

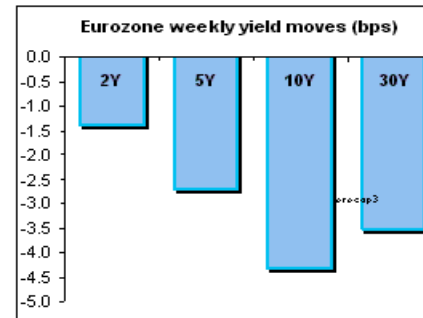


The Morning Email: US & Germany



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by Charanjeev Chana

Stone & McCarthy
RESEARCH ASSOCIATES

Eurozone review:		13-Jul	1wk	1m	3m	12m
Direction:	ECB refi	4.00	0	0	25	125
Bonds:	2y govt	4.52	-1	1	38	95
	5y govt	4.60	-3	1	43	80
	10y govt	4.63	-4	-1	40	59
	30y govt	4.73	-4	-4	31	43
Curve:	10y-2y	11	14	13	9	47
	10y-5y	3	5	5	5	24
	30y-10y	10	9	13	19	26
FX:	EUR/USD	1.378	1.1%	3.5%	1.9%	8.6%
	EUR/JPY	168.5	0.2%	3.1%	4.4%	15.0%
Equities:	Euro Stoxx	4554	0.6%	3.5%	5.5%	27.8%

Want something added? Let me know: jgoulding@ghco.com
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Jim Goulding, jgoulding@ghco.com

The Morning Email, US&GER



SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	(89.03)	(96.71)	(96.97)	92.28	95.73	97.10	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(89.93)	(96.98)	(97.29)	92.61	96.18	97.47	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(91.62)	(97.07)	(97.32)	93.52	96.62	97.69	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	101.267	1.2	101.275	101.255	101.257	13,929	142,749	2y Futures	US Futures Market	
FVAU7	103.290	3.5	103.310	103.265	103.265	36,928	428,989	5y Futures		
TYAU7	105.090	4.0	105.125	105.060	105.065	106,535	1,175,249	10y Futures		
USAU7	107.040	4	107.090	107.010	107.030	20,823	380,491	30y Futures		



		32 nds								
	Last	Net	Hi	Low	Open	Volume			US Cash Treasury Market	
BUS02P	99.297	0.7	99.307	99.297	99.297	2y				
BUS05P	99.157	1.5	99.182	99.152	99.170	5y				
BUS10P	95.150	1.5	95.185	95.140	95.180	10y				
BUS30P	93.165	2	93.220	93.150	93.190	30y				
	Last	Net	Hi	Low	Open	Volume				
BUS02Y	4.908	2.50	4.942	4.887	4.942	2y Yield				
BUS05Y	4.988	(0.20)	5.013	4.97	5.013	5y Yield				
BUS10Y	5.089	(0.40)	5.103	5.072	5.103	10y Yield				
BUS30Y	5.178	(0.50)	5.19	5.164	5.19	30y Yield				

		Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME		
DGU7	102.45	35.00	102.46	102.41	102.45	162,916	569,536	Schatz(2Y)	German Futures Markets	
DLU7	105.91	65.00	105.97	105.81	105.95	173,228	618,822	Bobl(5Y)		
DBU7	110.56	8.00	110.69	110.39	110.66	336,316	1,437,781	Bund(10Y)		



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE032P0409	99.96	4.509	4.500	7/4/2009	2 yr CTD	German Cash Treasury Market
T.US.DE050P0712	97.55	4.569	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	95.74	4.583	4.000	7/4/2016	10 yr CTD	
DEP2P	100.01	4.489	4.500	6/12/2009	2yr OTR	
DEP5P	97.59	4.574	4.000	4/13/2012	5yr OTR	
DEP10P	97.25	4.600	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	102.45	102.45	102.45	102.46	102.41	35.00
DLU7	105.91	105.91	105.91	105.97	105.81	65.00
DBU7	110.55	110.56	110.56	110.69	110.39	8.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.691	4.688	4.688	4.712	4.683	
DLU7	4.649	4.648	4.649	4.671	4.635	
DBU7	4.656	4.655	4.656	4.676	4.640	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.520	4.503	4.509	4.558	4.498	0
T.US.DE050P0712	4.583	4.574	4.569	4.627	4.551	0
T.US.DE042P0717	4.590	4.583	4.583	4.650	4.560	0
DEP2P	4.501	4.489	4.489	4.534	4.484	4
DEP5P	4.583	4.574	4.574	4.608	4.561	8
DEP10P	4.606	4.600	4.600	4.630	4.584	15

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	99.96	99.99	99.99	100.00	99.89	5.00
T.US.DE050P0712	97.55	97.59	97.59	97.64	97.45	8.00
T.US.DE042P0717	95.74	95.79	95.79	95.89	95.56	12.00
DEP2P	99.99	100.01	100.01	100.02	99.93	4.00
DEP5P	97.55	97.59	97.59	97.64	97.45	8.00
DEP10P	97.20	97.25	97.25	97.37	97.02	15.00

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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13/07/2007	14:33	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.65	0.21	107.19	0.34	103.65	-0.02
	STIR	95.43	0.01	94.68	0.02	93.74	0.01
Cash	3mth	4.21	0.01	5.36	0.00	6.01	0.00
	2yr	4.50	-0.01	4.92	-0.02	5.73	-0.01
	5yr	4.57	-0.02	5.00	-0.02	5.65	-0.01
	10yr	4.59	-0.03	5.09	-0.03	5.46	0.00
	30yr	4.68	-0.04	5.18	-0.04	4.82	0.01
	10yr-2yr	0.09	-0.02	0.17	-0.02	-0.27	0.01
Spreads	2yr	--	--	0.48	-0.01	1.32	0.00
vs euro	10yr	--	--	0.57	-0.01	0.95	0.03
FX	USD	1.380	0.001	--	--	2.035	0.004
	EUR	--	--	--	--	0.678	-0.001
	YEN	168.40	-0.34	122.01	-0.32	248.29	-0.14
Equities		4543.0	0.5%	1546.1	1.9%	6718.3	%

[cont]

Euribor futures were 0.5 ticks to 2 ticks higher with the Sep-07 contract at 95.620/+0.005 (4.380% implied). Sep-07 Bunds were 21 ticks higher at 110.65. In cash, German government benchmark yields were 1bp to 4bps lower with 2s underperforming. The 2s/10s spread was 9bps vs. 11bps and the 10s/30s spread was 9bps vs. 10bps.

Gilts were trading mixed on Friday afternoon with 30-year Gilts underperforming. With no major data released in the UK, slightly dovish comments from Bank of England MPC member Bean supported the short end.

There are no major UK data releases due on Monday.

Short sterling futures were unchanged to 1 tick lower with the Sep-07 contract at 93.850/+0.000 (6.150% implied). Jun-07 Gilts were 2 ticks lower at 103.65. In cash, UK government benchmark yields were 1bp lower to 1bp higher. The 2s/10s spread was -27bps vs. -28bps and the 10s/30s spread was -64bps vs. -65bps.

Headlines

EGBs higher on weaker US retail sales, long end outperforms

EGBs lower on risk-aversion unwinds/ overnight equity recovery
June French CPI: 0.1%mom/1.2%yoy
Italian Auction Results: 4.00% Apr 2012 BTP covered 1.54x

Euro Mkt Summary:

by Charanjeev Chana

European government bonds were trading higher on Friday afternoon, with long dates outperforming, in turn flattening the Bund curve. Two-way flows were noted following the release of mixed US data, after US retail sales fell short of expectations whilst US import prices came in stronger than expectations.

The market eventually succumbed to longs, trading higher on short covering and receiving additional support from real money demand. Prices however came off session highs in afternoon trade after Michigan sentiment data came in stronger than expected. EGBs opened lower on risk aversion unwinding as Wall Street equities posted a strong recovery overnight and subprime concerns eased.

The market posted little reaction to weaker than expected French CPI data but recovered opening losses following the digestion of Italian supply. Italy sold the 4.00% Apr 2012 BTP issue for E2.5bln, covered 1.54 times.



03:21 07/16 **GILTS**: UK data today is second tier, with only the DCLG House Price Index for May due at 0830GMT. The main focus is on June CPI, public sector finances, along with retail sales and the first estimate of Q2 GDP data is due. In addition, the BoE MPC minutes for the July meeting due on Wednesday where the repo rate was raised 25bps to 5.75%. Elsewhere, there is no issuance planned, with the DMO due to announce the size of the 1.25% 2055 IL Gilt issue on Tuesday, which is due to be sold on July 26. Most strategists expect the size to be between Stg625-675mln nominal. This issue was last sold on January 25 for Stg625mln and then covered an impressive 2.42 times.

03:31 07/16 **BUNDS**: Flows are largely direction with Bull-flattening trades seen in EGBs on Monday morning session. The 2-/10-year yield spread is 1bps flatter at +10bps.

06:15 07/16 **BUNDS**: Sept Bunds hit fresh session high at 110.69 following comments from ECB Governing Council member Guy Quaden. These included "ECB hasn't decided yet to raise rates in September" and ECB policy accommodation has "strongly decreased". Also "euro's gains help to dampen high oil prices". The remarks come at an interview on July 12 -- one day before the euro hit fresh life-time high at 1.3815, and are seen as dovish, and currently not impacting the short-dated issues as the Bund curve maintains its flattening bias today.

06:40 07/16 **EUROZONE**: Reported comments from eurozone officials Monday,

** ECB QUADEN: ECB hasn't decided yet to hike rates in Sept -- Bbg

- ECB policy accomodation has "strongly decreased"
- ECB against "brutal, excessive" euro moves
- Interest rate path to become "less obvious"
- No reason to question ECB's baseline scenario
- EMU recovery clearly in "strong upswing"
- Broad monetary analysis still 'crucial'.

** GERMANY ECOMIN: Outlook for continuation of upswing favourable

(continued)

03:11 07/16 **BONDS: EGBs** are opening higher on Monday on back of risk-aversion buying following latest Bin Laden terror video. Also adding to the safe-haven bid is weakness in Chinese stocks, where the Shanghai Composite Index is currently down around 1.4%. JGBs were closed overnight as players observed Marine Day holiday.

EGBs are seen supported by positive cash flows this week - mainly from Netherlands, where redemptions total E13.25bln and coupon payments for E9.1bln. The benchmark 10-year Bund yield is down 1.0bps at 4.61% and break below 4-day support line at 4.59% seen extending move to 4.50% level. A decisive break below here is seen triggering strong short covering in Sept Bunds above 111.52 level. Focus turns to eurozone HICP data at 0900GMT. Also eyed this week is German ZEW business survey for July on Tuesday. Elsewhere, the main attention this week is on Fed Chairman Ben Bernanke's semi-annual JEC testimony where the first day of the hearing on Wednesday coincides with June CPI data. FOMC minutes due on Thursday.

02:54 07/16 **GERMANY**: German federal gross new borrowing in 2008 will be lowered to around E231.7bln from the E238bln planned for the current year, German business daily Financial Times Deutschland (FTD) reported Monday, citing finance ministry sources. This would be the first lowering of federal gross new borrowing in many years, the paper noted.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.00	4.58	\$1,433	€ 1,976
10y	7.74	2.38	\$745	€ 1,028
5y	4.34	1.39	\$433	€ 597
2y	1.95	0.61	\$192	€ 265
ZB	9.60	3.33	\$104	€ 144
ZN	5.71	1.94	\$61	€ 84
ZF	3.89	1.30	\$41	€ 56
ZT	1.81	1.18	\$37	€ 51

^Futures are Based on CTD

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	17.60	31.99	42.58
10y	9.15	16.64	22.14
5y	5.32	9.66	12.87
2y	2.36	4.29	5.71
ZB	1.28	2.33	3.10
ZN	0.75	1.34	1.81
ZF	0.50	0.91	1.21
ZT	0.45	0.82	1.10

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	€ 1,000	\$725	
DE5Y	4.17	€ 567	\$411	
DE2Y	1.64	€ 224	\$162	

^Futures are Based on CTD

Last

EURUSD 137.96

Box for Box Matrix			
	Bund	Bobl	Schatz
30y			
10y			
5y			
2y			
ZB			
ZN			
ZF			
ZT			

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	1.76	4.47
Bobl (U)	0.57	1.00	2.54
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.

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	4.913	4.908	4.908
US5y	4.992	4.988	4.988
US10y	5.091	5.089	5.089

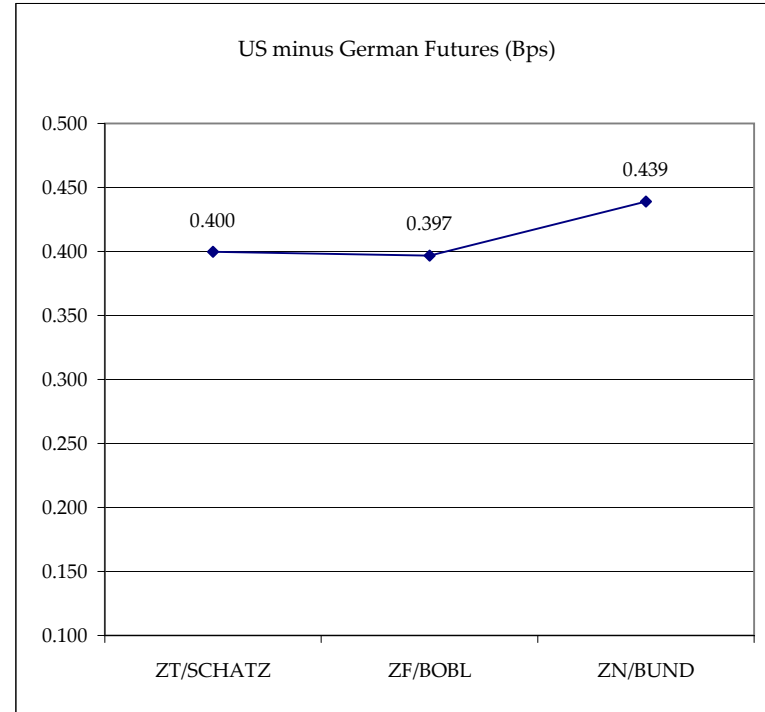
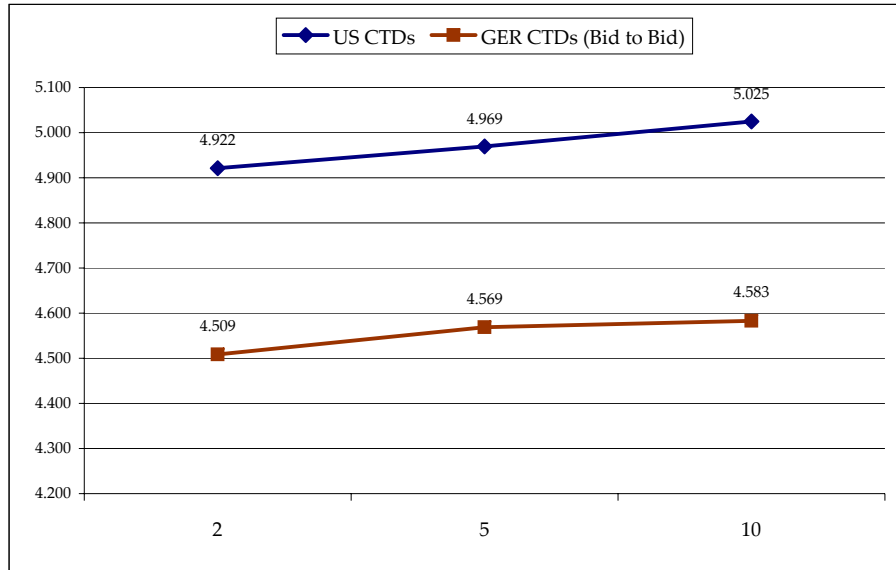
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.501	4.489	4.489
DE5y	4.583	4.574	4.574
DE10y	4.606	4.600	4.600

Spreads	
	Bps
ZT/SCHATZ	0.400
ZF/BOBL	0.397
ZN/BUND	0.439

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.922	4.908	4.908
4.500 of 11/11	4.969	4.965	4.965
4.750 of 05/14	5.025	5.022	5.022

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.520	4.503	4.509
4.000 of 04/12	4.583	4.574	4.569
4.000 of 07/16	4.590	4.583	4.583

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

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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

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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