



# The Morning Email: US & Germany



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-- Stone & McCarthy (London) --  
 Germany sold E5.158bln in the final tap of the benchmark 4.25% July 2017 Bund on Wednesday morning. The average yield of the bond issue was 4.32%, down from 4.59% at the previous sale on July 4th (Yield of this issue closed at 4.358% yesterday). E0.625bln was retained (13.67% of total volume issued) to bring the total amount issued today to E6bln.

Demand for the 4.25% July 2017 Bund issue strengthened, with total bids of E9.750 billion (of which E5.010bln were non-competitive) yielding a cover of 1.9 times vs. 1.8 times at the previous auction on July 4th. This is the strongest bid to cover for a German 10-year issue since January 8th 2003. Bundesbank retention of total issuance however rose slightly to 13.67%, higher than the 10.83% of total issuance retained at the previous sale. This is however still below the 12-month average of 16.27% for German 10-year auctions.

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	(94.57)	(89.85)	(72.15)	96.47	91.06	89.19	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(95.07)	(94.35)	(81.11)	97.24	95.85	94.92	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(88.07)	(94.63)	(91.33)	89.70	95.29	96.25	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	102.310	4.5	102.312	102.255	102.267	76,194	345,914	2y Futures	<b>US Futures Market</b>	
FVAU7	106.125	9.0	106.140	106.020	106.040	112,604	930,134	5y Futures		
TYAU7	108.190	12.5	108.210	108.050	108.070	208,572	1,590,029	10y Futures		
USAU7	110.060	19	110.090	109.170	109.180	65,452	386,424	30y Futures		



		Last	Net	Hi	Low	Open	Volume		
BUS02P		100.250	6.0	100.252	100.197	100.207	2y	<b>US Cash Treasury Market</b>	
BUS05P		101.050	12.0	101.062	100.270	100.282	5y		
BUS10P		100.245	19.0	100.270	100.090	100.125	10y		
BUS30P		100.170	102	100.215	99.260	99.260	30y		
	Last	Net	Hi	Low	Open	Volume			
BUS02Y	4.191	(10.10)	4.3	4.191	4.3	2y Yield			
BUS05Y	4.361	(8.30)	4.465	4.35	4.439	5y Yield			
BUS10Y	4.649	(7.30)	4.72	4.64	4.72	10y Yield			
BUS30Y	4.961	(6.40)	5.042	4.953	5.022	30y Yield			

		Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	103.49	295.00	103.57	103.20	103.22	809,346	904,652	Schatz(2Y)	<b>German Futures Markets</b>	
DLU7	108.22	530.00	108.34	107.67	107.75	496,051	690,508	Bobl(5Y)		
DBU7	113.64	46.00	113.80	113.12	113.24	848,041	1,411,777	Bund(10Y)		



	Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME	
T.US.DE044P0609	100.94	3.932	4.500	6/12/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE040P0412	99.69	4.273	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	98.31	4.224	4.000	7/4/2016	10 yr CTD	
DEP2P	100.96	3.932	4.500	6/12/2009	2yr OTR	
DEP5P	99.73	4.061	4.000	4/13/2012	5yr OTR	
DEP10P	99.97	4.253	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	103.49	103.49	103.49	103.57	103.20	295.00
DLU7	108.22	108.23	108.22	108.34	107.67	530.00
DBU7	113.63	113.64	113.64	113.80	113.12	46.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.148	4.146	4.148	4.296	4.107
DLU7	4.146	4.145	4.146	4.265	4.120
DBU7	4.295	4.294	4.295	4.354	4.275

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	3.943	3.932	3.932	4.170	4.077	
T.US.DE040P0412	4.070	4.061	4.273	4.249	4.181	
T.US.DE040P0716	4.231	4.224	4.224	4.327	4.270	
DEP2P	3.943	3.932	3.932	4.112	3.886	32
DEP5P	4.070	4.061	4.061	4.191	4.032	59
DEP10P	4.259	4.253	4.253	4.315	4.230	62

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	100.94	100.96	100.96	101.04	100.65	0.32
T.US.DE040P0412	99.69	99.73	99.73	99.85	99.19	59.00
T.US.DE040P0716	98.31	98.36	98.36	98.51	97.92	54.00
DEP2P	100.94	100.96	100.96	101.04	100.65	32.00
DEP5P	99.69	99.73	99.73	99.85	99.19	59.00
DEP10P	99.92	99.97	99.97	100.15	99.48	62.00

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

10:45 08/15 **EGB CLOSING SUMMARY:** The Bund curve traded steeper on Wednesday afternoon with the short end outperforming on risk aversion buying. US CPI data was met with a muted reaction after both headline and core measures came in line with consensus expectations.

The market soon pared gains on risk aversion unwinding following a rebound in equity bourses. EGBs opened higher Wednesday morning, on renewed stock jitters and credit concerns after the broadening fallout from the US sub prime mortgage market triggered a fresh run on Japanese equities overnight, and flight to quality into JGBs. Amidst a lack of Eurozone data, the market was underpinned by weaker stocks and decent results for the final tap of the 4.25% July 2017 Bund. The bid to cover for the benchmark issue rose to 1.9 times vs. 1.8 times previously - the strongest cover for a German 10-year issue since January 8th 2003. Retention of total volume by the BBK was also low at 13.67%.

10:40 08/15 **U07 GILT COMMENTARY:** Gilt has seen a bullish break for momentum, while daily stochastics try to turn higher. Market is broadly constructive while above the 21-day moving average at 105.35. Market reached 106.53, which is multiple resistance, including a 50% projection of the 102.90/106.05 upmove, taken from the 104.92 low, and the 61.8% retracement of the same move should offers additional resistance at 106.86. Initial support is 106.17 with also the 5 and 100-day moving averages, at 105.50, 105.75.

10:03 08/15 **US EURODLR/SWAPS:** Sources report a Chicago FCM sold 400 1yr bundles at +0.75 to steady. Overall swap-flow remains two way in fronts to intermediates along with some deal related hedges/unwinds early as spds remain near session/7+ year wides. According to GovPX:

Time (ET)	2Y Swap/Mid	5Y Swap/Mid	10Y Swap/Mid	30Y Swap/Mid
10:00	+2.00/65.75	+2.50/72.25	+1.00/74.75	-0.50/71.00
9:00	+2.25/66.00	+2.25/72.00	+1.00/74.75	+0.00/71.50
Wed Open	+1.50/65.25	+2.00/71.75	+0.75/74.50	-0.25/71.25
Wed 7:35	+1.50/65.25	+2.50/72.25	+1.25/75.00	+0.50/72.00
Tue 3:00	+3.25/63.75	+2.25/69.75	+1.75/73.75	+0.50/71.50

**09:55 08/15 U07 BUND:** Second Doji Signal May Help Recovery

RES 4: 113.96 61.8% retracement of decline from 116.62 to 109.66

RES 3: 113.53 Opening high 14 May,

RES 2: 113.34/38 Daily highs 30 July, 1 August

RES 1: 113.18/22 Session high, Daily high 6 Aug

PREVIOUS CLOSE: 112.74

SUP 1: 112.84 Opening gap from 15 Aug open

SUP 2: 112.70 5-day moving average

SUP 3: 112.45 21-day moving average

SUP 4: 111.91/96 Sup line fm 9Jul, 38.2% of advance fm 109.66, Low 8 Aug

COMMENTARY: The Bund has recorded two 'doji' patterns this week, including 'hanging man' on Tuesday, which may combine with a pickup in momentum and signs of a continuation triangle pattern to signal a fresh upmove. Daily stochastics are still weak however, and break below 21-day moving average and rising trendline at 111.91 would negate the signal. 113.38 cycle high could be key for the upside.



[All Times Eastern]

06:38 08/16 **BUNDS:** Market pressing to fresh highs as stops tripped. Pushes through 113.53 with bulls focus now on the 113.96 Fibonacci level, which is a 61.8% retracement of the decline from 116.62 to 109.66

06:25 08/16 **BUND SUMMARY:** More market jitters as bonds move higher, curves steepen with the front-end outperforming, and carry trades unwind in the FX market. Stocks are also feeling the pressure with European markets off around 2.5%. The Bund future was higher from the start of trade, reaching 113.49 (+60). The move breaks through 113.38 highs and the technical picture focuses on 113.43 opening high from 14 May ahead of 113.96 Fibonacci level, which is a 61.8% retracement of the decline from 116.62 to 109.66. Despite yields being lower across the curve, shorter-dated paper has seen the bulk of investor demand, triggering a sharp steepening of the curve. The yield on the 10-year is down 4 bps at 4.290%, while the 2-year German Schatz was yielding 4.04%, down 10 bps on the day. subsequently, the 2-/10-year yield spread gained 6bps to +25bps. The 10-/30-year yield spread is at +18 bps vs +16 bps. Elsewhere, Italy vs Germany 10-year spread has hit 30bps, it's widest level in two weeks.

06:41 08/16 **EUROZONE:** Reported comments from eurozone officials Thursday,

\*\* FRANCE SARKOZY: Writes letter to Germany's Merkel,

- Authorities must be 'very vigilant' over financial market correction
- Pleased that monetary authorities have coordinated efforts on liquidity
- Sure that financial market movement will not have lasting impact on growth
- Must question role of ratings agencies in identifying risks (Rtrs)

\*\* GERMANY: The US subprime crisis will not hurt German economic growth given the small credit exposure of businesses and private households in the country, a German government advisor said Thursday. "We do not have private households that are demanding home loans on a large scale," Peter Bofinger, a member of the government's Council of Independent Economic Advisors, the so-called five wise men, told national radio Deutschlandradio.

(continued)

06:40 08/16 **EUROPEAN STOCKS:** European equity markets are lower. In London, the FTSE-100 is down 3.0%, in Paris the CAC is down 3.2% and in Frankfurt, the DAX is down 2.8%. U.S. index futures are trading lower. The S&P September contract is down 20 points and the Nasdaq September contract is 21 points lower.

06:32 08/16 **CREDIT:** Ahead of the US open, CDS spreads are relatively steady, as prices have seen little change after sectors were initially marked lower on the open this morning. Trading volumes remain very thin, with reports of little or no business being done in less liquid sectors. The mid morning draft down in equities had little impact on CDS with itraxx crossover still trading around the 384bps level, however traders say there could be further defensive activity in the financials if key housing data due out in the US later, proves to be worse than feared.

02:43 08/16 **JGB SUMMARY:** JGBs ended Thursday's session mixed, unable to find and solid support from the continued turmoil in global stockmarkets. Despite early falls for the Nikkei 225, JGBs were lower from the start of trade, as profit-taking from hot money accounts kicked in, taking advantage of the strong gains seen in the previous session. However, JGB prices soon rallied across the curve, as the slide in stocks became so great a further round of safe haven buying was seen. But stocks rallied from their lows, and JGBs were unable to consolidate at the session's best levels. Traders said volumes were modest, with many players unprepared to open fresh trading positions ahead of the upcoming Bank of Japan meeting.

- Benchmark 10-year yield was 2.5 bps higher at 1.665%.
- Benchmark 5-year yield was 1bps lower at 1.195%.
- Benchmark 20-year yield was unchanged at 2.095%.
- Benchmark 30-year yield was unchanged at 2.370%.
- Lead June JGB futures contract was up 0.03 at 135.03.

**07:00 08/16 JAPAN (correct): BOJ's UK representative declines to comment on yen's surge (rtrs)**



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.49	4.99	\$1,559	€ 2,088
10y	7.89	2.55	\$796	€ 1,066
5y	4.38	1.42	\$444	€ 595
2y	1.85	0.60	\$187	€ 250
ZB	9.61	3.45	\$108	€ 144
ZN	5.66	1.99	\$62	€ 83
ZF	3.83	1.32	\$41	€ 55
ZT	1.76	1.17	\$36	€ 49

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.29	€ 229	\$171	0.842561
Bobl	4.11	€ 116	\$87	0.959013
Schatz	1.71	€ 48	\$36	0.975468
DE10Y	7.89	€ 1,062	\$793	
DE5Y	4.11	€ 557	\$416	
DE2Y	1.71	€ 233	\$174	

^Futures are Based on CTD

Last

EURUSD 133.97

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	9.12	17.98	43.78
10y	4.66	9.18	22.35
5y	2.60	5.12	12.48
2y	1.09	2.15	5.24
ZB	0.63	1.24	3.03
ZN	0.36	1.34	1.75
ZF	0.24	0.47	1.16
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	4.56
Bobl (U)	0.58	1.00	2.39
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	4.208	4.191	4.191
US5y	4.363	4.361	4.361
US10y	4.653	4.649	4.649

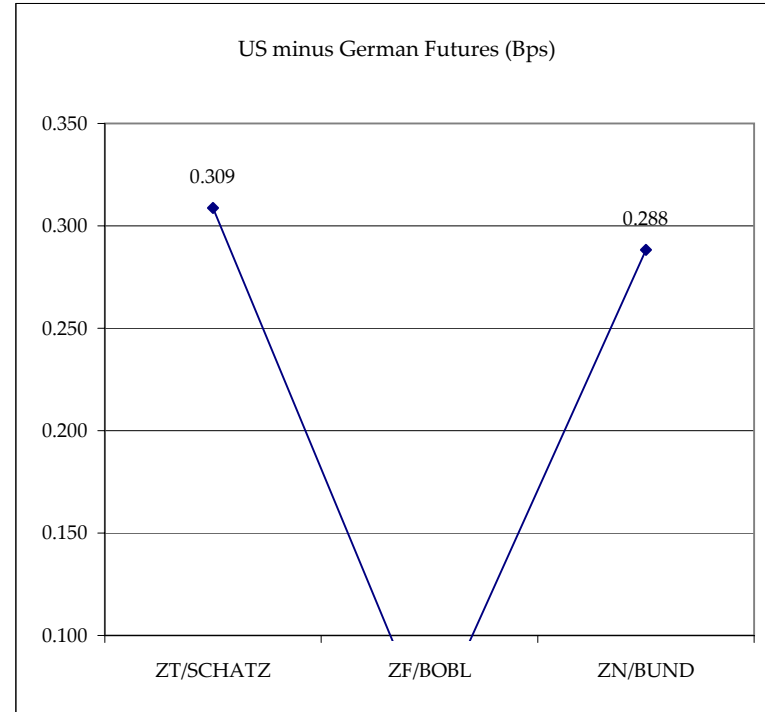
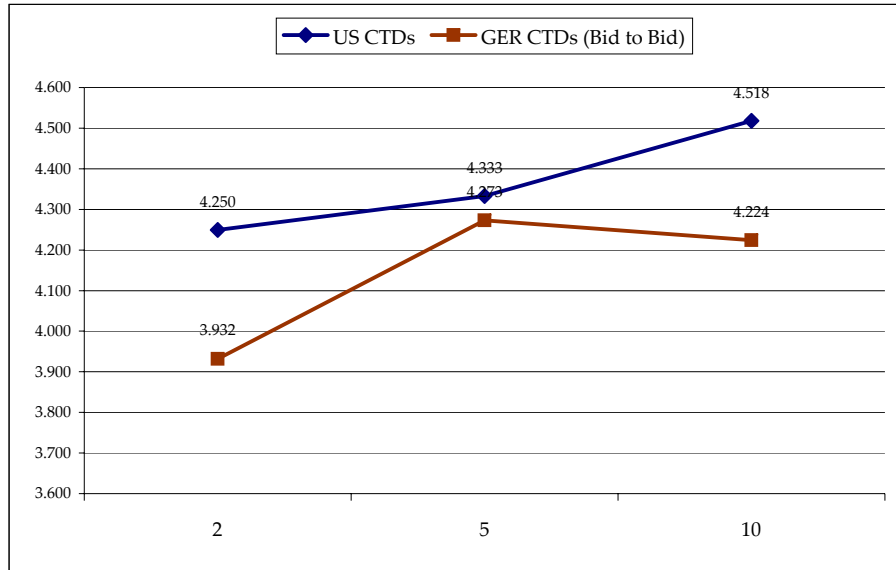
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	3.943	3.932	3.932
DE5y	4.070	4.061	4.061
DE10y	4.259	4.253	4.253

Spreads	
	Bps
ZT/SCHATZ	0.309
ZF/BOBL	0.054
ZN/BUND	0.288

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.250	4.241	4.241
4.500 of 11/11	4.333	4.327	4.327
4.750 of 05/14	4.518	4.513	4.513

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	3.943	3.932	3.932
4.000 of 04/12	4.070	4.061	4.273
4.000 of 07/16	4.231	4.224	4.224

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

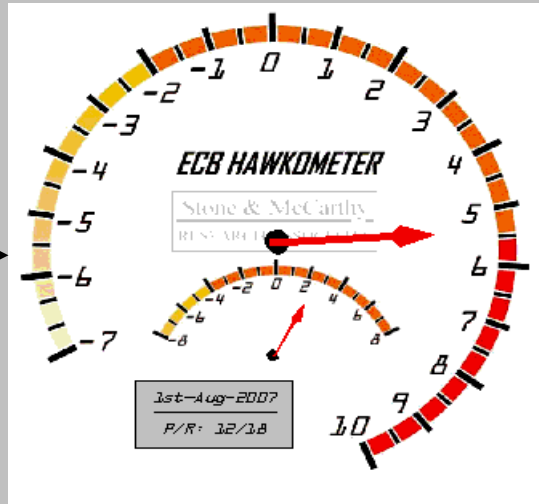
### Trading Basis

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



#### Stone & McCarthy (London) --

[highlights]

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.

#### September or October?

Officials provided few obvious signals to confirm timing of the next interest hike - widely expected to take place in either September or October. When pressed for confirmation to this regard, the usual response was non-committal, including calls for the need to "wait for incoming data and assess the situation in September" and the use of the mantra "the ECB "never precommits."

**Most Recent MPC Meetings:**










	King (Gov)	Lomax (Dep Gov)	Gieve (Dep Gov)	Bean	Tucker	Barker	Blanchflower	Besley	Sentance	Result	Level	Vote	Dis-sent bias
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
Aug-07	unch	unch	unch	unch	unch	unch	unch	unch	unch	unch	5.75%	9-0	none

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**BOE Hawkometer – MPC Unanimous in Keeping Rates On Hold**  
**by Niraj Shah**  
 15 August 2007  
 [highlights]  
 The Bank of England minutes showed that the Monetary Policy Committee had voted unanimously to leave rates on hold at the August meeting, with most members saying they had "no firm view on whether would need to rise further". 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.

**BOE HAWKOMETER (to August 2007 meeting)**

	Dissenting Hawkish Votes	Dissenting Dovish Votes	Non-Dissenting Votes	Total Votes	Hawkishness Rating
 <b>Sentance</b>	4	0	7	11	36%
 <b>Besley</b>	4	0	8	12	33%
 <b>King (Gov)</b>	14	0	110	124	11%
 <b>Tucker</b>	6	1	56	63	8%
 <b>Gieve (Dep Gov)</b>	1	0	18	19	5%
 <b>Lomax (Dep Gov)</b>	2	3	45	50	-2%
 <b>Barker</b>	1	4	71	76	-4%
 <b>Bean</b>	0	5	79	84	-6%
 <b>Blanchflower</b>	0	5	10	15	33%