



The Morning Email: US & Germany

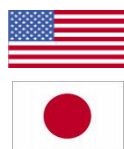


Table of Contents

- Pg 1 Correlation Matrix & BUND Technicals
- Pg 2 Quotes 1
- Pg 3 Quotes 2
- Pg 4 News - Yesterday's Recap
- Pg 5 News - Overnight Recap
- Pg 6 Intrinsic's & Tic for Tic Matrix'
- Pg 7 Hedge Ratio's - Bloomberg
- Pg 8 Yields & Spreads
- Pg 9 Volume Questions & Global Bond Market Characteristics
- Pg 10/11 The ECB

"...monetary policy is still on the accommodative side".--TRICHET 06/06/2007

Want something added? Let me know: jgoulding@ghco.com
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SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	-85.13	-84.76	-75.52	84.29	84.11	77.77	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-77.84	-90.29	-87.56	86.18	91.01	91.13	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-69.54	-88.17	-90.46	80.86	88.63	93.00	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.

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Technical Commentary EUREX Sep 2007 10yr Euro-Bund
- by Mike Sacchitello, CMT

No Techs today.



Quotes 1

32 nds											
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME			
TUAU7	101.295	1.2	101.307	101.282	101.287	16,804	256,054	2y Futures	US Futures Market		
FVAU7	104.040	2.0	104.060	104.020	104.025	45,867	529,599	5y Futures			
TYAU7	105.230	1.0	105.250	105.205	105.220	92,547	1,156,017	10y Futures			
USAU7	107.210	(3)	107.250	107.190	107.210	13,903	511,516	30y Futures			
	Last	Net	Hi	Low	Open	Volume					
BUS02P	100.007	0.2	100.020	100.000	100.005	2y			US Cash Treasury Market		
BUS05P	99.257	1.0	99.275	99.235	99.240	5y					
BUS10P	95.285	(2.5)	95.315	95.260	95.280	10y					
BUS30P	94.050	(6)	94.095	94.050	94.070	30y					
	Last	Net	Hi	Low	Open	Volume					
BUS02Y	4.859	0.00	4.892	4.834	4.892	2y Yield					
BUS05Y	4.918	0.00	4.945	4.904	4.939	5y Yield					
BUS10Y	5.031	1.50	5.047	5.016	5.037	10y Yield					
BUS30Y	5.135	1.50	5.141	5.124	5.128	30y Yield					



Decimal										
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	102.58	20.00	102.61	102.54	102.55	487,964	711,539	Schatz(2Y)	German Futures Markets	
DLU7	106.31	95.00	106.40	106.19	106.25	373,258	687,091	Bobl(5Y)		
DBU7	111.16	14.00	111.30	110.97	111.05	699,046	1,633,500	Bund(10Y)		



	Price	Yield			SYM NAME		
	Last	Last	Coupon	Maturity			
T.US.DE032P0409	100.08	4.436	4.500	7/4/2009	2 yr CTD	German Cash Treasury Market	
T.US.DE050P0712	97.92	4.473	4.000	4/13/2012	5 yr CTD		
T.US.DE042P0717	96.26	4.508	4.000	7/4/2016	10 yr CTD		
DEP2P	100.13	4.425	4.500	6/12/2009	2yr OTR		
DEP5P	97.96	4.481	4.000	4/13/2012	5yr OTR		
DEP10P	97.81	4.527	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	102.57	102.58	102.58	102.61	102.54	20.00
DLU7	106.31	106.31	106.31	106.40	106.19	95.00
DBU7	111.16	#VALUE!	111.16	111.30	110.97	14.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.625	4.623	4.625	4.644	4.604	
DLU7	4.561	4.560	4.561	4.588	4.540	
DBU7	4.584		4.584	4.606	4.567	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.457	4.441	4.436	4.511	4.441	0
T.US.DE050P0712	4.490	4.481	4.473	4.553	4.480	0
T.US.DE042P0717	4.515	4.508	4.508	4.581	4.509	0
DEP2P	4.436	4.425	4.425	4.453	4.409	5
DEP5P	4.490	4.481	4.481	4.522	4.464	19
DEP10P	4.534	4.527	4.527	4.558	4.509	33

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	100.08	100.11	100.11	100.15	100.05	4.00
T.US.DE050P0712	97.92	97.96	97.96	98.03	97.79	19.00
T.US.DE042P0717	96.26	96.31	96.31	96.45	96.09	30.00
DEP2P	100.11	100.13	100.13	100.16	100.08	5.00
DEP5P	97.92	97.96	97.96	98.03	97.79	19.00
DEP10P	97.76	97.81	97.81	97.95	97.57	33.00

Y = Yield
 CTD = Cheapest to Deliver
 DE = German Country Code

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	

SYM NAME	
2 yr CTD	German Cash
5 yr CTD	
10 yr CTD	
2yr OTR	
5yr OTR	
10yr OTR	

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Euro Mkt Summary:
No summary today. Sorry.



News Recap for Euroland & Japan Overnight

03:02 07/02 BONDS: EGBs are opening firmer on Monday on back of flight-to-quality buying after the UK raised the threat level to "critical" following a failed car-bomb attack at Glasgow airport on Saturday. Also underpinning sentiment is report that Germany's federal net new borrowing will be reduced to E12.9 billion next year, markedly below the E21.5 billion projected for 2008 in last year's medium-term fiscal outlook, a senior German finance ministry official said Sunday. This is in line with the estimate of Finance Minister Peer Steinbrueck, who said in an interview with the daily Berliner Zeitung published Saturday that federal net new borrowing would be just below E13 billion next year. Attention this week turns to eurozone June PMI manufacturing & services data, May PPI and retail sales data. In the US, June ISM manufacturing, pending home sales, factory orders, ADP employment and payrolls data take centre stage. Also eyed this week turns to central bank rate decisions -- RBA on Wednesday, and the ECB and BoE due on Thursday.

02:28 07/02 JGBS: Japanese government bonds ended Tuesday's session modestly lower across the curve, unable to hold on to mid-session gains. However, traders said cash trade volumes were modest, with many players sidelined ahead of Tuesday's Y1.7 trillion 10-year auction. Prices were better bid in the morning session, as the Tankan survey offered no imminent threat of a Bank of Japan rate hike. However, traders said the upward momentum was not enough to prevent a bout of profit-taking in afternoon trade. The belly of the curve bore the brunt of the profit-taking, as offshore selling of the lead futures contract ahead of the auction led the way lower.

- Benchmark 10-year #285 yield was 1.5 bps higher at 1.895%.
- Benchmark 5-year #63 yield was 1.5 bps higher at 1.495%.
- Benchmark 20-year #94 yield was 0.5 bps higher at 2.250%.
- Benchmark 30-year #26 yield was unchanged at 2.485%.
- Lead Sept JGB futures contract was 0.10 lower at 131.91.

News Recap for Euroland & Japan Overnight (cont)

06:41 07/02 UK: The Treasury Select Committee of the UK Parliament has approved the reappointment of BOE Chief Economist Charles Bean and Kate Barker as members of the Monetary Policy Committee of the Bank of England. Bean and Barker have been reappointed for a further 3-year term in office as of June 1, 2007. The TSC said that both officials met the criteria for appointments to the MPC relating to their professional competence and personal independence. The approvals follow the meetings between the TSC and Barker and Bean on Jun 28. The TSC has only once criticised an MPC appointee in the 10-year history of the committee -- Christopher Allsopp in 2000 -- although the Treasury proceeded with his appointment regardless.

01:46 07/02 CHINA: Shares in Shanghai and Shenzhen were sharply lower in late trading amid liquidity worries due to a planned special bond issuance, with banks leading the decline. At 0535 GMT, the benchmark Shanghai Composite Index had fallen 64.12 points or 1.68 pct to 3,756.69.

01:36 07/02 GERMANY: Germany's federal net new borrowing will be reduced to E12.9 billion next year, markedly below the E21.5 billion projected for 2008 in last year's medium-term fiscal outlook, a senior German finance ministry official said Sunday. The official said the ministry saw net new federal borrowing of E10.5 billion in 2009, dropping to E6.0 billion in 2010 before hitting zero in 2011.



	US Intrinsic's ^			
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.09	4.63	\$1,448	€ 1,967
10y	7.79	2.40	\$751	€ 1,021
5y	4.38	1.40	\$437	€ 594
2y	1.98	0.63	\$196	€ 266
ZB	9.65	3.36	\$105	€ 143
ZN	5.76	1.97	\$61	€ 83
ZF	3.93	1.32	\$41	€ 56
ZT	1.85	1.21	\$38	€ 51

^Futures are Based on CTD

	Tic for Tic Matrix (\$)		
	Bund	Bobl	Schatz
30y	17.64	31.94	42.10
10y	9.15	16.57	21.84
5y	5.33	9.65	12.72
2y	2.38	4.31	5.69
ZB	1.28	2.32	3.05
ZN	0.75	1.34	1.79
ZF	0.50	0.91	1.20
ZT	0.46	0.83	1.10

What is this?:
The Schatz moves XX.XX tics for every 1 tic the 10yr cash moves.

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.07	€ 112	\$82	0.872569
Bobl	4.21	€ 62	\$45	0.959013
Schatz	1.78	€ 47	\$34	0.966386
DE10Y	7.62	€ 994	\$732	
DE5Y	4.21	€ 565	\$416	
DE2Y	1.68	€ 225	\$166	

^Futures are Based on CTD

Last

EURUSD 135.85

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	2.900
Bobl (U)	1.000	1.500	1.600
Shatz (U)	0.410	0.610	0.660

US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (U)	1.7	4.0	6.8
Bobl (U)	3.1	7.2	12.3
Shatz (U)	6.9	16.1	28.2

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)		1.800	4.400
Bobl (U)	0.550		2.400
Shatz (U)	0.230	0.414	

Notes:

Bloomberg ratio's are static.

They are updated every week, or at auctions & rolls.

Yields & Spreads

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	4.863	4.859	4.859
US5y	4.922	4.918	4.918
US10y	5.033	5.031	5.031

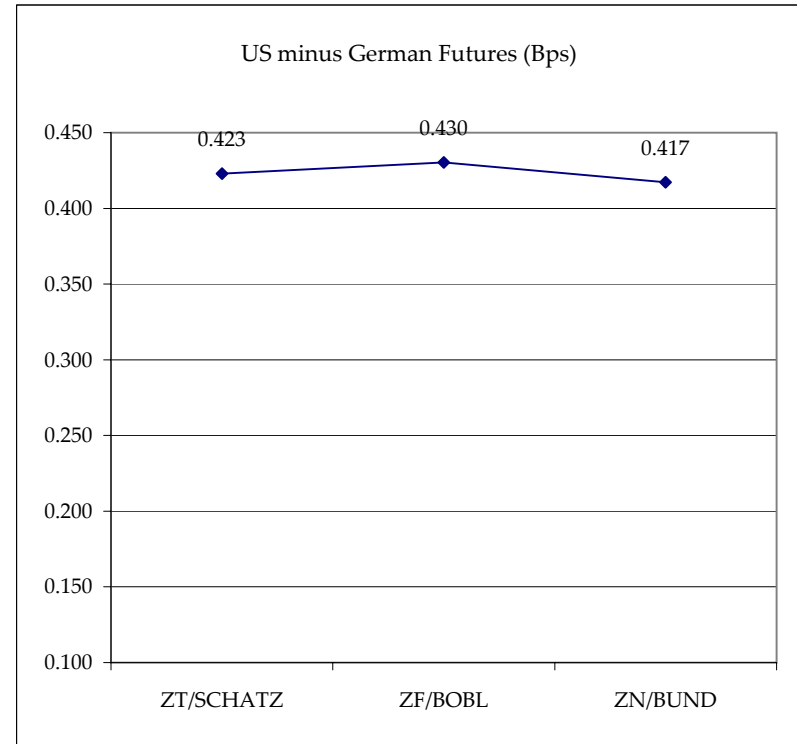
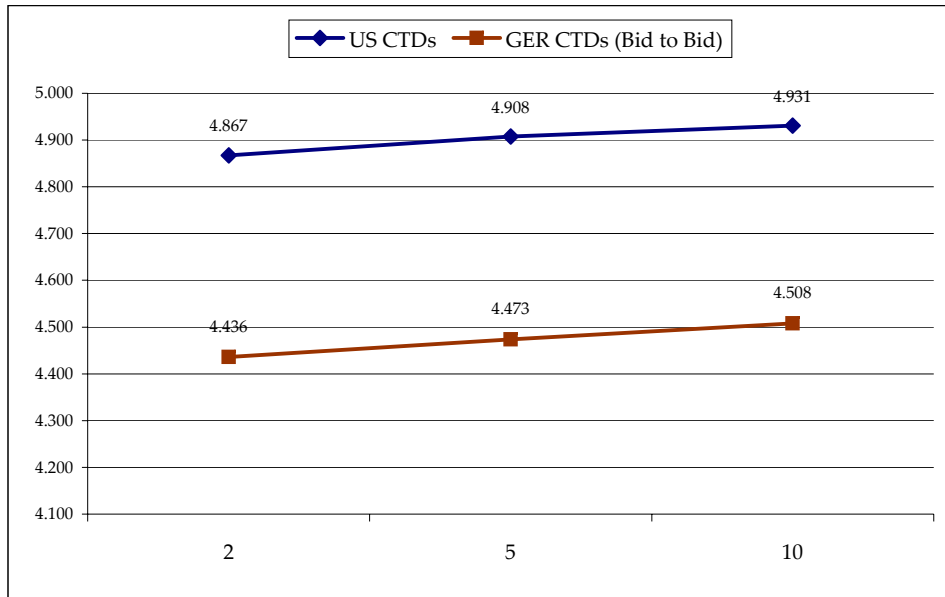
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.436	4.425	4.425
DE5y	4.490	4.481	4.481
DE10y	4.534	4.527	4.527

Spreads Bps	
ZT/SCHATZ	0.423
ZF/BOBL	0.430
ZN/BUND	0.417

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.867	4.859	4.859
4.500 of 11/11	4.908	4.904	4.904
4.750 of 05/14	4.931	4.925	4.925

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.457	4.441	4.436
4.000 of 04/12	4.490	4.481	4.473
4.000 of 07/16	4.515	4.508	4.508

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

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--> Euro Market Focus: Bonds End Higher, Wings Outperform
by Charanjeev Chana [published 06/22]

ECB Outlook

Earlier this month ECB official Yves Mersch suggested that ECB interest rates may need to rise to 4.50% after noting that the most recent ECB staff projections unveiled by ECB President Trichet in his June press statement, "include the assumption that short-term market interest rates will rise to 4.5% by the end of this year. This week, ECB official Axel Weber made further reference to the risks of inflation exceeding the 2% price stability ceiling according to staff projections, saying "According to our assessment the average inflation rate is likely to be above our upper limit for price stability this year and next." He followed by hinting at additional tightening to counter these risks after saying "I do not see a threat to the economic cycle" if interest rates were to go higher."

The ECB June 2007 Monthly Bulletin states that "the average rate of increase in the overall Harmonised Index of Consumer Prices (HICP) is projected to be between 1.8% and 2.2% in 2007, and between 1.4% and 2.6% in 2008." The technical assumptions with regards to short-term interest rates imply "an increase from the mid-May level of 4.0% to an average of 4.2% in 2007, and a further increase to an average of 4.5% in 2008."

In the Q&A session of the June interest rate press conference, ECB President Trichet was questioned on whether the staff projections, which saw inflation above 2% for 2007 and 2008 based on the expectation of one more interest rate increase - would essentially mean that the ECB would have to tighten more than once to contain inflation below 2%. President Trichet's response was unsurprisingly non-committal, after he repeated the mantra "there is no pre-commitment", adding "The Governing Council is alert and we will do whatever is needed, as we have in the past, to ensure price stability and be credible in ensuring and delivering price stability."

Whilst ECB President Trichet was non-committal, we view the latest comments by ECB Governing Council members as firm indication of ECB interest rates reaching 4.50% by year-end if inflation expectations remain elevated close to or above the ECB's 2% price stability ceiling.

GO to next page to learn more
about the ECB



Most Recent MPC Meetings:










	King (Gov)	Lomax (Dep Gov)	Gieve (Dep Gov)	Bean	Tucker	Barker	Blanchflower	Besley	Sentance	Result	Level	Vote	Dissent bias
Jul-06	unch	unch	unch	unch	unch	unch	unch			unch	4.50%	7-0	none
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

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BOE Hawkometer - MPC Split Points to a July Rate Hike
by Niraj Shah
 -- Stone & McCarthy (London) --
June was a Close Call

The MPC were shown to have been split over its decision to leave rates on hold at the June meeting, with four out of the nine members, including Governor Mervyn King, backing a 25bps hike in June. The hawks argued that they saw no reason to wait to hike rates and by tightening sooner rather than later would result in a lower rate peak. The doves argued that a June hike would lead to an unwarranted rise in the market yield curve, which was already factoring in 50 bps of further tightening this year. The minutes were more hawkish than expected and the June split suggests that a rate hike in July is now looking more likely.
 [published 6/2007]

BOE HAWKOMETER (to June 2007 meeting)

	Dissenting Hawkish Votes	Dissenting Dovish Votes	Non-Dissenting Votes	Total Votes	Hawkishness Rating
 Sentance	4	0	5	9	44%
 Besley	4	0	6	10	40%
 King (Gov)	14	0	108	122	11%
 Tucker	6	1	54	61	8%
 Gieve (Dep Gov)	1	0	16	17	6%
 Lomax (Dep Gov)	2	2	44	48	0%
 Barker	1	4	69	74	-4%
 Bean	0	4	78	82	-5%
 Blanchflower	0	4	9	13	-31%