



## The Morning Email: US & Germany

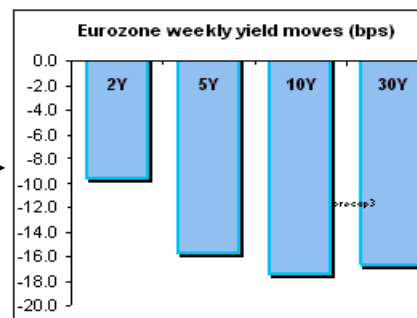
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7/23/2007 5:48

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Eurozone review:		20-Jul	1wk	1m	3m	12m
<b>Direction:</b>	ECB refi	4.00	0	0	25	125
<b>Bonds:</b>	2y govt	4.42	-10	-6	29	87
	5y govt	4.44	-16	-15	28	67
	10y govt	4.45	-17	-20	24	46
	30y govt	4.55	-17	-22	18	30
<b>Curve:</b>	10y-2y	2	10	16	7	43
	10y-5y	1	3	6	4	22
	30y-10y	10	10	13	17	26
<b>FX:</b>	EUR/USD	1.383	0.3%	3.2%	1.8%	9.5%
	EUR/JPY	167.7	-0.2%	1.3%	4.0%	13.5%
<b>Equities:</b>	Euro Stoxx	4460	-1.8%	-1.9%	1.0%	24.3%

Want something added? Let me know: [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

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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	(91.19)	(92.89)	(91.04)	91.86	91.38	90.88	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(95.81)	(96.92)	(95.39)	95.51	95.51	95.32	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(97.27)	(97.79)	(97.23)	95.10	95.87	96.34	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					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
TUAU7	102.027	0.5	102.037	102.017	102.025	26,562	241,251	2y Futures	<b>US Futures Market</b>
FVAU7	104.180	3.0	104.190	104.155	104.165	46,186	584,817	5y Futures	
TYAU7	106.120	4.5	106.135	106.080	106.100	168,265	1,717,105	10y Futures	
USAU7	108.200	6	108.220	108.140	108.160	27,481	423,269	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	100.065	0.2	100.072	100.057	100.065	2y	<b>US Cash Treasury Market</b>
BUS05P	100.062	2.0	100.075	100.040	100.062	5y	
BUS10P	#VALUE!	4.0	96.215	96.160	96.185	10y	
BUS30P	95.160	7	95.180	95.085	95.125	30y	

	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02Y	4.759	0.00	4.78	4.742	4.78	2y Yield	<b>US Cash Treasury Market</b>
BUS05Y	4.824	(1.50)	4.848	4.817	4.842	5y Yield	
BUS10Y	4.931	(1.90)	4.958	4.927	4.95	10y Yield	
BUS30Y	5.040	(1.50)	5.062	5.038	5.059	30y Yield	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGU7	102.67	45.00	102.68	102.60	102.62	418,084	861,391	Schatz(2Y)	<b>German Futures Markets</b>
DLU7	106.72	145.00	106.74	106.53	106.60	341,951	847,286	Bobl(5Y)	
DBU7	112.19	26.00	112.26	111.86	112.04	681,487	2,038,552	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE032P0409	100.16	4.387	4.500	7/4/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE050P0712	98.29	4.396	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	97.11	4.390	4.000	7/4/2016	10 yr CTD	
DEP2P	100.20	4.381	4.500	6/12/2009	2yr OTR	
DEP5P	98.33	4.396	4.000	4/13/2012	5yr OTR	
DEP10P	98.76	4.406	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	#VALUE!	102.67	102.67	102.68	102.60	45.00
DLU7	106.71	106.72	106.72	106.74	106.53	145.00
DBU7	112.19	112.20	112.19	112.26	111.86	26.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7		4.573	4.573	4.609	4.568	
DLU7	4.473	4.472	4.472	4.513	4.466	
DBU7	4.462	4.461	4.461	4.501	4.454	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.409	4.393	4.387	4.530	4.409	0
T.US.DE050P0712	4.405	4.396	4.396	4.546	4.420	0
T.US.DE042P0717	4.397	4.390	4.390	4.534	4.414	0
DEP2P	4.392	4.381	4.381	4.426	4.370	4
DEP5P	4.405	4.396	4.396	4.449	4.388	13
DEP10P	4.412	4.406	4.406	4.449	4.392	22

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	100.16	100.19	100.19	100.21	100.10	4.00
T.US.DE050P0712	98.29	98.33	98.33	98.36	98.11	13.00
T.US.DE042P0717	97.11	97.16	97.16	97.27	96.85	20.00
DEP2P	100.18	100.20	100.20	100.22	100.12	4.00
DEP5P	98.29	98.33	98.33	98.36	98.11	13.00
DEP10P	98.71	98.76	98.76	98.87	98.42	22.00

Y = Yield  
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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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20/07/2007	15:59	EURO	chg	USA	chg	UK	chg
<b>Futures</b>	<b>Bond</b>	111.85	0.76	108.56	0.78	104.77	0.75
	<b>STIR</b>	95.45	0.03	94.74	0.03	93.75	0.04
<b>Cash</b>	<b>3mth</b>	4.23	0.00	5.36	0.00	6.04	0.00
	<b>2yr</b>	4.41	-0.08	4.78	-0.07	5.67	-0.06
	<b>5yr</b>	4.43	-0.11	4.83	-0.08	5.54	-0.08
	<b>10yr</b>	4.44	-0.11	4.94	-0.08	5.30	-0.11
	<b>30yr</b>	4.54	-0.11	5.06	-0.06	4.66	-0.09
	<b>10yr-2yr</b>	0.03	-0.03	0.17	-0.01	-0.36	-0.04
<b>Spreads</b>	<b>2yr</b>	--	--	0.42	0.01	1.34	0.02
	<b>vs euro</b>	<b>10yr</b>	--	--	0.56	0.03	0.93
<b>FX</b>	<b>USD</b>	1.383	0.002	--	--	2.056	0.006
	<b>EUR</b>	--	--	--	--	0.673	-0.001
	<b>YEN</b>	167.73	-0.40	121.25	-0.44	249.24	-0.19
<b>Equities</b>		4463.6	-1.4%	1541.2	-0.7%	6609.5	%

#### **Euro Mkt Summary: EGBs Sharply Higher on Subprime Jitters** **by Charanjeev Chana**

European Government Bonds were trading sharply higher on Friday afternoon with short dates underperforming, in turn flattening the Bund curve. Bunds firmed in afternoon trade on safe-haven subprime jitters buying spurred by news of S&P ratings actions on 32 European synthetic CDOs tranches.

Bunds opened higher on Friday morning amidst lingering concerns over US subprime, supported further after credit indices opened wider following a move lower in the US ABX index overnight. Traders cited an article in Business Week for the uptick in EGBs in the morning session, titled "why Fannie and Freddie are Fidgety" - which suggested that the agencies would not be immune from the pain of the sub-prime debacle. Short dates underperformed following the Chinese decision to raise its Benchmark lending rate by 27bps.

Attention on Monday will turn to German import price on the open and comments from ECB official Jurgen Stark who opens an ECB conference on 'Globalisation & the Macro economy'.

Gilts were trading higher on Friday afternoon, underperforming trade in Europe. Gilts opened little changed on Friday morning, but soon succumbed to upward pressures from risk aversion activity in Europe early in the session. Short dated Gilts underperformed on UK GDP data, which reported faster than expected acceleration in growth for the second quarter of this year.

Monday sees the release of Rightmove house prices ahead of the open.

[cont]



## [All Times Eastern]

**06:35 07/23 EUROZONE:** Reported comments from eurozone officials Monday,

\*\* ECB PAPADEMOS: ECB independence, commitment to price stability, core elements of institutional setup

- Growth expected to remain robust in coming quarters  
- Euro area recovery is solid and broad based.

\*\* EMU: There is a close relationship between monetary demand and liquidity on the one hand and real estate market developments on the other, the Bundesbank said Monday in its monthly report for July.

\*\* GERMANY: Germany's cyclical upswing continued in the second quarter of this year, but the pace of economic growth likely slowed, the Bundesbank said Monday in its monthly report for July.

**06:32 07/23 BUNDS:** Fresh move higher underway as some additional stops tripped. Break above 112.18 opens way for Fibonacci resistance levels at 112.32 and 112.41/44.

**02:47 07/23 EGBS:** Bund futures are trading a couple of ticks lower in early trade Monday, having opened higher on follow-through demand. At 0630GMT, the lead Sept Bund contract was down 0.02 at 111.90, having touched an early high at 112.05. The yield on the benchmark 10Y Bund was unchanged at 4.44%. Traders said the market appeared to be consolidating nicely after the strong gains in late trade Friday, as US markets suffered from a collective burst of the jitters over the sub-prime concerns and the possible fall-out. In Asia, Japanese stocks were lower, taking their lead from Wall St, helping push JGBs higher. The yield on the benchmark 10Y was 2.5 bps lower at 1.865%. This helped underpin Treasuries, with the US 10-yr last at 4.94%. China stocks were higher though, as local investors took the PBOC's last rate hike in their stride. The market was also buoyed by stories that a China agency would take a stake in UK clearing bank Barclays PLC.

## (continued)

**05:49 07/23 U07 BUND:** Focus on Fibonacci Retracements

RES 4: 113.10/14 50% retrace decline from 116.62, 76.4% of 114.16/109.66

RES 3: 112.41/44 High 30 May, 61.8% retracement of decline from 114.16

RES 2: 112.32 38.2% retracement of decline from 116.62 to 109.66

RES 1: 112.18 Hourly high

SUP 1: 111.52 High 2 July

SUP 2: 111.31 High 11 July

SUP 3: 111.05 5-day moving average

SUP 4: 110.67 21-day moving average

COMMENTARY: Daily stochastic and momentum studies still favour further gains, following on from Friday's bullish weekly close. Focus is on Fibonacci retracements of declines from 114.16 and 116.62.

**02:27 07/23 JGB SUMMARY:** Japanese government bonds ended Monday's session higher across the board, as lower stocks, a higher yen and rising U.S. Treasuries ahead of the weekend boosted fixed income markets. However, traders said volumes were light, with few players prepared to open fresh JGB positions ahead of Sunday's Upper House elections.

-- Benchmark 10-year yield was 2.5 bps lower at 1.865%.

-- Benchmark 5-year yield was 3.5 bps lower at 1.455%.

-- Benchmark 20-year yield was 1.5 bps lower at 2.285%.

-- Benchmark 30-year yield was 1.5 bps lower at 2.520%.

-- Lead June JGB futures contract was 0.36 higher at 132.44.

**01:55 07/23 ISSUANCE:** Issuance is seen from Germany, the UK, Portugal and Italy this week. Germany comes to market Weds, with the sale of E4 Bn of the 4.25% 7/39. Also Weds, Portugal is set to sell E900Mln of the 5.85%/5/2010 OT. On Thursday, the UK is set to sell Gbp 700mln of the 1L 1.25% Nov 2055, while Italy is set to sell E2 bn CTZ. On Friday Italy is slated to sell E1.5 bn of the BTPie. Italy will give maturity details for the CTZ and BTPei later Monday. Also Monday, Italy will announce the details of its auction to be held on 30 July. As said, Germany will tap the Bund 2039n. The amount was revised down by E1bn with the announcement of the Q3 schedule. Before the auction, Germany has achieved 66% of its programme. Outside Europe, the US is set to sell \$18-bn new 2-year notes Tuesday and E13 bn new 5-yr paper on Thursday. Japan will sell Y0.8 trln of the 210-year JGB Thursday.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.14	4.73	\$1,478	€ 2,042
10y	7.74	2.42	\$755	€ 1,043
5y	4.33	1.39	\$435	€ 601
2y	1.93	0.61	\$191	€ 264
ZB	9.63	3.40	\$106	€ 147
ZN	5.70	1.96	\$61	€ 85
ZF	3.88	1.31	\$41	€ 56
ZT	1.79	1.17	\$37	€ 51

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.33	€ 114	\$83	0.872569
Bobl	4.16	€ 62	\$45	0.959013
Schatz	1.82	€ 46	\$33	0.966386
DE10Y	7.58	€ 1,018	\$737	
DE5Y	4.16	€ 571	\$414	
DE2Y	1.62	€ 222	\$161	

^Futures are Based on CTD

Last

EURUSD 138.17

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	17.87	32.80	44.29
10y	9.13	16.75	22.62
5y	5.26	9.66	13.04
2y	2.31	4.24	5.73
ZB	1.28	2.36	3.18
ZN	0.74	1.34	1.84
ZF	0.49	0.91	1.23
ZT	0.44	0.81	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	1.78	4.58
Bobl (U)	0.56	1.00	2.57
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	4.763	4.759	4.759
US5y	4.828	4.824	4.824
US10y	4.935	4.931	4.931

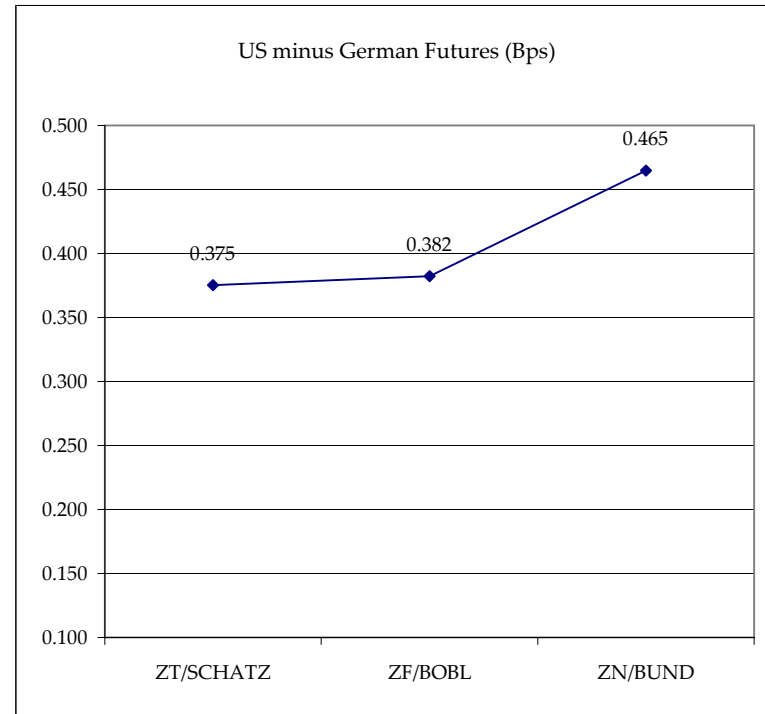
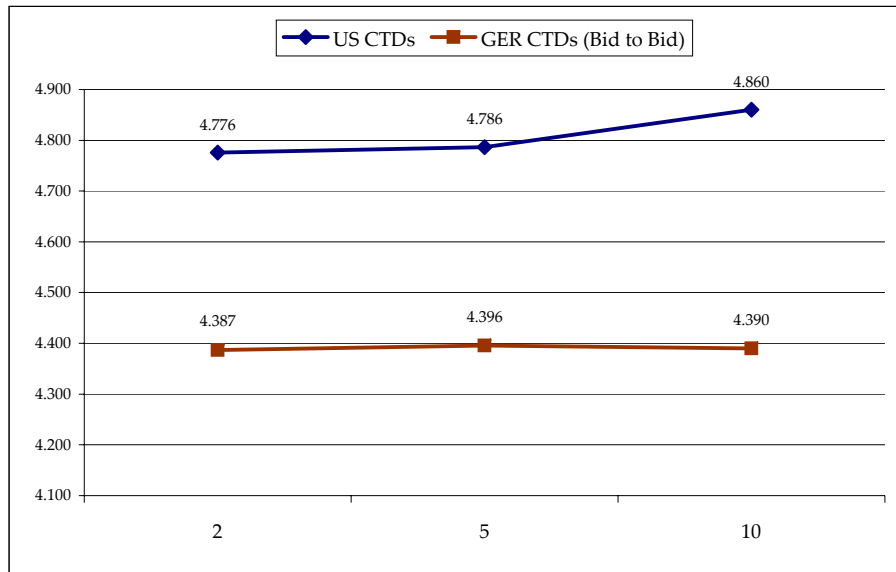
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.392	4.381	4.381
DE5y	4.405	4.396	4.396
DE10y	4.412	4.406	4.406

Spreads	
	Bps
ZT/SCHATZ	0.375
ZF/BOBL	0.382
ZN/BUND	0.465

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.776	4.762	4.762
4.500 of 11/11	4.786	4.778	4.778
4.750 of 05/14	4.860	4.855	4.855

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.409	4.393	4.387
4.000 of 04/12	4.405	4.396	4.396
4.000 of 07/16	4.397	4.390	4.390

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 &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

**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%