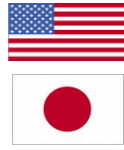




## The Morning Email: US & Germany

### Table of Contents

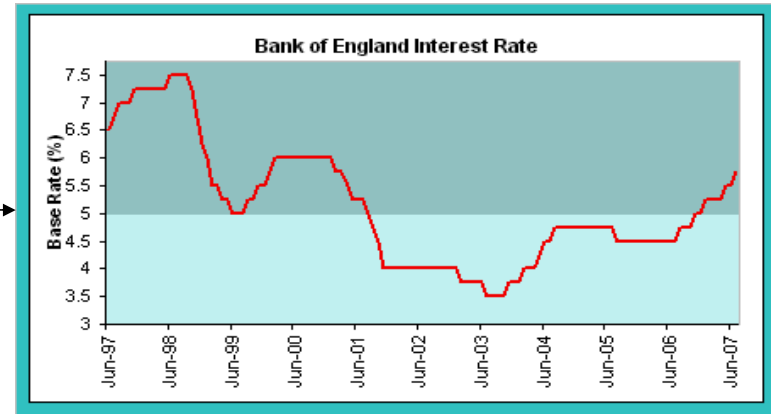
- Pg 1 Correlation Matrix & BUND Technicals
- Pg 2 Quotes 1
- Pg 3 Quotes 2
- Pg 4 News - Yesterday's Recap
- Pg 5 News - Overnight Recap
- Pg 6 Intrinsic's & Tic for Tic Matrix'
- Pg 7 Hedge Ratio's - Bloomberg/GHCO
- Pg 8 Yields & Spreads
- Pg 9 Volume Questions & Global Bond Market Characteristics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



7/6/2007 5:38

**BOE Governor Gets His Way as Rates Rise to 5.75% in July**  
 by Niraj Shah  
 -- Stone & McCarthy (London) --  
 The BOE Governor got his way as the Bank of England hiked interest rates by 25bps to 5.75% as widely expected. Interest rates have now risen five times in a year to put rates at a level not seen since March 2001.

Stone & McCarthy  
RESEARCH ASSOCIATES



Want something added? Let me know: [jgoulding@ghco.com](mailto: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.

SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	-87.70	-83.06	-73.05	87.00	80.20	75.64	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-81.32	-90.30	-86.96	88.03	88.83	89.52	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-74.83	-90.72	-92.15	83.28	89.36	93.24	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.**

Stone & McCarthy  
RESEARCH ASSOCIATES

```

-----RESISTANCE-----
111.20 top Bollinger band
111.44 07/02 pivot high
110.73 5-DMA
110.67 10-DMA
110.56 07/04 07/05 gap top
110.50 Bollinger band center line
110.16 -.40 07/05 Settlement
110.05 lowest Jun close
109.92 06/21 pivot low
109.79 Oct '02 corrective lows
..... lower Bollinger band
109.66 06/13 pivot low
-----SUPPORT-----

```

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

Short-term, 10 and 14-day momentum studies are now back to neutral, which may help bring some stability in the next couple of days. But, with a noticeable gap still open down to the bottom Bollinger band and June pivot lows (see table above for specific levels), risks will remain skewed lower until a close above 110.56.

Longer-term, our proprietary trading system (a near to long-term trend following system), which entered its final short position on 04/13, would not see its first protective stop triggered until settlement above 111.54.

## Quotes 1

32 nds												
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME				
TUAU7	101.227	0.2	101.237	101.225	101.225	20,383	142,259	2y Futures	US Futures Market			
FVAU7	103.215	1.0	103.240	103.205	103.205	41,810	447,698	5y Futures				
TYAU7	104.305	0.5	105.020	104.295	104.295	97,452	1,239,218	10y Futures				
USAU7	106.170	(1)	106.240	106.170	106.180	21,834	290,040	30y Futures				
	Last	Net	Hi	Low	Open	Volume						
BUS02P	99.265	0.0	99.272	99.265	99.267	2y	US Cash Treasury Market					
BUS05P	99.082	0.2	99.105	99.075	99.075	5y						
BUS10P	95.030	0.5	95.065	95.020	95.030	10y						
BUS30P	92.220	(3)	92.285	92.215	92.285	30y						
	Last	Net	Hi	Low	Open	Volume						
BUS02Y	4.955	(1.20)	4.984	4.946	4.984	2y Yield						
BUS05Y	5.044	(0.10)	5.058	5.026	5.056	5y Yield						
BUS10Y	5.138	(0.20)	5.147	5.121	5.144	10y Yield						
BUS30Y	5.236	0.60	5.242	5.215	5.233	30y Yield						



Decimal										
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	102.40	(10.00)	102.43	102.39	102.41	227,027	730,310	Schatz(2Y)	German Futures Markets	
DLU7	105.72	(30.00)	105.80	105.68	105.80	203,526	751,967	Bobl(5Y)		
DBU7	110.06	(3.00)	110.21	109.95	110.21	414,110	1,542,886	Bund(10Y)		



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE032P0409	99.92	4.436	4.500	7/4/2009	2 yr CTD	German Cash Treasury Market
T.US.DE050P0712	97.40	4.473	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	95.31	4.643	4.000	7/4/2016	10 yr CTD	
DEP2P	99.96	4.518	4.500	6/12/2009	2yr OTR	
DEP5P	97.44	4.608	4.000	4/13/2012	5yr OTR	
DEP10P	96.79	4.659	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	102.39	102.40	102.40	102.43	102.39	-10.00
DLU7	105.72	105.73	105.72	105.80	105.68	-30.00
DBU7	110.06	110.07	110.06	110.21	109.95	-3.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.720	4.717	4.720	4.722	4.701	
DLU7	4.690	4.689	4.689	4.700	4.672	
DBU7	4.715	4.714	4.714	4.728	4.697	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.542	4.526	4.436	4.548	4.494	0
T.US.DE050P0712	4.617	4.608	4.473	4.615	4.557	0
T.US.DE042P0717	4.651	4.643	4.643	4.650	4.591	0
DEP2P	4.529	4.518	4.518	4.540	4.496	-2
DEP5P	4.617	4.608	4.608	4.634	4.598	-2
DEP10P	4.666	4.659	4.659	4.680	4.644	-9

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	99.92	99.95	99.95	99.97	99.90	0.00
T.US.DE050P0712	97.40	97.44	97.44	97.48	97.33	-2.00
T.US.DE042P0717	95.31	95.36	95.36	95.46	95.20	-7.00
DEP2P	99.94	99.96	99.96	100.00	99.92	-2.00
DEP5P	97.40	97.44	97.44	97.48	97.33	-2.00
DEP10P	96.74	96.79	96.79	96.91	96.63	-9.00

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	

Stone & McCarthy  
RESEARCH ASSOCIATES

05/07/2007	18:05	EURO	chg	USA	chg	UK	chg
<b>Futures</b>	<b>Bond</b>	110.11	-0.45	106.72	-0.78	103.34	-0.19
	<b>STIR</b>	95.62	-0.01	94.66	-0.04	93.69	-0.02
<b>Cash</b>	<b>3mth</b>	4.19	0.01	5.36	0.00	6.00	0.00
	<b>2yr</b>	4.52	0.04	4.95	0.08	5.77	0.02
	<b>5yr</b>	4.60	0.05	5.03	0.09	5.72	0.02
	<b>10yr</b>	4.65	0.05	5.12	0.08	5.51	0.02
	<b>30yr</b>	4.75	0.04	5.22	0.08	4.87	0.01
	<b>10yr-2yr</b>	0.13	0.01	0.17	0.01	-0.26	0.00
<b>Spreads</b>	<b>2yr</b>	--	--	0.50	0.04	1.34	-0.02
	<b>vs euro</b>	<b>10yr</b>	--	--	0.54	0.03	0.94
<b>FX</b>	<b>USD</b>	1.360	-0.001	--	--	2.012	-0.004
	<b>EUR</b>	--	--	--	--	0.676	0.001
	<b>YEN</b>	166.94	-0.09	122.75	0.08	247.03	-0.36
<b>Equities</b>		4491.9	-0.7%	1519.6	-0.4%	6635.2	%

**Euribor futures** were 0.5 ticks to 6 ticks lower with the Sep-07 contract at 95.620/-0.010 (4.380% implied). Sep-07 Bunds were 36 ticks lower at 110.49. In cash, German government benchmark yields were 3bps to 4bps higher with long dates outperforming. The 2s/10s spread was 12bps vs. 11bps and the 10s/30s spread was -11bps vs. -12bps.

**Gilts** were also lower but outperformed EGBs. The BOE rate hike to 5.75% and the accompanied hawkish statement only weighed marginally, having been already priced in. Nevertheless, the statement did indicate that another rate hike might well be required. Friday sees of UK May industrial production data.

**Short sterling futures** were 2 to 5 ticks lower with the Sep-07 contract at 93.810/-0.020 (6.190% implied). Jun-07 Gilts were 19 ticks lower at 103.34. In cash, UK government benchmark yields were 1bp to 2bps higher with the long-end outperforming. The 2s/10s spread was unchanged at -26bps and the 10s/30s spread was -64bbps vs. -63bps.

### Headlines

EGBs Lower On ECB Comments & US Data

ECB keeps rates at 4.0% and use 'monitor closely' again  
BOE hikes to 5.75% as expected  
Decent demand for the French auctions

### Euro Mkt Summary: EGBs Lower On ECB Comments & US Data by Niraj Shah

EGBs were lower in afternoon trading following the ECB conference and stronger than expected US data. European government bonds had opened lower, on the back of continued unwinding in safe-haven trades following overnight gains in Asian equity bourses, excluding China. Trading was confined to a narrow range ahead of the ECB interest rate decision, although decent demand for the French auctions provided temporary support. The French Tresor sold E2.1bln of the 3.75% Apr 2017 OAT at ave yield of 4.67% and covered 3.564 times. It also sold E1.54bln of the 4.25% Oct 2023 OAT issue at ave yield of 4.78% and covered 2.841 times. The BOE and ECB rate announcements had a minimal impact initially, with markets having fully priced in a BOE 25bps rate hike to 5.75% and for the ECB to remain unchanged at 4.00%.

The ECB conference saw Trichet use the phrase 'monitor closely' again this month, giving the impression that the ECB was likely to raise rates in October rather than September. However, the overall comments were seen as hawkish and weighed on sentiment. The fall in EGBs was compounded by the release of stronger than expected US ADP employment data and the unexpected rise in ISM non-manufacturing. Friday will see the release of German manufacturing orders, however traders are unlikely to establish new positions ahead of the US non-farm payrolls.



### News Recap for Euroland & Japan Overnight

03:02 07/06 BUNDS: Traders report 20k clip sold in Sept Bund futures in last leg lower. Bigger stop losses reported on a break below 110.00 level.

02:55 07/06 BONDS: EGBs are opening lower on Friday, and extending declines seen the previous session on continued unwinding in safe-haven trades, and after ECB President Jean-Claude Trichet said rates are "still on the accomodative side". Trichet repeated last month's phrase "close monitoring" of all developments, breaking with the communication calculus of the recent past, when the ECB progressively ratcheted up its early-warning system over a three-month period. Clearly, a September hike remains possible, regardless of whether the Council meets in person in August or via teleconference. However, the Eonia swap curve is putting in a greater percentage hike for October rather than September, which may be due to the absence of a press conference in August. This implies, that "very closely" will be seen in August, i.e. either through news wires or newspaper interview and "vigilant" in September, according to some strategists. Attention now turns to the key US payrolls data at 1230GMT, where some position-squaring is favoured.

03:46 07/06 EGBs: Bear steepening once again seen in EGBs, which has been the recent trend. The 2-/10-year yield spread is now at +14bps -- the 50.0% of +9.4bps to +19bps move. Break favours move to +17bps and move to +44bps, which is the 23.6% of the March 2004 to March 2007 flattening move. This flattening trend was broken in early June.

04:17 07/06 UK PRESS: Food price inflation will be "significant and long-lasting", Peter Brabeck, Chairman of Nestle, warned in the FT today. Nestle is the world's largest food company and the Brabeck's comments therefore carry some weight. Brabeck said both temporary factors and structural factors were at play to alter demand as well as supply.

### News Recap for Euroland & Japan Overnight (cont)

04:45 07/06 BOJ: Fukuoka Branch Chief; Some firms see weak yen gone too far

04:42 07/06 BOJ HAYAKAWA: BOJ Chief economist Hideo Hayakawa said, - Some Japan firms see current weak yen 'scary'

04:41 07/06 BOJ HAYAKAWA: Japan firms see past rate hikes appropriate

04:40 07/06 BOJ HAYAKAWA: Japan wants stable forex rate



	US Intrinsic's ^			
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	14.96	4.53	\$1,415	€ 1,924
10y	7.76	2.38	\$743	€ 1,010
5y	4.36	1.39	\$433	€ 589
2y	1.97	0.62	\$194	€ 263
ZB	9.61	3.32	\$104	€ 141
ZN	5.73	1.94	\$61	€ 82
ZF	3.91	1.30	\$41	€ 55
ZT	1.83	1.19	\$37	€ 51

^Futures are Based on CTD

	Tic for Tic Matrix (\$)		
	Bund	Bobl	Schatz
30y	17.44	31.52	41.59
10y	9.16	16.55	21.83
5y	5.34	9.65	12.74
2y	2.39	4.31	5.69
ZB	1.28	2.31	3.05
ZN	0.75	1.34	1.78
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	7.34	€ 110	\$81	0.872569
Bobl	4.19	€ 61	\$45	0.959013
Schatz	1.86	€ 46	\$34	0.966386
DE10Y	7.59	€ 981	\$722	
DE5Y	4.19	€ 560	\$412	
DE2Y	1.66	€ 223	\$164	

^Futures are Based on CTD

Last

EURUSD 136.00

**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

Bloomberg  
Ratio's

## 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

Bloomberg  
Ratio's

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.00	1.75	4.40
Bobl (U)	0.57	1.00	2.51
Shatz (U)	0.23	0.40	1.00

GHCO 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 GHCO or Bloomberg.

**Yields & Spreads**

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	4.972	4.955	4.955
US5y	5.046	5.044	5.044
US10y	5.140	5.138	5.138

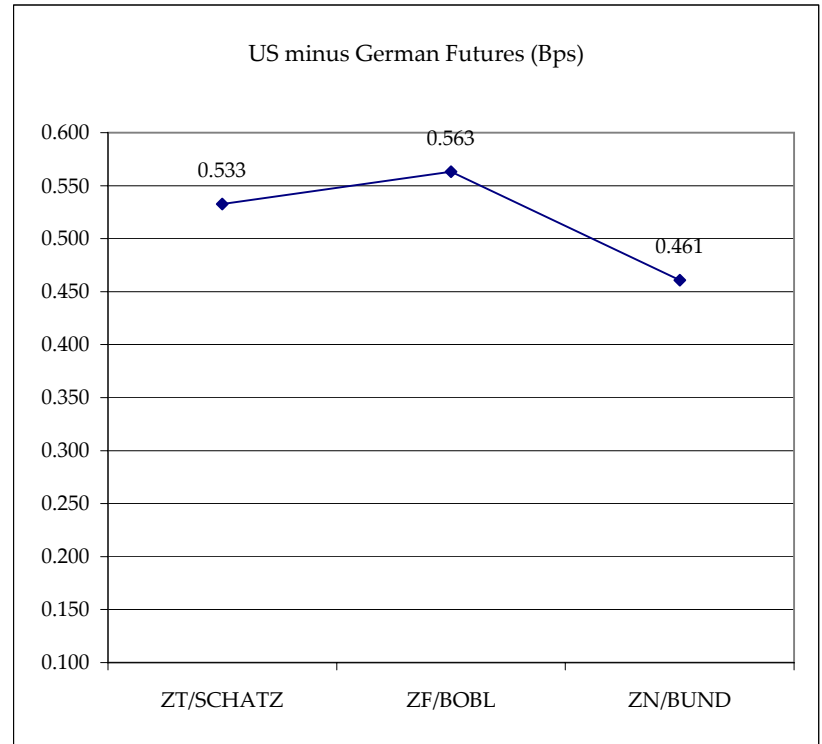
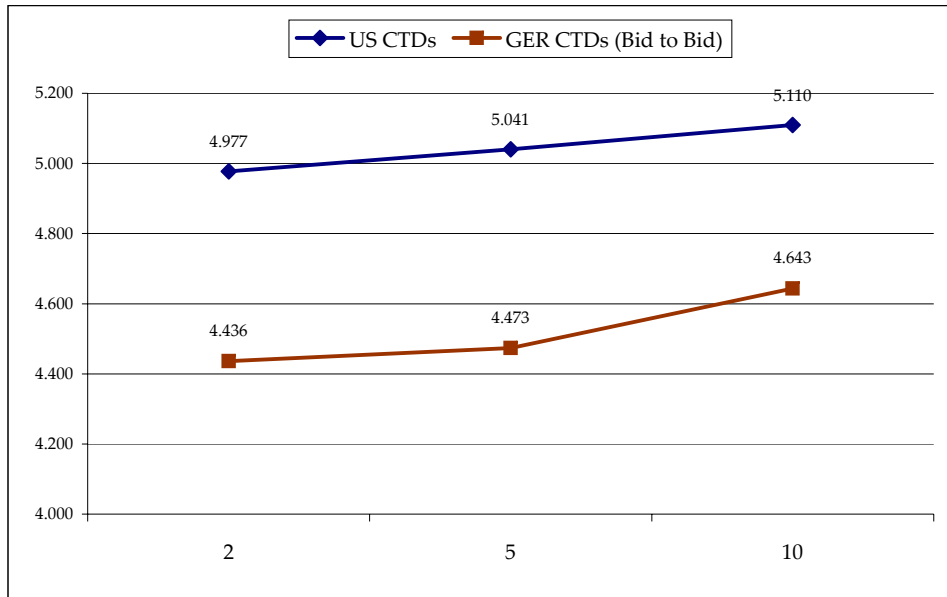
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.529	4.518	4.518
DE5y	4.617	4.608	4.608
DE10y	4.666	4.659	4.659

Spreads	
	Bps
ZT/SCHATZ	0.533
ZF/BOBL	0.563
ZN/BUND	0.461

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.977	4.968	4.968
4.500 of 11/11	5.041	5.036	5.036
4.750 of 05/14	5.110	5.104	5.104

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.542	4.526	4.436
4.000 of 04/12	4.617	4.608	4.473
4.000 of 07/16	4.651	4.643	4.643

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

[07/05/2007]

BOE Governor Gets His Way as Rates Rise to 5.75% in July**by Niraj Shah**

-- Stone &amp; McCarthy (London) --

The BOE Governor got his way as the Bank of England hiked interest rates by 25bps to 5.75% as widely expected. Interest rates have now risen five times in a year to put rates at a level not seen since March 2001.

The rate hike did not come as a surprise given that the MPC had come very close to hiking in June. Indeed, the June minutes had shown that the MPC voted by the narrowest of margins of 5-4 against a rate hike in June, with King finding himself being outvoted for only the second time as Governor. In fact, the May minutes had already been unusually explicit in highlighting that interest rates were likely to rise again in order to meet the 2% inflation target in the medium term. It was therefore a case of when rather than if rates were going to rise.

BOE Statement

In a statement, the BOE MPC justified the move, citing a number of factors including survey evidence of elevated price pressures, strong money growth and limited spare capacity, all of which pose inflation risks. Critically, the statement noted that 'relative to the 2% target, the balance of risks to the outlook for inflation in the medium term continued to lie to the upside'.

However, we do not believe that the latest decision will have been unanimous with Deputy Governor Lomax and Blanchflower likely to have dissented against monetary tightening. In evidence to the Treasury Select Committee, Blanchflower and Lomax both set out a clear case against tightening in the near term. In fact, Deputy Governor Lomax made absolutely clear that she will not be in the rate hike camp at July's meeting, and may well not be on board for a near-term rate hike at all. Markets will now focus on the MPC minutes released on 18th July to see how individual MPC members voted.

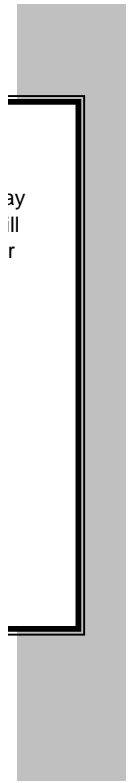
GO to next page to learn more  
about the ECB

Stone & McCarthy  
RESEARCH ASSOCIATES

**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
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

]



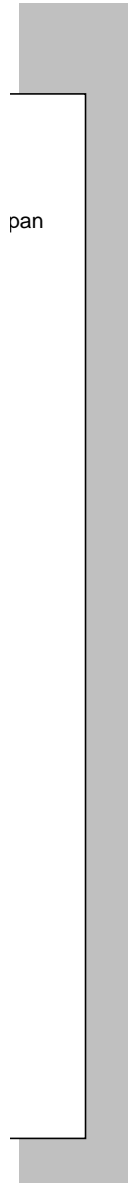
ay  
ll  
r





Expected  
inflation in  
demand  
rate 3.75%  
4.25%  
rate  
25bps

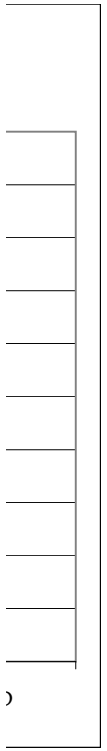
By the  
way, the  
is  
manufacturing



pan









es at a

of

were

acity,  
to the

ning.

