7/9/2007 5:53

The Morning Email: US & Germany

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In the UK, 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. Millions of people are facing a hefty 1/3 increase in their mortgage bills, experts warned last night, after the Bank of England raised interest rates to the highest level in more than six years, the Telegraph reports.

The increase is seen as a significant setback for up to two million households due to renew their mortgages in the coming months, the Council for Mortgage Lenders warns, the paper says. Families on two-year fixed deals have been shielded from rate increases, but face a 30 per cent rise in their costs when they fix them again this autumn at much higher rates.

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Correlation Matrix & BUND Technicals

		US Cash Treasuries			US Bonds/Notes (CBOT)				
SYM NAME	Symbol	2yr	5yr	10yr	ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGU7	-92.81	-94.27	-90.26	95.23	95.30	93.33	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-87.57	-94.71	-93.66	90.87	94.97	95.78	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-84.15	-93.90	-95.07	86.88	93.15	95.78	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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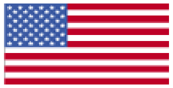
Technical Commentary -EUREX Sep 2007 10yr Euro-Bund
by Mike Sacchitello, CMT

Quotes 1

32 nds

	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
TUAU7	101.227	1.2	101.227	101.210	101.215	22,654	250,185	2y Futures	US Futures Market
FVAU7	103.170	2.0	103.175	103.140	103.150	29,678	528,579	5y Futures	
TYAU7	104.235	4.0	104.240	104.190	104.210	77,196	1,351,454	10y Futures	
USAU7	106.070	4	106.090	106.010	106.070	19,787	396,651	30y Futures	



	Last	Net	Hi	Low	Open	Volume	
BUS02P	99.260	0.5	99.262	99.250	99.250	2y	US Cash Treasury Market
BUS05P	99.032	1.2	99.040	99.005	99.007	5y	
BUS10P	94.260	1.5	94.260	94.215	94.235	10y	
BUS30P	92.080	1	92.100	92.035	92.040	30y	
	Last	**Net**	**Hi**	**Low**	**Open**	**Volume**	
BUS02Y	4.972	(0.40)	5.005	4.963	5.005	2y Yield	
BUS05Y	5.078	(1.10)	5.105	5.073	5.096	5y Yield	
BUS10Y	5.176	(0.60)	5.202	5.174	5.187	10y Yield	
BUS30Y	5.266	(0.20)	5.287	5.263	5.268	30y Yield	

Decimal

	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	102.39	10.00	102.41	102.37	102.37	128,151	639,103	Schatz(2Y)	German Futures Markets
DLU7	105.63	15.00	105.70	105.59	105.62	143,868	647,701	Bobl(5Y)	
DBU7	109.86	2.00	109.96	109.75	109.81	278,947	1,396,263	Bund(10Y)	

	Price	Yield				
	Last	**Last**	**Coupon**	**Maturity**	**SYM NAME**	
T.US.DE032P0409	99.90	4.547	4.500	7/4/2009	2 yr CTD	German Cash Treasury Market
T.US.DE050P0712	97.30	4.635	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	95.14	4.668	4.000	7/4/2016	10 yr CTD	
DEP2P	99.95	4.524	4.500	6/12/2009	2yr OTR	
DEP5P	97.34	4.632	4.000	4/13/2012	5yr OTR	
DEP10P	96.63	4.680	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	102.38	102.39	102.39	102.41	102.37	10.00	Schatz(2Y)	German Futures
DLU7	105.64	105.64	105.63	105.70	105.59	15.00	Bobl(5Y)	
DBU7	109.85	109.86	109.86	109.96	109.75	2.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo			
DGU7	4.725	4.722	4.725	4.733	4.712		Schatz(2Y)	German Futures
DLU7	4.709	4.708	4.709	4.719	4.695		Bobl(5Y)	
DBU7	4.740	4.739	4.739	4.752	4.727		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE032P0409	4.553	4.537	4.547	4.569	4.515	0	2 yr CTD	German Cash
T.US.DE050P0712	4.642	4.632	4.635	4.644	4.598	0	5 yr CTD	
T.US.DE042P0717	4.675	4.668	4.668	4.681	4.629	0	10 yr CTD	
DEP2P	4.535	4.524	4.524	4.546	4.507	2	2yr OTR	
DEP5P	4.642	4.632	4.632	4.654	4.620	0	5yr OTR	
DEP10P	4.687	4.680	4.680	4.702	4.670	0	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE032P0409	99.90	99.93	99.93	99.95	99.88	3.00	2 yr CTD	German Cash
T.US.DE050P0712	97.30	97.34	97.34	97.39	97.25	0.00	5 yr CTD	
T.US.DE042P0717	95.14	95.19	95.19	95.25	95.02	0.00	10 yr CTD	
DEP2P	99.93	99.95	99.95	99.98	99.91	2.00	2yr OTR	
DEP5P	97.30	97.34	97.34	97.39	97.25	0.00	5yr OTR	
DEP10P	96.58	96.63	96.63	96.71	96.46	0.00	10yr OTR	

Y = Yield

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06/07/2007	19:24	EURO	chg	USA	chg	UK	chg
Futures	Bond	109.87	-0.36	106.22	-0.34	103.11	-0.23
	STIR	95.62	0.00	94.65	-0.01	93.69	0.00
Cash	3mth	4.20	0.01	5.36	0.00	6.01	0.01
	2yr	4.54	0.02	4.99	0.02	5.79	0.02
	5yr	4.63	0.04	5.09	0.04	5.74	0.02
	10yr	4.68	0.04	5.19	0.05	5.54	0.02
	30yr	4.77	0.03	5.27	0.04	4.89	0.02
	10yr-2yr	0.14	0.01	0.20	0.03	-0.26	0.00
Spreads	2yr	--	--	0.51	-0.01	1.34	0.00
vs euro	10yr	--	--	0.58	0.01	0.94	-0.01
FX	USD	1.362	0.002	--	--	2.011	0.000
	EUR	--	--	--	--	0.677	0.001
	YEN	168.04	0.78	123.37	0.36	248.07	0.65
Equities		4524.5	0.7%	1528.8	0.1%	6690.1	%

Headlines

EGBs Edge Lower On Strong US Payrolls

German May manufacturing orders 3.2% mom/ 7.5% yoy

Euro Mkt Summary: EGBs Edge Lower On Strong US Payrolls

by Niraj Shah

EGBS were lower in afternoon trading following the release of stronger than expected US June non-farm payrolls, where May's headline number was revised significantly higher. However, June's data did not weigh as heavily after being largely priced in following the strong ADP number on Thursday. EGBs had opened lower on continued unwinding in safe-haven trades, as well as on ECB President Trichet's comments that rates were "still on the accommodative side". However, Bunds bounced off their lows, amid talk of Asian real money account buying 10-year Bunds, triggering short-squeeze and position-squaring ahead of the US payrolls data. In addition, receiving interest in long-dated issues was also reported by Dutch accounts, in turn flattening the Bund yield curve. That said gains were capped by stronger than expected German manufacturing orders for May. Ultimately though, it was the US payrolls data that set the direction for EGBs firmly lower.

[by Niraj Shah, cont]

Euribor futures were flat to 3.5 ticks lower with the Sep-07 contract at 95.615/-0.005 (4.385% implied). Sep-07 Bunds were 36 ticks lower at 119.87. In cash, German government benchmark yields were 2bps to 4bps higher with the short dates outperforming. The 2s/10s spread was 14bps vs. 13bps and the 10s/30s spread was -9bps vs. -10bps.

Gilts were also lower but outperformed EGBs with rising UK rates already heavily discounted, although stronger than expected May industrial production data added to the negative tone. Looking ahead to Monday, Gilts will focus on May UK producer prices as well as comments from the arch dove of the Bank of England MPC, Blanchflower.

Short sterling futures were mixed with the Sep-07 contract at 93.820/+0.010 (6.180% implied). Jun-07 Gilts were 23 ticks lower at 103.11. In cash, UK government benchmark yields were 2bps higher across the curve. The 2s/10s spread was unchanged at -26bps and the 10s/30s spread was -65bps.

News Recap for Euroland & Japan Overnight

06:26 07/09 **BUND SUMMARY:** Bunds opened lower, taking their direction from the weaker close in US Treasures in the wake of Friday's stronger than expected US payrolls data. This included a +132,000 June jobs growth and upward revisions to prior month's payrolls totaling +75,000 along with +0.346% June Average Hourly Earnings gain. In addition, fall in Japanese Government Bonds overnight on the back of stronger than expected Japanese May machine orders overnight and rise in Nikkei-225 (+121pts, +0.67%) -- hitting its highest close at 18,261 since May 2, 2000, also weighed on sentiment. However, prices rebounded, amid bargain-hunting. Traders reported buying of 10-year German swaps on the approach of 5.00% and also swap receiving interest in 10-/30-year yield spread. Elsewhere, Bunds paid little attention to German industrial production data, which came in at a real, seasonally adjusted rise of 1.9% m/m in May vs MNI median forecast calling for +2.3% m/m. Attention this week turns to Fed Chairman Ben Bernake, who speaks on inflation on Tuesday.

06:34 07/09 **GILT SUMMARY**: Gilts are mixed, with the belly of the curve underperforming the wings. The short-dated issues were underpinned by marginally weaker than expected UK PPI data, where output prices rose 0.2% in June and were 2.4% higher than June 2006. Higher petrol and food prices, reflecting mainly cereal prices, were the key upward movers. Core output prices, which exclude erratic items such as food, beverages, tobacco and petroleum products, posted a monthly rise of 0.2% and an increase of 2.1% on the year. Analysts had been expecting to see a figure of 2.3% on the year. input prices rose 0.6% on the month in June and were up a nsa 2.1% on the year -- highest since Dec 2006. The outturn was broadly in line with the median forecast. All in all, this was a mixed bag of data but the BOE will welcome the continued easing trend in core output price inflation. Attention now turns to the British Retail Consortium's June sales data overnight, which could surprise on the upside, according to article in the Independent on Sunday newspaper.

News Recap for Euroland & Japan Overnight (continued)

06:10 07/09 **BOE** BLANCHFLOWER: Money growth is a risk, however
06:10 07/09 BOE BLANCHFLOWER: Much less convinced on money growth risk
06:09 07/09 BOE BLANCHFLOWER: No upward pressures showed up in pay round
06:09 07/09 BOE BLANCHFLOWER: Shares concerns with other MPC on price pressures
06:08 07/09 BOE BLANCHFLOWER: Growth in UK self employment not sustainable
- Still plenty of slack in UK labour market

04:53 07/09 **EGB** FLOWS: Traders say that the same Swiss name seen last week has been seen on Monday morning session, offering 10-/30-year swaps.

04:23 07/09 **FUJII:** Reported comments from MOF Official-- Japan's economic recovery firm, led by private sector demand.-- Up to BOJ to decide concrete monetary policy.
-- Wants BOJ to support econmy on monetary front.

02:54 07/09 **BONDS: EGBs** are opening lower on Monday, taking their direction from weaker close in US Treasures in the wake of Friday's stronger than expected US payrolls data. This included a +132,000 June jobs growth and upward revisions to prior month's payrolls totaling +75,000 along with +0.346% June Average Hourly Earnings gain. In addition, JGBs are weaker on backer of stronger than expected Japanese May machine orders overnight and rise in Nikkei-225 (+121pts, +0.67%) -- hitting highest close at 18,261 since May 2, 2000. Attention this week is on the BoJ 2-day meeting, which begins on Wednesday and concludes on Thursday. The Japanese OIS curve is currently pricing in a 10% chance of a 25bps rate hike this week. Most in the market are expecting an August rate hike given the upper house elections on July 29. Elsewhere, positive cash flows in the eurozone -- mainly from France -- and support at 10-year swap rate at 5.00% is seen underpining. The 2-/10-year Bund yield curve is 1bps steeper at +15bps and now trading at steepest since June 26.

Intrinsic's & Tic for Tic Matrix'

US Intrinsic's ^

	M Duration	DV01 32	DV01 $	DV01(€)
30y	14.92	4.50	$1,405	€ 1,915
10y	7.75	2.37	$740	€ 1,009
5y	4.36	1.38	$432	€ 589
2y	1.96	0.62	$193	€ 264
ZB	9.59	3.30	$103	€ 141
ZN	5.72	1.93	$60	€ 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	17.37	31.36	41.36
10y	9.15	16.51	21.78
5y	5.34	9.65	12.73
2y	2.39	4.32	5.69
ZB	1.27	2.30	3.04
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	7.58	€ 981	$720	
DE5Y	4.19	€ 561	$411	
DE2Y	1.66	€ 223	$164	

^Futures are Based on CTD

	Last
EURUSD	136.31

Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

3) MDuration & DV01s for Futures are based on proxy issue (CTD)

Jim Goulding, jgoulding@ghco.com

Hedge Ratio's - Bloomberg/GHCO

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	4.976	4.972	4.972
US5y	5.082	5.078	5.078
US10y	5.178	5.176	5.176

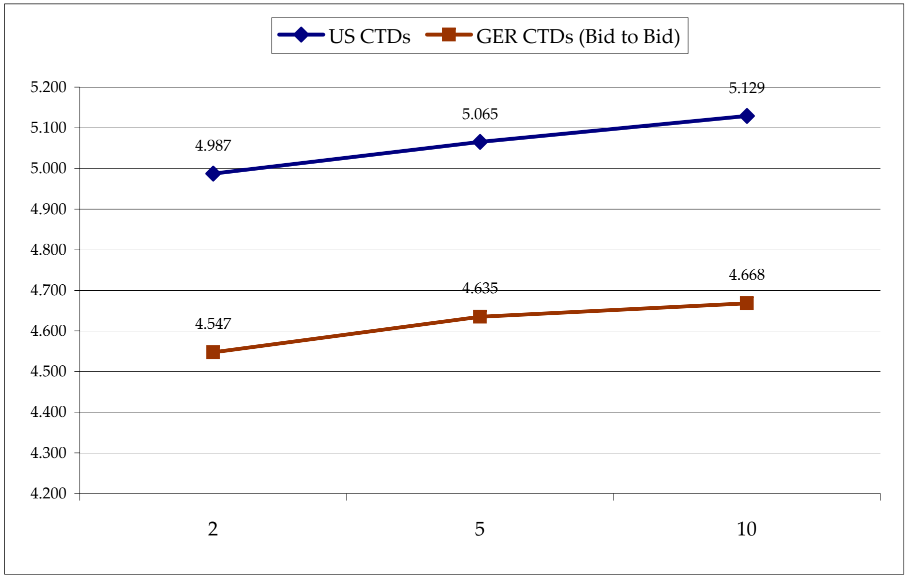
German Cash Treasuries (OTR)	Bid	Ask	Last
DE2y	4.535	4.524	4.524
DE5y	4.642	4.632	4.632
DE10y	4.687	4.680	4.680

Spreads	Bps
ZT/SCHATZ	0.418
ZF/BOBL	0.426
ZN/BUND	0.456

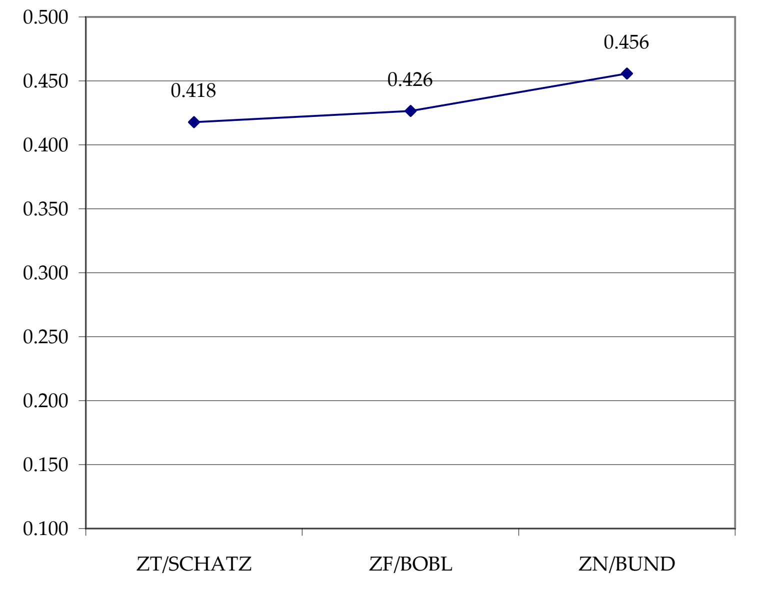
US Cash Treasuries (CTD)	Bid	Ask	Last
4.000 of 06/09	4.987	4.965	4.965
4.500 of 11/11	5.065	5.061	5.061
4.750 of 05/14	5.129	5.124	5.124

German Futures (CTD)	Bid	Ask	Last
4.500 of 07/09	4.553	4.537	4.547
4.000 of 04/12	4.642	4.632	4.635
4.000 of 07/16	4.675	4.668	4.668

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.



US minus German Futures (Bps)



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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MarketNews international

[07/05/2007]
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.

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