



The Morning Email: US & Germany



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Want something added? Let me know: jgoulding@ghco.com

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The Morning Email, US&GER

Stone & McCarthy
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MarketNews
International

Correlation Matrix

SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	(97.12)	(98.04)	(95.56)	99.56	99.31	99.52	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(97.10)	(98.07)	(95.31)	99.20	99.05	99.32	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(95.48)	(96.67)	(94.42)	98.15	98.18	98.69	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	103.097	5.5	103.100	103.040	103.040	38,486	241,632	2y	Futures	
FVAU7	107.010	11.5	107.020	106.215	106.220	66,848	579,882	5y	Futures	
TYAU7	109.080	15.5	109.095	108.265	108.270	163,406	939,282	10y	Futures	
USAU7	110.220	14	110.250	110.070	110.080	31,335	261,460	30y	Futures	

**US
Futures
Market**



		32 nds								
	Last	Net	Hi	Low	Open	Volume				
BUS02P	#VALUE!	6.2	101.062	101.005	101.005	2y				
BUS05P	101.260	11.7	101.267	101.150	101.157	5y				
BUS10P	101.120	12.5	101.140	100.310	101.005	10y				
BUS30P	100.270	11	100.310	100.155	100.160	30y				

**US Cash
Treasury
Market**

	Last	Net	Hi	Low	Open	Volume				
BUS02Y	3.982	(10.20)	4.125	3.97	4.125	2y Yield				
BUS05Y	4.213	(8.10)	4.316	4.206	4.316	5y Yield				
BUS10Y	4.577	(4.90)	4.641	4.565	4.641	10y Yield				
BUS30Y	4.945	(1.60)	4.976	4.935	4.976	30y Yield				

		Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	103.68	190.00	103.69	103.48	103.50	526,538	556,713	Schatz(2Y)	German Futures Markets	
DLU7	108.66	450.00	108.69	108.19	108.22	290,523	409,032	Bobl(5Y)		
DBU7	114.00	58.00	114.05	113.47	113.55	645,866	778,002	Bund(10Y)		



	Price	Yield						
	Last	Last	Coupon	Maturity	SYM NAME			
T.US.DE044P0609	101.12	3.825	4.500	6/12/2009	2 yr CTD			
T.US.DE040P0412	100.12	4.273	4.000	4/13/2012	5 yr CTD			
T.US.DE040P0716	98.64	4.179	4.000	7/4/2016	10 yr CTD			
DEP2P	101.14	3.825	4.500	6/12/2009	2yr OTR			
DEP5P	100.16	3.957	4.000	4/13/2012	5yr OTR			
DEP10P	100.29	4.212	4.250	7/4/2017	10yr OTR			

**German
Cash
Treasury
Market**

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	#VALUE!	#VALUE!	103.68	103.69	103.48	190.00
DLU7	108.66	108.67	108.66	108.69	108.19	450.00
DBU7	114.00	114.01	114.00	114.05	113.47	58.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7			4.048	4.154	4.042
DLU7	4.053	4.051	4.051	4.152	4.047
DBU7	4.252	4.251	4.251	4.313	4.246

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	3.836	3.825	3.825	4.029	3.936	
T.US.DE040P0412	3.967	3.957	4.273	4.126	4.056	
T.US.DE040P0716	4.186	4.179	4.179	4.290	4.227	
DEP2P	3.836	3.825	3.825	3.947	3.819	20
DEP5P	3.967	3.957	3.957	4.075	3.950	42
DEP10P	4.218	4.212	4.212	4.278	4.203	41

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	101.12	101.14	101.14	101.15	100.93	0.20
T.US.DE040P0412	100.12	100.16	100.16	100.19	99.67	42.00
T.US.DE040P0716	98.64	98.69	98.69	98.75	98.22	37.00
DEP2P	101.12	101.14	101.14	101.15	100.93	20.00
DEP5P	100.12	100.16	100.16	100.19	99.67	42.00
DEP10P	100.24	100.29	100.29	100.36	99.77	41.00

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

MarketNews
international

11:16 08/20 US MKTS/FED: FT is reporting that **Deutsche Bank** tapped the Fed discount window on Friday.

10:51 08/20 **EGB CLOSING SUMMARY:** EGBs traded mixed on Monday afternoon with the belly of the curve outperforming. Late flight-to-quality buying in short-dated US T Bills was noted, which also underpinned and reversed earlier Bund curve flattening. The ECB called for bids on new 7-day main refinancing operation due on Tuesday and in a subsequent statement, said it intended "to gradually reduce the large reserve surplus" that has accumulated in the first weeks of the current reserve maintenance period resulting from its massive injection of liquidity. Bunds opened lower on safe haven unwinding after global stocks surged following the Federal Reserve's decision to cut its rate on primary credit by 50bps on Friday. The FOMC also noted that "downside risks to growth have increased appreciably," reinforcing expectations of a near term cut in the Fed Funds rate. European equity bourses opened on a stronger footing taking cue from rallying stock markets overnight, which further weighed on sentiment. Volumes were light given a dearth of Eurozone economic data.

Stone & McCarthy
RESEARCH ASSOCIATES

by Charanjeev Chana

European equities were stronger in afternoon trade. The DAX was trading +0.41%, CAC 40 +1.26% and the FTSE +0.67% on the day. US stocks were also stronger with the S&P 500 +0.02% and the Nasdaq +0.34%.

Sep-07 Bunds were 3 ticks higher at 113.36. In cash, German government benchmark yields were 1bp to 3bps higher with 10s outperforming. The 2s/10s spread was 31bps vs. 33bps and the 10s/30s spread was 23bps vs. 21bps.

Gilts trade mixed on Monday afternoon with short dated issued underperforming. The Gilt market underperformed trade in Europe earlier on Monday after BBA UK mortgage lending data rose sharply in July.

Jun-07 Gilts were unchanged at 106.74. In cash, UK government benchmark yields were 1bp lower to 3bps higher with the short end of the curve underperforming. The 2s/10s spread was -28bps vs. -25bps and the 10s/30s spread was -57bps vs. -55bps.



[All Times Eastern]

Note from Jim: Rumors are flying that US FED will cut rates this morning.

06:34 08/21 **CHINA: PBOC** hikes yuan benchmark one year deposit rate 27bps
 - Hikes one year benchmark lending rate by 18bps
 - Hikes take effect Aug22

06:42 08/21 **BUND SUMMARY:** European bond prices are higher on Tuesday, with gains led by the short-dated issues on heightened speculation of an emergency Federal Reserve cut in the Fed Funds rate. The 2-/10-year Bund yield spread steepened by 4 bps to +37 bps-level not seen since Aug 14, 2006. Speculation of a Fed inter-meeting cut in the Funds rate heightened ahead of US Treasury Secretary Hank Paulson meeting today with Senate Banking Committee Chairman Chris Dodd and Fed Chairman Ben Bernanke. Gains were short-end driven, with the yield on the 4.50% June 2009 Schatz was down 7.9 bps at 3.87% -- having hit intra-day low at 3.85% earlier, which is the lowest level since March 14. The move came ahead of the German ZEW survey, where the expectations index came in much below expected at -6.9 in Aug -- the lowest level since Dec 2006 vs MNI median forecast of -1.0. In supply news, Greek PDMA sold E1.2bln of the 4.70% Mar 2024 GGB at ave yield of 4.84% and covered 3.68 times. Elsewhere, Bunds eased after China hiked rates, but have since bounced.

05:15 08/21 **GILTS:** Gilts are outperforming Bunds as the 10-year Gilt/Bund yield spread narrows to +83bps vs +85bps on Monday. Traders report unwinding of short Gilt/long Bund trades. This yield spread has narrowed by 10bps since the weaker than expected UK July CPI data, and is now at it narrowest level since October 31, 2006.

03:05 08/21 **SCHATZ:** The yield on the 2-year Schatz breaks below 3.90% -- hits the lowest level since March 14.

(continued)

05:37 08/21 **UK:** Financial participants have made use of the **Bank of England's** standing lending facility, which lends money at a penalty rate of interest, was used Monday for the time since the liquidity crisis started. In all, Stg314 million was borrowed, the BOE announced. A BOE official said the last time the standing lending facility was used was July 17. The SLF lends unlimited funds at 6.75% and is designed to provide emergency liquidity to the UK banking system. The facility has been used over 20 times since the introduction of the new BOE money market funding system 18 months ago and is not an indication per se that any financial institution is in serious trouble.

05:54 08/21 **CREDIT: European CDS spreads** for single names have had a more mixed session this morning after a positive start early on....indices have been rangebound on the whole although the barometric iTraxx Xover index is around 9 bps wider on the day currently trading at the 348 bps level...

03:04 08/21 **JGB SUMMARY:** Japanese government bonds ended Tuesday's session modestly higher across the curve, pushing yields close to year-to-date lows. Despite a semblance of normality returning to global stockmarkets, traders said there was still enough unease surrounding global credit markets to underpin bonds. JGBs ended the morning session mixed, with the belly of the curve pressured by profit-taking. However, prices rallied across the board in afternoon trade, boosted as domestic stocks fell from highs. The front of the curve was higher in late trade, although few market players were prepared to open fresh positions ahead of the Bank of Japan's 2-day credit meet that starts Wednesday. Many had expected a BOJ rate hike as early as this week, although volatility in financial markets has largely pushed expectations back to the Sept meet.
 -- Benchmark 10-year yield was 2.25 bps lower at 1.5725%.
 -- Benchmark 5-year yield was 0.5 bps lower at 1.1325%.
 -- Lead June JGB futures contract was up 0.25 at 136.10.

06:45 08/21 **EUROZONE:** Reported comments from eurozone officials Tuesday,
 ** GERMANY FINMIN: EMU finmins shouldn't meddle in monetary policy
 - No spill over of financial market turmoil on real economy.
 ** FRANCE PM: 2007 growth of 2.25% remains reachable objective
 - 2008 growth of 2.5% also reachable given measures to take effect in Autumn
 - Fed, ECB, other authorities have handled financial market turmoil rather well, though more market turbulence possible
 - On market turbulence; Germany's Merkel does not think it necessary to hold G7 meeting.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.50	5.01	\$1,564	€ 2,110
10y	7.89	2.56	\$801	€ 1,080
5y	4.37	1.43	\$447	€ 602
2y	1.84	0.60	\$186	€ 252
ZB	9.59	3.43	\$107	€ 145
ZN	5.66	2.01	\$63	€ 85
ZF	3.82	1.32	\$41	€ 56
ZT	1.75	1.16	\$36	€ 49

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.28	€ 231	\$171	0.842561
Bobl	4.10	€ 117	\$87	0.959013
Schatz	1.69	€ 48	\$35	0.975468
DE10Y	7.89	€ 1,072	\$795	
DE5Y	4.10	€ 562	\$417	
DE2Y	1.69	€ 233	\$173	

^Futures are Based on CTD

Last

EURUSD 134.91

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	9.13	18.00	44.13
10y	4.67	9.21	22.59
5y	2.61	5.14	12.60
2y	1.09	2.14	5.26
ZB	0.63	1.23	3.03
ZN	0.37	1.34	1.77
ZF	0.24	0.48	1.17
ZT	0.21	0.42	1.03

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	3.000
Bobl (U)	0.970	1.470	1.664
Shatz (U)	0.382	0.578	0.653

Bloomberg
Ratio's

US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (U)	1.7	4.0	7.1
Bobl (U)	3.1	7.3	13.1
Shatz (U)	7.8	18.6	33.3

Bloomberg
Ratio's

Bund (U) Bobl (U) Shatz (U)

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.00	1.91	4.60
Bobl (U)	0.58	1.00	2.41
Shatz (U)	0.24	0.41	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	3.987	3.982	3.982
US5y	4.214	4.213	4.213
US10y	4.577	4.573	4.577

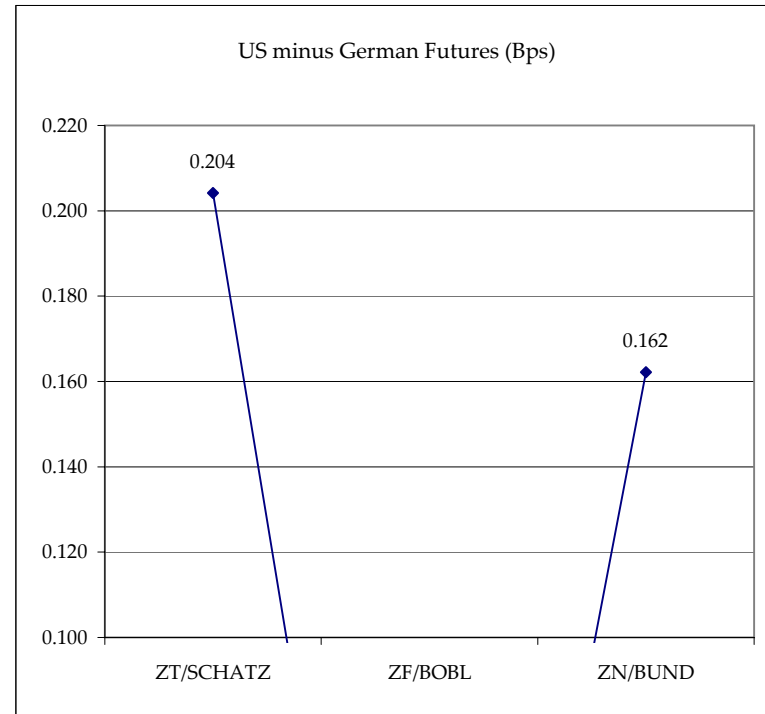
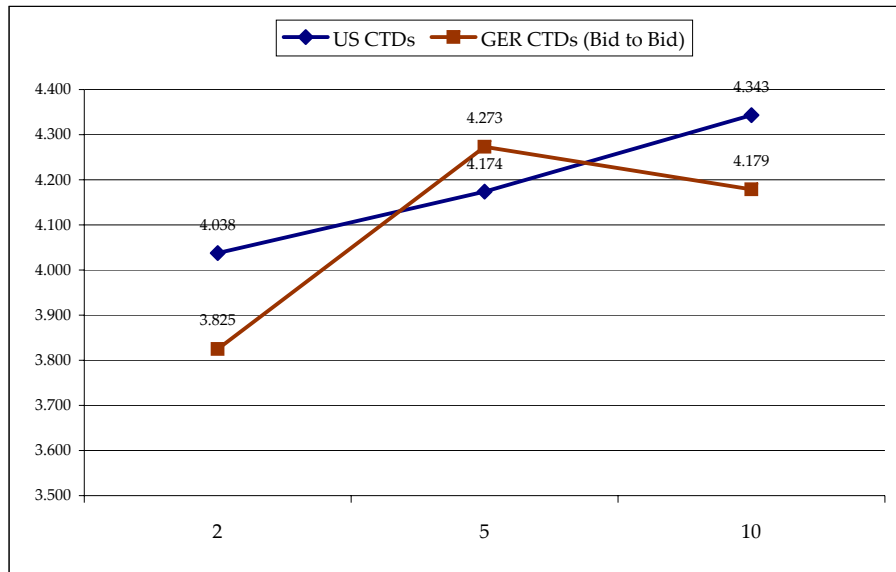
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	3.836	3.825	3.825
DE5y	3.967	3.957	3.957
DE10y	4.218	4.212	4.212

Spreads	
	Bps
ZT/SCHATZ	0.204
ZF/BOBL	-0.103
ZN/BUND	0.162

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.038	4.029	4.029
4.500 of 11/11	4.174	4.170	4.170
4.750 of 05/14	4.343	4.341	4.341

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	3.836	3.825	3.825
4.000 of 04/12	3.967	3.957	4.273
4.000 of 07/16	4.186	4.179	4.179

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

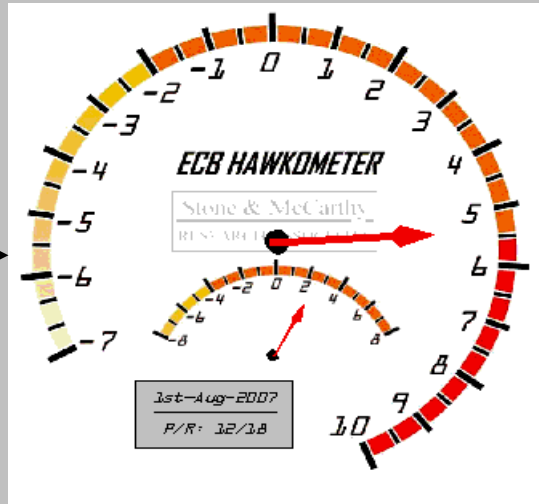
Trading Basis

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
 Sentance	4	0	7	11	36%
 Besley	4	0	8	12	33%
 King (Gov)	14	0	110	124	11%
 Tucker	6	1	56	63	8%
 Gieve (Dep Gov)	1	0	18	19	5%
 Lomax (Dep Gov)	2	3	45	50	-2%
 Barker	1	4	71	76	-4%
 Bean	0	5	79	84	-6%
 Blanchflower	0	5	10	15	33%