115	111.27	9/18/2007
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	99.2300	101.285	109.215	112.02	9/19/2007 5:48

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	103.145	(0.0)	103.162	103.125	103.150	36,519	2y Fut
FVAZ7	107.040	(0.0)	107.100	107.000	107.090	70,857	5y Fut
TYAZ7	109.215	(0.1)	109.290	109.145	109.280	171,034	10y Fut
USAZ7	112.020	(0)	112.160	111.240	112.140	39,414	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.310	(2.7)	100.017	99.302	100.015	na	2y Cash
BUS05P	99.225	(5.5)	99.272	99.190	99.272	na	5y Cash
BUS10P	101.280	(11.0)	102.050	101.225	102.050	na	10y Cash
BUS30P	103.035	(27)	103.210	102.260	103.170	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.012	4.60	4.038	3.953	3.991	na	2y Yield
BUS05Y	4.188	4.20	4.22	4.148	4.164	na	5y Yield
BUS10Y	4.511	4.50	4.538	4.468	4.476	na	10y Yield
BUS30Y	4.798	5.20	4.823	4.752	4.756	na	30y Yield

Notes: SYM = Symbol

MarketNews international

All times Eastern

Yesterday:

15:24 09/18 **US TSYS/RECAP**: US Tsys see wild gyrations after Fed cuts 50-bps in both fed funds rate and the discount rate: initial Tsys rally, then long end hammered amid inflation fears, but short end improves more,big curve steepener moves. Fed cut Fed funds target -50bp to 4.75%, eased DR -50bp to 5.25%, statement says "will act as needed to foster price stability and sustainable econ growth" Votes are both unanimous, 10-0. - Long end hurt by inflation fears, short end feels US economy weak ahead. Banks start to cut their prime rates. Fed funds rate now is 4.75%, discount rate is 5.25%. Stocks rallied. Some accounts did 2Y/10 steepeners, some others buying of 10s. Meanwhile, real money accts sold 10s and bonds before and after the release, both mortgage related. Swappers proved better receivers on rally as spds tightened sharply. Meanwhile bond markets now generally price in one more rate cut by the Fed by yr-end. Some vol sellers after fed. Financing traders applauded Fed doing "what the mkt needed" to stabilize Bds after credit crunch. DJIA +276: 13,679

15:15 09/18 **EURODLR FUTURES**: Eurodlr futures finished sharply higher, curve steeper after Fed cut both funds and discount rates by 50 bps. On the bell the Red/Gold pack spd (Dec08-Sep09) vs (Dec11-Sep12), steepened 8.0 bps at 79.625. In the Fronts (Dec07-Sep08), the Dec07 were 19.5 bps higher at 95-28.5 on combined Globex and pit volume of 573,000, the Mar08 higher 17.0 bps at 95-60.5 on volume of 425,000, the Jun08 15.0 bps higher at 95-71.5 on volume of 505,000, while the Sep08 were 13.0 bps higher at 95-74 on volume of 456,000. The 2yr proxy Red pack (Dec08-Sep09), settled 6.5 to 10.5 bps higher across the pack with 975,000 contracts traded.

15:06 09/18 **US EURODLR/SWAPS**: Spds ended session broadly improved after Fed cuts both Fed funds and the discount rate by 50 bps. Receivers across curve in line with move. Early flows were light--usual swap-tied accts did some pos. adjusts, buying Red packs (Dec08-Sep09), while some Tsy sources reported some MBS-tied paying in the intermediates while others could not confirm the flow. Nevertheless, some said fast money accts took profits in MBS, so paying was plausible. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Tue 3:00	-4.25/65.50	-3.50/64.75	-2.00/64.25	-5.00/61.75
2:20	-2.75/67.00	-1.75/66.50	-2.00/66.25	-2.00/64.75
2:00	-1.75/68.00	-0.50/67.75	-0.25/68.00	-0.25/66.50
12:00	-1.75/68.00	-1.00/67.25	-0.50/67.75	-0.25/66.50
11:00	-1.50/68.25	-0.75/67.50	-0.50/67.75	-0.25/66.50
9:15	-0.50/69.25	-0.75/67.50	-0.50/67.75	-0.50/66.25
Tue Open	-0.25/69.50	-0.75/67.50	-0.50/67.75	-0.25/66.50
Mon 3:00	+0.25/69.75	+0.50/68.25	+1.00/68.25	+1.75/66.75

(continued)

Overnight:

05:43 09/19 TSYS: Treasuries are trading lower across the curve in London Weds, as the market takes profits on gains in the wake of the Federal Reserve's 50 bps rate cut Tuesday. While not completely out of left field, the Fed's 50bps cut in the Fed Funds rate certainly boosted shorter-dated Treasuries overnight, triggering sellers into the strength in both Asia and London. Prices were lower from the getgo in Tokyo trade, with light profit-taking as regional bourses soared. However, traders noted that volumes were very light, with mainly interdealer flows seen. However, prices moved sharply to the downside in London trade, with the long-end of the curve leading the way lower. End user accounts were sellers of the 2 and 5-year end of the curve, with leveraged players seen selling the 10-year sector. The Long Bond also ran into selling pressure, with life funds and Japanese regional banks noted as sellers. However, The Bond was finding some support from pension funds at 4.800%. The Bund/T-note narrowed 1 bps, with the spread standing at 32 bps.

05:43 09/19 TSYS: (2) Ahead of the U.S. session, the 2-yr note was trading 2/32 lower at 99 31/32 to yield 4.%. The 10-yr note was 10/32 lower at 101 28/32 (4.51%), with the Bond 24/32 lower at 103 2/32 (4.80%). The 2-yr/5-yr yield curve was 1 bps steeper on Tuesday's levels, trading at +19 bps. The 2-/10-yr curve was 1 also 1 bps steeper, trading at +51 bps. The 2-yr/30-yr curve was also 1 bps steeper, standing at +79 bps.

03:23 09/19 **FED FUNDS:** Following the Federal Reserve decision to cut its key Fed funds rate by 50bps on Tuesday to 4.75% -- first cut since June 2003 -- the Fed funds futures strip is pricing in a 90% chance of a 25bps rate cut at the end of the next FOMC 2-day meeting on Oct 31. In addition, the strip is implying a 100% chance that the Fed will cut rates at least one more time before year's end with a trough at 4.00% by August 2008.

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

14:43 09/18 **FED REACT**: Max Bublitz, Chief Strategist at SCM Advisors says Fed cutting rates 50 bp "was the right thing to do" and opines that "more cuts will follow the rather weak data I expect to see this autumn." He says to watch out for hedge fund redemption issues at the end of Sept or in early Oct.

15:13 09/18 **FED REACT**: Economist David Greenlaw at Morgan Stanley points out "The language in the accompanying statement was more even handed than the special statement that was issued on August 17. There was a reference to the potential intensification of the housing market correction, along with a possible spillover to the broader economy. But, there was also an indication that some inflation risks remain." He says "the outcome of the October meeting will depend on how the Fed's forecast for the economy evolves over the next six weeks."

15:10 09/18 **FED REACT**: Peter Morici, a professor at Univ of Maryland says today's rate cut "along with other rate cuts later, as needed, will avert a recession."

14:57 09/18 **FED REACT**: Andrew Busch, FX Strategist at BMO, says "The market is now looking at expectations for Fed Funds to 4.25% by February. Given the recent drop in import prices and PPI, a lower dollar is a big benefit with little risk on inflation. It pumps up GDP by around .5% per quarter and offsets half of the losses from the housing sector. Bernanke continues the Greenspan put and assists those that made poor credit decisions without the consequences of market discipline. Like a teenager with a car and no curfew, we'll be having more problems down the road from these actions. But for now, who cares?"

14:56 09/18 **FED REACT:** Economist Steve Wood at Insight Economics says FOMC took decisive action, and "the policy statement language changed significantly to reflect the recent slowing of growth and the potential downside risks to the economy caused by the turmoil in the financial markets." He says the Fed "are prepared to do more if the economic situation continues to deteriorate" and calls for more rate cuts ahead.

Release Date: September 18, 2007

For immediate release

The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to 4-3/4 percent.

Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. Today's action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.

Readings on core inflation have improved modestly this year. However, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.

Developments in financial markets since the Committee's last regular meeting have increased the uncertainty surrounding the economic outlook. The Committee will continue to assess the effects of these and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Charles L. Evans; Thomas M. Hoenig; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; William Poole; Eric Rosengren; and Kevin M. Warsh.

In a related action, the Board of Governors unanimously approved a 50-basis-point decrease in the discount rate to 5-1/4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Cleveland, St. Louis, Minneapolis, Kansas City, and San Francisco.

SOURCE: FRB web site

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.59	5.17	$1,615	10.34	n/a
10y	7.82	2.56	$801	5.12	n/a
5y	4.42	1.41	$442	5.66	n/a
2y	1.85	0.59	$185	2.37	n/a
ZB	9.96	3.61	$113	3.61	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

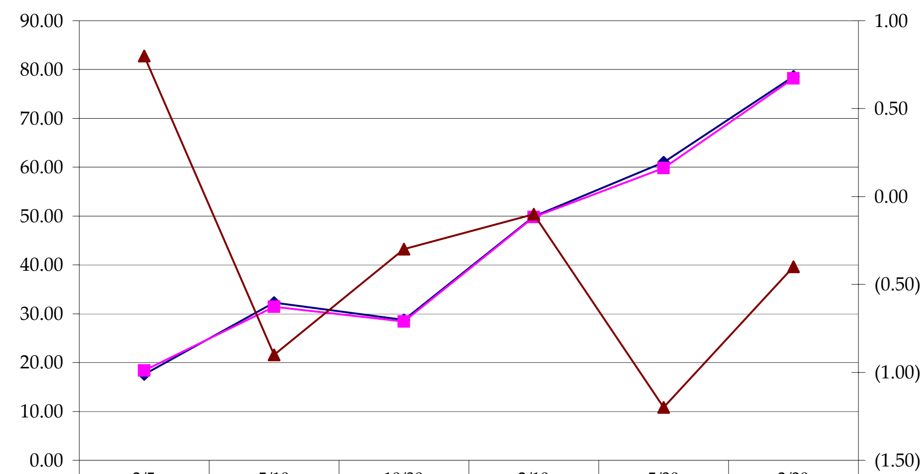
DV01 32 said differently is how many TICS is in a basis point. Example, If ZN moves 1-basis point, it's moved 1.94 tics.

Since it trades in half tics 4 boxes = 1 basis point in ZN.

Yield Curve Spreads

	Last	2pm close	Diff
2/5	17.60	18.40	0.80
5/10	32.30	31.40	(0.90)
10/30	28.70	28.40	(0.30)
2/10	49.90	49.80	(0.10)
5/30	61.00	59.80	(1.20)
2/30	78.60	78.20	(0.40)

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	17.60	32.30	28.70	49.90	61.00	78.60
2 PM Close	18.40	31.40	28.40	49.80	59.80	78.20
Diff	0.80	(0.90)	(0.30)	(0.10)	(1.20)	(0.40)

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		1.732	2.633	5.745
ZN	0.554		1.520	3.317
ZF	0.380	0.686		2.182
ZT	0.174	0.301	0.458	

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	1.69	4.02	7.28	14.70
ZN	2.97	7.08	12.83	25.89
ZF	4.33	10.32	18.70	37.74
ZT	4.72	11.26	20.41	41.17

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		2.384	4.320	8.716
5y	0.419		1.812	3.656
10y	0.231	0.552		0.000
30y	0.115	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	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			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	48,517	10,707	(59,223)	9/11/2007
ZN	(34,976)	(2,343)	37,320	
ZB	(3,233)	8,638	(5,405)	

^WoW = Week over week

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Closes: 2pm CST vs this Morning

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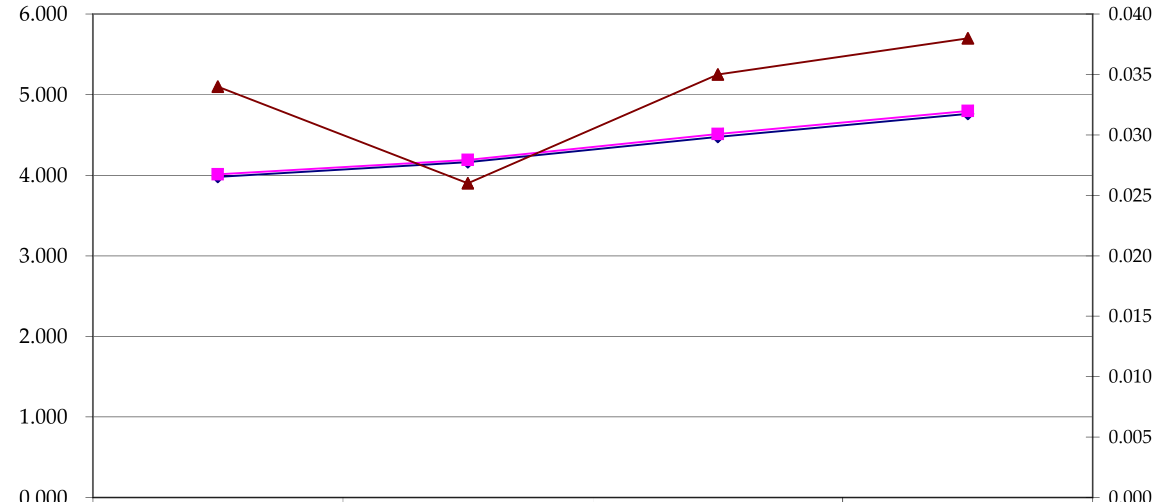
	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	8/31/09	100.0125	3.978	4.012	0.034			
5y	4.125	7/31/09	99.2675	4.162	4.188	0.026	21.06	21.47	
10y	4.750	8/15/17	102.055	4.476	4.511	0.035	81.29	77.73	
30y	5.000	5/15/37	103.25	4.760	4.798	0.038	-678.30	-681.04	

	Close 32	Last	Roll ^
ZFZ7	107.085	107.040	
ZNZ7	109.275	109.215	
ZBZ7	112.18	112.020	
ZFU7		107.100	5.2
ZNU7		109.300	9.7
ZNU7		112.100	10

^ Reduced tic spread, last trade

Curve Spreads

	Close bps	Last bps
2/5	18.4	17.6
5/10	31.4	32.3
10/30	28.4	28.7
2/10	49.8	49.9
5/30	59.8	61.0
2/30	78.2	78.6



	2y	5y	10y	30y
2pm Cls	3.978	4.162	4.476	4.760
Last	4.012	4.188	4.511	4.798
Diff	0.034	0.026	0.035	0.038

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	$185			
5	$185	$442		
10	$189	$452	$801	
30	$184	$441	$780	$1,558

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	($4)	($11)		
30	$1	$1	$21	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.24%			
10	-2.12%	-2.35%		
30	0.52%	0.28%	2.70%	

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	0.94	2.25	4.08	7.94
ZF	0.43	1.03	1.87	3.64
ZN	0.28	0.68	1.23	2.39
ZB	0.17	0.40	0.73	1.42

	2y	5y	10y	30y
2y	1.00	2.38	4.32	8.41
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	2.18	3.32	5.60
ZF	0.46	1.00	1.52	2.57
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	0.94	2.25	8.16	15.88
ZF	0.43	2.06	3.74	7.28
ZN	0.57	1.36	1.23	2.39
ZB	0.67	1.61	1.46	2.83

	2y	5y	10y	30y
2y		2.38	2.16	4.20
5y	0.42		0.45	1.76
10y	0.46	2.21		1.95
30y	0.24	0.57	0.51	

	2y	5y	10y	30y
ZT		2.18	6.63	22.41
ZF	0.46		1.52	5.13
ZN	0.15	0.66		3.38
ZB	0.04	0.19	0.30	

Fed Funds Probability of Tightening or Easing

Sept	avg target	450	475	500	525
9/14/2007	4.9%	5.0%	50.5%	43.3%	0.0%
9/17/2007	4.9%	3.7%	46.9%	45.9%	2.6%

October	avg target	400	425	450	475	500
9/14/2007	4.7%	4.3%	11.3%	30.3%	19.8%	28.7%
9/17/2007	4.7%	4.3%	11.3%	30.4%	19.6%	29.1%

December	avg target	375	400	425	450	475	500	525
9/14/2007	4.6%	11.7%	8.7%	7.9%	16.7%	34.5%	14.7%	5.7%
9/17/2007	4.5%	11.5%	9.1%	7.3%	16.9%	37.0%	13.6%	4.5%

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