8/28/2007 5:47

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.

Jim Goulding, jgoulding@ghco.com

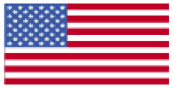
Stone & McCarthy RESEARCH ASSOCIATES

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	102.302	3.5	102.315	102.290	102.307	28,919	290,347	2y Futures	US Futures Market
FVAU7	106.165	6.0	106.195	106.145	106.170	57,424	524,162	5y Futures	
TYAU7	109.000	5.0	109.045	108.305	109.015	121,715	873,899	10y Futures	
USAU7	111.130	3	111.190	111.090	111.140	23,306	357,378	30y Futures	

	Last	Net	Hi	Low	Open	Volume	
BUS02P	100.232	(0.2)	100.247	100.227	100.237	2y	US Cash Treasury Market
BUS05P	101.080	(0.7)	101.102	101.062	101.080	5y	
BUS10P	101.120	(2.5)	101.145	101.095	101.130	10y	
BUS30P	102.065	1	102.095	102.005	102.010	30y	
	Last	Net	Hi	Low	Open	Volume	
BUS02Y	4.222	0.80	4.243	4.192	4.226	2y Yield	
BUS05Y	4.338	0.90	4.379	4.32	4.35	5y Yield	
BUS10Y	4.574	0.90	4.59	4.563	4.57	10y Yield	
BUS30Y	4.856	0.10	4.875	4.85	4.857	30y Yield	

	Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	103.34	(75.00)	103.45	103.33	103.43	262,124	280,485	Schatz(2Y)	German Futures Markets
DLU7	108.08	(125.00)	108.24	108.02	108.23	215,254	213,239	Bobl(5Y)	
DBU7	113.71	(9.00)	113.91	113.63	113.84	372,217	365,067	Bund(10Y)	

	Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME	
T.US.DE044P0609	100.78	4.017	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	99.54	4.165	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	98.43	4.208	4.000	7/4/2016	10 yr CTD	
DEP2P	100.80	4.017	4.500	6/12/2009	2yr OTR	
DEP5P	99.58	4.097	4.000	4/13/2012	5yr OTR	
DEP10P	100.05	4.242	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	103.34	103.35	103.34	103.45	103.33	-75.00	Schatz(2Y)	German Futures
DLU7	108.08	108.08	108.08	108.24	108.02	-125.00	Bobl(5Y)	
DBU7	113.71	113.72	113.71	113.91	113.63	-9.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo		
DGU7	4.223	4.221	4.221	4.231	4.169	Schatz(2Y)	German Futures
DLU7	4.177	4.176	4.177	4.189	4.142	Bobl(5Y)	
DBU7	4.286	4.284	4.286	4.295	4.263	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE044P0609	4.029	4.017	4.017	4.123	4.047		2 yr CTD	German Cash
T.US.DE040P0412	4.107	4.097	4.165	4.194	4.124		5 yr CTD	
T.US.DE040P0716	4.215	4.208	4.208	4.283	4.233		10 yr CTD	
DEP2P	4.029	4.017	4.017	4.041	3.959	9	2yr OTR	
DEP5P	4.107	4.097	4.097	4.116	4.058	28	5yr OTR	
DEP10P	4.249	4.242	4.242	4.257	4.214	44	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE044P0609	100.78	100.80	100.80	100.90	100.76	0.09	2 yr CTD	German Cash
T.US.DE040P0412	99.54	99.58	99.58	99.74	99.50	28.00	5 yr CTD	
T.US.DE040P0716	98.43	98.48	98.48	98.68	98.34	40.00	10 yr CTD	
DEP2P	100.78	100.80	100.80	100.90	100.76	9.00	2yr OTR	
DEP5P	99.54	99.58	99.58	99.74	99.50	28.00	5yr OTR	
DEP10P	100.00	100.05	100.05	100.27	99.93	44.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

OTR = On the Run

MarketNews international

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09:36 08/27 **ECB**: ECB offers 7-day variable Refis, minimum bid rate 4.00%
-- Allotment to exceed E194bln benchmark by amount needed
-- To gradually lower large reserve surplus as market normalizes.

10:32 08/27 **ECB TRICHET:** We did what we said we would do in watching market developments
-- New monpol assessment will be made on Sept 6
-- Will then need to take into account all factors
-- We will asses risks to price stability in medium term
-- We will take our monpol decision at that moment.

12:12 08/27 **JAPAN/YEN**: Using data from the Tokyo Futures Exchange, analysts note that Japanese retail investors are clearly feeling "gun shy" and cut positions in half last week. Greg Gibbs of ABN AMRO notes that these investors "rarely conduct stop loss trading" and typically "buy dips and sell rallies" (dollar-yen, euro-yen etc...). This "sudden and rare" risk aversion on the part of Japanese retail investors contributed to the hefty declines in Aussie, Kiwi and dollar-yen last week, Gibbs says. JPMorgan Chase analysts noted that their estimates of Japanese retail FX margin positions in the high yielders show Y388bn($3.3bn) in yen sales/FX buying on the week, which suggests carry is still popular. With aggregate yen shorts still at $33bn, there is risk of a "decent yen rally if credit concerns force another round of deleveraging in coming weeks," JPMC says.

10:46 08/27 **EURIBOR:** Dec euribor rose 7 ticks to 95.600 session high after ECB President Trichet said that "what was said on Aug 2 statement was before market turbulence". "New monetary policy assessment will be madee at the September 6 ECB Governing Council meeting", added Trichet. This has been consistent with MNI view, and leaves the ECB in "sit & wait" position to see if money market rates normalize. Sept eonia is now back to 20% vs 50.8% last week.

10:53 08/27 **BUNDS**: The 2-/10-year Bund curve is now 3bps steeper at +27bps, with the short-end now outperforming following earlier 2bps underperformance. The move came post ECB President Jean-Claude Trichet comments, who said that the ECB would not make a final decision on whether to adjust key interest rates before the next Governing Council meeting on September 6, citing uncertainty about the current state of global financial markets.

08:16 08/27 **MONTH-END EXTENSIONS**: Month-end extensions in EGBs & Gilts are negative, according to iBoxx sovereign estimates, and expected to provide little support for European bond markets. The iBoxx Euro sovereign index extends by -0.01 years into September. This is lower than the historical average for this time of the year (+0.04 years), say strategists. In the UK, the iBoxx sterling index shortens by around -0.02 years, given the 5.00% Mar 2018 Gilt auction in August and no Gilts leaving the index, add traders.

[All Times Eastern]

05:45 08/28 **Data released** in the Eurozone, Tuesday
**ECB: Jul SA M3 Growth +1.1% m/m VS Jun +0.8% m/m (+0.8%)
**FRANCE DATA: May-July nsa housing permits -3.9% y/y; starts +9.0% y/y
** May-July non-residential building permits +1.0% y/y; starts +14.2% y/y
**GERMANY: Saxony Aug CPI -0.1% M/M, +2.0% Y/Y; Jul +2.1% Y/Y
**GERMANY: Ifo at 105.8 in Aug, with curr conditions at 111.5

06:40 08/28 **BUND SUMMARY**: European bond prices are mixed on Tuesday, with the short-dated issues reversing earlier outperformance after release of stronger than expected eurozone M3 data and German Ifo survey. However, volumes were much below market average, with players Bunds opened higher following a short-covering rally the previous session after comments from ECB President Trichet, who said the ECB would not make a final decision on whether to adjust key interest rates before the next meeting on Sep. 6. Trichet cited uncertainty about the current state of global financial markets. The market viewed this as effectively delaying a potential rate hike until at least October and potentially longer if market turmoil persists. The Eonia Swap rates have since eased following the Trichet comments, with markets now pricing in a 16.0% chance of a 25bps rate hike at the Sept meeting vs 50.8% last week. However, the short-dated issues reversed earlier outperformance following release of stronger than expected eurozone M3 data and German Ifo survey.

05:35 08/28 EUROZONE: Reported comments in the Eurozone on Tuesday, **IFO's NERB: Comments from Ifo Chief Economist.**
-- Seeing some decline in survey results.
-- Sticks to German GDP forecast for 2007.
-- Companies bit more wary on hiring intentions.
-- Would propose ECB leaves rates on hold.
-- No need to hike rates in the eurozone.
-- Sees ECB rates at or close to neutral.
-- German exporters can live with current euro-dollar level
-- Euro fx level below critical $1.40 level for exporters

05:20 08/28 **MONTH-END EXTENSIONS**: ...The iBoxx Euro sovereign index extends by -0.01 years into September. This is lower than the historical average for this time of the year (+0.04 years), say strategists. In the UK, the iBoxx sterling index shortens by around -0.02 years, given the 5.00% Mar 2018 Gilt auction in August and no Gilts leaving the index, add traders. In the US, advanced estimates from Lehman Brothers suggest US Treasury month-end bond index extension at +0.19 years, which is slightly above the average extension for the month -- historically +0.18 years for Sept. 1 extension dating back to 1988. This large extension is largely due to the quarterly refunding, where the Treasury auctioned $9Bln of 30-year and $13Bln of 10-year notes earlier this month.

04:42 08/28 EONIA: **EONIA** (European Over-Night Index Average) Swap rate/ probabilities implied have fallen once again following comments from ECB President Trichet who said the ECB would not make a final decision on whether to adjust key interest rates before the next Governing Council meeting on Sept 6. The market viewed this as effectively delaying a potential rate hike until at least October and potentially longer if market turmoil persists.

Month	Rate	Probability	Probability last week
September	4.110%	16.0%	50.8%
October	4.165%	38.0%	57.6%
November	4.175%	42.0%	57.6%
December	4.170%	40.0%	64.0%
January	4.150%	32.0%	64.0%
February	4.140%	28.0%	64.0%

02:42 08/28 **JGB SUMMARY**: JGBs ended Tuesday's session narrowly mixed, bouncing back from early weakness in the wake of solid demand and the Ministry of Finance's 20-year JGB auction, Longer-dated JGBs slipped in the morning session, weighed by hedge selling ahead of the MOF's Y800 billion sale. However, month-end duration demand underpinned the downside, and solid auction demand prompted short-covering which helped prices rally. The front of the curve found early buying interest, helping push yields modestly lower, but traders said volumes were modest. The belly of the curve found solid support throughout the session, with buying noted from both City banks and pension funds.
-- Benchmark 10-year yield was 0.25 bps higher at 1.625%.
-- Benchmark 5-year yield was unchanged at 1.180%.
-- Benchmark 20-year yield was unchanged at 2.090%.
-- Benchmark 30-year yield was 0.25 bps higher at 2.355%.
-- Lead Sept JGB futures contract was up 0.01 at 135.45

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.58	5.11	$1,595	€ 2,181
10y	7.87	2.56	$800	€ 1,093
5y	4.35	1.42	$442	€ 605
2y	1.82	0.59	$184	€ 251
ZB	9.60	3.47	$109	€ 148
ZN	5.64	2.00	$62	€ 85
ZF	3.80	1.31	$41	€ 56
ZT	1.73	1.15	$36	€ 49

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.26	€ 233	$171	0.842561
Bobl	4.08	€ 118	$86	0.959013
Schatz	1.67	€ 48	$35	0.975468
DE10Y	7.86	€ 1,082	$791	
DE5Y	4.08	€ 564	$412	
DE2Y	1.67	€ 233	$170	

^Futures are Based on CTD

	Last
EURUSD	136.73

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	9.35	18.56	45.71
10y	4.68	9.30	22.91
5y	2.59	5.14	12.67
2y	1.08	2.14	5.26
ZB	0.64	1.26	3.11
ZN	0.37	1.34	1.79
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)

Hedge Ratio's - Bloomberg/GH Trader's LLC

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)	1.00	1.92	4.65
Bobl (U)	0.57	1.00	2.42
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.

Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	4.226	4.222	4.222
US5y	4.340	4.338	4.338
US10y	4.576	4.574	4.574

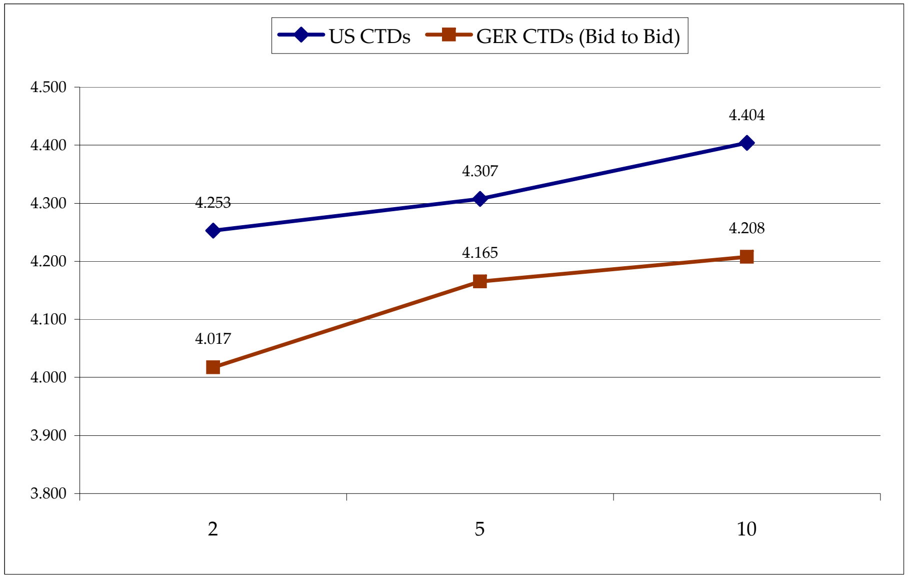
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.029	4.017	4.017
DE5y	4.107	4.097	4.097
DE10y	4.249	4.242	4.242

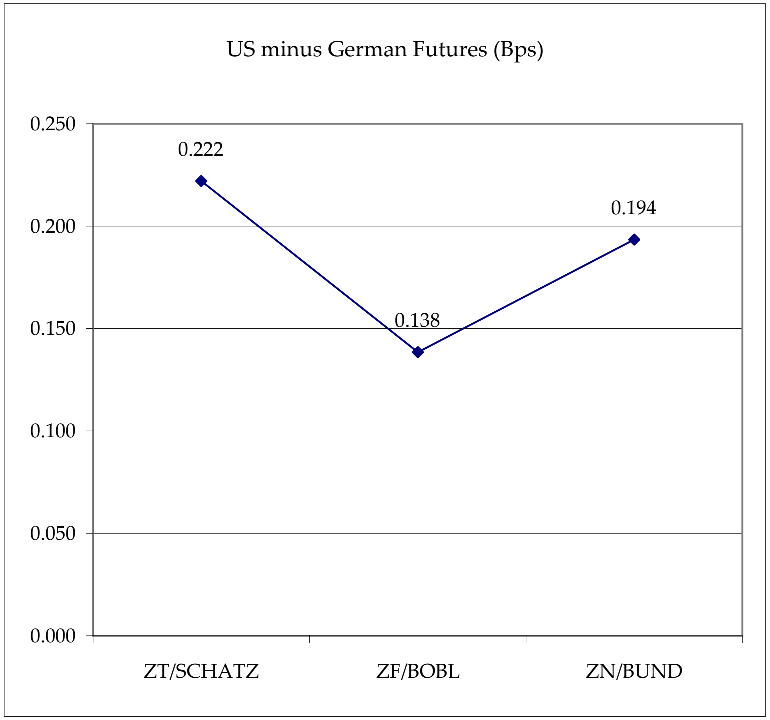
	Spreads
	Bps
ZT/SCHATZ	0.222
ZF/BOBL	0.138
ZN/BUND	0.194

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
4.000 of 06/09	4.253	4.239	4.239
4.500 of 11/11	4.307	4.303	4.303
4.750 of 05/14	4.404	4.401	4.401

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.029	4.017	4.017
4.000 of 04/12	4.107	4.097	4.165
4.000 of 07/16	4.215	4.208	4.208

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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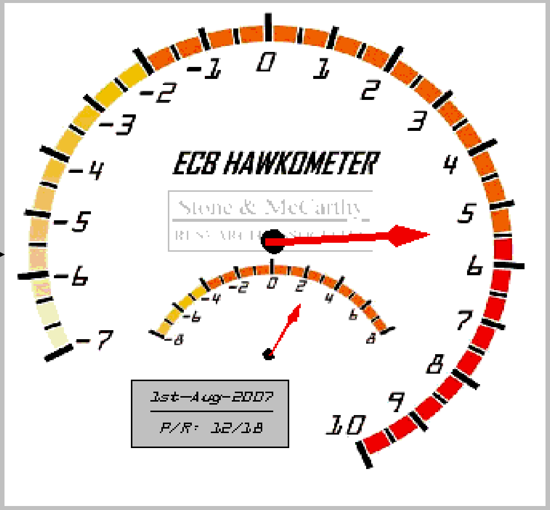

11:12 08/21 ECB ANALYSIS: The ongoing market turbulence has not swept an ECB rate hike in September entirely from the table, but it has made its fate crucially dependent on a convincing return to financial stability over the next two weeks -- which may be expecting too much. Nor is it clear whether the 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	Blanch-flower	Besley	Sent-ance	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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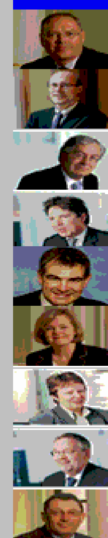
BOE HAWKOMETER (to August 2007 meeting)



	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%

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.