

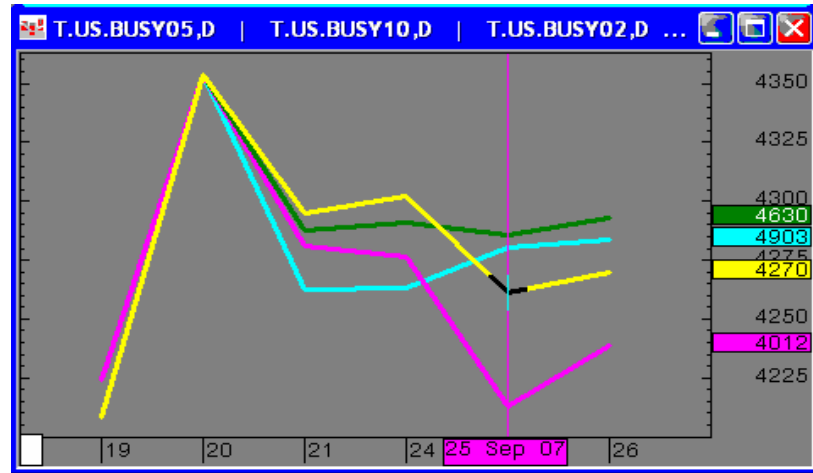


The Morning Email: Treasuries

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Daily Yield Curve



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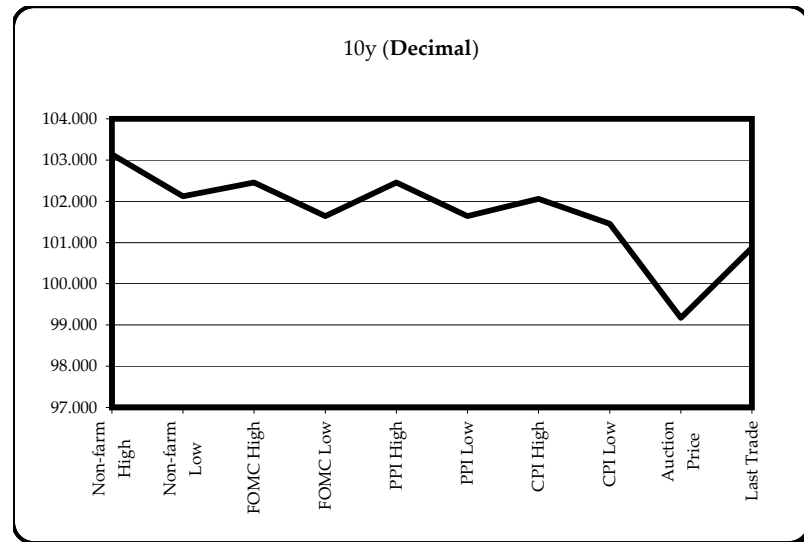
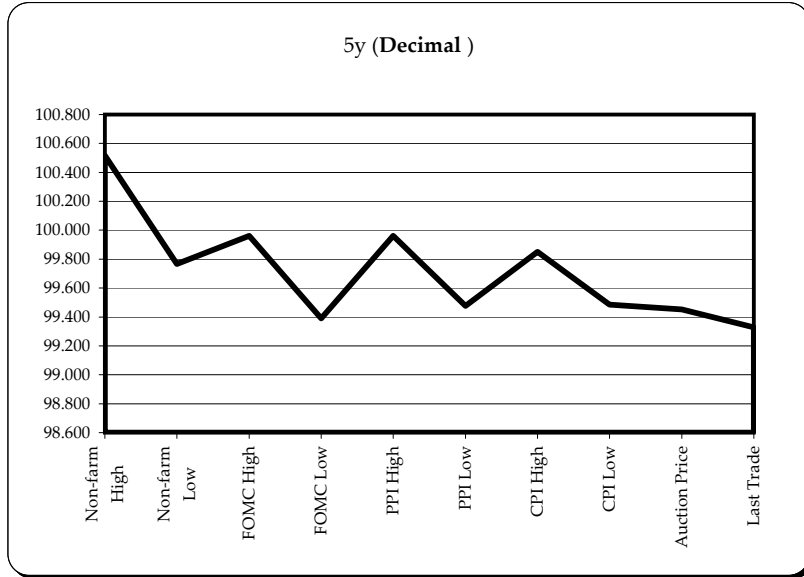


Want something added? Let me know: jgoulding@ghco.com

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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	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	99.1050	100.280	108.285	110.17	9/26/2007 5:54

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	103.137	(0.0)	103.165	103.132	103.145	25,490	2y Fut
FVAZ7	106.240	(0.0)	106.295	106.240	106.260	46,674	5y Fut
TYAZ7	108.285	(0.1)	109.035	108.285	108.315	101,824	10y Fut
USAZ7	110.170	(0)	110.270	110.160	110.210	18,248	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	99.310	(1.5)	100.020	99.310	100.010	na	2y Cash
BUS05P	99.102	(2.5)	99.150	99.105	99.122	na	5y Cash
BUS10P	100.280	(2.5)	101.035	100.280	100.300	na	10y Cash
BUS30P	101.120	(3)	101.230	101.135	101.220	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	4.012	2.10	4.025	3.957	3.999	na	2y Yield
BUS05Y	4.274	1.30	4.281	4.242	4.281	na	5y Yield
BUS10Y	4.636	1.40	4.642	4.604	4.636	na	10y Yield
BUS30Y	4.909	0.90	4.911	4.882	4.907	na	30y Yield

Notes: SYM = Symbol

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

15:25 09/25 **US TSYS/RECAP:** US Tsys ended Tues mainly higher after 1) afternoon dip off highs after overnight rally amid afternoon servicers swaps paying in 5s, MBS-tied selling in Tsys; 2) profit-taking late; 3) rumored small front end seller in thin volume in afternoon; 4) late-morning profit-taking in longer Tsys after overnight rally on weak German IFO, Lennar Q3 loss, fear of Canadian C/P woe. 5) Tsys had support from quarter-end needs, lower 99.8 Sept Conf. Bd consumer confidence vs. 105.6 in Aug, and Aug NAR home resales -4.3%. 6) Long-end profit-taking near midday, accts doing a.m. curve steepeners, lvrgrd accts sold 5Y, 10Ys, with Street selling too in intermediates, foreign accts sold 10s, but foreign accounts had bought long-end Tsys earlier in NY. 7) Morning receiving surfaced in 5Y swaps, lvrgrd buying in 5Ys, morning MBS payers in swaps and Tsys sellers vs. buyg MBS. 8) Futures saw 2y/10Y latteners. 9) Servicers said to sell 2Y to 10Y sector via Eurodrlr futures; one acct added to put protection via March 10Y 107.5 strike early. 10) T-bills bid

15:11 09/25 **US EURODLR FUTURES:** Eurodrlr futures finished off session highs, as support ebbed later in the second half, the Red/Gold pack spd 2.0 steeper as the front end retained the bid. In the Fronts (Dec07-Sep08), the Dec07 were 2.0 bps lower at 95-13 on combined Globex and pit volume of 291,000, the Mar08 higher 0.5 bps at 95-49.5 on volume of 299,000, the Jun08 1.5 bps higher at 95-61 on volume of 314,000, while the Sep08 were 2.0 bps higher at 95-65 on volume of 291,000. The 2yr proxy Red pack (Dec08-Sep09), settled 2.5 to 3.5 bps higher across the pack with 650,000 contracts traded.

15:04 09/25 **US EURODLR/SWAPS:** Spds ended session broadly wider in front end responding to steeper futures curves. Sources reported a continuation of Mon's flows: macro, pension and fund receiving noted across curve. Early flow included more spd, curve trades vs rate trades w/most involving "clean up" trades ahead of month/qtr-end as opposed to structural duration trades. Dealer desks confirmed forward steepeners but also some steepener unwinds. Eurodrlr sources reported decent receiver interest in first half followed by some modest paying near midsession. Second half flow included MBS tied paying in Tsys 5s while Eurodrlr sources reported modest sellers of Reds to Blues. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
3:00	+3.25/68.75	+1.75/67.25	+0.25/65.50	-0.25/63.75
12:45	+2.75/68.50	+1.50/67.00	+0.25/65.50	-0.50/63.50
10:05	+2.75/68.25	+1.25/66.75	+0.25/65.50	-0.50/63.50
Tue Open	+2.50/68.00	+0.50/66.00	+0.25/65.50	-0.25/63.75
Mon 3:00	+3.00/65.50	+1.00/65.50	+0.75/65.25	+0.25/64.00

**(continued)
Overnight:**

05:12 09/26 TSYS: Treasuries are trading modestly higher across the board in London trade Wednesday, as the markets prepare to digest a slew of issuance of the next couple of days. Traders said the weak home sales data released in the U.S. Tuesday was continuing to provide support for the market, despite the two-year and five-year sales due Wednesday and Thursday respectively. Prices were higher right out of the gate in Tokyo trade, with light month-end and half-year end duration demand from life and pension funds helping underpin longer-dated paper. The front of the curve also found modest support from Asian central banks. Overall, however, traders noted volumes were muted. The 10-year note underperformed in Tokyo, with real money names seen swapping out of the medium term notes into the 2-year. Volumes picked up modestly in London, with light buying seen across the curve. However, few players seemed prepared to open fresh positions ahead of the U.S. session.

06:36 09/26 US: Reported comments from US officials overnight, ** FED PLOSSER: Philly Fed Pres Plosser (votes on FOMC in '08), in a speech on productivity (17.30EDT Tuesday), said US trend growth likely to be +2.75% over the next few years. Said it is 'mistaken' to think FOMC has changed its approach, as the Fed still wants price stability. Fed ease linked to weak employment, declining home prices, moderating inflation, and slow home sales. Incoming info must be "much weaker than already anticipated and accumulate sufficiently to generate another downward revision in my outlook" to cause him to call for more ease. And, if growth rebounds Fed will have to reassess. Fed must be forward-looking and not respond to transitory disturbances. Risks assoc. with ease include moral hazard and higher inflation.




10:00 09/25 **US DATA/Existing Homes:** Sales -4.3% in August to a saar rate of 5.5 million. That's 12.8% under the pace a year earlier. Surprise was that the home sales price went up for the first time in 13 months, +0.2% from a year earlier to \$224,500. Nat'l Assoc of Realtors econ Lawrence Yun, homeowners 'reluctant to sell.' He sees same low range for Sept too. The NE region also looked a little better than expected. It was the first region to plunge. Median NE prices in Aug are +3.8% vs yearlier. Midwest prices +3.0%. South -0.5%. West -3.8%. See more on the MNI main wire.

From David Ader, RBS

"**10s** holding vs 4.71% and probably fading vs. 4.45%."

"We are looking at a chart of **2s** as we write and seeing the break of rising channel and bullish cross in stochastics both pointing to a target of 3.85%."

"**5s** -- Weekly and Daily stochastics are now bearish -- we see strongest near-term support at the 4.45%/9818+ 38.2% retracement on the weekly chart..."

"**2s/10s** -- Weekly momentum is bullish and while the daily measures remain so, the daily does look a bit tired with potential divergences set up. We are watching the upper line of an upward sloping channel at 67 bp as target resistance and put support, key, at the FOMC day narrow of 39 bp. We would be buyers from 45-50 bp."

"**TY**...held to a channel at, now, about 10811 with an impressive bounce. Solace, however, is not confirmed with a shift in bearish momentum measures. That allows for test of the 10912/18 FOMC day low and recent breakdown level."

"**US** -- Lowest weekly close since early August has weekly/daily momentum negative. We see support prior support/volumes/recent weekly-low of 10918, then Aug lows of 10820. Most meaningful resistance is at the 11128 bottom of Pre-NFP range."

14:28 09/25 **US BONDS/LEHMAN:** Friday, Sept. 28, is month-end and quarter-end, and advance estimates for Lehman month-end bond index extensions show slight +0.05-years extension in Tsys but chunky Agencies at +0.12 yrs.

- U.S. Tsy Index duration will extend by 0.05 yrs
- Agencies will extend by +0.12 yrs, U.S. Credit extends by +0.06 yrs
- MBS are estimated at +0.06 yrs. U.S. Aggregate increase by +0.08 yrs
- U.S. High-Yield Index extends +0.03 years; U.S. Gov/Credit +0.08 yrs

US TSYS: Traders cited a T-bill bid today amid risk aversion, flight-to-quality bid too. "It's risk aversion," summarized one trader. Others meanwhile sharpen pencils to gauge CDO values/prices, figure out where to obtain quarter-end financing, figure out how to get more T-bills/shorter Tsys assets for qtr-end window-dressing. And some even look ahead to the LIBOR funding for turn of the year, which is very scarce usually, but doubly so in this year of subprime problems.

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.44	5.04	\$1,575	10.08	n/a
10y	7.79	2.53	\$790	5.06	n/a
5y	4.40	1.40	\$438	5.61	n/a
2y	1.83	0.59	\$184	2.35	n/a
ZB	9.89	3.54	\$111	3.54	1.1103
ZN	5.88	2.06	\$64	4.12	0.9069
ZF	3.96	1.36	\$42	2.72	0.9246
ZT	1.88	0.62	\$19	2.49	0.9569

	Yield Curve Spreads		Diff
	Last	2pm close	
2/5	26.20	27.30	1.10
5/10	36.20	35.30	(0.90)
10/30	27.30	27.40	0.10
2/10	62.40	62.60	0.20
5/30	63.50	62.70	(0.80)
2/30	89.70	90.00	0.30

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

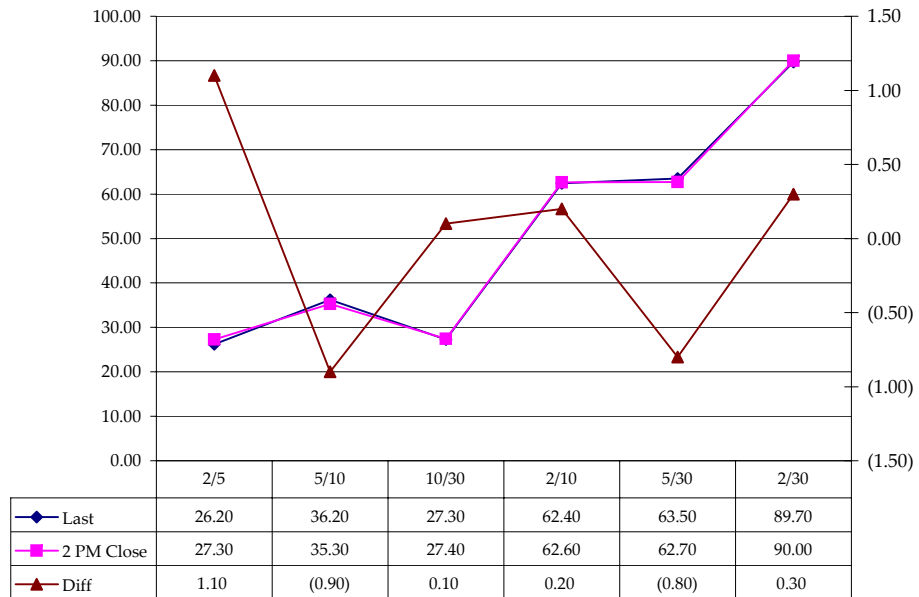
CF = Conversion Factor

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		1.716	2.604	5.690
ZN	0.000		1.517	3.316
ZF	0.384	0.659		2.185
ZT	0.176	0.302	0.458	

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	1.66	3.96	7.14	14.25
ZN	2.85	6.80	12.26	24.45
ZF	4.32	10.32	18.60	37.10
ZT	4.72	11.28	20.33	40.54

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		2.387	4.303	8.581
5y	0.419		1.802	3.595
10y	0.232	0.555		0.000
30y	0.117	0.278	0.501	

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	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

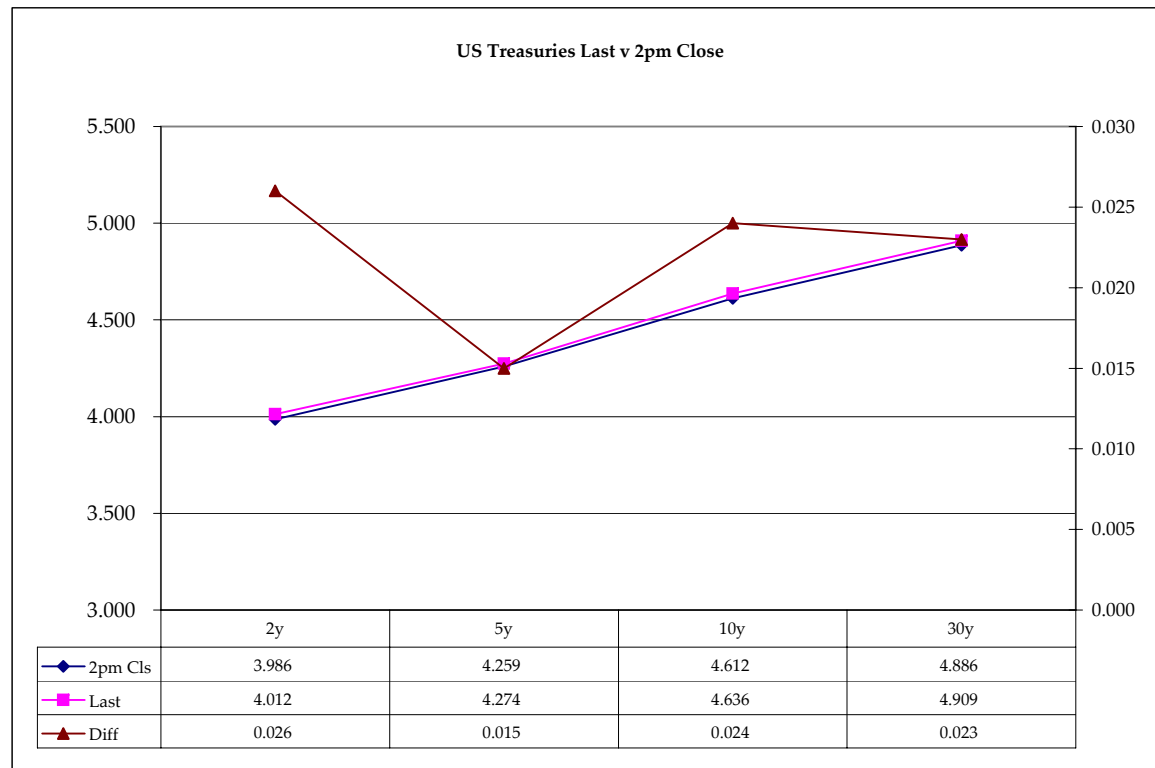
Closes: 2pm CST vs this Morning

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	8/31/09	100.0075	3.986	4.012	0.026			-.75 / +1.00
5y	4.125	7/31/09	99.1300	4.259	4.274	0.015	19.79	20.07	+.50 / -.025
10y	4.750	8/15/17	101.025	4.612	4.636	0.024	69.87	67.91	
30y	5.000	5/15/37	101.25	4.886	4.909	0.023	-680.62	-681.63	

	Close 32	Last	Roll ^
ZFZ7	106.270	106.240	
ZNZ7	109.015	108.285	
ZBZ7	110.26	110.170	
ZFU7			4.25
ZNU7	Final	109.250	9.7
ZBU7	Final	112.200	5.5

Curve Spreads		
	Close bps	Last bps
2/5	27.3	26.2
5/10	35.3	36.2
10/30	27.4	27.3
2/10	62.6	62.4
5/30	62.7	63.5
2/30	90.0	89.7

^ 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%	56%	100%	
30	12%	28%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$184			
5	\$182	\$438		
10	\$186	\$446	\$790	
30	\$187	\$449	\$794	\$1,575
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$2)	(\$8)		
30	(\$3)	(\$10)	(\$4)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.64%			
10	-1.15%	-1.78%		
30	-1.71%	-2.33%	-0.56%	

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	2.26	4.07	8.11
ZF	0.43	1.03	1.86	3.71
ZN	0.28	0.68	1.23	2.44
ZB	0.17	0.40	0.71	1.42

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.94	2.26	8.13	16.21
ZF	0.43	2.06	3.72	7.42
ZN	0.57	1.36	1.23	2.44
ZB	0.66	1.59	1.43	2.85

	2y	5y	10y	30y
2y	1.00	2.39	4.30	8.58
5y	0.42	1.00	1.80	3.59
10y	0.23	0.55	1.00	1.99
30y	0.12	0.28	0.50	1.00

	2y	5y	10y	30y
2y		2.39	2.15	4.29
5y	0.42		0.45	1.80
10y	0.46	2.22		1.99
30y	0.23	0.56	0.50	

	ZT	ZF	ZN	ZB
ZT	1.00	2.19	3.32	5.69
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		2.19	6.63	22.76
ZF	0.46		1.52	5.21
ZN	0.15	0.66		3.43
ZB	0.04	0.19	0.29	

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