



## The Morning Email: US & Germany



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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.

Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)  
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The Morning Email, US&GER

## Correlation Matrix

SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	(83.79)	(68.37)	(45.75)	86.80	57.41	49.14	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(78.63)	(86.46)	(77.83)	86.49	78.69	73.54	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(51.64)	(82.04)	(90.42)	60.64	77.04	76.16	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	102.175	(0.2)	102.190	102.160	102.160	28,348	361,097	2y Futures	<b>US Futures Market</b>	
FVAU7	105.145	(2.0)	105.170	105.105	105.110	46,919	819,642	5y Futures		
TYAU7	107.140	(1.0)	107.170	107.085	107.085	82,819	1,484,955	10y Futures		
USAU7	109.070	(3)	109.110	109.000	109.010	16,939	396,688	30y Futures		



		32 nds								
	Last	Net	Hi	Low	Open	Volume				
BUS02P	100.107	1.2	100.120	100.100	100.102	2y	<b>US Cash Treasury Market</b>			
BUS05P	100.070	2.5	100.092	100.040	100.057	5y				
BUS10P	99.230	5.0	99.265	99.180	99.200	10y				
BUS30P	99.240	11	99.310	99.180	99.225	30y				
	Last	Net	Hi	Low	Open	Volume				
BUS02Y	4.436	(2.50)	4.47	4.415	4.47	2y Yield				
BUS05Y	4.573	(1.80)	4.6	4.556	4.595	5y Yield				
BUS10Y	4.782	(2.00)	4.81	4.768	4.81	10y Yield				
BUS30Y	5.012	(2.70)	5.045	4.986	5.045	30y Yield				

		Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	102.99	20.00	103.03	102.92	102.96	287,924	1,314,295	Schatz(2Y)	<b>German Futures Markets</b>	
DLU7	107.25	100.00	107.34	107.06	107.14	197,818	896,475	Bobl(5Y)		
DBU7	112.65	15.00	112.80	112.38	112.55	405,309	1,483,464	Bund(10Y)		



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE044P0609	100.46	4.213	4.500	6/12/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE040P0412	98.80	4.273	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.51	4.336	4.000	7/4/2016	10 yr CTD	
DEP2P	100.48	4.213	4.500	6/12/2009	2yr OTR	
DEP5P	98.84	4.275	4.000	4/13/2012	5yr OTR	
DEP10P	99.16	4.355	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	102.99	102.99	102.99	103.03	102.92	20.00
DLU7	107.25	#VALUE!	107.25	107.34	107.06	100.00
DBU7	112.65	112.66	112.65	112.80	112.38	15.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.408	4.405	4.408	4.445	4.387
DLU7	4.355		4.355	4.396	4.337
DBU7	4.408	4.407	4.407	4.440	4.391

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.225	4.213	4.213	4.231	4.144	
T.US.DE040P0412	4.285	4.275	4.273	4.304	4.210	
T.US.DE040P0716	4.343	4.336	4.336	4.366	4.284	
DEP2P	4.225	4.213	4.213	4.265	4.190	-2
DEP5P	4.285	4.275	4.275	4.334	4.256	-3
DEP10P	4.362	4.355	4.355	4.400	4.339	-5

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	100.46	100.48	100.48	100.52	100.39	-0.02
T.US.DE040P0412	98.80	98.84	98.84	98.92	98.60	-3.00
T.US.DE040P0716	97.51	97.56	97.56	97.68	97.26	-8.00
DEP2P	100.46	100.48	100.48	100.52	100.39	-2.00
DEP5P	98.80	98.84	98.84	98.92	98.60	-3.00
DEP10P	99.11	99.16	99.16	99.29	98.81	-5.00

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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10/08/2007	19:49	EURO	chg	USA	chg	UK	chg
<b>Futures</b>	<b>Bond</b>	112.65	0.26	109.38	0.25	105.58	0.25
	<b>STIR</b>	95.66	0.03	95.25	0.03	93.90	0.09
<b>Cash</b>	<b>3mth</b>	4.45	0.05	5.58	0.08	6.28	0.09
	<b>2yr</b>	4.21	-0.08	4.44	-0.01	5.53	-0.08
	<b>5yr</b>	4.28	-0.06	4.57	0.00	5.37	-0.05
	<b>10yr</b>	4.35	-0.03	4.77	0.00	5.22	-0.03
	<b>30yr</b>	4.51	0.00	5.00	-0.02	4.61	-0.01
	<b>10yr-2yr</b>	0.14	0.05	0.34	0.01	-0.31	0.04
<b>Spreads</b>	<b>2yr</b>	--	--	0.27	0.07	1.40	0.01
<b>vs euro</b>	<b>10yr</b>	--	--	0.48	0.04	0.94	0.00
<b>FX</b>	<b>USD</b>	1.370	0.002	--	--	2.024	-0.001
	<b>EUR</b>	--	--	--	--	0.677	0.001
	<b>YEN</b>	162.02	0.23	118.28	-0.02	239.40	-0.08
<b>Equities</b>		4161.3	-2.7%	1446.6	-0.8%	6038.3	%

(continued)

**Gilts** were also higher, with the short-dated issues outperforming as the market pared back expectations of a Bank of England rate hike. The move came after the liquidity squeeze seen in sterling money markets on Thursday continued on Friday. The SONIA (Sterling Over-Night Index Average) implied that market participants were now putting a 22% chance on a September hike compared with 32% before Thursday's money market problems. Further out, markets had almost fully priced in a further 25bp hike by December but this had fallen back now to a little under 62%.

#### Euro Mkt Summary: by Niraj Shah

**EGBS** were again higher on Friday as jitters in the subprime and asset-backed securities market continued to hit stock and credit markets. Once again the liquidity crunch sidelined economic data releases. The short-end outperformed as investors flooded into the short-end of government bond markets in the pursuit for safe-haven investments. Further support came after expectations of an ECB rate hike in September were pared back. The EONIA swap rate, which reflects the probability markets put on near-term rate moves, put only a 59% chance on a September hike, down from over 86% on Thursday. Speculation that the US Federal Reserve was now also more likely to cut rates before the year-end also boosted European bonds. However, EGBs drifted off their highs after the ECB announced that it would once again add liquidity to calm market nerves. The ECB allotted E61.05 billion in the eurozone money market Friday in a 3-day variable-rate "quick" refinancing operation at a marginal rate of 4.05%. The Fed followed suit with a \$19 billion three-day repurchase agreement.

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**[All Times Eastern]**

06:36 08/13 **EUROZONE:** Data released in the eurozone Monday,

\*\* **ECB:** Alloted E47.665bln in 1 day liquidity providing refis

- Allots liquidity providing refis at marginal rate of 4.06%

- 59 bidders in 1 day liquidity tender

- Quick tender drained E13.385bln in liquidity

\*\* **GERMANY:** German wholesale prices in July hit four-month highs both on the month and the year at +0.4% and +2.6%, though the acceleration of the latter reflected in large part a base effect, the Federal Statistical Office reported Monday.

06:22 08/13 **CREDIT:1,** The financial sector has seen much of the headlines this morning, as the weekend press focused on the credit market and last weeks central bank interventions. On the positive side, BNP officials have been busy playing down the impact of last weeks hedge fund closures. A bank official said that BNP's "solidity" was not effected by sub-prime or the 3 funds losses. Also the funds last week were said to have lost 4% of their value (presumably before suspension), with last weeks actions being in the "best interests" of investors. Shares in both BNP and SocGen have been leading European bourses higher, boosted also by broker upgrades, however CDS in the sector has been flat to a touch wider today, generally speaking. Elsewhere, HBOS is looking to buy debt from companies it already has exposure to, offering 92-97c in the buck for AAA loans or bonds.

06:22 08/13 **CREDIT:2,** The bank has already bought paper along these line from JP Morgan, according to the article in the Sunday Telegraph, with HBOS refusing to comment on the story. On a more negative note the WSJ has today flagged a couple of conference calls on the US open that will focus on hedge fund losses. Firstly, Barclay's global investors is expected to tell clients that the fund has faced "challenging" markets, but hasn't yet had large scale liquidations. Also, Goldman Sachs is expected to have a conference call to "walk investors through" why its "quant" funds have lost money, in particular the Global Alpha fund. Blackbox trading systems (or quant systems) have faired particularly badly in recent weeks according to reports. Lastly, Deutsche Postbank AG has announced it has about E800mil of exposure linked to US residential mortgages. Elsewhere in Germany, IKB invested E7.8bln in US real estate, more than originally thought, according to Das Spiegel. German financials are 2-3bps wider today, significantly underperforming the broader market.

(continued)

05:55 08/13 **GILTS:** Sep Gilts also break into positove territory on the day, with the contract up 8 ticks at 105.66. Pared expectations of an early interest rate hike in the wake of comments from MPC member Sentance in the weekend press helping underpin.

05:32 08/13 **BUNDS:** Gaining ground back to flat on the day. Initial resistance is now at 112.79/82, including Fibonacci resistnace, being the 61.8% retracement of the move from 113.38 to 111.92.

02:25 08/13 **JGB SUMMARY:** Japanese government bonds ended Monday's session mixed, as the curve steepened as weaker-than-expected Japanese growth data pared expectations of a Bank Of Japan rate hike in August. Prices were generally lower in early trade, taking their lead from higher stocks and lower Treasuries ahead of the weekend. However, the GDP data soon impacted on the market, pushing short-dated yields lower on rate hopes. Longer-dated yields were higher as the stock rally and further fund injections from the BOJ, removed some of the markets safe haven bid. However, traders said volumes were fairly muted, with many market players sidelined by the Obon holiday season.

-- Benchmark 10-year yield was 6.5 bps lower at 1.715%.

-- Benchmark 5-year yield was 10 bps lower at 1.295%.

-- Benchmark 20-year yield was 4 bps lower at 2.150%.

-- Benchmark 30-year yield was 4 bps hlowerr at 2.405%.

-- Lead June JGB futures contract was 0.90 higher at 134.28.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.07	4.87	\$1,522	€ 2,079
10y	7.70	2.46	\$769	€ 1,050
5y	4.38	1.41	\$440	€ 601
2y	1.85	0.60	\$186	€ 254
ZB	9.59	3.41	\$107	€ 145
ZN	5.66	1.97	\$62	€ 84
ZF	3.83	1.31	\$41	€ 56
ZT	1.77	1.16	\$36	€ 50

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.28	€ 231	\$169	0.842561
Bobl	4.11	€ 117	\$86	0.959013
Schatz	1.71	€ 48	\$35	0.975468
DE10Y	7.88	€ 1,072	\$785	
DE5Y	4.11	€ 562	\$412	
DE2Y	1.71	€ 236	\$173	

^Futures are Based on CTD

Last

EURUSD 136.56

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	8.99	17.73	42.89
10y	4.54	8.95	21.66
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	1.73
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)

## 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	4.54
Bobl (U)	0.58	1.00	2.38
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	4.452	4.436	4.436
US5y	4.575	4.573	4.573
US10y	4.786	4.782	4.782

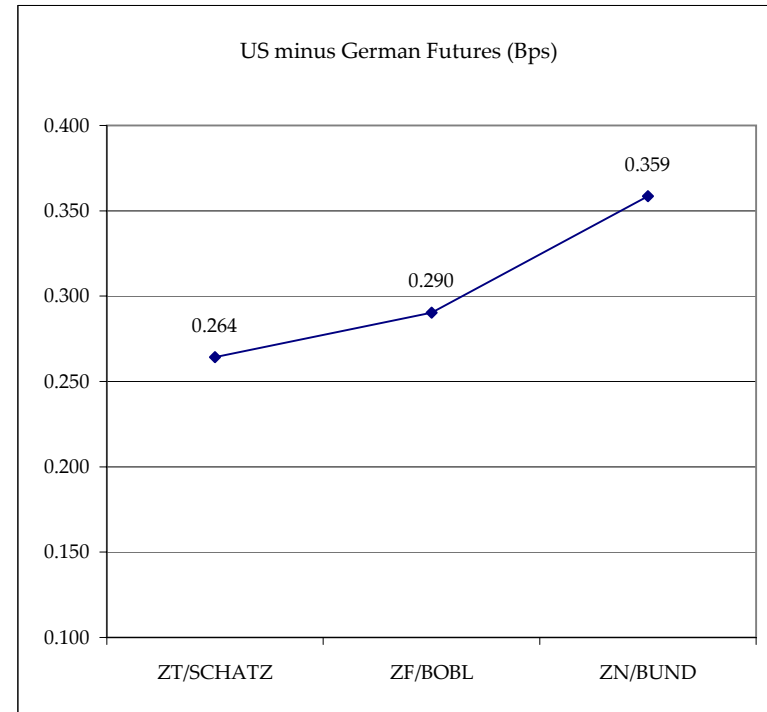
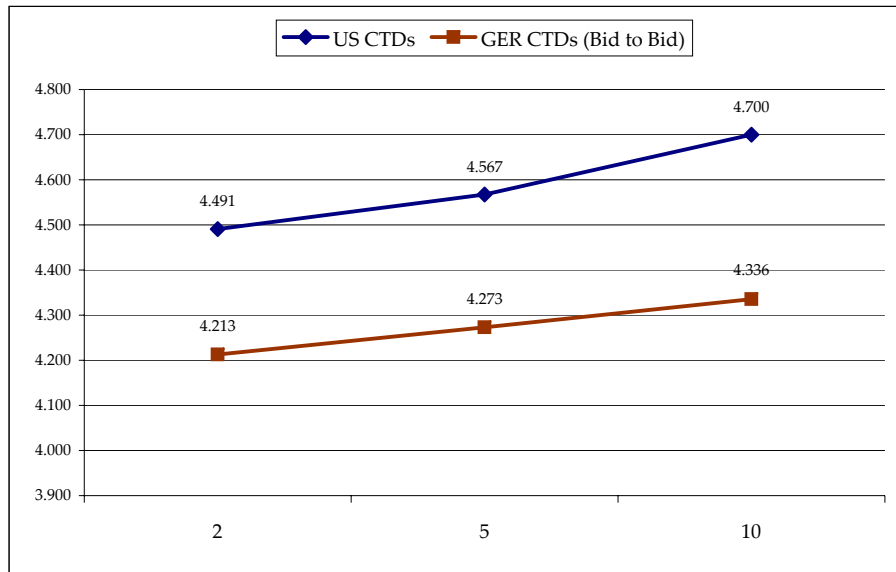
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.225	4.213	4.213
DE5y	4.285	4.275	4.275
DE10y	4.362	4.355	4.355

Spreads	
	Bps
ZT/SCHATZ	0.264
ZF/BOBL	0.290
ZN/BUND	0.359

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.491	4.477	4.477
4.500 of 11/11	4.567	4.563	4.563
4.750 of 05/14	4.700	4.694	4.694

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.225	4.213	4.213
4.000 of 04/12	4.285	4.275	4.273
4.000 of 07/16	4.343	4.336	4.336

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

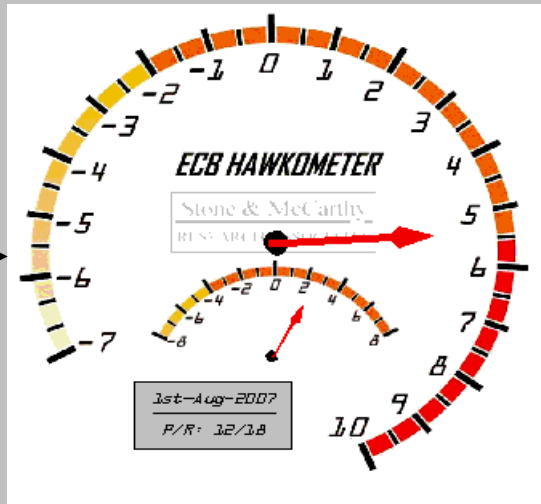
Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

### 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	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%