



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

08:25 07/17 **ECB GARGANAS:** Sees 'further withdrawal of monetary accomodation'
 - Inflation risks are increasing
 - Won't be surprised if ECB raises 2007 growth forecast
 - Volatile euro 'undesirable' for economic growth
 - Doesn't want to change market expectations. (Bbg interview)



06:37 07/20 **ECB: Trichet:** Trichet is back on the wires saying the ECB is solidly anchoring inflation expectations and that ECB credibility is high. He refuses to add to comments on interest rates from the last ECB press conference and generally the comments so far add nothing new.

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

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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	(79.20)	(84.02)	(80.87)	82.82	82.46	80.33	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(92.43)	(95.18)	(92.42)	92.66	93.56	92.25	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(95.46)	(96.59)	(96.15)	92.38	94.60	94.79	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
111.31 top Bollinger band
111.20 07/02 - 07/11 downtrend (triangle resistance)
111.10 +.56 07/18 Settlement
110.86 40-DMA
110.63 5-DMA
110.57 Bollinger band center line
110.54 07/17 - 07/18 gap bottom
110.47 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
109.83 lower Bollinger band (daily)
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Technical Commentary -EUREX Sep 2007 10yr Euro-Bund by Mike Sacchitello, CMT

Short-term, as expected, Bund filled the gap up to the top band and 07/02 - 07/11 declining resistance (see table above for levels).
Secondarily, 5-day momentum does have some more upside room to breathe, but price will now have to prove itself by breaking 111.20 for a noteworthy buy signal to be delivered (the confirmation of a minor double bottom to 112.85)

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.

Quotes 1

	32 nds					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
TUAU7	101.305	1.0	101.312	101.292	101.300	13,432	147,737	2y Futures	US Futures Market
FVAU7	104.075	3.0	104.090	104.040	104.055	28,470	404,011	5y Futures	
TYAU7	105.265	3.0	105.295	105.220	105.255	116,495	1,032,152	10y Futures	
USAU7	107.290	3	108.000	107.230	107.270	22,427	323,128	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	100.022	1.0	100.027	100.012	100.015	2y	US Cash Treasury Market
BUS05P	99.277	1.7	99.292	99.247	99.250	5y	
BUS10P	96.020	2.0	96.050	95.305	95.310	10y	
BUS30P	94.195	3	94.235	94.165	94.170	30y	

	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02Y	4.827	(1.30)	4.861	4.819	4.861	2y Yield	US Cash Treasury Market
BUS05Y	4.903	(1.30)	4.93	4.891	4.929	5y Yield	
BUS10Y	5.010	(0.80)	5.031	4.995	5.027	10y Yield	
BUS30Y	5.103	(0.30)	5.117	5.094	5.113	30y Yield	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGU7	102.52	60.00	102.54	102.46	102.46	347,913	547,499	Schatz(2Y)	German Futures Markets
DLU7	106.26	195.00	106.32	106.09	106.09	320,687	542,143	Bobl(5Y)	
DBU7	111.29	26.00	111.44	111.06	111.09	699,730	1,119,247	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE032P0409	100.02	4.520	4.500	7/4/2009	2 yr CTD	German Cash Treasury Market
T.US.DE050P0712	97.88	4.579	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	96.35	4.497	4.000	7/4/2016	10 yr CTD	
DEP2P	100.07	4.455	4.500	6/12/2009	2yr OTR	
DEP5P	97.92	4.495	4.000	4/13/2012	5yr OTR	
DEP10P	97.93	4.512	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	102.52	102.53	102.52	102.54	102.46	60.00
DLU7	106.26	106.26	106.26	106.32	106.09	195.00
DBU7	111.28	111.29	111.29	111.44	111.06	26.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.651	4.649	4.651	4.683	4.641	
DLU7	4.572	4.571	4.571	4.609	4.558	
DBU7	4.570	4.568	4.570	4.596	4.551	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.486	4.470	4.520	4.547	4.481	0
T.US.DE050P0712	4.505	4.495	4.579	4.577	4.521	0
T.US.DE042P0717	4.504	4.497	4.497	4.572	4.511	0
DEP2P	4.466	4.455	4.455	4.505	4.438	5
DEP5P	4.505	4.495	4.495	4.546	4.480	16
DEP10P	4.519	4.512	4.512	4.546	4.493	24

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	100.02	100.05	100.05	100.06	99.94	5.00
T.US.DE050P0712	97.88	97.92	97.92	97.98	97.71	16.00
T.US.DE042P0717	96.35	96.40	96.40	96.56	96.14	22.00
DEP2P	100.05	100.07	100.07	100.10	99.98	5.00
DEP5P	97.88	97.92	97.92	97.98	97.71	16.00
DEP10P	97.88	97.93	97.93	98.08	97.67	24.00

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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18/07/2007	15:54	EURO	chg	USA	chg	UK	chg
Futures	Bond	111.12	0.58	107.94	0.66	104.08	0.62
	STIR	95.44	0.02	94.70	0.02	93.69	0.04
Cash	3mth	4.22	0.01	5.36	0.00	6.05	0.02
	2yr	4.50	-0.01	4.89	0.01	5.76	-0.02
	5yr	4.57	-0.01	4.96	0.01	5.65	-0.03
	10yr	4.58	-0.02	5.06	0.01	5.44	-0.03
	30yr	4.68	-0.02	5.14	0.00	4.80	-0.03
	10yr-2yr	0.08	-0.01	0.17	0.00	-0.32	-0.02
Spreads	2yr	--	--	0.45	0.02	1.35	-0.01
	vs euro	--	--	0.55	0.02	0.94	-0.02
FX	USD	1.361	0.000	--	--	2.054	0.002
	EUR	--	--	--	--	0.673	-0.001
	YEN	168.20	-0.27	121.78	-0.17	250.08	-0.14
Equities		4511.2	-0.6%	1541.0	-0.2%	6620.7	%

[cont]

Euribor futures were unchanged to 6.5 ticks higher with the Sep-07 contract at 95.620/0.000 (4.380% implied). Sep-07 Bunds were 58 ticks higher at 111.12. In cash, German government benchmark yields were 1bp to 2bps lower. The 2s/10s spread was 8bps vs. 9bps and the 10s/30s spread was unchanged 10bps.

Gilts were trading higher on Wednesday afternoon, with long dated Gilts outperforming. The Bank of England minutes were more dovish than expected, showing that votes were split 6-3 in favour of keeping rates on hold. This coupled with weaker than expected average earnings data enabled Gilts to outperform their European counterparts throughout Wednesday's trading session.

Short sterling futures were 1bp to 5bps higher with the Sep-07 contract at 93.800/+0.010 (6.200% implied). Jun-07 Gilts were 62 ticks higher at 104.08. In cash, UK government benchmark yields were 2bps to 3bps lower with 2s underperforming. The 2s/10s spread was -32bps vs. -30bps and the 10s/30s spread was unchanged at -64bps.

Headlines

EGBs higher, short dates underperform - flatter Bund curve
Fed's Bernanke: Upside inflation risks the FOMC's "predominant policy concern"

EGBs open higher on subprime concerns/ Bear Stearns
Short dates outperform on equity losses
ECB's Trichet: Attempts to influence ECB violates EU Treaty

Euro Mkt Summary: EGBs Higher, Subprime Woes, Bernanke Testimony by Charanjeev Chana

EGBs were trading higher on Wednesday afternoon with the short end underperforming, in turn flattening the Bund curve. Bunds dipped slightly on initial reported comments from Fed Chairman Ben Bernanke, who cited upside inflation risks as the FOMC's "predominant policy concern." Traders however covered shorts after Bernanke expressed concern over the risk that the housing correction might prove larger than expected.

Bunds posted moderate losses on the US CPI release, focussing on the headline month-on-month rate, which came in slightly above expectations. EGBs opened sharply higher as renewed concerns over the sub-prime market sparked safe-haven buying overnight. The move was triggered in Asian trading following a warning from Bear Stearns of losses, which left two of its sub-prime exposed funds "virtually worthless." Asian equities suffered as a result and 10-year swap spreads widened, prompting a sharp concession in US Treasury yields. Short dates outperformed, underpinned by weaker European stocks as the market drifted lower ahead of key US inflation data and Fed Chairman Bernanke's semi-annual testimony before the House Financial Services Committee.

German producer prices are due for the release on Thursday's open, and may give an early lift to the short end of the curve if our expectations of a weaker than expected outcome materialise.

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[All Times Eastern]

05:43 07/20 **EGBS:** Traders reporting further real-money demand in the long-end, adding onto the flow seen late on Thursday, which is pushing 10-year yields to the 4.5% level. Asset Managers seen as good buyers of 30-year with pension fund receiving in 10, 30-year swaps. Traders note short-covering flow in futures is also adding to the move.

02:47 07/20 **EGBS:Bund futures** are trading higher in early trade Friday, boosted by stop buying on a break through tech levels at 111.15. The pair has gapped to a high at 111.23, before intraday profit-taking capped the upside. The yield on the 10Y Bund was 2 bps lower at 4.53%. JGBs and Treasuries were both lightly bid in late Aisa, offering some support into early London trade, but volumes overnight had only been light. Sub-prime and credit fears again weigh in early trade, helping underpin the govt bond markets, with the Itraxx cross over index widening around 10 bps to 320 bps. There was little new in the FOMC minutes released overnight, with the Fed still seen as on hold for the foreseeable future. Following the French and Spanish auctions Thursday, the issuance calendar is clear for the day.

04:30 07/20 **UK Data:** Q2 GDP +0.8% q/q; +3.0% y/y -- in-line with median forecast
--Q2 GDP above BOE's May 2.87% y/y growth forecast

UK growth accelerated in the second quarter of 2007 to a quarterly rate of 0.8% from 0.7% in Q1 and remained steady at 3% on the year. A rise in manufacturing/production output offset a slight weakening in the service sector where growth eased to 0.8% q/q from 0.9%, although services remains the driving force behind growth. Industrial production rose 0.6% on the quarter, the highest for more than a year. These latest data show growth accelerating further above trend and also above the Bank of England's latest projection published in the May Inflation Report of 2.87% y/y growth in Q2. Continued robust growth, coupled with the fact that inflation is also running slightly ahead of the BOE's forecast makes a good case for further monetary tightening.

(continued)

03:13 07/20 **JGB SUMMARY:** Japanese government bonds ended Friday's session higher across the board, boosted by short-covering ahead of the weekend. However, traders said volumes were modest, with many players sidelined as a lack of fresh news offered little in the way of new trading possibilities. But the long-end of the curve did see light buying from life and pension funds, starting their month-end buying.
-- Benchmark 10-year yield was 1.5 bps lower at 1.895%.
-- Benchmark 5-year yield was 1 bps lower at 1.500%.
-- Benchmark 20-year yield was 1.5 bps lower at 2.300%.
-- Benchmark 30-year yield was 1.5 bps lower at 2.540%.
-- Lead June JGB futures contract was 0.24 higher at 132.06.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.07	4.66	\$1,457	€ 2,009
10y	7.73	2.40	\$750	€ 1,034
5y	4.33	1.39	\$434	€ 598
2y	1.93	0.61	\$191	€ 263
ZB	9.61	3.36	\$105	€ 145
ZN	5.70	1.95	\$61	€ 84
ZF	3.88	1.30	\$41	€ 56
ZT	1.79	1.17	\$37	€ 51

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.32	€ 113	\$82	0.872569
Bobl	4.16	€ 62	\$45	0.959013
Schatz	1.82	€ 46	\$33	0.966386
DE10Y	7.57	€ 1,006	\$730	
DE5Y	4.16	€ 568	\$412	
DE2Y	1.63	€ 222	\$161	

^Futures are Based on CTD

Last

EURUSD 137.90

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	17.79	32.50	43.68
10y	9.15	16.72	22.47
5y	5.29	9.67	13.00
2y	2.33	4.26	5.73
ZB	1.28	2.34	3.15
ZN	0.74	1.34	1.83
ZF	0.50	0.91	1.22
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	4.54
Bobl (U)	0.56	1.00	2.56
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	4.836	4.827	4.827
US5y	4.905	4.903	4.903
US10y	5.012	5.010	5.010

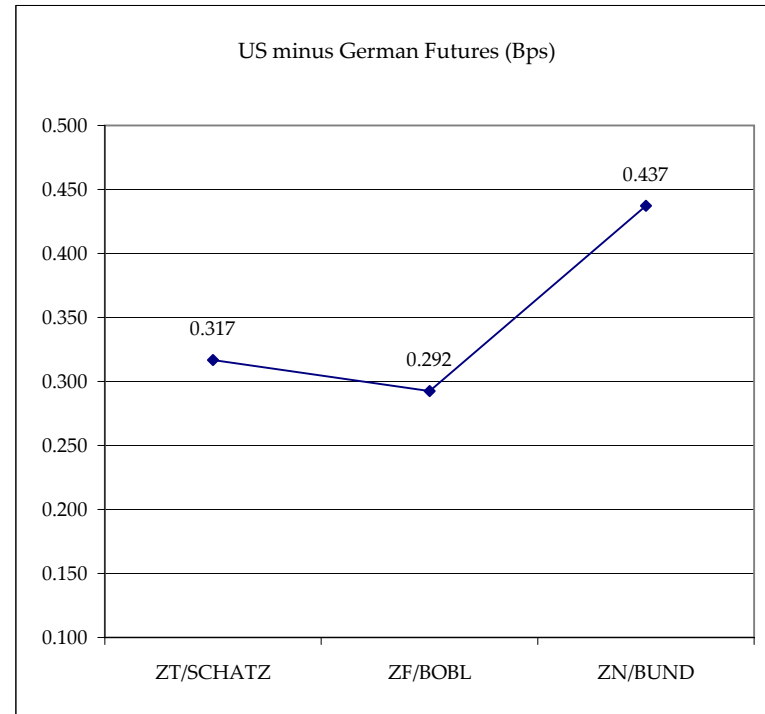
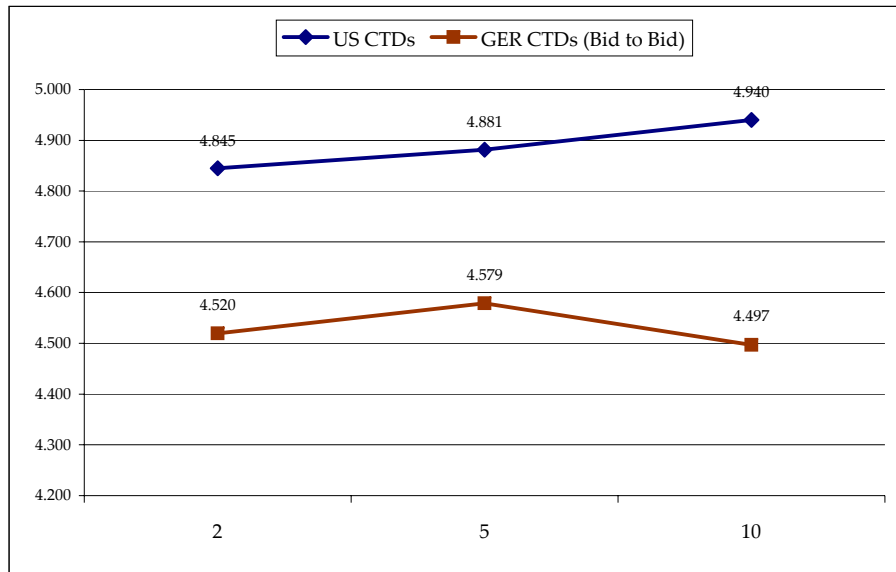
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.466	4.455	4.455
DE5y	4.505	4.495	4.495
DE10y	4.519	4.512	4.512

Spreads	
	Bps
ZT/SCHATZ	0.317
ZF/BOBL	0.292
ZN/BUND	0.437

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.845	4.836	4.836
4.500 of 11/11	4.881	4.871	4.871
4.750 of 05/14	4.940	4.934	4.934

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.486	4.470	4.520
4.000 of 04/12	4.505	4.495	4.579
4.000 of 07/16	4.504	4.497	4.497

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	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 & 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

Most Recent MPC Meetings:

	King (Gov)	Lomax (Dep Gov)	Gieve (Dep Gov)	Bean	Tucker	Barker	Blanchflower	Besley	Sentance	Result	Level	Vote	Dis-sent bias
Jul-06	unch	unch	unch	unch	unch	unch	unch	unch	unch	unch	4.50%	7-0	none
Aug-06	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	unch	unch	+25bps	+25bps	4.75%	6-1	no chg
Sep-06	unch	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
Jul-07	+25bps	unch	+25bps	unch	+25bps	+25bps	unch	+25bps	+25bps	+25bps	5.75%	6-3	no chg

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BOE Hawkometer – MPC Confirmed to be Split 6-3 Over July Rate Hike
by Niraj Shah

-- Stone & McCarthy (London) --

6-3 Split

The Bank of England minutes showed that the MPC had been split 6-3 over the July rate hike to 5.75% after Lomax, Blanchflower and Bean had all voted against monetary tightening. Critically, divisions on the MPC appear to be widening, with some clear differences of opinion within both the doves and the hawks camp. This then reduces the likelihood of another imminent interest rate hike. However, given that the MPC did not have access to the stronger than expected June inflation data, another rate hike before the end of the year can not be ruled out.

Our Hawkometer shows that Deputy Governor Lomax has now moved into dovish territory for the very first time after voting against the July rate hike.

BOE HAWKOMETER		(to July 2007 meeting)				
		Dissenting Hawkish Votes	Dissenting Dovish Votes	Non-Dissenting Votes	Total Votes	Hawkishness Rating
	Sentance	4	0	6	10	40%
	Besley	4	0	7	11	36%
	King (Gov)	14	0	109	123	11%
	Tucker	6	1	55	62	8%
	Gieve (Dep Gov)	1	0	17	18	6%
	Lomax (Dep Gov)	2	3	44	49	-2%
	Barker	1	4	70	75	-4%
	Bean	0	5	78	83	-6%
	Blanchflower	0	5	9	14	-36%