

European Rates Weekly

Why Bunds are different

- **Comparing Bunds with USTs and JGBs:** Japanese assets continue to rally while hybrid hedging flows and stronger data has contributed to the sell-off in Treasuries. But both have limited implications for Bunds, in our view. We continue to believe that 10yr Bund yields will remain anchored around 1.3%-1.4%, on average, in 2013.
- **Focus on Spanish and Italian issuance:** In the last two weeks, there has been €60bn of issuance in EMU markets. This has prompted a number of investors to focus on the percentage of issuance completed so far this year. In this section, we focus on Spain and Italy and examine net cash requirements to year-end.
- **Sell gilts into any strength:** The gilt market may be supported in the next couple of weeks by a lack of supply and coupon payments. However, this is likely to be short-lived and we would sell into any strength vs Bunds or swaps. We also discuss the implications of the Inflation Report for gilts and examine recent dynamics in 10s30s.
- **EUREX and LIFFE calendar rolls:** We preview the upcoming M3/U3 calendar rolls. We are bullish on the Bund, Bobl and gilt rolls. We are neutral/slightly bullish on the Schatz roll and neutral on the OAT roll.
- **Tracking demand patterns in SSAs:** We detail recent demand trends for core SSAs using the reporting by the larger issuers. Geographically, the proportion of interest emanating from Asia shows an upward trend. By account type, central banks and bank treasuries continue to be important contributors to the overall demand profile
- **Covered bonds and bail-in:** The EU Council published an update on the Recovery and Resolution Directive. Although different paths are discussed, the starting point is the same, and this includes the exemption of secured liabilities of any bail-ins. But still, nothing is written into stone.
- **EMU relative value trades:** Selling Oct16s in France vs the surrounding issues offers good value. We also like switching into Jul15s in Finland and Aug16s in Italy.
- **Supply:** Within Europe, next week's bond supply of around €9bn comes from Germany and Spain. We expect the US Treasury will re-open around \$13bn of 10yr TIPS next Thursday. There is no UKT issuance until 4 June 2013.

Alessandro Tentori

+44-20-7986-9224
alessandro.tentori@citi.com

Jamie Searle

+44-20-7986-9493
jamie.searle@citi.com

Peter Goves

+44-20-7986-3215
peter.goves@citi.com

Nishay Patel

+44-20-7986-1007
nishay.patel@citi.com

Michael Spies

+49-69-1366-8403
michael.spies@citi.com

Aman Bansal, CFA

+91-22-4277-5021
aman1.bansal@citi.com

Mohit Aggarwal

+91-22-4277-5022
mohit1.aggarwal@citi.com

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	Our 1wk duration scorecard is long on macro and technical factors.	Long over the near term
Money Market	Weak GDP data and the prospect of ECB policy being accommodative for an extended period of time should be supportive for the short-end over the medium-term. We recommend re-loading on front-end carry trades and expect the ECB to cut the refi-rate by 25bps in 4Q13. While a cut to the depo rate remains in the ECB's toolbox we do not a cut anytime soon.	Receive EUR 3y1y
Yield Curve	With Schatz yields trading at 0%, Bund 2s10s will continue to be driven by 10yr yields: bull flattening is most likely in the near-term, in our view. We still like EUR 10s30s flatteners vs UST 10s30s steepeners around the 26bp level.	Tactical 2s10s flatteners in Bunds EUR 10s30s flatteners vs USD steepeners EUR 30s50s flatteners
Cross-market	We expect inflation/fiscal risks to drive gilt underperformance vs Bunds over the medium-term, but there is scope for a correction in the near-term thanks to a supportive cash-flow backdrop for gilts.	Look to add to short 10yr gilts vs Bunds on any correction OATs look rich vs gilts but wait for the momentum to slow before entering
EMU Spreads	Issuance in non-core markets in recent sessions highlights strong appetite for non-AAA issuers and the near-term outlook for BTPs and Bonos remains positive. Medium-term risks remain but sentiment and momentum, not fundamentals, are still driving markets in the short term.	Keep running tactical long BTPs vs Bunds Buy 2yr Spain vs Italy
Swap Spreads	Should the discussion about negative rates suffer a setback, then buying Schatz ASW below 34bp with a conservative target around 40bp could prove to be a good tactical strategy. 10yr Bund spreads have tightened as expected. We recommend taking profits on short Bund spread positions.	Buy Schatz vs swaps Take profits on short 10yr Bunds vs swaps
Inflation	Euro break-even inflation spreads have come under pressure due to falling inflation, ongoing weakness in energy prices and the push-back against austerity. We expect ongoing bear-steepening of the 5s10s euro break-even curve to continue for now. In the UK, the long-end is likely to perform well given the lack of supply and upcoming coupon payments.	Sell 5yr, 5yr euro HICP _T Maintain tactical long in BTPe ₂₃ . Look to enter UK 10s30s break-even steepeners or simply buy long real yields on a tactical basis.
Volatility	Start scaling back into front-end receivers. Vol to remain low following the prospect of further ECB rate cuts. Further, investors are likely to roll further out the yield curve due to "yield grab". Long-end payers such as EUR 15y5y (or EUR 10y30y or 15y10y) offer favourable rate and vol roll for investors with a bearish view.	Don't look to fade the decline in vol yet. Scale back into EUR 3y2y receivers (or similar front-end receiver structures)
SSA	Spreads have compressed, with notable outperformance of core SSAs vs Germany. We would scale out of long positions here and look to re-enter at better levels. Recent fundamental data from KfW's annual report are also supportive its secondary market performance.	Scale out of long core German agencies vs Germany Maintain front-end KfW vs France over the medium term

For a list of outstanding trade recommendations please see the Tradesheet section of this report

Duration Scorecard

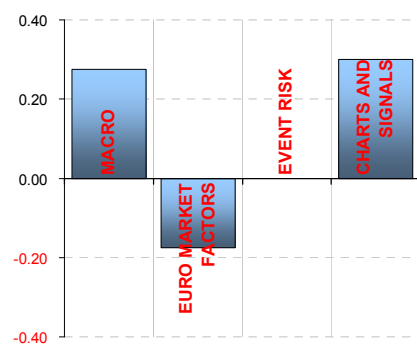
Figure 2. Bund Weekly Cheat Sheet: 17th-23th May

Bund Directional Scorecard (1wk horizon)

RECOMMENDATION		Long	RXM3 (EOD Thurs) = 145.27	
Conviction level		20%	CTD yield = 0.99% 10day del vol = 6.35%	
SIGNAL STRENGTH (+/-2)				
MACRO		0.3	Weight = 35%	
ECB	1	ECB policy supportive for core rates	7.5%	
Fed and BOJ	-1	Market repricing the pace of QE exit	7.5%	
Inflation	1	Euro inflation likely to remain low until year-end	2.5%	
Growth related data	2	May PMI likely to indicate contraction	12.5%	
Citi surprise	1	Surprise index still firmly negative	2.5%	
Middle East / Oil	-1	Oil has recovered 4% since the 2 May low	2.5%	
EURO MARKET FACTORS		-0.2	Weight = 33%	
Supply	-1	Supply from Germany (10yr) and Spain. Light cash flows	7.5%	
Risk appetite	-1	Risk appetite remains supported by central bank action	7.5%	
Positioning	1	Buying on dips likely to continue	7.5%	
Equity	-2	Equity markets firmly in an uptrend	5.0%	
Sovereign credit	0	Peripheral spreads widening slightly	2.5%	
FX	0	EUR effective exchange rate remains stable	2.5%	
EVENT RISK		0.0	Weight = 8%	
Politics	0	Political risks not a key driver at present	2.5%	
3yr LTRO	0	Excess liquidity remains high and re-payments to slow	2.5%	
Stability mechanisms	0	Unlikely to see ESM activation in the short-term	2.5%	
CHARTS AND SIGNALS		0.3	Weight = 25%	
Technicals	1	RX1 showing signs of a reversal	7.5%	
T-Note	2	Treasuries failing to break 2%	7.5%	
CFTC	0	Longs lightening up	2.5%	
ARTS	1	Mildly bullish	7.5%	

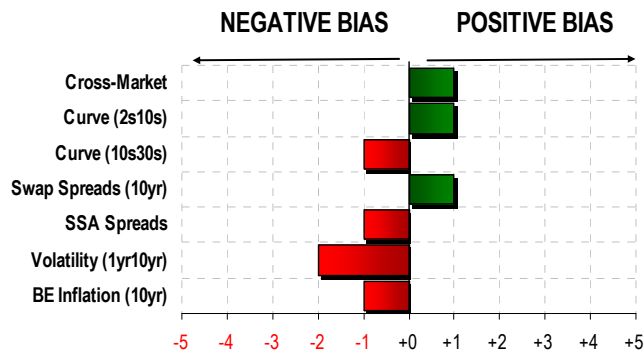
Source: Citi Research

Figure 3. Contribution to Bund Signals



Source: Citi Research

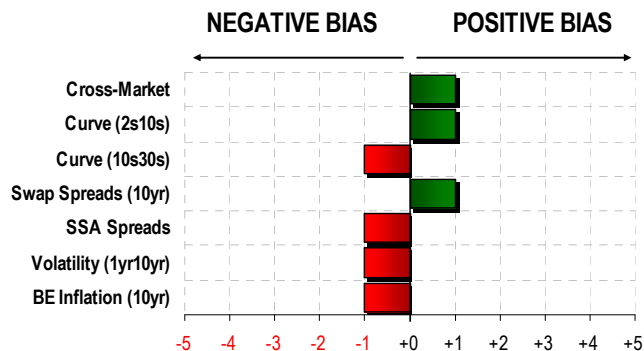
Figure 4. EURO AREA (Near-term Bias)



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 Trade

Please see [European Interest Rate Strategy](#) for the details

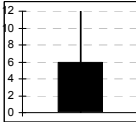
1. Receive EUR 3y1y

Receive EUR 3y1y at 1.12%

Open 1.12%. Current 1.07%. Target 0.74%. Stop 1.31%.

Record of Our Closed Trades

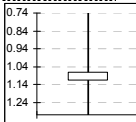
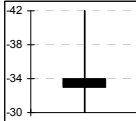
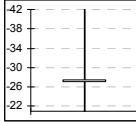
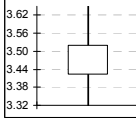
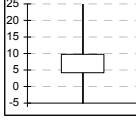
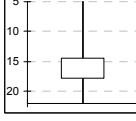
Figure 6. Record of our Closed Trades

Region	Trade	Levels	Rationale	
Europe	Buy EUR 1m10y ATMF payer	Open 6bp Current 0bp P&L -6bp Target 12bp Stop 0bp	Expired on 13 May 2013 Euro Rates Strategy 11 April 2013	
Volatility	Buy EUR 1m10y ATMF (1.66%) payer at 6bps			

Source: Citi Research

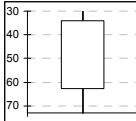
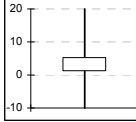
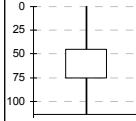
Record of Our Open Trades

Figure 7. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
Europe	Receive EUR 3y1y	Open 1.12% Current 1.07% P&L 0.05% Target 0.74% Stop 1.31%	Risk-reward of receiving forward rates outright on expectations of further standard policy action looks attractive. Euro Rates Strategy 13 May 2013	
Forwards	Receive EUR 3y1y at 1.12%			
Europe	Buy Schatz ASW	Open -34bp Current -33bp P&L -1bp Target -42bp Stop -30bp	Benefits from the discussion of negative depo rates suffering a setting back and further LTRO repayments European Interest Rate Strategy 8 May 2013	
Swap Spread	Buy Schatz ASW at -34bp			
Europe / US	EUR 10s30s flattener vs USD 10s30s steepener	Open -27bp Current -27bp P&L 0bp Target -42bp Stop -21bp	Tapering of QE3 in September, upcoming supply profile in EMU & UST and technical levels should be supportive for this trade European Rates Weekly 25 April 2013	
Cross Market	Receive EUR 10s30s at 68bp Pay USD 10s30s at 95bp			
UK	Pay GBP 10yr, 30yr forward swap	Open 3.42% Current 3.52% P&L 0.1% Target 3.65% Stop 3.32%	Supply burden over the quarter likely to weigh on long-dated forwards European Rates Weekly 11 April 2013	
Forwards	Pay GBP 10yr, 30yr forward at 3.42%			
Europe	Receive EUR 10y2y vs 12y3y	Open 4bp Current 10bp P&L 6bp Target 25bp Stop -5bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility The Morning Call, 23 January 2013	
Curve	Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%			
Europe	Receive EUR 30s50s	Open 18bp Current 14bp P&L 4bp Target 5bp Stop 22bp	Long-end of EUR swap curve is pricing in more than required de-hedging by Dutch pension funds. CVA activity should support the trade. European Rates Weekly 11 October 2012	
Curve	Receive EUR 50yr at 2.54% Pay EUR 30yr at 2.36%			

Source: Citi Research

Figure 8. Record of our Open Trades (continued)

Europe	Sell EUR 1y3yF ATM straddle and buy ATM-25 receiver		Open	63bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken	
	<i>Volatility</i>		Current	34bp		
	Sell EUR 1y3yF ATM (=1.36%) straddle for 98bp		P&L	29bp	IIRS 9 August 2012	
	Buy EUR 1y3yF ATM-25 receiver for 35bp		Target	30bp		
			Stop	73bp		
Europe	Long KfW 1.375% Feb17s vs OAT 5% Oct16s		Open	1bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify	
	<i>Cross Market</i>		Current	5bp		
	Buy KfW 1.375% Feb17 at 0.62%		P&L	4bp	IIRS 2 August 2012	
	Sell OAT 5% Oct16s at 0.63%		Target	20bp		
			Stop	-10bp		
UK	Sell GBP 2y2y ATM straddle		Open	76bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol	
	<i>Volatility</i>		Current	45bp		
	Sell GBP 2y2y ATM (1.04%) straddle at 76bps		P&L	31bp	IIRS 12 July 2012	
			Target	0bp		
			Stop	114bp		

Source: Citi Research

Alessandro Tentori
+44-20-7986-9224
alessandro.tentori@citi.com

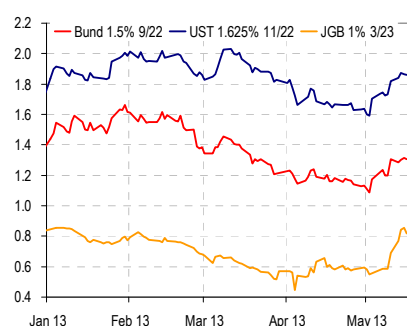
Overview

Bunds have very little in common with USTs and JGBs

Several elements need to be considered in analysing the recent Bund market weakness:

- The performance of Japanese assets is the pure reflection of a policy that aims at reflation the economy by controlling investment and consumption decisions via inflation expectations. As such its primary effect is on real assets (stocks and real estate), while the secondary effect is on nominal assets (bonds and the currency). The impact on foreign real and nominal assets should be considered as being of third-order importance for the time being.
- Treasury yields are 20-25bp higher compared to pre-Kuroda levels (Figure 9). This move not only reflects the hedging of power-dual hybrids, i.e. paying of long-dated USD swaps in the context of USD/JPY rallying above 100 levels (3rd-order effect), but also the unexpected improvement in US labour market conditions, as well as signs of strength in private demand from the Q1 GDP report. In turn this fuels the hot debate around Fed's exit strategy and the flexibility of its forward-guidance strategy.
- What have Bunds in common with the above? Not much. Bund yields are just 10bp above levels seen in early April and are now hovering close to the lows of their 1.30-1.70% range. There is little if no negative convexity risk implied by EUR exotics/hybrids and fixed income flows from Tokyo have been mixed so far. More importantly, Eurozone's fundamental setup is the main argument behind our aggressive Treasury/Bund widening call:
 - a) Potential growth has dropped from 1.5% pre-crisis to a mere 0.50% and the Eurozone will grow below potential at least until the end of 2014.
 - b) Most Eurozone countries are pursuing real-devaluation policies (i.e. slashing unit labour costs). In the absence of the option of devaluing the common currency (nominal devaluation), this is the fast way to regain competitiveness. As a result, cost-push inflation is absent.
 - c) Monetary policy transmission is impaired, therefore excessive liquidity cannot be inflationary. While this may change in the future, monetary policy is not a source of risk for now.
 - d) Commodities don't appear to be on a strong rising trend this year.

Figure 9. Bund, UST and JGB yields



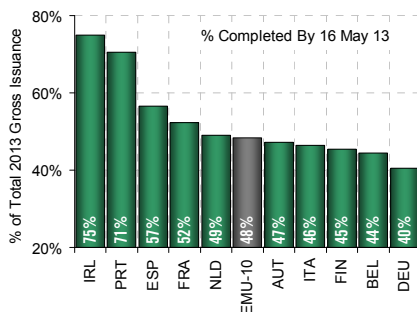
Source: Citi Research

View

We continue to see very limited risk of a multi-year bear market in Bunds. For the second half of 2013, we favour range-trading around 1.30-1.40% levels (quarterly average) with sub-1% levels dominating super-2% levels in the distribution of near-term tail risks.

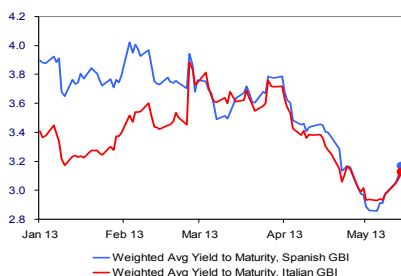
Nishay Patel
+44-20-7986-1007
nishay.patel@citi.com

Figure 10. 2013 EMU issuance completed so far this year (as a percentage of our expectation for 2013 gross issuance)



Source: Citi Research, DMOs

Figure 11. Italy & Spain have seen a decline in their funding costs since the start of the year (weighted average YTM using Citi's EGBI)



Source: Citi Research

Figure 12. Spain: gross supply, coupons and redemptions between June & end-2013 (€bn). The NCR is only +€2bn

	A	B	A - B	C	A - B - C
SPAIN	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jun	6		6		6
Jul	7	8	-1	15	-16
Aug	6		6		6
Sep	6		6		6
Oct	7	4	2	16	-14
Nov	7		7		7
Dec	6		6		6
Total	45	12	33	31	2

Source: Citi Research, DMOs

Focus on Spanish and Italian Issuance

The last few weeks have seen a sizeable amount of supply in EMU markets, particularly from non-core issuers. In the last two weeks, there has been €60bn of issuance in EMU markets, this alone is only €8bn less than the 2013 monthly average(!). This has prompted a number of investors to focus on the percentage of issuance completed so far this year. In this section we focus on Spain and Italy in light of recent developments.

Issuance progress and funding rates

- **Spain:** As shown in Figure 10, Spain has completed 57% of its expected 2013 issuance forecast (€113bn) so far this year. This is approximately 9ppt above the EMU-10 average. So far this year, Spain has issued 6 times in 15yrs+ vs 2 times in the whole of 2012.
- **Italy:** As is normal for the larger EMU issuers, Italy has maintained a regular issuance strategy rather than front-load. So far this year, Italy has completed 46% of its expected 2013 gross issuance (Figure 10) and has benefited from low yields by issuing in the longer end of the curve (so far this year 22% of conventional BTP issuance has been in 15yrs+ vs only 0.8% this time last year)

Beyond May

- **Spain:** Aside from being relatively advanced in its 2013 issuance progress (Figure 10), what has also been encouraging for Spain so far this year has been the decline in the weighted average yield to maturity (as measure of funding costs) — Figure 11. This provides a much more comfortable backdrop for this year's remaining Spanish issuance.
- It is also worth noting that the net cash requirement after May for the rest of the year is only +€2bn i.e. gross supply (€45bn) only outweighs coupon payments (€12bn) and redemptions (€31bn) by €2bn - Figure 12.
- **Italy:** Italy has also seen a decline in its funding costs this year (Figure 11). The net cash requirement profile between June and end-2013 is strongly supportive for Italy at -€35bn (i.e. gross supply is outweighed by coupons and redemptions by €35bn) — Figure 13. All things being equal, this should be supportive for Italian bonds.

Figure 13. Italy: gross supply, coupons and redemptions between June & end-2013 (€bn). The NCR is strongly negative in this period (-€35bn)

	A	B	A - B	C	A - B - C
ITALY	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jun	15	2	13	17	-5
Jul	15	1	14	14	-0.3
Aug	14	9	5	25	-20
Sep	15	8	7	11	-3
Oct	16	1	15		15
Nov	15	6	9	18	-9
Dec	10	2	8	20	-12
Total	99	29	70	105	-35

Source: Citi Research, DMOs

UK Rates: sell gilts into any strength

Jamie Searle
+44-20-7986-9493
jamie.searle@citi.com

The gilt market may be supported in the next few weeks by a lack of conventional supply and coupon re-investment flows. However, it won't be long before the market focuses on the heavy supply burden scheduled for June. We remain relatively bearish on gilts over the medium-term and would view any near-term outperformance as an opportunity to sell. We also discuss the implications of the Inflation Report for gilts and examine recent dynamics in 10s30s.

Prospects for gilts vs Bunds

Gilts have underperformed Bunds in the sell-off...

Over the last two weeks, gilt yields have risen by around 8bp in 2s, 17bp in 5s and 23bp in 10s and 30s. Several domestic factors have contributed to the sell-off. These include anticipation of a bearish Inflation Report (see below) and a supply concession ahead of this week's two auctions in three days (the first conventional auctions for a month). The most significant driver, however, has probably been the sell-off in Treasuries prompted by the strong payrolls report and expectations that the pace of QE may be slowed. Gilts have followed Treasuries with a relatively high beta, driving underperformance vs Bunds (see Figure 14 and Figure 15).

Gilts may be supported in the near-term by positive cash-flows....

...there could be a correction in the next couple of weeks...

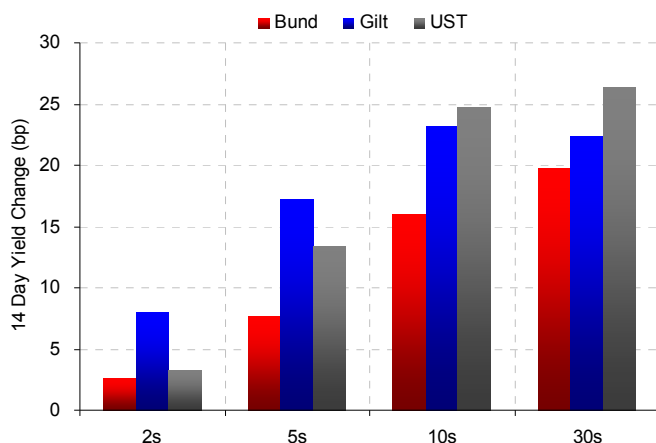
External drivers will probably continue to dictate outright direction in the gilt market. However, domestic factors are turning more bullish, at least for a couple of weeks. Following this week's heavy supply, there will now be a three week gap without a conventional gilt auction. There will also be re-investment flows from the £7bn coupons due on 7 June. So from a cash-flow perspective, the near-term outlook for gilts is quite positive. Moreover, yields are at levels which look technically attractive and dip buying is likely to continue in the very near-term.

....but the medium-term outlook remains relatively bearish

...but this should be viewed as an opportunity to add to shorts in gilts vs Bunds

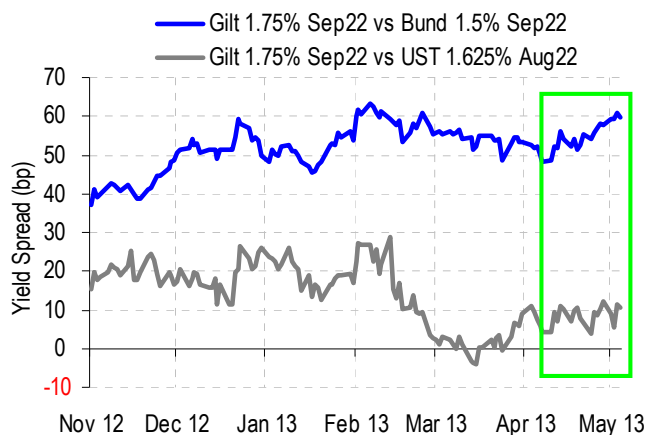
The support from cash-flows could help to reverse some of the recent underperformance of gilts vs Bunds, perhaps taking the 10yr spread back below 50bp. If so, we would use this as an opportunity to initiate or add to medium-term shorts in gilts vs Bunds. For a start, the supply holiday will be a short-lived. Issuance will return in June when there will be three conventional auctions in three weeks and a new super-long syndication. The constant drip of supply will be an ongoing issue for gilts, especially if QE remains on hold. On that front, next week's MPC minutes (released 22 May) will reveal the voting split at the May meeting. King's optimism at the Inflation Report could signal a change of vote. If so, this would reinforce market expectations that QE is sidelined for now.

Figure 14. Yield changes over the last two weeks



Source: Citi Research, Bloomberg.

Figure 15. Gilts stable to USTs but underperforming Bunds



Source: Citi Research, Bloomberg.

Treasury yields could drag gilt yields higher over the course of 2013

Gilts likely to underperform Bunds in a structural bear market

The recent cross-market price action is also quite revealing for the medium-term outlook, in our view. We expect Treasury yields to gradually move higher over the course of 2013 as the economic backdrop continues to improve. Meanwhile, growth prospects in Europe are likely to remain dire. Our base case scenario is that diverging economic prospect is reflected in diverging Treasury and Bund yields. Gilts, however, are likely to be stuck somewhere in the middle. The growth outlook remains poor, but inflation is likely to remain above target for a while longer (and inflation expectations could be pushed higher if Carney is especially dovish). Fiscal risks also remain significant and there is plenty of net gilt issuance to be absorbed, probably with less help from the BoE. Our belief is that gilts will underperform Bunds on any Treasury-led sell-off. The price action over the last couple of weeks supports this view. We reiterate our view that the 10yr gilt-Bund spread will move into 50-80bp range in the coming months. It has just crept into that range at 54bp at the time of writing. The risk-reward is for further widening over the medium-term and we would add to the position if the spread tightens below 50bp.

The BoE revised their growth forecasts up and their inflation forecasts down, as anticipated

Inflation Report marginally bearish for gilts, as anticipated

The Bank of England's May quarterly Inflation Report, the last to be presented by outgoing Governor King, struck a cautiously optimistic tone for the economic outlook. As widely anticipated, the growth outlook was revised higher and inflation forecasts were lowered versus three months ago. As King pointed out, this is the first time this has been possible since before the financial crisis. The implications for the gilt market from the report were fairly limited, but the emphasis on recovery is, at the margin, bearish for gilts. In particular, King emphasized that growth in 2012 was depressed by North Sea oil output and a sharp fall in construction spending. He argued that neither was likely to be repeated in 2013, suggesting scope for a modest recovery which may begin to feed on itself. On policy, King suggested that the new remit doesn't give any more room for to maneuver than the old remit, but did require more transparency. He suggested that policy wouldn't have been any different over recent years even if the new remit had already been in place. On negative deposit rates, he suggested that there are better forms of stimulus and the inflation forecasts show that there isn't much room to maneuver in any case. On the Funding for Lending scheme, he said it was helpful, but not a game changer.

Does King's optimism suggest he changed his QE vote in May? All will be revealed on 22 May.

The attention will now shift to the MPC minutes on the 22 May. The main interest will be whether King switched his vote from more QE to no change. If so, this would reinforce expectations that QE is likely to be on hold, at least until Carney takes over in July. Even then, it is likely that Carney is likely to put greater emphasis on introducing forward rate guidance and QE is only likely to be considered if the data worsens.

10s30s remains sensitive to anything that might impact LDI activity, but dislocations from the level of yields tend to be short-lived

10s30s: directionality remains the dominant driver

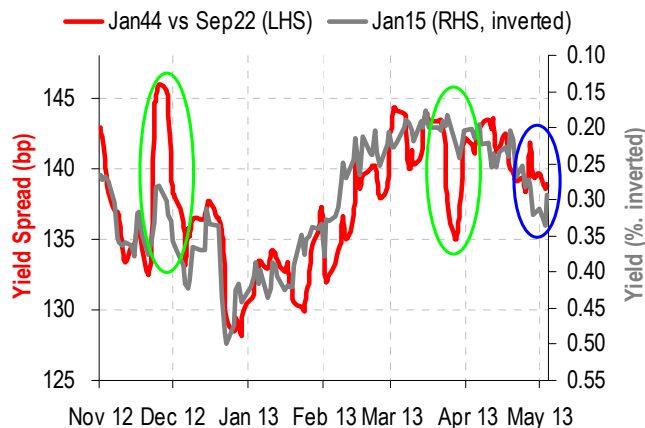
Recent price action has again shown that the 10s30s gilt curve is chiefly governed by market direction. That is not to say that the curve can't de-couple from the level of yields. The gilt market remains highly reactive to anything that might mean more or less LDI hedging in the long-end. Indeed, several dislocations have occurred in the last six months, most notably following the Autumn Statement in December and around fiscal year-end in April. However, they tend to be short-lived (see green circles in Figure 16). In a more recent example, 10s30s steepened around 3bp last week following the publication of the 'Defined benefit annual funding statement 2013' by The Pension Regulator. This reemphasized the flexibility available to trustees, especially with regard to the discount rate used, and hence reducing the need for liability hedging at such unattractive yield levels. The impact was fleeting

and the curve quickly resumed bear flattening. It remained a couple of bps too steep relative to the level of 2yr yields until today's rally, which has taken it to a 'fair' level.

A view on 10s30s necessarily involves a directional view on the market

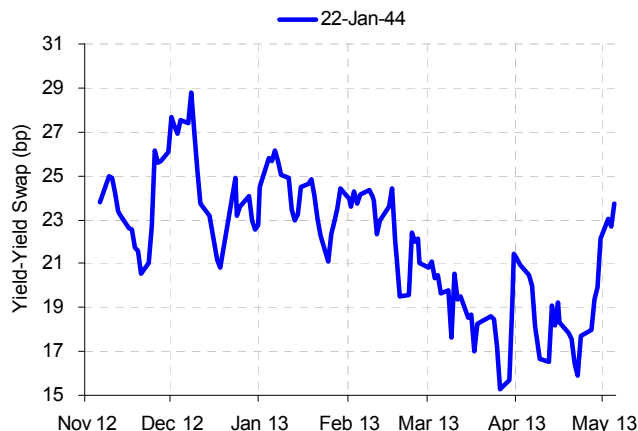
There are two main conclusions from this observation. First, that a view on the 10s30s gilt curve necessarily involves a directional view on the market. Second, that any sudden moves in the curve, normally associated with LDI-related headlines, should be faded as they tend to be short-lived.

Figure 16. Directionality dominates the 10s30s curve



Source: Citi Research, Bloomberg.

Figure 17. 30yr gilt swap spreads have already cheapened markedly



Source: Citi Research

Strategy summary – sell gilts into any strength

We add to short 10yr gilt vs Bund positions if the spread moves back below 50bp

In summary, the very near-term outlook for gilts has turned more bullish. Yields have reached levels which are likely to attract dip buying and cash-flows turn briefly supportive for the next few weeks. This could prompt temporary gilt outperformance vs Bunds. However, we continue to hold a relatively bearish view on gilts over Bunds over the medium-term and would add to this position if the 10yr spread moved back below 50bp, especially as supply will return in force in June.

30yr swap spreads have cheapened more quickly than we anticipated

As discussed in last week's [European Rates Weekly](#), we had been anticipating long-end swap spreads to cheapen over the next couple of months given the heavy supply burden. In the event, spreads have cheapened far more quickly than we expected (Figure 17). Again, we could see a partial correction in the near-term, but we would look to fade any material richening in spreads.

EUREX and LIFFE Calendar Rolls M3/U3: A first look

Nishay Patel

+44-20-7986-1007

nishay.patel@citi.com

Mohit Aggarwal

+91-22-4277-5022

mohit1.aggarwal@citi.com

Below is a summary of our latest thoughts on the upcoming EUREX and LIFFE Calendar Rolls. A more detailed write up can be found in [European Rates Strategy - EUREX and LIFFE Calendar Rolls M3/U3: A first look](#)

- **Bund Calendar Roll (bullish):** With the majority of speculative investors being short Bunds and our expectation that the repo level of the back contract is likely to tighten further into the delivery, we are bullish on roll. We therefore recommend rolling shorts early and longs late.
- **Bobl Calendar Roll (bullish):** We think positioning is largely neutral and expect the repo level to be the main driver of the roll. It is highly likely that the repo level of Jan18s and Jul18s repo tightens further into delivery. We are bullish on the roll and therefore recommend rolling shorts early and longs late.
- **Schatz Calendar Roll (slightly bullish):** With positioning and our duration view on 2yr Germany being largely neutral this points to having a neutral stance on the roll. However, our model estimate for the roll is 4 ticks higher than current market levels. We are therefore slightly bullish on the roll.
- **OAT Calendar Roll (neutral):** With both the front and back contracts sharing the same CTD, the main driver of the roll will be any changes in the repo level to delivery. We think positioning is largely neutral. We are neutral on OAT roll.
- **Gilt Calendar Roll (bullish):** We think that the majority of speculative investors are neutral on gilts. Based on our outlook for gilt yields, we are bullish on the gilt roll (roll shorts early and longs late).

Figure 18. View summary table

	RX	OE	DU	OAT	Gilt
Market Level	-9	-52	2	175	70
Fair Value for roll (using mid-mkt repo)	-10	-51	6	172	71
View	Bullish	Bullish	Slightly bullish	Neutral	Bullish
Action	Roll shorts early / roll longs late	Roll shorts early / roll longs late	Roll shorts early / roll longs late	Neutral	Roll shorts early / roll longs late
Main driver(s)	Positioning	Positioning and Repo	Positioning	Repo	Duration view
Probability of CTD switch in either	v.low	v.low	v.low	v.low	v.high in front
Hedge ratio: 1000 vs	939	900	879	1006	891
Fwd ASW of front CTD	-25	-40	-33	26	1

Source: Citi Research

Peter Goves

+44-20-7986-3215

peter.goves@citi.com

Tracking demand patterns in SSAs

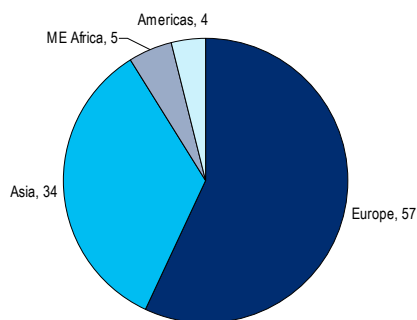
We detail the latest demand data for core SSAs in Europe given the recent reporting by the larger issuers. Geographically, the proportion of interest emanating from Asia shows an upward trend. By account type, central banks and bank treasuries continue to be important contributors to the overall demand profile

The geography of SSA demand – prominence of Asian demand

In 2012, Europe accounted for 57% of demand for EIB bonds (54% in 2011) and Asia accounted for 34% (29% in 2011) as indicated in Figure 19. It is therefore clear that Asian accounts play a significant role in the overall demand structure for European supranational debt. For accounts that have a constructive view regarding the determination of the ECB and officials to backstop the eurozone, investing in European supranationals remains a key channel to gain diversified exposure to European fixed income markets more broadly.

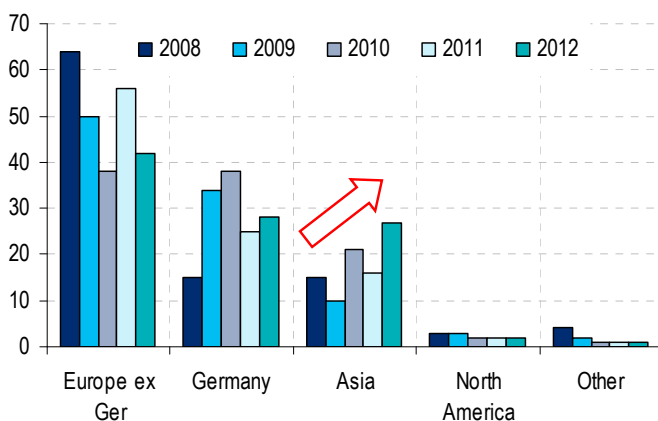
Over time, the share demanded by Asia has also been increasing. This can be seen in demand for KfW bonds. In 2012, demand for EUR KfW bonds rose from 16% to 27% and there has been upward trend evidence over recent years (Figure 20). A similar pattern is seen in demand for USD KfW bonds where Asia accounted for 35% of the overall demand structure last year (Figure 21). This made it the largest region overall regarding appetite for USD KfW bonds.

Figure 19. 2012 Demand for EIB Bonds (%)



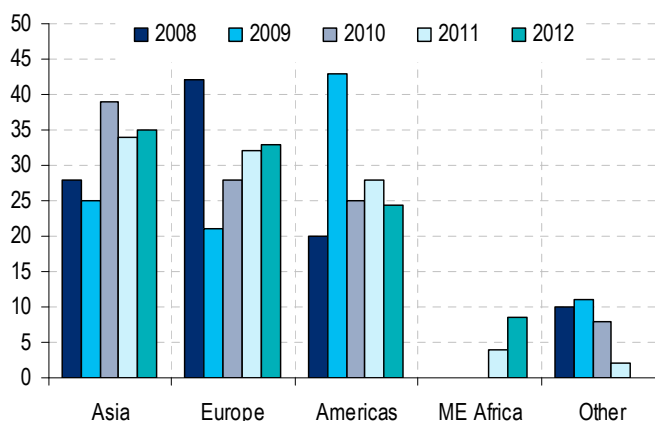
Source: EIB

Figure 20. Demand for KfW EUR benchmarks (%)



Source: KfW

Figure 21. Demand for KfW USD benchmarks (%)



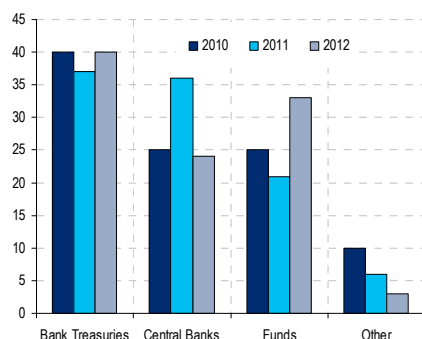
Source: KfW

Demand by investor type: the role of central banks & bank treasuries

The breakdown of demand for EIB debt last year stood at 40% bank treasuries, 24% central banks, 33% fund managers, and 3% other. Over recent years, the importance of bank treasuries has grown and they have been the largest investor by account type for several years (Figure 22).

This reflects various aspects of the ongoing evolution of fixed income markets. Firstly, there has been a greater regulatory focus for banks to hold high quality assets. This is particularly true in light of Basel III and risk weighting procedures. For central banks also, considerations of credit quality and market liquidity take primacy over any need for double-digit returns. In this sense, SSAs are a fertile part of the investment spectrum and one that will likely continue to attract attention from such actors in the years ahead.

Figure 22. Demand for EIB bonds by type (%)



Source: EIB

Secondly, the hunt for yield environment has generally encouraged extensions on core AAA curves, rather than moves down in credit quality (especially given some investors' focus on the need to buy high quality assets). The appetite for longer-dated high-quality debt has also enabled issuers to increase the maturity offering in their debt sales. For example, last year EIB was able to increase its average maximum maturity of its 2012 funding programme to 8.4 years (from 6.8yrs in 2011). We have often argued that increased supply is not necessarily an impediment to spread performance — and the impressive SSA rally in 2012, despite elevated levels of supply, is testament to this dynamic.

In this sense, the appetite for duration and popularity of extension trades has driven a broad bull flattening dynamic among many core SSA curves. The inference here is that the mandate of large parts of the SSA investor community means the continued quest for yield is conducive to even flatter curves. This is particularly true up to the 10yr sector with central banks buying in the shorter end and bank treasuries buying across the curve. Let it also not be forgotten that yields in the front end of core SSA curves are also supported by the Investment Policy of the ESM. This facility will ultimately have €80bn to invest in high quality assets across both EMU governments and SSA issuers ([Euro SSA Strategy - The EFSF and ESM in 2013](#)). Together with the well-known arguments of how central bank policy is anchoring short-dated yields, curves are therefore likely to continue to bull flatten / bear steepen as the market rallies / sells off more generally.

Conclusion – demand patterns reinforce firm interest in core SSAs

Asian accounts remain an important source of demand for the overall European SSA market and there is little evidence of this changing in 2013. Furthermore, the need for high-quality AAA assets by central banks and the hunt-for-yield environment is likely to mean interest in SSA fixed income will remain robust. Yields may be at historic lows and spreads near tights, but curves continue to bull flatten. All things being equal, this dynamic looks set to continue given the apparently insatiable appetite for yield and abundance of liquidity in the system.

Covered Bonds and Bail-in

Michael Spies
+49-69-1366-8403
michael.spies@citi.com

Recovery and Resolution Directive is being pushed

The EU Council published an update on the Recovery and Resolution Directive (RRD). Although different paths are discussed, the starting point is the same and this includes the exemption of secured liabilities of any bail-ins. But still, nothing is written into stone.

Recovery and Resolution Directive on its way further

The proposal of the European Commission was transmitted to the Council in June 2012 already. Now, the Council has published the current "state of play" with respect to the directive and the best possible implementation. The key aim of the proposal is to remove the "too big to fail" concept for banks that are in danger of failing, or have already failed, in order to protect taxpayers' money. According to the Council, the European Parliament's working group should be able to publish their proposal to the RRD in the near future. Thereafter, the trilogue (European Parliament, Commission and Council) should be able to start negotiations, although some issues haven't been cleared so far. The design of the bail-in tool has therefore been a main topic of discussion at Tuesday's ECOFIN conference. Another topic that needs to be addressed if decisions on bail-in tools are met is the financing arrangements, and with this the use of the resolution funds in order to finance orderly winding up of banks. Usage of this fund would be the natural step following bail-ins and restructurings, but according to the Council some member states would like to see these funds as part of direct solvency support.

Different approaches: 1. Harmonized approach

Currently, it's the council's view as if there is the choice between three different approaches for the configuration of a bail-in tool. The first approach is a "Harmonized Approach".

Figure 23. The harmonized approach

Main Elements	Variant: Commission original proposal:	Advantages	Disadvantages
<ul style="list-style-type: none"> - DGS substitutes for covered (=insured) deposits - Insured depositor preference (= DGS gets depositor preference) - Limited mandatory exclusions from bail-in defined: Wages, some tax debts, Short Term debt (to be defined), secured borrowing - Only discretionary (optional) exclusion: derivatives - Uninsured depositors always bailed in 	<ul style="list-style-type: none"> - No insured depositors preference (= DGS gets bailed in) 	<ul style="list-style-type: none"> - high degree of ex ante predictability - legal certainty to markets regarding creditor treatment - high degree of harmonization across member states 	<ul style="list-style-type: none"> - inability to deal with unforeseen events - absence of flexibility can result in the bail-in tool being unusable

Source: European Council; DGS = Deposit Guarantee Scheme

Harmonization would lead to higher predictability

The clear advantage of the harmonized approach is in the name. The approach tries to introduce a directive which would harmonize the tool in all member states and provide legal certainty and predictability for market participants. One drawback is the questionable practicality where "there are financial stability concerns or practical impediments to bailing in a given class of creditors for financial stability reasons. Where there is no flexibility to exclude such a creditor or class of creditors from the bail-in, the Resolution Authority cannot use the bail-in tool and instead may resort to using the resolution fund or bailing out at the tax payers' expense."¹

2. Discretionary approach

The second option is the introduction of a "discretionary approach", listed below.

¹ See <http://register.consilium.europa.eu/pdf/en/13/st09/st09229.en13.pdf>

Figure 24. The discretionary approach

Main Elements	Variant: Commission original proposal:	Advantages	Disadvantages
- Bail-in of uninsured depositors essentially a question to be decided case by case (IF they are on the list of discretionary exclusions)	- All liabilities may in principle be excluded, BUT subject to strict overall condition (Resolution Authority must be able to fully justify that a given liability was not bail-inable in practice)	- Discretion of how a bail-in tool is used	- lowering of harmonisation
- Discretionary (optional) exclusions – possible candidates: All uninsured deposits, uninsured deposits with a maturity of less than one month, liabilities arising from payment, clearing and settlement, all derivatives, short term debt (subject to different maturity from ST debt under mandatory exclusion) --> Discretions subject to criteria defined in the Directive	- A second variant could be to provide as a general rule that eligible deposits (over €100,000) of a natural person are excluded from bail-in, but provide the discretion to bail them in in specific circumstances where it is necessary to absorb losses and where it does not raise financial stability risks		- legal uncertainty for investors and other unsecured creditors
- Limited mandatory exclusions from bail-in defined: Wages, some tax debts, secured borrowing	- DGS substitutes for covered (=insured) deposits		- probable increase in the cost of funding due to uncertainty
- Insured depositor preference (= DGS gets depositor preference)			

Source: European Council

Further details need to be clarified

The Council sees some further alternatives within the discretionary approach which could be the exclusion of eligible deposits over €100k of a natural person, allowing the resolution authority to exclude any liabilities from bail-in on an individual basis or predefine a list of discretionary exclusions (e.g. eligible deposits, short term debt, liabilities that relate to a participation in payment, clearing settlement). However, very clear definitions would have to be met for subjective construable expressions (e.g. short term maturity debt).

3. Mixed approach

The third approach is a mixed one trying to combine the advantages of both approaches.

Figure 25. The mixed approach

Main Elements	Variant: Commission original proposal:	Advantages	Disadvantages
- Broad mandatory exclusions from bail in defined: Wages, some tax debts, secured borrowing and possibly debt resulting from payment, clearing and settlement.	- Could limit uninsured depositors to a smaller subset which would have preference e.g. those which are natural persons and SMEs, are bailed in but only AFTER other claims have been bailed in.	- harmonisation could be introduced	
- Insured depositor preference (= DGS gets depositor preference)		-credibility increases as approach is flexible	
- Uninsured depositor preference			
- DGS substitutes for covered (=insured) deposits			
- Small number of discretionary (optional) exclusions: e.g. derivatives			

Source: European Council

**RRD should give covered bonds an edge,
but still some uncertainties ahead**

Conclusion

Since the first proposal in June 2012, market participants have seen fiercely debated debt restructurings in Cyprus and in the Netherlands. This has led to an increasing number of investors scrutinizing the bail-in exemption of covered bonds. The latest proposal of the European Council is a confirmation of the general positive tone of regulators with respect to covered bonds. The fact that it seems to be a common view upon member states on the council level that covered bonds should be exempt from any bail-in should lower the probability of a bad surprise in the final agreement which could be implemented in 2015 already. The main topics which national ministers have to cope with now are the treatment of uninsured depositors and senior bondholders, the agreement on a common approach for constructing a bail-in tool, and a resolution fund. For covered bond investors this all sounds positive. However, it's also up to the European Parliament to find a compromise on the bail-in mechanisms which might be a further hurdle. Moreover, it should not be forgotten that there is ongoing legal uncertainty on the treatment of over-collateralisation above the legal minimum and the potential loss of the covered bondholders' residual unsecured claim. It seems as if the RRD will give covered bonds a clear edge, but still, some uncertainties are ahead.

EMU Relative Value Trades

Mohit Aggarwal

+91-22-4277-5022

mohit1.aggarwal@citi.com

Selling Oct16s in France vs the surrounding issues present attractive opportunities. We also like switching into Jul15s in Finland and Aug16s in Italy.

France: Fade the richness of Oct16s vs surrounding issues

Sell Oct16s vs surrounding issues

■ Sell 5% Oct16 vs 2.25% Feb16 and 3.75% Apr17 (3m carry: 0bp) - Figure 26

Or, Sell 5% Oct16 vs 3% Oct15 vs 3% Oct15 and 3.75% Apr17 (3m carry: -0.6bp) - Figure 27

Figure 26. France: 2.25% Feb16, 5% Oct16, 3.75% Apr17 microfly (bp)



Source: Citi Research

Figure 27. France: 3% Oct15, 5% Oct16, 3.75% Apr17 microfly (bp)



Source: Citi Research

Finland: Switch into Jul15s

Switch into Jul15s

■ Switch from 1.75% Apr16 to 4.25% Jul15 at 10bp (3m carry: -0.9bp) - Figure 28.

Italy: Switch into Aug16s

Switch into Aug16s

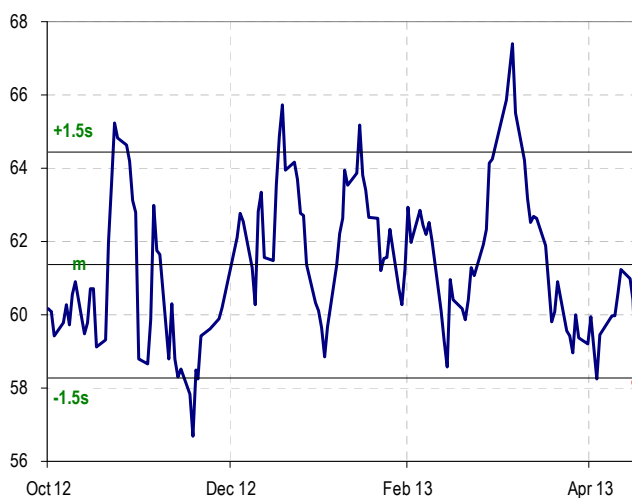
■ Switch from 3.5% Nov17 to 3.75% Aug16 at 58bp (3m carry: +4.8bp) - Figure 29.

Figure 28. Finland: 1.75% Apr16 – 4.25% Jul15 yield spread (bp)



Source: Citi Research

Figure 29. Italy: 3.5% Nov17 – 3.75% Aug16 yield spread (bp)



Source: Citi Research

Relative Value Tables

Regular readers will be familiar with the Relative Value Appendix showing individual bonds from the major EMU/UK markets in the context of their 6-month trading range relative to our fitted curve. We have expanded this approach and summarized the results below.

For example, Figure 30 shows the five cheapest and richest bonds in Germany relative to a fitted yield curve (shown on the left half of the page) and to the euro swap curve (right half of page). The table identifies benchmarks and CTDs and also gives the amount outstanding and initial issue date.

Figure 30. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Source: Citi Research

Figure 31 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 32 and Figure 34) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 31 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

These summary tables should help facilitate efficient screening of bonds and, among other things, provide a selection of starting points when considering switches.

EMU Relative Value Table – All Maturities

Figure 31. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); All bonds on each curve

	Versus Govt Curve (CAS)						Versus Swap Curve (CAS)				
GERMANY	Richest	Rank	Maturity	ZScore	Issued	Richest	Rank	Maturity	ZScore	Issued	
				Cheapest					Cheapest		
FRANCE	Richest	1	3.25 Jul15	-3.10	May05	Richest	1	3.00 Jul20	0.13	Apr10	
		2	3.00 Jul20	-1.56	Apr10		2	2.25 Sep20	0.18	Aug10	
		3	2.25 Sep20	-1.44	Aug10		3	2.50 Jan21	0.24	Nov10	
		4	4.75 Jul34	-1.37	Jan03		4	3.25 Jul21	0.27	Apr11	
		5	1.75 Oct15	-1.35	Sep10		5	2.50 Jul44 (30y)	0.30	Apr12	
		5	2.50 Jul44 (30y)	0.99	Apr12		5	4.00 Jul16	1.41	May06	
		4	1.75 Jul22	1.03	Apr12		4	1.75 Oct15	1.44	Sep10	
		3	1.50 Feb23 (10y)	1.08	Jan13		3	3.50 Jan16	1.51	Nov05	
		2	1.50 Sep22	1.52	Sep12		2	2.75 Apr16	1.65	Apr11	
		1	0.50 Apr17	1.77	Apr12		1	2.00 Feb16	1.80	Jan11	
ITALY	Richest	1	4.00 Apr18 (BTA)	-1.73	Apr07	Richest	1	4.00 Apr60	-2.13	Apr09	
		2	4.25 Oct18	-1.49	Oct07		2	4.00 Apr55	-2.13	Apr04	
		3	5.75 Oct32	-1.31	Oct00		3	4.50 Apr41 (30y)	-2.03	Apr09	
		4	4.25 Apr19	-1.23	Apr03		4	5.75 Oct32	-2.00	Oct00	
		5	1.75 May23 (10y)	-0.64	May12		5	4.25 Oct23	-1.97	Oct06	
		5	0.25 Nov15	0.85	Nov12		5	1.75 May23 (10y)	-0.11	May12	
		4	3.75 Apr17	1.00	Apr06		4	3.00 Oct15	-0.05	Oct04	
		3	2.75 Oct27	1.03	Oct11		3	2.50 Jul16	0.03	Jul10	
		2	1.00 Jul17	1.23	Jul11		2	2.25 Feb16	0.24	Feb10	
		1	4.00 Apr55	1.41	Apr04		1	0.25 Nov15	1.37	Nov12	
N'LANDS	Richest	1	4.25 Feb19	-2.06	Feb03	Richest	1	4.00 Feb37	-1.80	Aug05	
		2	4.50 Mar19	-1.92	Sep08		2	5.75 Feb33	-1.77	Feb02	
		3	5.75 Feb33	-1.90	Feb02		3	5.00 Aug34	-1.75	Aug03	
		4	4.50 Aug18	-1.87	Feb08		4	5.00 Mar25	-1.69	Mar09	
		5	5.00 Mar22	-1.37	Sep11		5	4.50 Mar26	-1.67	Sep10	
		5	4.75 Jun17	1.36	Jun12		5	4.75 Jun17	-1.17	Jun12	
		4	2.75 Dec15	1.61	Dec12		4	4.75 Sep16	-1.13	Sep11	
		3	4.00 Feb17	1.66	Aug06		3	3.50 Jun18 (5y)	-1.06	Apr13	
		2	3.75 Aug16	2.04	Feb06		2	2.75 Dec15	-1.06	Dec12	
		1	4.75 Sep16	2.84	Sep11		1	2.25 May16	-0.66	Apr13	
SPAIN	Richest	1	3.50 Jul20	-1.66	Feb10	Richest	1	3.50 Jul20	-1.09	Feb10	
		2	3.25 Jul21	-1.41	Mar11		2	3.25 Jul21	-1.09	Mar11	
		3	3.75 Jan23	-0.88	Jan06		3	3.75 Jan23	-1.00	Jan06	
		4	4.00 Jan37	-0.74	Apr05		4	2.25 Jul22	-0.71	Feb12	
		5	4.00 Jul18	-0.60	Feb08		5	4.00 Jul19	-0.69	Feb09	
		5	4.00 Jul16	0.29	Jul06		5	4.50 Jul17	0.07	Jul07	
		4	3.25 Jul15	0.29	Jun05		4	2.50 Jan33	0.13	Mar12	
		3	1.25 Jan18 (5y)	0.86	Jul12		3	4.00 Jul16	0.25	Jul06	
		2	2.50 Jan17	1.25	Jun11		2	2.50 Jan17	0.39	Jun11	
		1	2.25 Jul22	2.50	Feb12		1	3.25 Jul15	0.53	Jun05	
BELGIUM	Richest	1	5.50 Apr21	-1.58	Jan11	Richest	1	5.85 Jan22 (FBB)	-1.72	Nov11	
		2	3.30 Jul16	-1.53	Apr13		2	4.65 Jul25	-1.70	Feb10	
		3	4.90 Jul40	-1.42	Jun07		3	5.75 Jul32	-1.69	Jan01	
		4	3.25 Apr16	-1.28	Nov10		4	5.90 Jul26	-1.69	Mar11	
		5	4.40 Oct23	-1.00	May13		5	4.70 Jul41 (30y)	-1.69	Sep09	
		5	4.00 Jul15	1.52	Jan12		5	4.00 Jul15	-1.29	Jan12	
		4	4.00 Apr20	2.35	Jan10		4	3.80 Jan17	-1.27	Oct06	
		3	4.80 Jan24	2.47	Sep08		3	5.50 Jul17	-1.26	Mar02	
		2	4.60 Jul19	2.51	Feb09		2	4.40 Oct23	-1.00	May13	
		1	4.30 Oct19	2.67	Jun09		1	3.30 Jul16	-0.63	Apr13	

Source: Citi Research

EMU Relative Value Table – Max 12Y Maturity

Figure 32. Coupon Adjusted Spread 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)			
		Rank		ZScore	Issued	Rank		ZScore	Issued
GERMANY	Richest	1	3.25 Jul15	-3.10	May05	1	3.00 Jul20	0.13	Apr10
		2	3.00 Jul20	-1.56	Apr10	2	2.25 Sep20	0.18	Aug10
		3	2.25 Sep20	-1.44	Aug10	3	2.50 Jan21	0.24	Nov10
		4	1.75 Oct15	-1.35	Sep10	4	3.25 Jul21	0.27	Apr11
		5	0.25 Apr18 (5y)	-1.19	Apr13	5	3.25 Jan20	0.31	Nov09
	Cheapest	5	0.50 Oct17	0.83	Sep12	5	4.00 Jul16	1.41	May06
		4	1.75 Jul22	1.03	Apr12	4	1.75 Oct15	1.44	Sep10
		3	1.50 Feb23 (10y)	1.08	Jan13	3	3.50 Jan16	1.51	Nov05
		2	1.50 Sep22	1.52	Sep12	2	2.75 Apr16	1.65	Apr11
		1	0.50 Apr17	1.77	Apr12	1	2.00 Feb16	1.80	Jan11
FRANCE	Richest	1	4.00 Apr18 (BTA)	-1.74	Apr07	1	4.25 Oct23	-1.97	Oct06
		2	4.25 Oct18	-1.49	Oct07	2	2.25 Oct22	-1.88	Oct11
		3	4.25 Apr19	-1.23	Apr03	3	3.00 Apr22 (OAT)	-1.75	Feb12
		4	1.75 May23 (10y)	-0.62	May12	4	3.25 Oct21	-1.62	Oct10
		5	3.75 Oct19	-0.54	Oct08	5	3.75 Apr21	-1.54	Apr05
	Cheapest	5	4.25 Oct17	0.56	Oct06	5	1.75 May23 (10y)	-0.11	May12
		4	2.25 Feb16	0.70	Feb10	4	3.00 Oct15	-0.05	Oct04
		3	0.25 Nov15	0.85	Nov12	3	2.50 Jul16	0.03	Jul10
		2	3.75 Apr17	1.00	Apr06	2	2.25 Feb16	0.24	Feb10
		1	1.00 Jul17	1.24	Jul11	1	0.25 Nov15	1.37	Nov12
ITALY	Richest	1	4.25 Feb19	-2.06	Feb03	1	5.00 Mar25	-1.69	Mar09
		2	4.50 Mar19	-1.93	Sep08	2	4.50 May23 (10y)	-1.62	Mar13
		3	4.50 Aug18	-1.87	Feb08	3	4.75 Aug23	-1.56	Feb08
		4	5.00 Mar22	-1.37	Sep11	4	5.50 Nov22	-1.49	May12
		5	4.50 Feb18 (MFB)	-1.36	Aug07	5	5.00 Mar22	-1.48	Sep11
	Cheapest	5	4.75 Jun17	1.35	Jun12	5	4.75 Jun17	-1.17	Jun12
		4	2.75 Dec15	1.60	Dec12	4	4.75 Sep16	-1.13	Sep11
		3	4.00 Feb17	1.65	Aug06	3	3.50 Jun18 (5y)	-1.06	Apr13
		2	3.75 Aug16	2.03	Feb06	2	2.75 Dec15	-1.06	Dec12
		1	4.75 Sep16	2.84	Sep11	1	2.25 May16	-0.66	Apr13
N'LANDS	Richest	1	3.50 Jul20	-1.68	Feb10	1	3.25 Jul21	-1.10	Mar11
		2	3.25 Jul21	-1.44	Mar11	2	3.50 Jul20	-1.10	Feb10
		3	3.75 Jan23	-0.90	Jan06	3	3.75 Jan23	-1.00	Jan06
		4	4.00 Jul18	-0.62	Feb08	4	2.25 Jul22	-0.72	Feb12
		5	4.00 Jul19	-0.39	Feb09	5	4.00 Jul19	-0.70	Feb09
	Cheapest	5	3.25 Jul15	0.31	Jun05	5	1.25 Jan18 (5y)	0.01	Jul12
		4	4.00 Jul16	0.34	Jul06	4	4.50 Jul17	0.06	Jul07
		3	1.25 Jan18 (5y)	0.83	Jul12	3	4.00 Jul16	0.26	Jul06
		2	2.50 Jan17	1.23	Jun11	2	2.50 Jan17	0.39	Jun11
		1	2.25 Jul22	2.40	Feb12	1	3.25 Jul15	0.54	Jun05
SPAIN	Richest	1	5.50 Apr21	-1.58	Jan11	1	5.85 Jan22 (FBB)	-1.72	Nov11
		2	3.30 Jul16	-1.55	Apr13	2	4.80 Jan24	-1.67	Sep08
		3	3.25 Apr16	-1.31	Nov10	3	5.40 Jan23 (10y)	-1.65	Jan13
		4	4.40 Oct23	-1.00	May13	4	5.50 Apr21	-1.61	Jan11
		5	5.85 Jan22 (FBB)	-0.96	Nov11	5	4.85 Oct20	-1.53	Jul10
	Cheapest	5	4.00 Jul15	1.50	Jan12	5	4.00 Jul15	-1.29	Jan12
		4	4.00 Apr20	2.35	Jan10	4	3.80 Jan17	-1.27	Oct06
		3	4.80 Jan24	2.47	Sep08	3	5.50 Jul17	-1.26	Mar02
		2	4.60 Jul19	2.51	Feb09	2	4.40 Oct23	-1.00	May13
		1	4.30 Oct19	2.67	Jun09	1	3.30 Jul16	-0.63	Apr13
BELGIUM	Richest	1	4.00 Mar17	-2.19	Jan07	1	4.00 Mar17	-1.35	Jan07
		2	4.00 Mar18	-1.21	Jan08	2	4.25 Sep22	-1.34	Jan12
		3	3.25 Sep16	-1.14	Jan06	3	3.25 Sep16	-1.26	Jan06
		4	3.75 Sep15	-0.68	Mar05	4	4.00 Mar22	-1.25	May06
		5	5.50 Sep17	-0.64	Jun02	5	3.75 Sep15	-1.25	Mar05
	Cheapest	5	4.25 Sep21	0.33	Jan11	5	3.50 Jun17	-1.05	Mar11
		4	4.25 Sep22	0.58	Jan12	4	5.50 Sep17	-1.05	Jun02
		3	2.75 Mar16	0.73	Mar10	3	3.00 Sep19	-0.99	Apr12
		2	4.00 Mar22	0.95	May06	2	4.00 Mar19	-0.98	Jan09
		1	4.00 Mar19	0.99	Jan09	1	1.25 Jun18 (5y)	-0.47	Feb13

Source: Citi Research

EMU Relative Value Table – Min 8yr Maturity

Figure 33. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

		Versus Govt Curve (CAS)				Versus Swap Curve (CAS)			
		Rank		ZScore	Issued	Rank		ZScore	Issued
GERMANY	Richest	1	4.75 Jul34	-1.37	Jan03	1	3.25 Jul21	0.27	Apr11
		2	3.25 Jul21	-1.04	Apr11	2	2.50 Jul44 (30y)	0.30	Apr12
		3	2.25 Sep21	-0.98	Aug11	3	2.25 Sep21	0.34	Aug11
		4	3.25 Jul42	-0.89	Jul10	4	2.00 Jan22 (RX)	0.36	Nov11
		5	2.00 Jan22 (RX)	-0.57	Nov11	5	3.25 Jul42	0.50	Jul10
	Cheapest	5	4.75 Jul40 (UB)	0.04	Jul08	5	4.75 Jul34	0.85	Jan03
		4	2.50 Jul44 (30y)	0.99	Apr12	4	4.00 Jan37	0.94	Jan05
		3	1.75 Jul22	1.03	Apr12	3	6.25 Jan30	0.96	Jan00
		2	1.50 Feb23 (10y)	1.08	Jan13	2	5.50 Jan31	1.08	Oct00
		1	1.50 Sep22	1.52	Sep12	1	1.50 Feb23 (10y)	1.10	Jan13
FRANCE	Richest	1	5.75 Oct32	-1.31	Oct00	1	4.00 Apr60	-2.13	Apr09
		2	1.75 May23 (10y)	-0.62	May12	2	4.00 Apr55	-2.13	Apr04
		3	4.75 Apr35	-0.46	Apr03	3	4.50 Apr41 (30y)	-2.03	Apr09
		4	3.25 Oct21	-0.42	Oct10	4	5.75 Oct32	-1.99	Oct00
		5	3.25 May45	0.09	May12	5	4.25 Oct23	-1.97	Oct06
	Cheapest	5	2.25 Oct22	0.55	Oct11	5	4.75 Apr35	-1.87	Apr03
		4	3.50 Apr26	0.74	Apr10	4	3.00 Apr22 (OAT)	-1.75	Feb12
		3	4.00 Apr60	0.81	Apr09	3	3.25 Oct21	-1.62	Oct10
		2	2.75 Oct27	1.05	Oct11	2	3.25 May45	-0.92	May12
		1	4.00 Apr55	1.43	Apr04	1	1.75 May23 (10y)	-0.11	May12
ITALY	Richest	1	5.75 Feb33	-1.90	Feb02	1	4.00 Feb37	-1.80	Aug05
		2	5.00 Mar22	-1.39	Sep11	2	5.75 Feb33	-1.77	Feb02
		3	5.00 Aug34	-1.00	Aug03	3	5.00 Aug34	-1.75	Aug03
		4	5.00 Mar25	-0.96	Mar09	4	5.00 Mar25	-1.69	Mar09
		5	4.50 May23 (10y)	-0.66	Mar13	5	4.50 Mar26	-1.67	Sep10
	Cheapest	5	5.00 Aug39	0.21	Aug07	5	5.00 Sep40 (30y)	-1.48	Sep09
		4	4.75 Aug23	0.25	Feb08	4	5.00 Mar22	-1.48	Sep11
		3	4.75 Sep21	0.62	Mar11	3	5.50 Sep22 (IK)	-1.44	Mar12
		2	5.00 Sep40 (30y)	0.63	Sep09	2	4.75 Sep21	-1.36	Mar11
		1	4.75 Sep28	0.80	Jan13	1	3.75 Aug21	-1.32	Feb06
N'LANDS	Richest	1	3.25 Jul21	-1.45	Mar11	1	3.25 Jul21	-1.10	Mar11
		2	3.75 Jan23	-0.84	Jan06	2	3.75 Jan23	-0.99	Jan06
		3	4.00 Jan37	-0.81	Apr05	3	2.25 Jul22	-0.71	Feb12
	Cheapest	3	3.75 Jan42 (30y)	-0.15	May10	3	3.75 Jan42 (30y)	-0.14	May10
		2	2.50 Jan33	0.09	Mar12	2	4.00 Jan37	-0.03	Apr05
		1	2.25 Jul22	2.41	Feb12	1	2.50 Jan33	0.12	Mar12
SPAIN	Richest	1	4.90 Jul40	-1.41	Jun07	1	5.85 Jan22 (FBB)	-1.72	Nov11
		2	4.40 Oct23	-1.00	May13	2	4.65 Jul25	-1.70	Feb10
		3	5.85 Jan22 (FBB)	-0.96	Nov11	3	5.90 Jul26	-1.69	Mar11
		4	5.40 Jan23 (10y)	-0.95	Jan13	4	5.75 Jul32	-1.69	Jan01
		5	4.65 Jul25	-0.41	Feb10	5	4.70 Jul41 (30y)	-1.69	Sep09
	Cheapest	5	4.70 Jul41 (30y)	0.00	Sep09	5	4.90 Jul40	-1.68	Jun07
		4	5.90 Jul26	0.43	Mar11	4	4.80 Jan24	-1.67	Sep08
		3	5.75 Jul32	0.98	Jan01	3	4.20 Jan37	-1.67	Jan05
		2	4.20 Jan37	1.32	Jan05	2	5.40 Jan23 (10y)	-1.65	Jan13
		1	4.80 Jan24	2.47	Sep08	1	4.40 Oct23	-1.00	May13
BELGIUM	Richest	1	5.00 Mar35	-1.12	May04	1	4.25 Mar41 (30y)	-1.69	Apr10
		2	2.25 Jun23 (10y)	-0.10	Jan13	2	5.00 Mar35	-1.68	May04
		3	4.25 Mar41 (30y)	0.18	Apr10	3	4.00 Mar32	-1.59	Mar12
		4	4.00 Mar32	0.23	Mar12	4	4.50 Mar26	-1.47	Jun11
	Cheapest	4	4.25 Sep21	0.33	Jan11	4	4.25 Sep22	-1.34	Jan12
		3	4.25 Sep22	0.56	Jan12	3	4.00 Mar22	-1.25	May06
		2	4.50 Mar26	0.62	Jun11	2	2.25 Jun23 (10y)	-1.25	Jan13
		1	4.00 Mar22	0.96	May06	1	4.25 Sep21	-1.21	Jan11

Source: Citi Research

UK Relative Value Table

Figure 34. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

ALL

Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued
<div><div>Richest</div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div>Cheapest</div></div>	1	4.25 Dec55	-1.33	May05		1	5.00 Mar18 (5y-WX)	-0.65	May07
	2	4.25 Mar36	-1.11	Feb03		2	1.00 Sep17	-0.45	Mar12
	3	5.00 Mar18 (5y-WX)	-1.02	May07		3	3.75 Sep19	-0.45	Jul09
	4	2.25 Mar14	-0.92	Mar09		4	4.50 Mar19	-0.42	Sep08
	5	4.25 Sep39	-0.89	Mar09		5	1.25 Jul18	-0.40	Feb13
	5	4.00 Mar22 (G)	0.66	Feb09		5	5.00 Sep14	0.71	Jul02
	4	2.00 Jan16	0.72	Nov10		4	4.25 Dec55	0.73	May05
	3	4.25 Dec40	0.90	Jun10		3	2.75 Jan15 (2y-WB)	0.74	Nov09
	2	4.25 Jun32	0.96	May00		2	3.75 Jul52	0.83	Sep11
	1	4.25 Dec27	1.33	Sep06		1	4.00 Jan60	0.87	Oct09

2yr - 7yr

Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued
<div><div>Richest</div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div>Cheapest</div></div>	1	5.00 Mar18 (5y-WX)	-1.02	May07		1	5.00 Mar18 (5y-WX)	-0.65	May07
	2	1.25 Jul18	-0.83	Feb13		2	1.00 Sep17	-0.45	Mar12
	3	3.75 Sep19	-0.66	Jul09		3	3.75 Sep19	-0.45	Jul09
	4	1.75 Jan17	-0.63	Aug11		4	4.50 Mar19	-0.42	Sep08
	5	4.75 Sep15	-0.36	Sep03		5	1.25 Jul18	-0.40	Feb13
	5	4.75 Mar20	-0.27	Mar05		5	1.75 Jan17	-0.30	Aug11
	4	4.50 Mar19	-0.17	Sep08		4	4.75 Mar20	-0.30	Mar05
	3	1.00 Sep17	0.00	Mar12		3	4.00 Sep16	0.00	Mar06
	2	4.00 Sep16	0.43	Mar06		2	4.75 Sep15	0.33	Sep03
	1	2.00 Jan16	0.72	Nov10		1	2.00 Jan16	0.33	Nov10

7yr - 15yr

Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued
<div><div>Richest</div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div>Cheapest</div></div>	1	3.75 Sep20	-0.55	Jun10		1	3.75 Sep20	-0.24	Jun10
	2	1.75 Sep22 (10y)	-0.54	Jun12		2	3.75 Sep21	0.02	Mar11
	3	5.00 Mar25	0.44	Sep01		3	1.75 Sep22 (10y)	0.02	Jun12
	4					4			
	5					5			
	5					5			
	4					4			
	3	3.75 Sep21	0.56	Mar11		3	4.00 Mar22 (G)	0.14	Feb09
	2	4.00 Mar22 (G)	0.66	Feb09		2	5.00 Mar25	0.26	Sep01
	1	4.25 Dec27	1.33	Sep06		1	4.25 Dec27	0.39	Sep06

>15yr

Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued
<div><div>Richest</div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div>Cheapest</div></div>	1	4.25 Dec55	-1.33	May05		1	4.25 Mar36	-0.15	Feb03
	2	4.25 Mar36	-1.11	Feb03		2	4.50 Sep34	-0.13	Jun09
	3	4.25 Sep39	-0.89	Mar09		3	4.25 Jun32	0.10	May00
	4	4.75 Dec38	-0.84	Apr04		4	4.75 Dec30	0.10	Oct07
	5	4.50 Sep34	-0.74	Jun09		5	4.75 Dec38	0.14	Apr04
	5	3.75 Jul52	0.18	Sep11		5	4.25 Dec46	0.61	May06
	4	4.00 Jan60	0.56	Oct09		4	4.25 Dec49	0.66	Sep08
	3	4.50 Dec42 (30y)	0.62	Jun07		3	4.25 Dec55	0.73	May05
	2	4.25 Dec40	0.90	Jun10		2	3.75 Jul52	0.83	Sep11
	1	4.25 Jun32	0.96	May00		1	4.00 Jan60	0.87	Oct09

Source: Citi Research

Supply Analysis and Forecasts

Nishay Patel

This is an excerpt from our latest [Weekly Supply Monitor](#) at was published earlier today. For further details (upcoming coupon payments, redemptions and longer-term supply forecasts) please see the original note.

Mohit Aggarwal

Figure 35. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM3 (UST)	G M3 (Gilt)	RXM3 (Bund)
20 May (Mon)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-38k		
21 May (Tue)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/8/2020 - 15/5/2023		-31k		
22 May (Wed)	Germany	5.0	New Bund May23 (maturity and size confirmed)				40k
22 May (Wed)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-38k		
23 May (Thu)	Spain	4.0	Obligaciones 2yr, 5yr and 30yr (estimated tenors and size)				21k
23 May (Thu)	US	13.0	10-Year TIPS (re-opening)		158k		
23 May (Thu)	US	3 - 3.75	Outright Treasury Coupon Purchases: 28/2/2019 - 15/5/2020		-22k		
Weekly \$DV01 of Issuance				11.3			
Total Number of Futures Contracts					29k	0k	60k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM3 (UST)	G M3 (Gilt)	RXM3 (Bund)
28 May (Tue)	Italy	2.8	CTZ (estimated size)				5k
28 May (Tue)	Italy	1.0	BTPei (estimated size)				8k
28 May (Tue)	Netherlands	2.5	DSL Jul23 reopening (issue confirmed, size €2-3bn)				20k
28 May (Tue)	US	35.0	2-Year		87k		
28 May (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-38k		
29 May (Wed)	US	35.0	5-Year		209k		
29 May (Wed)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/8/2020 - 15/5/2023		-31k		
30 May (Thu)	Italy	5.0	BTP 5yr and 10yr (estimated tenor and size)				28k
30 May (Thu)	US	29.0	7-Year		238k		
30 May (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-38k		
31 May (Fri)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 31/5/2017 - 28/2/2018		-19k		
Weekly \$DV01 of Issuance				41.8			
Total Number of Futures Contracts					408k	0k	61k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM3 (UST)	G M3 (Gilt)	RXM3 (Bund)
04 Jun (Tue)	Austria	1.5	RAGB 10yr and 30yr (estimated size and tenors)				22k
04 Jun (Tue)	UK	1.4	01/8% Index-linked Treasury Gilt 2024 (issue confirmed, estimated size)			20k	
05 Jun (Wed)	Germany	4.0	Bobl-166 Apr18 reopening (issue and size confirmed)				17k
06 Jun (Thu)	Spain	2.8	Bono 2yr and 5yr (estimated tenors and size)				8k
06 Jun (Thu)	France	7.0	OAT 5yr and 10yr (estimated tenors and size)				50k
Weekly \$DV01 of Issuance				16.9			
Total Number of Futures Contracts					0k	20k	96k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM3 (UST)	G M3 (Gilt)	RXM3 (Bund)
11 Jun (Tue)	Germany	1.0	Boblei '18 reopening (estimated issue and date)				8k
11 Jun (Tue)	Netherlands	3.3	DSL Apr16 reopening (issue confirmed, size €2.5-3.5bn)				6k
11 Jun (Tue)	UK	3.3	New conventional gilt maturing on 7 Sep23 (issue confirmed, estimated size)			35k	
11 Jun (Tue)	US	32.0	3-Year		80k		
12 Jun (Wed)	Germany	5.0	Schatz Jun15 reopening (issue and size confirmed)				9k
12 Jun (Wed)	US	21.0	10-Year (re-opening)		232k		
13 Jun (Thu)	Italy	4.5	BTP 3yr, 10yr and 15yr (estimated tenors and size)				27k
13 Jun (Thu)	Italy	1.3	CCTeu (estimated size)				5k
13 Jun (Thu)	UK	2.0	4¼% Treasury Stock 2032 (issue confirmed, estimated size)			38k	
13 Jun (Thu)	US	13.0	30-year (re-opening)		301k		
Weekly \$DV01 of Issuance				67.3			
Total Number of Futures Contracts					613k	73k	55k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on May 31, 2013. Therefore we have only provided details of Fed buybacks upto 30 April. Additional issues expected in May: Belgium 30yr (€4bn). Ireland 5yr and 10yr (€1.3bn). These are not included in the cash flow tables or gross supply charts of this report as the timing of these supply events have not been announced.

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3 mths)

Figure 36. EMU-10 Redemptions over the next three months (€bn)

Redemptions = €168bn											
Redemptions	DEU 39	FRA 36	NLD 16	ITA 56	ESP 15	BEL 0	AUT 0	FIN 6	PRT 0	GRC 0	IRL 0
(Sat) 01-Jun-13				17.2							
(Fri) 14-Jun-13	17.0										
(Mon) 01-Jul-13				14.3							
(Thu) 04-Jul-13	22.0							6.0			
(Fri) 12-Jul-13		17.7									
(Mon) 15-Jul-13			16.0								
(Thu) 25-Jul-13		18.6									
(Tue) 30-Jul-13					14.9						
(Thu) 01-Aug-13				24.7							

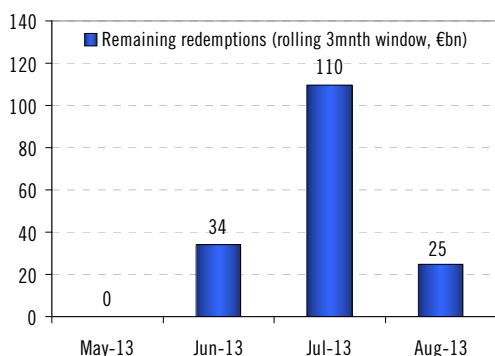
Source: DMOs, Bloomberg, Citi Research

Figure 37. EMU-10 Coupon Payments over the next three months (€bn)

Coupons = €51bn											
Coupons	DEU 13	FRA 7	NLD 6	ITA 12	ESP 8	BEL 1	AUT 2	FIN 1	PRT 1	GRC 0	IRL 0
(Mon) 20-May-13											0.0
(Thu) 23-May-13							0.0				
(Sat) 25-May-13		0.4									
(Sat) 01-Jun-13				1.3							
(Fri) 14-Jun-13	0.3								0.4		
(Sat) 15-Jun-13				0.9					0.7		
(Sun) 16-Jun-13									0.3		
(Tue) 18-Jun-13							0.1				0.3
(Thu) 20-Jun-13	0.2						0.1				
(Sat) 22-Jun-13						0.2					
(Fri) 28-Jun-13						0.5					
(Mon) 01-Jul-13				0.5							
(Thu) 04-Jul-13	12.1							1.2			
(Fri) 12-Jul-13		2.3									
(Mon) 15-Jul-13			5.7	0.4			1.8				
(Sat) 20-Jul-13											0.0
(Thu) 25-Jul-13		4.0									
(Tue) 30-Jul-13					8.1						
(Thu) 01-Aug-13				8.9							

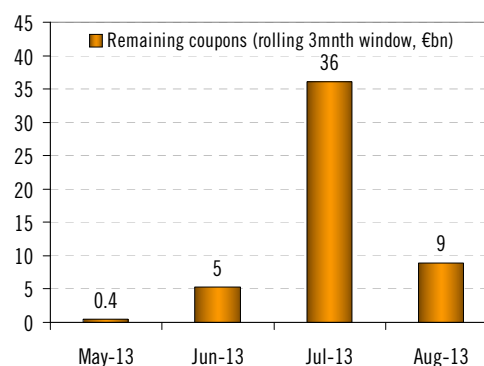
Source: DMOs, Bloomberg, Citi Research

Figure 38. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 39. EMU-10 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

ESP and ITA Bill Issuance Projections

This page contains our projections for Spanish and Italian bill supply in 2013.

Auction calendar for the next four weeks

Figure 40. Provisional Bill Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (EUR Million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 1	21 May (Tue)	Spain	3month (23 August 2013), 9 month (21 Feb 2014) - tenors confirmed, estimated issue and size	3.75
Total Size in Week 1				3.75
Week 2	29 May (Wed)	Italy	6 month (29 Nov 2013; issue confirmed, estimated size)	9
Total Size in Week 2				9.0
Week 4	12 Jun (Wed)	Italy	12 month (13 June 2014; issue confirmed, estimated size)	8.25
Total Size in Week 4				8.25

Italy announces issue size 3 business days before the auction

Spain announces issue details 1 business day before the auction

Source: DMOs, Citi Research

2013 projections for bill supply

Figure 41. 2013 Italy and Spain Bill Supply – Citi Forecast (Euro Billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	1.3	1.8		3.2	2.5	9	5	3
Feb	1.0	2.9	3.7	3.6		11	9	2
Mar	1.8	2.3	2.6	4.0		11	12	-2
Apr	0.9	1.3	2.2	4.6		9	8	1
May	1.3	1.0	2.5	3.0		8	6	2
Jun	1.3	1.8	2.5	3.5		9	10	-1
Jul	1.3	1.8	2.5	3.5		9	5	4
Aug	1.3	1.8	2.5	3.3		9	11	-3
Sep	1.3	1.8	2.5	3.3		9	7	2
Oct	1.3	1.5	2.3	3.3		8	4	4
Nov	1.3	1.5	2.3	3.3		8	10	-1
Dec	1.3	1.5	2.3	3.3		8	9	-1
Total	15.0	20.9	27.7	41.8	2.5	108	96	12
ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		9.8		9.8		20	21	-2
Feb		10.1		9.7		20	19	
Mar		9.4		7.8		17	19	-2
Apr	3.0	9.2		8.9		21	18	3
May		9.0		7.0	3.0	19	16	3
Jun		9.0		8.3		17	16	1
Jul		9.0		8.3		17	20	-3
Aug		9.0		8.3		17	18	-1
Sep	3.0	9.0		8.3		20	20	
Oct		9.0		8.3		17	17	
Nov		8.5		7.5		16	16	1
Dec		10.0		7.5		18	22	-5
Total	6.0	111.0		99.3	3.0	219	223	-4

*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 estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 42. Citi Inflation Forecasts

Month	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY
	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change
Mar 13	116.94	1.2	1.7	125.69	0.8	0.9	248.70	0.4	3.3	232.77	0.3	1.5
Apr 13	116.83	-0.1	1.1	125.50	-0.2	0.6	249.90	0.5	3.1	232.53	-0.1	1.1
May 13	116.80	-0.0	1.2	125.59	0.1	0.7	250.60	0.3	3.4	233.63	0.5	1.7
Jun 13	116.84	0.0	1.3	125.72	0.1	0.8	251.10	0.2	3.8	233.63	0.0	1.8
Jul 13	116.35	-0.4	1.5	125.32	-0.3	0.9	250.80	-0.1	3.6	233.33	-0.1	1.8
Aug 13	116.57	0.2	1.3	125.77	0.4	0.6	251.70	0.4	3.6	233.53	0.1	1.4

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 43. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.12	0.12	0.12									
TIPS 7/14	-1.44	9	9	-17	17	4	US-2.625-07/31/14	160	-10	-8	-17	17	3	12	-2
TIPS 1/15	-1.26	11	11	-10	14	6	US-2.250-01/31/15	147	-12	-10	-11	13	5	15	0
TIPS 4/15	-1.23	-1	-1	-8	12	6	US-2.500-04/30/15	147	1	3	-9	11	4	9	-12
TIPS 7/15	-1.61	8	8	-10	7	-1	US-4.250-08/15/15	188	-8	-7	-11	5	-3	5	-1
TIPS 1/16	-1.40	8	8	-7	7	2	US-2.625-02/29/16	174	-6	-5	-8	5	-1	13	-4
TIPS 4/16	-1.32	-0	-0	-6	7	3	US-2.000-04/30/16	170	3	4	-7	5	0	13	-12
TIPS 7/16	-1.55	2	2	-6	5	0	US-4.875-08/15/16	199	2	2	-8	3	-3	8	-10
TIPS 1/17	-1.37	10	10	-5	5	2	US-3.125-01/31/17	190	-7	-6	-6	3	-2	12	-1
TIPS 4/17	-1.29	9	9	-4	5	2	US-0.875-04/30/17	188	-4	-4	-5	3	-2	11	-3
TIPS 7/17	-1.46	6	6	-5	4	1	US-4.750-08/15/17	208	-1	-1	-6	1	-3	9	-6
TIPS 1/18	-1.29	12	12	-4	5	2	US-3.500-02/15/18	202	-7	-6	-5	1	-3	13	-0
TIPS 4/18	-1.20	9	9	-3	5	2	US-0.625-04/30/18	200	-3	-3	-5	2	-2	13	-4
TIPS 7/18	-1.32	7	7	-3	4	1	US-4.000-08/15/18	214	-2	-2	-5	1	-3	15	-4
TIPS 1/19	-1.11	12	12	-2	5	3	US-2.750-02/15/19	207	-6	-5	-4	1	-2	19	-1
TIPS 7/19	-1.14	14	14	-2	4	2	US-3.625-08/15/19	220	-7	-7	-4	0	-3	16	1
TIPS 1/20	-0.96	16	16	-2	4	3	US-3.625-02/15/20	213	-9	-9	-4	1	-2	22	3
TIPS 7/20	-0.95	14	14	-2	4	3	US-2.625-08/15/20	227	-6	-5	-4	0	-3	16	-1
TIPS 1/21	-0.78	16	16	-1	4	3	US-3.625-02/15/21	219	-7	-7	-4	0	-3	22	1
TIPS 7/21	-0.74	13	13	-1	4	3	US-2.125-08/15/21	230	-4	-4	-3	0	-3	18	-2
TIPS 1/22	-0.57	14	14	-1	4	3	US-2.000-02/15/22	224	-6	-5	-3	0	-2	22	-1
TIPS 7/22	-0.55	14	14	-1	4	3	US-1.625-08/15/22	232	-4	-4	-3	0	-3	20	-2
TIPS 1/23	-0.39	13	13	0	4	4	US-2.000-02/15/23	225	-4	-3	-3	0	-2	26	-2
TIPS 1/25	-0.21	14	14	0	4	4	US-7.625-02/15/25	224	-4	-4	-3	-1	-3	36	-1
TIPS 1/26	-0.12	12	12	0	4	4	US-6.000-02/15/26	231	-2	-2	-3	-1	-3	32	-2
TIPS 1/27	-0.03	12	12	0	4	4	US-6.625-02/15/27	233	-2	-2	-3	-1	-3	34	-3
TIPS 1/28	0.07	13	13	0	4	4	US-6.125-11/15/27	232	-2	-2	-3	-1	-3	38	-2
TIPS 4/28	0.06	11	11	0	4	4	US-5.500-08/15/28	241	-1	-1	-3	-1	-2	28	-4
TIPS 1/29	0.12	11	11	0	4	4	US-5.250-02/15/29	239	-0	-0	-2	-1	-3	34	-4
TIPS 4/29	0.12	12	12	0	4	4	US-5.250-02/15/29	239	-1	-1	-2	-1	-2	33	-2
TIPS 4/32	0.27	12	12	0	4	4	US-5.375-02/15/31	234	-1	-1	-2	-1	-2	44	-1
TIPS 2/40	0.61	11	11	0	3	3	US-4.625-02/15/40	236	0	0	-2	-1	-2	47	-1
TIPS 2/41	0.64	11	11	0	3	3	US-4.750-02/15/41	235	-0	-0	-2	-1	-2	48	-0
TIPS 2/42	0.70	11	11	0	2	3	US-3.125-02/15/42	238	-0	-0	-2	-1	-2	45	-0
TIPS 2/43	0.73	9	9	0	2	3	US-3.125-02/15/43	238	1	1	-2	-1	-2	46	-2

Source: Citi Research, Bloomberg

Figure 44. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.08	0.07	0.07									
BTPei14	0.26	26	26	29	31	38	BTP 8/14	66	-28	-9	20	13	11	46	5
OATei15	-1.09	21	21	10	4	0	FFRG 4/15	119	-21	-9	9	3	0	22	7
BUNDei16	-0.84	14	14	8	5	3	BUND 1/16	87	-14	-6	8	5	3	16	5
BTANi16	-0.95	7	7	0	0	0	FFRG 4/16	123	-5	-0	-1	-2	-2	35	-2
BTPei16	1.23	12	12	15	18	23	BTP 8/16	82	-7	0	7	4	2	54	0
OATi17	-0.86	5	5	0	0	1	FFRG 4/17	134	-3	0	-1	-2	-2	32	-1
BTPei17	1.55	10	10	12	15	20	BTP 8/17	102	-6	-0	5	1	-1	46	2
BOBLei18	-0.81	8	8	5	3	2	BUND 1/18	112	-5	0	4	2	0	23	2
OATei18	-0.65	7	7	5	3	3	FFRG 4/18	132	-5	-1	3	1	-1	31	3
BTPei18	1.81	9	9	11	13	17	BTP 8/18	103	-7	-2	4	1	-1	54	4
OATi19	-0.55	5	5	1	1	2	FFRG 4/19	145	-1	1	-1	-2	-2	40	-2
BTPei19	1.86	10	10	9	12	15	BTP 9/19	126	-5	-1	3	0	37	37	3
BUNDei20	-0.68	2	2	4	2	2	BUND 1/20	136	4	8	3	0	-1	19	-6
OATei20	-0.39	-1	-1	4	3	3	FFRG 4/20	153	5	9	2	0	-2	22	-7
OATi21	-0.17	6	6	1	2	3	FFRG 4/21	157	-1	1	-1	-2	-3	43	-2
BTPei21	2.39	10	10	8	10	14	BTP 9/20	94	-7	-4	2	0	30	85	27
OATei22	0.00	2	2	4	3	4	FFRG 4/21	140	4	6	2	0	-2	49	-5
BUNDei23	-0.32	5	5	3	2	2	BUND 1/22	145	3	5	1	0	-2	37	-4
OATi23	0.07	7	7	1	2	3	FFRG 10/23	187	-0	1	-1	-2	-3	27	-1
BTPei23	2.66	9	9	7	9	12	BTP 8/23	126	-4	-1	2	0	-2	67	3
OATei24	0.32	3	3	3	3	4	FFRG 10/23	162	3	6	1	-1	-3	39	-4
BTPei26	2.86	10	10	6	8	11	BTP 3/26	125	-4	-1	1	0	22	81	5
OATei27	0.47	0	0	3	3	4	FFRG 4/26	179	5	7	1	-1	-2	31	-4
OATi29	0.36	4	4	1	2	3	FFRG 4/29	210	2	3	-1	-2	-3	23	-0
OATei32	0.61	5	5	3	3	3	FFRG 10/32	200	1	3	0	-1	-2	18	1
BTPei35	2.88	9	9	4	5	7	BTP 8/34	174	-2	-0	0	-2	-3	46	3
OATei40	0.69	3	3	2	2	2	FFRG 10/38	219	3	3	0	-1	-3	10	-2
BTPei41	3.06	9	9	3	5	6	BTP 9/40	169	3	5	0	-2	13	60	-3

Source: Citi Research

Figure 45. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jun	1 Jul	1 Aug					1 Jun	1 Jul	1 Aug		
Repo (%)				0.43	0.43	0.42									
UKTi Jul16	-2.37	4	4	0	1	1	UKT 9/16	284	0	0	0	0	1	36	3
UKTi Nov17	-2.17	6	5	2	9	10	UKT 3/18	299	1	2	2	8	8	16	-3
UKTi Apr20	-1.61	7	7	1	2	3	UKT 3/20	290	2	2	0	0	0	27	-2
UKTi Nov22	-1.27	8	7	2	6	7	UKT 3/22	301	4	4	1	3	3	34	-3
UKTi Mar24	-0.93	8	7	1	5	7	UKT 3/25	308	4	4	1	3	3	27	-2
UKTi Jul24	-0.91	8	8	1	2	3	UKT 3/25	306	4	4	0	0	0	36	-2
UKTi Nov27	-0.63	9	8	1	4	6	UKT 12/27	312	2	3	0	2	2	38	-1
UKTi Mar29	-0.47	7	6	1	4	5	UKT 12/30	317	3	3	0	2	1	33	-1
UKTi Jul30	-0.52	9	9	1	2	3	UKT 6/32	333	-0	-0	0	0	-1	25	2
UKTi Nov32	-0.40	8	8	1	3	5	UKT 6/32	321	1	1	0	1	1	40	1
UKTi Mar34	-0.31	8	7	1	3	4	UKT 9/34	324	1	1	0	1	1	37	1
UKTi Jan35	-0.34	7	6	0	1	3	UKT 3/36	334	1	1	0	-1	-1	31	2
UKTi Nov37	-0.29	6	6	1	3	4	UKT 12/38	335	1	1	0	1	0	32	1
UKTi Mar40	-0.22	5	5	1	2	3	UKT 9/39	334	2	2	0	1	0	33	0
UKTi Nov42	-0.22	5	5	1	2	3	UKT 12/42	340	2	2	0	0	0	32	-0
UKTi Mar44	-0.15	5	5	1	2	3	UKT 1/44	342	2	2	0	0	0	29	-9
UKTi Nov47	-0.16	5	5	1	2	3	UKT 12/46	341	2	2	0	0	0	32	-0
UKTi Mar50	-0.14	5	5	1	2	3	UKT 12/49	342	2	2	0	0	0	30	-0
UKTi Mar52	-0.11	5	5	1	2	2	UKT 7/52	343	2	2	0	0	-1	29	-0
UKTi Nov55	-0.16	5	5	1	2	2	UKT 12/55	345	2	2	0	0	0	29	-0
UKTi Mar62	-0.16	5	5	0	1	2	UKT 1/60	344	2	2	0	0	-1	29	-0

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
16-May-13	NOTE	EUREX and LIFFE Calendar Rolls M3/U3: A first look	-	Global
14-May-13	NOTE	European Flow Monitor: Selling of Bunds slowing. Bears using OATs instead	-	EUR
13-May-13	NOTE	Covered Bond Strategy: Moody's 4Q12 Update, New iBoxx Indices, Rating actions	-	EUR
10-May-13	European Weekly	ECB: The Future of Monetary Policy Strategy	8	EUR
		UK Rates: A Shift in Supply	20	UK
		Core SSA fundamentals remain strong	22	EUR
		Covered Bond Strategy: Capital requirement changes positive for Kiwi Covereds	18	EUR
09-May-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
08-May-13	NOTE	European Interest Rate Strategy: ECB - The Future of Monetary Policy Strategy	-	EUR
07-May-13	NOTE	European Flow Monitor: Core strength hides signs of weakness	-	EUR
02-May-13	European Weekly	Thoughts after the ECB meeting	8	EUR
		Euro Rates Strategy	10	Global
		UK Rates - A contrarian, bullish trade in gilts	16	UK
		Euro Inflation – Under Pressure	18	EUR
		SSA Strategy	20	EUR
		Covered Bond Strategy	21	EUR
		EMU-10: May Supply Outlook	30	EUR
02-May-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
02-May-13	NOTE	Euro SSA and Covered Bond Monthly: French agencies and covered bonds in focus	-	EUR
01-May-13	NOTE	Economic Surprises and US/Europe	-	Global
30-Apr-13	NOTE	UK Rates Strategy: A contrarian, bullish trade for gilts (vs OATs)	-	UK
30-Apr-13	NOTE	Euro Rates Strategy: Update on Short 10yr & 30yr Bund Spread Recommendations	-	EUR
30-Apr-13	NOTE	Euro Rates Strategy: EMU 10 May Supply Outlook	-	EUR
29-Apr-13	NOTE	European Flow Monitor: Strengthening demand for the core	-	EUR
29-Apr-13	NOTE	UK Rates Strategy: The Gilt 'Scorecard' Reloaded	-	UK
25-Apr-13	European Weekly	Overview: Views, Thoughts & Opinions	8	EUR
		Alternative targets for Japanese demand	9	Global
		EUR Swaps: Opportunities in 10s30s	14	EUR
		UK Rates: Bearish risks slowly building	17	UK
		Euro Inflation Strategy	19	EUR
		Covered Bond Strategy	20	EUR
25-Apr-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
22-Apr-13	NOTE	European Flow Monitor: Demand differences being expressed via the curve	-	EUR

Notes

Notes

Appendix A-1

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