The Morning Email: US & Germany

Table of Contents

MarketNews international

EST
06:26 08/10 **CREDIT:** Deutsche Bank's DWS reportedly says that its ABS fund remains open, but that assets in the fund are now E2.1bln, vs E3bln in July. DAX getting hit on the report.

Jim Goulding, jgoulding@ghco.com

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Correlation Matrix

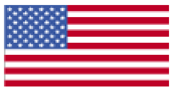
		US Cash Treasuries			US Bonds/Notes (CBOT)				
SYM NAME	Symbol	2yr	5yr	10yr	ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGU7	(79.44)	(77.43)	(67.84)	85.93	68.53	60.25	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(72.67)	(83.09)	(81.57)	84.32	77.81	71.02	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(52.76)	(74.55)	(81.78)	66.09	70.74	65.82	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								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
TUAU7	102.187	1.5	102.225	102.165	102.182	80,440	434,549	2y Futures	US Futures Market
FVAU7	105.200	4.5	105.260	105.165	105.175	85,984	916,489	5y Futures	
TYAU7	107.220	10.0	107.270	107.140	107.155	176,936	1,933,226	10y Futures	
USAU7	109.190	14	109.220	109.070	109.100	27,506	604,977	30y Futures	



	Last	Net	Hi	Low	Open	Volume	
BUS02P	100.122	2.2	100.160	100.107	100.115	2y	US Cash Treasury Market
BUS05P	#VALUE!	5.7	100.182	100.095	100.120	5y	
BUS10P	#VALUE!	8.5	100.075	99.295	99.305	10y	
BUS30P	100.125	421	100.165	100.040	100.065	30y	
	Last	**Net**	**Hi**	**Low**	**Open**	**Volume**	
BUS02Y	4.415	(3.00)	4.47	4.348	4.47	2y Yield	
BUS05Y	4.531	(4.40)	4.579	4.492	4.579	5y Yield	
BUS10Y	4.740	(3.80)	4.782	4.716	4.782	10y Yield	
BUS30Y	4.969	(5.40)	4.999	4.96	4.99	30y Yield	

	Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	103.02	140.00	103.08	102.94	102.94	802,193	1,013,498	Schatz(2Y)	German Futures Markets
DLU7	107.34	320.00	107.50	107.12	107.16	428,716	850,920	Bobl(5Y)	
DBU7	112.84	45.00	113.04	112.54	112.55	681,456	1,761,843	Bund(10Y)	

	Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME	
T.US.DE044P0609	100.52	4.179	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	98.89	4.279	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.69	4.310	4.000	7/4/2016	10 yr CTD	
DEP2P	100.54	4.179	4.500	6/12/2009	2yr OTR	
DEP5P	98.93	4.253	4.000	4/13/2012	5yr OTR	
DEP10P	99.33	4.334	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	SYM NAME	
DGU7	103.02	103.02	103.02	103.08	102.94	140.00	Schatz(2Y)	German Futures
DLU7	107.34	107.34	107.34	107.50	107.12	320.00	Bobl(5Y)	
DBU7	112.82	112.83	112.84	113.04	112.54	45.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo		
DGU7	4.392	4.390	4.390	4.434	4.359	Schatz(2Y)	German Futures
DLU7	4.337	4.336	4.336	4.383	4.302	Bobl(5Y)	
DBU7	4.389	4.388	4.389	4.421	4.363	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE044P0609	4.190	4.179	4.179	4.382	4.249		2 yr CTD	German Cash
T.US.DE040P0412	4.263	4.253	4.279	4.404	4.285		5 yr CTD	
T.US.DE040P0716	4.317	4.310	4.310	4.406	4.316		10 yr CTD	
DEP2P	4.190	4.179	4.179	4.231	4.144	18	2yr OTR	
DEP5P	4.263	4.253	4.253	4.292	4.210	34	5yr OTR	
DEP10P	4.340	4.334	4.334	4.373	4.304	39	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE044P0609	100.52	100.54	100.54	100.60	100.45	0.18	2 yr CTD	German Cash
T.US.DE040P0412	98.89	98.93	98.93	99.11	98.77	34.00	5 yr CTD	
T.US.DE040P0716	97.69	97.74	97.74	97.93	97.44	42.00	10 yr CTD	
DEP2P	100.52	100.54	100.54	100.60	100.45	18.00	2yr OTR	
DEP5P	98.89	98.93	98.93	99.11	98.77	34.00	5yr OTR	
DEP10P	99.28	99.33	99.33	99.56	99.02	39.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

OTR = On the Run

Stone & McCarthy
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Euro Mkt Summary:
by Niraj Shah

(continued)

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MarketNews international

[All Times Eastern]

05:41 08/10 ECB WELLINK: Productivity Gains May Contain Inflation
--Wellink Comments From July 28 Blog Interview
--Wellink Sees Number Of Signs Too Much Money Around
--Excessive Money Supply Has Encouraged Risky Takeovers
--Sees Dangers If Credit Sentiment Deteriorates Further
--Financial Innovation Limits Monetary Power Of Central Banks
--Asset Price Rises And Low Inflation Unsustainable Combination.

05:48 08/10 ECB: Allots E61.05bln in 3 day liquidity providing refis
- Allots liquidity providing refis at marginal rate of 4.05%
- ECB says 62 bidders in 3 day liquidity tender.

06:09 08/10 06:09 08/10 **SONIA**: SONIA (Sterling Over-Night Index Average) Swap rate/probabilities implied have reduced sharply in wake of recent credit jitters.

Month	Rate	Probability	Yesterday	Pre-BoE QIR
----	-----	-----------	---------	-----------
September	5.808%	21.5%	31.5%	31.0%
October	5.869%	47.7%	59.6%	56.4%
November	5.910%	64.2%	87.7%	78.1%
December	5.904%	61.7%	98.8%	94.7%
January	5.897%	58.9%	94.9%	89.9%

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January	5.897%	58.9%	94.9%	89.9%

(continued)

03:45 08/10 **BUNDS:** The Bunds curve is extending its steepening bias, with the 2-/10-year yield spread at +13 bps -- level not seen since July 9 -- vs +10 bps yesterday, and the 10-/30-year yield spread was at +14 bps vs +12 bps.

02:55 08/10 **JGB SUMMARY**: Japanese government bonds ended Friday's session sharply higher, with yield s falling as stocks slumped in the wake of the global credit squeeze. Although overnight rates were higher from the getgo, the Bank of Japan's initial move to provide funds helped push longer-dated prices higher. JGB prices were sharply higher from the getgo, boosted by the Nikkei's weaker open an the sharp fall in overnight Treasury yields. And prices continued to rise throughout the session, spurred by safe-haven flows as stocks slumped across Asia. The belly of the curve performed best, helped by position squaring after Thursday's Y2 trillion auction. The yield on the 5Y fell 10 bps to under 1.300%. However, traders said volumes were fairly muted, with many market players
sidelined ahead of next week's Obon holiday.
-- Benchmark 10-year yield was 6.5 bps lower at 1.715%.
-- Benchmark 5-year yield was 10 bps lower at 1.295%.
-- Lead June JGB futures contract was 0.90 higher at 134.28.

03:01 08/10 BONDS 1: **EGBs** are opening higher on Friday, amid continued risk-aversion buying on back of onging jitters in the subprime and asset-backed securities market. The move comes in the wake of the sharp safe-haven rally the previous session after the European Central Bank injected a record amount of E94.8bln overnight liquidity at 4.00% in a quick 1-day emergency tender. This move by the ECB came after BNP Paribas SA froze three asset-backed securities funds and talk of other hedge-funds in trouble or liquiding large positions. This pushed overnight cash rates wider, and in turn triggered a liquidity squeeze. This was the first time since September 2001, that the ECB has provided additional liquidity in reaction to market concerns. Prior to the operation, the ECB said that it recognised tensions in the euro area money markets and stands "ready to act to assure orderly conditions". The ECB said that all bids received would be 100% allotted and would be at a fixed 4.00% rate.

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.16	4.79	$1,497	€ 2,047
10y	7.71	2.47	$772	€ 1,055
5y	4.39	1.41	$441	€ 603
2y	1.86	0.60	$187	€ 255
ZB	9.60	3.42	$107	€ 146
ZN	5.66	1.98	$62	€ 84
ZF	3.83	1.31	$41	€ 56
ZT	1.77	1.17	$36	€ 50

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.29	€ 232	$170	0.842561
Bobl	4.11	€ 118	$86	0.959013
Schatz	1.71	€ 49	$36	0.975468
DE10Y	7.89	€ 1,076	$787	
DE5Y	4.11	€ 564	$412	
DE2Y	1.71	€ 237	$174	

^Futures are Based on CTD

	Last
EURUSD	136.71

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	8.82	17.41	42.08
10y	4.55	8.98	21.70
5y	2.60	5.13	12.40
2y	1.10	2.17	5.25
ZB	0.63	1.24	3.00
ZN	0.36	1.34	1.74
ZF	0.24	0.48	1.15
ZT	0.21	0.42	1.02

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

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

US Treasuries v Eurex Bonds

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

	Bund (U)	Bobl (U)	Shatz (U)	
Bund (U)	1.00	1.91	4.54	GH Trader's Ratio's
Bobl (U)	0.58	1.00	2.38	
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	4.419	4.415	4.415
US5y	4.538	4.531	4.531
US10y	4.744	4.740	4.740

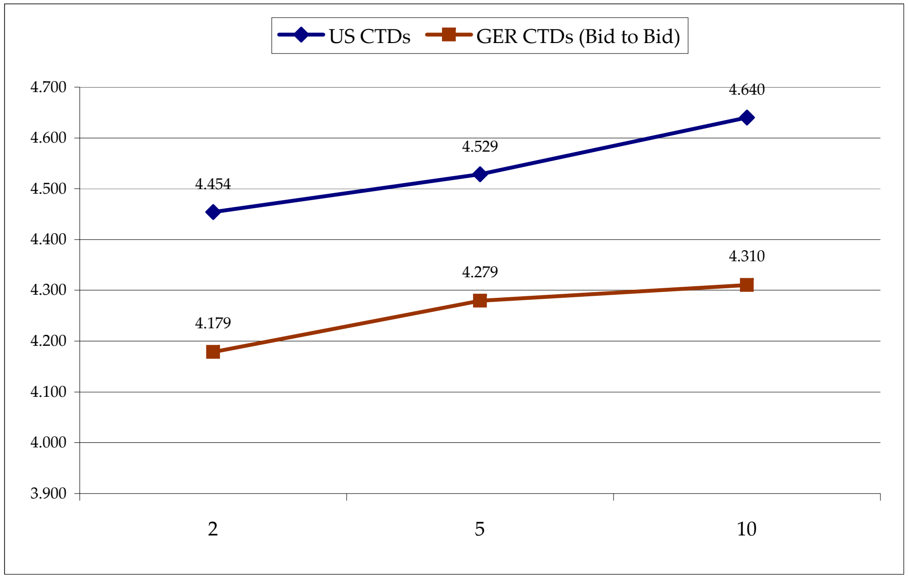
German Cash Treasuries (OTR)	Bid	Ask	Last
DE2y	4.190	4.179	4.179
DE5y	4.263	4.253	4.253
DE10y	4.340	4.334	4.334

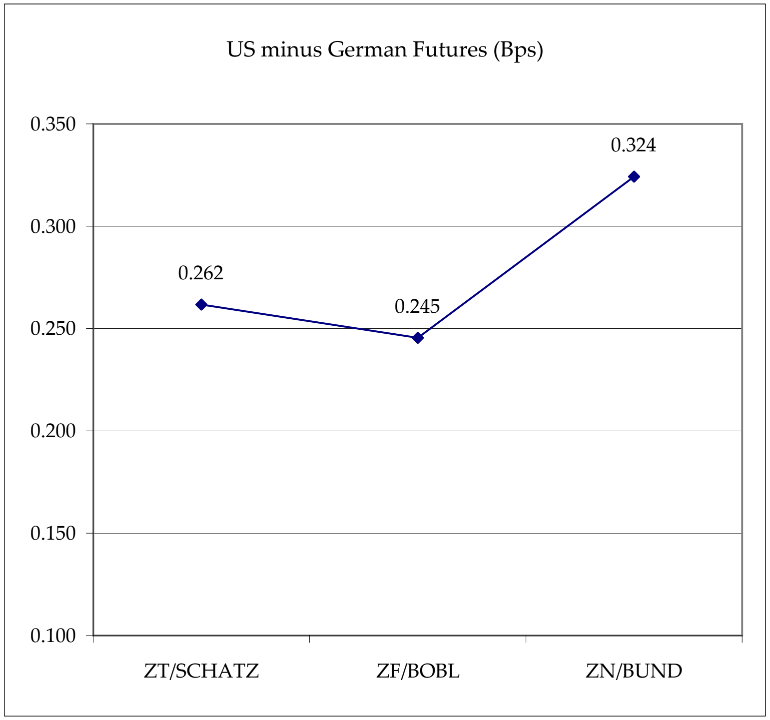
Spreads	Bps
ZT/SCHATZ	0.262
ZF/BOBL	0.245
ZN/BUND	0.324

US Cash Treasuries (CTD)	Bid	Ask	Last
4.000 of 06/09	4.454	4.441	4.441
4.500 of 11/11	4.529	4.525	4.525
4.750 of 05/14	4.640	4.635	4.635

German Futures (CTD)	Bid	Ask	Last
4.500 of 07/09	4.190	4.179	4.179
4.000 of 04/12	4.263	4.253	4.279
4.000 of 07/16	4.317	4.310	4.310

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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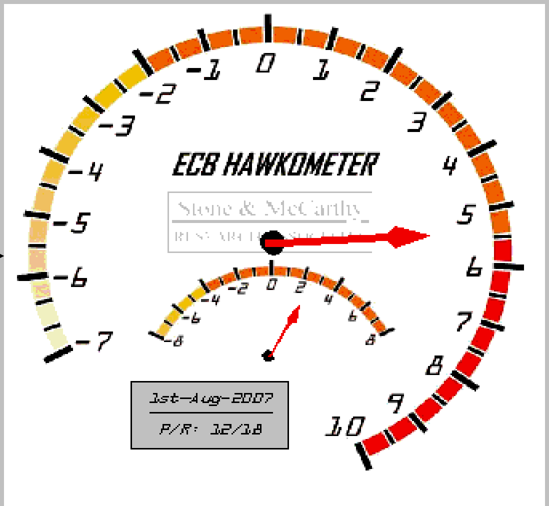

09:40 **07/31 ECB:** The European Central Bank is on track to hike interest rates in September or October given persistent upside risks to price stability, but it is closely watching unfolding financial market turbulence, well-informed sources have told Market News International. Some sources signalled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