

7/24/2007 5:44



The Morning Email: US & Germany



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12:36 07/23 ECB: **ECB's Stark** says strong euro ultimately helps economy's development, says EMU exports not yet hurt by strong euro. Warns of capacity restraints and risks to prices, strong euro only problematic if moves are abrupt. Cautions on outsiders trying to influence ECB. Comments are from a German newspaper interview and appear to be standard ECB fare.

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

Stone & McCarthy
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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	(91.86)	(93.88)	(92.07)	92.46	92.26	92.36	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	(95.55)	(97.44)	(95.85)	94.63	95.11	95.23	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	(98.13)	(99.40)	(98.66)	95.03	96.12	96.49	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-----
113.23 76.4% of the Apr - Jun down-leg
112.94 rising liquidity
112.56 61.8% of the Apr - Jun down-leg
112.26 07/23 high
112.20 former 01/29 - 04/13 declining support
112.01 50% of the Apr - Jun down-leg
111.92 Unch 07/23 Settlement
111.92 07/19 close
111.85 top Bollinger band
111.32 5-DMA, 07/19 breakout point
111.10 former triangle resistance
110.95 10-DMA
110.84 40-DMA
110.78 Bollinger band center line
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Technical Commentary -EUREX Sep 2007 10yr Euro-Bund by Mike Sacchitello, CMT

Sep's Friday rally came after a technical break above minor triangle resistance. Though the post-07/09 picture remains bullish, with a potential post-triangle to 112.83 still on the table, the extreme extended nature of 10-day momentum and Monday's topside reversal beneath former 01/29 - 04/13 declining support and 50% of the April - June down-leg suggest that we've reached an area that welcomes the booking of some profits.

Any short-term correction would remain healthy to as low as former triangle resistance (currently 111.10).

Secondarily, even though 10-day momentum is extended as a result of the recent rally, the higher trending MACD signal line and upside room to breath on the slow stochastic hint that the odds for further upside drift, following any brief correction, remain decent.

Longer-term, our proprietary trading system (a near to long-term trend following system) protected all of its long-term profits on Friday. Now at neutral, the first new long starts above 112.31, while the first new short triggers below 110.93.

Quotes 1

	32 nds					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
TUAU7	102.012	0.2	102.025	102.010	102.015	17,466	161,850	2y Futures	US Futures Market
FVAU7	104.140	1.0	104.175	104.140	104.155	32,317	304,955	5y Futures	
TYAU7	106.060	1.0	106.110	106.055	106.080	94,438	850,221	10y Futures	
USAU7	108.130	2	108.210	108.120	108.150	20,235	228,763	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	100.045	(0.2)	100.057	100.047	100.055	2y	US Cash Treasury Market
BUS05P	100.032	(0.7)	100.060	100.032	100.047	5y	
BUS10P	96.145	(2.5)	96.205	96.150	96.180	10y	
BUS30P	95.065	(5)	95.165	95.080	95.140	30y	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGU7	102.61	(5.00)	102.65	102.60	102.64	202,798	726,520	Schatz(2Y)	German Futures Markets
DLU7	106.54	(65.00)	106.66	106.53	106.64	216,210	644,841	Bobl(5Y)	
DBU7	111.89	(5.00)	112.11	111.87	112.05	377,795	1,405,800	Bund(10Y)	



	Price	Yield		Maturity	SYM NAME	
	Last	Last	Coupon			
T.US.DE032P0409	100.11	4.387	4.500	7/4/2009	2 yr CTD	German Cash Treasury Market
T.US.DE050P0712	98.12	4.396	4.000	4/13/2012	5 yr CTD	
T.US.DE042P0717	96.86	4.425	4.000	7/4/2016	10 yr CTD	
DEP2P	100.14	4.415	4.500	6/12/2009	2yr OTR	
DEP5P	98.16	4.437	4.000	4/13/2012	5yr OTR	
DEP10P	98.47	4.443	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	102.61	102.61	102.61	102.65	102.60	-5.00
DLU7	106.54	#VALUE!	106.54	106.66	106.53	-65.00
DBU7	111.89	111.90	111.89	112.11	111.87	-5.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.607	4.604	4.604	4.609	4.583	
DLU7	4.511		4.511	4.512	4.484	
DBU7	4.498	4.496	4.498	4.500	4.472	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.436	4.420	4.387	4.447	4.382	0
T.US.DE050P0712	4.447	4.437	4.396	4.454	4.388	0
T.US.DE042P0717	4.432	4.425	4.425	4.448	4.375	0
DEP2P	4.426	4.415	4.415	4.432	4.398	-2
DEP5P	4.447	4.437	4.437	4.447	4.410	-1
DEP10P	4.450	4.443	4.443	4.452	4.415	-5

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	100.11	100.14	100.14	100.17	100.10	0.00
T.US.DE050P0712	98.12	98.16	98.16	98.27	98.12	-1.00
T.US.DE042P0717	96.86	96.91	96.91	97.10	96.85	-2.00
DEP2P	100.12	100.14	100.14	100.17	100.11	-2.00
DEP5P	98.12	98.16	98.16	98.27	98.12	-1.00
DEP10P	98.42	98.47	98.47	98.69	98.40	-5.00

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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23/07/2007	14:52	EURO	chg	USA	chg	UK	chg
Futures	Bond	112.00	0.08	108.28	-0.13	104.81	0.02
	STIR	95.45	0.00	94.72	-0.02	93.72	-0.03
Cash	3mth	4.23	0.00	5.36	0.00	6.04	0.00
	2yr	4.41	-0.01	4.80	0.03	5.87	0.01
	5yr	4.43	0.00	4.87	0.03	5.54	0.01
	10yr	4.44	0.00	4.97	0.02	5.31	0.01
	30yr	4.55	0.01	5.08	0.02	4.67	0.01
	10yr-2yr	0.03	0.01	0.17	-0.02	-0.36	0.00
Spreads	2yr	--	--	0.45	0.04	1.34	0.01
vs euro	10yr	--	--	0.60	0.02	0.94	0.01
FX	USD	1.382	-0.001	--	--	2.058	0.002
	EUR	--	--	--	--	0.671	-0.001
	YEN	167.66	0.04	121.32	0.09	249.70	0.49
Equities		4461.8	0.4%	1542.3	-1.2%	6606.9	%

[cont]

Euribor futures were 0.5 ticks higher to 0.5 ticks lower with the Sep-07 contract at 95.620/+0.050 (4.380% implied). Sep-07 Bunds were 8 ticks higher at 112.00. In cash, German government benchmark yields were 1bp lower to 1bp higher with 2s outperforming. The 2s/10s spread was 3bps vs. 2bps and the 10s/30s spread was 11bps vs. 10bps.

Gilts were trading lower on Monday afternoon with little bias. Overnight, property website Rightmove reported UK house prices rising at their slowest pace this year in July. Gilts traded higher in the morning session on risk aversion buying, taking cue from trade in Europe.

Short sterling futures were 2bps to 3bps higher with the Sep-07 contract at 93.830/-0.010 (6.170% implied). Jun-07 Gilts were 2 ticks higher at 104.81. In cash, UK government benchmark yields were 1bp higher across the board. The 2s/10s spread was unchanged at -36bps and the 10s/30s spread was unchanged at -64bps.

Headlines

EGBs mixed, short end outperforms
Market pares earlier gains on M&A news/ supply pressure

EGBs open lower after iTraxx XO index opens tighter
Month end buying underpins long-end
ECB's Papademos: Expects Eurozone growth "to remain robust in coming quarters"

Euro Mkt Summary: EGBs Lower on Equity Gains, Supply by Charanjeev Chana

European Government Bonds were trading mixed on Monday afternoon with the short end outperforming, in turn steepening the Bund curve. EGBs pared morning gains after European equity bourses spiked higher on M&A news. Also weighing on sentiment was supply pressure ahead of the announcement of amounts for the US 2-year and 5-year note auctions, due to take place this week.

Bonds opened moderately lower on Monday morning after the iTraxx crossover index opened around 7bps tighter. The market soon reversed opening losses, underpinned by Japanese real money demand at the long end of the EUR curve, as early indications of month end index extensions reported large duration extensions in July.

Short dated issues outperformed as credit spreads began to slip wider, maintaining a widening bias throughout the session. In comments made on Monday morning, ECB Vice-President Lucas Papademos said he expected Eurozone growth "to remain robust in coming quarters"



[All Times Eastern]

03:20 07/24 **BUNDS**: Bund futures slip back to overnight levels around 111.96, as a failure to break higher prompted profit-taking from spec names, Volumes are noted as "little more than average". The contract was last 3 ticks higher on the day at 111.98.

06:02 07/24 **EGBS**: European bond markets are trading flat Tuesday, unable to hold on to gains seen early in the session. The benchmark Eurex September Bund contract was last unchanged on the day at 111.95, having touched and been unable to hold an early high at 112.11.

This initially pushed the yield on the benchmark 10-year Bund down to 4.39%, before its retraced to stand at 4.41%. With a lack of direction from either equity markets or U.S. Treasuries, Bunds largely took their lead from the credit market, rallying in early trade as the iTraxx crossover index widened 25 bps to levels around 385 bps, before slipping as the iTraxx improved to 375bps. Data had limited impact on prices.

Bunds were 1 bps higher against the US 10-year T-notes, with the spread standing at +56 bps. The yield on the 4.50% June 2009 Schatz was unchanged at 4.41%. The yield on the 4.00% Apr 2012 Series 150 Bobl was unchanged at 4.43%. The yield on the benchmark 4.25% July 2017 Bund fell 1 bps to 4.43%, while the 4.25% July 2039 Bund yield was unchanged at 4.55%.

(continued)

06:35 07/24 **EUROZONE**: Reported comments from eurozone officials,
**** ECB STARK**: The ECB will have no alternative but to act if it sees possible inflation risks. In an interview with German daily FAZ, Stark also noted that ECB President Jean-Claude Trichet has stressed that there is no preconceived date for any further monetary policy moves, but pointed to statements at the latest press conference in which Trichet said he had do desire to alter market expectations for an interest rate hike in September or October.
**** GERMANY**: DIW has raised its forecast for 2007 German GDP growth to 2.6% from the 2.4% projection published jointly with four other economics think tanks in April. The 2008 number has been revised up a notch to 2.5% from 2.4%.
 - DIW projects eurozone growth of 2.6% in 2007 and 2.4% in 2008.
 - DIW said that one or two more 25-bps ECB rate hikes are likely this year. Its forecasts assume 4.5% by end-2007 and no ECB moves in 2008.

02:29 07/24 **JGB SUMMARY**: Japanese government bonds ended Tuesday's session modestly lower across the board, as the recent safe-haven bid dissipated on the back of profit-taking from offshore accounts. Activity from domestic accounts was seen as light, and with yield hitting 6-week lows in the morning session, foreign investors took advantage of the move. Japanese funds were buyers at lower levels, but were unwilling to chase prices higher ahead of this coming weekend's Upper House elections and an after hours speech from Bank of Japan Governor Toshihiko Fukui.
 -- Benchmark 10-year yield was 1.5 bps higher at 1.875%.
 -- Benchmark 5-year yield was 0.5 bps higher at 1.460%.
 -- Benchmark 20-year yield was 2 bps higher at 2.300%.
 -- Benchmark 30-year yield was 3 bps higher at 2.545%.
 -- Lead June JGB futures contract was 0.06 lower at 132.36.



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.11	4.71	\$1,471	€ 2,031
10y	7.74	2.41	\$753	€ 1,040
5y	4.32	1.39	\$434	€ 600
2y	1.93	0.61	\$191	€ 263
ZB	9.62	3.39	\$106	€ 146
ZN	5.70	1.96	\$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	7.33	€ 114	\$82	0.872569
Bobl	4.15	€ 62	\$45	0.959013
Schatz	1.82	€ 46	\$33	0.966386
DE10Y	7.57	€ 1,014	\$734	
DE5Y	4.15	€ 570	\$412	
DE2Y	1.62	€ 221	\$160	

^Futures are Based on CTD

Last

EURUSD 138.13

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	17.85	32.73	44.18
10y	9.14	16.76	22.63
5y	5.27	9.67	13.05
2y	2.31	4.24	5.73
ZB	1.28	2.35	3.18
ZN	0.74	1.34	1.84
ZF	0.49	0.91	1.22
ZT	0.44	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	1.78	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	4.793	4.784	4.784
US5y	4.851	4.849	4.849
US10y	4.958	4.954	4.954

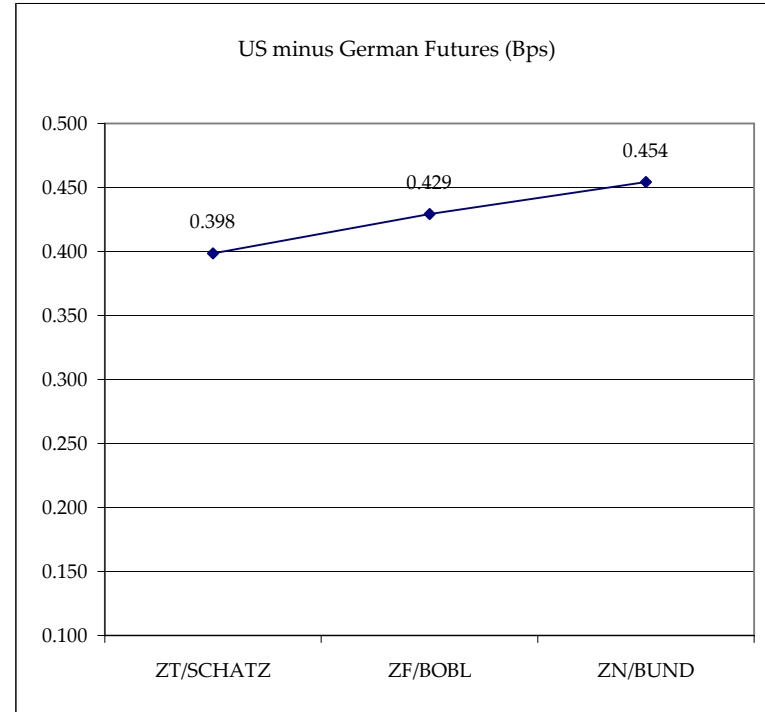
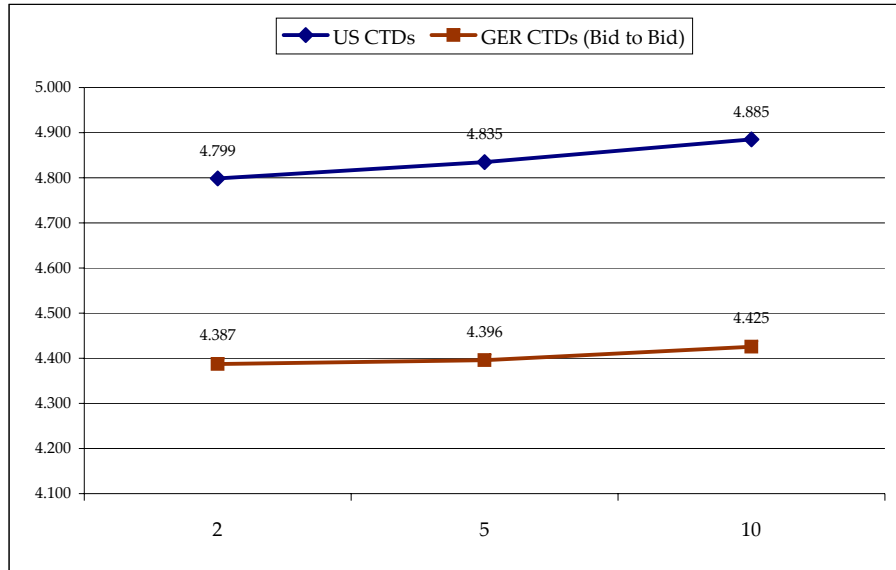
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.426	4.415	4.415
DE5y	4.447	4.437	4.437
DE10y	4.450	4.443	4.443

Spreads	
	Bps
ZT/SCHATZ	0.398
ZF/BOBL	0.429
ZN/BUND	0.454

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.799	4.786	4.786
4.500 of 11/11	4.835	4.825	4.825
4.750 of 05/14	4.885	4.880	4.880

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.436	4.420	4.387
4.000 of 04/12	4.447	4.437	4.396
4.000 of 07/16	4.432	4.425	4.425

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

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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

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		+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%