7/13/2007 5:43

The Morning Email: US & Germany

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09:34 **07/11 ECB TRICHET**: Medium-term price stability outlook subject to upside risks

- Capacity utilisation high; could see stronger wage developments
- Cross checking confirms upside price stability risks
- Continued upwards trend in money expansion
- Monetary policy still on the accomodative side

MarketNews international

10:07 **07/12** ECB STATE OF PLAY: The frontal assault by French President Nicolas Sarkozy on the European Central Bank's independence and its core mission, and on the economic and fiscal rules of monetary union, puts the ECB in an uncomfortable position.

It's not clear how the central bank's response to the challenge will unfold in the coming weeks, or how these issues will influence monetary policy. Of more direct concern to the ECB's inflation-fighting efforts are the latest surge in the euro's exchange rate and the outlook for oil prices, not just in the short term but also in the years ahead. Together, these two factors could darken the outlook for the eurozone economy, even if the euro's appreciation
softens the oil price shock.

Correlation Matrix & BUND Technicals

SYM NAME	Symbol	US Cash Treasuries 2yr	5yr	10yr	US Bonds/Notes (CBOT) ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGU7	(96.25)	(98.78)	(98.90)	94.36	97.38	98.08	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(94.74)	(97.94)	(98.09)	94.11	97.17	97.93	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(93.99)	(97.27)	(97.44)	94.29	96.90	98.09	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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----------R E S I S T A N C E------------
111.22 top Bollinger band
111.10 40-DMA
110.74 07/11 close
110.53 10-DMA
110.47 Bollinger band center line
110.32 5-DMA
110.27   -.47    07/12  Settlement
110.11 76.4% of the 07/09 - 07/11 up-move
109.99 07/09 close
109.79 Oct '02 corrective lows
109.75/.77  07/06 & 07/09 lows
109.73 lower Bollinger band (daily)
109.66 06/13 pivot low
----------S U P P O R T----------
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Technical Commentary -EUREX Sep 2007 10yr Euro-Bund
by Mike Sacchitello, CMT

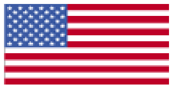
Short-term, Sep Bund sees risks still skewed lower, following Wednesday's "dark cloud cover" and Thursday's close below 61.8% of the prior up-leg.

Near-term, a key range has developed between 109.81 and 111.32. Move below the former suggests a new leg lower (initially to 108.30), while a sustained break of the latter would confirm a minor double bottom to 112.85.

(Please see opening table for full liquidity ladder).

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 111.32.

Quotes 1



	32 nds							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
TUAU7	101.250	0.2	101.252	101.240	101.247	17,597	179,120	2y Futures
FVAU7	103.240	0.5	103.245	103.205	103.230	37,322	513,321	5y Futures
TYAU7	105.035	0.0	105.040	104.300	105.015	129,570	1,464,691	10y Futures
USAU7	106.260	(1)	106.270	106.170	106.210	22,661	449,709	30y Futures

US Futures Market

	Last	Net	Hi	Low	Open	Volume
BUS02P	99.287	0.7	99.287	99.277	99.280	2y
BUS05P	99.117	1.2	99.122	99.090	99.102	5y
BUS10P	95.085	1.5	95.095	95.025	95.050	10y
BUS30P	93.005	4	93.020	92.220	92.220	30y

	Last	Net	Hi	Low	Open	Volume
BUS02Y	4.925	(0.90)	4.964	4.921	4.964	2y Yield
BUS05Y	5.017	(0.70)	5.044	5.013	5.039	5y Yield
BUS10Y	5.116	(0.80)	5.147	5.112	5.141	10y Yield
BUS30Y	5.213	(0.90)	5.244	5.209	5.233	30y Yield

US Cash Treasury Market

	Decimal							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
DGU7	102.42	(5.00)	102.42	102.38	102.41	203,017	584,559	Schatz(2Y)
DLU7	105.81	55.00	105.83	105.70	105.78	217,086	630,845	Bobl(5Y)
DBU7	110.38	18.00	110.41	110.07	110.24	444,739	1,556,688	Bund(10Y)

German Futures Markets

	Price	Yield			
	Last	Last	Coupon	Maturity	SYM NAME
T.US.DE032P0409	99.91	4.547	4.500	7/4/2009	2 yr CTD
T.US.DE050P0712	97.46	4.635	4.000	4/13/2012	5 yr CTD
T.US.DE042P0717	95.56	4.609	4.000	7/4/2016	10 yr CTD
DEP2P	99.97	4.512	4.500	6/12/2009	2yr OTR
DEP5P	97.50	4.595	4.000	4/13/2012	5yr OTR
DEP10P	97.08	4.622	4.250	7/4/2017	10yr OTR

German Cash Treasury Market

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	102.42	#VALUE!	102.42	102.42	102.38	-5.00	Schatz(2Y)	German Futures
DLU7	105.81	105.82	105.81	105.83	105.70	55.00	Bobl(5Y)	
DBU7	110.37	110.38	110.38	110.41	110.07	18.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo			
DGU7	4.707		4.707	4.725	4.704		Schatz(2Y)	German Futures
DLU7	4.670	4.669	4.670	4.696	4.666		Bobl(5Y)	
DBU7	4.678	4.677	4.678	4.714	4.673		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE032P0409	4.547	4.531	4.547	4.531	4.476	0	2 yr CTD	German Cash
T.US.DE050P0712	4.605	4.595	4.635	4.597	4.532	0	5 yr CTD	
T.US.DE042P0717	4.616	4.609	4.609	4.614	4.554	0	10 yr CTD	
DEP2P	4.523	4.512	4.512	4.540	4.506	-2	2yr OTR	
DEP5P	4.605	4.595	4.595	4.627	4.588	-5	5yr OTR	
DEP10P	4.628	4.622	4.622	4.667	4.614	-3	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE032P0409	99.91	99.94	99.94	99.96	99.89	-4.00	2 yr CTD	German Cash
T.US.DE050P0712	97.46	97.50	97.50	97.53	97.37	-5.00	5 yr CTD	
T.US.DE042P0717	95.56	95.61	95.61	95.66	95.32	-3.00	10 yr CTD	
DEP2P	99.95	99.97	99.97	99.98	99.92	-2.00	2yr OTR	
DEP5P	97.46	97.50	97.50	97.53	97.37	-5.00	5yr OTR	
DEP10P	97.03	97.08	97.08	97.14	96.73	-3.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

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12/07/2007	16:24	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.49	-0.25	106.84	-0.34	103.72	-0.11
	STIR	95.42	-0.02	94.67	-0.01	93.73	0.00
Cash	3mth	4.21	0.01	5.36	0.00	6.01	0.00
	2yr	4.50	0.02	4.91	0.02	5.73	0.01
	5yr	4.57	0.03	5.00	0.03	5.64	0.00
	10yr	4.60	0.03	5.11	0.02	5.44	0.00
	30yr	4.71	0.02	5.21	0.01	4.79	0.00
	10yr-2yr	0.10	0.00	0.19	0.00	-0.29	0.00
Spreads	2yr	--	--	0.47	-0.01	1.32	-0.02
vs euro	10yr	--	--	0.57	-0.01	0.91	-0.02
FX	USD	1.376	0.002	--	--	2.027	-0.004
	EUR	--	--	--	--	0.679	0.003
	YEN	168.55	0.26	122.47	-0.03	248.29	-0.61
Equities		4486.6	1.0%	1529.5	0.8%	6666.5	%

Headlines

EGBs lower, Bunds dip lower amidst technical selling in USTs

EGBs lower on risk-aversion unwinds
May Eurozone Industrial Production: 0.9%mom/2.5%yoy
Q1F Eurozone GDP: 0.7%qoq/3.1%yoy

Euro Mkt Summary: EGBs Lower on Technical & Pre-Auction Selling
by Charanjeev Chana

EGBs were trading lower on Thursday afternoon with the belly of the Bund curve underperforming. The market posted a muted reaction to US initial claims and trade balance data, which came near inline with expectations.

Bunds then dipped lower amidst technical selling in US Treasuries and pre-auction short setting ahead of the US $8bln 10Y TIPS auction. EGBs opened lower on risk aversion unwinding after credit spreads tightened overnight and subprime concerns eased. Bunds then recovered opening losses on technical buying and weaker than expected Eurozone industrial production data. Also underpinning sentiment was positive flows from France which included the redemption of the 4.75% 2007 BTAN for E16.08bln. Short dates however underperformed on the release of stronger than expected Q1F Eurozone GDP. Ahead of midday trade, the market rose to session highs on safe-haven buying on news reports that a flight from Los Angeles to London had been diverted to New York due to a "suspicious passenger".

Attention in Europe will turn to the release of CPI data in France on Friday morning. On the supply front, Italy sells the 4.00% Apr 2012 BTP for E2.5bln.

[cont]

Euribor futures were 1.5 ticks to 4 ticks lower with the Sep-07 contract at 95.615/-0.015 (4.385% implied). Sep-07 Bunds were 25 ticks lower at 110.49. In cash, German government benchmark yields were 2bps to 3bps higher with the belly of the curve underperforming. The 2s/10s spread was unchanged at 11bps and the 10s/30s spread was 11bps vs. 10bps.

Gilts were trading higher on Thursday afternoon, outperforming their European counterparts. There was no reaction to the BCC economic survey while the overnight RICS house price survey also had little impact.

There are no major data releases on Friday, however Bank of England MPC member Bean is due to speak at a conference in London.

Short sterling futures were 1 tick higher to 2 ticks lower with the Sep-07 contract at 93.850/+0.010 (6.150% implied). Jun-07 Gilts were 11 ticks lower at 103.72. In cash, UK government benchmark yields were flat to 1bp higher. The 2s/10s spread was unchanged at -29bps and the 10s/30s spread was unchanged at -65bps.

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01:45 07/13 **LOOK AHEAD: (Europe)** The US calendar kicks off at 1230GMT, with the import and export price index for June and the retail and food sales for June. Retail sales are expected to hold steady in June, as industry auto sales slowed in the month. A small decline in gasoline prices and reversals in other components should amount to a smaller 0.2% gain for nonauto sales in the month. At 1400GMT, the US prelim Univ. of Michigan consumer sentiment for July and business inventories for May are released. Business inventories are expected to rise 0.3% in May. Factory orders were already reported up 0.3%. The Reuters/University of Michigan Consumer Sentiment index is expected to rise modestly to 86.0 in early
July. Also due Friday, although no set time is scheduled, U.S. Treasury Secretary Henry Paulson is to meet Chilean President Michelle Bachelet, in Santiago. A joint press availability with Finance Minister Andres Velasco take place at 10:15 a.m. EDT.

05:21 07/13 **GERMANY**: Central banks and commercial banks accounted for the bulk of purchases of German 10-year bunds in 2006, according to data collected and reported by the Federal Finance Agency. In a regular newsletter to investors, the agency has published for the first time some of the broader findings of data on secondary market trades of federal government securities that are provided to it on a monthly basis since the start of 2005 by banks that participate in regular auctions of federal government debt issues. In terms of market share, central banks accounted for 29%, as did commercial banks, followed by asset managers (26%), hedge funds (7%), brokers (4%), pension funds (3%) and insurance companies (2%).

03:09 07/13 **BONDS: EGBs** are opening lower on Friday and extending weakness seen over the past two sessions, where the yield on the benchmark 10-year Bund yield has risen around 9bps and arpproaching key 4.70% level. The move has been attributed to unwinding of risk-aversion bids as US subprime jitters subside and strong recovery on Wall Street. The Dow closed up 284pts (+2.1%) -- hitting fresh record high, closing above 13,800 and posting its biggest one-day point gain since Oct 15, 2002. The move came after mining giant Rio Tinto agreed to buy Alcan in a deal valued at $38.1bln. Elsewhere, the Peoples Bank Of China sold about 110-120 bln yuan special three-year central bank paper at a dictated yield of 3.6% to selected banks Friday to soak up market liquidity, according to traders. The central bank had sold two batches of special three-year paper so far this year, on March 9th and May 11th, and the central bank raised interest rates one week after that. This implies that a third interest rate increase of the year may be in the offing.

(continued)

03:05 07/13 **JGB SUMMARY:** Japanese government bonds ended Friday's session lower, taking their lead from higher stocks and lower U.S. Treasuries overnight. However, traders noted that volumes were very light, with many players sidelined ahead of the weekend and Monday's public holiday.The curve steepened modestly, as the belly and front of the curve outperformed. But again, it was stresses by traders that volumes were light and price moves exaggerated in thin volumes.
-- Benchmark 10-year #284 yield was 3 bps higher at 1.940%.
-- Benchmark 5-year yield was 0.5 bps higher at 1.4925%.
-- Benchmark 20-year #82 yield was 3.5 bps higher at 2.345%.
-- Benchmark 30-year #20 yield was 3.5 bps higher at 2.580%.
-- Lead Sept JGB futures contract was 0.29 lower at 132.51.

02:27 07/13 **JAPAN:** Public support for the cabinet of Japanese PM Shinzo Abe hit a new low in July, Jiji reports. The cabinet approval rate dropped 3.1 percentage points from June to 25.7 pct, the lowest level since Abe took office last September, a Jiji poll shows. The disapproval rate rose 4.8 points to 53.2 pct, surpassing 50 pct for the first time for the Abe cabinet.

02:17 07/13 **FX:** (European open) The dollar is relatively stable in early European trade, though it remains under pressure versus the euro in particular, trading around $1.3775 after another attempt to take out the $1.3800 barrier in Asia. Dollar-yen is fairly subdued on a Y122 handle, whilst euro-yen remains buoyed around Y168.70 after making fresh lifetime highs just shy of Y169.00 overnight. Cable sits in the middle of a tight $2.0285-$2.0305 range, whilst dollar-Swiss remains heavy, trading just off the 2007 lows. Elsewhere, kiwi rallied on strong retail sales data before coming back sharply on news that the RBNZ had adjusted its fx policy, announcing they will be able to add to the fx pool direct by outright selling of kiwi as opposed to rolling kiwi forwards. Kiwi remains heavy just off the lows in early Europe. Attention today will be focused on US retail sales data at 1230GMT and the US prelim University of Michigan sentiment for July at 1400GMT.

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	14.96	4.55	$1,422	€ 1,958
10y	7.74	2.38	$743	€ 1,024
5y	4.34	1.38	$433	€ 596
2y	1.95	0.61	$192	€ 265
ZB	9.59	3.32	$104	€ 143
ZN	5.71	1.94	$61	€ 83
ZF	3.90	1.30	$41	€ 56
ZT	1.81	1.18	$37	€ 51

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.33	€ 112	$81	0.872569
Bobl	4.17	€ 62	$45	0.959013
Schatz	1.84	€ 46	$34	0.966386
DE10Y	7.57	€ 996	$723	
DE5Y	4.17	€ 566	$411	
DE2Y	1.64	€ 223	$162	

^Futures are Based on CTD

	Last
EURUSD	137.72

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	17.50	31.76	42.21
10y	9.15	16.61	22.07
5y	5.32	9.66	12.84
2y	2.37	4.29	5.71
ZB	1.28	2.32	3.08
ZN	0.75	1.34	1.80
ZF	0.50	0.91	1.21
ZT	0.46	0.83	1.10

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

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/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	1.76	4.46
Bobl (U)	0.57	1.00	2.53
Shatz (U)	0.22	0.39	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.

Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	4.930	4.925	4.925
US5y	5.021	5.017	5.017
US10y	5.118	5.116	5.116

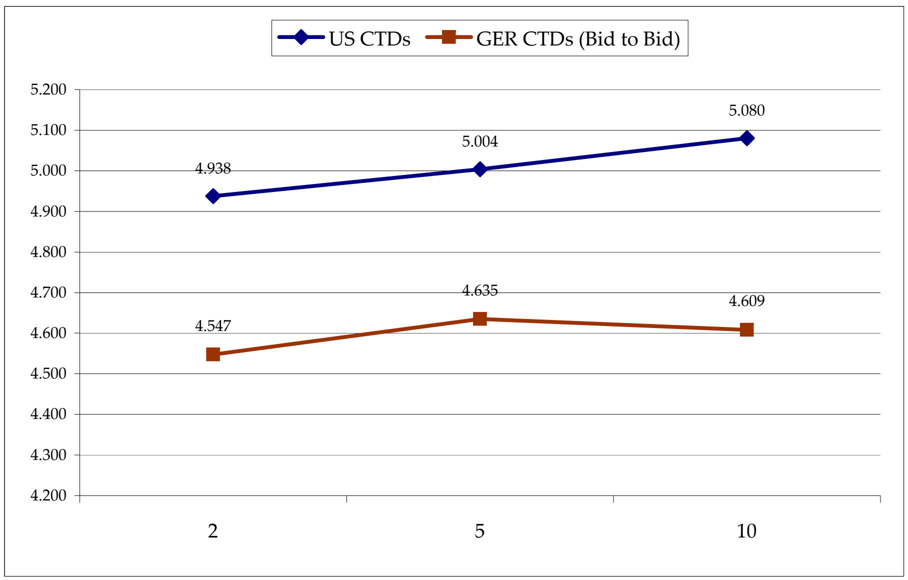
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.523	4.512	4.512
DE5y	4.605	4.595	4.595
DE10y	4.628	4.622	4.622

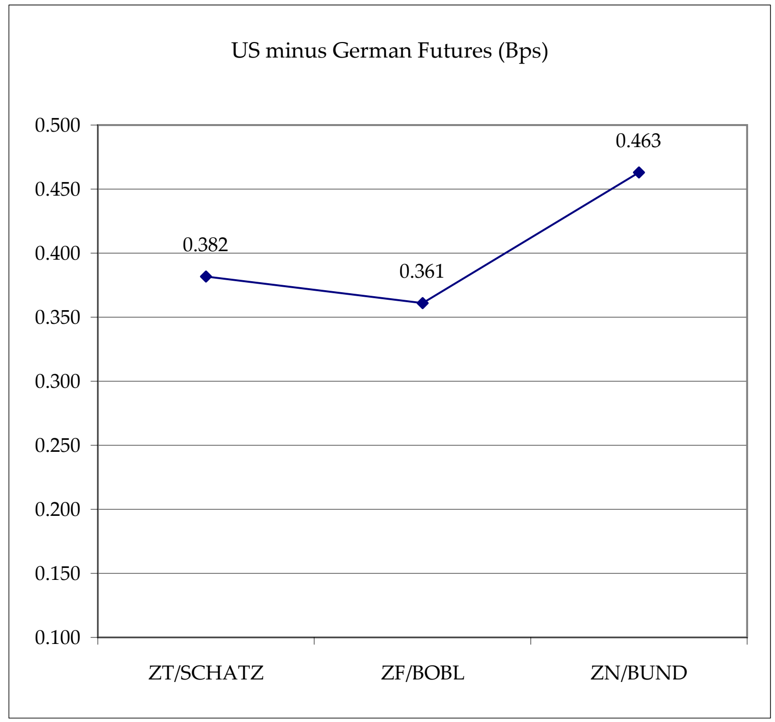
	Spreads
	Bps
ZT/SCHATZ	0.382
ZF/BOBL	0.361
ZN/BUND	0.463

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
4.000 of 06/09	4.938	4.929	4.929
4.500 of 11/11	5.004	4.996	4.996
4.750 of 05/14	5.080	5.072	5.072

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.547	4.531	4.547
4.000 of 04/12	4.605	4.595	4.635
4.000 of 07/16	4.616	4.609	4.609

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

Stone & McCarthy RESEARCH ASSOCIATES

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

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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