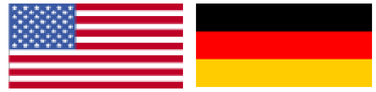
5/30/2007 5:52

The Morning Email: US & Germany



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Correlation Matrix & Technicals

SYM NAME	Symbol	US Cash Treasuries 2yr	5yr	10yr	US Bonds/Notes (CBOT) ZT	ZF	ZN	Symbol	SYM NAME
Schatz(2Y)	DGM7	-8.85	90.35	89.38	87.75	89.26	86.91	DGM7	Schatz(2Y)
Bobl(5Y)	DLM7	-3.50	89.69	89.12	86.34	88.77	87.17	DLM7	Bobl(5Y)
Bund(10Y)	DBM7	-3.06	90.52	89.94	87.64	89.67	87.85	DBM7	Bund(10Y)

Correlation is based on 10 day historical

Stone & McCarthy
RESEARCH ASSOCIATES

As of 05/29

Techs for the BUND

----------R E S I S T A N C E------------

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113.43/.45  point of 05/14 break below the April lows
113.12 Bollinger band center trigger
112.94 formerly supportive declining Jan - April trend
112.92 05/18 - 05/21 gap top
112.69 05/22 - 05/23 gap top
112.63 10-DMA
112.36 5-DMA
112.32 05/25 settlement
112.21     -.11     05/29   Settlement
112.18 05/29 low
112.05 lower Bollinger band
111.89 June '04 lows
111.80 long-term down-channel support
```

----------S U P P O R T----------

Technical Commentary -EUREX Jun 2007 **10yr Euro-Bund**
by Mike Sacchitello, CMT
Jun Bund entered the week after satisfying the initial downside count (112.30) that followed the 04/12 confirmation of a 4-month triangle continuation pattern on 05/23. This recent satisfaction of a key technical count, combined with a developing double bottom in the daily slow stochastic may increase the frequency of intra-day rally attempts, but until the simple 5-DMA is surpassed (a reliable downside smoothing line) we would not recommend taking large counter trend bets. If, and only if, the 5-DMA were surpassed (on a closing basis) would we suggest that the initial pocket to open would be up to the point of the 05/14 breakdown (113.43).

Our proprietary trading system (a near to long-term trend following system) entered its final short position on 04/13, with the first protective stop not due to be triggered until settlement above 113.58.

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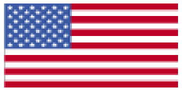
Quotes 1



	32 nds							
	ls	net	high	low	open	Volume	Yest Volume	SYM NAME
TUAM7	101.270	0.5	101.277	101.260	101.260	29,204	417,507	2y Futures
FVAM7	104.170	2.5	104.190	104.140	104.145	64,309	856,596	5y Futures
TYAM7	106.190	3.5	106.215	106.150	106.150	157,619	1,545,482	10y Futures
USAM7	109.080	5	109.110	109.010	109.010	40,697	514,084	30y Futures
	ls	net	high	low	open			SYM NAME
BUS02P	#VALUE!	23.2	100.010	100.000	100.000			2y
BUS05P	98.205	2.2	98.220	98.177	98.180			5y
BUS10P	97.045	5.0	97.065	97.000	97.000			10y
BUS30P	96.040	8	96.085	96.000	96.000			30y
	ls	net	high	low	open			SYM NAME
BUS02Y	4.867	(1.60)	4.905	4.851	4.905			2y Yield
BUS05Y	4.810	(2.00)	4.842	4.799	4.842			5y Yield
BUS10Y	4.863	(1.70)	4.89	4.853	4.89			10y Yield
BUS30Y	4.999	(1.70)	5.023	4.991	5.02			30y Yield

German Futures

	Decimal							
	ls	net	high	low	open	Volume	Yest Volume	SYM NAME
DGM7	102.76	0.20	102.80	102.76	102.76	362,625	398,473	Schatz(2Y)
DLM7	106.71	0.06	106.78	106.68	106.69	507,018	497,009	Bobl(5Y)
DBM7	112.31	0.11	112.42	112.25	112.30	584,671	870,279	Bund(10Y)

German Cash

	Price	Yield						
	ls	ls	Coupon	Maturity				SYM NAME
T.US.DE036P0309	98.98	4.339	3.750	3/13/2009				2 yr CTD
T.US.DE050P0112	102.52	4.365	5.000	1/4/2012				5 yr CTD
T.US.DE034P0116	93.88	4.362	3.500	1/4/2016				10 yr CTD
DEP2P	99.00	4.339	3.750	3/13/2009				2yr OTR
DEP5P	98.43	4.363	4.000	4/13/2012				5yr OTR
DEP10P	95.19	4.373	3.750	1/4/2017				10yr OTR

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

Quotes 2

This page provide a more detailed look at the quotes for the German Bonds

German Bonds are quoted in decimal, not 32nds.

	Decimal								
	bid	ask	Last	hi	lo	Chng		SYM NAME	
DGM7	102.76	102.77	102.76	102.80	102.76	0.20		Schatz(2Y)	German Futures
DLM7	106.70	106.71	106.71	106.78	106.68	0.06		Bobl(5Y)	
DBM7	112.31	112.32	112.31	112.42	112.25	0.11		Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo				
DGM7	4.526	4.523	4.523	4.528	4.507			Schatz(2Y)	German Futures
DLM7	4.475	4.473	4.473	4.479	4.457			Bobl(5Y)	
DBM7	4.448	4.447	4.448	4.455	4.435			Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng			
T.US.DE036P0309	4.351	4.339	4.339	4.357	4.315	0		2 yr CTD	German Cash
T.US.DE050P0112	4.375	4.365	4.365	4.387	4.348	6		5 yr CTD	
T.US.DE034P0116	4.368	4.362	4.362	4.378	4.350	8		10 yr CTD	
DEP2P	4.351	4.339	4.339	4.357	4.315	0		2yr OTR	
DEP5P	4.373	4.363	4.363	4.380	4.347	4		5yr OTR	
DEP10P	4.379	4.373	4.373	4.391	4.361	9		10yr OTR	

	Decimal								
	bid	ask	Last	hi	lo	Chng		SYM NAME	
T.US.DE036P0309	98.98	99.00	99.00	99.04	98.97	0.00		2 yr CTD	German Cash
T.US.DE050P0112	102.52	102.56	102.56	102.63	102.47	0.06		5 yr CTD	
T.US.DE034P0116	93.88	93.92	93.92	94.00	93.81	0.08		10 yr CTD	
DEP2P	98.98	99.00	99.00	99.04	98.97	0.00		2yr OTR	
DEP5P	98.39	98.43	98.43	98.50	98.36	4.00		5yr OTR	
DEP10P	95.14	95.19	95.19	95.28	95.05	9.00		10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

Stone & McCarthy
RESEARCH ASSOCIATES

Yesterday

Posted 05/29 12:11 EST

Euro Mkt Summary: EGBs Fall Further Following Strong US Data
by Niraj Shah
Headlines
- Bonds lower, short dates underperform on US data, Asian stocks
- Gilts outperform on dovish Blanchflower & soft mortgage lending data

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- Bonds open lower on JGB weakness and hawkish ECB Weber & Stark comments
- May Pan-German CPI: 0.2%mom/1.9%yoy
- May Pan-German EU-Harmonised CPI: 0.2%mom/2.0%yoy

EGBs were lower on Tuesday afternoon with June Bunds hitting a new contract low of 112.15 following the release of stronger than expected US consumer confidence data for May. EGBs started the day on a low on the back of weakness in overnight Japanese government bonds as well as hawkish comments from ECB Governing Council member Axel Weber and Juergen Stark over the weekend. However, EGBs recovered somewhat during the day on investor dip-buying. Moreover, the long-dated issues outperformed on the back of month-end duration extension buying, given the iBoxx Euro sovereign index extends by +0.08 years. Yet, afternoon trading saw the release of stronger than expected US data trigger another fall in EGBs. Eurozone data made little impact as the May pan-German state CPI came in line with expectations. Attention now turns to the release of EMU M3 data on Wednesday.

Speaker wise, attention will turn to ECB's Weber's speech in Paris after the European close on Tuesday as well and ECB's Liikanen speech on Wednesday. ECB Governing Council member Axel Weber was reported as saying over the weekend that monetary policy should be more restrictive under circumstances of especially robust money-supply growth whilst ECB's Stark said that the central bank remained strongly vigilant on inflationary risks.

On the supply front, the Greek PDMA announced it sold E1.6bln of the 4.10% Aug 2012 GGB issue at average yield of 4.41, covered 3.99 times. Italy sold E1.5bln in placement via auction of the 2.1% Sept 2017 BTPei issue at gross yield of 2.32%, covered 1.72 times. Italy is now due to sell the 4.00% Mar 2010 and 4.00% Feb 2017 BTP auctions as well as the Mar 2014 CCT auction on Wednesday.

Gilts outperformed EGBs after being underpinned by softer economic data as well as rather dovish comments from BOE's Blanchflower in the Observer indicated that next rate hike will be the last in the current cycle. Gilts were also underpinned by softening house price data from Hometrack as well as mortgage lending data from the British Bankers Association, which showed that the number of loans approved for house purchases in April fell markedly. All in all, the data showed signs of a cooling housing market activity.

The UK Debt Management Office (DMO) also announced on Tuesday that it would auction Stg2.5bln of the new Dec 2042 Gilt, with a coupon of 4.50%, which is due to be sold on June 5. June Gilt futures showed little reaction to this announcement as most strategists were expecting this size and coupon for the new 2042 Gilt. Attention on Wednesday turns to the DMO minutes of the GEMMs and end-investors quarterly meeting as well as a speech by Blanchflower.

MarketNews international

Overnight

04:49 05/30 **ECB GARGANAS**: Reported saying (interview with Bbg)
- ECB is `closely' monitoring wage developments
- Price pressure stronger than earlier forecast
- Capacity use, money growth, oil among risks
- Assumptions for inflation may be 'optimistic'
- Some factors pointing to higher 2007 inflation
- ECB is `strongly vigilant' on inflation
- Inflation risls 'on the upside and increasing'
- Growth probably accelerated in Q2
- Risks to 2007 growth forecast on the upsdie
- H1 growth could be stronger than forecast
- Interest rates haven't yet peaked
- Doesn't rule out raising rates beyond June
- All options are 'open' on moves beyond June
- Market expectations for June are 'correct'

06:06 05/30 **GILTS:** Short-dated Gilts are outperforming, in turn steepening the Gilt curve. Traders say Gilts are underpinned ahead of the ex-dividend event today, which is associated with the coupon flows from the June/December coupon paying bonds. Strategists estimate around Stg4.1bln coupon payments due on June 7, and around Stg2.0bln are expected to be reinvested back into the +15-year sector. This bodes well for the new Dec 2042 Gilt, which is due to be sold on June 5. Looking further ahead, the redemption of the 8.50% July 2007 Gilt on July 16 will release around Stg4.869bln.

Overnight

03:28 05/30 **CHINA STOCKS**: Benchmark stock indices in Shanghai and Shenzhen closed sharply lower after the govt took further measures to cool the rampant market. The benchmark Shanghai Comp closed down 281.84 points, or 6.50 pct, at 4,053.09. The Shanghai A-share Index was down 294.48 points or 6.48 pct at 4,250.00 and the Shenzhen A-share Index was down 96.74 points or 7.15 pct. The FTSE/Xinhua China A 50 Index was down 990.89 points at 13,800.10. The FTSE/Xinhua China A 200 Index was down 758.29 points to 10,841.31.

02:55 05/30 BONDS: **EGBs** are opening higher on Wednesday on risk-aversion buying following sharp fall in Asian equity bourses o/n. The move is led by Chinese stocks, amid fears of a sharp correction after China approved an increase in the tax to 0.3% from the current 0.1%, effective today. The trippling of stamp duty on stock trades was a move aimed at cooling off the red-hot share market. The Shanghai Composite Index is currently down 268pts (-6.2%), but is still up around 52% year-to-date after a gain of some 130% last year. However, this is seen as corrective bounce in EGBs, given recent rise in yields, where 10-year benchmark yield broke above 4.40% yesterday - hitting the highest level since December 6, 2002. This correction is seen undepinned by oversold technical indicators and also ahead of month-end demand, given the iBoxx Euro sovereign index extends by a large +0.08 years. Attention now turns to the $13bln 5-year Note auction today, whilst Italy taps 7-year floater, 3 & 10-year BTPs for E2.0bln, E2.5bln & E3.0bln, respectively. Also eyed is eurozone M3 data.

Intrinsic's

	US Intrinsic's			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.33	4.78	$1,495	
10y	7.89	2.46	$768	
5y	4.34	1.38	$430	
2y	1.81	0.58	$180	
ZB	9.64	3.43	$107	
ZN	5.72	1.98	$62	
ZF	3.77	1.28	$40	
ZT	1.73	1.13	$35	

	German Intrinsic's^			
	M Duration	DV01(€)	DV01($)	CF
Bund				0.836007
Bobl				0.960701
Schatz				0.963364
DE10Y				
DE5Y				
DE2Y				

^Futures are Based on CTD

	Last
EURUSD	134.25

I'm working on the intrinsic's. It will take some time to complete.
I hope to have it done soon.

Notes

1) CF = Conversion Factor
2) MDuration = Modified Macaulay Duration
3) MDuration & DV01s for Futures are based on proxy issue (CTD)

Hedge Ratio's - Bloomberg

US Financial Futures / Eurex Bond

	ZN	ZF	ZT
Bund (M)	1.800	2.700	3.000
Bobl (M)	0.950	1.500	1.600
Shatz (M)	0.390	0.600	0.660

US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (M)	1.7	3.9	6.9
Bobl (M)	3.1	7.3	13.0
Shatz (M)	7.6	18.0	31.9

	Bund (M)	Bobl (M)	Shatz (M)
Bund (M)		1.873	4.608
Bobl (M)	0.534		2.460
Shatz (M)	0.210	0.400	

0

Yield Spreads

US Cash Treasuries (OTR)	Bid	Ask	Last
US2y	4.867	4.859	4.867
US5y	4.813	4.810	4.810
US10y	4.865	4.863	4.863

German Cash Treasuries (OTR)	Bid	Ask	Last
DE2y	4.351	4.339	4.339
DE5y	4.373	4.363	4.363
DE10y	4.379	4.373	4.373

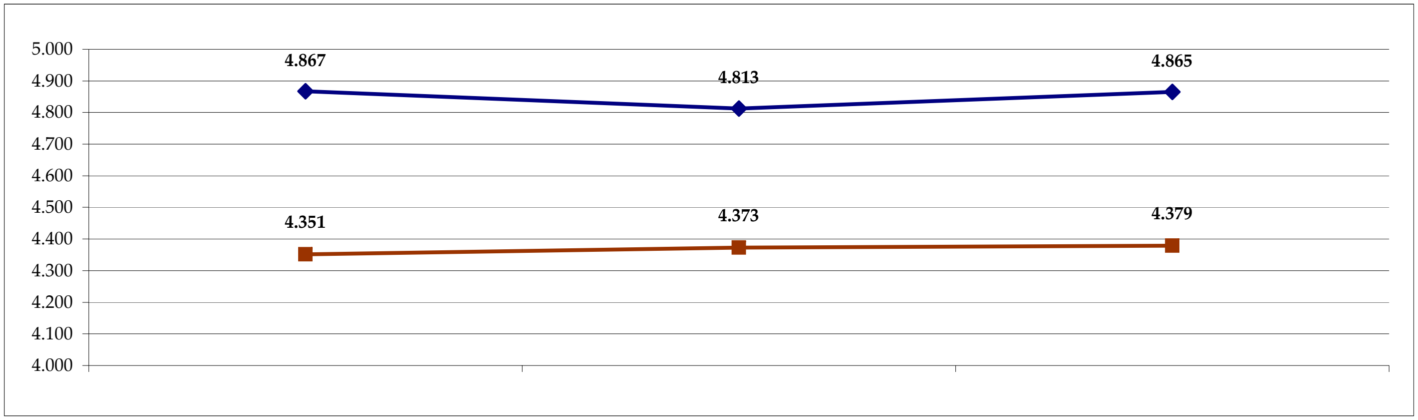
Spreads^	
US2y-Schatz	0.334
US5y-Bobl	0.324
US10y-Bund	0.402
US2y- 3.750 of 03/09	0.528
US5y- 4.000 of 01/12	0.445
US10y- 3.500 of 01/16	0.501
US2y-DE2y	0.528
US5y-DE5y	0.447
US10y-DE10y	0.490

^Last minus Last

German Futures ^	Bid	Ask	Last
Schatz	4.526	4.523	4.533
Bobl	4.475	4.473	4.486
Bund	4.448	4.447	4.461

^Interpolated. NOT based on CTD

German Futures (CTD)	Bid	Ask	Last
3.750 of 03/09	4.351	4.339	4.339
4.000 of 01/12	4.375	4.365	4.365
3.500 of 01/16	4.368	4.362	4.362



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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.

Volume Questions

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	