



The Morning Email: US & Germany



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MarketNews
international

09:37 08/22 **ECB**: 3 mth refi is technical measure to support money market normalisation
09:38 08/22 **ECB**: Monetary policy stance was expressed by President on Aug 2.

09:39 08/22 **BUNDS**: Sept Bunds hit session low at 113.22 after ECB says that "monetary policy stance was expressed by ECB President Trichet on Aug 2, i.e. strong vigilance.

11:23 08/22 **JAPAN**: Asian exposure to the CDO market is seen as relatively small.... However, Asia Pulse reports that three leading regional banks in central Japan do have subprime exposure. Hyakugo Bank has Y900mn (\$7.84mn) Juroku Bank Y170mn (\$1.5mn) and Mie Bank (amount unknown) all put money in subprime loanrelated products the report says. As a point of comparison, the two German regional banks in the news recently because of subprime investments had much larger exposure. Sachsen Landesbank lost E500mn after investing more than E3bn (\$4.05bn) and was bailed out with E17.3bn last week. IKB was rescued with a \$8.1bn line of credit after it was revealed that the bank had about \$24bn in subprime exposure.

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

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The Morning Email, US&GER

Stone & McCarthy
RESEARCH ASSOCIATES

Hey! Where are the Correlations? The R-Squared?

All correlations have been moved to a new morning email called.....The Morning Email: Correlations & R-Squared.

Thanks,
Jim

Quotes 1

		32 nds								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
TUAU7	102.282	(8.2)	103.045	102.242	103.040	423,172	359,783	2y Futures	US Futures Market	
FVAU7	106.100	(15.5)	106.250	106.065	106.245	678,797	659,627	5y Futures		
TYAU7	108.195	(14.5)	109.025	108.145	109.020	1,268,367	1,313,203	10y Futures		
USAU7	110.060	(14)	110.190	109.290	110.180	304,717	320,286	30y Futures		



		32 nds								
	Last	Net	Hi	Low	Open	Volume				
BUS02P	#VALUE!	(8.7)	101.035	100.247	101.017	2y			US Cash Treasury Market	
BUS05P	101.040	(16.2)	101.205	101.030	101.205	5y				
BUS10P	100.255	(15.0)	101.085	100.205	101.085	10y				
BUS30P	100.175	(7)	100.270	100.050	100.195	30y				
	Last	Net	Hi	Low	Open	Volume				
BUS02Y	4.175	14.70	4.213	4.002	4.04	2y Yield				
BUS05Y	4.365	11.50	4.379	4.241	4.258	5y Yield				
BUS10Y	4.647	5.90	4.673	4.583	4.596	10y Yield				
BUS30Y	4.962	1.70	4.991	4.939	4.949	30y Yield				

		Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	103.33	(280.00)	103.55	103.16	103.55	1,244,914	955,087	Schatz(2Y)	German Futures Markets	
DLU7	107.96	(505.00)	108.35	107.75	108.35	673,613	667,868	Bobl(5Y)		
DBU7	113.31	(56.00)	113.71	113.10	113.68	1,322,611	1,211,853	Bund(10Y)		



	Price	Yield					
	Last	Last	Coupon	Maturity	SYM NAME		
T.US.DE044P0609	100.78	4.020	4.500	6/12/2009	2 yr CTD		German Cash Treasury Market
T.US.DE040P0412	99.43	4.061	4.000	4/13/2012	5 yr CTD		
T.US.DE040P0716	98.06	4.259	4.000	7/4/2016	10 yr CTD		
DEP2P	100.80	4.020	4.500	6/12/2009	2yr OTR		
DEP5P	99.47	4.124	4.000	4/13/2012	5yr OTR		
DEP10P	99.67	4.290	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	103.33	103.34	103.33	103.55	103.16	-280.00
DLU7	107.94	107.98	107.96	108.35	107.75	-505.00
DBU7	#VALUE!	113.31	113.31	113.71	113.10	-56.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.229	4.226	4.229	4.320	4.115
DLU7	4.206	4.198	4.203	4.248	4.118
DBU7		4.332	4.332	4.356	4.286

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.031	4.020	4.020	3.947	3.807	
T.US.DE040P0412	4.133	4.124	4.061	4.075	3.948	
T.US.DE040P0716	4.266	4.259	4.259	4.244	4.169	
DEP2P	4.031	4.020	4.020	4.125	3.915	-26
DEP5P	4.133	4.124	4.124	4.182	4.044	-45
DEP10P	4.297	4.290	4.290	4.327	4.246	-47

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	100.78	100.80	100.80	100.98	100.62	-0.26
T.US.DE040P0412	99.43	99.47	99.47	99.80	99.23	-45.00
T.US.DE040P0716	98.06	98.11	98.11	98.48	97.87	-45.00
DEP2P	100.78	100.80	100.80	100.98	100.62	-26.00
DEP5P	99.43	99.47	99.47	99.80	99.23	-45.00
DEP10P	99.62	99.67	99.67	100.02	99.38	-47.00

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




10:32 08/22 BUNDS: The 2-year Schatz is bearing most of the brunt of selling after comment from the ECB that "monetary policy stance was expressed by ECB President Trichet on Aug 2". The yield on the 2-year Schatz is now up 21bps at 4.07% -- highest since Aug 15, having fallen to 3.81% intra-day yesterday, on back of US rate cut expectations. This comment is a clear reference to ECB chief Jean-Claude Trichet's reinsertion into his prepared remarks at his impromptu press conference three weeks ago that the central bank is monitoring risks to price stability with "strong vigilance." In the past, that phrase has served to flag a rate hike one month later in the absence of major risks to the real economy or financial stability. Today's remark suggests that the ECB is not yet prepared to rule out a rate hike in two weeks. However, that option remains, depending on developments up until the next Governing Council meeting on Sept 6. Trichet also reminded on August 2 that the ECB does not "pre-commit" on future policy moves.

by Charanjeev Chana

EGBs traded lower with short dates underperforming after the ECB underlined its strongly vigilant stance in a statement released on Wednesday afternoon, thereby reinforcing expectations of a September interest rate hike. In a statement following the announcement of a 3-month liquidity provision refi for E40bln, the ECB said the banks monetary policy stance was expressed by the President on August 2nd. Ahead of the statement, the market was underpinned by dovish comments from French Finance Minister Christine Lagarde, who urged the ECB to cut rates to help markets and growth. Bonds opened lower taking cue from overnight weakness in US Treasuries after expectations of an emergency inter-meeting Federal Reserve rate cut were pared back. The change in expectations came following comments by US Treasury Secretary Hank Paulson yesterday, who suggested the volatility in credit markets will "take time" to subside.

European equities were stronger in afternoon trade. The DAX was trading +0.90%, CAC 40 +1.77% and the FTSE +1.31% on the day. US stocks were also stronger with the S&P 500 +0.89% and the Nasdaq +0.96%.

Sep-07 Bunds were 57 ticks lower at 113.18. In cash, German government benchmark yields were 4bps to 18bps lower with 2s underperforming. The 2s/10s spread was 26bps vs. 37bps and the 10s/30s spread was 21bps vs. 25bps.

Gilts also traded lower, with the short end of the curve underperforming on safe-haven unwinding. Gilts dipped slightly on the Bank of England announcement that financial participants made no use of the banks standing lending facility on Tuesday - after it emerged overnight that Barclays Bank made use of the facility for £312mln on Monday. Also weighing on sentiment was stronger than expected CBI industrial trends data, which rose to its highest level since

Jun-07 Gilts were 71 ticks lower at 106.53. In cash, UK government benchmark yields were 7bps to 11bps higher with the short end of the curve underperforming. The 2s/10s spread was -28bps vs. -27bps and the 10s/30s spread was -55bps vs. -53bps.



[All Times Eastern]

06:07 08/23 CREDIT: **European CDS spreads** are continuing the tightening trend we have seen in recent sessions as they gradually recover from the turmoil of last week, buoyed by the positive trend seen in equities. High grade single names are generally grinding tighter whilst beta credit spreads are moving in towards levels seen before the recent volatility. Indices are unchanged to tighter in places with the iTraxx Xover index around 8 bps tighter on the day currently trading at the 315 bps level. Corporate news continues to be relatively sparse although most market participants are occupied by sifting through the constant stream of speculation and rumour. The credit and equity markets are being supported this morning by some positive newsflow including talk of a Fed rate cut next month, the ECB injecting E40 bln into the financial system and Bank of America planning to invest \$2 bln in Countrywide Financial.

05:31 08/23 **EGBs**: Following results of the ECB's E40bln emergency 91-day variable-rate refi operation, there seems no immediate urgency within money markets for extra liquidity, at this stage. Sept Bunds easing lower from earlier high at 113.22 to trade at 113.13.

05:46 08/23 **FITCH/GERMAN BANKS**: There appears to be no systemic crisis in the German banking sector, according to Fitch Ratings, which today affirmed its Issuer Default Ratings (IDRs) on German banks. With some \$250 billion (E185 billion), German banks hold approximately one fifth of the outstanding liquidity lines to asset-backed commercial paper (ABCP) conduits, according to Fitch estimates. Fitch expects all German ABCP liquidity providers to meet their liabilities, although those with weaker individual ratings are more likely to rely on external support in case of need.

03:17 08/23 **BUNDS**: The Bund 2-/10-year yeild spread is trading 4bps flatter at +22bps, amid unwinding of recent aggressive steepening move. This move comes as hopes of US emergency Fed funds rate cut fade and ECB reminder of "strong vigilance" stance by ECB President Trichet on August . This unwinding/repricing is now seen extending to +19bps -- the 50.0% of the +2.0bps to +37bps recent move and also coincides with the top of the previous steepening move on June 22.

03:40 08/23 **BOJ FUKUI**: No time frame for policy actions

- BOJ, market views not differ on uncertainties, monetary policy
- BOJ made best judgement on monetary policy today
- To watch global markets in process of risk re-pricing
- Must watch subprime impact on financing, sentiment
- In orderly correction, no need to alter policy stance
- Markets not returning to original state in risk assessment
- Risk repricing process to take time, painful.
- Japan financial system not hurt by US subprime.

(continued)

02:47 08/23 **JGB SUMMARY**: JGBs ended Thursday's session lower, with the curve flattening as investors continue to unwind recent safe haven trades. Sharply higher stocks also helped push the flight from bonds. Prices were lower from the getgo, weighed by the overnight slide in the UST market. Although yields were initially higher along the curve, the front-end soon accelerated to the downside, helped the sharp rise in US 2-yr yields. Longer-dated paper found a bid in late afternoon trade, as life and pension funds started their end-of-month duration weighted buying. The Bank of Japan's decision to leave monetary policy on hold, despite one lone dissenter, had only limited impact, as the move was largely expected and discounted by the market.

- Benchmark 10-year yield was 2.5 bps higher at 1.605%.
- Benchmark 5-year yield was 4.25 bps higher at 1.175%.
- Benchmark 30-year yield was 1 bps higher at 2.360%.
- Lead Sept JGB futures contract was down 0.45 at 135.41



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.47	4.99	\$1,558	€ 2,111
10y	7.88	2.54	\$795	€ 1,077
5y	4.36	1.42	\$443	€ 600
2y	1.83	0.59	\$185	€ 251
ZB	9.58	3.43	\$107	€ 145
ZN	5.65	1.99	\$62	€ 84
ZF	3.81	1.31	\$41	€ 55
ZT	1.74	1.16	\$36	€ 49

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.27	€ 230	\$170	0.842561
Bobl	4.09	€ 117	\$86	0.959013
Schatz	1.69	€ 48	\$35	0.975468
DE10Y	7.87	€ 1,068	\$789	
DE5Y	4.09	€ 559	\$413	
DE2Y	1.69	€ 232	\$171	

^Futures are Based on CTD

Last

EURUSD 135.48

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	9.16	18.10	44.31
10y	4.67	9.24	22.61
5y	2.60	5.14	12.59
2y	1.09	2.15	5.26
ZB	0.63	1.25	3.05
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	0.42	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	4.175	4.171	4.175
US5y	4.369	4.365	4.365
US10y	4.649	4.647	4.647

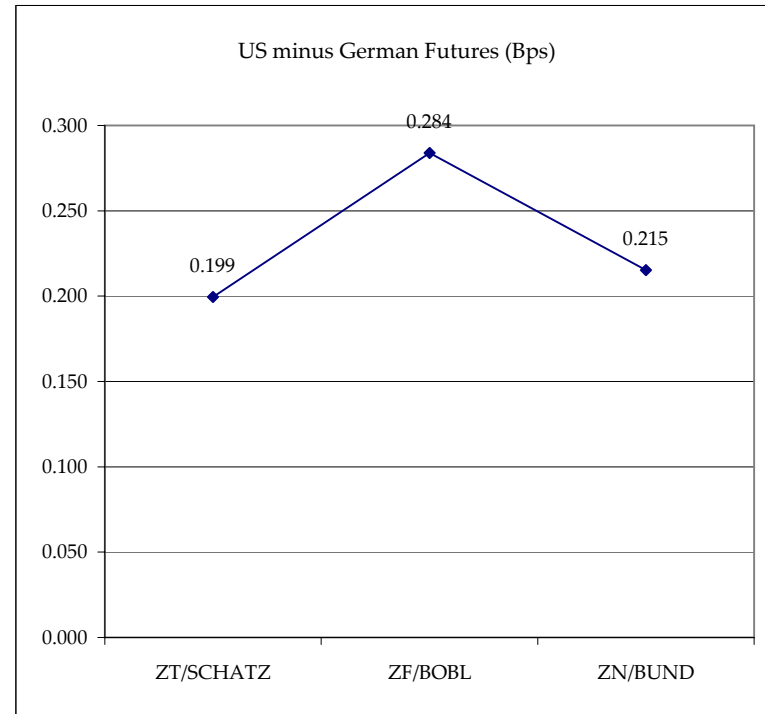
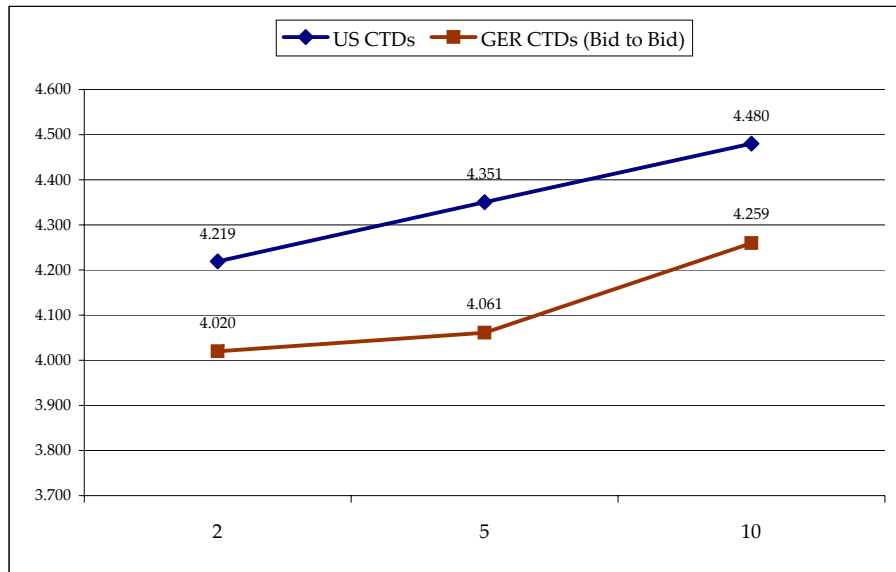
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.031	4.020	4.020
DE5y	4.133	4.124	4.124
DE10y	4.297	4.290	4.290

Spreads	
	Bps
ZT/SCHATZ	0.199
ZF/BOBL	0.284
ZN/BUND	0.215

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.219	4.210	4.219
4.500 of 11/11	4.351	4.344	4.344
4.750 of 05/14	4.480	4.475	4.475

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.031	4.020	4.020
4.000 of 04/12	4.133	4.124	4.061
4.000 of 07/16	4.266	4.259	4.259

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	
	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

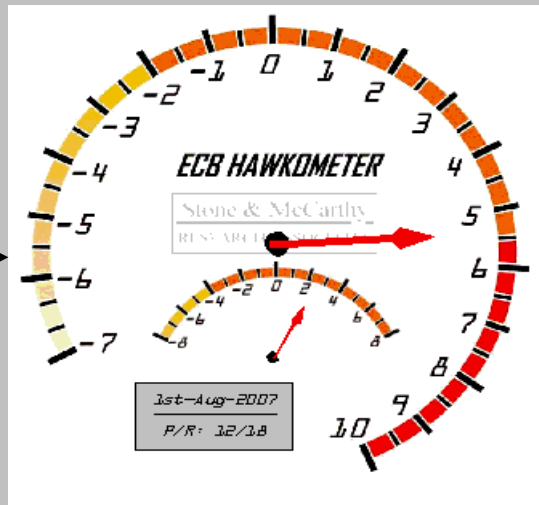
Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

Repo

Accrual basis	actual	actual	actual
Year basis	360	0	365

Stone & McCarthy
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MarketNews
international



11:12 08/21 ECB ANALYSIS: The ongoing market turbulence has not swept an ECB rate hike in September entirely from the table, but it has made its fate crucially dependent on a convincing return to financial stability over the next two weeks -- which may be expecting too much. Nor is it clear whether the ECB's main refinancing rate will peak at 4%, where it has been since early June, or rise to 4.25% following a longer pause, if the ECB decides to pull back from the September 6 move it conditionally flagged in early August. The bottom line: unless financial turmoil recedes quickly without serious fallout to the real economy, the ECB is quite likely to delay a rate hike at least until October -- and potentially longer. If ever it had reason to remind markets that it has always qualified its rate-hike signals by saying it never precommits, this would be the time to do so. Moreover, a hike to 4.25% could be jeopardized if market contagion were to intensify and spread.

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%