6/29/2007 5:42

The Morning Email: US & Germany

Table of Contents

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

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

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	-82.63	-90.89	-82.86	84.98	87.69	82.98	DGU7	Schatz(2Y)
Bobl(5Y)	DLU7	-61.96	-84.63	-86.33	74.59	85.36	90.22	DLU7	Bobl(5Y)
Bund(10Y)	DBU7	-47.34	-73.45	-78.97	61.99	76.76	86.87	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------------	
112.05	Mar - May downtrend line
112.04	50% of the 04/19H - 06/13L
111.84	top Bollinger band
111.81	40-DMA
111.45	38.2% of the 04/19H - 06/13L
111.18	06/27 pivot high
111.00	Nov '03 corrective lows
110.90	**-12 06/28 Settlement**
110.71	Bollinger band center line
110.59	5-DMA, 06/26 - 06/27 gap bottom
110.53	06/20 open
110.39	10-DMA, 06/25 - 06/26 gap bottom
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
109.57	lower Bollinger band
----------S U P P O R T----------	

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

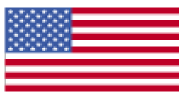
Short-term, Wednesday's break above the 20-day Bollinger band center line offered the gap to the top band (currently 111.88). Worth reiterating from Wednesday, though, is that an initial measured move (the height of the 06/13 low to 06/20 high projected northward from the 06/21 pivot low) was completed on Wednesday, and when combined with a newly overbought 5-day (a very short-term measure) should make it difficult to immediately break above 38.2% of the Apr - Jun slide.
In the background, higher trending (slower) 10 and 14-day momentum studies and oscillators offer secondary support for this countertrend rally.

Initial stops for any recently placed countertrend longs should be placed just beneath 110.59 (the 06/26 - 06/27 gap bottom, but for those playing the move off of the 06/13 reversal, things would remain healthy as long as Bund does not fall back below the 06/21 corrective low (109.92).

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 111.74.

Jim Goulding, jgoulding@ghco.com

Quotes 1



	32 nds							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
TUAU7	101.242	0.2	101.260	101.230	101.237	23,313	182,318	2y Futures
FVAU7	103.265	2.0	103.290	103.235	103.245	32,902	509,595	5y Futures
TYAU7	105.105	4.0	105.135	105.055	105.070	84,417	1,154,830	10y Futures
USAU7	107.030	11	107.070	106.260	106.280	24,271	393,595	30y Futures

US Futures Market

	Last	Net	Hi	Low	Open	Volume
BUS02P	99.277	0.0	99.292	99.270	99.275	2y
BUS05P	99.147	1.0	99.172	99.122	99.132	5y
BUS10P	95.140	3.0	95.175	95.095	95.100	10y
BUS30P	93.120	7	93.165	93.030	93.035	30y

	Last	Net	Hi	Low	Open	Volume
BUS02Y	4.942	0.00	4.975	4.913	4.963	2y Yield
BUS05Y	4.997	(0.90)	5.024	4.977	5.013	5y Yield
BUS10Y	5.091	(1.40)	5.116	5.074	5.11	10y Yield
BUS30Y	5.187	(1.40)	5.214	5.177	5.205	30y Yield

US Cash Treasury Market

	Decimal							
	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME
DGU7	102.53	25.00	102.56	102.50	102.52	314,464	662,415	Schatz(2Y)
DLU7	106.20	70.00	106.29	106.12	106.15	275,726	748,479	Bobl(5Y)
DBU7	111.00	19.00	111.14	110.83	110.84	597,738	1,415,985	Bund(10Y)

German Futures Markets

	Price	Yield			
	Last	Last	Coupon	Maturity	SYM NAME
T.US.DE032P0409	100.06	4.441	4.500	7/4/2009	2 yr CTD
T.US.DE050P0712	97.84	4.539	4.000	4/13/2012	5 yr CTD
T.US.DE042P0717	96.10	4.530	4.000	7/4/2016	10 yr CTD
DEP2P	100.11	4.436	4.500	6/12/2009	2yr OTR
DEP5P	97.88	4.500	4.000	4/13/2012	5yr OTR
DEP10P	97.64	4.549	4.250	7/4/2017	10yr OTR

German Cash Treasury Market

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	102.53	102.53	102.53	102.56	102.50	25.00	Schatz(2Y)	German Futures
DLU7	#VALUE!	106.20	106.20	106.29	106.12	70.00	Bobl(5Y)	
DBU7	110.99	111.00	111.00	111.14	110.83	19.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo			
DGU7	4.649	4.646	4.646	4.662	4.630		Schatz(2Y)	German Futures
DLU7		4.585	4.585	4.603	4.565		Bobl(5Y)	
DBU7	4.604	4.603	4.603	4.623	4.586		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE032P0409	4.468	4.452	4.441	4.489	4.441	0	2 yr CTD	German Cash
T.US.DE050P0712	4.509	4.500	4.539	4.545	4.497	0	5 yr CTD	
T.US.DE042P0717	4.537	4.530	4.530	4.584	4.523	0	10 yr CTD	
DEP2P	4.447	4.436	4.436	4.475	4.426	3	2yr OTR	
DEP5P	4.509	4.500	4.500	4.531	4.480	8	5yr OTR	
DEP10P	4.555	4.549	4.549	4.579	4.530	13	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE032P0409	100.06	100.09	100.09	100.10	100.01	3.00	2 yr CTD	German Cash
T.US.DE050P0712	97.84	97.88	97.88	97.96	97.75	8.00	5 yr CTD	
T.US.DE042P0717	96.10	96.15	96.15	96.30	95.95	10.00	10 yr CTD	
DEP2P	100.09	100.11	100.11	100.13	100.04	3.00	2yr OTR	
DEP5P	97.84	97.88	97.88	97.96	97.75	8.00	5yr OTR	
DEP10P	97.59	97.64	97.64	97.79	97.41	13.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

Jim Goulding, jgoulding@ghco.com

Stone & McCarthy
RESEARCH ASSOCIATES

28/06/2007	17:46	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.88	-0.14	107.06	-0.06	103.90	-0.17
	STIR	95.64	-0.02	94.70	-0.03	93.75	-0.03
Cash	3mth	4.17	0.01	5.36	0.00	5.97	0.02
	2yr	4.45	0.04	4.92	0.03	5.73	0.02
	5yr	4.52	0.04	4.99	0.02	5.67	0.02
	10yr	4.57	0.02	5.09	0.01	5.43	0.01
	30yr	4.67	0.01	5.19	-0.01	4.81	-0.01
	10yr-2yr	0.12	-0.02	0.17	-0.02	-0.30	-0.01
Spreads	2yr	--	--	0.53	-0.01	1.37	-0.02
vs euro	10yr	--	--	0.59	-0.02	0.94	-0.01
FX	USD	1.346	0.001	--	--	2.002	0.002
	EUR	--	--	--	--	0.673	0.000
	YEN	165.67	0.43	123.06	0.22	246.28	0.71
Equities		4458.0	1.0%	1511.0	0.3%	6571.3	%

Headlines

EGBs lower amid unwinding of safe-haven trades and position squaring

EMU June M3: 10.7%
German June Unemployment Change: -37K
German Preliminary June CPI: 0.1%mom/1.8%yoy
ECB's Liebscher: ECB rates remain accommodative

Euro Mkt Summary: EGBs Lower Ahead of FOMC
by Charanjeev Chana

Bunds were down in afternoon trade having opened sharply lower on the back of weaker US Treasuries and Japanese Government Bonds overnight. This was largely due to the unwinding of safe-haven trades as stocks recovered. In addition there was profit-taking and position-squaring ahead of the FOMC rate decision at 1915 BST. Amongst the plethora of Eurozone data, stronger than expected EMU M3 for May as well a larger than expected fall in June German unemployment also marginally weighed on sentiment. The preliminary **German CPI** data for June came in weaker than expected but made little impact. US data also weighed temporarily after the US GDP price index was unexpectedly revised higher. However, the focus now remains on the FOMC where interest rates are expected to remain unchanged at 5.25%. Friday will then see the release of EMU HICP estimate as well as EMU confidence indicators for June ahead of US personal consumption data.

Other weighing factors included rather hawkish comments from **ECB's Liebscher**, who was reported as saying that the ECB remained accommodative, and that the Bank's Governing Council would act in a firm and timely manner to ensure price stability in the medium-term. Elsewhere, supply factors also weighed, with Italy selling 7-year CCT, 3-year & 10-year benchmark BTPs. This included E1.5bln of the Mar 2014 CCT issue at a gross yield of 4.29%, which was covered 1.88 times. E2.0bln of the 4.00% Mar 2010 BTP issue was sold at gross yield of 4.47% and was covered 1.73 times. E2.0bln of the 4.00% Feb 2017 BTP issue was sold at a gross yield of 4.74% and covered 1.52 times.

Gilts were mixed with the long-end outperforming. The release of the Nationwide house prices weighed on short-end after posting the fastest monthly growth this year. Comments from **Bank of England** MPC members were largely seen as mixed, and had little effect on Gilts. Friday sees the release of final GDP figures as well as mortgage approvals and consumer credit data.

News Recap for Euroland & Japan
Overnight

03:09 06/29 **BUNDS**: Sept Bunds reverse opening losses on safe-haven bid related to earlier reports that UK police have found and made safe a potentially explosive device in Haymarket, London. This was reportedly a "potentially massive" device, which may have caused major devastation. The fear is that there maybe 2/3 more devices, which is the hallmark of any recent terrorist activity, which is causing the bid in bonds. Sept Bunds are up 12 ticks at 111.06.

02:58 06/29 BONDS: **EGBs** opened lower on Friday after US Treasuries fell overnight after the Federal Open Market Committee voted to leave its key interest rate unchanged at 5.25% -- for the 8th consecutive meeting, as expected. The vote was unanimous. However, the Fed in its accompanying statement said it is still worried by inflation and remains "the predominant policy concern". All in all, the statement wasn't dovish enough for the bond markets, with the yield on the benchmark 10-year Note rising to 5.12% vs. 5.08% pre-Fed and 5.072% at the close. In addition, market expectations of a 25bps Fed rate cut by year also fell to 16% vs 30% earlier this week, according to fed funds futures contracts on the Chicago Board of Trade. However, risk is on a reversal latet this session, led by gains in the long-dated issues, amid month-end/ quarter-end duration buying. The iBoxx Euro sovereign index extends by a larger than averge +0.09 years into July. Traders also note the E45bln reinvestment flows next week in eurozone seen underpinning.

05:56 06/29 **GILTS**: Traders note moderate Liability Driven Investment (LDI) flows into longer-dated Gilts, as the 10-/30-year Gilt yield spread narrows 0.1bps to -61.9bps. This comes ahead of next week's tap auction of the 4.50% Dec 2042 Gilt issue on July 3 for Stg2.25bln. This supply is seen supported by the upcoming redemption of the 8.5% 2007 Gilt on July 16 for Stg4.869bln.

News Recap for Euroland & Japan
Overnight (cont)

06:04 06/29 **EGB FLOWS**: Traders report decent buying of long-dated issues in EGBs from Italian insurance sector. This has notably been in the peripheral markets, i.e. Italy, Portugal and Greece at the expense of core issues such as Germany and France. Also noted was good ALM/pension fund interest in long-dated issues also this morning.

06:07 06/29 UK: **Bank of England Governor Mervyn King** has insisted that he has no interest in taking on the role of International Monetary Fund managing director. A statement issued by the BOE press office stated, "Although the governor is deeply concerned about IMF reform, he wants to make absolutely clear that he has no interest either now or in the future in becoming the managing director of the IMF." "He has no interest in working outside the UK and does not want to leave London. That will not change," the statement continued. The statement followed a report in the Daily Telegraph that the IMF MD Rodrigo Rato will stand down from his post 2 years early this autumn. The news sparked speculation that King could be one of the contenders for Rato's job. Mr King's own term expires next summer. The Treasury is expected to make an announcement on whether he will be reconfirmed ahead of that date.

04:46 06/29 MNI INSIGHT: **BOJ** unfazed by soft Japan data, CPI data
- BOJ waiting for best time to carry out third rate hike
- BOJ looking at trends, not m/m data
- BOJ to hike rates further but can also take time
- BOJ Board likely to keep growth, inflation outlook
- See mainwire story at 0441EDT/0841GMT

6/29/2007 5:42

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.03	4.58	$1,431	€ 1,932
10y	7.78	2.39	$747	€ 1,009
5y	4.38	1.39	$436	€ 588
2y	1.99	0.63	$195	€ 264
ZB	9.73	3.43	$107	€ 145
ZN	5.75	1.95	$61	€ 82
ZF	3.93	1.31	$41	€ 55
ZT	1.85	1.20	$38	€ 51

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.07	€ 111	$82	0.872569
Bobl	4.21	€ 61	$45	0.959013
Schatz	1.78	€ 46	$34	0.966386
DE10Y	7.62	€ 986	$730	
DE5Y	4.21	€ 562	$416	
DE2Y	1.68	€ 224	$166	

^Futures are Based on CTD

	Last
EURUSD	135.02

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	17.45	31.57	41.55
10y	9.12	16.49	21.70
5y	5.32	9.62	12.66
2y	2.38	4.31	5.67
ZB	1.31	2.36	3.11
ZN	0.74	1.34	1.77
ZF	0.50	0.90	1.19
ZT	0.46	0.83	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)	0.410	0.610	0.660

US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (U)	1.7	4.0	6.8
Bobl (U)	3.1	7.2	12.3
Shatz (U)	6.9	16.1	28.2

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)		1.800	4.400
Bobl (U)	0.550		2.400
Shatz (U)	0.230	0.414	

Notes:
Bloomberg ratio's are static.
They are updated every week, or at auctions & rolls.

Jim Goulding, jgoulding@ghco.com

Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	4.946	4.942	4.942
US5y	4.999	4.997	4.997
US10y	5.093	5.091	5.091

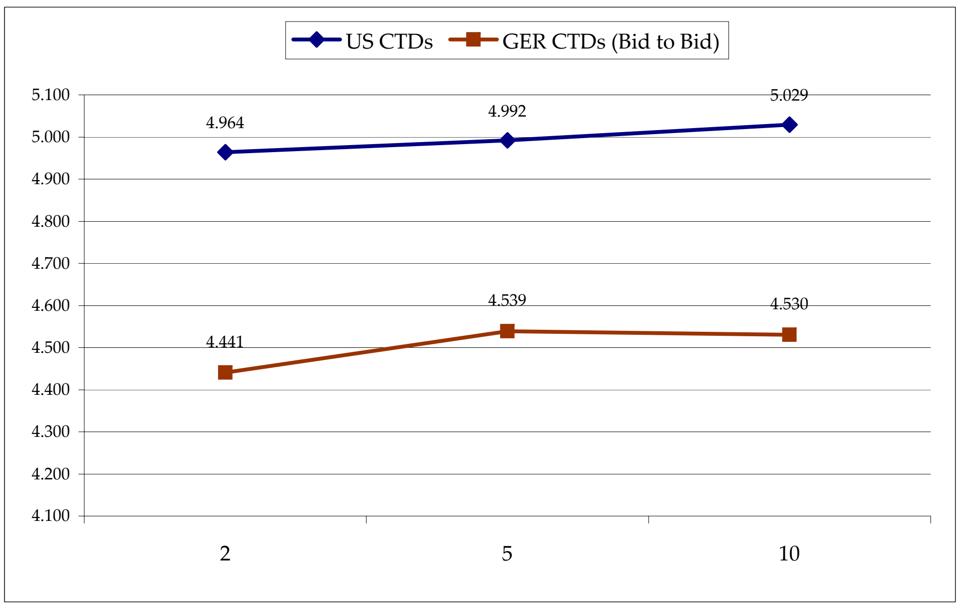
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.447	4.436	4.436
DE5y	4.509	4.500	4.500
DE10y	4.555	4.549	4.549

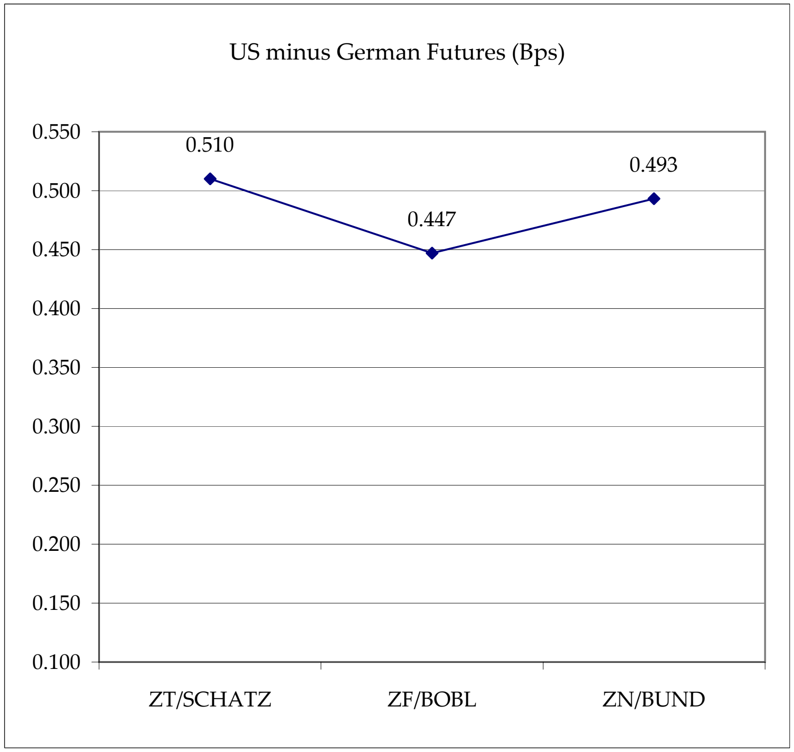
	Spreads
	Bps
ZT/SCHATZ	0.510
ZF/BOBL	0.447
ZN/BUND	0.493

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
4.000 of 06/09	4.964	4.951	4.951
4.500 of 11/11	4.992	4.986	4.986
4.750 of 05/14	5.029	5.024	5.024

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.468	4.452	4.441
4.000 of 04/12	4.509	4.500	4.539
4.000 of 07/16	4.537	4.530	4.530

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

Jim Goulding, jgoulding@ghco.com

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]