6/14/2007 5:43

The Morning Email: US & Germany

Table of Contents

New

"...monetary policy is still on the accommodative side".--TRICHET 06/06/2007

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

Jim Goulding, jgoulding@ghco.com

Correlation Matrix & BUND Technicals

SYM NAME	Symbol	US Cash Treasuries 2yr	5yr	10yr	US Bonds/Notes (CBOT) ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGU7	-91.03	-78.09	-74.39	88.17	78.47	77.07	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-95.27	-95.34	-94.13	95.04	97.85	97.19	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-94.08	-96.91	-96.24	93.63	99.08	98.80	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.

Stone & McCarthy
RESEARCH ASSOCIATES

----------R E S I S T A N C E------------

```
111.19 10-DMA
111.00 point of break below the Nov '03 corrective lows
110.80 06/11 close
110.78 23.6% of the 04/19H - 06/13L
110.64 5-DMA
110.44 06/12 - 06/13 gap top
110.19 lower Bollinger band
110.17    -.27   06/13  Settlement
109.79 Oct '02 corrective lows
109.66 06/13 low
109.33 76.4% of the Apr '02 - Sep '05 up-move
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----------S U P P O R T----------

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

Short-term, both 5 and 10-day momentum are fully oversold and atheir lowest levels in contract history. While Wednesday's long lower shadow is suggestive of some bargain hunting and momentum buying taking place, we must remember that markets can remain oversold longer than we can remain solvent.

As we have been repeating at nauseam in recent weeks, risks are still skewed to the downside, so no significant countertrend posturing (i.e., sizable reduction of profitable short positions, or large long bets) would be recommended until price closes convincingly above the 5-day line that has been smoothing things lower since 05/11.

(See support/resistance table above for key liquidity ladder, in the event an oversold reaction materializes.)

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 112.72.

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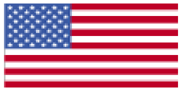
Quotes 1



	32 nds							
	ls	net	high	low	open	Volume	Yest Volume	SYM NAME
TUAU7	101.175	0.2	101.175	101.157	101.167	20,712	361,758	2y Futures
FVAU7	103.095	1.5	103.095	103.045	103.070	51,657	843,405	5y Futures
TYAU7	104.140	2.0	104.145	104.065	104.100	217,573	2,542,245	10y Futures
USAU7	106.020	0	106.030	105.220	105.300	39,453	789,102	30y Futures
	ls	net	high	low	open			SYM NAME
BUS02P	99.205	1.0	99.207	99.190	99.190			2y
BUS05P	98.117	1.0	98.120	98.075	98.097			5y
BUS10P	94.205	0.0	94.215	94.140	94.190			10y
BUS30P	92.030	(1)	92.040	91.110	91.110			30y
	ls	net	high	low	open			SYM NAME
BUS02Y	5.061	(1.30)	5.104	5.057	5.099			2y Yield
BUS05Y	5.125	(0.50)	5.162	5.121	5.151			5y Yield
BUS10Y	5.196	0.00	5.23	5.19	5.211			10y Yield
BUS30Y	5.278	0.20	5.343	5.274	5.282			30y Yield

	Decimal							
	ls	net	high	low	open	Volume	Yest Volume	SYM NAME
DGU7	102.48	45.00	102.48	102.42	102.43	432,638	1,297,151	Schatz(2Y)
DLU7	1059.15	80.00	1059.35	1057.50	1058.20	459,541	1,059,888	Bobl(5Y)
DBU7	110.32	10.00	110.37	110.02	110.21	844,957	3,130,598	Bund(10Y)

German Futures

	Price	Yield						
	ls	ls	Coupon	Maturity				SYM NAME
T.US.DE032P0409	100.00	4.440	4.500	7/4/2009				2 yr CTD
T.US.DE050P0712	97.57	4.505	4.000	4/13/2012				5 yr CTD
T.US.DE042P0717	95.56	4.604	4.000	7/4/2016				10 yr CTD
DEP2P	98.81	4.469	3.750	3/13/2009				2yr OTR
DEP5P	97.61	4.561	4.000	4/13/2012				5yr OTR
DEP10P	93.45	4.611	3.750	1/4/2017				10yr OTR

German Cash

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

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Quotes 2

This page provide a more detailed look at the quotes for the German Bonds

German Bonds are quoted in decimal, not 32nds.

	Decimal								
	bid	ask	Last	hi	lo	Chng		SYM NAME	
DGU7	102.48	102.48	102.48	102.48	102.42	45.00		Schatz(2Y)	German Futures
DLU7	1059.15	1059.20	1059.15	1059.35	1057.50	80.00		Bobl(5Y)	
DBU7	110.32	110.33	110.32	110.37	110.02	10.00		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo				
DGU7	4.675	4.672	4.672	4.704	4.672			Schatz(2Y)	German Futures
DLU7	4.647	4.646	4.646	4.683	4.643			Bobl(5Y)	
DBU7	4.684	4.683	4.683	4.720	4.678			Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng			
T.US.DE032P0409	4.498	4.482	4.440	4.561	4.503	0		2 yr CTD	German Cash
T.US.DE050P0712	4.570	4.561	4.505	4.642	4.568	0		5 yr CTD	
T.US.DE042P0717	4.611	4.604	4.604	4.693	4.595	0		10 yr CTD	
DEP2P	4.481	4.469	4.469	4.524	4.457	5		2yr OTR	
DEP5P	4.570	4.561	4.561	4.609	4.556	9		5yr OTR	
DEP10P	4.618	4.611	4.611	4.658	4.604	7		10yr OTR	

	Decimal								
	bid	ask	Last	hi	lo	Chng		SYM NAME	
T.US.DE032P0409	100.00	100.03	100.03	100.04	99.94	5.00		2 yr CTD	German Cash
T.US.DE050P0712	97.57	97.61	97.61	97.63	97.41	9.00		5 yr CTD	
T.US.DE042P0717	95.56	95.61	95.61	95.66	95.27	8.00		10 yr CTD	
DEP2P	98.79	98.81	98.81	98.83	98.72	5.00		2yr OTR	
DEP5P	97.57	97.61	97.61	97.63	97.41	9.00		5yr OTR	
DEP10P	93.40	93.45	93.45	93.50	93.11	7.00		10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

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MarketNews International

11:52 06/13 **EGB CLOSING SUMMARY**: EGBs were trading lower on Wednesday afternoon, recovering US retail sales-induced losses on short covering and bargain hunting bids. Also fuelling the recovery rally was Asian central bank buying of long dated US Treasuries. Prior to this, Bunds dipped lower on stronger than expected US retail sales data, which posted a 16 month high. Bonds opened lower, taking cue from sharp losses overnight in US Treasuries amid continuous mortgage-related hedging and swap paying interest. Market concession continued into morning trade on stop loss and technical selling. Supply from Germany, Spain and Portugal also weighed on the market. Germany sold E6.01bln of the new 4.50% June 2009 Schatz, Portugal issued E900mln of the 4.35% Oct 2017 PGB and Spain priced the new very long July 2040 Bono issue. Comments from ECB speakers continued to suggest the ECB tightening bias remained intact. ECB's Liikanen referred to monetary policy as on the accommodative side and ECB's Garganas said inflation risks were clearly on the upside.

Stone & McCarthy Research Associates

12:17pm EST 06/13

Headlines

- Bonds lower, pare earlier losses on Asian central bank buying

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- Bunds open lower on UST weakness overnight
- German Auction Results: New 4.50% June 2009 Schatz covered 1.9 times
- Portuguese Auction Results: 4.35% Oct 2017 PGB covered 1.9 times
- ECB's Liikanen: Monetary policy still on accommodative side
- ECB's Garganas: Inflation risks clearly on the upside

12:17pm EST 06/13

Euro Mkt Summary: **EGBs Lower, UST Weakness, Technical Selling, ECB**

by Charanjeev Chana

EGBs were trading lower on Wednesday afternoon, recovering US retail sales-induced losses on short covering and bargain hunting bids. Also fuelling the recovery rally was Asian central bank buying of long dated US Treasuries. Prior to this, Bunds dipped lower on stronger than expected US retail sales data, which posted a 16 month high. Bonds opened lower, taking cue from sharp losses overnight in US Treasuries amid continuous mortgage-related hedging and swap paying interest. Market concession continued into morning trade on stop loss and technical selling. Supply from Germany, Spain and Portugal also weighed on the market. Germany sold E6.01bln of the new 4.50% June 2009 Schatz, Portugal issued E900mln of the 4.35% Oct 2017 PGB and Spain priced the new very long July 2040 Bono issue. Comments from ECB speakers continued to suggest the ECB tightening bias remained intact. ECB's Liikanen referred to monetary policy as on the accommodative side and ECB's Garganas said inflation risks were clearly on the upside.

News Recap for Euroland Overnight

03:39 06/14 **BUNDS**: The 2-/30-year Bund yield curve has now broken downtrend mentioned earlier from March 2004 at +28.8bps -- currently at +29.3bps.
03:22 06/14 **BUNDS:** The Bund curve is once again steepening as the long-end continues to lag, with the 2-/30-year yield spread now very close to the downtrend from March 2004 at +28.8bps -- currently at +28.2bps.

06:10 06/14 **SHORT-STERLING:** The short-sterling strip is flattening, with the red months outperforming -- up around 5 ticks -- on short-covering by leverage accounts. The move comes after strong bounce yesterday in the wake of the UK labour market data, which showed despite the fall in claimant count unemployment, headline average earnings growth fell to 4% in April from 4.4% in March and below the median forecast. Excluding bonuses, earnings growth remained steady at 3.6%. The data continues to show a picture of relatively subdued earnings coupled with falling unemployment, explained mainly by a healthy supply of labour.

06:33 06/14 **EUROZONE:** Reported comments/releases in the eurozone Thursday,
** ECB BULLETIN: Virtually same as Trichet June6 Statement

05:00 06/14 **EMU DATA:** May HICP unrevised at 1.9% y/y flash estimate and steady at March and April level. The latest result represented the ninth straight month of sub-2% inflation and was in line with MNI survey median.
-- Consumer prices rose 0.2% m/m in May (below MNI survey median of +0.3%), after rising 0.6% in April.
-- Core HICP y/y rates all steady in May at April's high levels. Only exception is ex-energy HICP, which eased to 2.0% from 2.1%.
-- M/M price rises led by fresh fruit (+3.1%), package holidays(+2.5%) and motor fuels (+2.4%). Price declines led by vegetables (-1.9%) and communications (-0.1%).
-- Looking ahead, the ECB has said that HICP rates may decline in the short term but will rise "significantly" towards the end of 2007.
-- With risks to price stability still on the upside, the ECB is keeping open its option of a further policy tightening. Markets expect at least one more rate hike, with the next move expected in September.

News Recap for Euroland Overnight

04:31 06/14 BOE: Year Ahead Inflation Expectations Steady In May
--BOE/GfK NOP Survey Shows May Yr Ahead Inflation Expectations At 2.7%
--Public Estimates Of Current Inflation Rise To 3.1% Vs 2.9% In Feb
----
Inflation expectations held steady in May, although the public believed current inflation was over 3.0%, the latest BOE survey showed. Median expectations for inflation over the coming year stood at 2.7%, unchanged from the previous quarterly survey back in Feb, but still at the series' high. While the Monetary Policy Committee could take some comfort from the fact there was no rise in inflation expectations, it will be troubled that the public believes inflation is well above the BOE's 2.0% target level. Asked to give the current rate of inflation, the median response was 3.1%, up from 2.9% in Feb, the highest on record.

03:06 06/14 **BONDS: EGBs** opened higher on Wednesday following strong reversal
the previous session, amid strong volume session as total volume in the September Bund futures broke above 3.0mln contract mark -- a record number for a single day on Eurex, since the inception of EMU. Bunds put in strong 2-way flows in yesterday, initially falling sharply after strong fall in UST, amid continuous mortgage-related hedging and swap paying interest. However, prices put in a reversal after the yield on the benchmark 4.25% July 2017 Bund hit 4.70% -- highest level since August 1 2002, amid bargain-hunting and after a much stronger than expected US May retail sales report failed to cause the market to sell-off. In addition, strong bargain-hunting was noted in the US long-bond, amid rumors of a large Asian central bank buyer of as much as $2.0 billion in 30-year bonds got the ball rolling to the upside. The overall risks remain skewed lower for Bunds, whilst below 110.35/36 -- the 50.0% of 109.66-111.05 move & gap base.

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	14.98	4.49	$1,403	€ 1,868
10y	7.81	2.38	$742	€ 988
5y	4.35	1.37	$429	€ 571
2y	2.03	0.64	$199	€ 265
ZB	9.65	3.30	$103	€ 137
ZN	5.79	1.95	$61	€ 81
ZF	3.98	1.32	$41	€ 55
ZT	1.89	#NUM!	#NUM!	#NUM!

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.10	€ 109	$82	0.872569
Bobl	4.25	€ 61	$46	0.959013
Schatz	1.83	€ 47	$35	0.966386
DE10Y	7.65	€ 969	$728	
DE5Y	4.25	€ 557	$418	
DE2Y	1.73	€ 226	$170	

^Futures are Based on CTD

	Last
EURUSD	133.13

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	17.16	30.81	39.79
10y	9.08	16.30	21.05
5y	5.25	9.42	12.16
2y	2.43	4.37	5.64
ZB	1.26	2.27	2.93
ZN	0.74	1.34	1.73
ZF	0.50	0.90	1.17
ZT	#NUM!	#NUM!	#NUM!

What is this?:
The US10yr cash moves XX.XX tics for every 1 tic the Schatz moves.

Notes

1) CF = Conversion Factor

2) MDuration = Modified Macaulay Duration

3) MDuration & DV01s for Futures are based on proxy issue (CTD)

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Hedge Ratio's - Bloomberg

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)	0.430	0.650	0.700

US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (U)	1.7	3.9	6.8
Bobl (U)	3.0	7.0	12.2
Shatz (U)	6.9	16.1	28.2

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)		1.873	4.608
Bobl (U)	0.534		2.460
Shatz (U)	0.210	0.400	

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Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	5.070	5.061	5.061
US5y	5.127	5.125	5.125
US10y	5.198	5.196	5.196

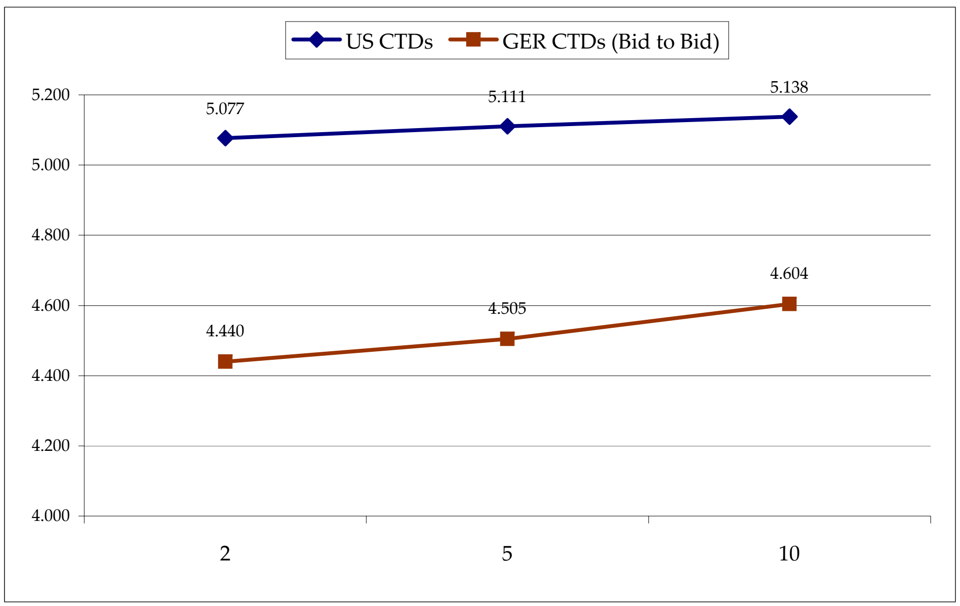
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.481	4.469	4.469
DE5y	4.570	4.561	4.561
DE10y	4.618	4.611	4.611

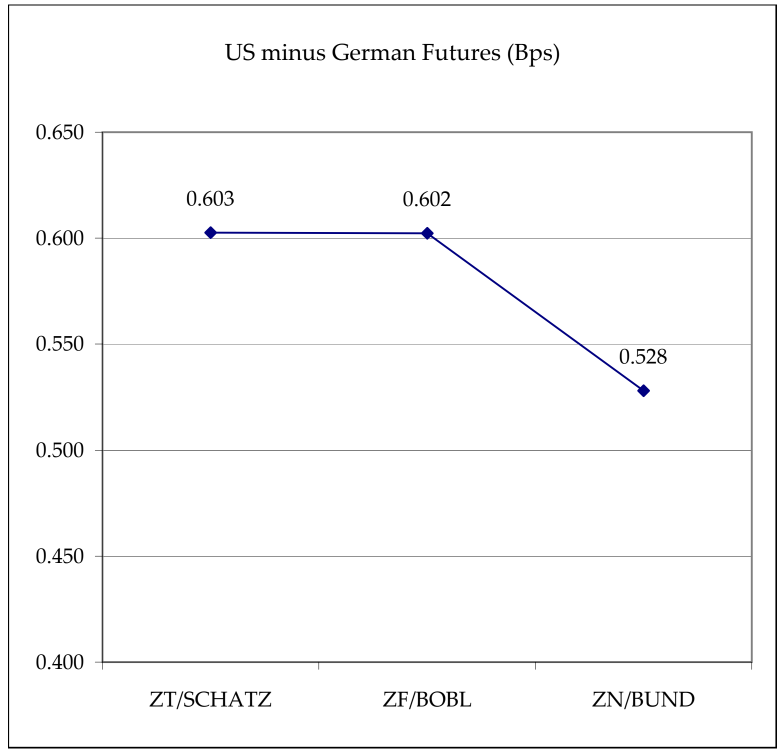
	Spreads
	Bps
ZT/SCHATZ	0.603
ZF/BOBL	0.602
ZN/BUND	0.528

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
4.000 of 06/09	5.077	5.043	5.043
4.500 of 11/11	5.111	5.107	5.107
4.750 of 05/14	5.138	5.132	5.132

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.498	4.482	4.440
4.000 of 04/12	4.570	4.561	4.505
4.000 of 07/16	4.611	4.604	4.604

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.





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Contract Specs

Price Quotation and Minimum Price Change

The Price Quotation is in percent of the par value.

Contract	Minimum Price Change	
	Percent	Value
Euro-Schatz Futures	0.005	EUR 5
Euro-Bobl Futures	0.01	EUR 10
Euro-Bund Futures	0.01	EUR 10
Euro-Buxl® Futures	0.02	EUR 20

Contract Standards

Notional short-, medium- or long-term debt instruments issued by the Federal Republic of Germany or the Swiss Confederation with remaining terms and a coupon of:

Contract	Product ID	Remaining Term Years	Coupon Percent	Currency
Euro-Schatz Futures	FGBS	1.75 to 2.25	6	EUR
Euro-Bobl Futures	FGBM	4.5 to 5.5	6	EUR
Euro-Bund Futures	FGBL	8.5 to 10.5	6	EUR
Euro-Buxl® Futures	FGBX	24.0 to 35.0	4	EUR

Trading Hours

Eurex operates in three trading phases: pre-trading, trading and post-trading. The post-trading phase is further split in several periods where different functions are available.

Regular Trading Day					Last Trading Day			
Pre-Trading	Trading	Post-Trading			Post-Trading			Exercise / Notify until
		Full	Late 1	Restricted	Full	Late 1	Late 2	
07:30	08:00	22:00		22:30	12:30			20:00

TIMES ARE CET

Contract Month

Up to 9 months: The three nearest quarterly months of the March, June, September and December cycle.

Delivery Day

The tenth calendar day of the respective quarterly month, if this day is an exchange trading day; otherwise, the exchange trading day immediately succeeding that day.

Last Trading Day

Two exchange trading days prior to the Delivery Day of the relevant maturity month. Close of trading in the maturing futures on the Last Trading Day is at 12:30 CET.

Daily Settlement Price

Standard Method

Volume-weighted average price of all trades during the final minute of trading before 17:15 CET provided that more than five trades occurred during this minute;

otherwise the volume-weighted average price of the last five trades before 17:15 CET provided that these are not older than 15 minutes. If such a price cannot be determined,

or the price so determined does not reflect the prevailing market conditions, Eurex will establish the official settlement price.

If the price so determined does not reasonably reflect the prevailing market conditions at the close of trading, Eurex may change and redetermine the official settlement price.

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Volume Questions & Global Bond Market Characteristics

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	Volume 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