



### 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 for Euroland & Japan
- 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



**Monday, July 16, 2007**

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Sterling gave the its bears a bit of a knock on the head on Friday. Let's call it getting "Bean-ed," for the reason for Sterling's strength were comments by Mr. Charles Beane, the Chief Economist at the Bank of England. Speaking of the Bank's view on inflation and how it should respond to inflationary pressures, Mr. Beane said

*if there is a chance that private agents [Ed. Note: This is central bank-speak for "the public at large."] will treat the increase in inflation as a harbinger of raised inflation in the future... then it probably makes sense for the central bank to be wary about accommodating even the first round effects.*

In other words, the Chief Economist at the BOE has just said that the bank should... and indeed must... err upon the side of tighter policies just in case the public should be even modestly concerned that inflation now means greater inflation later. Mr. Beane would have made an excellent Bundesbanker!

Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)  
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The Morning Email, US&GER

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MarketNews  
International

SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	(87.76)	(95.15)	(95.45)	93.53	96.20	96.06	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(90.92)	(96.44)	(97.23)	95.66	98.25	97.92	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(92.42)	(94.69)	(96.49)	95.15	97.13	97.29	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-----
111.47 38.2% of the Apr - Jun down-leg
111.44 07/02 pivot high
111.32 07/11 pivot high, highest Jul close
111.24 07/02 - 07/11 downtrend (triangle resistance)
111.22 top Bollinger band
110.95 40-DMA
110.91 +.57 07/16 Settlement
110.62 5-DMA
110.51 Bollinger band center line
110.44 10-DMA
110.34 07/13 - 07/16 gap bottom
110.11 76.4% of the 07/09 - 07/11 up-move
110.07 07/13 pivot low
109.99 07/09 close
109.81 lower Bollinger band (daily)
-----SUPPORT-----

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

Short-term, Sep Bund eyes the gap up to 07/02 - 07/11 declining resistance (descending triangle resistance).

Worth noting is that 5-day momentum is once again stretched to levels that have reliably attracted at least some fast-money profit taking in the past.

Near-term, a key range has developed between 109.81 and 111.24 (confirmation at 111.32). Move below the former suggests a new leg lower (initially to 108.30) for the prevailing downtrend, 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 111.18.

Quotes 1

32 nds								SYM NAME	
Last	Net	Hi	Low	Open	Volume	Yest Volume			
TUAU7	101.282	(0.5)	101.290	101.277	101.287	15,046	100,255	2y Futures	<b>US Futures Market</b>
FVAU7	104.015	(1.0)	104.025	104.000	104.020	33,691	347,338	5y Futures	
TYAU7	105.180	(2.0)	105.200	105.160	105.195	134,402	980,251	10y Futures	
USAU7	107.200	(3)	107.220	107.160	107.220	28,141	298,854	30y Futures	



32 nds							SYM NAME	
Last	Net	Hi	Low	Open	Volume			
BUS02P	99.315	(1.0)	100.002	99.315	100.000	2y	<b>US Cash Treasury Market</b>	
BUS05P	99.205	(2.0)	99.220	99.200	99.215	5y		
BUS10P	95.245	(3.0)	95.265	95.230	95.260	10y		
BUS30P	#VALUE!	(4)	94.060	94.015	94.060	30y		

Decimal								SYM NAME	
Last	Net	Hi	Low	Open	Volume	Yest Volume			
DGU7	102.52	20.00	102.54	102.47	102.49	285,674	369,094	Schatz(2Y)	<b>German Futures Markets</b>
DLU7	106.12	30.00	106.19	106.02	106.06	258,895	414,129	Bobl(5Y)	
DBU7	111.02	5.00	111.10	110.83	110.92	588,941	963,636	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE032P0409	100.00	4.509	4.500	7/4/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE050P0712	97.75	4.569	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	96.12	4.529	4.000	7/4/2016	10 yr CTD	
DEP2P	100.06	4.461	4.500	6/12/2009	2yr OTR	
DEP5P	97.79	4.525	4.000	4/13/2012	5yr OTR	
DEP10P	97.69	4.543	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	102.51	102.52	102.52	102.54	102.47	20.00
DLU7	106.12	106.13	106.12	106.19	106.02	30.00
DBU7	111.01	111.02	111.02	111.10	110.83	5.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.657	4.654	4.654	4.678	4.644	
DLU7	4.602	4.601	4.602	4.624	4.588	
DBU7	4.602	4.600	4.600	4.623	4.591	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.498	4.481	4.509	4.558	4.492	0
T.US.DE050P0712	4.535	4.525	4.569	4.608	4.544	0
T.US.DE042P0717	4.536	4.529	4.529	4.616	4.546	0
DEP2P	4.472	4.461	4.461	4.495	4.444	3
DEP5P	4.535	4.525	4.525	4.562	4.513	9
DEP10P	4.550	4.543	4.543	4.574	4.534	24

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	100.00	100.03	100.03	100.06	99.97	3.00
T.US.DE050P0712	97.75	97.79	97.79	97.84	97.64	9.00
T.US.DE042P0717	96.12	96.17	96.17	96.25	95.95	19.00
DEP2P	100.04	100.06	100.06	100.09	100.00	3.00
DEP5P	97.75	97.79	97.79	97.84	97.64	9.00
DEP10P	97.64	97.69	97.69	97.76	97.45	24.00

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	

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16/07/2007	15:30	EURO	chg	USA	chg	UK	chg
<b>Futures</b>	<b>Bond</b>	110.62	0.28	107.19	0.22	103.54	0.13
	<b>STIR</b>	95.43	0.02	94.67	0.00	93.72	0.00
<b>Cash</b>	<b>3mth</b>	4.22	0.00	5.36	0.00	6.01	0.00
	<b>2yr</b>	4.50	-0.02	4.93	0.01	5.74	-0.01
	<b>5yr</b>	4.57	-0.02	5.01	0.00	5.66	-0.01
	<b>10yr</b>	4.59	-0.03	5.09	0.00	5.47	-0.02
	<b>30yr</b>	4.69	-0.02	5.17	-0.01	4.85	-0.01
	<b>10yr-2yr</b>	0.09	-0.01	0.16	-0.01	-0.27	-0.01
<b>Spreads</b>	<b>2yr</b>	--	--	0.49	0.02	1.32	0.01
	<b>vs euro</b>	--	--	0.57	0.02	0.95	0.01
<b>FX</b>	<b>USD</b>	1.378	0.000	--	--	2.038	0.005
	<b>EUR</b>	--	--	--	--	0.676	-0.001
	<b>YEN</b>	167.97	-0.17	121.91	-0.14	248.43	0.29
<b>Equities</b>		4552.2	0.0%	1553.7	-0.1%	6688.4	%

[cont]

**Euribor futures** were 0.5 ticks to 3 ticks higher with the Sep-07 contract at 95.620/+0.005 (4.380% implied). Sep-07 Bunds were 28 ticks higher at 110.62. In cash, German government benchmark yields were 2bps to 3bps higher with 10s outperforming. The 2s/10s spread was 9bps vs. 10bps and the 10s/30s spread was 10bps vs. 9bps.

**Gilts** were trading flat to firmer on Monday afternoon, with the short end underperforming. On a quiet day in the UK, Gilts paid little attention to DCLG house prices, which came in weaker than expected.

Looking ahead to Tuesday, attention will focus on CPI data due from the UK.

**Short sterling futures** were unchanged to 3 ticks higher with the Sep-07 contract at 93.840/+0.000 (6.160% implied). Jun-07 Gilts were 13 ticks higher at 103.54. In cash, UK government benchmark yields were 1bp to 2bps lower. The 2s/10s spread was -27bps vs. -26bps and the 10s/30s spread was -62bps vs. -63bps.

## Headlines

EGBs higher with little bias

EGBs open higher, safe-safe haven bids on terror video

Positive cash flows underpin

June Eurozone HICP: 0.1%mom/1.9%yoy

ECB's Quaden: ECB has not yet decided to hike interest rates in September, ECB policy accommodation has "strongly decreased."

### Euro Mkt Summary: EGBs Higher on Safe Haven, Positive Cash Flows by Charanjeev Chana

European government bonds were trading higher on Monday afternoon, with little bias. Bunds dipped slightly on the release of the Empire State Manufacturing Survey, which came in above expectations in July.

Bunds opened higher, underpinned by safe-haven bids on the latest Osama Bin Laden terror video aired overnight. Also offering support to the market was positive net cash flows for this week, largely supported by strong redemption payments from the Netherlands totalling E12.25 billion. June Eurozone HICP data was unrevised - inline with market expectations, and had little market impact. Sep Bunds hit fresh contract highs ahead of midday trade on dovish comments made by ECB official Guy Quaden, who said the ECB had not yet decide to hike interest rates in September, adding that ECB policy accommodation has "strongly decreased."

Attention turns to the release of the German ZEW survey on Tuesday morning.



05:03 07/17 GERMANY: **ZEW** Koehler; Further euro rise will hit Germany exporters  
 05:03 07/17 GERMANY: **ZEW** Koehler; Further ECB rate hike will lead to euro rise  
 05:02 07/17 GERMANY: **ZEW** Koehler; Germany fundamentals have not changed much - Expects ECB to further raise interest rates  
 05:00 07/17 GERMANY: **ZEW**; July economic expectations +10.4 vs June +20.3  
 - July current conditions indicator +88.2 vs June +88.7

04:30 07/17 **UK Data: Jun CPI** +0.2% m/m; +2.4% y/y; median +0.1% m/m; +2.3% y/y  
 --Jun RPIX +0.4% m/m; +3.3% y/y; median +3.1% y/y  
 --Jun RPI +0.5% m/m; +4.4% y/y; median +0.3% m/m; +4.2% y/y

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 June CPI inflation fell, but came in above the median forecast, easing to 2.4% from 2.5% in May. Main downward pressure came from lower gas and electricity bills as well as recreation and culture and misc. goods and services. There was, though, upward pressure from transport (due to higher petrol prices) and furniture and household goods prices. While inflation is down to its lowest level since Oct 2006, there are 2 key concerns in the data. First, June core CPI infl. rose to 2%, the highest since Mar 1997 -- while talk has focused on fuel and food pushing up prices, this is not the only story. Second, for Q2, CPI infl. was 2.58%, slightly above the BOE's May forecast for 2.52%. Also, with oil prices rising again infl. may not fall to the 2.25% forecast by the BOE in Q3.

06:14 07/17 **U07 BUND**: Offers at 111.10 capping the market with any break above there threatening the 111.18/25 area, which contains a resistance line from March 22 as well as the current Bollinger top. Moving averages are crossing at 110.50/58, which is providing a bull signal as well as providing support. Support ahead of there at 110.72.

(continued)

**03:03 07/17 EGBs**: Bund futures are trading higher in early trade Tuesday, although the previous session's high at 110.97 is providing an early cap on the market. However, traders say it feels as if there is enough momentum to push the contract to a new peak, with a positive tech outlook. Cash EGBs are also performing well, with the 10-year Bund yield 3 bps lower at 4.55%.

Elsewhere, a lackluster Asian session offered little guidance, with stocks only modestly lower and JGBs largely flat. 10-year JGBs were modestly squeezed by short-covering in the futures contract. However, traders said volumes were light, with little in the way of fresh trading incentives to push prices in either direction. The 10Y yield was 0.5 bps lower at 1.940%. Treasuries are modestly lower, with light profit-taking seen after overnight gains. But again traders point to low volumes, with both the start of the summer season and the forthcoming Bernanke testimony to Congress (Wed + Thurs) keeping players sidelined. Crude is little changed. The front-month Nymex was last 5 cents lower at \$74.10.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.05	4.63	\$1,448	€ 1,994
10y	7.74	2.39	\$748	€ 1,030
5y	4.34	1.39	\$433	€ 597
2y	1.94	0.61	\$192	€ 265
ZB	9.61	3.36	\$105	€ 145
ZN	5.71	1.95	\$61	€ 84
ZF	3.89	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	€ 113	\$82	0.872569
Bobl	4.17	€ 62	\$45	0.959013
Schatz	1.84	€ 46	\$34	0.966386
DE10Y	7.58	€ 1,003	\$728	
DE5Y	4.17	€ 568	\$412	
DE2Y	1.64	€ 223	\$162	

^Futures are Based on CTD

Last

EURUSD 137.76

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	17.70	32.25	43.06
10y	9.14	16.66	22.24
5y	5.30	9.66	12.89
2y	2.35	4.28	5.71
ZB	1.28	2.34	3.12
ZN	0.75	1.34	1.81
ZF	0.50	0.91	1.21
ZT	0.45	0.82	1.10

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	0.670

Bloomberg  
Ratio's

## US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (U)	1.6	3.9	6.7
Bobl (U)	3.0	7.0	12.1
Shatz (U)	7.3	17.1	29.4

Bloomberg  
Ratio's

## Bund (U) Bobl (U) Shatz (U)

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.00	1.77	4.50
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	4.883	4.874	4.874
US5y	4.957	4.954	4.954
US10y	5.051	5.047	5.047

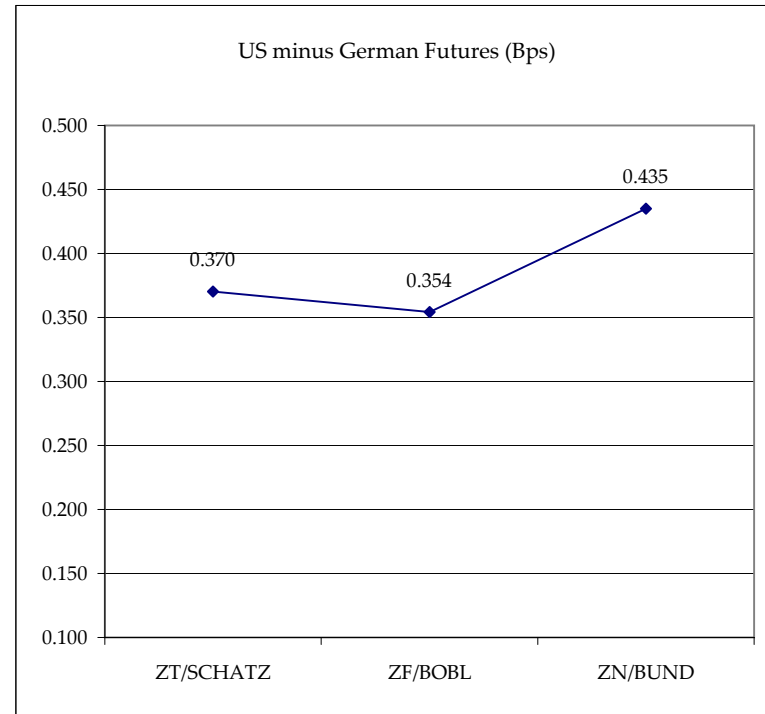
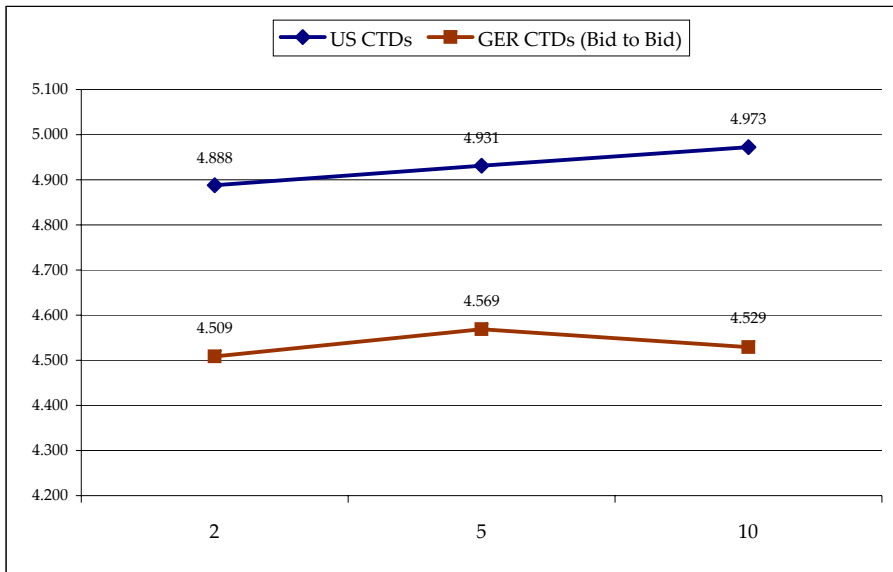
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.472	4.461	4.461
DE5y	4.535	4.525	4.525
DE10y	4.550	4.543	4.543

Spreads	
	Bps
ZT/SCHATZ	0.370
ZF/BOBL	0.354
ZN/BUND	0.435

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.888	4.879	4.879
4.500 of 11/11	4.931	4.923	4.923
4.750 of 05/14	4.973	4.964	4.964

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.498	4.481	4.509
4.000 of 04/12	4.535	4.525	4.569
4.000 of 07/16	4.536	4.529	4.529

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