



The Morning Email: US & Germany



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Trichet comments, 08/03/2007

- will take rate decisions in real time on basis of facts available at the time
- used strong vigilance because sees certain number of risks seen on price stability
- ecb policy is certainly good for sustained growth and for jobs
- euro-zone economy has brakes to growth, structural faults
- on potential growth rate...euro-zone can do better; ecb required to fight inflation by eu law, euro-zone --citizens want this too
- price stability is the means to have sustained growth
- inflation is like a drug which gives immediate satisfaction, but costs dearly
- have seen nervousness in markets which can be seen as reappreciation of risks
- some risks underestimated by markets
- seeing normalization in markets, but not being complacent
- notes with a lot of interest US authorities said strong dollar in us interest
- notes that japan said markets should take into account japanese economy doing better

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

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The Morning Email, US&GER

MarketNews
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Correlation Matrix

SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	(69.57)	(72.40)	(62.89)	85.20	76.36	69.44	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(72.81)	(75.84)	(66.75)	84.51	76.60	69.86	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(74.80)	(78.69)	(70.49)	82.27	74.48	67.73	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	102.145	(1.5)	102.162	102.145	102.150	23,382	280,743	2y Futures	US Futures Market
FVAU7	105.165	(3.5)	105.200	105.165	105.175	27,948	606,562	5y Futures	
TYAU7	107.170	(4.5)	107.220	107.170	107.190	89,052	1,202,817	10y Futures	
USAU7	110.000	(6)	110.080	109.300	110.050	21,629	349,523	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	100.067	(0.5)	100.077	100.067	100.072	2y	US Cash Treasury Market
BUS05P	100.070	(1.0)	100.097	100.070	100.087	5y	
BUS10P	98.010	(4.5)	98.070	98.010	98.060	10y	
BUS30P	97.080	(10)	97.205	97.090	97.175	30y	

	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02Y	4.504	2.90	4.525	4.483	4.525	2y Yield	US Cash Treasury Market
BUS05Y	4.574	0.90	4.579	4.551	4.577	5y Yield	
BUS10Y	4.749	1.60	4.758	4.725	4.743	10y Yield	
BUS30Y	4.925	1.90	4.929	4.897	4.912	30y Yield	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGU7	102.81	(5.00)	102.85	102.80	102.85	198,577	377,342	Schatz(2Y)	German Futures Markets
DLU7	107.05	5.00	107.10	107.00	107.08	203,030	446,583	Bobl(5Y)	
DBU7	112.67	0.00	112.76	112.58	112.71	327,603	777,260	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE044P0609	100.33	4.291	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	98.60	4.279	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.53	4.332	4.000	7/4/2016	10 yr CTD	
DEP2P	100.35	4.291	4.500	6/12/2009	2yr OTR	
DEP5P	98.64	4.323	4.000	4/13/2012	5yr OTR	
DEP10P	99.18	4.353	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	102.81	102.82	102.81	102.85	102.80	-5.00
DLU7	107.05	107.05	107.05	107.10	107.00	5.00
DBU7	112.66	112.67	112.67	112.76	112.58	0.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.499	4.497	4.497	4.507	4.481
DLU7	4.400	4.399	4.400	4.409	4.388
DBU7	4.407	4.406	4.407	4.417	4.396

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.302	4.291	4.291	4.280	4.228	
T.US.DE040P0412	4.333	4.323	4.279	4.304	4.245	
T.US.DE040P0716	4.339	4.332	4.332	4.320	4.265	
DEP2P	4.302	4.291	4.291	4.308	4.279	-5
DEP5P	4.333	4.323	4.323	4.342	4.311	-14
DEP10P	4.359	4.353	4.353	4.370	4.341	-25

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	100.33	100.35	100.35	100.37	100.32	-0.05
T.US.DE040P0412	98.60	98.64	98.64	98.69	98.56	-14.00
T.US.DE040P0716	97.53	97.58	97.58	97.65	97.44	-22.00
DEP2P	100.33	100.35	100.35	100.37	100.32	-5.00
DEP5P	98.60	98.64	98.64	98.69	98.56	-14.00
DEP10P	99.13	99.18	99.18	99.27	99.04	-25.00

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

Y = Yield
 CTD = Cheapest to Deliver
 DE = German Country Code
 OTR = On the Run

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21/03/06	15:39	EURO	chg	USA	chg	UK	chg
Futures	Bond	117.93	-0.13	110.81	-0.47	111.97	-0.15
	STIR	96.99	-0.01	94.89	-0.05	95.38	-0.01
Cash	3mth	2.73	0.01	4.94	0.00	4.59	0.00
	2yr	3.20	0.01	4.71	0.06	4.41	0.02
	5yr	3.46	0.02	4.67	0.06	4.42	0.03
	10yr	3.67	0.01	4.70	0.04	4.35	0.02
	30yr	3.89	0.00	4.73	0.03	4.07	0.00
	10yr-2yr	0.47	0.00	-0.01	-0.02	-0.06	0.00
Spreads	2yr	--	--	1.57	0.05	1.26	0.01
	vs euro	--	--	1.09	0.03	0.73	0.00
FX	USD	1.211	-0.006	--	--	1.748	-0.008
	EUR	--	--	--	--	0.693	0.000
	YEN	141.43	-0.15	116.84	0.45	204.20	-0.24
Equities		3826.1	-0.4%	1303.5	-0.1%	5973.0	-0.3%

[cont]

Gilts were also mixed, with the short-dated issues outperforming, in turn steepening the Gilt yield curve. Gilts paid little attention to UK industrial production and manufacturing output data, which came in line with expectations after UK manufacturing output rose for the 4th consecutive month in June. Markets now await the release of the crucial BOE Inflation Report on Wednesday for indications as to whether UK interest rates are set to rise to 6% before the year-end.

Euro Mkt Summary: EGBs Mixed On German Data by Niraj Shah

EGBs were mixed in afternoon trading after being weighed by a rebound in European equity markets following a surge in German factory orders for June. However, short-dated issues outperformed with the strength in the euro-dollar strength providing some support. EGBs had opened higher, taking their direction from gains in U.S. Treasuries towards the Chicago close after a sharp decline on Wall Street stocks.

However, prices reversed lower on profit-taking and unwinding of safe-haven trades as European equity bourses recovered off their worst levels. Ultimately, volumes were low as most players remain sidelined ahead of the FOMC meeting on Tuesday, where markets expect the Federal Reserve to leave its key Fed Funds rate unchanged at 5.25% for the ninth consecutive meeting. Ahead of this, the European session sees the release of German IP data on Tuesday.

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[All Times Eastern]

05:20 08/07 MNI **U07 BUND TECHS**: Break Below 112.37 Opens Up Deeper Wounds
 RES 4: 113.53 Opening high 14 May,
 RES 3: 113.34/38 Daily highs 30 July, 1 August
 RES 2: 113.22 Daily high 6 Aug
 RES 1: 112.78 5-day moving average
 LAST PRICE: 112.67
 SUP 1: 112.57 100-day moving average
 SUP 2: 112.37 Low 2 August
 SUP 3: 111.96 38.2% of 113.38 to 109.66
 SUP 4: 111.73/78 Low 23 July, 21-day moving average
 COMMENTARY: Price action is back below the 5-day moving average at 112.78 and given the bear-cross in daily stochastics along with the bear-divergence signal seen in 10-day momentum -- risks skewed lower on break below last week low at 112.37. Initial support seen at the 100-day moving average at 112.57.

05:26 08/07 **GILTS**: Traders report swap paying activity in short-dated swaps, which is in turn steepening the 2-/10-year Gilt curve by 0.8bps to -37.8bps.

04:29 08/07 **GILTS**: Belly of the Gilt curve is outperforming the wings in early Tuesday morning session. This move comes despite pending supply this week in the UK, where the DMO is due to tap the 5.00% March 2018 Gilt issue on Thursday for Stg2.5bln. The short-dates are currently weighed by recovery in stocks and so far shrugging off the weak UK BRC retail sales monitor overnight, where like-for-like sales rose 1.2% y/y in July -- the slowest sales growth since November 2006 and compares to +3.0% y/y in June.

The exceptionally wet weather in July may have distorted the sales picture, but it is hard to conclude that the moderation in retail sales growth predicted by Bank of England Monetary Policy Committee is here to stay. The attention in the UK market now turns to the crucial BoE quarterly Inflation Report due on Wednesday. The Gilt 2-/10-year yield spread is 0.2 bps steeper at -38.4 bps, whilst the 10-/30-year yield spread is 0.3bps flatter at -61.8 bps.

(continued)

06:31 08/07 **EUROZONE**: Reported comments from eurozone officials Tuesday,
 ** ECB KRANJEC: Stronger US subprime turbulence could hurt eurozone household demand
 - Marker seeing reconsideration of irrational exuberance
 - Eurozone economy seems very dynamic, growth sustainable
 - If you fade out market turbulence, ECB monetary policy seems still accomodatative. (FTD)

06:40 08/07 **EUROZONE**: Data released in the eurozone Tuesday,
 ** GERMANY: Seasonally adjusted industrial output posted an unexpected drop of 0.4% in June, due primarily to weakness in the construction sector, where the absence of the usual seasonal slowdown during the mild winter may still be unwinding.

02:54 08/07 **JGB SUMMARY**: Japanese government bonds ended a lackluster session modestly higher Tuesday, bouncing back from early weakness as stocks fell from their opening highs. Weighed by weaker Treasuries and a sharp early stock rally, JGBs were lower from the getgo, with the curve flattening as the front-end of the curve underperformed. However, traders said overall volumes were light, with many market players awaiting the outcome of the Federal Reserve's FOMC meeting. Japan's Ministry Of Finance sold Y500 billion 10-year CPI-linked JGBs at a low price of 99.45, a 99.61 average price, covered 4.11 times.
 -- Benchmark 10-year yield was 0.75 bps lower at 1.735%.
 -- Benchmark 5-year yield was unchanged at 1.315%.
 -- Benchmark 20-year yield was 1.5 bps lower at 2.145%.
 -- Benchmark 30-year yield was 2 bps lower at 2.385%.
 -- Lead June JGB futures contract was 0.08 higher at 133.86.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.23	4.85	\$1,516	€ 2,091
10y	7.73	2.45	\$765	€ 1,056
5y	4.40	1.41	\$441	€ 609
2y	1.87	0.60	\$188	€ 259
ZB	9.62	3.43	\$107	€ 148
ZN	5.67	1.97	\$62	€ 85
ZF	3.85	1.31	\$41	€ 56
ZT	1.78	1.17	\$37	€ 51

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.30	€ 234	\$170	0.842561
Bobl	4.12	€ 119	\$86	0.959013
Schatz	1.72	€ 49	\$36	0.975468
DE10Y	7.90	€ 1,085	\$787	
DE5Y	4.12	€ 568	\$412	
DE2Y	1.72	€ 240	\$174	

^Futures are Based on CTD

Last

EURUSD 137.98

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	8.93	17.65	42.43
10y	4.51	8.91	21.42
5y	2.60	5.14	12.35
2y	1.11	2.18	5.25
ZB	0.63	1.25	3.00
ZN	0.36	1.34	1.73
ZF	0.24	0.48	1.14
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	4.51
Bobl (U)	0.58	1.00	2.36
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	4.521	4.504	4.504
US5y	4.575	4.574	4.574
US10y	4.758	4.749	4.749

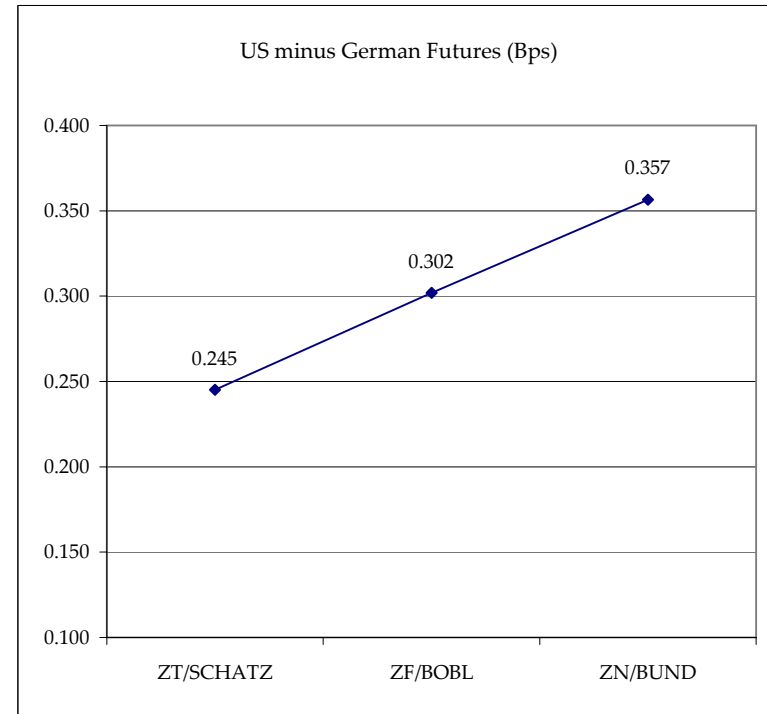
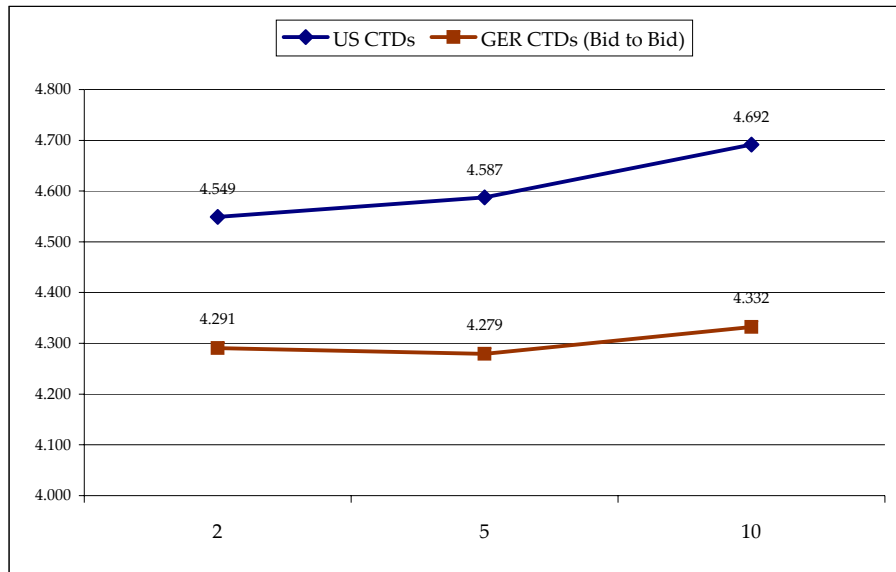
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.302	4.291	4.291
DE5y	4.333	4.323	4.323
DE10y	4.359	4.353	4.353

Spreads	
	Bps
ZT/SCHATZ	0.245
ZF/BOBL	0.302
ZN/BUND	0.357

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.549	4.536	4.536
4.500 of 11/11	4.587	4.581	4.581
4.750 of 05/14	4.692	4.689	4.689

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.302	4.291	4.291
4.000 of 04/12	4.333	4.323	4.279
4.000 of 07/16	4.339	4.332	4.332

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	
	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

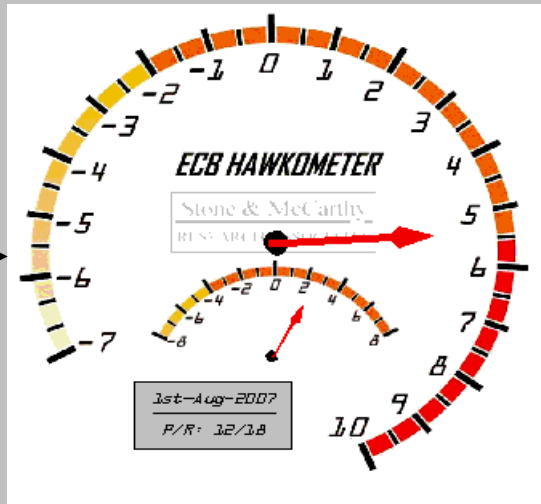
Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

Repo

Accrual basis	actual	actual	actual
Year basis	360	0	365

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MarketNews
international



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 Charanieev 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	Blanchflower	Besley	Sentance	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		+25bps	+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%