

8/8/2007 5:47



## The Morning Email: US & Germany



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Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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The Morning Email, US&GER

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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	(48.76)	(47.80)	(37.46)	76.58	52.76	34.89	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(54.46)	(55.05)	(45.40)	79.67	58.81	41.79	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(59.17)	(61.48)	(52.93)	78.65	58.86	42.13	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	102.105	(3.0)	102.127	102.092	102.127	27,094	292,633	2y Futures	<b>US Futures Market</b>
FVAU7	105.065	(9.5)	105.130	105.040	105.120	56,678	691,448	5y Futures	
TYAU7	107.050	(13.0)	107.130	107.015	107.130	131,321	1,289,255	10y Futures	
USAU7	109.150	(22)	109.260	109.110	109.260	24,330	357,257	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	100.015	(1.7)	100.035	100.005	100.035	2y	<b>US Cash Treasury Market</b>
BUS05P	99.292	(5.0)	100.032	99.275	100.032	5y	
BUS10P	97.190	(7.5)	97.275	97.165	97.270	10y	
BUS30P	96.210	(12)	97.030	96.195	97.030	30y	

	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02Y	4.596	3.30	4.621	4.529	4.567	2y Yield	<b>US Cash Treasury Market</b>
BUS05Y	4.643	3.70	4.661	4.577	4.591	5y Yield	
BUS10Y	4.807	2.50	4.823	4.756	4.766	10y Yield	
BUS30Y	4.964	2.40	4.974	4.917	4.923	30y Yield	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGU7	102.72	(55.00)	102.78	102.71	102.77	326,657	411,652	Schatz(2Y)	<b>German Futures Markets</b>
DLU7	106.78	(210.00)	106.96	106.73	106.93	319,259	401,232	Bobl(5Y)	
DBU7	112.21	(38.00)	112.58	112.12	112.49	687,478	779,774	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE044P0609	100.22	4.353	4.500	6/12/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE040P0412	98.35	4.279	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.13	4.389	4.000	7/4/2016	10 yr CTD	
DEP2P	100.24	4.353	4.500	6/12/2009	2yr OTR	
DEP5P	98.39	4.384	4.000	4/13/2012	5yr OTR	
DEP10P	98.76	4.406	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	102.72	102.73	102.72	102.78	102.71	-55.00
DLU7	106.78	106.78	106.78	106.96	106.73	-210.00
DBU7	112.20	112.21	112.21	112.58	112.12	-38.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.547	4.544	4.544	4.554	4.515
DLU7	4.458	4.457	4.458	4.469	4.419
DBU7	4.461	4.460	4.460	4.471	4.417

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.365	4.353	4.353	4.325	4.279	
T.US.DE040P0412	4.394	4.384	4.279	4.342	4.306	
T.US.DE040P0716	4.396	4.389	4.389	4.352	4.313	
DEP2P	4.365	4.353	4.353	4.370	4.324	-7
DEP5P	4.394	4.384	4.384	4.406	4.343	-28
DEP10P	4.413	4.406	4.406	4.424	4.362	-49

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	100.22	100.24	100.24	100.29	100.21	-0.07
T.US.DE040P0412	98.35	98.39	98.39	98.56	98.30	-28.00
T.US.DE040P0716	97.13	97.18	97.18	97.50	97.05	-47.00
DEP2P	100.22	100.24	100.24	100.29	100.21	-7.00
DEP5P	98.35	98.39	98.39	98.56	98.30	-28.00
DEP10P	98.71	98.76	98.76	99.11	98.62	-49.00

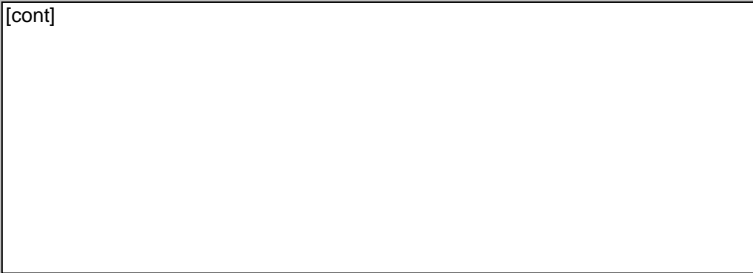
SYM NAME	
2 yr CTD	German Cash
5 yr CTD	
10 yr CTD	
2yr OTR	
5yr OTR	
10yr OTR	

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

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[All Times Eastern]

06:13 08/08 **BOE:**(recap) BOE AUG Report Sees Inflation Shade Over Target On Mkt Rates

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The Bank of England left the door open to at least one more 25 basis point rate hike in its August Inflation Report. The BOE predicted that inflation would be a sliver above target in two years' time on market rate expectations and clearly above target if rates were left unchanged at 5.75%. The BOE said market rates assumptions showed rates rising to 5.9% by Q4 and 6.0% by Q1 2008, where they peak, before easing back to 5.8% by the start of 2010. On the projection, the BOE showed CPI marginally above its 2.0% target at the two year forecast horizon, before falling back to clearly below 2.0% in 3-years' time. On flat 5.75% rates, CPI remains clearly above 2.0% throughout the next two years. On the market rate projection "inflation falls back during the second half of this year and then settles around the 2% target," the BOE said.

05:56 08/08 **SHORT-STERLING:** Short-sterling futures higher on short-covering as traders interpret the BoE inflation report as dovish. The BoE said that growth would be "somewhat weaker" than it had forecast in May, reflecting rate hikes and the rise in sterling. Adding that GDP would moderate around its long run average in the near term, and would end up clearly below 2.5% in two years' time. Also dovish is the fact the BoE took the five working days to 1 August, rather than the usual 15 business days.

02:53 08/08 **JGB SUMMARY:** Japanese government bonds ended Wednesday's session lower across the board, as a improvement in general investment sentiment helped stocks rally. However, traders said the bullish sentiment in stockmarkets has also increased the chances of a near-term rate hike by the Bank of Japan - despite weaker-than-expected economic data. With the Fede not been persuaded to cut rates in the light of the US sub-prime market problem, stock sentiment was boosted, but traders said it weakened that excuse for the BoJ to delay a rate hike this month. JGBs opened lower and continued to push lower despite data showing a sharp slowdown in core machinery orders in June. although this series of data is notoriously volatile, traders said it was still surprisingly low as it didn't follow a good month in May. The increased odds on an early rate cut helped the curve flatten, as the front of the curve underperformed. THE Benchmark 10-year yield was 3 bps higher at 1.760%, while the lead June JGB futures contract was 0.34 lower at 133.52.

(continued)

05:42 08/08 **BOE KING:** Cannot dismiss effects of UK floods on CPI

- Not yet clear if any lasting effect on economy from floods
- Too soon to see effect from Foot and Mouth
- Difference between MPC not large at all
- Report not intended to signal future interest rate moves

05:34 08/08 **CHINA PBOC:** Issues Q2 monetary policy report

- Inflation pressure increasing
- Current price rise "not temporary"
- Reiterates to moderately tighten monetary policy

05:40 08/08 CHINA PBOC: Trade surplus seen at relatively high level

05:39 08/08 CHINA PBOC: Watching risk of food inflation spreading

05:38 08/08 CHINA PBOC: Economic overheating trend more apparent

05:36 08/08 CHINA PBOC: To let yuan rate play bigger role in BOP adjustment

05:36 08/08 CHINA PBOC: Will control inflation, expects basic price stability

- Increase fx rate flexibility, keep yuan basically stable

03:10 08/08 **BONDS: EGBs** opened lower after sharp fall in US Treasuries towards the Chicago close the previous session after the Federal Open Market Committee voted to leave its key interest rate unchanged at 5.25%, and re-iterated that inflation remains "the predominant policy concern". This is despite acknowledgement that "downside risks to growth have increased somewhat". In other news, the Reserve Bank of Australia raised its official cash rate target by 25bps to 6.50% after its regular policy meeting as expected. Attention now turns to the first leg of the US quarterly refunding, where \$13.0bln in 10-year Notes is due to be sold on Wednesday. Also eyed is the Bank of England quarterly inflation report, which it looks likely to use to signal that the door remains ajar for a further 25bp hike in interest rates. That said, market movements since the May inflation report, implies that there is a risk that the BOE's inflation forecast, based on market interest rates, could now come in a fraction below its 2% target at the 2-year horizon.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.18	4.81	\$1,503	€ 2,070
10y	7.72	2.44	\$761	€ 1,048
5y	4.39	1.41	\$440	€ 605
2y	1.87	0.60	\$187	€ 257
ZB	9.61	3.42	\$107	€ 147
ZN	5.67	1.96	\$61	€ 84
ZF	3.84	1.30	\$41	€ 56
ZT	1.78	1.17	\$36	€ 50

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.29	€ 232	\$169	0.842561
Bobl	4.12	€ 118	\$86	0.959013
Schatz	1.72	€ 49	\$36	0.975468
DE10Y	7.89	€ 1,077	\$782	
DE5Y	4.12	€ 565	\$410	
DE2Y	1.72	€ 239	\$174	

^Futures are Based on CTD

Last

EURUSD 137.70

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	8.91	17.57	42.21
10y	4.51	8.89	21.37
5y	2.60	5.14	12.34
2y	1.11	2.18	5.25
ZB	0.63	1.25	3.00
ZN	0.36	1.34	1.72
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	4.50
Bobl (U)	0.58	1.00	2.36
Shatz (U)	0.24	0.42	1.00

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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	4.600	4.596	4.596
US5y	4.645	4.643	4.643
US10y	4.811	4.807	4.807

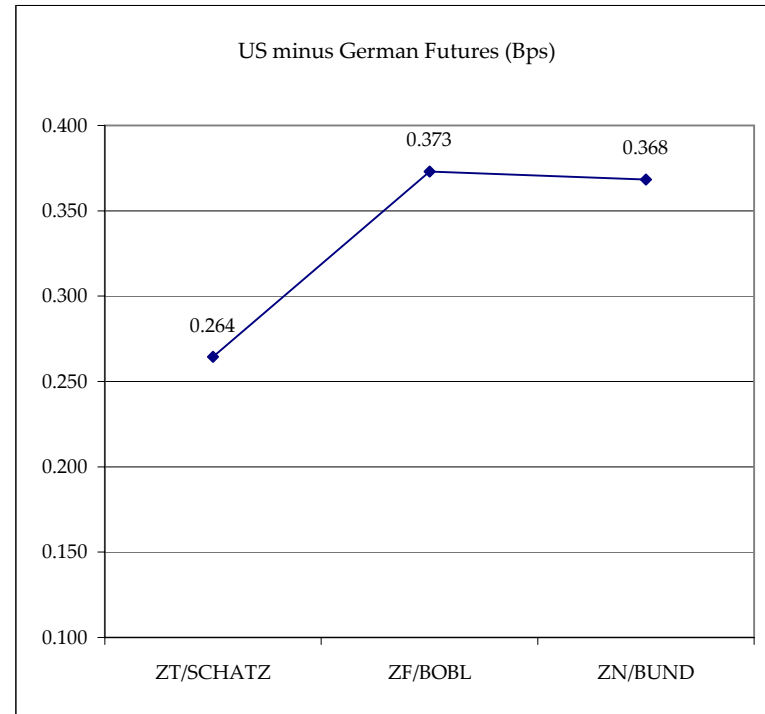
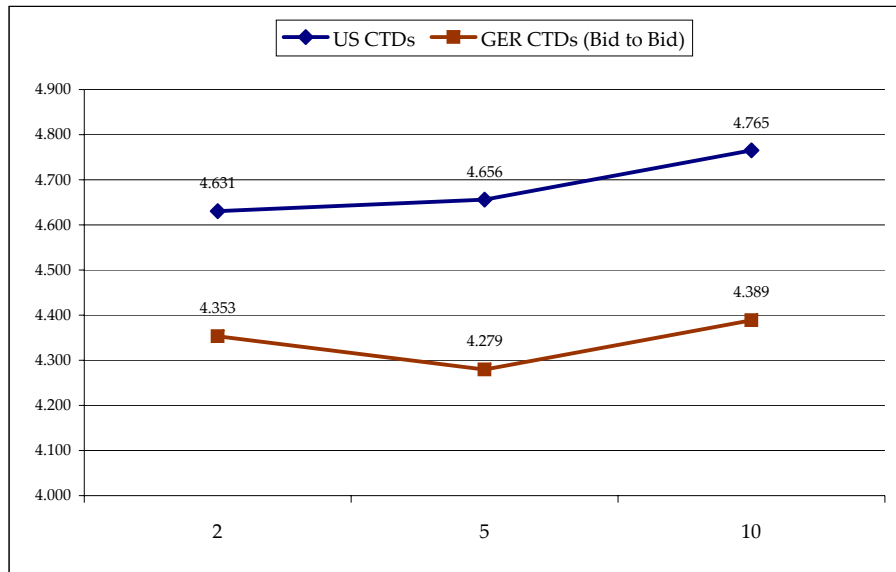
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.365	4.353	4.353
DE5y	4.394	4.384	4.384
DE10y	4.413	4.406	4.406

Spreads	
	Bps
ZT/SCHATZ	0.264
ZF/BOBL	0.373
ZN/BUND	0.368

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.631	4.617	4.617
4.500 of 11/11	4.656	4.652	4.652
4.750 of 05/14	4.765	4.757	4.757

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.365	4.353	4.353
4.000 of 04/12	4.394	4.384	4.279
4.000 of 07/16	4.396	4.389	4.389

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

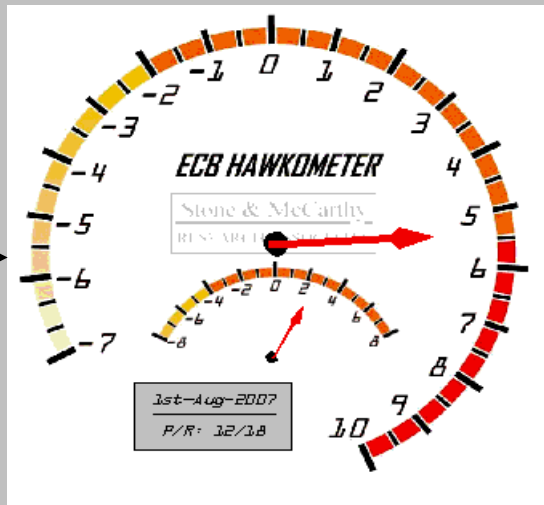
Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

### Repo

Accrual basis	actual	actual	actual
Year basis	360	0	365

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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	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
	<b>Sentance</b>	4	0	6	10	40%
	<b>Besley</b>	4	0	7	11	36%
	<b>King (Gov)</b>	14	0	109	123	11%
	<b>Tucker</b>	6	1	55	62	8%
	<b>Gieve (Dep Gov)</b>	1	0	17	18	6%
	<b>Lomax (Dep Gov)</b>	2	3	44	49	-2%
	<b>Barker</b>	1	4	70	75	-4%
	<b>Bean</b>	0	5	78	83	-6%
	<b>Blanchflower</b>	0	5	9	14	-36%