

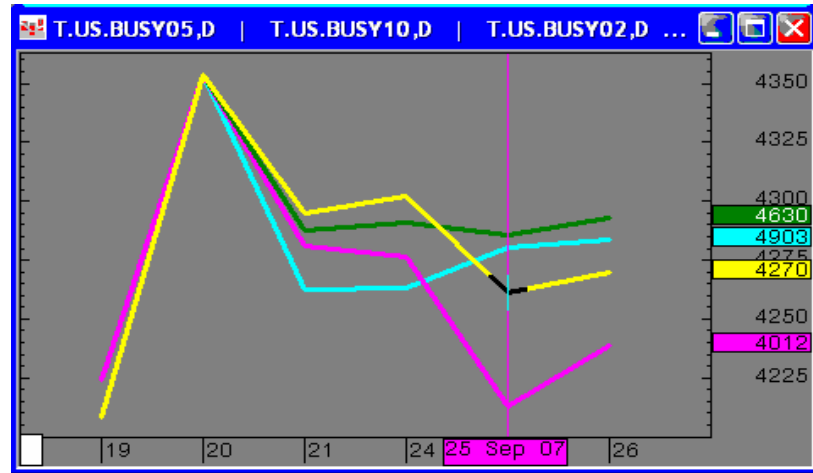


The Morning Email: Treasuries

Table of Contents

- Pg 1 Important Econ Releases, Highs & Lows
- Pg 2 Quotes
- Pg 3 News: Yesterday & Overnight Recap for the United States
- Pg 4 News: Snapshots throughout the day
- Pg 5 Duration, DV01s, Curve Spreads, CF
- Pg 6 Hedge Ratio's
- Pg 7 Commitment of Traders (COT)
- Pg 8 Closes: 2pm CST vs this Morning
- Pg 9 Cash Duration Matrix
- Pg 10 Tic for Tic & Box for Box Matrix
- Pg 12 Fed Funds Probability of Tightening or Easing

Daily Yield Curve



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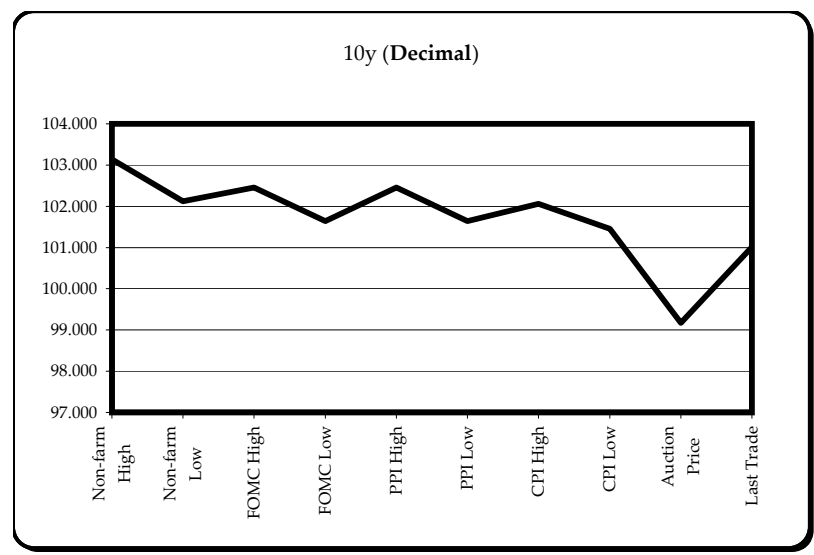
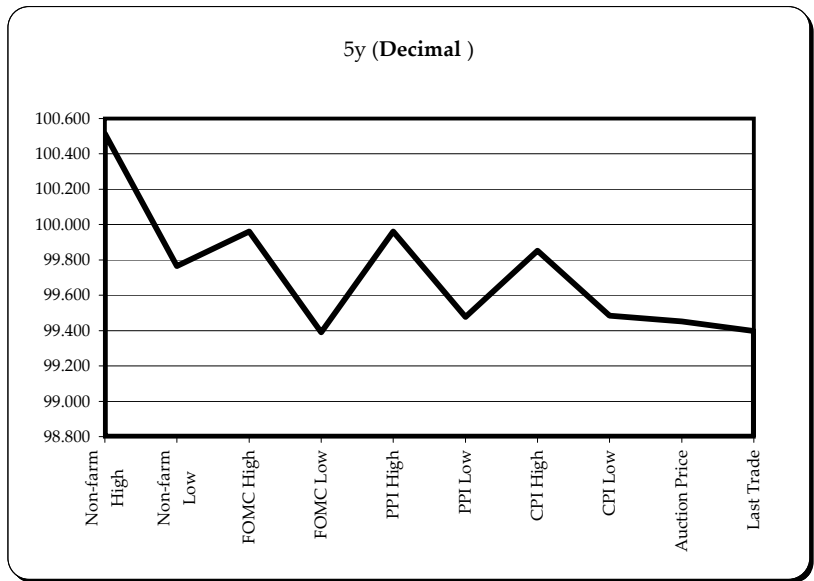


Want something added? Let me know: jgoulding@ghco.com

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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	99.1270	101.005	109.010	110.24	9/27/2007 6:09

Auctions - 32nds				
	2 y	5y	10y	30y
Auction Price	99.320	99.144	99.056	99.026
Auction Yield Stop	4	4.248	4.855	5.059
Actual Auction Date	9/26/2007	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	103.127	103.155	16,476	2y Fut
FVAZ7	106.265	(0.0)	106.280	106.220	106.275	39,405	5y Fut
TYAZ7	109.010	(0.0)	109.025	108.255	109.015	118,997	10y Fut
USAZ7	110.240	0	110.250	110.120	110.230	19,129	30y Fut
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02P	100.015	0.5	100.017	99.317	100.012	na	2y Cash
BUS05P	99.125	0.0	99.132	99.082	99.130	na	5y Cash
BUS10P	101.000	1.0	101.010	100.245	101.000	na	10y Cash
BUS30P	#VALUE!	3	101.240	101.090	101.175	na	30y Cash
	Last	Net	High	Low	Open	Volume	SYM NAME
BUS02Y	3.972	(0.60)	4.013	3.956	3.992	na	2y Yield
BUS05Y	4.261	0.10	4.297	4.231	4.276	na	5y Yield
BUS10Y	4.618	(0.20)	4.656	4.614	4.634	na	10y Yield
BUS30Y	4.887	(0.30)	4.919	4.88	4.898	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 ladders. 9) Servicers said to sell 2Y to 10Y sector via Eurodrl 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:** Eurodrl 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. Eurodrl 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 Eurodrl 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:**

06:39 09/27 **TSYS SUMMARY:** US Treasuries drifted lower in Toyko session, taking direction from weakness in Japanese Government Bonds following strong gains in Nikkei-225, which closed up 396pts (+2.41%) -- hitting highest level since August 13. Traders reported flattening trades in early London morning session, amid window-dressing ahead of the month-end/quarter-end on Friday. Advanced estimates for the Lehman Brothers month-end bond index extensions show slight +0.05 yrs extensions in Treasuries, but chunky ones in Agencies at +0.12 years. Final index calculations will be made after markets close Friday, Sept. 28. In addition to the month-end and quarter-end, it is also Japanese fiscal half year-end on Friday. However, there were no major flows reported, with asset-allocation trades into stocks was the dominant theme in early London session. In cross-border flows, US Treasuries extended their outperformance vs Bunds, as the 10-year yield spread narrowed to +29 bps -- the narrowest level since November 3, 2004.

MarketNews
internationalStone & McCarthy
RESEARCH ASSOCIATES

09:19 09/26 **US DATA REACT:** Economist Chris Low of FTN says durables data show "Equipment investment clearly slowed in August, but that is not overly surprising considering the difficulty financing commercial paper and corporate loans. GDP growth will be adversely affected in the third quarter, but it remains to be seen whether orders rebound in September. The markets barely reacted to the report, which is probably appropriate." He says if orders continue to weaken Fed will react.

11:57 09/26 **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

12:01 09/26 **US AGENCIES:** Chicago FHLB discloses that on Sept 24, it "received a draft consent cease and desist order from its regulator, the Federal Housing Finance Board" and "Under the terms of the draft order, capital stock repurchases and redemptions, including redemptions upon membership withdrawal or termination, would be prohibited until such time as may be determined by the Finance Board... Management believes that the requirements under a final cease and desist order could result in delays or denials of capital stock redemptions in connection with membership withdrawal or termination and significantly reduce dividend levels."

Duration, DV01s, Curve Spreads, CF

	M Duration	DV01 32	DV01 \$	DV01 Box	CF
30y	15.47	5.07	\$1,583	10.13	n/a
10y	7.79	2.53	\$791	5.06	n/a
5y	4.40	1.40	\$438	5.61	n/a
2y	1.87	0.60	\$187	2.40	n/a
ZB	9.89	3.55	\$111	3.55	1.1103
ZN	5.87	2.06	\$64	4.13	0.9069
ZF	3.96	1.36	\$42	2.72	0.9246
ZT	1.87	0.62	\$19	2.48	0.9569

	Yield Curve Spreads		
	Last	2pm close	Diff
2/5	28.90	27.30	(1.60)
5/10	35.70	35.30	(0.40)
10/30	26.90	27.40	0.50
2/10	64.60	62.60	(2.00)
5/30	62.60	62.70	0.10
2/30	91.50	90.00	(1.50)

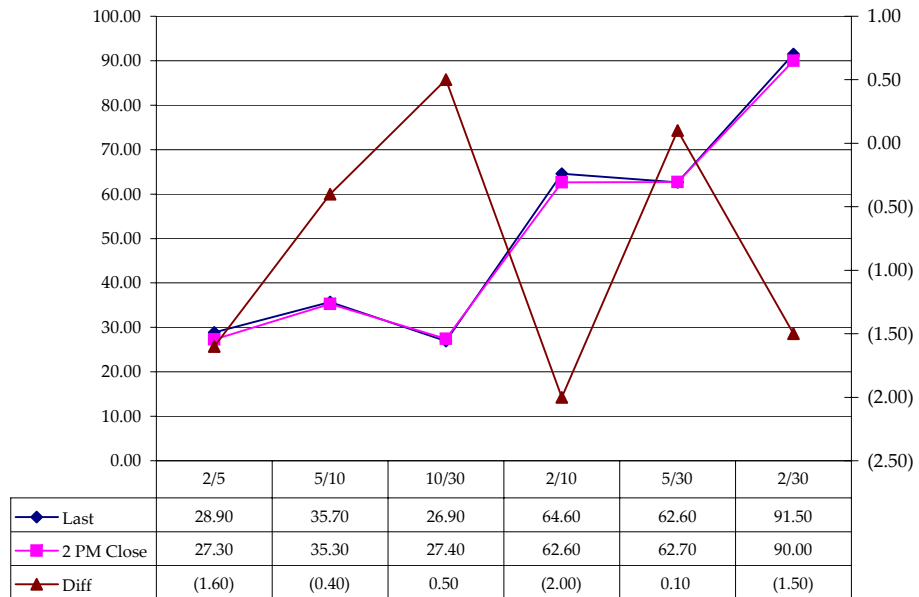
DV01 32 said differently is how many TICS is in a basis point. Example, If ZN moves 1-basis point, it's moved 1.94 tics.

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		1.718	2.609	5.720
ZN	0.000		1.518	3.329
ZF	0.383	0.659		2.193
ZT	0.175	0.300	0.456	

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	1.69	3.96	7.14	14.28
ZN	2.91	6.80	12.27	24.55
ZF	4.41	10.32	18.62	37.26
ZT	4.84	11.32	20.42	40.85

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		2.340	4.222	8.448
5y	0.427		1.804	3.610
10y	0.237	0.554		0.000
30y	0.118	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.

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

	Cpn	Mty	Close 32	Close	Last	Diff	Basis		Roll
							Close	Last	
2y	4.000	9/30/09	100.0075	3.986	3.972	(0.014)			-0.0625
5y	4.125	8/31/12	99.1300	4.259	4.261	0.002	19.79	19.95	+0.075 / -.050
10y	4.750	8/15/17	101.025	4.612	4.618	0.006	69.87	68.33	
30y	5.000	5/15/37	101.25	4.886	4.887	0.001	-680.62	-678.90	

	Close 32	Last	Roll ^
ZFZ7	106.270	106.265	
ZNZ7	109.015	109.010	
ZBZ7	110.26	110.240	
ZFU7			4.25
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	27.3	28.9
5/10	35.3	35.7
10/30	27.4	26.9
2/10	62.6	64.6
5/30	62.7	62.6
2/30	90.0	91.5



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	43%	100%		
10	24%	56%	100%	
30	12%	28%	50%	133%
Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	\$187			
5	\$187	\$438		
10	\$190	\$447	\$791	
30	\$192	\$450	\$797	\$1,583
Cash Matrix [DV01 over / (under) valued]				
	2	5	10	30
2				
5	\$1			
10	(\$3)	(\$8)		
30	(\$4)	(\$12)	(\$6)	
Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	0.37%			
10	-1.47%	-1.84%		
30	-2.21%	-2.57%	-0.75%	

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	0.97	2.26	4.08	8.17
ZF	0.44	1.03	1.86	3.73
ZN	0.29	0.68	1.23	2.45
ZB	0.17	0.40	0.71	1.43

Box for Box Matrix				
	2y	5y	10y	30y
ZT	0.97	2.26	8.17	16.34
ZF	0.44	2.06	3.72	7.45
ZN	0.58	1.36	1.23	2.45
ZB	0.68	1.58	1.43	2.86

	2y	5y	10y	30y
2y	1.00	2.34	4.22	8.45
5y	0.43	1.00	1.80	3.61
10y	0.24	0.55	1.00	2.00
30y	0.12	0.28	0.50	1.00

	2y	5y	10y	30y
2y		2.34	2.11	4.22
5y	0.43		0.45	1.81
10y	0.47	2.22		2.00
30y	0.24	0.55	0.50	

	ZT	ZF	ZN	ZB
ZT	1.00	2.19	3.33	5.72
ZF	0.46	1.00	1.52	2.61
ZN	0.30	0.66	1.00	1.72
ZB	0.17	0.38	0.58	1.00

	2y	5y	10y	30y
ZT		2.19	6.66	22.88
ZF	0.46		1.52	5.22
ZN	0.15	0.66		3.44
ZB	0.04	0.19	0.29	

October	avg target	400	425	450	475	500
9/24/2007	4.6%	0.0%	15.7%	43.8%	39.6%	0.0%
9/25/2007	4.5%	2.4%	18.8%	45.3%	33.3%	0.0%

December	avg target	375	400	425	450	475	500	525
9/24/2007	4.4%	15.9%	0.0%	36.8%	17.1%	25.2%	5.0%	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