



The Morning Email: US & Germany

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09:27 07/31 **EGBs:** Month-end duration extension buying continues to dominate sentiment as the long-end of the EGB curve outperforms -- in turn flattening the 10/30-year yield spread by 2bps to +12bps. The month-end buying comes as the iBoxx Euro sovereign index extends by +0.16 years into August. This is an exceptionally large extension and also higher than average for this time of the year (+0.12 years).

09:40 07/31 **ECB:** The European Central Bank is on track to hike interest rates in September or October given persistent upside risks to price stability, but it is closely watching unfolding financial market turbulence, well-informed sources have told Market News International. Some sources signalled a preference for September, saying this could be quickly communicated to markets even though there is no press conference scheduled after Thursday's ECB Governing Council meeting. Others were more circumspect on the timing. The outlook for monetary policy becomes less clear after the next policy move, which would put the refinancing rate at 4.25%, the sources indicated. An increase to 4.5%, as many in the markets expect, is by no means pre-ordained. Read the full Sources story on MNI's Mainwire.

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

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The Morning Email, US&GER

Correlation Matrix

SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	(96.17)	(96.32)	(95.15)	97.07	96.88	97.50	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(94.58)	(95.31)	(94.75)	95.08	95.31	96.36	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(94.73)	(95.49)	(95.28)	94.49	94.74	95.82	DBU7	Bund(10Y)

Correlation is based on 10 day historical

Correlations for the US Cash Treasuries are done on a YIELD basis. Therefore, you'll see negative values. The reason for this is due to the new issues. Every new issue takes too long to 'catch up' because the correlation formula looks back 10days.

Quotes 1

	32 nds					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
TUAU7	102.187	3.7	102.212	102.175	102.175	63,083	349,780	2y Futures	US Futures Market
FVAU7	105.235	9.0	105.280	105.200	105.205	109,000	915,858	5y Futures	
TYAU7	107.230	9.0	107.310	107.200	107.210	253,265	1,932,371	10y Futures	
USAU7	110.110	10	110.250	110.070	110.110	50,963	571,831	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	100.080	0.7	100.105	100.077	100.077	2y	US Cash Treasury Market
BUS05P	100.120	2.2	100.170	100.105	100.105	5y	
BUS10P	98.090	2.5	98.170	98.065	98.065	10y	
BUS30P	97.215	1	98.025	97.175	97.255	30y	

	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02Y	4.489	(1.30)	4.53	4.439	4.53	2y Yield	
BUS05Y	4.537	(1.40)	4.57	4.502	4.57	5y Yield	
BUS10Y	4.716	(1.10)	4.741	4.684	4.741	10y Yield	
BUS30Y	4.897	0.00	4.909	4.868	4.903	30y Yield	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGU7	102.90	0.00	102.96	102.89	102.95	382,202	838,865	Schatz(2Y)	German Futures Markets
DLU7	107.21	(60.00)	107.41	107.16	107.40	333,811	798,535	Bobl(5Y)	
DBU7	112.96	(17.00)	113.38	112.85	113.35	788,665	1,671,303	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE044P0609	100.40	4.252	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	98.76	4.254	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.78	4.297	4.000	7/4/2016	10 yr CTD	
DEP2P	100.42	4.252	4.500	6/12/2009	2yr OTR	
DEP5P	98.80	4.284	4.000	4/13/2012	5yr OTR	
DEP10P	99.43	4.321	4.250	7/4/2017	10yr OTR	

Y = Yield
 CTD = Cheapest to Deliver
 DE = German Country Code

Quotes 2

This page provided a more detailed look at the quotes for the German Bonds
 German Bonds are quoted in decimal, not 32nds.



	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
DGU7	102.90	102.90	102.90	102.96	102.89	0.00
DLU7	107.21	107.21	107.21	107.41	107.16	-60.00
DBU7	112.95	112.96	112.96	113.38	112.85	-17.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.455	4.452	4.452	4.460	4.424
DLU7	4.365	4.364	4.365	4.375	4.320
DBU7	4.374	4.372	4.374	4.385	4.324

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.264	4.252	4.252	4.333	4.265	
T.US.DE040P0412	4.293	4.284	4.254	4.351	4.288	
T.US.DE040P0716	4.304	4.297	4.297	4.354	4.301	
DEP2P	4.264	4.252	4.252	4.298	4.235	6
DEP5P	4.293	4.284	4.284	4.303	4.240	14
DEP10P	4.327	4.321	4.321	4.341	4.276	20

SYM NAME	
Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

2 yr CTD	German Cash
5 yr CTD	
10 yr CTD	
2yr OTR	
5yr OTR	
10yr OTR	

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE044P0609	100.40	100.42	100.42	100.45	100.34	0.06
T.US.DE040P0412	98.76	98.80	98.80	98.98	98.72	14.00
T.US.DE040P0716	97.78	97.83	97.83	98.19	97.68	16.00
DEP2P	100.40	100.42	100.42	100.45	100.34	6.00
DEP5P	98.76	98.80	98.80	98.98	98.72	14.00
DEP10P	99.38	99.43	99.43	99.79	99.27	20.00

SYM NAME	
2 yr CTD	German Cash
5 yr CTD	
10 yr CTD	
2yr OTR	
5yr OTR	
10yr OTR	

Y = Yield
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 DE = German Country Code
 OTR = On the Run

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31/07/2007	15:23	EURO	chg	USA	chg	UK	chg
Futures	Bond	112.66	-0.47	109.69	0.06	105.44	-0.44
	STIR	95.51	-0.04	95.01	-0.04	93.82	-0.03
Cash	3mth	4.26	0.01	5.36	0.00	6.04	0.00
	2yr	4.30	0.05	4.60	0.01	5.55	0.09
	5yr	4.32	0.05	4.65	0.01	5.37	0.07
	10yr	4.35	0.05	4.82	0.01	5.21	0.05
	30yr	4.47	0.03	4.96	0.00	4.59	0.04
	10yr-2yr	0.05	0.00	0.22	0.01	-0.34	-0.04
Spreads	2yr	--	--	0.35	-0.04	1.33	0.04
	vs euro	--	--	0.53	-0.04	0.93	0.00
FX	USD	1.370	0.000	--	--	2.031	0.006
	EUR	--	--	--	--	0.675	-0.002
	YEN	163.51	0.08	119.32	0.02	242.29	0.71
Equities		4306.0	1.6%	1486.6	1.0%	6346.8	%

[cont]

Euribor futures were 2 ticks 4 ticks lower with the Sep-07 contract at 95.630/-0.020 (4.370% implied). Sep-07 Bunds were 47 ticks lower at 112.66. In cash, German government benchmark yields were 3bps to 5bps higher with 30s outperforming on month end buying. The 2s/10s spread was unchanged at 5bps and the 10s/30s spread was 12bps vs. 14bps.

Gilts were also trading lower with short dated Gilts underperforming. Gilts posted little reaction to UK data on Tuesday, which came in mixed. The GFK consumer confidence index declined below to below expectations whilst the CBIs distributive trades survey posted an above expected reading for total sales volume.

Short sterling futures were 2 ticks to 3 ticks lower with the Sep-07 contract at 93.880/-0.010 (6.120% implied). Jun-07 Gilts were 44 ticks lower at 105.44. In cash, UK government benchmark yields were 4bps to 9bps lower with 2s underperforming. The 2s/10s spread was -34bps vs. -30bps and the 10s/30s spread was -62bps vs. -61bps.

Euro Mkt Summary: EGBs Lower on Risk Aversion by Charanjeev Chana

European Government Bonds were trading lower on risk aversion unwinding with long dates outperforming on month end demand. Bunds posted moderate losses in afternoon trade after MNI reported ECB sources saying the ECB was on track for a September or October rate hike, adding that the euro strength was unlikely to derail an ECB hike. Moderate gains that followed weaker than expected Chicago PMI data were short lived after US consumer confidence came in well above expectations. Bonds opened lower on risk aversion unwinding, taking cue from the sell-off in US Treasuries overnight amid a lack of any further credit-related bad news.

The iTraxx cross-over index narrowed and European equity bourses staged a rebound on news that Citadel Investment had bought Sowood Capital's ailing credit portfolio. Long dated EGBs outperformed on month-end duration extension buying following an exceptionally large +0.16 years extension into August for the iBoxx Euro sovereign index.

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[All Times Eastern]

05:37 08/01 MNI U07 **BUND TECHS:** Support At 112.90
 RES 4: 113.96/98 61.8% of decline from 116.62, Res line fm 1 Dec
 RES 3: 113.62 Resistance line from 14 Mar
 RES 2: 113.53 Opening high 14 May
 RES 1: 113.34 Daily high 30 July
 LAST PRICE: 113.02
 SUP 1: 112.90 5-day moving average
 SUP 2: 112.53 Daily low 31 July
 SUP 3: 112.28 Support line from 13 July
 SUP 4: 111.78 Daily low 23 July

COMMENTARY: Sept Bunds have filled the downside gap to 113.14, but so far holding above the 5-day moving average at 112.90. Whilst both the hourly & daily studies are turning lower from overbought territory, the m/t outlook remains constructive for gains to 5 1/2 month and 9-month resistance lines at 113.62 and 113.98, respectively.

03:01 08/01 **BONDS: EGBs** are opening sharply higher, amid continued risk aversion buying as contagion spreads in the subprime and credit markets. The latest move comes after Macquarie Bank said investors in two of its high-yield funds may lose as much as 25% of investments, amid contagion in the US subprime market. In addition, Bear Stearns, which has already forced to shut two hedge funds that bet heavily on the subprime-mortgage market, has halted redemption from a third fund -- Bear Stearns Asset-Backed Securities Fund -- which has roughly \$900mln in mortgage investments. Also pressuring stocks lower were comments from Jeremy Grantham -- legendary investor, and known for his bearish views -- said that credit-market declines may force as many as half of all hedge funds to close in the next 5 years. The loss of investors' appetite for risk also may cause at least one global bank and "one or two" of the largest private-equity firms to go bust. Attention turns to plethora of manufacturing PMI, US ISM data & quarterly refunding announcement.

(continued)

02:00 08/01 **JAPAN STOCKS:** Nikkei approaches the close down 2.27% and significantly under 17k, which has been breached for the first time in 4 months.

02:21 08/01 **JGB SUMMARY:** JGBs marched higher in Tokyo trade, driven by flight-to-quality demand as Japanese stocks lost over 2%. After a fairly quiet morning session, JGBs came under pressure as Asian equities markets came under further pressure, pushing the Nikkei-225 index of Japanese stocks below 17,000 for the first time in four months to close down 377.81 points or 2.19% at 16,870.98. Morning trade had seen the Nikkei lose around 1%, although traders said the bid had been contained by the prospect of Thursday's auction of new 10-year bonds. The benchmark 10-year yield was 4 bps lower at 1.760%.

02:02 08/01 **FX (European Open):** European trade opens with the global sell-off in equity markets hitting carry trades hard. Dollar-yen has slipped to three-month lows as large stops were triggered through Y118.00, with euro-yen dipping back under Y161.00 and approaching Monday's base around Y160.70. Euro-dollar is heavy on the back of the euro-yen sell-off, though Monday's low a \$1.3610 remains unscathed, whilst strong sterling-yen sales have knocked cable 90 points off its Asian highs to a \$2.0219 low at time of writing. Aussie and kiwi are also soft, both losing over 1% on the day versus the dollar thanks to general risk aversion. Ahead this morning, scheduled data in the Eurozone includes manufacturing PMI data with the national data leading up to the Eurozone release at 0800GMT, which is expected to remain around 54.8, still indicative of reasonably healthy output growth in the industrial sector. The UK CIPS manufacturing PMI is expected to slip back to 54.0 at 0830GMT.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.28	4.89	\$1,527	€ 2,086
10y	7.75	2.46	\$769	€ 1,050
5y	4.42	1.42	\$443	€ 606
2y	1.89	0.61	\$189	€ 258
ZB	9.66	3.47	\$108	€ 148
ZN	5.70	1.99	\$62	€ 85
ZF	3.86	1.31	\$41	€ 56
ZT	1.80	1.18	\$37	€ 50

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.32	€ 233	\$170	0.842561
Bobl	4.14	€ 118	\$86	0.959013
Schatz	1.74	€ 49	\$36	0.975468
DE10Y	7.92	€ 1,079	\$790	
DE5Y	4.14	€ 566	\$414	
DE2Y	1.74	€ 240	\$176	

^Futures are Based on CTD

Last

EURUSD 136.61

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	8.96	17.68	42.33
10y	4.51	8.90	21.31
5y	2.60	5.13	12.29
2y	1.11	2.19	5.24
ZB	0.64	1.25	3.00
ZN	0.36	1.34	1.72
ZF	0.24	0.47	1.13
ZT	0.22	0.43	1.02

Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

3) MDuration & DV01s for Futures are based on proxy issue (CTD)

US Financial Futures / Eurex Bond

	ZN	ZF	ZT
Bund (U)	1.800	2.700	2.900
Bobl (U)	1.000	1.500	1.600
Shatz (U)	0.400	0.600	0.665

Bloomberg
Ratio's

US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (U)	1.6	3.9	6.7
Bobl (U)	3.0	7.0	12.1
Shatz (U)	7.3	17.1	29.4

Bloomberg
Ratio's

Bund (U) Bobl (U) Shatz (U)

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.00	1.91	4.49
Bobl (U)	0.58	1.00	2.35
Shatz (U)	0.24	0.42	1.00

GH Trader's
Ratio's

Note:

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. All matrixes are labeled GH Trader's or Bloomberg.

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	4.493	4.489	4.489
US5y	4.540	4.537	4.537
US10y	4.721	4.716	4.716

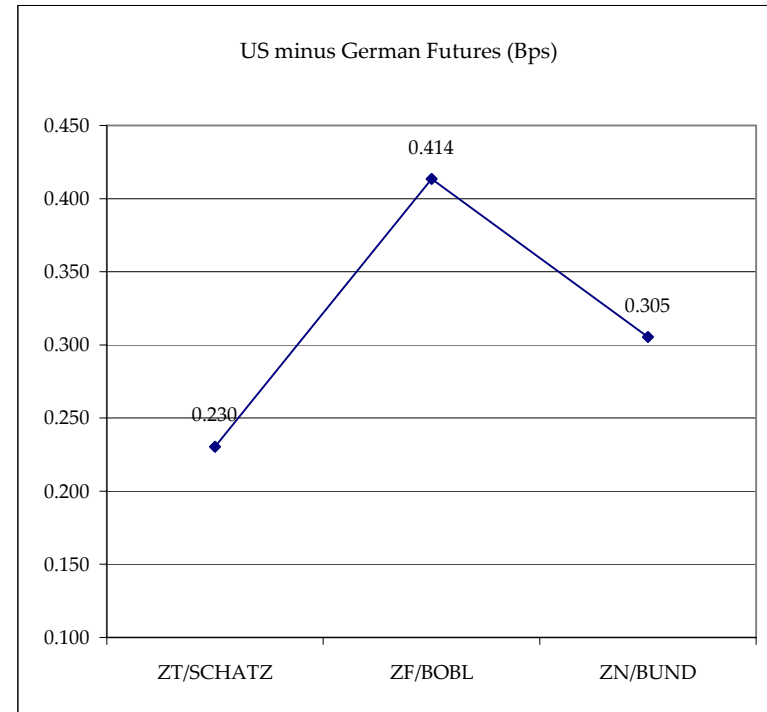
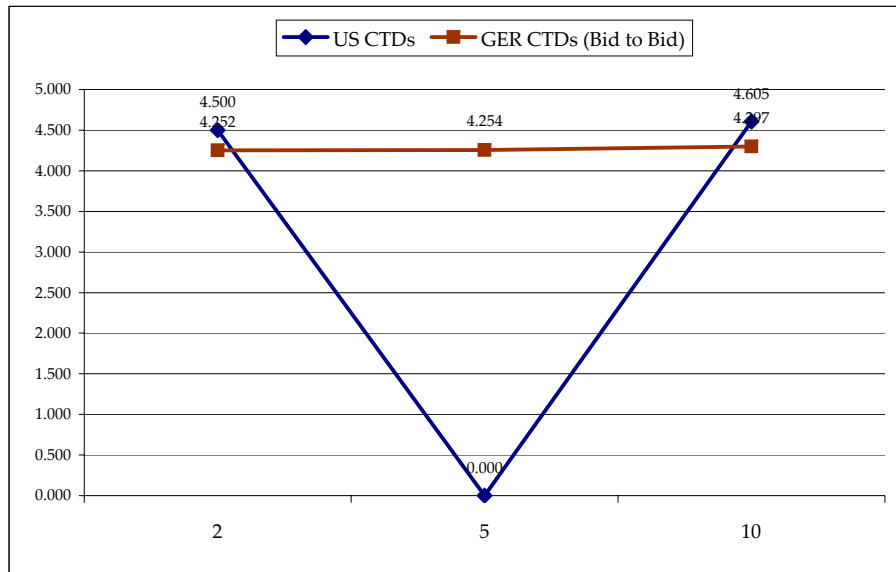
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.264	4.252	4.252
DE5y	4.293	4.284	4.284
DE10y	4.327	4.321	4.321

Spreads	
	Bps
ZT/SCHATZ	0.230
ZF/BOBL	0.414
ZN/BUND	0.305

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.500	4.483	4.483
4.500 of 11/11			4.668
4.750 of 05/14	4.605	4.603	4.603

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.264	4.252	4.252
4.000 of 04/12	4.293	4.284	4.254
4.000 of 07/16	4.304	4.297	4.297

This chart shows the US futures, ZT, ZF, and ZN as a yield compared to the German Futures, the Schatz (2yr), Bobl (5yr), and Bund (10yr). Cheapest to Deliver (CTD) are used as proxies for the yields.



When does the volume trade? Between what ours of the day? These are the two questions most frequently asked, by new traders to this contract. Of course number releases pertaining to the German economy will produce volume. Past that we can look at a chart of the Bund as determine when volume occurs.

Time	Volume	Volume
	Rises	Drops
1:00 AM CST	x	
7:00 AM CST	x	
10:00 AM CST		x
11:00 AM CST		x
German Econ Release	x	
US Econ Release	x	

Bond Market Characteristics

From The Treasury Bond Basis Book 3rd Edition, by Galen Burghardt

Accrued Interest	Germany	Japan	UK
Coupon (date)	Annual	semi (20th)	semi
Ex-dividend (days)	no	no	yes (7)
Accrual basis	actual	actual	actual
Year Basis	actual	365	actual

Settlement time frame

Domestic	T+2	T+3	T+3
International	T+3	na	na

Trading Basis

Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

Repo

Accrual basis	actual	actual	actual
Year basis	360	0	365

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international

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about the ECB

09:40 07/31 **ECB:** The European Central Bank is on track to hike interest rates in September or October given persistent upside risks to price stability, but it is closely watching unfolding financial market turbulence, well-informed sources have told Market News International. Some sources signalled a preference for September, saying this could be quickly communicated to markets even though there is no press conference scheduled after Thursday's ECB Governing Council meeting. Others were more circumspect on the timing. The outlook for monetary policy becomes less clear after the next policy move, which would put the refinancing rate at 4.25%, the sources indicated. An increase to 4.5%, as many in the markets expect, is by no means pre-ordained. Read the full Sources story on MNI's Mainwire.

Most Recent MPC Meetings:

	King (Gov)	Lomax (Dep Gov)	Gieve (Dep Gov)	Bean	Tucker	Barker	Blanch- flower	Besley	Sent- ance	Result	Level	Vote	Dis- sent bias
Jul-06	unch	unch	unch	unch	unch	unch	unch	unch	unch	unch	4.50%	7-0	none
Aug-06	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	unch	unch	unch	+25bps	4.75%	6-1	no chg
Sep-06	unch	unch	unch	unch	unch	unch	unch	unch	unch	unch	4.75%	8-0	none
Oct-06	unch	unch	unch	unch	unch	unch	unch	+25bps	+25bps	unch	4.75%	7-2	tightening
Nov-06	+25bps	unch	+25bps	+25bps	+25bps	+25bps	unch	+25bps	+25bps	+25bps	5.00%	7-2	no chg
Dec-06	unch	unch	unch	unch	unch	unch	unch	unch	unch	unch	5.00%	9-0	none
Jan-07	+25bps	unch	+25bps	unch	unch	+25bps	unch	+25bps	+25bps	+25bps	5.25%	5-4	no chg
Feb-07	unch	unch	unch	unch	unch	unch	unch	+25bps	+25bps	unch	5.25%	7-2	tightening
Mar-07	unch	unch	unch	unch	unch	unch	-25bps	unch	unch	unch	5.25%	8-1	easing
Apr-07	unch	unch	unch	unch	unch	unch	unch	+25bps	+25bps	unch	5.25%	7-2	tightening
May-07	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	5.50%	9-0	none
Jun-07	+25bps	unch	+25bps	unch	unch	unch	unch	+25bps	+25bps	unch	5.50%	5-4	tightening
Jul-07	+25bps	unch	+25bps	unch	+25bps	+25bps	unch	+25bps	+25bps	+25bps	5.75%	6-3	no chg

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**BOE Hawkometer – MPC Confirmed to be Split 6-3 Over July Rate Hike
by Niraj Shah**

-- Stone & McCarthy (London) --

6-3 Split

The Bank of England minutes showed that the MPC had been split 6-3 over the July rate hike to 5.75% after Lomax, Blanchflower and Bean had all voted against monetary tightening. Critically, divisions on the MPC appear to be widening, with some clear differences of opinion within both the doves and the hawks camp. This then reduces the likelihood of another imminent interest rate hike. However, given that the MPC did not have access to the stronger than expected June inflation data, another rate hike before the end of the year can not be ruled out.

Our Hawkometer shows that Deputy Governor Lomax has now moved into dovish territory for the very first time after voting against the July rate hike.

BOE HAWKOMETER		(to July 2007 meeting)				
		Dissenting Hawkish Votes	Dissenting Dovish Votes	Non- Dissenting Votes	Total Votes	Hawkishness Rating
	Sentance	4	0	6	10	40%
	Besley	4	0	7	11	36%
	King (Gov)	14	0	109	123	11%
	Tucker	6	1	55	62	8%
	Gieve (Dep Gov)	1	0	17	18	6%
	Lomax (Dep Gov)	2	3	44	49	-2%
	Barker	1	4	70	75	-4%
	Bean	0	5	78	83	-6%
	Blanchflower	0	5	9	14	-36%