8 August 2013 │ 36 pages

Western Europe

European Rates Weekly

Will the market buy guidance?

- **ECB liquidity and forward guidance:** Analysing LTRO repayment trends and recent comments from ECB members on guidance suggest that money markets rates will remain lower for longer. Our preferred trade ideas include buying Euribor Dec13s 1x2 call spreads and receiving ECB Eonia Mar14 and Eonia 12x24.
- **UK rates - guidance underwhelms:** The initial market reaction to the MPC's forward guidance suggests that it has underwhelmed. However, the price action so far is largely down to positioning and we expect the front-end is likely to respond soon. We advocate GBP 2y1y vs 1y1y flatteners, 5s30s steepeners and long 5yr GBP vs USD.
- **Bunds tend to rally in August:** The consistency in the rally over the month of August has been historically very notable. In the absence of a surge in risk appetite, the holiday period typically points to lower Bund yields, all things being equal.
- **Fading the backup in EUR 30yr swaps:** Tactically, we like buying EUR 1m30y ATMF receivers for 3 reasons: (1) attractive entry level (30yr swaps are close to the one year highs & have previously retraced from current levels), (2) strong seasonal support in August and (3) 1m30y bpv is historically low, providing a low entry cost.
- **SSA summer switches:** Seeking out various differentials on core curves, we present several switch ideas within the core SSA sector. We also like extension trades in the sub-5yr sector, expecting curves to bull flatten as the constructive tone continues.
- **Spanish Multi-cédulas:** Moody's recently published their latest figures on Spanish multi-cédulas. For some structures, the amount of overcollateralization has decreased substantially over just half a year. However, there are also some bright spots.
- **Relative value trades:** We highlight a number of relative value opportunities in the 2-10yr sector of the French, Austrian, Italian and Spanish yield curves.
- **Supply:** Within Europe, next week's bond supply comes from Italy (around €1.3bn) and Germany (€4bn). The UK DMO will issue £2.25bn of the conventional gilt 4.5% 2034 on Thursday. There is no UST issuance until 22 August 2013.

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Our duration scorecard for the week ahead is slightly bullish, but with low conviction.	Buy the dips in Bunds based on the lower-for-long outlook
Money Market	Another ECB rate cut and a new LTRO is likely and we do not expect a meaningful rise in EONIA rates in the medium-term, especially as excess liquidity is likely to remain for the foreseeable future. We expect BoE forward guidance to be particularly supportive for 0-3yr rates in the UK and would fade the steepness of GBP 1y1y-2y1y	Hold long ERZ3 1x2 call spread Receive ECB Mar14 EONIA Receive GBP 2y1y vs 1y1y
Yield Curve	Take profits on EUR 30s50s flatteners. In the UK, the supply/demand outlook for long-end gilts coupled with the introduction of forward guidance is supportive for 5s30s gilt steepeners.	Take profits on EUR 30s50s flatteners UKT 5s30s steepeners Sell 10yr OATs vs 5yr and 30yr
Cross-market	"Forward guidance" from the ECB and the MPC reinforces our views that Bund/gilt yields will outperform vs UST yields over the medium-term. Following recent moves, and the introduction of guidance in the UK, we also think that there is scope for 5yr GBP to outperform USD in the near-term.	Receive 5yr GBP vs USD Prefer 10yr gilts to UST over the medium term Long Bunds vs UST trades over the medium-term (add on corrections)
EMU Spreads	We continue to see any spread widening between Belgium and the soft core as a buying opportunity (remain long 5yr OLOs vs OATs). Periphery politics remains the main such of headline risk, but so far, BTP and Bono spreads to Germany continue to grind in. Separately, 2yr DSL-RAGB spreads are too tight and are attractive levels to initiate wideners	Buy 5yr Belgium vs France Buy 2yr Netherlands vs Austria Prefer 2yr Spain vs Italy
Swap Spreads	Schatz spreads are looking cheap to Bobl spreads. With DBR 2s5s ASW finally starting to turn we think it is a good time to buy Schatz in ASW vs Bobl ASW. We maintain our target of 40bp for RXU3 Bund ASW given the decoupling between swap spreads and risk assets. The end of QE in the UK coupled with fiscal and supply risks is likely to put steepening pressure on 10s30s gilts vs swaps	Hold long RXU3 ASW spreads Buy Schatz in ASW vs Bobl ASW Sell 30yr GBP swap spreads vs 10yrs
Inflation	Euro break-evens continue to perform well both outright and relative to inflation swaps. We continue to hold our long position in Boblei18 break-evens vs 5yr HICPxT. Our long position in Bundei23 vs OATei24 is also beginning to work. In the UK, 5yr real yields should eventually benefit from forward guidance.	Sell OATei24 vs Bundei23 break-even inflation box Buy Boblei18 break-even vs inflation swap Sell 5yr, 5yr euro HICPxT as a long-term fundamental trade Long 5yr UK real yields
Volatility	Use the historically low level of EUR 1m30y bpv to buy ATMF receivers. This trade is supported by the attractive entry level on EUR 1m30y rates (top of one year range) and strong seasonal support for EUR 30yr yields in August. Selling EUR 2y1y ATMF straddles and buy OTM receivers looks attractive given the elevated level of the upper break-even	Buy EUR 1m30y ATMF receiver Hold short EUR 2y2y delta-hedged straddles Sell EUR 2y1y ATMF straddle and buy EUR 2y1y ATM-15 receiver
SSA	Spreads continue to grind in and at -10bp in 10yr KfW ASW, we would much rather look at relative, rather an absolute value in the near-term. We expect yields to compress further given the constructive tone and for curves to bull flatten in 3s5s.	Fade the outperformance of Austrian agencies vs Dutch agencies Extension trades in 3s5s supras and agencies such as EIB Maintain front-end KfW vs France over the medium term Prefer EU vs EIB in the sub 5yr sectors

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

Source: Citi Research

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 9th – 15th August

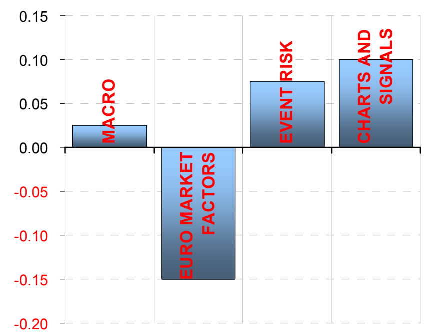
Bund Directional Scorecard (1wk horizon)

RECOMMENDATION	**Long**	RXU3 (EOD Thurs) = 142.25
Conviction level	**3%**	CTD yield = 1.28% 10day del vol = 2%

	SIGNAL STRENGTH (+/-2)		
MACRO	**0.0**		**Weight = 35%**
ECB	1	Rates to remain low for an extended period of time	10.0%
Fed, BoE and BOJ	-1	Citi economists expect QE tapering to start in September	7.5%
Inflation	0	Inflation likely to be subdued over the medium term	2.5%
Growth related data	0	Citi expects 2Q preliminary euro area GDP to be 0.2% QoQ	7.5%
Citi surprise	-1	Citi Economic Surprise Index at highest level in 4 months	5.0%
Middle East / Oil	2	Brent down 2% in a week	2.5%
EURO MARKET FACTORS	**-0.2**		**Weight = 25%**
Supply	-1	10yr supply from Germany. No cash flows.	5.0%
Risk appetite	-1	Risk sentiment improving	5.0%
Positioning	0	Positioning relatively balanced	5.0%
Equity	-1	SX5E close to highest level in 2 years	2.5%
Sovereign credit	-1	Peripheral spreads continue to grind in	5.0%
FX	1	EUR effective exchange rate retreating from highs	2.5%
EVENT RISK	**0.1**		**Weight = 13%**
Politics	1	Political developments in Italy pose a headline risk	7.5%
3yr LTRO	0	Excess liquidity remains high at €252bn	2.5%
Stability mechanisms	0	ESM activation unlikely in the short-term	2.5%
CHARTS AND SIGNALS	**0.1**		**Weight = 28%**
Technicals	1	Support from August seasonals and oversold slow stochastic	10.0%
T-Note	0	Treasury yields stable	7.5%
CFTC	0	Positioning largely neutral	5.0%
ARTS	0	Neutral	5.0%

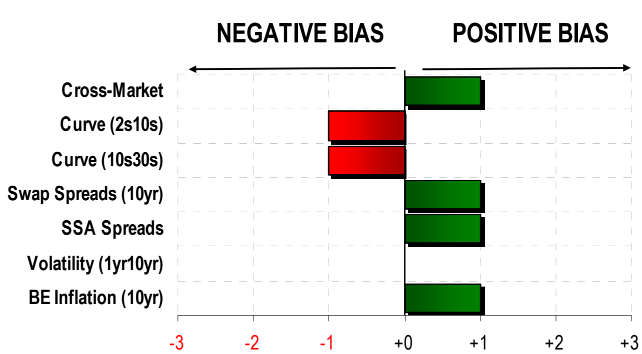
Source: Citi Research

Figure 3. Contribution to Bund Signals



Source: Citi Research

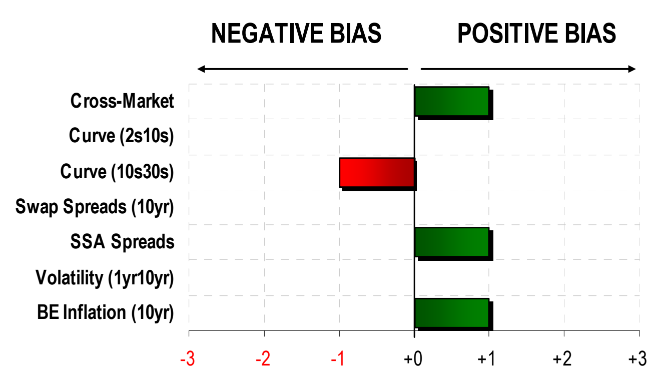
Figure 4. EURO AREA (Near-term Bias)



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 *ECB: Higher Excess, Fixings Normalize* for the details

1. Receive ECB Eonia Mar14

Receive ECB Eonia Mar14 at 16.5bp

Open 16.5bps. Current 17bps. Target 10bps. Stop 20bps.

Please see p11 for the details

2. Receive GBP 2y1y vs GBP 1y1y

Receive GBP 2y1y at 1.37%.

Pay GBP 1y1y at 0.87%.

Open 50bps. Current 50bps. Target 30bps. Stop 60bps.

Please see *The Morning Call* for the details

3. Buy EUR 1m30y ATMF receiver

Buy EUR 1m30y ATMF(2.55%) receiver at 6bp

Open 6bps. Current 6bps. Target 21bps. Stop 0bps.

Please see p16 for the details

4. EIB 2.5% Oct18s vs EIB 3.5% Apr16s

Buy EIB 2.5% Oct18s at 1.11%.

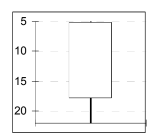
Sell EIB 3.5% Apr16s at 0.48%.

Open 63bps. Current 63bps. Target 53bps. Stop 70bps.

Record of Our Closed Trades

Figure 6. Record of our Closed Trades

Region	Trade	Levels		Rationale
Europe	**Receive EUR 30s50s**	Open	18bp	
		Current	5bp	Hit Target 8 August 2013
Curve	Receive EUR 50yr at 2.54%	**P&L**	**13bp**	
	Pay EUR 30yr at 2.36%	Target	5bp	
		Stop	22bp	*European Rates Weekly 11 October 2012*

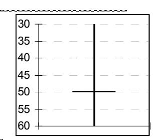


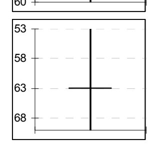
Source: Citi Research

Record of Our Open Trades

Figure 7. Record of our Open Trades

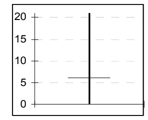
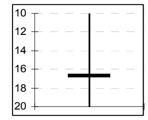
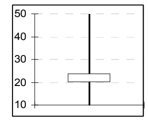
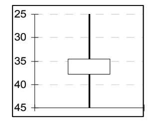
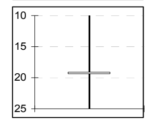
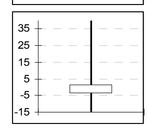
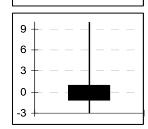
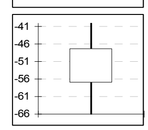
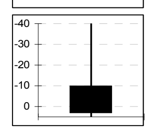
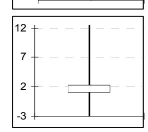
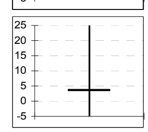
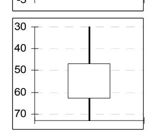
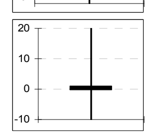
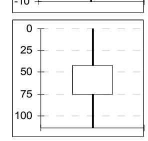
Region	Trade	Levels		Rationale + Publication Date
UK	**Receive GBP 2y1y vs GBP 1y1y**	Open	50bp	
		Current	50bp	Forward guidance to put flattening pressure in 0-3yr rates, positive carry.
Forwards	Receive GBP 2y1y at 1.37%	**P&L**	**0bp**	
	Pay GBP 1y1y at 0.87%	Target	30bp	
		Stop	60bp	*European Rates Weekly, 8 August 2013*
Europe	**Long EIB 2.5% Oct18s vs EIB 3.5% Apr16s**	Open	63bp	
		Current	63bp	Constructive tone to support bull flatteneing.
Curve	Buy EIB 2.5% Oct18s at 1.11%	**P&L**	**0bp**	
	Sell EIB 3.5% Apr16s at 0.48%	Target	53bp	
		Stop	70bp	*European Rates Weekly, 8 August 2013*





Source: Citi Research

Figure 8. Record of our Open Trades (continued)

Market	Trade	Levels	Rationale	Chart
Europe *Volatility*	**Buy EUR 1m30y ATMF receiver** Buy EUR 1m30y ATMF(2.55%) receiver at 6bp	Open 6bp Current 6bp **P&L 0bp** Target 21bp Stop 0bp	Attractive entry level, strong seasonal support and low entry cost. *The Morning Call, 8 August 2013*	
Europe *Forwards*	**Receive ECB Eonia Mar14** Receive ECB Eonia Mar14 at 16.5bp	Open 16.5bp Current 17bp **P&L -0.4bp** Target 10bp Stop 20bp	Excess liquidity looks unlikely to drop below EUR 100bn in our view. *ECB: Higher Excess, Fixing Normalize, 5 August*	
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 24bp **P&L 4bp** 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*	
Europe *Inlfation*	**Sell OATei24 break-even vs Bundei23** Sell OATei24 break-even at 168bp Buy Bundei23 break-even at 130bp	Open 38bp Current 35bp **P&L 3bp** Target 25bp Stop 45bp	Relative outperformance of 10yr OATei break-evens is overdone, especially now that the 25 July coupons have been paid. *European Rates Weekly, 25 July 2013*	
Europe *Cross Market*	**Buy 5yr Belgium vs France** Buy OLO 4% Mar18 at 1.15% Sell OAT 4% Apr18 at 0.95%	Open 19.5bp Current 19bp **P&L 0bp** Target 10bp Stop 25bp	Tactical long supported by upcoming cash flows. *Euro Rates Strategy, 24 July 2013*	
Europe *Curve*	**Sell OAT 5s10s30s** Buy OAT Nov18 at 1.10% Sell OAT May23 at 2.19% Buy OAT May45 at 3.32%	Open -4bp Current 1bp **P&L 5bp** Target 40bp Stop -15bp	Impact of France's removal from ECB AAA curve on the long-end is overestimated, in our view. Trade offers positive roll on ASW curve. *European Interest Rate Strategy, 22 July 2013*	
Europe *Cross Market*	**Buy 2yr Netherlands vs Austria** Buy DSL 0.75% Apr15 at 16bp Sell RAGB 3.5% Jul15 at 17bp	Open 1bp Current -1bp **P&L -2bp** Target 10bp Stop -3bp	Attractive entry level to move up the credit curve. Relative value is also supportive. *The Morning Call, 17 July 2013*	
Europe *Inflation*	**Buy Boblei18 break-even vs 5yr HICPxT swap** Buy Boblei18 break-even at 98bp Sell 5yr HICPxT swap at 155bp	Open -57bp Current -47.4bp **P&L 10bp** Target -40bp Stop -66bp	Euro break-evens should be supported by rally in oil and upcoming coupon payments. *The Morning Call, 16 July 2013*	
UK / US *Cross Market*	**Buy 10yr gilts vs Treasuries** Buy gilt 1.75% Sep22 at 2.43% Sell UST 1.625% Aug22 at 2.53%	Open -10bp Current 3.5bp **P&L -13bp** Target -40bp Stop 5bp	Diverging economic fundamentals and expected forward guidance from the MPC should support gilt outperformance vs USTs *The Morning Call, 10 July 2013*	
Europe *Money Market*	**Buy ERZ3 1x2 call spread** Buy ERZ3 99.750/.875 1x2 call spread at 1c	Open 1c Current 2.3c **P&L 1.3c** Target 12.5c Stop -3c	Dec Euribor has cheapened 30/35c since May ECB rate cut. Howevre, a cut to the deposit rate would be required for a signifcant rally. *Euribor, 24 June 2013*	
Europe *Curve*	**Receive EUR 10y2y vs 12y3y** Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%	Open 4bp Current 3bp **P&L -1bp** 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*	
Europe *Volatility*	**Sell EUR 1y3yF ATMF straddle and buy ATMF-25 receiver** Sell EUR 1y3yF ATMF (=1.36%) straddle for 98bp Buy EUR 1y3yF ATMF-25 receiver for 35bp	Open 63bp Current 47bp **P&L 16bp** Target 30bp Stop 73bp	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 *IIRS 9 August 2012*	
Europe *Cross Market*	**Long KfW 1.375% Feb17s vs OAT 5% Oct16s** Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%	Open 1bp Current 0bp **P&L -1bp** Target 20bp Stop -10bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify *IIRS 2 August 2012*	
UK *Volatility*	**Sell GBP 2y2y ATMF straddle** Sell GBP 2y2y ATMF (1.04%) straddle at 76bps	Open 76bp Current 42bp **P&L 34bp** Target 0bp Stop 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol *IIRS 12 July 2012*	

Source: Citi Research

Money market outlook and ECB policy

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Analysing LTRO repayment speeds can provide useful information in projecting money market rates. We see that excess liquidity needs to drop below EUR 100bn before the price of liquidity starts to increase. We also believe recent comments by the ECB's chief economist serve to clarify central bank policy rather than initiate a change in stance. We continue to like buying Euribor Dec13 1x2 call spreads, receiving ECB Eonia Mar14 and Eonia 12x24.

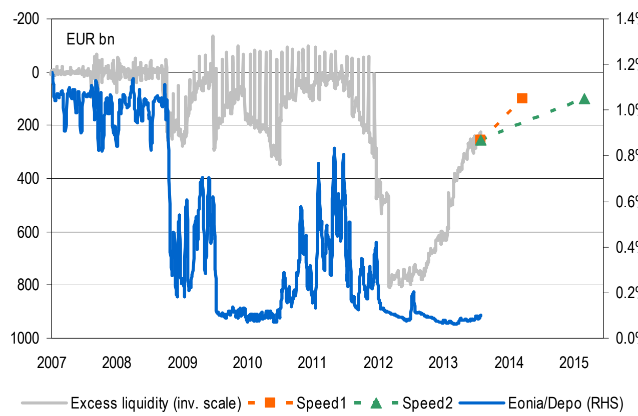
ECB: Higher excess, fixings normalise

Eonia fixing is back to a more normal level, after the brief seasonal episode at the end of July[1]. As of Friday 2 August, Eurosystem excess liquidity is around €255bn (vs €232bn during the last two weeks of July).

Repayment speed matters

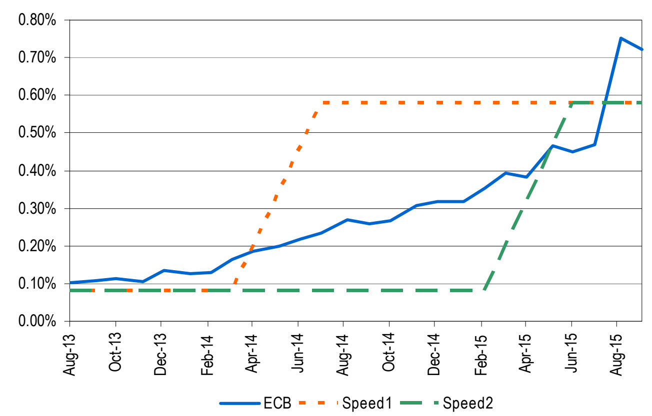
Last Friday, the ECB announced that banks will repay €2.1bn of LTROs on 7 August, bringing the total repayment amount to €315bn. As we can see in Figure 9, at the current average repayment speed of €4.7bn/week (*speed1*), we'll reach €100bn of excess by the end of March 2014. However, if we consider only the past 6 weeks, then the repayment speed drops to approximately €1.9bn/week (*speed2*). Under this assumption, excess liquidity is projected to hit the €100bn "threshold" in February 2015 (when LTROs will expire anyway).

Figure 9. Excess liquidity, Eonia and LTRO repayment speed



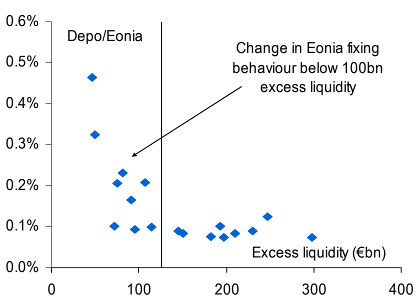
Source: ECB, Citi Research

Figure 10. ECB curve and repayment speed



Source: ECB, Citi Research

Figure 11. Excess liquidity and Eonia vs deposit rate spread in 2009-2010



Source: Citi Research

Differential repayment speed has a strong implication for the timing of excess liquidity conditions, which in turn translates into the path of short-dated Eonia swaps. Looking back at the 1st 12-month LTRO, we can learn how the behaviour of excess liquidity affects the price of liquidity (spread between ECB deposit facility rate and Eonia).

In Figure 11, we see that excess liquidity needs to drop below EUR 100bn before the price of liquidity starts to increase, i.e. Eonia starts to decouple from its lower bound. While there are several differences between 2010 and now (e.g. the level of minimum reserve requirements, ECB collateral rules, other non-standard policy tools etc), we think the analysis above is nonetheless informative and provides us with thresholds and timing boundaries for changes in fixings.

[1] This seasonality is related to the dynamics of government deposits in Italy, reflecting "the transfer of tax and social security payments to the government's account at the Banca d'Italia" (http://www.ecb.europa.eu/mopo/liq/html/treas.en.html)

Note we do not assume an additional LTRO-program in our analysis. While such a measure is very likely in our view (not only in order to prevent money market turbulence, but also to allow for a smooth domestic demand profile to meet the large refinancing needs of non-core members in 2014 and 2015), we prefer to keep few degrees of freedom in our analysis.

Forward guidance and the money market affect

Why forward guidance by the ECB?

Recent comments from the ECB's chief economist also shed light on the central bank's strategy regarding market expectations on changes in monetary policy. Executive board member Praet recently related the decision to embark on what the market has dubbed "forward guidance" to the sudden and unwarranted tightening of monetary conditions in May/June.

Why forward guidance by the ECB?

In his own words[2]: "*starting in May and with increased intensity in the month of June, we perceived that expectations regarding the stance of monetary policy and its evolution had become somehow detached from our assessment of the state of the economy and our monetary policy inclinations, given that assessment*". Furthermore, the "*restriction in money market credit conditions*" and the withdrawal of a large part of accomodation is evident from ECB's own lending data.

Is it forward guidance or a clarification?

Mr Praet's interpretation does not suggest the ECB has introduced a new element to their strategy. In reality, "*with forward guidance the Governing Council has meant to re-assert - not to suspend - its strategy*". It seems the ECB was very keen on clarifying how their two pillar strategy integrates within Art 127(1) of the Treaty ("price stability") as well as with the broader objectives of supporting general economic policies in the EU (i.e. full employment and balanced economic growth).

Strategy takeaways:

Taking this into account, it is apparent that the ECB sees markets tightening monetary conditions as incongruous to their broader assessment at this stage. Draghi has mentioned it in the past (Feb ECB meeting with 12x24 Eonia above 0.4%) and Praet underlines the concept again. As we detail above, although we have not assumed further LTROs in our liquidity analysis, we think eventually the ECB will have little or no choice in order to prevent turbulence in peripheral markets. It is also interesting to note that the Exec Committee has not given up on the interest rate channel ("*we have not reached the lower bound on our key interest rates*"), while clearly shifting its focus on the expectations channel.

Recent improvement in data must be put in the fundamental context

Markets seem to be nervous about the recent pick-up in composite PMIs (50.5 in July). However, in our view, this ignores the underlying business cycle weakness as well as the collapse in lending to NFC and households.

Strategy & Trade Ideas

Market pricing a liquidity drop in Mar-14

We're long of front Dec 75/87 1x2s (trade initiated on 24 June 2013 @1c). In swap space, we think receiving Mar-14 ECB @16.5 (outright or vs Feb @12) looks attractive, given that we'll reach 100bn excess only in case of an acceleration of average repayments as discussed above (Figure 10).

With core banks having already repaid almost 75% of their original LTROs (Figure 12), we think that an acceleration coming from the core of the euro area is rather unlikely. On the other hand, accelerated repayments from non-core members seems to be also unlikely and repayments from Spain and Italy seem to have somewhat stabilized.

[2] "Forward guidance and the ECB". Peter Praet, 6th August 2013

Figure 12. LTRO repayment by NCB (estimate)

Country	Dec-12			Apr-13			LTRO Change
	MRO	LTRO	DF	MRO	LTRO	DF	
Belgium	0	40	11	50	14	5	25
France	5	174	74	1	95	50	79
Germany	3	70	40	1	12	23	58
Greece	17	2		60	2		0
Ireland	8	63	2	9	37	1	26
Italy	3	268	3	11	244	1	24
Netherlands	148		158	89		108	58
Portugal	4	49	4	4	45	2	4
Spain	41	316	44	24	229	8	87
Eurosystem	90	1036	262	117	705	92	330
Core							*221*
Non-core							*141*
Total LTRO repayment (End June 2013)							306

Source: ECB, Citi Research

Figure 13. ECB expectations analysis

Meeting	Reserve Period		Eonia live	Step
01-Aug-13	07-Aug-13	10-Sep-13	0.10	
05-Sep-13	11-Sep-13	08-Oct-13	0.11	0.01
02-Oct-13	09-Oct-13	12-Nov-13	0.11	0.00
07-Nov-13	13-Nov-13	10-Dec-13	0.10	-0.01
05-Dec-13	11-Dec-13	14-Jan-14	0.13	0.02
09-Jan-14	15-Jan-14	11-Feb-14	0.13	0.00
06-Feb-14	12-Feb-14	11-Mar-14	0.12	-0.01
06-Mar-14	12-Mar-14	08-Apr-14	0.17	0.05
03-Apr-14	09-Apr-14	14-May-14	0.18	0.01
08-May-14	14-May-14	10-Jun-14	0.20	0.01
05-Jun-14	11-Jun-14	08-Jul-14	0.22	0.02

Source: Citi Research

What about receiving outside of the LTRO window?

More aggressive investors might venture past Q1 2015 and look at Eonia 12x24s @34bp. To be fair, the trade is exposed to the risk of variations of excess liquidity as well as to an improvement of the business cycle and the related re-pricing of ECB expectations. While we argue that a new LTRO is very likely and that rate hikes are very unlikely during the next 24 months, a heavily skewed positioning into ECB carry trades and the associated PnL volatility seen in January and in June are a source of concern. The significant roll-down of 20bp/year (almost 60% of the initial 1y1y's level) is a positive factor, but again it needs to be considered in the context of a 40bp range (roughly 0.10-0.50%) seen so far this year.

UK Rates – Guidance underwhelms, for now

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The initial market reaction to forward guidance suggests that it has underwhelmed. Positioning has played a crucial role in the price action, but there also appears to be some concerns that the guidance thresholds may be hit sooner than the MPC expect. However, we still think that the very front-end of the curve offers value. We also believe that a steeper curve is the path of the least resistance and that gilts should perform relatively well vs Treasuries.

Carney gets his guidance

The MPC's forward guidance implies that policy rates will be on hold until at least Q3 2016

As widely anticipated, the MPC, led by Governor Carney, has introduced explicit forward guidance. This states that the MPC will not hike rates at least until the jobless rate falls to 7%, unless the MPC's inflation forecast for 18-24 months ahead is above 2.5%, medium term inflation expectations are no longer well anchored or financial stability issues require higher rates. The MPC does not expect unemployment will fall to 7% until at least Q3 2016.

The MPC minutes on 14 August will reveal the breadth of support for guidance

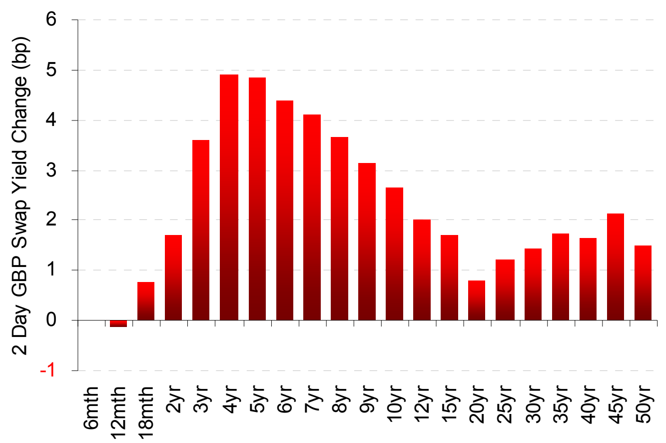
The implementation of Fed-style forward guidance linked to the unemployment rate with an inflation knockout is inline with the Citi expectation (see *MPC Start Forward Guidance*, 7 August). The breadth of support for guidance within the MPC will not be known until the minutes for the August meeting are released next Wednesday (14 August).

The market appears to be underwhelmed

Positioning has been the key factor behind the sell-off since the Inflation Report

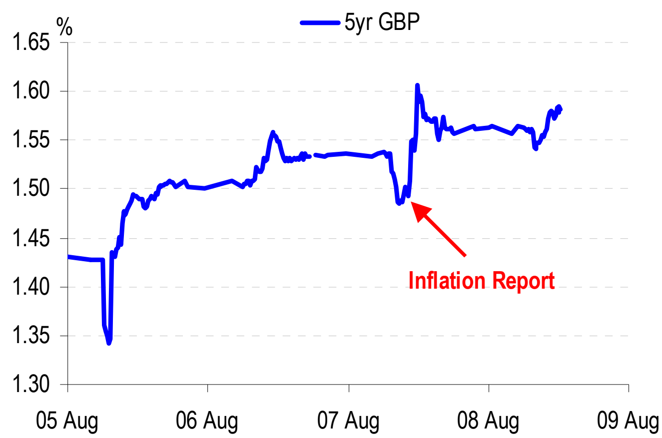
The market reaction to the implementation of forward guidance, at least so far, is likely to disappoint the MPC. As Figure 14 shows, UK yields have risen since the announcement, led by the 4-5yr sector. Positioning has undoubtedly played a significant role in this price action. As the intra-day yield chart for 5yr swaps in Figure 15 shows, the market rallied just before the announcement as fresh longs were established, but these positions were quickly stopped out. It seems that guidance wasn't as strong as some had hoped. Indeed, we also thought that there was a chance that guidance could have gone even further and infer that rates would be on hold for around 4yrs rather than the 3yrs implied by the MPC's forecasts for unemployment. However, guidance still doesn't look well priced to us, and the sell-off looks like an overreaction. Once the positioning is cleaner, there is scope for the front-end to rally, in our view (see below).

Figure 14. Change in GBP swaps since before the Inflation Report



Source: Citi Research, Bloomberg.

Figure 15. Intra-day performance of 5yr GBP swaps



Source: Citi Research, Bloomberg.

An early-round knockout blow for guidance is unlikely

Concerns that the inflation knockout will be triggered early are overblown

It has also been suggested that the market reaction owes something to concerns that the 2.5% inflation knockout could be triggered sooner rather than later, for example if external price pressures suddenly increase. The MPC's own forecasts suggest that there is around a 40% chance the 2.5% inflation knockout will be triggered at the 18-24 month horizon. On the surface, this doesn't appear to give much wiggle room for an unexpected rise in the inflation outlook. However, the MPC consistently regard external price shocks as temporary and likely to fade at the 18-24 month horizon. We see little prospect that the 2.5% knockout is triggered by sudden external shocks, such as a rise in energy price. It will likely take domestic price pressures to trigger the knockout, and there appears little prospect of that happening in the foreseeable future.

Front-end longs still make sense

Positioning is likely to dictate near-term price action…

Positioning is likely to dictate the near-term price action in the front-end, but concerns over the thresholds being reached or knockouts being triggered early are overblown, in our view. The data is improving, but our economics team continue to believe that the first rate hike will not be until 2017. Moreover, even when the unemployment threshold is breached or price stability worries emerge, this does not automatically mean that there will be rate hikes, it just means the end of guidance.

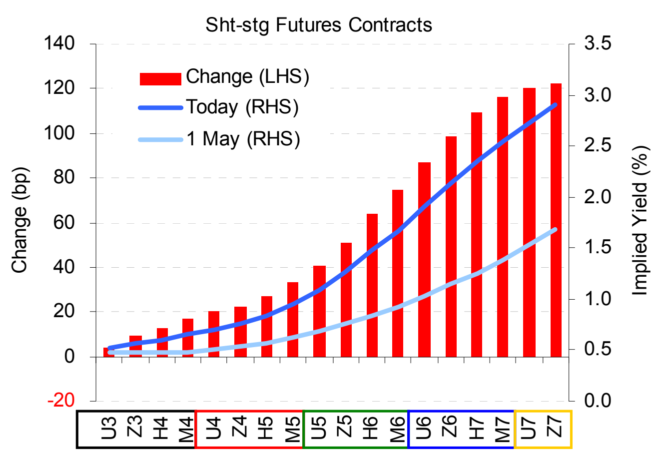
…but the front-end should respond to guidance soon and more accurately reflect the rate outlook

Against this backdrop, forward guidance does not look well priced in the market. Short-sterling contracts remain significantly cheaper than at the beginning of May, including the relatively near 'red' contracts (Figure 16). The MPC has expressed intent to cap front-end yields and, once positioning clears, the front-end should respond and more accurately reflect the rate outlook. There is some way to go: OIS forwards currently suggest that the first rate hike will be in 2yrs time. In so far that forward guidance helps to clarify the policy rate outlook, term premia in the front-end should begin to moderate.

NEW TRADE: receive GBP 2y1y vs 1y1y

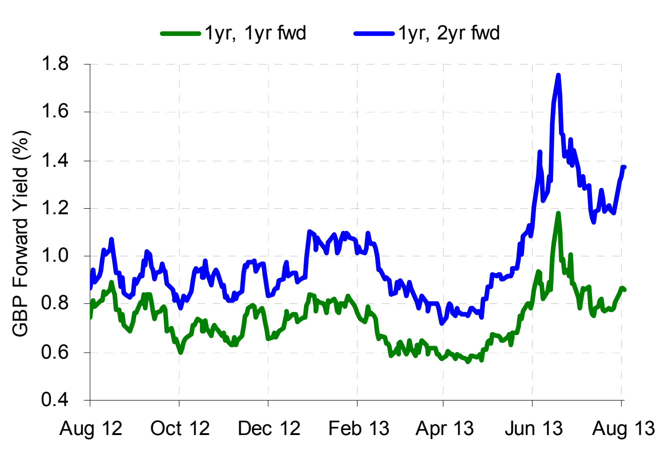
As well as receiving the short-sterling red-pack, other front-end trades which look attractive include flatteners such as receiving 2y1yr vs paying 1y1y (Figure 17). The spread is at historically attractive levels (currently +50bp) and offers 3mths positive carry of 10bp. We look for a reversal to 30bp with a stop at 60bp (see *Tradesheet*).

Figure 16. Short-sterling front contracts still look cheap



Source: Citi Research, Bloomberg.

Figure 17. Forward guidance does not look well priced in the front-end



Source: Citi Research, Bloomberg.

Looking for the exit signs

The risk to outright longs in the front-end is that the market runs ahead of the distant policy exit…

A risk to outright longs in the front-end is that the market gets ahead of itself in looking for the policy exit signs. Guidance explicitly lays out the conditions under which a policy unwind might begin to happen. While the MPC expect this to be at least 3yrs away, and we agree with this assessment, the risk is that the market becomes increasingly obsessed with the eventual policy unwind, as arguably has been the case in the US. The outlook is now clearly data dependent, both with regard to inflation and unemployment. The data has been on a good run and the market is prone to overreacting and pricing a policy exit sooner than what is likely. For those concerned about this risk, curve and cross-market trades may be more appealing that outright longs.

Outlook for curve and cross-market spreads

…but in the very least, guidance should cap front-end yields and the path of least resistance is likely to be a steeper curve

In the near-term, positioning is likely to dictate performance in the front-end. Once it clears, we see scope for a rally given that the policy rate outlook does not look well priced. At the very least, we would expect forward guidance to keep the front-end well anchored vs longer maturities. The path of least resistance is for a steeper curve, in our view. The MPC is clearly intent on keeping front-end yields near historic lows, but is less concerned about the long-end. Action by the Fed is likely to be more important for the 10yr sector than domestic policy. We expect this to prompt bear steepening over the medium-term, especially given the supply/demand outlook for the long-end in the absence of QE (see '*With QE less likely, who will buy all the gilts?*', 30 July). One caveat to this view is that extra QE may become more likely if forward guidance is not successful in capping front-end yields. However, we doubt that the MPC will be too worried if curve steepening is driven by a rise in long-end yields, at least not in the first instance.

We expect UK rates to outperform US equivalents over the medium-term

We also continue to expect UK rates to perform relatively well vs US equivalents over the medium-term. The initial market reaction may have been disappointing, but forward guidance from the MPC implying that rates will be on until the second half of 2016 is nonetheless a strong statement. In the 5yr sector, GBP swaps have cheapened by around 25bp vs USD swaps in the last week alone. This has put the 5yr GBP swap rate above the USD equivalent for the first time since the end of June. We doubt that this will be sustained and expect to see a reversal as the market fully digests guidance.

Summary – guidance helps to remove uncertainty

The policy outlook is clearer following guidance

The bottom line is that the MPC is saying that rates will likely be hold for several years to come in our view. The market has to decide whether to price in line with the MPC's forecasts or decide, for whatever reason, that they are not credible. We believe that once positioning is cleaner, the market will re-price to more accurately reflect the 'lower-for-longer' outlook. The removal of uncertainty regarding the implementation of guidance should also benefit the front-end.

Trades for the near-term and medium-term

We have initiated a new trade to receive 2y1yr GBP vs 1y1y. For medium-term strategies, we favour 5s30s curve steepeners and long gilts/GBP vs Treasuries/USD.

Bund seasonals and performance in August

Striking consistency in summer Bund moves

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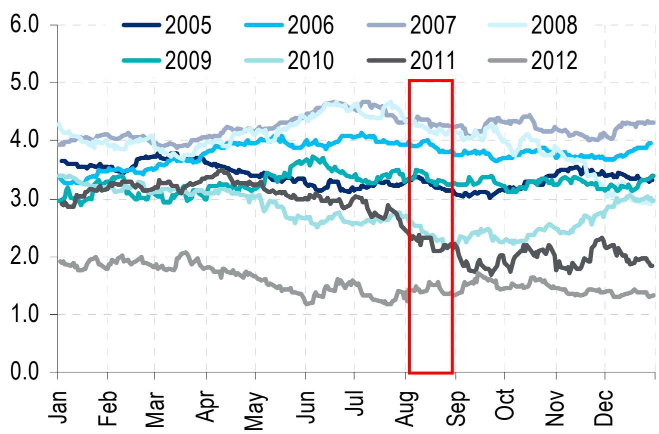
German yields in the first week of August have nudged slightly higher and remain at the high end of recently established ranges. At around 1.7%, 10yr yields are just 10bp away from their 1-year highs. Unsurprisingly, there has been no radical re-pricing following the ECB which affirmed its forward guidance that key rates would remain at present or lower levels for an extended period of time. As such, we continue to see Bunds trading in a range with further decoupling vs USTs likely over the medium term (*European Rates Weekly - Forward guidance: what next for markets?*).

Bund yields have typically fallen over August; the average rally in 10s is 18bp

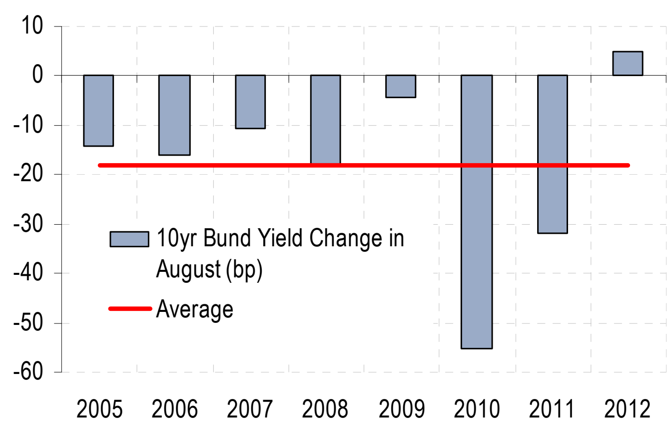
Near-term seasonal support: Looking at the near-term, we think analyzing seasonal trends provides a supportive picture for Bunds in August specifically. Lack of risk appetitive over the summer months is probably one factor behind the trend, especially over recent years when the EMU crisis was more pronounced. Figure 18 provides a simple representation of 10yr Bund yields over 2005-2012, indicating a fairly consistent rally in August (and July). Specifically, 10yr yields have rallied 17bp-18bp on average over August (Figure 19), with the only exception being last year when yields ended the monthly only slightly higher (+5bp). Similar trends are also evident when analysing Bobl yield changes over the same period.

Figure 18. 10yr Bund yields have typically fallen in August (%)



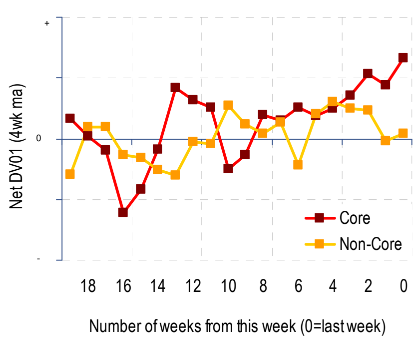
Source: Citi Research, Bloomberg

Figure 19. August yield moves in 10yr Bunds over August 2005-2012 (bp)



Source: Citi Research, Bloomberg

Figure 20. Net DV01 Flow: Core vs Non-Core



Source: Citi Research

Flow data points to appetite for core markets: Recent flows are also consistent with the theme of appetite for core markets in the current environment. Our *European Flow Monitor* indicates rising demand for core markets, with the four week average of net-DV01 now at a 20 week high (Figure 20). Conversely, net demand for the non-core is virtually flat.

Conclusion – Bund yields tend to move lower in August

No two years are exactly alike and the market setting in 2013 is certainly very different from 2012 and 2011, especially in light of evolving central bank policy. We would therefore not disregard the myriad fundamental and technical drivers that are currently at work with respect to the behaviour of Bunds. However, the consistency in the rally of Bunds over the month of August has been historically very notable. In the absence of a surge in risk appetite, the holiday period typically points to lower Bund yields, all else being equal.

Buy EUR 1m30y ATMF receiver

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On a tactical basis, we like buying EUR 1m30y ATMF receivers for three reasons:

(1) Attractive entry level

- EUR 30yr swap rates are close to the top of their one-year range.
- 30yr swap rates have previously retraced from current levels (~2.55%).

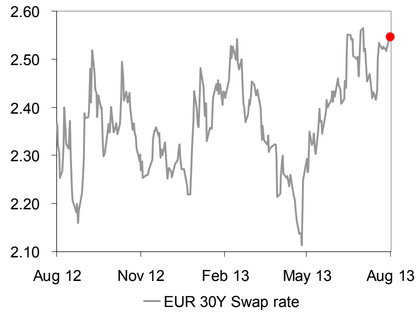
(2) Strong seasonal support

- EUR 30yr swap rates have fallen in 7 of the last 8years. 2007 was the only year where rates rose, albeit only by 1bp.
- The average fall in August during the last 8years has been 19bp. Excluding 2010, the average fall has been 11bp.

(3) Low entry cost with bpvol being historically low

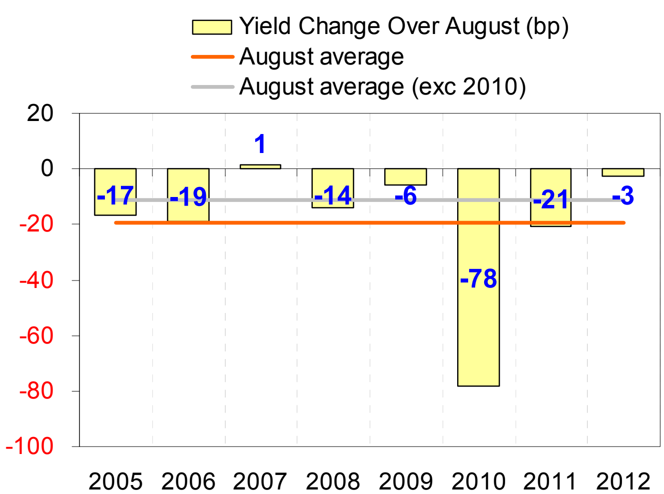
- With EUR 1m30y bpv virtually at the one-year lows and the associated cost of ATMF options being historically low, we see good value in buying ATMF receivers.
- Furthermore, in the event that 30yr swap rates break the 1yr high (technical level), the limited downside provided by buying the receiver looks relatively more attractive than receiving EUR 30yr swaps outright..

Figure 21. EUR 30yr swap rate close to one year highs. 30yr swaps have retraced from current levels on previous occasions



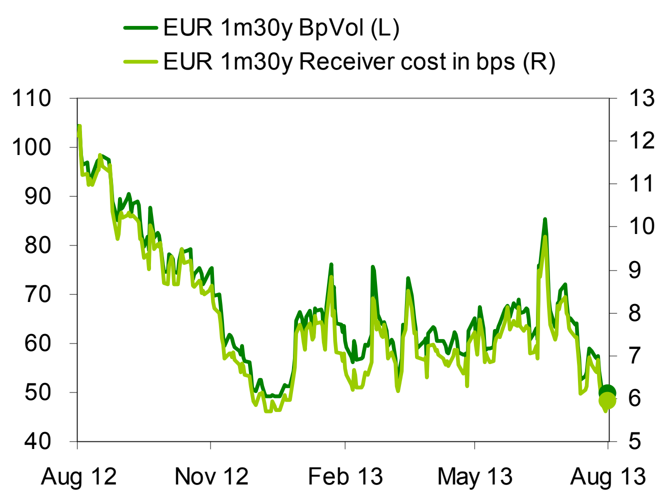
Source: Citi Research

Figure 22. EUR 30yr yields have fallen in 7 of the last 8yrs during August.



Source: Citi Research, Bloomberg

Figure 23. EUR 1m30yr ATMF bpvol is close to the 1yr low



Source: Citi Research

Trade details

- **Buying a EUR 1m30y ATMF receiver costs 6bps[3]**
- Target (PnL) = 15bp.

Stop (PnL) = 6bp premium

[3] Indicative mid-market level at the time of writing. Reference EUR 1m30y swap rate = 2.55%

SSA Summer Switches

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This section is a summary or our recent *Euro SSA Strategy - Summer Switches* publication where full details can be found.

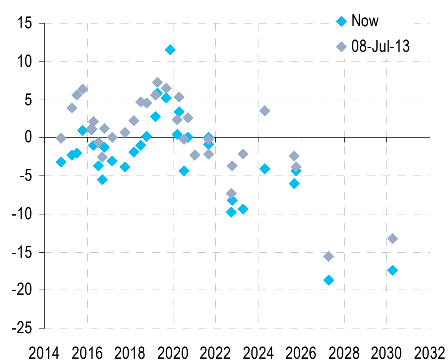
The tone in the core SSA market remains firm with spreads grinding in and yields continuing to compress. 10yr KfW at -10bp in ASW speaks for itself. It may be the holiday period when volumes are relatively low and news-flow light, but various dislocations are still likely to attract attention. With that in mind, we present several "summer switches" including relative value strategies and curve extension trades.

Dutch agency RV: Across a variety of market segments, Dutch agencies have cheapened. Both BNG and NEDWBK (rated AAA/Aaa in line with the Netherlands) have seen yield spreads widen vs supras, other core agencies and vs sovereigns such as France. For example, at current levels, we see better value in names such as BNG compared with Austrian agencies like OBND (Figure 24). Characteristics of the Dutch and Austrian market can be found in our recent *Euro SSA and Covered Bond Monthly - Dutch and Austrian markets in focus*.

Figure 24. 3yr BNG vs OBND (Yield, %)

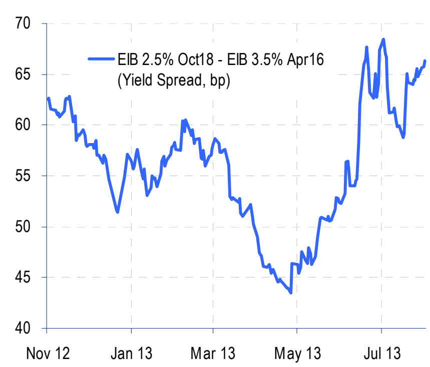
Source: Citi Research

Figure 25. EIB Spreads to France (bp)



Source: Citi Research

Figure 26. EIB 5s3s (Yield Spread, bp)



Source: Citi Research

EIB vs France: Spreads between EIB and France offer positive pick-ups of around 0bp-7bp in the 5yr-9yr sectors (Figure 25). Looking at performance over time, we also see value in switching when spreads are flat in cases where such levels are historically attractive, such as in the 8yr sector.

Buy EIB 2.5% Oct18 at 1.11%

Sell EIB 3.5% Apr16 at 0.48%

Open 63bp, Target 53bp, Stop 70bp

Extension trades in the sub-5yr sector: We provide a variety of examples where 2s4s and 3s5s look historically steep across issuers such as KfW, the EU, the EFSF and BNG in our *Euro SSA Strategy - Summer Switches*. We expect such curves to bull flatten given the constructive market tone. We provide another example here in 3s5s EIB (Figure 26) which looks historically steep at around 63bp (at the time of writing). We would expect flattening in this case as well as spreads grind in and investors extend on the curve. We target a 10bp move over the near-term.

Conclusion – hunt for switches and extend on the curve

Market outlook

Spreads continue to be supported by a bid for high quality paper and the SSA sector's credit fundamentals remains a key beneficial characteristic (recently highlighted in Moody's Credit Analysis of EIB for example). As yields compress and ASW tighten, we would focus more on relative, rather than absolute, value and hunt for extension trades on core curves. Together with a buy-on-dip approach, we believe such trading themes are likely to persist for the foreseeable future.

Covered Bond Strategy

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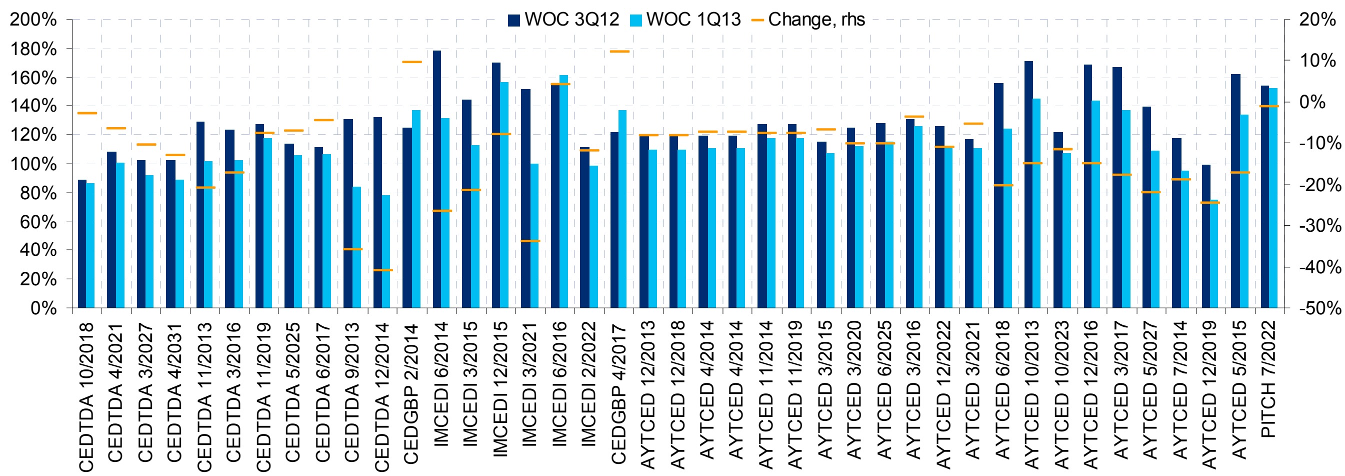
Moody's recently published latest figures to Spanish multi-cédulas. For some structures, the amount of overcollateralization decreased substantially over just half a year. However, there are also some bright spots.

Spanish Multi-cédulas: Total OC trending down

Many reasons for lower OC levels in Spain

The fact that overcollateralization of Spanish covered bonds is decreasing is not a new insight. This trend has been ongoing for over three years. Several reasons can explain this including the high reliance on secured funding in the public market and the use of self-retained covered bonds for repo operations with the European Central Bank. Furthermore, the lack of loan growth and the increasing amount of defaulting loans were key drivers for the reduction of surplus collateral. Moreover, the introduction of SAREB helped many banks to get rid of problematic assets which had partial negative effects on OC levels as well. Understandably, the Multi-cédula market could not decouple from such trends.

Figure 27. Weighted total overcollateralization per multi-structure, %



Source: Moody's, Citi Research

Figure 28. Transferred amounts of assets from Group 1 and Group 2 banks

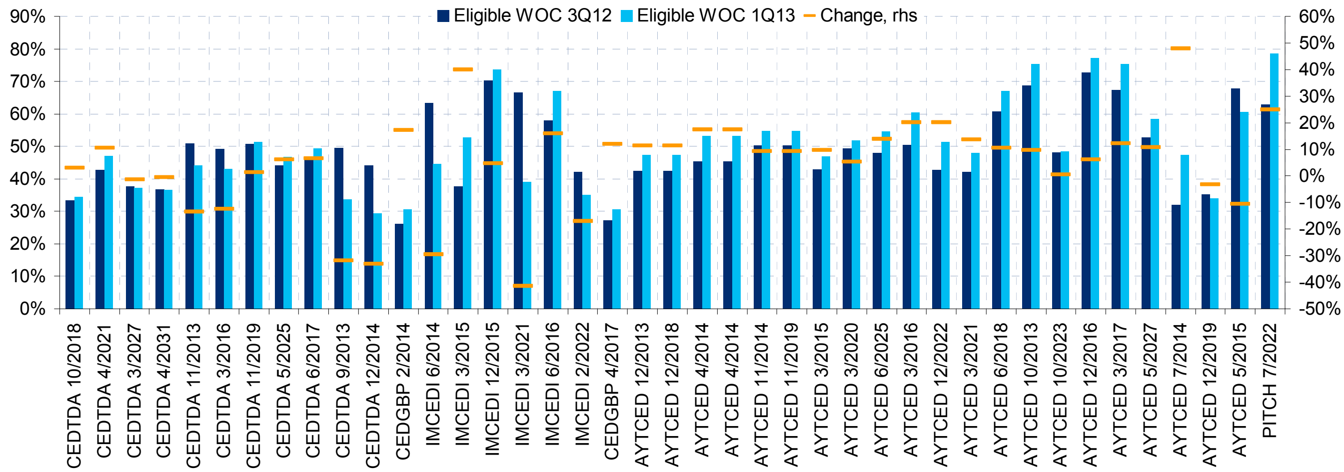
Group 1 Banks	Transferred assets (EURbn)
Bankia	22.153
Catalunya Banc	6.617
NCG Banco-Banco Gallego	5.67
Banco de Valencia	1.923
Group 2 Banks	
BMN	5.817
Ceiss	3.14
Liberbank	2.917
Caja3	2.212

Source: SAREB, Citi Research

As seen above, in all but three cases, the amount of total collateral securing the multi-cédula structures has been decreasing, in some cases by more than 30%. However, most of the multi-cédulas still display total OC levels of over 80%. Obviously, developments in the multi-cédula structures are nothing else but a picture of what is going on in the Spanish covered bond programs more broadly.

Although the total OC numbers have been decreasing without many exceptions, the amount of eligible OC has been increasing for more than half of the multi-cédulas (see below). This does not mean that tapping in the multi-structure market should be expected. Multi-cédulas can only be tapped as long as the relative proportions stay the same. This implies that all participants need to have enough collateral and be interested to join a tap (which we think is low given the funding levels). But the higher amount of eligible OC can mainly be traced back to redemptions in the Spanish covered bond market over the last months. Moreover, as it could be observed right after the transfer of problematic assets from Group 1 and 2 banks to SAREB, the banks reacted on potential undercollateralization by cancelling self-retained covered bonds in order to free up collateral. These are probably the main reasons why the amount of total OC decreased while the amount of eligible OC increased over the last six months.

Figure 29. Eligible overcollateralization per multi-structure, %



Source: Moody's, Citi Research

But eligible OC levels recovered slightly recently

Apart from this, many Spanish covered bond issuers were near minimum legal OC levels of 25% in 4Q12 (see table below). Since then, the leeway improved slightly in many cases. The undercollateralisation in 1Q13 of Banco de Valencia has already been addressed as the covered bond program has since been fully absorbed by the Caixabank covered bond program (OC in May: 28.6%).

Figure 30. Banks participating in Spanish multi-cédulas

	Total OC			Eligible OC		
	Q3 12	Q4 12	Q1 13	Q3 12	Q4 12	Q1 13
Banca March	109.2%	105.6%	102.8%	42.8%	41.7%	40.2%
Bankia	78.3%	74.2%	77.6%	26.0%	30.0%	32.4%
Banco de Valencia	147.2%	115.7%	74.3%	38.3%	26.5%	20.2%
Banco Espirito Santo	239.5%	280.4%	274.3%	27.0%	26.3%	28.3%
Banco Gallego	150.1%	72.3%	82.9%	55.2%	25.3%	33.9%
Banco Sabadell	122.1%	121.6%	126.1%	46.3%	37.0%	41.2%
Kutxabank	236.3%	220.3%	209.3%	116.6%	110.5%	112.4%
Caja3	335.6%	329.9%	218.6%	184.7%	202.4%	154.6%
CaixaBank	81.4%	87.1%	83.2%	28.8%	31.2%	27.7%
Caixa Ontinyent	240.4%	240.4%	234.9%	148.5%	145.4%	143.6%
Banco Mare Nostrum	n/d	101.6%	n/d	n/d	39.8%	n/d
Liberbank	199.6%	170.5%	134.7%	109.9%	93.8%	98.9%
Banco de Castilla-la Mancha	150.1%	146.4%	126.4%	53.4%	60.2%	50.1%
Caja Laboral	220.1%	147.6%	148.3%	104.4%	71.8%	71.3%
Cajas Rurales Unidas	136.5%	207.8%	200.2%	48.5%	85.8%	87.6%
BBK Bank Cajasur	116.7%	130.8%	155.5%	45.9%	57.6%	82.2%
Ibercaja Banco	140.6%	146.3%	152.2%	71.3%	76.7%	81.7%
Unicaja Banco	82.2%	74.9%	79.1%	37.0%	33.5%	36.9%
Banco Popular	124.8%	117.0%	139.4%	26.1%	25.1%	30.6%
bancopopular-e.com	66.4%	63.2%	n/d	53.8%	49.0%	n/d
Bankinter	95.0%	85.0%	80.5%	40.6%	39.8%	40.9%
Banco Caminos	884.7%	892.2%	887.2%	463.8%	479.8%	480.3%
Banco Santander	93.8%	93.6%	91.3%	25.0%	29.2%	29.2%
Unnim	90.9%	87.7%	92.7%	32.1%	32.3%	35.5%
Catalunya Banc	122.5%	86.3%	91.5%	47.9%	27.1%	32.3%
Banco NCG	118.2%	83.8%	100.6%	25.6%	27.9%	40.3%
Banco CEISS	125.3%	125.7%	71.0%	46.5%	45.6%	36.0%
Banco Caixa Geral	n/d	499.2%	491.4%	n/d	362.0%	356.8%
Caja Rural de Granada	225.0%	220.9%	n/d	175.2%	156.0%	n/d
Caja Rural de Navarra	619.0%	622.9%	622.9%	311.5%	325.3%	325.3%

Source: Moody's, Citi Research;

Figure 31. Largest Multi-cédula participants

Banco Mare Nostrum	11.0%	→
CaixaBank	10.7%	→
Bankia	10.1%	→
Unicaja Banco	6.4%	→
Banco Sabadell	5.5%	→
Banco CEISS	5.5%	↘
Banco NCG	5.4%	↘
Unnim	5.1%	→
Catalunya Banc	5.0%	↘
Liberbank	4.4%	↘

Source: Moody's, Citi Research

In general, the trend of cover pool volume reduction is still ongoing. However, one should note that the decrease in surplus collateral in cases of cover pools of some issuers can carry a disproportionately high weight to multi-cédulas. This is the case if it happens for banks which are highly active in the multi-cédula market. This is detailed in the table left, which shows the relative participation of the ten most active banks in the multi-cedula market, measured by the sum of all cover pools and the respective trend of OC development. As mentioned above, a further reason for lower cover pool volume is the deterioration of cover pool quality given the potential loss of cover pool eligibility for loans in delinquency/default. However, one should note that although the quality of Spanish cover pools continues to worsen, it is happening at a lower pace compared with 2012 (for more information, please see Iberoamerican Big Picture - Banking, Economic and Capital Market Trends: Summer 2013.). A positive is that the NPL ratio for the real estate declined slightly by 0.1% between 4Q12 and 1Q13 to 28.9%.

Rating environment

It's time to see some rating action again

Within the next few weeks, we expect several rating actions on Spanish multi-cédulas by Moody's. The rating agency reviews the multi-cédula market on a quarterly basis and factors in the changes to covered bond rating determinants which happened in the meantime. The last rating actions within this cycle date back to 09.05.2013. In the related statement, Moody's indicated the main drivers for further rating actions:

- Sovereign creditworthiness
- Multiple-notch downgrade of the issuers
- Downgrade to low sub-investment grade of the issuers
- Material reduction of the value of the cover pool

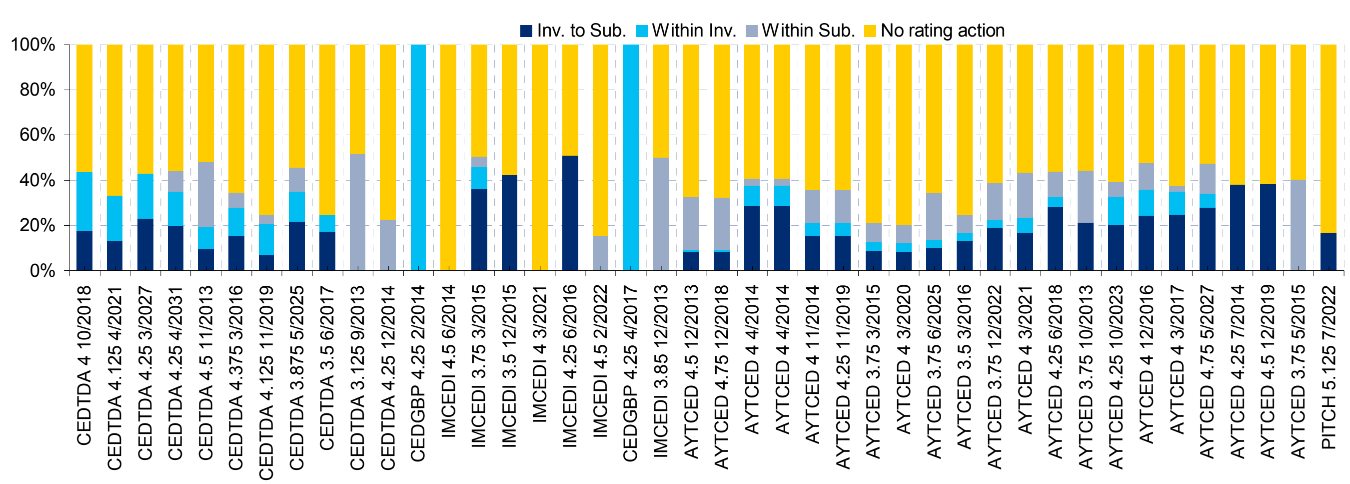
Figure 32. Rating downgrades to single-cédulas over the last weeks

		Rating action	
	Share	from	to
Bankia	10.1%	Baa1	Ba1
Unicaja Banco	6.4%	A3	Baa2
Banco NCG	5.4%	Ba1	Ba2
Catalunya Banc	5.0%	Ba1	Ba2
Liberbank	4.4%	Baa2	Ba1
Banco Popular	4.3%	A3	Baa2
Cajas Rurales Unidas	1.6%	Baa2	Ba2
bancopopular-e.com	0.4%	A3	Baa2

Source: Moody's, Citi Research

While the sovereign rating hasn't changed since then, Moody's took multi-notch downgrades on covered bonds in the investment space and from investment to sub-investment space (see left) as a consequence of lower senior ratings. We think that Moody's interprets the last point as a reduction of overcollateralization (eligible and total). So which multi-cédulas do we think are most susceptible?

Figure 33. Share of multi-cédula participants having been affected by latest rating actions relative to the outstanding volume by bond, %



Source: Moody's, Citi Research; Inv.=Investment grade; Sub.=Sub-investment grade

We expect CEDGBP covered bonds to be downgraded…

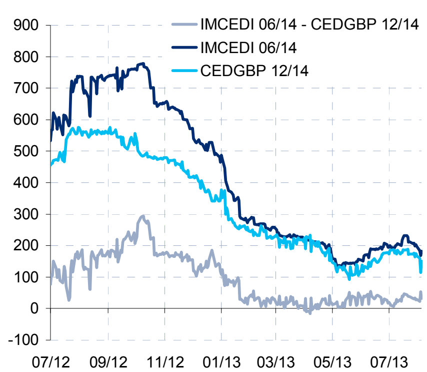
We expect downgrade pressure could emerge for both CEDGBP covered bonds by Moody's. As both multi-cédulas are exclusively backed by POPSM, which was downgraded by two notches recently, a downgrade for these multi-structures seems to be plausible. Apart from that, two IMCEDI multi-cédulas stand out because underlying covered bonds haven't been downgraded at all (IMCEDI 4.5 06/14 and IMCEDI 4 03/21) . Therefore, rating actions on these transactions should not be expected. All other transactions are likely to be affected to a certain degree (15% to 52% of underlying covered bonds having been downgraded recently). Note that the amount of rating actions on Spanish banks in July hasn't been higher on a quarterly basis since June 2012 when Spain was downgraded. At this time, the effect of it also impacted Spanish covered bonds via the lowering of the country ceiling to A3 and senior unsecured rating downgrades. The consequence was the downgrade of 53 multi-cédulas. Although the danger of a lower country ceiling is not given this time, the latest rating actions on some Spanish banks will probably not pass by quietly the multi-cédula segment. Therefore, a more severe rating action on Spain's multi-structures would not be a surprise to us.

Strategy recommendations

…which opens up some switch opportunities

Given our expectations on upcoming rating downgrades, we think that there are some switch opportunities within the multi-cédula space. Firstly, the CEDGBP 12/14 (A3/--/AA-) is currently trading 50bp richer than IMCEDI 06/14 (Baa1/--/BBB). As we except the former to be downgraded by at least one notch by Moody's, we think the latter to outperform the CED multi-cédula on an ASW basis. A further opportunity would be to switch out of CEDGBP 04/17 (A3/AA-/--) into the shorter maturing AYTCED 12/16 (A3/A-/BBB). However, it should be stated that given the fact that 40% of the underlying covered bonds of AYTCED 12/16 have been downgraded as well, a downgrade of the multi-structure cannot be ruled out. Lastly, switching bonds while not changing collateral risk is interesting in case of CEDGBP 04/17 (A3/AA-/--) and POPSM 03/17 (Baa2/--/--). Note that CEDGBP multi-cédulas are solely backed by POPSM. While the single covered bonds have already seen its downgrade two weeks ago from A3 to Baa2, the multi-structure should follow this pattern. Therefore, the underperformance that has been recorded for two weeks might increase further. After the potential downgrade, the entry points should be most attractive. If there wasn't a downgrade in case of CEDGBP we still think that the multi-cédula is trading cheap on an ASW basis vs the single-cédula of POPSM.

Figure 34. Switch opportunity on the short end, ASW-spread, bp



Source: Bloomberg, Citi Research

Figure 35. Switch opportunity in the belly of the curve, ASW-spread, bp

Source: Citi Research

Figure 36. Switching while excluding collateral risk, ASW-spread, bp

Source: Citi Research

Relative value trades

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We highlight a number of relative value opportunities in the 2-10yr sector of the French, Austrian, Italian and Spanish yield curves.

France: Fade the richness of Oct21

Sell Oct21s vs surrounding issues

- Sell 3.25% Oct21 vs 3.5% Apr20 and 4.25% Oct23 (3m carry: -0.3bp) – Figure 37

Austria: 6s9s flattener

Switch into Apr22s

- Switch from 1.95% Jun19 to 3.65% Apr22 for 62bp (3m carry: -1.3bp) – Figure 38

Italy: Fade the richness of Sep19s

Sell Sep19s vs surrounding issues

- Sell 4.25% Sep19 vs 4.5% Feb18 and 4.75% Sep21 (3m carry: 0.1bp) – Figure 39
- *Or,* Sell 4.25% Sep19 vs 4.5% Aug18 and 4.75% Sep21 (3m carry: -1.2bp) – Figure 40

Figure 37. France: 3.5% Apr20, 3.25% Oct21, 4.25% Oct23 microfly (bp)

Source: Citi Research

Figure 38. Austria: 3.65% Apr22 – 1.95% Jun19 yield spread (bp)

Source: Citi Research

Figure 39. Italy: 4.5% Feb18, 4.25% Sep19, 4.75% Sep21 microfly (bp)

Source: Citi Research

Spain: 2s4s steepener, fade the richness of Jul17s

Switch into Oct15s

- Switch from 3.8% Jan17 to 3.75% Oct15 at 50bp (3m carry: +9.5bp) - Figure 41

Sell Jul17s vs surrounding issues

- Sell 5.5% Jul17 vs 3.15% Jan16 and 4.6% Jul19 (3m carry: +0.5bp) - Figure 42

Figure 40. Italy: 4.5% Aug18, 4.25% Sep19, 4.75% Sep21 microfly (bp)

Source: Citi Research

Figure 41. Spain: 3.8% Jan17 – 3.75% Oct15 yield spread (bp)

Source: Citi Research

Figure 42. Spain: 3.15% Jan16, 5.5% Jul17, 4.6% Jul19 microfly (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 43 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 43. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	**2.00 Feb16**	-3.66	Jan11	16
	2	**3.50 Jan16**	-2.98	Nov05	23
	3	**4.00 Jul16**	-2.28	May06	23
	4	**1.50 Sep22**	-1.94	Sep12	18
	5	**0.75 Feb17**	-1.86	Jan12	16
	5	**6.25 Jan30**	0.93	Jan00	9
	4	**0.25 Apr18 (5y)**	1.16	Apr13	17
	3	**3.75 Jan19**	1.31	Nov08	24
	2	**2.50 Jul44 (30y)**	1.55	Apr12	14
Cheapest	1	**4.75 Jul34**	1.85	Jan03	20

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	**1.50 Sep22**	-1.62	Sep12	18
	2	**1.50 Feb23**	-1.48	Jan13	18
	3	**1.75 Jul22 (RX)**	-1.48	Apr12	24
	4	**6.25 Jan30**	-1.32	Jan00	9
	5	**5.50 Jan31**	-1.32	Oct00	17
	5	**2.50 Jul44 (30y)**	-0.07	Apr12	14
	4	**0.50 Apr17**	-0.07	Apr12	18
	3	**1.75 Oct15**	-0.01	Sep10	16
	2	**2.75 Apr16**	0.22	Apr11	18
Cheapest	1	**1.25 Oct16**	0.25	Sep11	16

Source: Citi Research

Figure 44 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 45 and Figure 47) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 44 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 44. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); All bonds on each curve

GERMANY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.00 Feb16	-3.66	Jan11	16
	2	3.50 Jan16	-2.98	Nov05	23
	3	4.00 Jul16	-2.28	May06	23
	4	1.50 Sep22	-1.94	Sep12	18
	5	0.75 Feb17	-1.86	Jan12	16
	5	6.25 Jan30	0.93	Jan00	9
	4	0.25 Apr18 (5y)	1.16	Apr13	17
	3	3.75 Jan19	1.31	Nov08	24
	2	2.50 Jul44 (30y)	1.55	Apr12	14
Cheapest	1	4.75 Jul34	1.85	Jan03	20

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.50 Sep22	-1.62	Sep12	18
	2	1.50 Feb23	-1.48	Jan13	18
	3	1.75 Jul22 (RX)	-1.48	Apr12	24
	4	6.25 Jan30	-1.32	Jan00	9
	5	5.50 Jan31	-1.32	Oct00	17
	5	2.50 Jul44 (30y)	-0.07	Apr12	14
	4	0.50 Apr17	-0.07	Apr12	18
	3	1.75 Oct15	-0.01	Sep10	16
	2	2.75 Apr16	0.22	Apr11	18
Cheapest	1	1.25 Oct16	0.25	Sep11	16

FRANCE

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	0.25 Nov15 (2y)	-1.93	Nov12	18
	2	2.25 Feb16	-1.81	Feb10	24
	3	2.50 Jul16	-1.54	Jul10	26
	4	5.00 Oct16	-1.38	Oct00	29
	5	3.00 Oct15	-1.12	Oct04	33
	5	4.25 Oct17	1.27	Oct06	28
	4	2.25 Oct22	1.27	Oct11	24
	3	4.50 Apr41 (30y)	1.40	Apr09	24
	2	4.00 Apr55	1.57	Apr04	15
Cheapest	1	4.25 Oct23	1.69	Oct06	33

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.75 May23 (10y)	-1.93	May12	14
	2	1.00 May18	-1.62	May12	21
	3	3.50 Apr26	-1.61	Apr10	30
	4	1.00 Jul17	-1.55	Jul11	18
	5	3.00 Apr22 (OAT)	-1.55	Feb12	33
	5	1.00 Nov18 (5y)	-1.02	Nov12	8
	4	4.50 Apr41 (30y)	-0.90	Apr09	24
	3	3.25 May45	-0.62	May12	5
	2	4.00 Apr55	0.07	Apr04	15
Cheapest	1	4.00 Apr60	0.20	Apr09	9

ITALY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 Aug23	-1.34	Feb08	25
	2	4.25 Sep19	-1.24	Mar09	25
	3	4.50 Feb20	-1.21	Feb04	23
	4	4.50 May23 (10y)	-1.02	Mar13	18
	5	4.25 Feb19	-0.99	Feb03	25
	5	3.50 Nov17	0.82	Nov12	17
	4	4.50 Mar26	0.83	Sep10	21
	3	5.25 Aug17	0.95	Feb02	24
	2	4.50 Feb18	1.18	Aug07	25
Cheapest	1	4.50 Mar24	1.47	Aug13	5

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Sep20	-1.88	Mar10	25
	2	3.75 Aug21	-1.86	Feb06	28
	3	3.75 Mar21	-1.84	Sep10	24
	4	4.75 Sep28	-1.82	Jan13	11
	5	4.25 Mar20	-1.76	Sep09	24
	5	4.75 Sep16	-1.24	Sep11	16
	4	3.75 Apr16	-1.22	Apr11	16
	3	2.25 May16	-1.17	Apr13	15
	2	4.75 Sep44 (30y)	-1.13	Mar13	7
Cheapest	1	3.00 Nov15 (BTS)	-1.13	Nov10	17

N'LANDS

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	0.00 Apr16	-2.70	Jan13	10
	2	3.50 Jul20	-2.33	Feb10	15
	3	4.00 Jul16	-2.24	Jul06	13
	4	3.75 Jan23	-1.41	Jan06	11
	5	4.00 Jul18	-1.27	Feb08	15
	5	2.50 Jan17	0.11	Jun11	15
	4	1.75 Jul23 (10y)	0.74	Mar13	11
	3	1.25 Jan19 (5y)	0.97	Jun13	6
	2	4.00 Jan37	1.18	Apr05	13
Cheapest	1	4.50 Jul17	1.49	Jul07	15

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan33	-2.10	Mar12	10
	2	3.75 Jan23	-2.00	Jan06	11
	3	2.25 Jul22	-1.92	Feb12	17
	4	3.50 Jul20	-1.81	Feb10	15
	5	4.00 Jan37	-1.79	Apr05	13
	5	1.25 Jan18	-1.49	Jul12	15
	4	3.75 Jan42 (30y)	-1.41	May10	14
	3	2.50 Jan17	-1.38	Jun11	15
	2	4.50 Jul17	-1.24	Jul07	15
Cheapest	1	1.25 Jan19 (5y)	-0.77	Jun13	6

SPAIN

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Oct16	-2.05	Sep11	21
	2	5.50 Apr21	-1.62	Jan11	24
	3	3.80 Jan17	-1.18	Oct06	21
	4	4.85 Oct20	-0.78	Jul10	18
	5	4.50 Jan18	-0.73	Nov12	18
	5	3.75 Oct15	1.13	Sep12	15
	4	5.90 Jul26	1.18	Mar11	10
	3	5.75 Jul32	1.30	Jan01	15
	2	4.00 Apr20	1.31	Jan10	20
Cheapest	1	5.40 Jan23	1.79	Jan13	17

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.40 Oct23 (10y)	-2.01	May13	11
	2	3.80 Jan17	-1.76	Oct06	21
	3	5.50 Jul17	-1.75	Mar02	20
	4	4.50 Jan18	-1.71	Nov12	18
	5	3.75 Oct18 (5y)	-1.69	Jul13	7
	5	5.75 Jul32	-1.25	Jan01	15
	4	4.20 Jan37	-1.24	Jan05	16
	3	3.75 Oct15	-1.23	Sep12	15
	2	4.70 Jul41 (30y)	-1.19	Sep09	12
Cheapest	1	4.90 Jul40	-1.17	Jun07	13

BELGIUM

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.75 Mar16	-2.22	Mar10	10
	2	3.75 Sep20	-1.17	Jan10	18
	3	4.25 Sep21	-0.99	Jan11	15
	4	3.75 Sep15	-0.66	Mar05	11
	5	4.00 Mar17	-0.61	Jan07	11
	5	3.25 Sep16	0.90	Jan06	13
	4	4.25 Mar41 (30y)	0.98	Apr10	12
	3	4.00 Mar19	1.30	Jan09	11
	2	3.00 Sep19	1.82	Apr12	9
Cheapest	1	4.00 Mar22	1.89	May06	14

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.75 Mar16	-0.45	Mar10	10
	2	3.75 Sep15	-0.43	Mar05	11
	3	4.00 Mar17	-0.12	Jan07	11
	4	2.25 Jun23 (10y)	-0.11	Jan13	11
	5	4.50 Mar26	-0.01	Jun11	8
	5	4.25 Mar41 (30y)	0.41	Apr10	12
	4	4.00 Mar32	0.44	Mar12	7
	3	5.00 Mar35	0.45	May04	18
	2	4.00 Mar19	0.50	Jan09	11
Cheapest	1	3.00 Sep19	0.50	Apr12	9

Source: Citi Research

EMU relative value table – max 12yr maturity

Figure 45. 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)

GERMANY

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	2.00 Feb16	-3.66	Jan11	16	Richest	1	1.50 Sep22	-1.62	Sep12	18
	2	3.50 Jan16	-2.98	Nov05	23		2	1.50 Feb23	-1.48	Jan13	18
	3	4.00 Jul16	-2.28	May06	23		3	1.75 Jul22 (RX)	-1.48	Apr12	24
	4	1.50 Sep22	-1.94	Sep12	18		4	2.00 Jan22	-1.28	Nov11	20
	5	0.75 Feb17	-1.86	Jan12	16		5	2.25 Sep21	-1.17	Aug11	16
	5	3.50 Jul19	0.73	May09	24		5	4.00 Jul16	-0.19	May06	23
	4	1.50 Feb23	0.84	Jan13	18		4	0.50 Apr17	-0.07	Apr12	18
	3	1.50 May23 (10y)	0.92	May13	14		3	1.75 Oct15	-0.01	Sep10	16
	2	0.25 Apr18 (5y)	1.16	Apr13	17		2	2.75 Apr16	0.22	Apr11	18
Cheapest	1	3.75 Jan19	1.31	Nov08	24	Cheapest	1	1.25 Oct16	0.25	Sep11	16

FRANCE

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	0.25 Nov15 (2y)	-1.93	Nov12	18	Richest	1	1.75 May23 (10y)	-1.93	May12	14
	2	2.25 Feb16	-1.81	Feb10	24		2	1.00 May18	-1.62	May12	21
	3	2.50 Jul16	-1.54	Jul10	26		3	1.00 Jul17	-1.55	Jul11	18
	4	5.00 Oct16	-1.38	Oct00	29		4	3.00 Apr22 (OAT)	-1.55	Feb12	33
	5	3.00 Oct15	-1.12	Oct04	33		5	2.25 Oct22	-1.49	Oct11	24
	5	2.50 Oct20	1.02	Oct09	33		5	3.50 Apr20	-1.31	Feb10	36
	4	3.50 Apr20	1.04	Feb10	36		4	3.00 Oct15	-1.11	Oct04	33
	3	4.25 Oct17	1.27	Oct06	28		3	0.25 Nov15 (2y)	-1.10	Nov12	18
	2	2.25 Oct22	1.27	Oct11	24		2	3.25 Apr16	-1.04	Apr05	29
Cheapest	1	4.25 Oct23	1.69	Oct06	33	Cheapest	1	1.00 Nov18 (5y)	-1.02	Nov12	8

ITALY

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.75 Aug23	-1.34	Feb08	25	Richest	1	4.00 Sep20	-1.88	Mar10	25
	2	4.25 Sep19	-1.24	Mar09	25		2	3.75 Aug21	-1.86	Feb06	28
	3	4.50 Feb20	-1.21	Feb04	23		3	3.75 Mar21	-1.84	Sep10	24
	4	4.50 May23 (10y)	-1.02	Mar13	18		4	4.25 Mar20	-1.76	Sep09	24
	5	4.25 Feb19	-0.99	Feb03	25		5	4.50 Feb20	-1.72	Feb04	23
	5	4.75 Sep16	0.78	Sep11	16		5	2.75 Dec15	-1.24	Dec12	16
	4	3.50 Nov17	0.82	Nov12	17		4	4.75 Sep16	-1.24	Sep11	16
	3	5.25 Aug17	0.95	Feb02	24		3	3.75 Apr16	-1.22	Apr11	16
	2	4.50 Feb18	1.18	Aug07	25		2	2.25 May16	-1.17	Apr13	15
Cheapest	1	4.50 Mar24	1.47	Aug13	5	Cheapest	1	3.00 Nov15 (BTS)	-1.13	Nov10	17

N'LANDS

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	0.00 Apr16	-2.70	Jan13	10	Richest	1	3.75 Jan23	-2.00	Jan06	11
	2	3.50 Jul20	-2.33	Feb10	15		2	2.25 Jul22	-1.92	Feb12	17
	3	4.00 Jul16	-2.24	Jul06	13		3	3.50 Jul20	-1.81	Feb10	15
	4	3.75 Jan23	-1.41	Jan06	11		4	4.00 Jul16	-1.71	Jul06	13
	5	4.00 Jul18	-1.27	Feb08	15		5	4.00 Jul18	-1.59	Feb08	15
	5	3.25 Jul21	-0.05	Mar11	16		5	0.00 Apr16	-1.49	Jan13	10
	4	2.50 Jan17	0.11	Jun11	15		4	1.25 Jan18	-1.49	Jul12	15
	3	1.75 Jul23 (10y)	0.74	Mar13	11		3	2.50 Jan17	-1.38	Jun11	15
	2	1.25 Jan19 (5y)	0.97	Jun13	6		2	4.50 Jul17	-1.24	Jul07	15
Cheapest	1	4.50 Jul17	1.49	Jul07	15	Cheapest	1	1.25 Jan19 (5y)	-0.77	Jun13	6

SPAIN

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.25 Oct16	-2.05	Sep11	21	Richest	1	4.40 Oct23 (10y)	-2.01	May13	11
	2	5.50 Apr21	-1.62	Jan11	24		2	3.80 Jan17	-1.76	Oct06	21
	3	3.80 Jan17	-1.18	Oct06	21		3	5.50 Jul17	-1.75	Mar02	20
	4	4.85 Oct20	-0.78	Jul10	18		4	4.50 Jan18	-1.71	Nov12	18
	5	4.50 Jan18	-0.73	Nov12	18		5	3.75 Oct18 (5y)	-1.69	Jul13	7
	5	4.30 Oct19	0.86	Jun09	19		5	3.30 Jul16	-1.39	Apr13	14
	4	4.60 Jul19	0.93	Feb09	18		4	3.25 Apr16	-1.38	Nov10	21
	3	3.75 Oct15	1.13	Sep12	15		3	5.40 Jan23	-1.38	Jan13	17
	2	4.00 Apr20	1.31	Jan10	20		2	3.15 Jan16	-1.34	Sep05	21
Cheapest	1	5.40 Jan23	1.79	Jan13	17	Cheapest	1	3.75 Oct15	-1.23	Sep12	15

BELGIUM

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	2.75 Mar16	-2.22	Mar10	10	Richest	1	2.75 Mar16	-0.45	Mar10	10
	2	3.75 Sep20	-1.17	Jan10	18		2	3.75 Sep15	-0.43	Mar05	11
	3	4.25 Sep21	-0.99	Jan11	15		3	4.00 Mar17	-0.12	Jan07	11
	4	3.75 Sep15	-0.66	Mar05	11		4	2.25 Jun23 (10y)	-0.11	Jan13	11
	5	4.00 Mar17	-0.61	Jan07	11		5	4.25 Sep22	0.01	Jan12	15
	5	4.25 Sep22	0.70	Jan12	15		5	3.75 Sep20	0.21	Jan10	18
	4	3.25 Sep16	0.90	Jan06	13		4	4.00 Mar18	0.21	Jan08	11
	3	4.00 Mar19	1.30	Jan09	11		3	1.25 Jun18 (5y)	0.31	Feb13	11
	2	3.00 Sep19	1.82	Apr12	9		2	4.00 Mar19	0.50	Jan09	11
Cheapest	1	4.00 Mar22	1.89	May06	14	Cheapest	1	3.00 Sep19	0.50	Apr12	9

Source: Citi Research

EMU relative value table – min 8yr maturity

Figure 46. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

GERMANY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.50 Sep22	-1.94	Sep12	18
	2	1.75 Jul22 (RX)	-1.85	Apr12	24
	3	3.25 Jul42	-1.64	Jul10	15
	4	2.00 Jan22	-0.87	Nov11	20
	5	4.25 Jul39 (UB)	-0.74	Jan07	14
	5	4.00 Jan37	0.92	Jan05	23
	4	1.50 May23 (10y)	0.92	May13	14
	3	6.25 Jan30	0.93	Jan00	9
	2	2.50 Jul44 (30y)	1.55	Apr12	14
Cheapest	1	4.75 Jul34	1.85	Jan03	20

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.50 Sep22	-1.62	Sep12	18
	2	1.50 Feb23	-1.48	Jan13	18
	3	1.75 Jul22 (RX)	-1.48	Apr12	24
	4	6.25 Jan30	-1.32	Jan00	9
	5	5.50 Jan31	-1.32	Oct00	17
	5	4.25 Jul39 (UB)	-0.54	Jan07	14
	4	4.75 Jul40	-0.43	Jul08	16
	3	4.00 Jan37	-0.42	Jan05	23
	2	3.25 Jul42	-0.40	Jul10	15
Cheapest	1	2.50 Jul44 (30y)	-0.07	Apr12	14

FRANCE

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.25 May45	-0.90	May12	5
	2	1.75 May23 (10y)	-0.63	May12	14
	3	3.50 Apr26	-0.50	Apr10	30
	4	2.75 Oct27	0.36	Oct11	16
	5	3.00 Apr22 (OAT)	0.39	Feb12	33
	5	4.75 Apr35	0.97	Apr03	21
	4	2.25 Oct22	1.27	Oct11	24
	3	4.50 Apr41 (30y)	1.40	Apr09	24
	2	4.00 Apr55	1.57	Apr04	15
Cheapest	1	4.25 Oct23	1.69	Oct06	33

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 May23 (10y)	-1.93	May12	14
	2	3.50 Apr26	-1.61	Apr10	30
	3	3.00 Apr22 (OAT)	-1.55	Feb12	33
	4	2.75 Oct27	-1.55	Oct11	16
	5	2.25 Oct22	-1.49	Oct11	24
	5	4.75 Apr35	-1.04	Apr03	21
	4	4.50 Apr41 (30y)	-0.90	Apr09	24
	3	3.25 May45	-0.62	May12	5
	2	4.00 Apr55	0.07	Apr04	15
Cheapest	1	4.00 Apr60	0.20	Apr09	9

ITALY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.75 Aug23	-1.34	Feb08	25
	2	4.50 May23 (10y)	-1.02	Mar13	18
	3	4.75 Sep28	-0.89	Jan13	11
	4	5.00 Aug39	-0.55	Aug07	19
	5	4.00 Feb37	-0.55	Aug05	25
	5	5.00 Mar25	0.41	Mar09	22
	4	5.50 Sep22	0.62	Mar12	20
	3	5.00 Aug34	0.77	Aug03	21
	2	4.50 Mar26	0.82	Sep10	21
Cheapest	1	4.50 Mar24	1.46	Aug13	5

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.75 Sep28	-1.82	Jan13	11
	2	4.75 Aug23	-1.69	Feb08	25
	3	4.75 Sep21	-1.66	Mar11	25
	4	4.50 Mar26	-1.55	Sep10	21
	5	5.00 Mar22	-1.55	Sep11	18
	5	5.75 Feb33	-1.37	Feb02	15
	4	5.00 Aug39	-1.37	Aug07	19
	3	4.50 Mar24	-1.33	Aug13	5
	2	5.00 Sep40	-1.28	Sep09	21
Cheapest	1	4.75 Sep44 (30y)	-1.13	Mar13	7

N'LANDS

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.75 Jan23	-1.41	Jan06	11
	2	2.25 Jul22	-1.23	Feb12	17
	3	2.50 Jan33	-0.55	Mar12	10
	3	3.75 Jan42 (30y)	0.27	May10	14
	2	1.75 Jul23 (10y)	0.71	Mar13	11
Cheapest	1	4.00 Jan37	1.26	Apr05	13

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan33	-2.10	Mar12	10
	2	3.75 Jan23	-2.00	Jan06	11
	3	2.25 Jul22	-1.93	Feb12	17
	3	4.00 Jan37	-1.79	Apr05	13
	2	1.75 Jul23 (10y)	-1.58	Mar13	11
Cheapest	1	3.75 Jan42 (30y)	-1.41	May10	14

SPAIN

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.40 Oct23 (10y)	-0.64	May13	11
	2	4.70 Jul41 (30y)	-0.50	Sep09	12
	3	5.85 Jan22 (FBB)	-0.19	Nov11	19
	4	4.90 Jul40	0.06	Jun07	13
	5	4.80 Jan24	0.43	Sep08	15
	5	4.65 Jul25	0.79	Feb10	14
	4	4.20 Jan37	0.84	Jan05	16
	3	5.90 Jul26	1.17	Mar11	10
	2	5.75 Jul32	1.30	Jan01	15
Cheapest	1	5.40 Jan23	1.78	Jan13	17

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.40 Oct23 (10y)	-2.01	May13	11
	2	4.80 Jan24	-1.45	Sep08	15
	3	5.85 Jan22 (FBB)	-1.42	Nov11	19
	4	4.65 Jul25	-1.39	Feb10	14
	5	5.15 Oct28	-1.39	Jul13	4
	5	5.40 Jan23	-1.38	Jan13	17
	4	5.75 Jul32	-1.25	Jan01	15
	3	4.20 Jan37	-1.24	Jan05	16
	2	4.70 Jul41 (30y)	-1.19	Sep09	12
Cheapest	1	4.90 Jul40	-1.17	Jun07	13

BELGIUM

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.25 Sep21	-1.12	Jan11	15
	2	5.00 Mar35	-0.52	May04	18
	3	4.50 Mar26	-0.10	Jun11	8
	4	2.25 Jun23 (10y)	0.06	Jan13	11
	4	4.25 Mar41 (30y)	0.08	Apr10	12
	3	4.00 Mar32	0.21	Mar12	7
	2	4.25 Sep22	0.45	Jan12	15
Cheapest	1	4.00 Mar22	1.69	May06	14

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.25 Jun23 (10y)	-0.11	Jan13	11
	2	4.50 Mar26	-0.02	Jun11	8
	3	4.25 Sep22	0.00	Jan12	15
	4	4.25 Sep21	0.05	Jan11	15
	4	4.00 Mar22	0.11	May06	14
	3	4.25 Mar41 (30y)	0.41	Apr10	12
	2	4.00 Mar32	0.43	Mar12	7
Cheapest	1	5.00 Mar35	0.44	May04	18

Source: Citi Research

UK relative value table

Figure 47. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

ALL

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Sep21	-3.99	Mar11	28
	2	3.50 Jul68	-3.68	Jun13	5
	3	4.25 Dec49	-2.63	Sep08	19
	4	4.25 Sep39	-2.57	Mar09	19
	5	4.25 Dec40	-1.88	Jun10	24
	5	2.75 Jan15 (2y)	1.30	Nov09	29
	4	4.50 Sep34	1.67	Jun09	23
	3	4.50 Mar19	1.70	Sep08	35
	2	4.25 Dec55	1.81	May05	23
Cheapest	1	3.25 Jan44 (30y)	1.96	Oct12	16

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Sep21	-0.65	Mar11	28
	2	3.75 Sep20	-0.50	Jun10	24
	3	4.75 Mar20	-0.39	Mar05	33
	4	4.75 Sep15 (WB)	-0.39	Sep03	38
	5	3.75 Sep19	-0.39	Jul09	28
	5	4.75 Dec30	1.34	Oct07	29
	4	4.50 Sep34	1.43	Jun09	23
	3	4.25 Jun32	1.44	May00	35
	2	4.25 Dec27	1.52	Sep06	29
Cheapest	1	5.00 Mar25 (G)	1.56	Sep01	33

2yr - 7yr

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 Sep15 (WB)	-1.00	Sep03	38
	2	1.00 Sep17	-1.00	Mar12	31
	3	2.00 Jan16	-0.98	Nov10	32
	4	4.75 Mar20	0.02	Mar05	33
	5	1.75 Jan17	0.09	Aug11	27
	5	4.00 Sep16	0.10	Mar06	35
	4	3.75 Sep19	0.19	Jul09	28
	3	1.25 Jul18 (5y)	0.57	Feb13	24
	2	5.00 Mar18 (WX)	0.69	May07	34
Cheapest	1	4.50 Mar19	1.69	Sep08	35

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 Mar20	-0.39	Mar05	33
	2	4.75 Sep15 (WB)	-0.39	Sep03	38
	3	3.75 Sep19	-0.39	Jul09	28
	4	1.25 Jul18 (5y)	-0.26	Feb13	24
	5	1.00 Sep17	-0.24	Mar12	31
	5	5.00 Mar18 (WX)	-0.10	May07	34
	4	4.50 Mar19	0.00	Sep08	35
	3	1.75 Jan17	0.28	Aug11	27
	2	2.00 Jan16	0.31	Nov10	32
Cheapest	1	4.00 Sep16	0.57	Mar06	35

7yr - 15yr

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Sep21	-4.03	Mar11	28
	2	4.25 Dec27	-1.32	Sep06	29
	3	3.75 Sep20	-1.18	Jun10	24
	4				
	5				
	5				
	4				
	3	2.25 Sep23	-0.43	Jun13	8
	2	5.00 Mar25 (G)	-0.10	Sep01	33
Cheapest	1	1.75 Sep22 (10y)	0.76	Jun12	28

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Sep21	-0.65	Mar11	28
	2	3.75 Sep20	-0.50	Jun10	24
	3	4.00 Mar22	-0.19	Feb09	37
	4				
	5				
	5				
	4				
	3	2.25 Sep23	0.74	Jun13	8
	2	4.25 Dec27	1.52	Sep06	29
Cheapest	1	5.00 Mar25 (G)	1.55	Sep01	33

>15yr

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.50 Jul68	-5.12	Jun13	5
	2	4.25 Dec49	-2.69	Sep08	19
	3	4.25 Sep39	-2.62	Mar09	19
	4	4.25 Dec40	-1.96	Jun10	24
	5	4.75 Dec30	-1.84	Oct07	29
	5	4.75 Dec38	0.04	Apr04	25
	4	4.25 Jun32	0.45	May00	35
	3	4.50 Sep34	1.63	Jun09	23
	2	4.25 Dec55	1.73	May05	23
Cheapest	1	3.25 Jan44 (30y)	1.87	Oct12	16

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Sep39	0.63	Mar09	19
	2	3.50 Jul68	0.67	Jun13	5
	3	4.25 Dec49	0.69	Sep08	19
	4	3.75 Jul52	0.85	Sep11	20
	5	4.25 Dec40	0.88	Jun10	24
	5	4.50 Dec42	1.16	Jun07	26
	4	4.00 Jan60	1.21	Oct09	19
	3	4.75 Dec30	1.33	Oct07	29
	2	4.50 Sep34	1.42	Jun09	23
Cheapest	1	4.25 Jun32	1.43	May00	35

Source: Citi Research

4 Week Auction Calendar: US, EMU-10, UK

Mohit Aggarwal

Nishay Patel

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

Figure 48. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Nominal Size	Issue Details	DV01	Approx. Number 10yr Futures		
		(Local Ccy, bn)		$million/bp	TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
12 Aug (Mon)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-34k		
13 Aug (Tue)	Italy	1.3	CCTeu (estimated size)				5k
13 Aug (Tue)	US	1 - 1.5	Outright TIPS Purchases: 15/1/2018 - 15/2/2043		-25k		
14 Aug (Wed)	Germany	4.0	Bund May23 reopening (issue and size confirmed)				31k
14 Aug (Wed)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-34k		
15 Aug (Thu)	UK	2.25	4.5% Treasury Gilt 2034 (issue and size confirmed)			40k	
15 Aug (Thu)	US	3 - 4	Outright Treasury Coupon Purchases: 31/5/2019 - 15/8/2020		-25k		
16 Aug (Fri)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-31k		
			Weekly $DV01 of Issuance	**0.4**			
			Total Number of Futures Contracts		**-149k**	**40k**	**36k**

Date	Country	Nominal Size	Issue Details	DV01	Approx. Number 10yr Futures		
		(Local Ccy, bn)		$million/bp	TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
19 Aug (Mon)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-34k		
20 Aug (Tue)	UK	1.6	New index-linked gilt maturing on 22 November 2019 (issue confirmed, estimated size)			14k	
20 Aug (Tue)	US	0.75 - 1	Outright Treasury Coupon Purchases: 15/11/2024 - 15/2/2031		-15k		
21 Aug (Wed)	Germany	5.0	New Schatz Sep15 (issue and size confirmed)				9k
22 Aug (Thu)	US	16.0	5-Year TIPS (re-opening)		203k		
22 Aug (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-34k		
23 Aug (Fri)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-31k		
			Weekly $DV01 of Issuance	**10.4**			
			Total Number of Futures Contracts		**89k**	**14k**	**9k**

Date	Country	Nominal Size	Issue Details	DV01	Approx. Number 10yr Futures		
		(Local Ccy, bn)		$million/bp	TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
26 Aug (Mon)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-34k		
27 Aug (Tue)	Belgium	3.0	OLO 5yr and 10yr (estimated size and tenors)				18k
27 Aug (Tue)	Italy	2.5	CTZ (estimated size)				4k
27 Aug (Tue)	Italy	1.0	BTPei (estimated size)				8k
27 Aug (Tue)	UK	1.5	Mini tender (estimated date and size)			3k	
27 Aug (Tue)	US	34.0	2-Year		88k		
27 Aug (Tue)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 31/8/2017 - 15/5/2018		-24k		
28 Aug (Wed)	US	35.0	5-Year		217k		
28 Aug (Wed)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-31k		
29 Aug (Thu)	Italy	5.5	BTP 5yr and 10yr (estimated tenor and size)				33k
29 Aug (Thu)	US	29.0	7-Year		248k		
29 Aug (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases : 15/2/2036 - 15/8/2043		-34k		
			Weekly $DV01 of Issuance	**43.5**			
			Total Number of Futures Contracts		**430k**	**3k**	**63k**

Date	Country	Nominal Size	Issue Details	DV01	Approx. Number 10yr Futures		
		(Local Ccy, bn)		$million/bp	TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
03 Sep (Tue)	Austria	1.3	RAGB 5yr and 10yr (estimated size and tenors)				8k
03 Sep (Tue)	UK	1.5	01/8% Index-linked Treasury Gilt 2024 (issue confirmed, estimated size)			16k	
04 Sep (Wed)	Germany	5.0	New Bobl-167 Oct18 (issue and size confirmed)				21k
05 Sep (Thu)	Spain	3.5	Bono 2yr and 5yr (estimated tenors and size)				11k
05 Sep (Thu)	France	7.5	OAT 5yr, 10yr and 30yr (estimated tenors and size)				70k
			Weekly $DV01 of Issuance	**19.6**			
			Total Number of Futures Contracts		**0k**	**16k**	**110k**

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on August 30, 2013. Therefore we have only provided details of Fed buybacks upto 30 August.

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3 mths)

Figure 49. EMU-10 Redemptions over the next three months (€bn)

	Redemptions = €142bn										
Redemptions	DEU 33	FRA 32	NLD 0	ITA 28	ESP 16	BEL 14	AUT 13	FIN 0	PRT 6	GRC 0	IRL 0
(Fri) 13-Sep-13	17.0										
(Mon) 23-Sep-13									5.8		
(Wed) 25-Sep-13		10.7									
(Sat) 28-Sep-13						13.5					
(Mon) 30-Sep-13				10.6							
(Fri) 11-Oct-13	16.0										
(Sun) 20-Oct-13							13.1				
(Fri) 25-Oct-13		21.1									
(Thu) 31-Oct-13					16.2						
(Fri) 01-Nov-13				17.8							

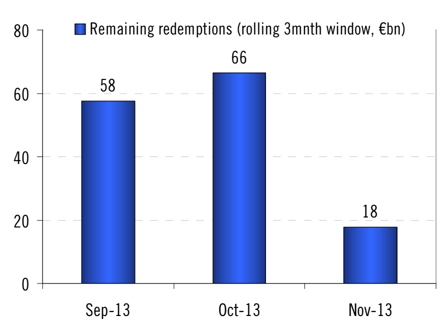
Source: DMOs, Bloomberg, Citi Research

Figure 50. EMU-10 Coupon Payments over the next three months (€bn)

	Coupons = €50bn										
Coupons	DEU 3	FRA 17	NLD 0	ITA 15	ESP 5	BEL 5	AUT 2	FIN 1	PRT 2	GRC 0	IRL 2
(Sun) 18-Aug-13											0.001
(Sun) 01-Sep-13				6.5							
(Wed) 04-Sep-13	0.99										
(Fri) 13-Sep-13	0.1										
(Sun) 15-Sep-13				1.9			1.3	0.5			
(Fri) 20-Sep-13	0.0										0.02
(Mon) 23-Sep-13									0.3		
(Wed) 25-Sep-13		0.3									
(Sat) 28-Sep-13						4.6					
(Tue) 01-Oct-13				0.2							
(Wed) 09-Oct-13	0.3										
(Thu) 10-Oct-13	0.4										
(Fri) 11-Oct-13	0.6										
(Sun) 13-Oct-13	0.1										
(Mon) 14-Oct-13	0.2										
(Tue) 15-Oct-13				0.8					1.0		
(Wed) 16-Oct-13									0.4		
(Fri) 18-Oct-13											1.6
(Sun) 20-Oct-13							1.0				
(Fri) 25-Oct-13		16.2							0.4		
(Thu) 31-Oct-13					5.1						
(Fri) 01-Nov-13				5.5							

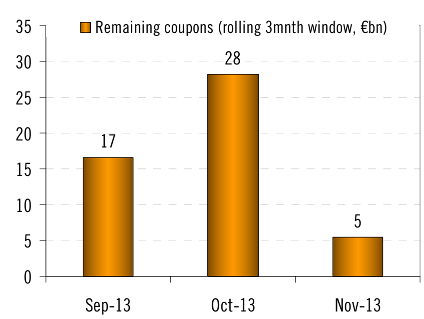
Source: DMOs, Bloomberg, Citi Research

Figure 51. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 52. EMU-10 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Inflation Forecasts, Carry & Weekly Changes

Figure 53. 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
Jun 13	117.07	0.1	1.5	125.78	0.2	0.8	249.70	-0.1	3.3	233.45	0.2	1.7
Jul 13	116.22	-0.7	1.4	125.43	-0.3	1.0	249.40	-0.1	3.0	233.60	0.1	2.0
Aug 13	116.24	0.0	1.0	125.91	0.4	0.7	250.40	0.4	3.0	234.00	0.2	1.6
Sep 13	116.54	0.3	0.5	125.61	-0.2	0.7	251.40	0.4	2.9	234.20	0.1	1.2
Oct 13	116.96	0.4	0.6	125.90	0.2	0.9	252.29	0.4	2.7	234.10	-0.0	1.2
Nov 13	117.04	0.1	0.9	125.80	-0.1	1.0	252.49	0.1	2.8	233.90	-0.1	1.6

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 54. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Sep	1 Oct	1 Nov	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Sep	1 Oct	1 Nov	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.10*	*0.10*	*0.10*									
TIPS 1/15	-1.23	4	4	6	3	8	*US-2.250-01/31/15*	144	-7	-6	5	1	6	2	-4
TIPS 4/15	-1.14	2	2	5	3	8	*US-2.500-04/30/15*	140	-5	-3	4	1	5	2	-5
TIPS 7/15	-1.43	1	1	3	0	3	*US-4.250-08/15/15*	176	-4	-3	3	-2	0	7	-4
TIPS 1/16	-1.16	-4	-4	3	2	5	*US-2.625-02/29/16*	161	-1	-0	3	0	1	18	-5
TIPS 4/16	-1.07	-7	-7	3	2	5	*US-2.000-04/30/16*	159	2	3	2	0	1	17	-8
TIPS 7/16	-1.26	-16	-16	3	1	3	*US-4.875-08/15/16*	188	10	11	2	-2	-1	13	-15
TIPS 1/17	-0.99	-4	-4	3	2	5	*US-3.125-01/31/17*	179	-5	-4	1	-1	0	18	-0
TIPS 4/17	-0.86	-10	-10	3	2	5	*US-0.875-04/30/17*	177	0	1	1	-1	0	17	-5
TIPS 7/17	-0.97	-20	-20	3	2	4	*US-4.750-08/15/17*	197	9	9	1	-2	-2	15	-13
TIPS 1/18	-0.73	-4	-4	3	3	5	*US-3.500-02/15/18*	192	-10	-10	1	-1	-1	19	5
TIPS 4/18	-0.63	-10	-10	2	3	5	*US-0.625-04/30/18*	192	-4	-4	1	-1	-1	17	-0
TIPS 7/18	-0.71	-20	-20	2	2	5	*US-4.000-08/15/18*	203	5	5	1	-2	-2	22	-9
TIPS 1/19	-0.47	-13	-13	2	3	5	*US-2.750-02/15/19*	199	-3	-3	1	-1	-1	24	-1
TIPS 7/19	-0.47	-9	-9	2	3	5	*US-3.625-08/15/19*	213	-7	-7	0	-2	-2	21	3
TIPS 1/20	-0.23	-14	-14	2	3	5	*US-3.625-02/15/20*	201	-2	-2	0	-1	-1	31	-1
TIPS 7/20	-0.21	-15	-15	2	3	5	*US-2.625-08/15/20*	216	-2	-2	0	-1	-2	25	-1
TIPS 1/21	-0.02	-15	-15	2	3	5	*US-3.625-02/15/21*	208	-3	-3	0	-1	-2	32	-0
TIPS 7/21	0.01	-14	-14	2	3	5	*US-2.125-08/15/21*	222	-3	-3	0	-1	-2	25	0
TIPS 1/22	0.17	-14	-14	2	3	5	*US-2.000-02/15/22*	217	-2	-2	0	-1	-2	29	-1
TIPS 7/22	0.19	-22	-22	2	3	5	*US-1.625-08/15/22*	226	6	6	0	-1	-2	26	-9
TIPS 1/23	0.32	-14	-14	2	3	5	*US-2.000-02/15/23*	221	-1	-1	0	-1	-2	30	-2
TIPS 7/23	0.34	-	-	2	3	5	*US-2.500-08/15/23*	225	-	-	1	-1	-1	32	-
TIPS 1/25	0.50	-18	-18	2	3	5	*US-7.625-02/15/25*	220	4	4	0	-2	-2	41	-5
TIPS 1/26	0.59	-15	-15	2	3	5	*US-6.000-02/15/26*	229	1	1	0	-2	-2	36	-2
TIPS 1/27	0.67	-19	-19	2	3	5	*US-6.625-02/15/27*	230	5	5	0	-2	-2	38	-5
TIPS 1/28	0.76	-17	-17	2	3	4	*US-6.125-11/15/27*	230	3	3	0	-2	-2	41	-3
TIPS 4/28	0.72	-18	-18	2	3	5	*US-5.500-08/15/28*	241	3	3	0	-1	-2	28	-4
TIPS 1/29	0.79	-18	-18	2	2	4	*US-5.250-02/15/29*	238	3	3	0	-2	-2	35	-3
TIPS 4/29	0.78	-18	-18	2	3	4	*US-5.250-02/15/29*	240	4	4	0	-1	-2	33	-3
TIPS 4/32	0.91	-18	-18	1	2	4	*US-5.375-02/15/31*	236	4	3	0	-1	-2	44	-3
TIPS 2/40	1.15	-13	-13	1	2	3	*US-4.625-02/15/40*	238	0	0	0	-1	-2	48	1
TIPS 2/41	1.17	-15	-15	1	2	3	*US-4.750-02/15/41*	237	3	3	0	-1	-2	48	-2
TIPS 2/42	1.22	-15	-15	1	2	3	*US-3.125-02/15/42*	241	3	3	0	-1	-2	44	-1
TIPS 2/43	1.24	-15	-15	1	1	2	*US-3.125-02/15/43*	241	4	4	0	-1	-2	45	-2

Source: Citi Research, Bloomberg

Figure 55. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Sep	1 Oct	1 Nov	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Sep	1 Oct	1 Nov	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.11*	*0.11*	*0.11*									
BTPei14	0.34	-8	-8	7	-67	-69	*BTP 8/14*	69	-1	-1	2	-83	-97	37	-3
OATei15	-0.95	7	7	0	-45	-51	*FFRG 4/15*	121	-4	-4	0	-46	-53	15	8
BUNDei16	-0.62	-1	-1	1	-31	-33	*BUND 1/16*	80	1	2	1	-31	-34	16	-2
BTANi16	-0.77	1	1	2	-10	1	*FFRG 4/16*	124	1	2	1	-12	-3	31	5
BTPei16	1.46	-16	-16	5	-17	-13	*BTP 8/16*	79	3	3	1	-28	-31	52	-2
OATi17	-0.59	-3	-3	2	-7	1	*FFRG 4/17*	134	5	5	1	-10	-3	27	1
BTPei17	1.77	-18	-18	4	-12	-8	*BTP 8/17*	105	2	2	0	-22	-25	36	-0
BOBLei18	-0.51	-5	-5	1	-17	-18	*BUND 1/18*	107	6	6	0	-18	-20	21	-4
OATei18	-0.31	-5	-5	1	-15	-16	*FFRG 4/18*	129	7	7	0	-18	-20	26	-2
BTPei18	2.04	-23	-23	3	-9	-5	*BTP 8/18*	105	7	7	0	-18	-20	44	-6
OATi19	-0.23	-6	-6	1	-4	2	*FFRG 4/19*	147	9	9	0	-7	-3	32	-4
BTPei19	2.12	-18	-18	3	-7	-4	*BTP 9/19*	123	2	2	38	-16	-18	33	-1
BUNDei20	-0.31	-3	-3	1	-12	-12	*BUND 1/20*	128	5	5	0	-14	-15	20	-4
OATei20	0.00	-4	-4	1	-11	-11	*FFRG 4/20*	151	6	6	0	-14	-16	18	-3
OATI21	0.19	-5	-5	1	-2	3	*FFRG 4/21*	156	6	6	0	-5	-3	38	-3
BTPei21	2.58	-18	-18	3	-5	-2	*BTP 9/21*	124	2	2	33	-12	-14	48	-1
OATei22	0.33	-5	-5	1	-8	-7	*FFRG 4/21*	142	6	6	0	-11	-13	40	-4
BUNDei23	0.02	-4	-4	1	-7	-7	*BUND 1/22*	138	5	5	0	-9	-11	36	-5
OATi23	0.44	-3	-3	1	-1	3	*FFRG 10/23*	188	4	4	0	-5	-3	19	-2
BTPei23	2.86	-17	-17	2	-4	-1	*BTP 8/23*	127	1	1	0	-10	-12	58	-1
OATei24	0.59	-3	-3	1	-6	-5	*FFRG 10/23*	173	4	4	-1	-9	-11	21	-2
BTPei26	3.02	-17	-17	2	-3	0	*BTP 3/26*	136	4	4	23	-9	-10	64	-4
OATei27	0.75	-2	-2	1	-5	-4	*FFRG 4/26*	187	3	3	0	-8	-10	18	-1
OATi29	0.70	-0	-0	1	-1	3	*FFRG 4/29*	213	1	1	0	-4	-3	14	1
OATei32	0.91	-1	-1	1	-4	-3	*FFRG 10/32*	208	1	1	0	-7	-8	5	0
BTPei35	3.03	-13	-13	1	-2	0	*BTP 8/34*	181	7	7	-1	-7	-8	33	-7
OATei40	1.02	-1	-1	1	-3	-2	*FFRG 4/41*	220	1	1	0	-5	-6	1	0
BTPei41	3.30	-15	-15	1	-1	0	*BTP 9/40*	166	9	8	16	-6	-7	55	-8

Source: Citi Research

Figure 56. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Sep	1 Oct	1 Nov	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Sep	1 Oct	1 Nov	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.43*	*0.42*	*0.42*									
UKTi Jul16	-1.98	11	11	1	3	5	*UKT 9/16*	266	-3	-3	1	1	2	33	-4
UKTi Nov17	-1.62	16	17	-5	-12	-7	*UKT 3/18*	285	-2	-4	-6	-15	-12	25	5
UKTi Apr20	-1.01	13	13	2	4	6	*UKT 3/20*	283	-2	-2	0	0	0	35	2
UKTi Nov22	-0.57	8	9	-2	-4	0	*UKT 3/22*	287	-1	-2	-3	-8	-7	48	5
UKTi Mar24	-0.28	8	8	-1	-3	0	*UKT 3/25*	303	1	0	-3	-7	-6	32	2
UKTi Jul24	-0.36	8	8	1	3	5	*UKT 3/25*	311	0	0	0	-1	-1	32	3
UKTi Nov27	-0.10	7	7	-1	-2	1	*UKT 12/27*	315	1	0	-2	-6	-5	39	2
UKTi Mar29	0.01	6	6	-1	-2	1	*UKT 12/30*	321	3	2	-2	-5	-5	34	-0
UKTi Jul30	-0.06	6	5	1	3	4	*UKT 6/32*	336	2	2	0	-1	-1	26	0
UKTi Nov32	0.03	4	4	-1	-2	1	*UKT 6/32*	327	4	3	-2	-5	-4	38	-2
UKTi Mar34	0.09	2	2	-1	-1	1	*UKT 9/34*	330	4	4	-2	-4	-4	35	-3
UKTi Jan35	0.05	1	1	1	2	3	*UKT 3/36*	337	4	4	0	-1	-1	30	-4
UKTi Nov37	0.07	0	0	-1	-1	1	*UKT 12/38*	338	4	4	-2	-4	-4	33	-2
UKTi Mar40	0.10	-0	-0	0	-1	0	*UKT 9/39*	338	4	3	-2	-4	-4	33	-2
UKTi Nov42	0.07	-1	-1	0	-1	0	*UKT 12/42*	345	5	4	-2	-4	-4	30	-3
UKTi Mar44	0.12	-1	-1	0	-1	0	*UKT 1/44*	347	4	4	-1	-3	-3	27	-10
UKTi Nov47	0.08	-2	-2	0	-1	0	*UKT 12/46*	347	4	4	-1	-3	-4	28	-3
UKTi Mar50	0.08	-3	-2	0	-1	0	*UKT 12/49*	346	4	4	-1	-3	-3	27	-3
UKTi Mar52	0.10	-3	-3	0	-1	0	*UKT 7/52*	346	4	4	-1	-3	-3	27	-3
UKTi Nov55	0.04	-3	-3	0	-1	0	*UKT 12/55*	349	4	4	-1	-3	-3	26	-3
UKTi Mar62	0.03	-3	-3	0	-1	0	*UKT 1/60*	350	4	4	-1	-3	-3	25	-3

Source: 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 57. 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	12 Aug (Mon)	Italy	12 month (14 August 2014; issue confirmed, estimated size)	7
			Total Size in Week 1	**7.0**
Week 2	20 Aug (Tue)	Spain	6month (21 February 2014), 12month (new issuance) - tenors confirmed, estimated size	5
			Total Size in Week 2	**5.0**
Week 3	27 Aug (Tue)	Spain	3month (22 November 2013), 9month (16 May 2014) - tenors confirmed, estimated size	3.6
	28 Aug (Wed)	Italy	6 month (28 February 2014; issue confirmed, estimated size)	9
			Total Size in Week 3	**12.6**

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 58. 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	0.9	1.2	2.6	3.3		8	6	2
Jun	1.1	1.1	2.6	4.0		9	10	-1
Jul	0.9	1.9	3.0	2.9		9	5	3
Aug	1.0	1.5	2.6	3.5		9	11	-3
Sep	1.0	1.3	2.6	4.0		9	8	1
Oct	1.0	1.3	2.6	4.0		9	8	1
Nov	1.0	1.3	2.6	4.0		9	11	-2
Dec	1.0	1.3	2.6	4.0		9	9	
Total	**12.9**	**19.0**	**29.6**	**45.2**	**2.5**	**109**	**103**	**7**

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		9.2		7.0	3.0	19	16	4
Jun		9.2		7.0		16	16	
Jul		9.8		7.0	2.5	19	11	9
Aug		9.0		7.0		16	18	-2
Sep	3.0	9.0		7.0		19	20	-1
Oct		9.0		7.0		16	17	-1
Nov		9.0		7.5		17	16	1
Dec		10.0		7.5		18	25	-8
Total	**6.0**	**112.6**		**93.1**	**5.5**	**217**	**216**	**1**

*3month bills w ill 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

Summary of Recent Publications

Date	Publication	Topic	Page	Region
07-Aug-13	NOTE	Euro SSA Strategy: Summer Switches	-	EUR
05-Aug-13	NOTE	ECB: Higher Excess, Fixings Normalize	-	EUR
05-Aug-13	NOTE	European Flow Monitor: Demand for the Core Extends Further, Led by 2-5yrs	-	EUR
01-Aug-13	European Weekly	A balancing act from the ECB	8	EUR
		UK Rates: Scenarios for 'guidance day'	10	UK
		With QE less likely, who will buy all the gilts?	12	UK
		SSA Strategy: The sterling SSA market	20	UK
		Covered Bond Strategy	21	EUR
		EMU-10: August Supply Outlook	23	EUR
01-Aug-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
30-Jul-13	NOTE	European Rates Strategy: The Month-end RV Pack	-	EUR
30-Jul-13	NOTE	UK Rates Strategy: With QE less likely, who will buy all the gilts?	-	UK
29-Jul-13	NOTE	Flow Monitor: Demand for core markets has held up, unlike for the non-core	-	EUR
25-Jul-13	European Weekly	OAT: The long-end after the downgrade	8	EUR
		Belgium – overview and long OLOs vs OATs	10	EUR
		EUR/USD decoupling with positive carry	15	Global
		Where is the carry in euro swaps?	16	EUR
		Euro inflation: OATei24 look relatively rich	21	EUR
		SSA Strategy	23	EUR
		Covered Bond Strategy	25	EUR
		End-July EGBI Projection	28	EUR
		EMU Inflation Linked Index Projection	29	EUR
25-Jul-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
24-Jul-13	NOTE	Rates Strategy: Belgium – bond market overview and strategy recommendations	-	EUR
23-Jul-13	NOTE	Euro Inflation-Linked Index Projection	-	EUR
23-Jul-13	NOTE	European Month-end Index Projections	-	EUR
23-Jul-13	NOTE	Euro Rates Strategy: Where is the carry in euro swaps?	-	EUR
22-Jul-13	NOTE	European Flow Monitor: Demand for core markets has extended further	-	EUR
22-Jul-13	NOTE	European Interest Rate Strategy: OAT: The Long-End after the Downgrade	-	EUR

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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