



## 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
- Pg 6 Intrinsic's & Tic for Tic Matrix'
- Pg 7 Hedge Ratio's - Bloomberg
- Pg 8 Yields & Spreads
- Pg 9 Contract Specs
- Pg 10 Volume Questions & Global Bond Market Characteristics

**06:38 06/19 EUROZONE:** Reported comments from eurozone officials Tuesday,  
**\*\* ECB: ECB Executive Board member Lorenzo Bini Smaghi** on Tuesday warned that eurozone states should not allow good economic times to dampen their ardor for the kinds of structural reforms that can help boost potential growth and contain price pressures. He warned that such a development could lead to a tighter monetary policy than would otherwise be necessary.  
**\*\* GERMANY: ZEW Schroeder;** Respondents expect further US dollar fall  
 \* ZEW Economist; Doesn't see sharp change in expectations ahead - Current conditions assessment still at high level - June drop in expectations not due to change in economy  
**\*\* ECB RATE SURVEY:** An MNI poll of analysts shows Sept hike fully inked in and a further hike expected by most in 1Q 2008 at the latest. Over a third see a 4.5% refi by December, while another large third see the ECB stopping at 4.25%.

08:24 06/19 **MONTH-END EXTENSIONS:** Month-end extensions in EGBs are large, but small for the UK, according to early iBoxx sovereign estimates. The iBoxx Euro sovereign index extends by +0.09 years into July. This is a large extension and also higher than average for this time of the year (+0.03 years), say strategists. In the UK, the iBoxx sterling index extends by around +0.02 years. However, the 5-10-year index sees its duration extend by +0.09 years as the 5.25% June 2012 Gilt falls out of the bucket. In addition, the +15-year index extends by 0.04 years given the auction of the new 4.50% Dec 2042 Gilt, and seen causing inversion in month-end buying.

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

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

**Disclaimer:** All information within this newsletter is meant for internal use at GH Trader's LLC, only. All information has been recorded to the best of my ability. This material is based upon information that I consider reliable, but I do not represent that it is accurate or complete.

Jim Goulding, [jgoulding@ghco.com](mailto:jgoulding@ghco.com)

SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	-74.88	-79.42	-78.24	85.43	85.61	85.95	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-56.76	-61.54	-61.52	77.37	76.10	76.86	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-42.23	-47.80	-49.59	65.55	63.38	65.27	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

```

-----RESISTANCE-----
111.45 38.2% of the 04/19H - 06/13L
111.28 Bollinger band center line
111.00 point of break below the Nov '03 corrective lows
110.78 23.6% of the 04/19H - 06/13L
110.58 10-DMA
110.50 +.45 06/19 Settlement
110.23 5-DMA
110.17 06/15 close
109.86 06/15 pivot low
109.79 Oct '02 corrective lows
109.66 06/13 pivot low
109.56 lower Bollinger band
109.33 76.4% of the Apr '02 - Sep '05 up-move
-----SUPPORT-----

```

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

Short-term, Sep Bund gained the right to start retracing some portion of the post-04/19 Fibonacci sequence (see table above for specific levels), after closing convincingly higher than the 5-day smoothing line for the first time since 04/30.

Daily momentum oscillators are lifting from grossly oversold positions, which supports the case for additional upside in the short-term.

Since the longer-term mechanics remain heavily bearish, any countertrend bets must be accompanied by strict stops just beneath the 06/13 pivot low of 109.66.

(See support/resistance table below for key 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 112.32.

Quotes 1



32 nds										
	ls	net	high	low	open	Volume	Yest Volume	SYM NAME		
TUAU7	101.237	(0.2)	101.250	101.230	101.242	18,655	208,119	2y Futures		
FVAU7	103.260	(0.5)	103.290	103.245	103.265	61,648	497,587	5y Futures		
TYAU7	105.090	2.0	105.135	105.060	105.085	209,736	1,285,855	10y Futures		
USAU7	107.060	5	107.110	106.310	107.000	40,234	351,620	30y Futures		
	ls	net	high	low	open			SYM NAME		
BUS02P	99.280	(0.5)	99.295	99.277	99.282			2y		
BUS05P	98.292	(0.5)	99.005	98.282	98.295			5y		
BUS10P	95.185	2.5	96.155	95.140	96.155			10y		
BUS30P	93.145	6	93.195	93.070	93.075			30y		
	ls	net	high	low	open			SYM NAME		
BUS02Y	4.930	0.00	4.955	4.913	4.955			2y Yield		
BUS05Y	4.999	0.60	5.011	4.973	5.006			5y Yield		
BUS10Y	5.071	(1.20)	5.094	5.052	5.09			10y Yield		
BUS30Y	5.183	(1.20)	5.208	5.171	5.202			30y Yield		



Decimal										
	ls	net	high	low	open	Volume	Yest Volume	SYM NAME		
DGU7	102.52	(30.00)	102.57	102.51	102.54	364,276	644,335	Schatz(2Y)		
DLU7	106.05	(45.00)	106.15	106.02	106.06	516,749	834,441	Bobl(5Y)		
DBU7	110.62	1.00	110.82	110.48	110.53	938,291	1,281,847	Bund(10Y)		

German Futures

	Price	Yield			Maturity	Volume	Yest Volume	SYM NAME		
	ls	ls	Coupon							
T.US.DE032P0409	100.05	4.456	4.500	7/4/2009				2 yr CTD		
T.US.DE050P0712	97.69	4.535	4.000	4/13/2012				5 yr CTD		
T.US.DE042P0717	95.81	4.570	4.000	7/4/2016				10 yr CTD		
DEP2P	100.11	4.438	4.500	6/12/2009				2yr OTR		
DEP5P	97.73	4.533	4.000	4/13/2012				5yr OTR		
DEP10P	97.33	4.588	4.250	7/4/2017				10yr OTR		

German Cash

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							SYM NAME	
bid	ask	Last	hi	lo	Chng			
DGU7	102.52	#VALUE!	102.52	102.57	102.51	-30.00	Schatz(2Y)	German Futures
DLU7	106.05	106.06	106.05	106.15	106.02	-45.00	Bobl(5Y)	
DBU7	110.61	110.62	110.62	110.82	110.48	1.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo			
DGU7	4.651		4.651	4.657	4.628		Schatz(2Y)	German Futures
DLU7	4.617	4.616	4.616	4.625	4.595		Bobl(5Y)	
DBU7	4.649	4.648	4.649	4.665	4.624		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE032P0409	4.472	4.457	4.456	4.514	4.451	0	2 yr CTD	German Cash
T.US.DE050P0712	4.543	4.533	4.535	4.595	4.530	0	5 yr CTD	
T.US.DE042P0717	4.577	4.570	4.570	4.643	4.581	0	10 yr CTD	
DEP2P	4.449	4.438	4.438	4.466	4.422	0	2yr OTR	
DEP5P	4.543	4.533	4.533	4.553	4.510	1	5yr OTR	
DEP10P	4.594	4.588	4.588	4.612	4.562	14	10yr OTR	

Decimal							SYM NAME	
bid	ask	Last	hi	lo	Chng			
T.US.DE032P0409	100.05	100.08	100.08	100.10	100.01	0.00	2 yr CTD	German Cash
T.US.DE050P0712	97.69	97.73	97.73	97.83	97.65	1.00	5 yr CTD	
T.US.DE042P0717	95.81	95.86	95.86	96.04	95.69	11.00	10 yr CTD	
DEP2P	100.09	100.11	100.11	100.14	100.06	0.00	2yr OTR	
DEP5P	97.69	97.73	97.73	97.83	97.65	1.00	5yr OTR	
DEP10P	97.28	97.33	97.33	97.53	97.14	14.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

Stone & McCarthy  
RESEARCH ASSOCIATES

19/06/2007	14:38	EURO	chg	USA	chg	UK	chg
<b>Futures</b>	<b>Bond</b>	110.34	0.29	106.66	0.22	103.77	0.14
	<b>STIR</b>	95.65	0.02	94.67	0.03	93.82	0.01
<b>Cash</b>	<b>3mth</b>	4.15	0.01	5.36	0.00	5.85	0.00
	<b>2yr</b>	4.45	-0.03	4.97	-0.03	5.72	-0.03
	<b>5yr</b>	4.55	-0.04	5.04	-0.02	5.68	-0.02
	<b>10yr</b>	4.62	-0.04	5.12	-0.02	5.47	-0.02
	<b>30yr</b>	4.77	-0.05	5.23	-0.02	4.85	-0.03
	<b>10yr-2yr</b>	0.17	-0.01	0.15	0.01	-0.26	0.00
<b>Spreads</b>	<b>2yr</b>	--	--	0.59	0.01	1.36	0.01
	<b>vs euro</b>	<b>10yr</b>	--	--	0.56	0.02	0.92
<b>FX</b>	<b>USD</b>	1.340	-0.001	--	--	1.987	0.004
	<b>EUR</b>	--	--	--	--	0.674	-0.002
	<b>YEN</b>	165.36	-0.54	123.40	-0.28	245.26	-0.02
<b>Equities</b>		4523.3	-0.2%	1528.7	-0.2%	6678.5	%

**Euribor futures** were 1 tick to 5 ticks higher with the Sep-07 contract at 95.650/+0.015 (4.350% implied). Sep-07 Bunds were 29 ticks higher at 110.34. In cash, German government benchmark yields were 3bps to 5bps lower with the 30-year sector outperforming. The 2s/10s spread was 17bps vs. 18bps and the 10s/30s spread was 15bps vs. 16bps.

**Gilts** were trading higher on Tuesday afternoon with 2-year Gilts outperforming. With no major data released in the UK, Gilts have followed European trade, boosted in particular by the weaker than expected ZEW survey.

Looking ahead to Wednesday Gilts will pay close attention to the minutes from the June 9th and 10th MPC meeting, as well as public finance releases.

**Short sterling** futures were unchanged to 2 ticks higher with the Sep-07 contract at 93.920/0.000 (6.080% implied). Sep-07 Gilts were 14 ticks higher at 103.77. In cash, UK government benchmark yields were 2bps to 3bps lower. The 2s/10s spread was unchanged at -26bps and the 10s/30s spread was -62bps vs. -61bps.

### Headlines

Bonds higher, extend gains on rumours of a dovish ECB think-tank report

Bonds open higher after US Treasuries rally overnight on US NAHB Data  
June German ZEW 20.3 vs. 20.3 expected

ECB's Bini-Smaghi: Asset prices suggest "in some areas, monetary policy might be too accommodative"

### Euro Mkt Summary: by Charanjeev Chana

**EGBs** were trading higher, with the short end of the curve underperforming. The market advanced higher on rumours of a dovish think-tank report, which suggested that the next ECB hike in rates would be in October rather than September. Bonds opened higher, taking cue from US Treasuries overnight, which rallied towards the Chicago close after the US NAHB index fell to its lowest reading since February 1991. Bunds extended gains on the German ZEW release, which fell below market forecasts, reporting its first deterioration in expectations in seven months. ZEW-induced gains were soon erased after traders eyed the sharp rise in number of respondents expecting above forecast inflation for the Eurozone. Also weighing on sentiment was hawkish comments from ECB Governing Council member Bini Smaghi, who said asset prices suggest "in some areas, monetary policy might be too accommodative." The 5-year sector underperformed in morning trade ahead of 5-year issuance from France and Germany due this week.



### News Recap for Euroland Overnight

06:40 06/20 **EUROZONE: Data released** in the eurozone Wednesday,  
 \*\* EMU: April seasonally adjusted construction production fell 0.9% m/m  
 after +0.7% in March (revised down from +0.9%). On the year,  
 production was +3.9% in April after a revised +10.8% (+11.4%) in  
 March. April output -0.1% vs Q1 average, after +2.0% q/q in Q1.

\*\* GERMANY: May PPI +0.3% m/m, +1.9% y/y, after +0.1% m/m, +1.6% y/y  
 in April.

- May headline above MNI survey median forecast (+0.1% m/m, +1.6% y/y).

\*\* ITALY: Industrial orders fell a seasonally-adjusted 1.1% in April  
 compared to the previous month on a decline in foreign orders,  
 after gaining 4.8% m/m in March and 0.4% in February.

06:39 06/20 **JAPAN: Data released** in Japan Wednesday,

\*\* Ministry of Finance Q2 Business Outlook Survey:

- Large firms' Q2 business index -0.9 vs +6.2 in Q1

- Large firms business conditions index seen at +11.5 for Oct-Dec

- Japan firms' FY capex seen +3.3% vs -5.3% earlier

\*\* April all industries index rose 1.2% m/m

05:20 06/20 **BOBL:** The top-up auction result of the 4.00% Apr 2012 Bobl 150  
 issue was strong, where E4.604bln was allotted at an average yield of  
 4.50% and covered 2.30 times vs 1.90 cover at the last auction on May 2.  
 Moreover, the price premium was 7 cents and came in above the 5.1 cents  
 recorded in May 07, and well above the average premium paid of around  
 4.43 cents over the last 3 Bobl auctions, according to traders.

04:47 06/20 **GILTS/BUNDS:** Traders report selling UK Gilts and switching into Bunds,  
 as the 10-year Gilt/Bund yield spread widens out 1bps to +93bps, in the  
 wake of the BoE MPC minutes. This yield spread has widened 5bps since  
 June 7.

### News Recap for Euroland Overnight

04:33 06/20 **UK DATA:** M4 Growth Highest Since Oct 2006 - BOE

--BOE May M4 Money Supply Up 1.2% m/m; Up 13.8% y/y

--BOE May M4 Lending Up 1.2% m/m; Up 13.3% y/y; Up Stg23.6 Bln

-----  
 UK broad money growth continued to grow strongly in May, hitting  
 its highest annual rate of growth since last October, figures  
 released by the Bank of England Wednesday showed. The significance of  
 the long run of strong money growth has been a divisive issue for the  
 Bank of England's Monetary Policy Committee, with members attaching  
 differing weights to it. In minutes for the June MPC meeting the hawks,  
 such as Governor Mervyn King, expressed concerns about strong money  
 growth saying it reflected in part easy credit conditions and an upside  
 inflation risk. These latest data will confirm their fears.

04:30 06/20 **BOE JUN MINUTES:** MPC Split 5-4 To Leave Rates On Hold

--King, Gieve, Besley, Sentance Voted For 25 Bps Rate Hike

--MPC Hawks Argued June Hike Would Mean Lower Rates Peak

--MPC Doves Argued June Hike Would Cause Unwarranted Yield Curve Rise

-----  
 Surprisingly hawkish minutes, with four members, including Governor  
 Mervyn King, backing a 25 bps hike. Analysts' median forecast had been  
 for just two members to back a hike. This was only the second time in  
 the history of the MPC that the Governor has voted in the minority. The  
 hawks argued that tightening sooner rather than later would result in a  
 lower rate peak. The doves argued that a June hike would lead to an  
 unwarranted rise in the market yield curve, which was already factoring  
 in 50 bps of further tightening this year. The minutes make a hike by  
 August a virtual certainty.



	US Intrinsic's ^			
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.06	4.58	\$1,433	€ 1,925
10y	7.81	2.40	\$750	€ 1,008
5y	4.34	1.38	\$430	€ 578
2y	2.02	0.63	\$198	€ 266
ZB	9.67	3.35	\$105	€ 141
ZN	5.78	1.96	\$61	€ 82
ZF	3.96	1.32	\$41	€ 55
ZT	1.88	1.22	\$38	€ 51

^Futures are Based on CTD

	Tic for Tic Matrix (\$)		
	Bund	Bobl	Schatz
30y	17.49	31.50	40.93
10y	9.16	16.49	21.43
5y	5.26	9.46	12.30
2y	2.42	4.36	5.66
ZB	1.28	2.30	2.99
ZN	0.75	1.34	1.75
ZF	0.50	0.91	1.18
ZT	0.47	0.84	1.09

What is this?:  
The Schatz moves XX.XX tics for every 1 tic the 10yr cash moves.

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.09	€ 110	\$82	0.872569
Bobl	4.24	€ 61	\$45	0.959013
Schatz	1.81	€ 47	\$35	0.966386
DE10Y	7.64	€ 980	\$729	
DE5Y	4.24	€ 561	\$417	
DE2Y	1.71	€ 226	\$169	

^Futures are Based on CTD

Last

EURUSD 134.34

**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)	0.430	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	

### Yields & Spreads

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	4.947	4.930	4.930
US5y	5.000	4.999	4.999
US10y	5.073	5.071	5.071

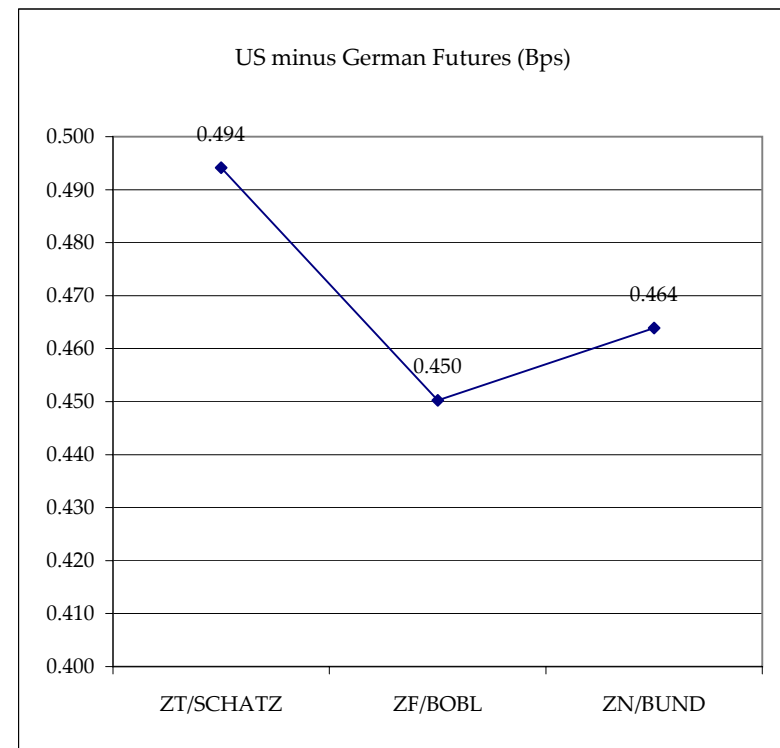
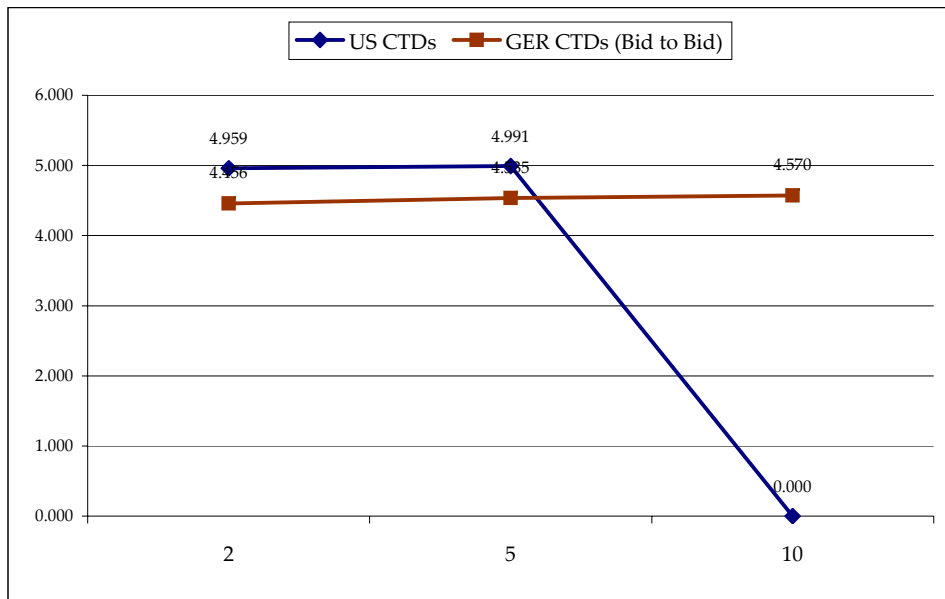
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.449	4.438	4.438
DE5y	4.543	4.533	4.533
DE10y	4.594	4.588	4.588

Spreads Bps	
ZT/SCHATZ	0.494
ZF/BOBL	0.450
ZN/BUND	0.464

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.959	4.950	4.950
4.500 of 11/11	4.991	4.985	4.985
4.750 of 05/14		5.034	5.034

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.472	4.457	4.456
4.000 of 04/12	4.543	4.533	4.535
4.000 of 07/16	4.577	4.570	4.570

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.



## 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	Coupon	Currency
		Years	Percent	
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.

Pre-Trading	Regular Trading Day				Last Trading Day			Exercise/Notify until
	Trading	Post-Trading		Post-Trading	Post-Trading			
		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.

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	Germany	Japan	UK
Domestic	T+2	T+3	T+3
International	T+3	na	na

Trading Basis	Germany	Japan	UK
Quotation	price	simple yield	price
Tick	decimal	bp	decimal
Tax (resident)	0	0	0
Price/Yield Method	ISMA	Simple	DMO

Repo	Germany	Japan	UK
Accrual basis	actual	actual	actual
Year basis	360	0	365