

## research note

### **Roll Trade**

Trade

- Buy June/Sep ZN spread at +2
- Stop: -5
- Profit Target: get out where you want.

### **Evidence 1**

CTD switches make for volatile basis trades and futures trades. We may very well see this when Sep hits front month in futures.

This pic is from Bloomberg, showing

- the 2 contracts competing for CTD for SEP delivery.
- Note the implied repo rate and the net basis.
- They're very close, which implies competition for CTD into the Sep delivery process.

P198 Comdty F3

<HELP> for explanation.  
Hit {NUMBER} <GO> to view Historical Basis/Repo

**Cheapest to Deliver**  
US 10YR NOTE FUT Sep06 **TYU6 104-31+**

Trade **5/ 8/06**Dlv **9/29/06**  
Set **5/ 9/06**Cheapest IRP= **4.32**

Order	DR	re-sort?	V	(Mid)	Price	Source	Yield	Conv.	C.Factor	143 Days Act/360		Net Basis
										Gross Basis	Implied Repo%	
10	T	3	s	05/15/13	91-18	BGN	5.069	.8737	-5.2	4.32	4.95	7.3
20	T	4	1/4	08/15/13	94-31	BGN	5.085	.9040	2.0	4.25	4.95	8.5
30	T	4	1/4	11/15/13	94-24+	BGN	5.097	.9012	4.9	3.98	4.95	11.7
40	T	4	02/15/14	93-00	BGN	5.101	.8837	7.2	3.63	4.95	15.6	
50	T	4	3/4	05/15/14	97-22+	BGN	5.103	.9254	17.6	3.34	4.95	20.0
60	T	4	1/4	08/15/14	94-08+	BGN	5.108	.8927	17.5	2.99	4.95	23.5
70	T	4	1/4	11/15/14	94-03	BGN	5.114	.8901	20.7	2.69	4.95	27.0
80	T	4	02/15/15	92-07	BGN	5.111	.8713	23.9	2.25	4.95	31.8	
90	T	4	1/8	05/15/15	92-28	BGN	5.121	.8766	27.1	2.06	4.95	34.2
100	T	4	1/4	08/15/15	93-18+	BGN	5.128	.8821	31.1	1.87	4.95	36.7
110	T	4	1/2	11/15/15	95-08+	BGN	5.135	.8968	35.7	1.68	4.95	39.7
120	T	4	1/2	02/15/16	95-07+	BGN	5.125	.8946	42.1	1.19	4.95	45.6

Australia 61 2 9777 8600  
Brazil 5511 3048 4500  
Europe 44 20 7330 7500  
Germany 49 69 920410  
Hong Kong 852 2977 6000  
Japan 81 3 3201 8900  
Singapore 65 6212 1000  
U.S. 1 212 318 2000  
Copyright 2006 Bloomberg L.P.  
6649-542-1 08-May-06 10:38:45

The CTD for Sep delivery has already changed twice, as shown in the two pix below.

Here are the historical prices for -- the 3 5/8 of 05/13  
 (the 4 1/4s of 08/13 are below this chart.)

<HELP> for explanation.

P198 Comdty F3

**HISTORICAL BASIS/IMPLD. REPO TABLE** page 2 of 5

TYU6 US 10YR NOTE FUT Sep06 (104-31+) Range 2/ 6/06 to 5/ 5/06  
 US TREASURY N/B T 3 5 05/15/13 (91-17+) BGN, CLOSE, MID PERIOD D/W D

Current: Basis = -5.7 in 32nds= 91-17+ - 0.873700 x 104-31+ 4.36%

Date	Day	Future	Cash	Div Prc	Basis	in 32nd	Days	Settle	Imp.	Repo%
5/ 5	Fri	105-04	91-23	91.84771	-.129	-4.1	144	5/ 8	4.22	
5/ 4	Thu	104-27	91-12+	91.58833	-.198	-6.3	147	5/ 5	4.41	
5/ 3	Wed	104-28	91-15	91.62929	-.161	-5.1	148	5/ 4	4.31	
5/ 2	Tue	105-04	91-20+	91.83406	-.193	-6.2	149	5/ 3	4.38	
5/ 1	Mon	105-01	91-16	91.75215	-.252	-8.1	150	5/ 2	4.54	
4/28	Fri	105-15	92-00	92.14805	-.148	-4.7	151	5/ 1	4.24	
4/27	Thu	105-10	91-28	91.99788	-.123	-3.9	154	4/28	4.18	
4/26	Wed	105-01	91-18	91.76580	-.203	-6.5	155	4/27	4.39	
4/25	Tue	105-10	91-24	91.99788	-.248	-7.9	156	4/26	4.49	
4/24	Mon	105-27	92-09	92.46204	-.181	-5.8	157	4/25	4.30	
4/21	Fri	105-21	92-03+	92.29822	-.189	-6.0	158	4/24	4.32	
4/20	Thu	105-18	91-31	92.21630	-.248	-7.9	161	4/21	4.47	
4/19	Wed	105-20	92-02+	92.27091	-.193	-6.2	162	4/20	4.33	
4/18	Tue	105-29	92-07+	92.51664	-.282	-9.0	163	4/19	4.53	
4/17	Mon	105-19	92-00	92.24361	-.244	-7.8	164	4/18	4.44	
4/13	Thu	105-12	91-24+	92.06614	-.301	-9.6	165	4/17	4.59	
4/12	Wed	105-23	92-03+	92.36647	-.257	-8.2	169	4/13	4.46	
4/11	Tue	106-02	92-14+	92.66681	-.214	-6.8	170	4/12	4.34	

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.  
 6649-542-1 08-May-06 10:54:39

Here are the historical prices for --the 4 1/4s of 08/13

<HELP> for explanation.

P198 Comdty F3

**HISTORICAL BASIS/IMPLD. REPO TABLE** page 2 of 5

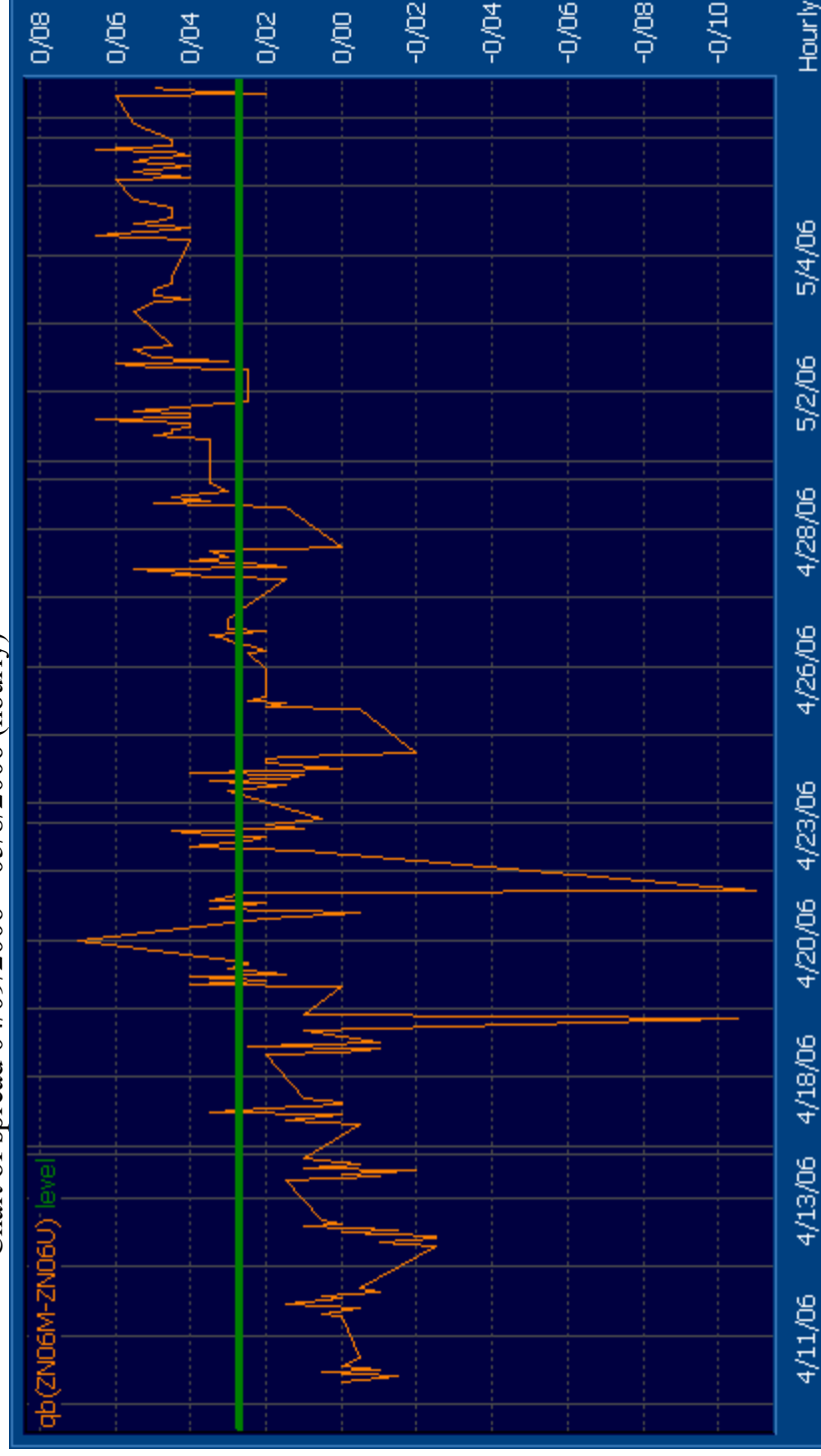
TYU6 US 10YR NOTE FUT Sep06 (104-31+) Range 2/ 6/06 to 5/ 5/06  
 US TREASURY N/B T 4 1/4 08/15/13 (94-30 ) BGN , CLOSE , MID PERIOD D/W 0

Current: Basis = 1.0 in 32nds= 94-30 - 0.904000 x 104-31+ 4.33%

Date	Day	Future	Cash	Dlv Prc	Basis	in 32nd	Days	Settle	Imp.	Repo%
5/ 5	Fri	105-04	95-03+	95.03300	.076	2.4	144	5/ 8	4.21	
5/ 4	Thu	104-27	94-25	94.76463	.017	0.5	147	5/ 5	4.38	
5/ 3	Wed	104-28	94-28	94.80700	.068	2.2	148	5/ 4	4.25	
5/ 2	Tue	105-04	95-02	95.01888	.044	1.4	149	5/ 3	4.30	
5/ 1	Mon	105-01	94-29	94.93413	-.028	-0.9	150	5/ 2	4.49	
4/28	Fri	105-15	95-14+	95.34375	.109	3.5	151	5/ 1	4.12	
4/27	Thu	105-10	95-09+	95.18838	.108	3.5	154	4/28	4.14	
4/26	Wed	105-01	94-30+	94.94825	.005	0.2	155	4/27	4.41	
4/25	Tue	105-10	95-06	95.18838	-.001	-0.0	156	4/26	4.41	
4/24	Mon	105-27	95-23	95.66863	.050	1.6	157	4/25	4.27	
4/21	Fri	105-21	95-17+	95.49912	.048	1.5	158	4/24	4.28	
4/20	Thu	105-18	95-13	95.41438	-.008	-0.3	161	4/21	4.42	
4/19	Wed	105-20	95-16	95.47088	.029	0.9	162	4/20	4.33	
4/18	Tue	105-29	95-22+	95.72513	-.022	-0.7	163	4/19	4.44	
4/17	Mon	105-19	95-14	95.44263	-.005	-0.2	164	4/18	4.41	
4/13	Thu	105-12	95-06	95.25900	-.072	-2.3	165	4/17	4.58	
4/12	Wed	105-23	95-18	95.56975	-.007	-0.2	169	4/13	4.41	
4/11	Tue	106-02	95-29+	95.88050	.041	1.3	170	4/12	4.29	

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.  
 6649-542-1 08-May-06 10:55:16

- As of 05/08/2006
  - Chart of spread 04/09/2006 – 05/8/2006 (hourly)



- Enter at +2.5 (Green Line)
- Spread is currently +5
- All the low spikes were overnight. Don't know if it even traded there.
- Current out-rights
  - June 105.04+
  - Sep 104.31+, as of 10:45 am CDT 05/08/2006

## Evidence 2: Size of Issuance

Here are the facts:

- The **issuance size** of the Ten Year Notes and 30-Year Bonds that are the **CTD for the SEPTEMBER** futures contracts are huge.
- The coupon difference between the new issue, for the 10s that'll be auctioned in May, and the **CTD for SEP** stand to be big. Perhaps 75bp if the new issue goes off at 5%.
- The mere difference in size of the issuance in the basket is going to make our markets change.
- The 10y new issue is going to be 13 billion. Not a lot compared to the two competing issues. Especially the 08/13 which is 31b.

Let's take a look at the 10s basket: **As of 04/18/2006**

ZN (Dcm)	105.828	Fed		Issue		Issuance		6% Conversion Factors			Yield			
		Is	Owens	Coupon	Date	Mat Date	(Billions)	Jun. 2006	Sep. 2006	Basis 32	Is	DV01	DV01 Per 100	DV01 32
us#TW0372/13	93.816	9%	3.875	02/18/03	02/15/13	\$18.0	0.8870	-----	(1.70)	4.953%	\$552	0.055240	1.768	5.85
us#TW0355/13	92.215	1%	3.625	05/15/03	05/15/13	\$18.0	0.8697	0.8737	5.64	4.942%	\$564	0.0566360	1.804	6.01
us#TW0428/13	95.629	13%	4.250	08/15/03	08/15/13	\$31.0	0.9012	0.9040	8.21	4.968%	\$592	0.0592223	1.895	6.15
us#TW042N13	95.445	7%	4.250	11/17/03	11/15/13	\$29.0	0.8983	0.9012	12.16	4.979%	\$608	0.060762	1.944	6.25
us#TW040214	93.719	5%	4.000	02/17/04	02/15/14	\$27.0	0.8806	0.8837	16.85	4.978%	\$618	0.061781	1.977	6.54
us#TW046514	98.449	10%	4.750	05/17/04	05/15/14	\$25.0	0.9233	0.9254	23.62	4.981%	\$652	0.065212	2.087	6.49
us#TW042814	95.020	9%	4.250	08/16/04	08/15/14	\$23.0	0.8901	0.8927	26.30	4.987%	\$655	0.065470	2.095	6.84
us#TW042N14	94.902	10%	4.250	11/15/04	11/15/14	\$23.0	0.8873	0.8901	32.03	4.988%	\$670	0.066961	2.143	6.92
us#TW040215	93.004	5%	4.000	02/15/05	02/15/15	\$23.0	0.8683	0.8713	35.63	4.989%	\$677	0.067740	2.168	7.23
us#TW041515	93.707	10%	4.125	05/16/05	05/15/15	\$22.0	0.8737	0.8766	39.84	4.996%	\$695	0.069509	2.224	7.28
us#TW042815	94.484	7%	4.250	08/15/05	08/15/15	\$21.0	0.8797	0.8821	44.40	4.999%	\$714	0.071372	2.284	7.50
us#TW044N15	96.219	10%	4.500	11/15/05	11/15/15	\$21.0	0.8946	0.8968	49.44	5.001%	\$736	0.073625	2.356	7.50
us#TW044216	96.266	4%	4.500	02/15/06	02/15/16	\$21.0	0.8926	0.8946	57.71	4.984%	\$752	0.075229	2.407	7.75

Dollar Amount Eligible for Delivery: \$302.0 \$302.0 \$284.0