

## European Rates Weekly

### Overshoots rather than green shoots

- **Outlook for swap spreads:** Although there is perhaps evidence of some improvement in EMU data, lending conditions remain relatively tight and growth is still tepid. The recent deterioration in Eurozone credit conditions has not been accurately reflected by Bund spreads, in our view.
- **UK rates – too fast too furious:** It has been a volatile week for the sterling market, to say the least. Two themes have dominated: a sharp cheapening in the front-end and aggressive flattening in the long-end. Both of these moves look like overshoots to us. In particular, we like receiving the belly of the 2s5s10s GBP fly.
- **Tactical long in 10yr euro real yields:** We doubt this is the start of a sustained bear market for euro rates. The sell-off in real yields has been particularly severe and looks overdone to us. Euro linkers stand out as cheap on most metrics. We like buying Bundei23 real yields outright (or buying break-evens vs inflation swaps).
- **SSA markets - Deutschland bonds:** Last year, Germany's government announced plans to issue joint securities with the German Länder in 2013. The introduction of such bonds should enrich investor choice for those wanting to gain exposure to diversified German credit quality. We detail Länder relative value in this context.
- **Covered bond strategy – Sareb update:** Spain's "bad bank" Sareb will change its stance on the sale procedure of its assets. The consequence might be further property price deterioration, leading to a faster bottoming out of the property market on the one hand, but a rise of subnormal loans on the other hand.
- **Bund technical analysis:** Bund yields have been moving in an ascending channel for over a month now. From a technical standpoint, we would recommend trading the channel range until a downside breakout and then look to enter longs.
- **EMU relative value trades:** We highlight a number of relative value opportunities on German, Spanish and Italian yield curves. Specifically, Bono Oct15s on a microfly and a BTP Feb15 switch offer attractive 3 month carry.
- **Supply:** Within Europe, next week's bond supply of around €20bn comes from Finland (up to €1.5bn), Germany (€5bn), France (around €10bn) and Spain (around €4bn). We expect the US Treasury to issue \$7bn of 30yr TIPS next week. The UK DMO will issue £4.75bn of the conventional gilt 1.75% 2018.

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## Contents

<b>Duration Scorecard</b>	<b>5</b>
<b>Tradesheet</b>	<b>6</b>
<b>Outlook for Swap Spreads</b>	<b>8</b>
<b>UK Rates: Too fast, too furious</b>	<b>9</b>
<b>Euro inflation: tactical long in Bundei23</b>	<b>12</b>
<b>SSA Strategy</b>	<b>15</b>
<b>Covered Bond Strategy</b>	<b>17</b>
<b>Bund Technical Analysis</b>	<b>19</b>
<b>EMU relative value trades</b>	<b>20</b>
<b>Relative value tables</b>	<b>21</b>
<b>EMU relative value table – all maturities</b>	<b>22</b>
<b>EMU relative value table – max 12yr maturity</b>	<b>23</b>
<b>EMU relative value table – min 8yr maturity</b>	<b>24</b>
<b>UK relative value table</b>	<b>25</b>
<b>Supply Analysis and Forecasts</b>	<b>26</b>
<b>EUR: Coupons &amp; Redemptions (next 3 mths)</b>	<b>27</b>
<b>ESP and ITA Bill Issuance Projections</b>	<b>28</b>
<b>Inflation Forecasts, Carry &amp; Weekly Changes</b>	<b>29</b>
<b>Summary of Recent Publications</b>	<b>31</b>
<b>Appendix A-1</b>	<b>33</b>

Figure 1. Strategy Summary Table

Europe	View	Strategies
<b>Direction</b>	Our 1wk duration scorecard is very mild long on macro factors.	Long over the near term
<b>Money Market</b>	Weak GDP data and the prospect of ECB policy being accommodative for an extended period should be supportive for the short-end over the medium-term (we continue to expect a cut to the refi-rate by 25bp in 4Q13).	Waiting to re-enter front-end carry trades
<b>Yield Curve</b>	We continue to hold our EUR 30s50s recommendation. The long-end of the UK curve has flattened by more than is justified by the move in front-end rates. Look to enter 20s30s or 20s50s steepeners ahead of supply. We also like receiving the belly of the 2s5s10s GBP swap fly following recent moves.	Receive the belly of the 2s5s10s GBP swap fly. Gilt 20s30s or 20s50s steepeners. Hold EUR 10s30s flatteners vs USD EUR 30s50s flatteners
<b>Cross-market</b>	There will be a sizeable amount of long-end gilt issuance in the next 4 weeks. The absence of coupons and redemptions results in a strongly non-supportive cash flow profile and we expect this to put widening pressure on 10yr gilts vs Bunds. We continue to expect sustained widening in the UST-Bund spread given economic growth projections.	Underweight gilts vs Bunds Prefer Bunds to UST over the medium term
<b>EMU Spreads</b>	EMU spreads are creeping wider but market moves are being driven by positioning rather than a fundamental reassessment in our view. We continue to expect Bono-Bund spreads to trade sideways over the medium term.	Buy 2yr Spain vs Italy
<b>Swap Spreads</b>	We believe Bunds are too tight in ASW given the deterioration in euro area credit deterioration. Seasonal support in June and July should help 10yr Bund spread wideners. In the UK, long-end swap spreads look good value, especially in the 20yr sector.	Long RXU3 ASW spreads Buy gilt 2032 swap spread. Buy Schatz vs swaps
<b>Inflation</b>	Euro real yields have risen sharply in the sell-off but the move looks overdone to us. Euro linkers look cheap on all the usual metrics and we like longs in 10yr real yields on a tactical basis. We also like buying cash break-evens vs inflation swaps. In the UK, we favour 5s10s or 5s30s break-even flatteners.	Buy Bundei23 real yield IL gilt 5s10s or 5s30s break-even flatteners Sell 5yr, 5yr euro HICPXT as a long-term fundamental trade
<b>Volatility</b>	Look to fade the recent spike in gamma. We expect vol to remain low following the prospect of further ECB rate cuts. Long-end payers such as EUR 15y5y (or EUR 10y30y or 15y10y) offer favourable rate and vol roll for investors with a bearish view.	Sell gamma on spikes If bearish, buy payers in EUR 15y5y for favourable vol and rate roll Re-enter long EUR 3y2y receivers if 5yr swap rates go above 1.05%
<b>SSA</b>	Agency spreads are softer, but remain at historically rich levels. We would continue to buy on dips and trade the range in spreads to core sovereigns.	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*

# Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 14<sup>th</sup>-20<sup>th</sup> June

## Bund Directional Scorecard (1wk horizon)

<b>RECOMMENDATION</b>	<b>Long</b>	RXU3 (EOD Thurs) = 143.28
<b>Conviction level</b>	<b>4%</b>	CTD yield = 1.15%    10day del vol = 3.88%

### SIGNAL STRENGTH (+/-2)

<b>MACRO</b>	<b>-0.1</b>	<b>Weight = 30%</b>
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ECB	0	ECB rate cut still likely later in 2013	7.5%
Fed and BOJ	-1	FOMC meeting next week	10.0%
Inflation	0	May HICP print likely to confirm flash estimate	2.5%
Growth related data	1	June PMI likely to indicate contraction	5.0%
Citi surprise	-1	Gradual improvement in Citi Economic Surprise Index	2.5%
Middle East / Oil	0	Brent remains range-bound around \$103	2.5%

<b>EURO MARKET FACTORS</b>	<b>0.2</b>	<b>Weight = 38%</b>
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Supply	-2	Heavy core supply. Very light cash flows	7.5%
Risk appetite	1	Market shaken by talk of Fed tapering	7.5%
Positioning	2	Significant carry trade unwinds; positioning now more balanced	5.0%
Equity	1	Equities selling off	7.5%
Sovereign credit	1	Peripheral spreads creeping wider	7.5%
FX	-1	EUR effective exchange rate near 4 month high	2.5%

<b>EVENT RISK</b>	<b>0.0</b>	<b>Weight = 8%</b>
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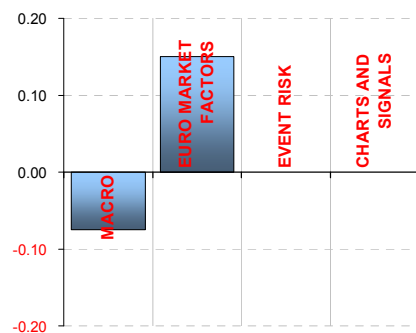
Politics	0	German Constitutional Court debating OMT	2.5%
3yr LTRO	0	Excess liquidity remains high and re-payments to slow	2.5%
Stability mechanisms	0	Unlikely to see ESM activation in the short-term	2.5%

<b>CHARTS AND SIGNALS</b>	<b>0.0</b>	<b>Weight = 25%</b>
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Technicals	1	Near term bullish technical signals	7.5%
T-Note	-1	Treasury yields remain under pressure	7.5%
CFTC	1	Longs increased their positions last week	5.0%
ARTS	-1	Mild short	5.0%

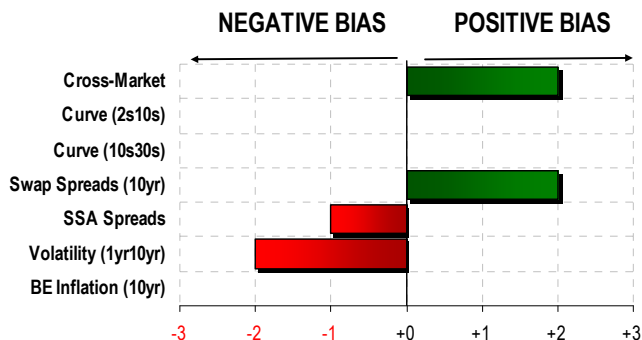
Source: Citi Research

Figure 3. Contribution to Bund Signals



Source: Citi Research

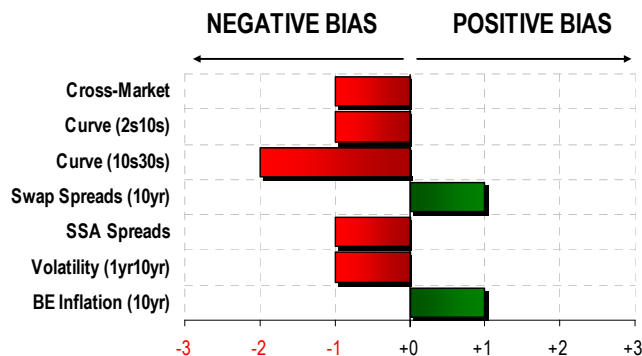
Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

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

# Tradesheet

## New Trades

Please see [Bunds - Buy RXU3 ASW @-31](#) for the details

Please see [The Morning Call](#) for the details

Please see [The Morning Call](#) for the details

### 1. Buy RXU3 ASW

Buy RXU3 ASW at -31bps

Open -31bps. Current -31bps. Target -40bps. Stop -27bps.

### 2. Receive the belly of GBP 2s5s10s fly

Pay GBP 2yr at 0.77%

Receive GBP 5yr at 1.40%

Pay GBP 10yr at 2.30%

Open -26bps. Current -28.5bps. Target -50bps. Stop -15bps.

### 3. Buy Bundei23

Buy Bundei23 real yield at 0.06%

Open 0.06%. Current 0.02%. Target -0.20%. Stop 0.20%.

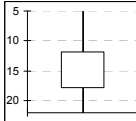
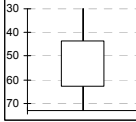
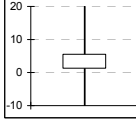
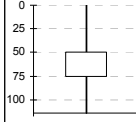
## Record of Our Open Trades

Figure 6. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
<b>Europe</b>	<b>Buy Bundei23</b>	Open 0.06% Current 0.02% <b>P&amp;L 0.04%</b> Target -0.2% Stop 0.2%	We expect this spike in real yield to positive territory to reverse. Supply profile is also supportive.  The Morning Call 13 June 2013	
<b>UK</b>	<b>Receive GBP 2s5s10s</b>	Open -26bp Current -29bp <b>P&amp;L 3bp</b> Target -50bp Stop -15bp	Introduction of forward guidance and any reduction in market rate expectations should be supportive for the 5yr sector  The Morning Call 13 June 2013	
<b>Europe</b>	<b>Buy RXU3 ASW</b>	Open -31bp Current -31bp <b>P&amp;L 0bp</b> Target -40bp Stop -27bp	Bund spreads do not reflect the deterioration in sovereign and private credit conditions  Bund: Buy RXU3 ASW @-31 11 June 2013	
<b>Europe</b>	<b>Buy Schatz ASW</b>	Open -34bp Current -34bp <b>P&amp;L 0bp</b> Target -42bp Stop -30bp	Benefits from the discussion of negative depo rates suffering a setting back and further LTRO repayments  European Interest Rate Strategy 8 May 2013	
<b>Europe / US</b>	<b>EUR 10s30s flattener vs USD 10s30s steepener</b>	Open -27bp Current -27bp <b>P&amp;L 0bp</b> Target -42bp Stop -21bp	Tapering of QE3 in September, upcoming supply profile in EMU & UST and technical levels should be supportive for this trade  European Rates Weekly 25 April 2013	
<b>Europe</b>	<b>Receive EUR 10y2y vs 12y3y</b>	Open 4bp Current 7bp <b>P&amp;L 3bp</b> 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	

Source: Citi Research

Figure 7. Record of our Open Trades (continued)

<b>Europe</b>	<b>Receive EUR 30s50s</b>		Open	18bp	Long-end of EUR swap curve is pricing in more than required de-hedging by Dutch pension funds. CVA activity should support the trade.  <i>European Rates Weekly 11 October 2012</i>	
	<i>Curve</i>	Receive EUR 50yr at 2.54% Pay EUR 30yr at 2.36%	Current	12bp		
			<b>P&amp;L</b>	<b>6bp</b>		
			Target	5bp		
			Stop	22bp		
<b>Europe</b>	<b>Sell EUR 1y3yF ATM straddle and buy ATM-25 receiver</b>		Open	63bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken  <i>IIRS 9 August 2012</i>	
	<i>Volatility</i>	Sell EUR 1y3yF ATM (=1.36%) straddle for 98bp Buy EUR 1y3yF ATM-25 receiver for 35bp	Current	44bp		
			<b>P&amp;L</b>	<b>19bp</b>		
			Target	30bp		
			Stop	73bp		
<b>Europe</b>	<b>Long KfW 1.375% Feb17s vs OAT 5% Oct16s</b>		Open	1bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify  <i>IIRS 2 August 2012</i>	
	<i>Cross Market</i>	Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%	Current	5bp		
			<b>P&amp;L</b>	<b>4bp</b>		
			Target	20bp		
			Stop	-10bp		
<b>UK</b>	<b>Sell GBP 2y2y ATM straddle</b>		Open	76bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol  <i>IIRS 12 July 2012</i>	
	<i>Volatility</i>	Sell GBP 2y2y ATM (1.04%) straddle at 76bps	Current	50bp		
			<b>P&amp;L</b>	<b>26bp</b>		
			Target	0bp		
			Stop	114bp		

Source: Citi Research

# Outlook for Swap Spreads

Traditional drivers of swap spreads have long been replaced by sovereign and private credit indicators. The recent deterioration in Eurozone credit conditions has not been accurately reflected by Bund spreads.

## Bunds Are Too Tight in ASW

**Credit risk is the main driving force behind swap spreads in the crisis**

**Traditional drivers have to be balanced against improving German public finances**

Throughout the crisis, Bund swap spreads have a strong tendency to reflect the pricing of credit risks in the Eurozone. This reflects not only the safe-haven status of German government bonds, but also credit risk premia embedded in non-German bonds (both sovereign and non-sovereign) as well as a pronounced scarcity effect (Bund are the only liquid pure AAA remaining in global fixed income space).

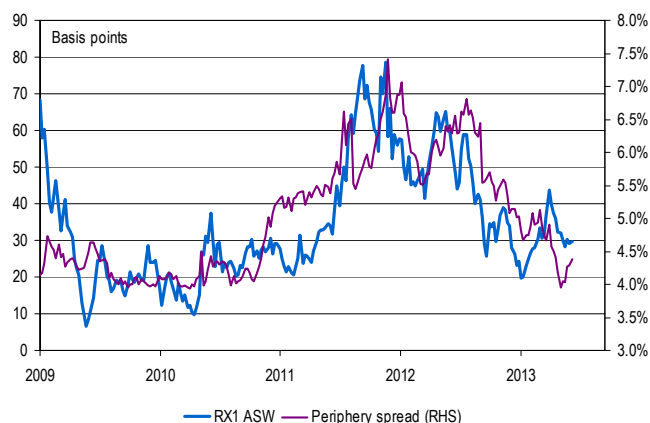
More traditional medium-term drivers, e.g. issuance patterns (both EGB supply and swapped corporate issuance), seasonal patterns, the level of interest rates and the slope of the yield curve are now seen as second-order factors when discussing and trading ASW spreads. In the long-run, we should also factor in the progressive reduction of gross general government debt in Germany (the EC forecasts a reduction to 78.6% by the end of 2014) and an improving budget balance<sup>1</sup>.

Figure 8. Bund spreads and credit spreads



Source: Citi Research

Figure 9. Bund spreads and EGB periphery spreads



Source: Citi Research

**Deteriorating credit conditions...and not just in the Eurozone**

Currently, Bund spreads do not seem to accurately follow the deterioration in sovereign & private credit conditions that started in the aftermath of the May ECB meeting: iTraxx Main is 20bp wider, EGB peripheral yields<sup>2</sup> are 60bp wider with Eonia 1y1y 35bp higher...and all this after having cut the main refinancing rate by 25bp and having discussed negative deposit rates. Add the underperformance of selected EM rates (HUF 10y +150bp, ZAR 10y +200bp) and we see a perfect recipe for wider swap spreads.

**Alessandro Tentori**

**Strategy: Buy Bund ASW**

As first recommended on 11<sup>th</sup> June, buy RXU3 ASW spreads @-32 with targets in the -40bp area (stop -27bp). The trade rolls down nicely on the Bund ASW. Current CTD (Jul-22) is quoted at a 5bp discount to Jan-22 and a 12bp discount to Jul-21.

Futures trading involves substantial risk of loss.

<sup>1</sup> [http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2013/pdf/ee2\\_en.pdf](http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee2_en.pdf)

<sup>2</sup> A EGBI market cap weighted index of Ireland, Italy, Portugal and Spain



## UK Rates: Too fast, too furious

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It has been a volatile week for the sterling market, to say the least, with action at both ends of the curve. Two themes have dominated: unwinds of front-end carry trades and unwinds of long-end curve steepeners. However, the market moves inspired by these unwinds look overdone to us, especially the cheapening of the 5yr sector. This presents a multitude of trading opportunities.

### A rate hike in 2014? You 'Carney' be serious?

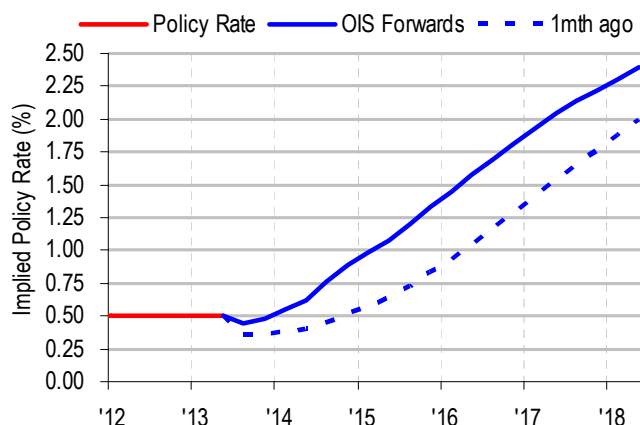
#### A perfect storm for the sterling market

The sterling market has faced something close to a perfect storm over the last week. The US led sell-off in core rates has triggered unwinds of popular carry trades across all markets. However, the sterling market has shown particular sensitivity, probably owing much to the popularity of front-end carry trades ahead of Carney's arrival a few weeks from now. The recent run of data, showing signs of economic life, has helped to fuel the move. And the return of gilt supply, with two conventional auctions in three days, has further added to the strain.

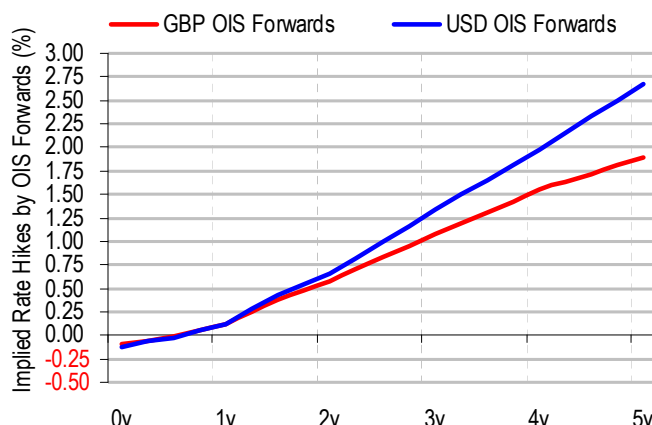
#### The pricing in of earlier rate hikes is not justified, in our view

The result is a significant re-pricing of policy rate expectations, as shown in Figure 10. The sterling market is now pricing a rate hike in late 2014. Moreover, market levels imply a similar pace of hiking as the US over the next two years - Figure 11. This simply looks wrong to us. Yes, the data has been improving, but the economy is hardly showing signs of 'escape velocity'. We agree with the sentiment expressed by the Bank of England's Paul Fisher on Wednesday that the outlook for the UK is "not as bright as in the US". We expect rates to be on hold for some time to come (our economists have penciled in the first hike for 2017) and the introduction of forward guidance is still likely, in our view.

Figure 10. The market is now expecting UK policy rates to rise sooner... Figure 11. ...and at a similar pace to the US over the next two years



Source: Citi Research



Source: Citi Research

### Receive the belly of the 2s5s10s fly

#### The sterling market has a tendency to overshoot, but there are signs of a reversal

The front-end led sell-off clearly owes much to positioning and liquidity and the sterling market always has a tendency to overshoot. The price action has been brutal, but there are now signs of a reversal. We think the correction has much further to run.

#### Fade the sell-off in the very front-end

There are numerous ways of expressing the view that the front-end sell-off is overdone. For example, the short-sterling red pack looks too cheap (both outright and vs Eurodollars, see Figure 12). Receiving the 1yr, 3yr forward GBP swap also looks very attractive at the current rate of 1.80% (vs 1.22% a month ago).

**We recommend receiving the belly of the 2s5s10s fly**

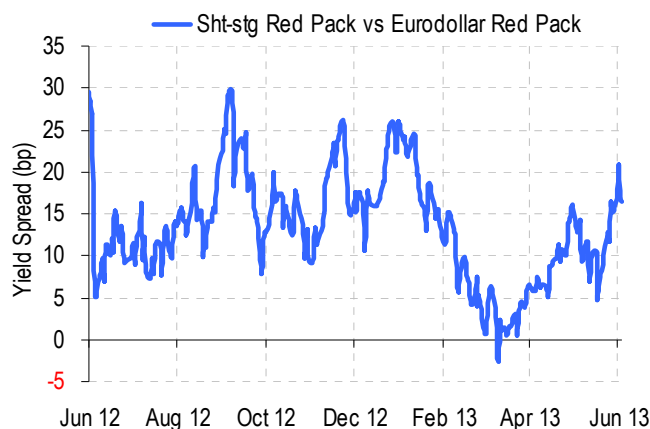
However, our favourite trade is to receive the 5yr sector which has been hardest hit in the sell-off. The 2s5s10s fly blew out to the -15/-20bp area from -50bp a month ago (Figure 13). We initiated a long position at -26bp (see [The Morning Call](#) of 13 June) after the fly had already started to turn. It could retrace all the way back to -50bp, in our view, as the premature rate hikes are priced out of the market again.

■ **Trade recommendation:** Receive the belly of the 2s5s10s GBP fly (open -26bp on 13 June, target -50bp, stop -15bp).

**As an alternative, consider receiving GBP vs USD (in 5s or in the very front-end)**

As mentioned above, there are many alternative trades given how far everything has moved. For those looking for less directional exposure, cross-market spreads vs the US look most appealing in our view. For example, consider receiving 5yr GBP vs USD.

Figure 12. Rate hike expectations have risen quicker in the UK than in the US in the last few weeks



Source: Citi Research, Bloomberg.

Figure 13. The 2s5s10s GBP fly has re-priced aggressively, but has started to turn in the last couple of days



Source: Citi Research, Bloomberg.

## 10s30s looks too flat ahead of supply

**Steeptenars have been unwound**

The price action in the front-end has been eye-watering, but the long-end has added to the drama, with the curve flattening sharply. Again, positioning and liquidity go a long way to explaining the moves. Steeptenars have been quite popular ahead of forthcoming supply but have been caught out by the speed of the sell-off which, in line with the usual dynamic, has bear flattened the curve.

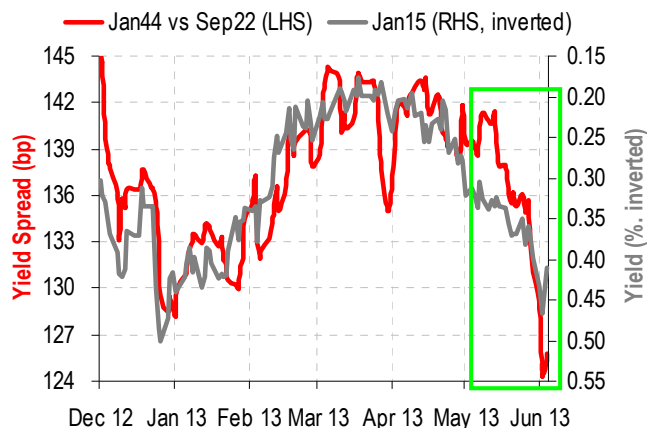
**The flattening looks overdone**

Figure 14 shows that the flattening looks overdone relative to the re-pricing of the front-end. A simple regression suggests that 10s30s is around 7bp too flat relative to front-end rates (using 6mths of daily data, correlation coefficient = -0.80).

**Supply is likely to put steepening pressure on 20s30s and 20s50s**

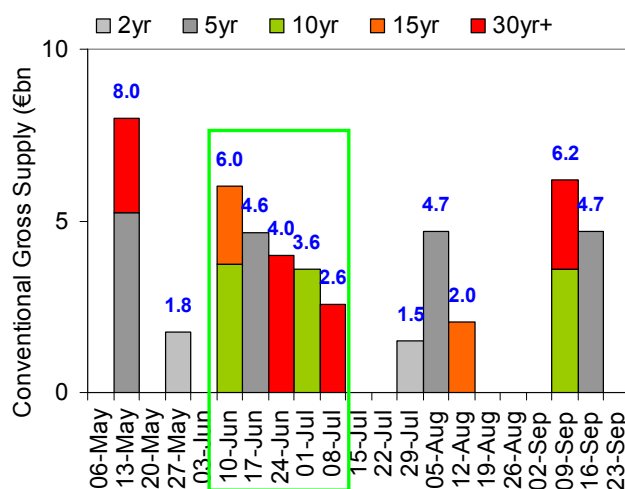
The curve is likely to remain directional and is only likely to steepen meaningfully if the market rallies. However, with positioning now cleaner, and given the heavy supply burden in the next few weeks (including a new 2068 gilt syndication in the week beginning 24 June, see Figure 15) it seems likely that the curve corrects steeper from here. In particular we like 20s30s or 20s50s steepenars.

Figure 14. 10s30s flattening looks overdone relative to the re-pricing in the front-end



Source: Citi Research, Bloomberg.

Figure 15. The gilt market faces a heavy issuance burden over the next few weeks



Source: Citi Research, DMO.

## Strategy summary

Jamie Searle

**The market has overshot, in our view, presenting attractive entry levels in the front-end...**

**...presenting a range of trading opportunities**

**Long-end flattening also looks overdone**

The price action has to be respected and there is still a certain amount of 'time risk' before Carney takes over at the Bank of England in July. The introduction of forward guidance at the MPC meeting in July is possible, but August is probably more likely. However, this week's moves look like an overshoot and present attractive entry levels to buy the front-end, in our view. We expect the market to take out rate hike expectations over the next couple of years (at least) which we consider premature.

Our favourite trade is to receive the belly of the 2s5s10s GBP fly, but there are many alternatives such as receiving the 1yr, 3yr forward or long the short-sterling red pack. These trades look attractive outright, in our view, but can also be expressed vs equivalents in the US. Futures trading involves substantial risk of loss.

Further out the curve, 20s30s or 20s50s steepeners look attractive ahead of upcoming issuance. The long-end curve has flattened sharply. While this is to be expected given the sell-off, the curve looks to have flattened too far relative to the move in front-end rates.

## Euro inflation: tactical long in Bunde23

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Aman Bansal

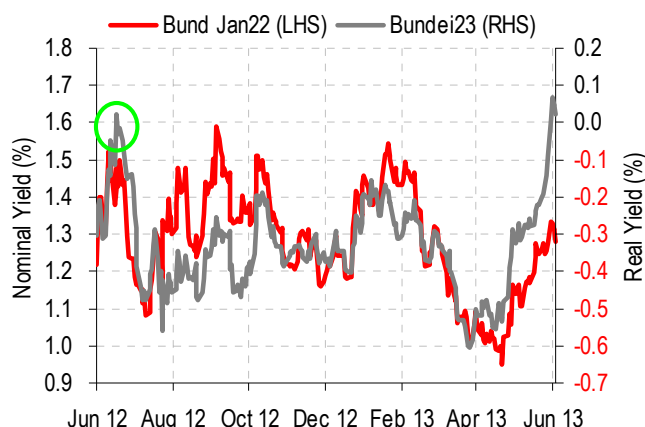
**We do not believe that this is the start of a sustained sell-off in Bunds**

Global inflation markets have been hit hard in the sell-off with 10yr real yields reaching positive territory in both the US and Germany (Bunde23). In the case of Germany at least, we think this is now overdone and recommended long positions in 10yr real yields. Alternatively, euro break-evens are looking cheap vs inflation swaps and offer good value on an asset-swap basis.

### Fade the sell-off in euro real yields

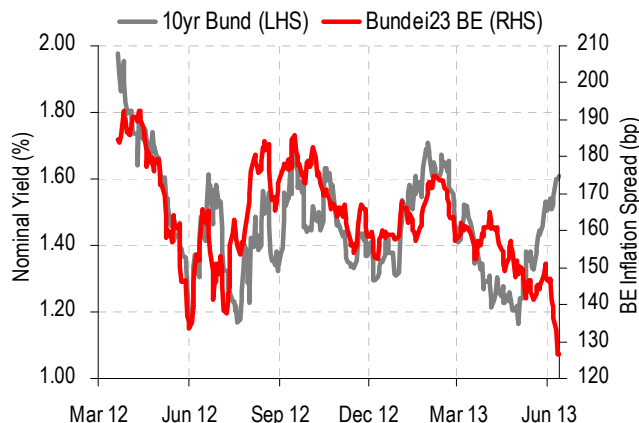
The on-the-run 10yr Bund yield has risen to around 1.55% from 1.2% at the start of May. The sell-off has its roots in the US and a growing view in the market that QE tapering from the Fed could drag European yields higher too. In the case of Bunds, we think this is unlikely. We do not believe that the recent sell-off is the precursor to a sustained bear market and continue to expect Bund yields to de-couple from Treasuries. An unprecedented breakdown in the Bund-Treasury correlation is likely, in our view, on the back of unprecedented economic divergence between the two areas. The sell-off in Bunds is likely to run out of legs, in our view.

Figure 16. The sell-off has been particularly severe in real yields



Source: Citi Research, Bloomberg.

Figure 17. Break-evens have narrowed despite higher nominal yields



Source: Citi Research, Bloomberg.

**Real yields have been hit particularly hard in the sell-off**

Inflation products do not perform particularly well in times of market stress. In the current example, liquidations have been triggered in a number of products as the market fears, among other things, that popular carry-trades are losing their merit. The move in real yields has been particularly severe, with Bunde23 rising 30bp in the last month (and 50bp in the last two months). This has taken the real yield on Bunde23 into positive territory for the first time in a year. The last time positive real yields were recorded, it proved short-lived (Figure 16). We expect that the same may well be true this time as well.

**The underperformance of real yields can not be entirely justified by fundamentals**

The initial cheapening phase of euro linkers largely reflected a reassessment of the inflation outlook. However, the more recent cheapening is more likely the result of positioning and liquidity, in our view. The usual directionality of break-evens has been turned on its head, with break-evens narrowing despite the rise in nominal yields (Figure 17). Moreover, euro break-evens look very cheap vs oil prices, usually an important driver of direction (Figure 18).

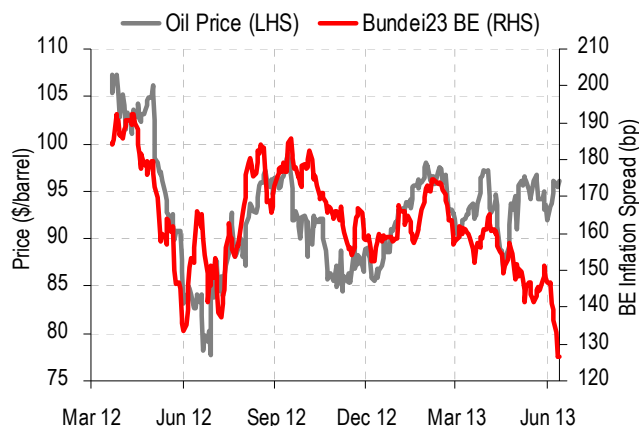
**Disinflationary trends are likely to cap break-evens, but we expect near-term consolidation around current levels**

Dislocations of this nature, and particularly of this magnitude, normally prove short-lived. Inflationary pressures in the euro are undoubtedly benign, and disinflation fears may even grow over the coming quarters, but with break-evens already close to the crisis lows of 2008, 2011 and 2012, we expect that there will be some consolidation around these levels.

**Cash break-evens have cheapened sharply vs inflation swaps...**

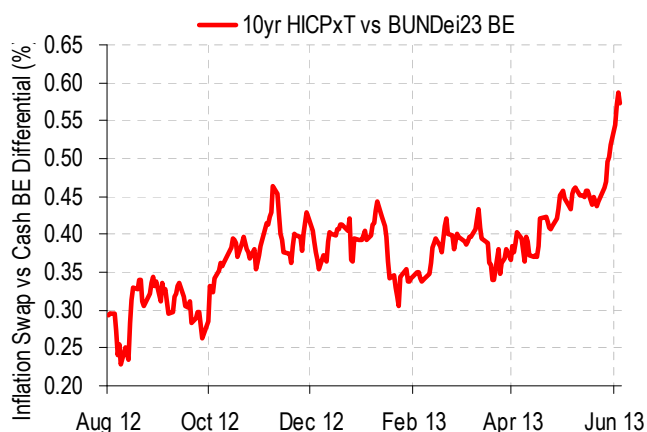
The notion that recent moves are more related to market conditions than fundamentals is further supported when looking at the performance of cash break-evens vs inflation swaps. As Figure 19 illustrates, the differential between the two has widened sharply in the last few weeks. Inflation swap rates have, until now, held steady despite the collapse in cash break-evens.

**Figure 18. Break-evens have collapsed despite steady oil prices**



Source: Citi Research, Bloomberg.

**Figure 19. Widening differential between break-evens and HICPxT swaps**

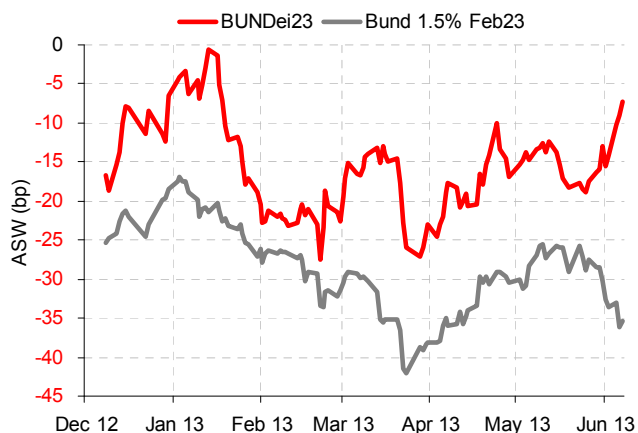


Source: Citi Research, Bloomberg.

**...and consequently, euro linkers look good value on an asset-swap basis**

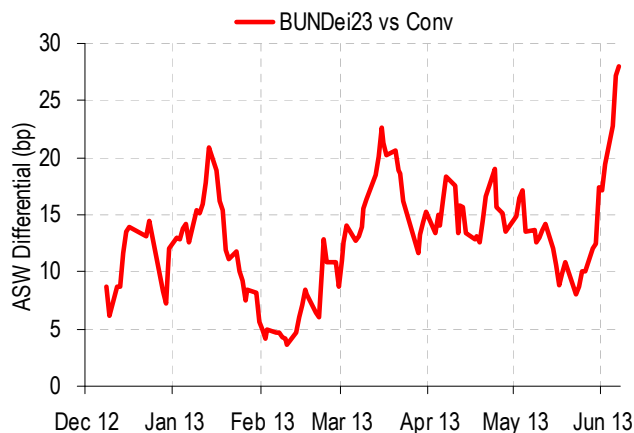
Correspondingly, euro linkers have cheapened on an asset-swap basis, both outright and relative to conventionals (see Figure 20 and Figure 21). Asset-swap buying has already started to emerge in the last day or so (these spreads always tend to be well policed) and this is likely to gather momentum, in our view. The resultant paying of inflation swaps should help tighten the spread between cash break-evens and inflation swaps.

**Figure 20. Euro linkers have cheapened on an asset-swap basis...**



Source: Citi Research

**Figure 21. ...both outright and vs conventionals**



Source: Citi Research

## Strategy summary

### Buy Bundei23 real yield

We do not believe that this is the start of a sustained bear market for euro rates. The sell-off in real yields has been particularly severe and looks overdone to us. Euro linkers stand out as cheap on most metrics, including vs oil prices. We like buying Bundei23 outright rather than on break-even (nominal yields may correct lower rather than break-evens higher).

Moreover, Bundei23 has been hit particular hard as it was re-opened earlier this week for the second time in two months. Further supply in this bond in July is possible, but it is more likely to be the turn of Boblei18 (unless front-end break-evens face further stress between now and then). An auction will not take place in August, suggesting that the next supply of Bundei23 might not be until September.

■ **Trade recommendation:** Buy Bundei23 outright real yield (open +6bp, see [The Morning Call](#) of 13 June, target -20bp, stop +20bp).

### Buying cash break-evens vs inflation swaps also looks appealing

Alternatively, we see value in euro linkers on an asset-swap basis, both outright and vs conventionals. This is perhaps best expressed by buying cash break-evens vs like-maturity inflation swaps.

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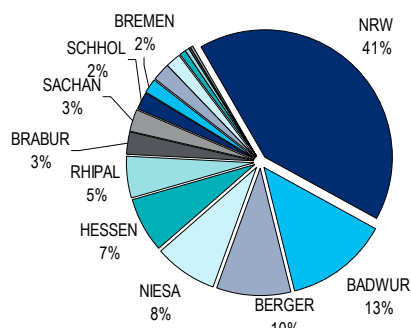
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## SSA Strategy

### Deutschland bonds – opportunities to diversify

Last year, the German government announced plans to issue joint securities with the German Länder in 2013. As S&P noted in a publication shortly after the initial announcement<sup>3</sup>, “Under these new ‘Huckepack’ bonds, the federal government and participating states will jointly, but not severally, guarantee the issues, comparable with existing ‘Länder jumbo bonds’ issued by various states. Under the terms of the new Huckepack bonds, each participating government is liable only up its own share of the issuance and bears no contingent liability”. In the same note, S&P stated that there were no immediate rating implications on either the Federal German Republic or the participating German states.

Figure 22. German Länder bond debt outstanding proportions (%)

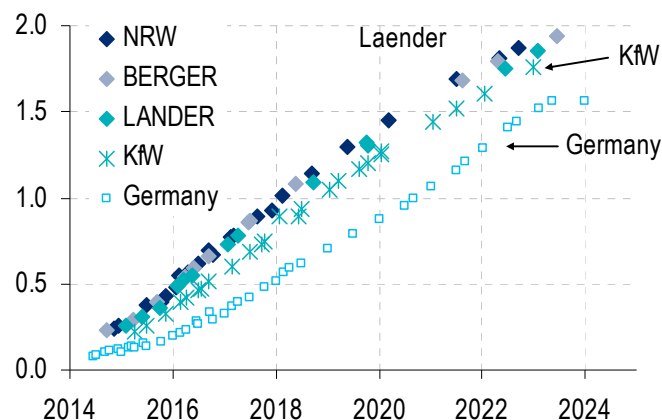


Source: Citi Research, Bloomberg

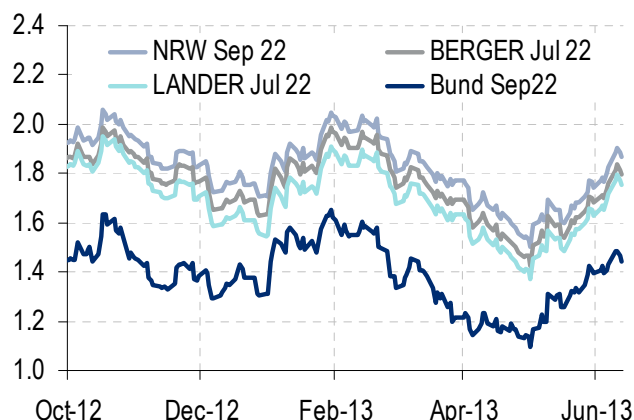
In our view, Deutschland bonds represent yet another example of SSA market evolution. Note that there are already bonds issued jointly by certain German states which provide for a more efficient method of financing than several individual transactions. Not all states are the same of course. Although credit quality is generally high, S&P and Moody's ratings are not normalised to Germany's AAA/Aaa rating and are a function of regional economics and debt metrics. The current proportion of bond debt outstanding by region is shown in Figure 22, with secondary market liquidity clearly related to the depth of each segment. The involvement of the German Republic in such bonds will provide investors with another opportunity to gain exposure to a diversified pool of German credit quality. Liquidity of such issues should also be enhanced if issued in size and opportunities are probably best sought in the primary market.

As we have stated in the various articles in this publication, we do not believe the recent moves higher in German yields represents a precursor to sustained bear-market in core EMU rates. The recent cheapening in certain fixed income markets is more a function of positioning, trade unwinds and liquidity rather than a fundamental reappraisal of the yield outlook. Given that German states are strongly associated with the underlying German sovereign credit quality, such technicals can be important in the sub-sovereign market. This means that relative value and the possibility to achieve spread pick-ups to Bunds are important motivations for investors, who typically have buy-and-hold, long-term strategies.

Figure 23. Select German Länder, KfW and German Republic Yields (%) Figure 24. Select Länder and German Yield History, 9yr sector.



Source: Citi Research



Source: Citi Research

<sup>3</sup> Ratings Direct. “German Plan For Joint Federal-State Bonds Has No Rating Impact And Is Unlikely To Be A Precursor To Eurobonds” S&P, June 26<sup>th</sup> 2012.

**Figure 25. 10yr NRW to Germany (bp)**



Source: Citi Research

The current yield curves of select German Länder are shown in Figure 23. As shown, investors can achieve pick-ups not only to Bunds, but also to core German agencies such as KfW. Unsurprisingly, the strong fundamental connection to the German Republic means that yields are highly correlated to Bunds (Figure 24). Spreads tend to trade in ranges (Figure 25) and are often driven by the Bund leg. The lower beta nature of German regional debt can make for interesting opportunities for dip-buying strategies when Bund yields rally sharply.

Where the new Deutschland bonds ultimately trade will largely depend on the composition of participating German states and the degree to which the Federal German Republic is involved (as well as market conditions at the time). What we do know, is that current Länder bonds, which do not have participation of the Federal German Republic, trade at around 35-50bp over Germany from 3yr+ depending on the maturity.

### **Conclusion – another choice for investors interested in Germany**

The introduction of bonds issued jointly by both various Länder and the Federal Republic of Germany should enrich investor choice for those interested in gaining diversified exposure to German credit quality. Relative value considerations will be key to assessing secondary market performance, both to current “Länder” bonds, German agencies and Bunds. Overall though, in a hunt-for-yield environment where spread pick-ups are a primary concern, we believe Deutschland bonds will act as another fundamentally strong alternative to Bunds.



## Covered Bond Strategy

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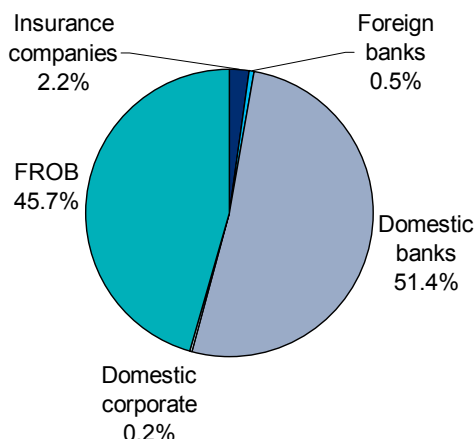
Spain's bad bank Sareb will change its stance on the sale procedure of its assets. The consequence may be further property price deterioration, leading to a faster bottoming out, but might also lead to lower profitability and more subnormal loans.

### Sareb's strategy change could affect Spanish cover pools

Sareb has been established in August 2012...

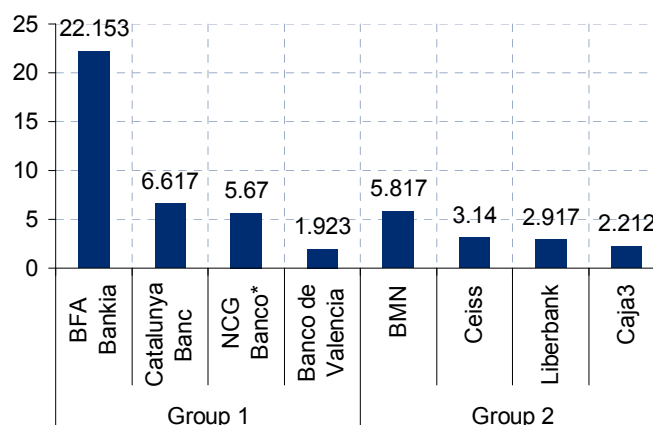
Yesterday, El Confidencial reported that Sareb is planning to lower the prices of the properties which the Spanish "bad bank" is trying to sell<sup>4</sup>. The institution, established at the end of August 2012 by FROB and several Spanish and foreign financial institutions, is currently clearly lagging its own goals of transactions. Therefore, a new direction seems to have been chosen, especially against the backdrop of their profit goal of 15% return over their (planned) 15 year lifetime and a planned balance sheet reduction of 44% over the next five years. By 2027, all assets should have been sold at the best prices possible.

Figure 26. Shareholders of SAREB



Source: SAREB

Figure 27. Value of transferred assets to SAREB by company, EURbn



Source: SAREB, March 2013; \* and Banco Gallego

...to give distressed banks the chance to clean up their balance sheets

According to the legal framework, asset transfers from banks to Sareb are imposed by FROB if it is assumed that the delinquency of such assets could endanger the bank's business continuity. The main goals of these transfers are to bring back such banks to a viable path by deleveraging, but also to give an impulse to the Spanish property market. Over recent months, 197,474 assets have been transferred (transfer price of €50.5bn) whereas 107,000 were real estate assets (abandoned properties, rented dwellings and soils) and 97,474 were financial assets (loans and credits). The transfer prices for such assets have been determined by the Bank of Spain. Therefore, the assets were transferred with a clear discount.

Sareb's goal is to be profitable over its lifetime which is hard to reach currently

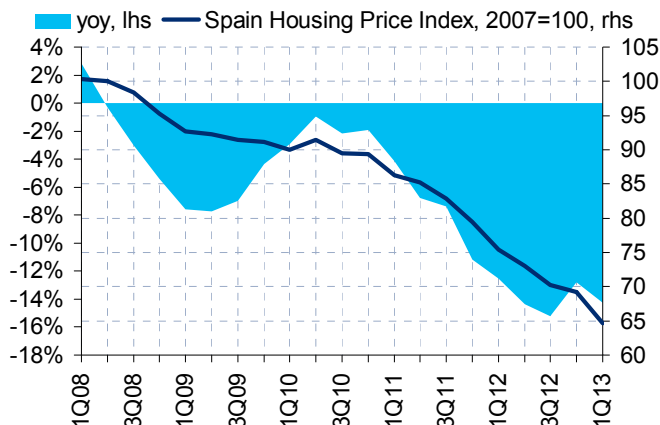
However, in order to ensure the above mentioned return is generated, Sareb planned to sell the assets with a surcharge of 25% to the transfer price. Now, this price setting seems to be too ambitious. In the first three months, only 550 homes have been sold while the full year goal was set to more than 7500 as most buyers were still not willing to pay these prices. This would result in a loss €0.5bn and probably the need to raise capital next year. That's why the 25% surcharge will be abandoned, according to the report, in order to increase lower margin business instead of an ongoing low transaction volume. However, assets shall still not be sold below the transfer prices while two independent studies on the adequate price of the property need to be obtained before a transaction is completed.

<sup>4</sup> <http://www.elconfidencial.com/economia/2013/06/12/sareb-baja-por-fin-los-precios-de-los-pisos-para-dinamizar-el-mercado-inmobiliario-espanol-122853/>

**New strategy could lead to a further substantial correction on the property market...**

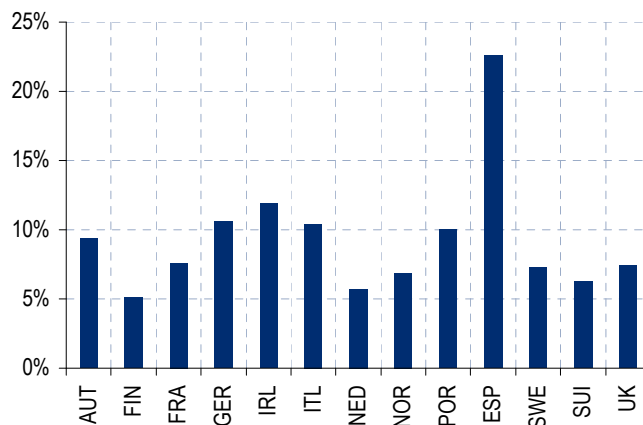
This could have severe effects on Spain's property market given the fact that SAREB has become Spain's biggest real-estate company, according to the report. Again, Spanish banks (i.e. the bad bank's shareholders at the same time) would have to adjust prices of their properties downwards. Over the first three years of the property crisis, property values have been adjusted cautiously. Thereafter, valuations have been more severe. However, it seems as if property prices need to fall further until a bottom is reached. Until then, the number of new mortgage transactions in the property market is likely to continue to decrease. Last March, the total amount of capital loaned was at €3.1bn, 35% lower than March 2012, according to Spain's National Statistics Institute. Equally, the number of new mortgages fell by 35%. From 2011 to 2012, a similar amount of reduced transactions could be recorded (capital loaned -33%, number of new mortgages -30%).

Figure 28. The Spanish property market is still falling



Source: Instituto Nacional de Estadística

Figure 29. Moody's simple average Collateral Score (4Q12 figures)



Source: Moody's;

**... which brings the market back earlier to a reactivation...**

Sareb's new business strategy will have several implications. On one hand, the potential amount of properties coming to the market at lower prices than before should affect the overall level of Spanish property prices. This can be seen as a positive as valuation adjustments have to be undertaken and a bottoming out of the overall housing price levels comes nearer. From this point, a reactivation of Spain's property market seems to be within reach. On the other hand, the revaluation should reduce the institutions' expected profitability. Apart from that, yesterday's Supreme Court decision on mortgage floors will also have an impact on profitability of some Spanish banks ([Spanish Banks - Mortgage Floors Ruling Clarified – Impact on BBVA 2013E Net Profit Could be -14%; Impact to Other Banks Less Clear](#)).

**... but could lead to a further increase of subnormal loans in Spanish cover pools**

We think that the consequences of Sareb's new strategy will also be seen in Spanish cover pools. In general, it should lead to an increase of the amount of loans in arrears or classified as delinquent given the further pressure on the property market. However, it is hard to say how quickly the property prices will find another strong correction and hence how severe a rise in subnormal loans could be. This new development and the last decision of Bank of Spain to force banks to be more transparent on refinanced loans (see also our latest [Euro SSA and Covered Bond Monthly](#)) are helpful corrections for demasking the scope of risk in Spanish property markets and hence Spanish cover pools.

# Bund Technical Analysis

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## Watch out for a breakout

Bund yields have been moving in an ascending channel for over a month now, but we note the divergence between the direction of yields and the slow stochastic oscillator with the latter turning around from the 80 level, which is a bullish signal. However, we would trade the channel range until a downside breakout and then look to enter longs.

Figure 30 shows a candlestick chart of daily 10yr Bund yields. A white candle indicates that the closing level is above the opening level, and a blue candle indicates that the closing level is below the opening level. Wicks on both ends indicate intraday range.

## Ascending channel is the key

We note the recent divergence between the direction of yield and the slow stochastic oscillator (indicated by red arrows in the figure). This is generally viewed as a bullish signal. Furthermore, the oscillator has been trying to break through the 80 level since 5 June. A sustained break would lend strength to the signal.

However, Bunds yields have been trading in an ascending channel for some time. We would wait for a downside breakout before acting on divergence. In the meantime, we recommend trading the range dictated by the channel.

## Support and resistance

The channel upper and lower bound would act as the first levels of support and resistance respectively. If the upper bound is broken, the next support is 1.60% at 23.6% Fibonacci retracement level from 1yr intraday highs. After this level, the next support would be 1.73%, which is the highest intraday level in a year and has been respected twice as a support. We expect the first resistance level around 1.44%, where 30, 100 and 200 day moving averages converge. This is also the 50% retracement level.

Figure 30. 10yr Bund yield candlestick chart with 100/200 day moving average, slow stochastic (10,3,3) and RSI



Source: Bloomberg

## EMU relative value trades

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We highlight a number of relative value opportunities on German, Spanish and Italian yield curves. Specifically, Bono Oct15s on a microfly and BTP Feb15s in a switch offer attractive 3 month carry.

### Germany: Taking advantage of cheapness of Jan16s

*Buy Jan16s vs surrounding issues*

■ Buy 3.5% Jan16 vs 3.75% Jan15 and 1.25% Oct16 (3m carry: 2.4bp) – Figure 31

Or, Buy 3.5% Jan16 vs 3.75% Jan15 and 3.75% Jan17 (3m carry: 2.1bp) – Figure 32

### Spain: Taking advantage of richness of Apr16s

*Buy Oct16s vs surrounding issues*

■ Buy 4.25% Oct16 vs 3.25% Apr16 and 3.8% Jan17 (3m carry: 0.6bp) - Figure 33.

## High Carry Trades

*Oct15s on a microfly (3m carry of 21bps)*

■ Buy 3.75% Oct15 vs 3% Apr15 and 3.25% Apr16 (3m carry: 20.8bp) - Figure 34

Figure 31. Germany: 3.75% Jan15, 3.5% Jan16, 1.25% Oct16 microfly (bp)



Source: Citi Research

Figure 32. Germany: 3.75% Jan15, 3.5% Jan16, 3.75% Jan17 microfly (bp)



Source: Citi Research

Figure 33. Spain: 3.25% Apr16, 4.25% Oct16, 3.8% Jan17 microfly (bp)



Source: Citi Research

### Italy: Taking advantage of richness of Feb15s

*Switch from Feb15s (3m carry of 18.3bp)*

■ Switch from 4.25% Feb15 to 4.5% Jul15 (3m carry: 18.3bp) - Figure 35

*3m carry of 17.3bp*

Or, Switch from 4.25% Feb15 to 3.75% Aug15 (3m carry: 17.3bp) - Figure 36.

Figure 34. Spain: 3% Apr15, 3.75% Oct15, 3.25% Apr16 microfly (bp)



Source: Citi Research

Figure 35. Italy: 4.5% Jul15 - 4.25% Feb15 spread (bp)



Source: Citi Research

Figure 36. Italy: 3.75% Aug15 - 4.25% Feb15 spread (bp)



Source: Citi Research

## Relative value tables

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

		Versus Govt Curve (CAS)						Versus Swap Curve (CAS)			
GERMANY	Richest	Rank		ZScore	Issued	Richest		Rank		ZScore	Issued
		1	1.25 Oct16	-2.71	Sep11			1	0.25 Apr18 (5y)	-1.51	Apr13
		2	6.25 Jan30	-2.64	Jan00			2	1.50 May23 (10y)	-1.43	May13
		3	5.50 Jan31	-2.49	Oct00			3	6.25 Jan30	-1.42	Jan00
		4	3.25 Jul21	-2.44	Apr11			4	5.50 Jan31	-1.39	Oct00
		5	2.25 Sep21	-2.31	Aug11			5	3.25 Jul21	-1.35	Apr11
	Cheapest	5	1.50 Feb23	1.56	Jan13	Cheapest		5	2.50 Jul44 (30y)	0.03	Apr12
		4	1.75 Jul22 (RX)	1.64	Apr12			4	3.50 Jan16	0.07	Nov05
		3	3.50 Jul19	1.74	May09			3	2.75 Apr16	0.12	Apr11
		2	3.75 Jan19	1.84	Nov08			2	3.25 Jul15	0.15	May05
		1	4.25 Jul18 (OE)	1.98	May08			1	2.00 Feb16	0.17	Jan11

Source: Citi Research

Figure 38 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 39 and Figure 41) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 38 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 38. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); All bonds on each curve

	Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued	
GERMANY		<b>Richest</b>				<b>Richest</b>				
	1	1.25 Oct16	-2.71	Sep11		1	0.25 Apr18 (5y)	-1.51	Apr13	
	2	6.25 Jan30	-2.64	Jan00		2	1.50 May23 (10y)	-1.43	May13	
	3	5.50 Jan31	-2.49	Oct00		3	6.25 Jan30	-1.42	Jan00	
	4	3.25 Jul21	-2.44	Apr11		4	5.50 Jan31	-1.39	Oct00	
	5	2.25 Sep21	-2.31	Aug11		5	3.25 Jul21	-1.35	Apr11	
	5	1.50 Feb23	1.56	Jan13		5	2.50 Jul44 (30y)	0.03	Apr12	
	4	1.75 Jul22 (RX)	1.64	Apr12		4	3.50 Jan16	0.07	Nov05	
	3	3.50 Jul19	1.74	May09		3	2.75 Apr16	0.12	Apr11	
	2	3.75 Jan19	1.84	Nov08		2	3.25 Jul15	0.15	May05	
	1	4.25 Jul18 (OE)	1.98	May08		1	2.00 Feb16	0.17	Jan11	
FRANCE		<b>Richest</b>				<b>Richest</b>				
	1	4.50 Apr41 (30y)	-1.74	Apr09		1	2.25 Oct22	-0.64	Oct11	
	2	1.75 May23 (10y)	-1.42	May12		2	4.25 Oct23	-0.64	Oct06	
	3	2.50 Oct20	-1.36	Oct09		3	3.00 Apr22 (OAT)	-0.63	Feb12	
	4	3.50 Apr20	-1.32	Feb10		4	3.25 Oct21	-0.59	Oct10	
	5	3.25 May45	-1.28	May12		5	3.75 Apr21	-0.57	Apr05	
	5	4.00 Apr55	1.95	Apr04		5	5.00 Oct16	1.54	Oct00	
	4	3.50 Apr26	2.17	Apr10		4	2.00 Jul15	1.73	Jun10	
	3	0.25 Nov15 (2y)	2.22	Nov12		3	3.75 Apr17	1.74	Apr06	
	2	2.75 Oct27	2.39	Oct11		2	2.25 Feb16	2.11	Feb10	
	1	4.00 Apr60	3.64	Apr09		1	0.25 Nov15 (2y)	2.87	Nov12	
ITALY		<b>Richest</b>				<b>Richest</b>				
	1	4.00 Feb37	-3.30	Aug05		1	4.00 Feb37	-1.22	Aug05	
	2	5.00 Mar25	-1.82	Mar09		2	3.75 Aug21	-0.69	Feb06	
	3	4.75 Aug23	-1.25	Feb08		3	5.75 Feb33	-0.65	Feb02	
	4	3.75 Aug21	-0.99	Feb06		4	5.00 Mar25	-0.62	Mar09	
	5	4.00 Feb17	-0.89	Aug06		5	5.00 Aug34	-0.58	Aug03	
	5	4.75 Sep28	0.99	Jan13		5	3.75 Aug16	0.15	Feb06	
	4	4.50 Feb20	1.30	Feb04		4	4.75 Sep16	0.23	Sep11	
	3	3.75 Aug16	1.38	Feb06		3	3.50 Jun18 (5y)	0.23	Apr13	
	2	4.50 Jul15	1.43	Jul12		2	2.25 May16	1.38	Apr13	
	1	4.75 Sep16	1.73	Sep11		1	4.75 Sep44	1.80	Mar13	
N'LANDS		<b>Richest</b>				<b>Richest</b>				
	1	3.25 Jul21	-2.59	Mar11		1	3.75 Jan23	-0.25	Jan06	
	2	2.25 Jul22	-2.59	Feb12		2	3.25 Jul21	-0.24	Mar11	
	3	4.00 Jan37	-1.66	Apr05		3	2.25 Jul22	-0.20	Feb12	
	4	3.75 Jan23	-1.54	Jan06		4	4.00 Jan37	0.03	Apr05	
	5	4.00 Jul18	-1.04	Feb08		5	2.50 Jan33	0.18	Mar12	
	5	1.25 Jan18 (5y)	0.63	Jul12		5	0.00 Apr16	1.17	Jan13	
	4	4.50 Jul17	0.74	Jul07		4	1.25 Jan18 (5y)	1.52	Jul12	
	3	4.00 Jul16	0.92	Jul06		3	4.00 Jul16	1.56	Jul06	
	2	3.75 Jan42 (30y)	1.22	May10		2	4.50 Jul17	1.74	Jul07	
	1	2.50 Jan17	1.63	Jun11		1	2.50 Jan17	1.75	Jun11	
SPAIN		<b>Richest</b>				<b>Richest</b>				
	1	3.25 Apr16	-2.38	Nov10		1	5.85 Jan22 (FBB)	-1.05	Nov11	
	2	3.80 Jan17	-1.76	Oct06		2	5.50 Apr21	-1.04	Jan11	
	3	4.10 Jul18	-1.67	Feb08		3	4.65 Jul25	-1.02	Feb10	
	4	4.90 Jul40	-1.48	Jun07		4	4.80 Jan24	-0.98	Sep08	
	5	5.50 Apr21	-1.46	Jan11		5	5.90 Jul26	-0.95	Mar11	
	5	3.75 Oct15	1.89	Sep12		5	3.15 Jan16	-0.50	Sep05	
	4	4.30 Oct19	1.90	Jun09		4	4.00 Jul15	-0.46	Jan12	
	3	4.85 Oct20	1.97	Jul10		3	3.75 Oct15	-0.41	Sep12	
	2	4.80 Jan24	2.32	Sep08		2	3.30 Jul16	0.60	Apr13	
	1	4.00 Apr20	2.59	Jan10		1	4.40 Oct23	1.05	May13	
BELGIUM		<b>Richest</b>				<b>Richest</b>				
	1	5.00 Mar35	-1.84	May04		1	4.50 Mar26	0.46	Jun11	
	2	3.25 Sep16	-1.69	Jan06		2	4.25 Sep22	0.47	Jan12	
	3	3.50 Jun17	-1.62	Mar11		3	3.75 Sep20	0.49	Jan10	
	4	3.75 Sep20	-1.48	Jan10		4	4.25 Sep21	0.49	Jan11	
	5	4.00 Mar17	-0.77	Jan07		5	3.00 Sep19	0.65	Apr12	
	5	2.25 Jun23 (10y)	0.65	Jan13		5	3.50 Jun17	1.17	Mar11	
	4	4.00 Mar22	0.71	May06		4	4.00 Mar18	1.28	Jan08	
	3	4.00 Mar32	0.72	Mar12		3	5.50 Sep17	1.37	Jun02	
	2	1.25 Jun18 (5y)	1.01	Feb13		2	4.25 Mar41 (30y)	1.49	Apr10	
	1	3.75 Sep15	1.17	Mar05		1	1.25 Jun18 (5y)	2.52	Feb13	

Source: Citi Research



# EMU relative value table – max 12yr maturity

Figure 39. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

		Versus Govt Curve (CAS)				Versus Swap Curve (CAS)			
		Rank		ZScore	Issued	Rank		ZScore	Issued
GERMANY	Richest	1	1.25 Oct16	-2.71	Sep11	1	0.25 Apr18 (5y)	-1.51	Apr13
		2	3.25 Jul21	-2.44	Apr11	2	1.50 May23 (10y)	-1.43	May13
		3	2.25 Sep21	-2.31	Aug11	3	3.25 Jul21	-1.35	Apr11
		4	2.00 Jan22	-2.23	Nov11	4	2.00 Jan22	-1.32	Nov11
		5	4.00 Jul16	-1.86	May06	5	2.25 Sep21	-1.23	Aug11
	Cheapest	5	1.50 Feb23	1.56	Jan13	5	1.75 Oct15	0.00	Sep10
		4	1.75 Jul22 (RX)	1.64	Apr12	4	3.50 Jan16	0.07	Nov05
		3	3.50 Jul19	1.74	May09	3	2.75 Apr16	0.12	Apr11
		2	3.75 Jan19	1.84	Nov08	2	3.25 Jul15	0.15	May05
		1	4.25 Jul18 (OE)	1.98	May08	1	2.00 Feb16	0.17	Jan11
FRANCE	Richest	1	1.75 May23 (10y)	-1.42	May12	1	2.25 Oct22	-0.64	Oct11
		2	2.50 Oct20	-1.36	Oct09	2	4.25 Oct23	-0.64	Oct06
		3	3.50 Apr20	-1.32	Feb10	3	3.00 Apr22 (OAT)	-0.63	Feb12
		4	3.75 Apr21	-1.25	Apr05	4	3.25 Oct21	-0.59	Oct10
		5	4.00 Apr18 (BTA)	-0.93	Apr07	5	3.75 Apr21	-0.57	Apr05
	Cheapest	5	1.00 May18 (5y)	1.21	May12	5	5.00 Oct16	1.54	Oct00
		4	3.75 Apr17	1.25	Apr06	4	2.00 Jul15	1.73	Jun10
		3	2.25 Feb16	1.60	Feb10	3	3.75 Apr17	1.74	Apr06
		2	2.00 Jul15	1.71	Jun10	2	2.25 Feb16	2.11	Feb10
		1	0.25 Nov15 (2y)	2.22	Nov12	1	0.25 Nov15 (2y)	2.87	Nov12
ITALY	Richest	1	5.00 Mar25	-1.82	Mar09	1	3.75 Aug21	-0.69	Feb06
		2	4.75 Aug23	-1.25	Feb08	2	5.00 Mar25	-0.62	Mar09
		3	3.75 Aug21	-1.00	Feb06	3	3.75 Mar21	-0.55	Sep10
		4	3.75 Mar21	-0.88	Sep10	4	4.75 Aug23	-0.52	Feb08
		5	4.00 Feb17	-0.87	Aug06	5	4.50 May23 (10y)	-0.44	Mar13
	Cheapest	5	3.00 Nov15 (BTS)	0.81	Nov10	5	2.75 Dec15	0.05	Dec12
		4	4.50 Feb20	1.30	Feb04	4	3.75 Aug16	0.15	Feb06
		3	3.75 Aug16	1.38	Feb06	3	4.75 Sep16	0.22	Sep11
		2	4.50 Jul15	1.40	Jul12	2	3.50 Jun18 (5y)	0.23	Apr13
		1	4.75 Sep16	1.72	Sep11	1	2.25 May16	1.38	Apr13
N'LANDS	Richest	1	3.25 Jul21	-2.59	Mar11	1	3.75 Jan23	-0.25	Jan06
		2	2.25 Jul22	-2.59	Feb12	2	3.25 Jul21	-0.24	Mar11
		3	3.75 Jan23	-1.54	Jan06	3	2.25 Jul22	-0.20	Feb12
		4	4.00 Jul18	-1.04	Feb08	4	3.50 Jul20	0.19	Feb10
		5	0.00 Apr16	-0.90	Jan13	5	4.00 Jul19	0.53	Feb09
	Cheapest	5	3.25 Jul15	0.46	Jun05	5	0.00 Apr16	1.16	Jan13
		4	1.25 Jan18 (5y)	0.62	Jul12	4	1.25 Jan18 (5y)	1.51	Jul12
		3	4.50 Jul17	0.72	Jul07	3	4.00 Jul16	1.56	Jul06
		2	4.00 Jul16	0.92	Jul06	2	4.50 Jul17	1.73	Jul07
		1	2.50 Jan17	1.63	Jun11	1	2.50 Jan17	1.75	Jun11
SPAIN	Richest	1	3.25 Apr16	-2.41	Nov10	1	5.85 Jan22 (FBB)	-1.05	Nov11
		2	3.80 Jan17	-1.79	Oct06	2	5.50 Apr21	-1.04	Jan11
		3	4.10 Jul18	-1.70	Feb08	3	4.80 Jan24	-0.98	Sep08
		4	5.50 Apr21	-1.47	Jan11	4	4.85 Oct20	-0.93	Jul10
		5	4.50 Jan18 (5y)	-1.41	Nov12	5	4.10 Jul18	-0.90	Feb08
	Cheapest	5	3.75 Oct15	1.86	Sep12	5	3.15 Jan16	-0.50	Sep05
		4	4.30 Oct19	1.89	Jun09	4	4.00 Jul15	-0.46	Jan12
		3	4.85 Oct20	1.91	Jul10	3	3.75 Oct15	-0.41	Sep12
		2	4.80 Jan24	2.30	Sep08	2	3.30 Jul16	0.60	Apr13
		1	4.00 Apr20	2.57	Jan10	1	4.40 Oct23	1.05	May13
BELGIUM	Richest	1	3.25 Sep16	-1.69	Jan06	1	4.25 Sep22	0.47	Jan12
		2	3.50 Jun17	-1.62	Mar11	2	3.75 Sep20	0.49	Jan10
		3	3.75 Sep20	-1.48	Jan10	3	4.25 Sep21	0.49	Jan11
		4	4.00 Mar17	-0.77	Jan07	4	3.00 Sep19	0.65	Apr12
		5	3.00 Sep19	-0.42	Apr12	5	4.00 Mar22	0.70	May06
	Cheapest	5	5.50 Sep17	0.41	Jun02	5	4.00 Mar17	1.14	Jan07
		4	2.25 Jun23 (10y)	0.66	Jan13	4	3.50 Jun17	1.17	Mar11
		3	4.00 Mar22	0.71	May06	3	4.00 Mar18	1.28	Jan08
		2	1.25 Jun18 (5y)	1.00	Feb13	2	5.50 Sep17	1.37	Jun02
		1	3.75 Sep15	1.17	Mar05	1	1.25 Jun18 (5y)	2.52	Feb13

Source: Citi Research

# EMU relative value table – min 8yr maturity

Figure 40. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

		Versus Govt Curve (CAS)				Versus Swap Curve (CAS)			
		Rank		ZScore	Issued	Rank		ZScore	Issued
GERMANY	Richest	1	6.25 Jan30	-2.59	Jan00	1	1.50 May23 (10y)	-1.42	May13
		2	5.50 Jan31	-2.44	Oct00	2	6.25 Jan30	-1.41	Jan00
		3	3.25 Jul21	-2.43	Apr11	3	5.50 Jan31	-1.38	Oct00
		4	2.25 Sep21	-2.27	Aug11	4	3.25 Jul21	-1.35	Apr11
		5	2.00 Jan22	-2.22	Nov11	5	2.00 Jan22	-1.32	Nov11
	Cheapest	5	1.50 Sep22	0.79	Sep12	5	4.00 Jan37	-0.53	Jan05
		4	2.50 Jul44 (30y)	1.00	Apr12	4	4.25 Jul39 (UB)	-0.27	Jan07
		3	1.50 May23 (10y)	1.41	May13	3	4.75 Jul40	-0.23	Jul08
		2	1.50 Feb23	1.56	Jan13	2	3.25 Jul42	-0.14	Jul10
		1	1.75 Jul22 (RX)	1.66	Apr12	1	2.50 Jul44 (30y)	0.04	Apr12
FRANCE	Richest	1	4.50 Apr41 (30y)	-1.75	Apr09	1	2.25 Oct22	-0.64	Oct11
		2	1.75 May23 (10y)	-1.42	May12	2	4.25 Oct23	-0.64	Oct06
		3	3.25 May45	-1.28	May12	3	3.00 Apr22 (OAT)	-0.63	Feb12
		4	4.00 Oct38	-1.17	Oct05	4	3.25 Oct21	-0.59	Oct10
		5	3.25 Oct21	-0.71	Oct10	5	3.50 Apr26	-0.25	Apr10
	Cheapest	5	2.25 Oct22	1.11	Oct11	5	4.00 Oct38	0.47	Oct05
		4	4.00 Apr55	1.94	Apr04	4	1.75 May23 (10y)	0.87	May12
		3	3.50 Apr26	2.17	Apr10	3	4.00 Apr55	1.13	Apr04
		2	2.75 Oct27	2.39	Oct11	2	4.00 Apr60	1.22	Apr09
		1	4.00 Apr60	3.64	Apr09	1	3.25 May45	1.47	May12
ITALY	Richest	1	4.00 Feb37	-3.33	Aug05	1	4.00 Feb37	-1.22	Aug05
		2	5.00 Mar25	-1.76	Mar09	2	3.75 Aug21	-0.69	Feb06
		3	4.75 Aug23	-1.21	Feb08	3	5.75 Feb33	-0.65	Feb02
		4	3.75 Aug21	-0.99	Feb06	4	5.00 Mar25	-0.61	Mar09
		5	5.00 Aug39	-0.77	Aug07	5	5.00 Aug34	-0.58	Aug03
	Cheapest	5	5.50 Sep22	0.28	Mar12	5	5.50 Nov22 (IK)	-0.37	May12
		4	5.00 Mar22	0.29	Sep11	4	5.00 Sep40 (30y)	-0.34	Sep09
		3	4.75 Sep44	0.42	Mar13	3	5.00 Mar22	-0.34	Sep11
		2	5.00 Aug34	0.89	Aug03	2	5.50 Sep22	-0.33	Mar12
		1	4.75 Sep28	0.98	Jan13	1	4.75 Sep44	1.80	Mar13
N'LANDS	Richest	1	3.25 Jul21	-2.39	Mar11	1	3.75 Jan23	-0.24	Jan06
		2	2.25 Jul22	-2.32	Feb12	2	3.25 Jul21	-0.23	Mar11
		3	4.00 Jan37	-1.44	Apr05	3	2.25 Jul22	-0.20	Feb12
	Cheapest	3	3.75 Jan23	-1.43	Jan06	3	4.00 Jan37	0.03	Apr05
		2	2.50 Jan33	-0.13	Mar12	2	2.50 Jan33	0.18	Mar12
		1	3.75 Jan42 (30y)	2.09	May10	1	3.75 Jan42 (30y)	0.39	May10
SPAIN	Richest	1	4.90 Jul40	-1.48	Jun07	1	5.85 Jan22 (FBB)	-1.05	Nov11
		2	4.40 Oct23	-0.81	May13	2	4.65 Jul25	-1.02	Feb10
		3	5.85 Jan22 (FBB)	-0.56	Nov11	3	4.80 Jan24	-0.98	Sep08
		4	4.20 Jan37	0.08	Jan05	4	5.90 Jul26	-0.95	Mar11
		5	4.65 Jul25	0.37	Feb10	5	4.90 Jul40	-0.88	Jun07
	Cheapest	5	5.40 Jan23 (10y)	0.42	Jan13	5	4.20 Jan37	-0.87	Jan05
		4	5.75 Jul32	0.50	Jan01	4	5.75 Jul32	-0.86	Jan01
		3	4.70 Jul41 (30y)	0.57	Sep09	3	4.70 Jul41 (30y)	-0.85	Sep09
		2	5.90 Jul26	1.70	Mar11	2	5.40 Jan23 (10y)	-0.84	Jan13
		1	4.80 Jan24	2.32	Sep08	1	4.40 Oct23	1.05	May13
BELGIUM	Richest	1	5.00 Mar35	-1.86	May04	1	4.50 Mar26	0.46	Jun11
		2	4.50 Mar26	-0.47	Jun11	2	4.25 Sep22	0.47	Jan12
		3	4.25 Sep22	-0.30	Jan12	3	4.25 Sep21	0.49	Jan11
		4	4.25 Mar41 (30y)	-0.20	Apr10	4	4.00 Mar22	0.70	May06
	Cheapest	4	4.25 Sep21	-0.15	Jan11	4	2.25 Jun23 (10y)	0.73	Jan13
		3	2.25 Jun23 (10y)	0.67	Jan13	3	5.00 Mar35	0.84	May04
		2	4.00 Mar22	0.71	May06	2	4.00 Mar32	0.91	Mar12
		1	4.00 Mar32	0.71	Mar12	1	4.25 Mar41 (30y)	1.49	Apr10

Source: Citi Research



## UK relative value table

Figure 41. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

		Versus Govt Curve (CAS)				Versus Swap Curve (CAS)			
		Rank		ZScore	Issued	Rank		ZScore	Issued
ALL	Richest	1	4.75 Dec30	-2.63	Oct07	1	3.75 Sep20	-1.64	Jun10
		2	4.75 Sep15	-2.38	Sep03	2	4.75 Mar20	-1.57	Mar05
		3	4.25 Sep39	-2.12	Mar09	3	2.25 Sep23	-1.48	Jun13
		4	4.50 Dec42	-1.89	Jun07	4	3.75 Sep19	-1.45	Jul09
		5	3.75 Sep20	-1.72	Jun10	5	4.50 Mar19	-1.35	Sep08
	Cheapest	5	2.75 Jan15 (2y-WB)	1.30	Nov09	5	4.25 Dec46	1.57	May06
		4	4.25 Dec27	1.52	Sep06	4	3.75 Jul52	1.60	Sep11
		3	3.25 Jan44 (30y)	1.62	Oct12	3	4.25 Dec55	1.60	May05
		2	5.00 Mar25 (G)	1.71	Sep01	2	3.25 Jan44 (30y)	1.68	Oct12
		1	2.25 Sep23	1.90	Jun13	1	4.00 Jan60	1.74	Oct09
2yr - 7yr	Richest	1	4.75 Sep15	-2.38	Sep03	1	4.75 Mar20	-1.57	Mar05
		2	5.00 Mar18 (WX)	-1.25	May07	2	3.75 Sep19	-1.45	Jul09
		3	4.75 Mar20	-0.90	Mar05	3	4.50 Mar19	-1.35	Sep08
		4	4.00 Sep16	-0.80	Mar06	4	5.00 Mar18 (WX)	-1.29	May07
		5	1.25 Jul18 (5y)	-0.61	Feb13	5	1.25 Jul18 (5y)	-1.19	Feb13
	Cheapest	5	3.75 Sep19	0.03	Jul09	5	1.00 Sep17	-0.91	Mar12
		4	1.75 Jan17	0.18	Aug11	4	1.75 Jan17	-0.36	Aug11
		3	4.50 Mar19	0.28	Sep08	3	4.00 Sep16	-0.31	Mar06
		2	1.00 Sep17	0.32	Mar12	2	4.75 Sep15	0.00	Sep03
		1	2.00 Jan16	0.60	Nov10	1	2.00 Jan16	0.58	Nov10
7yr - 15yr	Richest	1	3.75 Sep20	-1.72	Jun10	1	3.75 Sep20	-1.64	Jun10
		2	1.75 Sep22 (10y)	0.04	Jun12	2	2.25 Sep23	-1.48	Jun13
		3	3.75 Sep21	0.19	Mar11	3	3.75 Sep21	-1.25	Mar11
		4				4			
		5				5			
	Cheapest	5				5			
		4				4			
		3	4.25 Dec27	1.52	Sep06	3	1.75 Sep22 (10y)	-0.97	Jun12
		2	5.00 Mar25 (G)	1.71	Sep01	2	5.00 Mar25 (G)	0.98	Sep01
		1	2.25 Sep23	1.90	Jun13	1	4.25 Dec27	1.29	Sep06
>15yr	Richest	1	4.75 Dec30	-2.63	Oct07	1	4.75 Dec30	0.68	Oct07
		2	4.25 Sep39	-2.12	Mar09	2	4.25 Mar36	0.99	Feb03
		3	4.50 Dec42	-1.89	Jun07	3	4.25 Sep39	1.06	Mar09
		4	4.25 Dec49	-1.32	Sep08	4	4.75 Dec38	1.12	Apr04
		5	4.25 Dec46	-1.13	May06	5	4.25 Jun32	1.17	May00
	Cheapest	5	4.75 Dec38	0.16	Apr04	5	4.25 Dec46	1.57	May06
		4	4.00 Jan60	0.80	Oct09	4	3.75 Jul52	1.60	Sep11
		3	4.25 Jun32	0.98	May00	3	4.25 Dec55	1.60	May05
		2	4.50 Sep34	1.15	Jun09	2	3.25 Jan44 (30y)	1.68	Oct12
		1	3.25 Jan44 (30y)	1.62	Oct12	1	4.00 Jan60	1.74	Oct09

Source: Citi Research

# Supply Analysis and Forecasts

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

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
17 Jun (Mon)	US	4.75 - 5.75	Outright Treasury Coupon Purchases: 31/3/2018 - 28/2/2019		-27k		
18 Jun (Tue)	Finland	1.5	RFGB 1.5% Apr23 and 2.625% Jul42 (issue confirmed, max size €1.5bn)				18k
18 Jun (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-36k		
19 Jun (Wed)	Germany	5.0	Bund May23 reopening (issue and size confirmed)				38k
20 Jun (Thu)	Spain	4.0	Obligaciones 2yr, 5yr and 10yr (estimated tenors and size)				19k
20 Jun (Thu)	France	10.0	BTAN, OAT 2yr and 5yr / OATi (estimated tenors and size)				40k
20 Jun (Thu)	UK	4.8	1¼% Treasury Gilt 2018 (issue and size confirmed)			23k	
20 Jun (Thu)	US	7.0	30-year TIPS (re-opening)		85k		
20 Jun (Thu)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/8/2020 - 15/5/2023		-29k		
21 Jun (Fri)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-36k		
Weekly \$DV01 of Issuance				18.6			
Total Number of Futures Contracts					-44k	23k	115k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
24 Jun (Mon)	Belgium	3.3	OLO 5yr, 10yr and 15yr (estimated size and tenors). We believe that this auction will be cancelled as we expect Belgium to do a 30yr syndication in June.				28k
24 Jun (Mon)	US	3 - 3.75	Outright Treasury Coupon Purchases: 31/3/2019 - 31/5/2020		-21k		
25 Jun (Tue)	Netherlands	5.0	New DSL Jan19 via DDA (issue confirmed, size minimum €5bn)				20k
25 Jun (Tue)	Italy	2.5	CTZ (estimated size)				4k
25 Jun (Tue)	Italy	1.0	BTPei (estimated size)				8k
25 Jun (Tue)	UK	4.0	Syndication of new Treasury Gilt 2068 (issue confirmed, week commencing 24 June)			97k	
25 Jun (Tue)	US	35.0	2-Year		87k		
25 Jun (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2043		-36k		
26 Jun (Wed)	US	35.0	5-Year		208k		
26 Jun (Wed)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/8/2020 - 15/5/2023		-29k		
27 Jun (Thu)	Italy	6.0	BTP 5yr and 10yr (estimated tenor and size)				35k
27 Jun (Thu)	US	29.0	7-Year		237k		
27 Jun (Thu)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 30/6/2017 - 28/2/2018		-19k		
28 Jun (Fri)	US	1.25 - 1.75	Outright Treasury Coupon Purchases : 15/2/2036 - 15/5/2043		-36k		
Weekly \$DV01 of Issuance				62.9			
Total Number of Futures Contracts					390k	97k	94k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
02 Jul (Tue)	Austria	1.5	RAGB 10yr and 30yr (estimated size and tenors). We believe that this auction will be cancelled as we expect Austria to do a 5yr syndication in July.				21k
02 Jul (Tue)	UK	3.6	2¼% Treasury Gilt 2023 (issue confirmed, estimated size)			32k	
04 Jul (Thu)	Spain	3.8	Bono 2yr, 5yr and 15yr (estimated tenors and size)				22k
04 Jul (Thu)	France	7.8	OAT 5yr, 10yr and 15yr (estimated tenors and size)				65k
Weekly \$DV01 of Issuance				22.5			
Total Number of Futures Contracts					0k	32k	107k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
09 Jul (Tue)	UK	1.5	01/8% Index-linked Treasury Gilt 2029 (issue confirmed, estimated size)			20k	
09 Jul (Tue)	US	32.0	3-Year		79k		
10 Jul (Wed)	US	21.0	10-Year (re-opening)		231k		
11 Jul (Thu)	Italy	3.5	BTP				24k
11 Jul (Thu)	Italy	1.3	CCTeu (estimated size)				5k
11 Jul (Thu)	UK	2.6	3¼% Treasury Gilt 2044 (issue confirmed, estimated size)			52k	
11 Jul (Thu)	US	13.0	30-year (re-opening)		299k		
Weekly \$DV01 of Issuance				66.1			
Total Number of Futures Contracts					610k	72k	29k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on June 28, 2013. Therefore we have only provided details of Fed buybacks up to 28 June. The auction calendar above does not include auctions for the Netherlands and Germany after 30th June as their auction calendars for 3Q13 have not yet been announced. Additional issues expected in June: Belgium 30yr (€4bn). Additional issues expected in July: Austria 5yr (€4bn). Ireland 5yr and 10yr (€1.3bn). These are not included in the cash flow tables or gross supply charts of this report as the timing of these supply events have not been announced.

Source: DMOs, Citi estimates

## EUR: Coupons & Redemptions (next 3 mths)

Figure 43. EMU-10 Redemptions over the next three months (€bn)

Redemptions = €151bn											
Redemptions	DEU 39	FRA 36	NLD 16	ITA 39	ESP 15	BEL 0	AUT 0	FIN 6	PRT 0	GRC 0	IRL 0
(Fri) 14-Jun-13	17.0										
(Mon) 01-Jul-13				14.3							
(Thu) 04-Jul-13	22.0							6.0			
(Fri) 12-Jul-13		17.7									
(Mon) 15-Jul-13			16.0								
(Thu) 25-Jul-13		18.7									
(Tue) 30-Jul-13					14.9						
(Thu) 01-Aug-13				24.7							

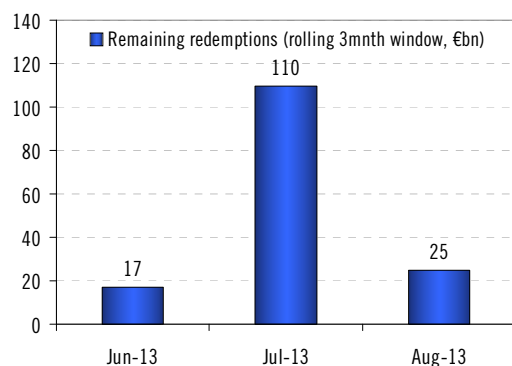
Source: DMOs, Bloomberg, Citi Research

Figure 44. EMU-10 Coupon Payments over the next three months (€bn)

Coupons = €57bn											
Coupons	DEU 14	FRA 6	NLD 6	ITA 17	ESP 8	BEL 1	AUT 2	FIN 1	PRT 1	GRC 0	IRL 0
(Fri) 14-Jun-13	0.3								0.4		
(Sat) 15-Jun-13				0.9					0.7		
(Sun) 16-Jun-13									0.3		
(Tue) 18-Jun-13							0.1				0.3
(Thu) 20-Jun-13	0.2						0.1				
(Sat) 22-Jun-13						0.3					
(Fri) 28-Jun-13						0.5					
(Mon) 01-Jul-13				0.5							
(Thu) 04-Jul-13	12.1							1.2			
(Fri) 12-Jul-13		2.3									
(Mon) 15-Jul-13			5.7	0.4			1.8				
(Sat) 20-Jul-13											0.0
(Thu) 25-Jul-13		4.0									
(Tue) 30-Jul-13					8.4						
(Thu) 01-Aug-13				8.9							
(Sun) 18-Aug-13											0.0
(Sun) 01-Sep-13				6.5							
(Wed) 04-Sep-13	1.0										

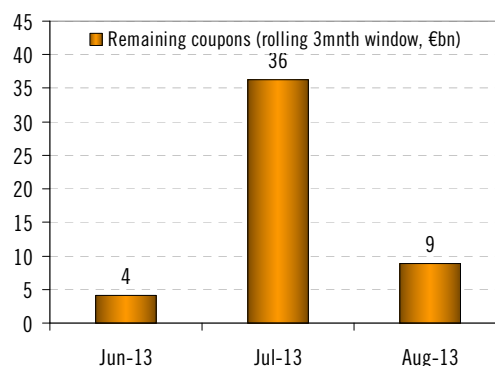
Source: DMOs, Bloomberg, Citi Research

Figure 45. EMU-10 remaining redemptions over the next 3 months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 46. EMU-10 remaining coupons over the next 3 months (€bn)



Source: DMOs, Bloomberg, Citi Research

## ESP and ITA Bill Issuance Projections

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

### Auction calendar for the next four weeks

Figure 47. Provisional Bill Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (EUR Million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
<b>Week 1</b>	18 Jun (Tue)	Spain	6month (13 December 2013), 12month (20 June 2014) - tenors confirmed, estimated issue and size	5.25
<b>Total Size in Week 1</b>				<b>5.3</b>
<b>Week 2</b>	25 Jun (Tue)	Spain	3month (20 September 2013), 9month (14 March 2014) - tenors confirmed, estimated issue and size	3.5
	26 Jun (Wed)	Italy	6 month (31 Dec 2013; issue confirmed, estimated size)	9
<b>Total Size in Week 2</b>				<b>12.5</b>
<b>Week 4</b>	10 Jul (Wed)	Italy	12 month (14 July 2014; issue confirmed, estimated size)	8.25
<b>Total Size in Week 4</b>				<b>8.3</b>

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 48. 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	1.0	1.8	2.5	3.5		9	10	-1
Jul	1.0	1.8	2.5	3.5		9	5	4
Aug	1.0	1.8	2.5	3.5		9	11	-2
Sep	1.0	1.8	2.5	3.5		9	7	2
Oct	1.0	1.5	2.3	3.3		8	4	4
Nov	1.0	1.5	2.3	3.3		8	9	-1
Dec	1.0	1.5	2.3	3.3		8	9	-1
<b>Total</b>	<b>12.9</b>	<b>21.0</b>	<b>27.8</b>	<b>42.6</b>	<b>2.5</b>	<b>107</b>	<b>95</b>	<b>12</b>
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		9.0		7.0		16	16	
Jul		9.0		8.3		17	20	-3
Aug		9.0		8.3		17	18	-1
Sep	3.0	9.0		8.3		20	20	
Oct		9.0		8.3		17	17	
Nov		8.5		7.5		16	16	
Dec		10.0		7.5		18	22	-5
<b>Total</b>	<b>6.0</b>	<b>111.2</b>		<b>98.1</b>	<b>3.0</b>	<b>218</b>	<b>223</b>	<b>-5</b>

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

Source: DMOs, Bloomberg, Citi estimates

## Inflation Forecasts, Carry & Weekly Changes

Figure 49. Citi Inflation Forecasts

Month	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY
	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change
Apr 13	116.83	-0.1	1.1	125.50	-0.2	0.6	249.50	0.3	2.9	232.53	-0.1	1.1
May 13	116.91	0.1	1.3	125.57	0.1	0.7	250.10	0.2	3.2	233.10	0.2	1.4
Jun 13	117.01	0.1	1.5	125.70	0.1	0.7	250.60	0.2	3.6	233.10	0.0	1.6
Jul 13	116.53	-0.4	1.6	125.30	-0.3	0.9	250.30	-0.1	3.4	232.80	-0.1	1.6
Aug 13	116.75	0.2	1.4	125.75	0.4	0.6	251.20	0.4	3.4	233.00	0.1	1.1
Sep 13	117.25	0.4	1.1	125.46	-0.2	0.6	252.10	0.4	3.2	233.30	0.1	0.8

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 50. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.11	0.11	0.11									
TIPS 7/14	-1.05	2	2	-11	3	-8	US-2.625-07/31/14	123	-3	-7	-11	2	-9	21	-2
TIPS 1/15	-0.93	8	8	-7	3	-3	US-2.250-01/31/15	121	-5	-8	-8	2	-6	16	-1
TIPS 4/15	-0.90	4	4	-6	3	-2	US-2.500-04/30/15	122	-1	-3	-6	1	-5	8	-6
TIPS 7/15	-1.23	12	12	-6	0	-6	US-4.250-08/15/15	160	-9	-12	-7	-1	-9	8	2
TIPS 1/16	-1.00	12	12	-4	2	-2	US-2.625-02/29/16	149	-6	-8	-5	0	-6	18	-1
TIPS 4/16	-0.92	12	12	-4	2	-1	US-2.000-04/30/16	147	-4	-6	-5	0	-5	17	-2
TIPS 7/16	-1.11	12	12	-4	1	-3	US-4.875-08/15/16	174	-3	-5	-5	-2	-7	16	-3
TIPS 1/17	-0.91	22	22	-3	2	-1	US-3.125-01/31/17	166	-13	-15	-4	-1	-5	22	7
TIPS 4/17	-0.83	14	14	-3	2	0	US-0.875-04/30/17	167	-4	-5	-4	-1	-5	18	-2
TIPS 7/17	-0.96	17	17	-3	1	-1	US-4.750-08/15/17	184	-7	-8	-4	-2	-6	20	1
TIPS 1/18	-0.76	27	27	-2	2	0	US-3.500-02/15/18	180	-14	-16	-3	-1	-5	23	9
TIPS 4/18	-0.72	16	16	-2	2	0	US-0.625-04/30/18	183	-4	-5	-3	-1	-5	18	-1
TIPS 7/18	-0.79	20	20	-2	1	0	US-4.000-08/15/18	192	-8	-10	-3	-2	-5	26	4
TIPS 1/19	-0.58	21	21	-2	2	1	US-2.750-02/15/19	185	-10	-11	-3	-1	-4	29	5
TIPS 7/19	-0.59	26	26	-2	2	1	US-3.625-08/15/19	197	-14	-15	-3	-1	-5	28	10
TIPS 1/20	-0.38	28	28	-1	2	1	US-3.625-02/15/20	185	-15	-16	-2	-1	-4	38	12
TIPS 7/20	-0.37	23	23	-1	2	1	US-2.625-08/15/20	201	-11	-12	-2	-1	-4	31	8
TIPS 1/21	-0.19	27	27	-1	2	2	US-3.625-02/15/21	194	-14	-15	-2	-1	-4	36	11
TIPS 7/21	-0.15	24	24	-1	2	2	US-2.125-08/15/21	203	-11	-12	-2	-1	-4	33	7
TIPS 1/22	-0.01	23	23	-1	2	2	US-2.000-02/15/22	201	-9	-10	-2	-1	-3	33	6
TIPS 7/22	0.01	22	22	-1	2	2	US-1.625-08/15/22	210	-9	-9	-2	-1	-3	29	4
TIPS 1/23	0.10	18	18	-1	2	2	US-2.000-02/15/23	207	-5	-6	-2	-1	-3	31	1
TIPS 1/25	0.35	23	23	0	2	2	US-7.625-02/15/25	198	-11	-11	-2	-1	-3	48	7
TIPS 1/26	0.45	23	23	0	2	2	US-6.000-02/15/26	205	-11	-11	-2	-1	-3	44	7
TIPS 1/27	0.55	24	24	0	2	2	US-6.625-02/15/27	205	-12	-12	-2	-1	-3	47	7
TIPS 1/28	0.66	26	26	0	2	2	US-6.125-11/15/27	204	-12	-13	-1	-1	-3	51	8
TIPS 4/28	0.62	23	23	0	2	2	US-5.500-08/15/28	216	-10	-10	-1	-1	-3	38	5
TIPS 1/29	0.69	22	22	0	2	2	US-5.250-02/15/29	213	-9	-10	-1	-1	-3	45	5
TIPS 4/29	0.68	22	22	0	2	2	US-5.250-02/15/29	214	-9	-10	-1	-1	-3	42	5
TIPS 4/32	0.83	23	23	0	2	2	US-5.375-02/15/31	209	-10	-10	-1	-1	-3	55	7
TIPS 2/40	1.09	22	22	0	2	2	US-4.625-02/15/40	214	-9	-10	-1	-1	-2	57	7
TIPS 2/41	1.11	21	21	0	1	2	US-4.750-02/15/41	214	-9	-9	-1	-1	-2	58	7
TIPS 2/42	1.16	20	20	0	1	2	US-3.125-02/15/42	217	-8	-8	-1	-1	-2	54	6
TIPS 2/43	1.17	18	18	0	1	2	US-3.125-02/15/43	217	-6	-6	-1	-1	-2	55	4

Source: Citi Research, Bloomberg

Figure 51. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.10	0.09	0.09									
BTPei14	0.53	2	2	-2	7	20	BTP 8/14	68	4	1	-6	-7	-6	44	-5
OATei15	-0.78	6	6	-4	-4	-3	FFRG 4/15	107	-1	-3	-4	-5	-6	28	-3
BUNDei16	-0.53	8	8	-2	-2	-1	BUND 1/16	74	-6	-7	-2	-2	-2	22	1
BTANi16	-0.59	15	15	-3	-3	-2	FFRG 4/16	113	-9	-11	-4	-5	-5	34	3
BTPei16	1.96	24	24	1	8	17	BTP 8/16	60	-11	-13	-2	-2	-2	69	6
OATi17	-0.46	16	16	-2	-2	0	FFRG 4/17	126	-9	-11	-3	-4	-5	32	3
BTPei17	2.23	18	18	1	7	15	BTP 8/17	83	-8	-9	-2	-3	-3	57	3
BOBLei18	-0.46	12	12	-1	-1	0	BUND 1/18	98	-9	-10	-2	-2	-2	30	4
OATei18	-0.15	21	21	-1	0	1	FFRG 4/18	114	-15	-16	-2	-2	-3	41	10
BTPei18	2.37	18	18	1	6	12	BTP 8/18	94	-9	-10	-2	-3	-3	55	4
OATi19	-0.10	19	19	-1	-1	1	FFRG 4/19	132	-12	-13	-2	-3	-4	47	7
BTPei19	2.37	14	14	1	5	10	BTP 9/19	119	-8	-9	-2	-3	36	36	3
BUNDei20	-0.32	15	15	-1	0	0	BUND 1/20	120	-11	-12	-1	-2	-2	27	6
OATei20	0.12	23	23	-1	0	2	FFRG 4/20	132	-16	-17	-1	-2	-3	35	11
OATi21	0.25	20	20	-1	0	2	FFRG 4/21	143	-14	-15	-2	-3	-3	50	9
BTPei21	2.80	10	10	1	5	9	BTP 9/21	114	-11	-11	-1	-2	31	57	5
OATei22	0.44	22	22	0	1	2	FFRG 4/21	125	-16	-17	-1	-2	-3	58	11
BUNDei23	0.02	15	15	0	0	1	BUND 1/22	127	-12	-13	-1	-2	-2	47	7
OATi23	0.55	23	23	-1	1	2	FFRG 10/23	167	-17	-18	-1	-3	-3	40	12
BTPei23	3.10	11	11	1	4	8	BTP 8/23	116	-12	-13	-1	-2	-3	70	8
OATei24	0.71	19	19	0	1	2	FFRG 10/23	151	-14	-15	-1	-2	-3	44	9
BTPei26	3.16	10	10	1	4	7	BTP 3/26	127	-10	-11	-1	-2	21	74	6
OATei27	0.86	20	20	0	1	2	FFRG 4/26	169	-16	-16	-1	-2	-3	37	12
OATi29	0.76	17	17	0	1	2	FFRG 4/29	199	-12	-13	-1	-2	-3	28	9
OATei32	1.01	18	18	0	1	2	FFRG 10/32	189	-14	-14	-1	-2	-3	24	11
BTPei35	3.17	12	12	0	2	5	BTP 8/34	172	-13	-14	-1	-2	-3	44	10
OATei40	1.10	16	16	0	1	1	FFRG 4/41	207	-13	-13	-1	-1	-2	16	10
BTPei41	3.39	9	9	0	2	4	BTP 9/40	160	-11	-11	-1	-2	14	63	8

Source: Citi Research

Figure 52. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.43	0.42	0.41									
UKTi Jul16	-1.90	19	18	1	3	5	UKT 9/16	258	-8	-8	1	2	3	37	5
UKTi Nov17	-1.69	20	19	2	3	4	UKT 3/18	276	-8	-7	1	1	1	19	4
UKTi Apr20	-1.12	21	21	1	3	5	UKT 3/20	267	-8	-8	0	0	1	33	1
UKTi Nov22	-0.79	19	18	1	3	4	UKT 3/22	278	-8	-8	0	0	0	41	6
UKTi Mar24	-0.51	16	16	1	3	4	UKT 3/25	291	-8	-8	0	0	-1	30	6
UKTi Jul24	-0.52	17	16	1	3	4	UKT 3/25	292	-8	-8	0	0	0	37	4
UKTi Nov27	-0.34	14	13	1	2	3	UKT 12/27	306	-6	-6	0	0	-1	37	4
UKTi Mar29	-0.19	14	14	1	2	3	UKT 12/30	312	-5	-5	0	0	-1	32	4
UKTi Jul30	-0.27	11	11	1	2	4	UKT 6/32	330	-3	-3	0	0	-1	21	1
UKTi Nov32	-0.18	10	10	1	2	3	UKT 6/32	321	-2	-2	0	-1	-1	34	0
UKTi Mar34	-0.10	10	10	1	2	3	UKT 9/34	324	-2	-2	0	-1	-1	31	-1
UKTi Jan35	-0.13	9	9	1	2	3	UKT 3/36	333	-2	-2	0	-1	-1	26	0
UKTi Nov37	-0.09	8	8	1	2	2	UKT 12/38	333	-2	-2	0	-1	-1	29	1
UKTi Mar40	-0.04	8	7	1	1	2	UKT 9/39	333	-1	-2	0	-1	-2	30	1
UKTi Nov42	-0.04	7	7	1	1	2	UKT 12/42	338	-1	-2	0	-1	-2	30	1
UKTi Mar44	0.02	7	7	1	1	2	UKT 1/44	340	-1	-1	0	-1	-2	26	-8
UKTi Nov47	0.00	6	6	1	1	2	UKT 12/46	341	-1	-1	0	-1	-2	28	1
UKTi Mar50	0.02	6	6	0	1	2	UKT 12/49	340	-1	-1	0	-1	-2	27	-0
UKTi Mar52	0.04	6	5	0	1	1	UKT 7/52	341	-1	-1	0	-1	-2	27	1
UKTi Nov55	0.00	5	5	0	1	2	UKT 12/55	343	-1	-1	0	-1	-2	27	1
UKTi Mar62	0.00	6	5	0	1	1	UKT 1/60	342	-1	-1	0	-1	-2	27	1

Source: Citi Research

## Summary of Recent Publications

Date	Publication	Topic	Page	Region
11-Jun-13	NOTE	<a href="#">Bunds: Buy RXU3 ASW @-31</a>	-	EUR
10-Jun-13	NOTE	<a href="#">European Flow Monitor: Slowing Demand in Non-Core</a>	-	EUR
06-Jun-13	European Weekly	<a href="#">EGB: Update on French Government Bonds</a>	7	EUR
		<a href="#">Bund yield outlook and the ECB</a>	10	EUR
		<a href="#">UK Rates: Impact of cash flows on gilts</a>	13	UK
		<a href="#">SSA Strategy: EFSF in June 2013: Au revoir, not adieu</a>	15	EUR
		<a href="#">Covered Bond Strategy: Commerzbank goes traditional</a>	17	EUR
		<a href="#">Bund Technical Analysis: Near-term Bullish Signals</a>	19	EUR
03-Jun-13	NOTE	<a href="#">Flow Monitor: Strong Demand for the Long End in Both Core and Non-Core</a>	-	EUR
31-May-13	NOTE	<a href="#">UK Rates Strategy: Carney trades': implications of forward guidance for UK rates</a>	-	UK
30-May-13	European Weekly	<a href="#">Countdown to Carney: Forward Guidance</a>	7	UK
		<a href="#">Re-examining default risks in Europe</a>	12	EUR
		<a href="#">SSA Strategy: supras vs covereds &amp; govies</a>	17	EUR
		<a href="#">Covered Bond Strategy</a>	18	EUR
		<a href="#">Update on EUREX Calendar Rolls M3/U3</a>	20	EUR
		<a href="#">Analysis of Recent EMU Flow</a>	21	EUR
		<a href="#">EMU-10: June Supply Outlook</a>	22	EUR
30-May-13	NOTE	<a href="#">Weekly Supply Monitor: Euro, UK and US Supply Outlook</a>	-	Global
30-May-13	NOTE	<a href="#">Euro SSA and Covered Bond Monthly: The Dutch and Austrian markets in focus</a>	-	EUR
29-May-13	NOTE	<a href="#">European Rates Strategy: Update: EUREX Calendar Rolls M3/U3</a>	-	EUR
29-May-13	NOTE	<a href="#">EMU-10 Supply in June: Cash Flows Are Non-Supportive for OATs</a>	-	EUR
29-May-13	NOTE	<a href="#">European Flow Monitor: Selling of core to buy non-core</a>	-	EUR
23-May-13	European Weekly	<a href="#">Monthly Forecast Update: No more Grexit, but more "Low for Longer"</a>	8	Global
		<a href="#">EMU Rates: Improving prospects for Ireland</a>	10	EUR
		<a href="#">Euro Inflation Strategy: Linker underperformance likely to reverse in the near-term</a>	15	EUR
		<a href="#">Covered Bond Strategy</a>	16	EUR
		<a href="#">End-May EGBI Projection</a>	22	EUR
		<a href="#">EMU Inflation-Linked Index projection</a>	23	EUR
23-May-13	NOTE	<a href="#">Weekly Supply Monitor: Euro, UK and US Supply Outlook</a>	-	Global
22-May-13	NOTE	<a href="#">Euro Rates Strategy: Bund Technical Flash - Watch Out for Support at 144.22</a>	-	EUR
22-May-13	NOTE	<a href="#">Euro Inflation-Linked Index Projection</a>	-	EUR
22-May-13	NOTE	<a href="#">Month-end Index Projections: EGBI changes very supportive for peripheries</a>	-	EUR
20-May-13	NOTE	<a href="#">Flow Monitor: Another week of strong demand for the long-end of non-core</a>	-	EUR

## Notes



## Appendix A-1

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