The Morning Email: Treasuries

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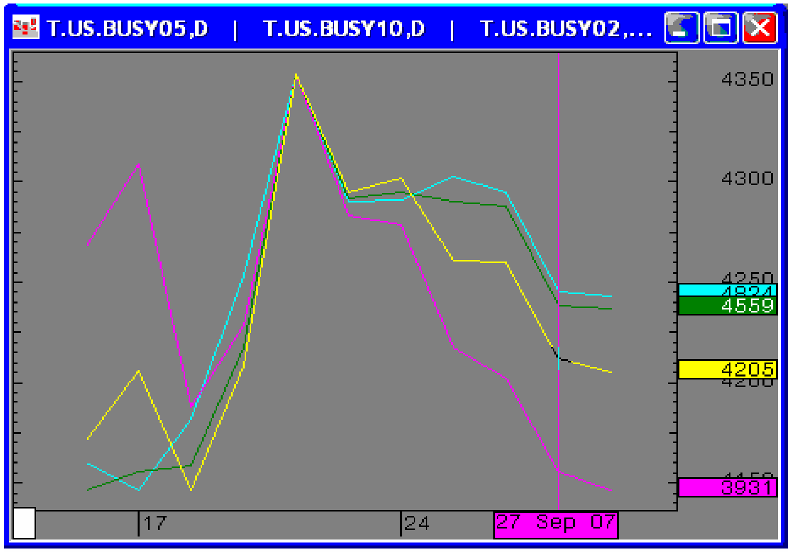
Daily Yield Curve



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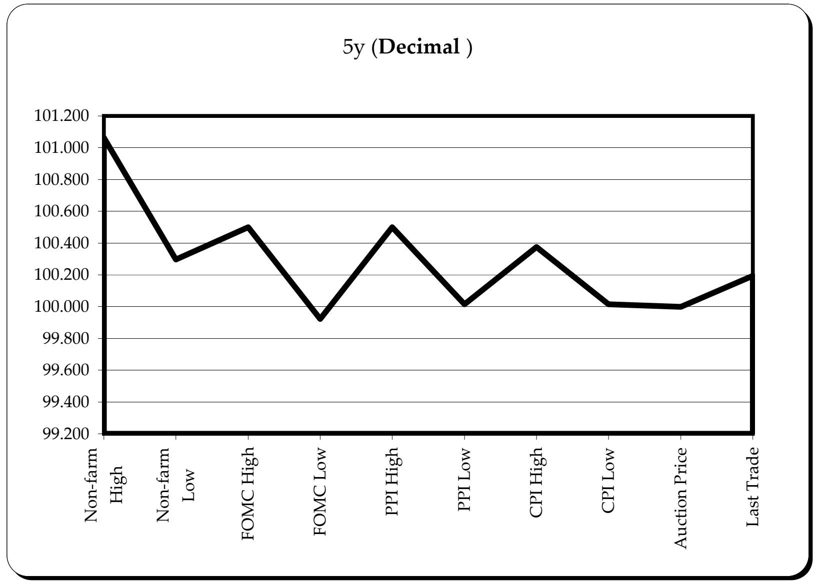
Important Econ Releases, Highs & Lows

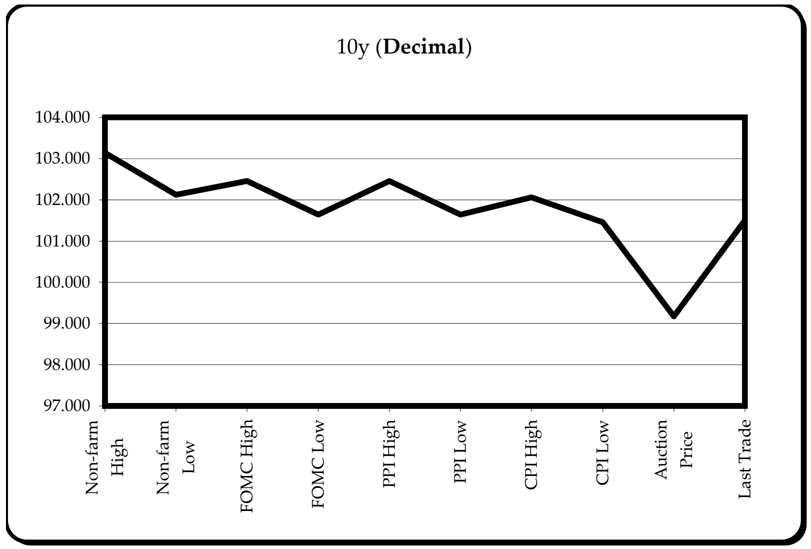
Economic Releases - 32nds

	5y	10y	ZNZ7	ZBZ7	Date
Non-farm High	101.0200	103.045	110.195	113.15	9/7/2007
Non-farm Low	100.0950	102.040	109.185	112.08	9/7/2007
FOMC High	100.1600	102.145	110.300	112.30	9/18/2007
FOMC Low	99.2950	101.205	109.115	111.27	9/18/2007
PPI High	100.1600	102.145	110.300	112.30	9/18/2007
PPI Low	100.0050	101.205	109.115	111.27	9/18/2007
CPI High	100.1200	102.020	109.265	112.10	9/19/2007
CPI Low	100.0050	101.145	109.075	111.11	9/19/2007
Auction Price	99.3199	99.056			
Last Trade	100.0620	101.160	109.135	111.14	9/28/2007 5:41

Auctions - 32nds

	2 y	5y	10y	30y
Auction Price	99.320	99.320	99.056	99.026
Auction Yield Stop	4	4.25	4.855	5.059
Actual Auction Date	9/26/2007	9/27/2007	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	103.180	0.0	103.187	103.165	103.172	14,179	2y Fut
FVAZ7	107.025	0.0	107.040	106.315	107.015	31,404	5y Fut
TYAZ7	109.135	0.0	109.160	109.100	109.135	79,104	10y Fut
USAZ7	111.140	0	111.160	111.090	111.110	14,446	30y Fut
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02P	100.040	0.5	100.045	100.025	100.032	na	2y Cash
BUS05P	100.060	18.7	100.072	100.032	100.040	na	5y Cash
BUS10P	101.150	0.5	101.170	101.120	101.140	na	10y Cash
BUS30P	102.230	3	102.250	102.195	102.215	na	30y Cash
	Last	**Net**	**High**	**Low**	**Open**	**Volume**	**SYM NAME**
BUS02Y	3.931	(0.80)	3.968	3.919	3.964	na	2y Yield
BUS05Y	4.207	(0.50)	4.231	4.196	4.222	na	5y Yield
BUS10Y	4.559	(0.20)	4.579	4.551	4.573	na	10y Yield
BUS30Y	4.824	(0.30)	4.842	4.82	4.839	na	30y Yield

Notes: SYM = Symbol

MarketNews international

All times Eastern
Yesterday:

15:32 09/26 **US TSYS/RECAP:** US Tsys gain strongly Wed amid: 1) Unexpectedly strong US$18B 2Y auction, amid talk last minute-bidder might have been Asian central bank, possibly same one that sold $3B in 2Ys this morning.2) Dealer short-covering after strong 2Y sale drew 35.5% indirects too;3) Buy-and-hold and leveraged accounts buying in 10Ys today; 4) Also some profit-taking by Street in 3Y, and buy-and-hold acct selling 10s, bonds, with also financial institution selling in 5s; 5) Some fear quarter-end scarcity of collateral, and that concern will also aid Tsys near-term. 6) Safe-haven buying as Goldman Sachs downgraded Merrill Lynch rating; 7) Some eyed 2Y/3Y/5Y butterfly as 3Ys strong though 3Ys canceled by US Tsy; 9) Big caution for qrtr-end/month-end amid first statement period since credit crunch; hedge funds will be paying out some redemptions too on Oct. 1. This morning was 10) preauction short setting; 11) MBS-tied selling, corp. rate lock selling (later unwound.)12) DJIA +129; 13)Warren Buffet eyes 20% Bear Stearns stake.

15:15 09/26 **US EURODLR FUTURES:** Eurodlr futures finished near session highs, front end support built after the well received 2yr auction, the Red/Gold pack spd 4.0 bps steeper at 91.5--new highs. In the Fronts (Dec07-Sep08), the Dec07 were 4.0 bps higher at 95-17 on combined Globex and pit volume of 284,000, the Mar08 higher 2.0 bps at 95-51.5 on volume of 233,000, the Jun08 2.5 bps higher at 95-63.5 on volume of 245,000, while the Sep08 were 3.5 bps higher at 95-68.5 on volume of 241,000. The 2yr proxy Red pack (Dec08-Sep09), settled 3.5 bps higher across the pack with 549,000 contracts traded.

15:06 09/26 **US EURODLR/SWAPS**: Spds ended session off tights amid some late front end dealer paying after better receiver interest earlier One swap desk said the move lower in Treasuries early in the session was "all mortgage related selling," amid a modest amount of origination activity followed by receiver-tied hedges across the curve as spreads remained tighter in the first half. Eurodollar sources reported modest swap-tied buyers of Reds (December 2008-September 2009), Blues (December 2010-September 2011) and 3-year bundles by swap-tied dealers in the first half. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
Wed 3:05	-1.25/67.50	-1.00/66.25	-1.00/64.75	-1.00/62.75
2:30	-1.50/67.25	-1.25/66.00	-1.50/64.25	-1.75/62.00
12:45	-2.00/66.75	-1.50/65.75	-2.00/63.75	-2.25/61.75
10:40	-2.00/66.75	-1.25/66.00	-2.00/63.75	-2.75/61.25
Wed Open	-1.75/67.00	-0.75/66.50	-1.25/64.50	-1.75/62.00
Tue 3:00	+3.25/68.75	+1.75/67.25	+0.50/65.75	-0.25/63.75

(continued)
Overnight:

05:27 09/28 **TSYS**: Treasuries are trading modestly higher across the board in London trade, building on gains seen in the U.S. Thursday. But flows were light, with many players sidelined ahead of the end of the third quarter. Treasuries were narrowly mixed in Tokyo trade Friday, with prices initially lower except in the longer-end of the curve. Prices up to 10-year notes suffered from profit-taking, while the Bond was underpinned by light window-dressing ahead of the end of the fiscal half-year in Japan. However, volumes were light across the board. Early European trade saw prices turn higher and Treasuries were trading in positive territory across the curve. The two-year note led the recovery from the lows, helped by real money demand. The five-year note found good demand from both real money accounts and hedge funds. The Bond also found some support in London, helped by month-end duration demand from life and pension funds.

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MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

10:18 09/27 **US DATA REACT:** From economist Chris Low of FTN: "Problems in the credit markets in August have so far had a limited impact on the broad economy. (See the drop in unemployment claims reported this morning.) But housing was clearly hurt, with sharp declines in sales of new and existing homes and a big drop in prices." From Ian Shepherdson at HFE: home sales are "just hideous. August sales were 40% lower than the sustained summer 2005 peak, months' supply jumped by a huge six months to 8.2 - more than double the boom-time level - and median prices tanked 7.5% compared to a year ago." He says housing is not yet bottoming.

"To us, the balance of forces that determine stock market performance seem to favor the large cap sector at this time. One of the key factors favoring large cap returns is the weakness of the dollar."

"….As the U.S. business cycle matures, the return on large cap stocks will begin to more dramatically exceed the return on mid and small cap equities. That time may be coming soon." --Joe Liro, PhD

Duration, DV01s, Curve Spreads, CF

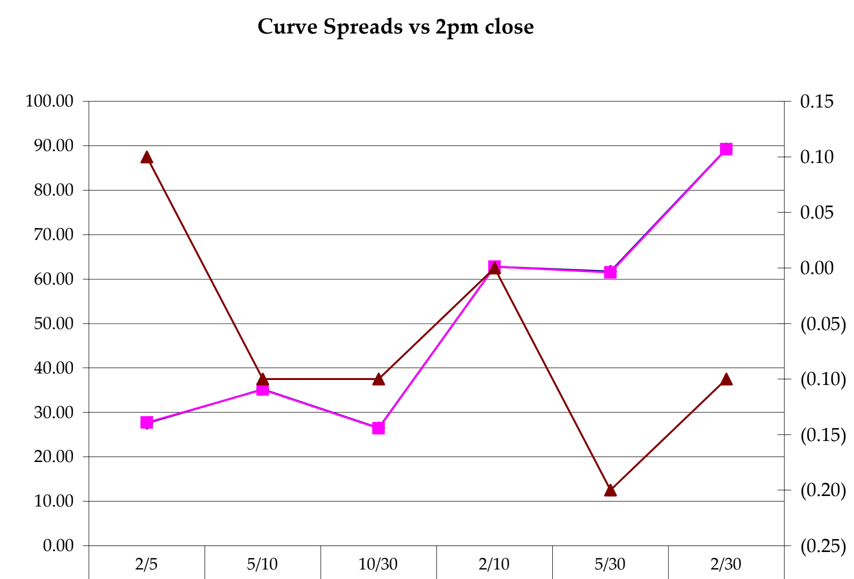
	M Duration	DV01 32	DV01 $	DV01 Box	CF
30y	15.53	5.14	$1,605	10.27	n/a
10y	7.79	2.54	$795	5.09	n/a
5y	4.46	1.43	$447	5.72	n/a
2y	1.90	0.61	$190	2.44	n/a
ZB	9.90	3.57	$112	3.57	1.1103
ZN	5.87	2.07	$65	4.14	0.9069
ZF	3.95	1.36	$43	2.72	0.9183
ZT	1.90	0.63	$20	2.52	0.9569

Yield Curve Spreads

	Last	2pm close	Diff
2/5	27.60	27.70	0.10
5/10	35.20	35.10	(0.10)
10/30	26.50	26.40	(0.10)
2/10	62.80	62.80	0.00
5/30	61.70	61.50	(0.20)
2/30	89.30	89.20	(0.10)

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.



	2/5	5/10	10/30	2/10	5/30	2/30
Last	27.60	35.20	26.50	62.80	61.70	89.30
2 PM Close	27.70	35.10	26.40	62.80	61.50	89.20
Diff	0.10	(0.10)	(0.10)	0.00	(0.20)	(0.10)

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		1.726	2.624	5.668
ZN	0.000		1.521	3.284
ZF	0.381	0.658		2.160
ZT	0.176	0.305	0.463	

Eurex Bonds

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.0	1.6	3.9
Bobl (Z)	0.6	1.0	2.4
Shatz (Z)	0.3	0.4	1.0

US Treasuries v US Financial Futures

	2y	5y	10y	30y
ZB	1.71	4.01	7.12	14.38
ZN	2.95	6.91	12.30	24.82
ZF	4.48	10.51	18.70	37.75
ZT	4.84	11.35	20.19	40.76

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		2.347	4.175	8.428
5y	0.434		1.811	3.655
10y	0.240	0.562		0.000
30y	0.119	0.278	0.495	

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

Closes: 2pm CST vs this Morning

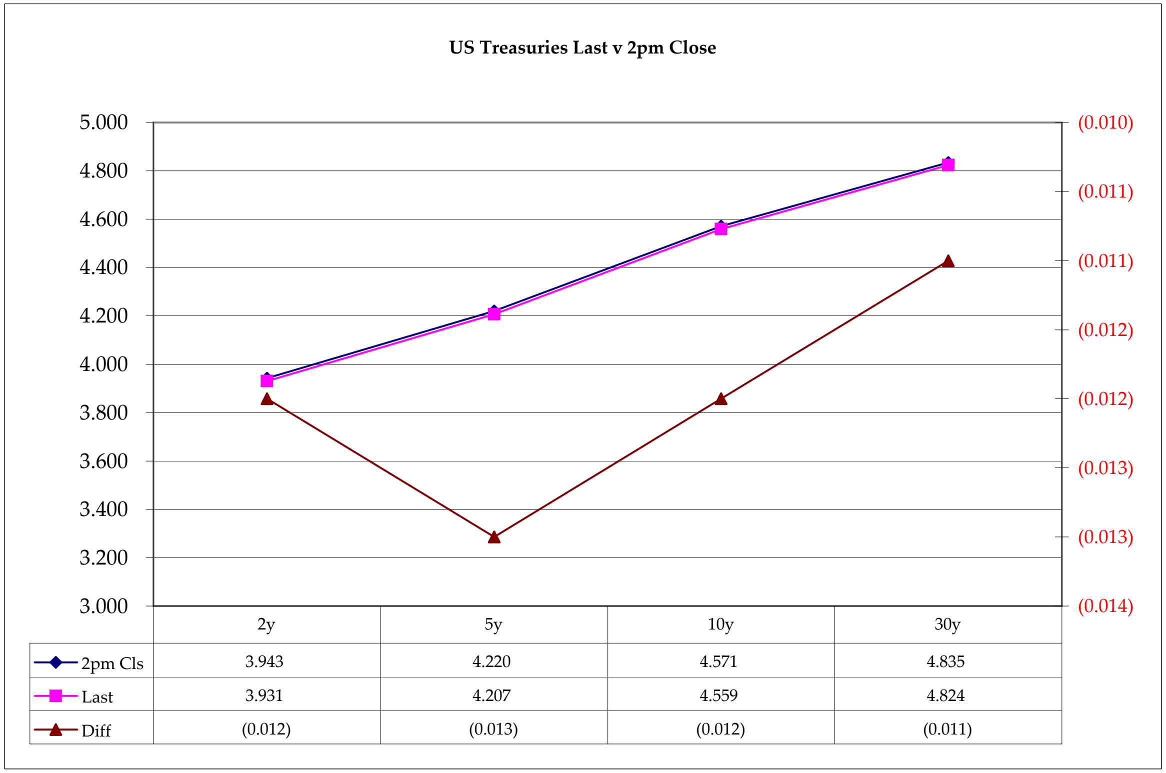
	Cpn	Mty	Close 32	Close	Last	Diff	Basis Close	Basis Last	Roll
2y	4.000	9/30/09	100.0350	3.943	3.931	(0.012)			-0.0625
5y	4.125	8/31/12	100.0425	4.220	4.207	(0.013)	59.07	59.65	+0.050
10y	4.750	8/15/17	101.130	4.571	4.559	(0.012)	70.85	72.49	
30y	5.000	5/15/37	102.19	4.835	4.824	(0.011)	-673.50	-672.33	

	Close 32	Last	Roll ^
ZFZ7	107.010	107.025	
ZNZ7	109.120	109.135	
ZBZ7	111.11	111.140	
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	27.7	27.6
5/10	35.1	35.2
10/30	26.4	26.5
2/10	62.8	62.8
5/30	61.5	61.7
2/30	89.2	89.3



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%	57%	**100%**	
30	12%	29%	50%	**133%**

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

Cash Matrix [DV01 x Duration]				
	2	5	10	30
2	**$190**			
5	$191	**$447**		
10	$194	$455	**$795**	
30	$197	$461	$805	**$1,605**

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	($0)			
10	($4)	($9)		
30	($6)	($14)	($10)	

Cash Matrix [DV01 over / (under) as %]				
	2	5	10	30
2				
5	-0.06%			
10	-1.93%	-1.87%		
30	-3.12%	-3.06%	-1.21%	

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	0.97	2.27	4.04	8.15
ZF	0.45	1.05	1.87	3.77
ZN	0.29	0.69	1.23	2.48
ZB	0.17	0.40	0.71	1.44

	2y	5y	10y	30y
2y	1.00	2.35	4.17	8.43
5y	0.43	1.00	1.78	3.59
10y	0.24	0.56	1.00	2.02
30y	0.12	0.28	0.50	1.00

	ZT	ZF	ZN	ZB
ZT	1.00	2.16	3.28	5.67
ZF	0.46	1.00	1.52	2.62
ZN	0.30	0.66	1.00	1.73
ZB	0.18	0.38	0.58	1.00

Box for Box Matrix

	2y	5y	10y	30y
ZT	0.97	2.27	8.08	16.30
ZF	0.45	2.10	3.74	7.55
ZN	0.59	1.38	1.23	2.48
ZB	0.68	1.60	1.42	2.88

	2y	5y	10y	30y
2y		2.35	2.09	4.21
5y	0.43		0.44	1.80
10y	0.48	2.25		2.02
30y	0.24	0.56	0.50	

	2y	5y	10y	30y
ZT		2.16	6.57	22.67
ZF	0.46		1.52	5.25
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
9/24/2007	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