



The Morning Email: US & Germany



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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.

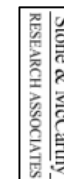
09:39 08/22 **BUNDS:** Sept Bunds hit session low at 113.22 after ECB says that "monetary policy stance was expressed by ECB President Trichet on Aug 2, i.e. strong vigilance.

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
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

The Morning Email, US&GER



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	102.227	(2.0)	102.252	102.220	102.245	16,847	371,875	2y	Futures	
FVAU7	106.005	(3.5)	106.050	105.305	106.040	32,553	663,123	5y	Futures	
TYAU7	108.170	(4.0)	108.225	108.140	108.200	71,439	1,107,103	10y	Futures	
USAU7	110.260	(1)	110.300	110.220	110.280	18,832	322,023	30y	Futures	

**US
Futures
Market**



		32 nds								
	Last	Net	Hi	Low	Open	Volume				
BUS02P	100.172	(2.2)	100.195	100.175	100.185	2y				
BUS05P	100.232	(3.7)	100.295	100.270	100.270	5y				
BUS10P	100.270	(7.0)	101.005	100.270	100.315	10y				
BUS30P	101.160	(4)	101.200	101.155	101.155	30y				

**US Cash
Treasury
Market**

		32 nds								
	Last	Net	Hi	Low	Open	Volume				
BUS02Y	4.320	4.60	4.342	4.269	4.291	2y Yield				
BUS05Y	4.432	2.70	4.443	4.372	4.413	5y Yield				
BUS10Y	4.641	3.10	4.655	4.61	4.614	10y Yield				
BUS30Y	4.894	0.90	4.913	4.885	4.891	30y Yield				

		Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	103.24	(45.00)	103.31	103.16	103.28	118,090	667,017	Schatz(2Y)	German Futures Markets	
DLU7	107.79	(160.00)	107.98	107.70	107.94	88,684	465,005	Bobl(5Y)		
DBU7	113.26	(29.00)	113.53	113.17	113.51	138,612	916,710	Bund(10Y)		



		Price	Yield					
	Last	Last	Coupon	Maturity	SYM NAME			
T.US.DE044P0609	100.69	4.070	4.500	6/12/2009	2 yr CTD			
T.US.DE040P0412	99.27	4.165	4.000	4/13/2012	5 yr CTD			
T.US.DE040P0716	98.05	4.261	4.000	7/4/2016	10 yr CTD			
DEP2P	100.71	4.070	4.500	6/12/2009	2yr OTR			
DEP5P	99.31	4.163	4.000	4/13/2012	5yr OTR			
DEP10P	99.63	4.295	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	103.24	#VALUE!	103.24	103.31	103.16	-45.00
DLU7	107.78	107.79	107.79	107.98	107.70	-160.00
DBU7	113.26	113.27	113.26	113.53	113.17	-29.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGU7	4.275		4.275	4.317	4.242
DLU7	4.241	4.239	4.241	4.258	4.199
DBU7	4.338	4.336	4.338	4.348	4.306

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE044P0609	4.082	4.070	4.070	4.053	3.965	
T.US.DE040P0412	4.172	4.163	4.165	4.136	4.063	
T.US.DE040P0716	4.268	4.261	4.261	4.247	4.190	
DEP2P	4.082	4.070	4.070	4.123	4.047	-10
DEP5P	4.172	4.163	4.163	4.194	4.124	-23
DEP10P	4.302	4.295	4.295	4.314	4.266	-31

SYM NAME	
Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

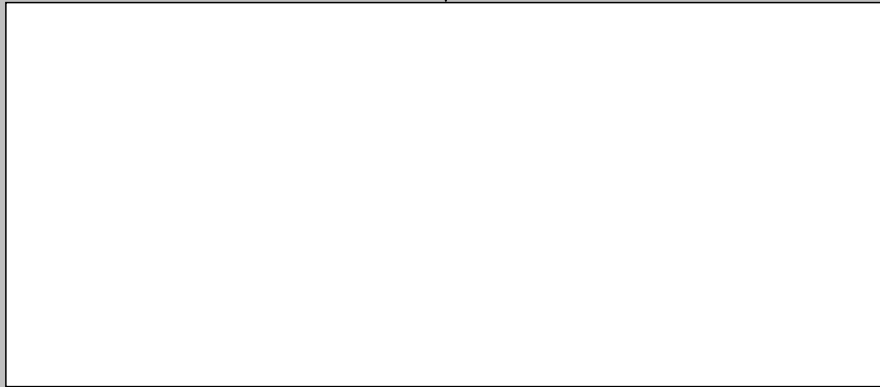
Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

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	100.69	100.71	100.71	100.75	100.62	-0.10
T.US.DE040P0412	99.27	99.31	99.31	99.47	99.18	-23.00
T.US.DE040P0716	98.05	98.10	98.10	98.30	97.94	-27.00
DEP2P	100.69	100.71	100.71	100.75	100.62	-10.00
DEP5P	99.27	99.31	99.31	99.47	99.18	-23.00
DEP10P	99.58	99.63	99.63	99.86	99.48	-31.00

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



by Charanjev Chana





[All Times Eastern]

06:40 08/27 **GILTS**: Gilts are closed in observance of Bank Holiday Monday. Databise, British Bankers' Association releases July mortgage approval figures on Tuesday, with M4 money supply/lending data due on Thursday and CBI distributive trades survey. There is no Gilts supply due this week, with focus on the DMO meeting with end-investors (1430GMT) and GEMMs (1600GMT) on Tuesday. The DMO publishes minutes on these meetings on Wednesday and then publishes the October-December auction calendar on Friday.

06:36 08/27 **FX**: Euro-dollar was subdued on Monday morning as traders awaited a speech from ECB President Trichet at 1300GMT in Budapest. Rate did manage to slip through the Asian base to \$1.3652, though overall trade was light thanks to the UK holiday and a reluctance to take on risk ahead of the Trichet speech. Dollar-yen was sidelined, ending the morning trading around Y116.30, though euro-yen did slip to fresh lows on the day at Y158.63 in Europe after pressing up to a Y159.68 high in Asia. Sterling was little changed at the end of the morning, cable in the middle of the \$2.0133-\$2.0194 range, with euro-sterling also in the middle of the stg0.6770-stg0.6790 range. Aussie managed to extend the overnight highs to \$0.8334, it's highest level since August 15.

05:09 08/27 **EUROPEAN STOCKS**: Continental European equity bourses are higher on Monday, taking lead from Wall Street's gain on Friday and overnight gains on Tokyo. Traders noted easing in subprime loan concerns. ThyssenKrupp is higher on news that steelmakers in the US are looking to increase prices. Bayer rose after a study showed Nexavar tablets help improve survival rates for liver cancer patients. Alstom rose after report of winning two major power plant contracts in the UK and the UAE. CAC-40 is up 37pts (+0.66%) and Xetra-DAX is up 21pts (+0.28%).02:04

08/27 **JAPAN STOCKS**: Japanese stock indices ended Monday's session higher across the board, but were unable to hold early gains...The benchmark Nikkei 225 was ahead by 52.42 points, or 0.32%, at 16301.4.

06:12 08/27 **BUND SUMMARY**: European bond prices are lower on Monday ahead of a key speech by ECB President Jean-Claude Trichet. The short-dated issues underperformed, amid unwinding of curve steepening trades. The move was exacerbated by thin volume trading conditions, given London traders were absent in observance of UK Bank Holiday. Bunds opened lower following weakness in long-dated JGBs overnight in the wake of gains in the Nikkei-225, and ahead of tomorrow's 20-year JGB auction for Y0.8tln. Prices were further weighed by comments from Eurogroup Chairman Jean-Claude Juncker, who said that the crisis related to problems in the U.S. subprime mortgage sector should have a limited impact on the eurozone economy, but it is too early to assess the potential fallout. The main focus today is on the ECB President Jean-Claude Trichet from 1300GMT, who speaks at the 22nd Annual Congress of the European Economic Association in Budapest, Hungary. His comments will be closely scrutinised to gauge expectations of a rate hike at Sept 6 meeting.

02:57 08/27 **BONDS 1: EGBs** are opening lower on Monday, following weakness in long-dated JGBs overnight in the wake of gains in Nikkei-225, and ahead of tomorrow's 20-year JGB auction for Y0.8tln. Markets are expected to be thin and vulnerable to downside moves, given UK markets remaining closed for the long weekend. The main focus today is on the ECB President Jean-Claude Trichet, who speaks at the 22nd Annual Congress of the European Economic Association in Budapest, Hungary. His comments will be closely scrutinised to gauge expectations of a rate hike at the next Governing Council meeting on September 6. Last week the ECB communicated to the markets that "monetary policy stance was expressed by ECB President Trichet on August 2". This comment by the ECB as a clear reference to ECB chief Jean-Claude Trichet's reinsertion into his prepped remarks at his impromptu press conference three weeks ago that the central bank is monitoring risks to price stability with "strong vigilance."

02:57 08/27 **BONDS 2**: 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. These remarks 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 September 6. That said, whilst this reminder of "strong vigilance" points to a 25bps rate hike at the September 6 ECB Governing Council meeting, at the same time Trichet on August 2 kept an opt-out clause by saying "let me also stress that we never pre-commit. I re-emphasise that we never pre-commit." This now leaves the ECB with all its options open and in a position to raise rates if money market conditions normalise.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.54	5.06	\$1,582	€ 2,162
10y	7.87	2.54	\$795	€ 1,086
5y	4.35	1.41	\$440	€ 602
2y	1.82	0.59	\$183	€ 251
ZB	9.59	3.46	\$108	€ 148
ZN	5.63	1.99	\$62	€ 85
ZF	3.80	1.31	\$41	€ 56
ZT	1.73	1.14	\$36	€ 49

^Futures are Based on CTD

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	9.31	18.45	45.31
10y	4.68	9.27	22.76
5y	2.59	5.14	12.61
2y	1.08	2.14	5.26
ZB	0.64	1.26	3.09
ZN	0.37	1.34	1.78
ZF	0.24	0.48	1.17
ZT	0.21	0.42	1.02

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.26	€ 232	\$170	0.842561
Bobl	4.08	€ 117	\$86	0.959013
Schatz	1.67	€ 48	\$35	0.975468
DE10Y	7.86	€ 1,076	\$787	
DE5Y	4.08	€ 562	\$411	
DE2Y	1.67	€ 233	\$170	

^Futures are Based on CTD

Last

EURUSD 136.69

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	1.92	4.63
Bobl (U)	0.57	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	4.329	4.320	4.320
US5y	4.435	4.432	4.432
US10y	4.643	4.641	4.641

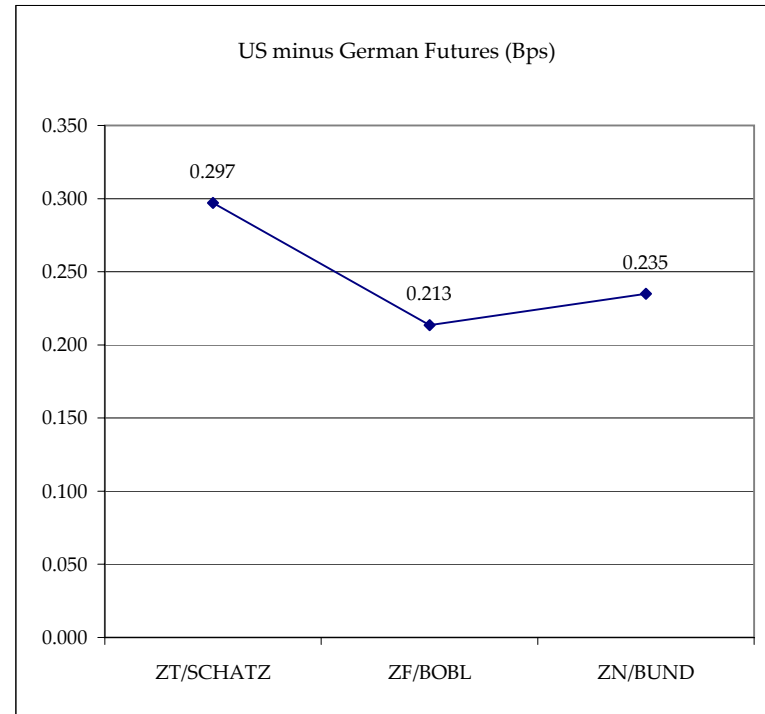
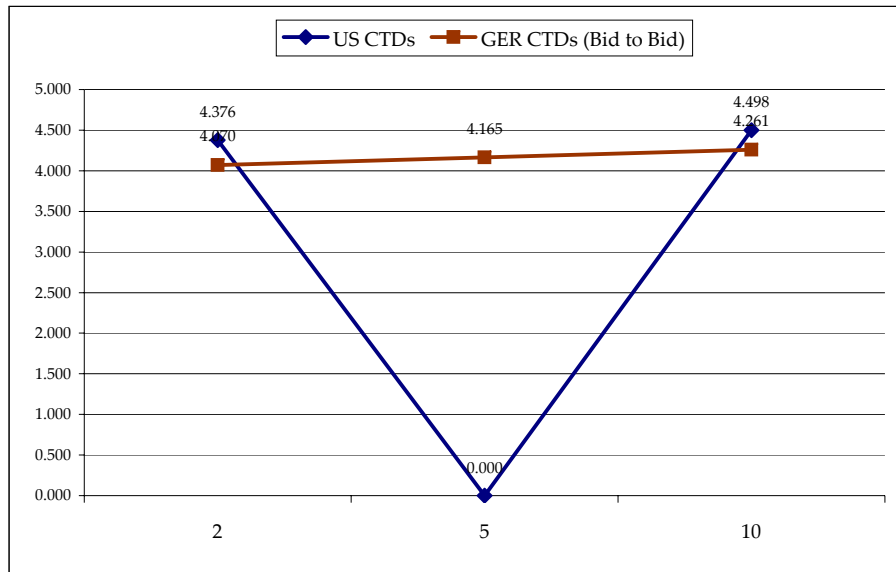
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.082	4.070	4.070
DE5y	4.172	4.163	4.163
DE10y	4.302	4.295	4.295

Spreads	
	Bps
ZT/SCHATZ	0.297
ZF/BOBL	0.213
ZN/BUND	0.235

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.376	4.367	4.367
4.500 of 11/11		4.378	4.378
4.750 of 05/14	4.498	4.496	4.496

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.082	4.070	4.070
4.000 of 04/12	4.172	4.163	4.163
4.000 of 07/16	4.268	4.261	4.261

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

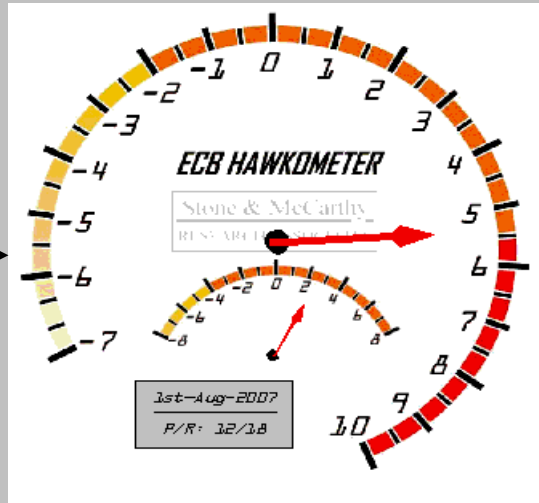
Domestic	T+2	T+3	T+3
International	T+3	na	na

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



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

Stone & McCarthy
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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%