8/15/2007 5:48

The Morning Email: US & Germany

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MarketNews International

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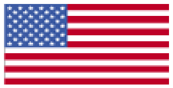
Correlation Matrix

		US Cash Treasuries			US Bonds/Notes (CBOT)				
SYM NAME	Symbol	2yr	5yr	10yr	ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGU7	(92.33)	(85.20)	(62.47)	94.60	82.34	77.18	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(92.73)	(94.84)	(81.05)	96.20	93.32	90.91	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(72.30)	(89.08)	(93.72)	76.42	89.12	91.84	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	102.242	2.7	102.297	102.227	102.227	42,397	248,911	2y Futures	US Futures Market
FVAU7	106.000	6.5	106.005	105.270	105.270	90,197	688,855	5y Futures	
TYAU7	108.025	6.5	108.060	107.295	107.295	178,025	1,446,285	10y Futures	
USAU7	110.000	7	110.040	109.250	109.260	23,678	378,166	30y Futures	

	Last	Net	Hi	Low	Open	Volume	
BUS02P	100.172	0.7	100.180	100.160	100.167	2y	US Cash Treasury Market
BUS05P	100.240	4.5	100.245	100.202	100.220	5y	
BUS10P	100.115	4.5	100.130	100.070	100.080	10y	
BUS30P	100.160	9	100.180	100.090	100.090	30y	
	Last	**Net**	**Hi**	**Low**	**Open**	**Volume**	
BUS02Y	4.330	(1.70)	4.393	4.309	4.393	2y Yield	
BUS05Y	4.453	(2.80)	4.511	4.447	4.511	5y Yield	
BUS10Y	4.703	(1.30)	4.74	4.695	4.74	10y Yield	
BUS30Y	4.964	(1.70)	4.993	4.959	4.993	30y Yield	

	Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	103.18	135.00	103.18	103.08	103.09	430,230	722,040	Schatz(2Y)	German Futures Markets
DLU7	107.61	285.00	107.63	107.41	107.41	289,604	582,534	Bobl(5Y)	
DBU7	113.03	34.00	113.12	112.86	112.90	652,266	1,342,614	Bund(10Y)	

	Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME	
T.US.DE044P0609	100.66	4.095	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	99.11	4.273	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	97.85	4.288	4.000	7/4/2016	10 yr CTD	
DEP2P	100.68	4.095	4.500	6/12/2009	2yr OTR	
DEP5P	99.15	4.201	4.000	4/13/2012	5yr OTR	
DEP10P	99.43	4.321	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	103.17	103.18	103.18	103.18	103.08	135.00	Schatz(2Y)	German Futures
DLU7	107.61	107.61	107.61	107.63	107.41	285.00	Bobl(5Y)	
DBU7	113.03	#VALUE!	113.03	113.12	112.86	34.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo		
DGU7	4.312	4.309	4.309	4.359	4.309	Schatz(2Y)	German Futures
DLU7	4.278	4.277	4.278	4.320	4.274	Bobl(5Y)	
DBU7	4.364		4.364	4.384	4.354	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE044P0609	4.106	4.095	4.095	4.259	4.184		2 yr CTD	German Cash
T.US.DE040P0412	4.210	4.201	4.273	4.344	4.256		5 yr CTD	
T.US.DE040P0716	4.295	4.288	4.288	4.399	2.508		10 yr CTD	
DEP2P	4.106	4.095	4.095	4.170	4.095	17	2yr OTR	
DEP5P	4.210	4.201	4.201	4.249	4.198	30	5yr OTR	
DEP10P	4.327	4.321	4.321	4.348	4.306	34	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE044P0609	100.66	100.68	100.68	100.68	100.55	0.17	2 yr CTD	German Cash
T.US.DE040P0412	99.11	99.15	99.15	99.16	98.95	30.00	5 yr CTD	
T.US.DE040P0716	97.85	97.90	97.90	97.95	97.68	36.00	10 yr CTD	
DEP2P	100.66	100.68	100.68	100.68	100.55	17.00	2yr OTR	
DEP5P	99.11	99.15	99.15	99.16	98.95	30.00	5yr OTR	
DEP10P	99.38	99.43	99.43	99.55	99.22	34.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

OTR = On the Run

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14/08/2007	15:15	EURO	chg	USA	chg	UK	chg
Futures	Bond	112.51	-0.04	109.25	-0.22	105.79	0.26
	STIR	95.61	-0.02	95.20	-0.03	93.92	0.05
Cash	3mth	4.52	0.01	5.53	-0.03	6.37	-0.02
	2yr	4.22	0.00	4.44	0.02	5.51	-0.05
	5yr	4.30	0.01	4.56	0.02	5.35	-0.03
	10yr	4.39	0.02	4.78	0.02	5.21	-0.02
	30yr	4.53	0.02	5.02	0.01	4.60	-0.02
	10yr-2yr	0.17	0.02	0.34	0.00	-0.30	0.03
Spreads	2yr	--	--	0.26	0.02	1.36	-0.04
vs euro	10yr	--	--	0.45	0.00	0.89	-0.04
FX	USD	1.358	-0.004	--	--	2.000	-0.013
	EUR	--	--	--	--	0.679	0.003
	YEN	160.45	-0.51	118.13	-0.12	236.27	-1.66
Equities		4243.6	-0.3%	1445.5	-0.5%	6235.3	%

Euro Mkt Summary: EGBs Mixed, Short Dates Outperform
by Charanjeev Chana
The Bund curve traded steeper on Tuesday afternoon with the short end outperforming, receiving some support from Hedge Fund bids according to MNI sources. Bunds pared earlier risk aversion gains after money markets appeared to calm, and following the release of stronger than expected headline US PPI. Bonds opened higher on risk aversion following reports of further possible subprime losses, and underpinned further by weak Q2 GDP data from Germany and France. German GDP slowed in the 3 months to June with weak construction spending the main drag in Q2 according to the German Statistics Office. French GDP was also softer in the second quarter on weaker capital spending. Subsequently, Eurozone Q2 GDP came in well below consensus forecasts, offering further support to short dates in morning trade. The ECB injected funds into the money markets today for the fourth successive day, pumping E7.7 billion on Tuesday morning, E39.965 billion less than the E47.665 billion allotted in another 1-day quick refi on Monday.

European equities were mixed in afternoon trade. The DAX was trading -0.29%, CAC 40 -0.81% whilst the FTSE outperformed, up 0.02% on the day. US stocks were weaker with the S&P 500 -0.56% and the Nasdaq -0.33%.

Sep-07 Bunds were 4 ticks lower at 112.51. In cash, German government benchmark yields were flat to 2bps higher with 2s outperforming. The 2s/10s spread was 1bps wider at 17bps and the 10s/30s spread was unchanged at 14bps.

(continued)
Gilts traded higher on Tuesday afternoon, outperforming trade in Europe. Short dated Gilts outperformed on the Gilt curve following much weaker than expected UK CPI which fell below the Bank of England's 2% target for the first time since March 2006. The market opened higher, paying little attention to the RICS house price balance overnight, which reported the net price balance higher than expected in July.

The UK sees the release of a plethora of key data on Wednesday morning, which will include official UK employment statistics and the Bank of England minutes for the August 2nd MPC meeting.

Jun-07 Gilts were 26 ticks higher at 105.79. In cash, UK government benchmark yields were 1bp to 2bps higher with the short end of the curve underperforming. The 2s/10s spread was -30bps vs. -33bps and the 10s/30s spread was unchanged at -61bps.

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[All Times Eastern]

05:08 08/15 **BUNDS:** Sep bund futures are little changed in the wake of the 10-year Bund auction, as the solid 1.9 cover is seen as solid. The Sep contract was lasy 24 ticks higher at 112.98, while the 10Y yield was 3 bps lower at 4.33%.

06:35 08/15 **CREDIT:2,** The widely watch itraxx crossover indices has moved out to the 260bps level, although with no real pick up in momentum, it will probably take another downturn in equities to drag the indices back towards the 400bp level, according to traders. Sentinel, Coventree and Basis Capital have been the overnight names related to fund closure, funding problems or not being able to quantify losses.

04:30 08/15 **BOE AUG MINUTES:** MPC United In Leaving Rates On Hold
--Most MPC Had No Firm View If Rates Needed To Rise Further
--MPC: Credit Market Developments Posed Risk To BOE Projections
----
The BOE's Monetary Policy Committee voted unanimously to leave rates on hold at the Aug meeting, with most members saying they had "no firm view on whether would need to rise further," the minutes published Wednesday revealed. The unanimous MPC vote, coupled with a sharp fall in the July inflation data which was not available to the committee at its August meeting, will reinforce the market view that another hike is no longer inevitable. The minutes revealed that no MPC members made the case for tightening at the Aug meeting. Most analysts had expected the 9 to 0 outturn, although a substantial minority had predicted at least 2 MPC members, Besley and Sentance, would have voted for a hike.

(continued)
04:30 08/15 **UK DATA**: July claimant Count Unemployment -8,500 m/m; rate 2.6%
--July claimant count rate lowest since April 2005
--June headline average earnings +3.3% vs +3.5% in May
--June headline average earnings growth lowest since June 2003
--UK Apr-Jun ILO Unemployment Dn 45,000 Q/Q

Average earnings growth fell to 3.3% in June, the lowest for 4 years, and below the median forecast for a rise of 3.5%. The subdued nature of earnings growth comes hot on the heels of low CPI inflation data yesterday, and will further reduce expectations that the BOE will hike rates again this year. While earnings growth eased, claimant count unemployment posted the 10th m/m fall in July taking the rate to the lowest since April 2005. The ILO fall in unemployment of 45,000 in Apr-Jun was the largest drop since the 3 months to Dec 2003.

04:24 08/15 **EGBS:** Bunds are still well bid, as stocks remain under pressure. Despite the upcoming auction of E6 bn 10-yr Bunds, the Sep contract is 30 ticks higher at 113.04, with the yield 4 bps lower at 4.32%. Decent demand is expected for the German 10-year benchmark, given the issue's safe-haven qualities and provision of liquidity - which is seen offsetting any adverse impact on demand from current market volatility. This is the final tap of this benchmark issue, which will take the final outstanding amount to E19.0bln - the lowest amount outstanding for a German 10-year issue since January 2001, indicative of Germany's reduced financing needs and stronger fiscal position. The 2017 Bund was last sold on July 4th for E6bln, covered 1.8 times. Prior to this at its launch, the 4.25% July 2017 Bund was sold for E7bln and covered 1.7 times.

02:40 08/15 **JGB SUMMARY**: Japanese government bonds ended Wednesday's session higher across the board, as a renewed and sharp stock sell-off reignited the safe haven bid. The Nikkei 225 fell 2.2% to close at the lowest level in 2007. Good buying was seen from real money accounts across the board, with the 5-year sector finding very good demand. The 10-year JGB saw demand from both real money and hot money accounts, pushing the yield down 7 bps to a multi-month low. Short yields were also sharply lower, but the curve still flattened modestly as the Bank of Japan continued to drain liquidity from the market.
-- Benchmark 10-year yield was 7 bps lower at 1.635%.
-- Benchmark 5-year yield was 7.5 bps lower at 1.210%.
-- Benchmark 20-year yield was 6.5 bps lower at 2.095%.
-- Benchmark 30-year yield was 7 bps lower at 2.355%.
-- Lead June JGB futures contract was up 0.68 at 135.00.

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.49	4.98	$1,557	€ 2,100
10y	7.89	2.53	$792	€ 1,068
5y	4.38	1.42	$442	€ 597
2y	1.85	0.60	$186	€ 251
ZB	9.60	3.43	$107	€ 145
ZN	5.66	1.99	$62	€ 84
ZF	3.83	1.31	$41	€ 55
ZT	1.76	1.16	$36	€ 49

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.28	€ 229	$170	0.842561
Bobl	4.11	€ 116	$86	0.959013
Schatz	1.71	€ 48	$36	0.975468
DE10Y	7.88	€ 1,062	$788	
DE5Y	4.11	€ 557	$413	
DE2Y	1.71	€ 234	$173	

^Futures are Based on CTD

	Last
EURUSD	134.90

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	9.16	18.08	43.85
10y	4.66	9.20	22.31
5y	2.60	5.14	12.46
2y	1.10	2.16	5.25
ZB	0.63	1.25	3.02
ZN	0.36	1.34	1.75
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
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)	1.00	1.91	4.55
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.

Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	4.334	4.330	4.330
US5y	4.455	4.453	4.453
US10y	4.705	4.703	4.703

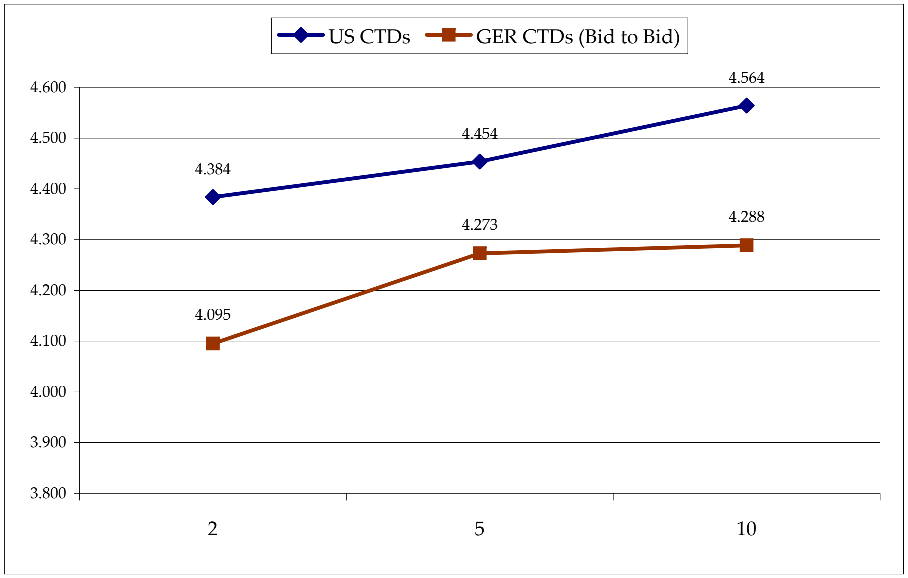
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.106	4.095	4.095
DE5y	4.210	4.201	4.201
DE10y	4.327	4.321	4.321

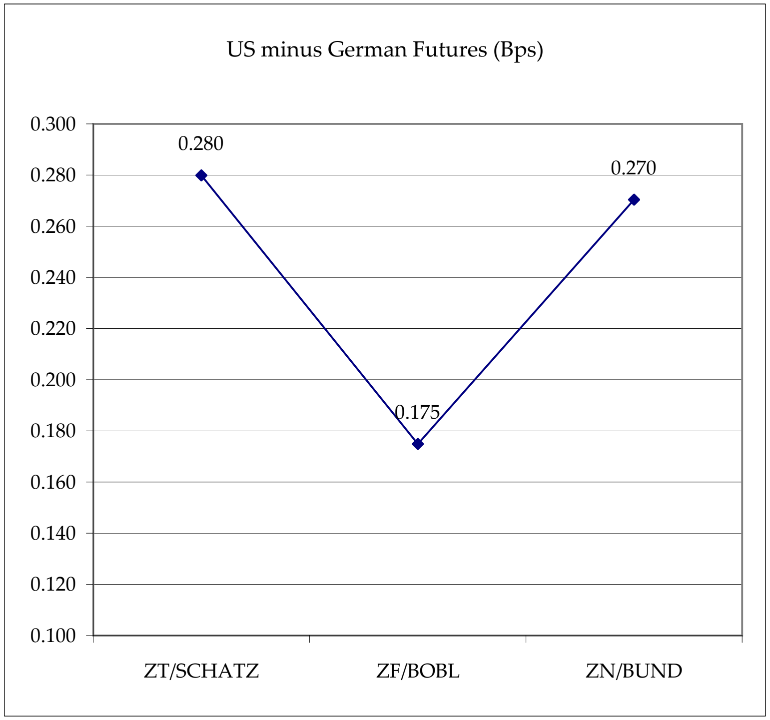
	Spreads
	Bps
ZT/SCHATZ	0.280
ZF/BOBL	0.175
ZN/BUND	0.270

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
4.000 of 06/09	4.384	4.375	4.375
4.500 of 11/11	4.454	4.448	4.448
4.750 of 05/14	4.564	4.559	4.559

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.106	4.095	4.095
4.000 of 04/12	4.210	4.201	4.273
4.000 of 07/16	4.295	4.288	4.288

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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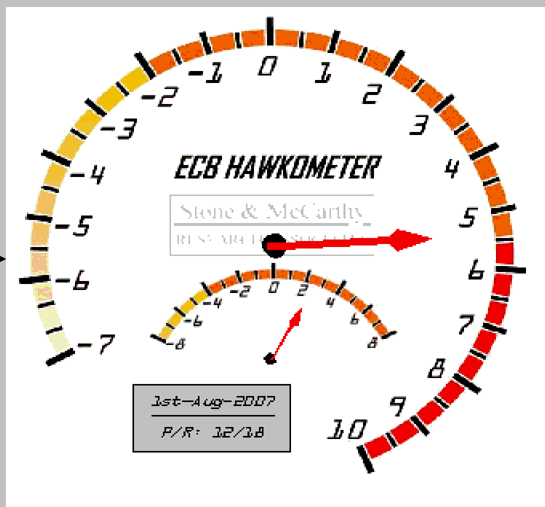

09:40 **07/31 ECB:** The European Central Bank is on track to hike interest rates in September or October given persistent upside risks to price stability, but it is closely watching unfolding financial market turbulence, well-informed sources have told Market News International. Some sources signalled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