9/20/2007 5:46

The Morning Email: Treasuries

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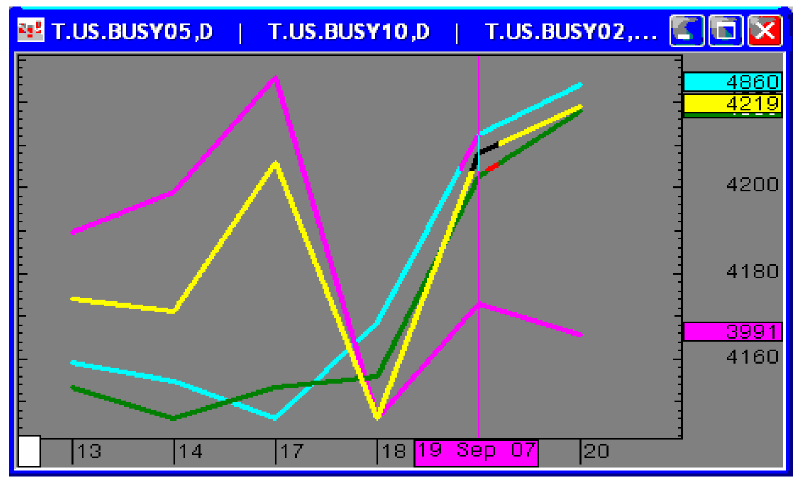
Daily Yield Curve



 Thu Sep 20 2007

30y 10y 5y 2y

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

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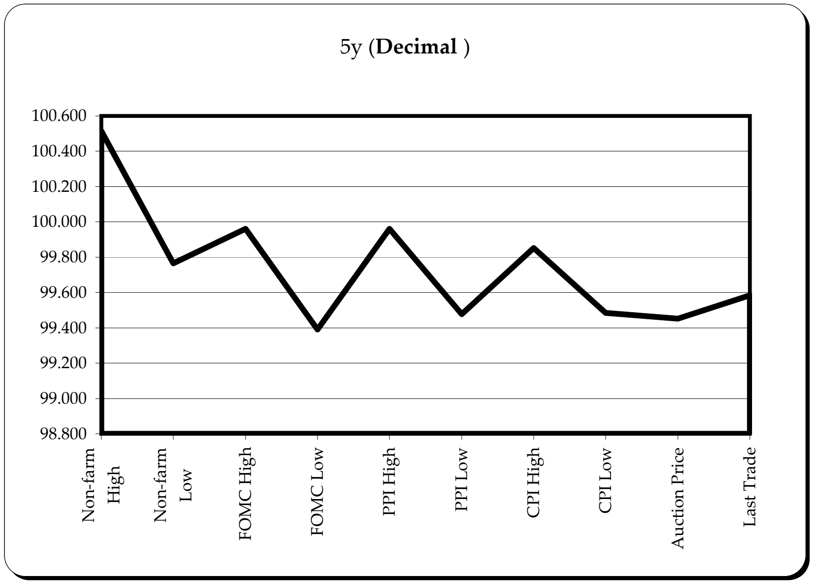
Important Econ Releases, Highs & Lows

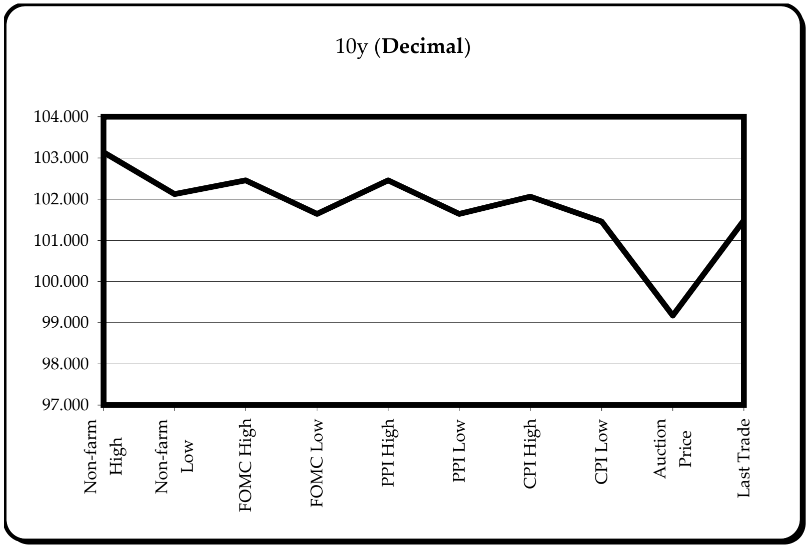
Economic Releases - 32nds

	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	99.2725	102.020	109.265	112.10	9/19/2007
CPI Low	99.1550	101.145	109.075	111.11	9/19/2007
Auction Price	99.1444	99.056			
Last Trade	99.1870	101.155	109.115	111.14	9/20/2007 5:46

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 = +9.5; ZB = +5 (tics))
r = reopen

Quotes

	32 nds						
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
TUAZ7	103.150	(0.0)	103.160	103.122	103.145	30,171	2y Fut
FVAZ7	106.315	(0.0)	107.035	106.275	107.015	46,742	5y Fut
TYAZ7	109.115	(0.1)	109.175	109.060	109.160	154,530	10y Fut
USAZ7	111.140	(0)	111.230	111.060	111.210	31,713	30y Fut
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02P	100.000	0.5	100.007	99.302	100.005	na	2y Cash
BUS05P	99.185	(1.2)	99.215	99.142	99.207	na	5y Cash
BUS10P	101.155	(5.5)	101.215	101.100	101.215	na	10y Cash
BUS30P	102.050	(13)	102.175	101.285	102.175	na	30y Cash
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02Y	3.995	(0.50)	4.033	3.966	4.004	na	2y Yield
BUS05Y	4.219	1.10	4.25	4.187	4.203	na	5y Yield
BUS10Y	4.559	2.30	4.587	4.526	4.536	na	10y Yield
BUS30Y	4.860	2.40	4.884	4.828	4.832	na	30y Yield

Notes: SYM = Symbol

All times Eastern

14:58 09/19 **US BONDS**: "...in pre-crisis days, 3M LIBOR was only about 15-20 bps cheaper to FF so it is still too high."

15:22 09/19 **US TSYS/RECAP**: Tsys fell Wed on longer end, short-end Tsys outperform amid 1) corporate rate-lock selling early later;2) switch from US 10Ys to German Bunds; 3) big 2Y/10Y steepeners, including foreign central bks in general zone; 4) front end buying and intermediates selling, 5) some buying later and corporate rate-lock unwinds at low and 7) some 2/30Y flatteners, some eyeing more flatteners before Bernanke Thu 10amET.8)MBS drew morning short-covering, selling Tsys/buy MBS, light Asian buying of Gold 6s. 10) Earlier selling in Dec 10-Yr 107/111 strangles, vol selling helping MBS despite steeper yld curve; action seems like work of W. Coast investor who sells various 10Y strangles in yld enhancements. 11) FHLB US$3B 3Y to price Thu; talk +91. 12) EIB US$1B 7Y pxd T+55. 13) Some vol structure bottom pickers help implieds firm off low later. 14) Bull bias flows, conditional steepeners favored in case Fed not out of play. 15) Bear Stearns, Goldman earning Thu. 16) Sister bd mkts calm;$ Libor calm; some worried on credit crunch.

15:11 09/19 **EURODLR FUTURES**: Eurodlr futures finished mixed, higher in the very front end while the curve came back from earlier flatter levels. On the bell, the Red/Gold pack spd (Dec08-Sep09) vs (Dec11-Sep12), flattened 0.125 bps at 80.625. In the Fronts (Dec07-Sep08), the Dec07 were 6.0 bps higher at 95-34.5 on combined Globex and pit volume of 413,000, the Mar08 higher 2.5 bps at 95-63 on volume of 362,000, the Jun08 1.5 bps lower at 95-70 on volume of 447,000, while the Sep08 were 2.5 bps lower at 95-71.5 on volume of 381,000. The 2yr proxy Red pack (Dec08-Sep09), settled 0.5 to 2.0 bps lower across the pack with 764,000 contracts traded.

15:05 09/19 **US EURODLR/SWAPS**: Spds ended session tighter across the curve, off better levels earlier in the session as flow dropped off in second half. After decent Asian acct 2-way in 10s and servicers receivers overnight, sources report decent rate locking on pick up in corp supply in NY sess while real money accts were 2-way in 2yr Tsys both corp and MBS related. In Eurodlrs, sources reported 2-way in 2yr bundles and Red packs (Dec08-Sep09), a +Blues (Dec10-Sep11) and -Golds (Dec11-Sep12).

According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:00	-4.50/61.00	-3.50/61.25	-3.00/61.25	-3.00/58.75
1:30	-5.50/60.00	-4.75/60.00	-4.00/60.25	-4.00/57.75
11:15	-6.00/59.50	-5.25/59.75	-4.75/59.50	-4.75/57.00
10:10	-4.75/60.75	-4.75/60.00	-4.50/59.75	-4.75/57.00
9:15	-4.75/60.75	-3.75/61.00	-3.25/61.00	-4.00/57.75
Wed Open	-6.75/58.75	-5.25/59.50	-4.50/59.75	-4.50/57.25
Tue 3:00	-4.25/65.50	-3.50/64.75	-2.00/64.25	-5.00/61.75

(continued)

05:07 09/20 **TSYS:** Treasuries are trading lower across the board in London trade Thursday, as the weaker dollar weighs on investor sentiment. Traders said light volumes, with many players awaiting testimony from Federal Reserve Governor Ben Bernanke and Treasury Secretary Henry Paulson, helped weigh on prices. Treasuries were narrowly mixed in Asian trade Thursday, with many players sidelined with little in the way of fresh trading incentives ahead of Bernanke and Paulson. However, Treasuries soon moved lower in London trade, weighed by a sharp dollar fall across the board. But the curve steepened, with the front-end of the curve showing modest outperformance. Longer-dated paper was sold by both leveraged and real money accounts, helping push yields higher across the board. There were light bids on the way down, mainly from dealers covering shorts. However, overall volumes were muted. The Bund/T-note widened 1 bps on Wednesday's levels, with the spread standing at 35 bps.

05:06 09/20 **TSYS: (2)** Ahead of the U.S. session, the 2-yr note was trading 1/64 lower at 99 31+/32 to yield 4.00%. The 10-yr note was 4/32 lower at 101 15/32 (4.56%), with the Bond 14/32 lower at 102 4/32 (4.86%). The 2-yr/5-yr yield curve was 1 bps steeper on Tuesday's levels, trading at +22 bps. The 2-/10-yr curve was 1 also 1 bps steeper, trading at +57 bps. The 2-yr/30-yr curve was also 2 bps steeper, standing at +86 bps.

MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

"The Key Story Underpinning the Deceleration of Core CPI."

From the WSJ, By GREG IP, "Fed Cut Aims to Contain Damage"
September 19, 2007; Page A1
[snippet from Ip's article]

The Fed's view of the economy has changed greatly in recent months. Here's how previous fed statements characterized the economy and the impact of the housing slump and credit crunch.

Aug. 7. "Economic growth was moderate during the first half of the year. Financial markets have been volatile in recent weeks, credit conditions have become tighter for some households and businesses, and the housing correction is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in employment and incomes and a robust global economy."

Aug. 17. "Financial market conditions have deteriorated, and tighter credit conditions and increased uncertainty have the potential to restrain economic growth going forward. In these circumstances, although recent data suggest that the economy has continued to expand at a moderate pace, the Federal Open Market Committee judges that the downside risks to growth have increased appreciably."

Sept. 18. "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."

RBS GREENWICH

Anyway, so now what? First, the market's going to have an intellectual debate over whether it's one and done, the pace of any further moves, if the ease willprove inflationary and BEARISH. Second, the market will get NO satisfaction from these discussions because it will all take time to pan out -- and as for theinflation debate, consider prospects for a negative CPI print in a short while.Consider, too, that the next FOMC is October 31 -- a pretty long gap andopportunity for the Fed to gather a lot of data and information. They and themarket should play by these numbers.

We don't think now is the time to take big positions that run counter to events that have just unfolded. For the risk of the Fed coming in with further cuts, for the sake of the inflation argument (dollar, commodities, easier money), for respect for how things play out historically, we continue to think steepening is the way to go. Our immediate targets are not ambitious -- leading into the next NFP -- given the move we've already seen and positions to reflect this consensus call. We'll take 2s/10s to 56-62 bp, recent wides, and certainly seek to buy 40-45 bp. The bullish/bearish call is, for now, more neutral.

David Ader, Head of Government Bond Strategy
Ian Lyngen, Strategist
Market Strategy Team

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.52	5.10	$1,593	10.20	n/a
10y	7.81	2.55	$797	5.10	n/a
5y	4.42	1.41	$441	5.64	n/a
2y	1.85	0.59	$185	2.37	n/a
ZB	9.94	3.59	$112	3.59	1.1103
ZN	5.90	2.08	$65	4.15	0.9069
ZF	3.98	1.37	$43	2.73	0.9246
ZT	1.90	0.63	$20	2.51	0.9569

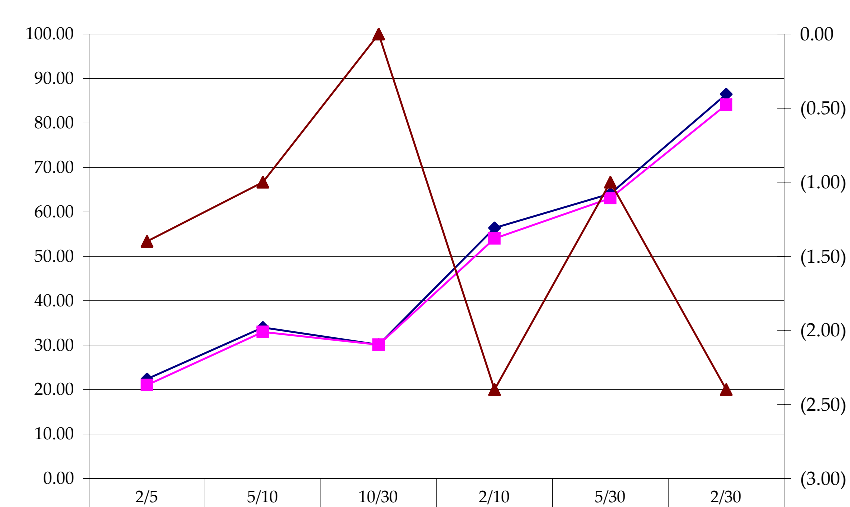
Yield Curve Spreads

	Last	2pm close	Diff
2/5	22.40	21.00	(1.40)
5/10	34.00	33.00	(1.00)
10/30	30.10	30.10	0.00
2/10	56.40	54.00	(2.40)
5/30	64.10	63.10	(1.00)
2/30	86.50	84.10	(2.40)

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.

Curve Spreads vs 2pm close



	2/5	5/10	10/30	2/10	5/30	2/30
Last	22.40	34.00	30.10	56.40	64.10	86.50
2 PM Close	21.00	33.00	30.10	54.00	63.10	84.10
Diff	(1.40)	(1.00)	0.00	(2.40)	(1.00)	(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		1.729	2.624	5.719
ZN	0.000		1.518	3.308
ZF	0.381	0.659		2.179
ZT	0.175	0.302	0.459	

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	1.65	3.93	7.11	14.21
ZN	2.86	6.80	12.28	24.57
ZF	4.33	10.32	18.65	37.29
ZT	4.72	11.25	20.32	40.64

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		2.381	4.302	8.604
5y	0.420		1.807	3.613
10y	0.232	0.553		0.000
30y	0.116	0.277	0.500	

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

Closes: 2pm CST vs this Morning

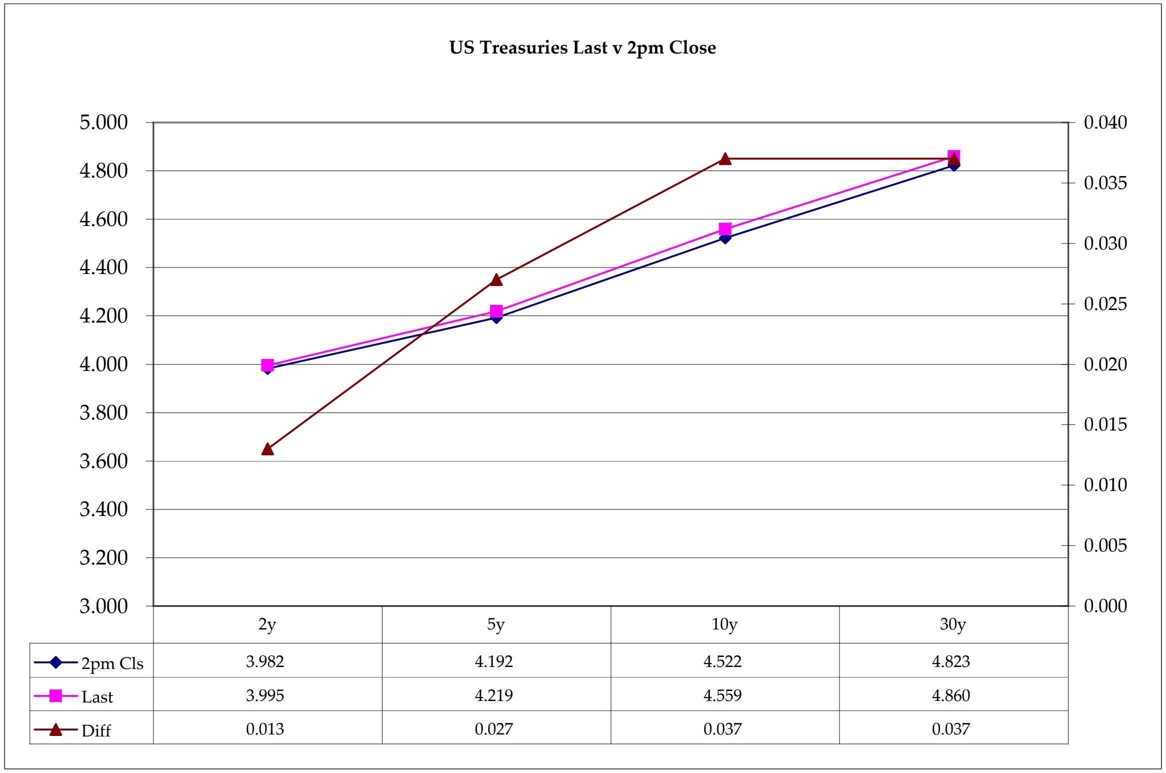
	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	8/31/09	100.0100	3.982	3.995	0.013			
5y	4.125	7/31/09	99.2250	4.192	4.219	0.027	21.43	21.33	
10y	4.750	8/15/17	101.255	4.522	4.559	0.037	77.00	73.80	
30y	5.000	5/15/37	102.25	4.823	4.860	0.037	-681.93	-689.33	

	Close 32	Last	Roll ^
ZFZ7	107.035	106.315	
ZNZ7	109.190	109.115	
ZBZ7	111.24	111.140	
ZFU7		107.025	######
ZNU7	Final	109.250	9.7
ZBU7	Final	112.200	5.5

^ Reduced tic spread, last trade

Curve Spreads

	Close bps	Last bps
2/5	21.0	22.4
5/10	33.0	34.0
10/30	30.1	30.1
2/10	54.0	56.4
5/30	63.1	64.1
2/30	84.1	86.5



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	$184	**$441**		
10	$188	$450	**$797**	
30	$190	$454	$802	**$1,593**

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	$1			
10	($3)	($9)		
30	($5)	($13)	($6)	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.42%			
10	-1.69%	-2.10%		
30	-2.39%	-2.79%	-0.71%	

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	4.06	8.13
ZF	0.43	1.03	1.86	3.73
ZN	0.29	0.68	1.23	2.46
ZB	0.17	0.39	0.71	1.42

	2y	5y	10y	30y
2y	1.00	2.38	4.30	8.60
5y	0.42	1.00	1.81	3.61
10y	0.23	0.55	1.00	2.00
30y	0.12	0.28	0.50	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.31	5.72
ZF	0.46	1.00	1.52	2.62
ZN	0.30	0.66	1.00	1.73
ZB	0.17	0.38	0.58	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.94	2.25	8.13	16.26
ZF	0.43	2.06	3.73	7.46
ZN	0.57	1.36	1.23	2.46
ZB	0.66	1.57	1.42	2.84

	2y	5y	10y	30y
2y		2.38	2.15	4.30
5y	0.42		0.45	1.81
10y	0.46	2.21		2.00
30y	0.23	0.55	0.50	

	2y	5y	10y	30y
ZT		2.18	6.62	22.88
ZF	0.46		1.52	5.25
ZN	0.15	0.66		3.46
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

October	avg target	400	425	450	475	500
9/17/2007	4.7%	4.3%	11.3%	30.4%	19.6%	29.1%
9/18/2007	4.5%	0.0%	16.2%	60.6%	21.7%	0.0%

December	avg target	375	400	425	450	475	500	525
9/18/2007	4.4%	18.3%	0.0%	21.1%	44.5%	13.7%	0.0%	2.4%

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