



The Morning Email: US & Germany

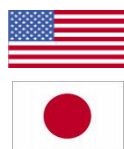


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08:15 06/25 GERMANY: The Ifo economic research institute raised forecasts for both German and Eurozone GDP growth in 2007 and 2008 compared with the April forecasts of Germany's leading five economic institutes. Ifo projected HICP inflation just above the European Central Bank's comfort zone:
 --2007 Germany GDP now projected at +2.6%, vs. +2.4% previously (5 inst)
 --2008 Germany GDP at +2.5% vs. +2.4% previously
 --2007 Eurozone GDP put at +2.8%, vs. 2.5%
 --2008 Eurozone GDP projected at +2.6%, vs. +2.4%
 --Eurozone HICP put at +2.1% in 2007, +2.0% in 2008

Pg 10/11 The ECB 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
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SYM NAME	Symbol	US Cash Treasuries			US Bonds/Notes (CBOT)			Symbol	SYM NAME
		2yr	5yr	10yr	ZT	ZF	ZN		
Schatz(2Y)	DGU7	-81.85	-83.18	-80.64	81.69	81.75	80.21	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-75.59	-81.61	-83.55	76.83	79.93	79.96	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-71.73	-79.86	-83.85	73.68	79.15	80.71	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.

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-----RESISTANCE-----
111.45 38.2% of the 04/19H - 06/13L
111.00 point of break below the Nov '03 corrective lows
110.90 Bollinger band center line
110.78 23.6% of the 04/19H - 06/13L
110.53 05/11 - 06/20 downtrend line
110.40 +.31 06/25 Settlement
110.24 5-DMA, 10-DMA
110.09 06/22 - 06/25 gap bottom
110.05 lowest Jun close
109.79 Oct '02 corrective lows
109.66 06/13 pivot low
109.36 lower Bollinger band
109.33 76.4% of the Apr '02 - Sep '05 up-move
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Technical Commentary EUREX Sep 2007 10yr Euro-Bund - by Mike Sacchitello, CMT

Short-term, the trend is sideways above the most recent pivot low (the 06/13 pivot low at 109.66).

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.

Currently, the first key trigger to the upside is the 110.80 area, where the declining 20-day Bollinger band center line, 23.6% of the Apr - Jun slide and 06/20 pivot top all reside. In order for a fresh countertrend buy signal to materialize, this is the area that Sep Bund would need to beat.

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 111.89.

Quotes 1



32 nds								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
TUAU7	101.275	(0.5)	101.285	101.267	101.270	30,092	216,187	2y Futures
FVAU7	104.010	1.5	104.020	103.290	103.300	53,625	494,818	5y Futures
TYAU7	105.155	2.0	105.170	105.100	105.125	151,432	1,364,445	10y Futures
USAU7	107.030	1	107.060	106.280	106.300	24,823	354,312	30y Futures
	Last	Net	Hi	Low	Open			SYM NAME
BUS02P	99.317	0.0	100.007	99.315	99.315			2y
BUS05P	99.042	1.7	99.055	99.012	99.015			5y
BUS10P	95.190	3.5	95.215	95.145	95.150			10y
BUS30P	93.105	3	93.140	93.045	93.050			30y
	Last	Net	Hi	Low	Open			SYM NAME
BUS02Y	4.874	0.00	4.9	4.852	4.895			2y Yield
BUS05Y	4.948	(1.30)	4.975	4.937	4.972			5y Yield
BUS10Y	5.065	(1.50)	5.095	5.057	5.088			10y Yield
BUS30Y	5.191	(0.90)	5.212	5.183	5.205			30y Yield



Decimal								
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
DGU7	102.55	(10.00)	102.58	102.54	102.57	255,369	554,177	Schatz(2Y)
DLU7	106.09	20.00	106.14	106.02	106.08	278,652	660,551	Bobl(5Y)
DBU7	110.58	8.00	110.69	110.43	110.50	508,081	1,123,861	Bund(10Y)

German Futures

	Price	Yield			Maturity	Volume	Yest Volume	SYM NAME
	Last	Last	Coupon					
T.US.DE032P0409	100.07	4.441	4.500	7/4/2009				2 yr CTD
T.US.DE050P0712	97.71	4.539	4.000	4/13/2012				5 yr CTD
T.US.DE042P0717	95.76	4.578	4.000	7/4/2016				10 yr CTD
DEP2P	100.12	4.432	4.500	6/12/2009				2yr OTR
DEP5P	97.75	4.530	4.000	4/13/2012				5yr OTR
DEP10P	97.28	4.595	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	102.55	102.56	102.55	102.58	102.54	-10.00
DLU7	106.08	106.09	106.09	106.14	106.02	20.00
DBU7	110.57	110.58	110.58	110.69	110.43	8.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	
DGU7	4.636	4.633	4.636	4.641	4.623	
DLU7	4.611	4.610	4.610	4.624	4.599	
DBU7	4.654	4.653	4.654	4.671	4.640	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE032P0409	4.462	4.446	4.441	4.483	4.430	0
T.US.DE050P0712	4.539	4.530	4.539	4.570	4.522	0
T.US.DE042P0717	4.585	4.578	4.578	4.626	4.577	0
DEP2P	4.443	4.432	4.432	4.454	4.416	2
DEP5P	4.539	4.530	4.530	4.551	4.518	8
DEP10P	4.601	4.595	4.595	4.619	4.582	18

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE032P0409	100.07	100.10	100.10	100.11	100.04	3.00
T.US.DE050P0712	97.71	97.75	97.75	97.80	97.66	8.00
T.US.DE042P0717	95.76	95.81	95.81	95.91	95.61	19.00
DEP2P	100.10	100.12	100.12	100.15	100.08	2.00
DEP5P	97.71	97.75	97.75	97.80	97.66	8.00
DEP10P	97.23	97.28	97.28	97.38	97.09	18.00

Y = Yield
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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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25/06/2007	14:52	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.39	0.30	106.78	0.41	103.63	0.29
	STIR	95.65	0.00	94.73	0.02	93.76	0.03
Cash	3mth	4.16	0.00	5.36	0.00	5.95	0.01
	2yr	4.43	-0.03	4.89	-0.03	5.76	-0.04
	5yr	4.54	-0.04	4.98	-0.03	5.71	-0.04
	10yr	4.62	-0.04	5.10	-0.03	5.48	-0.04
	30yr	4.74	-0.04	5.22	-0.03	4.85	-0.02
	10yr-2yr	0.18	-0.01	0.21	-0.01	-0.27	0.00
Spreads	2yr	--	--	0.51	0.00	1.41	-0.01
	vs euro	10yr	--	--	0.55	0.00	0.94
FX	USD	1.347	0.000	--	--	2.000	0.001
	EUR	--	--	--	--	0.673	0.000
	YEN	166.55	-0.38	123.67	-0.25	247.30	-0.39
Equities		4439.1	-0.9%	1502.6	-1.3%	6547.5	%

Euribor futures were unchanged to 5 ticks higher with the Sep-07 contract at 95.650/0.000 (4.350% implied). Sep-07 Bunds were 30 ticks higher at 110.39. In cash, German government benchmark yields were 3bps to 4bps lower 2s underperforming. The 2s/10s spread was 18bps vs. 19bps and the 10s/30s spread was unchanged at 12bps.

Gilts were trading higher on Monday afternoon, with 30-year Gilts underperforming ahead of the 1.125% 2037 Index Linked Gilt auction on Tuesday.

Short sterling futures were 1 tick to 4 ticks higher with the Sep-07 contract at 93.840/+0.040 (6.160% implied). Jun-07 Gilts were 29 ticks higher at 103.63. In cash, UK government benchmark yields were 2bps to 4bps lower with 30s outperforming. The 2s/10s spread was unchanged at -27bps and the 10s/30s spread was -65bbps vs. -64bps.

Headlines

EGBs higher, take cue from US Treasuries in afternoon trade on risk aversion

Bunds higher, take cue from USTs, weak Chinese stocks
July German GFK Consumer Confidence: 8.4 vs. 7.8 expected
German Q3 Issuance: German Q3 capital market borrowing cut to E36.0bln vs. estimates of E39.0bln

Euro Mkt Summary: EGBs Higher, Extend Gains On Risk Aversion by Charanjeev Chana

EGBs were trading higher on Monday afternoon, with little bias. Bunds extended gains in the afternoon session, taking cue from US Treasuries which gained amid short-covering, safe-haven bids and uncertainty on the subprime situation. The market ebbed off highs following upward revisions to previous month US home sales data. Bonds opened on a stronger footing on Monday morning, taking cue from UST gains and underpinned by risk-aversion buying following sharp losses in Chinese stocks overnight - after speculation grew over an imminent PBOC interest rate hike. Early losses followed after the release of German GFK consumer confidence data, which rose to a 6-month high. Bunds however reversed losses on weakness in European equity bourses. The Bund curve traded flatter on the publication of the German Q3 issuance calendar, after the German Finance agency reported a cut in German Q3 capital market borrowing to E36.0bln vs. estimates of E39.0bln - with cuts planned in 5-, 10- & 30-year issuance.



News Recap for Euroland & Japan Overnight

04:50 06/26 **BUNDS**: Sept Bunds hit fresh session highs 110.63 -- on reported stop loss buying -- around 25k order went through.

05:31 06/26**Bunds** were trading 1 bps lower against the US 10-year T-notes, with the spread standing at +54 bps.

04:27 06/26 **BUNDS**: The German federal government confirmed Tuesday that it will sell about E6 billion in a top-up of its 4.25% July 2017 10-year bond on July 4, as previously announced. In its Q3 debt issuance calendar, published Monday, the government announced that it would reduce the volume of the 10-year top-up by E1 billion to E6 billion in view of favorable tax revenue intake this year. Given the E7 billion of the 10-year bond already issued, the top-up will bring total volume outstanding to E13 billion for the security, which matures on July 4, 2017 and is strippable. This issue is scheduled to be topped up by another E6 billion on August 15. A new 10-year bond, the January 2018, will be launched in November with an initial volume of E7 billion, according to the government's current debt issuance plan.

05:40 06/26 **GILT 2037 LINKER AUCTION RESULTS**: The UK's Debt Management Office announced Tuesday that it sold Stg1.0bln of the 1.125% Nov 2037 index-linked Gilt, with a cover of 1.71 times.

06:32 06/26 **EUROZONE**: Reported comments from eurozone officials Tuesday,
 ** ECB ORDONEZ: Sees inflation risks for Euro region
 - Says ECB is "alert" to inflation risks.
 - Eurozone recovery has lead to med-, long-term price risks

News Recap for Euroland & Japan Overnight (cont)

03:22 06/26 **BONDS: EGBs** are opening higher on Tuesday on continued risk aversion buying, amid talk of further hedge fund problems related to the subprime loan market. In addition, JGBs are higher overnight in the wake of decent demand at the Y1.7tn 1.0% 2-year JGB auction, which was covered 3.58 times. However, JGBs are seen treading water ahead of the key Japanese CPI data due towards the end of this week and also Tankan survey due next week. Ahead of this the key focus is on the FOMC rate decision on Thursday, where markets expect the Fed to hold rates steady at 5.25%. Nonetheless, the long-dated issues seen outperforming on back of month-end duration buying, where extensions are in EGBs are large at +0.09 years, according to early iBoxx Euro sovereign index. Attention today turns to supply, where Italy sells E3.5bln new CTZ issue. The UK DMO taps the 30-year linker for Stg1.0bln and US Treasury sells a new 2-year Note on Tuesday for \$18.0bln. Data wise, US consumer confidence & new Home sales along with Italian business confidence in the eurozone.

04:51 06/26 **SAKAKIBARA: Former MOF** official Sakakibara - known as Mr Yen - says yen forex flows are driven by interest rate differentials, adding that Japan should look to normalise interest rates. Sakakibara also said China and Japan were unlikely to divest their UST holdings in a hurry, as it would hurt them.



	US Intrinsic's ^			
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.04	4.57	\$1,429	€ 1,924
10y	7.80	2.40	\$750	€ 1,009
5y	4.33	1.38	\$430	€ 579
2y	2.00	0.63	\$197	€ 265
ZB	9.65	3.34	\$105	€ 141
ZN	5.77	1.96	\$61	€ 83
ZF	3.95	1.32	\$41	€ 55
ZT	1.86	1.21	\$38	€ 51

^Futures are Based on CTD

	Tic for Tic Matrix (\$)		
	Bund	Bobl	Schatz
30y	17.49	31.51	41.19
10y	9.17	16.53	21.60
5y	5.27	9.49	12.40
2y	2.41	4.34	5.68
ZB	1.28	2.30	3.01
ZN	0.75	1.34	1.77
ZF	0.50	0.91	1.19
ZT	0.46	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	€ 110	\$82	0.872569
Bobl	4.22	€ 61	\$45	0.959013
Schatz	1.80	€ 47	\$35	0.966386
DE10Y	7.63	€ 980	\$728	
DE5Y	4.22	€ 560	\$416	
DE2Y	1.70	€ 225	\$167	

^Futures are Based on CTD

Last

EURUSD 134.62

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	

Notes:

Bloomberg ratio's are static.

Yields & Spreads

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	4.878	4.874	4.874
US5y	4.950	4.948	4.948
US10y	5.074	5.065	5.065

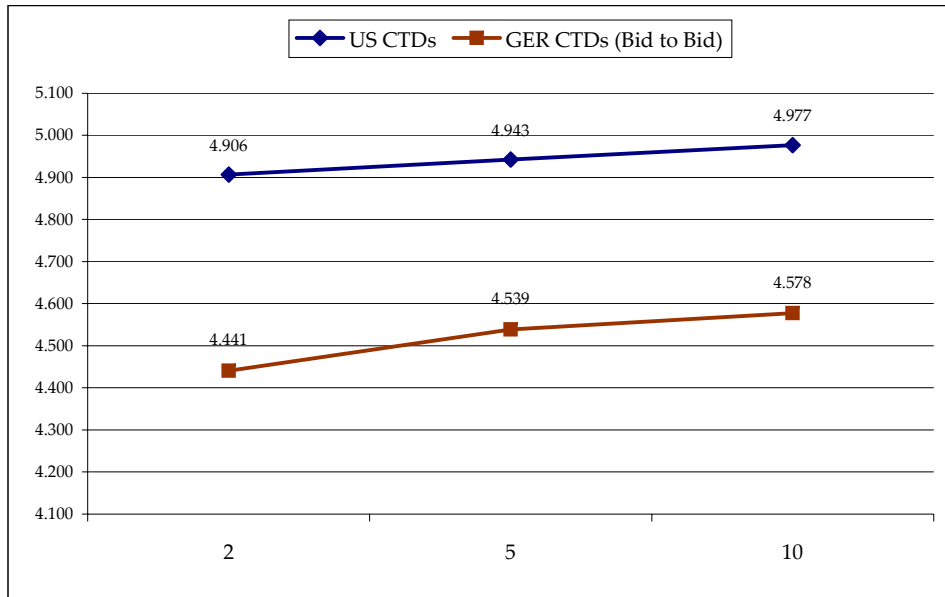
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	4.443	4.432	4.432
DE5y	4.539	4.530	4.530
DE10y	4.601	4.595	4.595

Spreads Bps	
ZT/SCHATZ	0.431
ZF/BOBL	0.400
ZN/BUND	0.394

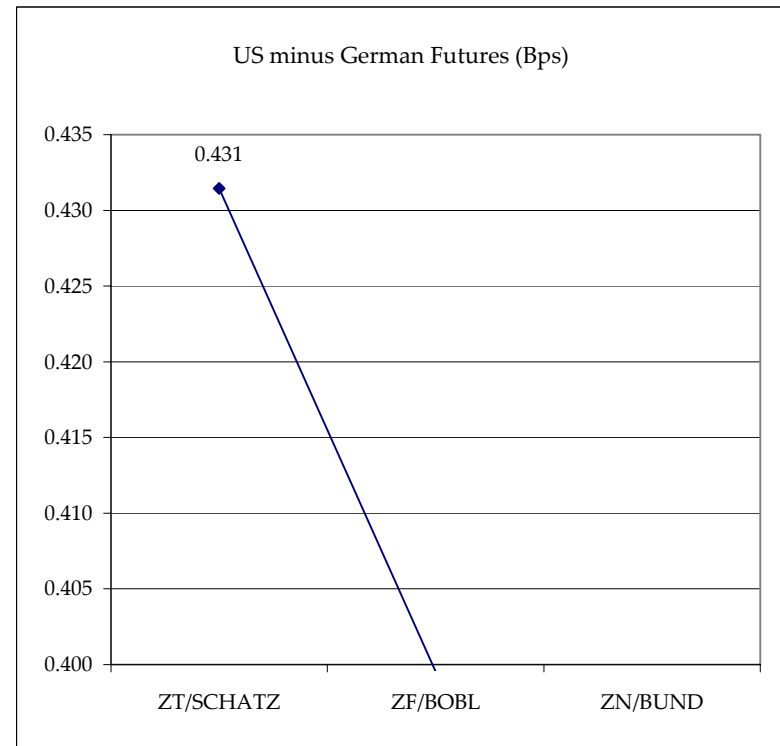
US Cash Treasuries (CTD)			
	Bid	Ask	Last
4.000 of 06/09	4.906	4.872	4.872
4.500 of 11/11	4.943	4.939	4.939
4.750 of 05/14	4.977	4.971	4.971

German Futures (CTD)			
	Bid	Ask	Last
4.500 of 07/09	4.462	4.446	4.441
4.000 of 04/12	4.539	4.530	4.539
4.000 of 07/16	4.585	4.578	4.578

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



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

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

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--> Euro Market Focus: Bonds End Higher, Wings Outperform
by Charanjeev Chana [published 06/22]

ECB Outlook

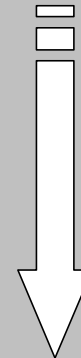
Earlier this month ECB official Yves Mersch suggested that ECB interest rates may need to rise to 4.50% after noting that the most recent ECB staff projections unveiled by ECB President Trichet in his June press statement, "include the assumption that short-term market interest rates will rise to 4.5% 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	Blanchflower	Besley	Sentance	Result	Level	Vote	Dissent 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

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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.
[published 6/2007]

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%