3 July 2014 │ 40 pages

Developed Markets
Western Europe

European Rates Weekly

ECB: Free money policy confirmed

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- **Another market friendly ECB:** Anxiety about a possible tightening of the conditionality attached to the TLTRO has been quickly dismissed by Draghi & Co and MFIs that participate to these OMOs will be checked only in Apr-16 and asked to repay the funds in Sep-16.

- **EUR butterflies under the microscope:** Which is the most attractive fly to receive on the EUR swap curve at the current market juncture? We dissect them in this note with the aim of identifying the one that generates the highest carry. We recommend investors receive 1y fwd 2s10s30s at current levels.

- **UK – what moves markets?** We take a look at the market sensitivity to the main economic indicators, how it has changed over time and why. The labour market data has the greatest propensity to move the market, but the influence of CPI and the PMIs is declining. The average earnings data is likely to become the biggest potential support/risk to 2s5s GBP flatteners.

- **EGB H1 performance and Q3 outlook:** Having achieved returns of 6.8% in H1, 3% of which came in Q2, it's been another healthy quarter for EGBs. Our allocation for Q3 takes into consideration some retracement in the fall in core yields over H1 as well as our overall positive bias towards peripheral EGBs in 2014

- **UK inflation – buy 5yr IL gilts vs TIPS:** We have recently recommended buying 5yr UK vs US in nominal space. The trade also looks attractive in real yield (or even break-even inflation) terms. The upcoming June inflation releases are likely to be supportive given the likelihood of a higher UK RPI print and a lower US CPI-U print.

- **SSA strategy:** We hunt for differentials between German credits and non-German sovereigns where it is perhaps possible to switch at a flat spread (or even at a small yield pick-up). One such example is between KfW and the Netherlands.

- **H2 Outlook for covered bonds:** Although we make no changes to our overall issuance targets for H2, there are adjustments at the country level. Moreover, we summarize our views on secondary market and regulation for covered bonds over the next six months.

- **Relative value screen:** We present a grid of richest/ cheapest bonds on euro yield curves to help facilitate efficient screening of bonds for trading decisions.

- **Supply: Supply:** Next week's EGB supply comes from Italy (estimated €7bn), Germany (€5bn), the Netherlands (€1.5-2.5bn), Austria (€1.1bn), Ireland (estimated €0.75bn) and likely Greece (estimated €3bn). The US Treasury would issue $61bn across the 3yr, 10yr and 30yr sectors next week. In the UK, the DMO will issue £1.75bn of the 4% Treasury gilt 2060 next Tuesday.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Core euro yields look set to remain at low levels for the foreseeable future but we are slightly short duration in the near-term looking for 10yr Bunds to averagwe 1.5% in Q3.	Trade the range in 10yr Bunds
Money Market	Following the July ECB, the current shape of the ECB curve does diverge from an Eonia curve adjusted for large excess liquidity, thus making green Euribors look cheap and Schatz TEDs too wide relative to current levels. In the UK, we retain a bearish bias on the very front-end given our expectation that the hiking cycle will be faster than currently priced.	1y/1y1y steepeners Buy ERM4 vs EDM4 (or use U4) Receive EUR 2y1y vs USD 2y1y
Yield Curve	The July ECB did not change our baseline scenario with a mild bear steepening in the German curve. In the UK, we expect flattening trends to accelerate. The very front-end is likely to increasingly lead in the sell-offs and lag in the rallies as the hiking cycle nears. 2s5s is likely to flatten beyond the forwards, in our view. Long-end yields are likely to be capped by international drivers, accelerating the flattening trend in 2s10s.	2s5s gilt flatteners Pay GBP 1y1y vs 3y1y
Cross-market	We maintain our long-standing overweight of Bunds vs Treasuries and gilts. The 10yr gilt-Bund spread has widened sharply of late. Further widening is likely, but at a more moderate pace. For those looking to fade gilt underperformance, we think this is best expressed in the 5yr sector vs USTs.	Buy 5yr gilts vs UST (tactical trade) Stay short 10yr gilts vs Bunds Long 10yr Bunds vs UST (add on corrections)
EMU Spreads	Near term, we maintain our slight preference for BTPs vs Bonos. Given the strong cash flows in France vs the non-supportive NCR profile of Belgium in July, we look to fade the recent outperformance of OLOs vs OATs. Looking further ahead, we expect flatter spread curves in a scenario of QE. Over the summer months we note there are supportive cash flows for both Italy and Spain.	Long France vs Belgium Tactical long 7yr Italy vs Spain
Swap Spreads	Broadly neutral. We expect recent ranges to hold. In the UK, 5yr spreads offer good value vs 10yr spreads on a tactical basis.	Hold on to strategic longs in 30yr gilts vs swaps
Inflation	Euro break-evens have bounced from the lows, but recent ranges are likely to hold. In the UK, we remain long front-end (IL17) break-evens as long-term strategic trade to capture a widening RPI-CPI wedge over the coming years. On a tactical basis, we like buying IL19 vs TIPS 1/20.	Buy IL19 vs TIPS 1/20 on a real yield basis Take profits on buy BTPei24 vs SPGBei24 break-even Maintain long in IL gilt 2017 break-even Sell BTPei18 vs OATei18 break-even Sell OATei22 vs OATei20 and OATei24 real yield
Volatility	The announcement of the new measures by the ECB, in particular the tightening of the corridor, argues for keeping option roll down trades at the front-end of the curve.	Maintain 1y3y ATMF Receiver Swaption
SSA	Sharp moves within the SSA space are largely a function of liquidity. Hence, EIB/EFSF outperformance of the EU and the strong rally of BNG vs RENTEN. We expect spreads to remain well supported	Long 7yr KfW vs DSLs Long BNG & KfW vs France Long EU vs other supras with larger supply pipelines UKRAIL spread lighteners vs gilts and peers in the £ sector
For a list of outstanding trade strategies please see the Tradesheet section of this report		

Source: Citi Research NOTE: Futures trading involves s substantial risk of loss

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 4 – 10 July

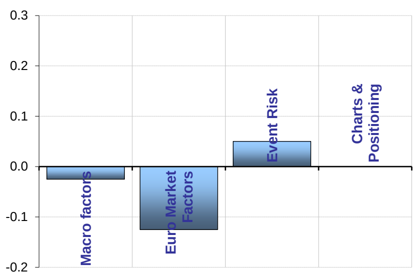
Bund Directional Scorecard (1w horizon)

Recommendation	**Sell**	RXU4 (EOD Thurs) = 146.55
Conviction level	**Low**	CTD yield = 0.94% 10day del vol = 3.77%

	Signal Strength (+/-2)		
Macro factors	**0.0**	**Weight =**	**38%**
ECB	0	Accomodative monetary policy largely priced in for now	7.5%
Fed, BoE and BOJ	0	Fed tapering largely priced in	7.5%
Inflation	1	Citi expects HICP to drop to 0.3% yoy in coming months	7.5%
Growth related data	0	No growth related release next week	5.0%
Citi surprise	-1	Citi Economic Surprise Index bounced last week	5.0%
Middle East / Oil	-1	Brent receding from recent highs	5.0%
Euro Market Factors	**-0.1**	**Weight =**	**35%**
Supply	0	Cash flows not supportive for Germany next week	7.5%
Risk appetite	-1	Risk aversion remains at very low levels	5.0%
Flow	-1	Net demand for the core remains negative (4wk m.a.)	5.0%
Equity	-1	Eurostoxx50 rebounding from lows	5.0%
Sovereign credit	-1	Spread compression likely to continue	5.0%
FX	1	Euro likely to remain subdued	7.5%
Event Risk	**0.1**	**Weight =**	**8%**
Politics	0	No political event likely to meaningfully impact rates near-term	2.5%
LTRO	1	TLTROs in September and December	2.5%
QE	1	Citi expects the ECB to embark upon QE in December	2.5%
Charts & Positioning	**0.0**	**Weight =**	**20%**
Technicals	1	RXU4 finding support	5.0%
T-Note	-1	Short	5.0%
CFTC	-1	Net positioning slightly short	5.0%
ARTS	1	Mild long	5.0%

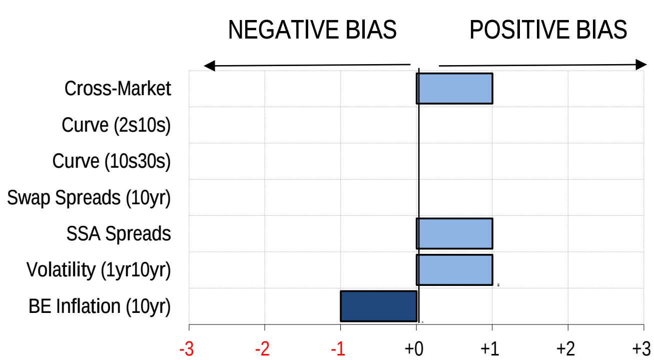
Source: Citi Research NOTE: Futures trading involves s substantial risk of loss

Figure 3. Contribution to Bund Signals



Source: Citi Research

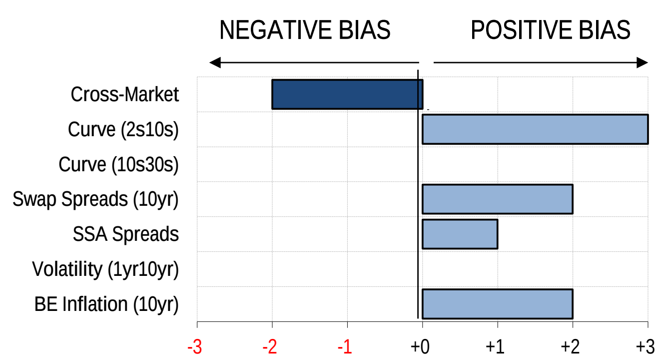
Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

POSITIVE bias = bullish vs UST, flatter curve, wider swap spreads, tighter SSA spreads, higher implied vol, wider BE inflation

Figure 5. UK (Near-term Bias)



Source: Citi Research

POSITIVE bias = bullish vs Bunds, flatter curve, wider swap spreads, tighter SSA spreads, higher implied vol, wider BE inflation

Tradesheet

New Trades

See The Morning Call, 1st July 2014

1. Buy gilt 1.75% Jul19 vs UST 0.875% Jul19

Buy gilt 1.75% Jul19 at 2.03%

Sell UST 0.875% Jul19 at 1.67%

Open 36bp. Current 33bp. Target 26bp. Stop 41bp

See The Morning Call, 3rd July 2014

2. Buy 10yr France vs Belgium

Buy OAT 1.75 Nov24 at 1.71%

Sell OLO 2.6% Jun24 at 1.69%

Open -2bp. Current -1bp. Target 8bp. Stop -7bp

See The Morning Call, 3rd July 2014

3. Buy KfW 3.5% Jul21s vs DSL 3.25% Jul21s

Buy KfW 3.5% Jul21s at 0.93%

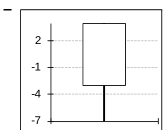
Sell DSL 3.25% Jul21s at 0.93%

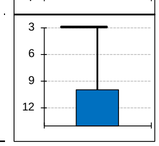
Open 0bp. Current 1.8bp. Target -6bp. Stop 3bp

Record of Our Closed Trades

Figure 6. Record of our Closed Trades

Region	Trade	Levels		Rationale
EUR	Buy BTPei24 break-even vs SPGBei24	Open	-3bp	Hit target 3rd July 2014
		Current	4bp	
Inflation	Buy BTPei24 break-even at 125bps	P&L	7bp	
	Sell SPGBei24 break-even at 128bps	Target	4bp	
		Stop	-7bp	*The Morning Call, 25th June 2014*
EUR	Buy BNG 2.5% Nov17 vs DSL 1.25% Jan18	Open	10bp	Hit Stop 3rd July 2014
		Current	14bp	
SSA	Buy BNG 2.5% Nov17 at 0.63%	P&L	-4bp	
	Sell DSL 1.25% Jan18 at 0.53%	Target	3bp	
		Stop	14bp	*European Rates Weekly, 27 February 2014*



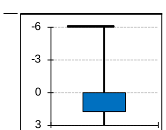


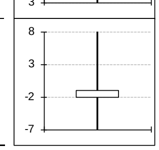
Source: Citi Research

Record of Our Open Trades

Figure 7. Record of our Open Trades

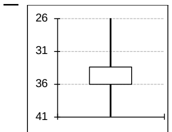
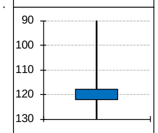
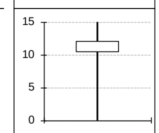
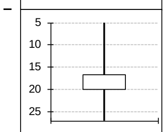
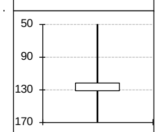
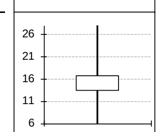
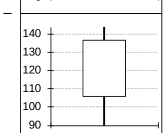
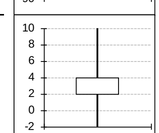
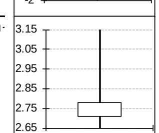
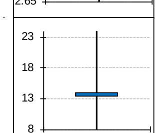
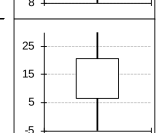
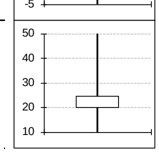
Region	Trade	Levels		Rationale + Publication Date
EUR	Buy KfW 3.5% Jul21s vs DSL 3.25% Jul21s	Open	0bp	Hunt for yield likely to contain widening in KfW-DSL spreads
		Current	1.8bp	
SSA	Buy KfW 3.5% Jul21s at 0.93%	P&L	-1.8bp	
	Sell DSL 3.25% Jul21s at 0.93%	Target	-6bp	
		Stop	3bp	*The Morning Call, 3rd July 2014*
EUR	Buy 10yr France vs Belgium	Open	-2bp	The trade allows moving up the credit curve at attractive level ahead of supportive cash flow profile for France vs Belgium
		Current	-1bp	
Cross Market	Buy OAT 1.75 Nov24 at 1.71%	P&L	1bp	
	Sell OLO 2.6% Jun24 at 1.69%	Target	8bp	
		Stop	-7bp	*The Morning Call, 3rd July 2014*





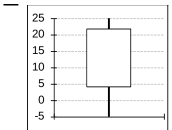
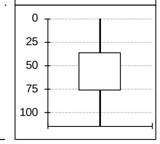
Source: Citi Research

Figure 8. Record of our Open Trades (continued)

Market	Trade	Levels	Rationale	Chart
UK / US *Cross Market*	Buy gilt 1.75% Jul19 vs UST 0.875% Jul19 Buy gilt 1.75% Jul19 at 2.03% Sell UST 0.875% Jul19 at 1.67%	Open 36bp Current 33bp P&L 3bp Target 26bp Stop 41bp	Gilts offer tactical value vs Treasuries as overseas demand picks up *The Morning Call, 1st July 2014*	
UK *Curve*	2s5s gilt flattener Sell UKT 2% Jan16 at 0.83% Buy UKT 1.75% Jul19 at 2.01%	Open 118bp Current 122bp P&L -4bp Target 90bp Stop 130bp	Front-end should price in a higher risk premium for an earlier than expected rate hike. *European Rates Weekly, 26th June 2014*	
EUR *Money Market*	Buy ERZ4 and sell EDZ4 Buy ERZ4 at 99.835 Sell EDZ4 at 99.73	Open 10.5bp Current 12bp P&L 1.5bp Target 15bp Stop 0bp	Attractive entry levels and benefits from ECB policy rate view *Euro Rates Strategy, 11 March 2014* *Rolled from June to Dec on 12th June 2014*	
EUR *Cross Market*	Buy 7yr Italy vs Spain Buy BTP 3.75% May21 at 2.32% Sell Bono 5.5% Apr21 at 2.12%	Open 20bp Current 17bp P&L 3bp Target 5bp Stop 27bp	Tactical post-election normalisation trade *European Rates Weekly 29 May 2014*	
UK *Swap Curve*	Pay GBP 1y1y vs 3y1y Pay GBP 1y1y at 1.47% Receive GBP 3y1y at 2.79%	Open 132bp Current 122bp P&L 10bp Target 50bp Stop 170bp	The very front-end is still lagging in the sell-off. *Euro Rates Weekly, 24 April 2014*	
EUR *Inflation*	Sell BTPei18 break-even vs OATei18 Sell BTPei18 break-even at 79.5bp Buy OATei18 break-even at 93bp	Open 13.5bp Current 17bp P&L 3bp Target 28bp Stop 6bp	BTPei18 likely to reverse some of the richness now that Boblei18 and OATei18 auctions are over. *European Rates Weekly, 20 February 2014*	
EUR *Curve*	BTP 10s30s steepener Buy BTP Aug23 at 3.49% Buy BTP Sep44 at 4.54%	Open 106bp Current 137bp P&L 31bp Target 144bp Stop 90bp	Macro factors, cash flow profile, expect strong demand for new 10yr BTP and +ve carry are supportive for steepeners *European Rates Weekly, 20 February 2014*	
EUR *Inflation*	Buy OATei20 and OATei24 vs OATei22 Buy OATei20 at 0.10% Sell OATei22 at 0.42% Buy OATei24 at 0.72%	Open 2bp Current 4bp P&L 2bp Target 10bp Stop -2bp	OATei22 looks too rich on the curve; OATei24 likely to perform after auction is out of the way *Euro Inflation Strategy, 19 February 2014*	
UK *Inflation*	Buy IL gilt 2017 break-evens Buy IL gilt 2017 break-evens at 2.71%	Open 2.71% Current 2.78% P&L 7bp Revised Target 3.15% Revised Stop 2.70%	We believe that RPI-CPI wedge to widen over the medium-term *UK Rates Strategy, 18 February 2014* *Revised: UK Inflation Strategy, 25 March 2014*	
EUR *Cross Market*	Buy 30yr Netherlands vs Austria Buy DSL Jan42 at 2.67% Sell RAGB Jun44 at 2.81%	Open 14bp Current 13.36bp P&L -0.64bp Target 24bp Stop 8bp	Close to historically tight levels. Uncertainty surrounding the Austria banking sector should weigh on Austrian bonds *European Rates Weekly, 12 February 2014*	
UK / US *Cross Market*	Sell UKT 2.25% Sep23 vs UST 2.5% Aug23 Sell UKT 2.25% Sep23 at 2.82% Buy UST 2.5% Aug23 at 2.77%	Open 6.5bp Current 21bp P&L 14bp Target 30bp Stop -5bp	We expect the MPC to hike three quarters ahead of the Fed *European Rates Weekly, 23 January 2014*	
UK *Swap spread*	Sell 30yr gilt swap spreads vs 10yr Sell gilt 3.25% Jan44 ASW at 20bp Buy gilt 1.75% Sep22 ASW at 0bp	Open 20bp Current 25bp P&L 5bp Target 50bp Stop 10bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve. *UK Rates Strategy, 30 July 2013*	

Source: Citi Research NOTE: Futures trading involves a substantial risk of loss

Figure 9. Record of our Open Trades (continued)

EUR	Receive EUR 10y2y vs 12y3y	Open	4bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility	
		Current	22bp		
Curve	Receive EUR 10y2y at 3.1%	P&L	18bp		
	Pay EUR 12y3y at 3.14%	Target	25bp		
		Stop	-5bp	*The Morning Call, 23 January 2013*	
UK	Sell GBP 2y2y ATMF straddle	Open	76bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol	
		Current	36bp		
Volatility	Sell GBP 2y2y ATMF (1.04%) straddle at 76bps	P&L	40bp		
		Target	0bp		
		Stop	114bp	*IIRS 12 July 2012*	

Source: Citi Research

ECB: Free Money Policy Confirmed

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There is no TLTRO conditionality before Sep-16, allowing for the carry trade in EGB non/soft-core to continue over the coming months.

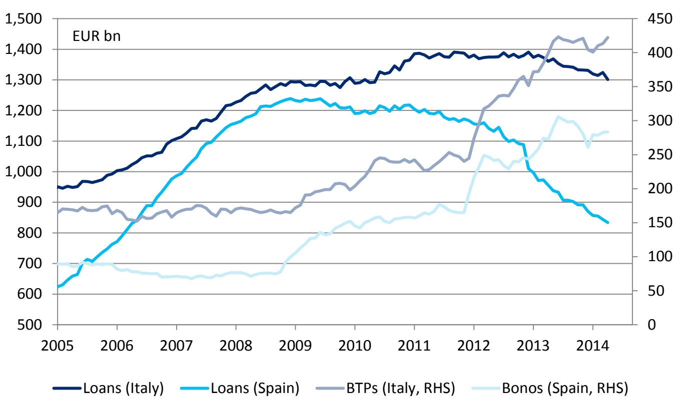
TLTRO is very market friendly

The EGB carry trade is alive and well: This is the effect of yet another market friendly ECB meeting. Anxiety about a possible tightening of the conditionality attached to the TLTRO has been quickly dismissed by Draghi & Co and MFIs that participate to these OMOs will be checked only in Apr-16 and asked to repay the funds in Sep-16[1].

No guarantee that banks will lend to the real economy

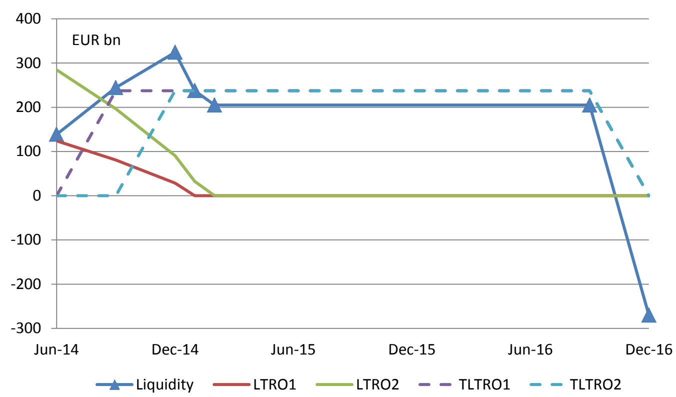
Apart from details about the definition of a "benchmark" for lending and some heavy reporting standards, there is no news in the published TLTRO communique. The conditionality attached to this new operation is very weak and it's certainly not evident to us that this is a "targeted" liquidity operation or that it will create any an incentive for banks to lend to the private sector rather than to the government. In that sense, we would expect the crowding-out of private investments that is a feature of Eurozone's periphery (Figure 10) to continue.

Figure 10. Crowding out the non-core private sector



Source: ECB, Citi Research

Figure 11. Excess liquidity to remain ample for longer



Source: ECB, Citi Research

TLTRO? It's a cheap roll of existing 3y LTROs…long live excess liquidity!

During the Q&A, Mr Draghi has insisted that the TLTRO is a "very attractive" operation. It's entirely understandable that he would like banks to fill his TLTRO order book, since the ECB has given up direct control over Eurosystem liquidity conditions by switching from variable to fixed-rate/full allotment tenders. Furthermore, the Q1-15 liquidity cliff[2] has now been successfully dealt with and – assuming a decent TLTRO demand – we envisage a very generous liquidity profile for the coming 2 years (Figure 11). As mentioned in previous research[3], this liquidity profile makes negative Eonia fixings possible.

Strategy & Trade Ideas

Tighter spreads in EGB space & negative Eonia fixings are likely

We continue to expect non-core EGBs to outperform and forecast both BTPs and Bonos to trade around 120bp over Bunds in the 10y sector at year end. Also, the current shape of the ECB curve does diverge from an Eonia curve adjusted for large excess liquidity, thus making green Euribors look cheap and Schatz TEDs too wide relative to current levels.

[1] "ECB announces further details of the TLTRO" (3 Jul-14)

[2] Expiry of 3-year LTROs.

[3] "Negative Eonia? It's Possible" (26 Jun-14)

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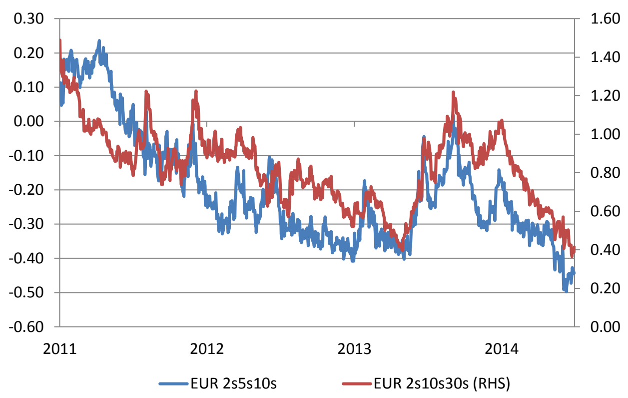
EUR Butterflies under the Microscope

Which is the most attractive fly to receive on the EUR swap curve at the current market juncture? We dissect them in this note with the aim of identifying the one that generates the highest carry.

Let us begin with the observation that against the backdrop of ECB's accommodative monetary policy, the hunt for yield has weighted on the curvature of the swap term structure. As shown in Figure 12 both the EUR 2s5s10s and EUR 2s10s30s butterflies are currently trading at the historical low at -44bp and 42bp respectively.

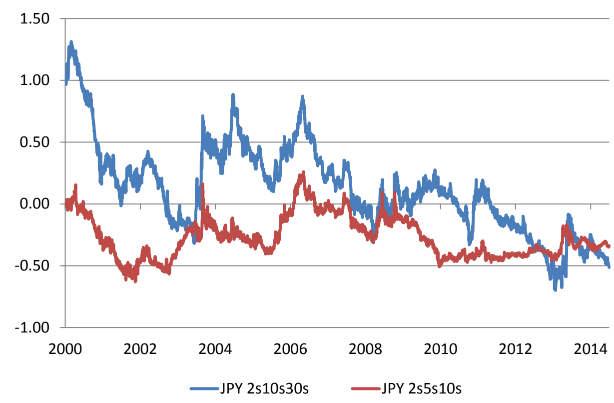
Both flies exhibit a non-negligible correlation with the EONIA curve. In turn, benefit from accruing positive carry can be reaped as long as the money market curve stays flat. Moreover, if the Japanese history is any guide, the curvature of both flies are bound to undergo more pressure: we plot the evolution of the JPY 2s5s10s and 2s10s30s flies in Figure 13; these flies managed to trade as low as -62bp and -69bp respectively.

Figure 12. Monetary policy and hunt for yield have weighted on 2s5s10s and 2s10s30s ...



Source: Citi Research

Figure 13. ... but there is still more to go if the Japanese history is any guide

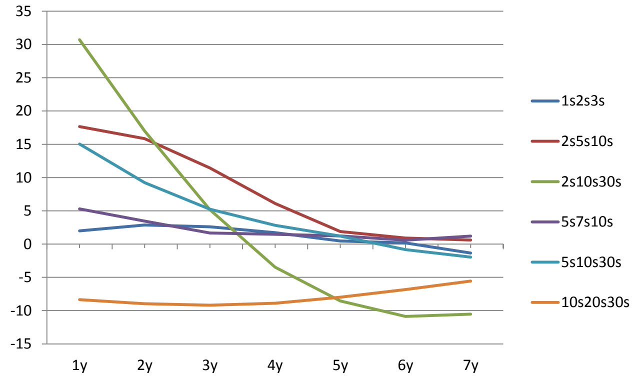


Source: Citi Research

1y fwd 2s10s30s fly ranks first in the classification of primary species of butterflies found on the swap curve (organized by rolldown)

We classify the main types of butterflies in Figure 14 below where the x-axis refers to the forward starting date of the fly and the y-axis to a crude measure of one year rolldown obtained via forward par swap differences at one year intervals: results show that the best performer is 1y fwd 2s10s30s, followed by 1y fwd 2s5s10s.

Figure 14. A cross check on EUR flies shows that the sweet spot for rolldown is on the 1y fwd 2s10s30s



Source: Citi Research

Figure 15. Over a six-month horizon a long position on 1y10y for EUR 52m generates EUR 295k of rolldown PnL (PCA weighted)

Receive	100m	1y5y
Receive	52m	1y10y

	1:2:1 DV01 weighted	Regression weighted	PCA weighted
1y 2s5s10s	218,925	95,228	119,719
1y 2s10s30s	324,265	226,448	**295,352**

Source: Citi Research

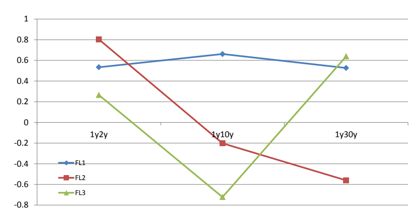
Finally in Figure 15 we compute the PnL generated by pure rolldown over six-month horizon for both flies where we have assumed 100m notional in the belly of 1y fwd 2s5s10s and 52mn in the belly of 1y fwd 2s10s30s (to equate DV01 in the belly). Computations confirm that 1ys 2s10s30s fly ranks first in terms of rolldown. Six-month rolldown PnL from PCA weighted construction is worth EUR 295k.

Conclusion

Rolldown analysis of EUR swap butterflies suggests that the most attractive fly is 1y fwd 2s10s30s.

We observe that while the DV01 weighted trade construction yields a mildly higher rolldown, we nevertheless favour the PCA weighting as it allows for a more effective hedge against the dynamics of the curve (Figure 16).

Figure 16. Factor loading from PCA analysis on 1y fwd 2s10s30s fly show that weights effectively hedge parallel, curve and twist moves of the curve (one year sample)



Source: Citi Research

UK Rates - what moves markets?

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As the first rate hike edges closer, a broad range of economic releases are being scrutinised for clues to inform the likely timing, pace and destination of the hiking cycle. In this article, we focus in on the most closely-watched indicators and assess their relative market importance. The qualified answer is that all the indicators matter. However, we suggest that the importance of the PMI surveys and the jobless rate is diminishing, that CPI is less important than the others and that real wage growth is the key indicator to watch. A strong pick-up in real wages would likely prompt a very rapid re-pricing in the front-end.

Market sensitivity to economic data

In this analysis, we look at the market impact of CPI, labour market statistics and the PMIs

The most market relevant economic data releases in the UK are arguably the CPI, labour market statistics (including the jobless rate and average weekly earnings) and the PMI surveys for services and manufacturing. Note that for the purposes of this sensitivity analysis, we have ignored the less frequent, heavily lagged data such as GDP and productivity growth on the basis that it is less forward looking and subject to significant revisions.

Our aim is to judge the propensity of each indicator to move the front-end (in either direction)

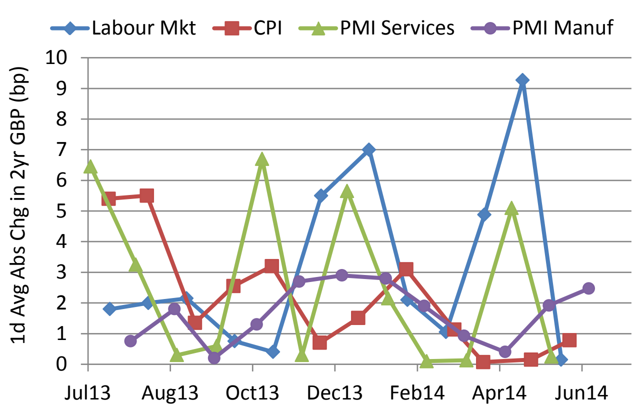
To assess market impact, with a focus on the front-end, we have examined the daily change in 2yr GBP swaps on release dates. In this analysis, we are not concerned with the direction of the change (and any bias for upside/downside surprises), but rather the propensity to move the market. Therefore, we use absolute changes. A few notable trends emerge.

- **Labour market statistics followed by PMI services have the greatest propensity to move the market.** In the last year, these releases have frequently triggered moves in excess of 5bp (Figure 17).

- **Labour market data is the biggest market mover over the last six months and has become more important**. This is shown by Figure 18. This observation is somewhat exaggerated as the labour market data in May was released on the same day as the Quarterly Inflation Report (QIR). However, even excluding this month, the remaining five releases still produced an average daily change of 3bp, more than any other indicator. Moreover, this is the only indicator where the impact has materially increased vs the previous six months.

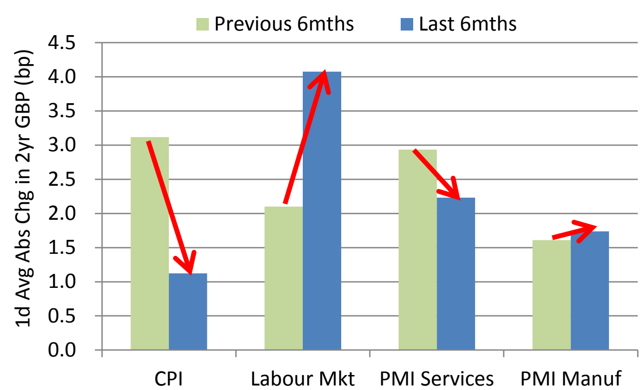
- **The CPI release has become less relevant.** The market impact of CPI is minimal over the last six months (average move 1bp) and is a lot less than the previous six months.

Figure 17. Market reaction to selective economic releases



Source: Bloomberg, Citi Research.

Figure 18. Change in market sensitivity to selective economic releases



Source: Bloomberg, Citi Research.

MPC meetings are largely non-events, but the minutes move the market more than most data releases. But, the biggest market mover of all is the QIR

By way of comparison, we have also looked at the market impact of MPC meetings, the minutes and the QIR. Unsurprisingly, the minutes have moved the market more than the meetings, with average absolute changes of 3bp and 1bp respectively. However, the QIR has had by far the biggest impact. The February and May reports produced an average absolute daily change in 2yr swaps of 9bp (for the previous two, it was just 0.3bp).

The importance of the average earnings data

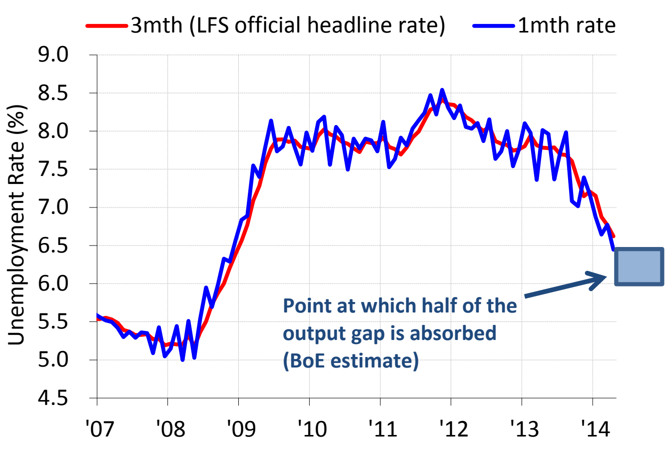
The jobless rate has been an important market mover…

So far, the market moving impact of the labour market data, observed above, has probably been associated with the sharp fall in the jobless rate. This is to be expected given that the 7% jobless rate threshold was the central pillar of the original forward guidance and the metric has maintained its relevance as an indicator of spare capacity in the labour market (Figure 19).

…but this is likely to be superseded by average weekly earnings

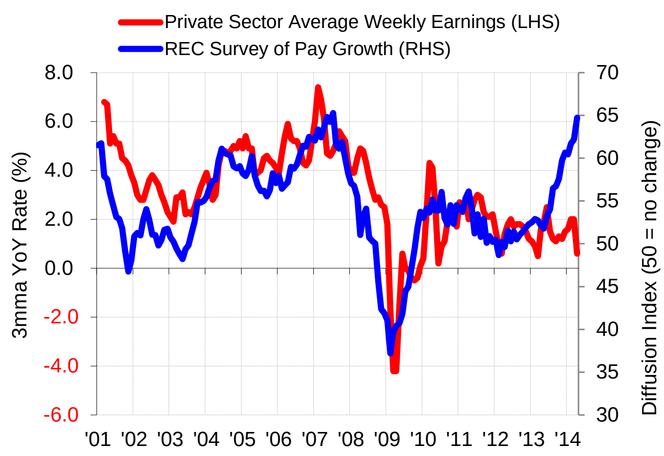
However, the average earnings data is likely to become the most influential series within the release. As the MPC has highlighted, economic activity has exceeded expectations, the jobless rate has fallen more quickly than anticipated, but wage growth has been weaker than expected. This is, perhaps, the last missing piece of the jigsaw before the hiking cycle can begin. Survey evidence suggests that wages will pick up in due course (Figure 20), but any sign of this in the official data is likely to prompt a sharp re-pricing of the front-end of the curve.

Figure 19. Sharp fall in the jobless rate



Source: ONS, Citi Research.

Figure 20. Survey evidence points to strong wage growth



Source: RECs, ONS, Citi Research.

Why the market is right to ignore the CPI release

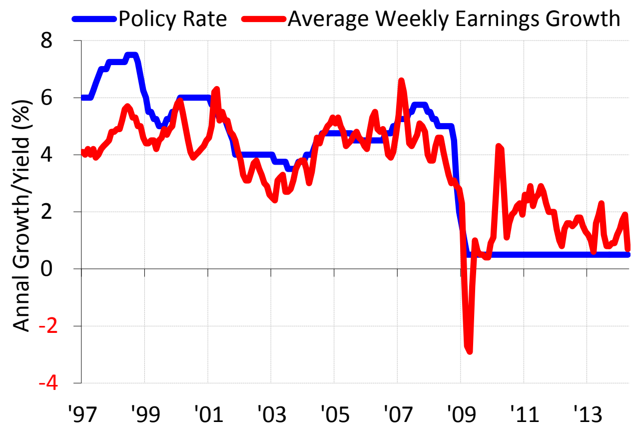
Wage growth has a high positive correlation with the policy cycle…

The importance of the average earnings data is further highlighted by Figure 21. As shown, the correlation between average weekly earnings and the policy rate is very high (0.84 since 1997, note the chart uses the discontinued average earnings index prior to 2001).

…CPI does not (in fact, it is negative)

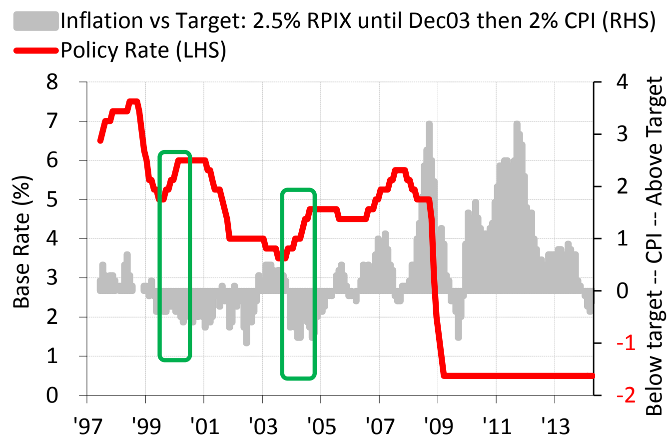
In contrast, the correlation between CPI and the policy rate is *negative* over the longer term (-0.54 since 1997). The MPC aims to bring inflation back to target over the medium term and tends to look past where inflation is today. As shown by Figure 22, below-target inflation has not prevented hiking cycles in the past and is unlikely to do so in the current context (even though the latest reading shows CPI at 1.5% in May, the lowest since October 2009). As such, we believe the front-end is right to largely ignore CPI outcomes and should continue to do so.

Figure 21. High correlation between wage growth and policy cycles



Source: ONS, Citi Research.

Figure 22. Current inflation does not dictate policy action



Source: Bloomberg, Citi Research.

The diminishing impact of the PMIs

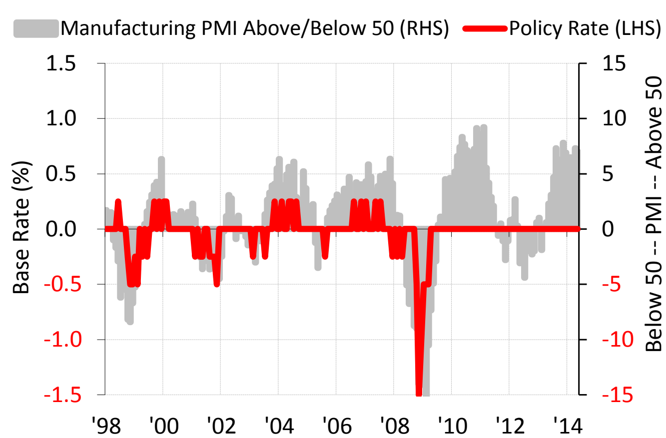
The influence of PMI services has fallen, perhaps as there is not much room for it to rise any further

The PMI for services is still very capable of moving the market, as shown most recently by the 6 May release which prompted a 5bp sell-off in 2yr GBP swaps. However, the average impact has fallen over the last six months vs the prior six months. This is probably because, having trended higher, the readings have settled at a high level and the strength of activity is now less surprising.

The usefulness of the PMIs as a barometer for policy rate changes has been eroded given the large size of the output gap

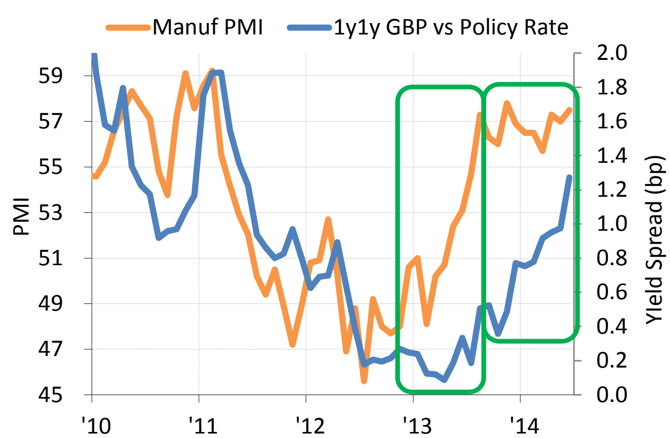
The same argument can be made for the manufacturing PMI. Moreover, the influence of this indicator has diminished considerably in recent years. Historically, even though manufacturing is a smaller sector than the service sector, this PMI series has provided a good barometer for policy rate changes. This can be seen, for example, by comparing above/below 50 reading in the PMI survey for manufacturing with policy rate changes (Figure 23). However, this has not been the case over the last five years during the lower-for-longer period. This reflects the degree of lost output during the financial crisis, the large output gap and that any pick-up in activity was coming from a very low base.

Figure 23. The influence of the PMI survey on policy rate changes



Source: Bloomberg, Markit, Citi Research.

Figure 24. Recent sensitivity of the front-end to PMI manufacturing



Source: Bloomberg, Markit, Citi Research.

The front-end has almost caught up with the PMIs having lagged in 2013

That is not to say that PMI readings have not mattered over recent years. They have helped to shape policy rate expectations (Figure 24). But, the impact of the PMIs was lessened in 2013 in the run-up to forward guidance (just as the data was getting stronger). More recently, the front-end has caught up – driven by labour market data and MPC rhetoric – while the PMIs have broadly stabilised. The PMIs will remain important, but are unlikely to provide the main impetus to the front-end.

Trades – what the data means for our flattening view

The data that matters the most changes over time: wage growth is likely to be the biggest market mover in future

Economic data, together with the central bank's communication of its reaction function, is always going to be the main driver of the front-end. But, the data that matters the most changes over time. In the current context, the market's sensitivity to the labour market data has increased, but the importance of the CPI data (and to a lesser extent the PMI surveys) appears to have diminished. This makes sense, in our view, for all the reasons outlined above.

Strong wage growth would support 2s5s flatteners, but the lack of it is also the biggest risk to these trades

However, within the labour market data, the market has, so far, mainly reacted to the jobless rate. But, in future, average weekly earnings growth is likely to become the main driver. Survey evidence points to strong pick-up in earnings growth. If reflected in the official data, this could prompt a further rapid re-pricing to higher yield levels and supports our 2s5s flattening view (see the *European Rates Weekly* of 26 June 2014). Correspondingly, muted wage growth is the greatest risk to our flattening view.

EGB Strategy – Q3 outlook

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Having achieved returns of 6.8% in H1, 3% of which came in Q2, it's been another very healthy quarter for EGBs. Our allocation for Q3 takes into consideration both an expected partial retracement of the H1 fall in core yields as well as our overall positive bias towards peripheral EGBs in 2014. Meanwhile, the July ECB was consistent with our key views and the policy scenario continues to evolve in line with Citi's baseline scenario. Our economists continue to expect some form of ECB QE later in Q4.

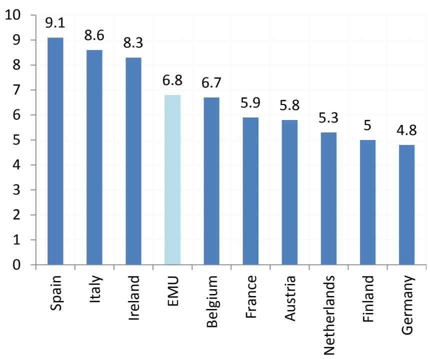
H1 Performance & Q3 Allocation

EGBs have had another healthy quarter with the broad EGB Index returning 3% during Q2 2014. YTD returns stand at 6.8%. Loosening ECB policy, low HICP prints together with the rally in US Treasuries have all contributed to the performance of long-duration strategies in core EGBs. In addition, we can further decompose EMU index performance between "issuer names" and "curve sectors" (Figure 26):

- **Issuer performance:** Over H1 2014, Spain has the highest returns of 9.1%. This is followed by Italy at 8.6%, while Germany is lagging with a total return of "only" +4.8% (Figure 25). Over H1, 10yr Bono-Bund spreads have tightened by approximately 82bp (55bp in Q1 and 27bp in Q2).

- **Curve performance:** The long-end remains the clear performer with the 10-15y sector delivering 9.5% and the +10y bucket 10.9% over H1 2014. The front-end (1-3y) returned +1% return in comparison. Over 2014 so far, Germany 2s10s has flattened ~45bp, from 173bp in early January to 128bp at the time of writing.

Figure 25. H1 Returns by Citi EGB Indices(%)



Source: Citi Research

Informing view going forward is the ongoing evolution of monetary policy. The July ECB was largely consistent with our key views and was overall "market friendly". Draghi repeated the message of low inflation amid a modest recovery that required low rates for an extended period of time. The TLTROs remain in place as do prospects for ABS purchases (*Euro Area - ECB sheds light on TLTROs but no news on ABS purchases*).

Figure 26. Measuring the performance of EGB portfolios

EGBI Return and Risk Parameters - Member Countries										
Date	EMU	Austria	Belgium	Finland	France	Germany	Ireland	Italy	Holland	Spain
2013	2.2%	-1.0%	-0.5%	-1.8%	-0.5%	-2.3%	10.7%	7.0%	-2.1%	10.5%
2014 YTD	6.8%	5.8%	6.7%	5.0%	5.9%	4.8%	8.3%	8.6%	5.3%	9.1%
Outstanding (EUR bn)	5123	204	323	81	1210	1015	100	1218	323	649
Index yield (%)	1.45	1.06	1.34	0.96	1.14	0.82	1.56	2.22	0.99	2.00
Index volatility (%)	2.9	3.0	3.5	2.7	3.2	2.6	3.1	4.8	2.9	4.1
Yield/vol ratio	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.5**	**0.5**	**0.3**	**0.5**
Index duration	6.6	7.1	7.4	6.2	6.9	6.7	5.3	6.4	6.9	6.0

EGBI Return and Risk Parameters - Curve							
Date	EMU	1-3y	3-5y	5-7y	7-10y	10-15y	10+
2013	2.2%	1.8%	2.3%	3.3%	2.7%	3.4%	1.5%
2014 YTD	6.8%	1.0%	3.1%	5.5%	7.3%	9.5%	10.9%
Outstanding (EUR bn)	5123	1158	962	727	969	506	1096
Index yield (%)	1.45	0.39	0.75	1.27	1.78	2.53	0.83
Index volatility (%)	2.9	0.5	1.8	2.9	3.7	4.7	5.7
Yield/vol ratio	**0.5**	**0.7**	**0.4**	**0.4**	**0.5**	**0.5**	**0.1**
Index duration	2.9	1.9	3.8	5.3	7.3	9.7	6.7

Source: Citi Research

We expect Bunds to range trade about 1.5% in Q3

Looking ahead and given revisions to the UST yield projection, we lowered our Bund yield estimates to 1.5% in Q4 2014 and 1.6% in Q4 2015 (*Global Economic Outlook and Strategy*). The forecast implies a sensitivity to UST yields of about 0.5 in a rising yields scenario. Our forecast is slightly above 2014 year-end forwards, while being about 10bp below forwards in 2015. As far as soft-core spreads are concerned, we have left our forecasts unchanged and expect OAT-Bund spreads to trade around 40bp. As it stands, 10yr Bunds at 1.3% remain below our average forecast for Q3 of 1.5%.

Figure 27. EGB portfolio allocation for Q3 2014

Citi EGB Portfolio Allocation									
Country	MV	Weight	modD	Index t(0)	Index Live	Views	New weight	New wTR	Excess TR
Austria	209	4.0%	7.1	383.9	383.1	-25%	3.0%	0.00%	0.00%
Belgium	328	6.3%	7.4	493.6	492.5	-25%	4.7%	0.00%	0.00%
Finland	82	1.6%	6.2	338.1	337.7	-25%	1.2%	0.00%	0.00%
France	1241	23.8%	6.9	894.4	892.1	-25%	17.8%	0.00%	0.00%
Germany	1021	19.5%	6.8	591.4	590.2	-25%	14.7%	0.00%	0.00%
Ireland	101	1.9%	5.2	520.5	519.7	25%	2.4%	0.00%	0.00%
Italy	1235	23.6%	6.5	1398.0	1394.5	25%	29.5%	0.00%	0.00%
Netherlands	333	6.4%	6.8	637.1	636.1	-25%	4.8%	0.00%	0.00%
Spain	674	12.9%	6.0	619.8	618.1	25%	16.1%	0.00%	0.00%
Portfolio	5224	100%	6.6				**94%**	0.00%	**0.00%**

Source: Citi Research

Our view takes into the account the strong performance already seen in H1

We would therefore be short overall portfolio duration in Q3, but look for continued spread compression between the periphery and core markets, overweighting Italy, Spain and Ireland (Figure 27). One main risk to this central scenario would be for even looser ECB monetary policy to come in the months ahead and/or for significant disappointments in US datahttps://ir.citi.com/OiljqKE91H2H0IKI%2FjuoT20WZPZN2ne5j5QR8MP1X676ifPZqYQUnt9YWzmwYtD4 to prompt even lower global core yield (which would now be in contrast to the strong labour market data just released in July). Given that the ECB had just unveiled its latest policy package at the June meeting, we do not expect any new measures in the months ahead, with QE remaining our base case but only much later in Q4.

UK Inflation – buy 5yr IL gilts vs TIPS

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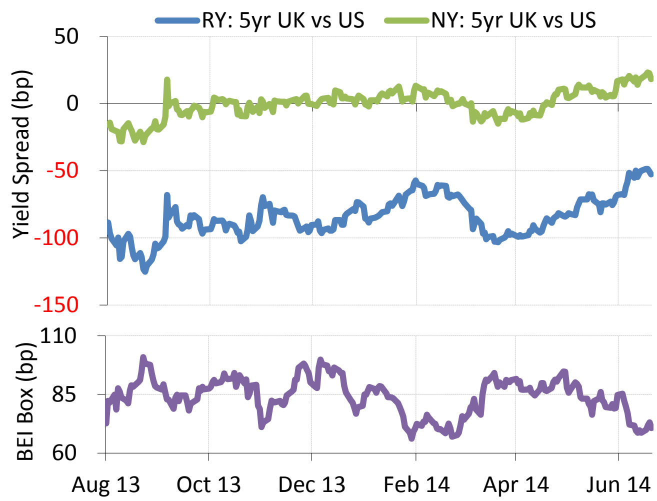
Earlier this week, we recommended buying 5yr gilts vs Treasuries (see *The Morning Call* of 1 July). We felt the spread was due a modest correction following the recent widening which has been led by a re-pricing of UK rate expectations. The risk-reward seemed attractive given the possibility of a re-pricing of the US front-end (which continues to price rate hikes below the Fed's 'dots') and growing interest from overseas investors to switch into gilts and pick-up yield. The spread initially widened further, but the strong payrolls report has triggered a reversal.

Buying 5yr UK vs US looks attractive in real yields as well as in nominals

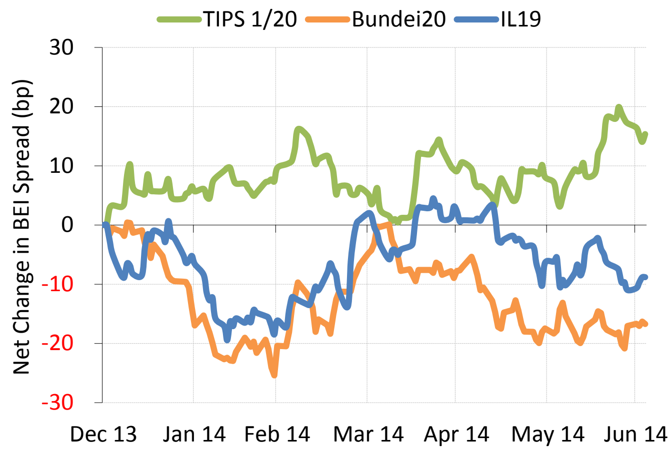
As an alternative/extension of this idea, we think it is also worth considering buying 5yr IL gilt real yields vs TIPS. The widening in the 5yr UK vs US real yield spread has outpaced that of the nominal yield spread, taking the implied break-even inflation box towards its historic low (Figure 28).

Figure 28. 5yr UK vs US real yield, nominal yield and BEI spreads



Source: Citi Research. Bloomberg.

Figure 29. Net change in global 5yr break-evens over the last 6mths



Source: Citi Research, Bloomberg.

US inflation has picked up, driving the outperformance of TIPS break-evens

The reason for the strong widening in the 5yr UK-US real yield spread can be found from looking at break-evens and recent inflation prints. As Figure 29 shows, 5yr euro break-evens have been the worst performers over the last six-months and 5yr TIPS break-evens the best. This is to be expected given the downward momentum in euro area inflation. Euro HICPxT is currently 0.4% YoY and this is likely to drop to just 0.2% over the summer, according to Citi forecasts. In contrast, headline US inflation has picked-up to 2.1% YoY from 1.1% in February (Figure 30).

UK break-evens have been more correlated with euro break-evens than TIPS, but this may soon change

The performance of 5yr break-evens in the UK falls in the middle. While they have not fallen as much as euro break-evens, the correlation has been strong. In contrast, the correlation to TIPS break-evens has been negative, helping to explain the sharp widening in the real yield spread. Again, inflation prints are largely responsible with RPI falling to 2.4% YoY in May from 2.8% in January.

Why this may now reverse

RPI likely to move higher in June

- According to Citi forecasts, the June round of inflation prints are likely to show an unchanged reading for euro HICPxT of 0.4% (released 17 July), a decline in US CPI-U to 1.9% from 2.1% (released 22 July), but a rise in UK RPI to 2.6% from 2.4% (released 15 July).

5yr UK break-evens over attractive long-term value

- IL19 break-eves have fallen back to mid-range. The current level is 2.87% vs a high of 3% in late-April. Current levels are likely to attract interest from medium-term investors expecting the forthcoming hiking cycle and strong house price

gains to widen the RPI-CPI wedge over the coming years. These factors make the downside for 5yr UK break-evens quite limited, in our view.

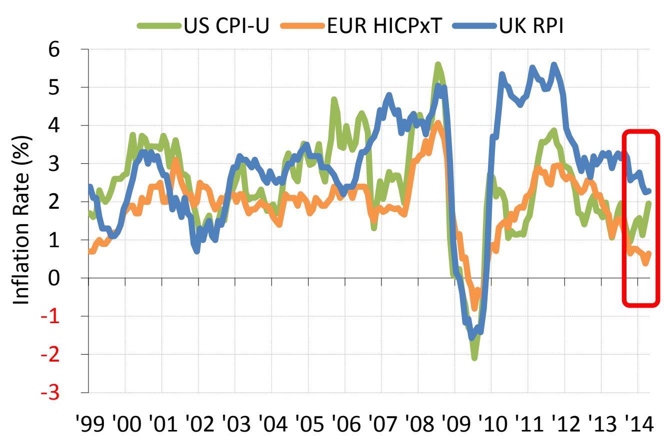
5yr TIPS may find it hard to sustain the rally

- Our US colleagues expect 5yr TIPS real yields to rise from here, in line with nominal yields. They argue that, following the widening in 5yr break-evens year-to-date, there is no obvious catalyst to propel the rally any further in the near-term (see *US Rates Trade Recommendation* of 24 June).

5yr UK real yields are cheap in their range, while 5yr TIPS are rich

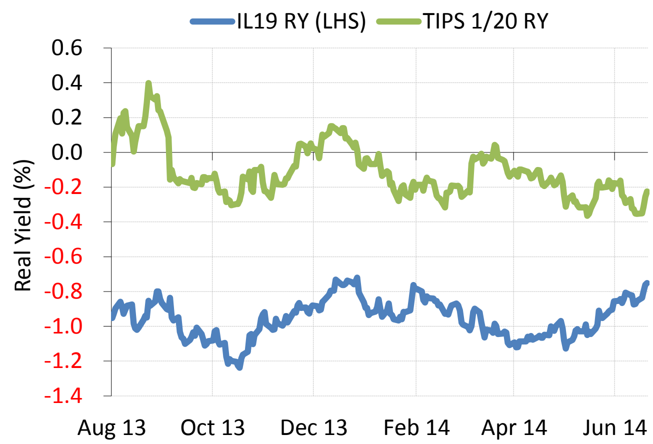
- Following on from above, 5yr TIPS real yields are at the rich-end of their trading range while 5yr IL gilt yields are at the cheap-end (Figure 31). The entry point for an outright reversal looks attractive in both markets which is likely to help the spread to also reverse.

Figure 30. US inflation has picked up in contrast to euro/UK inflation



Source: Citi Research, Bloomberg.

Figure 31. Rich 5yr TIPS real yields vs cheap 5yr IL gilt real yields



Source: Citi Research, Bloomberg.

Strategy – buy 5yr IL gilts vs TIPS

Buy 5yr IL gilts vs TIPS ahead of the June round of inflation prints

The front-end sell-off in the UK vs the US is set for a modest near-term correction, in our view. This is a trade we have recommended in nominal space which benefits from superior liquidity and less negative carry. However, the trade also looks attractive in real yield (or even break-even inflation) terms for those looking for relative value among global inflation markets. Carry is negative, to the tune of 7bp to 1 August, but the spread has the potential to move far more than that. The June round of inflation prints could propel any correction given the prospect for a higher UK RPI print and a lower US CPI-U print.

- **Trade:** Buy IL19 vs TIPS 1/20 on a real yield basis. Entry -52bp, target -75bp, stop -42bp. Carry -7bp to 1 August.

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SSA Strategy: Trading spreads vs EMU

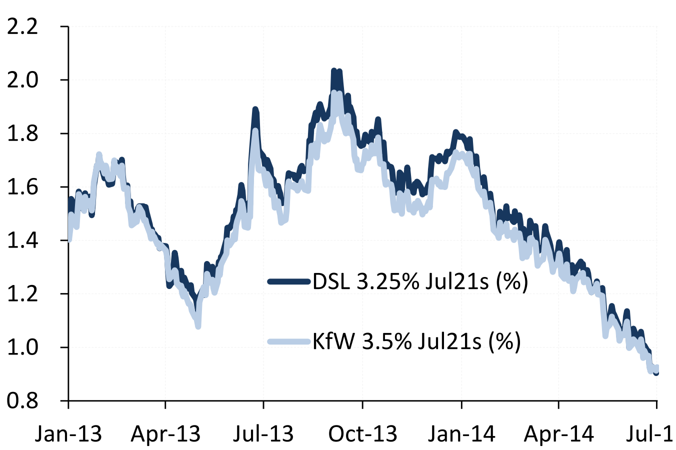
Long KfW vs the Netherlands

Limits to further outperformance of the soft core? The ECB left rates unchanged at the July meeting as expected and yields among the core and semi-core remain relatively tight. Within the SSA sector, we hunt for differentials between German credits and non-German sovereigns where it is perhaps possible to switch at a flat spread (or even at a small yield pick-up).

KfW vs the Netherlands in the 7yr sector: One example is KfW vs the Netherlands. Both are high quality credits with KfW rated AAA/Aaa and the Netherlands AA+/Aaa. However, the strong outperformance of DSLs has now driven spreads to historically attractive levels to switch into the German agency (Figure 32, Figure 33). Traditionally, KfW has traded at lower yields than DSLs, but in the 7yr sector the yield-spread is now slightly positive at the time of writing.

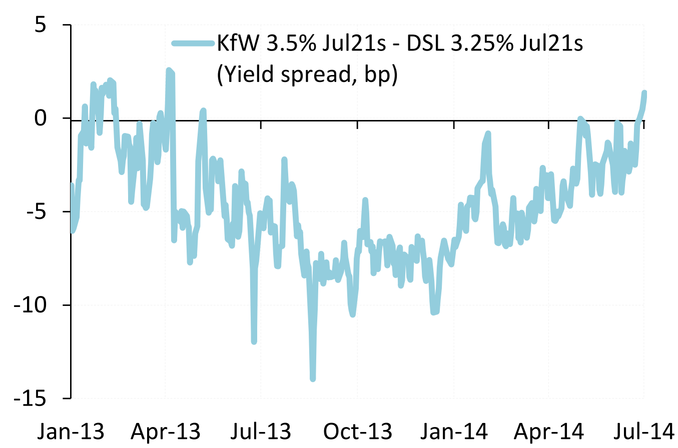
KfW fundamentals: Fundamentally, KfW remains the strongest and most liquid agency that provides alternative exposure to German credit quality due to its explicit guarantee, maintenance obligation and historically established market presence (*Euro SSA and Covered Bond Monthly - A closer look at German guarantee structures*). From a credit perspective, KfW's capital ratios continue to strengthen, with the Tier 1 capital ratio rising to 20.6% last year from 18.2% in 2012.

Figure 32. 7yr KfW and 7yr Netherlands Yield (%)



Source: Citi Research

Figure 33. 7yr KfW – 7yr Netherlands (Yield Spread, bp)



Source: Citi Research

Conclusion – KfW vs the Netherlands switch idea

The hunt-for-yield should help contain any material widening in KfW vs the Netherlands in our view with investors keen to buy the strong German agency when spreads to similarly rated EMU governments allow for a yield *pick-up.* Furthermore, we see minimal likelihood that the ECB can provoke further significant yield compression within the soft core in the near-term.

Covered Bond Strategy

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Although we make no changes to our overall issuance targets for H2, there are adjustments at the country level. Moreover, we summarize our views on secondary market and regulation for covered bonds over the next six months.

H2 Outlook for covered bonds

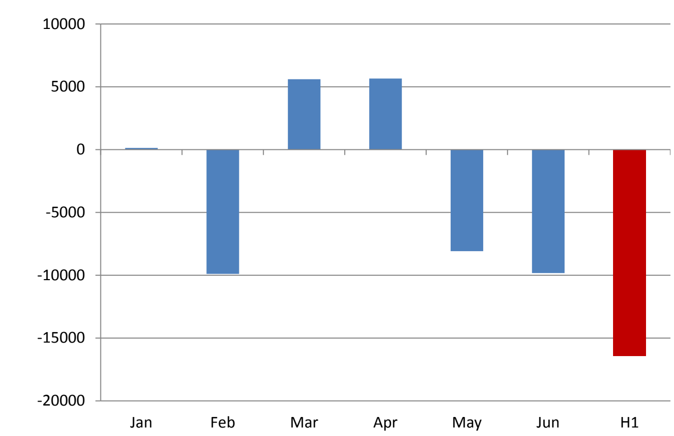
More than 70% of FY13 issuance volume has already been reached

Covered bond issuance: The ECB delivered more than expected in May – and so did covered bond issuers in the first half of the year. After a paltry €98bn of new deals in FY2013, issuers made use of the extremely low spread environment and issued €69bn (including taps) during the last six months – more than 70% of last year's total issuance volume. However, this still hasn't been enough to outweigh redemptions, resulting in net negative supply. In the near-term, we expect issuers to take a pause as the summer lull and blackout periods might make them wait until September for renewed activity.

The German market waves Good-bye to the Jumbo format

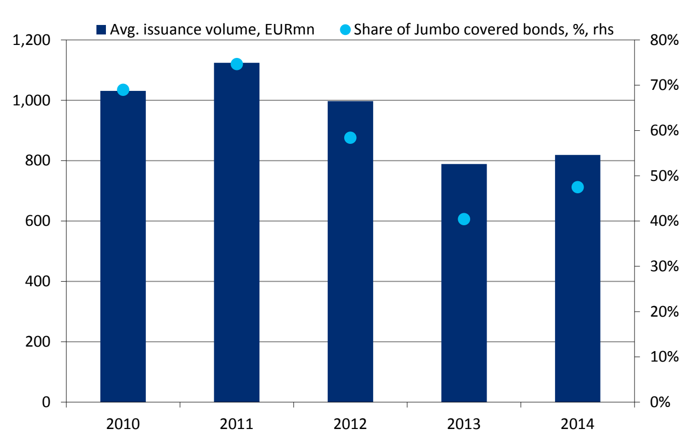
In general, the distribution of primary market activity to segments was in line with expectations with French and German issuers playing the most important role, followed by Canadian issuers which would play an important role as well. Issuers continued to stick to the belly of the curve although we would expect that there would be enough demand for bonds with a maturity beyond ten years given the current spread environment. More striking, however, is the development of the deal size in the covered bond market. The 3-year trend of lower issuance volume halted this year. At the same time the share of jumbo covered bonds increased again – probably mainly driven by the comeback of the Canadian issuers. Meanwhile, German pfandbrief issuers seem to have finally waved "Good-bye" of the Jumbo-format with no bond being placed with a volume of €1bn year to date.

Figure 34. Net issuance volume of EUR benchmark covered bonds in 1H14, EURmn



Source: Bloomberg, Citi Research

Figure 35. Primary market activity: avg. issuance volume and share of jumbo covered bonds, %



Source: Citi Research

We stick to €113bn for gross issuance in 2014 (€69bn of which has come in H1)

Issuance forecast: However, even against the background of our "low for longer" spread outlook for the end of the year, we don't think that covered bond issuers will keep at this pace. Hence, we stick to our full-year forecast of €113bn. That said, we adjust the issuance distribution among covered bond segments for the rest of the year (see table below). In many segments our forecast hasn't changed. However, in some segments, a substantial amendment has been necessary. On the one hand, covered bond primary markets have been surprised by a higher than expected issuance volume from some segments. The most prominent examples are the Swiss covered bond segment but also the Portuguese covered bond issuers. In both segments, the issuance volume already overshot our expectations to the mid-year. However, as both segments play a very minor role of the total covered bond

market it doesn't have substantial repercussions on our overall issuance expectation. Moreover, we slightly increased our expectation on UK covered bond issuance. Although we have already been relatively optimistic on the issuers' activity – especially as FLS is about to end in February 2015 – we didn't expect four issuances of UK banks at this time of the year already. Hence, we slightly adjust our expectation to €5bn of UK covered bonds.

Figure 36. Revised issuance forecast for FY14

	Original issuance forecast for 2014	Issuance year to date	Completion rate*	New issuance forecast for 2014	Redemptions 2H14	Expected net supply 2H14
Australia	4.0	4.0	100%	5.0	0.0	1.0
Austria	4.0	2.0	50%	4.0	1.0	1.0
Belgium	4.0	2.0	49%	4.0	0.0	2.1
Canada	10.0	5.0	50%	10.0	0.0	5.0
Denmark	1.0	1.0	100%	1.0	0.0	0.0
Finland	5.0	4.0	80%	5.0	1.3	-0.3
France	20.0	11.5	57%	19.0	9.4	-1.9
Germany	18.0	11.9	66%	18.0	12.5	-6.4
Ireland	3.0	1.3	42%	2.8	1.5	0.0
Italy	8.0	5.8	72%	9.0	0.0	3.3
Netherlands	4.0	2.0	50%	4.0	4.0	-2.0
New Zealand	1.0	0.8	75%	1.3	0.0	0.5
Norway	5.5	1.0	18%	4.5	0.0	3.5
Portugal	0.5	2.5	500%	3.0	3.0	-2.5
Spain	15.0	4.5	30%	9.0	21.0	-16.5
Sweden	5.0	2.8	55%	4.5	3.0	-1.3
Switzerland	1.0	4.0	400%	4.0	2.0	-2.0
UK	4.0	3.3	81%	5.0	7.1	-5.4
USA	0.0	0.0	--	0.0	0.0	0.0
Total	**113.0**	**69.0**	**61%**	**113.0**	**65.8**	**-21.8**

Source: Citi Research; * vs our own Citi expectation for 2014

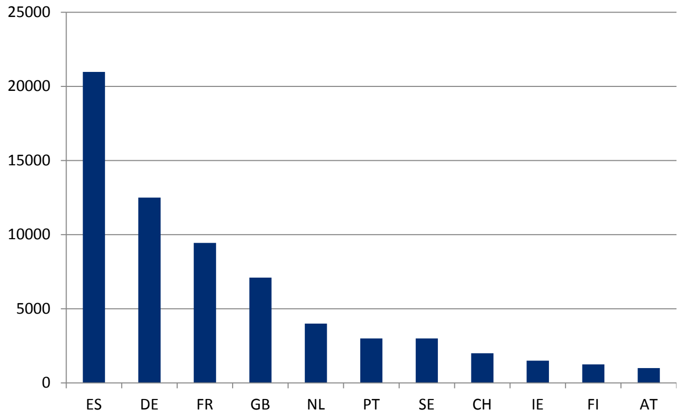
Spanish banks' issuance activity is lower than expected

One reason why this still doesn't affect our overall issuance expectation is the most negative surprise on the primary market in 2014 so far. Spanish banks were expected to be less active in wholesale funding on a secured basis. However, the €4.5bn of cédulas which have been placed so far is clearly below consensus and makes us believe that our expectations from the end of last year won't be met. That's why we reduce our expectation of total cédula issuance by €6bn to €9bn.

Redemptions are relatively low in Q3

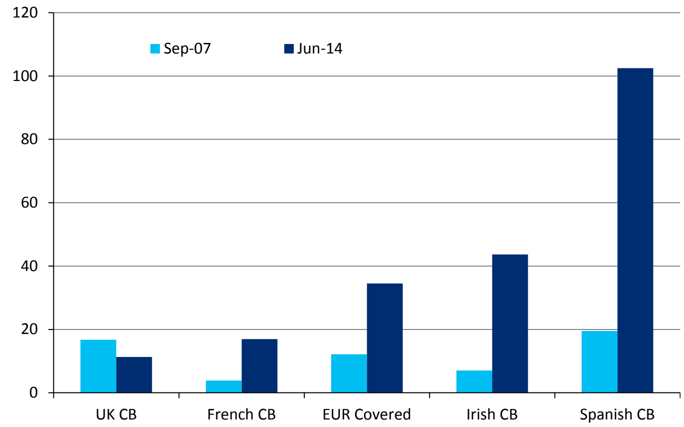
Redemption outlook: For the two following quarters, there is a low chance that for the first time this year on a quarterly basis the benchmark covered bond market will not be shrinking necessarily as the overall amount of redemptions will stand at €66bn. That is substantially lower than in the first two quarters of this year. However, we would still think that net negative supply will continue to be the name of the game in covered bonds, mainly as issuance activity is usually low over the summer, but also because issuers will probably have to rethink their funding plan for the rest of the year due to the introduction of the TLTRO. In August no redemptions will be recorded while investors can expect nearly €20bn of cash inflow in September. Again, the German and the Spanish segment stand out with highest redemptions, €21bn and €12.5bn, respectively.

Figure 37. Redemptions in 2H14 by country, EURmn



Source: Bloomberg, Citi Research

Figure 38. Spread to pfandbriefe – near pre-crisis lows? Mid-asw, bp



Source: Markit, Citi Research

Core spreads to swaps to stay range bound with peripheral covered bonds continuing their tightening trend

Secondary market outlook: For secondary markets, the primary market outlook should continue to be a positive factor. While we think that the compression of spreads is a pattern which we will continue to see in the medium-term, one might want to compare relative spread levels of the current environment with those of the past as one might think that the pre-crisis spread environment is the one where covered bond markets will eventually end. As it can be seen in Figure 38. Spread to pfandbriefe – near pre-crisis lows? Mid-asw, bp, there is still some tightening potential left vs our benchmark, the German pfandbief market, especially in the peripheral markets. The only segment which already reached levels beyond those of the pre-crisis era is the UK covered bond segment. For peripheral covered bond markets the tightening journey should continue in the medium-term. However, we don't expect spreads to pfandbriefe reaching pre-crisis levels, even in the longer-term in which Citi expects an additional stimulus of the ECB via large scale asset purchases. Meanwhile, the main factors for a continuing spread compression are still valid in our view.

Decision on LCR probably to be due in September

Regulatory outlook: Market participants probably didn't expect the Liquidity Coverage Ratio (LCR) to be the dominant regulatory factor for covered bond markets in the second half of the year as well, but that's how it will eventually be. The European Commission allowed the official publication time of June 30th to lapse which means that the final definition of the LCR in Europe might be unknown until September. The working papers which have so far been seen led to the conclusion that covered bonds as well as most SSA markets would be treated in line or even better than expected. However, nothing is set into stone so far and the slightest amendments could have repercussions on the LCR eligibility and eventually on secondary market levels. Apart from the LCR, the EC also has to decide on the appropriateness of preferential risk weights for covered bonds at the end of the year. The underlying assessment has already been provided by the EBA this week, mainly arguing that the preferential treatment of covered bonds is justifiable. Hence, we don't expect any negative surprise here.

Strong development of the asset class is set to continue

Summary: The covered bond market should continue to develop relatively strong in the primary market with FY issuance volume higher than in 2012 and 2013 while secondary market levels are to remain tight with an ongoing trend of spread compression. The fact that covered bond market participants have so far rarely been surprised to the downside with respect to the regulatory treatment of the asset class should persist in the coming months as well.

Euro Relative Value Screen – All Maturities

Figure 39. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - all bonds on each curve

Versus Govt Curve (CAS) | Versus Swap Curve (CAS)

GERMANY

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.25 Jul21	-1.70	Apr11	19	Richest	1	1.50 May24	-0.29	May14	10
	2	2.50 Jan21	-1.31	Nov10	19		2	0.50 Apr19	0.44	May14	13
	3	3.25 Jan20	-1.29	Nov09	22		3	2.50 Aug46	0.58	Feb14	5
	4	3.50 Jul19	-1.26	May09	24		4	3.25 Jul21	0.59	Apr11	19
	5	3.75 Jan19	-1.22	Nov08	24		5	2.25 Sep21	0.74	Aug11	16
	5	0.75 Feb17	0.97	Jan12	16		5	4.00 Jan37	1.31	Jan05	23
	4	3.75 Jan17	0.98	Nov06	20		4	6.25 Jan30	1.32	Jan00	9
	3	0.50 Apr17	1.30	Apr12	18		3	4.00 Jul16	1.43	May06	23
	2	1.50 Feb23	1.60	Jan13	18		2	4.75 Jul34	1.46	Jan03	20
Cheapest	1	4.00 Jul16	1.96	May06	23	Cheapest	1	5.50 Jan31	1.46	Oct00	17

FRANCE

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.25 May24	-2.50	Nov13	28	Richest	1	1.75 May23	-1.92	May12	26
	2	4.00 Apr55	-1.92	Apr04	15		2	2.25 May24	-1.74	Nov13	28
	3	1.00 May19	-1.35	Jan14	22		3	4.00 Apr18	-1.71	Apr07	27
	4	1.00 Nov18	-1.17	Nov12	21		4	4.25 Oct23 (OAT)	-1.67	Oct06	33
	5	1.75 May23	-1.08	May12	26		5	2.25 Oct22	-1.65	Oct11	25
	5	1.00 Jul17	1.62	Jul11	20		5	4.00 Apr60	-1.13	Apr09	11
	4	2.25 Oct22	1.68	Oct11	25		4	3.75 Apr17	-0.99	Apr06	37
	3	3.75 Apr17	1.87	Apr06	37		3	1.75 Nov24	-0.29	Jun14	6
	2	3.25 Oct21	2.32	Oct10	36		2	0.50 Nov19	-0.24	Jun14	4
Cheapest	1	3.00 Apr22	2.42	Feb12	34	Cheapest	1	2.50 May30	-0.03	May14	8

ITALY

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 Sep44	-1.96	Mar13	13	Richest	1	4.75 May17	-1.44	Feb12	14
	2	4.75 May17	-1.91	Feb12	14		2	4.75 Jun17	-1.44	Jun12	16
	3	4.75 Jun17	-1.80	Jun12	16		3	5.25 Aug17	-1.41	Feb02	24
	4	5.25 Aug17	-1.59	Feb02	24		4	3.50 Nov17	-1.34	Nov12	17
	5	1.15 May17	-1.32	May14	9		5	3.50 Jun18	-1.33	Apr13	20
	5	4.00 Sep20	2.15	Mar10	25		5	3.75 Sep24	-0.50	Mar14	17
	4	3.75 Mar21	2.17	Sep10	24		4	4.00 Feb37	-0.34	Aug05	26
	3	4.25 Feb19	2.20	Feb03	25		3	3.50 Mar30	-0.03	May14	7
	2	2.50 May19 (MFB)	2.21	Feb14	15		2	2.15 Dec21	1.24	Jun14	5
Cheapest	1	3.50 Dec18	2.64	Sep13	20	Cheapest	1	1.50 Aug19	1.65	Jul14	5

N'LANDS

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.25 Jan18	-2.32	Jul12	15	Richest	1	3.25 Jul21	-2.55	Mar11	16
	2	3.25 Jul21	-1.66	Mar11	16		2	3.50 Jul20	-2.52	Feb10	15
	3	2.00 Jul24	-0.97	Mar14	9		3	1.25 Jan18	-2.50	Jul12	15
	4	4.00 Jul19	-0.87	Feb09	14		4	2.25 Jul22	-2.43	Feb12	15
	5	4.50 Jul17	-0.65	Jul07	15		5	4.00 Jul19	-2.25	Feb09	14
	5	1.75 Jul23	0.47	Mar13	16		5	3.75 Jan42	-1.21	May10	15
	4	1.25 Jan19	0.99	Jun13	15		4	2.75 Jan47	-1.15	Feb14	4
	3	0.50 Apr17	1.12	Jan14	12		3	4.00 Jul16	-1.06	Jul06	15
	2	4.00 Jan37	1.37	Apr05	14		2	2.50 Jan33	-0.97	Mar12	10
Cheapest	1	3.75 Jan23	2.19	Jan06	11	Cheapest	1	4.00 Jan37	-0.96	Apr05	14

SPAIN

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	5.85 Jan22 (FBB)	-2.89	Nov11	19	Richest	1	3.80 Jan17	-1.44	Oct06	21
	2	4.50 Jan18	-2.40	Nov12	19		2	3.30 Jul16	-1.36	Apr13	17
	3	5.75 Jul32	-1.99	Jan01	15		3	2.10 Apr17	-1.32	Nov13	20
	4	4.20 Jan37	-1.87	Jan05	16		4	4.25 Oct16	-1.31	Sep11	21
	5	5.50 Apr21	-1.65	Jan11	24		5	4.50 Jan18	-1.28	Nov12	19
	5	3.75 Oct18	1.66	Jul13	19		5	4.90 Jul40	-0.38	Jun07	13
	4	4.80 Jan24	2.18	Sep08	15		4	5.15 Oct44	-0.34	Oct13	5
	3	3.80 Apr24	2.35	Jan14	21		3	4.70 Jul41	-0.30	Sep09	12
	2	5.90 Jul26	2.37	Mar11	14		2	1.40 Jan20	0.00	Jul14	0
Cheapest	1	4.65 Jul25	3.22	Feb10	14	Cheapest	1	2.75 Oct24	1.64	Jun14	9

BELGIUM

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.00 Jun34	-1.84	Mar14	5	Richest	1	3.75 Sep20	-2.08	Jan10	18
	2	1.25 Jun18	-1.60	Feb13	12		2	3.50 Jun17	-2.06	Mar11	13
	3	4.25 Sep22	-1.49	Jan12	15		3	4.25 Sep21	-2.05	Jan11	15
	4	2.60 Jun24	-1.02	Jan14	11		4	1.25 Jun18	-2.00	Feb13	12
	5	3.75 Jun45	-0.93	Sep13	5		5	4.00 Mar18	-1.97	Jan08	12
	5	2.25 Jun23	1.75	Jan13	14		5	4.25 Mar41	-1.48	Apr10	14
	4	4.25 Mar41	1.77	Apr10	14		4	5.00 Mar35	-1.45	May04	19
	3	4.00 Mar18	1.78	Jan08	12		3	3.00 Jun34	-1.41	Mar14	5
	2	5.00 Mar35	2.34	May04	19		2	4.00 Mar32	-1.39	Mar12	8
Cheapest	1	5.50 Sep17	2.91	Jun02	8	Cheapest	1	3.75 Jun45	-1.37	Sep13	5

Source: Citi Research

Euro Relative Value Screen – Sub-12yr

Figure 40. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - bonds with a maximum maturity of 12yrs

Versus Govt Curve (CAS) | Versus Swap Curve (CAS)

GERMANY

	Rank	Govt bond	ZScore	Issued	Size (€bn)		Rank	Swap bond	ZScore	Issued	Size (€bn)
Richest	1	3.25 Jul21	-1.70	Apr11	19	Richest	1	1.50 May24	-0.29	May14	10
	2	2.50 Jan21	-1.31	Nov10	19		2	0.50 Apr19	0.44	May14	13
	3	3.25 Jan20	-1.29	Nov09	22		3	3.25 Jul21	0.59	Apr11	19
	4	3.50 Jul19	-1.26	May09	24		4	2.25 Sep21	0.74	Aug11	16
	5	3.75 Jan19	-1.22	Nov08	24		5	3.25 Jan20	0.77	Nov09	22
	5	0.75 Feb17	0.97	Jan12	16		5	0.50 Feb18	1.19	Jan13	17
	4	3.75 Jan17	0.98	Nov06	20		4	0.50 Apr17	1.22	Apr12	18
	3	0.50 Apr17	1.30	Apr12	18		3	1.00 Feb19	1.23	Jan14	16
	2	1.50 Feb23	1.60	Jan13	18		2	0.50 Oct17	1.29	Sep12	16
Cheapest	1	4.00 Jul16	1.96	May06	23	Cheapest	1	4.00 Jul16	1.43	May06	23

FRANCE

	Rank	Govt bond	ZScore	Issued	Size (€bn)		Rank	Swap bond	ZScore	Issued	Size (€bn)
Richest	1	2.25 May24	-2.50	Nov13	28	Richest	1	1.75 May23	-1.92	May12	26
	2	1.00 May19	-1.35	Jan14	22		2	2.25 May24	-1.74	Nov13	28
	3	1.00 Nov18	-1.17	Nov12	21		3	4.00 Apr18	-1.71	Apr07	27
	4	1.75 May23	-1.08	May12	26		4	4.25 Oct23 (OAT)	-1.67	Oct06	33
	5	4.00 Apr18	-1.02	Apr07	27		5	2.25 Oct22	-1.65	Oct11	25
	5	1.00 Jul17	1.62	Jul11	20		5	2.50 Jul16	-1.25	Jul10	31
	4	2.25 Oct22	1.68	Oct11	25		4	0.25 Nov16	-1.13	Apr14	10
	3	3.75 Apr17	1.87	Apr06	37		3	3.75 Apr17	-0.99	Apr06	37
	2	3.25 Oct21	2.32	Oct10	36		2	1.75 Nov24	-0.29	Jun14	6
Cheapest	1	3.00 Apr22	2.42	Feb12	34	Cheapest	1	0.50 Nov19	-0.24	Jun14	4

ITALY

	Rank	Govt bond	ZScore	Issued	Size (€bn)		Rank	Swap bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 May17	-1.91	Feb12	14	Richest	1	4.75 May17	-1.44	Feb12	14
	2	4.75 Jun17	-1.80	Jun12	16		2	4.75 Jun17	-1.44	Jun12	16
	3	5.25 Aug17	-1.59	Feb02	24		3	5.25 Aug17	-1.41	Feb02	24
	4	1.15 May17	-1.32	May14	9		4	3.50 Nov17	-1.34	Nov12	17
	5	4.00 Feb17	-0.90	Aug06	25		5	3.50 Jun18	-1.33	Apr13	20
	5	4.00 Sep20	2.15	Mar10	25		5	5.00 Mar25	-0.99	Mar09	22
	4	3.75 Mar21	2.17	Sep10	24		4	4.50 Mar26	-0.90	Sep10	21
	3	4.25 Feb19	2.20	Feb03	25		3	3.75 Sep24	-0.50	Mar14	17
	2	2.50 May19 (MFB)	2.21	Feb14	15		2	2.15 Dec21	1.24	Jun14	5
Cheapest	1	3.50 Dec18	2.63	Sep13	20	Cheapest	1	1.50 Aug19	1.65	Jul14	5

N'LANDS

	Rank	Govt bond	ZScore	Issued	Size (€bn)		Rank	Swap bond	ZScore	Issued	Size (€bn)
Richest	1	1.25 Jan18	-2.32	Jul12	15	Richest	1	3.25 Jul21	-2.55	Mar11	16
	2	3.25 Jul21	-1.66	Mar11	16		2	3.50 Jul20	-2.52	Feb10	15
	3	2.00 Jul24	-0.96	Mar14	9		3	1.25 Jan18	-2.50	Jul12	15
	4	4.00 Jul19	-0.88	Feb09	14		4	2.25 Jul22	-2.43	Feb12	15
	5	4.50 Jul17	-0.65	Jul07	15		5	4.00 Jul19	-2.25	Feb09	14
	5	4.00 Jul16	0.35	Jul06	15		5	3.75 Jan23	-1.77	Jan06	11
	4	1.75 Jul23	0.47	Mar13	16		4	4.00 Jul18	-1.76	Feb08	15
	3	1.25 Jan19	0.99	Jun13	15		3	2.50 Jan17	-1.44	Jun11	16
	2	0.50 Apr17	1.12	Jan14	12		2	0.50 Apr17	-1.34	Jan14	12
Cheapest	1	3.75 Jan23	2.19	Jan06	11	Cheapest	1	4.00 Jul16	-1.06	Jul06	15

SPAIN

	Rank	Govt bond	ZScore	Issued	Size (€bn)		Rank	Swap bond	ZScore	Issued	Size (€bn)
Richest	1	5.85 Jan22 (FBB)	-2.89	Nov11	19	Richest	1	3.80 Jan17	-1.44	Oct06	21
	2	4.50 Jan18	-2.41	Nov12	19		2	3.30 Jul16	-1.36	Apr13	17
	3	5.50 Apr21	-1.65	Jan11	24		3	2.10 Apr17	-1.32	Nov13	20
	4	4.85 Oct20	-1.58	Jul10	18		4	4.25 Oct16	-1.31	Sep11	21
	5	4.10 Jul18	-1.01	Feb08	19		5	4.50 Jan18	-1.28	Nov12	19
	5	4.60 Jul19	1.60	Feb09	20		5	4.80 Jan24	-0.94	Sep08	15
	4	3.75 Oct18	1.65	Jul13	19		4	3.80 Apr24	-0.82	Jan14	21
	3	4.80 Jan24	2.19	Sep08	15		3	4.65 Jul25	-0.68	Feb10	14
	2	3.80 Apr24	2.37	Jan14	21		2	1.40 Jan20	0.00	Jul14	0
Cheapest	1	4.65 Jul25	3.22	Feb10	14	Cheapest	1	2.75 Oct24	1.64	Jun14	9

BELGIUM

	Rank	Govt bond	ZScore	Issued	Size (€bn)		Rank	Swap bond	ZScore	Issued	Size (€bn)
Richest	1	1.25 Jun18	-1.60	Feb13	12	Richest	1	3.75 Sep20	-2.08	Jan10	18
	2	4.25 Sep22	-1.49	Jan12	15		2	3.50 Jun17	-2.06	Mar11	13
	3	2.60 Jun24	-1.02	Jan14	11		3	4.25 Sep21	-2.05	Jan11	15
	4	4.00 Mar22	-0.77	May06	14		4	1.25 Jun18	-2.00	Feb13	12
	5	4.25 Sep21	-0.34	Jan11	15		5	4.00 Mar18	-1.97	Jan08	12
	5	3.25 Sep16	1.42	Jan06	13		5	4.00 Mar19	-1.88	Jan09	11
	4	4.00 Mar19	1.72	Jan09	11		4	3.00 Sep19	-1.87	Apr12	11
	3	2.25 Jun23	1.75	Jan13	14		3	4.00 Mar17	-1.76	Jan07	11
	2	4.00 Mar18	1.78	Jan08	12		2	3.25 Sep16	-1.72	Jan06	13
Cheapest	1	5.50 Sep17	2.91	Jun02	8	Cheapest	1	5.50 Sep17	-1.63	Jun02	8

Source: Citi Research

Euro Relative Value Screen – 8yr+

Figure 41. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - bonds with a minimum maturity of 8yrs

GERMANY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.75 Feb24	-0.75	Jan14	18
	2	6.25 Jan30	-0.60	Jan00	9
	3	1.50 May24	-0.52	May14	10
	4	2.50 Jul44	-0.44	Apr12	16
	5	2.00 Aug23	-0.26	Sep13	18
	5	4.00 Jan37	0.70	Jan05	23
	4	1.50 May23	0.73	May13	18
	3	4.25 Jul39	0.87	Jan07	14
	2	4.75 Jul40	0.93	Jul08	16
Cheapest	1	1.50 Feb23	1.60	Jan13	18

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.50 May24	-0.29	May14	10
	2	2.50 Aug46	0.58	Feb14	5
	3	1.75 Jul22	0.77	Apr12	24
	4	1.50 Sep22	0.78	Sep12	18
	5	3.25 Jul42	0.84	Jul10	15
	5	4.25 Jul39	1.16	Jan07	14
	4	4.00 Jan37	1.31	Jan05	23
	3	6.25 Jan30	1.32	Jan00	9
	2	4.75 Jul34	1.46	Jan03	20
Cheapest	1	5.50 Jan31	1.46	Oct00	17

FRANCE

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.25 May24	-2.50	Nov13	28
	2	4.00 Apr55	-1.92	Apr04	15
	3	1.75 May23	-1.08	May12	26
	4	1.75 Nov24	-0.88	Jun14	6
	5	4.25 Oct23 (OAT)	-0.70	Oct06	33
	5	4.50 Apr41	0.59	Apr09	24
	4	3.50 Apr26	0.62	Apr10	30
	3	4.00 Oct38	0.66	Oct05	24
	2	5.75 Oct32	0.92	Oct00	26
Cheapest	1	2.25 Oct22	1.68	Oct11	25

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.75 May23	-1.92	May12	26
	2	2.25 May24	-1.74	Nov13	28
	3	4.25 Oct23 (OAT)	-1.67	Oct06	33
	4	2.25 Oct22	-1.65	Oct11	25
	5	3.50 Apr26	-1.54	Apr10	30
	5	2.75 Oct27	-1.22	Oct11	26
	4	5.75 Oct32	-1.17	Oct00	26
	3	4.00 Apr60	-1.13	Apr09	11
	2	1.75 Nov24	-0.29	Jun14	6
Cheapest	1	2.50 May30	-0.03	May14	8

ITALY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 Sep44	-1.95	Mar13	13
	2	4.50 Mar24	-0.39	Aug13	23
	3	5.00 Mar25	0.26	Mar09	22
	4	3.50 Mar30	0.43	May14	7
	5	4.75 Aug23	0.57	Feb08	25
	5	4.75 Sep28	1.55	Jan13	18
	4	4.00 Feb37	1.56	Aug05	26
	3	5.00 Aug39	1.65	Aug07	19
	2	4.50 May23 (IK)	1.83	Mar13	18
Cheapest	1	5.00 Sep40	1.85	Sep09	21

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	5.50 Nov22	-1.16	May12	21
	2	5.50 Sep22	-1.14	Mar12	20
	3	4.75 Aug23	-1.08	Feb08	25
	4	4.50 May23 (IK)	-1.03	Mar13	18
	5	4.50 Mar24	-1.02	Aug13	23
	5	5.00 Sep40	-0.56	Sep09	21
	4	5.00 Aug39	-0.51	Aug07	19
	3	3.75 Sep24	-0.50	Mar14	17
	2	4.00 Feb37	-0.34	Aug05	26
Cheapest	1	3.50 Mar30	-0.03	May14	7

N'LANDS

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.00 Jul24	-0.96	Mar14	9
	2	3.75 Jan42	-0.33	May10	15
	3	2.75 Jan47	-0.23	Feb14	4
	4	2.50 Jan33	0.00	Mar12	10
	4	2.25 Jul22	0.29	Feb12	15
	3	1.75 Jul23	0.47	Mar13	16
	2	4.00 Jan37	1.37	Apr05	14
Cheapest	1	3.75 Jan23	2.19	Jan06	11

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.25 Jul22	-2.43	Feb12	15
	2	2.00 Jul24	-1.97	Mar14	9
	3	1.75 Jul23	-1.93	Mar13	16
	4	3.75 Jan23	-1.77	Jan06	11
	4	3.75 Jan42	-1.21	May10	15
	3	2.75 Jan47	-1.15	Feb14	4
	2	2.50 Jan33	-0.97	Mar12	10
Cheapest	1	4.00 Jan37	-0.96	Apr05	14

SPAIN

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	5.75 Jul32	-2.00	Jan01	15
	2	4.20 Jan37	-1.87	Jan05	16
	3	4.90 Jul40	-0.86	Jun07	13
	4	5.40 Jan23	-0.54	Jan13	17
	5	5.15 Oct44	0.23	Oct13	5
	5	4.40 Oct23	1.49	May13	18
	4	4.80 Jan24	2.19	Sep08	15
	3	3.80 Apr24	2.37	Jan14	21
	2	5.90 Jul26	2.37	Mar11	14
Cheapest	1	4.65 Jul25	3.22	Feb10	14

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	5.40 Jan23	-1.10	Jan13	17
	2	4.40 Oct23	-1.00	May13	18
	3	4.80 Jan24	-0.94	Sep08	15
	4	3.80 Apr24	-0.82	Jan14	21
	5	4.65 Jul25	-0.68	Feb10	14
	5	5.15 Oct28	-0.42	Jul13	10
	4	4.90 Jul40	-0.38	Jun07	13
	3	5.15 Oct44	-0.34	Oct13	5
	2	4.70 Jul41	-0.30	Sep09	12
Cheapest	1	2.75 Oct24	1.64	Jun14	9

BELGIUM

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.00 Jun34	-1.91	Mar14	5
	2	4.25 Sep22	-1.51	Jan12	15
	3	3.75 Jun45	-1.07	Sep13	5
	4	2.60 Jun24	-1.05	Jan14	11
	4	4.00 Mar32	1.55	Mar12	8
	3	2.25 Jun23	1.72	Jan13	14
	2	4.25 Mar41	1.75	Apr10	14
Cheapest	1	5.00 Mar35	2.33	May04	19

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar26	-1.95	Jun11	8
	2	4.25 Sep22	-1.93	Jan12	15
	3	2.60 Jun24	-1.93	Jan14	11
	4	2.25 Jun23	-1.89	Jan13	14
	4	5.00 Mar35	-1.45	May04	19
	3	3.00 Jun34	-1.41	Mar14	5
	2	4.00 Mar32	-1.39	Mar12	8
Cheapest	1	3.75 Jun45	-1.37	Sep13	5

Source: Citi Research

UK Relative Value Screen

Figure 42. Coupon adjusted spread (CAS) to fitted curve and swap curve by maturity (6m history)

Versus Govt Curve (CAS)

Maturity		Rank	Bond	ZScore	Issued	Size (€bn)
ALL	Richest	1	3.25 Jan44	-3.39	Oct12	27
ALL		2	3.75 Jul52	-2.98	Sep11	22
ALL		3	4.25 Dec55	-2.62	May05	23
ALL		4	5.00 Sep14	-2.32	Jul02	41
ALL		5	4.75 Dec30	-2.20	Oct07	29
ALL		5	4.75 Mar20	1.42	Mar05	33
ALL		4	3.75 Sep20	1.52	Jun10	24
ALL		3	4.25 Mar36	2.40	Feb03	26
ALL		2	2.00 Jan16	2.67	Nov10	32
ALL	Cheapest	1	4.75 Sep15	2.73	Sep03	38
2yr - 7yr	Richest	1	1.75 Jan17	-1.05	Aug11	29
2yr - 7yr		2	4.50 Mar19 (WX)	-0.93	Sep08	35
2yr - 7yr		3	1.75 Jul19 (5y)	-0.77	Nov13	30
2yr - 7yr		4	1.25 Jul18	-0.33	Feb13	34
2yr - 7yr		5	3.75 Sep19	-0.22	Jul09	28
2yr - 7yr		5	1.00 Sep17	-0.16	Mar12	31
2yr - 7yr		4	5.00 Mar18	-0.11	May07	34
2yr - 7yr		3	4.00 Sep16 (WB)	0.58	Mar06	35
2yr - 7yr		2	4.75 Mar20	1.42	Mar05	33
2yr - 7yr	Cheapest	1	3.75 Sep20	1.52	Jun10	24
7yr - 15yr	Richest	1	2.25 Sep23 (10y)	-0.92	Jun13	27
7yr - 15yr		2	4.25 Dec27	-0.24	Sep06	29
7yr - 15yr		3	5.00 Mar25 (G)	-0.01	Sep01	34
7yr - 15yr		4				
7yr - 15yr		5				
7yr - 15yr		5				
7yr - 15yr		4				
7yr - 15yr		3	4.00 Mar22	0.06	Feb09	37
7yr - 15yr		2	2.75 Sep24	0.24	Mar14	10
7yr - 15yr	Cheapest	1	1.75 Sep22	0.42	Jun12	28
>15yr	Richest	1	3.25 Jan44 (30y)	-3.17	Oct12	27
>15yr		2	4.25 Dec55	-2.26	May05	23
>15yr		3	3.75 Jul52	-2.08	Sep11	22
>15yr		4	4.75 Dec30	-2.07	Oct07	29
>15yr		5	4.25 Dec46	-1.83	May06	21
>15yr		5	4.00 Jan60	0.74	Oct09	19
>15yr		4	4.25 Sep39	1.22	Mar09	19
>15yr		3	4.50 Sep34	1.58	Jun09	28
>15yr		2	4.75 Dec38	1.58	Apr04	25
>15yr	Cheapest	1	4.25 Mar36	2.63	Feb03	26

Versus Swap Curve (CAS)

Maturity		Rank	Bond	ZScore	Issued	Size (€bn)
ALL	Richest	1	1.75 Sep22	-3.23	Jun12	28
ALL		2	2.75 Sep24	-3.03	Mar14	10
ALL		3	4.25 Jun32	-2.82	May00	35
ALL		4	2.25 Sep23	-2.78	Jun13	27
ALL		5	4.50 Sep34	-2.72	Jun09	28
ALL		5	4.00 Sep16	0.41	Mar06	35
ALL		4	4.75 Sep15	1.18	Sep03	38
ALL		3	2.00 Jan16	1.33	Nov10	32
ALL		2	2.75 Jan15	1.60	Nov09	29
ALL	Cheapest	1	5.00 Sep14	2.90	Jul02	41
2yr - 7yr	Richest	1	1.75 Jul19 (5y)	-1.52	Nov13	30
2yr - 7yr		2	3.75 Sep20	-1.49	Jun10	24
2yr - 7yr		3	4.50 Mar19 (WX)	-1.42	Sep08	35
2yr - 7yr		4	3.75 Sep19	-1.40	Jul09	28
2yr - 7yr		5	4.75 Mar20	-1.35	Mar05	33
2yr - 7yr		5	1.25 Jul18	-1.30	Feb13	34
2yr - 7yr		4	5.00 Mar18	-0.87	May07	34
2yr - 7yr		3	1.00 Sep17	-0.52	Mar12	31
2yr - 7yr		2	1.75 Jan17	-0.17	Aug11	29
2yr - 7yr	Cheapest	1	4.00 Sep16 (WB)	0.41	Mar06	35
7yr - 15yr	Richest	1	1.75 Sep22	-3.23	Jun12	28
7yr - 15yr		2	2.75 Sep24	-3.03	Mar14	10
7yr - 15yr		3	2.25 Sep23 (10y)	-2.78	Jun13	27
7yr - 15yr		4				
7yr - 15yr		5				
7yr - 15yr		5				
7yr - 15yr		4				
7yr - 15yr		3	3.75 Sep21	-2.16	Mar11	28
7yr - 15yr		2	5.00 Mar25 (G)	-1.36	Sep01	34
7yr - 15yr	Cheapest	1	4.25 Dec27	-1.17	Sep06	29
>15yr	Richest	1	4.25 Jun32	-2.82	May00	35
>15yr		2	4.50 Sep34	-2.72	Jun09	28
>15yr		3	4.75 Dec30	-2.55	Oct07	29
>15yr		4	4.25 Mar36	-2.37	Feb03	26
>15yr		5	4.25 Sep39	-2.37	Mar09	19
>15yr		5	4.25 Dec46	-1.62	May06	21
>15yr		4	4.00 Jan60	-1.60	Oct09	19
>15yr		3	3.50 Jul68	-1.59	Jun13	10
>15yr		2	4.25 Dec49	-1.56	Sep08	19
>15yr	Cheapest	1	3.50 Jan45	-1.46	Jun14	5

Source: Citi Research

4 Week Auction Calendar: Euro, UK and US

Aman Bansal, CFA

This is an excerpt from our latest *Weekly Supply Monitor* published earlier today. For further details (such as a breakdown of upcoming coupon payments, redemptions and our longer term supply forecasts) please see the full note.

Figure 43. Provisional auction calendar for the next four weeks, gross issuance (local currency, billion), DV01 ($ million/bp)

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
07 Jul (Mon)	US	2.5 - 3.25	Outright Treasury Coupon Purchases: 15-8-2021 - 15-5-2024		-26k		
08 Jul (Tue)	Austria	1.1	RAGB 1.65% Oct24 and 3.15% Jun44 (issue confirmed, size €1.1bn)				15k
08 Jul (Tue)	Germany	1.0	Boblei18 (issue and size confirmed)				8k
08 Jul (Tue)	Netherlands	2.0	DSL Jul24 re-opening (issue confirmed, size €1.5-2.5bn)				15k
08 Jul (Tue)	UK	1.8	4% Treasury Gilt 2060 (issue confirmed, estimated size)			50k	
08 Jul (Tue)	US	27.0	3-year		87k		
08 Jul (Tue)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15-2-2036 - 15-5-2044		-27k		
09 Jul (Wed)	Greece	3.0	New 3yr (estimated date, size and tenor)				5k
09 Jul (Wed)	Germany	4.0	Schatz Jun16 re-opening (issue and size confirmed)				7k
09 Jul (Wed)	US	21.0	10-Year (re-opening)		231k		
10 Jul (Thu)	Ireland	0.8	Irish gilt re-opening (estimated issue and size)				6k
10 Jul (Thu)	US	13.0	30-year (re-opening)		294k		
10 Jul (Thu)	US	0.45 - 0.6	Outright TIPS Purchases: 15-7-2018 - 15-2-2044		-11k		
11 Jul (Fri)	Italy	7.0	BTP 1.15% May17, 2.15% Dec21 and 15yr (estimated issue and size)				43k
			Weekly $DV01 of Issuance	66.4			
			Total Number of Futures Contracts		548k	50k	97k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
14 Jul (Mon)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15-2-2036 - 15-5-2044		-27k		
16 Jul (Wed)	Germany	4.0	Bund May24 re-opening (issue and size confirmed)				30k
17 Jul (Thu)	France	9.7	OAT 2yr and 5yr, index-linked OAT (estimated tenors and size)				35k
17 Jul (Thu)	Spain	5.0	Bono 3yr and 10yr (estimated size and tenor)				23k
17 Jul (Thu)	UK	1.5	0.125% Index-linked Treasury Gilt 2024 (issue confirmed, estimated size)			17k	
17 Jul (Thu)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 31-7-2018 - 31-3-2019		-10k		
			Weekly $DV01 of Issuance	14.5			
			Total Number of Futures Contracts		-37k	17k	87k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
21 Jul (Mon)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15-2-2036 - 15-5-2044		-27k		
22 Jul (Tue)	Belgium	2.6	OLO 5yr, 10yr and 30yr (estimated tenors and size)				23k
22 Jul (Tue)	UK	3.3	2¾% Treasury Gilt 2024 (issue confirmed, estimated size)			32k	
23 Jul (Wed)	US	2.5 - 3.25	Outright Treasury Coupon Purchases: 15-8-2021 - 15-5-2024		-26k		
24 Jul (Thu)	US	15.0	10-year TIPS		176k		
24 Jul (Thu)	US	2 - 2.5	Outright Treasury Coupon Purchases: 30-4-2019 - 31-3-2020		-14k		
			Weekly $DV01 of Issuance	17.5			
			Total Number of Futures Contracts		110k	32k	23k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
28 Jul (Mon)	Italy	2.8	CTZ Apr16 (estimated issue and size)				4k
28 Jul (Mon)	Italy	1.3	BTPei (estimated size)				9k
28 Jul (Mon)	US	28.0	2-Year		90k		
28 Jul (Mon)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15-2-2036 - 15-5-2044		-27k		
29 Jul (Tue)	UK	4.3	Syndication (25yrs+ IL in second half of July, estimated size)			191k	
29 Jul (Tue)	US	35.0	5-year		190k		
29 Jul (Tue)	US	0.3 - 0.45	Outright Treasury Coupon Purchases: 15-11-2024 - 15-2-2031		-7k		
30 Jul (Wed)	Italy	5.8	BTP 1.5% Aug19 and 3.75% Sep24 (estimated issue and size)				35k
30 Jul (Wed)	Italy	1.8	CCTeu (estimated size)				7k
30 Jul (Wed)	US	29.0	7-year		225k		
30 Jul (Wed)	US	15.0	2-Year FRN		48k		
31 Jul (Thu)	US	1 - 1.25	Outright Treasury Coupon Purchases : 15-2-2036 - 15-5-2044		-27k		
			Weekly $DV01 of Issuance	78.0			
			Total Number of Futures Contracts		493k	191k	56k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on July 31, 2014. Therefore we have included Fed buybacks only upto that time in this calendar.
Additional issue expected in July: Spain 15yr syndication (€3bn). It is not included in the table above as the timing of this supply event has not been announced.

Source: DMOs, Citi Research

EMU: Coupons & Redemptions (Next 3mths)

Figure 44. EMU-11 Bond redemptions over the next three months (€bn)

	Redemptions = €196bn										
Redemptions	DEU 40	FRA 41	NLD 13	ITA 60	ESP 16	BEL 10	AUT 10	FIN 7	PRT 0	GRC 0	IRL 0
(Fri) 04-Jul-14	25.0										
(Sat) 12-Jul-14		25.6									
(Tue) 15-Jul-14			12.5				9.6				
(Wed) 30-Jul-14					16.4						
(Fri) 01-Aug-14				27.2							
(Fri) 12-Sep-14	15.0										
(Mon) 15-Sep-14				18.4				6.5			
(Thu) 25-Sep-14		15.0									
(Sun) 28-Sep-14						10.3					
(Tue) 30-Sep-14				14.3							

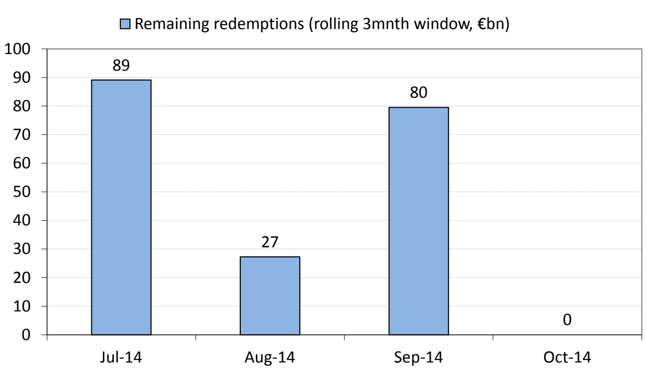
Source: DMOs, Bloomberg, Citi Research *This table is on a calendar-date basis*

Figure 45. EMU-11 Coupon payments over the next three months (€bn)

	Coupons = €59bn										
Coupons	DEU 13	FRA 5	NLD 5	ITA 19	ESP 8	BEL 4	AUT 3	FIN 1	PRT 0	GRC 0	IRL 0
(Fri) 04-Jul-14	11.4							0.9			
(Sat) 12-Jul-14		1.4									
(Tue) 15-Jul-14			5.2	0.4			1.8				
(Sun) 20-Jul-14											0.0
(Fri) 25-Jul-14		3.9									
(Wed) 30-Jul-14					8.4						
(Fri) 01-Aug-14				8.4							
(Fri) 15-Aug-14	0.5										
(Mon) 18-Aug-14											0.0
(Mon) 01-Sep-14				7.7							
(Thu) 04-Sep-14	1.0										
(Thu) 11-Sep-14	0.0										
(Mon) 15-Sep-14				2.0			1.3	0.6			
(Sat) 20-Sep-14	0.0										0.0
(Thu) 25-Sep-14		0.1									
(Sun) 28-Sep-14						4.0					

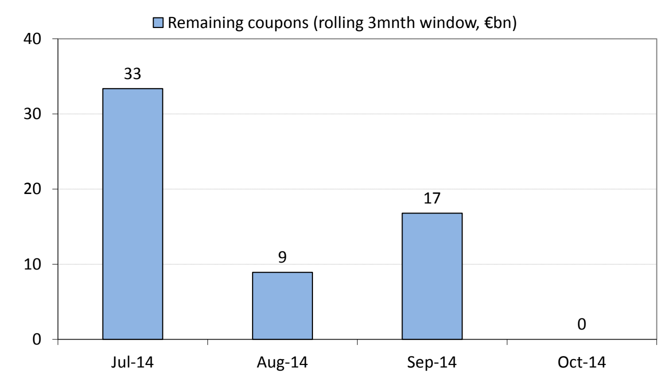
Source: DMOs, Bloomberg, Citi Research *This table is on a calendar-date basis*

Figure 46. EMU-11 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research *This chart is on a calendar-date basis*

Figure 47. EMU-11 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research *This chart is on a calendar-date basis*

ESP and ITA Bill Issuance Projections

This page contains our projections for Spanish and Italian bill supply in 2014.

Auction calendar for the next four weeks

Figure 48. Italy and Spain provisional bill auction calendar for the next four weeks: Gross issuance (€ billion), DV01 (€ million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 1	10 Jul (Thu)	Italy	12 month (14 July 2015; issue confirmed, estimated size)	7
			Total Size in Week 1	7.0
Week 2	15 Jul (Tue)	Spain	6month (23 January 2015) and 12month (new bill) - tenors confirmed, estimated issue and size	5.25
			Total Size in Week 2	5.3
Week 3	22 Jul (Tue)	Spain	3month (17 October 2014) and 9month (10 April 2015) - tenors confirmed, estimated issue and size	4.25
			Total Size in Week 3	4.3
Week 4	29 Jul (Tue)	Italy	6 month (30 January 2015; issue confirmed, estimated size)	7.5
			Total Size in Week 4	7.5

Italy announces issue size 3 business days before the auction
Spain announces issue details 1 business day before the auction

Source: DMOs, Citi Research

This table is on a calendar-date basis

2014 projections for bill supply

Figure 49. 2014 Italy and Spain Bill Supply – Citi Forecast (€ billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	1.0	1.0	2.2	3.1		7	8	-1
Feb	0.9	0.9	2.2	3.6		8	11	-4
Mar	1.3	1.0	2.0	3.5		8	10	-2
Apr	1.1	1.2	2.0	3.7		8	12	-4
May	0.9	1.4	2.9	3.8		9	8	1
Jun	0.9	0.9	3.0	4.6		9	14	-4
Jul	1.3	1.0	3.0	4.5		10	8	2
Aug	1.3	1.0	3.0	4.0		9	8	2
Sep	1.0	1.0	3.0	3.8		9	7	1
Oct	1.0	1.0	3.0	3.8		9	9	
Nov	1.0	1.0	3.0	3.8		9	8	
Dec	1.0	1.0	2.8	3.8		9	7	2
Total	12.5	12.5	31.9	45.8		103	110	-8

ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		8.1		9.3		17	20	-2
Feb		8.6		8.0		17	19	-3
Mar		8.3		7.6		16	16	-1
Apr		7.7		7.5		15	17	-2
May		7.2		7.2		14	14	
Jun		8.3		7.2		15	16	
Jul		8.3		7.0		15	15	
Aug		7.5		8.0		16	17	-2
Sep		7.0		8.5		16	18	-3
Oct		7.0		8.5		16	17	-1
Nov		7.0		7.0		14	14	
Dec		7.0		6.0		13	14	-1
Total		91.9		91.7		184	197	-14

*3month bills will be issued only for specific cash needs. In this case, auctions shall be held on the 12 month BOT auction dates

Source: DMOs, Bloomberg, Citi Research

This table is on a calendar-date basis

Inflation Forecasts, Carry & Weekly Changes

Figure 50. Citi Inflation Forecasts

	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
Month	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change
May 14	117.44	-0.1	0.4	126.27	0.0	0.6	255.90	0.1	2.4	237.90	0.3	2.1
Jun 14	117.61	0.1	0.5	126.25	-0.0	0.4	256.10	0.1	2.6	238.00	0.0	1.9
Jul 14	116.85	-0.6	0.4	125.77	-0.4	0.3	255.90	-0.1	2.5	238.10	0.0	1.9
Aug 14	116.93	0.1	0.3	126.15	0.3	0.2	257.00	0.4	2.4	238.70	0.3	2.1
Sep 14	117.53	0.5	0.4	125.92	-0.2	0.3	258.10	0.4	2.5	239.00	0.1	2.1
Oct 14	117.70	0.1	0.6	126.01	0.1	0.5	258.80	0.3	2.7	238.80	-0.1	2.2

Source: Citi Research, Bloomberg *Shaded = Already released*

Figure 51. US TIPS Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Aug	1 Sep	1 Oct	*Reference Conventional*	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Aug	1 Sep	1 Oct	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.10*	*0.10*	*0.10*									
TIPS 7/15	-1.83	-2	-7	16	3	-11	*US-4.250-08/15/15*	201	4	9	15	2	-13	16	-18
TIPS 1/16	-1.48	1	-4	12	6	0	*US-2.625-02/29/16*	183	4	8	11	3	-5	11	-2
TIPS 4/16	-1.32	0	-4	11	6	2	*US-2.000-04/30/16*	176	4	8	9	3	-3	8	-4
TIPS 7/16	-1.58	-0	-4	9	4	-2	*US-4.875-08/15/16*	212	5	8	7	0	-8	8	-3
TIPS 1/17	-1.19	5	2	8	5	3	*US-3.125-01/31/17*	196	1	4	6	1	-4	14	1
TIPS 4/17	-1.02	5	2	8	6	4	*US-0.875-04/30/17*	193	3	5	5	1	-3	10	-1
TIPS 7/17	-1.15	5	2	7	5	3	*US-4.750-08/15/17*	216	3	5	5	0	-5	11	1
TIPS 1/18	-0.81	7	4	6	6	5	*US-3.500-02/15/18*	206	2	3	4	0	-4	14	2
TIPS 4/18	-0.64	7	5	6	6	5	*US-0.625-04/30/18*	201	3	4	4	0	-3	13	1
TIPS 7/18	-0.80	6	4	6	5	4	*US-4.000-08/15/18*	221	3	4	3	-1	-4	12	-4
TIPS 1/19	-0.53	7	5	6	5	5	*US-2.750-02/15/19*	216	3	4	3	0	-3	12	1
TIPS 4/19	-0.39	7	5	5	5	5	*US-1.625-04/30/19*	210	3	4	3	0	-3	13	-3
TIPS 7/19	-0.49	8	6	5	5	5	*US-3.625-08/15/19*	223	2	3	3	-1	-4	15	-2
TIPS 1/20	-0.25	9	7	5	5	6	*US-3.625-02/15/20*	213	1	2	2	0	-3	22	2
TIPS 7/20	-0.22	9	8	4	5	5	*US-2.625-08/15/20*	226	2	3	2	-1	-3	19	2
TIPS 1/21	-0.04	10	9	4	5	5	*US-3.625-02/15/21*	216	1	2	2	-1	-3	26	2
TIPS 7/21	-0.02	11	9	4	5	5	*US-2.125-08/15/21*	229	1	2	2	-1	-3	21	2
TIPS 1/22	0.15	12	10	4	5	5	*US-2.000-02/15/22*	220	1	1	2	-1	-3	27	2
TIPS 7/22	0.16	11	10	4	4	5	*US-1.625-08/15/22*	229	1	2	1	-1	-3	26	-1
TIPS 1/23	0.28	12	10	3	4	5	*US-2.000-02/15/23*	223	1	2	1	-1	-2	30	1
TIPS 7/23	0.28	12	10	3	4	5	*US-2.500-08/15/23*	229	1	2	1	-1	-3	31	-1
TIPS 1/24	0.36	12	11	3	4	5	*US-2.750-02/15/24*	226	1	1	1	-1	-3	31	1
TIPS 1/25	0.45	12	11	3	4	5	*US-7.625-02/15/25*	217	1	1	1	-1	-3	42	1
TIPS 1/26	0.54	13	12	3	4	5	*US-6.000-02/15/26*	222	1	1	1	-1	-3	39	1
TIPS 1/27	0.62	12	11	3	4	5	*US-6.625-02/15/27*	222	2	2	1	-1	-3	42	-0
TIPS 1/28	0.71	13	12	3	3	4	*US-6.125-11/15/27*	221	3	3	1	-1	-3	45	-1
TIPS 4/28	0.69	13	12	3	4	5	*US-5.500-08/15/28*	229	3	3	1	-1	-2	35	-1
TIPS 1/29	0.74	13	12	3	3	4	*US-5.250-02/15/29*	228	3	3	1	-1	-2	39	-1
TIPS 4/29	0.73	13	12	3	4	4	*US-5.250-02/15/29*	229	3	3	1	-1	-2	37	-1
TIPS 4/32	0.84	13	12	2	3	4	*US-5.375-02/15/31*	228	3	3	1	-1	-2	42	-1
TIPS 2/40	1.06	13	12	2	2	3	*US-4.625-02/15/40*	231	2	2	0	-1	-2	44	-1
TIPS 2/41	1.06	12	12	2	2	3	*US-4.750-02/15/41*	232	2	2	0	-1	-2	44	-1
TIPS 2/42	1.12	12	12	1	2	2	*US-3.125-02/15/42*	233	3	3	0	-1	-2	43	-1
TIPS 2/43	1.12	12	11	1	2	2	*US-3.125-02/15/43*	235	3	3	0	-1	-2	41	-1
TIPS 2/44	1.12	12	12	1	2	2	*US-3.625-02/15/44*	236	2	3	0	-1	-2	41	-1

Source: Citi Research, Bloomberg

Figure 52. EUR Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Aug	1 Sep	1 Oct	Reference Conventional	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Aug	1 Sep	1 Oct	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.04*	*0.05*	*0.05*									
OATei15	-0.64	-7	-4	-13	-5	-92	*FFRG 4/15*	67	6	3	-13	-5	-91	12	-20
BUNDei16	-0.12	-4	-2	-6	2	-41	*BUND 1/16*	11	3	1	-5	3	-40	1	-15
BTANi16	-0.61	1	1	-1	-5	-29	*FFRG 4/16*	66	-2	-2	-1	-5	-29	15	-4
BTPei16	0.17	-7	-6	-4	4	-29	*BTP 8/16*	41	0	-1	-6	0	-36	29	-10
OATi17	-0.66	-2	-1	-1	-4	-19	*FFRG 4/17*	81	2	1	-1	-4	-20	17	-5
BTPei17	0.29	-11	-10	-2	3	-19	*BTP 8/17*	56	4	2	-4	-1	-26	36	-7
BOBLei18	-0.60	-2	-1	-3	-1	-21	*BUND 1/18*	70	3	2	-4	-1	-21	8	-6
OATei18	-0.63	-2	-1	-3	-1	-20	*FFRG 4/18*	91	2	1	-4	-2	-21	22	-6
BTPei18	0.40	-10	-9	-2	3	-13	*BTP 8/18*	74	7	6	-4	-2	-20	34	-8
OATi19	-0.60	1	2	-1	-2	-11	*FFRG 4/19*	107	-0	-1	-1	-3	-14	24	-0
BTPei19	0.59	-6	-5	-1	3	-10	*BTP 9/19*	84	5	4	-3	-2	-17	37	-5
BUNDei20	-0.54	-1	0	-2	-1	-14	*BUND 1/20*	97	3	3	-3	-2	-15	16	-3
OATei20	-0.45	-4	-3	-2	0	-13	*FFRG 4/20*	115	6	5	-3	-2	-16	20	-7
OATi21	-0.30	-2	-2	0	-1	-7	*FFRG 4/21*	123	6	6	-1	-3	-10	31	-6
BTPei21	1.00	-6	-6	0	3	-6	*BTP 9/21*	109	7	7	-3	-2	-14	32	-7
OATei22	-0.16	-4	-4	-1	0	-8	*FFRG 4/21*	110	8	7	-2	-2	-12	43	-9
BUNDei23	-0.25	-1	-1	-1	0	-8	*BUND 1/22*	109	5	4	-2	-2	-10	37	-6
OATi23	-0.07	-4	-4	0	0	-5	*FFRG 10/23*	153	8	8	-1	-3	-9	19	-8
BTPei23	1.41	-7	-7	0	3	-3	*BTP 8/23*	121	8	7	-2	-2	-12	39	-7
OATei24	0.11	-3	-3	-1	1	-6	*FFRG 10/23*	136	8	7	-2	-2	-10	34	-8
BTPei24	1.57	-5	-5	0	3	-3	*BTP 9/24*	128	7	6	-2	-2	-11	39	-6
SPGBEI24	1.42	-1	-1	0	3	-3	*SPAG 4/24*	127	5	5	-2	-2	-11	41	-5
BTPei26	1.76	-7	-7	0	3	-2	*BTP 3/26*	128	7	6	-2	-2	-10	51	-5
OATei27	0.36	-5	-4	-1	1	-4	*FFRG 4/26*	155	9	8	-2	-2	-9	31	-8
OATi29	0.41	-3	-3	0	0	-2	*FFRG 4/29*	178	7	7	-1	-2	-7	26	-5
BUNDei30	0.23	-3	-3	0	1	-4	*BUND 1/30*	164	8	7	-2	-2	-8	23	-6
OATei30	0.60	-4	-4	0	1	-3	*FFRG 5/30*	174	9	8	-1	-2	-7	21	-8
OATei32	0.61	-3	-3	0	1	-3	*FFRG 10/32*	176	8	7	-2	-2	-8	24	-7
BTPei35	2.16	3	3	0	2	-1	*BTP 8/34*	155	1	0	-2	-2	-7	49	1
OATei40	0.74	-2	-2	0	1	-2	*FFRG 4/41*	192	8	8	-1	-2	-6	17	-8
BTPei41	2.47	1	1	0	2	0	*BTP 9/40*	149	3	3	-1	-2	-6	61	-2

Source: Citi Research

Figure 53. UK Gilts Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Aug	1 Sep	1 Oct	Reference Conventional	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Aug	1 Sep	1 Oct	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.43*	*0.45*	*0.46*									
UKTi Jul16	-1.57	8	7	4	8	12	*UKT 9/16*	265	-1	-1	1	3	4	44	4
UKTi Nov17	-1.22	9	8	-2	-4	-11	*UKT 3/18*	292	2	2	-5	-10	-20	16	3
UKTi Nov19	-0.77	10	9	0	-1	-4	*UKT 9/19*	287	2	1	-3	-7	-13	26	1
UKTi Apr20	-0.65	10	10	3	6	9	*UKT 3/20*	284	3	3	0	0	0	22	-2
UKTi Nov22	-0.39	11	10	0	0	-2	*UKT 3/22*	289	1	1	-2	-5	-9	34	1
UKTi Mar24	-0.16	12	12	0	1	-1	*UKT 3/25*	303	1	1	-2	-4	-8	16	-2
UKTi Jul24	-0.19	11	10	2	4	6	*UKT 3/25*	306	2	2	0	0	-1	24	1
UKTi Nov27	-0.10	10	9	0	0	-1	*UKT 12/27*	317	1	1	-2	-4	-7	24	0
UKTi Mar29	-0.01	8	8	0	1	0	*UKT 12/30*	323	1	1	-2	-3	-6	17	-2
UKTi Jul30	-0.05	8	8	1	3	5	*UKT 6/32*	333	0	0	0	0	-1	17	-6
UKTi Nov32	-0.04	8	7	0	0	0	*UKT 6/32*	332	1	1	-1	-3	-6	23	-0
UKTi Mar34	0.01	8	8	0	0	0	*UKT 9/34*	334	0	0	-1	-3	-5	20	-2
UKTi Jan35	-0.02	6	6	1	2	3	*UKT 3/36*	340	1	1	0	-1	-1	18	-2
UKTi Nov37	-0.02	7	7	0	0	0	*UKT 12/38*	341	1	0	-1	-3	-5	21	-0
UKTi Mar40	0.00	6	6	0	0	0	*UKT 9/39*	342	1	1	-1	-3	-5	18	-1
UKTi Nov42	-0.03	6	5	0	0	0	*UKT 12/42*	345	1	1	-1	-3	-4	18	-1
UKTi Mar44	0.01	5	5	0	0	0	*UKT 1/44*	345	1	1	-1	-2	-4	16	-2
UKTi Nov47	-0.02	6	6	0	0	0	*UKT 12/46*	346	1	1	-1	-2	-4	17	-1
UKTi Mar50	-0.03	6	5	0	0	0	*UKT 12/49*	344	1	1	-1	-2	-4	16	-2
UKTi Mar52	-0.01	6	6	0	0	0	*UKT 7/52*	344	1	1	-1	-2	-4	16	-2
UKTi Nov55	-0.06	6	6	0	0	0	*UKT 12/55*	344	1	1	-1	-2	-4	18	-1
UKTi Mar62	-0.06	6	6	0	0	0	*UKT 1/60*	345	1	1	-1	-2	-3	17	-2
UKTi Mar68	-0.06	6	6	0	0	0	*UKT 7/68*	346	1	1	-1	-2	-3	16	-3

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
03-Jul-14	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
03-Jul-14	NOTE	UK Rates Strategy: What Moves Markets?	-	UK
01-Jul-14	NOTE	Euro SSA and Covered Bond Monthly	-	EUR
30-Jun-14	NOTE	EMU Supply: Very Supportive Cash Flow Profile In July	-	EUR
30-Jun-14	NOTE	European Flow Monitor: DSL demand highest in eleven months	-	EUR
27-Jun-14	NOTE	European Rates Strategy: The month-end RV pack	-	EUR
26-Jun-14	European Weekly	ECB: Negative Eonia? Not Impossible	9	EUR
		The Case for Short 1y30y Implied Vol Strategies	11	EUR
		UK Rates – flattening towards flat	13	UK
		Summer supports for German bond yields	16	EUR
		Three topics in Dutch agencies	17	EUR
		LCR: where do we stand, where will we go?	19	EUR
		Sovereign Ratings Outlook	22	Global
26-Jun-14	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
26-Jun-14	NOTE	European Rates Strategy: Negative Eonia? It's Possible	-	EUR
24-Jun-14	NOTE	Covered Bond Strategy: LCR: Where do we stand, where will we go?	-	EUR
23-Jun-14	NOTE	Covered Bond Strategy - S&P Ups 14 Multi-Cedulas On Collateral Improvement	-	EUR
23-Jun-14	NOTE	Technical flash: Bunds resuming upward momentum?	-	EUR
23-Jun-14	NOTE	European Flow Monitor: The Netherlands only core market with positive demand	-	EUR
19-Jun-14	European Weekly	Funding negative US and UK swap carry via EUR swaps	8	Global
		UK Rates – Is 'gradual' vulnerable?	10	UK
		EGB supply now over the half-way point	12	EUR
		SSA Strategy – EIB and EFSF outperform	14	EUR
		End-June EGBI Projection	16	EUR
19-Jun-14	NOTE	UK: Is the 'gradual' pace of the hiking cycle vulnerable to re-pricing?	-	UK
19-Jun-14	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
19-Jun-14	NOTE	European Inflation-linked Index Projection	-	EUR
18-Jun-14	NOTE	Funding negative US and UK swap carry via EUR swaps	-	EUR
17-Jun-14	NOTE	UK: MPC minutes, the gilt curve and contrarian bullish trades	-	UK
17-Jun-14	NOTE	EMU Month-end Index Projections	-	EUR
17-Jun-14	NOTE	SSA: The ECB has turbo-charged the hunt-for-yield	-	EUR
16-Jun-14	NOTE	Technical flash: Bunds approaching top of the range	-	EUR

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Notes

Notes

Appendix A-1

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