The Morning Email: Treasuries

9/25/2007 5:38

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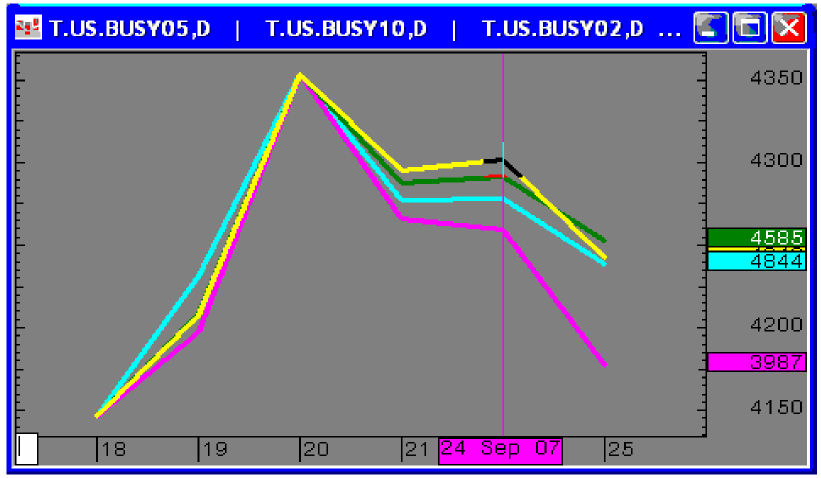
Daily Yield Curve



 09/25/2007

30y 10y 5y 2y

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

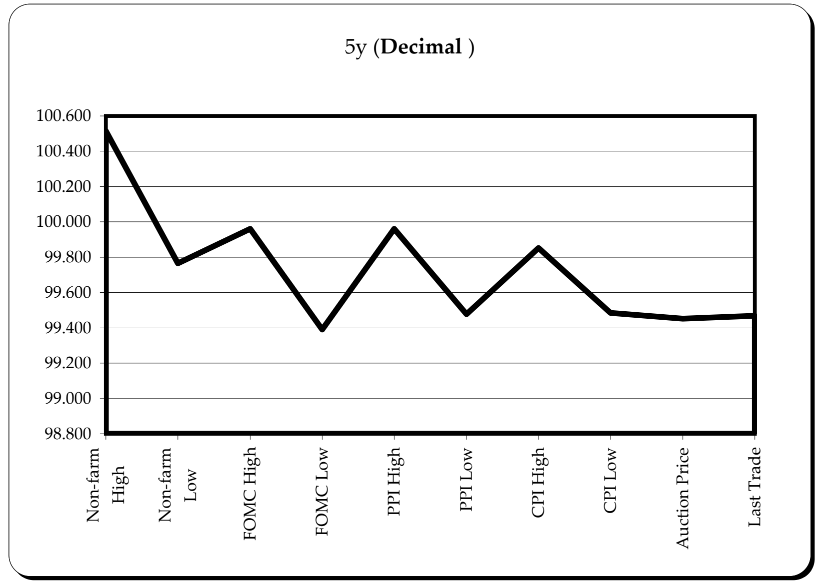
Important Econon Releases, Highs & Lows

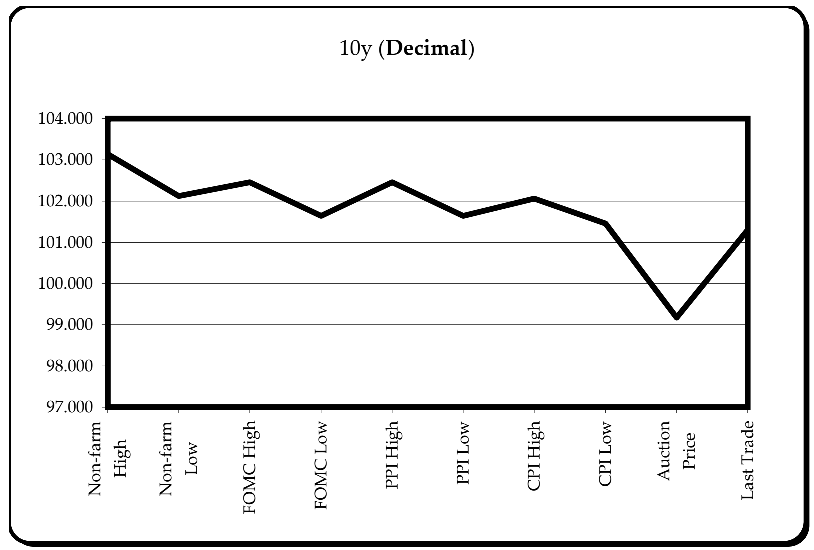
Economic Releases - 32nds

	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	99.1500	101.095	109.065	111.07	9/25/2007 5:38

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	103.152	0.0	103.155	103.112	103.115	30,718	2y Fut
FVAZ7	106.290	0.1	106.295	106.195	106.200	54,520	5y Fut
TYAZ7	109.065	0.1	109.070	108.265	108.270	132,911	10y Fut
USAZ7	111.070	0	111.080	110.240	110.240	23,554	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.002	3.0	100.005	99.292	99.292	na	2y Cash
BUS05P	99.147	8.0	99.152	99.060	99.060	na	5y Cash
BUS10P	101.090	11.5	101.100	100.295	100.295	na	10y Cash
BUS30P	102.130	23	102.155	101.270	101.270	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.987	(5.50)	4.059	3.982	4.059	na	2y Yield
BUS05Y	4.242	(6.00)	4.313	4.24	4.306	na	5y Yield
BUS10Y	4.583	(4.50)	4.636	4.581	4.63	na	10y Yield
BUS30Y	4.844	(4.10)	4.888	4.839	4.88	na	30y Yield

Notes: SYM = Symbol

MarketNews international

All times Eastern
Yesterday:

15:24 09/24 **US TSYS/RECAP**: Tsys rose Mon after quiet morning after 1) US stocks weakened, aiding Tsys; 2) was swap receiving across the curve late in the day, despite wider swap spreads, with real money, pensions and macro accts active; 3) was buying in corporates vs paying in swaps. 4) 3M T-bill had 47.6% indirect bid, rumor of W. Coast buyer. That followed a rangy morn: 4) long end outperforming, curve flattening after early rate-lock selling, German Bund pressure, US acct selling 2Y, 5Y but then
5) German Bunds pull Tsys higher amin Bund short squeeze, large buyer in Austrian 30-Yr RAGB, French debt bargain-hunting. There also had 6) been short-setting into Tsy 2y, 5Y auction annt (came as expected at US$18B 2Y sale Wed, US$13B 5Y sale Thu. 7) Earlier, there was 4) rumored pension fund buying out curve, also steepener unwinds. 8) Tsys had early from stocks gain, but UAW strike vs. GM cooled stks. 9)Morning heavy selling in Dec07 Eurodlr contract, outright & via spd w/Mar08,some
100,000 total sold in pit and screen by various players, specs, dealers.

15:15 09/24 **US EURODLR/SWAPS:** Sources said it was a peculiar day with spds wideing despite reports of better receiving across the curve from real money, pensions and macro accts, the latter of which was in intermediates. But, in explaining the move, sources say swaps leaked wider in sympathy with MBS. Widening in the front-end was linked to the decreased odds of Fed eases being priced into the front-end of the mkt. Also, some talk of buying sister mkt spread product that underperformed swaps of late, thus some buying of corps vs paying in swaps on duration neutral trades.
According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
3:00	+3.00/65.50	+1.00/65.50	+0.75/65.25	+0.25/64.00
10:35	+0.75/63.25	+0.00/64.50	+0.25/64.75	+0.25/64.00
10:00	+0.75/63.25	-0.25/64.25	+0.00/64.50	+0.00/63.75
9:20	-0.25/62.25	-0.50/64.00	-0.25/64.25	-0.50/63.25
Mon Open	+0.00/62.50	-0.50/64.00	-0.50/64.00	-0.50/63.25
8:00	-0.75/61.75	-1.00/63.50	-0.75/63.75	-1.00/62.75

(continued)
Overnight:

05:20 09/25 **TSYS:** Treasuries are trading higher across the curve in London trade Tuesday, boosted by a flight-to-quality bid, triggered by weaker stocks and renewed concerns over funding. Volumes were higher than in recent sessions, with good flows seen across the board. Prices opened slightly higher in Tokyo trade, helped by follow-through buying after overnight gains in the U.S. Traders noted demand was helped by the fact Japan was closed for a national holiday Monday. USTs continued to move higher in London, with the curve steepening as the front-end outperformed strongly on the safe-haven bid. Real money names were solid buyers of the 2-year note, despite the overhang of $18 billion due for auction on Wednesday.Leveraged players were outright buyers of the 10-year note, although there was talk of hedge funds selling 10-year paper, unwinding recent cross border trade. On the back of that, the Bund/T-note widened 1 bps
on Wednesday's levels, with the spread standing at 32 bps.

MarketNews international

09:23 09/24 **US TSYS/RESEARCH:** UBS' William O'Donnell said the "key question for the markets must now be this: will the housing recession persist long enough and spread wide enough to weaken US and global growth to the degree where commodity price inflation abates? We think the housing downturn will remain an albatross on the neck of the economy for some years to come while acknowledging that it could be many months before we finally have the proof (via weakening US employment and weaker global growth) required for long end fund managers to re-engage long duration securities." So he recommended doing curve steepeners into that scenario as "the long end is likely to stay under pressure from the weak dollar and elevated commodity prices, while the short end of the curve should remain underpinned by the looming threats of weaker growth and weaker employment conditions" plus the "curve steepener should also get support from the apparent heating up of nuclear tensions in the Middle East."

"…the Fed's delivery of the 50 bp cut has preempted a lot of the 'new' bad news, at least for September, and so while we think this continuation of the soft data is relevant it's been spoken for…"

"We like steepening in both up and downtrades with a near-term goal of 62-67 bp (though we think 70 bp is doable if we get another weak NFP report).

"One 'heads up' that we think will become increasingly relevant to US trading is the prospect for ECB easing next year (the RBS view, by the way). This should inhibit some of the dollar's demise…"

"…our view is that the bond market's current malaise is being squeezed in between the August credit crisis and the economic consequences of housing that started the whole thing. The selloff is VERY technical (while press and pundits seek more fundamental, but ultimately erroneous rationales). And in our experience, technical moves generally prove to be short-lived."

"TACTICAL BIAS: Our main focus and trading idea continues to be on curve steepening. This trade seems a win-win in that it covers an inflation-spiked

"We are intrigued by the 10s/30s flattening last week. The weekly charts show a key technical reversal off overbought levels that could take this spread to 20 bp near term vs. 25 bp late last week -- especially if we see that 2nd leg of convexity selling."

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

Stone & McCarthy RESEARCH ASSOCIATES

"The relatively aggressive **Fed policy** move [last] week did seem to provide the catalyst for a thawing of US credit markets. The FOMC took a leadership role in helping to ease the credit crisis and, in the process, reduce the risk that the economy will suffer severe consequences going forward. For example, the new issue corporate bond market came alive, and included the first high yield issue to be underwritten in quite some time. The market response was heartening and offers a bright ray of hope that the worst of the financial and economic crises may be behind us. However, it would also be naïve that the subprime-originated problems have been whisked away. Rather, we expect subprime-related problems to linger for a prolonged period of time. Tainted structured securities still litter the market landscape, and valuation of these securities is still hindered by a lack of public information hindering the price discovery and transactions process. Delinquency rates and foreclosures continue to rise and are likely to continue to due to a surge in variable rate mortgage resets and a broader deterioration of economic activity."
[SOURCE:SMRA weekly US Fixed Income review]

SMR projects that **the FOMC** will continue to ease over the next several months because the economy will continue to slow and inflation will continue to ease, if only marginally so. Based on our outlook, we expect the slope of the coupon curve to steepen by about 110 bps primarily because we expect that the FOMC will lower the fed funds rate by another 100 to 150 bps in 25 bps increments.
--Ward McCarthy

UAW workers walked off the job after a union-set deadline passed without an announced breakthrough in contract talks with General Motors. GM has pushed hard for the creation of a voluntary employees' beneficiary association, or VEBA, as a replacement for an open-ended guarantee of benefits for UAW retirees. --SOURCE: WSJ
[Note from Jim: This story should get plenty of our attention IF it goes on for longer than one-week.Our economy can't handle this right now.]

Duration, DV01s, Curve Spreads, CF

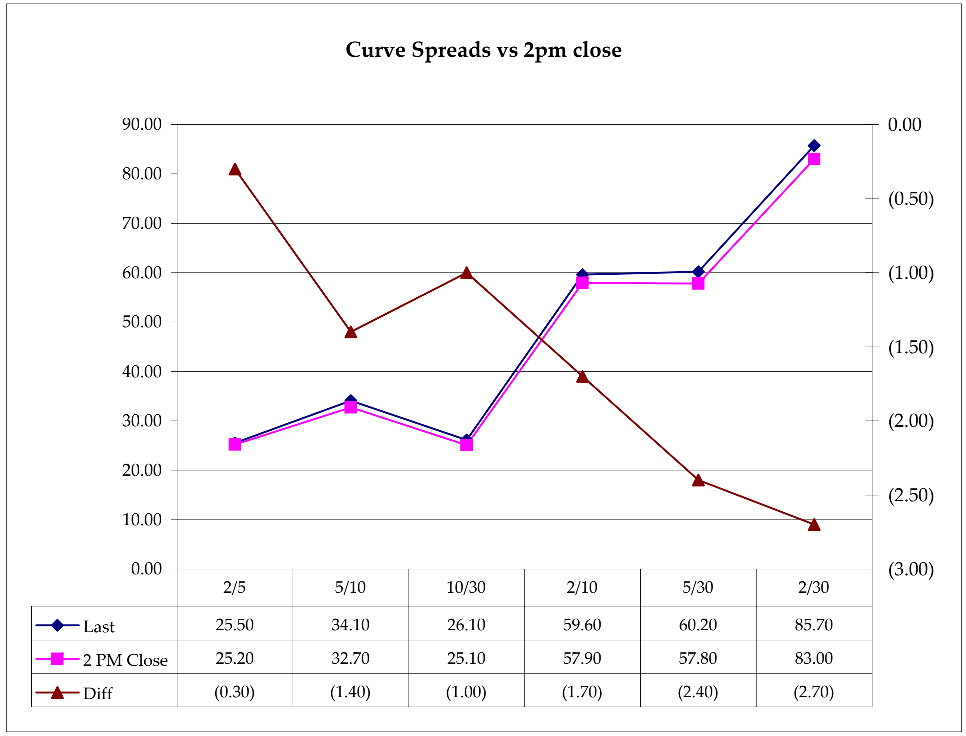
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.52	5.11	$1,598	10.23	n/a
10y	7.80	2.54	$794	5.08	n/a
5y	4.40	1.41	$439	5.62	n/a
2y	1.83	0.59	$184	2.35	n/a
ZB	9.92	3.57	$111	3.57	1.1103
ZN	5.88	2.07	$65	4.14	0.9069
ZF	3.96	1.36	$43	2.72	0.9246
ZT	1.88	0.62	$19	2.49	0.9569

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	25.50	25.20	(0.30)
5/10	34.10	32.70	(1.40)
10/30	26.10	25.10	(1.00)
2/10	59.60	57.90	(1.70)
5/30	60.20	57.80	(2.40)
2/30	85.70	83.00	(2.70)



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		1.724	2.618	5.721
ZN	0.000		1.519	3.319
ZF	0.382	0.658		2.185
ZT	0.175	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	1.65	3.94	7.12	14.34
ZN	2.84	6.79	12.28	24.72
ZF	4.32	10.32	18.65	37.54
ZT	4.72	11.27	20.38	41.02

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		2.388	4.317	8.689
5y	0.419		1.808	3.639
10y	0.232	0.553		0.000
30y	0.115	0.275	0.497	

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	344,386	293,524	50,862	273,850	189,701	84,149	1,139,423	1,274,434	(135,011)	ZF
ZN	331,400	398,699	(67,299)	641,579	299,852	341,727	1,545,493	1,819,920	(274,427)	ZN
ZB	159,331	168,350	(9,019)	123,759	171,099	(47,340)	699,205	642,846	56,359	ZB

	WoW^ Position Change			
	Sml Spec	Lrg Spec	Comm	
	Net	Net	Net	As of
ZF	**2,455**	**64,325**	**(66,780)**	9/11/2007
ZN	**27,996**	**(15,691)**	**(12,305)**	
ZB	**18,686**	**(19,847)**	**1,160**	

^WoW = Week over week

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Closes: 2pm CST vs this Morning

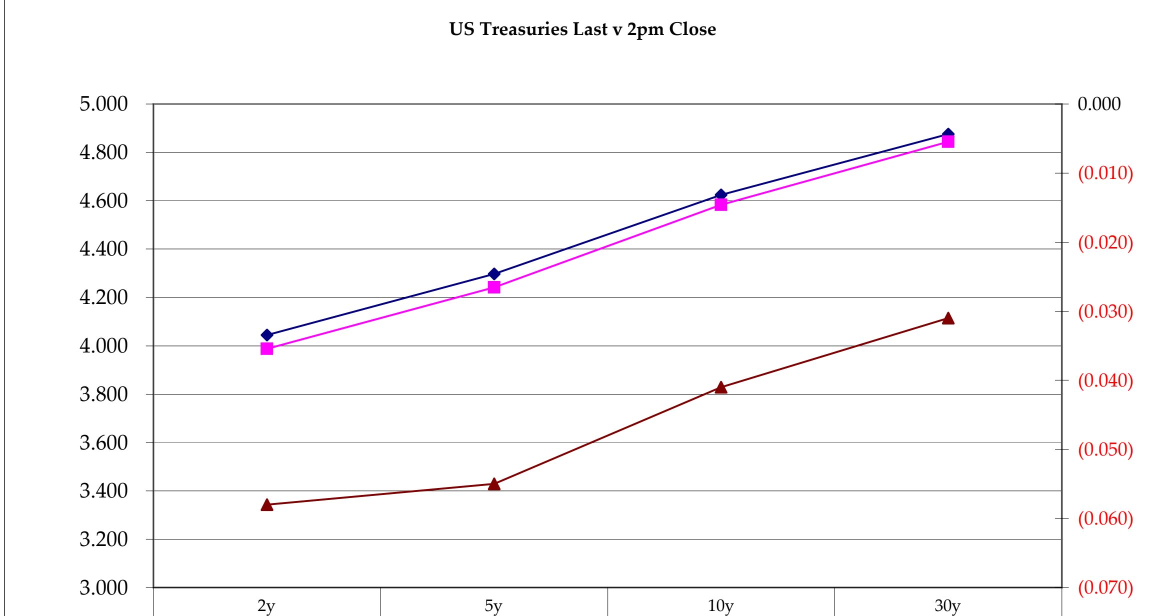
	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	8/31/09	99.2925	4.045	3.987	(0.058)			
5y	4.125	7/31/09	99.0775	4.297	4.242	(0.055)	19.63	19.94	
10y	4.750	8/15/17	100.315	4.624	4.583	(0.041)	70.05	72.34	
30y	5.000	5/15/37	101.30	4.875	4.844	(0.031)	-677.34	-674.56	

	Close 32	Last	Roll ^
ZFZ7	106.215	106.290	
ZNZ7	108.300	109.065	
ZBZ7	110.28	111.070	
ZFU7			4.5
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	25.2	25.5
5/10	32.7	34.1
10/30	25.1	26.1
2/10	57.9	59.6
5/30	57.8	60.2
2/30	83.0	85.7



	2y	5y	10y	30y
2pm Cls	4.045	4.297	4.624	4.875
Last	3.987	4.242	4.583	4.844
Diff	(0.058)	(0.055)	(0.041)	(0.031)

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%**

What is this? (1):
2yr cash has X% duration of 5yr cash .

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$184**			
5	$183	**$439**		
10	$187	$448	**$794**	
30	$189	$453	$803	**$1,598**

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)	($14)	($9)	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.54%			
10	-1.52%	-2.05%		
30	-2.61%	-3.13%	-1.11%	

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	8.20
ZF	0.43	1.03	1.87	3.75
ZN	0.28	0.68	1.23	2.47
ZB	0.17	0.39	0.71	1.43

	2y	5y	10y	30y
2y	1.00	2.39	4.32	8.69
5y	0.42	1.00	1.81	3.64
10y	0.23	0.55	1.00	2.01
30y	0.12	0.27	0.50	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.19	3.32	5.72
ZF	0.46	1.00	1.52	2.62
ZN	0.30	0.66	1.00	1.72
ZB	0.17	0.38	0.58	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.94	2.25	8.15	16.41
ZF	0.43	2.06	3.73	7.51
ZN	0.57	1.36	1.23	2.47
ZB	0.66	1.58	1.42	2.87

	2y	5y	10y	30y
2y		2.39	2.16	4.34
5y	0.42		0.45	1.82
10y	0.46	2.21		2.01
30y	0.23	0.55	0.50	

	2y	5y	10y	30y
ZT		2.19	6.64	22.89
ZF	0.46		1.52	5.24
ZN	0.15	0.66		3.45
ZB	0.04	0.19	0.29	

Fed Funds Probability of Tightening or Easing

October	avg target	400	425	450	475	500
9/20/2007	4.6%	3.0%	11.1%	45.6%	38.3%	1.0%
9/21/2007	4.6%	0.0%	19.3%	37.2%	42.0%	0.4%

December	avg target	375	400	425	450	475	500	525
9/20/2007	4.4%	17.4%	0.0%	38.1%	9.5%	32.4%	2.7%	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