6/21/2007 5:46

The Morning Email: US & Germany

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06:42 06/21 EUROZONE: Reported comments from eurozone officials Thursday,
** BBK RECKERS: Long-term bond yields are still historically low despite their recent sharp rise, and they do not hinder economic growth at current levels, Bundesbank board member Hans Reckers told Market News International on Wednesday.
** GERMANY FINMIN: Indicators point to continued economic upswing
- Euro's rise has weakened export momentum
- Export outlook for the rest of 2007 is still good
- Sees signals for private consumption recovery
- Reaffirms 2007 net Federal borrowing under E19.6bln

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

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

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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	-50.60	-60.83	-60.97	60.85	62.71	63.59	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-34.34	-44.15	-43.13	50.66	49.07	49.03	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-27.45	-36.72	-36.19	46.19	42.66	43.44	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------------
111.45 38.2% of the 04/19H - 06/13L
111.16 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
110.53 06/20 open
110.41 10-DMA
110.20 -.18 06/20 Settlement
110.19 5-DMA
110.05 lowest Jun close
109.86 06/15 pivot low
109.79 Oct '02 corrective lows
109.66 06/13 pivot low
109.46 lower Bollinger band
109.33 76.4% of the Apr '02 - Sep '05 up-move
----------S U P P O R T----------

Technical Commentary EUREX Sep 2007 10yr Euro-Bund
- <u>by Mike Sacchitello</u>, CMT

Short-term, Sep Bund did manage to follow-through on Tuesday's 5-day closing high early in Wednesday's trading, but it quickly ran into pressure at the first key Fib level (23.6%) of the 04/19 - 06/13 down-leg. The end result was a sharp reversal that fell just short of engulfing Tuesday's range.

This action caused daily oscillators, which were about to issue mechanical buy signals by moving back above their oversold borders, to fizzle, keeping momentum types on hold.

As we close the week, it should be noted that Sep's ability to settle above Tuesday's open (110.10) prevents a simple sell signal. Given the prevailing down-trend, though, Wednesday's downside shift increases the odds of this happening. Sub-110.10 grease the skids for a test of the 06/13 pivot, while a break above 110.79 offers a resumption of recent countertrend activity.

As a reminder, any recently placed 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 112.30.

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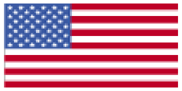
Quotes 1



	32 nds							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
TUAU7	101.215	(0.5)	101.222	101.205	101.217	21,918	239,361	2y Futures
FVAU7	103.165	(3.5)	103.200	103.150	103.195	44,326	497,879	5y Futures
TYAU7	104.255	(4.5)	104.300	104.230	104.300	143,998	1,449,581	10y Futures
USAU7	106.090	(9)	106.180	106.040	106.170	35,090	411,979	30y Futures
	Last	Net	Hi	Low	Open			SYM NAME
BUS02P	99.257	(0.5)	99.267	99.250	99.262			2y
BUS05P	98.197	(2.7)	98.230	98.187	98.230			5y
BUS10P	94.305	(5.0)	95.035	94.275	95.035			10y
BUS30P	92.095	(9)	92.155	92.040	92.140			30y
	Last	Net	Hi	Low	Open			SYM NAME
BUS02Y	4.977	0.50	5.002	4.955	4.994			2y Yield
BUS05Y	5.066	2.00	5.081	5.04	5.062			5y Yield
BUS10Y	5.155	2.50	5.172	5.132	5.149			10y Yield
BUS30Y	5.264	2.20	5.279	5.239	5.259			30y Yield

	Decimal							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
DGU7	102.44	15.00	102.46	102.40	102.44	317,766	885,978	Schatz(2Y)
DLU7	105.80	20.00	105.85	105.69	105.80	383,860	1,125,886	Bobl(5Y)
DBU7	110.12	(8.00)	110.22	109.92	110.14	669,966	2,083,649	Bund(10Y)

German Futures

	Price	Yield						
	Last	Last	Coupon	Maturity				SYM NAME
T.US.DE032P0409	99.96	4.456	4.500	7/4/2009				2 yr CTD
T.US.DE050P0712	97.48	4.535	4.000	4/13/2012				5 yr CTD
T.US.DE042P0717	95.37	4.632	4.000	7/4/2016				10 yr CTD
DEP2P	100.02	4.487	4.500	6/12/2009				2yr OTR
DEP5P	97.52	4.584	4.000	4/13/2012				5yr OTR
DEP10P	96.84	4.651	4.250	7/4/2017				10yr OTR

German Cash

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

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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	SYM NAME	
DGU7	102.44	102.45	102.44	102.46	102.40	15.00	Schatz(2Y)	German Futures
DLU7	105.80	105.80	105.80	105.85	105.69	20.00	Bobl(5Y)	
DBU7	110.11	110.12	110.12	110.22	109.92	-8.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo			
DGU7	4.693	4.691	4.693	4.714	4.686		Schatz(2Y)	German Futures
DLU7	4.674	4.672	4.672	4.698	4.663		Bobl(5Y)	
DBU7	4.709	4.708	4.709	4.732	4.696		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE032P0409	4.520	4.504	4.456	4.536	4.446	0	2 yr CTD	German Cash
T.US.DE050P0712	4.594	4.584	4.535	4.608	4.510	0	5 yr CTD	
T.US.DE042P0717	4.639	4.632	4.632	4.645	4.544	0	10 yr CTD	
DEP2P	4.498	4.487	4.487	4.520	4.476	0	2yr OTR	
DEP5P	4.594	4.584	4.584	4.623	4.582	-2	5yr OTR	
DEP10P	4.658	4.651	4.651	4.685	4.638	-11	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE032P0409	99.96	99.99	99.99	100.00	99.91	1.00	2 yr CTD	German Cash
T.US.DE050P0712	97.48	97.52	97.52	97.53	97.36	-2.00	5 yr CTD	
T.US.DE042P0717	95.37	95.42	95.42	95.52	95.19	-11.00	10 yr CTD	
DEP2P	100.00	100.02	100.02	100.04	99.96	0.00	2yr OTR	
DEP5P	97.48	97.52	97.52	97.53	97.36	-2.00	5yr OTR	
DEP10P	96.79	96.84	96.84	96.94	96.58	-11.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

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20/06/2007	14:47	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.17	-0.21	106.75	-0.28	103.49	-0.31
	STIR	95.64	-0.02	94.65	-0.02	93.76	-0.06
Cash	3mth	4.16	0.00	5.36	0.00	5.89	0.04
	2yr	4.49	0.05	4.98	0.04	5.77	0.05
	5yr	4.59	0.04	5.04	0.04	5.72	0.05
	10yr	4.64	0.03	5.12	0.04	5.51	0.04
	30yr	4.78	0.01	5.23	0.04	4.87	0.03
	10yr-2yr	0.15	-0.02	0.14	-0.01	-0.26	-0.01
Spreads	2yr	--	--	0.55	-0.01	1.36	0.00
vs euro	10yr	--	--	0.54	0.01	0.94	0.01
FX	USD	1.343	0.000	--	--	1.993	0.005
	EUR	--	--	--	--	0.674	-0.002
	YEN	165.86	0.24	123.52	0.17	246.24	0.90
Equities		4561.3	0.7%	1535.7	0.1%	6680.4	%

Euribor futures were 1 tick to 7 ticks lower with the Sep-07 contract at 95.640/-0.010 (4.360% implied). Sep-07 Bunds were 21 ticks lower at 110.17. In cash, German government benchmark yields were 1bp to 5bps higher with the 2-year sector underperforming. The 2s/10s spread was 15bps vs. 17bps and the 10s/30s spread was 14bps vs. 16bps.

Gilts were trading lower on Wednesday afternoon, underperforming their European counterparts. The minutes from the latest Bank of England MPC meeting were more hawkish than expected, with the vote split 5-4 in favour of keeping interest rates on hold at 5.50%.

Thursday sees the release of the CBI industrial trends survey, in addition to the sale of 5-year 5.25% Gilt.

Short sterling futures were 3 ticks to 7 ticks lower with the Sep-07 contract at 93.850/-0.070 (6.150% implied). Jun-07 Gilts were 31 ticks lower at 103.49. In cash, UK government benchmark yields were 3bps to 5bps higher. The 2s/10s spread was -26bps vs. -27bps and the 10s/30s spread was -64bps vs. -63bps.

Headlines

Bonds lower, long dates outperform - Bund curve flatter

Bunds open higher on risk-aversion
May German PPI: 0.3%mom/1.9%yoy
Long end outperforms; Asian accounts extend out of the curve & month-end buying
BOE June MPC Minutes: 5-4 vote to keep interest rates unchanged
German Auction Results: 4.00% April 2012 Bobl covered 2.3x vs. 1.9x

Euro Mkt Summary: by Charanjeev Chana
EGBs traded lower on Wednesday afternoon with long dates outperforming, in turn flattening Bund curve. Bunds slipped lower in afternoon trade on stop-loss selling and buoyant European equity bourses. Bonds opened higher on Wednesday, underpinned by risk-aversion bids following reports in the WSJ which claimed two large hedge funds at Bear Stearns were at the brink of closing after investing heavily in schemes backed by subprime loans. Long end outperformance was attributed to Asian real money accounts extending out of the curve, according to MNI sources.

Also noted was early month end duration extension buying. Shorter dates meanwhile were weighed by acceleration in German PPI and a hawkish post rate-decision statement by the Riksbank, which raised the path of expected future interest rates to 4.00% by year-end. Short dates extended their underperformance after BOE minutes for the June MPC meeting revealed a more hawkish than expected split vote. Demand at the 4.00% April 2012 Bobl auction was strong, covered 2.3 times.

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News Recap for Euroland & Japan Overnight

04:05 06/21 **BUNDS:** Sept Bunds show little reaction to eurozone flash PMI data, where services PMI came in at 58.3 in June -- 12 month high vs 57.3 in May and manufacturing PMI at 55.4 in June vs 55.0 in May.
03:48 06/21 **BUNDS:** Traders say around 90k contracts in stop-loss selling seen in Sept Bund futures following break below 110.08 level.
03:40 06/21 **BUNDS:** Sept Bunds extend weakness to fresh session lows following break of key support line from June 13, which was valued at 110.08. Risk is now on move to 109.86 and contract low at 109.66.

16:45 06/20 **UK: BOE's King Warns On Underlying Inflationary Pressures**
--Warns Borrowers To Be Cautious; Also On Easy Credit Conditions
--Reiterates Concerns Money Growth Will Lead To Inflation

Volatility in energy prices has served to conceal underlying inflationary pressures in the UK economy, Bank of England Governor Mervyn King said Wednesday. In his annual speech at the Lord Mayor of London's Banquet, King reiterated his concern over the inflationary threat posed by strong money growth and by companies' plans to hike prices. The BOE governor noted survey evidence showing businesses face capacity constraints and that, as a result, their pricing intentions have been at historically high levels. These continuing hawkish comments from King follow news that he backed a rate hike at the committee's June meeting.

05:44 06/21 **GILTS:** Sept Gilts fall 6 ticks following disappointing 5-year Gilt auction results, which was covered 1.46 times and tail 1.0 bps vs 1.86 cover at the last auction on March 15, which had a 0.4bps tail.
05:41 06/21 **GILT 2012 AUCTION RESULTS**: The UK's Debt Management Office announced Thursday that it sold Stg2.5bln of the 5.25% June 2012 Gilt, with a cover of 1.46 times, tail 1.0 bps.
04:54 06/21 **FRENCH BTAN AUCTION RESULTS:** France sold E4.87bln of the new 4.50% July 2012 BTAN issue on Thursday at average yield 4.64%, covered 2.057 times.

News Recap for Euroland & Japan Overnight (cont)

04:41 06/21 **SHORT-STERLING:** Dec short-sterling hit fresh contract lows at 93.70 earlier today and comes ahead of the June CBI industrial trends survey due for release at 1000GMT. The fall today extends losses seen after the Bank of the England Monetary Policy Committee minutes, which showed a 5:4 split to leave rates unchanged at the June meeting. Markets were expecting a 7:2 vote outcome. The minutes showed that King, Gieve, Besley and Sentance voted for a 25bps rate 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 50bps of further tightening this year. The minutes now strengthen expectations that the BoE will hike rates again as soon as the July meeting. The SONIA swap curve is implying a 90% chance of a 25bps rate hike at the July 5 MPC meeting.
04:38 06/21 **JAPAN:** As widely expected, as Japan's two ruling coalition parties on Thurs agreed to extend the current ordinary session of the Diet, the nation's parliament, by 12 days through July 5. As a result, the nnouncement of the coming House of Councillors election will be postponed to July 12 from the initially envisioned July 5, with voting seen taking place on July 29, also one week later than the initially planned July 22.

03:03 06/21 **BONDS: EGBs are opening lower** on Thursday, taking direction from weakness in USTs and JGBs overnight. Asian equity bourses have shrugged off the corrective fall on Wall Street yesterday, with the Nikkei-225 closing up 0.16%, Taiwan Taiex up 1.1%, and Shanghai composite poised to close higher and last up 0.21%. The short-dated EGBs are outperforming, and the Bund curve is thus trading steeper, and eyeing gains to +17bps hit on Monday -- level not seen since September 25, 2006 -- and comes after break of a downtrend from March 2005. However, traders should be aware of month-end duration buying in EGBs as extensions are large, 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. Also seen weighing on the short-dated issues, is strong 5-year supply. France sells a new 5-year BTAN, whilst the UK taps the 5-year Gilt.

Intrinsic's & Tic for Tic Matrix'

US Intrinsic's ^	M Duration	DV01 32	DV01 $	DV01(€)
30y	14.96	4.50	$1,407	€ 1,882
10y	7.80	2.38	$744	€ 996
5y	4.33	1.37	$429	€ 574
2y	2.01	0.63	$198	€ 264
ZB	9.64	3.32	$104	€ 139
ZN	5.77	1.95	$61	€ 81
ZF	3.96	1.31	$41	€ 55
ZT	1.88	1.22	$38	€ 51

^Futures are Based on CTD

German Intrinsic's ^	M Duration	DV01(€)	DV01($)	CF
Bund	7.08	€ 109	$81	0.872569
Bobl	4.24	€ 61	$45	0.959013
Schatz	1.81	€ 47	$35	0.966386
DE10Y	7.63	€ 970	$725	
DE5Y	4.24	€ 557	$416	
DE2Y	1.71	€ 225	$168	

^Futures are Based on CTD

	Last
EURUSD	133.84

Tic for Tic Matrix ($)

	Bund	Bobl	Schatz
30y	17.27	31.02	40.28
10y	9.14	16.42	21.32
5y	5.27	9.46	12.28
2y	2.43	4.36	5.66
ZB	1.27	2.29	2.97
ZN	0.75	1.34	1.74
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.

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	4.981	4.977	4.977
US5y	5.070	5.066	5.066
US10y	5.157	5.155	5.155

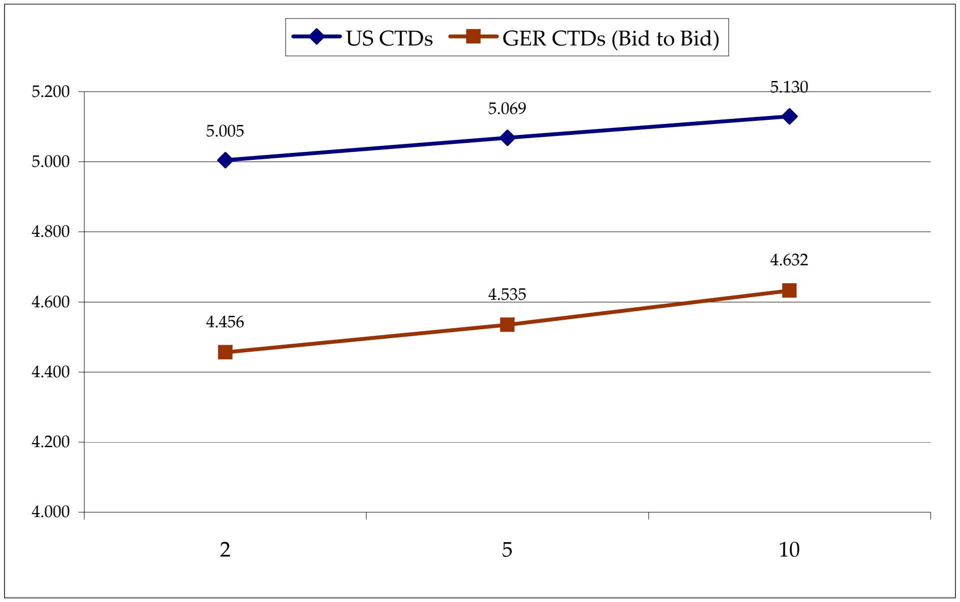
	German Cash Treasuries (OTR) Bid	Ask	Last
DE2y	4.498	4.487	4.487
DE5y	4.594	4.584	4.584
DE10y	4.658	4.651	4.651

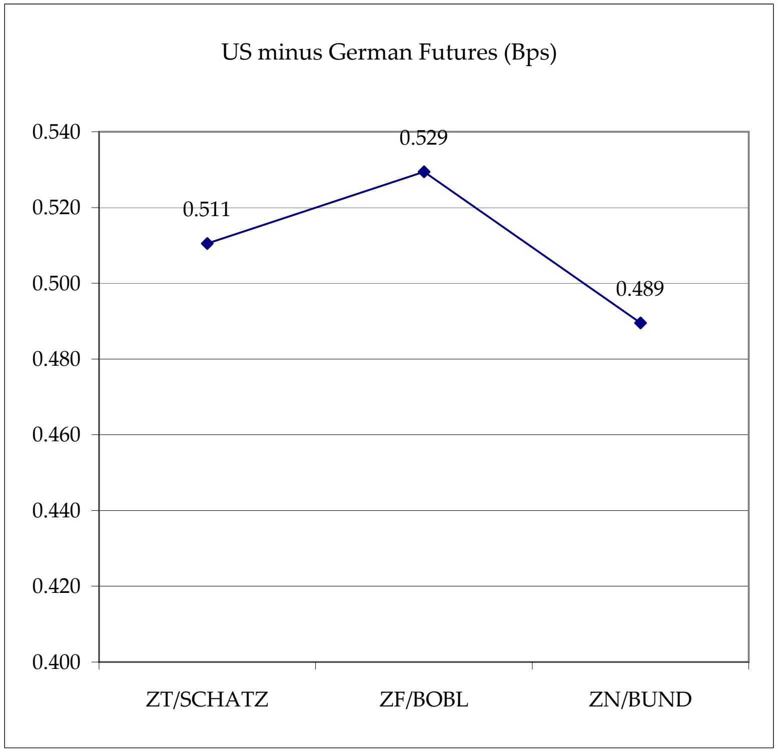
	Spreads Bps
ZT/SCHATZ	0.511
ZF/BOBL	0.529
ZN/BUND	0.489

	US Cash Treasuries (CTD) Bid	Ask	Last
4.000 of 06/09	5.005	4.967	4.967
4.500 of 11/11	5.069	5.065	5.065
4.750 of 05/14	5.130	5.122	5.122

	German Futures (CTD) Bid	Ask	Last
4.500 of 07/09	4.520	4.504	4.456
4.000 of 04/12	4.594	4.584	4.535
4.000 of 07/16	4.639	4.632	4.632

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