

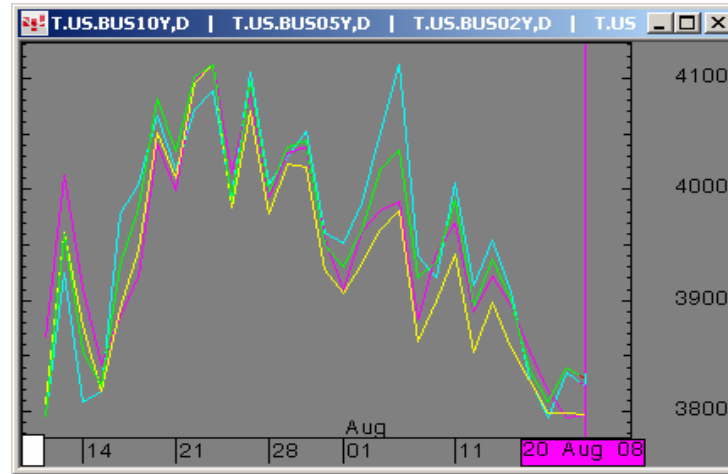


The Morning Email: Treasuries

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Daily Yield Curve



} Scale is for 10yr

Source: CQG, Inc. © 2008 All rights reserved worldwide 08/20/2008



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

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Important Econ Releases, Highs & Lows

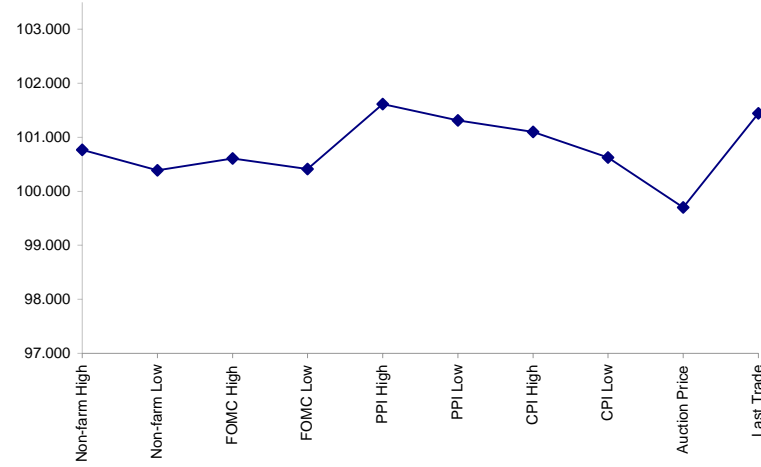
Economic Releases (32nds)

| | 5y | 10y | ZNU8 | ZBU8 | Date |
|---------------|----------|---------|---------|---------|----------------|
| Non-farm High | 100.2450 | 100.115 | 115.070 | 116.010 | 8/1/2008 |
| Non-farm Low | 100.1250 | 99.255 | 114.185 | 115.060 | 8/1/2008 |
| FOMC High | 100.1950 | 100.045 | 115.000 | 116.000 | 8/5/2008 |
| FOMC Low | 100.1325 | 99.245 | 114.200 | 115.085 | 8/5/2008 |
| PPI High | 101.1975 | 101.220 | 116.215 | 118.035 | 8/15/2008 |
| PPI Low | 101.1000 | 101.070 | 116.045 | 117.130 | 8/15/2008 |
| CPI High | 101.0325 | 101.010 | 115.305 | 117.055 | 8/14/2008 |
| CPI Low | 100.2000 | 100.090 | 115.060 | 115.310 | 8/14/2008 |
| Auction Price | 99.2252 | 99.124 | na | na | |
| Last Trade | 101.1420 | 101.125 | 116.120 | 117.225 | 8/20/2008 5:45 |

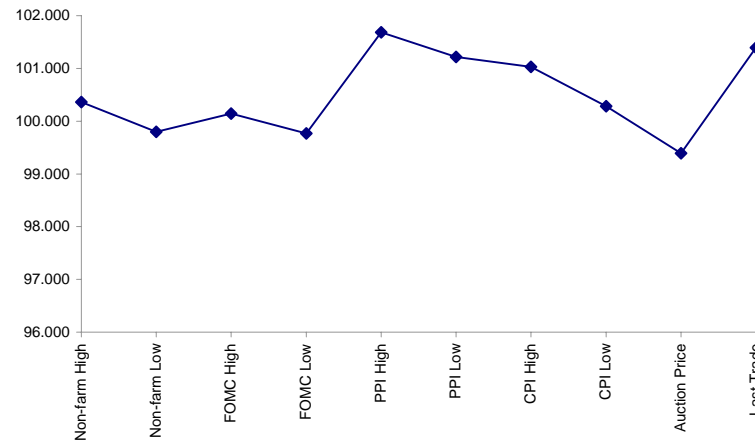
Auctions - 32nds

| | 2 y | 5y | 10y | 30y |
|---------------------|-----------|-----------|----------|----------|
| Auction Price | 99.277 | 99.225 | 99.124 | 98.074 |
| Auction Yield Stop | 2.82 | 3.44 | 4.075 | 4.609 |
| Actual Auction Date | 7/23/2008 | 7/25/2008 | 8/6/2008 | 8/7/2008 |

5y (Decimal)



10y (Decimal)



Notes:

- 1) Cash and futures are adjusted for roll.
- 2) Release times are from release to 2pm cdt
- 3) {Jun08 to Sep08 Futures roll: ZF = (-27 3/4); ZN = (-49 1/2); ZB = (-30 1/2) [tics]}

Quotes

| | | 32 nds | | | | | |
|--------|---------|---------|---------|---------|---------|--------|-----------|
| | Last | Net | High | Low | Open | Volume | Sym Name |
| TUAU8 | 106.145 | 0.012 | 106.152 | 106.117 | 106.150 | 31,225 | 2y Fut |
| FVAU8 | 112.127 | 0.022 | 112.132 | 112.062 | 112.127 | 41,745 | 5y Fut |
| TYAU8 | 116.120 | 0.035 | 116.130 | 116.030 | 116.105 | 78,368 | 10y Fut |
| USAU8 | 117.225 | 0.04 | 117.240 | 117.130 | 117.195 | 14,876 | 30y Fut |
| | Last | Net | High | Low | Open | Volume | Sym Name |
| BUS02P | 100.267 | 0.000 | 100.272 | 100.242 | 100.272 | na | 2y Cash |
| BUS05P | 101.142 | 0.007 | 101.150 | 101.080 | 101.147 | na | 5y Cash |
| BUS10P | 101.125 | 0.025 | 101.135 | 101.045 | 101.120 | na | 10y Cash |
| BUS30P | 100.195 | 0.060 | 100.210 | 100.095 | 100.170 | na | 30y Cash |
| | Last | Net | High | Low | Open | Volume | Sym Name |
| BUS02Y | 2.304 | 0.008 | 2.357 | 2.287 | 2.324 | na | 2y Yield |
| BUS05Y | 3.058 | (0.003) | 3.104 | 3.049 | 3.066 | na | 5y Yield |
| BUS10Y | 3.829 | (0.010) | 3.865 | 3.823 | 3.839 | na | 10y Yield |
| BUS30Y | 4.461 | (0.010) | 4.483 | 4.456 | 4.467 | na | 30y Yield |

Duration, DV01s, Curve Spreads, CF

| | M Duration | DV01 32 | DV01 \$ | DV01 Box | CF | |
|-----|------------|---------|---------|----------|--------|-----|
| 30y | 16.16 | 5.21 | \$1,628 | 10.42 | n/a | 30y |
| 10y | 8.18 | 2.66 | \$830 | 5.31 | n/a | 10y |
| 5y | 4.52 | 1.51 | \$471 | 6.02 | n/a | 5y |
| 2y | 1.88 | 0.61 | \$190 | 2.43 | n/a | 2y |
| ZB | 10.26 | 3.93 | \$123 | 3.93 | 0.7937 | ZB |
| ZN | 6.65 | 2.49 | \$78 | 4.98 | 0.8539 | ZN |
| ZF | 3.93 | 1.46 | \$45 | 2.91 | 0.8912 | ZF |
| ZT | 1.80 | 0.62 | \$19 | 2.46 | 0.9443 | ZT |

Yield Curve Spreads

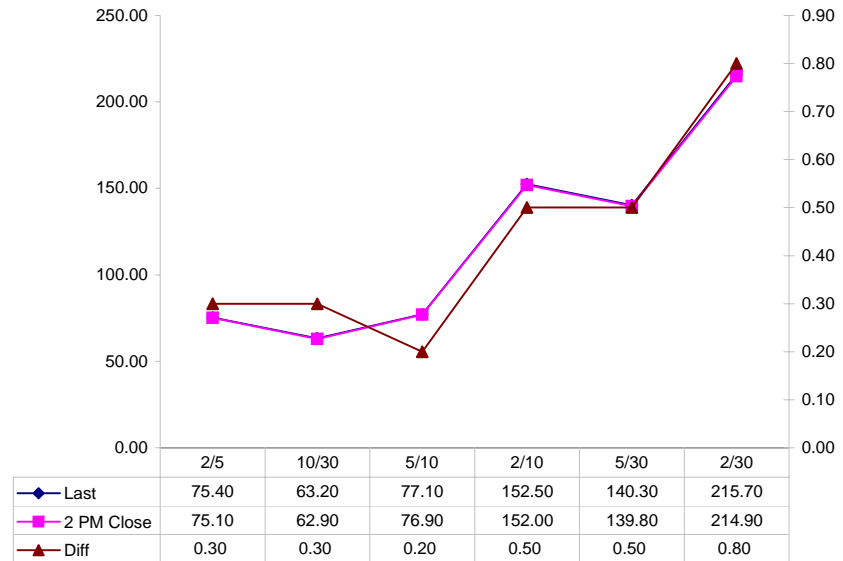
| | Last | 2pm close | Diff |
|-------|--------|-----------|------|
| 2/5 | 75.40 | 75.10 | 0.30 |
| 10/30 | 63.20 | 62.90 | 0.30 |
| 5/10 | 77.10 | 76.90 | 0.20 |
| 2/10 | 152.50 | 152.00 | 0.50 |
| 5/30 | 140.30 | 139.80 | 0.50 |
| 2/30 | 215.70 | 214.90 | 0.80 |

DV01 32, said differently, is "how many TICS are in a basis point?".

Example, If ZN moves 1-basis point, then, it's moved 2.38 tics (Today, 06/25/08, the value in the box is 2.38).

Since ZN trades in half tics, then, 4.80 boxes = 1 basis point in ZN. (Again, today, 08/07/08, the value in the box is 4.80). Of course the values will be different as you look at this. But, they won't be that much different. So, I think you can get the idea I'm trying to get across.

Curve Spreads vs 2pm close



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

US Financial Futures / Eurex Bond

| | ZB | ZN | ZF | ZT |
|------------------|-------|-------|-------|-------|
| Bund (U) | 1.033 | 1.660 | 2.770 | 3.180 |
| Bobl (U) | 0.563 | 0.948 | 1.550 | 2.000 |
| Shatz (U) | 0.248 | 0.431 | 0.599 | 0.686 |

US Financial Futures

| | ZB | ZN | ZF | ZT |
|-----------|-------|-------|-------|-------|
| ZB | | 1.594 | 2.726 | 3.226 |
| ZN | 0.627 | | 1.710 | 2.024 |
| ZF | 0.367 | 0.585 | | 1.183 |
| ZT | 0.303 | 0.482 | 0.825 | |

Eurex Bonds

| | Bund (H) | Bobl (H) | Shatz (H) |
|------------------|----------|----------|-----------|
| Bund (H) | | 1.8 | 4.6 |
| Bobl (H) | 0.6 | | 2.6 |
| Shatz (H) | 0.2 | 0.4 | |

US Treasuries v US Financial Futures

| | 2y | 5y | 10y | 30y |
|-----------|------|-------|-------|-------|
| ZB | 1.53 | 3.79 | 6.69 | 13.12 |
| ZN | 2.44 | 6.05 | 10.67 | 20.92 |
| ZF | 4.18 | 10.34 | 18.24 | 35.77 |
| ZT | 4.94 | 12.24 | 21.59 | 42.34 |

US Treasuries v Eurex Bonds

| | 2y | 5y | 10y | 30y |
|------------------|-----|------|------|------|
| Bund (U) | 1.5 | 3.7 | 6.6 | 12.8 |
| Bobl (U) | 2.8 | 6.7 | 12.0 | 23.3 |
| Shatz (U) | 7.2 | 17.1 | 30.7 | 59.7 |

US Treasuries

| | 2y | 5y | 10y | 30y |
|------------|-------|-------|-------|-------|
| 2y | | 2.477 | 4.368 | 8.566 |
| 5y | 0.388 | | 1.764 | 3.459 |
| 10y | 0.220 | 0.567 | | 1.961 |
| 30y | 0.112 | 0.289 | 0.510 | |

Note: If you are looking at a matrix with Eurex products then those ratios are pulled from Bloomberg and are static. Meaning, I only update them once in a while but always on rolls. I calculate the other matrices, with US products, everyday

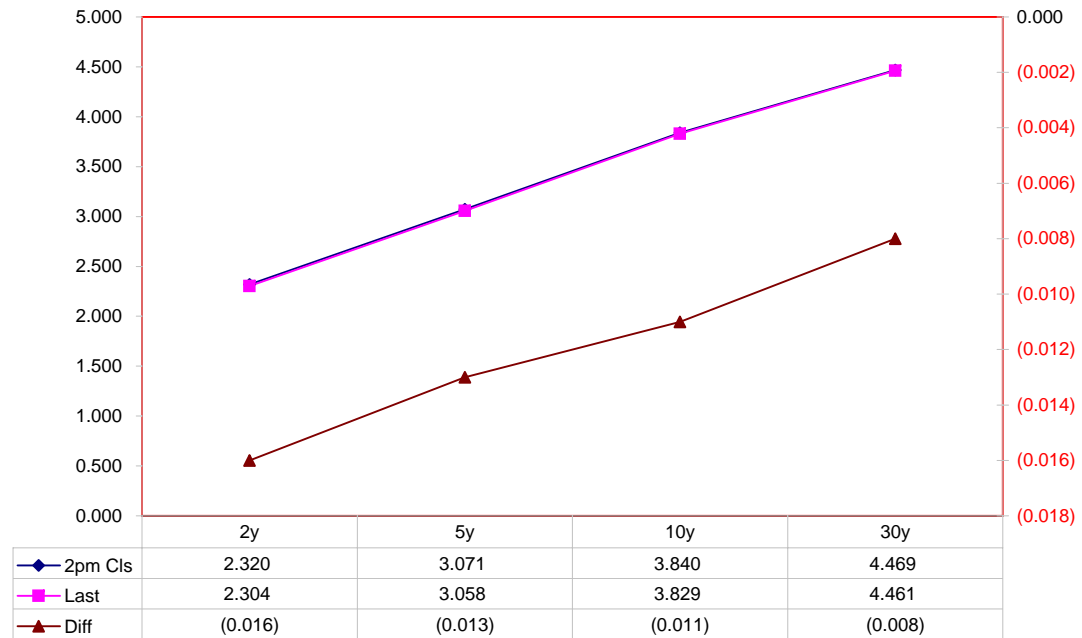
Closes: 2pm CT vs this Morning

| | Cpn | Mty | Close 32 | Close | Last | Diff | Basis | | | Close 32 | Last | |
|-----|-------|---------|----------|-------|-------|---------|--------|--------|------|----------|----------|-------|
| | | | | | | | Close | Last | Roll | | | |
| 2y | 2.750 | 7/31/10 | 100.2600 | 2.320 | 2.304 | (0.016) | 9.95 | 10.24 | | 106.1375 | 106.1450 | TUAU8 |
| 5y | 3.375 | 7/31/13 | 101.1225 | 3.071 | 3.058 | (0.013) | 40.83 | 40.82 | | 112.1050 | 112.1270 | FVAU8 |
| 10y | 4.000 | 8/15/18 | 101.100 | 3.840 | 3.829 | (0.011) | 65.07 | 64.58 | | 116.085 | 116.120 | TYAU8 |
| 30y | 4.500 | 5/15/38 | 100.160 | 4.469 | 4.461 | (0.008) | 229.70 | 230.53 | | 117.185 | 117.225 | USAU8 |

Curve Spreads

| | Close bps | Last bps |
|-------|-----------|----------|
| 2/5 | 75.1 | 75.4 |
| 5/10 | 76.9 | 77.1 |
| 10/30 | 62.9 | 63.2 |
| 2/10 | 152.0 | 152.5 |
| 5/30 | 139.8 | 140.3 |
| 2/30 | 214.9 | 215.7 |

US Treasuries Last v 2pm Close



Notes:

Basis = (Cash Decimal - (Futures Decimal * CF))*32

MDuration for Curve Spreads:

Longer duration minus shorter duration

32 = price is quoted in 32nds

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

Cash Duration Matrix

| | 2 | 5 | 10 | 30 |
|----|------|------|------|------|
| 2 | 100% | | | |
| 5 | 42% | 100% | | |
| 10 | 23% | 55% | 100% | |
| 30 | 11% | 28% | 50% | 100% |

What is this? (2):
- 2yr cash has DV01 of X\$.
- 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 x Duration]

| | 2 | 5 | 10 | 30 |
|----|-------|-------|-------|---------|
| 2 | \$190 | | | |
| 5 | \$196 | \$471 | | |
| 10 | \$191 | \$459 | \$830 | |
| 30 | \$186 | \$446 | \$807 | \$1,616 |

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.

Cash Matrix [DV01 over / (under) valued]

| | 2 | 5 | 10 | 30 |
|----|-------|------|------|----|
| 2 | | | | |
| 5 | (\$6) | | | |
| 10 | (\$1) | \$12 | | |
| 30 | \$4 | \$24 | \$22 | |

Or you can look at the over/under value as a percentage instead of dollar terms

Cash Matrix [DV01 over / (under) as %]

| | 2 | 5 | 10 | 30 |
|----|--------|-------|-------|----|
| 2 | | | | |
| 5 | -2.99% | | | |
| 10 | -0.45% | 2.62% | | |
| 30 | 2.32% | 5.48% | 2.78% | |

Tic for Tic Matrix

| | 2y | 5y | 10y | 30y |
|----|------|------|------|------|
| ZT | 0.99 | 2.45 | 4.32 | 8.41 |
| ZF | 0.42 | 1.03 | 1.82 | 3.55 |
| ZN | 0.25 | 0.63 | 1.10 | 2.15 |
| ZB | 0.15 | 0.38 | 0.68 | 1.31 |

| | 2y | 5y | 10y | 30y |
|-----|------|------|------|------|
| 2y | | 2.48 | 4.37 | 8.51 |
| 5y | 0.40 | | 1.76 | 3.43 |
| 10y | 0.23 | 0.57 | | 1.95 |
| 30y | 0.12 | 0.29 | 0.51 | |

| | ZT | ZF | ZN | ZB |
|----|------|------|------|------|
| ZT | | 2.37 | 3.91 | 6.39 |
| ZF | 0.42 | | 1.65 | 2.70 |
| ZN | 0.26 | 0.61 | | 1.63 |
| ZB | 0.16 | 0.37 | 0.61 | |

Box for Box Matrix

| | 2y | 5y | 10y | 30y |
|----|------|------|------|-------|
| ZT | 0.99 | 2.45 | 8.64 | 16.81 |
| ZF | 0.42 | 1.03 | 3.65 | 7.10 |
| ZN | 0.51 | 1.25 | 1.10 | 2.15 |
| ZB | 0.62 | 0.77 | 1.35 | 1.31 |

| | 2y | 5y | 10y | 30y |
|-----|------|------|------|------|
| 2y | | 2.48 | 2.18 | 4.25 |
| 5y | 0.40 | | 0.44 | 1.72 |
| 10y | 0.46 | 2.27 | | 1.95 |
| 30y | 0.24 | 0.58 | 0.51 | |

| | ZT | ZF | ZN | ZB |
|----|------|------|------|-------|
| ZT | | 2.37 | 7.82 | 12.79 |
| ZF | 0.42 | | 1.65 | 5.40 |
| ZN | 0.13 | 0.61 | | 1.63 |
| ZB | 0.08 | 0.19 | 0.61 | |

| | Libor\$ ¹ | Repo Rt ⁶ |
|-------|----------------------|----------------------|
| 0/N | 2.096 | #VALUE! |
| 1week | 2.379 | #VALUE! |
| 2week | 2.439 | #VALUE! |

| | Libor\$ ¹ | Tbill | CP ² |
|----|----------------------|-------|-----------------|
| 1M | 2.472 | 1.812 | 2.490 |
| 3M | 2.812 | 1.787 | 2.780 |
| 6M | 3.124 | 1.981 | 3.050 |

| | TSY | Swp | Swp Rate ⁵ | ED Pks ³ | TSY - ED Pk ⁴ |
|-----|-------|--------|-----------------------|---------------------|--------------------------|
| 2y | 2.302 | 103.00 | 3.33 | 3.793 | 1.491 |
| 5y | 3.054 | 102.75 | 4.08 | | #VALUE! |
| 10y | 3.831 | 74.50 | 4.58 | | #VALUE! |

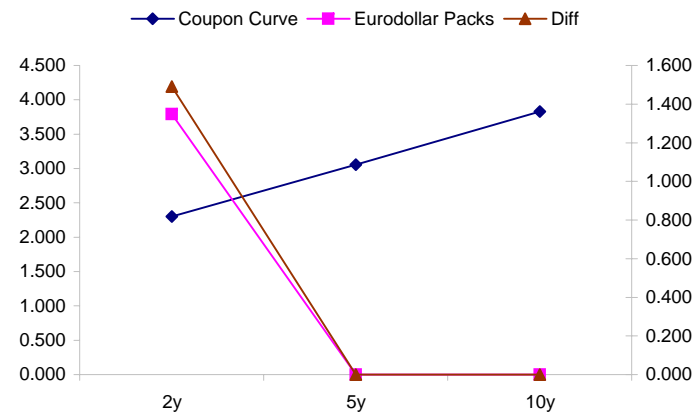
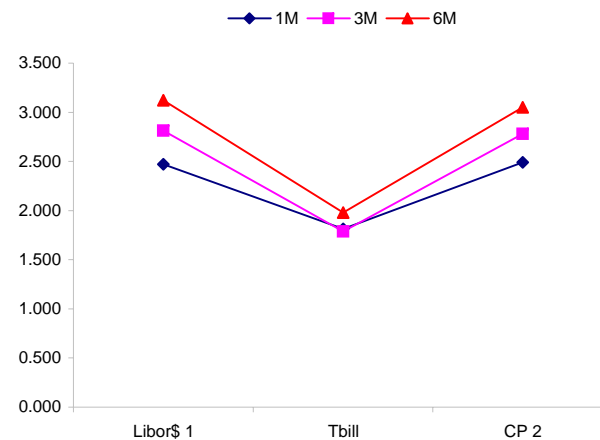
| <u>2/5</u> | <u>Rd/Blu Pk</u> | <u>Diff</u> |
|-------------|-------------------|-------------|
| 75.1 | #VALUE! | #VALUE! |
| <u>2/10</u> | <u>Rd/Gld Pk</u> | <u>Diff</u> |
| 152.9 | #VALUE! | #VALUE! |
| <u>5/10</u> | <u>Blu/Gld Pk</u> | <u>Diff</u> |
| 77.7 | #VALUE! | #VALUE! |

Red pack / Blue pack is a 2/5 proxy
 Red pack / Gold pack is a 2/10 proxy
 Blue pack / Gold pack is a 5/10 proxy

"Swap spreads are essentially a measure of the difference between buying a safe government bond and making a riskier loan to a bank"
 --WSJ

Notes:

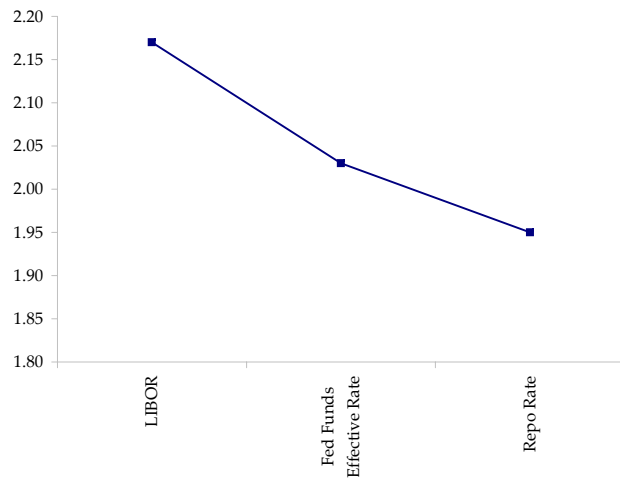
- 1) Quoted in US Dollars
- 2) CP = Commercial Paper
- 3) ED Pks are colored for pack identifications. Example, the red pack is a 2-yr proxy and is colored red.
- 4) TSY yield minus ED Pk yield
- 5) Swap divided by 100 + TSY yield gives swap rate in basis points.
- 6) Repo Rt quotes is for overnight General Collateral



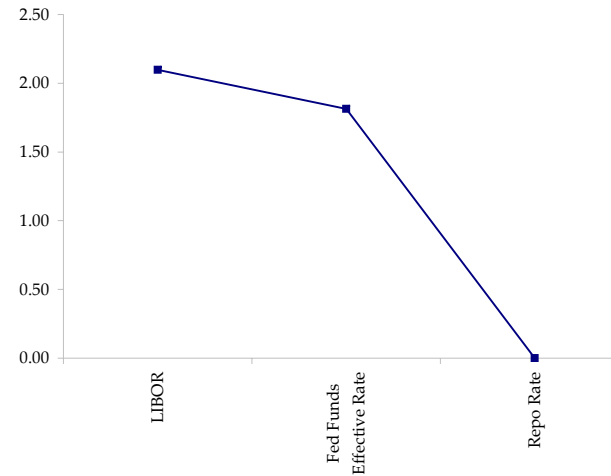
| | Last | Chng | Term | Asset Type |
|-----------|---------|----------|-----------|--------------------------|
| USDLIBON | 2.096 | (0.0725) | Overnight | LIBOR |
| TUSFFRON | 1.813 | 0.0000 | Overnight | Fed Funds Effective Rate |
| TUSRPOON | #VALUE! | #VALUE! | Overnight | Repo Rate |
| TEONIA01M | 4.296 | (0.0070) | 1 month | Euribor OIS Rate |
| TEONIA03M | 4.326 | 0.0020 | 3 month | Euribor OIS Rate |
| TSONIA01M | 5.015 | 0.0000 | 1 month | Sterling OIS Rate |
| TSONIA03M | 4.992 | (0.0020) | 3 month | Sterling OIS Rate |
| TUSOIS01M | 1.999 | 0.0010 | 1 month | USD OIS Rate |
| TUSOIS03M | 2.029 | (0.0010) | 3 month | USD OIS Rate |

Example, below

Overnight Rates -EXAMPLE



Overnight Rates



←
A 'normal' lending curve looks like the chart to the left. That is, the Libor should be a bit higher than Fed Funds Effective rate (FFER), and the FFER should be a bit higher than the Repo Rate.