8/6/2007 6:03

The Morning Email: US & Germany

Table of Contents

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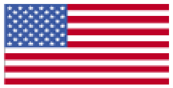
Correlation Matrix

		US Cash Treasuries			US Bonds/Notes (CBOT)				
SYM NAME	Symbol	2yr	5yr	10yr	ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGU7	(84.52)	(84.07)	(78.89)	90.60	86.68	83.63	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(87.53)	(87.01)	(82.29)	91.22	87.93	85.02	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(89.02)	(88.75)	(84.78)	89.90	86.75	83.81	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								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
TUAU7	102.192	0.2	102.235	102.185	102.217	70,208	368,663	2y Futures	US Futures Market
FVAU7	105.270	2.5	106.010	105.265	105.305	108,491	748,315	5y Futures	
TYAU7	107.295	1.5	108.045	107.290	108.010	180,674	1,687,579	10y Futures	
USAU7	110.160	(3)	110.280	110.140	110.240	44,710	416,467	30y Futures	

	Last	Net	Hi	Low	Open	Volume	
BUS02P	100.117	(1.2)	100.157	100.110	100.130	2y	US Cash Treasury Market
BUS05P	100.180	(2.0)	100.242	100.175	100.210	5y	
BUS10P	98.155	(4.5)	98.230	98.145	98.200	10y	
BUS30P	98.010	(8)	98.070	97.305	98.050	30y	
	Last	Net	Hi	Low	Open	Volume	
BUS02Y	4.425	2.00	4.45	4.351	4.442	2y Yield	
BUS05Y	4.493	1.60	4.503	4.449	4.487	5y Yield	
BUS10Y	4.694	2.20	4.7	4.642	4.684	10y Yield	
BUS30Y	4.875	1.60	4.889	4.859	4.863	30y Yield	

	Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	102.89	(30.00)	102.94	102.87	102.93	230,151	587,552	Schatz(2Y)	German Futures Markets
DLU7	107.22	(85.00)	107.38	107.17	107.32	227,002	491,996	Bobl(5Y)	
DBU7	112.93	(21.00)	113.22	112.86	113.13	392,062	1,148,604	Bund(10Y)	

	Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME	
T.US.DE044P0609	100.39	4.257	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	98.76	4.279	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.74	4.303	4.000	7/4/2016	10 yr CTD	
DEP2P	100.41	4.257	4.500	6/12/2009	2yr OTR	
DEP5P	98.80	4.284	4.000	4/13/2012	5yr OTR	
DEP10P	99.44	4.320	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						SYM NAME	
	Bid	Ask	Last	Hi	Low	Chng		
DGU7	102.88	102.89	102.89	102.94	102.87	-30.00	Schatz(2Y)	German Futures
DLU7	107.21	107.22	107.22	107.38	107.17	-85.00	Bobl(5Y)	German Futures
DBU7	112.92	112.93	112.93	113.22	112.86	-21.00	Bund(10Y)	German Futures

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo		
DGU7	4.463	4.460	4.460	4.471	4.434	Schatz(2Y)	German Futures
DLU7	4.364	4.363	4.363	4.373	4.328	Bobl(5Y)	German Futures
DBU7	4.377	4.376	4.376	4.384	4.342	Bund(10Y)	German Futures

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE044P0609	4.268	4.257	4.257	4.337	4.257		2 yr CTD	German Cash
T.US.DE040P0412	4.294	4.284	4.279	4.354	4.274		5 yr CTD	German Cash
T.US.DE040P0716	4.310	4.303	4.303	4.359	4.283		10 yr CTD	German Cash
DEP2P	4.268	4.257	4.257	4.280	4.228	2	2yr OTR	German Cash
DEP5P	4.294	4.284	4.284	4.304	4.245	0	5yr OTR	German Cash
DEP10P	4.326	4.320	4.320	4.336	4.286	-7	10yr OTR	German Cash

	Decimal						SYM NAME	
	Bid	Ask	Last	Hi	Low	Chng		
T.US.DE044P0609	100.39	100.41	100.41	100.46	100.37	0.02	2 yr CTD	German Cash
T.US.DE040P0412	98.76	98.80	98.80	98.96	98.72	0.00	5 yr CTD	German Cash
T.US.DE040P0716	97.74	97.79	97.79	98.06	97.67	-7.00	10 yr CTD	German Cash
DEP2P	100.39	100.41	100.41	100.46	100.37	2.00	2yr OTR	German Cash
DEP5P	98.76	98.80	98.80	98.96	98.72	0.00	5yr OTR	German Cash
DEP10P	99.39	99.44	99.44	99.71	99.31	-7.00	10yr OTR	German Cash

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

OTR = On the Run

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Euro Mkt Summary:EGBs Mixed, S/Dates Outperform on Risk Aversion
by Charanjeev Chana

[cont]

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MarketNews international

[All Times Eastern]

06:47 08/06 **EUROZONE**: Data released in the eurozone monday,
** GERMANY: Real, seasonally adjusted manufacturing orders were far better than expected in June at +4.6% m/m, mainly on demand in the rest of the eurozone for investment goods, the Economics and Labor Ministry said Monday.
** ITALY: June SA industrial output fell 0.5% m/m on a drop in capital, consumer and energy goods' output, after a m/m rise of 0.8% in May and a decline of 0.6% April.
- June workday adj. y/y output fell 0.1% y/y after a rise of 0.9% in May (there were 21 working days in June this year, the same number as in June 2006).

06:43 08/06 **EUROZONE**: Reported comments from eurozone officials Monday,
** ECB CONSTANCIO: Oil prices rather than wages pose the greatest risk to eurozone price stability, according to European Central Bank Governing Council member Vitor Manuel Ribeiro Constancio. "Until now the behavior of wages in the eurozone has been moderate," the head of the Portuguese central bank said in an interview with the Diario Economico published Monday.

02:43 08/06 **JGB SUMMARY**: Japanese government bonds sharply higher across the board Monday, boosted by pre-weekend US Treasury strength, weaker stocks and a stronger yen. Prices were higher from the getgo, boosted by sharp US yield falls Friday, and JGBs extended gains as the Nikkei 225 recorded early losses of nearly 300 points. Across the curve, yields fell to the lowest levels since late May, before a strong Nikkei rally prompted a bout of JGB profit-taking that saw yields end off their best levels. Late economic data showed the leading indicator index bouncing back solidly in June, but the news had limited impact on bond prices. Looking ahead, Tuesday sees a Ministry of Finance auction of 10-year CPI-linked bonds and Thursday sees the sale of Y2 trillion 5-year JGBs.
-- Benchmark 10-year yield was 4 bps lower at 1.740%.
-- Benchmark 5-year yield was 3.5 bps lower at 1.3125%.
-- Benchmark 30-year yield was 3 bps lower at 2.400%.
-- Lead June JGB futures contract was 0.35 higher at 133.77.

(continued)

06:31 08/06 **GILT SUMMARY**: Gilts are also mixed, with the short-dateed issues outperforming, in turn steepening the Gilt yield curve. Gilts paid little attention to UK industrial production and manufacturing output data, which came in as expected. UK manufacturing output rose for the 4th consecutive month in June, with the rise in the 3 months to June standing at 0.7%, the highest since August 2006. The increase was in-line with the median forecast. The wider measure of industrial production also came in as expected taking growth in the 3 months to June to 0.6% the highest since March 2006. NS said that the outturn was in line with the estimate used in compiling the preliminary GDP report which means this dataset should not prompt any revisions to the GDP estimate of 0.8% on the quarter. Overall the 0.6% production increase in Q2 adds around 0.1 percentage point to Q2 GDP. Overall, the data should not alter the debate on interest rates with markets waiting for the crucial BOE Inflation Report on Wednesday.

06:28 08/06 **BUND SUMMARY:** Bunds opened higher, taking their direction from gains in US Treasuries towards the Chicago close after a sharp decline on Wall Street stocks. The move came after Standard & Poor's ratings agency cut the outlook on Bear's credit rating to negative from stable, following the meltdown of two of its hedge funds. In addition, in a conference call to address the ratings change Chief Financial Officer Sam Molinaro told investors that the credit market is about as bad as he has seen it in 22-years. Since then, then Bear Stearns Co-President and Co-Chief Operating Officer Warren Spector resigned on Sunday. The short-dated issues also outperformed on back of euro-dollar strength, which hit 10-day highs at $1.3839. However, prices reversed lower on profit-taking and unwinding of safe-haven trades as European equity bourses recovered off their worst levels. Sept Bunds extended declines following release of stronger than expected German manufacturing orders data at +4.6% m/m in June -- highest monthly gain since Dec 2004.

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.29	4.91	$1,534	€ 2,116
10y	7.73	2.46	$770	€ 1,062
5y	4.40	1.42	$443	€ 612
2y	1.87	0.60	$188	€ 260
ZB	9.65	3.46	$108	€ 149
ZN	5.68	1.99	$62	€ 86
ZF	3.85	1.32	$41	€ 57
ZT	1.79	1.18	$37	€ 51

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.31	€ 235	$170	0.842561
Bobl	4.13	€ 119	$86	0.959013
Schatz	1.73	€ 49	$36	0.975468
DE10Y	7.91	€ 1,089	$789	
DE5Y	4.13	€ 570	$413	
DE2Y	1.73	€ 241	$175	

^Futures are Based on CTD

	Last
EURUSD	137.97

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	9.01	17.81	42.84
10y	4.52	8.94	21.49
5y	2.61	5.15	12.38
2y	1.11	2.18	5.25
ZB	0.64	1.26	3.02
ZN	0.37	1.34	1.73
ZF	0.24	0.48	1.15
ZT	0.22	0.43	1.03

Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

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

Hedge Ratio's - Bloomberg/GH Trader's LLC

US Financial Futures / Eurex Bond

Bloomberg Ratio's

	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

US Treasuries v Eurex Bonds

Bloomberg Ratio's

	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

GH Trader's Ratio's

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.00	1.91	4.52
Bobl (U)	0.58	1.00	2.36
Shatz (U)	0.24	0.42	1.00

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.

Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	4.430	4.425	4.425
US5y	4.500	4.493	4.493
US10y	4.694	4.692	4.694

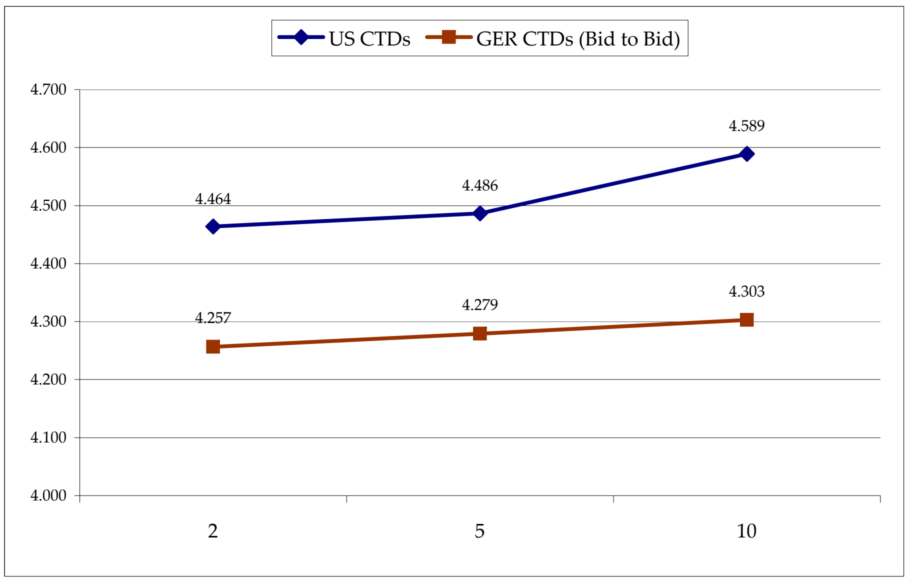
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.268	4.257	4.257
DE5y	4.294	4.284	4.284
DE10y	4.326	4.320	4.320

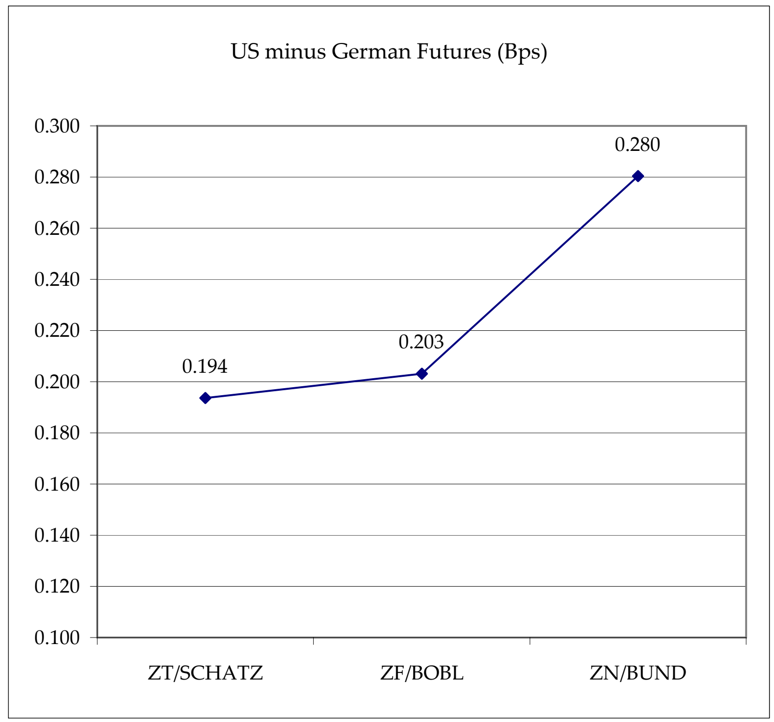
	Spreads
	Bps
ZT/SCHATZ	0.194
ZF/BOBL	0.203
ZN/BUND	0.280

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
4.000 of 06/09	4.464	4.450	4.450
4.500 of 11/11	4.486	4.482	4.482
4.750 of 05/14	4.589	4.583	4.583

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.268	4.257	4.257
4.000 of 04/12	4.294	4.284	4.279
4.000 of 07/16	4.310	4.303	4.303

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.





Volume Questions & Global Bond Market Characteristics

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 Rises	Volume 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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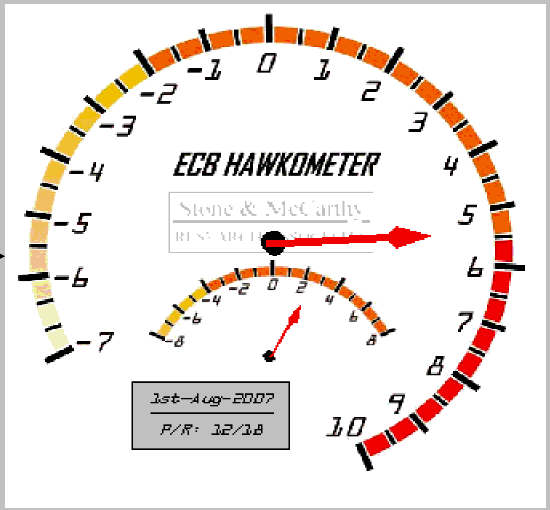

09:40 **07/31 ECB:** The European Central Bank is on track to hike interest rates in September or October given persistent upside risks to price stability, but it is closely watching unfolding financial market turbulence, well-informed sources have told Market News International. Some sources signalled 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.

08/01/2007
ECB Hawkometer: Growing Internal Debate
by Charanjeev Chana
ECB officials were less hawkish in July compared to June according to the latest results of the SMR ECB Hawkometer. The primary reading moderated to 5.41 in the period July 5th to August 1st from 6.23 in the period June 7th to July 4th. The secondary measure, which takes into account the number of references to upside risks to inflation/price stability, moderated only slightly to 2.33 in July from 2.38 in June, as officials continued to cite increasing inflation risks. Our readings are based on comments made by 12 out of the 19 members of the ECB Executive Board and Governing Council that spoke in July/August.

GO to next page to learn more about the ECB

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	4.50%	7-0	none
Aug-06	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	unch			+25bps	4.75%	6-1	no chg
Sep-06	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%