

8/9/2007 5:45



The Morning Email: US & Germany



Table of Contents

- Pg 1 Correlation Matrix

- Pg 2 Quotes 1

- Pg 3 Quotes 2

- Pg 4 News - Yesterday's Recap

- Pg 5 News - Overnight Recap for Euroland & Japan

- Pg 6 Intrinsic's & Tic for Tic Matrix'

- Pg 7 Hedge Ratio's - Bloomberg/GH Trader's LLC

- Pg 8 Yields & Spreads

- Pg 9 Volume Questions & Global Bond Market Characteristics

- Pg 10/11 The ECB

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

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Jim Goulding, jgoulding@ghco.com

The Morning Email, US&GER

MarketNews
International

Stone & McCarthy
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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	(70.57)	(78.62)	(77.73)	83.97	69.29	58.03	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(72.77)	(82.56)	(82.50)	87.10	75.49	65.66	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(70.88)	(81.95)	(82.20)	84.39	74.04	64.91	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	102.127	4.7	102.150	102.060	102.062	85,402	293,370	2y Futures	
FVAU7	105.095	10.0	105.140	104.270	104.280	107,592	723,008	5y Futures	
TYAU7	107.070	11.5	107.125	106.215	106.220	249,017	1,706,675	10y Futures	
USAU7	109.050	7	109.150	108.210	108.230	58,251	417,132	30y Futures	

**US
Futures
Market**



		32 nds							
	Last	Net	Hi	Low	Open	Volume			
BUS02P	100.047	7.2	100.065	99.292	99.292	2y			
BUS05P	100.005	13.7	100.045	99.177	99.185	5y			
BUS10P	99.185	216.5	99.260	99.015	99.025	10y			
BUS30P	#VALUE!	21	96.160	95.065	95.150	30y			

**US Cash
Treasury
Market**

		32 nds							
	Last	Net	Hi	Low	Open	Volume			
BUS02Y	4.537	(11.70)	4.68	4.508	4.667	2y Yield			
BUS05Y	4.620	(9.90)	4.73	4.59	4.71	5y Yield			
BUS10Y	4.798	(8.30)	4.886	4.77	4.86	10y Yield			
BUS30Y	5.005	(4.30)	5.07	4.975	5.031	30y Yield			

		Decimal							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	102.78	80.00	102.85	102.68	102.68	537,793	626,215	Schatz(2Y)	
DLU7	106.90	240.00	107.03	106.70	106.70	385,837	671,774	Bobl(5Y)	
DBU7	112.34	31.00	112.54	112.08	112.08	763,226	1,381,158	Bund(10Y)	

**German
Futures
Markets**



		Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME		
T.US.DE044P0609	100.27	4.324	4.500	6/12/2009	2 yr CTD		
T.US.DE040P0412	98.47	4.279	4.000	4/13/2012	5 yr CTD		
T.US.DE040P0716	97.25	4.372	4.000	7/4/2016	10 yr CTD		
DEP2P	100.29	4.324	4.500	6/12/2009	2yr OTR		
DEP5P	98.51	4.355	4.000	4/13/2012	5yr OTR		
DEP10P	98.87	4.392	4.250	7/4/2017	10yr OTR		

**German
Cash
Treasury
Market**

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	102.77	102.78	102.78	102.85	102.68	80.00
DLU7	106.90	106.91	106.90	107.03	106.70	240.00
DBU7	112.34	112.35	112.34	112.54	112.08	31.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.520	4.518	4.520	4.568	4.479	
DLU7	4.431	4.430	4.431	4.476	4.403	
DBU7	4.445	4.444	4.445	4.475	4.421	
	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.335	4.324	4.324	4.399	4.324	
T.US.DE040P0412	4.365	4.355	4.279	4.428	4.343	
T.US.DE040P0716	4.379	4.372	4.372	4.423	4.344	
DEP2P	4.335	4.324	4.324	4.382	4.283	8
DEP5P	4.365	4.355	4.355	4.404	4.324	18
DEP10P	4.399	4.392	4.392	4.423	4.362	22

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	100.27	100.29	100.29	100.36	100.19	0.08
T.US.DE040P0412	98.47	98.51	98.51	98.64	98.31	18.00
T.US.DE040P0716	97.25	97.30	97.30	97.50	97.06	21.00
DEP2P	100.27	100.29	100.29	100.36	100.19	8.00
DEP5P	98.47	98.51	98.51	98.64	98.31	18.00
DEP10P	98.82	98.87	98.87	99.11	98.63	22.00

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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**Euro Mkt Summary: EGBs Sharply Lower on
by Niraj Shah**

EGBS fell sharply on Wednesday as focus turned to inflationary pressures and following futures stop-loss selling as well as tightening of the iTraxx cross-over index. EGBS had opened lower as they played catch-up with sharp losses in US Treasuries following a relatively hawkish FOMC statement, which re-iterated that inflation remained the Fed's "predominant policy concern". The September bund contract came under further pressure on stop-loss induced selling and as credit spreads tightened.

The pressure was compounded as equities extended earlier gains. However, data releases made little impact with an unexpected decline in the German June trade balance and a stronger than expected US June wholesale inventories data making little impact. With a lack of economic data releases, attention may turn to the release of the ECB monthly report on Thursday. However, the key focus will be on the US Treasury, which is set to sell \$9.0bln of the new Long Bond.

[cont]

Gilts also fell sharply and underperformed Bunds after the Bank of England Inflation report pointed to another rate hike. Overnight data from the NTC/REC jobs report showed permanent jobs growing at the strongest rate in over 7 years. A rate hike to 6% looked more likely after the August Inflation Report showed 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%. Attention on Thursday turns to the DMO auction of GBP 2.5 bln of the 5.0% 2018 Gilt auction.

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[All Times Eastern]

03:43 08/09 BUNDS: Sept Bunds pare gains after ECB declines comment on emergency council meeting rumour.

03:36 08/09 ECB: ECB declines to comment on rumours of emergency council meeting.

04:29 08/09 ECB: Wires reporting ECB comments, saying it notes tension in eurozone money markets and is closely monitoring the situation. The ECB says it stands ready to act to assure orderly conditions in eurozone money markets.

05:30 08/09 GILTS: Traders report very little demand for the 10-year sector from real money accounts this morning ahead of the 5.00% March 2018 Gilt auction bidding deadline. However, some interest in the 5-/10-year Gilt was seen this morning.

05:37 08/09 GILT 2018 AUCTION RESULTS: The UK's Debt Management Office announced Thursday that it sold Stg2.5bln of the 5.00% Mar 2018 Gilt, with a cover of 1.75 times, tail 1.6 bps.

05:40 08/09 GILTS: Sept Gilts hit session low at 105.11 after disappointing 5.00% Mar 2018 Gilt auction results, which was covered 1.75 times and tail of 1.6 bps.

05:22 08/09 EONIA: Traders continue to report liquidity squeeze in overnight cash rates, as focus turns to see whether the ECB injects extra liquidity at its refi operation. One trader adds that the "market needs to see something decisive this morning and an extra E5.0bln injection won't do much".

02:46 08/09 JGB SUMMARY: Japanese government bonds ended Thursday's session lower across the board, as the overnight weakness in the U.S. Treasury market weighed on investor sentiment. However, traders said prices ended the session shy of their worst levels, rallying in the wake of an improved bid/cover ratio at the Ministry Of Finance's 5-year auction. Traders aid the early JGB weakness was also down to increased expectations of a Bank of Japan rate hike at the August 23 meeting. Prices opened lower in the wake of the overnight Treasury sell-off and continued to trade lower as stocks rallied sharply. At one point, the yield on the benchmark 10-year was 4.5 bps higher at 1.805%. But the solid demand at the 5-year sale, covered 3.40 times as opposed to 3.12 at the July sale, helped prices rally from the lows. The benchmark 10-year yield was 2.5 bps higher at 1.785%, the 5-year yield was 2 bps higher at 1.385%, while the lead June JGB futures contract was 0.14 lower at 133.38.

(continued)

04:01 08/09 ECB TRICHET: STRONG VIGILANCE IS OF THE ESSENCE -- ECB'S MONETARY POLICY STILL ON THE ACCOMMODATIVE SIDE

04:02 08/09 ECB: Prof.Forecasters; The European Central Bank's latest quarterly Survey of Professional Forecasters (SPF) shows that analysts have revised up their expectations for eurozone HICP inflation both this year and next year and revised higher their projections for GDP growth in 2007, but kept 2008 unchanged. Analysts estimated 2007 and 2008 HICP at 2.0%, up from 1.9% in the previous forecast. There was also an upward revision to their growth forecasts: GDP growth in 2007 is now estimated at 2.7%, compared with a previous estimate of 2.5%, while 2008 GDP growth was left unchanged at 2.3% **03:44 08/09**

GERMANY: BBK has announced it is to hold a meeting (not telephone conference) to discuss details of IKB rescue package. (Rtrs).

03:04 08/09 BONDS: EGBs are opening higher on Thursday, taking cue from gains in US Treasuries in the Tokyo session, and talk of major European investment bank has frozen three asset-backed securities funds, amid subprime concerns. However, the risk is on a reversal lower as the iTraxx Crossover index is seen tightening, with further stop-loss induced selling in September Bund futures contracts another threat. Key support is located at 111.94/96, where former is the value of the 21-day moving average and latter the 38.2% retracement of advance from 109.66. Large stops are reported to be below 111.90 level. Attention now turns to the final leg of the US quarterly refunding, and the UK DMO taps the 5.00% March 2018 Gilt issue for Stg2.5bln. Also eyed is the ECB monthly bulletin, which takes on a more important role than normal this month, to see if the phrase "on the accommodative side" will again appear in the editorial. If the phrase is not repeated in the bulletin, then the markets may need to reshuffle ECB cards.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.13	4.76	\$1,489	€ 2,045
10y	7.71	2.46	\$768	€ 1,056
5y	4.39	1.41	\$440	€ 604
2y	1.86	0.60	\$187	€ 257
ZB	9.59	3.40	\$106	€ 146
ZN	5.67	1.97	\$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	€ 1,076	\$783	
DE5Y	4.12	€ 564	\$411	
DE2Y	1.72	€ 239	\$174	

^Futures are Based on CTD

Last

EURUSD 137.41

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	8.81	17.38	41.82
10y	4.55	8.97	21.58
5y	2.60	5.13	12.36
2y	1.11	2.18	5.25
ZB	0.63	1.24	2.98
ZN	0.36	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)

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	2.37
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	4.546	4.537	4.537
US5y	4.623	4.620	4.620
US10y	4.806	4.798	4.798

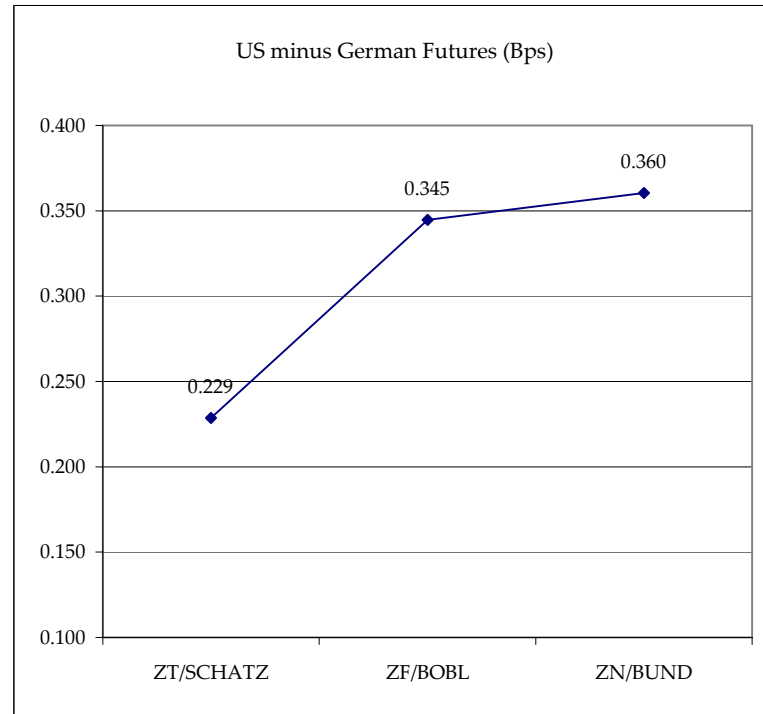
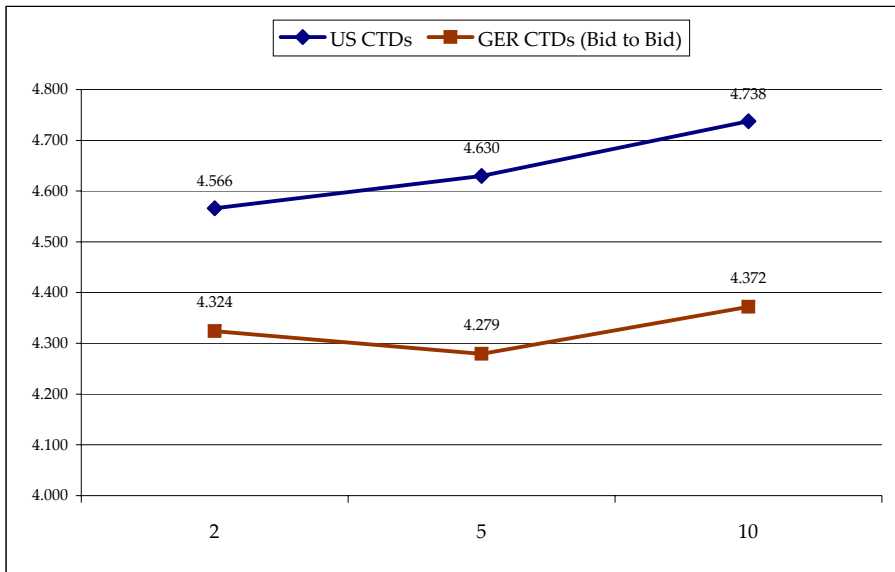
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.335	4.324	4.324
DE5y	4.365	4.355	4.355
DE10y	4.399	4.392	4.392

Spreads	
	Bps
ZT/SCHATZ	0.229
ZF/BOBL	0.345
ZN/BUND	0.360

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.566	4.552	4.552
4.500 of 11/11	4.630	4.624	4.624
4.750 of 05/14	4.738	4.732	4.732

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.335	4.324	4.324
4.000 of 04/12	4.365	4.355	4.279
4.000 of 07/16	4.379	4.372	4.372

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

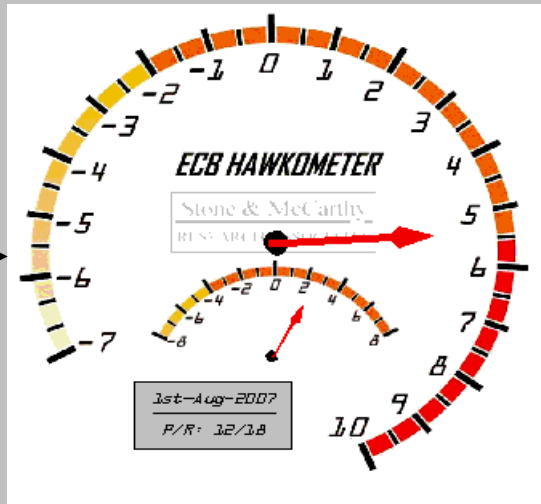
Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

Repo

Accrual basis	actual	actual	actual
Year basis	360	0	365

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international



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%