13 February 2014 | 44 pages

Developed Markets
Western Europe

European Rates Weekly

Focus on Austria

- **Austrian banks and rating decisions:** The Austrian government is currently considering options on how to proceed with nationalised Hypo Alpe Adria bank amid repeated capital injections in recent years. We consider Austria's bond market and macro environment given Moody's upcoming ratings decision on 28th February. Ongoing headline risks are likely to support the softer market tone in the near-term, but we think the fundamental strengths of Austria mean its core status is secure.

- **Upcoming 30yr EMU supply & DSL auction:** Over the next fortnight we expect €8bn of 30yr core issuance. This is likely to result in 30yr Bund ASW tightening further and steepening pressure on EUR 5s30s. We preview next Tuesday's 30yr DSL auction and include our estimates for pricing. We recommend buying 30yr DSLs vs Austria targeting 10bp of spread widening from current levels.

- **EUR volatility:** Year to-date the EUR gamma implied volatility surface has undergone bull flattening pressures. Given that our economists expect a 15bp cut in the Refi rate and no change in the deposit facility rate at the March meeting, in the short term, gamma calendar spreads should normalize. Accordingly we find the vega neutral 2m10y/9m10y calendar spread still attractive at current levels.

- **UK & Inflation:** The February Inflation Report provided nuanced guidance, which can be summarized as *'rates will rise, but not yet'.* The outlook from here is very data dependent, with the MPC likely to provide regular updates on spare capacity. We maintain our bearish medium-term view on gilts cross-market, expect 10s30s to flatten and are bullish on UK break-even inflation spreads.

- **HAA and Austrian agency debt:** Austrian agencies which have an explicit guarantee have their ratings normalized to that of the sovereign. Spreads are likely to remain relatively low and range bound in our view.

- **HAA and Austrian covered bonds:** Our base-case scenario should be supportive for Austrian covered bonds with limited rating pressure. Moreover, any form of contagion risk is now limited for Austrian issuers in our view.

- **Technicals:** We think that 144.1 would be a good level to short Bunds from a technical perspective. Gilts have bounced from the top of their 6-month range. We recommend chasing the sell-off with a tight stop above 110.55.

- **Relative value trades:** We highlight a number of relative value opportunities in the 2-10yr sector of the German, Austrian, Finnish, Italian, Spanish and gilt yield curves.

- **Supply:** Within Europe, next week's bond supply comes from Belgium (around €3bn), Netherlands (min €3bn), Germany (€5bn), France (around €9.5bn) and Spain (~€6bn). The UK DMO will issue £3bn of gilt 2.25% 2023 next Thursday.

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Citi now expects a refi cut of 15bp at the March meeting. Inflation is likely to remain subdued and Bund yields low around 1.7% -1.8% on average.	Buy the dips in Bunds
Money Market	Lighten up on front-end longs and look to add once positioning becomes cleaner. We continue to like decoupling strategies with USD money markets. In the UK, short-sterling has sold-off since the Inflation Report. It perhaps has a little further to run, but the outlook is now much more balanced.	Sell short-sterling 'red-pack' but trade with tight stop Eonia 1yr/1yr1yr flattener
Yield Curve	We suggest lightening up on carry trades involving front-end longs. An attractive way to capture a decline in curvature in the front-end of the euro curve is to receive the belly of EUR 1y1y/3y1y/5y2y using -1:1.5:-1 weights as this trade offers positive carry and a short duration exposure. The upcoming wave of 30yr bond supply is likely to put steepening pressure on EUR 10s30s and 5s30s. In the UK, we expect flattening pressure on 10s30s to resume soon.	Receive belly of EUR 1y1y/3y1y/5y2y (using -1:1.5:-1 weights) Lighten up on receive EUR 3y2y vs 5y25y (5s30s steepeners) Lighten up on receive EUR 5y5yF vs 15y15yF (or receive EUR 5s15s30s) Hold BTP 2s10s steepener
Cross-market	Over the longer-term, we still expect Bunds to outperform USTs given the diverging policy/growth/inflation outlook. We also still like 10yr gilt-Bund wideners given our forecast that the ECB will cut rates in Mar, but the MPC will hike in Nov. The MPC are likely to hike well before the Fed, suggesting 2yr/10yr Gilt-USTs will widen. However, in the 30yr sector, we expect the opposite given relative demand/supply pressures.	Receive 15y15y GBP vs USD Sell 10yr gilts vs USTs Stay short 10yr gilts vs Bunds Long Bunds vs UST (add on corrections)
EMU Spreads	Softer spreads may emerge in the near term as the supply profile turns less supportive with fewer offsetting coupon and redemption money. A Renzi led Italian coalition is likely to be supportive for the BTP market for now, but over the longer-term we still expect Spain to outperform. Separately, on-going headline risk regarding Austrian banks is likely to weigh on RAGB spreads to Bunds & DSLs. We continue to expect Ireland to eventually gravitate towards the soft core and remain short DSL 37s vs Bunds.	Sell 30yr Austria vs Netherlands Long Spain vs Italy Sell France vs Belgium and Germany (in either 5s or 10s) Sell 20yr DSLs vs Bunds Range trade 10yr OAT-Bunds (50bp/70bp)
Swap Spreads	We suggest tightening stops on swap spread wideners following recent moves. The 30yr sector will see a large amount of bond issuance in the next two weeks. We expect 30yr Bund ASW to tighten further. In the UK, the lack of supply in longs this quarter may help 30yr swap spreads to richen. Supply trends are also supportive over the longer-term.	Remain long 5yr Germany vs swaps
Inflation	Euro break-evens remain under pressure, especially OATi. The risks are still skewed to the downside ahead of the negative carry in March, but dip buying may soon emerge. In the UK, our 30s50s break-even steepener is finally starting to move in the right direction, supported by returning LDI demand. We also see medium-term value in 10yr break-evens here following the Inflation Report and the outlook for RPI.	Buy IL68 vs IL44 break-even inflation
Volatility	Whilst black swans can, and indeed have, appeared to wreak havoc on carry trades (they showed up at least twice in 2013), we believe that long positions on receiver swaptions in the top left corner are the safest way to play the ECB at the current market juncture, given the limited downside and the current cheap gamma vol valuation.	Long 1y3y ATMF Receiver Swaption
SSA	Look to the primary market for liquidity pockets to add exposure selectively. Move up in quality, especially from EMU sovereigns of lower ratings, when spread levels and liquidity permit.	Long Dutch agencies vs the Netherlands Long 3yr KfW vs the Netherlands Long 2yr KfW vs France Long EU vs other supras with larger supply pipelines
For a list of outstanding trade strategies please see the Tradesheet section of this report		

Source: Citi Research

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 14 – 20 Feb

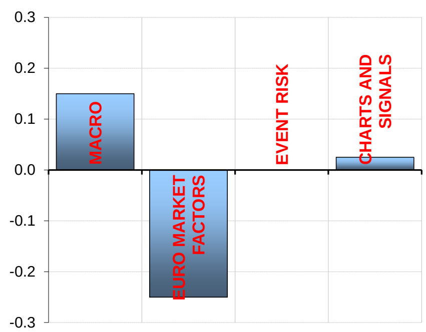
Bund Directional Scorecard (1wk horizon)

RECOMMENDATION	**Short**	RXH4 (EOD Thurs) = 143.79	
Conviction level	**4%**	CTD yield = 1.35%	10day del vol = 4.8%

	SIGNAL STRENGTH (+/-2)		
MACRO	**0.2**		**Weight = 35%**
ECB	1	We expect a 15bp cut to the refi-rate in March	7.5%
Fed, BoE and BOJ	0	Dovish forward guidance but modest tapering broadly priced	7.5%
Inflation	2	Headline inflation projected to fall to 0.5% by March	7.5%
Growth related data	-1	Feb PMI likely to point to expansion	7.5%
Citi surprise	0	Citi Economic Surprise Index close to 0	2.5%
Middle East / Oil	0	Brent prices largely range bound	2.5%
EURO MARKET FACTORS	**-0.3**		**Weight = 28%**
Supply	-2	Around €20bn of core supply with minimal cash flows	10.0%
Risk appetite	0	Relatively low ahead of Moody's rating decisions	2.5%
Flow	-1	Small net selling of Germany last week	2.5%
Equity	-1	Eurostoxx50 rallied 2% over the last week	2.5%
Sovereign credit	-1	Peripheral yields at multi year low	5.0%
FX	1	EUR effective exchange rate at the low end of its recent range	5.0%
EVENT RISK	0.0		**Weight = 15%**
Politics	0	Political disturbances in Italy seem to be drawing to a conclusion	2.5%
3yr LTRO	0	We expect a new 1yr LTRO in 1H14	7.5%
Stability mechanisms	0	Nothing on the agenda in the near-term	5.0%
CHARTS AND SIGNALS	**0.0**		**Weight = 23%**
Technicals	-1	Signs of reversal in rally	7.5%
T-Note	0	Neutral	5.0%
CFTC	1	Shorts reducing	5.0%
ARTS	1	Long	5.0%

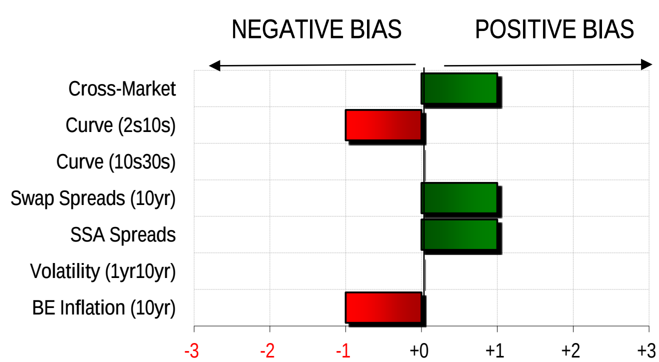
Source: Citi Research Note: Futures trading involves a substantial risk of loss.

Figure 3. Contribution to Bund Signals



Source: Citi Research

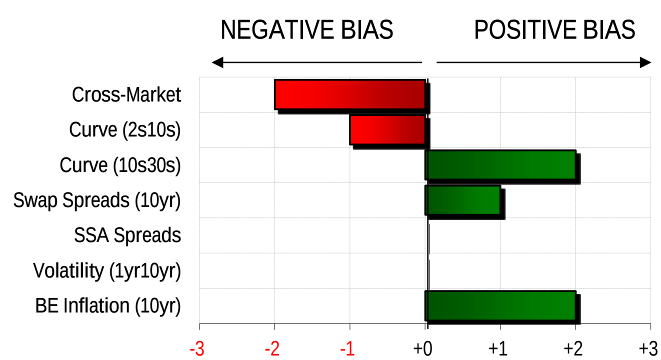
Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

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

Figure 5. UK (Near-term Bias)



Source: Citi Research

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

Tradesheet

New Trades

Please see *UK Rates Strategy* for details

1. Sell the short-sterling 'red-pack'

Sell the short-sterling 'red-pack' at 1.16%

Open 1.16%. Current 1.29%. Target 1.36%. Revised Stop 1.26%.

Please see page 13 for details

2. Buy 30yr DSLs vs RAGBs

Buy DSL Jan42 at 2.67%

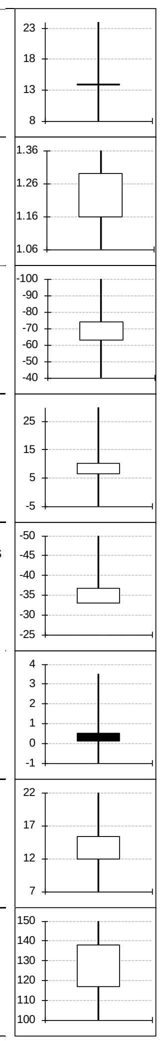
Sell RAGB Jun44 at 2.81%

Open 14bpp. Current 14bp. Target 24bp. Stop 8bp.

Record of Our Open Trades

Figure 6. Record of our Open Trades

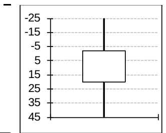
Region	Trade	Levels		Rationale + Publication Date
EUR *Cross Market*	Buy 30yr Netherlands vs Austria Buy DSL Jan42 at 2.67% Sell RAGB Jun44 at 2.81%	Open Current P&L Target Stop	14bp 14bp 0bp 24bp 8bp	Close to historically tight levels. Uncertainty surrounding the Austria banking sector should weigh on Austrian bonds *European Rates Weekly, 12 February 2014*
UK *Money Market*	Sell Short-Sterling 'red-pack' Sell Short-Sterling 'red-pack' at 1.16%	Open Current P&L Target Stop Revised Stop	1.16% 1.29% 13bp 1.36% 1.06% 1.26%	Economic developments will challenge the lower-for-longer pricing soon enough *UK Rates Strategy, 11 February 2014* *Revised: The Morning Call, 13 February 2014*
UK / US *Cross Market*	Receive 15y15y GBP vs USD Receive 15y15y GBP at 3.61% Pay 15y15y USD at 4.24%	Open Current P&L Target Stop	-63bp -74bp 11bp -100bp -40bp	30yr UK to benefit from LDI while 30yr US faces an increasing supply burden *European Rates Weekly, 30 January 2014*
UK / US *Cross Market*	Sell UKT 2.25% Sep23 vs UST 2.5% Aug23 Sell UKT 2.25% Sep23 at 2.82% Buy UST 2.5% Aug23 at 2.77%	Open Current P&L Target Stop	6.5bp 10bp 4bp 30bp -5bp	We expect the MPC to hike three quarters ahead of the Fed *European Rates Weekly, 23 January 2014*
EUR *Swap Spreads*	Buy 5yr Germany vs Swaps Buy Bobl-167 (Oct18) vs swaps (YYS) at -33bp	Open Current P&L Target Stop	-33bp -37bp 4bp -50bp -33bp	Attractive entry levels, a reduction in swapped issuance and 5yr bund supply in 2014 & a cheap option to express a change in sentiment *European Rates Weekly, 16 January 2014* *Revised Stop: The Morning Call. 5 Feb*
UK *Inflation*	Buy IL gilt 2068 break-even vs IL gilt 2044 Buy IL gilt 2068 break-even at 347bp Sell IL gilt 2044 break-even at 346.5bp	Open Current P&L Target Stop	0.5bp 0.1bp -0.4bp 3.5bp -1bp	A pick-up in LDI activity, extensions in the 15yr+ IL gilt index and infrequent 50yr supply should steepen the 30s50s *European Rates Weekly, 16 January 2014*
EUR *Cross Market*	Long Bund Jan37 vs DSL Jan37 Buy Bund 4% Jan37 at 2.72% Sell DSL 4% Jan37 at 2.84%	Open Current P&L Target Stop	12bp 15bp 3bp 22bp 7bp	Optically attractive entry level + relative supply pressures are more favourable for Bunds than DSLs *European Rates Weekly, 9 January 2014*
EUR *Swaps*	Receive EUR 3y2y vs 5y25y Receive EUR 3y2y at 203bp Pay EUR 5y25y at 320bp	Open Current P&L Target Stop	117bp 138bp 21bp 150bp 100bp	Current level of the 5yr point does not reflect our expectations of Euro Area fundamentals and ECB policy; large amount of net 30yr issuance from core *Euro Rates Strategy, 8 January 2014*

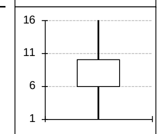


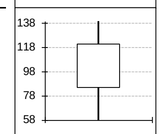
Source: Citi Research Note: Futures trading involves a substantial risk of loss.

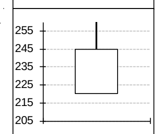
Figure 7. Record of our Open Trades (continued)

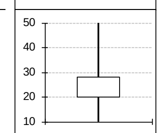
EUR	Long 10yr Spain vs Italy	Open	20bp	
		Current	-2bp	Spain has a stable rating and lower political risks compared with Italy
Cross Market	Buy Bono 4.4% Oct23s at 4.26%	P&L	22bp	
	Sell BTP 4.5% May23s at 4.06%	Target	-25bp	
		Stop	45bp	*European Rates Weekly 5 Dec 2013*
EUR	Sell France vs Belgium and Germany	Open	6bp	
		Current	10bp	Attractive entry level, possible auction concession and non-supportive cash flow profile for OATs into year-end
Cross Market	Sell BTAN 1.75% Feb17 at 0.51%	P&L	4bp	
	Buy OLO 4% Mar17 at 0.66%	Target	16bp	
	Buy Bobl 0.5% Apr17 at 0.30%	Stop	1bp	*Euro Rates Strategy, 8 November 2013.*
EUR / UK	Sell UKT Sep23 vs DBR Aug23	Open	85bp	Entry levels are attractive for medium-term gilt-Bund wideners
		Current	121bp	
Cross Market	Sell UKT 2.25% Sep23 at 2.60%	P&L	36bp	
	Buy DBR 2% Aug23 at 1.75%	Target	140bp	*European Rates Weekly, 24 October 2013.*
		Stop	58bp	*Revised Stop: UK Rates Strategy, 11 November 2013*
		Revised Stop	85bp	
EUR	BTP 2s10s steepener	Open	220bp	Redemptions to support 2s in 2014. Political uncertainty & long-end issuance to weigh on 10s.
		Current	245bp	
Curve	Buy BTP 3.75% Apr16 at 1.98%	P&L	25bp	
	Sell BTP 4.5% May23 at 4.18%	Revised Target	260bp	*European Rates Weekly, 11 October 2013.*
		Revised Stop	240bp	*Revised Levels: The Morning Call, 14 November2013*
UK	Sell 30yr gilt swap spreads vs 10yr	Open	20bp	
		Current	28bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve.
Swap spread	Sell gilt 3.25% Jan44 ASW at 20bp	P&L	8bp	
	Buy gilt 1.75% Sep22 ASW at 0bp	Target	50bp	
		Stop	10bp	*UK Rates Strategy, 30 July 2013*
Europe	Receive EUR 10y2y vs 12y3y	Open	4bp	
		Current	12bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility
Curve	Receive EUR 10y2y at 3.1%	P&L	8bp	
	Pay EUR 12y3y at 3.14%	Target	25bp	
		Stop	-5bp	*The Morning Call, 23 January 2013*
UK	Sell GBP 2y2y ATMF straddle	Open	76bp	
		Current	32bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol
Volatility	Sell GBP 2y2y ATMF (1.04%) straddle at 76bps	P&L	44bp	
		Target	0bp	
		Stop	114bp	*IIRS 12 July 2012*

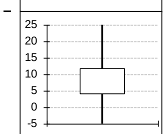


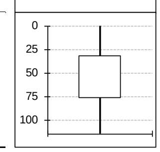












Source: Citi Research

Austria and the outlook for RAGBs

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The Austrian government is currently considering options on how to proceed with nationalised Hypo Alpe Adria bank amid repeated capital injections in recent years. In this note, we briefly consider Austria's bond market and macro environment in the light of Moody's upcoming ratings decision on 28th February. With otherwise favourable economic fundamentals, Austria's banking sector — and exactly how the sovereign addresses current concerns — remains a key credit driver. Although there is a risk that Moody's will downgrade Austria later this month, this is far from certain given other (relatively strong) fundamental considerations. Perhaps the more important point, however, is that any rating action by itself is unlikely to disturb RAGB spreads significantly in our view.

Austria to remain highly rated

Moody's rates Austria Aaa Negative
S&P rates Austria AA+ Stable

We think it is perhaps premature to determine what Moody's might do with any certainty at this stage, even though we acknowledge the downgrade risk evident in the negative outlook. In any event, we think Austria's fundamental strengths mean that the RAGB market is unlikely to be materially impacted by any potential rating action. This is based on the following reasoning:

- Moody's currently rates Austria Aaa with a negative outlook, which indicates that risks to their base-case scenario are skewed to the downside. Moody's has specifically noted that its "*rating could be downgraded if further material government support were needed to assist the domestic banking sector, whose asset quality and capitalization remain weak*" (Credit Opinion, October 2013). This downgrade risk has been present since February 2012 and is nothing entirely new.

- Second, the market has already allowed for slightly wider spreads to Germany in light of current uncertainties. 10yr RAGBs are also trading around 8bp to 10yr DLSs which is the widest in 9 months.

- Third, and perhaps most importantly, there is now ample evidence that the market cares less and less about one notch intra-IG moves at the high quality end of the credit spectrum. This was the case in November 2013 when S&P downgraded France from AA+ to AA and the Netherlands from AAA to AA+. Also note that S&P downgraded Austria from AAA to AA+ in January 2013 with limited market impact. In a scenario where Moody's moves its rating to Aa1, this would "normalize" the rating to that of S&P. In either case, Austria would remain among the highest-rated sovereigns within EMU and we would expect this to be reflected in the market.

Separately, S&P has already stated that "*Austria ratings not affected by expected government wind-down unit of Hypo Group Alpe-Adria*" in a publication so entitled (11th February). This is largely because S&P's rating already incorporates Austria's moderate contingent liabilities and factored in potential bank recaps. S&P rates Austria AA+ with a stable outlook and we do not expect this to change over the medium term. In their Research Update of October last year, S&P affirmed its rating given Austria's continuing fiscal consolidation and resilient economy.

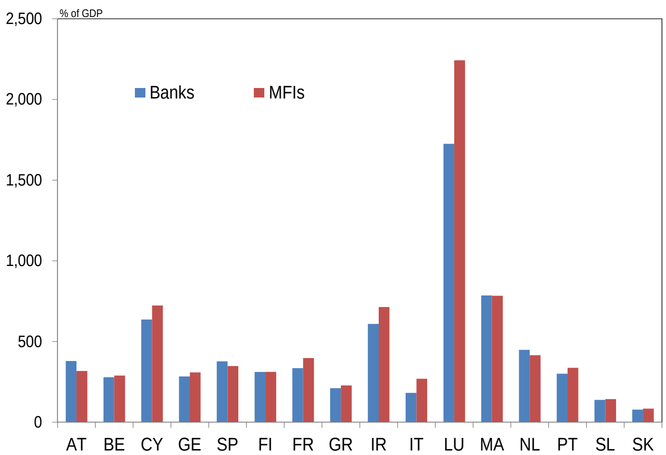
Macro fundamentals are generally strong as the economy recovers

Austria's macro fundamentals are quite solid

The Austrian economy is slowly recovering, driven by rising house prices and a slowly improving external picture. The European Commission and the IMF both expect Austria to grow by 1.5-2% in 2014-5 after GDP probably grew by around 0.5% in 2013. Austria's unemployment rate is the EU's lowest and Austria's fiscal deficit, which slightly widened due to a slow economy to around 2.5% of GDP in 2013 according to IMF/EC estimates, is set to fall again in 2014-15.

The main macro-financial risks for Austria therefore originate in its banking sector, and notably Central and Eastern Europe (CEE) exposure. Austria's banking sector is not particularly large compared to other Eurozone or EU countries (Figure 8). But what *is* large is the exposure of Austrian banks to the CEE region. Total claims of Austrian banks to 'Developing Europe' (which includes the CEE region and Russia) amounted to €230bn (or 55% of GDP) in 2012 according to the BIS, (Figure 9).

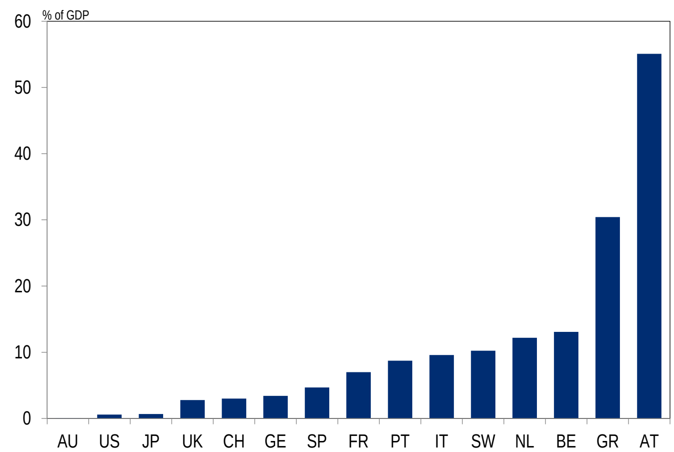
Figure 8. Selected Countries – Financial Institutions Balance Sheet Size (% of GDP), 2012



Note: MFI are monetary-financial institutions.

Source: ECB and Citi Research

Figure 9. Selected Countries – Claims of Banks on Developing Europe (% of GDP), 2012

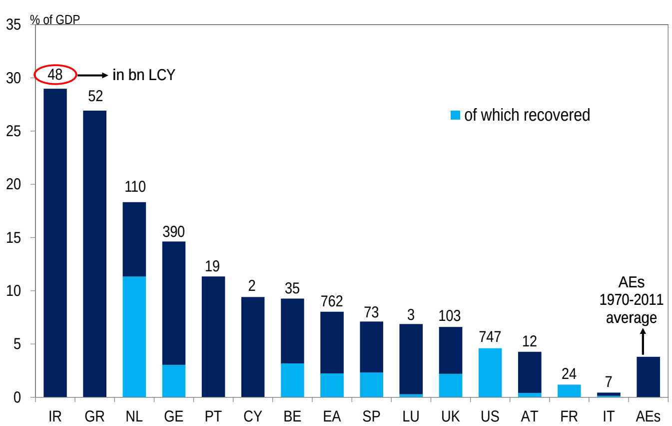


Note: Developing Europe includes Russia. .

Source: BIS and Citi Research

The CEE exposure is also at the heart of the recent (and current) banking focus. ECB and IMF data suggest that Austria has provided €12bn (4% of GDP) in banking sector support since 2007, less than the Eurozone average (Figure 10) but slightly above the average advanced economy after a financial crisis. A key issue is how large any remaining loss exposure of the sovereign to its banks is, which depends on two key factors: the size of the potential capital hole in Austrian banks, and ii) the approach the government takes towards filling it.

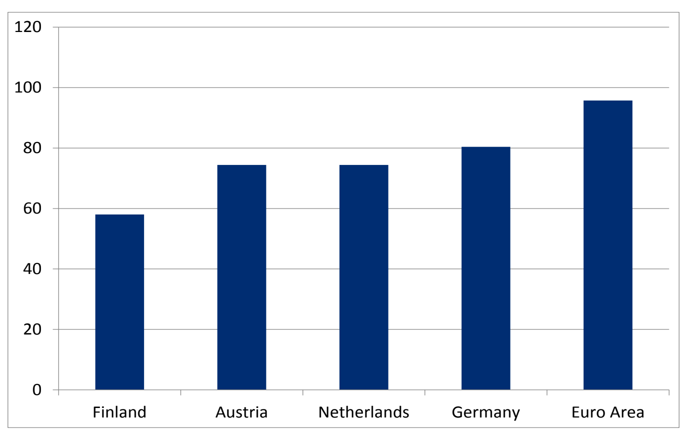
Figure 10. Selected Countries – Financial Sector Support (% of GDP), 2007-2013



Note: LCY is local currency. Fiscal outlays of the central government, except for Germany and Belgium, where support by subnational governments is also included. Average for advanced economies (AEs) from Laeven and Valencia (2012).

Source: ECB, IMF and Citi Research

Figure 11. Selected Countries – General Government Gross Debt (% of GDP), 2013



Source: IMF and Citi Research

What could happen with HAA?

An Austrian wind-down agency?

Total assets of Hypo Alpe Adria amounted to €31bn at the end of 2013 and the Austrian government has injected €3.6bn into the bank since it bought it in 2009. Several options are still being considered, including a publicly backed wind-down agency (bad bank). The HAA Supervisory Board Chairman of the Bank, Klaus Liebscher, stated that a Task Force that the Austrian government had assembled to assess its options for HAA had decided not to recommend insolvency as its preferred route.[1] Instead, the Taskforce and the Austrian central bank have expressed a preference for the transfer of certain assets to a wind-down agency backed at least implicitly by the Austrian government.

RAGB issuance unaffected if wind down agency is established and issues bonds under its own name

A recent example of such a scheme was the transfer of €173bn of assets from Hypo Real Estate in Germany to FMS Wertmanagement (FMSWER) in 2010. In the case of Germany, FMSWER is not a bank but a public law entity. It is (now) guaranteed by Germany's Financial Market Stabilisation Fund (SoFFin) which also provides a loss compensation mechanism. FMSWER is regulated by Germany's Financial Market Stabilisation Agency and is rated AAA/Aaa by S&P and Moody's. In the Moody's report on Germany dated 27th March 2012, this rating agency notes: "*the bulk of the jump in the public debt ratio from 73.5% in 2009 to 83.2% in 2010 was due to problems in the banking sector which led to the establishment of winding-down institutions for banks (i.e., FMS Wertmanagement for Hypo Real Estate and Erste Abwicklungs-Anstalt (EAA) for West LB)*."

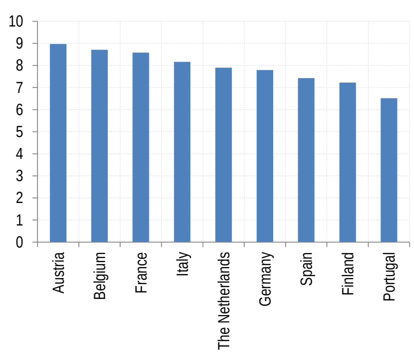
Under a similar scenario in Austria, government debt to GDP ratios would thus also likely rise. Government bond supply need not however rise, as the wind down vehicle issues its own securities whose credit quality is closely linked to that of the underlying sovereign (depending on the nature of any guarantee structure).

Another option would be to put the bank into insolvency, which we do not consider as base case. In this scenario, the burden of losses could be shared with other stakeholders (including the remaining creditors of the bank). However, such a process is also subject to complications, as the remaining bonds of HAA are guaranteed by the regional state of Carinthia, and the implications of triggering the guarantee for Carinthia and the Austrian sovereign are unclear.

The strengths of Austrian government bonds

We continue to see RAGB bonds among the core EMU sovereign market given the high credit quality of Austria and its debt structure. That said, there has been some slight widening in spreads to peers, which is hardly surprising given the current headline risk. Over recent weeks, spreads in the 7yr sector have moved from tights of 30bp to around 40bp. Versus the Netherlands in the 10yr sector, spreads have also widened from 2bp to 8bp over recent weeks. However, in the broader context, yields remain relatively low and range-bound and even the recent widening vs Germany hasn't been overly dramatic (Figure 13, Figure 14).

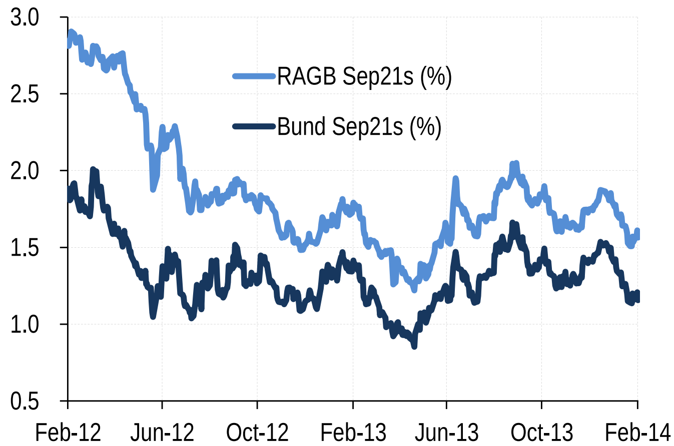
Figure 12. Average Life of Citi EGBI sub-indices by country (years)



Source: Citi Research, Yield Book

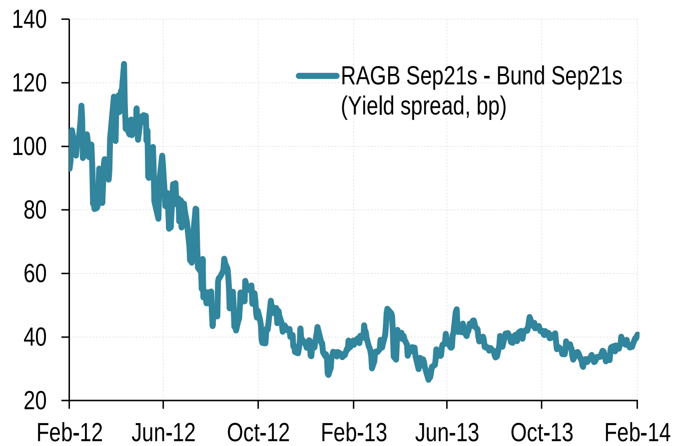
[1] Bloomberg , "Hypo Alpe Insolvency Was Considered, Not Recommended: Liebscher", 4th February

Figure 13. Austria and Germany Yields (%)



Source: Citi Research

Figure 14. Austrian – German spreads remain relatively low



Source: Citi Research

Ongoing uncertainty is likely to mean softer spreads in the near term

Looking ahead, the distinct possibility of ongoing headline risk surrounding the banking sector is likely to support the softer market tone and we do not rule out a degree of volatility as events unfold. However, we also believe Austria remains a core sovereign with EMU with relative beneficial characteristics. At around 75%, debt to GDP remains comfortably below the EMU average of 90%. In terms of debt structure, Austrian government bonds have one of the longest weighted average maturity profiles (over 8yrs). Furthermore, in the event that a wind-down agency being established, this should not adversely affect Austria's supply pipeline, but instead may have implications for Austria's agency market (which we detail in our SSA and Covered Bond Strategy sections below).

Conclusion – headline risk likely to weigh on spreads in the near term

The Austrian economy continues to benefit from the broader EMU recovery and has various macroeconomic strengths. Bond yields remain historically low, but the market tone has been understandably softer given reports about how the sovereign may deal with certain weaknesses in its banking sector. A potential rating decision is also looming on Moody's calendar, but even in the event of a downgrade, we doubt this will materially impact market spreads. Our base case is for ongoing headline risk to weigh on spreads in the near term and market volatility cannot be ruled out as events unfold. However, overall, the fundamental strengths of Austria, the fact that downgrades tend not to affect market pricing significantly (especially one notch moves within the IG space) and that we do not expect changes in the RAGB supply pipeline, mean that Austria is likely to remain a core of EMU in our view.

EMU: Focusing on upcoming 30yr supply

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Sizeable amount of 30yr issuance over the next fortnight

Over the next fortnight we estimate €8bn of 30yr issuance from core issuers. The last time we had 30yr issuance of a similar size from core countries was between 5 -17 March 2012 (€4.2bn from the Netherlands on 6 March 2012 and €4bn from Belgium on 14 March 2012).

As shown in Figure 15Figure 16, 30yr issuance over the next two weeks comes from Belgium (Mar41), the Netherlands (new Jan47) and Germany (new Aug46).

Figure 15. 30yr supply from core issuers over the next two weeks

Date	Country	Estimated Size
Mon 17 Feb	Belgium	1.0
Tue 18 Feb	Netherlands	4.0
Wed 26 Feb	Germany	3.0
	Total	**8.0**

Source: Citi Research, DMO

Market moves

The heavy amount of long-end issuance over the next two weeks will come against a backdrop of no 30yr coupon payments from these issuers. The market has started to price this in across a range of indicators. Two notable examples are: (A) upcoming long-end supply has put upward pressure on long-end yields resulting in a steeper 5s30s and 10s30s curve since the start of the week (Figure 16) and (B) long-end swap spreads have tightened slightly (bonds underperforming swaps) - Figure 17.

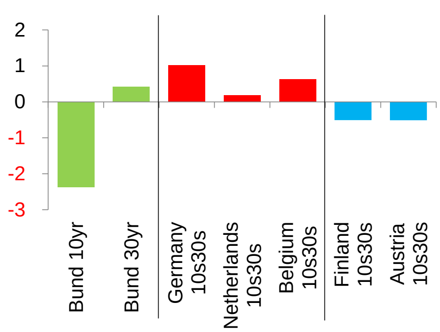
Trading strategies for curves and long-end swap spreads?

We expect the trend of a steeper 5s30s curve and tighter long-end swap spreads to continue over the next two weeks due to the large imbalance between long-end supply and coupons. Furthermore, if we examine the moves seen between 6 March and 14 March 2012, which saw €8.2bn of 30yr issuance, we can see that 5s30s steepened into and during the supply periods and 30yr swap spreads tightened (Figure 18).

Curve: Our preferred trading strategy for upcoming long-end supply continues to be via EUR 5s30s fwd steepeners[2] as this also captures other elements such as our expectations of further easing by the ECB (rate cuts and fixed rate LTROs).

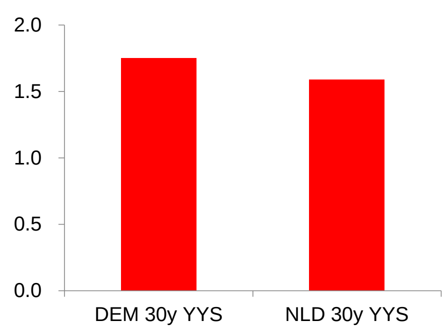
30yr YYS: As for 30yr Bund ASW we will assess whether to re-enter spread wideners after the completion of 30yr Bund supply on 26 February. For those who currently have 30yr Bund ASW wideners on we continue to advise taking these positions off[3].

Figure 16. The 3 issuers coming to the market in the next two weeks have experienced a slightly steeper 10s30s curve over the last three days.



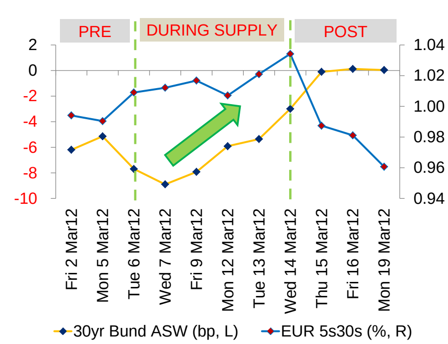
Source: Citi Research

Figure 17. Over the last three days 30yr swap spreads for both Germany and the Netherlands have tightened by over 1.5bp



Source: Citi Research

Figure 18. How 30yr Bund ASW and EUR 5s30s changed in March 2012 when we had €8.2bn of 30yr supply from Belgium & Netherlands



Source: Citi Research

[2] EUR Swaps: time to scale into EUR 5s30s steepeners using forwards, 8 January 2014 and Euro Rates Strategy - two catalysts for EUR 5y5y-20y5y steepening further, 22 January 2014

[3] Euro Rates Strategy: Update: Outlook for EUR Swap Spreads, 17 January 2014

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Trading strategies for 30yr DSLs

Auction details & issuance

At least €3bn of a new DSL 15 Jan 47 will be issued on Tuesday, 18 February 2014 (our base case for next week's supply is €4bn). The coupon size will be announced on Friday 14 February and the initial spread guidance to the Bund 2.5% Jul44 will be announced on 17 February 2014 (we detail some provisional estimates for pricing at the end of this section).

As noted by the DSTA at the start of the year, the amount outstanding for the new Jan47 will be €5bn at the end of 2014. Thus, we are likely to get one reopening of the auction bond later this year.

Pricing[4]

We have used three approaches to estimate a 'fair value' yield spread for the new Jan47s based on current market levels.

- The first approach is to extrapolate a fitted (par bond curve) whereby we assume the forward curve (beyond the last bond) is flat, the second is to extrapolate a spot curve (again assuming the curve is flat beyond the longest maturity bond) and the third is to extrapolate the swap spread curve.
- The first two methods suggest a yield spread of 18.4bp and 18.7bp over the Bund Jul44. The third method (details shown below) points to a yield spread of 16.6bp over the Bund Jul44 (Figure 19).
- Based on the three approaches (using mid-market levels at the time of writing) we would expect the mid-point of the initial spread guidance[5] to be around 17.5bp. Of course, demand will be the overriding factor when it comes to the spread guidance.

Figure 19. Method 3: estimating fair value for the new DSL Jan47 vs the Bund Jul44 using YYS

	DSL		
Maturity	15/01/2037	15/01/2042	New Jan47
YYS	11.6	13.4	15.3

	Bund Jul44	EUR 15/01/2047	New DSL Jan47*
Yield	2.53	2.54	2.69

Spread of DSL Jan47 to Bund Jul44 = 16.6bp

**YYS estimate of Jan47 + EUR swap yield for the 15/01/2047 point*

Source: Citi Research

Value in cross-market rather than outright positions and YYS

As highlighted in the previous section, we caution against curve flatteners (such as 10s30s and 5s30s) and see scope for 30yr swap spreads to tighten (slightly) over the next two weeks given the weight of 30yr supply. We therefore suggest looking at opportunities on a cross-market basis.

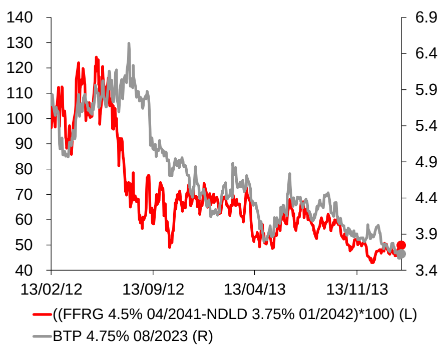
4 Assuming a coupon rate of 2.75%

5 The initial spread guidance is usually 3bp wide. For example the spread guidance for the new 5yr DSL in June 2013 was 45-48bp over the reference bond and the new 30yr DSL in 2010 was 14-17bp over the reference bond.

France & Belgium: The spread tightening that has taken place between 30yr France & Belgium to the Netherlands has largely been a result of the risk-on environment seen in the last few years as investors have extended along the credit curve to increase yield (Figure 20). For those expecting a change in sentiment should consider buying the Netherlands vs either France or Belgium.

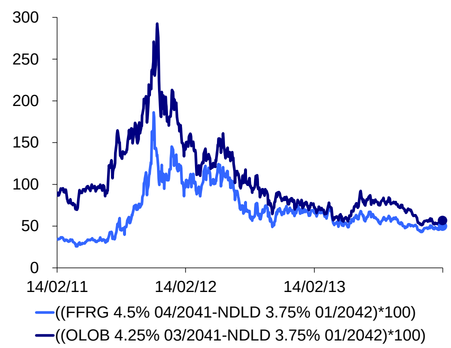
As shown in Figure 22, spreads to the Netherlands in a number of core countries are close to their tightest levels in the last two years. Thus, the risk-reward of spread wideners (which have much lower negative carry than outright shorts in Italy or Spain) looks relatively attractive.

Figure 20. The tightening in 30yr France-Netherlands has largely been a result of the risk-on environment in the last few years



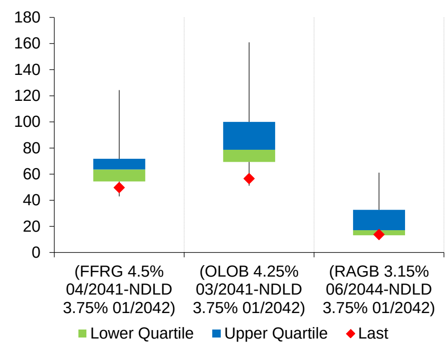
Source: Citi Research

Figure 21. Both France & Belgium are historically tight to the 30yr Netherlands



Source: Citi Research

Figure 22. Two year history of 30yr spreads to the Netherlands for selected core issuers



Source: Citi Research

Trade: Sell 30yr Austria vs Netherlands

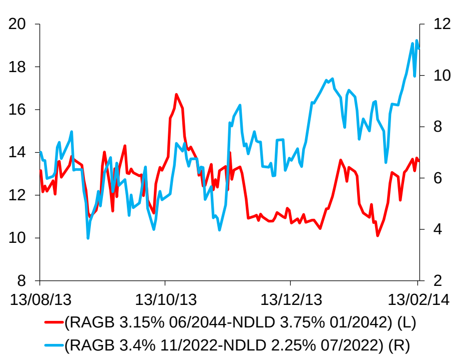
Buy DSL Jan42 vs RAGB Jun44 at 14bp. Target 24bp. Stop 8bp.

Austria: With 30yr DSLs trading only 13bp below 30yr Austria the risk-reward of spread wideners looks attractive from a technical perspective (Figure 23). Fundamentally, we expect ongoing uncertainty regarding the Austrian banking sector to weigh on Austrian bonds relative to other core issuers in the near-term. As a result, ratings pressures are clearly in focus given the upcoming ratings decision by Moody's on the 28 February (currently rated Aaa with a negative outlook).

Figure 23. 30yr Austria remains historically tight to 30yr Netherlands. The spread widening to over the 20bp level is easily achievable given macro uncertainty

Source: Citi Research

Figure 24. The widening seen between 10yr Austria-Netherlands has been much larger than in the 30yr sector (perhaps due to some concession in the lead up to the DSL auction)...



Source: Citi Research

Figure 25. ...this has taken 10s30s Austria to historically flat levels vs the Netherlands

Source: Citi Research

Summary: With a number of core yields trading historically tight to 30yr Netherlands, the risk-reward of spread wideners is looks attractive. Our favourite strategy to take advantage of next week's DSL auction is via cross-market. We recommend buying 30yr Netherlands vs Austria at 14bp (target = 24bp)

UK & Inflation - The blind leading the blind

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The hotly anticipated February Inflation Report provided nuanced guidance which can be summarized as *'rates will rise, but not yet'.* The Bank also wanted to send a message that they *"will not take risks with the economy".* The market took it all as less dovish than expected, prompting a sharp 15bp sell-off in the short-sterling strip. This was a reasonable reaction, in our view, especially given the uncertainty surrounding the timing of the first hike. However, the Bank also hinted at an endorsement of current market pricing for the hiking cycle. As such, a sustained sell-off seems unlikely until new economic information becomes available. The market has already started to rally back today.

Forward guidance is effectively over and the outlook is very data dependent from here

In our view, forward guidance is effectively over and the outlook is very data dependent from here. We sit in the more optimistic camp on the economy and our economists continue to expect the first rate hike in Q4 of this year. As such, we maintain our bearish medium-term view on gilts cross-market, expect both 2s10s and 10s30s to flatten and are bullish on UK break-even inflation spreads.

What did we learn from the Inflation Report?

In many ways, the February Inflation Report offered little new information with no additional clarity on the timing or pace of the hiking cycle

In many ways, the February Inflation Report offered little new information. Prior to the Report, the message from Carney over recent weeks was that there would be *"no immediate rate hikes"* and that the eventual tightening cycle would be *"gradual".* Overall, the Inflation Report just reinforced this change of emphasis, i.e. from rates on hold for the foreseeable future to the hiking cycle is (slowly) nearing. There was no extra clarity on the timing or pace of the hiking cycle, other than to say that the judgment would be based on whether or not the recovery becomes more broad-based, productivity growth and, of course, inflation pressures.

Is this really 'guidance'?

Rates will start to move higher before economic slack is completely eliminated

Carney introduced the *"next phase of guidance"* with five elements: an aim to absorb all spare capacity over the next 2-3 years; there is scope to absorb spare capacity further before raising Bank Rate; the eventual rate hikes will be gradual; any increase in Bank Rate will be limited; the stock of QE will be maintained *at least* until the first rate hike.

To put it bluntly, the MPC are saying they don't know when the Bank Rate will move higher

The full version of the new forward guidance, presented in a box on pages 8-9 of the Inflation Report, was rather lengthy, amounting to just under 1700 words. The message is, understandably, very nuanced. To put it bluntly, the MPC don't know when the Bank Rate will move higher, so how are they supposed to provide 'guidance' with any degree of certainty?

The jobless rate still matters

Spare capacity is estimated to be 1%-1.5% of GDP of which half reflects the difference in the jobless rate between now (7.1%) and equilibrium (6%-6.5%)

The Bank provided an estimate of spare capacity in the economy of 1%-1.5% of GDP and stated that this was *"concentrated in the labour market"*. The Bank went on to state that *"around half of that slack reflects the difference between the current unemployment rate of 7.1% and an estimate of its medium-term equilibrium of 6%-6.5%. The remaining slack largely reflects a judgment that employees would like to work more hours than is currently the case."*

The jobless rate could fall to equilibrium within six months

So rates should only begin to rise when an *unspecified* amount of this spare capacity has been absorbed. The jobless rate has fallen by 0.7%points in the last six months (Figure 26). If that pace were to continue then, based on the Bank's estimates above, nearly half of the slack would be absorbed in the next six months. The rest of the space capacity, as acknowledged, is based on a judgment. So while the jobless rate has been dropped as a threshold, and a wide range of indicators will be monitored, it still matters (the next update will be next Wednesday, 19 February).

Higher uncertainty, with regular updates

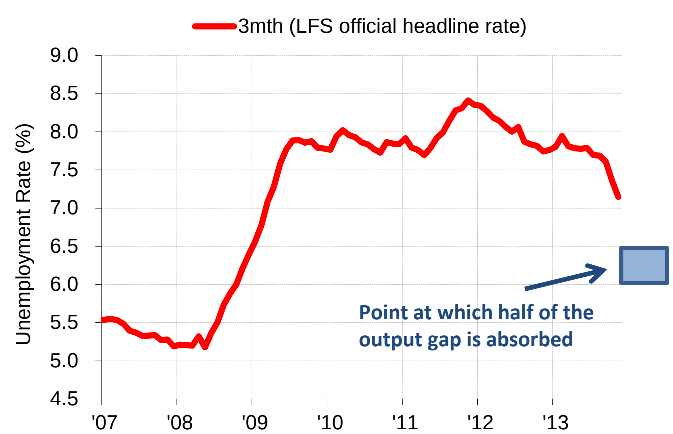
There is a great deal of uncertainty over the likely path of policy rates

The new guidance left a great deal of uncertainty over the likely path of policy rates. The reaction function of the MPC is, arguably, less clear as there was no indication of how much spare capacity needs to be absorbed before rates can begin to slowly normalize. As spelt out in the Inflation Report: *"The actual path Bank Rate will follow over the next few years is, however, uncertain and will depend on economic circumstances."*

Carney hinted that the MPC would provide a running commentary on spare capacity

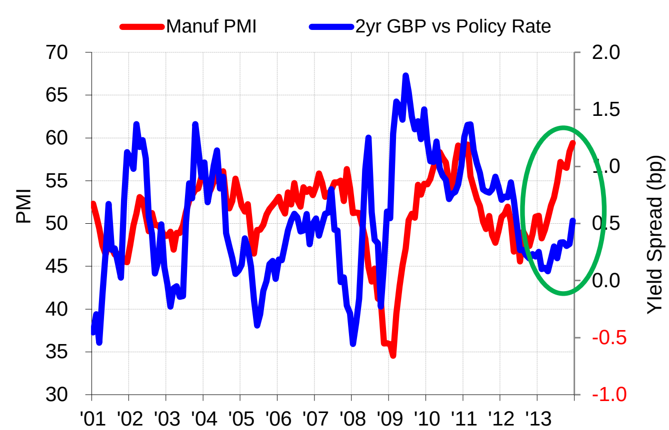
That does suggest that the outlook is now much more data dependent. Previously, the front-end — anchored by forward guidance mark I — has reacted in a muted fashion to improving economic data (Figure 27). This is now likely to change. The Bank will, however, still have an influence with constant updates on their latest estimate of the degree of slack. In the press conference, Carney referred to the 20 interviews and 8 speeches which are scheduled between now and the next Inflation Report that will provide plenty of opportunities to update on spare capacity.

Figure 26. The jobless rate has started to fall very quickly



Source: Citi Research, ONS.

Figure 27. The front-end has been anchored, despite improving growth



Source: Citi Research, Bloomberg.

AFP re-investments to support gilts in March

The stock of QE will remain constant until the first rate hike, meaning that APF buy-backs should take place in March

Ahead of the Inflation Report, there had been uncertainty over whether the March APF redemption would be re-invested. The new guidance provided clarity by stating that the stock of QE would be held constant *at least* until the first rate hike. The APF holds £8bn of the 2Q13 which redeems on 7 March. The re-investment buy-backs are likely to be announced at the MPC meeting on 6 March, taking place in the week beginning on 10 March. There is likely to be an equal split across the maturity spectrum.

There will also be £9bn coupon payments in early March

This does mean that March will be a supportive month for gilts from a cash flow perspective. There is likely to be around £10bn in gross supply, more than offset by £5bn coupon payments on 7 March (excluding APF/DMO) and the £35bn redemption of which £8bn will be re-invested via APF buy-backs.

The eventual QE unwind will be sensitive to market conditions

Looking further ahead, the Bank of England Chief Economist Spencer Dale reiterated in an interview today that the eventual QE unwind will be done *"carefully, in such a way so as not to disrupt the economy or to disrupt the financial markets."* This is consistent with the Bank's previous guidance on the QE unwind, suggesting that it will be very slow, perhaps only passive in the first instance (by not re-investing redemptions) until such a time that gilt issuance is lower.

Is the inflation market mispricing the RPI-CPI wedge?

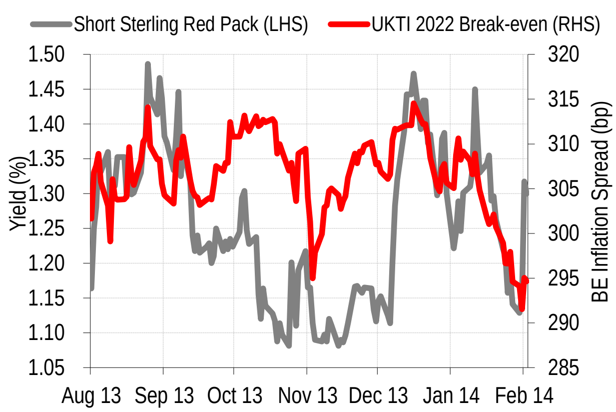
The Bank estimates the long-run RPI-CPI wedge to be around 1.3%points, around 30bp wider than implied in the market

For the inflation market, the Inflation Report featured a couple of interesting points beyond the broad assessment of the inflation outlook. First, there is a box on pages 34-35 which estimates the long-run RPI-CPI wedge. The Bank estimates this to be around 1.3%points, in line with an earlier estimate from the Office for Budget Responsibility. The Bank also acknowledged that market pricing is more reflective of a long-run wedge of around 0.9%-1%point. In other words, the Bank thinks the market has got it wrong. We would agree that market pricing is on the low side and, for us, the RPI-CPI wedge should limit the downside for UK break-evens from current levels. The second point of interest, which has attracted attention in the inflation market, was a chart showing the outlook for inflation in different productivity scenarios. The chart showed that in a scenario in which productivity growth remains low, disappointing the Bank's central forecast, then inflation will move comfortably above target over the forecast horizon.

10yr break-evens look attractive here, in our view

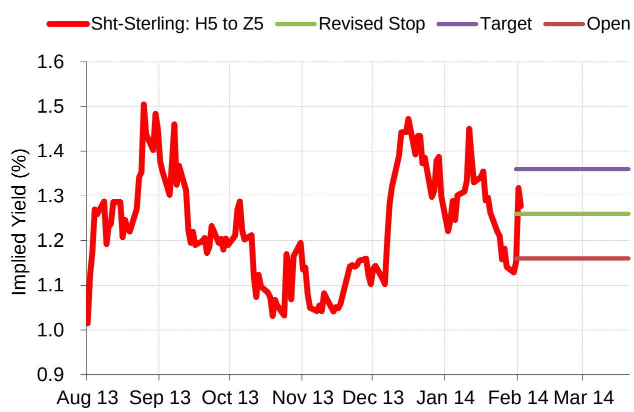
In terms of the more immediate outlook for UK break-evens, much still depends on the policy rate outlook. This has a direct impact on the RPI outlook given the mortgage interest payments component. Break-evens have become increasingly sensitive to the front-end in recent weeks. Our more hawkish view on policy rates makes us relatively positive on break-evens over the medium-term. However, we acknowledge the downside risks from EM stress and low prints in the euro area.

Figure 28. UK break-evens vs rate hike expectations



Source: Citi Research, Bloomberg.

Figure 29. Sharp correction in short-sterling post Inflation Report



Source: Citi Research, Bloomberg.

Trading strategies

- **Front-end:** Prior to the Inflation Report we recommended selling the short-sterling 'reds'[6]. Following the re-pricing, we have *tightened the stop* to lock-in profits (Figure 29). The outlook from here looks much more balanced.
- **Cross-market and curve:** We remain bearish on gilts cross-market over the medium-term, especially given the increased uncertainty which should demand a higher risk premium. We also expect a flattening bias to reemerge in 10s30s.
- **Inflation:** The price action in 10yr break-evens remains bearish, but we think current levels look attractive for those looking for medium-term value.
- **March cash-flows:** Gilts should benefit in March from coupon payments and APF re-investments. We look for tactical opportunities to go long.

[6] Note: Futures trading involves a substantial risk of loss.

EUR Vol: Gamma Term Structures Still Too Flat

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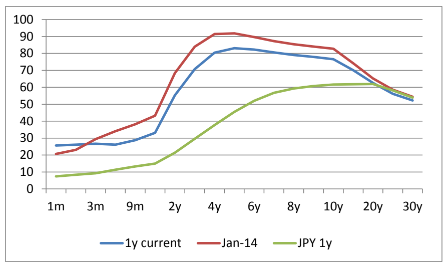
Calendar implied volatility spreads still to tight on EUR gamma

Year to-date, the EUR gamma implied volatility surface has undergone flattening pressures across implied volatility term structures, i.e. short dated implied volatilities have outperformed longer implied vols. For instance, 2m10y/9m10y implied volatility spread has tightened by some 6bp since early January.

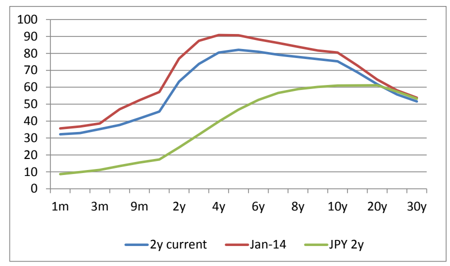
On the other hand assuming that the Euro economy continues to edge in the direction of a disinflationary macro environment, implied volatility term structures should bull steepen with directionality being a function of short dated volatility. Figure 30 to Figure 35 show EUR implied volatility term structures for benchmark swap tenors: the charts compare current curves against January and corresponding present Japanese term structures.

Figure 30. EUR 1y implied vol term structure



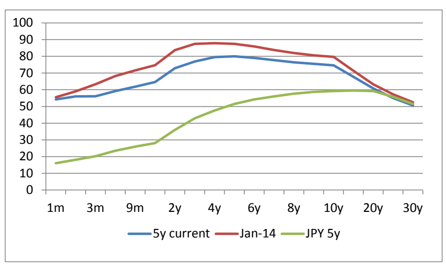
Source: Citi Research

Figure 31. EUR 2y implied vol term structure



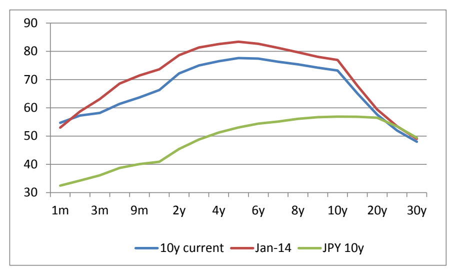
Source: Citi Research

Figure 32. EUR 5y implied vol term structure



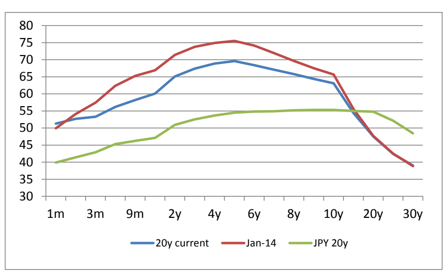
Source: Citi Research

Figure 33. EUR 10y implied vol term structure



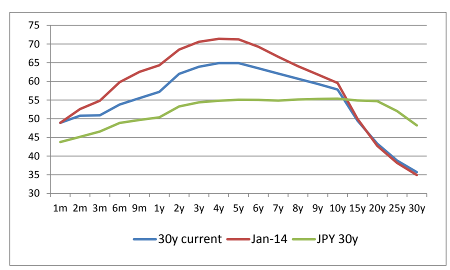
Source: Citi Research

Figure 34. EUR 20y implied vol term structure



Source: Citi Research

Figure 35. EUR 30y implied vol term structure



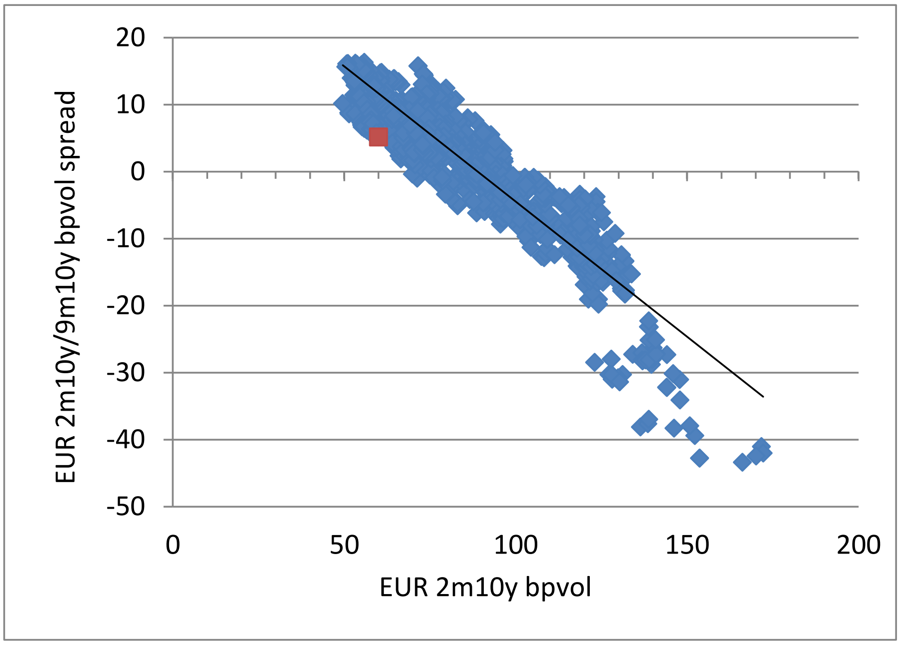
Source: Citi Research

Uncertainty regarding EONIA fixings is to blame

The flattening move has mainly owed to uncertainties regarding the dynamics of the money market vis-à-vis the decrease of excess liquidity and the communication policy of the ECB. As emphasized in the January Monthly Bulletin "*any transition period, as the liquidity provision normalises, would lead to greater volatility, which could imply that short-term rates could become less closely anchored to the ECB*

deposit facility rate"[7]. Given that our economists expect a 15bp cut in Refi rate and no change in the deposit facility rate at the March meeting, in the short term gamma calendar spreads should normalize against the backdrop of a tighter depo/refi spread. At present, according to simple regression analysis the 2m10y/9m10y implied volatility spread is currently 7bp too flat vs. fair value (R2 = 0.85), see Figure 36 below.

Figure 36. Scatterplot of EUR 2m10y bpvol vs. EUR 2m10y/9m10y bpvol spread (2009 – TD)



Source: Citi Research

Trade idea

As a result we find the vega neutral 2m10y/9m10y calendar spread still attractive (long 9m10y ATMF swaption straddle vs. 2m10y). For EUR 100mn notional vs. EUR 210mn, the negative gamma exposure means the one month positive rolldown is worth 226% of the upfront premium (EUR 470k). The vega spread is EUR 65k.

Risk to the trade is the negative gamma exposure (- EUR 5.5k) and the term structure dynamics in the scenario of a gamma vol flare-up where surge of volatility would likely be led by short dated expiries.

A variation on the theme is to implement the strategy above via ATMF swaption payers.

More detailed risk and sensitivity analysis is available upon request.

[7] http://www.ecb.europa.eu/pub/pdf/mobu/mb201401en.pdf

SSA Strategy

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The Austria agency market remains highly correlated to that of the underlying sovereign as are rating dynamics given the explicit guarantees that are in place. We expect a relatively muted market reaction in the scenario of a sovereign downgrade.

Hypo Alpa Adria – implications for the SSA market

Most SSA debt ratings are strongly linked to the sovereign rating

Rating outlook: The outlook on the ratings of Austrian agencies is similar to that of the sovereign. Key Austrian agencies include ASFING and OKB, both of which are explicitly guaranteed entities and hence have their ratings normalized to Austria itself. Similarly to explicitly guaranteed agencies, we would expect most of Austria's sub-sovereign ratings to move accordingly with the rating of the sovereign. In the case of a sovereign downgrade by Moody's, the city of Vienna as well as the state of Lower Austria would probably be downgraded. In case of Carinthia, we understand that a potential sovereign downgrade would not automatically translate into a loss of their current rating of A1 at Moody's as the rating differential is already at four notches.

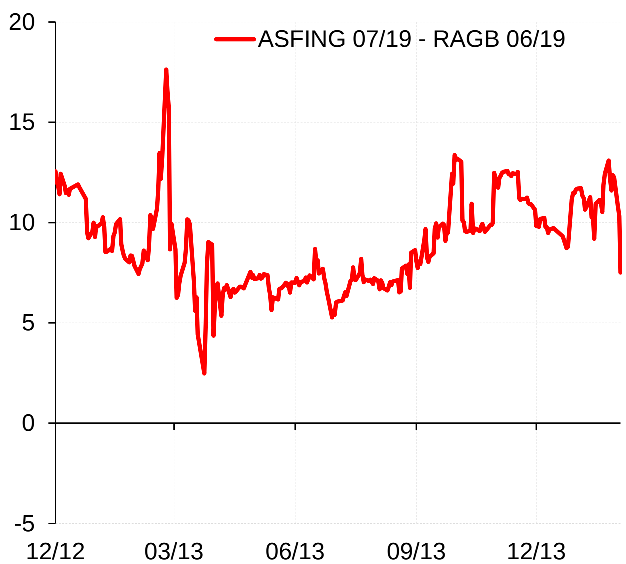
Implications on regions

In the alternative scenario of HAA insolvency, the adverse credit effects on the sovereign would have implications for the broader SSA market. We would expect Carinthia's rating to reflect the worsening debt metrics. Carinthia is guarantor for €12.5bn of HAA outstanding debt. This would affect negatively the Baseline Credit Assessment due to the worsening debt metrics. Moreover, depending on the sovereign's willingness to support Carinthia, the rating agencies would likely address assumptions on systemic support for federal states.

Funding costs for regions should not change

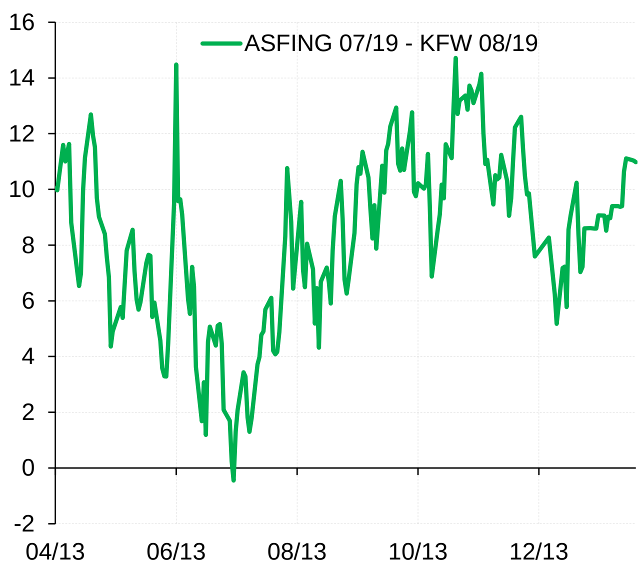
Spread outlook: Austrian federal states are not active benchmark issuers but are mainly financed by the Austrian Treasury (OeBFA) as well as some private placements on capital markets. On average, 90% of the sub-sovereigns' financing needs are satisfied by OeBFA, according to S&P.

Figure 37. Range trading between RAGB and ASFING, yield spread (bp)



Source: Citi Research

Figure 38. KFW outperformed ASFING recently, yield spread (bp)



Source: Citi Research

It should be attractive to buy agency debt on weakness

For Austrian agency spreads to RAGBs, we do not expect any material changes given the intrinsic relationship they have with the sovereign in the event of a change in the sovereign's rating. Similarly, there was negligible impact on CADES and BNG spreads to sovereigns following rating actions on France and the Netherlands respectively. As such, we continue to expect a range trading environment as is nicely illustrated between ASFING and KfW (see figure above).

Spread widening expected for Austria's SSAs in our tail-risk scenario

In our tail-risk scenario agency spreads however would unlikely be immune from the broader change in risk appetite and market sentiment. For Austrian federal states the impact of the tail-risk scenario would also likely be reflected in higher spreads. However, note that the overall amount of outstanding debt is extremely small. That said, higher RAGB spreads might also lead to higher additional costs for federal states as the costs for liquidity needed is linked to refinancing rates of the Austrian sovereign.

Conclusion

Agencies closely linked to that of the credit quality of Austria

Austrian SSA markets will likely continue to be rated in line with the Austrian sovereign. Hence, the focus on ratings will likely persist given the potential for Moody's to publish a decision at the end of the month. In any case, Austrian agencies will continue to benefit from the high credit quality of the Austrian sovereign given their ownership structure and explicit guarantees.

Covered Bond Strategy

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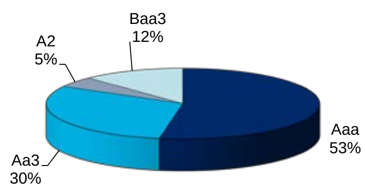
HAA has only been active in the non-benchmark covered bond market. We have a look at this program as well as any potential effects on ratings of Austrian covered bond programs. We continue to prefer selected covered bonds to sovereign and agency debt.

Hypo Alpa Adria – impact on covered bonds to be muted

Split ratings for HAA covered bonds

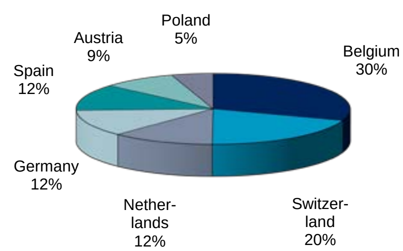
HAA Covered Bonds: Although HAA has not issued covered bonds in benchmark format, it had €276mn of public sector pfandbriefe outstanding as of Q3 2013. The bonds have a split rating from Moody's. This is due to the fact that some of the covered bonds come with a deficiency guarantee by Carinthia while others — the ones that are rated Aa2 — have been issued without this guarantee. The cover pool quality is mixed, given the fact that the pool is comprised by loans to only ten borrowers but internationally diversified with Belgium being the biggest country exposure (30.3%).

Figure 39. Pool distribution by country exposure rating, %



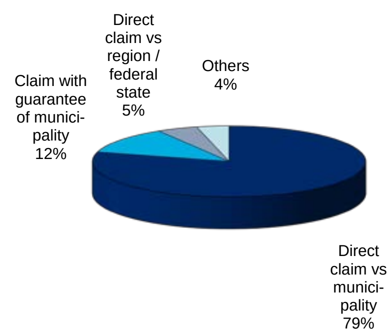
Source: Moody's, Citi Research

Figure 40. Distribution by country exposure, %



Source: Moody's, Citi Research

Figure 41. Exposure by borrower type, %



Source: Moody's, Citi Research

Below average key figures – above average committed OC

Although granularity is low, the debtors do not seem to be high risky. However, Moody's currently models cover pool losses of 44.8% into its rating approach (this is the level of losses the agency assumes if the issuer is removed from the rating analysis) while the collateral score is highest among Austrian covered bond programs. One should state that the high cover pool losses can mainly be traced back to an unhedged currency mismatch within the cover pool (high CHF liabilities – high EUR assets) while the high Collateral Score is due to the low amount of borrowers within the cover pool. That said, all cover assets can be used for repo operations while some assets are bonds which are eventually perceived to be very liquid in case of a fire sale. The issuer commits itself to an overcollateralization of 38.5% which is extremely high. Hence we do not see any substantial risks for covered bondholders in case of a default of the issuer with respect to potential losses.

It remains to be seen to which part of the bank the covered bond program would transferred

In a scenario of a wind down agency being established, it's currently unclear exactly where the covered bond program will be located, according to HAA. It might be part of the "bad bank" as well as of the "good bank". In both cases, we don't expect substantial risks for covered bondholders given the cover pool composition.

No acceleration of covered bonds in issuer event of default

In a tail-risk scenario with the issuer declaring default, we would expect the following. The covered bond program would be segregated from the issuer's general insolvency mass and covered bondholders would continue to have a

preferential claim on the cover pool's assets. This will be managed by a cover pool administrator who is appointed externally and who is not the same body as the general insolvency mass administrator.

Austrian covered bonds

No rating pressure expected for Austrian covered bonds

Rating risk for covered bonds: We don't think that the covered bond ratings would come under pressure if Austria were downgraded. In the case of covered bond programs like KA, ERSTE (mortgage) and BACA, the covered bonds don't have any rating buffer in the event of an issuer downgrade. However, this should not be the case as a potential one-notch downgrade by Austria would not automatically translate into a downgrade of the lender at Moody's. This is also reflected in the ratings' different outlooks (Austria negative – banks stable). Hence, these covered bonds should not be affected from this side. Moreover, we would not expect the TPI[8] — currently "high" in case of public sector covered bonds — to be lowered to "probable-high". Erste Group public sector covered bonds, RLB Steiermark covered bond programs, RLB Noe-Wien mortgage covered bonds and VORHYP covered bond programs would hold their current ratings irrespective of potential pressure on the issuers' ratings or the TPI as all covered bond programs display enough rating buffer. S&P doesn't rate any Austrian covered bonds.

Substantial rating risk for covered bonds in alternative scenario

In our alternative scenario, we think that all bank ratings would probably come under pressure as Moody's states that negative rating pressure on the issuer levels could stem from adverse changes in the agency's systemic support assumptions. Hence, following the different rating buffers mentioned above, rating pressure should be given.

KA debut this week showed the strength of the segment

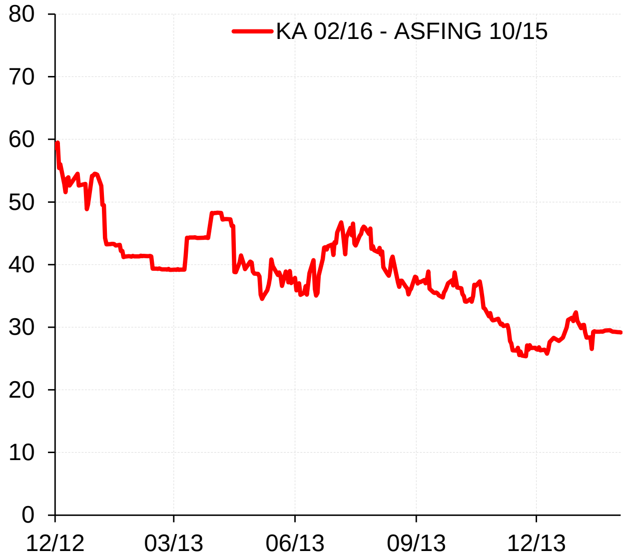
Spread outlook: The comeback of KA this week has been extremely successful although ongoing headline risk surrounding the future of HAA led to the expectation that execution might become challenging. This shows that market participants have differentiated the specific risks within the Austrian banking system. As we don't expect rating pressure to be given for covered bonds, the latest underperformance of Austrian secured paper might prove to be a rather attractive opportunity to re-enter the Austrian segment (2w change of EUR Covered: -1.8bp vs 2w change of EUR Covered Austria: +1.3bp) as substantial contagion risks stemming from a discussed insolvency of HAA seem to have been avoided for now.

We continue to prefer selected covered bonds to RAGB and SSAs

In Austria, we continue to prefer KA due to its ownership structure, its long-term funding needs and the yield levels in comparison to other Austrian covered bond issuers (for more on that, please have a look at Kommunalkredit Austria: Attractive Alternative in the Core). Moreover, we recommend preferring selected covered bonds to Austrian agencies. As noted above, potential rating pressure should be higher for the latter. Hence, we reiterate our recommendation to **prefer KA 02/16 to ASFING 10/15**. We don't think that the current spread of 30bps is justified. In the belly end of the curve, we would **prefer** the potentially higher rated mortgage backed covered bond of **BACA 07/18 to RAGB 10/18** if a sovereign downgrade materialized.

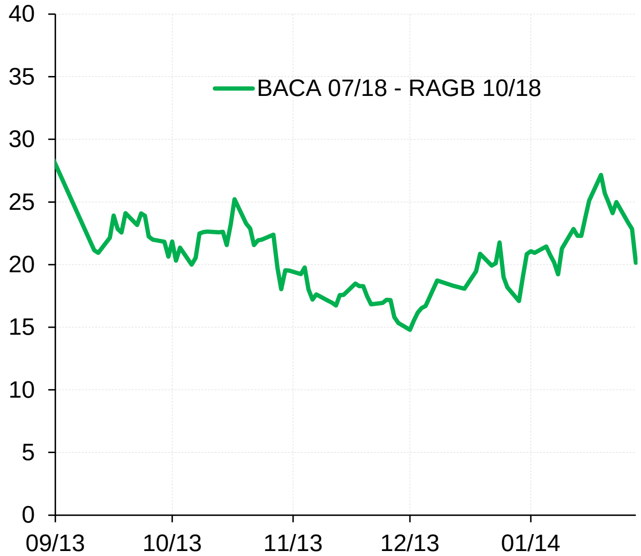
[8] TPI = Timely Payment Indicator; A TPI measures the likelihood of timely payments to covered bondholders following Issuer Default. The TPI determines the maximum number of rating levels by which a covered bond rating can exceed the rating of the underlying Issuer. Following Issuer Default, the single most important risk to timely payment for most programmes is the existence of refinancing risk.

Figure 42. Prefer KA 02/16 to ASFING 10/15, mid-ass, bp



Source: Citi Research

Figure 43. Prefer BACA 07/18 to RAGB 10/18 in case of a sovereign downgrade, mid-ass, bp



Source: Citi Research

Higher funding levels expected for covered bonds in a tail-risk scenario

In our tail-risk scenario, the spread outlook for Austrian covered bonds would be clearly negative. This should especially be the case for those lenders which are currently strongly supported by the state, i.e. Kommunalkredit Austria. However, we think it would be highly probable to see refinancing levels to rise, not only for KA but in general for all Austrian banks — on the secured and on the unsecured side.

Conclusion

Risk for covered bonds is limited and a base case outcome would eventually be positive

For Austrian covered bonds, the bad-bank model would be credit positive in our view. It remains to be seen where HAA covered bonds will eventually lie once a final decision for HAA is found. Rating pressure is limited in our base case scenario. Moreover, we would see the latest cheapening of Austrian covered bonds against the benchmark as relatively attractive. In our tail-risk scenario, several (in the worst case all) covered bond ratings might deteriorate as we suppose that rating agencies will recalibrate their systemic support assumptions for Austrian banks.

Technical update: Bunds and gilts

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Bunds – 144.1 would be a selling opportunity

The rally following the break of the triangle pattern ended last week (see 16 January *European Rates Weekly* for details). The Chaikin oscillator now indicates that the selling pressure is more than the buying pressure (Figure 44). We think 144.1 would be a good level to enter into shorts from a technical perspective, with a stop above 144.6. A turnaround near the 144.1 level would also indicate a possible double top pattern. This pattern will form if the 143.3 support is breached and give a measuring target of 142.5. However, we might see an overshoot to 142.25 which is a major support level and a key accumulation level.

Figure 44. 10yr continuous Bund futures with Fibonacci levels and the Chaikin oscillator (daily chart)

Source: Bloomberg

Support: The first major support is at 142.25, which is close to 38.2% retracement level of the latest rally and a key accumulation level as seen from March option open interest at 142. The next support is 140.8, in our view. This level is also the 61.8% retracement level.

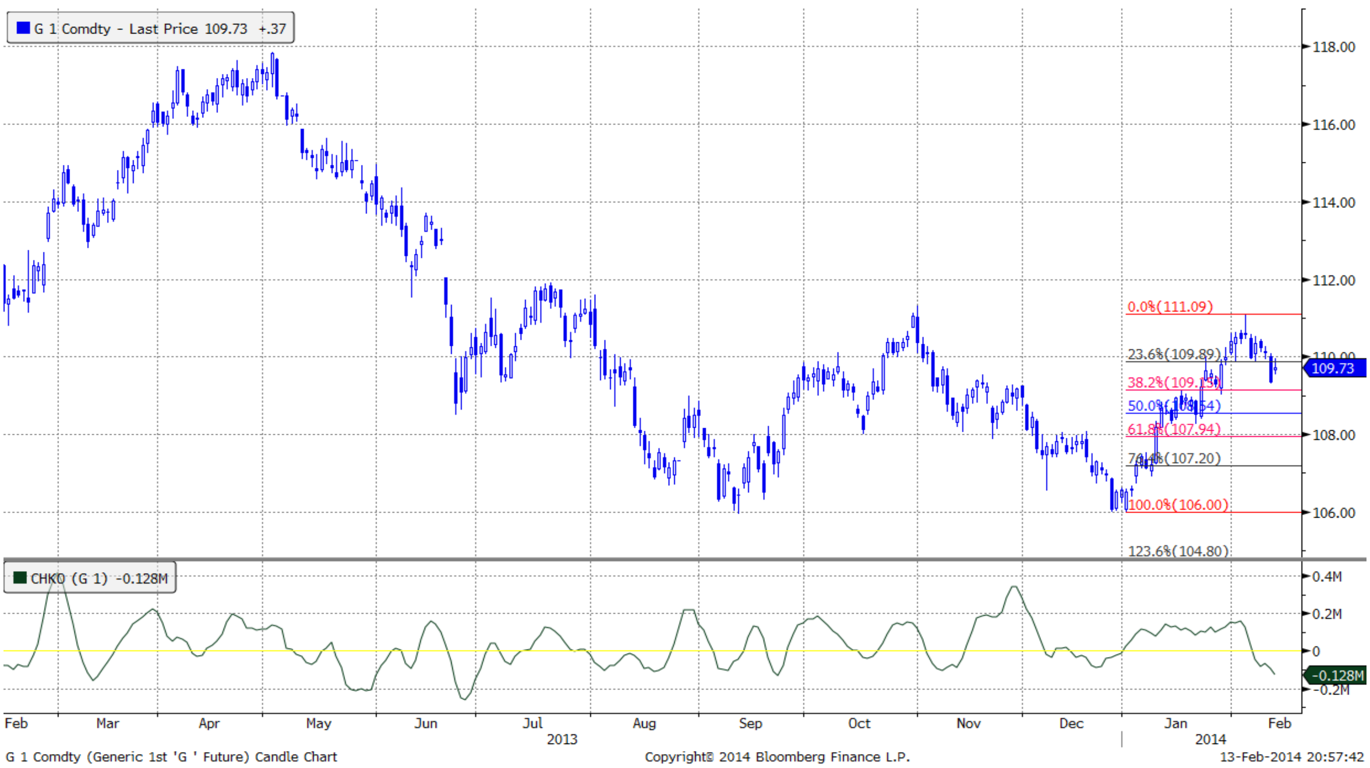
Resistance: A rally from this point would find the first key resistance at 145.6, which is the highest level in a year on a roll-adjusted basis. The next resistance is given by the 38.2% Fibonacci extension at 146.2.

Gilts – chase the sell-off with a tight stop above 110.55

Gilts have been trading in the 106-110.5 range since August 2013 on a weekly chart (Figure 46). They tested the top of this range last week but failed to follow through. Since then, gilts have sold off and remain firmly within the range. This sell-off might continue until the bottom of the range at 106. On the other hand, a sustained breach of 110.55, breaking this range, would give an upside target of 115.

On a shorter horizon within this long term pattern, gilts have broken the support given by the 23.2% retracement of the recent rally at 109.9 (Figure 45). This level is holding up for now, acting as a resistance. Selling pressure seem to be driving the move in the short term as indicated by the Chaikin oscillator on a daily chart.

Figure 45. Continuous gilt futures with Fibonacci levels and the Chaikin oscillator (daily chart)



Source: Bloomberg

Figure 46. Gilt futures (weekly chart)

Source: Bloomberg

Support: We see the first major support at 107.9 level, which is also the 61.8% Fibonacci retracement of the latest rally. The next support is at 106 level, which is bottom of the current trading range and also the lowest level in a year, on a roll-adjusted basis.

Resistance: The first major resistance is given by the top of the current range at 110.5. The next resistance is likely in the 111.8 region.

Relative value trades

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

Germany: fade the richness of Feb18s

Sell Feb18s vs surrounding issues

- Sell 0.5% Feb18 vs 0.5% Apr17 and 3.25% Jan20 (3m carry: -0.3bp) - Figure 47

Austria: fade the richness of Jul20s

Sell Jul20s vs surrounding issues

- Sell 3.9% Jul20 vs 1.95% Jun19 and 3.4% Nov22 (3m carry:0bp) - Figure 48.

Finland: fade the richness of Sep22s

Sell Sep22s vs surrounding issues

- Sell 1.625% Sep22 vs 3.5% Apr21 and 4% Jul25 (3m carry: -0.9bp) - Figure 49.

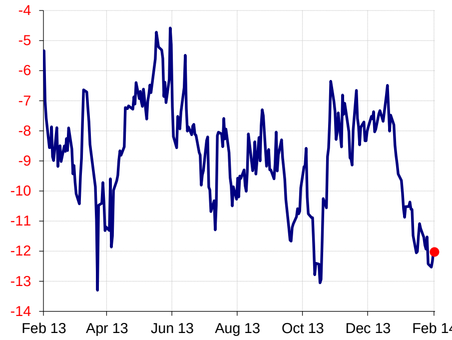
Figure 47. Germany: 0.5% Apr17, 0.5% Feb18, 3.25% Jan20 microfly (bp)

Source: Citi Research

Figure 48. Austria: 1.95% Jun19, 3.9% Jul20, 3.4% Nov22 microfly (bp)

Source: Citi Research

Figure 49. Finland: 3.5% Apr21, 1.625% Sep22, 4% Jul25 microfly (bp)



Source: Citi Research

Italy: 2s3s steepener

Switch into May16s

- Switch from 4% Feb17 to 2.25% May16 (3m carry: 0.2bp) - Figure 50

Spain: take advantage of cheapness of Jan18s

Buy Jan18s vs surrounding issues

- Buy 4.5% Jan18 vs 4.25% Oct16 and 4.6% Jul19 (3m carry: -0.7bp) - Figure 51

UK: take advantage of cheapness of Mar18s

Buy Mar18s vs surrounding issues

- Buy 5% Mar18 vs 1.75% Jan17 and 4.75% Mar20 (3m carry: 3.6bp) - Figure 52

Figure 50. Italy: 4% Feb17 – 2.25% May16 (bp)

Source: Citi Research

Figure 51. Spain: 4.25% Oct16, 4.5% Jan18, 4.6% Jul19 microfly (bp)

Source: Citi Research

Figure 52. UK: 1.75% Jan17, 5% Mar18, 4.75% Mar20 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 53 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 53. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	0.50 Feb18	-1.72	Jan13	17
	2	3.75 Jan19	-1.47	Nov08	24
	3	0.25 Apr18	-1.47	Apr13	17
	4	1.00 Oct18 (OE)	-1.39	Sep13	17
	5	0.50 Oct17	-1.20	Sep12	16
	5	0.25 Mar16 (2y)	1.00	Feb14	5
	4	6.25 Jan30	1.08	Jan00	9
	3	1.75 Feb24 (10y)	1.12	Jan14	5
	2	4.75 Jul34	1.30	Jan03	20
Cheapest	1	5.50 Jan31	1.43	Oct00	17

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	0.25 Mar16 (2y)	-1.00	Feb14	5
	2	1.00 Feb19 (5y)	-0.16	Jan14	9
	3	4.00 Jan37	-0.07	Jan05	23
	4	4.75 Jul40	-0.03	Jul08	16
	5	4.25 Jul39 (UB)	-0.02	Jan07	14
	5	2.25 Sep20	0.58	Aug10	16
	4	3.00 Jul20	0.58	Apr10	22
	3	2.75 Apr16	0.67	Apr11	18
	2	2.00 Feb16	0.68	Jan11	16
Cheapest	1	1.75 Feb24 (10y)	0.87	Jan14	5

Source: Citi Research

Figure 54 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 55 and Figure 56) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 54 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 54. 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	0.50 Feb18	-1.72	Jan13	17
	2	3.75 Jan19	-1.47	Nov08	24
	3	0.25 Apr18	-1.47	Apr13	17
	4	1.00 Oct18 (OE)	-1.39	Sep13	17
	5	0.50 Oct17	-1.20	Sep12	16
	5	0.25 Mar16 (2y)	1.00	Feb14	5
	4	6.25 Jan30	1.08	Jan00	9
	3	1.75 Feb24 (10y)	1.12	Jan14	5
	2	4.75 Jul34	1.30	Jan03	20
Cheapest	1	5.50 Jan31	1.43	Oct00	17

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	0.25 Mar16 (2y)	-1.00	Feb14	5
	2	1.00 Feb19 (5y)	-0.16	Jan14	9
	3	4.00 Jan37	-0.07	Jan05	23
	4	4.75 Jul40	-0.03	Jul08	16
	5	4.25 Jul39 (UB)	-0.02	Jan07	14
	5	2.25 Sep20	0.58	Aug10	16
	4	3.00 Jul20	0.58	Apr10	22
	3	2.75 Apr16	0.67	Apr11	18
	2	2.00 Feb16	0.68	Jan11	16
Cheapest	1	1.75 Feb24 (10y)	0.87	Jan14	5

FRANCE

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Oct23 (OAT)	-1.78	Oct06	33
	2	1.75 Feb17	-1.70	Feb11	20
	3	1.75 May23	-1.59	May12	26
	4	1.00 Jul17	-1.52	Jul11	18
	5	3.75 Apr17	-1.42	Apr06	35
	5	2.75 Oct27	0.69	Oct11	21
	4	2.50 Oct20	0.92	Oct09	35
	3	3.25 Apr16	0.99	Apr05	35
	2	3.25 Oct21	1.14	Oct10	36
Cheapest	1	2.25 Feb16	1.19	Feb10	29

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.75 Feb17	-0.94	Feb11	20
	2	3.75 Apr17	-0.50	Apr06	35
	3	4.25 Oct23 (OAT)	-0.37	Oct06	33
	4	1.00 Jul17	-0.25	Jul11	18
	5	4.50 Apr41	-0.20	Apr09	24
	5	3.25 Oct21	1.33	Oct10	36
	4	3.75 Apr21	1.33	Apr05	34
	3	3.75 Oct19	1.36	Oct08	32
	2	3.50 Apr20	1.49	Feb10	36
Cheapest	1	2.50 Oct20	1.60	Oct09	35

ITALY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar19	-1.77	Sep08	24
	2	4.50 Mar24 (10y)	-1.25	Aug13	23
	3	4.25 Feb19 (5y)	-1.02	Feb03	25
	4	5.50 Nov22 (IK)	-0.87	May12	21
	5	5.50 Sep22	-0.80	Mar12	20
	5	4.75 Aug23	2.14	Feb08	25
	4	4.50 May23	2.24	Mar13	18
	3	3.50 Nov17	2.70	Nov12	17
	2	3.50 Jun18	3.15	Apr13	17
Cheapest	1	4.50 Aug18	3.26	Feb08	25

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Feb37	-1.63	Aug05	25
	2	5.00 Aug39	-1.29	Aug07	19
	3	4.50 Mar19	-1.29	Sep08	24
	4	4.50 Feb20	-1.26	Feb04	23
	5	5.00 Aug34	-1.26	Aug03	21
	5	4.50 May23	-0.81	Mar13	18
	4	3.75 May21	-0.78	Oct13	8
	3	4.75 Aug23	-0.51	Feb08	25
	2	1.50 Dec16	0.64	Jan14	5
Cheapest	1	2.50 May19	0.97	Feb14	5

N'LANDS

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-1.53	Jun11	16
	2	1.75 Jul23 (10y)	-1.31	Mar13	16
	3	3.75 Jan23	-0.98	Jan06	11
	4	3.75 Jan42 (30y)	-0.77	May10	14
	5	0.50 Apr17	-0.76	Jan14	4
	5	4.00 Jul16	0.67	Jul06	14
	4	0.00 Apr16	0.68	Jan13	15
	3	4.00 Jul19	0.83	Feb09	14
	2	3.25 Jul21	0.89	Mar11	16
Cheapest	1	3.50 Jul20	0.97	Feb10	15

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-1.22	Jun11	16
	2	4.50 Jul17	-0.59	Jul07	15
	3	4.00 Jul16	-0.44	Jul06	14
	4	0.50 Apr17	-0.32	Jan14	4
	5	0.00 Apr16	-0.30	Jan13	15
	5	1.25 Jan19 (5y)	0.53	Jun13	10
	4	4.00 Jan37	0.60	Apr05	14
	3	3.25 Jul21	0.70	Mar11	16
	2	4.00 Jul19	0.82	Feb09	14
Cheapest	1	3.50 Jul20	1.01	Feb10	15

SPAIN

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.80 Jan17	-1.05	Oct06	21
	2	4.90 Jul40	-0.88	Jun07	13
	3	4.00 Apr20	-0.62	Jan10	20
	4	3.75 Oct18 (5y)	-0.49	Jul13	19
	5	4.70 Jul41 (30y)	-0.44	Sep09	12
	5	4.65 Jul25	1.50	Feb10	14
	4	4.85 Oct20	1.51	Jul10	18
	3	4.10 Jul18	1.99	Feb08	19
	2	4.40 Oct23	2.14	May13	18
Cheapest	1	4.50 Jan18	2.19	Nov12	19

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.90 Jul40	-1.83	Jun07	13
	2	4.20 Jan37	-1.82	Jan05	16
	3	4.70 Jul41 (30y)	-1.78	Sep09	12
	4	5.75 Jul32	-1.77	Jan01	15
	5	5.15 Oct28	-1.73	Jul13	8
	5	4.50 Jan18	-1.03	Nov12	19
	4	4.10 Jul18	-1.01	Feb08	19
	3	2.10 Apr17	-0.41	Nov13	10
	2	3.80 Apr24 (10y)	-0.28	Jan14	10
Cheapest	1	2.75 Apr19	1.74	Jan14	7

BELGIUM

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar26	-2.84	Jun11	8
	2	4.00 Mar32	-2.55	Mar12	8
	3	2.25 Jun23	-2.26	Jan13	14
	4	4.00 Mar17	-2.09	Jan07	11
	5	4.25 Sep22	-2.05	Jan12	15
	5	2.75 Mar16	0.90	Mar10	10
	4	4.00 Mar19	0.90	Jan09	11
	3	4.25 Sep21	1.23	Jan11	15
	2	4.00 Mar18	1.33	Jan08	12
Cheapest	1	5.00 Mar35	1.36	May04	18

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Mar17	-1.53	Jan07	11
	2	3.25 Sep16	-1.49	Jan06	13
	3	2.75 Mar16	-1.39	Mar10	10
	4	3.50 Jun17	-1.29	Mar11	13
	5	5.50 Sep17	-1.24	Jun02	8
	5	4.25 Sep21	-0.75	Jan11	15
	4	3.75 Sep20	-0.73	Jan10	18
	3	4.00 Mar19	-0.64	Jan09	11
	2	3.75 Jun45 (30y)	-0.61	Sep13	4
Cheapest	1	2.60 Jun24 (10y)	1.40	Jan14	5

Source: Citi Research

EMU relative value table – max 12yr maturity

Figure 55. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

GERMANY

	Versus Govt Curve (CAS)						Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	0.50 Feb18	-1.72	Jan13	17	Richest	1	0.25 Mar16 (2y)	-1.00	Feb14	5
	2	3.75 Jan19	-1.47	Nov08	24		2	1.00 Feb19 (5y)	-0.16	Jan14	9
	3	0.25 Apr18	-1.47	Apr13	17		3	2.00 Aug23	0.12	Sep13	18
	4	1.00 Oct18 (OE)	-1.39	Sep13	17		4	1.00 Oct18 (OE)	0.25	Sep13	17
	5	0.50 Oct17	-1.20	Sep12	16		5	4.00 Jan18	0.33	Nov07	20
	5	3.00 Jul20	0.40	Apr10	22		5	2.25 Sep20	0.58	Aug10	16
	4	2.75 Apr16	0.70	Apr11	18		4	3.00 Jul20	0.58	Apr10	22
	3	2.00 Feb16	0.82	Jan11	16		3	2.75 Apr16	0.67	Apr11	18
	2	0.25 Mar16 (2y)	1.00	Feb14	5		2	2.00 Feb16	0.68	Jan11	16
Cheapest	1	1.75 Feb24 (10y)	1.12	Jan14	5	Cheapest	1	1.75 Feb24 (10y)	0.87	Jan14	5

FRANCE

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.25 Oct23 (OAT)	-1.78	Oct06	33	Richest	1	1.75 Feb17	-0.94	Feb11	20
	2	1.75 Feb17	-1.70	Feb11	20		2	3.75 Apr17	-0.50	Apr06	35
	3	1.75 May23	-1.59	May12	26		3	4.25 Oct23 (OAT)	-0.37	Oct06	33
	4	1.00 Jul17	-1.52	Jul11	18		4	1.00 Jul17	-0.25	Jul11	18
	5	3.75 Apr17	-1.42	Apr06	35		5	5.00 Oct16	-0.15	Oct00	29
	5	3.75 Apr21	0.43	Apr05	34		5	3.25 Oct21	1.33	Oct10	36
	4	2.50 Oct20	0.92	Oct09	35		4	3.75 Apr21	1.33	Apr05	34
	3	3.25 Apr16	0.99	Apr05	35		3	3.75 Oct19	1.36	Oct08	32
	2	3.25 Oct21	1.14	Oct10	36		2	3.50 Apr20	1.49	Feb10	36
Cheapest	1	2.25 Feb16	1.19	Feb10	29	Cheapest	1	2.50 Oct20	1.60	Oct09	35

ITALY

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar19	-1.77	Sep08	24	Richest	1	4.50 Mar19	-1.29	Sep08	24
	2	4.50 Mar24 (10y)	-1.25	Aug13	23		2	4.50 Feb20	-1.26	Feb04	23
	3	4.25 Feb19 (5y)	-1.02	Feb03	25		3	4.00 Feb17	-1.25	Aug06	26
	4	5.50 Nov22 (IK)	-0.87	May12	21		4	4.25 Feb19 (5y)	-1.21	Feb03	25
	5	5.50 Sep22	-0.80	Mar12	20		5	4.25 Mar20	-1.19	Sep09	24
	5	4.75 Aug23	2.14	Feb08	25		5	4.50 May23	-0.81	Mar13	18
	4	4.50 May23	2.24	Mar13	18		4	3.75 May21	-0.78	Oct13	8
	3	3.50 Nov17	2.70	Nov12	17		3	4.75 Aug23	-0.51	Feb08	25
	2	3.50 Jun18	3.15	Apr13	17		2	1.50 Dec16	0.64	Jan14	5
Cheapest	1	4.50 Aug18	3.26	Feb08	25	Cheapest	1	2.50 May19	0.97	Feb14	5

N'LANDS

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-1.53	Jun11	16	Richest	1	2.50 Jan17	-1.22	Jun11	16
	2	1.75 Jul23 (10y)	-1.31	Mar13	16		2	4.50 Jul17	-0.59	Jul07	15
	3	3.75 Jan23	-0.98	Jan06	11		3	4.00 Jul16	-0.44	Jul06	14
	4	0.50 Apr17	-0.76	Jan14	4		4	0.50 Apr17	-0.32	Jan14	4
	5	4.50 Jul17	-0.31	Jul07	15		5	0.00 Apr16	-0.30	Jan13	15
	5	4.00 Jul16	0.67	Jul06	14		5	4.00 Jul18	0.35	Feb08	15
	4	0.00 Apr16	0.68	Jan13	15		4	1.25 Jan19 (5y)	0.53	Jun13	10
	3	4.00 Jul19	0.83	Feb09	14		3	3.25 Jul21	0.70	Mar11	16
	2	3.25 Jul21	0.89	Mar11	16		2	4.00 Jul19	0.82	Feb09	14
Cheapest	1	3.50 Jul20	0.97	Feb10	15	Cheapest	1	3.50 Jul20	1.01	Feb10	15

SPAIN

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	3.80 Jan17	-1.05	Oct06	21	Richest	1	4.80 Jan24	-1.60	Sep08	15
	2	4.00 Apr20	-0.62	Jan10	20		2	5.40 Jan23	-1.59	Jan13	17
	3	3.75 Oct18 (5y)	-0.49	Jul13	19		3	4.65 Jul25	-1.57	Feb10	14
	4	4.60 Jul19	-0.22	Feb09	18		4	4.40 Oct23	-1.55	May13	18
	5	4.30 Oct19	-0.12	Jun09	19		5	5.85 Jan22 (FBB)	-1.49	Nov11	19
	5	4.65 Jul25	1.49	Feb10	14		5	4.50 Jan18	-1.03	Nov12	19
	4	4.85 Oct20	1.51	Jul10	18		4	4.10 Jul18	-1.01	Feb08	19
	3	4.10 Jul18	1.99	Feb08	19		3	2.10 Apr17	-0.41	Nov13	10
	2	4.40 Oct23	2.14	May13	18		2	3.80 Apr24 (10y)	-0.28	Jan14	10
Cheapest	1	4.50 Jan18	2.19	Nov12	19	Cheapest	1	2.75 Apr19	1.74	Jan14	7

BELGIUM

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	2.25 Jun23	-2.26	Jan13	14	Richest	1	4.00 Mar17	-1.53	Jan07	11
	2	4.00 Mar17	-2.09	Jan07	11		2	3.25 Sep16	-1.49	Jan06	13
	3	4.25 Sep22	-2.05	Jan12	15		3	2.75 Mar16	-1.39	Mar10	10
	4	4.00 Mar22	-1.89	May06	14		4	3.50 Jun17	-1.29	Mar11	13
	5	3.50 Jun17	-1.12	Mar11	13		5	5.50 Sep17	-1.24	Jun02	8
	5	2.60 Jun24 (10y)	0.75	Jan14	5		5	4.00 Mar22	-0.86	May06	14
	4	2.75 Mar16	0.90	Mar10	10		4	4.25 Sep21	-0.75	Jan11	15
	3	4.00 Mar19	0.90	Jan09	11		3	3.75 Sep20	-0.73	Jan10	18
	2	4.25 Sep21	1.23	Jan11	15		2	4.00 Mar19	-0.64	Jan09	11
Cheapest	1	4.00 Mar18	1.33	Jan08	12	Cheapest	1	2.60 Jun24 (10y)	1.40	Jan14	5

Source: Citi Research

EMU relative value table – min 8yr maturity

Figure 56. 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)						Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44 (30y)	-1.07	Apr12	16	Richest	1	4.00 Jan37	-0.07	Jan05	23
	2	2.00 Aug23	-1.05	Sep13	18		2	4.75 Jul40	-0.03	Jul08	16
	3	1.50 May23	-0.52	May13	18		3	4.25 Jul39 (UB)	-0.02	Jan07	14
	4	4.75 Jul40	-0.14	Jul08	16		4	4.75 Jul34	0.08	Jan03	20
	5	1.75 Jul22	-0.08	Apr12	24		5	2.00 Aug23	0.12	Sep13	18
	5	3.25 Jul42	0.78	Jul10	15		5	1.50 May23	0.41	May13	18
	4	6.25 Jan30	1.08	Jan00	9		4	1.50 Feb23 (RX)	0.48	Jan13	18
	3	1.75 Feb24 (10y)	1.12	Jan14	5		3	1.75 Jul22	0.48	Apr12	24
	2	4.75 Jul34	1.30	Jan03	20		2	1.50 Sep22	0.51	Sep12	18
Cheapest	1	5.50 Jan31	1.43	Oct00	17	Cheapest	1	1.75 Feb24 (10y)	0.87	Jan14	5

FRANCE

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.25 Oct23 (OAT)	-1.75	Oct06	33	Richest	1	4.25 Oct23 (OAT)	-0.37	Oct06	33
	2	1.75 May23	-1.53	May12	26		2	4.50 Apr41	-0.20	Apr09	24
	3	4.00 Apr55	-0.95	Apr04	15		3	3.25 May45 (30y)	-0.18	May12	9
	4	2.25 Oct22	-0.87	Oct11	24		4	4.00 Apr55	-0.13	Apr04	15
	5	3.00 Apr22	-0.64	Feb12	33		5	4.00 Oct38	-0.09	Oct05	24
	5	2.25 May24 (10y)	0.17	Nov13	15		5	2.25 Oct22	0.43	Oct11	24
	4	4.00 Oct38	0.26	Oct05	24		4	2.75 Oct27	0.44	Oct11	21
	3	5.75 Oct32	0.38	Oct00	26		3	3.50 Apr26	0.59	Apr10	30
	2	3.25 May45 (30y)	0.63	May12	9		2	3.00 Apr22	0.74	Feb12	33
Cheapest	1	2.75 Oct27	0.79	Oct11	21	Cheapest	1	2.25 May24 (10y)	1.08	Nov13	15

ITALY

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar24 (10y)	-1.25	Aug13	23	Richest	1	4.00 Feb37	-1.63	Aug05	25
	2	5.50 Nov22 (IK)	-0.87	May12	21		2	5.00 Aug39	-1.29	Aug07	19
	3	5.50 Sep22	-0.80	Mar12	20		3	5.00 Aug34	-1.26	Aug03	21
	4	4.75 Sep28	-0.57	Jan13	16		4	5.75 Feb33	-1.25	Feb02	15
	5	5.75 Feb33	-0.54	Feb02	15		5	5.00 Sep40	-1.24	Sep09	21
	5	5.00 Aug39	0.80	Aug07	19		5	4.50 Mar24 (10y)	-0.94	Aug13	23
	4	5.00 Sep40	0.85	Sep09	21		4	5.00 Mar25	-0.89	Mar09	22
	3	4.50 Mar26	0.93	Sep10	21		3	4.50 Mar26	-0.84	Sep10	21
	2	4.75 Aug23	2.14	Feb08	25		2	4.50 May23	-0.81	Mar13	18
Cheapest	1	4.50 May23	2.24	Mar13	18	Cheapest	1	4.75 Aug23	-0.51	Feb08	25

N'LANDS

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 Jul23 (10y)	-1.28	Mar13	16	Richest	1	1.75 Jul23 (10y)	-0.26	Mar13	16
	2	3.75 Jan23	-0.96	Jan06	11		2	3.75 Jan23	-0.05	Jan06	11
	3	3.75 Jan42 (30y)	-0.73	May10	14		3	3.75 Jan42 (30y)	0.28	May10	14
	3	4.00 Jan37	0.15	Apr05	14		3	2.25 Jul22	0.35	Feb12	15
	2	2.25 Jul22	0.68	Feb12	15		2	2.50 Jan33	0.37	Mar12	10
Cheapest	1	2.50 Jan33	0.70	Mar12	10	Cheapest	1	4.00 Jan37	0.60	Apr05	14

SPAIN

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.90 Jul40	-0.90	Jun07	13	Richest	1	4.90 Jul40	-1.83	Jun07	13
	2	4.70 Jul41 (30y)	-0.45	Sep09	12		2	4.20 Jan37	-1.82	Jan05	16
	3	5.15 Oct44	-0.37	Oct13	4		3	4.70 Jul41 (30y)	-1.78	Sep09	12
	4	5.90 Jul26	-0.15	Mar11	12		4	5.75 Jul32	-1.77	Jan01	15
	5	5.40 Jan23	0.29	Jan13	17		5	5.15 Oct28	-1.73	Jul13	8
	5	4.20 Jan37	0.36	Jan05	16		5	5.40 Jan23	-1.59	Jan13	17
	4	3.80 Apr24 (10y)	0.73	Jan14	10		4	4.65 Jul25	-1.57	Feb10	14
	3	4.80 Jan24	0.92	Sep08	15		3	4.40 Oct23	-1.55	May13	18
	2	4.65 Jul25	1.49	Feb10	14		2	5.15 Oct44	-1.38	Oct13	4
Cheapest	1	4.40 Oct23	2.13	May13	18	Cheapest	1	3.80 Apr24 (10y)	-0.28	Jan14	10

BELGIUM

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar26	-2.78	Jun11	8	Richest	1	4.00 Mar32	-0.97	Mar12	8
	2	4.00 Mar32	-2.19	Mar12	8		2	2.25 Jun23	-0.88	Jan13	14
	3	2.25 Jun23	-2.17	Jan13	14		3	4.25 Sep22	-0.88	Jan12	15
	4	4.25 Sep22	-1.98	Jan12	15		4	5.00 Mar35	-0.86	May04	18
	4	3.75 Jun45 (30y)	-0.16	Sep13	4		4	4.50 Mar26	-0.81	Jun11	8
	3	4.25 Mar41	0.05	Apr10	12		3	4.25 Mar41	-0.80	Apr10	12
	2	2.60 Jun24 (10y)	0.89	Jan14	5		2	3.75 Jun45 (30y)	-0.61	Sep13	4
Cheapest	1	5.00 Mar35	1.39	May04	18	Cheapest	1	2.60 Jun24 (10y)	1.42	Jan14	5

Source: Citi Research

UK relative value table

Figure 57. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

Versus Govt Curve (CAS)

Bucket		Rank	Bond	ZScore	Issued	Size (€bn)
ALL	Richest	1	4.00 Jan60	-3.31	Oct09	19
		2	4.00 Mar22	-2.69	Feb09	37
		3	3.75 Sep21	-2.61	Mar11	28
		4	1.75 Jan17	-2.43	Aug11	27
		5	1.75 Sep22	-1.91	Jun12	28
		5	3.75 Sep19	2.21	Jul09	28
		4	4.25 Dec46	2.29	May06	21
		3	5.00 Mar18 (WX)	2.29	May07	34
		2	4.50 Dec42	2.50	Jun07	26
	Cheapest	1	3.50 Jul68	5.09	Jun13	10
2yr - 7yr	Richest	1	1.75 Jan17	-2.44	Aug11	27
		2	4.00 Sep16	-1.62	Mar06	35
		3	3.75 Sep20	0.04	Jun10	24
		4	1.75 Jul19	0.14	Nov13	13
		5	4.75 Mar20	0.23	Mar05	33
		5	1.00 Sep17	0.40	Mar12	31
		4	1.25 Jul18 (5y)	1.43	Feb13	34
		3	4.50 Mar19	1.95	Sep08	35
		2	3.75 Sep19	2.20	Jul09	28
	Cheapest	1	5.00 Mar18 (WX)	2.28	May07	34
7yr - 15yr	Richest	1	4.00 Mar22	-2.71	Feb09	37
		2	3.75 Sep21	-2.63	Mar11	28
		3	1.75 Sep22	-1.94	Jun12	28
		4				
		5				
		5				
		4				
		3	5.00 Mar25 (G)	-0.07	Sep01	34
		2	4.25 Dec27	1.05	Sep06	29
	Cheapest	1	2.25 Sep23 (10y)	1.32	Jun13	24
>15yr	Richest	1	4.00 Jan60	-3.35	Oct09	19
		2	4.50 Sep34	-1.54	Jun09	26
		3	3.25 Jan44 (30y)	-1.32	Oct12	24
		4	4.25 Dec55	-0.75	May05	23
		5	4.25 Sep39	0.13	Mar09	19
		5	4.75 Dec30	1.60	Oct07	29
		4	4.25 Dec40	1.85	Jun10	24
		3	4.25 Dec46	2.24	May06	21
		2	4.50 Dec42	2.47	Jun07	26
	Cheapest	1	3.50 Jul68	4.76	Jun13	10

Versus Swap Curve (CAS)

Bucket		Rank	Bond	ZScore	Issued	Size (€bn)
ALL	Richest	1	1.75 Jan17	-2.19	Aug11	27
		2	1.00 Sep17	-1.93	Mar12	31
		3	4.00 Sep16	-1.90	Mar06	35
		4	1.75 Jul19	-1.51	Nov13	13
		5	2.25 Sep23 (10y)	-1.37	Jun13	24
		5	4.75 Dec38	0.73	Apr04	25
		4	4.25 Dec40	0.75	Jun10	24
		3	4.50 Dec42	0.77	Jun07	26
		2	2.75 Jan15	1.09	Nov09	29
	Cheapest	1	2.25 Mar14	3.48	Mar09	35
2yr - 7yr	Richest	1	1.75 Jan17	-2.20	Aug11	27
		2	1.00 Sep17	-1.93	Mar12	31
		3	4.00 Sep16	-1.90	Mar06	35
		4	1.75 Jul19	-1.51	Nov13	13
		5	5.00 Mar18 (WX)	-1.27	May07	34
		5	1.25 Jul18 (5y)	-1.07	Feb13	34
		4	4.50 Mar19	-0.30	Sep08	35
		3	4.75 Mar20	0.05	Mar05	33
		2	3.75 Sep20	0.15	Jun10	24
	Cheapest	1	3.75 Sep19	0.23	Jul09	28
7yr - 15yr	Richest	1	2.25 Sep23 (10y)	-1.38	Jun13	24
		2	5.00 Mar25 (G)	-1.23	Sep01	34
		3	4.25 Dec27	-1.14	Sep06	29
		4				
		5				
		5				
		4				
		3	1.75 Sep22	-1.12	Jun12	28
		2	4.00 Mar22	-0.89	Feb09	37
	Cheapest	1	3.75 Sep21	-0.60	Mar11	28
>15yr	Richest	1	4.75 Dec30	-0.39	Oct07	29
		2	3.50 Jul68	-0.19	Jun13	10
		3	4.25 Jun32	-0.10	May00	35
		4	4.50 Sep34	0.05	Jun09	26
		5	4.00 Jan60	0.12	Oct09	19
		5	4.25 Mar36	0.57	Feb03	26
		4	4.25 Sep39	0.66	Mar09	19
		3	4.75 Dec38	0.72	Apr04	25
		2	4.25 Dec40	0.75	Jun10	24
	Cheapest	1	4.50 Dec42	0.77	Jun07	26

Source: Citi Research

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

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

Figure 58. 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 TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
17 Feb (Mon)	Belgium	3.0	OLO 4% Mar19, 2.6% Jun24, 4.25% Mar41 (issue confirmed, estimated size)				32k
18 Feb (Tue)	Netherlands	4.0	New DSL Jan47 (issue confirmed, min €3bn)				80k
18 Feb (Tue)	US	3.75 - 4.5	Outright Treasury Coupon Purchases: 30/11/2018 - 15/11/2019		-23k		
19 Feb (Wed)	Germany	5.0	Bund Feb24 re-opening (issue and size confirmed)				38k
19 Feb (Wed)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2044		-25k		
20 Feb (Thu)	France	9.7	OAT 2yr and 5yr, index-linked OAT (estimated tenors and size)				39k
20 Feb (Thu)	Spain	5.8	Bono/Obligaciones 2yr, 5yr and 10yr (estimated tenors and size)				31k
20 Feb (Thu)	UK	3.0	2¼% Treasury Gilt 2023 (issue and size confirmed)			30k	
20 Feb (Thu)	US	9.0	30-year TIPS		104k		
20 Feb (Thu)	US	2.25 - 2.75	Outright Treasury Coupon Purchases: 15/5/2021 - 15/2/2024		-23k		
21 Feb (Fri)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2044		-25k		
			Weekly $DV01 of Issuance	41.4			
			Total Number of Futures Contracts		8k	30k	220k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
24 Feb (Mon)	US	2.5 - 3	Outright Treasury Coupon Purchases: 30/11/2019 - 15/2/2021		-18k		
25 Feb (Tue)	Italy	3.5	CTZ (estimated size)				6k
25 Feb (Tue)	Italy	1.2	BTPei (estimated size)				9k
25 Feb (Tue)	UK	1.6	Mini-tender (estimated issue)			14k	
25 Feb (Tue)	US	32.0	2-Year		102k		
25 Feb (Tue)	US	2.25 - 2.75	Outright Treasury Coupon Purchases: 15/5/2021 - 15/2/2024		-23k		
26 Feb (Wed)	Germany	3.0	New Bund Aug46 (issue and size confirmed)				60k
26 Feb (Wed)	US	35.0	5-year		187k		
26 Feb (Wed)	US	10.0	2-Year FRN (re-opening)		32k		
26 Feb (Wed)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2044		-25k		
27 Feb (Thu)	Italy	6.5	BTP 5yr and 10yr (estimated tenor and size)				33k
27 Feb (Thu)	Italy	1.8	CCTeu (estimated size)				7k
27 Feb (Thu)	US	29.0	7-year		222k		
27 Feb (Thu)	US	3.5 - 4.25	Outright Treasury Coupon Purchases: 28/2/2018 - 15/11/2018		-17k		
28 Feb (Fri)	US	1 - 1.25	Outright Treasury Coupon Purchases : 15/2/2036 - 15/2/2044		-25k		
			Weekly $DV01 of Issuance	55.2			
			Total Number of Futures Contracts		435k	14k	116k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
04 Mar (Tue)	Austria	1.7	RAGB 10yr and 30yr (estimated tenors and size)				22k
04 Mar (Tue)	UK	4.4	1.75% Treasury Gilt 2019 (issue confirmed, estimated size)			24k	
05 Mar (Wed)	Germany	4.0	Bobl Feb19 re-opening (issue and size confirmed)				16k
06 Mar (Thu)	France	8.5	OAT 5yr, 10yr and 30yr (estimated tenors and size)				98k
06 Mar (Thu)	Spain	5.0	Bono 2yr, 5yr and 15yr (issue confirmed, estimated size)				22k
			Weekly $DV01 of Issuance	29.7			
			Total Number of Futures Contracts		0k	24k	159k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
11 Mar (Tue)	Germany	1.0	Boblei/Bundei (estimated size)				8k
11 Mar (Tue)	Netherlands	3.0	DSL Apr17 re-opening (issue confirmed, estimated size)				5k
11 Mar (Tue)	UK	3.2	New conventional gilt maturing on 7 September 2024 (issue confirmed, estimated size)			32k	
11 Mar (Tue)	US	30.0	3-Year		96k		
12 Mar (Wed)	Germany	4.0	Schatz Mar16 re-opening (issue and size confirmed)				7k
12 Mar (Wed)	US	21.0	10-Year (re-opening)		228k		
13 Mar (Thu)	Italy	7.5	BTP 3yr, 7yr and 15yr (estimated tenor and size)				38k
13 Mar (Thu)	Ireland	1.0	Ireland 5yr and 10yr (estimated tenor and size)				6k
13 Mar (Thu)	UK	1.4	01/8% Index-linked Treasury Gilt 2019 (issue confirmed, estimated size)			8k	
13 Mar (Thu)	US	13.0	30-year (re-opening)		290k		
			Weekly $DV01 of Issuance	64.9			
			Total Number of Futures Contracts		613k	40k	63k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on February 28, 2013. Therefore we have only included Fed buybacks up to February 28 in this calendar

Source: DMOs, Citi Research

EUR: Coupons & Redemptions (next 3 mths)

Figure 59. EMU-10 Redemptions over the next three months (€bn)

	Redemptions = €107bn										
Redemptions	DEU 34	FRA 21	NLD 0	ITA 28	ESP 15	BEL 9	AUT 0	FIN 0	PRT 0	GRC 0	IRL 0
(Sat) 01-Mar-14				13.4							
(Fri) 14-Mar-14	15.0										
(Fri) 28-Mar-14						8.7					
(Tue) 01-Apr-14				14.8							
(Fri) 11-Apr-14	19.0										
(Fri) 25-Apr-14		21.0									
(Wed) 30-Apr-14					15.4						

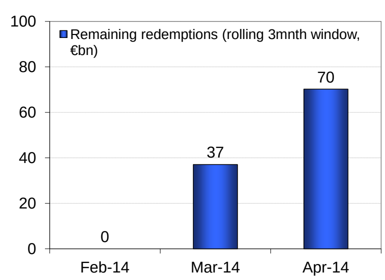
Source: DMOs, Bloomberg, Citi Research

Figure 60. EMU-10 Coupon Payments over the next three months (€bn)

	Coupons = €53bn										
Coupons	DEU 3	FRA 18	NLD 0	ITA 15	ESP 4	BEL 6	AUT 2	FIN 1	PRT 1	GRC 0	IRL 2
(Sat) 15-Feb-14	0.3								0.4		
(Tue) 18-Feb-14											0.2
(Thu) 20-Feb-14							0.3				
(Sun) 23-Feb-14	0.1										
(Mon) 24-Feb-14	0.1										
(Tue) 25-Feb-14		1.0									
(Wed) 26-Feb-14	0.3										
(Thu) 27-Feb-14	0.4										
(Sat) 01-Mar-14				7.0							
(Thu) 13-Mar-14	0.0										0.6
(Fri) 14-Mar-14	0.0										
(Sat) 15-Mar-14				1.9			1.4				
(Thu) 20-Mar-14											0.2
(Fri) 28-Mar-14						6.4					
(Mon) 31-Mar-14					0.3						
(Tue) 01-Apr-14				0.2							
(Mon) 07-Apr-14	0.1										
(Tue) 08-Apr-14	0.5										
(Thu) 10-Apr-14	0.4										
(Fri) 11-Apr-14	0.4										
(Sun) 13-Apr-14	0.0										
(Tue) 15-Apr-14	0.6		0.1	0.8				0.7	0.6		
(Fri) 18-Apr-14											1.0
(Sun) 20-Apr-14							0.3				
(Fri) 25-Apr-14		16.7									
(Wed) 30-Apr-14					4.0						
(Thu) 01-May-14				5.4							

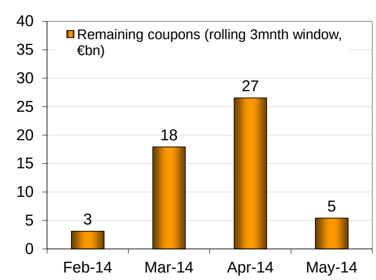
Source: DMOs, Bloomberg, Citi Research

Figure 61. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 62. EMU-10 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

ESP and ITA Bill Issuance Projections

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

Auction calendar for the next four weeks

Figure 63. 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	18 Feb (Tue)	Spain	6month (22 August 2014) and 12month (new bill) - tenors confirmed, estimated issue and size	5.3
			Total Size in Week 1	5.3
Week 2	25 Feb (Tue)	Spain	3month (16 May 2014) and 9month (21 November 2014) - tenors confirmed, estimated issue and size	3.4
	26 Feb (Wed)	Italy	6 month (29 August 2014; issue confirmed, estimated size)	9
			Total Size in Week 2	12.4
Week 4	11 Mar (Tue)	Spain	6month (19 September 2014) and 12month (new bill) - tenors confirmed, estimated issue and size	5.3
	12 Mar (Wed)	Italy	12 month (13 March 2015; issue confirmed, estimated size)	9
			Total Size in Week 4	14.3

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

Source: DMOs, Citi Research

2014 projections for bill supply

Figure 64. 2014 Italy and Spain Bill Supply – Citi Forecast (Euro Billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	1.0	1.0	2.2	3.1		7	8	-1
Feb	0.9	1.3	2.5	4.0		9	11	-3
Mar	0.9	1.3	2.5	4.0		9	10	-1
Apr	0.9	1.5	3.0	4.0		9	12	-3
May	0.9	1.5	3.0	4.0		9	8	1
Jun	0.9	1.5	3.0	4.0		9	14	-4
Jul	0.8	1.5	3.0	4.0		9	8	2
Aug	0.8	1.5	3.0	4.0		9	8	1
Sep	0.8	1.5	3.0	4.0		9	8	2
Oct	0.8	1.5	3.0	3.8		9	9	
Nov	0.8	1.5	3.0	3.8		9	8	1
Dec	0.8	1.5	3.0	3.8		9	8	1
Total	**10.0**	**17.0**	**34.2**	**46.3**		**108**	**111**	**-4**

ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		8.1		9.3		17	20	-2
Feb		9.0		9.0		18	19	-1
Mar		9.0		9.0		18	16	2
Apr	3.0	9.0		9.0		21	17	4
May		9.0		6.5	3.0	19	14	5
Jun		9.0		6.5		16	16	
Jul		9.0		6.5		16	18	-3
Aug		9.0		8.0		17	18	-1
Sep		8.5		8.0	3.0	20	19	1
Oct		8.5		8.0		17	19	-2
Nov		7.0		7.0		14	16	-2
Dec		7.0		6.0		13	15	-2
Total	**3.0**	**102.1**		**92.8**	**6.0**	**204**	**206**	**-2**

*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

Inflation Forecasts, Carry & Weekly Changes

Figure 65. 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
Dec 13	117.28	0.4	0.8	125.82	0.4	0.6	253.40	0.5	2.7	233.05	-0.0	1.5
Jan 14	115.89	-1.2	0.7	125.37	-0.4	0.8	252.10	-0.5	2.6	234.10	0.5	1.7
Feb 14	116.19	0.3	0.6	125.55	0.1	0.7	253.60	0.6	2.4	234.80	0.3	1.1
Mar 14	117.46	1.1	0.4	126.53	0.8	0.7	254.20	0.2	2.2	236.30	0.6	1.5
Apr 14	117.79	0.3	0.8	126.47	-0.0	0.8	255.30	0.4	2.3	237.40	0.5	2.1
May 14	117.80	0.0	0.7	126.74	0.2	0.9	256.00	0.3	2.4	237.90	0.2	2.1

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 66. US TIPS Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Mar	1 Apr	1 May	*Ref*	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Mar	1 Apr	1 May	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.07*	*0.08*	*0.08*									
TIPS 4/15	-1.67	-21	-18	-7	21	39	*US-2.500-04/30/15*	184	18	15	-7	20	38	2	-5
TIPS 7/15	-2.01	-19	-16	-7	14	25	*US-4.250-08/15/15*	222	16	13	-7	13	23	10	-6
TIPS 1/16	-1.56	-13	-11	-4	13	24	*US-2.625-02/29/16*	190	11	9	-4	12	21	14	-5
TIPS 4/16	-1.40	-12	-10	-3	13	22	*US-2.000-04/30/16*	181	11	9	-4	11	19	12	-5
TIPS 7/16	-1.63	-11	-10	-3	10	18	*US-4.875-08/15/16*	214	10	9	-4	8	14	7	-6
TIPS 1/17	-1.24	-8	-7	-2	10	18	*US-3.125-01/31/17*	193	8	6	-3	7	13	16	-4
TIPS 4/17	-1.05	-8	-8	-2	10	17	*US-0.875-04/30/17*	186	7	5	-3	7	12	16	-4
TIPS 7/17	-1.21	-6	-5	-2	9	15	*US-4.750-08/15/17*	214	5	3	-3	5	9	10	-2
TIPS 1/18	-0.85	-4	-3	-1	9	15	*US-3.500-02/15/18*	200	3	2	-2	5	9	18	-1
TIPS 4/18	-0.69	-3	-3	-1	9	15	*US-0.625-04/30/18*	193	2	1	-2	5	9	21	-1
TIPS 7/18	-0.83	-4	-3	-1	8	13	*US-4.000-08/15/18*	214	2	1	-2	4	7	17	-1
TIPS 1/19	-0.54	-4	-3	-1	8	14	*US-2.750-02/15/19*	206	3	2	-2	4	7	20	-2
TIPS 7/19	-0.48	-5	-5	-1	7	13	*US-3.625-08/15/19*	216	4	3	-2	3	6	21	-2
TIPS 1/20	-0.21	-4	-4	0	7	12	*US-3.625-02/15/20*	204	3	2	-2	3	5	30	-2
TIPS 7/20	-0.18	-4	-4	0	7	12	*US-2.625-08/15/20*	219	2	2	-2	3	5	24	-1
TIPS 1/21	0.05	-4	-4	0	7	11	*US-3.625-02/15/21*	207	3	3	-1	3	4	33	-3
TIPS 7/21	0.08	-4	-4	0	6	11	*US-2.125-08/15/21*	221	3	2	-1	2	4	27	-2
TIPS 1/22	0.28	-3	-3	0	6	10	*US-2.000-02/15/22*	213	3	2	-1	2	3	33	-2
TIPS 7/22	0.29	-3	-3	0	6	10	*US-1.625-08/15/22*	224	3	2	-1	2	3	28	-2
TIPS 1/23	0.43	-4	-4	0	6	9	*US-2.000-02/15/23*	218	4	4	-1	2	3	32	-3
TIPS 7/23	0.43	-2	-3	0	5	9	*US-2.500-08/15/23*	225	3	2	-1	1	2	31	-2
TIPS 1/24	0.54	-	-	0	5	9	*US-2.750-02/15/24*	220	-	-	-1	2	3	34	-
TIPS 1/25	0.61	-5	-5	0	5	9	*US-7.625-02/15/25*	214	5	5	-1	1	2	44	-4
TIPS 1/26	0.74	-3	-3	0	5	8	*US-6.000-02/15/26*	219	3	3	-1	1	2	42	-2
TIPS 1/27	0.83	0	0	0	5	8	*US-6.625-02/15/27*	218	1	0	-1	1	2	45	1
TIPS 1/28	0.92	-0	-1	0	4	8	*US-6.125-11/15/27*	218	2	1	-1	1	1	48	0
TIPS 4/28	0.89	-3	-3	0	5	8	*US-5.500-08/15/28*	228	4	4	-1	1	2	37	-2
TIPS 1/29	0.95	-3	-3	0	4	7	*US-5.250-02/15/29*	227	4	4	-1	1	1	42	-2
TIPS 4/29	0.94	-3	-3	0	5	8	*US-5.250-02/15/29*	227	4	4	-1	1	2	40	-2
TIPS 4/32	1.06	-3	-3	0	4	7	*US-5.375-02/15/31*	226	4	4	-1	1	1	46	-2
TIPS 2/40	1.34	-0	-0	0	3	5	*US-4.625-02/15/40*	225	2	2	-1	0	0	50	-0
TIPS 2/41	1.35	1	1	0	3	5	*US-4.750-02/15/41*	225	0	-0	-1	0	0	50	1
TIPS 2/42	1.40	1	1	0	2	4	*US-3.125-02/15/42*	228	0	0	-1	0	0	46	1
TIPS 2/43	1.41	-1	-1	0	2	4	*US-3.125-02/15/43*	230	3	2	-1	0	0	45	-1

Source: Citi Research, Bloomberg

Figure 67. EUR Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Mar	1 Apr	####	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Mar	1 Apr	####	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.16*	*0.15*	*0.14*									
OATei15	-0.71	3	-2	8	-87	-78	*FFRG 4/15*	85	-8	-3	8	-87	-78	24	1
BUNDei16	-0.27	4	0	6	-55	-46	*BUND 1/16*	35	-8	-4	6	-54	-45	15	2
BTANi16	-0.63	2	-1	5	-13	-10	*FFRG 4/16*	87	-4	-2	5	-14	-11	34	-4
BTPei16	0.77	0	-4	7	-41	-29	*BTP 8/16*	52	1	4	5	-47	-40	41	-6
OATi17	-0.45	3	1	4	-9	-6	*FFRG 4/17*	89	-7	-5	3	-10	-8	34	-1
BTPei17	1.15	1	-3	5	-28	-19	*BTP 8/17*	66	-1	1	3	-35	-30	37	-4
BOBLei18	-0.32	-3	-5	3	-28	-23	*BUND 1/18*	65	-3	-1	3	-28	-24	23	-2
OATei18	-0.17	2	-0	3	-25	-20	*FFRG 4/18*	89	-5	-3	3	-27	-23	32	-0
BTPei18	1.37	2	-1	4	-21	-13	*BTP 8/18*	76	-4	-2	3	-27	-24	37	-1
OATi19	-0.06	3	2	2	-5	-2	*FFRG 4/19*	107	-7	-6	2	-7	-6	33	-1
BTPei19	1.61	-2	-5	4	-17	-10	*BTP 9/19*	85	-3	-1	42	-23	-20	38	-1
BUNDei20	-0.12	-2	-3	2	-19	-15	*BUND 1/20*	91	-4	-3	2	-20	-17	25	0
OATei20	0.12	1	-0	2	-18	-14	*FFRG 4/20*	117	-3	-2	2	-20	-18	23	-0
OATi21	0.34	4	3	2	-3	-1	*FFRG 4/21*	120	-7	-6	1	-5	-5	40	0
BTPei21	2.16	-1	-2	3	-12	-6	*BTP 9/21*	96	-6	-5	35	-18	-16	48	3
OATei22	0.45	2	1	2	-13	-9	*FFRG 4/21*	109	-4	-3	1	-15	-14	49	2
BUNDei23	0.20	0	-1	2	-12	-9	*BUND 1/22*	104	-4	-4	1	-13	-12	46	2
OATi23	0.59	7	5	2	-2	0	*FFRG 10/23*	152	-7	-7	1	-5	-5	25	1
BTPei23	2.51	1	-1	3	-10	-4	*BTP 8/23*	107	-5	-5	1	-15	-13	56	3
OATei24	0.73	5	4	2	-10	-7	*FFRG 10/23*	138	-6	-6	1	-13	-12	36	4
BTPei26	2.72	1	-1	2	-7	-3	*BTP 3/26*	113	-6	-6	24	-12	-11	68	4
OATei27	0.93	5	4	1	-8	-5	*FFRG 4/26*	159	-5	-5	1	-11	-10	29	3
OATi29	0.89	7	6	1	-1	1	*FFRG 4/29*	186	-7	-7	1	-4	-4	18	3
OATei32	1.06	5	5	1	-7	-4	*FFRG 10/32*	185	-5	-5	1	-9	-9	15	3
BTPei35	2.69	-2	-3	1	-5	-2	*BTP 8/34*	169	1	1	0	-8	-8	32	-3
OATei40	1.18	5	4	1	-4	-3	*FFRG 4/41*	199	-3	-3	0	-7	-6	9	1
BTPei41	3.07	0	-1	1	-4	-1	*BTP 9/40*	148	-0	-0	16	-7	-7	59	-2

Source: Citi Research

Figure 68. UK Gilts Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Mar	1 Apr	1 May	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Mar	1 Apr	1 May	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.42*	*0.42*	*0.42*									
UKTi Jul16	-1.67	12	11	2	5	8	*UKT 9/16*	250	-7	-7	1	3	4	51	18
UKTi Nov17	-1.38	12	10	5	-13	-1	*UKT 3/18*	288	-4	-2	4	-17	-7	16	-5
UKTi Nov19	-0.79	12	11	4	-7	2	*UKT 9/19*	279	-4	-3	3	-11	-5	32	3
UKTi Apr20	-0.61	10	10	1	4	7	*UKT 3/20*	272	-4	-4	0	0	0	34	3
UKTi Nov22	-0.31	7	6	3	-4	3	*UKT 3/22*	280	-3	-2	2	-8	-4	40	1
UKTi Mar24	-0.06	6	5	3	-3	3	*UKT 3/25*	294	-2	-2	1	-7	-3	26	1
UKTi Jul24	-0.05	6	6	1	3	6	*UKT 3/25*	293	-3	-3	0	0	0	35	1
UKTi Nov27	0.05	8	7	2	-2	2	*UKT 12/27*	309	-3	-3	1	-6	-3	32	1
UKTi Mar29	0.15	9	8	2	-2	2	*UKT 12/30*	315	-4	-4	1	-5	-3	26	3
UKTi Jul30	0.13	8	7	1	3	4	*UKT 6/32*	324	-3	-3	0	0	0	26	-5
UKTi Nov32	0.12	8	7	2	-2	2	*UKT 6/32*	325	-3	-3	1	-5	-3	31	4
UKTi Mar34	0.16	8	7	1	-1	2	*UKT 9/34*	328	-3	-3	0	-4	-3	28	2
UKTi Jan35	0.15	7	6	1	2	3	*UKT 3/36*	333	-3	-3	0	-1	-1	26	3
UKTi Nov37	0.13	7	6	1	-1	1	*UKT 12/38*	336	-3	-3	0	-4	-3	25	4
UKTi Mar40	0.14	6	5	1	-1	1	*UKT 9/39*	338	-2	-2	0	-4	-3	23	3
UKTi Nov42	0.11	5	4	1	-1	1	*UKT 12/42*	342	-1	-1	0	-3	-3	22	1
UKTi Mar44	0.14	5	5	1	-1	1	*UKT 1/44*	343	-1	-1	0	-3	-3	19	1
UKTi Nov47	0.11	5	4	1	-1	1	*UKT 12/46*	343	-1	-1	0	-3	-3	20	0
UKTi Mar50	0.11	5	5	1	-1	1	*UKT 12/49*	341	-1	-1	0	-3	-2	21	1
UKTi Mar52	0.12	5	5	1	-1	1	*UKT 7/52*	341	-1	-1	0	-3	-2	20	1
UKTi Nov55	0.09	5	4	1	-1	1	*UKT 12/55*	341	-1	-1	0	-3	-2	21	0
UKTi Mar62	0.08	5	5	1	-1	1	*UKT 1/60*	341	-1	-1	0	-2	-2	20	0
UKTi Mar68	0.09	5	5	1	-1	1	*UKT 7/68*	343	-1	-1	0	-2	-2	17	0

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
13-Feb-14	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
11-Feb-14	NOTE	UK Rates Strategy: Inflation Report, Forward Guidance Mark II & Short-Sterling	-	UK
10-Feb-14	NOTE	European Flow Monitor: Diverging flows between Italy & Spain	-	EUR
10-Feb-14	NOTE	European SSA Strategy: Weekly chart-pack and market monitor: 31st Jan – 7th Feb	-	EUR
6-Feb-14	European Weekly	ECB: Market Update	8	EUR
		Bearish strategies in derivatives space	9	EUR
		EGB spread outlook – a softer tone?	12	EUR
		Euro inflation: further downside for breaks	14	EUR
		SSA Strategy - value in Dutch agencies?	17	EUR
		Covered Bond Strategy	18	EUR
6-Feb-14	NOTE	Euro Rates Strategy: Feb ECB Meeting: Implications for European Rates	-	EUR
6-Feb-14	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
5-Feb-14	NOTE	Inflation Strategy: Further downside for breaks ahead of the ECB & negative carry	-	EUR
5-Feb-14	NOTE	Covered Bond Strategy: Cédulas Territoriales – switch for the good?	-	EUR
5-Feb-14	NOTE	Euro SSA Strategy: Relative Value Insights – Trade ideas in Dutch agencies	-	EUR
4-Feb-14	NOTE	European Rates Strategy: Markets and the Feb ECB Meeting	-	EUR
4-Feb-14	NOTE	Covered Bond Strategy: Spread Wrap-Up And Cover Pool Insight: The Nordics	-	EUR
3-Feb-14	NOTE	Flow Monitor: Strong demand for 5-10yrs in both core & non-core markets	-	EUR
3-Feb-14	NOTE	European SSA Strategy: Weekly Chart-Pack And Market Monitor: 24-31 January	-	EUR
3-Feb-14	NOTE	Rates Strategy: EMU Supply: non-supportive NCR & heavy long-end issuance	-	EUR
31-Jan-14	NOTE	Euro SSA and Covered Bond Monthly	-	EUR
31-Jan-14	NOTE	Euro Rates Strategy: EUR RV Trade: Receive EUR 3y1y vs 1y1y and 5y2y (butterfly)	-	EUR
31-Jan-14	NOTE	UK Rates Strategy: Is it time for gilts to de-couple from Treasuries?	-	UK
31-Jan-14	NOTE	SSA Strategy: Relative Value Insights – The EU Has Lagged France in the Rally	-	EUR
30-Jan-14	European Weekly	Bunds: What if T-Notes Sell Off?	8	EUR
		Vol: EUR 10s30s Floor vs USD 10s30s Cap	10	EUR
		UK Rates – time to de-couple from the US?	12	UK
		Analysing the impact of USTs on Bund 2s10s	15	Global
		SSA Strategy – uncorrelated to UST rises?	17	EUR
		Covered Bond Strategy	19	EUR

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Notes

Appendix A-1

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