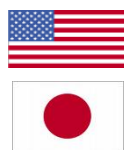




## The Morning Email: US & Germany



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### **BOE Hawkometer - MPC Split Points to a July Rate Hike** **by Niraj Shah** -- Stone & McCarthy (London) -- **June was a Close Call**

The MPC were shown to have been split over its decision to leave rates on hold at the June meeting, with four out of the nine members, including Governor Mervyn King, backing a 25bps hike in June. The hawks argued that they saw no reason to wait to hike rates and by 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 were more hawkish than expected and the June split suggests that a rate hike in July is now looking more likely.

"...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	-47.61	-56.46	-54.38	53.77	57.30	58.37	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-20.31	-31.97	-34.22	34.19	36.95	38.38	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-9.56	-20.04	-22.55	25.93	27.48	29.19	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
111.05 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
110.71 05/11 - 06/20 downtrend line
110.53 06/20 open
110.34 10-DMA
110.24 06/20 close
110.20 5-DMA
110.07 -.17 06/21 Settlement
110.05 lowest Jun close
109.86 06/15 pivot low
109.79 Oct '02 corrective lows
109.66 06/13 pivot low
109.42 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, a pivotal test of the most recent pivot area (the 06/13 pivot low at 109.66) is at hand, after Wednesday's intra-day reversal beneath the first key Fib level (23.6%) retracing the 04/19 - 06/13 down-leg.

In the background, improving momentum lines and oscillators offer secondary support for bottom feeders looking to piece into countertrend positions. Such risky trades, however, must be accompanied by strict stops below the aforementioned pivot area.

Key short-term triggers are Tuesday's reversal open of 110.53 (a break above here offers the declining 20-day smoothing line) and the lowest Jun settlement of 110.05 (a slide below here offers the 06/13 pivot low, then possibly a new leg lower).

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 112.06.

Quotes 1



32 nds								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
TUAU7	101.212	(0.2)	101.222	101.205	101.210	20,781	287,082	2y Futures
FVAU7	103.160	(1.0)	103.195	103.135	103.150	54,429	528,480	5y Futures
TYAU7	104.225	(1.5)	104.275	104.180	104.200	178,882	1,436,049	10y Futures
USAU7	105.290	(7)	106.050	105.240	105.290	39,595	461,063	30y Futures
	Last	Net	Hi	Low	Open			SYM NAME
BUS02P	99.260	0.2	99.272	99.255	99.257			2y
BUS05P	98.192	0.7	98.227	98.175	98.180			5y
BUS10P	94.240	(1.0)	94.295	94.210	94.220			10y
BUS30P	91.235	(3)	92.000	91.190	91.190			30y
	Last	Net	Hi	Low	Open			SYM NAME
BUS02Y	4.973	0.10	4.994	4.947	4.99			2y Yield
BUS05Y	5.068	(0.30)	5.09	5.044	5.086			5y Yield
BUS10Y	5.183	0.50	5.202	5.157	5.195			10y Yield
BUS30Y	5.304	0.40	5.321	5.283	5.308			30y Yield



Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
DGU7	102.48	50.00	102.51	102.43	102.44	284,765	886,007	Schatz(2Y)
DLU7	105.82	65.00	105.94	105.74	105.78	292,323	996,643	Bobl(5Y)
DBU7	110.04	2.00	110.31	109.97	110.06	497,161	1,749,111	Bund(10Y)

German Futures

	Price	Yield			SYM NAME
	Last	Last	Coupon	Maturity	
T.US.DE032P0409	99.99	4.494	4.500	7/4/2009	2 yr CTD
T.US.DE050P0712	97.48	4.579	4.000	4/13/2012	5 yr CTD
T.US.DE042P0717	95.29	4.644	4.000	7/4/2016	10 yr CTD
DEP2P	100.07	4.460	4.500	6/12/2009	2yr OTR
DEP5P	97.52	4.584	4.000	4/13/2012	5yr OTR
DEP10P	96.73	4.666	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					
	Bid	Ask	Last	Hi	Low	Chng
DGU7	#VALUE!	102.48	102.48	102.51	102.43	50.00
DLU7	105.81	105.82	105.82	105.94	105.74	65.00
DBU7	110.04	110.05	110.04	110.31	109.97	2.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7		4.672	4.672	4.699	4.657	
DLU7	4.670	4.668	4.668	4.686	4.643	
DBU7	4.718	4.716	4.716	4.726	4.685	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.504	4.488	4.494	4.546	4.467	0
T.US.DE050P0712	4.594	4.584	4.579	4.623	4.539	0
T.US.DE042P0717	4.651	4.644	4.644	4.665	4.586	0
DEP2P	4.471	4.460	4.460	4.503	4.443	3
DEP5P	4.594	4.584	4.584	4.611	4.556	-2
DEP10P	4.672	4.666	4.666	4.679	4.626	-15

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	99.99	100.02	100.02	100.07	99.95	1.00
T.US.DE050P0712	97.48	97.52	97.52	97.64	97.41	-2.00
T.US.DE042P0717	95.29	95.34	95.34	95.61	95.25	-11.00
DEP2P	100.05	100.07	100.07	100.10	99.99	3.00
DEP5P	97.48	97.52	97.52	97.64	97.41	-2.00
DEP10P	96.68	96.73	96.73	97.04	96.63	-15.00

Y = Yield  
 CTD = Cheapest to Deliver  
 DE = German Country Code

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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21/06/2007	14:33	EURO	chg	USA	chg	UK	chg
<b>Futures</b>	<b>Bond</b>	110.26	0.02	106.19	-0.41	103.63	0.09
	<b>STIR</b>	95.65	0.00	94.67	0.01	93.73	-0.03
<b>Cash</b>	<b>3mth</b>	4.16	0.00	5.36	0.00	5.93	0.04
	<b>2yr</b>	4.47	-0.01	4.95	-0.02	5.79	0.03
	<b>5yr</b>	4.58	0.00	5.06	0.02	5.73	0.01
	<b>10yr</b>	4.64	0.00	5.16	0.03	5.49	-0.01
	<b>30yr</b>	4.76	-0.01	5.28	0.03	4.85	-0.01
	<b>10yr-2yr</b>	0.17	0.01	0.21	0.04	-0.30	-0.04
<b>Spreads</b>	<b>2yr</b>	--	--	0.55	-0.01	1.40	0.04
	<b>vs euro</b>	--	--	0.59	0.03	0.93	-0.01
<b>FX</b>	<b>USD</b>	1.340	-0.001	--	--	1.993	-0.001
	<b>EUR</b>	--	--	--	--	0.672	0.000
	<b>YEN</b>	165.67	-0.02	123.64	0.08	246.39	0.00
<b>Equities</b>		4483.4	-1.3%	1513.5	-1.4%	6586.1	%

**Euribor futures** were 0.5 ticks to 3 ticks higher with the Sep-07 contract at 95.645/+0.050 (4.355% implied). Sep-07 Bunds were 2 ticks higher at 110.26. In cash, German government benchmark yields were flat to 1bp lower with the belly of the curve underperforming. The 2s/10s spread was 17bps vs. 16bps and the 10s/30s spread was 12bps vs. 13bps.

**Gilts** were trading mixed on Thursday afternoon, with short dated Gilts underperforming. There was little reaction to the CBI industrial trends data despite a significant decline in the expected prices component. Instead, Gilts remained lower following weak demand for the 5.25% 2012 Gilt, which was covered 1.46 times versus 1.86 times when it was last sold in March.

There are no major data releases in the UK on Friday and Gilts are likely to take cue from European trade.

**Short sterling futures** were 2 ticks lower to 1 tick higher with the Sep-07 contract at 93.830/-0.020 (6.170% implied). Jun-07 Gilts were 9 ticks higher at 103.63. In cash, UK government benchmark yields were 1bp lower to 3bps higher. The 2s/10s spread was -30bps vs. -26bps and the 10s/30s spread was unchanged at -64bps.

### Headlines

EGBs mixed, belly of curve underperforms

Bunds open lower on weaker JGB trade overnight

June Flash Eurozone Composite PMI: 57.7 vs. 56.6 expected

French Auction Results: 4.50% July 2012 BTAN covered 2.057 times

French Auction Results: 1.60% July 2011 OATi covered 2.544 times & 1.00% July 2017 OATi covered 3.03 times

### Euro Mkt Summary: by Charanjeev Chana

EGBs were trading mixed on Thursday afternoon with the belly of the curve underperforming. Bunds extended the afternoon short covering rally to session highs on the release of higher than expected US jobless claims. Prices moderated slightly on profit taking and on expectations of a strong Philly Fed release. Bonds opened lower on Thursday, after JGBs remained mired following weaker demand for the Y800bln 20-year JGB auction overnight. Bunds extended losses to session lows on technical selling in morning trade, additionally weighed ahead of supply from France. The AFT launched the new 4.50% July 2012 BTAN, which was met with weak demand despite the Tresor issuing at the bottom end of the target range. The market shrugged off Eurozone flash composite PMI data, which came in stronger than expected. Following the digestion of supply, prices advanced higher into the afternoon session, fuelled by a mixture of Euro-denominated swap receiving, subprime jitters spurring safe-haven buying in US Treasuries, and weaker European equities.



## News Recap for Euroland & Japan

### Overnight

04:00 06/22 **GERMANY: June Ifo** business sentiment 107.0 (MNI median 108.4, May 108.6)

- June Ifo current assessment 111.4 (MNI median 112.3, May 112.5)

- June Ifo business expectations 102.8 (MNI median 104.5, May 104.8)

04:39 06/22 **BUNDS:** The weaker than expected German Ifo survey has ignited a bid in the short-dated issues, with the Bund 2-/10-year yield curve now 1bps steeper at +18bps -- steepest level since September 7, 2006.

03:03 06/22 **BONDS: EGBs** are opening lower on Friday, and extending recent losses amid widespread market jitters about a potential China monetary tightening, such as a rate hike or cut in interest rate tax, is driving down the index. Speculation of a Chinese rate hike heightened earlier this week after the yield on three-year paper sold by the People's Bank of China rose for the first time in a month, suggesting that an interest rate tightening is imminent. The PBOC usually announces major policy decisions on Friday after the market close. The main focus today is on the German Ifo business sentiment index at 0800GMT, which is expected to edge lower to 108.4. The Business Expectations index is seen edging lower to 104.5, while the Current Assessment is also seen slightly lower at 112.3. Elsewhere, ECB's Trichet speaks at 0800GMT and likely to reiterate recent ECB rhetoric. Fed's Pinalto speaks at 1245GMT. However, it is questionable whether she will talk about monetary policy given the close proximity of the FOMC meeting next week.

## News Recap for Euroland & Japan

### Overnight (cont)

02:43 06/22 **JGB SUMMARY:** Japanese government bonds ended Friday's session higher across the curve, as futures-led short covering boosted prices. As the September contract edged higher, buying was also noted from pension and life funds in the 20-year sector of the curve, picking up paper weighed down by the auction Thursday. Overall, traders said a lack of fresh data and no new trading incentives meant thin trading conditions and light volumes dominated.

-- Benchmark 10-year #285 yield was 2.5 bps lower at 1.895%.

-- Benchmark 5-year #63 yield was 2 bps lower at 1.505%.

-- Benchmark 20-year #94 yield was 2.5 bps lower at 2.290%.

-- Benchmark 30-year #26 yield was 2 bps lower at 2.530%.

-- Lead Sept JGB futures contract was 0.18 higher at 131.67.

-- The Nikkei 225 was lower by 51.67 points, or 0.28%, at 18188.63.

06:30 06/22 **ECB: European Central Bank Governor Jean-Claude Trichet** Friday defended the use of money aggregates in setting monetary policy, saying that to ignore them would be an "excessive and unreasonable" risk. In a speech delivered at a conference marking the 100th anniversary of the Swiss National Bank, Trichet noted that monetary analysis played a "crucial" role in the ECB's decision to begin hiking rates in December 2005 - a decision that he said has been fully vindicated.



	US Intrinsic's ^			
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	14.91	4.46	\$1,393	€ 1,871
10y	7.79	2.37	\$742	€ 997
5y	4.33	1.37	\$428	€ 575
2y	2.00	0.63	\$197	€ 264
ZB	9.62	3.30	\$103	€ 139
ZN	5.76	1.94	\$61	€ 82
ZF	3.95	1.31	\$41	€ 55
ZT	1.87	1.21	\$38	€ 51

^Futures are Based on CTD

	Tic for Tic Matrix (\$)		
	Bund	Bobl	Schatz
30y	17.14	30.78	40.06
10y	9.13	16.39	21.34
5y	5.27	9.46	12.31
2y	2.42	4.35	5.66
ZB	1.27	2.28	2.97
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	7.07	€ 109	\$81	0.872569
Bobl	4.23	€ 61	\$45	0.959013
Schatz	1.80	€ 47	\$35	0.966386
DE10Y	7.62	€ 971	\$723	
DE5Y	4.23	€ 558	\$416	
DE2Y	1.70	€ 225	\$167	

^Futures are Based on CTD

Last

EURUSD 134.31

**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	4.977	4.973	4.973
US5y	5.075	5.068	5.068
US10y	5.185	5.183	5.183

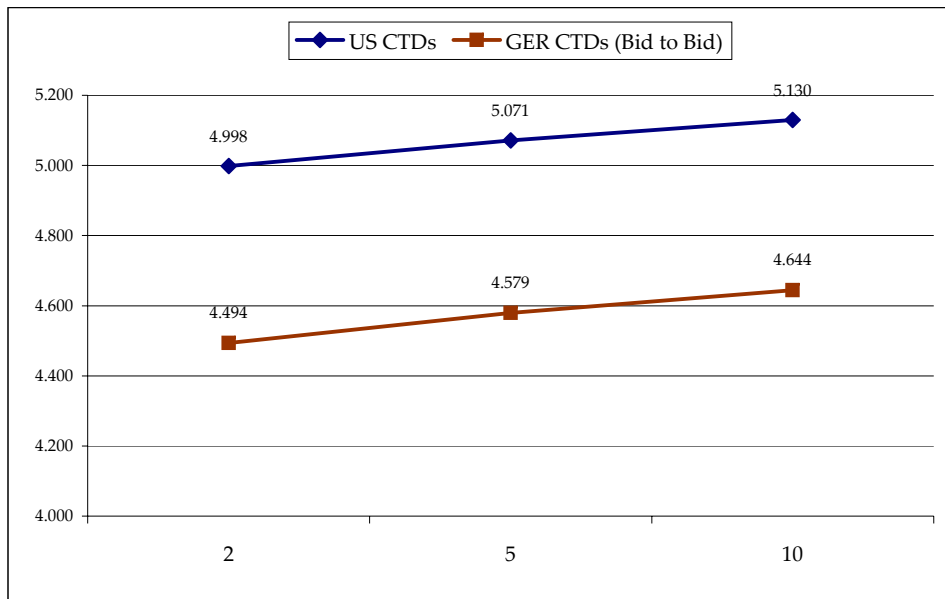
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.471	4.460	4.460
DE5y	4.594	4.584	4.584
DE10y	4.672	4.666	4.666

Spreads Bps	
ZT/SCHATZ	0.496
ZF/BOBL	0.488
ZN/BUND	0.481

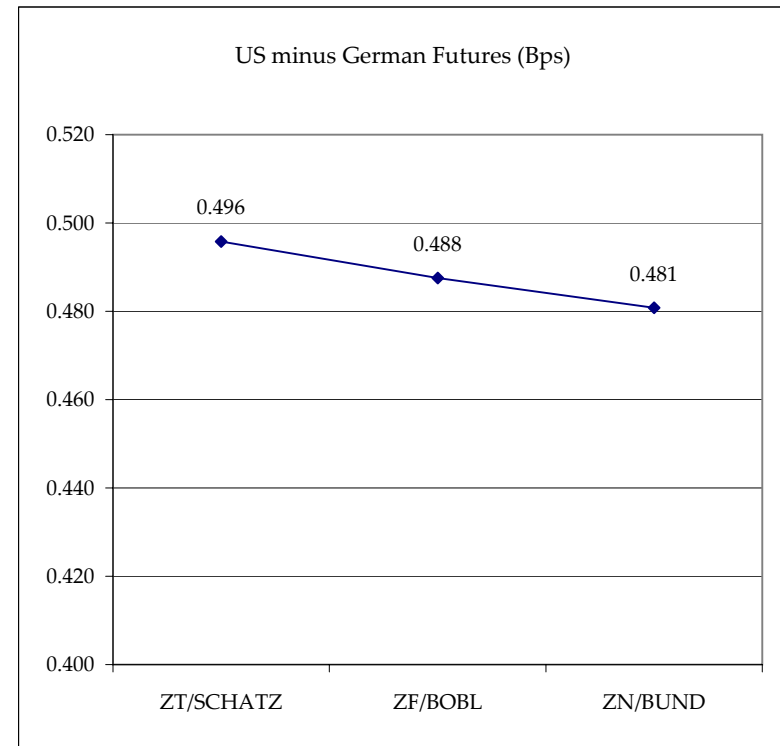
US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.998	4.989	4.989
4.500 of 11/11	5.071	5.067	5.067
4.750 of 05/14	5.130	5.125	5.125

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.504	4.488	4.494
4.000 of 04/12	4.594	4.584	4.579
4.000 of 07/16	4.651	4.644	4.644

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.



Jim Goulding, jgoulding@ghco.com



## 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