9/4/2007 6:01

The Morning Email: US & Germany

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

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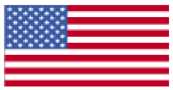
MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

Quotes 1

32 nds

	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
TUAZ7	103.082	0.1	103.085	103.030	103.040	25,566	269,115	2y Futures	US Futures Market
FVAZ7	107.005	0.1	107.015	106.235	106.235	70,196	602,596	5y Futures	
TYAZ7	109.090	0.1	109.120	109.010	109.040	123,481	801,491	10y Futures	
USAZ7	111.240	0	111.260	111.160	111.170	23,538	293,680	30y Futures	



	Last	Net	Hi	Low	Open	Volume	
BUS02P	99.267	3.5	99.270	99.240	99.250	2y	US Cash Treasury Market
BUS05P	#VALUE!	4.5	99.195	99.140	99.140	5y	
BUS10P	101.260	0.0	101.275	101.205	101.205	10y	
BUS30P	102.225	(1)	102.290	102.200	102.210	30y	
	Last	**Net**	**Hi**	**Low**	**Open**	**Volume**	
BUS02Y	4.083	(5.40)	4.158	4.075	4.158	2y Yield	
BUS05Y	4.215	(2.90)	4.255	4.209	4.255	5y Yield	
BUS10Y	4.519	(0.60)	4.549	4.514	4.531	10y Yield	
BUS30Y	4.821	(0.40)	4.838	4.809	4.828	30y Yield	

Decimal

	Last	Net	Hi	Low	Open	Volume	Yest Volume	SYM NAME	
DGU7	103.35	45.00	103.38	103.27	103.33	1,342,430	501,572	Schatz(2Y)	German Futures Markets
DLU7	108.05	120.00	108.10	107.88	107.95	819,712	516,364	Bobl(5Y)	
DBU7	113.80	16.00	113.86	113.57	113.66	1,049,232	590,978	Bund(10Y)	

	Price	Yield				
	Last	Last	Coupon	Maturity	SYM NAME	
T.US.DE044P0609	100.80	4.000	4.500	6/12/2009	2 yr CTD	German Cash Treasury Market
T.US.DE040P0412	99.54	4.097	4.000	4/13/2012	5 yr CTD	
T.US.DE040P0716	98.50	4.198	4.000	7/4/2016	10 yr CTD	
DEP2P	100.82	4.000	4.500	6/12/2009	2yr OTR	
DEP5P	99.58	4.097	4.000	4/13/2012	5yr OTR	
DEP10P	100.13	4.232	4.250	7/4/2017	10yr OTR	

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	SYM NAME	
DGU7	103.35	103.35	103.35	103.38	103.27	45.00	Schatz(2Y)	German Futures
DLU7	#VALUE!	108.05	108.05	108.10	107.88	120.00	Bobl(5Y)	
DBU7	113.79	113.80	113.80	113.86	113.57	16.00	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo		
DGU7	4.221	4.218	4.218	4.262	4.205	Schatz(2Y)	German Futures
DLU7		4.184	4.184	4.219	4.172	Bobl(5Y)	
DBU7	4.276	4.275	4.276	4.302	4.268	Bund(10Y)	

	Y Bid	Y Ask	Y Last	Y Hi	Y Lo	Chng		
T.US.DE044P0609	4.012	4.000	4.000	4.054	3.971		2 yr CTD	German Cash
T.US.DE040P0412	4.107	4.097	4.097	4.158	4.088		5 yr CTD	
T.US.DE040P0716	4.205	4.198	4.198	4.246	4.191		10 yr CTD	
DEP2P	4.012	4.000	4.000	4.059	3.982	5	2yr OTR	
DEP5P	4.107	4.097	4.097	4.149	4.083	16	5yr OTR	
DEP10P	4.238	4.232	4.232	4.267	4.222	27	10yr OTR	

	Decimal							
	Bid	Ask	Last	Hi	Low	Chng	SYM NAME	
T.US.DE044P0609	100.80	100.82	100.82	100.85	100.72	0.05	2 yr CTD	German Cash
T.US.DE040P0412	99.54	99.58	99.58	99.64	99.37	16.00	5 yr CTD	
T.US.DE040P0716	98.50	98.55	98.55	98.61	98.26	23.00	10 yr CTD	
DEP2P	100.80	100.82	100.82	100.85	100.72	5.00	2yr OTR	
DEP5P	99.54	99.58	99.58	99.64	99.37	16.00	5yr OTR	
DEP10P	100.08	100.13	100.13	100.21	99.85	27.00	10yr OTR	

Y = Yield

CTD = Cheapest to Deliver

DE = German Country Code

OTR = On the Run

MarketNews international

US Fed Forecast Change: BoA now expect the Fed to cut rates twice this autumn by 25bp, on September 18 and October 31. >>>

Earlier this week, BoA revised their calls for the next ECB, Riksbank and SNB hikes from September to December 2007, with a major chance that these European central banks may be on hold well into next year instead. At the same time,

BoA removed their call for a final BoE hike to 6%, projecting 5.75% until mid-2008 instead. As before, they look for the BoE to ease policy modestly in 2H 2008. BoA also shifted the next expected BoJ move from October to December 2007.

From Howard: ECB SOURCES SAY...

-OUTCOME OF SEPTEMBER 6 ECB MEETING STILL UP IN AIR
-IF NO SEP HIKE,TIGHTENING BIAS MAY REMAIN INTACT
-ECB WILL NOT LOSE SIGHT OF PRICE STABILITY MANDATE
-NOT TAKING MARKET WOES LIGHTLY,BUT ECONOMIC IMPACT UNCLEAR
-IF CONDITIONS REQUIRE,WONT HESITATE TO DELAY HIKE

Stone & McCarthy RESEARCH ASSOCIATES

Euro Mkt Summary: EGBs Mixed, Pare Losses On Bernanke Speech
by Charanjeev Chana ---Stone & McCarthy (London)---

EGBs traded mixed on Friday afternoon, with the short end underperforming. Bunds rallied higher in a delayed response to comments from Fed Reserve Governor Ben Bernanke, after he failed to promise definitive support for the US housing market by easing the funds rate on Sep 18. Earlier, Bunds declined post US consumption data and extended losses following a hawkish MNI report citing ECB sources. The report suggested that the ECB would not lose sight of its price stability goals despite recent market turbulence, and therefore retain its tightening bias even if it did not raise interest rates at its next meeting on September 6th. EGBs opened lower on risk aversion unwinding, weighed by the overnight rally in equities on reports in the Washington Post that the Bush Administration proposed to put forward policies to bail out defaulting home loan borrowers. Weaker than expected German retail sales and weaker Eurozone economic confidence data had a limited impact on prices as buoyant European stocks continued to weigh on sentiment. In supply news, the AFT announced it will sell E3.8-4.3bln of the new 4.25% Oct. 2017 OAT on September 6th...

...**European equities** were stronger in afternoon trade. The DAX was trading +1.63%, CAC 40 +0.73% and the FTSE +1.45% on the day. US stocks were also higher with the S&P 500 +0.68% and the Nasdaq +0.71%.

Gilts were also trading lower with little bias. Gilts traded lower on after the GfK research institute reported that UK consumer confidence rebounded in August, due largely to an increase in the number of consumers believing, on balance, that it was a good time to make major purchases. Meanwhile, the Bank of England reported no lending via its Standard Lending Facility on Thursday. In supply news, the UK's DMO publishes its auction calendar for October-December 2007...

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MarketNews international

[All Times Eastern]

06:36 09/04 EGB SUMMARY: Sep Bunds traded to a high of 113.86 in earlier trade with the Dec contract touching a session high of 113.46 before European bonds backed off highs. However, markets remain positive, having taken back the losses sustained Monday to basically trade around Friday's close ahead of the US returning to work. Traders said flows were largely inter-dealer in the European morning, with many players remaining on the sidelines. Periphery markets underperformed modestly, with Italy at +27.3 bps from 26.8 on Monday. Eurozone data had little impact on prices with GDP estimates confirmed and PPI edging to higher-than-expected levels. The yield on the 4.50% June 2009 Schatz was 2 bps lower at 4.02%. The yield on the 4.00% Apr 2012 Series 150 Bobl was down 3 bps at 4.11%. The July 2017 Bund yield was down 2 bps at 4.54%. Subsequently, the Bund curve was unchanged Monday's close, with the 2-/10-year yield spread at +23 bps, and the 10-/30-year yield spread at +25 bps.

05:00 09/04 **EMU DATA:** Industrial producer prices rose 0.3% m/m and 1.8% y/y in July, above median expectations in an MNI survey both on the month and the year. Energy PPI rose 0.5% m/m and decreased 1.9% y/y in July. Ex-energy PPI was up 0.2% m/m and 2.9% y/y.

05:00 09/04 **EMU DATA**: Real GDP was unrevised at +0.3% q/q and +2.5% y/y in 2Q. Private consumption rose 0.5% q/q, government consumption rose 0.1% q/q, fixed capital formation fell 0.2% q/q. Net exports added 0.2 point to 2Q GDP while the inventory change cut 0.1 point.

06:52 09/04 **GILT SUMMARY**: Also trading back very close to the closing levels seen on Friday, taking back the losses sustained on Monday. Markets have again, been paying attention to the gyrations in the equity markets. Serling three-month pressure continues with the Libor fixing moving our 0.0575 today to 6.7975. Sep gilt trades 107.08 with resistance noted at 107.25.

02:50 09/04 **JGB SUMMARY**: Japanese government bonds ended Tuesday's session higher across the board, recouping losses from the previous session, boosted by solid investor demand at the Ministry of Finance's 10-year JGB auction The market opened higher, helped by the weaker stockmarket, and prices continued to tick higher through the session. However, traders said volumes were light, with many players on the sidelines ahead of the auction results and the U.S. open. A lack of domestic data and news also helped dampen volumes ahead of the U.S.

-- Benchmark 10-year yield was 1.5 bps lower at 1.630%.
-- Benchmark 5-year yield was 1 bps lower at 1.1675%.
-- Benchmark 20-year yield was 2.5 bps lower at 2.135%.
-- Benchmark 30-year yield was 1.5 bps lower at 2.3775%.
-- Lead Sept JGB futures contract was up 0.01 at 135.30

06:54 09/04 **FX**: Dollar-yen and euro-dollar ended Tuesday morning lower as European equities traded in the red, following on from a down-day in Asia. Dollar-yen slipped back to lows around Y115.35, dragged down by a heavy euro-yen, which in turn pulled euro-dollar under $1.3600. Sterling-yen sales led the move lower in cable, rate trading heavy around $2.0125 by the end of the morning ahead of a returning US market. Elsewhere, the Aussie-kiwi cross pressed to its highest level since September 2006, taking out a barrier at Nzd1.1800 along the way. Traders are now focusing US ISM manufacturing data at 1400GMT for further clues as to the state of the US economy.

Intrinsic's & Tic for Tic Matrix'

	US Intrinsic's ^			
	M Duration	DV01 32	DV01 $	DV01(€)
30y	15.60	5.14	$1,607	€ 2,183
10y	7.86	2.57	$802	€ 1,090
5y	4.46	1.42	$445	€ 604
2y	1.89	0.60	$189	€ 256
ZB	9.99	3.60	$112	€ 153
ZN	5.94	2.09	$65	€ 89
ZF	4.02	1.38	$43	€ 59
ZT	1.91	0.64	$20	€ 27

^Futures are Based on CTD

	German Intrinsic's ^			
	M Duration	DV01(€)	DV01($)	CF
Bund	7.24	€ 232	$171	0.842561
Bobl	4.06	€ 116	$86	0.959013
Schatz	1.65	€ 47	$35	0.975468
DE10Y	7.84	€ 1,074	$791	
DE5Y	4.06	€ 558	$411	
DE2Y	1.65	€ 229	$169	

^Futures are Based on CTD

	Last
EURUSD	135.81

	Tic for Tic Matrix ($)		
	Bund	Bobl	Schatz
30y	9.42	18.77	46.50
10y	4.71	9.37	23.22
5y	2.61	5.19	12.86
2y	1.11	2.20	5.46
ZB	0.66	1.31	3.25
ZN	0.38	1.34	1.89
ZF	0.25	0.50	1.25
ZT	0.12	0.23	0.58

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/GH Trader's LLC

US Financial Futures / Eurex Bond

Bloomberg Ratio's

	ZN	ZF	ZT
Bund (U)	1.700	2.600	2.800
Bobl (U)	0.940	1.420	1.520
Shatz (U)	0.360	0.550	0.590

US Treasuries v Eurex Bonds

Bloomberg Ratio's

	2y	5y	10y
Bund (U)	1.7	4.0	7.1
Bobl (U)	3.1	7.3	13.1
Shatz (U)	7.8	18.6	33.3

GH Trader's Ratio's

	Bund (U)	Bobl (U)	Shatz (U)
Bund (U)	1.00	1.93	4.69
Bobl (U)	0.57	1.00	2.44
Shatz (U)	0.23	0.41	1.00

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.

Yields & Spreads

	US Cash Treasuries (OTR)		
	Bid	Ask	Last
US2y	4.087	4.083	4.083
US5y	4.216	4.215	4.215
US10y	4.521	4.519	4.519

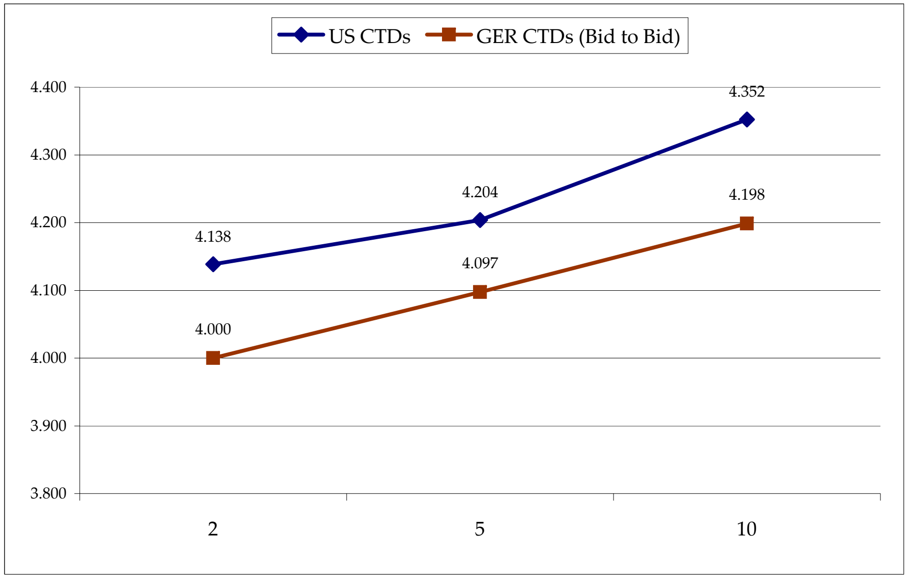
	German Cash Treasuries (OTR)		
	Bid	Ask	Last
DE2y	4.012	4.000	4.000
DE5y	4.107	4.097	4.097
DE10y	4.238	4.232	4.232

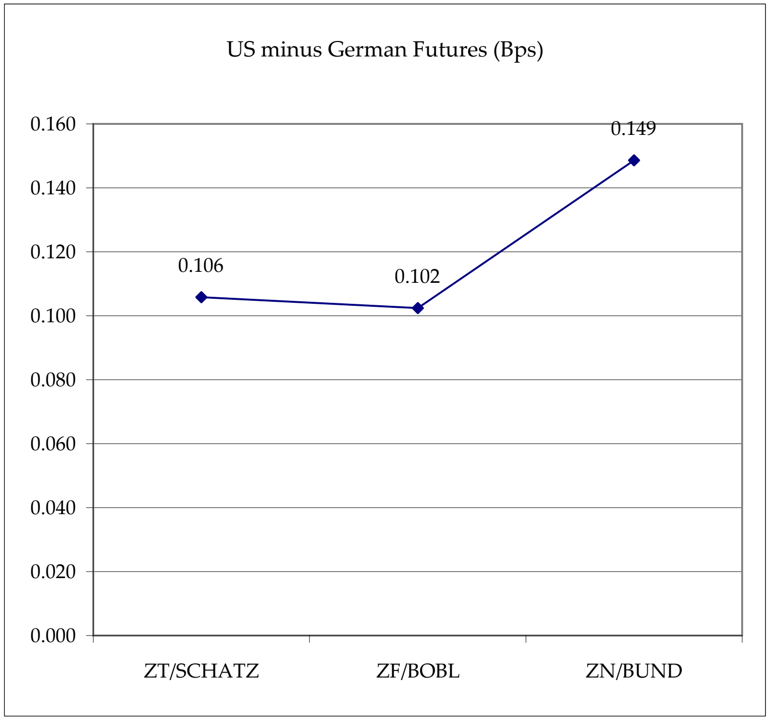
	Spreads
	Bps
ZT/SCHATZ	0.106
ZF/BOBL	0.102
ZN/BUND	0.149

	US Cash Treasuries (CTD)		
	Bid	Ask	Last
40071 of 01/00	4.138	4.106	4.106
40968 of 01/00	4.204	4.200	4.200
41866 of 01/00	4.352	4.347	4.347

	German Futures (CTD)		
	Bid	Ask	Last
4.500 of 07/09	4.012	4.000	4.000
4.000 of 04/12	4.107	4.097	4.097
4.000 of 07/16	4.205	4.198	4.198

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.





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

The ECB

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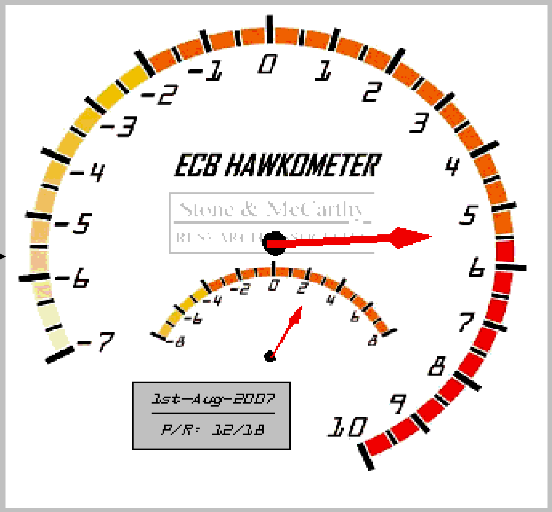

MarketNews international

11:12 08/21 ECB ANALYSIS: The ongoing market turbulence has not swept an ECB rate hike in September entirely from the table, but it has made its fate crucially dependent on a convincing return to financial stability over the next two weeks -- which may be expecting too much. Nor is it clear whether the ECB's main refinancing rate will peak at 4%, where it has been since early June, or rise to 4.25% following a longer pause, if the ECB decides to pull back from the September 6 move it conditionally
flagged in early August. The bottom line: unless financial turmoil recedes quickly without serious fallout to the real economy, the ECB is quite likely to delay a rate hike at least until October -- and potentially longer. If ever it had reason to remind markets that it has always qualified its rate-hike signals by saying it never precommits, this would be the time to do so. Moreover, a hike to 4.25% could be jeopardized if market contagion were to intensify and spread.

Stone & McCarthy (London) --
[highlights]
ECB officials were less hawkish in July compared to June according to the latest results of the SMR ECB Hawkometer. The primary reading moderated to 5.41 in the period July 5th to August 1st from 6.23 in the period June 7th to July 4th. The secondary measure, which takes into account the number of references to upside risks to inflation/price stability, moderated only slightly to 2.33 in July from 2.38 in June, as officials continued to cite increasing inflation risks. Our readings are based on comments made by 12 out of the 19 members of the ECB Executive Board and Governing Council that spoke in July/August.

September or October?
Officials provided few obvious signals to confirm timing of the next interest hike - widely expected to take place in either September or October. When pressed for confirmation to this regard, the usual response was non-committal, including calls for the need to " wait for incoming data and assess the situation in September" and the use of the mantra " the ECB "never precommits."

Stone & McCarthy
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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
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

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BOE HAWKOMETER (to August 2007 meeting)

		Dissenting Hawkish Votes	Dissenting Dovish Votes	Non-Dissenting Votes	Total Votes	Hawkishness Rating
	Sentance	4	0	7	11	36%
	Besley	4	0	8	12	33%
	King (Gov)	14	0	110	124	11%
	Tucker	6	1	56	63	8%
	Gieve (Dep Gov)	1	0	18	19	5%
	Lomax (Dep Gov)	2	3	45	50	-2%
	Barker	1	4	71	76	-4%
	Bean	0	5	79	84	-6%
	Blanchflower	0	5	10	15	33%

BOE Hawkometer – MPC Unanimous in Keeping Rates On Hold
by Niraj Shah
15 August 2007
[highlights]
The Bank of England minutes showed that the Monetary Policy Committee had voted unanimously to leave rates on hold at the August meeting, with most members saying they had "no firm view on whether would need to rise further". The unanimous MPC vote coupled with a sharp fall in the July inflation data, which was not available to the committee at its August meeting, will reinforce the market view that another hike is no longer inevitable.