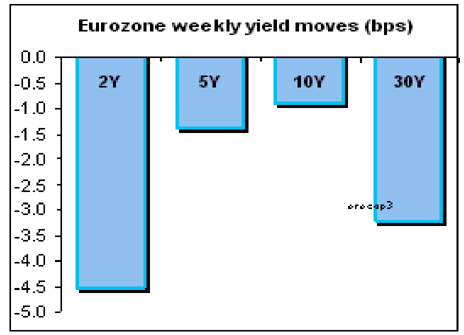
6/25/2007 5:50

The Morning Email: US & Germany

Stone & McCarthy
RESEARCH ASSOCIATES

Table of Contents

I'm knew. Come visit me.



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

Want something added? Let me know: 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

Correlation Matrix & BUND Technicals

		US Cash Treasuries			US Bonds/Notes (CBOT)				
SYM NAME	Symbol	2yr	5yr	10yr	ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGU7	-77.60	-76.31	-68.28	77.65	77.25	73.99	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-59.35	-59.94	-53.46	63.84	64.09	61.08	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-41.69	-42.88	-38.01	48.42	50.21	48.64	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

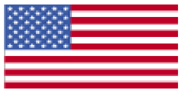
Technical Commentary EUREX Sep 2007 10yr Euro-Bund
- by Mike Sacchitello, CMT

None

Jim Goulding, jgoulding@ghco.com

6/25/2007 5:50

Quotes 1



	32 nds							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
TUAU7	101.255	1.2	101.260	101.247	101.247	24,774	186,701	2y Futures
FVAU7	103.265	4.5	103.275	103.235	103.240	49,067	443,578	5y Futures
TYAU7	105.050	5.5	105.060	105.005	105.010	147,727	1,313,013	10y Futures
USAU7	106.180	6	106.200	106.120	106.150	36,371	418,888	30y Futures
	Last	Net	Hi	Low	Open			SYM NAME
BUS02P	99.300	0.2	99.310	99.300	99.307			2y
BUS05P	98.297	2.5	98.307	98.277	98.297			5y
BUS10P	95.070	2.5	95.090	95.035	95.080			10y
BUS30P	92.190	4	92.215	92.135	92.215			30y
	Last	Net	Hi	Low	Open			SYM NAME
BUS02Y	4.904	0.00	4.93	4.878	4.93			2y Yield
BUS05Y	4.994	(1.80)	5.021	4.986	5.021			5y Yield
BUS10Y	5.115	(1.50)	5.141	5.109	5.139			10y Yield
BUS30Y	5.243	(0.60)	5.259	5.23	5.255			30y Yield

	Decimal							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
DGU7	102.55	10.00	102.57	102.53	102.56	246,971	525,271	Schatz(2Y)
DLU7	106.04	55.00	106.09	105.96	106.03	266,527	640,421	Bobl(5Y)
DBU7	110.40	9.00	110.51	110.25	110.39	441,872	1,139,994	Bund(10Y)

German Futures

	Price	Yield						
	Last	Last	Coupon	Maturity				SYM NAME
T.US.DE032P0409	100.08	4.441	4.500	7/4/2009				2 yr CTD
T.US.DE050P0712	97.69	4.539	4.000	4/13/2012				5 yr CTD
T.US.DE042P0717	95.63	4.596	4.000	7/4/2016				10 yr CTD
DEP2P	100.13	4.427	4.500	6/12/2009				2yr OTR
DEP5P	97.73	4.534	4.000	4/13/2012				5yr OTR
DEP10P	97.12	4.615	4.250	7/4/2017				10yr OTR

German Cash

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

Jim Goulding, jgoulding@ghco.com

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	102.55	102.56	102.55	102.57	102.53	10.00	Schatz(2Y)	German Futures
DLU7	106.04	106.05	106.04	106.09	105.96	55.00	Bobl(5Y)	
DBU7	110.40	#VALUE!	110.40	110.51	110.25	9.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo			
DGU7	4.636	4.633	4.633	4.646	4.625		Schatz(2Y)	German Futures
DLU7	4.620	4.618	4.618	4.638	4.610		Bobl(5Y)	
DBU7	4.674		4.674	4.692	4.661		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE032P0409	4.457	4.441	4.441	4.525	4.462	0	2 yr CTD	German Cash
T.US.DE050P0712	4.544	4.534	4.539	4.611	4.556	0	5 yr CTD	
T.US.DE042P0717	4.603	4.596	4.596	4.665	4.606	0	10 yr CTD	
DEP2P	4.438	4.427	4.427	4.454	4.416	6	2yr OTR	
DEP5P	4.544	4.534	4.534	4.570	4.529	16	5yr OTR	
DEP10P	4.622	4.615	4.615	4.641	4.604	27	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE032P0409	100.08	100.11	100.11	100.13	100.05	6.00	2 yr CTD	German Cash
T.US.DE050P0712	97.69	97.73	97.73	97.75	97.58	16.00	5 yr CTD	
T.US.DE042P0717	95.63	95.68	95.68	95.76	95.47	24.00	10 yr CTD	
DEP2P	100.11	100.13	100.13	100.15	100.08	6.00	2yr OTR	
DEP5P	97.69	97.73	97.73	97.75	97.58	16.00	5yr OTR	
DEP10P	97.07	97.12	97.12	97.21	96.92	27.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

Jim Goulding, jgoulding@ghco.com

Stone & McCarthy
RESEARCH ASSOCIATES

22/06/2007	15:19	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.02	-0.17	105.75	-0.38	103.32	-0.16
	STIR	95.65	0.00	94.67	0.00	93.73	-0.01
Cash	3mth	4.16	0.00	5.36	0.00	5.94	0.01
	2yr	4.48	0.00	4.97	0.00	5.79	0.01
	5yr	4.59	0.01	5.08	0.00	5.76	0.02
	10yr	4.66	0.02	5.20	0.01	5.52	0.02
	30yr	4.79	0.02	5.31	0.01	4.87	0.01
	10yr-2yr	0.19	0.01	0.22	0.01	-0.27	0.01
Spreads	2yr	--	--	0.56	0.00	1.40	0.00
vs euro	10yr	--	--	0.60	-0.01	0.94	0.00
FX	USD	1.346	0.007	--	--	1.999	0.006
	EUR	--	--	--	--	0.673	0.002
	YEN	166.86	1.22	123.98	0.27	247.80	1.26
Equities		4484.7	-0.2%	1514.4	-0.5%	6588.1	%

Euribor futures were 0.5 ticks higher to 2 ticks lower with the Sep-07 contract at 95.645/+0.050 (4.355% implied). Sep-07 Bunds were 17 ticks lower at 110.02. In cash, German government benchmark yields were flat to 2bps lower with short dates outperforming. The 2s/10s spread was 19bps vs. 18bps and the 10s/30s spread was unchanged at 13bps.

Gilts were trading lower on Friday afternoon, with the belly of the curve underperforming amidst a dearth of major data releases.

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 16 ticks lower at 103.32. In cash, UK government benchmark yields were 1bp to 2bps higher with the belly of the curve underperforming. The 2s/10s spread was -27bps vs. -28bps and the 10s/30s spread was -65bbps vs. -64bps.

Headlines

EGBs mixed, short dates outperform on weaker than expected IFO

Bunds open lower on Chinese rate hike fears
June German IFO: 107.0 vs. 108.4 expected
ECB President Trichet: To ignore money supply data would be an "excessive and unreasonable" risk.

Euro Mkt Summary: by Charanjeev Chana

European Government Bonds were trading lower with the short end outperforming on weaker than expected German IFO data. Bunds extended losses to session lows in afternoon trade on technical stop-loss selling. Bonds opened lower Friday morning, weighed by expectations of an imminent interest rate hike by the Peoples Bank of China. Speculation grew after the yield on 3-year paper sold by the PBOC rose for the first time in a month earlier this week. Bunds reversed losses and short-dates outperformed on the weaker than expected German IFO release, which fell for the first month in four in June. Bunds erased IFO-induced gains ahead of midday trade after leverage accounts were seen putting on 2-/10-year steepening trades - according to MNI source. In comments made on Friday morning, ECB President Trichet defended the use of the role of money supply in setting monetary policy saying that to ignore them would be an "excessive and unreasonable" risk.

Macroeconomic data for Europe on Monday will be limited to the release of the German GFK consumer confidence shortly after the market open. Attention will then turn to comments from ECB Governing Council member Bini-Smaghi, who presents the " ECB's 6th 'Review of the International Role of the Euro'.

Jim Goulding, jgoulding@ghco.com

MarketNews international

News Recap for Euroland & Japan
Overnight

04:07 06/25 **GERMAN Q3 SUPPL**Y:Cuts 30-year bond top-up on July 25 by E1.0bn to E4.0bn
-- Cuts 10-year bond top-up on July 4 by E1.0bln to E6.0bln
-- Cuts new S.151 Bobl on Sept 26 byu E1.0bln to E6.0bln
-- Confirms to top-up July 2017 10-year Bund by E6.0bln on Aug 15
-- Confirms to top-up June 2009 2-year Schatz by E7.0bln on July 11
-- Confirms to sell E7.0bln new Sept 2009 2-year Schatz Sept 12.

04:21 06/25 **GERMAN ISSUANCE**: The cut in German Q3 gross capital market borrowing to E36.0bln vs E39.0bln original estimate, comes after the German finance ministry last week revised down its forecast for the 2007 total public sector budget deficit to 0.5% of GDP from a previously projected 1.2%. The E3.0bln cut comes in 5, 10 & 30-year issues, and explains the 0.4bps flattening in the Bund 2-/10-year yield spread to +18.6bps.
04:04 06/25 **GERMAN Q3 ISSUANCE**: Confirms Q3 money market borrowing E18.0bln; E6bln/month.
04:03 06/25 **GERMAN Q3 ISSUANCE:** Germany cuts Q3 gross capital market nrrowing to E36.0bln vs E39.0bln.

03:59 06/25 **BUNDS**: Sept Bunds extend gains to fresh session highs on short-covering. Traders report some stops have been triggered on a break above 110.47, but most of these stops are located above 110.60. Sept Bunds are up 39 ticks at 110.48.

News Recap for Euroland & Japan
Overnight (cont)
03:09 06/25 **BONDS: EGBs** are opening sharply higher on Monday on back of gains in USTs late Chicago and also strong fall in Chinese stocks overnight, amid concerns about the government's next step to tighten monetary policy. The move comes after People's Bank of China governor Zhou Xiaochuan said in Europe at the weekend nterest rates in China may have to rise again if inflation data necessitate a further tightening of monetary policy. However, any tightening in Chinese rates is seen as bearish for European bonds, which are also higher on technical short-covering following recent strong losses. In addition, Bunds are not seen rallying too far ahead of the FOMC rate decision on Thursday, where markets expect the Fed to hold rates steady at 5.25%. Moreover, most strategists also expect little change in the accompanying statement. Long-dated issues are seen underpinned by month-end duration buying, where extensions are in EGBs are large, according to early iBoxx sovereign estimates. The iBoxx Euro sovereign index extends by +0.09yrs.
02:29 06/25 **JGB SUMMARY**: Japanese government bonds ended Monday's session unchanged to modestly higher, as stronger U.S. Treasuries ahead of the weekend offered early support. Fund demand was noted across the curve, with good two-way flows noted in the belly of the curve. Although prices ended a shade higher, the upside was capped by profit-taking in the long-end of the curve and hedge selling of the two-year note ahead of Tuesday's Y1.7 trln 2-year auction.
-- Benchmark 10-year #285 yield was 0.5 bps lower at 1.900%.
-- Benchmark 5-year #63 yield was unchanged at 1.505%.
-- Benchmark 20-year #94 yield was 0.5 bps lower at 2.275%.
-- Benchmark 30-year #26 yield was 0.5 bps lower at 2.520%.
-- Lead Sept JGB futures contract was 0.04 higher at 131.71.
04:52 06/25 **JAPAN FUJII: MOF's** Fujii reported saying,
- Currencies should reflect economic fundamentals
- Watching currencies carefully
- Japan economy in good shape. (Rtrs)

6/25/2007 5:50

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	14.98	4.52	$1,413	€ 1,903
10y	7.79	2.39	$746	€ 1,005
5y	4.33	1.37	$430	€ 578
2y	2.00	0.63	$197	€ 265
ZB	9.64	3.32	$104	€ 140
ZN	5.77	1.95	$61	€ 82
ZF	3.95	1.32	$41	€ 55
ZT	1.87	1.21	$38	€ 51

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.07	€ 110	$82	0.872569
Bobl	4.23	€ 61	$45	0.959013
Schatz	1.80	€ 47	$35	0.966386
DE10Y	7.63	€ 978	$727	
DE5Y	4.23	€ 561	$416	
DE2Y	1.70	€ 225	$167	

^Futures are Based on CTD

	Last
EURUSD	134.63

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	17.32	31.16	40.66
10y	9.14	16.45	21.47
5y	5.26	9.47	12.36
2y	2.41	4.34	5.67
ZB	1.27	2.29	2.99
ZN	0.75	1.34	1.76
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)

Jim Goulding, jgoulding@ghco.com

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	

Jim Goulding, jgoulding@ghco.com

Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	4.908	4.904	4.904
US5y	4.997	4.994	4.994
US10y	5.124	5.115	5.115

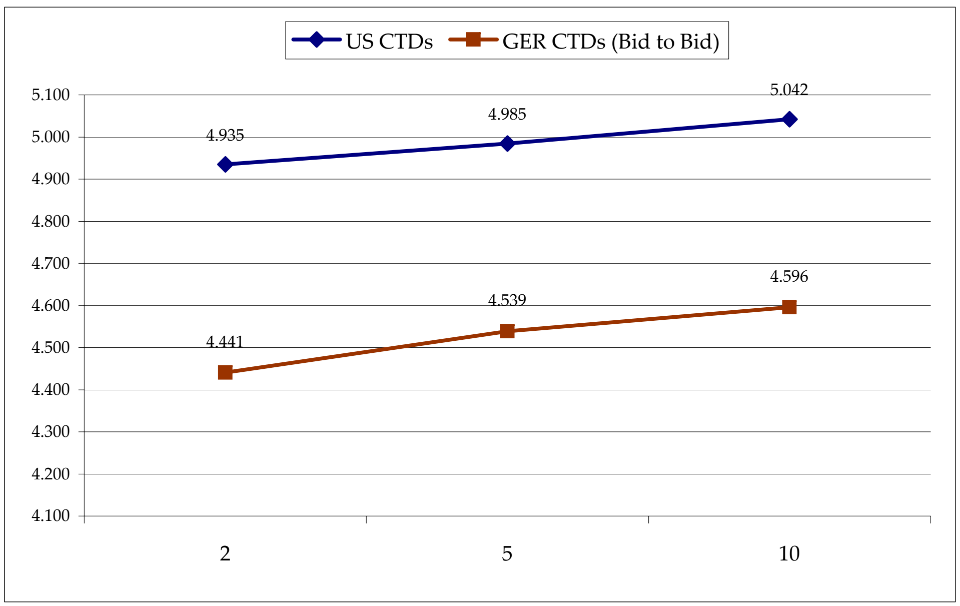
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.438	4.427	4.427
DE5y	4.544	4.534	4.534
DE10y	4.622	4.615	4.615

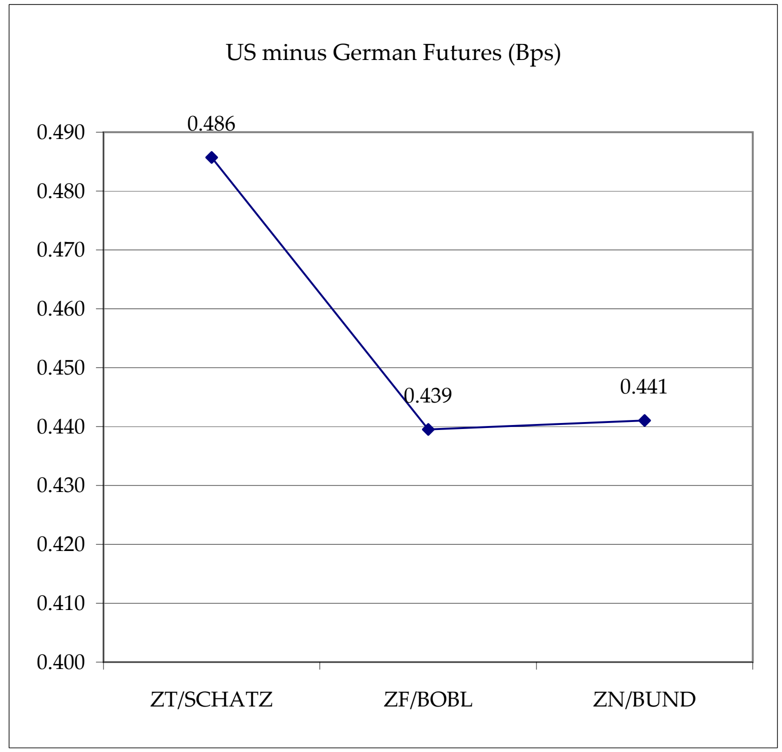
	Spreads
	Bps
ZT/SCHATZ	0.486
ZF/BOBL	0.439
ZN/BUND	0.441

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
4.000 of 06/09	4.935	4.927	4.927
4.500 of 11/11	4.985	4.979	4.979
4.750 of 05/14	5.042	5.037	5.037

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.457	4.441	4.441
4.000 of 04/12	4.544	4.534	4.539
4.000 of 07/16	4.603	4.596	4.596

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

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

Stone & McCarthy
RESEARCH ASSOCIATES

--> Euro Market Focus: Bonds End Higher, Wings Outperform

by Charanjeev Chana [published 06/22]

ECB Outlook

Earlier this month ECB official Yves Mersch suggested that ECB interest rates may need to rise to 4.50% after noting that the most recent ECB staff projections unveiled by ECB President Trichet in his June press statement, " include the assumption that short-term market interest rates will rise to 4.5% by the end of this year. This week, ECB official Axel Weber made further reference to the risks of inflation exceeding the 2% price stability ceiling according to staff projections, saying "According to our assessment the average inflation rate is likely to be above our upper limit for price stability this year and next." He followed by hinting at additional tightening to counter these risks after saying " I do not see a threat to the economic cycle" if interest rates were to go higher."

The ECB June 2007 Monthly Bulletin states that "the average rate of increase in the overall Harmonised Index of Consumer Prices (HICP) is projected to be between 1.8% and 2.2% in 2007, and between 1.4% and 2.6% in 2008." The technical assumptions with regards to short-term interest rates imply "an increase from the mid-May level of 4.0% to an average of 4.2% in 2007, and a further increase to an average of 4.5% in 2008."

In the Q&A session of the June interest rate press conference, ECB President Trichet was questioned on whether the staff projections, which saw inflation above 2% for 2007 and 2008 based on the expectation of one more interest rate increase - would essentially mean that the ECB would have to tighten more than once to contain inflation below 2%. President Trichet' s response was unsurprisingly non-committal, after he repeated the mantra "there is no pre-commitment", adding "The Governing Council is alert and we will do whatever is needed, as we have in the past, to ensure price stability and be credible in ensuring and delivering price stability."

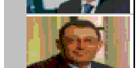
Whilst ECB President Trichet was non-committal, we view the latest comments by ECB Governing Council members as firm indication of ECB interest rates reaching 4.50% by year-end if inflation expectations remain elevated close to or above the ECB's 2% price stability ceiling.

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	Blanch-flower	Besley	Sent-ance	Result	Level	Vote	Dis-sent bias
Jul-06	unch	unch	unch	unch	unch	unch	unch			unch	4.50%	7-0	none
Aug-06	+25bps	+25bps	+25bps	+25bps	+25bps	+25bps	unch			+25bps	4.75%	6-1	no chg
Sep-06	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

BOE HAWKOMETER (to June 2007 meeting)

		Dissenting Hawkish Votes	Dissenting Dovish Votes	Non-Dissenting Votes	Total Votes	Hawkishness Rating
	Sentance	4	0	5	9	44%
	Besley	4	0	6	10	40%
	King (Gov)	14	0	108	122	11%
	Tucker	6	1	54	61	8%
	Gieve (Dep Gov)	1	0	16	17	6%
	Lomax (Dep Gov)	2	2	44	48	0%
	Barker	1	4	69	74	-4%
	Bean	0	4	78	82	-5%
	Blanchflower	0	4	9	13	-31%

Stone & McCarthy
RESEARCH ASSOCIATES

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.
[published 6/2007]