

8/14/2007 5:40



## 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](mailto:jgoulding@ghco.com)

**Disclaimer:** All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

**Jim Goulding, [jgoulding@ghco.com](mailto:jgoulding@ghco.com)**

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	(86.03)	(73.37)	(47.70)	87.78	61.85	55.68	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(84.45)	(89.94)	(78.40)	94.01	86.83	84.17	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(56.85)	(82.99)	(92.59)	72.04	89.86	92.39	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	102.172	(0.2)	102.197	102.162	102.192	24,664	212,931	2y Futures	<b>US Futures Market</b>
FVAU7	105.170	0.0	105.215	105.150	105.195	41,508	448,619	5y Futures	
TYAU7	107.175	0.5	107.225	107.150	107.200	101,522	1,014,272	10y Futures	
USAU7	109.160	2	109.200	109.110	109.160	21,372	263,936	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	100.102	(1.7)	100.130	100.095	100.122	2y	<b>US Cash Treasury Market</b>
BUS05P	100.090	(2.5)	100.132	100.077	100.110	5y	
BUS10P	99.265	(1.0)	99.310	99.240	99.280	10y	
BUS30P	100.005	2	100.050	99.280	99.310	30y	

	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02Y	4.448	2.90	4.473	4.398	4.444	2y Yield	
BUS05Y	4.559	1.80	4.573	4.527	4.552	5y Yield	
BUS10Y	4.766	0.40	4.786	4.75	4.768	10y Yield	
BUS30Y	4.997	(0.10)	5.012	4.987	5.002	30y Yield	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGU7	102.97	(20.00)	103.03	102.95	103.00	226,864	569,243	Schatz(2Y)	<b>German Futures Markets</b>
DLU7	107.19	(80.00)	107.34	107.15	107.28	189,194	462,074	Bobl(5Y)	
DBU7	112.54	(18.00)	112.84	112.46	112.75	420,977	885,150	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE044P0609	100.44	4.224	4.500	6/12/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE040P0412	98.72	4.273	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.41	4.350	4.000	7/4/2016	10 yr CTD	
DEP2P	100.46	4.224	4.500	6/12/2009	2yr OTR	
DEP5P	98.76	4.295	4.000	4/13/2012	5yr OTR	
DEP10P	99.00	4.376	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	102.97	102.98	102.97	103.03	102.95	-20.00
DLU7	#VALUE!	107.19	107.19	107.34	107.15	-80.00
DBU7	112.53	112.54	112.54	112.84	112.46	-18.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.416	4.413	4.416	4.426	4.387
DLU7		4.369	4.369	4.377	4.336
DBU7	4.423	4.421	4.421	4.431	4.386

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.236	4.224	4.224	4.265	4.190	
T.US.DE040P0412	4.305	4.295	4.273	4.334	4.256	
T.US.DE040P0716	4.357	4.350	4.350	4.378	4.319	
DEP2P	4.236	4.224	4.224	5.461	4.184	0
DEP5P	4.305	4.295	4.295	4.312	3.365	2
DEP10P	4.382	4.376	4.376	4.849	4.334	-1

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	100.44	100.46	100.46	100.53	98.36	0.00
T.US.DE040P0412	98.72	98.76	98.76	102.68	98.69	2.00
T.US.DE040P0716	97.41	97.46	97.46	111.74	97.35	0.00
DEP2P	100.44	100.46	100.46	100.53	98.36	0.00
DEP5P	98.72	98.76	98.76	102.68	98.69	2.00
DEP10P	98.95	99.00	99.00	99.33	95.37	-1.00

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

Stone & McCarthy  
RESEARCH ASSOCIATES

**Euro Mkt Summary: EGBs Lower, Equity Gains, ECB Refi Weighs  
by Niraj Shah**

European Government Bonds were trading lower on Monday afternoon with the belly of the Bund curve underperforming. Sep 07 Bunds extended losses on headline US retail sales data, which came in slightly above expectations in July and upwardly revised for June. The market opened lower on risk-aversion unwinding after Asian equities posted a rebound overnight on speculation the BoJ will delay a rate hike following weak Japanese GDP data. Amidst a lack of Eurozone data, EGBs declined in morning trade after the ECB allotted a further E47.665bln in the Eurozone money market in a 1-day "quick" refinancing operation, at a marginal rate of 4.06%. Following the announcement of refinancing operation, the ECB said that it "notes that money market conditions are normalizing and that the supply of aggregate liquidity is ample. With this fine-tuning operation, the ECB is further supporting the normalization of conditions in the money market."

Attention early on Tuesday morning will fall on the release of preliminary German Q2 GDP data, expected on the open. Thereafter, the focus will be on the French CPI data, followed by the Eurozone Q2 GDP flash estimate.

(continued)

**Sep-07 Bunds** were 19 ticks lower at 112.52. In cash, German government benchmark yields were 1bp to 3bp higher with the belly of the curve underperforming. The 2s/10s spread was 1bps wider at 15bps and the 10s/30s spread was 14bps vs. 16bps.

**Gilts** were also trading lower with the short end underperforming. Gilts opened lower amidst weakness in European trade. The Gilt market soon recovered, supported by weekend comments by MPC member Andrew Sentance who noted the market interpretation of last week's inflation report as suggesting the MPC was unlikely to raise interest rates above 6%. Gilts extended gains on benign July PPI data.

Jun-07 Gilts were 9 ticks lower at 105.49. In cash, UK government benchmark yields were 1bp to 2bps higher with the short end of the curve underperforming. The 2s/10s spread was unchanged at -33bps and the 10s/30s spread was unchanged at -61bps.

Stone & McCarthy  
RESEARCH ASSOCIATES

**[All Times Eastern]**

06:28 08/14 **BUNDS**: Slipping into negative territory after touching 112.84 early in the session. 112.82 is a 61.8% retracement of the decline from 113.38 to 111.92 and should continue to provide resistance. Support is 112.41 and 112.31, being the 100 and 21-day moving averages.

05:51 08/14 **CREDIT**:1, Euro CDS markets have seen a pretty negative session so far with spreads moving wider almost across the board. Itraxx crossover is trading 10bps or so wider from yesterdays close at 358bps, however this doesn't really represent the weakness being seen in high beta single names which are 15-25bps wider in places. Also high grade single name benchmarks are 1-2bps wider in almost every sector, as the market takes its cue from weaker stocks today. Last nights rejection of a request for US regulators to lift the mortgage caps for Freddie Mac and Fannie Mae helped sour sentiment in financials this morning on the open, however

the usual round of sub-prime loss rumours have added to the mix to depress sentiment. 05:23 08/14 **ECB**: **ECB** has allotted funds at a marginal 4.08% at the weekly refi, with an average rate of allotted refs at 4.10% vs 4.07% last. The central bank says it has allotted E307 bn in 7-day refs, with a net add of E17.5 bn.

05:09 08/14 **ECB**: The ECB allots E7.7 bn in 1-day liquidity-providing refs at a marginal rate of 4.07% 41 bidders seen at 1-day operation.

04:30 08/14 **UK DATA**: Jul CPI -0.6% m/m; +1.9% y/y; median -0.2% m/m; +2.3% y/y  
 --UK Jul RPIX -0.6% m/m; +2.7% y/y; median +3.1% y/y  
 --UK Jul RPI -0.6% m/m; +3.8% y/y; median -0.1% m/m; +4.3% y/y  
 --UK Jul CPI inflation below BOE target; lowest since March 2006

-----  
 CPI inflation plunged unexpectedly in July to 1.9%, below the 2% target and the lowest rate since March 2006. The surprise decline is likely to provoke a reappraisal of the outlook for interest rates. Most analysts currently expect to see a rise in the repo rate to 6% by year-end but expect to see this revised down to unchanged. Behind the latest fall in inflation were falls in food, furniture, household and transport which all subtracted from annual CPI inflation. There were only two upward effects on inflation in July.

(continued)

02:39 08/14 **JGB SUMMARY**: Japanese government bonds ended Tuesday's session mixed, with the curve flattening as the Bank Of Japan removed excess liquidity from the money markets. With little direction from domestic stocks, both cash and futures remained in a range close to overnight levels, with volumes very slow as many players were sidelined by the Obon holiday season.

- Benchmark 10-year yield was 0.5 bps lower at 1.705%.
- Benchmark 5-year yield was 0.5 bps higher at 1.285%.
- Benchmark 20-year yield was 1.5 bps lower at 2.160%.
- Benchmark 30-year yield was 1 bps lower at 2.415%.
- Lead June JGB futures contract was down 0.02 at 134.38.

02:15 08/14 **FX** (European Open): The dollar goes into early European trade on a relatively firm footing after keeping within a \$1.3604/21 range versus the euro overnight. Cross plays are once again dominating dollar-yen, currently sitting in the middle of the Y117.77-Y118.30 range, whilst euro-yen remains heavy on a Y160 handle. Kiwi sits near the lows on the day after losing nearly a cent on unexpectedly weak NZ retail sales data, allowing Aussie-kiwi to push through Nzd1.1450. Note the BOJ and RBA drained liquidity from markets overnight as overnight rates fell below targets, stocks also seeing a stable session. On the US data front today, the trade balance for June is due to be released at 1230GMT, with the market looking for an increase in the deficit to Usd61bn versus Usd60bn in May.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.46	#NUM!	#NUM!	#NUM!
10y	7.89	#NUM!	#NUM!	#NUM!
5y	4.38	1.41	\$440	€ 598
2y	1.85	0.60	\$186	€ 253
ZB	9.59	3.41	\$107	€ 145
ZN	5.66	1.97	\$62	€ 84
ZF	3.83	1.30	\$41	€ 55
ZT	1.77	1.16	\$36	€ 49

^Futures are Based on CTD

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	#NUM!	#NUM!	#NUM!
10y	#NUM!	#NUM!	#NUM!
5y	2.60	5.14	12.42
2y	1.10	2.17	5.25
ZB	0.63	1.24	3.01
ZN	0.36	1.34	1.74
ZF	0.24	0.48	1.15
ZT	0.21	0.42	1.03

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.28	€ 230	\$169	0.842561
Bobl	4.11	€ 116	\$86	0.959013
Schatz	1.71	€ 48	\$35	0.975468
DE10Y	7.88	€ 1,065	\$784	
DE5Y	4.11	€ 558	\$411	
DE2Y	1.71	€ 235	\$173	

^Futures are Based on CTD

Last

EURUSD 135.87

**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	4.53
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	4.448	4.448
US5y	4.563	4.559	4.559
US10y	4.774	4.766	4.766

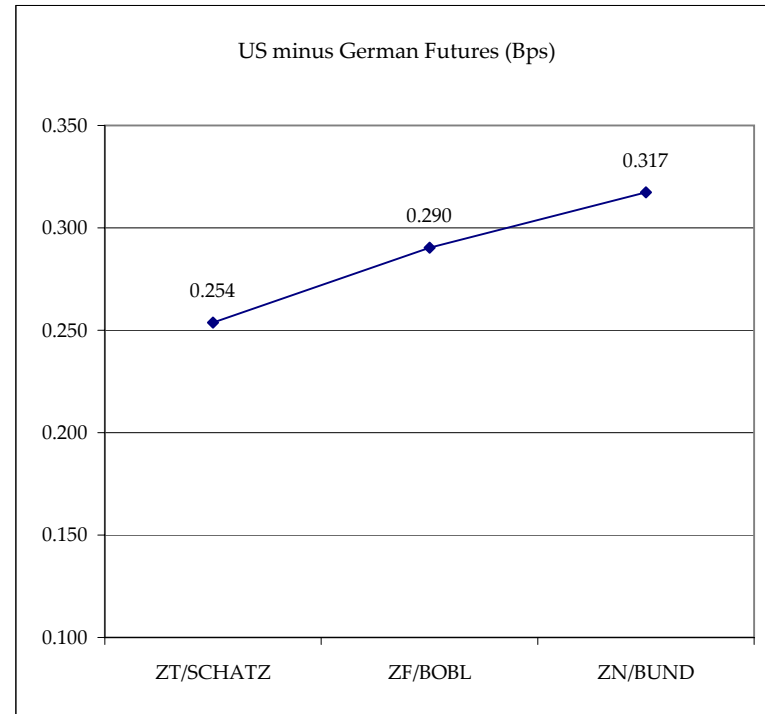
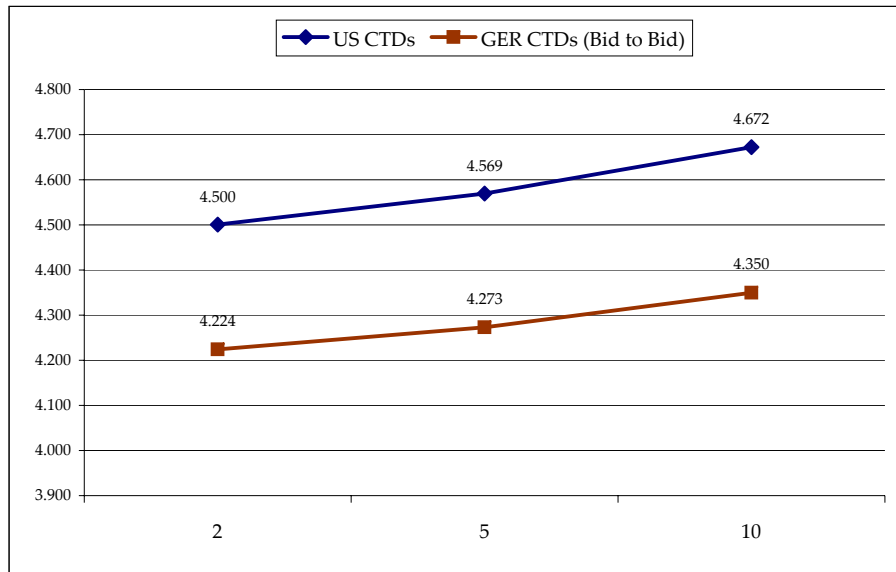
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.236	4.224	4.224
DE5y	4.305	4.295	4.295
DE10y	4.382	4.376	4.376

Spreads	
	Bps
ZT/SCHATZ	0.254
ZF/BOBL	0.290
ZN/BUND	0.317

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.500	4.478	4.478
4.500 of 11/11	4.569	4.563	4.563
4.750 of 05/14	4.672	4.667	4.667

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.236	4.224	4.224
4.000 of 04/12	4.305	4.295	4.273
4.000 of 07/16	4.357	4.350	4.350

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

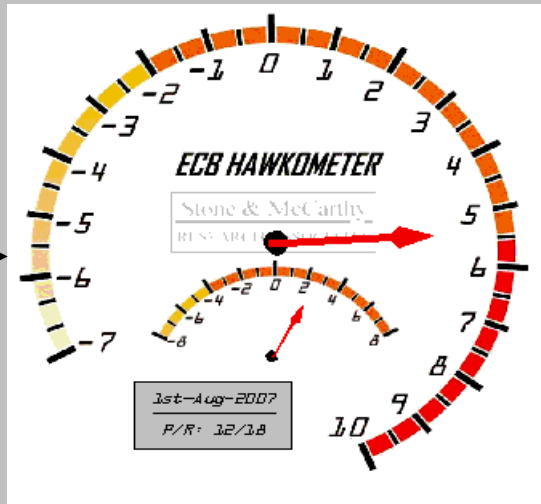
Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

### Repo

Accrual basis	actual	actual	actual
Year basis	360	0	365

Stone & McCarthy  
RESEARCH ASSOCIATES

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	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

Stone & McCarthy  
RESEARCH ASSOCIATES










**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%	