



Insider Interest Rate Advisory

Friday October 07, 2005

UPCOMING ECONOMIC REPORTS

Economic Report Slate	Time (cst)	Estimate	Probable Range	
10/07 Unemployment Rate	7:30	+ .1	+ .2	unch
10/07 Non Farm Payrolls	7:30	-165,000	-200,000	-100,000
10/07 ECRI Inflation	8:40	Prior reading was 121.1		
10/07 Wholesale Trade	9:00	+ .5	+ .4	+0.5
10/07 Consumer Installment Credit	2:00	+3 bil	+500 ml	+4.5 bil
10/11 KC Fed Manufacturing Survey		n/a	n/a	n/a
10/11 FOMC Meeting Minutes Release	1:00	n/a	n/a	n/a
10/11 Weekly ICSC-UBS Chain Store S	6:45	n/a	n/a	n/a
10/11 Johnson Redbook Retail Sales	8:00	n/a	n/a	n/a
10/13 Treasury Statement	1:00	n/a	n/a	n/a
10/13 Import and Export Prices	7:30	n/a	n/a	n/a
10/13 Jobless Claims	7:30	n/a	n/a	n/a
10/13 US Trade Balance	7:30	n/a	n/a	n/a
10/13 13 AND 26 Week Bill Announcem		n/a	n/a	n/a
10/14 CPI	7:30	n/a	n/a	n/a
10/14 Real Earnings	7:30	n/a	n/a	n/a
10/14 Retail Sales	7:30	n/a	n/a	n/a
10/14 Capacity Utilization	8:15	n/a	n/a	n/a
10/14 Industrial Production	8:15	n/a	n/a	n/a
10/14 Business Inventories	9:00	n/a	n/a	n/a

BONDS COMMENTARY

10/07/05

AFTER SOME FIREWORKS TREASURY PRICES SHOULD FAIL TO HOLD GAINS

OVERNIGHT CHANGES THROUGH 4:00 AM: BONDS -4

Price action could be quite explosive today as the range of expectations for the payrolls decline has expanded and the Treasury market is seeing a growing list of disconcerting developments. Some economists think that the number of jobs lost from the series of hurricanes will "eventually" reach 400,000 and that certainly provides some support to Treasury prices. On the other hand, the Fed is falling all over itself with inflationary warnings and that would seem to hint at a possible change in the Fed's slow and deliberate rate hike pattern. So far, we haven't noted too many players in the Press suggesting that the Fed needs to "go 50 basis points" in the next meeting and with the market also being confronted with rising concerns of slowing, the current fundamental situation is simply fraught with contradictions. Since the Fed and some astute economists think that the negative impact from the storms will be temporary, it would almost seem like the inflation theme is set to have a more lasting impact on Treasury prices. However, in the near term, with Treasury prices down significantly from the September highs, the December bonds down 1 1/2 points from last weeks highs and the Notes down 1 point from last weeks highs, it would not seem like the market has priced in a weak payroll reading! Unfortunately the bull camp might not be able to fully capitalize on a soft reading this morning, as the trade will be confronted with an ECRI Inflation measure a little over 1 hour after the payrolls are released. We would also caution traders of the potential for surprisingly muted job loss in the figures, as there is the chance that the first release of these numbers will be



revised significantly next month. The government early on suggested that gathering the numbers might be difficult and that simple estimates might have to be made because of a loss of facilities and people on the ground. We think the trend in the Treasury market is decidedly lower but we also recognize that December bonds and notes could see 1 to 3 days of aggressive short covering buying in the event that the payrolls reach the whisper numbers in excess of -250,000. Traders should actually hope for a number that allows a sale at a moderately higher level, but the trick might be getting the timing right for a sale in the coming 3 days.

TODAY'S MARKET IDEAS:

Buy a November bond 114 put at 30 following the report.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

BONDS TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

BONDS (DEC) 10/07/2005: Daily stochastics are trending lower but have declined into oversold territory. The close under the 18-day moving average indicates the longer-term trend could be turning down. The market's close below the pivot swing number is a mildly negative setup. The next downside objective is 113-16. The next area of resistance is around 114-07 and 114-21, while 1st support hits today at 113-21 and below there at 113-16.

10 YR TREASURY NOTES (DEC) 10/07/2005: Momentum studies are declining, but have fallen to oversold levels. The close below the 18-day moving average is an indication the longer-term trend has turned down. It is a slightly negative indicator that the close was under the swing pivot. The next downside objective is 109-105. With a reading under 30, the 9-day RSI is approaching oversold levels. The next area of resistance is around 109-245 and 110-000, while 1st support hits today at 109-140 and below there at 109-105.

Tech Stats		10/07/2005								
Contract	Close	RSI 9 Day	RSI 14 Day	14 Day Slow Stoch D	14 Day Slow Stoch K	20 Day MA	40 Day MA	60 Day MA		
USAAZ5	BONDS	113-30	35.61	38.40	19.94	17.25	115.04	115.68	115.43	
TYAAZ5	TNOTES	109-190	28.55	34.24	12.25	10.50	110.57	110.82	110.64	
SPZ5	S&P 500	1188.50	25.60	32.18	32.05	22.78	1227.23	1228.30	1232.91	
EPZ5	SP EMINI	1196.50	25.32	31.86	32.16	22.74	1227.19	1228.29	1232.91	
NDZ5	NASDAQ	1564.50	33.91	38.35	46.23	38.44	1597.55	1596.84	1604.86	
DFZ5	DOW	10324	29.64	35.21	33.44	24.40	10539.30	10560.03	10602.33	

Daily Swings		10/07/2005				
Contract		Suprt 2	Suprt 1	Pivot	Resist 1	Resist 2
USAAZ5	BONDS	113-15	113-20	114-02	114-07	114-21
TYAAZ5	TNOTES	109-100	109-135	109-210	109-245	110-000
SPZ5	S&P 500	1171.57	1178.04	1192.47	1198.94	1213.37
EPZ5	SP EMINI	1175.18	1185.87	1196.43	1207.12	1217.68
NDZ5	NASDAQ	1527.62	1545.25	1566.12	1583.75	1604.62
DFZ5	DOW	10169	10247	10322	10400	10475

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