

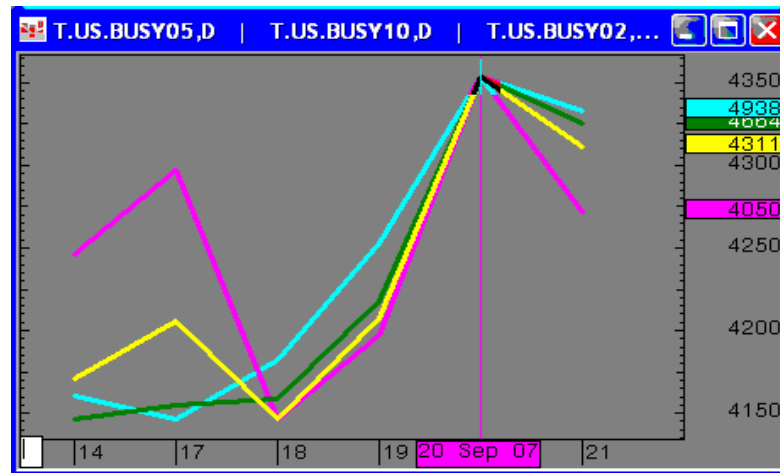


## The Morning Email: Treasuries

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Daily Yield Curve



Source: CQG, Inc. © 2007 All rights reserved worldwide Fri Sep 21 2007 06:13:57

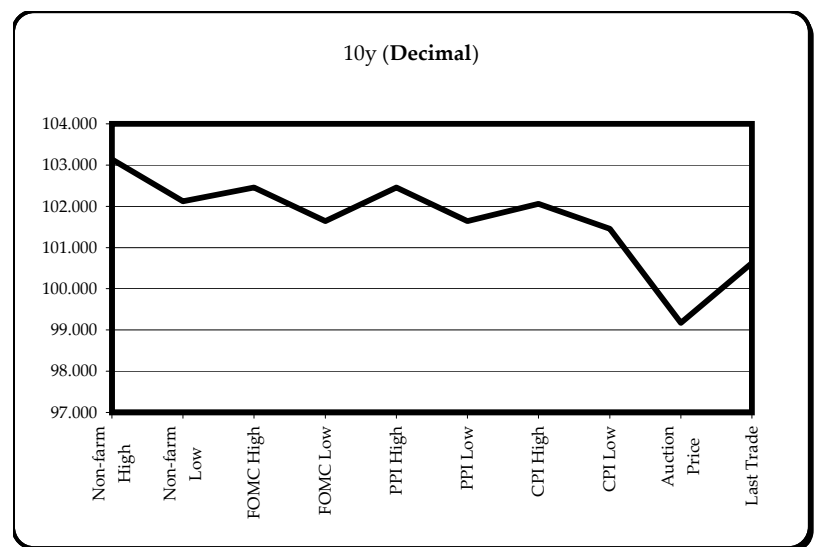
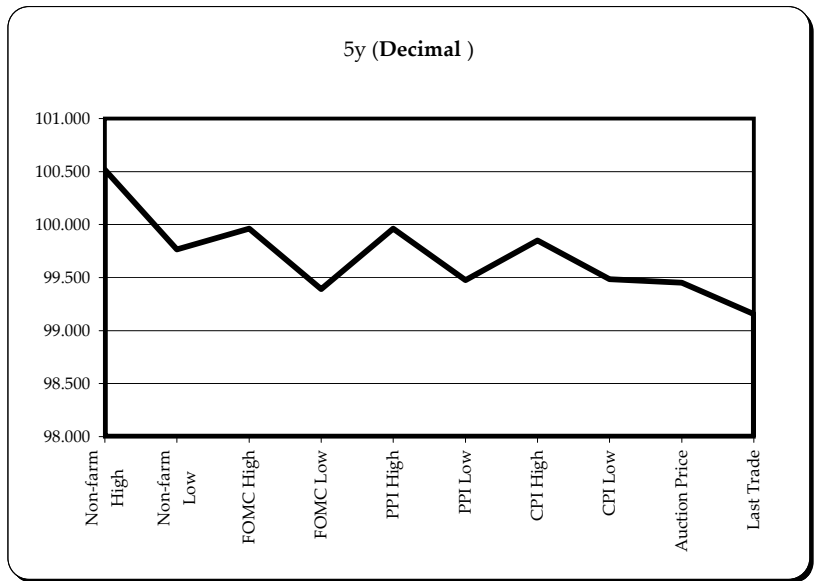
30y 10y 5y 2y



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	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	99.0500	100.200	108.220	110.09	9/21/2007 6:18

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	103.112	0.0	103.120	103.067	103.072	50,574	2y Fut
FVAZ7	106.195	0.0	106.220	106.110	106.120	98,759	5y Fut
TYAZ7	108.220	0.0	108.245	108.130	108.130	215,873	10y Fut
USAZ7	110.090	0	110.130	109.290	110.000	53,766	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.285	3.0	99.297	99.252	99.255	na	2y Cash
BUS05P	99.047	5.7	99.070	98.295	98.295	na	5y Cash
BUS10P	100.200	6.5	100.235	100.115	100.115	na	10y Cash
BUS30P	100.275	12	101.010	100.140	100.180	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.055	(5.00)	4.131	4.029	4.131	na	2y Yield
BUS05Y	4.315	(3.90)	4.377	4.299	4.374	na	5y Yield
BUS10Y	4.668	(3.00)	4.708	4.654	4.706	na	10y Yield
BUS30Y	4.942	(2.30)	4.975	4.931	4.964	na	30y Yield

Notes: SYM = Symbol

**All times Eastern**

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; \$ Labor 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)**

04:47 09/21 **TSYS:** Treasuries are trading higher across the board in London trade Thursday, helped by short-covering and dip-buying after the overnight sell-off. However, traders note the curve steepening trade continues, as shorter-dated paper continues to outperform. However, volumes were muted, as market players awaited comments later in the day from key Fed officials. In Tokyo, investors stuck to their normal game plan, with dip buyers in early, taking advantage of the lower prices. However, volumes were light ahead of the weekend and the slew of Fed speakers expected later in the day. Two-year paper continued to lead in London, with leveraged accounts seem as solid buyers of the front of the curve. Real money names were light buyers of the belly of the curve, although flows were seen as light. Japanese names were light sellers of longer-dated paper through the London session, with some traders seeing a lightening up of positions ahead of the Japanese half-year end on Sept 28.

06:09 09/21 **UST FLOWS:** Traders reported decent buying of 2-Year Notes in London session, with leveraged accounts seem as solid buyers of the front of the curve. Japanese and Asian real money accounts were seen buying belly of the curve, with talk of an Asian central bank buying 10s. Japanese names were light sellers of longer-dated paper through the London session, with some traders seeing a lightening up of positions ahead of the Japanese half-year end on Sept 28.

**Bernanke says** "global financial losses have far exceeded even the most pessimistic estimates of the credit losses on these loans."

**SMRA says**, "While Bernanke has championed transparency at the Federal Reserve and the Fed is by far a more open institution today than in the past, we feel that the current crisis has caught Fed policymakers and the Fed forecasting staff off guard. What the Fed initially regarded as a low probability event (housing spillover afflicting the rest of the economy), although we ourselves thought otherwise, has transformed into a moderate probability event and is now morphed into a high probability event. In fact, in our opinion, the probability threshold has already been crossed, what was earlier thought possible is now occurring, hence the Fed's decisive reduction in interest rates this week. We highly disagree with others' opinion out there that the Fed is one and done. We expect additional rate cuts in the months ahead into 2008 and we believe the target on the federal funds rate could fall to as low as 3.50%". **[Story by Ken Kim]**

07:40 09/20 **LIBOR: LIBOR** sets lower, the sixth consecutive session. 3 month LIBOR set at 5.2100%, -2.75 bps and -43.63 bps for the week. Meanwhile, for the ninth consecutive session 1 month LIBOR set lower as well, at 5.1363%, -1.25 bps and -47.75 bps for the week.

Net weekly recap:

	3-Month Libor	1-Month Libor
Sep 10-14	-7.87 bps	-21.00 bps
Sep 3-7	+10.37 bps	+10.38 bps
Aug 27-31	+11.57 bps	+21.75 bps
Aug 20-24	+1.00 bps	-0.75 bps
Aug 13-17	-7.50 bps	-10.88 bps
August 6-10	+21.50 bps	+36.63 bps

10:50 09/20 **DOLLAR-RIYAL:** The UK Telegraph report overnight brought attention to the fact that the Saudi's did not match the Fed's rate cut. The Saudi riyal, pegged against the dollar at Sar3.7500 since June 1986, has been firming on the day and currently stands at Sar3.7405, down from an earlier high of Sar3.7492. SAR speculation has shifted "the forward curve to the left side such that despite a positive carry, the curve is now pricing in some moderate revaluation of the SAR against the dollar," say strategists at BNPParibas. Spec accounts are betting on a reval at a time when SAMA has made it clear that it will not tolerate speculation, BNPP says. The strategists quote SAMA's intervention policy: "SAMA's intervention policy is to intervene in foreign exchange markets on a discretionary, rather than a systematic basis, and only in exceptional circumstances to counter disruptive short-term movements" and points to SAMA success during intervention periods in late 1993 and Q3 1998. The strategists warn to "beware" of the risk of intervention.

**NEWS ALERT**  
from **The Wall Street Journal**  
**Sept. 20, 2007**

Goldman Sachs reported a 79% surge in quarterly net income to \$2.85 billion, shrugging off rough market conditions. Goldman noted that net mortgage revenue was also "significantly higher, despite continued deterioration in the market environment. Significant losses on non-prime loans and securities were more than offset by gains on short mortgage positions."

Bear Stearns reported net income fell 61%, amid "extremely difficult securitization markets and high volatility levels across asset classes." Fixed-income revenue plunged 88%.

**NEWS ALERT**  
from **The Wall Street Journal**  
**Sept. 20, 2007**

The financial system remains in a "relatively strong position," despite the recent turbulence in financial markets, **Federal Reserve Chairman Ben Bernanke** said Thursday. In the recent "episode, the shift in risk attitudes combined with greater credit risk and uncertainty about how to value those risks has created significant market stress," Bernanke said in prepared testimony to be delivered before the House Financial Services Committee. He said subprime-mortgage delinquencies and foreclosures are likely to rise further.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.41	5.00	\$1,563	10.00	n/a
10y	7.79	2.52	\$788	5.04	n/a
5y	4.41	1.40	\$438	5.61	n/a
2y	1.84	0.59	\$184	2.36	n/a
ZB	9.90	3.53	\$110	3.53	1.1103
ZN	5.88	2.06	\$64	4.12	0.9069
ZF	3.97	1.36	\$42	2.72	0.9246
ZT	1.89	0.62	\$20	2.50	0.9569

Yield Curve Spreads			
	Last	2pm close	Diff
2/5	26.00	21.00	(5.00)
5/10	35.30	33.00	(2.30)
10/30	27.40	30.10	2.70
2/10	61.30	54.00	(7.30)
5/30	62.70	63.10	0.40
2/30	88.70	84.10	(4.60)

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**

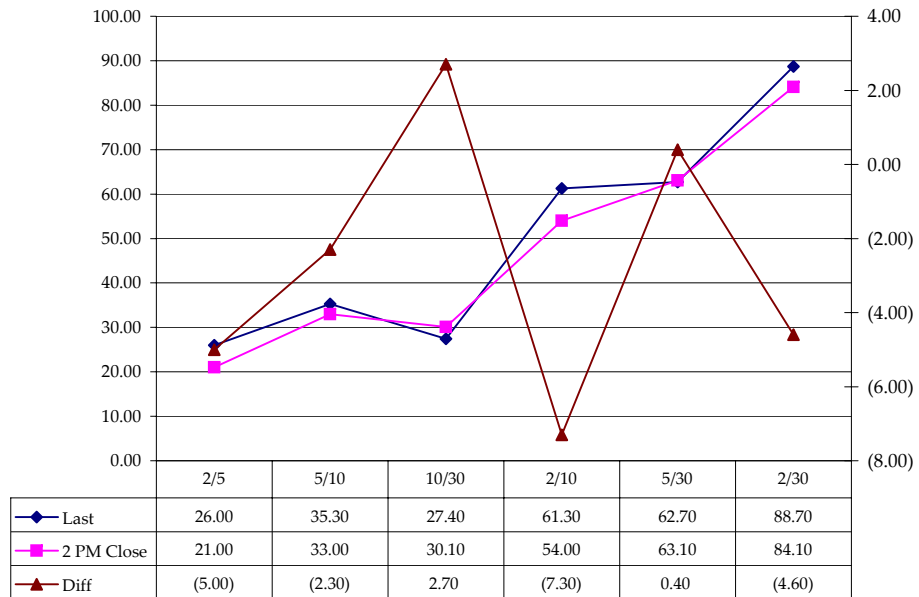
CF = Conversion Factor

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		1.715	2.599	5.659
ZN	0.000		1.515	3.299
ZF	0.385	0.660		2.178
ZT	0.177	0.303	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	1.67	3.97	7.14	14.16
ZN	2.86	6.81	12.25	24.29
ZF	4.34	10.31	18.55	36.81
ZT	4.72	11.23	20.20	40.08

## 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	4.279	8.488
5y	0.420		1.799	3.569
10y	0.234	0.556		0.000
30y	0.118	0.280	0.504	

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				
	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

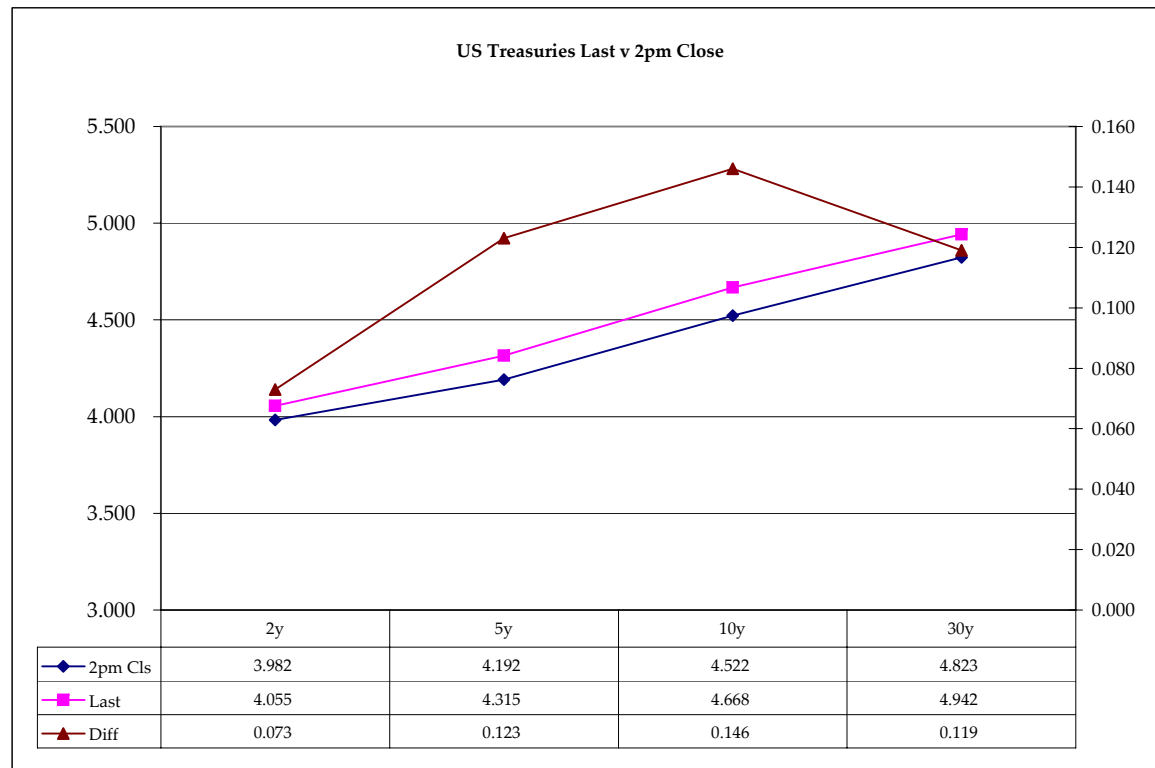
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	8/31/09	100.0100	3.982	4.055	0.073			
5y	4.125	7/31/09	99.2250	4.192	4.315	0.123	21.43	18.73	
10y	4.750	8/15/17	101.255	4.522	4.668	0.146	77.00	65.80	
30y	5.000	5/15/37	102.25	4.823	4.942	0.119	-681.93	-690.25	

	Close 32	Last	Roll ^
ZFZ7	107.035	106.195	
ZNZ7	109.190	108.220	
ZBZ7	111.24	110.090	
ZFU7		#VALUE!	#####
ZNU7	Final	109.250	9.7
ZBU7	Final	112.200	5.5

Curve Spreads		
	Close bps	Last bps
2/5	21.0	26.0
5/10	33.0	35.3
10/30	30.1	27.4
2/10	54.0	61.3
5/30	63.1	62.7
2/30	84.1	88.7

^ 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%	29%	51%	132%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$184			
5	\$183	\$438		
10	\$186	\$446	\$788	
30	\$186	\$447	\$790	\$1,563
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$2)	(\$8)		
30	(\$2)	(\$9)	(\$2)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.75%			
10	-0.97%	-1.70%		
30	-1.24%	-1.97%	-0.27%	

**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	4.04	8.02
ZF	0.43	1.03	1.86	3.68
ZN	0.29	0.68	1.22	2.43
ZB	0.17	0.40	0.71	1.42

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.94	2.25	8.08	16.03
ZF	0.43	2.06	3.71	7.36
ZN	0.57	1.36	1.22	2.43
ZB	0.67	1.59	1.43	2.83

	2y	5y	10y	30y
2y	1.00	2.38	4.28	8.49
5y	0.42	1.00	1.80	3.57
10y	0.23	0.56	1.00	1.98
30y	0.12	0.28	0.50	1.00

	2y	5y	10y	30y
2y		2.38	2.14	4.24
5y	0.42		0.45	1.78
10y	0.47	2.22		1.98
30y	0.24	0.56	0.50	

	ZT	ZF	ZN	ZB
ZT	1.00	2.18	3.30	5.66
ZF	0.46	1.00	1.52	2.60
ZN	0.30	0.66	1.00	1.72
ZB	0.18	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.18	6.60	22.64
ZF	0.46		1.52	5.20
ZN	0.15	0.66		3.43
ZB	0.04	0.19	0.29	

<b>October</b>	<b>avg target</b>	<b>400</b>	<b>425</b>	<b>450</b>	<b>475</b>	<b>500</b>
<b>9/19/2007</b>	4.5%	6.5%	8.7%	47.9%	34.5%	1.6%
<b>9/20/2007</b>	4.6%	3.0%	11.1%	45.6%	38.3%	1.0%

<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>9/19/2007</b>	4.3%	20.0%	1.8%	38.5%	5.8%	31.9%	1.9%	0.0%

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