



# The Morning Email: US & Germany



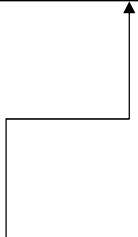
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09:09 07/09 **JAPAN:** Japan's Upper house elections will be held July 29 and with PM Abe's approval ratings sliding there is "rising uncertainty" about the outcome, says global strategists at JPMorgan Chase.

The election may not prompt a drastic shift in policy, with the LDP-led coalition still likely to maintain a "comfortable" majority in the Lower House, (more power than Upper House), so Able may not have to resign "even if the LDP loses many seats," they say. However, the U-H election should be viewed as "a barometer of Abe's ability to lead," JPMC says.

If the LDP wins less than 51 (63 seats contested and assumes New Komeito retains 12), "the number '44' could attract attention" as this was the number of seats the LDP won in the 1998 U-H election, when the Hashimoto cabinetresign to take responsibility for a defeat," the strategists say.



Want something added? Let me know: [jgoulding@ghco.com](mailto: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	(89.38)	(93.23)	(90.33)	93.42	93.96	93.75	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(85.24)	(92.87)	(91.84)	91.06	94.38	95.59	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(84.66)	(93.85)	(94.36)	89.50	94.69	96.91	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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-----RESISTANCE-----
111.44 07/02 pivot high
111.24 40-DMA
111.17 top Bollinger band
110.62 10-DMA, 50% of the 07/02 - 07/09 D-move
110.43 Bollinger band center line
110.32 5-DMA
110.23 07/05 close
110.17 23.6% of the 07/02 - 07/09 D-move
110.96 +.04 07/09 Settlement
109.79 Oct '02 corrective lows
109.75/.77 07/06 & 07/09 lows
109.69 lower Bollinger band (daily)
109.66 06/13 pivot low
109.16 lower Bollinger band (weekly)
-----SUPPORT-----

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

Sep Bunds began the week with freshly oversold 5-day momentum and a noteworthy support gathering between 109.66 and 109.74 (the 06/13 pivot and bottom Bollinger band). Though Monday's uptick was constructive, it did little to change the prevailing 5-day downtrend.

For Tuesday, both oversold and price support remain on the plate, but only a close above 110.23 would offer a mechanical (countertrend) buy signal.

(See table above for liquidity table.)

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	101.250	2.7	101.255	101.232	101.237	35,137	115,701	2y	Futures	
FVAU7	103.240	5.0	103.250	103.200	103.215	56,079	268,570	5y	Futures	
TYAU7	105.000	5.0	105.020	104.275	104.295	148,769	727,323	10y	Futures	
USAU7	106.210	6	106.250	106.150	106.190	27,238	213,450	30y	Futures	

**US  
Futures  
Market**



		32 nds								
	Last	Net	Hi	Low	Open	Volume				
BUS02P	99.285	0.2	99.287	99.272	99.277	2y			<b>US Cash Treasury Market</b>	
BUS05P	99.105	1.7	99.117	99.067	99.080	5y				
BUS10P	95.040	0.0	95.065	95.000	95.025	10y				
BUS30P	92.250	(1)	92.300	92.190	92.200	30y				
	Last	Net	Hi	Low	Open	Volume				
BUS02Y	4.930	(0.80)	4.972	4.921	4.968	2y Yield				
BUS05Y	5.028	(0.10)	5.06	5.017	5.056	5y Yield				
BUS10Y	5.132	0.00	5.157	5.122	5.151	10y Yield				
BUS30Y	5.231	0.60	5.247	5.218	5.241	30y Yield				

		Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	102.42	20.00	102.44	102.39	102.39	264,893	258,295	Schatz(2Y)	<b>German Futures Markets</b>	
DLU7	105.79	80.00	105.81	105.69	105.69	232,413	289,063	Bobl(5Y)		
DBU7	110.15	13.00	110.20	109.97	109.98	510,200	592,392	Bund(10Y)		



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE032P0409	99.93	4.547	4.500	7/4/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE050P0712	97.44	4.635	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	95.38	4.634	4.000	7/4/2016	10 yr CTD	
DEP2P	99.97	4.512	4.500	6/12/2009	2yr OTR	
DEP5P	97.48	4.599	4.000	4/13/2012	5yr OTR	
DEP10P	96.90	4.645	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	102.42	#VALUE!	102.42	102.44	102.39	20.00
DLU7	105.78	105.79	105.79	105.81	105.69	80.00
DBU7	110.14	110.15	110.15	110.20	109.97	13.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.704		4.704	4.722	4.696	
DLU7	4.677	4.676	4.677	4.698	4.671	
DBU7	4.706	4.704	4.706	4.726	4.698	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.537	4.520	4.547	4.564	4.515	0
T.US.DE050P0712	4.608	4.599	4.635	4.654	4.606	0
T.US.DE042P0717	4.641	4.634	4.634	4.692	4.641	0
DEP2P	4.524	4.512	4.512	4.540	4.501	2
DEP5P	4.608	4.599	4.599	4.625	4.594	9
DEP10P	4.652	4.645	4.645	4.672	4.637	19

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	99.93	99.96	99.96	99.98	99.91	3.00
T.US.DE050P0712	97.44	97.48	97.48	97.50	97.37	9.00
T.US.DE042P0717	95.38	95.43	95.43	95.48	95.24	16.00
DEP2P	99.95	99.97	99.97	99.99	99.92	2.00
DEP5P	97.44	97.48	97.48	97.50	97.37	9.00
DEP10P	96.85	96.90	96.90	96.96	96.69	19.00

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

SYM NAME	
Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

SYM NAME	
Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

SYM NAME	
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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09/07/2007	14:40	EURO	chg	USA	chg	UK	chg
<b>Futures</b>	<b>Bond</b>	110.05	0.13	106.53	0.44	103.17	0.06
	<b>STIR</b>	95.62	0.00	94.65	0.00	93.72	0.03
<b>Cash</b>	<b>3mth</b>	4.20	0.00	5.36	0.00	6.02	0.00
	<b>2yr</b>	4.52	-0.01	4.98	-0.01	5.78	-0.01
	<b>5yr</b>	4.62	-0.01	5.07	-0.02	5.73	-0.01
	<b>10yr</b>	4.66	-0.02	5.15	-0.03	5.54	-0.01
	<b>30yr</b>	4.75	-0.02	5.23	-0.04	4.88	-0.01
	<b>10yr-2yr</b>	0.14	0.00	0.17	-0.02	-0.25	0.01
<b>Spreads</b>	<b>2yr</b>	--	--	0.52	0.01	1.35	0.00
	<b>vs euro</b>	<b>10yr</b>	--	--	0.56	-0.02	0.95
<b>FX</b>	<b>USD</b>	1.363	-0.001	--	--	2.015	0.004
	<b>EUR</b>	--	--	--	--	0.676	-0.002
	<b>YEN</b>	168.06	-0.05	123.35	0.00	248.52	0.45
<b>Equities</b>		4533.5	0.2%	1532.9	0.1%	6710.8	%

[cont]

**Euribor futures** were unchanged to 2.5 ticks higher with the Sep-07 contract at 95.620/0.000 (4.380% implied). Sep-07 Bunds were 13 ticks higher at 110.05. In cash, German government benchmark yields were 1bp to 2bps lower with the long end outperforming. The 2s/10s spread was unchanged at 14bps and the 10s/30s spread was unchanged at -9bps.

**Gilts** were trading higher on Monday afternoon, with little bias. PPI data came in slightly weaker than expected and was met with little market reaction. The short end underperformed on hawkish comments from BOE's Blanchflower who said he shared concerns with other MPC members on price pressure, adding money growth was still a risk.

**Short sterling futures** were 2 ticks to 5 ticks higher with the Sep-07 contract at 93.840/+0.020 (6.160% implied). Jun-07 Gilts were 6 ticks higher at 103.17. In cash, UK government benchmark yields were 1bps lower across the curve. The 2s/10s spread was -25bps vs. -26bps and the 10s/30s spread was unchanged at -66bps.

### Headlines

EGBs Mixed, long end outperforms in thin volume trade  
ECB' Weber: ECB policy must reckon with greater wage pressures in 2008 as German companies may try to pass on greater costs

EGBs open lower, extending post payrolls weakness and weighed by JGBs  
May German Industrial Production: 1.9%mom/4.6%yoy

### Euro Mkt Summary: EGBs Higher; Long End Outperforms, Curve Flattens by Charanjeev Chanah

EGBs were trading higher on Monday afternoon in thin volume trade, with the long end outperforming - in turn flattening the Bund curve. In reported comments, ECB official Axel Weber said ECB policy must reckon with greater wage pressures in 2008 as German companies may try to pass on greater costs. EGBs had opened lower after stronger than expected Japanese machine orders weighed on JGB trade overnight.

The market also extended Friday's weakness following the release of stronger than expected June non-farm payrolls. Bunds bounced off lows on bargain hunting. The market posted little reaction to German industrial production data, which rebounded sharply in May - inline with consensus forecasts. In supply news, the Portuguese IGCP head told MNI that Portugal would issue less debt in 2007 than originally planned, saying the final figure would not be "dramatically below" E12 billion (versus E15 billion announced at the beginning of the year).



### News Recap for Euroland & Japan Overnight

06:40 07/10 **EUROZONE**: Reported comments from eurozone officials Tuesday,

\*\* FRANCE FINMIN: ECB issues not raised by Sarkozy at Eurogroup

\*\* BELGIUM FINMIN: EMU finimins not concerned about inflation

- Eurozone growth currently above potential

- Not especially concerned about FX, monetary policy

\*\* GERMANY: Germany's DIW economics research institute has left its forecast for German Q2 GDP growth unchanged from the +0.4% q/q rate projected last month, according to the DIW's latest monthly economic barometer released Tuesday.

06:35 07/10 **BUND SUMMARY**: Bunds opened little changed, but rose following release of weaker than expected French ind prod & manufact output data, which came in at +0.4% m/m, -0.3% y/y and +0.1% m/m, -0.8% y/y respectively in May. The move higher extends the rebound seen in the previous session, amid bargain-hunting as the benchmark 10-year Bund approached the 4.70% yield level. Buying was also noted in 10-year German swaps at the key 5.00% level. Traders reported switching into 10-year OATs vs Bunds ahead of the redemption of the 4.75% July BTAN for E16.08bln on July 12 and coupon payment also from France for E2.8bln.

Bunds were also underpinned by decent demand at auctions, which is concentrated mainly in the 10-year sector, and well received. Greece sold E1.6bln in re-opening of the 4.30% July 2017 GGB issue at average yield 4.82% & covered 4.14 times. The new Dutch 10-year DSL issue order book swelled to over E12.0bln. Attention now turns to the Fed Chairman Ben Bernanke speech on inflation at 1700GMT.

05:50 07/10 **GILTS**: Traders reported buying of the new 1.875% Nov 2022 index-linked Gilt issue from Liability Driven Investment (LDI) accounts with street demand also noted in order to refine their hedges. Pension and institutional funds have in the past shown a strong appetite for long-dated linker issue, and reasonable demand was once again expected from these accounts. This was despite breakeven rates trading at their richest level. This new 15-year linker issue will not be tapped again this quarter, and the first re-opening likely to be in October at the earliest. The DMO is planning to sell Stg58.4 billion Gilts this financial year.

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

05:51 07/10 **JAPAN**: Hiroshi Watanabe has retired as Japan's Vice Finance Minister for International Affairs, effectively Japan's top currency bureaucrat. As Jiji points out, Watanabe did not once called for market intervention during his three-year tenure, the first Japanese currency chief to boast an intervention-free record.

05:05 07/10 **japan**: The government will consider a consumption tax increase as part of broad discussions on a drastic overhaul of Japan's tax system in the autumn, new Vice Minister of Finance Hiroki Tsuda indicated Tuesday, Jiji reports. The consumption tax will be one of the agenda items in the forthcoming tax system reform debate, Tsuda told Jiji Press in an interview.

05:19 07/10 **BOE GIEVE**: Further comments in the Nottingham Evening Post

-- Inflation now coming back quite sharply due to gas

-- Sees inflation fall as "one-off change"

-- Says pricing pressures built up over past year

-- Retailers reported slower sales last 3 months

-- Retail may be early sign consumers more cautious

-- House transactions have slowed since start of 2007

-- Some signs past hikes may be impacting consumer

-- Wages have not "shown much of a bounce".

02:59 07/10 **JGB SUMMARY**: Japanese government bonds ended Monday's session mixed, with modest gains seen in most areas of the curve. However, the benchmark 10-year ended the day lower, despite good demand from life funds as the yield approaches the key 2.00% level. Prices opened higher, buoyed by the overnight strength of the U.S. Treasury market. However, prices soon slipped into the red, as hedge selling ahead of the 5-year auction weighed. The sluggish demand at the sale also weighed in early afternoon trade, but dip-buying late in the day helped prices end little changed.

-- Benchmark 10-year #287 yield was 1 bps higher at 1.965%.

-- Benchmark 5-year #63 yield was unchanged at 1.555%.

-- Benchmark 20-year #94 yield was unchanged at 2.335%.

-- Benchmark 30-year #26 yield was unchanged at 2.565%.

-- Lead Sept JGB futures contract was 0.06 lower at 131.25.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	14.96	4.53	\$1,417	€ 1,934
10y	7.75	2.38	\$743	€ 1,014
5y	4.36	1.39	\$433	€ 591
2y	1.96	0.62	\$193	€ 264
ZB	9.60	3.32	\$104	€ 141
ZN	5.73	1.94	\$61	€ 83
ZF	3.91	1.30	\$41	€ 56
ZT	1.83	1.19	\$37	€ 51

^Futures are Based on CTD

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	17.46	31.58	41.75
10y	9.16	16.56	21.89
5y	5.34	9.66	12.77
2y	2.38	4.31	5.70
ZB	1.28	2.31	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	7.34	€ 111	\$81	0.872569
Bobl	4.18	€ 61	\$45	0.959013
Schatz	1.85	€ 46	\$34	0.966386
DE10Y	7.58	€ 986	\$722	
DE5Y	4.18	€ 562	\$412	
DE2Y	1.66	€ 223	\$163	

^Futures are Based on CTD

Last  
EURUSD 136.48

**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)	Bobl (U)	Shatz (U)
Bund (U)	1.00	1.75	4.42
Bobl (U)	0.57	1.00	2.52
Shatz (U)	0.23	0.40	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 GHCO or Bloomberg.

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	4.934	4.930	4.930
US5y	5.029	5.028	5.028
US10y	5.136	5.132	5.132

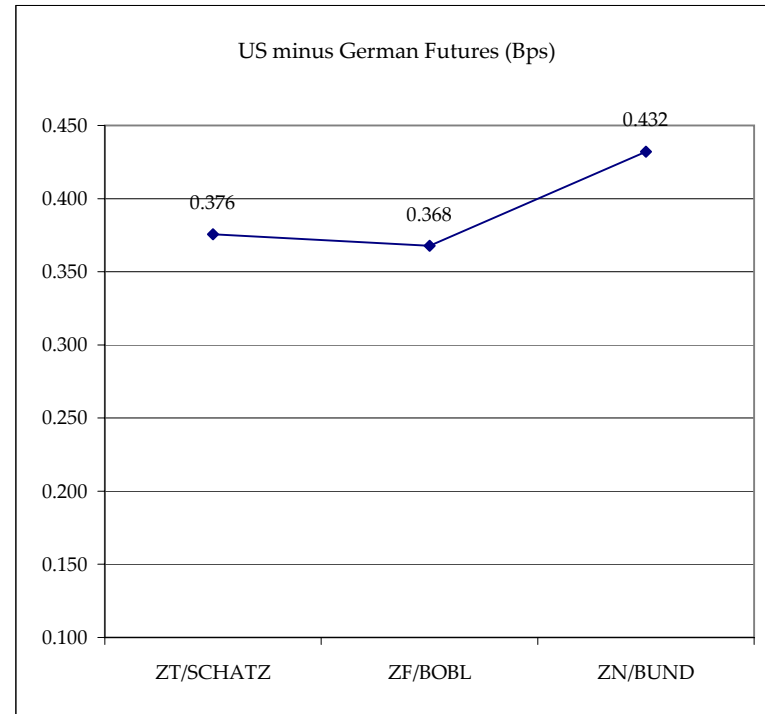
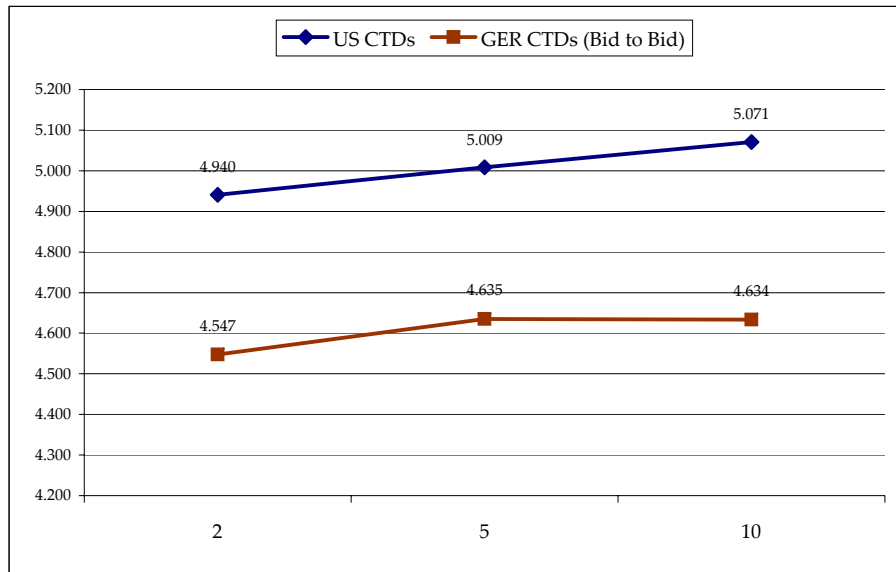
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.524	4.512	4.512
DE5y	4.608	4.599	4.599
DE10y	4.652	4.645	4.645

Spreads	
	Bps
ZT/SCHATZ	0.376
ZF/BOBL	0.368
ZN/BUND	0.432

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.940	4.923	4.923
4.500 of 11/11	5.009	5.002	5.002
4.750 of 05/14	5.071	5.066	5.066

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.537	4.520	4.547
4.000 of 04/12	4.608	4.599	4.635
4.000 of 07/16	4.641	4.634	4.634

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	
	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 Julyby **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

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**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