



The Morning Email: US & Germany

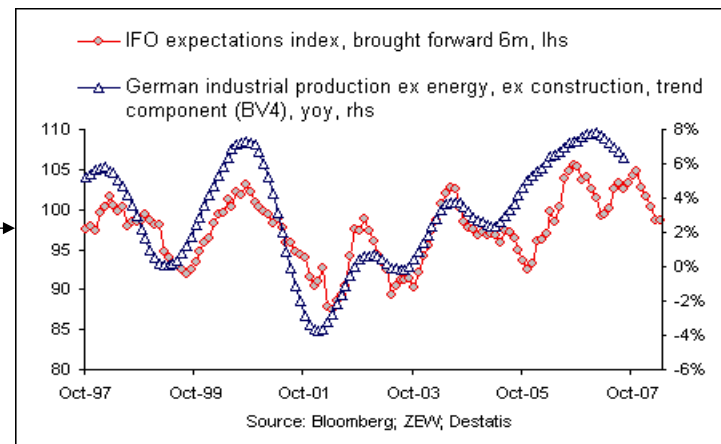


Table of Contents

- Pg 1 Quotes 1
- Pg 2 Quotes 2
- Pg 3 News - Yesterday's Recap
- Pg 4 News - Overnight Recap for Euroland & Japan
- Pg 5 Intrinsic & Tic for Tic Matrix'
- Pg 6 Hedge Ratio's - Bloomberg/GH Trader's LLC
- Pg 7 Yields & Spreads
- Pg 8 Volume Questions & Global Bond Market Characteristics
- Pg 9, 10, 11 The ECB Updated 10/10/2007
- Pg 13, 14 The BOE Updated 10/17/2007

German overall business conditions deteriorated only slightly further in October according to the IFO institute, with its headline index coming in at 103.9, 0.3 points down from September, a much smaller drop than the 1.6 point decline observed in the prior month. The business climate diffusion indices revealed less optimism in the manufacturing and wholesale sectors in October. At the same time, pessimism in the construction sector was less pronounced for the first month in three and was also much reduced in the retail sector after a large slump in September. --by John Higgins

Stone & McCarthy  
RESEARCH ASSOCIATES



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.

Quotes 1

	32 nds					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
TUAZ7	103.272	(0.0)	103.297	103.267	103.287	34,676	230,332	2y Futures	<b>US Futures Market</b>
FVAZ7	107.305	(0.1)	108.055	107.295	108.025	76,608	887,577	5y Futures	
TYAZ7	110.265	(0.1)	111.025	110.250	110.285	129,726	1,638,788	10y Futures	
USAZ7	113.240	(0)	114.020	113.220	113.260	24,242	433,554	30y Futures	



	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02P	99.232	(24.2)	99.257	99.230	99.245	2y	<b>US Cash Treasury Market</b>
BUS05P	101.020	(3.2)	101.085	101.012	101.047	5y	
BUS10P	103.035	(3.0)	103.120	103.030	103.060	10y	
BUS30P	105.195	(2)	106.000	105.175	105.185	30y	

	32 nds					Volume	
	Last	Net	Hi	Low	Open		
BUS02Y	3.765	2.80	3.847	3.72	3.847	2y Yield	<b>US Cash Treasury Market</b>
BUS05Y	4.007	2.10	4.019	3.961	3.986	5y Yield	
BUS10Y	4.354	0.90	4.362	4.319	4.339	10y Yield	
BUS30Y	4.648	(0.10)	4.654	4.621	4.639	30y Yield	

	Decimal					Volume	Yest Volume	SYM NAME	
	Last	Net	Hi	Low	Open				
DGZ7	103.47	(35.00)	103.54	103.42	103.50	343,537	917,367	Schatz(2Y)	<b>German Futures Markets</b>
DLZ7	108.18	(60.00)	108.31	108.11	108.23	232,817	744,170	Bobl(5Y)	
DBZ7	113.94	(5.00)	114.11	113.84	114.05	414,756	1,445,304	Bund(10Y)	



	Price	Yield			SYM NAME	
	Last	Last	Coupon	Maturity		
T.US.DE040P0909***	100.10	3.921	4.000	9/11/2009	2 yr CTD	<b>German Cash Treasury Market</b>
T.US.DE050P0712***	103.99	4.032	5.000	7/4/2012	5 yr CTD	
T.US.DE040P0716*	98.96	4.136	4.000	7/4/2016	10 yr CTD	
DEP2P	100.13	3.921	4.000	9/11/2009	2yr OTR	
DEP5P	100.96	4.031	4.250	10/12/2012	5yr OTR	
DEP10P	100.69	4.160	4.250	7/4/2017	10yr OTR	

Notes

- Y = Yield
- DE = German Country Code
- CTD = Cheapest to Deliver
- OTR = On the Run
- \* OTR
- \*\* CTD
- \*\*\* CTD & OTR

**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
DGZ7	103.47	103.47	103.47	103.54	103.42	-35.00
DLZ7	108.17	108.18	108.18	108.31	108.11	-60.00
DBZ7	113.94	113.95	113.94	114.11	113.84	-5.00

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo
DGZ7	4.159	4.156	4.156	4.182	4.122
DLZ7	4.157	4.155	4.155	4.170	4.128
DBZ7	4.259	4.258	4.258	4.271	4.240

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng
T.US.DE040P0909***	3.893	3.961	3.921	3.921	3.938	
T.US.DE050P0712***	4.004	4.058	4.032	4.032	4.042	
T.US.DE040P0716*	4.115	4.157	4.136	4.136	4.143	
DEP2P	3.938	3.921	3.921	3.961	3.893	-2
DEP5P	4.040	4.031	4.031	4.061	4.007	-5
DEP10P	4.166	4.160	4.160	4.180	4.140	-10

	Decimal					
	Bid	Ask	Last	Hi	Low	Chng
T.US.DE040P0909***	100.10	100.13		100.18	100.06	-2.00
T.US.DE050P0712***	103.99	104.03		104.15	103.92	-6.00
T.US.DE040P0716*	98.96	99.01		99.16	98.86	-10.00
DEP2P	100.10	100.13	100.13	100.18	100.06	-2.00
DEP5P	100.92	100.96	100.96	101.07	100.83	-5.00
DEP10P	100.64	100.69	100.69	100.84	100.53	-10.00

SYM NAME	
Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

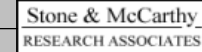
Schatz(2Y)	German Futures
Bobl(5Y)	
Bund(10Y)	

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	

Notes

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- \* OTR
- \*\* CTD
- \*\*\* CTD & OTR



### **Euro Mkt Summary: EGBs Higher on Flight to Quality, Existing Home SIs by Charanjev Chana**

EGBs were trading higher on Wednesday afternoon with short dated outperforming, in turn steepening the Bund curve. Bunds spiked higher following the release of weaker than expected US existing home sales. Prior to home sales data, the market traded higher in early afternoon trade ahead of Q3 Merrill Lynch results, but soor pared gains after the report revealed less than expected writedowns (\$7.9bln vs. \$10bln suggested by earlier rumours). EGBs opened higher taking cue from flight-to-quality buying in USTs and JGBs overnight. Bund extended gains in early trade on reports that Eurex market maker RV Capital had been declared in default. Also encouraging safe-haven flows into short dated bonds was reports that Turkey had bombed PKK positions in Iraq. Prices eased following the release of the flash EMU services PMI, which rebounded in October after posting a sharp fall in September. Germany sold E3.685bln of the new 2.25% Apr Boblei, which was covered 1.8 times with the Bundesbank retaining 7.88% of total volume issues for open market operations.

A busy day in Europe on Thursday sees the release of German import prices on the open. This will be followed by French business climate data. Attention however will be on the release of the German IFO business sentiment, which is expected to post slightly above consensus according SMR estimates. Also expected are comments from ECB official Mario Draghi who speaks in Milan.

In the forex markets, the dollar traded mixed against the major currencies. The EUR/USD was at 1.424 (-0.001), cable at 2.048 (-0.002) and USD/JPY at 114.10 (-0.32).

European equities were stronger in afternoon trade. The DAX was trading +0.09%, CAC 40 +0.38% and the FTSE +0.35% on the day. US stocks were weaker with the S&P 500 -0.34% and the NASDAQ -0.75%.

Gilts were also trading higher but underperforming trade in Europe. Long dated Gilts came under pressure on weaker demand for the 1.125% 2037 index at the DMO auction conducted on Wednesday morning. Weak demand was expected given historically wide breakevens and proposals from the Department for Work and Pensions to allow employers to cap future inflationary escalation at 2.5%. A heavy slew of competing linker supply due this quarter - including a new 30-year linker and a tap of the existing 15-year linker issue was also seen impacting demand.

Attention in the UK turns to the release of BBA consumer and mortgage lending data on Thursday morning.



[Times for Market News International stories are ET]

06:47 10/25 **LIBOR FIXINGS:** Euro 3-mth Libor fixed at 4.61000% vs 4.62063% Weds--  
Stg 3-mth Libor fixed at 6.27188% vs 6.27500% Wednesday.

06:30 10/25 **BUNDS/GILTS:** Traders report large E1.0bln buyer of 2037 Bund and  
switch out 30-year Gilts. The 30-year Gilt/Bund yield spread is wider at +10bps.

03:07 10/25 **BONDS: EGBs** are opening lower on Thursday on profit-taking following  
sharp gains the previous session, after Merrill Lynch suffered a ratings downgrade in  
the wake of reporting a \$2.24-bln Q3 loss, or \$2.82/share, with a \$7.9bln writedown in  
collateralized debt obligations (CDOs). In addition, rumour of another US Investment  
bank due to report \$9bln writedown also injected a bid in bond markets. However, the  
sharp recovery in Wall Street stocks towards the close took the shine off bonds. In  
addition, stock futures are also higher after Amazon.com beat third-quarter forecasts by  
a penny as revenue jumped 41% from a year ago, in after-hours session. That said,  
Bunds are seen supported by a large E14.64bln redemption of the 5.50% Oct 2007  
OAT is due on Thursday. In addition, coupon payments from France for around  
E11.65bln, Austria E0.95bln and Greece E1.0bln are also due this week. In addition,  
Bunds are seen underpinned by duration buying, as early estimates iBoxx Euro  
sovereign index extends by +0.10 yrs into November -higher than average.

05:44 10/25 **GILTS:** The Gilt curve is steepening, with the short-dated issues  
outperforming as traders take note of the Bank of England's latest Financial Stability  
Report released overnight. The report warned that that the financial system remains  
vulnerable to further problems arising from the market turmoil, and to new shocks, from  
such things as the falling dollar and fragile equity markets. However, the report also  
said that the UK economic outlook remains "robust" despite the stress inflicted on the  
financial system by recent market turmoil. The FT Lex column said that "the preceding  
64 pages of the Bank of England financial stability report may constitute the most  
bearish commentary on global markets to come out of any big central bank". The UK  
interest rate curve is pricing in around 25% chance of a 25bps rate cut at the November

06:16 10/25 **CREDIT:** The Bank of England Financial Stability report, released  
overnight was rather more gloomy than expected. While the Bank may be seen as  
trying to appear on top of the credit crises, after it seemed woefully behind the curve  
with regard to Northern Rock, the report has been heralded as one of the most bearish  
commentary to come out of a big central bank, by the FT's LEX today. The Bank said  
that rating agencies should face "public sector intervention" if they don't overhaul the  
way they rate CDO's and other structured products and also that the global financial  
system is at risk of further instability due to ongoing uncertainties. However, while the  
report said little until on future contingency plans, the BoE's willingness to reexamine its  
systems has been fairly well received by markets.

(Cont.)

05:47 10/25 **OECD:** U.S. Q2 industry unit labor costs +0.3% q/q; Q2 services +1.1% q/q

--Germany Q2 industry unit labor costs flat q/q; Q2 services flat q/q

--France Q2 industry unit labor costs +0.3% q/q; Q2 services +0.8% q/q

--Italy Q2 industry unit labor costs +0.9% q/q; Q2 services +0.7% q/q

--Japan Q2 industry unit labor costs -0.3% q/q; Q2 services -0.4% q/q

05:44 10/25 **GERMAN DEBT HEAD:** Comments from Gerhard Schlei

-- Germany hasn't ruled out a 30-year linker bond

-- German Ministry of Finance to decide on 30-year linker

-- Germany to decide in December on 2008 issuance

-- German 2008 issuance calendar to be published on December 20.

06:40 10/25 **EUROZONEL:** Reported comments from eurozone officials Thursday,

\*\* EU ALMUNIA: Financial market turmoil not yet behind us

- Still assessing impact of turmpoil on real economy

- EMU GDP outlook for next 2 years has deteriorated

- Downside risks to EMU outlook increased due turmoil

- but strong EMU fundamentals should cushion impact.

- Asked on strong euro, says G7 message very clear

\*\* GERMANY: Ifo; Export expectations weakened marginally in Oct

- Personnel plans point to slightly weaker hiring propensity

\*\* GERMANY ECOMIN; Growth momentum is sound despite strong euro

- Domestic inflation of 2.1% in 2007 'not alarming'

- Expect national CPI to slow to 1.9% in 2008

- No impact on government revenues from GDP revisions

- If euro, oil rise quickly could hurt growth

- ECB should focus on stability, ignore political pressure

02:13 10/25 **JGB SUMMARY:** Prices were knocked lower as the market absorbed Y800

billion in new 20-year bonds. The moF set a coupon of 2.2% on the Y800 billion worth of 20-

year government bonds it auctioned earlier, the same coupon given at the previous auction

last month, underpinning demand for the issue. The auction produced a lowest accepted price

of 100.70 to yield 2.149%, with 45.1149% of bids at that level accepted. The

bid/cover was 3.73 times. At the previous auction of 2.2% 20-year bonds held Sept 20, the

lowest accepted price was 100.45 yen, giving a yield of 2.167%, with a bid-to-cover ratio of

3.75 to one. JGBs, which had already been trading lower ahead of the auction as traders

adjusted positions, continued to trade with a soft tone through the Tokyo afternoon. However,

traders did report some demand in the five-year sector, which ended slightly higher.

-- Benchmark 10-year yield was 1.5 bps higher at 1.590%.

-- Benchmark 5-year yield was 1 bps lower at 1.085%



US Intrinsic's ^				
	M Duration	DV01 32	DV01 \$	DV01(€)
30y	15.66	5.34	\$1,670	€ 2,389
10y	7.75	2.58	\$806	€ 1,153
5y	4.40	1.43	\$446	€ 638
2y	1.84	0.59	\$184	€ 263
ZB	9.91	3.65	\$114	€ 163
ZN	5.81	2.08	\$65	€ 93
ZF	3.89	1.35	\$42	€ 61
ZT	1.84	0.61	\$19	€ 27

^Futures are Based on CTD

German Intrinsic's ^				
	M Duration	DV01(€)	DV01(\$)	CF
Bund	7.11	€ 235	\$164	0.874919
Bobl	4.08	€ 128	\$90	0.960712
Schatz	1.77	€ 53	\$37	0.957701
DE10Y	7.72	€ 1,126	\$787	
DE5Y	4.08	€ 615	\$430	
DE2Y	1.77	€ 254	\$178	

^Futures are Based on CTD

Last

EURUSD 143.05

Tic for Tic Matrix (\$)			
	Bund	Bobl	Schatz
30y	10.17	18.64	45.00
10y	4.91	9.00	21.72
5y	2.72	4.98	12.02
2y	1.12	2.05	4.95
ZB	0.70	1.28	3.08
ZN	0.40	1.34	1.75
ZF	0.26	0.47	1.14
ZT	0.12	0.21	0.51

**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 (Z)	1.700	2.700	3.000
Bobl (Z)	0.970	1.450	1.570
Shatz (Z)	0.400	0.620	0.680

Bloomberg  
Ratio's

## US Treasuries v Eurex Bonds

	2y	5y	10y
Bund (Z)	1.7	3.9	7.1
Bobl (Z)	3.1	7.1	12.8
Shatz (Z)	7.8	15.9	28.8

Bloomberg  
Ratio's

	Bund (Z)	Bobl (Z)	Shatz (Z)
Bund (Z)	1.00	1.66	4.01
Bobl (Z)	0.60	1.00	2.42
Shatz (Z)	0.25	0.41	1.00

GH Trader's  
Ratio's

## Note:

Bloomberg hedge ratio's are static. Meaning, I only update them once a week and on rolls. My hedge ratio's are live, meaning, they're updated in real-time. I've managed to get the Eurex to Eurex ratio's updating live as of 07/05/2007. I'll be working on Eurex to the USA ratio's soon. All matrixes are labeled GH Trader's or Bloomberg.

US Cash Treasuries (OTR)			
	Bid	Ask	Last
US2y	3.769	3.765	3.765
US5y	4.010	4.007	4.007
US10y	4.356	4.354	4.354

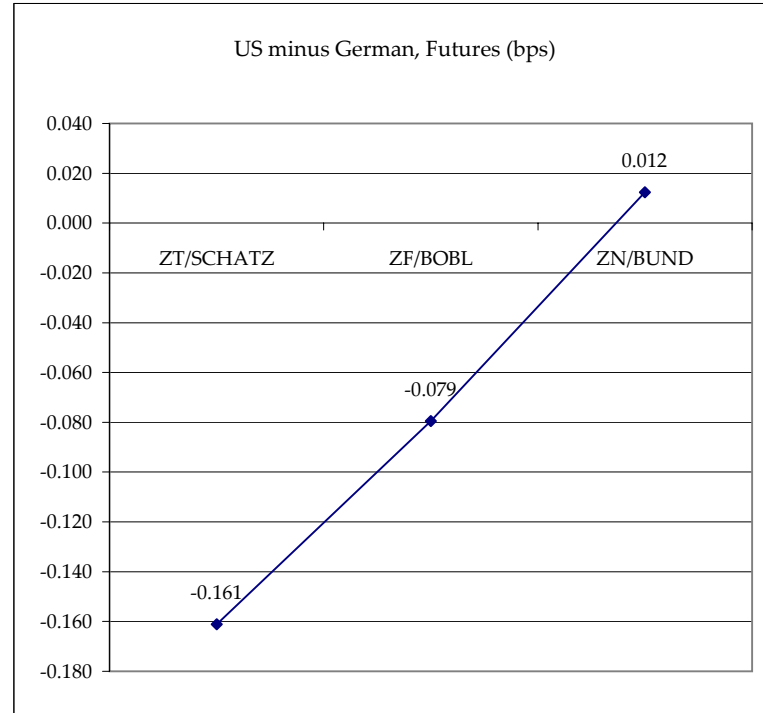
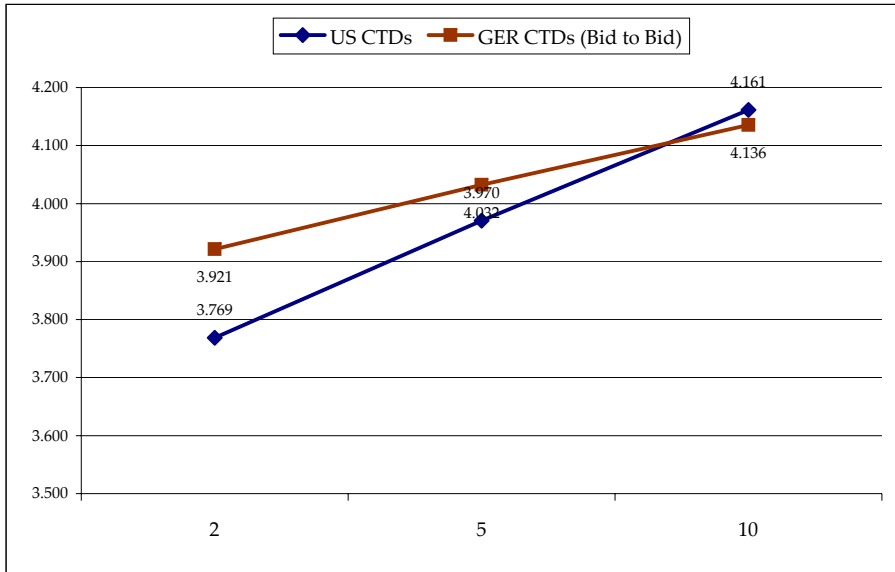
German Cash Treasuries (OTR)			
	Bid	Ask	Last
DE2y	3.938	3.921	3.921
DE5y	4.040	4.031	4.031
DE10y	4.166	4.160	4.160

Spreads	
	Bps
ZT/SCHATZ	-0.161
ZF/BOBL	-0.079
ZN/BUND	0.012

US Cash Treasuries (CTD)			
	Bid	Ask	Last
4 of 09/09	3.769	3.760	3.760
4.625 of 02/12	3.970	3.953	3.953
4.25 of 08/14	4.161	4.148	4.148

German Futures (CTD)			
	Bid	Ask	Last
4.000 of 09/09	3.893	3.961	3.921
5.000 of 07/12	4.004	4.058	4.032
4.000 of 07/16	4.115	4.157	4.136

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.



When does the volume trade? Between what hours 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

The Governing Council

Jean-Claude Trichet , President of the ECB  
 Lucas D. Papademos, Vice-President of the ECB  
 Lorenzo Bini Smaghi, Member of the Executive Board of the ECB  
 José Manuel González-Páramo, Member of the Executive Board of the ECB  
 Jürgen Stark, Member of the Executive Board of the ECB  
 Gertrude Tumpel-Gugerell, Member of the Executive Board of the ECB  
 Axel A. Weber, President, Deutsche Bundesbank  
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 Christian Noyer, Governor, Banque de France  
 John Hurley, Governor, Central Bank and Financial Services Authority of Ireland  
 Mario Draghi, Governor, Banca d'Italia  
 Yves Mersch, Governor, Banque centrale du Luxembourg  
 Klaus Liebscher, Governor, Oesterreichische Nationalbank  
 Vítor Manuel Ribeiro Constâncio, Governor, Banco de Portugal  
 Marko Kranjec, Governor, Banka Slovenije  
 Erkki Liikanen, Governor, Suomen Pankki - Finlands Bank

**The Governing Council usually meets twice a month at the Eurotower in Frankfurt am Main, Germany.**

At its first meeting each month, the Governing Council assesses monetary and economic developments and takes its monthly monetary policy decision. At its second meeting, the Council discusses mainly issues related to other tasks and responsibilities of the ECB and the Eurosystem.

The minutes of the meetings are not published, but the monetary policy decision is announced at a press conference held shortly after the first meeting each month. The President, assisted by the Vice-President, chairs the press conference.

**The primary objective of the ECB's monetary policy is to maintain price stability. The ECB aims at inflation rates of below, but close to, 2% over the medium term.**

**EU Central Banks**

Austria, Oesterreichische Nationalbank  
 Belgium, Nationale Bank van België/Banque Nationale de Belgique  
 Bulgaria, Bulgarian National Bank  
 Czech, Republic Česká národní banka  
 Cyprus, Central Bank of Cyprus  
 Denmark, Danmarks Nationalbank  
 Estonia, Eesti Pank  
 Éire/Ireland, Central Bank and Financial Services Authority of Ireland  
 Finland, Suomen Pankki - Finlands Bank  
 France, Banque de France  
 Germany, Deutsche Bundesbank  
 Greece, Bank of Greece  
 Hungary, Magyar Nemzeti Bank  
 Italy, Banca d'Italia  
 Latvia, Latvijas Banka  
 Lithuania, Lietuvos bankas  
 Luxembourg, Banque centrale du Luxembourg  
 Malta, Central Bank of Malta  
 The Netherlands, De Nederlandsche Bank  
 Poland, Narodowy Bank Polski  
 Portugal, Banco de Portugal  
 Romania, Banca Națională a României  
 Slovakia, Národná banka Slovenska  
 Slovenia, Banka Slovenije  
 Spain, Banco de España  
 Sweden, Sveriges Riksbank  
 United Kingdom, Bank of England

**EU Central Banks**

Austria, Oesterreichische Nationalbank	Klaus Liebscher, Governor, Oesterreichische Nationalbank
Belgium, Nationale Bank van België/Banque Nationale de Belgique	Guy Quaden, Governor, Nationale Bank van België/Banque Nationale de Belgique
Bulgaria, Bulgarian National Bank	Ivan Iskrov
Czech, Republic Česká národní banka	Zdeněk Tůma
Cyprus, Central Bank of Cyprus	Athanasios Orphanides
Denmark, Danmarks Nationalbank	Nils Bernstein
Estonia, Eesti Pank	Andres Lipstok
Éire/Ireland, Central Bank and Financial Services Authority of Ireland	John Hurley, Governor, Central Bank and Financial Services Authority of Ireland
Finland, Suomen Pankki - Finlands Bank	Erkki Liikanen, Governor, Suomen Pankki - Finlands Bank
France, Banque de France	Christian Noyer, Governor, Banque de France
Germany, Deutsche Bundesbank	Axel A. Weber, President, Deutsche Bundesbank
Greece, Bank of Greece	Nicholas C. Garganas, Governor, Bank of Greece
Hungary, Magyar Nemzeti Bank	András Simor
Italy, Banca d'Italia	Mario Draghi, Governor, Banca d'Italia
Latvia, Latvijas Banka	Ilmārs Rimšēvičs
Lithuania, Lietuvos bankas	Reinoldijus Šarkinas
Luxembourg, Banque centrale du Luxembourg	Yves Mersch, Governor, Banque centrale du Luxembourg
Malta, Central Bank of Malta	Michael C. Bonello
The Netherlands, De Nederlandsche Bank	Nout Wellink, President, De Nederlandsche Bank
Poland, Narodowy Bank Polski	Ślawomir Skrzypek
Portugal, Banco de Portugal	Vítor Manuel Ribeiro Constâncio, Governor, Banco de Portugal
Romania, Banca Națională a României	Mugur Isărescu
Slovakia, Národná banka Slovenska	Marko Kranjec, Governor, Banka Slovenije
Slovenia, Banka Slovenije	Marko Kranjec
Spain, Banco de España	Miguel Fernández Ordóñez, Governor, Banco de España
Sweden, Sveriges Riksbank	Stefan Ingves
United Kingdom, Bank of England	Mervyn King

Jean-Claude Trichet, President of the ECB, Came from Banque de France, BIS, and World Bank

Lucas D. Papademos, Vice-President of the ECB, Came from Bank of Greece

Lorenzo Bini Smaghi, Member of the Executive Board of the ECB, Came from Banca d'Italia

José Manuel González-Páramo, Member of the Executive Board of the ECB, Came from Banco de España

Jürgen Stark, Member of the Executive Board of the ECB, Came from Deutsche Bundesbank

Gertrude Tumpel-Gugerell, Member of the Executive Board of the ECB, Came from Oesterreichische Nationalbank

**Notes for shaded and unshaded cells**

Represented on the Governing Council

Represented on the General Council

**4 October 2007 - Monetary policy decisions**

At today's meeting, which was held in Vienna, the Governing Council of the ECB decided that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.00%, 5.00% and 3.00% respectively.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 2.30 p.m. (CEST) today.

[SOURCE: The ECB]

**ECB Introductory Statement**

On the basis of our regular economic and monetary analyses, we decided at today's meeting to leave the key ECB interest rates unchanged. The information that has become available since our previous meeting has confirmed that the outlook for price stability over the medium term is subject to upside risks. Against this background, and with money and credit growth vigorous in the euro area, our monetary policy stands ready to counter upside risks to price stability, as required by our primary objective. >>>

The fundamentals of the euro area economy support a favourable medium-term outlook for economic activity. In particular, corporate earnings and profitability have been sustained, employment growth has been robust and unemployment has fallen. However, given the financial market volatility and the reappraisal of risk seen in recent weeks, this assessment is surrounded by heightened uncertainty. In view of the only limited range of new economic data that have become available since our meeting in early September, particular caution needs to be exercised when assessing any potential impact of the financial market developments on the real economy. Hence, it remains necessary to gather additional information and examine new data before drawing further conclusions for monetary policy in the context of our medium-term-oriented monetary policy strategy focused on maintaining price stability. Accordingly, the Governing Council will monitor very closely all developments. On the basis of our assessment, and by acting in a firm and timely manner, we will ensure that risks to price stability over the medium term do not materialise and that medium and long-term inflation expectations remain firmly anchored in line with price stability, thereby favouring an environment conducive to sustained economic growth, well-functioning markets and job creation. Providing such an anchor for medium and long-term inflation expectations is all the more important at times of financial market volatility and increased uncertainty. As regards the financial markets, we will continue to pay great attention to developments over the period to come.

[SOURCE: The ECB]

Stone & McCarthy  
RESEARCH ASSOCIATES










**Most Recent MPC Meetings:**

	King (Gov)	Lomax (Dep Gov)	Gieve (Dep Gov)	Bean	Tucker	Barker	Blanchflower	Besley	Sentance	Result	Level	Vote	Dissent bias
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
Jul-07	+25bps	unch	+25bps	unch	+25bps	+25bps	unch	+25bps	+25bps	+25bps	5.75%	6-3	no chg
Aug-07	unch	unch	unch	unch	unch	unch	unch	unch	unch	unch	5.75%	9-0	none
Sep-07	unch	unch	unch	unch	unch	unch	unch	unch	unch	unch	5.75%	9-0	none
Oct-07	unch	unch	unch	unch	unch	unch	-25bps	unch	unch	unch	5.75%	8-1	easing

**BOE Hawkometer - Blanchflower Voted for an October Rate Cut by Niraj Shah [Stone & McCarthy]**

8-1  
The Bank of England minutes showed that the Monetary Policy Committee had voted 8:1 to leave rates on hold at the October meeting. The sole dissenter was Blanchflower who voted for an immediate rate cut. The arch dove argued for a cut on the basis that the BOE's August growth forecast had been a "little high" anyway and that since then growth risks had "increased or even crystallised". The Committee as a whole discussed the case for a "precautionary" cut in rates given the shift in the balance of risks to growth. However, the MPC noted that some slowdown in the economy was needed anyway to meet the inflation target and that there was also a danger that an easing would be "misinterpreted". The November Inflation Report will be instrumental in seeing how far CPI and growth forecasts are revised. However, unless there is a sharp revision lower in growth projections, we still do not envisage the Bank cutting rates before 2008.  
[10/17/2007]

**BOE HAWKOMETER (October)**

	Dissenting Hawkish Votes	Dissenting Dovish Votes	Non-Dissenting Votes	Total Votes	Hawkishness Rating
 Sentance	4	0	9	13	31%
 Besley	4	0	10	14	29%
 King (Gov)	14	0	112	126	11%
 Tucker	6	1	58	65	8%
 Gieve (Dep Gov)	1	0	20	21	5%
 Lomax (Dep Gov)	2	3	47	52	-2%
 Barker	1	4	73	78	-4%
 Bean	0	5	81	86	-6%
 Blanchflower	0	6	11	17	-35%

[September 6, 2007]

The Bank of England's Monetary Policy Committee today voted to maintain the official Bank Rate paid on commercial bank reserves at 5.75%.

In its August Inflation Report, the Committee's central projection was for inflation to remain close to the 2% target over the forecast period and for output growth to ease, reflecting a slowing in both consumer spending and business investment.

In recent weeks, heightened concerns about a variety of asset-backed securities have led to disruption around the world, not only in markets for those financial instruments but also in money markets more generally. The MPC's mandate is to set interest rates to meet the Government's 2% target for CPI inflation. So the Committee discussed these developments and other economic data in terms of their implications for the outlook for inflation.

CPI inflation fell back to 1.9% in July and may remain around, or a little below, the 2% target for the next few months. Pay pressures remain muted. There are tentative signs of a slowing in consumer spending. But the recent solid pace of output growth has been sustained and the margin of spare capacity appears limited. Indicators of pricing pressure remain somewhat elevated.

It is too soon to tell how far the disruption in financial markets will impair the availability of credit to companies and households. As stated in its August Report, the MPC is monitoring closely the evolution of both credit spreads and the quantities of credit extended, alongside all other data relevant to the outlook for inflation.

Against that background, the Committee judged that no change in Bank Rate was necessary at this meeting to keep inflation on track to meet the target in the medium term.

The minutes of the meeting will be published at 9.30am on Wednesday 19 September.

Note to Editors

The previous change in Bank Rate was an increase of 0.25 percentage points to 5.75% on 5 July 2007. [SOURCE: The BOE ]

As of 10/04/2007 7:00 am CT

Current Bank Rate 5.75

Next due: 8 Nov '07

Current Inflation (CPI) 1.8%

Next due: 16 Oct '07

Inflation Target 2.0%

[As of 10/04/2007 7:00 am CT]

**The Bank of England's Monetary Policy Committee today voted to maintain the official Bank Rate paid on commercial bank reserves at 5.75%.**

**The minutes of the meeting will be published at 9.30am on Wednesday 17 October.**