8/31/2007 6:00

The Morning Email: US & Germany

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eCBOT fixed income futures have been rolled to DEC 07.

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

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MarketNews international

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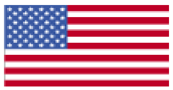
Quotes 1



	32 nds								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
TUAZ7	102.307	(0.1)	103.062	102.302	103.060	71,425	293,481	2y Futures	US Futures Market
FVAZ7	106.130	(0.2)	106.300	106.125	106.300	118,480	501,714	5y Futures	
TYAZ7	108.275	(0.2)	109.125	108.270	109.100	137,656	736,217	10y Futures	
USAZ7	111.140	(0)	111.300	111.130	111.270	35,113	275,531	30y Futures	

	Last	Net	Hi	Low	Open	Volume	
BUS02P	99.185	(7.2)	99.267	99.187	99.265	2y	US Cash Treasury Market
BUS05P	99.062	(217.5)	99.190	99.060	99.190	5y	
BUS10P	101.135	(15.0)	101.305	101.140	101.290	10y	
BUS30P	102.090	(12)	102.185	102.060	102.185	30y	
	Last	**Net**	**Hi**	**Low**	**Open**	**Volume**	
BUS02Y	4.211	11.60	4.224	4.067	4.116	2y Yield	
BUS05Y	4.304	7.70	4.311	4.188	4.202	5y Yield	
BUS10Y	4.564	5.60	4.572	4.498	4.516	10y Yield	
BUS30Y	4.852	2.40	4.862	4.828	4.834	30y Yield	

	Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	103.31	(90.00)	103.35	103.26	103.34	336,896	733,878	Schatz(2Y)	German Futures Markets
DLU7	107.87	(355.00)	108.02	107.84	108.02	315,402	511,128	Bobl(5Y)	
DBU7	113.45	(47.00)	113.67	113.41	113.61	447,465	1,194,378	Bund(10Y)	

	Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME	
T.US.DE044P0609	100.78	4.013	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	99.38	4.073	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	98.21	4.239	4.000	7/4/2016	10 yr CTD	
DEP2P	100.80	4.013	4.500	6/12/2009	2yr OTR	
DEP5P	99.42	4.136	4.000	4/13/2012	5yr OTR	
DEP10P	99.80	4.274	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	103.31	103.31	103.31	103.35	103.26	-90.00	Schatz(2Y)	German Futures
DLU7	107.87	107.88	107.87	108.02	107.84	-355.00	Bobl(5Y)	
DBU7	113.45	113.46	113.45	113.67	113.41	-47.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo		
DGU7	4.242	4.239	4.239	4.268	4.218	Schatz(2Y)	German Futures
DLU7	4.222	4.220	4.220	4.229	4.190	Bobl(5Y)	
DBU7	4.316	4.314	4.314	4.320	4.290	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE044P0609	4.025	4.013	4.013	4.038	3.949		2 yr CTD	German Cash
T.US.DE040P0412	4.146	4.136	4.073	4.117	4.058		5 yr CTD	
T.US.DE040P0716	4.246	4.239	4.239	4.232	4.180		10 yr CTD	
DEP2P	4.025	4.013	4.013	4.072	3.984	-8	2yr OTR	
DEP5P	4.146	4.136	4.136	4.158	4.109	-25	5yr OTR	
DEP10P	4.280	4.274	4.274	4.292	4.246	-34	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE044P0609	100.78	100.80	100.80	100.85	100.70	-0.08	2 yr CTD	German Cash
T.US.DE040P0412	99.38	99.42	99.42	99.53	99.33	-25.00	5 yr CTD	
T.US.DE040P0716	98.21	98.26	98.26	98.44	98.13	-29.00	10 yr CTD	
DEP2P	100.78	100.80	100.80	100.85	100.70	-8.00	2yr OTR	
DEP5P	99.38	99.42	99.42	99.53	99.33	-25.00	5yr OTR	
DEP10P	99.75	99.80	99.80	100.02	99.66	-34.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

OTR = On the Run

MarketNews international

From Times Online

August 30, 2007

Bank of England injects £1.6bn into credit markets

An unnamed bank or financial institution has borrowed the third largest sum from the Bank since the start of the crisis

--byMiles Costello

An unnamed bank or financial institution has borrowed just under £1.6 billion from the Bank of England under its punitive standby lending facility – the second time in a month the process has been used...

Stone & McCarthy RESEARCH ASSOCIATES

Euro Mkt Summary: Short End Reverses Underperformance on Stocks
by Charanjeev Chana ---Stone & McCarthy (London)---

EGBs were trading mixed on Thursday afternoon with short dates reversing earlier underperformance as European equities pared opening gains. Prices remained lower ahead of the US 5-year note auction. EGBs opened lower, taking cue from the late sell off in US Treasuries overnight spurred by reports of a letter from Fed Governor Ben Bernanke to Senator Schumer, which re-iterated that the Fed is prepared to act as necessary to restore liquidity and that the Fed is monitoring the situation. Data remained a secondary influence as a stronger European stock market open weighed on sentiment at the front end of the curve. In data released on Thursday morning, German employment data showed that the labour market strengthened further in August, although by less that market expectations, and retail PMI data for Germany rose for the first time in 4 months in August. In supply news, issuance from Italy was met with lacklustre demand. Italy sold E4bln of the new 4.50% Feb 2018 BTP, covered 1.26 times and E2.5bln of the 4.50%, covered 1.45 times.

European equities were stronger in afternoon trade. The DAX was trading +0.33%, CAC 40 +0.93% and the FTSE +0.53% on the day. US stocks were mixed with the S&P 500 -0.21% and the Nasdaq +0.44%.

Sep-07 Bunds were 5 ticks lower at 113.85. In cash, German government benchmark yields were unchanged to 2bps lower with 30s outperforming. The 2s/10s spread was unchanged at 26bps and the 10s/30s spread was 25bps vs. 27bps.

Gilts were also trading mixed with long dated Gilts underperforming. House price data from the Nationwide had little market impact after coming inline with expectations. However, the front end received moderate support from weaker CBI data, which reported UK retail sales declining to the lowest reading since November last year. Gilts remained sanguine over the BOE's announcement that it lent GBP 1.556bln at a penalty rate of 6.75% via the Standard Lending Facility on Wednesday - after it was reported that the problem was due to a systems failure in payment clearances.

Jun-07 Gilts were 7 ticks higher at 107.08. In cash, UK government benchmark yields were unchanged to 2bps lower with 30s underperforming. The 2s/10s spread was -30bps vs. -29bps and the 10s/30s spread was -54bps vs. -56bps.

Stone & McCarthy RESEARCH ASSOCIATES

MarketNews international

[All Times Eastern]

02:23 08/31 **BUNDS**: Sept Bunds are trading lower in early trade, weighed by the Asian sell-off in both USTs and JGBs. However, the contract has bounced back off the early lows. The Sept contract was last down 16 ticks at 113.63, having touched an early low at 113.52. Traders say the WSJ story on White House efforts to help distressed home owners (see bullet 0019EDT/0419GMT) for the slide in global debt and the late Asian stock rally.

LONDON, Aug. 30 (MNI) - European bond prices are lower across the board in London trade Friday, as the overnight weakness in the U.S. Treasury market and stronger European stocks again weigh on sentiment.

U.S. and European bonds were pressured by reports in the U.S. press suggesting possible Federal Government help for distressed mortgage borrowers. The report helped boost global stock indices and sent the dollar to session highs.

The Wall Street Journal, citing senior administration officials, wrote that President George W. Bush will outline a series of policy changes and recommendations Friday to help borrowers avoid default and stay in their homes. Also, traders expressed unease ahead of a speech by Federal Reserve Chairman Ben Bernanke.

European bonds took their cue from the weakness in Treasuries and traded lower from the getgo. The front of the European curve also led the way lower, with the 2-year Schatz down 5 bps at 4.03%.

The Bund/T-note narrowed modestly on Wednesday's levels, with the spread standing at 33.5 bps from 34.00 Wednesday.
European equity markets are higher. In London, the FTSE-100 was up 0.7%. In Paris the CAC was up 0.5% and in Frankfurt, the DAX was up 0.4%. U.S. index futures are trading sharply higher. The S&P Sep contract was up 13.5 points at 1475.1 and the Nasdaq Sep contract was 16.0 higher at 1990.75.
The yield on the 4.50% June 2009 Schatz was up 5 bps at 4.03%. The yield on the 4.00% Apr 2012 Series 150 Bobl was up 6 bps at 4.14%. The July 2017 Bund yield was up 4 bps at 4.27%.
Subsequently, the Bund curve flattened from Wednesday's close, with the 2-/10-year yield spread 2 bps flatter at +24 bps, and the 10-/30-year yield spread 1 bps flatter at +24 bps.

20:09 08/30 **JAPAN DATA:** From the Ministry of Internal Affairs and Communications:
- July unemployment rate falls to 3.6% vs 3.7% June
- July household spending -0.1% y/y, first fall in 7 months
- July prelim industrial output -0.4% m/m vs +1.3% June
- Industrial output seen +6.8% in August, -2.5% in Sept

20:06 08/30 J**APAN DATA**: From the Ministry of Internal Affairs and Communications:
- July core CPI -0.1% y/y vs -0.1% in June
- August core central Tokyo CPI unch vs -0.1% July

02:13 08/31 **JGB SUMMARY:** Japanese government bonds ended Friday's session sharply lower, as an afternoon sell-off hit the market hard. The market had been performing well for much of the session, helped by month end duration demand, before heading south late in the day. Traders said an article in the Wall Street Journal, suggesting that President George W. Bush will outline a series of policy changes and recommendations Friday to help borrowers avoid default and stay in their homes, boosted stocks and hit government bond markets. Early trade saw the curve flatten as the month-end demand boosted longer dated paper. However, the late sell-off saw the belly of the curve suffer most, with both the 5 and 10-year trading sharply lower.
-- Benchmark 10-year yield was bps higher at 1.6175%.
-- Benchmark 5-year yield was 5 bps higher at 1.180%.
-- Benchmark 30-year yield was 3 bps higher at 2.3725%.
-- Lead Sept JGB futures contract was down 0.60 at 135.21

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.57	5.11	$1,597	€ 2,182
10y	7.86	2.56	$799	€ 1,092
5y	4.46	1.42	$443	€ 605
2y	1.89	0.60	$189	€ 258
ZB	9.99	3.59	$112	€ 153
ZN	5.94	2.08	$65	€ 89
ZF	4.02	1.37	$43	€ 59
ZT	1.91	0.64	$20	€ 27

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.24	€ 232	$170	0.842561
Bobl	4.06	€ 117	$86	0.959013
Schatz	1.66	€ 47	$35	0.975468
DE10Y	7.84	€ 1,077	$788	
DE5Y	4.06	€ 561	$410	
DE2Y	1.66	€ 231	$169	

^Futures are Based on CTD

	Last
EURUSD	136.66

	Tic for Tic Matrix ($)		
	Bund	**Bobl**	**Schatz**
30y	9.39	18.66	46.08
10y	4.70	9.34	23.07
5y	2.61	5.18	12.78
2y	1.11	2.21	5.45
ZB	0.66	1.31	3.24
ZN	0.38	1.34	1.87
ZF	0.25	0.50	1.24
ZT	0.12	0.23	0.58

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	4.66
Bobl (U)	0.57	1.00	2.43
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	4.220	4.211	4.211
US5y	4.306	4.304	4.304
US10y	4.568	4.564	4.564

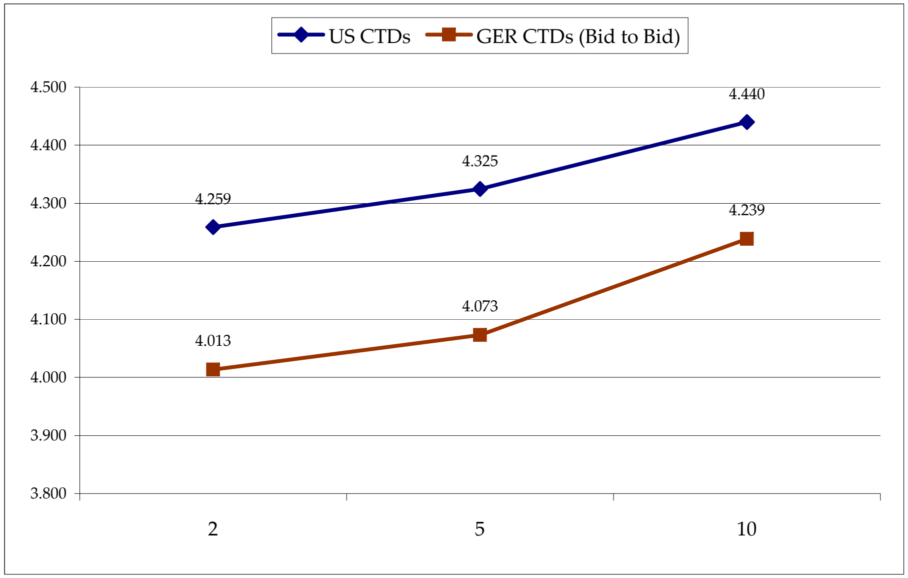
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.025	4.013	4.013
DE5y	4.146	4.136	4.136
DE10y	4.280	4.274	4.274

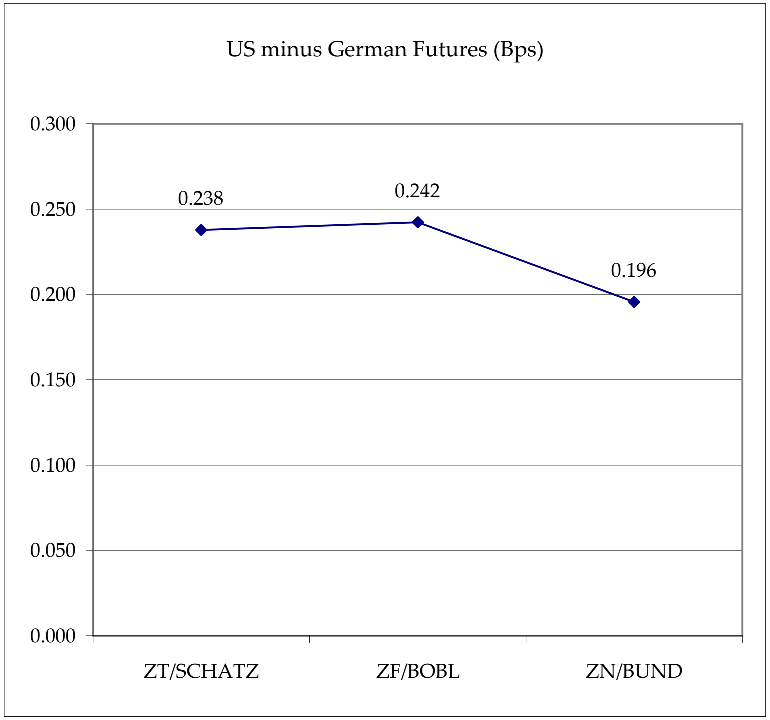
	Spreads
	Bps
ZT/SCHATZ	0.238
ZF/BOBL	0.242
ZN/BUND	0.196

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
40071 of 01/00	4.259	4.251	4.251
40968 of 01/00	4.325	4.315	4.315
41866 of 01/00	4.440	4.434	4.434

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.025	4.013	4.013
4.000 of 04/12	4.146	4.136	4.073
4.000 of 07/16	4.246	4.239	4.239

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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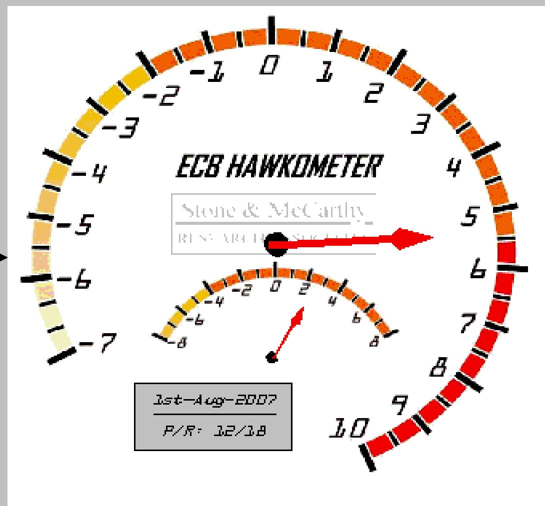

11:12 08/21 ECB ANALYSIS: The ongoing market turbulence has not swept an ECB rate hike in September entirely from the table, but it has made its fate crucially dependent on a convincing return to financial stability over the next two weeks -- which may be expecting too much. Nor is it clear whether the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

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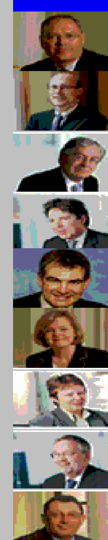
BOE HAWKOMETER (to August 2007 meeting)



	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%