

International Interest Rate Strategist

Exceptional times, exceptional measures?

- **Overview:** The key event next week is clearly the ECB Meeting on 06 September. This is more than usually important, not least because of the expectation of some details of the bond purchase programme.
- We also expect an announcement of other non-standard measures and a 25bp cut in interest rates. We assess the significance and likely impact of the expected measures and some relevant trading strategies.
- **September EMU Supply Outlook:** We forecast €70bn of gross supply in September, €39bn higher than August. In DV01 terms, the 10yr sector accounts for 48% of total issuance.
- **Euro Inflation:** The risk-reward for euro break-evens is asymmetrically biased to the downside, in our view. OATe look particularly rich (vs Bund). For those considering France-Germany spread wideners, this is best expressed in real yields.
- **4 EMU RV Trades:** In France, the Jul15s are relatively cheap and the Oct20s rich. Fade the richness of the Jul16s in the Netherlands and Jan18s in Austria.
- **Futures Rolls:** We include a 1-page updated summary of analysis of the Bund, Bobl, Schatz, and gilt rolls. CTD switches are either very unlikely or will have minimal impact on the roll. Repo is a key factor in all four calendar spreads.
- **Algorithmic Trading Signals:** Maintain long duration positions and look to add at more attractive yield levels.

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

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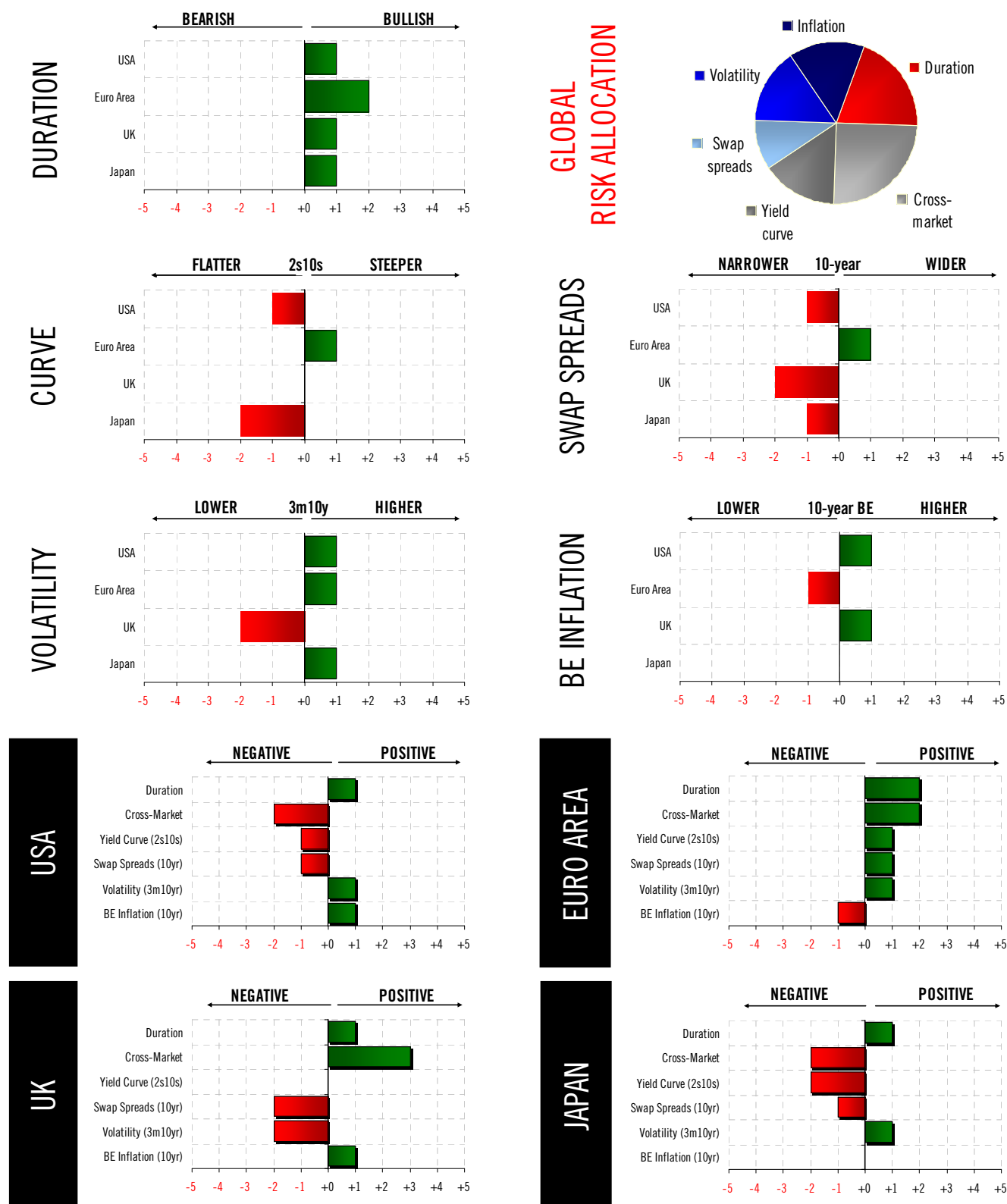
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Figure 1. Strategy Summary Table

GLOBAL	View	Strategies
Direction	Next week's ECB meeting will be pivotal for near-term direction. There is scope for disappointment, in our view, which could push Bund yields lower still. We continue to target a further rally towards 1.2%, the low-end of the three-month range.	We recommend buying Jan Bund calls as a conditional expression of our long duration view.
Yield Curve	Core curves in EMU have resumed bull flattening in the latest rally. Positioning is now probably more balanced. However, a cut in the Discount Rate to -0.25% (which we expect in September) could slow the pace of flattening in the weeks ahead. The near-term risk-reward on 10s30s EUR steepeners has diminished, but rather than fade the steepening directly we recommend buying 30yr Bunds vs DSLs (a trade which is working well). In gilts, ongoing (and increasing) QE is likely to exert a flattening bias on 10s30s.	10s30s steepeners in Germany as a long-term trade (or boxed with Gilts). Peripheral EMU flatteners, outright and boxed against core steepeners.
Cross-market	UST vs Bund spreads remain correlated to forward short rate differentials. A Discount Rate cut from the ECB could ease the cap on these spreads. Use dips to buy 5yr Bobls against US Treasuries under -20bp or consider 2s5s EUR vs USD box trades (long 5yr EUR). We continue to prefer gilts to USTs over the medium-term, but would lighten up after recent gains.	2s5s flattener in EUR versus steepener in USD Long 2x5 ATMF/4+100 payer spread in USD versus EUR Long 10yr Bunds vs USTs Long 30yr gilts vs USTs
EMU Spreads	The hunt for yield has driven a strong tightening in soft core spreads to Germany. France has been the main beneficiary of this and may well underperform if the yield grab trade loses momentum. Expressing this as a 2s5s OAT steepener looks appealing rather than selling the spread directly. Periphery curves have lost steepening momentum as the market awaits the ECB's actions rather than just its words. Periphery curves are unlikely to move far until there is further clarity.	Hold 30yr Bunds vs DSLs 2s5s steepeners in France as a proxy for short France vs Germany
Swap Spreads	Bund spreads have finally bounced following a significant tightening move in the sell-off. This probably has further to run. Schatz spreads look historically cheap, both outright and vs Bobl spreads. In the UK, mediums are likely to be supported by a favourable net cash requirement and a dwindling free-float.	Long 10yr gilt swap spreads. Buy soft core EMU vs swaps at positive spreads if you expect an EMU break-up.
Inflation	The risk-reward is asymmetrically biased to the downside for euro break-evens, in our view. Break-evens will be particularly vulnerable if risk appetite deteriorates in September. OATei look rich vs Bundeis and the real yield spread offers an attractive way to position for France-Germany spread widening. UK break-evens remain largely directional, but much uncertainty remains ahead of the CPAC meeting on 13 September.	Sell OATei22 vs Bundeis23 real yield spread Sell OATei40 break-even outright or boxed vs UKTI 2040 Buy Bundeis16 break-even as a long-term trade. 10s30s TIPS break-evens steepeners as a LT structural trade.
Volatility	Event risk over the next 3months (particularly in September) should provide upward pressure on EUR 3m10y bpv. As we approach next week's ECB meeting we recommend expressing bullish positions on EUR front-end fwds that are still too high. GBP 2y2y vol is too rich vs fundamentals, we suggest selling straddles.	Take profits on short EUR 6m15y strangle and long OTM receiver Sell EUR 1y3yF ATMF straddles and buy EUR 1y3y ATMF-25 receivers. Alternatively, sell EUR 1y3yF ATMF payers at a B/E above 1.70%. Sell GBP 2y2y ATMF straddles
European SSA	Given the rally over recent months, SSA spreads have been slightly softer recently, but we are not looking for significant underperformance in the near term. In terms of relative value, we continue to see value in KfW vs France.	Relative value between KfW and EIB/EU in the front-end Long KfW vs France in the 4yr sector
Risk Allocation	Markets retain their preference for safe-haven assets and are generally reluctant to engage. We recommend an extremely cautious risk allocation to all strategies and trading very opportunistically.	

Source: Citi Research

Figure 2. Global Summary

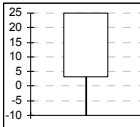


Source: Citi Research

Tradesheet

Record of Closed Trades

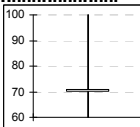
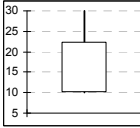
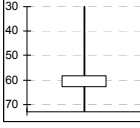
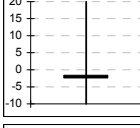
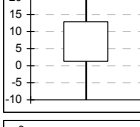
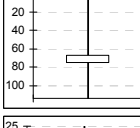
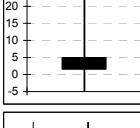
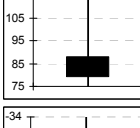
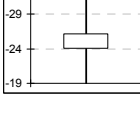
Figure 3. Record of Closed Trades

Region	Trade	Levels	Rationale	
Europe	Sell EUR 6m15y Strangle and buy OTM receiver	Open 3bp Current 25bp P&L 28bp Target 25bp Stop -10bp	Expired on 28 August 2012 Update on Long Duration Trades, 28 Feb 2012	
<i>Duration</i>	Buy EUR 6m15y receiver (ATMF-10) for 20bps Sell EUR 6m15y receiver (ATMF-35) for 11bps Sell EUR 6m15y payer (ATMF+30) for 12bps			

Source: Citi Research

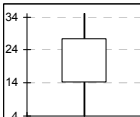
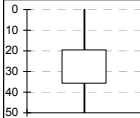
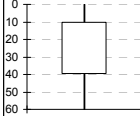
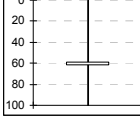
Record of Our Open Trades

Figure 4. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
France	France 2s5s Steepener	Open 70bp Current 71bp P&L 1bp Target 100bp Stop 60bp	Proxy for shorting France vs Germany IIRS 16 August 2012	
<i>Curve</i>	Buy BTAN 3% Jul14 at 0.14% Sell OAT 3.75% Apr17 at 0.86%			
Europe	Buy 30yr Germany vs Netherlands	Open 10bp Current 22bp P&L 12bp Target 30bp Stop 15bp	30yr Germany cheap vs 10yr and also 30yr Netherlands First recommended in IIRS 16 August 2012 Target & Stop amended in IIRS 23 August 2012	
<i>Cross Market</i>	Buy Bund 2.5% Jul44 at 2.34% Sell DSL 3.75% Jan42 at 2.44%			
Europe	Sell EUR 1y3yF ATMF straddle and buy ATMF-25 receiver	Open 63bp Current 58bp P&L 5bp Target 30bp Stop 73bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken IIRS 9 August 2012	
<i>Volatility</i>	Sell EUR 1y3yF ATMF (=1.36%) straddle for 98bp Buy EUR 1y3yF ATMF-25 receiver for 35bp			
US / Europe	EUR 2s5s flattener vs USD steepener	Open -1.5bp Current -3bp P&L -1bp Target 20bp Stop -10bp	Attractive entry level offers good opportunity for long Europe vs US trade ahead of anticipated ECB rate cut Morning Call 9 August 2012	
<i>Cross Market</i>	EUR 2s5s flattener at 46.5bps USD 2s5s steepener at 45bps			
Europe	Long KfW 1.375% Feb17s vs OAT 5% Oct16s	Open 1bp Current 13bp P&L 12bp Target 20bp Stop -10bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify IIRS 2 August 2012	
<i>Cross Market</i>	Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%			
UK	Sell GBP 2y2y ATMF straddle	Open 76bp Current 67bp P&L 9bp Target 0bp Stop 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol IIRS 12 July 2012	
<i>Volatility</i>	Sell GBP 2y2y ATMF (1.04%) straddle at 76bps			
Europe / US	Buy USD Payer Spread vs EUR (delta-weighted and fx-adjusted)	Open 5bp Current 1bp P&L -4bp Target 25bp Stop -5bp	Range-bound short rates with short term cash-flow support for Europe IIRS 12 July 2012	
<i>Duration</i>	Buy 108 units USD 2yr5yr ATMF payer at 2.1% Sell 108 units USD 2yr5yr ATMF+100 payer at 0.8% Sell 100 units EUR 2yr5yr ATMF payer at 1.9% Buy 100 units EUR 2yr5yr ATMF+100 payer at 0.64%			
Germany	Germany 10s30s steepener	Open 88bp Current 79bp P&L -9bp Target 120bp Stop 75bp	Replaces 5s30s steepener. Regulatory pressures expected to weigh on long end. IIRS 12 July 2012	
<i>Curve</i>	Buy DBR 1.75% Jul22 at 1.24% Sell DBR 2.5% Jan44 at 2.12%			
UK	Buy UKT 1.75% Sep22s YYS	Open -24bp Current -26bp P&L 2bp Target -34bp Stop -19bp	Net cash-flows and a dwindling free-float support Mediums over the coming months UK Rates Strategy 11 July 2012	
<i>Duration</i>	Buy UKT 1.75% Sep22s YYS at -23.9bps			

Source: Citi Research

Figure 5. Record of our Open Trades (continued)

US / Europe	Long 10yr Bund vs UST	Open	14bp	The recent weakness in equities, the upcoming NCR profile & our ARTS weekly trading signal suggests buying 10yr Bunds vs USTs	
		Current	27bp		
<i>Cross Market</i>	Sell UST 1.75% May22 at 1.62% Buy Bund 1.75% Jul22 at 1.48%	P&L	13bp	<i>Interest Rate Strategy Update 25 June 2012</i>	
		Target	35bp		
		Stop	4bp		
US / UK	Long 30yr Gilt vs UST	Open	36bp	With Operation Twist extension largely priced in, QE resumption should help gilts outperform treasuries	
		Current	19bp		
<i>Cross Market</i>	Buy UKT 4.5% Dec42 at 3.09% Sell UST 3% May42 at 2.74%	P&L	17bp	<i>UK Rates Strategy 20 June 2012</i>	
		Target	0bp		
		Stop	50bp		
US / Europe	Pay USD 2y 2y fwd vs EUR	Open	40bp	We expect divergence between UST and core EMU yields	
		Current	10bp		
<i>Cross Market</i>	Pay USD 2y 2y fwd at 1.27% Receive EUR 2y 2y fwd at 1.67%	P&L	30bp	<i>IIRS 23 February 2012</i>	
		Target	0bp		
		Stop	60bp		
UK / Europe	Bund 5s30s steepener vs gilts flattener	Open	62bp	Free-float profile suggests support to UK long end by QE, hedged by EUR steepener against EUR driven risk of mid-curve repricing	
		Current	59bp		
<i>Cross Market</i>	UKT 5s30s flattener at 234bp DBR 5s30s steepener at 172bp	P&L	3bp	<i>Interest Rate Strategy Focus on QE 14 Sep2011</i>	
		Target	0bp		
		Stop	100bp		

Source: Citi Research

Overview

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"Fulfilling our mandate sometimes requires us to go beyond standard monetary policy tools," (Draghi, Die Zeit)

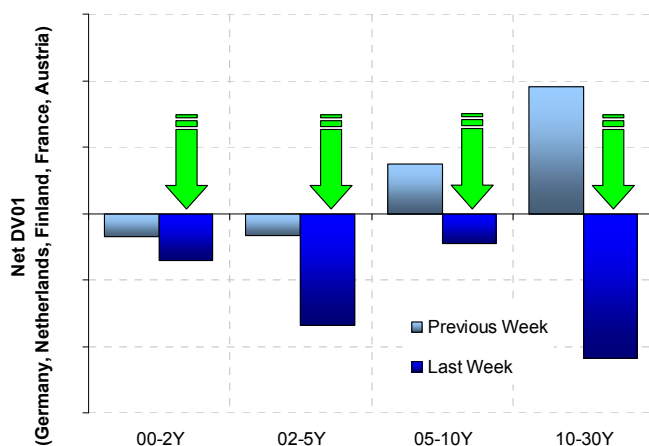
The core seems to be being driven by duration and risk reduction while all the action in peripherals seems to be in anticipation of the ECB announcement

Exceptional times, exceptional measures?

The key event this week is clearly the ECB Meeting and Press Conference on 06 September¹. This is more than usually important, not least because of the expectation of some details of the Conditional Government Bond Purchase Programme (CGBPP). At the meeting we also expect announcement of other non-standard measures and a reduction in interest rates of 25bps². The key issues for us are the maturity range of bonds targeted and the preconditions for bond purchases (i.e., conditionality). Below we assess the likely significance and impact of the expected measures.

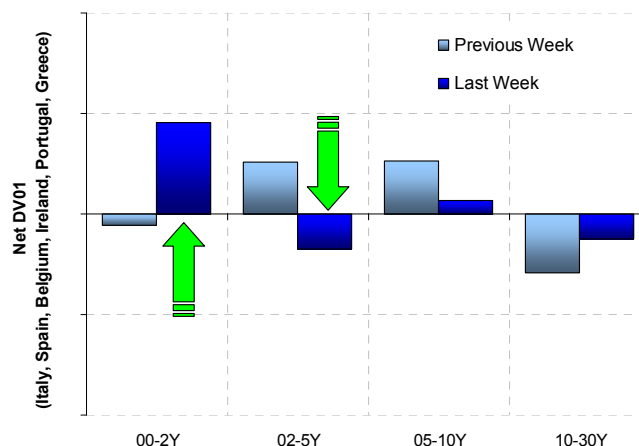
With the current levels of uncertainty it is no surprise to see flows reflecting the prevailing wait and see attitude with respect to risk appetite. This is also consistent with Bunds being in the middle of their current 1.20/1.60 range. Over the last week we have seen net selling of the core, with the sharpest reduction in demand in the 10-30yr part of the curve (Figure 6). In peripherals, by contrast, demand has been growing for the very front end, at the expense of demand for 2-5yr bonds (Figure 7).

Figure 6. Fall in demand for AAA/AAs across the curve, but especially in longer maturities



Source: Citi Research

Figure 7. Evidence of increase in demand for very short dated bonds ahead of the expected ECB announcement on 06 September



Source: Citi Research

Our expectations of what will and won't be announced...

While we don't expect the ECB to announce an intervention target or yield cap or size of commitment, we do expect them to restrict their focus to the short end of the curve (which we think will mean bills up to two years); this is in order to keep reform pressure high and also because t-bills are usually not included in any government debt restructuring³. In the 23 August *International Interest Rate Strategist* we argued that the front ends of peripheral curves are vulnerable with the growing possibility of Greek exit sooner than the market expects, and disappointment that the ECB may well only buy bills. We still believe that is the case.

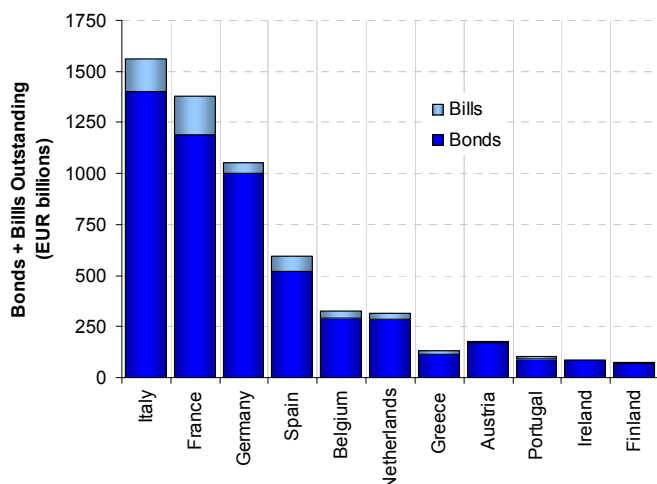
The shortage of t-bills for the ECB to potentially buy could easily be addressed by increasing issuance.

¹ Chancellor Merkel is in Madrid on the same day.

² Please see the Euro Economics Weekly for our detailed expectations.

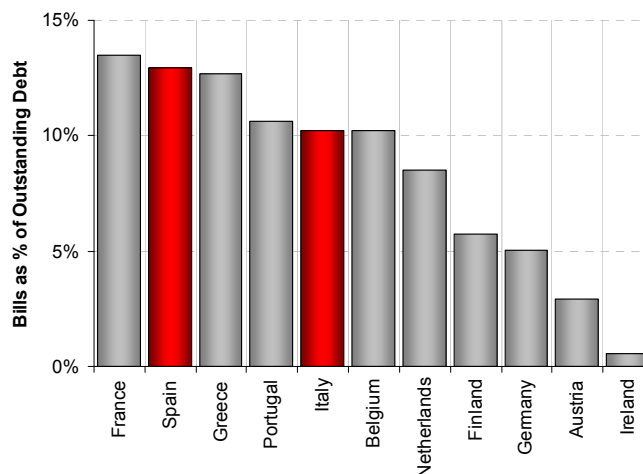
³ The ECB would be a preferred creditor in virtue of the instrument, not their status. While the ECB would be pari passu with private sector holders of sovereign debt the latter would be diluted by the likely shift of issuance towards bills and away from bonds.

Figure 8. Bonds and bills outstanding (EUR bn)



Source: Citi Research

Figure 9. Bills as a percentage of outstanding debt



Source: Citi Research

Once again, there is a danger that the market has got ahead of itself. This could produce a disappointingly muted response to the actual announcement.

Implementation is key

Credible conditionality is still the crux

Possible disappointment at the maturity spectrum of ECB buying is not the only potential anticlimax to come from the meeting. There is a significant probability that activation of the ECB bond buying programme won't be until the latter part of September given the need for a German Constitutional Court ruling on 12 September and the need for a formal request for financial assistance by a member state. Although we expect a request from Spain this request may come less soon than anticipated in some quarters.

Assistance cannot be given to Spain without it being requested. But, as our economists point out, in order for Rajoy to sell it to his electorate he needs to show that his hand has been forced, either by the pressure from bond markets (read higher yields) or the potential chaos unleashed by Greek exit. So, perversely, politics dictates that things need to get worse before the wheels can be set in motion to obtain assistance to reverse that rise in yields. In the meantime we also expect Bunds to be driven higher.

The impact and value of the CGBPP depends heavily on both its design and its implementation and it seems that there are considerable differences of opinion regarding this. The unfortunate reality is that no course of action (or inaction) is risk-free. ECB Executive Board member, Mr Asmussen said any ECB intervention would be conditional⁴ and insisted the bank would make sure eurozone countries fully implemented any reforms. He was keen to stress that "The error with Italy... must not be repeated" where the ECB bought their bonds but the time was used to alleviate domestic political pressure rather than to make the necessary economic adjustments. Luc Coene, the governor of the National Bank of Belgium, also highlighted the moral hazard dimension to intervention: "The conclusion is clear: when you take away the market pressure, you take away the pressure to act."

We have long maintained that credible conditionality is a necessary condition of an ultimate solution to the crisis. Without enforceability of good behaviour ("adherence of governments to their commitments") there is no market belief, i.e., no genuine demand to drive peripheral yields lower. The market needs confidence in delivery of austerity and structural measures to return growth/debt to a sustainable trajectory. The Achilles heel of all plans to date has been this implementation in the face of politicians and electorates with other priorities.

⁴ In parallel with action from EU bailout funds, and would involve only shorter-dated debt.

Preconditions for bond purchases are necessary but not sufficient

Although the ECB bond buying programme is a potentially significant move towards this necessary conditionality⁵, significant problems still remain. Elections during the crisis clearly show how few votes there are in inflicting pain on the electorate - even though it may be economically necessary and the best course of action in the long run. And the attempts by Madrid to only accept demands from Spanish regions for financial aid with sufficient conditionality, is almost exactly analogous to the problem that the sovereign debt crisis poses for governments and the ECB. And all this is against a backdrop of a simultaneous contraction in demand globally and very gloomy GDP forecasts for Spain⁶. No growth, no solution.

Progress is definitely being made towards crafting a solution but a lot of things have to go right for a way out to be found.

Apart from credible conditionality, another necessary condition of a solution to the crisis⁷ is buying time by alleviating market pressure – as the problem has always been to find a way to stop the market singling out the weakest member of the herd⁸. The ECB's CGBPP is a valiant attempt to address both of these. The question is whether the authorities can contain yields long enough for the economics to turn round and bring electorates onside. Despite the progress being made we are still very sensitive to the many risks which could test countries' and institutions' resolve and push spreads wider (whether by higher peripheral yields or lower Bund yields).

Conclusion

Trades ahead of the ECB meeting

It is difficult to see appetite for risk returning ahead of more clarity on 06 September and there are no obviously asymmetric risk/reward trades in peripheral spreads and curves here. To the extent that an asymmetry does exist it is probably that a lot is already priced in and expectations of the ECB meeting are relatively high. The one approach/ECB meeting trade we do like is selling EUR 1y3yF ATMF straddles and buying ATMF-25 receivers for a total net premium take in of 63bp at time of writing⁹: in the 09 August *International Interest Rate Strategist* we highlighted the high level of forward rates in the short-end of the euro curve given our expectation of a policy rate cut and the introduction of non-standard measures. We also still like the momentum of 30yr Germany vs the Netherlands and retain our short term bias to being long Bunds.

⁵ At the August press conference Draghi stated that being under some form of EFSF/ESF programme was a necessary (but not necessarily sufficient) condition for qualification for the CGBPP.

⁶ See 22 August *Global Economic Outlook and Strategy*.

⁷ The other condition is severing of the link between banks and sovereigns – freeing the one from being a hostage to the other.

⁸ If it takes a long time for the economic supertanker to turn round, it takes even longer for it to bear fruit politically. Countries need time to implement the measures to return to a credible and sustainable debt to GDP trajectory.

⁹ Please see page 6 and 7 of this publication for a full list of outstanding trade recommendations.

EMU-11: September Supply Outlook

Gross Issuance in September

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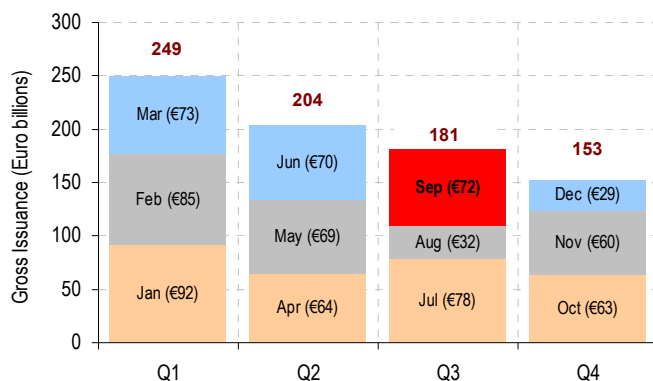
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■ We forecast €72bn of gross supply in September (Figure 10), €40bn higher than August and €6bn higher than the 2012 monthly average.

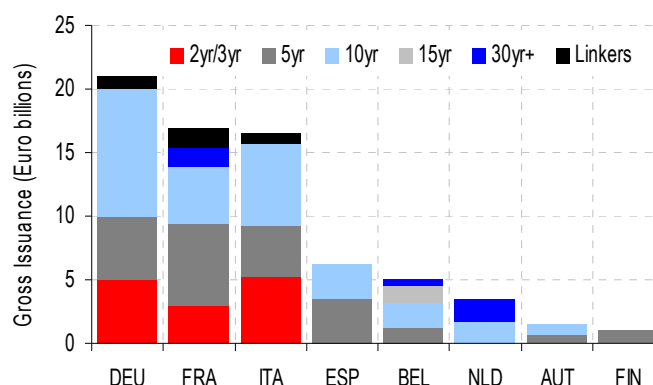
■ 76% of issuance in September comes from Germany (€20bn), France (€17bn) and Italy (€16bn) – Figure 11. We expect majority of euro issuers to be active in September.

Figure 10. Euro Government Gross Supply by Quarter, 2012F (€bn)



Source: DMOs, Citi Research

Figure 11. September Gross Issuance by Country and Maturity (€bn)



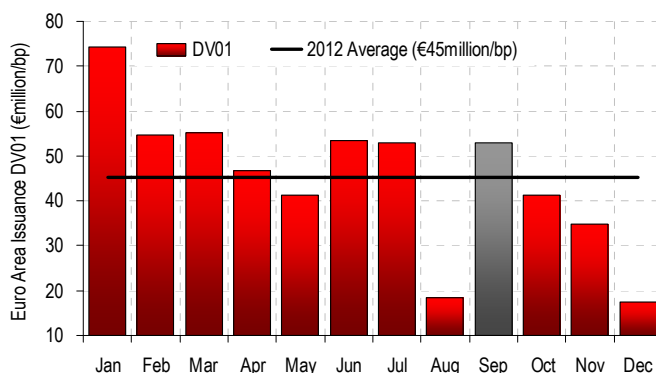
Source: DMOs, Citi Research

DV01 of Issuance by Maturity for September

■ Figure 12 shows the DV01 of issuance for September and the 2012 monthly average. The DV01 of issuance in September is €8million/bp higher than the 2012 average (€45million/bp).

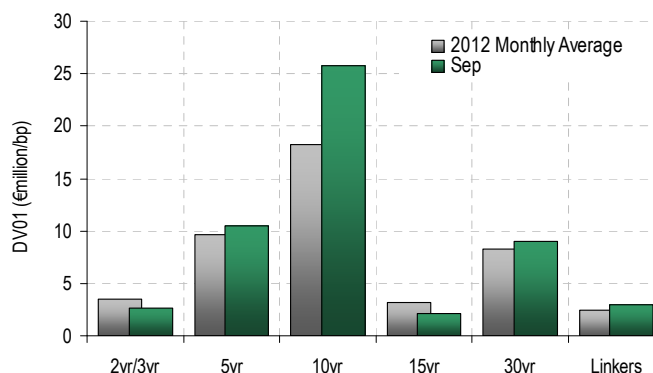
■ Within conventional issuance, the 10yr sector accounts for 49% of total issuance in September at €26million/bp (Figure 13).

Figure 12. DV01 of Euro Government Supply, 2012F (€million/bp)



Source: DMOs, Citi Research

Figure 13. Monthly DV01 of Issuance by Maturity (€million/bp)



Source: DMOs, Citi Research

September Coupons (€16.3bn) and Redemptions (€56.1bn)

- 76% of coupon payments in September come from Italy and Belgium. 54% of redemptions in September come from Germany and France. Figure 14 shows the break-up of coupon payments and redemptions by country. Please see [p13 of our latest IIRS](#) for their effect on upcoming auctions.

Figure 14. September Coupons and Redemptions by Country (€bn)

Redemptions: €56.1bn	DEU	FRA	NLD	ITA	ESP	BEL	AUT	FIN	PRT	GRC	IRL
(Fri) 14-Sep-12	18.0										
(Sat) 15-Sep-12				10.4				6.0			
(Thu) 20-Sep-12		12.4									
(Fri) 28-Sep-12						9.2					
(Sun) 30-Sep-12											0.018
Coupons: €16.3bn	DEU	FRA	NLD	ITA	ESP	BEL	AUT	FIN	PRT	GRC	IRL
(Sat) 01-Sep-12				5.9							
(Tue) 04-Sep-12	0.7										
(Thu) 13-Sep-12	0.1										
(Fri) 14-Sep-12	0.1										
(Sat) 15-Sep-12				1.8			1.2	0.7			
(Thu) 20-Sep-12	0.0	0.1									
(Sun) 23-Sep-12									0.5		
(Tue) 25-Sep-12		0.4									
(Fri) 28-Sep-12						4.7					
(Sun) 30-Sep-12											0.0

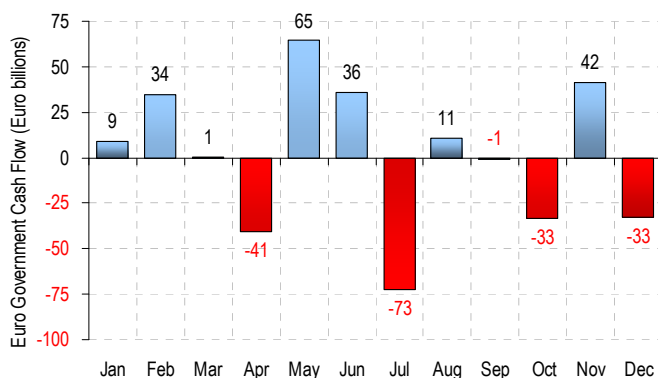
Source: DMOs, Citi Research, Bloomberg

September Net Cash Requirement (-€1bn)

Net Cash Requirement (NCR) = gross supply minus coupon payments and redemptions

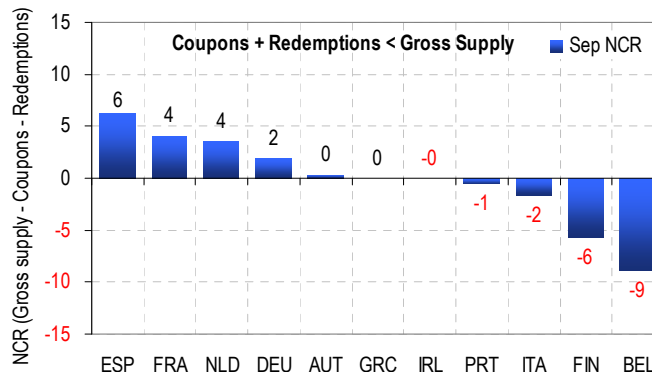
- The September NCR is almost flat (-€1bn) in 2012 as gross supply (€72bn) is slightly less than €16.3bn of coupon payments and €56.1bn redemptions (Figure 15).
- Figure 16 splits the euro September NCR by country. The NCR is strongly negative for Belgium (-€9bn) and Finland (-€6bn).

Figure 15. Euro Government NCR, 2012E (€bn)



Source: DMOs, Citi Research, Bloomberg

Figure 16. Euro Government NCR, September 2012E (€bn)

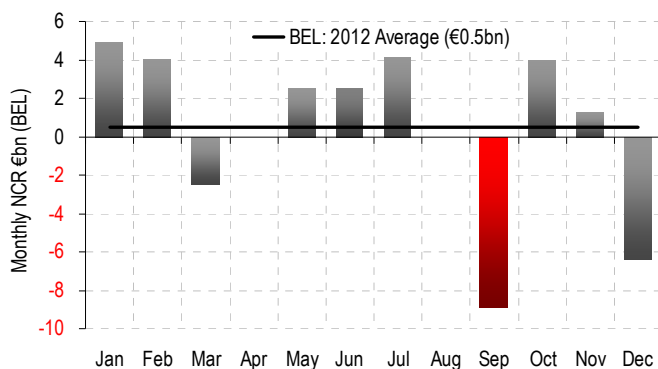


Source: DMOs, Citi Research, Bloomberg

Sizeable coupons and redemptions in Belgium

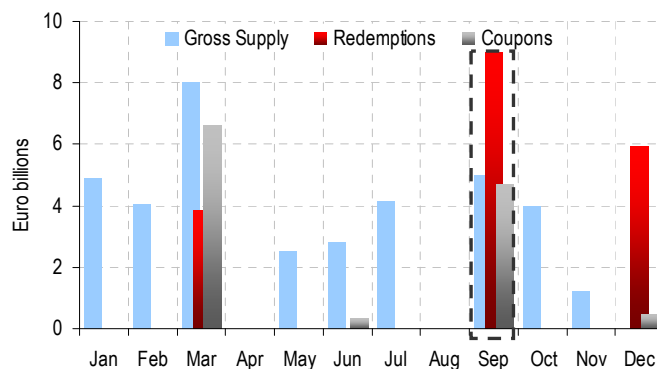
- The NCR for Belgium is strongly negative in September (-€9bn), the lowest for Belgium in 2012. This is due to €5bn of gross supply being outweighed by €5bn of coupon payments and €9bn of redemptions (Figure 17).
- After September, the NCR will next be negative in December (-€6bn) due to the redemption of 8% Dec12 on 24 December 2012 (Figure 17 and Figure 18).

Figure 17. Belgium: Monthly Net Cash Requirement 2012E (€bn)



Source: DMOs, Citi Research, Bloomberg

Figure 18. Belgium: Supply, Redemptions & Coupons by Month (€bn)

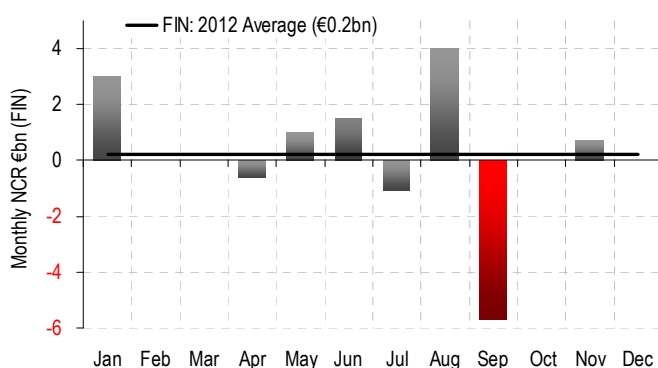


Source: DMOs, Citi Research, Bloomberg

The NCR is also strongly negative in Finland

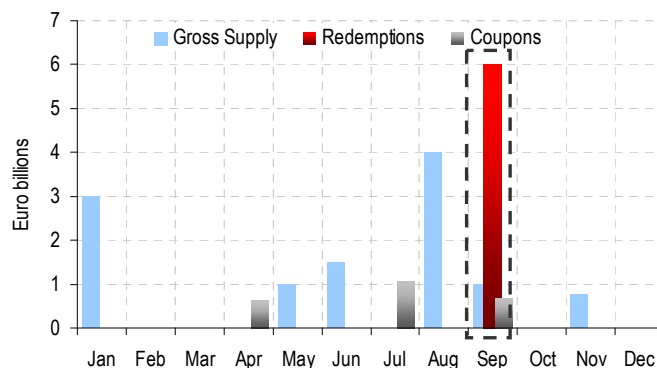
- The NCR for Finland in September is strongly negative (-€6bn) - the lowest for Finland in 2012, largely due to a €6bn of redemption falling on 15 September (Figure 19).
- The NCR will change from sharply negative (-€6bn in September) to flat in October (Figure 20).

Figure 19. Finland: Monthly Net Cash Requirement 2012E (€bn)



Source: DMOs, Citi Research, Bloomberg

Figure 20. Finland: Supply, Redemptions & Coupons by Month (€bn)



Source: DMOs, Citi Research, Bloomberg

Inflation: risk-off threat to euro break-evens

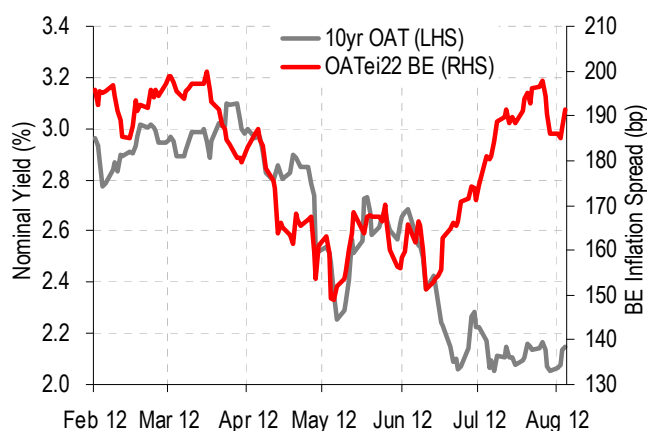
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Break-evens have de-coupled from nominal yields

Euro break-even inflation spreads have corrected lower in the last week, but remain well above the mid-July lows. With event risk so high in September, the risk-reward is still asymmetrically biased to the downside, in our view, especially for OATei (vs Bunde).

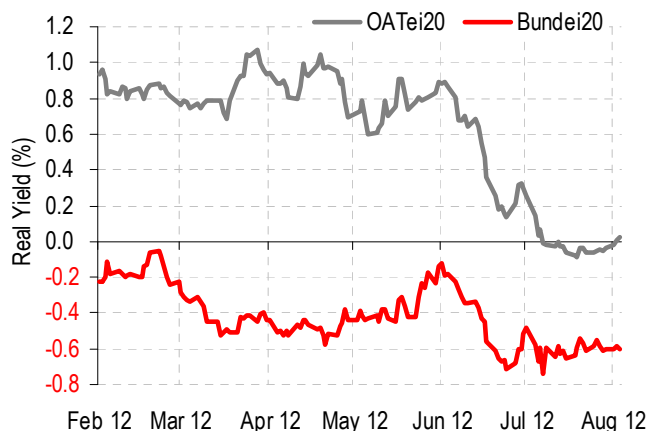
The strong rally in euro break-evens over recent months looks at odds with the move lower in nominal yields, especially in France (Figure 21). In other words, contrary to the recent beta-relationship, real yields have outpaced nominal yields in the summer rally. This has left real yields near historical lows. In the case of France, the 8yr point of the real yield curve (OATei20) recently dipped into negative territory and the gap to German real yields has closed markedly (Figure 22).

Figure 21. Euro break-evens look rich vs the level of nominal yields



Source: Citi Research, Bloomberg.

Figure 22. French real yields have fallen sharply



Source: Citi Research, Bloomberg.

The de-coupling points to asymmetric risks for break-evens (and real yields)

Asymmetric risk-reward for break-evens (and real yields)

Admittedly, this is not the first time we have pointed out the de-coupling between break-evens and nominal yields. In early August, we highlighted the relative richness of 30yr break-evens (see [IIRS](#) of 2 August). The dislocation with nominal yields has lasted longer than we anticipated¹⁰. However, we continue to doubt that it can be sustained for much longer, especially ahead of the considerable event risk in September. At the very least, the de-coupling points to asymmetric risks for break-evens (and real yields): if nominal yields fall, break-evens are likely to follow with an unusually high beta, but if nominal yields rise, break-evens are likely to drag.

Recent supports for break-evens likely to fade

The strength of the rally in core break-evens over the last couple of months can be explained by a combination of market specific factors and broader risk drivers. Both are now likely to fade.

Positioning and a lack of supply have been important drivers of the rally in break-evens

- **Market specific factors:** positioning has been a major driver of the richening of core linkers. Demand was particularly strong for core linkers following the end-July index changes (which triggered reallocation flows out of BTPei). This, coupled with a lack of supply, has helped to fuel the rally. However, supply will soon return. Germany may issue in the coming weeks (see below) and there is a linker auction scheduled in France on 20 September.

¹⁰ Although 30yr euro break-evens have lost ground since early August vs both inflation swaps and UK equivalents.

Break-evens are vulnerable to a change in risk appetite

■ **Broader risk drivers:** The de-coupling from nominal yields is not unique to break-evens. Other risky assets, such as equities, have also de-coupled from bond markets (Figure 23). The summer risk-rally has been largely due to hopes that both the Fed and the ECB will provide additional stimulus in September. With so much now priced-in, there seems to be significant scope for disappointment. For instance, we find it unlikely that the ECB will announce a yield/spread target and our economists also argue that buying could be heavily concentrated in bills (and not bonds).

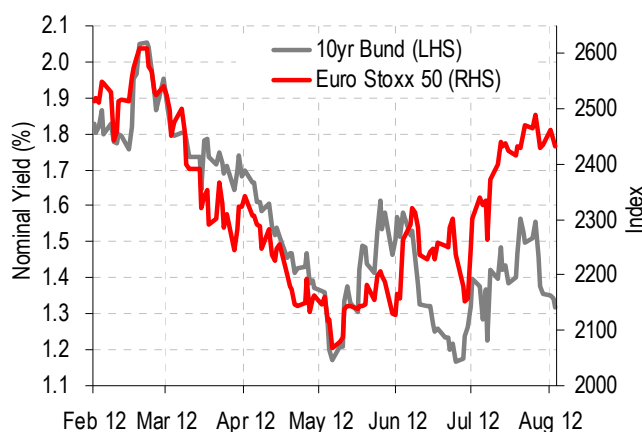
As usual, much will depend on oil prices

■ **Oil prices:** The 12% rise in oil prices over the last two months has also contributed to the rally in break-evens (Figure 24). The oil rally has been driven more by supply concerns than demand factors. Weather-related supply disruptions, so far, appear to be less than feared, however. There are also growing political concerns over rising energy prices and it seems increasingly likely that corrective action may be taken.

OATei look particularly rich

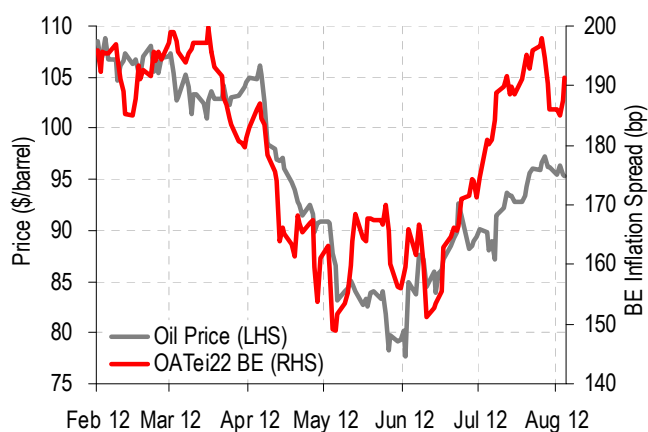
The richness vs nominal yields, the return of supply and considerable EMU event risk in September all point to taking a cautious approach towards break-evens in the coming weeks. OATei look particularly rich (see below). For example, OATei22 is within 10bp of 2%, a level which seems at odds with the extremely benign inflation outlook. Of course, markets have a propensity to overshoot, but we expect more sellers to emerge around these levels.

Figure 23. Equity and bond markets have de-coupled



Source: Citi Research, Bloomberg.

Figure 24. Oil prices have contributed to the recent break-even rally



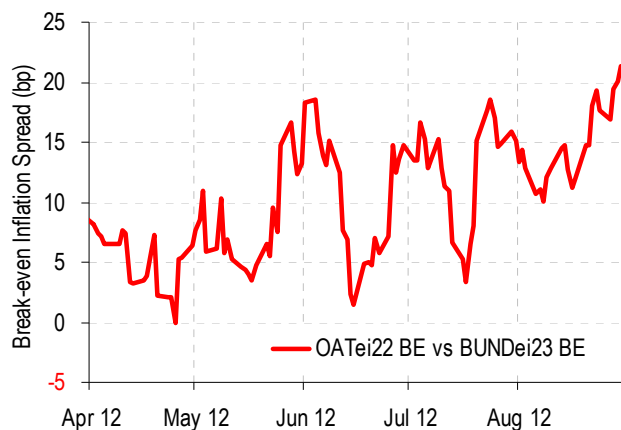
Source: Citi Research, Bloomberg.

10yr Bundel look cheap vs OATei

10yr Bundel are underperforming, possibly in anticipation of supply

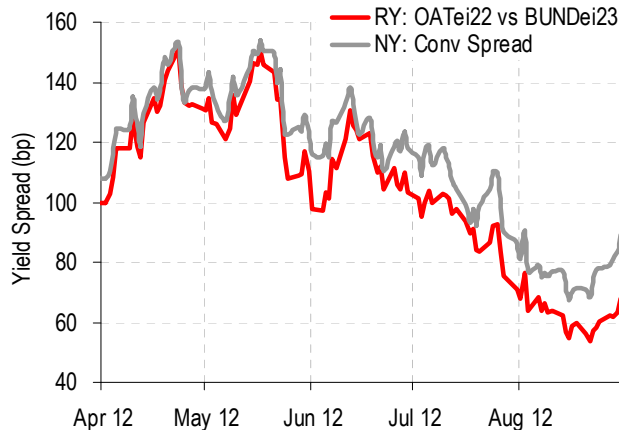
A notable feature of the summer rally in break-evens has been the outperformance of OATei vs Bundel, both in real yield and break-even inflation terms. For example, Figure 25 shows the break-even inflation box between OATei22 and Bundel23. The latest move wider may be in anticipation of supply from Germany. So far in 2012, Germany has issued €5.5bn Bundel compared with an annual target of €8-12bn. This suggests that there will be at least two more auctions in 2012. September and November seem the most likely to us. The auctions are likely to feature one tap each of Boblei18 and Bundel23, neither of which can be ruled out for early September given the rally in break-evens. Regardless of the timing and maturity of the supply, Bundel23 looks good value vs OATei22 here, especially as the latter may be re-opened on 20 September (unless France opt to issue a new 10yr OATi).

Figure 25. OATei22 has richened vs Bunde23 on a break-even basis



Source: Citi Research, Bloomberg.

Figure 26. France-Germany widenings are best expressed in real yields



Source: Citi Research, Bloomberg.

Use real yields for France-Germany spread widenings

The path of least resistance is likely to be for EMU spreads to widen further.

For France vs Germany, this is best expressed in real yields.

For Italy-Germany, spread widenings are best expressed in nominal yields

The recent move in the OATei22-Bunde23 break-even box also highlights an opportunity for investors who are concerned about the tightness of EMU spreads. France has richened considerably versus Germany over the summer. This has already begun to reverse as September approaches. There is plenty of event risk in the coming weeks and the path of least resistance is likely to be for EMU spreads to widen further. For those who agree, expressing this in real yields looks attractive given the relative tightness of the spread compared with the nominal equivalent (Figure 26).

For Italy-Germany spreads, the reverse is probably true. The spread is considerably wider in real yields than nominal yields (around 95bp for BTPei19 vs OATei20 for example). BTPei continue to recover following recent index events. In this case, widenings look best expressed in nominal yields rather than real yields.

Futures calendar spread summary (U2-Z2)

Robert Crossley

Aman Bansal

Nishay Patel

This section is a short summary of our views ahead of the upcoming EUREX and LIFFE calendar rolls. Full analysis can be found in our recent note, [EUREX and LIFFE Calendar Rolls](#).

CTD switches are either very unlikely or will have minimal impact on the roll. Repo is a key factor in all four calendar spreads summarized below.

Gilt roll – roll longs late and shorts early

Gilts: possible switch but low impact

- The risk-reward favours rolling longs late and shorts early as both contracts share the same CTD and the repo is close to GC.
- 10bps of repo is worth 4ticks of roll.
- A CTD switch is possible, but unlikely. However, the impact of a CTD switch on the calendar spread would be minimal given the basket structures.
- Roll longs late and shorts early

Bund roll – roll longs late and shorts early at GC-5

Bunds: repo is main driver

- Both baskets have the same deliverables
- For every 10bp change in repo to September the roll changes by approximately 4ticks
- A CTD switch in either contract is unlikely, needing the Bund 2.25% Sep21 to cheapen by over 18bp vs Bund 3.25% Jul21s

Bobl roll: roll longs early and shorts late as repo to Dec is rich

Bobls: low switch probability

- Similar to the Bund roll, both Bobl contracts share the same CTD (Bund Jul17). As a result, the main driver of the Bobl roll will be the repo rate
- For every 10bp change in repo to September the roll changes by approximately 3.5ticks
- Roll longs early and shorts late

Schatz roll – roll longs late and shorts early with Dec repo close to GC

Schatz: very low switch probability

- A CTD switch is unlikely: for a CTD switch the CTD1/CTD2 spread would have to widen by 11bps in Sep and 18bps in Dec
- For every 10bp change in repo to September the roll changes by approximately 3ticks
- Roll longs late and shorts early

European Relative Value Trades

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France: Taking advantage of cheap Jul15s and rich Oct20s

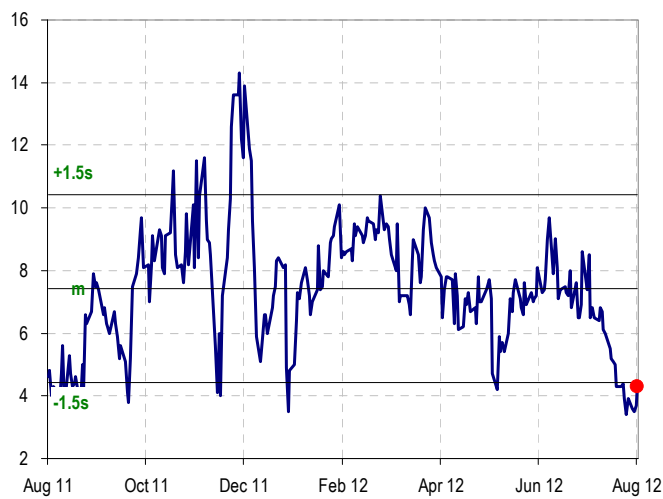
- Switch from 2.25% Feb16 to 2% Jul15, with a 18bps yield give up (3m total carry on the trade = 4bps) - Figure 27.
- Sell 2.5% Oct20 vs 3.75% Oct19 and 3.25% Oct21 (3m total carry on the trade = 0.3bps) – Figure 28.

Figure 27. France: 2.25% Feb16 – 2% Jul15 yield spread (bp)



Source: Citi Research

Figure 28. France: 3.75% Oct19, 2.5% Oct20, 3.25% Oct21 microfly (bp)



Source: Citi Research

The Netherlands: Fading the richness of rich Jul16s

*Fly at lows
positive carry*

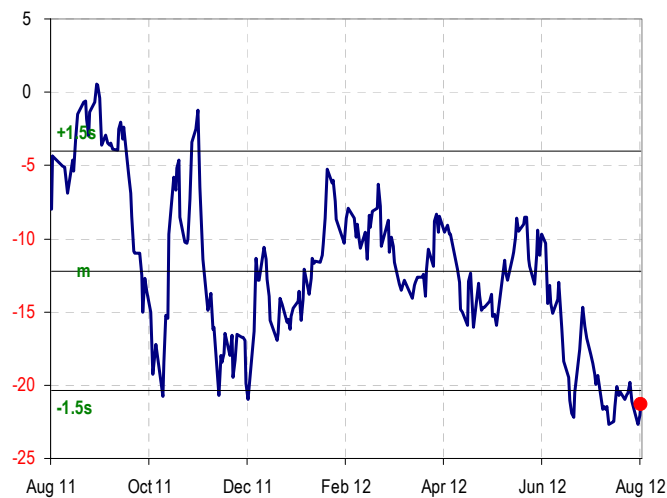
- Sell 4% Jul16 vs 2.75% Jan15 and 4% Jul18 (3m total carry on the trade = 6.8bps) - Figure 29.

Austria: Fading the richness of rich Jan18s

*Fly at lows
positive carry*

- Sell 4.65% Jan18 vs 3.2% Feb17 and 4.35% Mar19 (3m total carry on the trade = 0.4bps) - Figure 30.

Figure 29. Netherlands: 2.75% Jan15, 4%Jul16, 4% Jul18 microfly (bp)



Source: Citi Research

Figure 30. Austria: 3.2% Feb17, 4.65% Jan18, 4.35% Mar19 microfly (bp)



Source: Citi Research

European Relative Value Tables

Regular readers will be familiar with the Relative Value Appendix showing individual bonds from the major EMU 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 31 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 31. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Versus Fitted Yield Curve							Versus Swap Curve (CAS)								
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)				
Richest ↑	1	2.25 Apr15	-2.07	Apr10	19	Richest ↑	1	6.25 Jan30	-0.47	Jan00	9	Richest ↑			
	2	2.50 Feb15	-1.70	Jan10	17		2	5.50 Jan31	-0.37	Oct00	17		Richest ↑		
	3	1.25 Oct16	-1.62	Sep11	16		3	4.75 Jul34	-0.20	Jan03	20			Richest ↑	
	4	2.50 Jul44 (30y)	-1.52	Apr12	3		4	3.25 Jul42	0.07	Jul10	15				Richest ↑
	5	3.75 Jan15	-1.49	Nov04	23		5	4.00 Jan37 (UB)	0.10	Jan05	23				
Cheapest ↓	5	4.25 Jul39	1.71	Jan07	14	5	3.50 Jan16	1.99	Nov05	23	Cheapest ↓				
	4	4.75 Jul34	1.94	Jan03	20	4	2.50 Feb15	1.99	Jan10	17		Cheapest ↓			
	3	4.00 Jan37 (UB)	2.02	Jan05	23	3	2.00 Feb16	1.99	Jan11	16			Cheapest ↓		
	2	2.00 Feb16	2.05	Jan11	16	2	3.75 Jan15	2.03	Nov04	23				Cheapest ↓	
	1	2.50 Oct14	2.78	Sep09	17	1	2.50 Oct14	2.16	Sep09	17					Cheapest ↓

Source: Citi Research

Figure 32 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 33 and Figure 34) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 32 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.

Relative Value Tables – All Maturities

Figure 32. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); All bonds on each curve

		Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
GERMANY	Richest	1	2.25 Apr15	-2.07	Apr10	19	1	6.25 Jan30	-0.47	Jan00	9
		2	2.50 Feb15	-1.70	Jan10	17	2	5.50 Jan31	-0.37	Oct00	17
		3	1.25 Oct16	-1.62	Sep11	16	3	4.75 Jul34	-0.20	Jan03	20
		4	2.50 Jul44 (30y)	-1.52	Apr12	3	4	3.25 Jul42	0.07	Jul10	15
		5	3.75 Jan15	-1.49	Nov04	23	5	4.00 Jan37 (UB)	0.10	Jan05	23
	Cheapest	5	4.25 Jul39	1.71	Jan07	14	5	3.50 Jan16	1.99	Nov05	23
		4	4.75 Jul34	1.94	Jan03	20	4	2.50 Feb15	1.99	Jan10	17
		3	4.00 Jan37 (UB)	2.02	Jan05	23	3	2.00 Feb16	1.99	Jan11	16
		2	2.00 Feb16	2.05	Jan11	16	2	3.75 Jan15	2.03	Nov04	23
		1	2.50 Oct14	2.78	Sep09	17	1	2.50 Oct14	2.16	Sep09	17
FRANCE	Richest	1	4.00 Apr55	-1.84	Apr04	15	1	4.75 Apr35	-1.68	Apr03	18
		2	2.50 Jul16	-1.83	Jul10	4	2	4.50 Apr41 (30y)	-1.67	Apr09	15
		3	2.50 Jan15	-1.78	Jan10	20	3	4.00 Oct38	-1.66	Oct05	24
		4	4.25 Apr19	-1.74	Apr03	28	4	5.75 Oct32	-1.63	Oct00	23
		5	3.50 Apr20	-1.49	Feb10	27	5	4.00 Apr60	-1.61	Apr09	8
	Cheapest	5	4.25 Oct23	1.98	Oct06	31	5	3.50 Apr15	-0.93	Apr04	22
		4	3.00 Apr22 (10y)	2.44	Feb12	25	4	2.50 Jan15	-0.83	Jan10	20
		3	1.00 Jul17 (5y)	2.47	Jul11	5	3	4.00 Oct14	-0.22	Oct03	20
		2	4.00 Oct38	2.51	Oct05	24	2	0.75 Sep14 (2y)	0.24	Sep11	4
		1	3.25 Oct21	2.72	Oct10	6	1	1.00 Jul17 (5y)	0.44	Jul11	5
ITALY	Richest	1	3.75 Apr16	-2.61	Apr11	12	1	4.50 Jul15	-1.01	Jul12	4
		2	4.50 Aug18	-2.20	Feb08	22	2	4.75 Jun17 (5y)	-0.91	Jun12	3
		3	4.50 Feb18 (MFB)	-2.01	Aug07	25	3	2.50 Mar15 (BTS)	-0.34	Mar12	5
		4	4.25 Feb19	-1.74	Feb03	23	4	4.25 Feb15	-0.16	Aug04	21
		5	4.25 Sep19	-1.55	Mar09	22	5	3.00 Jun15	-0.11	Jun10	19
	Cheapest	5	4.75 Sep21	1.61	Mar11	22	5	4.75 Aug23	0.76	Feb08	21
		4	3.75 Aug21	1.64	Feb06	27	4	3.75 Mar21	0.78	Sep10	23
		3	4.75 Aug23	1.97	Feb08	21	3	3.75 Aug21	0.80	Feb06	27
		2	3.75 Aug16	2.06	Feb06	27	2	4.75 Sep21	0.80	Mar11	22
		1	4.75 Sep16	2.19	Sep11	9	1	5.00 Mar22	0.83	Sep11	9
N'LANDS	Richest	1	3.50 Jul20	-1.94	Feb10	15	1	2.50 Jan33	-0.52	Mar12	4
		2	3.75 Jan42 (30y)	-1.86	May10	10	2	4.00 Jan37	-0.06	Apr05	12
		3	3.25 Jul21	-1.63	Mar11	11	3	3.75 Jan42 (30y)	0.09	May10	10
		4	4.00 Jul19	-1.42	Feb09	13	4	3.50 Jul20	0.23	Feb10	15
		5	0.75 Apr15	-1.33	Jan12	3	5	4.50 Jul17 (5y)	0.25	Jul07	15
	Cheapest	5	2.25 Jul22 (10y)	0.66	Feb12	9	5	2.25 Jul22 (10y)	0.56	Feb12	9
		4	4.00 Jul16	0.78	Jul06	13	4	3.75 Jan23	0.57	Jan06	10
		3	3.75 Jan23	1.19	Jan06	10	3	0.75 Apr15	0.60	Jan12	3
		2	4.00 Jan37	1.70	Apr05	12	2	2.75 Jan15	1.20	Jul09	13
		1	2.50 Jan17	1.98	Jun11	8	1	1.25 Jan18	1.49	Jul12	6
SPAIN	Richest	1	5.85 Jan22 (10y)	-2.39	Nov11	4	1	3.30 Oct14	0.09	Jul09	17
		2	3.00 Apr15	-1.50	Mar10	18	2	4.40 Jan15	0.13	Jun04	18
		3	5.75 Jul32	-1.44	Jan01	14	3	3.00 Apr15	0.18	Mar10	18
		4	4.00 Jul15	-1.23	Jan12	15	4	4.00 Jul15	0.23	Jan12	15
		5	4.00 Apr20	-1.21	Jan10	16	5	3.25 Apr16	0.39	Nov10	17
	Cheapest	5	4.20 Jan37	1.00	Jan05	16	5	4.80 Jan24	0.85	Sep08	15
		4	5.90 Jul26	1.26	Mar11	7	4	4.65 Jul25	0.86	Feb10	14
		3	3.15 Jan16	1.53	Sep05	16	3	4.90 Jul40	0.91	Jun07	13
		2	4.80 Jan24	2.27	Sep08	15	2	4.20 Jan37	0.92	Jan05	16
		1	4.65 Jul25	2.28	Feb10	14	1	4.70 Jul41 (30y)	0.92	Sep09	11
BELGIUM	Richest	1	4.00 Mar18	-1.26	Jan08	10	1	4.25 Mar41 (30y)	-1.51	Apr10	6
		2	4.25 Sep21	-1.17	Jan11	14	2	4.50 Mar26	-1.48	Jun11	4
		3	5.50 Sep17	-1.02	Jun02	8	3	5.00 Mar35	-1.48	May04	14
		4	3.75 Sep15	-0.92	Mar05	11	4	4.25 Sep21	-1.43	Jan11	14
		5	3.50 Mar15	-0.91	Mar09	10	5	4.00 Mar32	-1.40	Mar12	5
	Cheapest	5	2.75 Mar16	0.70	Mar10	10	5	2.75 Mar16	-1.22	Mar10	10
		4	4.50 Mar26	0.73	Jun11	4	4	3.00 Sep19	-1.22	Apr12	4
		3	4.00 Mar19	0.87	Jan09	10	3	3.75 Sep15	-1.18	Mar05	11
		2	3.75 Sep20	1.43	Jan10	18	2	3.50 Mar15	-1.10	Mar09	10
		1	3.50 Jun17 (5y)	1.66	Mar11	10	1	4.25 Sep14 (2y)	-0.88	Jan04	13

Source: Citi Research

Relative Value Tables – Max 12Yr Maturity

Figure 33. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

		Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
GERMANY	Richest	1	2.25 Apr15	-2.07	Apr10	19	1	2.25 Sep21	1.32	Aug11	16
		2	2.50 Feb15	-1.70	Jan10	17	2	2.00 Jan22	1.43	Nov11	16
		3	1.25 Oct16	-1.62	Sep11	16	3	3.25 Jul21 (RX)	1.45	Apr11	19
		4	3.75 Jan15	-1.49	Nov04	23	4	2.50 Jan21	1.57	Nov10	19
		5	2.25 Sep21	-0.92	Aug11	16	5	0.50 Apr17 (5y)	1.60	Apr12	5
	Cheapest	5	3.00 Jul20	1.25	Apr10	22	5	3.50 Jan16	1.99	Nov05	23
		4	2.50 Jan21	1.42	Nov10	19	4	2.50 Feb15	1.99	Jan10	17
		3	4.00 Jul16	1.62	May06	23	3	2.00 Feb16	1.99	Jan11	16
		2	2.00 Feb16	2.05	Jan11	16	2	3.75 Jan15	2.03	Nov04	23
		1	2.50 Oct14	2.78	Sep09	17	1	2.50 Oct14	2.16	Sep09	17
FRANCE	Richest	1	2.50 Jul16	-1.83	Jul10	4	1	3.75 Apr21 (OAT)	-1.40	Apr05	31
		2	2.50 Jan15	-1.78	Jan10	20	2	2.50 Jul16	-1.37	Jul10	4
		3	4.25 Apr19	-1.74	Apr03	28	3	4.25 Oct18	-1.37	Oct07	22
		4	3.50 Apr20	-1.49	Feb10	27	4	3.75 Apr17	-1.36	Apr06	25
		5	3.75 Oct19	-1.46	Oct08	25	5	4.25 Apr19	-1.35	Apr03	28
	Cheapest	5	4.00 Oct14	1.71	Oct03	20	5	3.50 Apr15	-0.93	Apr04	22
		4	4.25 Oct23	1.98	Oct06	31	4	2.50 Jan15	-0.83	Jan10	20
		3	3.00 Apr22 (10y)	2.44	Feb12	25	3	4.00 Oct14	-0.22	Oct03	20
		2	1.00 Jul17 (5y)	2.47	Jul11	5	2	0.75 Sep14 (2y)	0.24	Sep11	4
		1	3.25 Oct21	2.72	Oct10	6	1	1.00 Jul17 (5y)	0.44	Jul11	5
ITALY	Richest	1	3.75 Apr16	-2.61	Apr11	12	1	4.50 Jul15	-1.01	Jul12	4
		2	4.50 Aug18	-2.20	Feb08	22	2	4.75 Jun17 (5y)	-0.91	Jun12	3
		3	4.50 Feb18 (MFB)	-2.01	Aug07	25	3	2.50 Mar15 (BTS)	-0.34	Mar12	5
		4	4.25 Feb19	-1.74	Feb03	23	4	4.25 Feb15	-0.16	Aug04	21
		5	4.25 Sep19	-1.55	Mar09	22	5	3.00 Jun15	-0.11	Jun10	19
	Cheapest	5	4.75 Sep21	1.61	Mar11	22	5	4.75 Aug23	0.76	Feb08	21
		4	3.75 Aug21	1.64	Feb06	27	4	3.75 Mar21	0.78	Sep10	23
		3	4.75 Aug23	1.97	Feb08	21	3	3.75 Aug21	0.80	Feb06	27
		2	3.75 Aug16	2.06	Feb06	27	2	4.75 Sep21	0.80	Mar11	22
		1	4.75 Sep16	2.19	Sep11	9	1	5.00 Mar22	0.83	Sep11	9
N'LANDS	Richest	1	3.50 Jul20	-1.94	Feb10	15	1	3.50 Jul20	0.23	Feb10	15
		2	3.25 Jul21	-1.63	Mar11	11	2	4.50 Jul17 (5y)	0.25	Jul07	15
		3	4.00 Jul19	-1.42	Feb09	13	3	4.00 Jul16	0.31	Jul06	13
		4	0.75 Apr15	-1.33	Jan12	3	4	4.00 Jul19	0.31	Feb09	13
		5	2.75 Jan15	-0.81	Jul09	13	5	4.00 Jul18	0.37	Feb08	15
	Cheapest	5	3.25 Jul15	-0.24	Jun05	14	5	2.25 Jul22 (10y)	0.56	Feb12	9
		4	2.25 Jul22 (10y)	0.66	Feb12	9	4	3.75 Jan23	0.57	Jan06	10
		3	4.00 Jul16	0.78	Jul06	13	3	0.75 Apr15	0.60	Jan12	3
		2	3.75 Jan23	1.19	Jan06	10	2	2.75 Jan15	1.20	Jul09	13
		1	2.50 Jan17	1.98	Jun11	8	1	1.25 Jan18	1.49	Jul12	6
SPAIN	Richest	1	5.85 Jan22 (10y)	-2.39	Nov11	4	1	3.30 Oct14	0.09	Jul09	17
		2	3.00 Apr15	-1.50	Mar10	18	2	4.40 Jan15	0.13	Jun04	18
		3	4.00 Jul15	-1.23	Jan12	15	3	3.00 Apr15	0.18	Mar10	18
		4	4.00 Apr20	-1.21	Jan10	16	4	4.00 Jul15	0.23	Jan12	15
		5	4.40 Jan15	-0.45	Jun04	18	5	3.25 Apr16	0.39	Nov10	17
	Cheapest	5	3.30 Oct14	0.44	Jul09	17	5	4.00 Apr20	0.70	Jan10	16
		4	3.25 Apr16	0.51	Nov10	17	4	4.30 Oct19	0.71	Jun09	15
		3	4.85 Oct20	0.54	Jul10	16	3	4.85 Oct20	0.75	Jul10	16
		2	3.15 Jan16	1.53	Sep05	16	2	5.50 Apr21	0.75	Jan11	20
		1	4.80 Jan24	2.27	Sep08	15	1	4.80 Jan24	0.85	Sep08	15
BELGIUM	Richest	1	4.00 Mar18	-1.26	Jan08	10	1	4.25 Sep21	-1.43	Jan11	14
		2	4.25 Sep21	-1.17	Jan11	14	2	4.25 Sep22 (10y)	-1.39	Jan12	8
		3	5.50 Sep17	-1.02	Jun02	8	3	4.00 Mar18	-1.38	Jan08	10
		4	3.75 Sep15	-0.92	Mar05	11	4	5.50 Sep17	-1.36	Jun02	8
		5	3.50 Mar15	-0.91	Mar09	10	5	4.00 Mar22	-1.36	May06	14
	Cheapest	5	4.25 Sep14 (2y)	0.68	Jan04	13	5	2.75 Mar16	-1.22	Mar10	10
		4	2.75 Mar16	0.70	Mar10	10	4	3.00 Sep19	-1.22	Apr12	4
		3	4.00 Mar19	0.87	Jan09	10	3	3.75 Sep15	-1.18	Mar05	11
		2	3.75 Sep20	1.43	Jan10	18	2	3.50 Mar15	-1.10	Mar09	10
		1	3.50 Jun17 (5y)	1.66	Mar11	10	1	4.25 Sep14 (2y)	-0.88	Jan04	13

Source: Citi Research

Relative Value Tables – Min 8yr Maturity

Figure 34. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

	Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
GERMANY		Richest					Richest			
	1	2.50 Jul44 (30y)	-1.52	Apr12	3	1	6.25 Jan30	-0.47	Jan00	9
	2	3.25 Jul42	-1.46	Jul10	15	2	5.50 Jan31	-0.37	Oct00	17
	3	2.25 Sep21	-0.92	Aug11	16	3	4.75 Jul34	-0.20	Jan03	20
	4	6.25 Jan30	-0.42	Jan00	9	4	3.25 Jul42	0.07	Jul10	15
	5	4.75 Jul40	0.57	Jul08	16	5	4.00 Jan37 (UB)	0.10	Jan05	23
	5	1.75 Jul22 (10y)	1.21	Apr12	5	5	2.00 Jan22	1.43	Nov11	16
	4	2.50 Jan21	1.42	Nov10	19	4	3.25 Jul21 (RX)	1.45	Apr11	19
	3	4.25 Jul39	1.71	Jan07	14	3	2.50 Jan21	1.57	Nov10	19
	2	4.75 Jul34	1.94	Jan03	20	2	2.25 Sep20	1.60	Aug10	16
	1	4.00 Jan37 (UB)	2.02	Jan05	23	1	1.75 Jul22 (10y)	1.65	Apr12	5
		Cheapest					Cheapest			
FRANCE		Richest					Richest			
	1	4.00 Apr55	-1.84	Apr04	15	1	4.75 Apr35	-1.68	Apr03	18
	2	3.75 Apr21 (OAT)	-1.35	Apr05	31	2	4.50 Apr41 (30y)	-1.67	Apr09	15
	3	5.75 Oct32	-1.31	Oct00	23	3	4.00 Oct38	-1.66	Oct05	24
	4	2.50 Oct20	-1.30	Oct09	30	4	5.75 Oct32	-1.63	Oct00	23
	5	4.00 Apr60	-1.19	Apr09	8	5	4.00 Apr60	-1.61	Apr09	8
	5	4.50 Apr41 (30y)	0.32	Apr09	15	5	3.75 Apr21 (OAT)	-1.40	Apr05	31
	4	4.25 Oct23	1.98	Oct06	31	4	2.50 Oct20	-1.35	Oct09	30
	3	3.00 Apr22 (10y)	2.44	Feb12	25	3	4.25 Oct23	-1.31	Oct06	31
	2	4.00 Oct38	2.51	Oct05	24	2	3.00 Apr22 (10y)	-1.26	Feb12	25
	1	3.25 Oct21	2.72	Oct10	6	1	3.25 Oct21	-1.22	Oct10	6
		Cheapest					Cheapest			
ITALY		Richest					Richest			
	1	4.50 Mar26	-0.58	Sep10	14	1	4.00 Feb37	0.46	Aug05	25
	2	5.00 Sep40 (30y)	-0.57	Sep09	20	2	5.00 Aug39	0.47	Aug07	19
	3	4.00 Feb37	-0.26	Aug05	25	3	5.00 Sep40 (30y)	0.47	Sep09	20
	4	5.50 Sep22 (10y-IK)	-0.02	Mar12	8	4	5.75 Feb33	0.48	Feb02	15
	5	5.00 Aug39	0.06	Aug07	19	5	4.50 Mar26	0.54	Sep10	14
	5	5.00 Aug34	1.30	Aug03	21	5	4.75 Aug23	0.76	Feb08	21
	4	5.00 Mar22	1.34	Sep11	9	4	3.75 Mar21	0.78	Sep10	23
	3	4.75 Sep21	1.61	Mar11	22	3	3.75 Aug21	0.80	Feb06	27
	2	3.75 Aug21	1.64	Feb06	27	2	4.75 Sep21	0.80	Mar11	22
	1	4.75 Aug23	1.97	Feb08	21	1	5.00 Mar22	0.83	Sep11	9
		Cheapest					Cheapest			
N'LANDS		Richest					Richest			
	1	3.75 Jan42 (30y)	-1.86	May10	10	1	2.50 Jan33	-0.52	Mar12	4
	2	3.25 Jul21	-1.63	Mar11	11	2	4.00 Jan37	-0.06	Apr05	12
	3	2.50 Jan33	-0.01	Mar12	4	3	3.75 Jan42 (30y)	0.09	May10	10
	3	2.25 Jul22 (10y)	0.66	Feb12	9	3	3.25 Jul21	0.40	Mar11	11
	2	3.75 Jan23	1.19	Jan06	10	2	2.25 Jul22 (10y)	0.56	Feb12	9
	1	4.00 Jan37	1.70	Apr05	12	1	3.75 Jan23	0.57	Jan06	10
		Cheapest					Cheapest			
SPAIN		Richest					Richest			
	1	5.85 Jan22 (10y)	-2.39	Nov11	4	1	5.85 Jan22 (10y)	0.70	Nov11	4
	2	5.75 Jul32	-1.44	Jan01	14	2	5.75 Jul32	0.74	Jan01	14
	3	5.50 Apr21	-0.15	Jan11	20	3	4.85 Oct20	0.75	Jul10	16
	4	4.70 Jul41 (30y)	-0.08	Sep09	11	4	5.50 Apr21	0.75	Jan11	20
	5	4.90 Jul40	0.53	Jun07	13	5	5.90 Jul26	0.79	Mar11	7
	5	4.85 Oct20	0.54	Jul10	16	5	4.80 Jan24	0.85	Sep08	15
	4	4.20 Jan37	1.00	Jan05	16	4	4.65 Jul25	0.86	Feb10	14
	3	5.90 Jul26	1.26	Mar11	7	3	4.90 Jul40	0.91	Jun07	13
	2	4.80 Jan24	2.27	Sep08	15	2	4.20 Jan37	0.92	Jan05	16
	1	4.65 Jul25	2.28	Feb10	14	1	4.70 Jul41 (30y)	0.92	Sep09	11
		Cheapest					Cheapest			
BELGIUM		Richest					Richest			
	1	4.25 Sep21	-1.17	Jan11	14	1	4.25 Mar41 (30y)	-1.51	Apr10	6
	2	4.25 Sep22 (10y)	-0.64	Jan12	8	2	4.50 Mar26	-1.48	Jun11	4
	3	4.25 Mar41 (30y)	-0.35	Apr10	6	3	5.00 Mar35	-1.48	May04	14
	4	4.00 Mar32	-0.32	Mar12	5	4	4.25 Sep21	-1.43	Jan11	14
	4	4.00 Mar22	0.26	May06	14	4	4.00 Mar32	-1.40	Mar12	5
	3	5.00 Mar35	0.43	May04	14	3	4.25 Sep22 (10y)	-1.39	Jan12	8
	2	4.50 Mar26	0.73	Jun11	4	2	4.00 Mar22	-1.36	May06	14
	1	3.75 Sep20	1.43	Jan10	18	1	3.75 Sep20	-1.35	Jan10	18
		Cheapest					Cheapest			

Source: Citi Research

Current ARTS Trading Signals

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Short and long term signals have become dislocated...

... they are neutral duration in the short term but supportive of duration in the longer term ...

... which is being driven out contrasting outlooks of risk aversion.

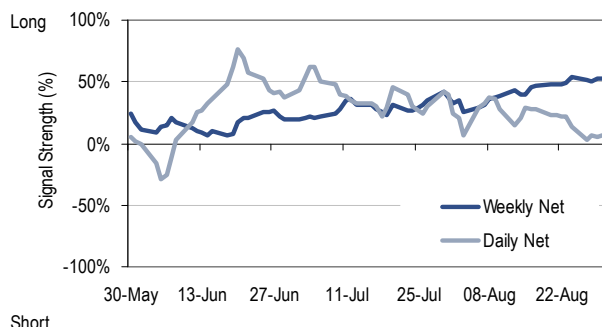
Duration risk/reward is good long term but poor short term – hence maintain duration and look to add at more attractive yields.

This week the daily and weekly algorithmic rates trading signals¹¹ (D-ARTS / W-ARTS) have moved in opposite directions. Currently the short term signals are neutral in duration while the longer term signals maintain a 50% long duration positioning (see Figure 35).

This breakdown in the signals is being driven by differences in the risk aversion signal. In the longer term, risk aversion remains supportive of duration while in the shorter term “risk on” dynamic is increasing. In contrast fundamentals remain broadly supportive of duration across all models. Similar dynamics are also occurring at the asset level with neutral positions across all assets in the short term but supportive of duration in the longer term (see Figure 36).

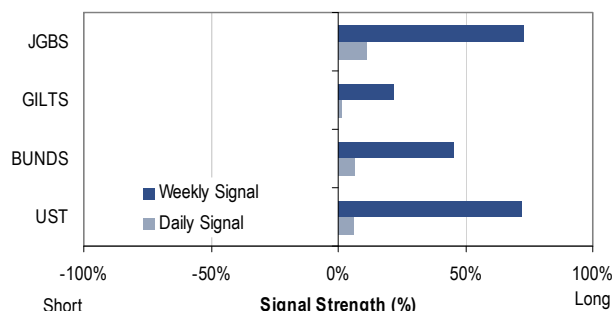
The signals suggest long duration has a poor risk/reward profile in short term but more attractive in the longer term. Hence signals are buying duration today and waiting to add to positioning as risk/reward tradeoff improves.

Figure 35. Evolution history of the daily / weekly 10y net signal



Source: Citi Research

Figure 36. Breakdown of current daily and weekly net signals

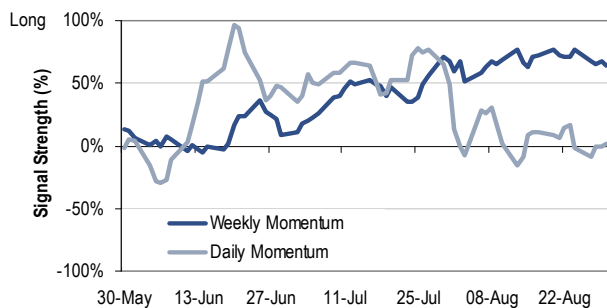


Source: Citi Research

Momentum is strong in the long term model but has collapsed in the short term ...

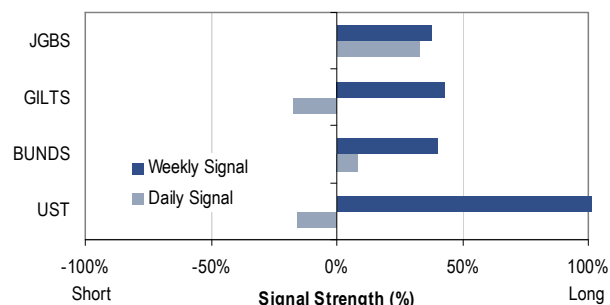
The momentum signal continues to maintain similar positioning from last week. The short term signals find no significant trend (given rates are in the middle of the trade and the short term volatile price action) while in the longer term momentum remains supportive (see Figure 37 and Figure 38).

Figure 37. Evolution history of the daily / weekly 10y momentum signal



Source: Citi Research, Bloomberg

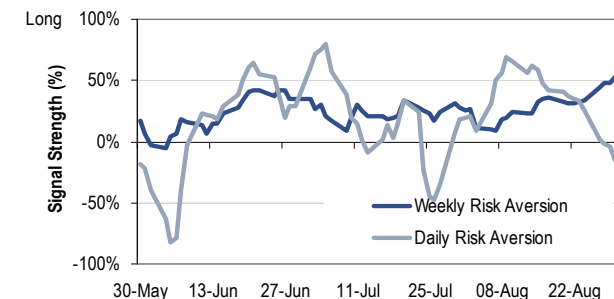
Figure 38. Breakdown of current daily and weekly momentum signals



Source: Citi Research, Bloomberg

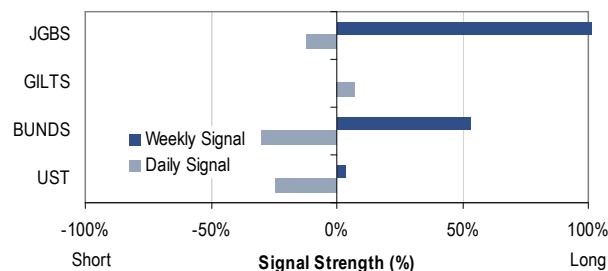
¹¹ The current signals are calibrated as of market close 29th August 2012.

Figure 39. Evolution history of the daily / weekly 10y risk aversion signal



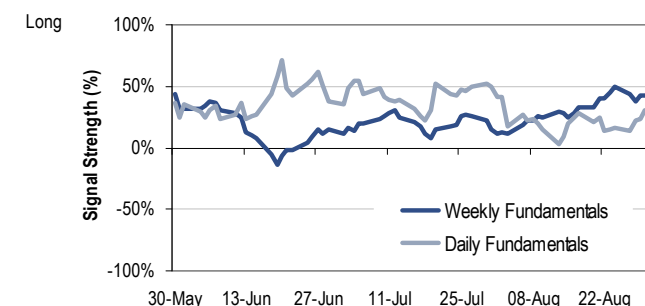
Short
Source: Citi Research

Figure 40. Breakdown of current daily and weekly risk aversion signals



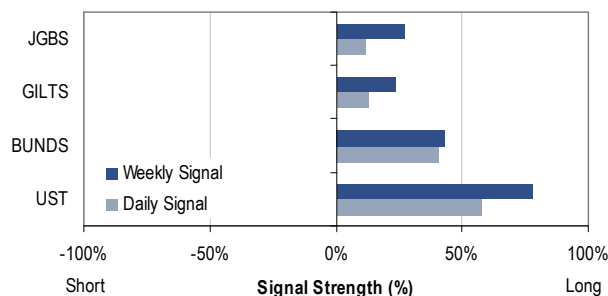
Source: Citi Research, Bloomberg

Figure 41. Evolution history of the daily / weekly 10y fundamental signal



Short
Source: Citi Research, Bloomberg

Figure 42. Breakdown of current daily and weekly fundamental signals



Source: Citi Research, Bloomberg

... Meanwhile risk aversion is diverse due to conflicting trend / reversion dynamics between models.

Meanwhile, risk aversion signals have become disconnect between the short and long term model. Risk aversion remains elevated in the longer term but has fallen in the short term due to the summer rally in risk assets (see Figure 39). At an asset level the risk signals are inconsistent (see Figure 40). In Bunds the signals are short duration in DARTS but long duration in WARTS. This is a result of conflicting trend / reversion dynamics. The rally in risk assets over the summer has not resulted in comparable sell-off in bunds (hence short duration in DARTS). Meanwhile in the longer term reversion dynamics dominate hence the signals finds increasing support for a correction in risk assets (and rally in rates hence long duration in WARTS).

... Finally fundamentals continue to weaken in the short term due to stagnating economic data.

Finally, fundamentals signals continue to be the most consistent this week, increasing its long duration position across most assets (see Figure 41 and Figure 42), particularly in the shorter term. This increase in the signal strength is a result of the models finding that Economic data remain stagnant.

In summary, fundamentals remain supportive of long duration across all model but technical are less supportive in the shorter term model. As a result the risk / reward of long duration positions are poor in the short term but more attractive in the longer term.

The signals suggest that investors should actively manage risk budget between long and short term.

However how should investors position for the disconnection in the signals? One way is to invest 25% of the risk budget into long duration position today (this is the long term risk budget). Subsequently actively manage duration position as and when risk/reward improves in the shorter term.

Global Supply Monitor

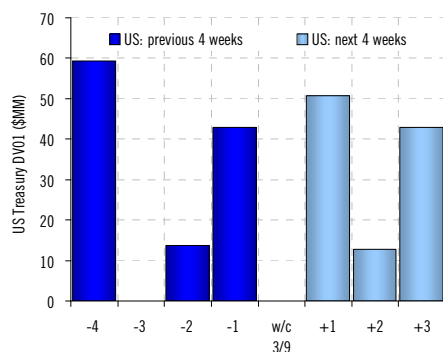
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Historical and projected DV01 of USD, EUR and GBP issuance (weekly)

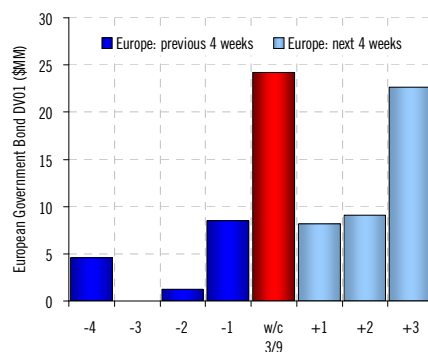
Figure 43 to Figure 45 show the \$DV01 of projected issuance over the next four weeks and the previous four weeks. The DV01 of issuance in the week commencing 3 September is shown in red. The DV01 of euro issuance is highest in the previous four and the next four weeks.

Figure 43. Estimated \$DV01 of US Treasury Issuance (Previous 4 and Next 4 Weeks)



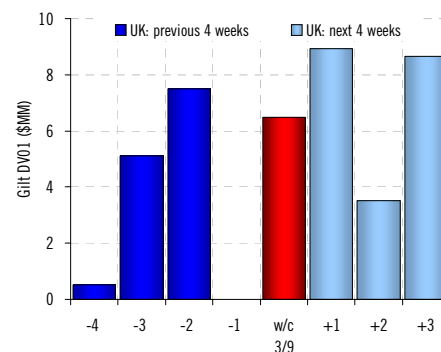
Source: US Treasury, Citi estimates

Figure 44. Estimated \$DV01 of Euro Bond Issuance (Previous 4 and Next 4 Weeks)



Source: DMOs, Citi estimates

Figure 45. Estimated \$DV01 of UK Gilt Issuance (Previous 4 and Next 4 Weeks)



Source: DMO, Citi estimates

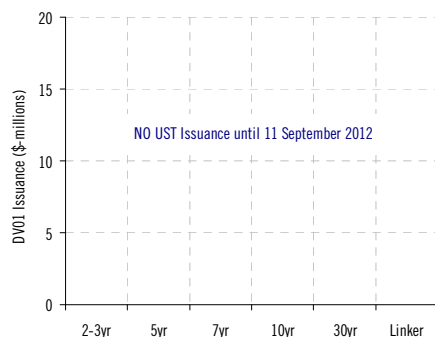
DV01 of expected USD, EUR and GBP issuance split by maturity (week beginning 3 September)

There is no UST Issuance until 11 September 2012 (Figure 46).

The DV01 of next week's euro issuance is large (€19million/bp) - Figure 47. Approximately 64% of total issuance (in DV01 terms) is expected to come in the 10-year sector.

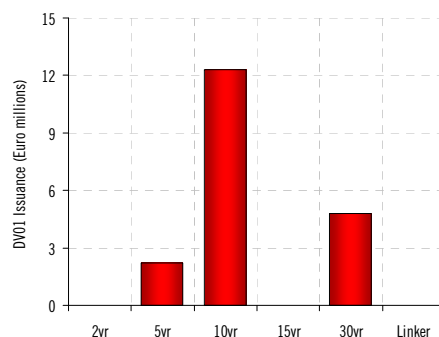
Next week's gilt issuance comes in the form of a conventional gilt (4.5% 2042) at approximately 4 million/bp (Figure 48).

Figure 46. USD DV01: Split by Maturity (3 Sep – 7 Sep)



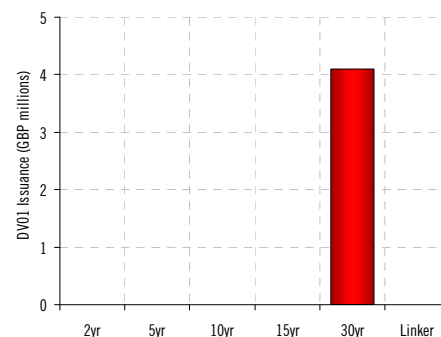
Source: US Treasury, Citi estimates

Figure 47. EUR DV01: Split by Maturity (3 Sep – 7 Sep)



Source: DMOs, Citi estimates

Figure 48. GBP DV01 Split by Maturity (3 Sep – 7 Sep)

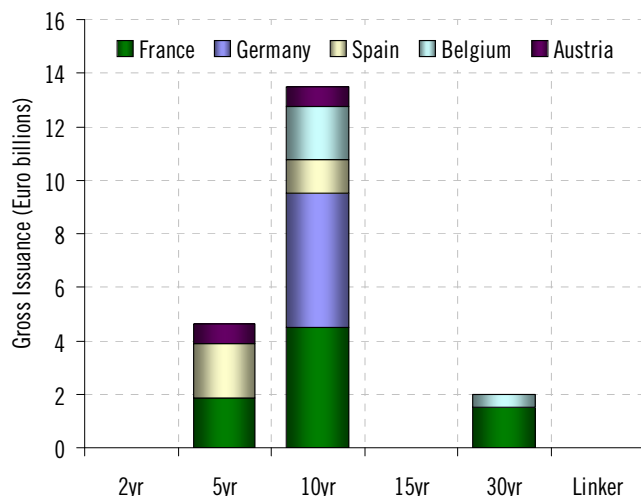


Source: DMO, Citi estimates

Expected euro gross and DV01 split by country and maturity (week beginning 3 September)

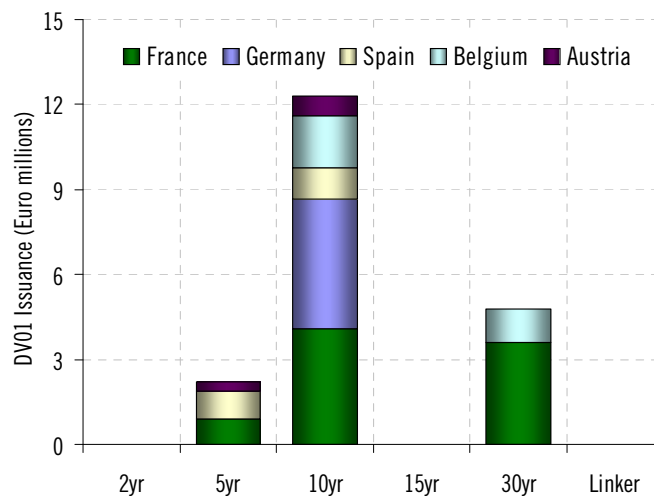
In Europe, issuance comes from Belgium (estimated €2.5bn), Austria (€1.21bn), Germany (€5bn), France (estimated €7.9bn) and Spain (estimated €3.3bn) - Figure 49. In DV01 terms, 45% of total issuance is expected to come from France (Figure 50).

Figure 49. Euro Gross Issuance next week



Source: DMOs, Citi estimates, Bloomberg

Figure 50. Euro DV01 Issuance next week



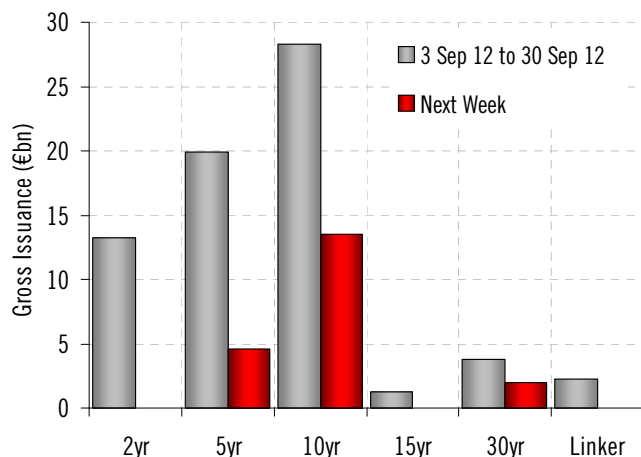
Source: DMOs, Citi estimates, Bloomberg

Expected euro issuance (gross and DV01) by maturity for the next four-weeks (3 September – 30 September)

Over the next four weeks, 41% of total issuance comes from the 10-year sector (Figure 51).

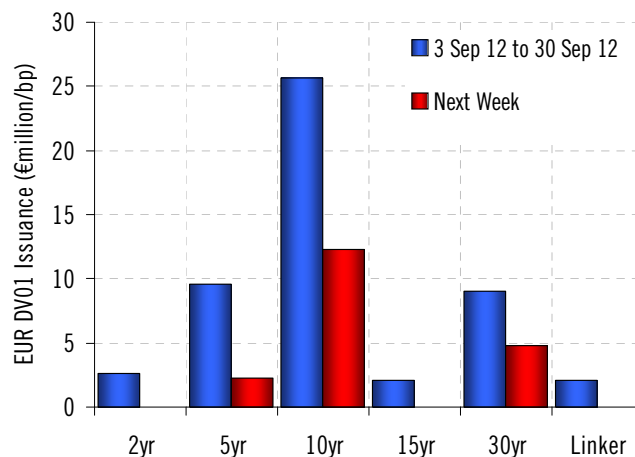
In DV01 terms, the 10yr sector accounts for 50% of total issuance at around €26million/bp (Figure 52).

Figure 51. Euro Gross Issuance over the Next Four Weeks



Source: DMOs, CITI estimates, Bloomberg

Figure 52. Euro DV01 Issuance over the Next Four Weeks



Source: DMOs, CITI estimates, Bloomberg

US coupons for the next four weeks – maturity split

US Treasury coupon payments will be light over the next four weeks. Week 4 sees \$5bn of coupon payments across 2-7 year sectors (Figure 53).

Figure 53. Maturity Split of UST Coupon Payments over the Next Four Weeks (USD-Billions)*

Week Commencing	2-3yr	5yr	7yr	10yr	30yr	Linker	Total
03 Sep							
10 Sep	1.0						1.0
17 Sep							
24 Sep	2.6	1.9	0.5				5.0
Total	3.5	1.9	0.5				6.0

Source: Citi Research, Bloomberg

*This table is on a trade-date basis

Euro coupons for the next four weeks – maturity split

There are no coupon payments next week. Week 2 sees €4bn of coupon payments and €34bn of redemptions (from Germany, Finland and Italy) - Figure 54 and Figure 56.

Figure 54. Maturity Split of Euro Coupon Payments over the Next Four Weeks (EUR-Billions)*

Week Commencing	2yr	5yr	10yr	15yr	30yr	Linker	Total
03 Sep							
10 Sep	0.7	1.3	0.5			1.5	4.0
17 Sep	1.0						1.0
24 Sep	1.9		1.7				4.9
Total	3.6	2.7	2.2			1.5	9.9

Source: Citi Research, Bloomberg

*This table is on a trade-date basis

UK coupons for the next four weeks – maturity split

There will be sizeable coupon payments (£10.5bn) across all maturities next week. Thereafter, coupon payments will remain light (Figure 55).

Figure 55. Maturity Split of Gilt Coupon Payments over the Next Four Weeks (GBP-Billions)*

Week Commencing	2yr	5yr	10yr	15yr	30yr	Linker	Total
03 Sep	2.2	2.4	3.7	0.8	1.4		10.5
10 Sep							
17 Sep						0.1	0.1
24 Sep	0.3						0.3
Total	2.5	2.4	3.7	0.8	1.4	0.1	11.0

Source: Citi Research, Bloomberg

*This table is on a trade-date basis

Euro coupons and redemptions split by maturity and country

Figure 56 below shows a weekly breakdown of euro coupons and redemptions, split by sector and country for the next four weeks.

Figure 56. Euro Coupons and Redemptions by Maturity and Country for the Next 4 weeks (EUR Billions)

WEEK 1	Week Beginning 03 Sep (Mon)		Coupons	Redemptions	WEEK 2	Week Beginning 10 Sep (Mon)		Coupons	Redemptions
		Austria					Austria	1.2	
		Belgium					Belgium		
		Germany					Germany	0.3	18.0
		Finland					Finland	0.7	6.0
	Coupons	France				Coupons	France		
2yr		Greece			2yr	0.7	Greece		
5yr		Ireland			5yr	1.3	Ireland		
10yr		Italy			10yr	0.5	Italy	1.8	10.4
15yr		Netherlands			15yr		Netherlands		
30yr		Portugal			30yr		Portugal		
Linker		Spain			Linker	1.5	Spain		
	0.0		0.0	0.0		4.0		4.0	34.4
WEEK 3	Week Beginning 17 Sep (Mon)		Coupons	Redemptions	WEEK 4	Week Beginning 24 Sep (Mon)		Coupons	Redemptions
		Austria					Austria		
		Belgium					Belgium	4.7	9.2
		Germany	0.0				Germany		
		Finland					Finland		
	Coupons	France	0.4	12.4		Coupons	France		
2yr	1.0	Greece			2yr	1.9	Greece		
5yr	0.0	Ireland			5yr	1.3	Ireland		0.0
10yr		Italy			10yr	1.7	Italy	0.2	
15yr		Netherlands			15yr		Netherlands		
30yr		Portugal	0.5		30yr		Portugal		
Linker		Spain			Linker		Spain		
	1.0		1.0	12.4		4.9		4.9	9.2

Source: Citi Research, Bloomberg

**This table is on a trade-date basis*

Provisional auction calendar for the next four weeks

Figure 57. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU2 (UST)	G U2 (Gilt)	RXU2 (Bund)
03 Sep (Mon)	Belgium	2.5	OLO 3% Aug19, 4.25% Sep22 and 4.25% Mar41 (issue confirmed, estimated size)				27k
03 Sep (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs			-4k	
04 Sep (Tue)	Austria	1.5	RAGB 4.3% Sep17 and 1.95% Jun19 (issue confirmed, size €1.21bn)				9k
04 Sep (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+			-19k	
05 Sep (Wed)	Germany	5.0	New Bund Sep22 (issue and size confirmed)				40k
05 Sep (Wed)	UK	1.8	4½% Treasury Gilt 2042 (issue and size confirmed)			43k	
05 Sep (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs			-10k	
06 Sep (Thu)	France	7.9	OAT 5yr, 10yr and 30yr (estimated tenors and size)				76k
06 Sep (Thu)	Spain	3.3	Bono 5yr, Obligaciones 10yr (estimated tenors and size)				19k

Weekly \$DV01 of Issuance

25.7

Total Number of Futures Contracts

0k

10k

171k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU2 (UST)	G U2 (Gilt)	RXU2 (Bund)
10 Sep (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs			-4k	
11 Sep (Tue)	Netherlands	1.8	DSL Jul22 reopening (issue confirmed, size €1.5-2.5bn)				14k
11 Sep (Tue)	UK	1.1	0¼% Index-linked Treasury Gilt 2034 (issue confirmed, estimated size)			28k	
11 Sep (Tue)	US	32.0	3-Year		78k		
11 Sep (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+			-19k	
12 Sep (Wed)	Germany	5.0	New Bobl-164 Oct17 (issue and size confirmed)				21k
12 Sep (Wed)	US	21.0	10-Year (re-opening)		228k		
12 Sep (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs			-10k	
13 Sep (Thu)	Italy	5.5	BTP 3yr and 15yr (estimated tenors and size)				22k
13 Sep (Thu)	UK	3.3	Reopening of 7 Sep 2022 (issue confirmed, estimated size)			31k	
13 Sep (Thu)	US	13.0	30-year (re-opening)		312k		

Weekly \$DV01 of Issuance

62.8

Total Number of Futures Contracts

617k

26k

58k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU2 (UST)	G U2 (Gilt)	RXU2 (Bund)
17 Sep (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs			-4k	
18 Sep (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+			-19k	
19 Sep (Wed)	Germany	5.0	Schatz Sep14 reopening (issue and size confirmed)				9k
19 Sep (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs			-10k	
20 Sep (Thu)	France	9.0	BTAN 2yr and 5yr/Index-linked OAT (estimated tenors and size)				37k
20 Sep (Thu)	Spain	3.0	Obligaciones 5yr and 10yr (estimated tenors and size)				18k
20 Sep (Thu)	UK	4.5	1% Treasury Gilt 2017 (issue confirmed, estimated size)			23k	
20 Sep (Thu)	US	13.0	10-Year TIPS (re-opening)		155k		

Weekly \$DV01 of Issuance

20.3

Total Number of Futures Contracts

155k

-10k

64k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU2 (UST)	G U2 (Gilt)	RXU2 (Bund)
24 Sep (Mon)	Belgium	2.5	OLO 5yr and 15yr (estimated tenor and size)				24k
24 Sep (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs			-4k	
25 Sep (Tue)	Italy	1.8	CTZ (estimated size)				3k
25 Sep (Tue)	Italy	0.8	BTPei (estimated size)				6k
25 Sep (Tue)	Netherlands	1.8	DSL Jan33 reopening (issue confirmed, size €1.5-2.5bn)				37k
25 Sep (Tue)	UK	3.8	Index-linked gilt syndication (estimated date, further details to be announced around a month in advance)			57k	
25 Sep (Tue)	US	35.0	2-Year		85k		
25 Sep (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+			-19k	
26 Sep (Wed)	Germany	5.0	Bund Sep22 reopening (issue and size confirmed)				40k
26 Sep (Wed)	US	35.0	5-Year		205k		
26 Sep (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs			-10k	
27 Sep (Thu)	Italy	7.5	BTP 5yr and 10yr (estimated size)				49k
27 Sep (Thu)	US	29.0	7-Year		233k		

Weekly \$DV01 of Issuance

69.2

Total Number of Futures Contracts

523k

24k

160k

The next release of the approximate purchase and sale amounts and tentative Outright operation schedule will be at 1400 (NY Time) on 31 August 2012

Source: DMOs, Citi estimates

US net cash requirements (NCR) over the next four weeks

The three figures on this page show the upcoming profile gross and net supply, coupons and redemptions, and the resultant NCR, for each of the next four weeks.

These are calculated on a *settlement date* basis.

There is a large amount of issuance settling in week 3 which results in a positive NCR (\$27bn) as \$66bn of gross supply easily outweighs \$39bn of coupon payments and redemptions (Figure 58).

Figure 58. US Weekly Cash Flow Profile for Next Four weeks, USD Billions

Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	D Buybacks	A - B - C - D NCR
03 Sep					0.1	-0.1
10 Sep					0.1	-0.1
17 Sep	66.0	1.0	65.0	38.1	0.1	26.9
24 Sep	13.0		13.0		0.1	12.9
Total	79.0	1.0	78.0	38.1	0.3	39.7
Average	19.8	0.2	19.5	9.5	0.1	9.9
YTD Average	44.0	3.3	40.6	26.0	-0.1	14.7

Source: US Treasury, Citi estimates, Bloomberg

Euro cash-flow profile over the next four weeks

The euro NCR is significantly negative in week 2 as €35bn of coupon payments and redemptions easily offset €18bn of gross supply (Figure 59).

Figure 59. Estimated Euro Weekly Cash Flow Profile for Next Four weeks, EUR Billions

Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	A - B - C NCR
03 Sep	11.3	6.6	4.7		4.7
10 Sep	17.9	0.3	17.6	34.4	-16.8
17 Sep	10.5	3.9	6.6	12.4	-5.8
24 Sep	23.8	5.6	18.2	9.2	8.9
Total	63.4	16.3	47.1	56.1	-8.9
Average	15.9	4.1	11.8	14.0	-2.2
YTD Average	15.8	4.2	11.6	10.7	0.9

Source: DMOs, Citi estimates, Bloomberg

UK cash-flow profile over the next four weeks

The NCR is significantly negative (-£12bn) next week as £2bn of gross supply is easily offset by £10.5bn of coupon payments and £3bn of APF buybacks (Figure 60).

Figure 60. Estimated UK Weekly Cash Flow Profile for Next Four weeks, GBP Billions

Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	D Buybacks	A - B - C - D NCR
03 Sep	1.8	10.5	-8.7		3.0	-11.7
10 Sep	4.4		4.4		3.0	1.4
17 Sep	4.5		4.5		3.0	1.5
24 Sep	3.8	0.5	3.3		3.0	0.3
Total	14.5	11.0	3.5		12.0	-8.5
Average	3.6	2.7	0.9		3.0	-2.1
YTD Average	3.2	0.8	2.4	1.5	2.8	-1.9

Source: DMO, Citi estimates, Bloomberg

JGB settlement cash-flow profile over the next four weeks

Figure 61 shows the profile of JGB gross and net supply, coupons and redemptions, and the resultant NCR, for each of the next four weeks. The NCR is strongly negative in week 3 (-¥16.6trillion) due to large coupon payments and redemptions (¥20.3trillion).

Figure 61. Estimated JGB Weekly Cash Flow Profile for Next Four weeks (JPY-Trillions) *

Settling in week commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	A - B - C Net Cash Requirement
03 Sep	3.0		3.0		3.0
10 Sep	3.0		3.0		3.0
17 Sep	3.7	2.4	1.3	17.9	-16.6
24 Sep	0.3		0.3		0.3
Total	10.0	2.4	7.6	17.9	-10.3
Average	2.5	0.6	1.9	4.5	-2.6
YTD Average	2.3	0.1	2.2	1.5	0.7

Source: Citi estimates, Bloomberg, BoJ

*This table is on a settlement-date basis

Explanation of trade-date and settlement-date:

Throughout the *Supply Monitor* section coupons and redemption payments are allocated on a trade date basis *except in the cash flow tables* shown above. In these cash flow tables; gross supply, coupons and redemptions are on a settlement date basis. This is to keep everything in line with US supply settling during the middle or end of the month instead of just T+3 as in Europe for example.

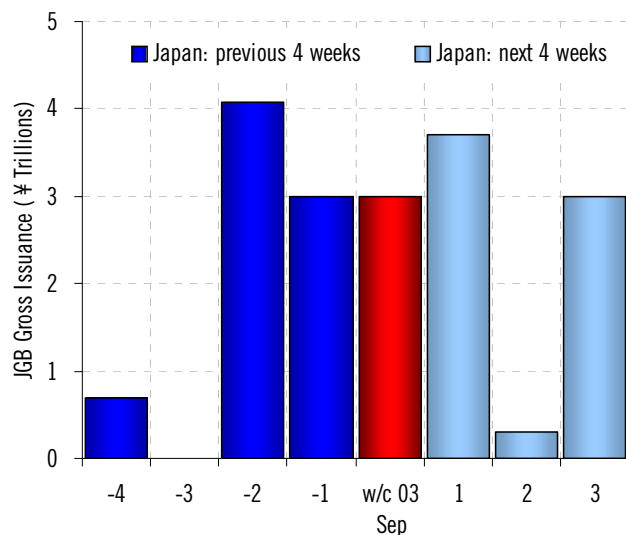
Trade date basis: In Europe if the coupon payment falls on Monday 5th March, for example, it would be allocated to the previous week (the week commencing 27 February) as that would be when you would trade to use the money you know is coming in on Monday 5th March. In other words, you don't wait for the money to hit your account to use it. Since we are trying to account for the impact of those payments we allocate them on a trade date basis, rather than settlement date.

Settlement date basis: The net cash requirement tables (Figure 58, Figure 59, Figure 60 and Figure 61) are on a settlement basis. In the US, conventional supply settles either during the middle of the month or at the end of the month. (If there is a Treasury auction during the last week of the month it will settle in the following week). Consequently, if you participate in the UST 3-year auction on 7 February the money would leave your account during the w/c 15 February. In addition, TIPS often settle during a different week from conventional supply.

Historical and projected DV01 of JGB issuance (weekly)

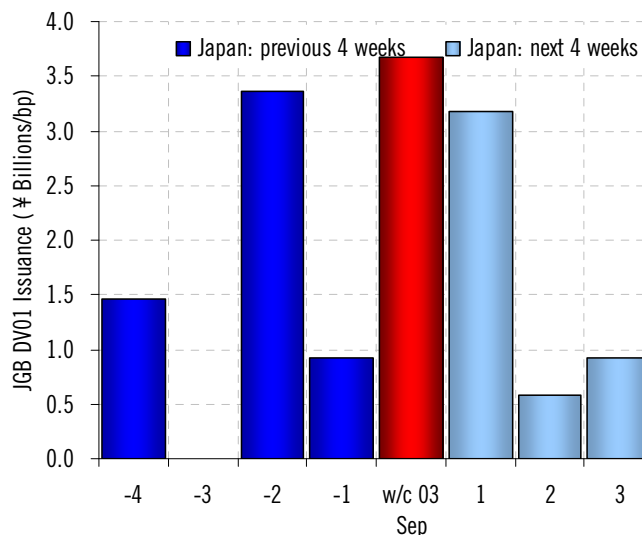
Figure 62 and Figure 63 show projected JGB gross and ¥DV01 of issuance over the next four weeks and the previous four weeks. Next week sees ¥3trillion of 10- and 30-year JGB issuance (Figure 62). In DV01 terms, this is equivalent to around ¥3.7billion/bp (Figure 63).

Figure 62. Estimated Gross JGB Issuance (Previous 4 and Next 4 weeks)



Source: Citi estimates, BoJ, MoF

Figure 63. Estimated ¥DV01 of JGB Issuance (Previous 4 and Next 4 weeks)



Source: Citi estimates, BoJ, MoF

JGB coupons for the next four weeks – maturity split

There are minimal coupon payments next week. ¥1.9trillion of coupon payments (distributed across 2-20 year sectors) will fall in week 2 (Figure 64).

Figure 64. Maturity Split of JGB Coupon Payments over the Next Four weeks (JPY-Billions)*

Week commencing	2yr	5yr	10yr	20yr	30yr	TOTAL
03 Sep						
10 Sep	454	457	699	327		1938
17 Sep	29		20			49
24 Sep						
Total	483	457	719	327		1987

Source: Citi estimates, Bloomberg

*This table is on a trade-date basis

JGB auction calendar for the next four weeks

Figure 65 shows our JGB issuance expectations for the next four weeks and weekly \$DV01.

Figure 65. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (JPY Millions).

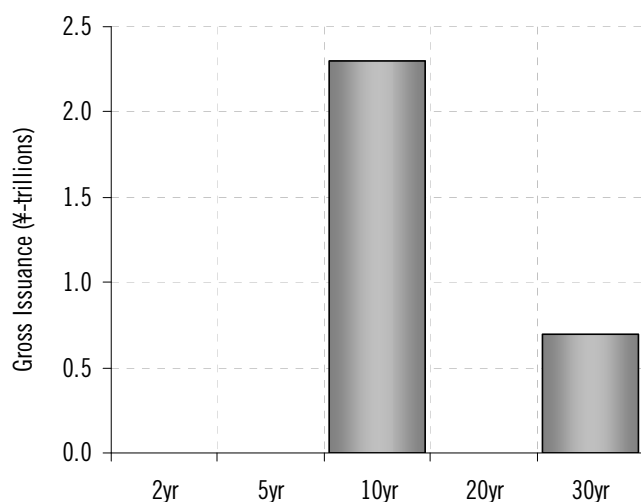
Auction Date	Country Issuing	Estimated Size (Local Ccy)		Issue Details (Estimated)	Weekly DV01	
					¥ millions	\$ millions
04 Sep (Tue)	JPY	2300	10year		2139	27
06 Sep (Thu)	JPY	700	30year		1540	20
Weekly DV01 of Issuance					¥3679	\$47
11 Sep (Tue)	JPY	2500	5year		1213	15
13 Sep (Thu)	JPY	1200	20year		1968	25
Weekly DV01 of Issuance					¥3180	\$40
20 Sep (Thu)	JPY	300	AEL (20-30 years)		576	7
Weekly DV01 of Issuance					¥576	\$7
25 Sep (Tue)	JPY	300	AEL (10-20 years)		386	5
27 Sep (Thu)	JPY	2700	2year		535	7
Weekly DV01 of Issuance					¥920	\$12

Source: Citi estimates, BoJ, MoF

Expected JGB gross and DV01 issuance by maturity (week beginning 6 August)

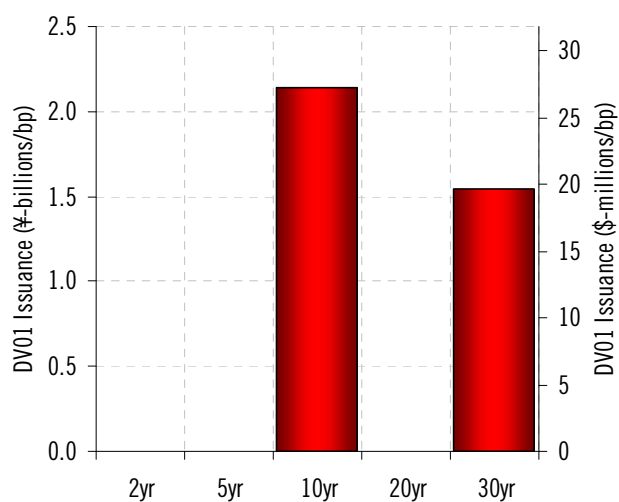
Figure 66 and Figure 67 show a split of next week's JGB issuance by maturity.

Figure 66. JGB Gross Split by Maturity (Week Beginning 6 Aug)



Source: Citi Research, Bloomberg

Figure 67. JGB DV01 Split by Maturity (Week Beginning 6 Aug)



Source: Citi Research, Bloomberg

Figure 68. UK, US and EMU-11 Gross Supply – Citi forecasts

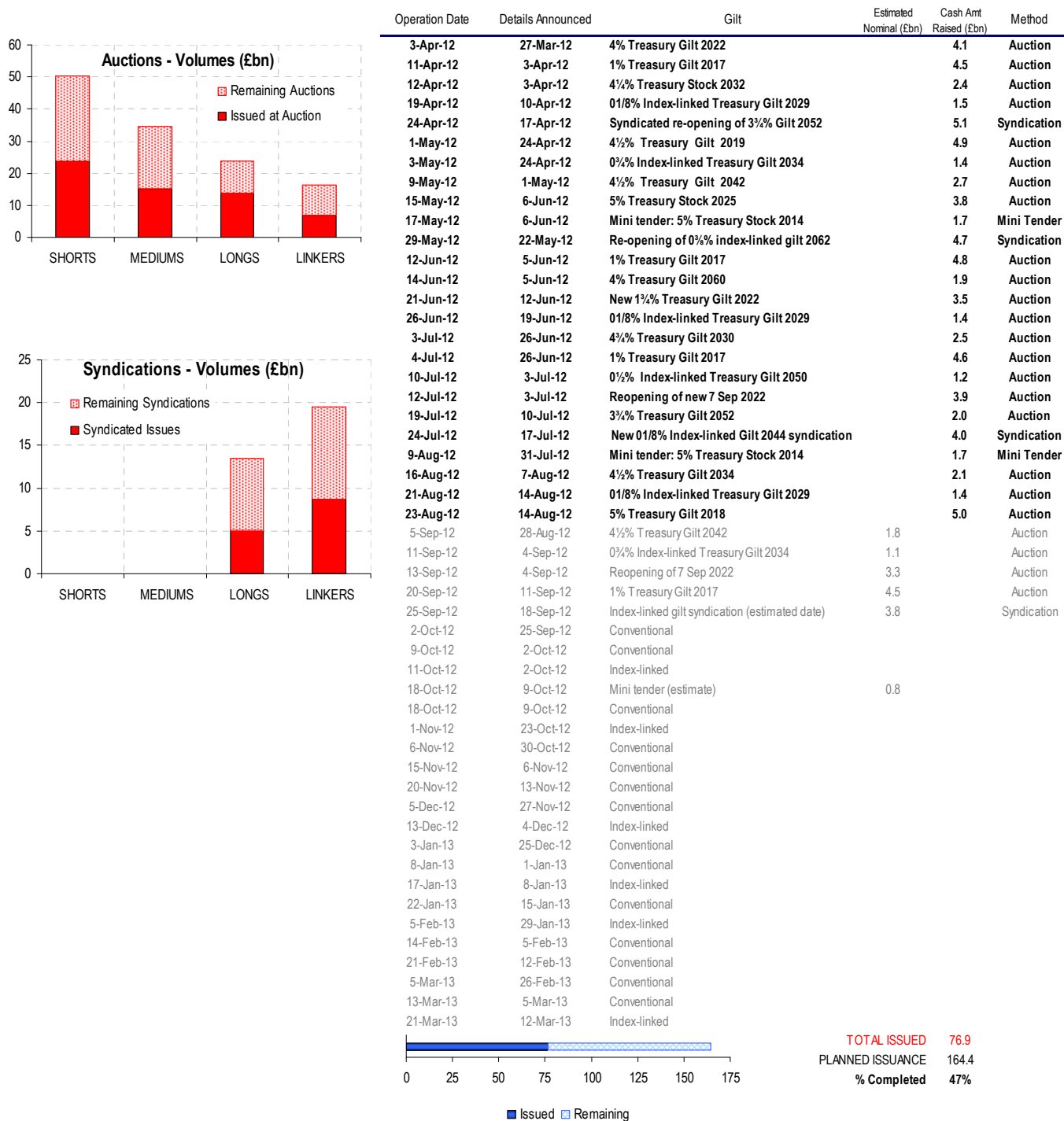
Gross Supply (£bn cash)

Gross Supply (\$bn nominal)

Gross issuance forecasts for 2012 to 2013
(for fixed rate government bonds and index-linked notes)

Source: DMOs. Citi estimates. Bloomberg.

Figure 69. UK Gilt Remit and Progress for FY2012/13



Source: Citi Research

Figure 70. 2012 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

EMU-11	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	22.3	26.9	26.8	3.1	10.5	2.3	92	29	63	54	9
Feb	19.7	25.1	34.9		1.6	3.3	85	12	72	38	34
Mar	24.5	17.8	15.6	2.3	8.2	4.6	73	17	56	56	1
Apr	19.6	16.8	17.3	1.7	5.4	3.6	64	30	34	75	-41
May	22.0	21.1	19.3	3.5		3.6	69	5	65		65
Jun	18.4	20.8	19.1	2.7	6.3	3.1	70	5	65	29	36
Jul	20.2	26.8	22.9	2.2	4.0	2.3	78	39	39	112	-73
Aug	9.3	8.5	13.0			0.7	32	9	22	12	11
Sep	13.3	21.9	28.3	1.3	3.8	3.3	72	16	55	56	-1
Oct	17.3	23.0	15.3	3.5	2.0	2.3	63	27	36	69	-33
Nov	14.0	24.5	17.5	1.0		3.0	60	5	55	13	42
Dec	10.0	7.8	10.0	1.5			29	3	26	59	-33
Total	211	241	240	23	42	32	788	198	590	573	17

GERMANY	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.0	4.0	5.0		3.0		16	13	3	25	-22
Feb	5.0	4.0	9.0				18	1	17		17
Mar	5.0	4.0				2.0	11	0	11	19	-8
Apr	5.0	4.0	5.0		3.0		17	3	14	16	-2
May	5.0	5.0	5.0			1.5	17		17		17
Jun	5.0	5.0	5.0			1.0	16	1	15	19	-4
Jul	5.0	4.0	5.0		3.0	1.0	18	13	5	27	-22
Aug	5.0	4.0	4.0				13		13		13
Sep	5.0	5.0	10.0			1.0	21	1	20	18	2
Oct	5.0	4.0	4.0		2.0		15	2	13	16	-3
Nov	5.0	7.0	4.0			1.5	18		18		18
Dec	4.0						4		4	17	-13
Total	58.0	50.0	56.0		11.0	8.0	183	35	148	157	-9

FRANCE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.9	4.3	4.8		3.6	1.7	19	3	16	15	2
Feb	3.4	6.7	8.5			1.8	20	1	20		20
Mar	4.0	5.5	6.1	2.3		1.6	20		20		20
Apr	5.3	4.0	4.7	1.7	1.2	2.5	19	17	2	20	-18
May	4.1	6.6	5.9	1.9		1.4	20		20		20
Jun	4.3	7.5	3.5	2.0	0.7	1.4	19		19		19
Jul	1.8	7.1	9.4			1.3	20	7	12	29	-17
Aug											
Sep	3.0	6.4	4.5		1.5	1.5	17		16	12	4
Oct	4.0	6.0	4.5			1.5	16	15	1	20	-20
Nov	2.5	6.5	2.5	1.0		1.5	14		14		14
Dec		2.5	3.0	1.5			7		7	5	1
Total	37.3	63.1	57.4	10.3	7.0	16.2	191	45	146	102	45

ITALY	CTZ/3yr	5yr/CCT	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	9.4	6.4	3.5			0.6	20	1	19		19
Feb	7.6	4.9	4.7			1.5	19	10	9	36	-28
Mar	8.7	4.8	4.4			1.0	19	7	11	27	-16
Apr	5.9	3.6	5.1			1.0	16	2	14	27	-14
May	7.0	4.4	3.9	0.6		0.8	17	5	12		12
Jun	6.4	2.9	5.9			0.6	16	2	14		14
Jul	8.0	2.5	4.1				15	1	14	17	-3
Aug	3.0	3.3	4.0			0.7	11	9	2	12	-10
Sep	5.3	4.0	6.5			0.8	17	8	9	10	-2
Oct	5.5	4.5	4.5	1.5		0.8	17	2	15	18	-4
Nov	5.3	6.5	4.0				16	5	11	13	-2
Dec	4.0	4.5	4.0				13	2	10	31	-20
Total	76.2	52.2	54.6	2.1		7.7	193	54	139	192	-54

Source: DMOs, Citi estimates, Bloomberg

Figure 71. 2012 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

SPAIN	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		11.5	5.3				17	7	10		10
Feb	3.6	4.6	5.3				14		13	1	12
Mar	4.0	3.5					8		8		8
Apr	2.2	1.0	1.9				5	4	1	12	-11
May	2.6	2.9					5		5		5
Jun	2.6	1.6	0.6				5		5		5
Jul	2.6	2.1	1.3				6	8	-2	13	-15
Aug	1.3	1.2	1.0				4		4		4
Sep		3.5	2.8				6		6		6
Oct	2.0	2.3	2.3				7	4	3	15	-12
Nov		2.5	3.0				6		6		6
Dec	2.0		2.0				4		4		4
Total	23.0	36.6	25.5				85	23	62	41	21

NETHERLANDS	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.1				1.5		6	4	2	14	-13
Feb		4.0	6.0				10		10		10
Mar	2.8				4.2		7		7		7
Apr	1.1	3.5			1.1		6		6		6
May	3.3		2.9				6		6		6
Jun			2.2		1.7		4		4		4
Jul	3.8	6.0		0.9			11	6	5	15	-11
Aug											
Sep			1.8		1.8		4		4		4
Oct	0.8	1.5		1.3			4		4		4
Nov	1.3		2.3				4		4		4
Dec											
Total	17.1	14.9	15.1	2.1	10.2		60	10	49	30	20

BELGIUM	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan			4.5				5		5		5
Feb		1.0	1.4		1.6		4		4		4
Mar			4.0		4.0		8	7	1	4	-2
Apr											
May		0.5	1.0	1.0			3		3		3
Jun		0.8	1.3	0.7			3		2		2
Jul		1.3	1.7	1.2			4		4		4
Aug											
Sep		1.3	2.0	1.3	0.5		5	5		9	-9
Oct		4.0					4		4		4
Nov		0.5	0.8				1		1		1
Dec										6	-6
Total		9.4	16.6	4.4	6.4		37	12	25	19	6

GREECE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar											
Apr											
May											
Jun											
Jul											
Aug											
Sep											
Oct											
Nov											
Dec											
Total								0	0	0	-0

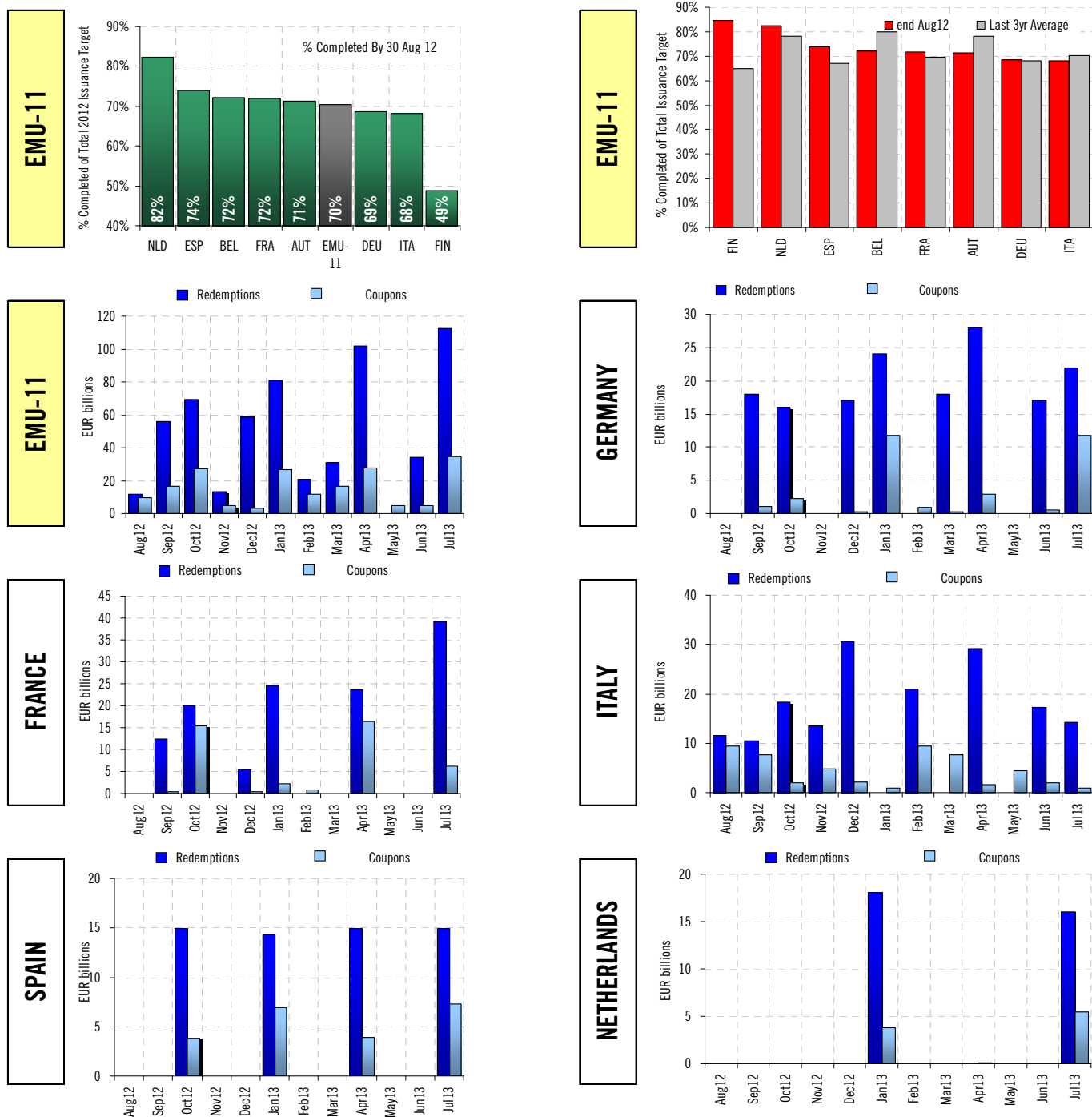
Source: DMOs, Citi estimates, Bloomberg

Figure 72. 2012 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

AUSTRIA	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		0.7	3.7		2.0		6	1	6		6
Feb											
Mar			1.1				1	1			
Apr		0.7	0.6				1		1		1
May		0.7	0.6				1		1		1
Jun		3.0	0.7		2.4		6		6		6
Jul								2	-2	10	-13
Aug											
Sep		0.8	0.8				2	1			
Oct		0.8		0.8			2	1	1		1
Nov		0.8	1.0				2		2		2
Dec		0.8	1.0				2		2		2
Total		8.1	9.4	0.8	4.4		23	7	15	10	5
FINLAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan				3.0			3		3		3
Feb											
Mar											
Apr								1	-1		-1
May		1.0					1		1		1
Jun					1.5		2		2		2
Jul								1	-1		-1
Aug			4.0				4		4		4
Sep		1.0					1	1		6	-6
Oct											
Nov		0.8					1		1		1
Dec											
Total		2.8	4.0	3.0	1.5		11	2	9	6	3
PORTUGAL	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar											
Apr								1	-1		-1
May											
Jun								2	-2	10	-12
Jul											
Aug											
Sep								1	-1		-1
Oct								1	-1		-1
Nov											
Dec											
Total								5	-5	10	-15
IRELAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar								1	-1	6	-6
Apr								1	-1		-1
May											
Jun											
Jul	-1.0	3.9	1.3		1.0		5		5		5
Aug											
Sep											
Oct								1	-1		-1
Nov											
Dec											
Total	-1.0	3.9	1.3	0.1	1.0		5	4	1	6	-5

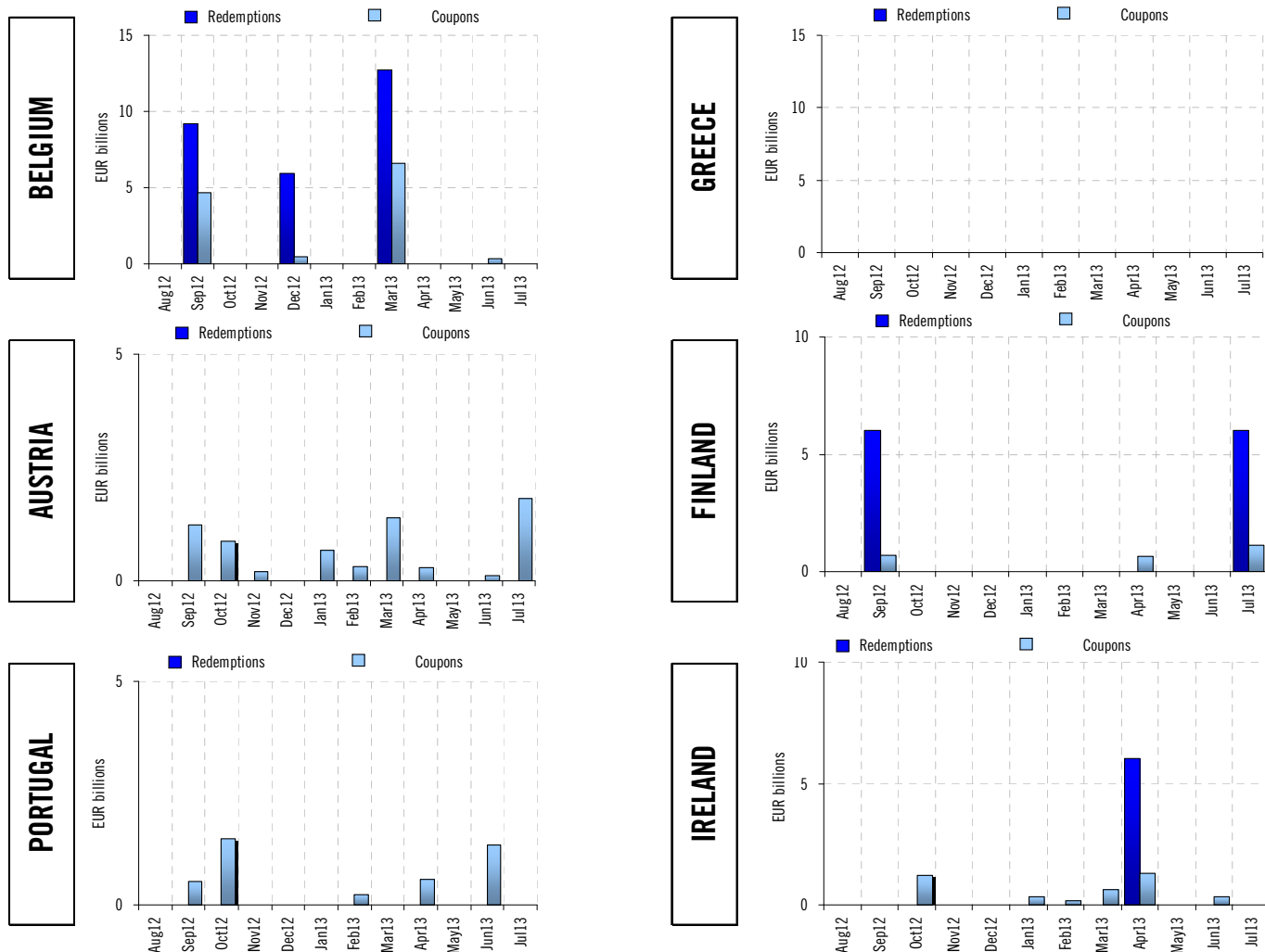
Source: DMOs, Citi estimates, Bloomberg

Figure 73. 2012 EMU Issuance Progress and Cash flow profile – Citi Forecasts (Euro in Billions)



Source: DMOs, Citi estimates, Bloomberg

Figure 74. 2012 EMU Issuance Progress and Cash flow profile – Citi Forecasts (Euro in Billions)



Size of bond market (fixed rate bonds and linkers)	Sector					
	2yr	5yr	10yr	15yr	30yr	Total
	Germany	France	Netherlands	Italy	Spain	Belgium
	403	296	183	63	91	1035
	369	335	274	94	120	1191
	108	78	56	13	31	286
	486	262	287	133	120	1288
	192	123	103	53	39	510
	85	83	58	25	28	280
	48	54	40	15	17	174
	24	23	13	9	2	69
	18	27	26	12	0	83
	24	40	23	0	7	94
	0	0	0	0	0	0
	0	0	0	0	0	0

Credit Rating (LT local currency)	S&P		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
	Germany	France	Netherlands	Italy	Spain	Belgium
	AAA	Stable	Aaa	-ve	AAA	Stable
	AA+	-ve	Aaa	-ve	AAA	-ve
	AAA	-ve	Aaa	-ve	AAA	Stable
	BBB+	-ve	Baa2	-ve	A-	-ve
	BBB+	-ve	Baa3	-ve watch	BBB	-ve
	AA	-ve	Aa3	-ve	AA	-ve
	AA+	-ve	Aaa	-ve	AAA	Stable
	AAA	-ve	Aaa	Stable	AAA	Stable
	BBB+	-ve	Ba1	-ve	BBB+	-ve
	BB	-ve	Ba3	-ve	WD	-ve
	CCC	-ve	C	-ve	CCC	-ve

Source: DMOs, Citi estimates, Bloomberg

EUR: Coupons & Redemptions (next 3mths)

Figure 75. EMU-11 Redemptions over the next three months (€bn)

Redemptions = €150bn											
Redemptions	DEU 34	FRA 32	NLD 0	ITA 54	ESP 15	BEL 9	AUT 0	FIN 6	PRT 0	GRC 0	IRL 0
(Fri) 31-Aug-12				11.5							
(Fri) 14-Sep-12	18.0										
(Sat) 15-Sep-12				10.4				6.0			
(Thu) 20-Sep-12		12.4									
(Fri) 28-Sep-12						9.2					
(Sun) 30-Sep-12											0.02
(Fri) 12-Oct-12	16.0										
(Mon) 15-Oct-12				18.4							
(Thu) 25-Oct-12		20.1									
(Wed) 31-Oct-12					15.0						
(Thu) 01-Nov-12				13.5							

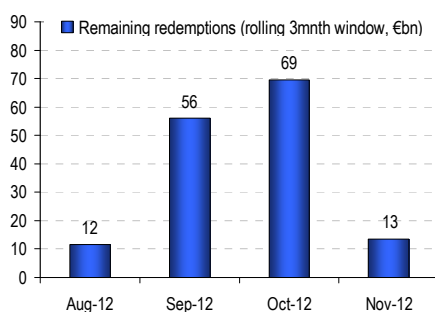
Source: DMOs, Bloomberg, Citi estimates

Figure 76. EMU-11 Coupon Payments over the next three months (€bn)

Coupons = €48bn											
Coupons	DEU 3	FRA 16	NLD 0	ITA 14	ESP 4	BEL 5	AUT 2	FIN 1	PRT 2	GRC 0	IRL 1
(Sat) 01-Sep-12				5.9							
(Tue) 04-Sep-12	0.7										
(Thu) 13-Sep-12	0.1										
(Fri) 14-Sep-12	0.1										
(Sat) 15-Sep-12				1.8			1.2	0.7			
(Thu) 20-Sep-12	0.0	0.1									
(Sun) 23-Sep-12									0.5		
(Tue) 25-Sep-12		0.4									
(Fri) 28-Sep-12						4.7					
(Sun) 30-Sep-12											0.0
(Mon) 01-Oct-12				0.2							
(Tue) 09-Oct-12	0.3										
(Wed) 10-Oct-12	0.4										
(Thu) 11-Oct-12	0.6										
(Fri) 12-Oct-12	0.7										
(Sun) 14-Oct-12	0.2										
(Mon) 15-Oct-12				1.7					0.9		
(Tue) 16-Oct-12									0.3		
(Thu) 18-Oct-12											1.2
(Sat) 20-Oct-12							0.9				
(Thu) 25-Oct-12		15.4							0.4		
(Wed) 31-Oct-12					3.8						
(Thu) 01-Nov-12				4.3							
(Thu) 15-Nov-12				0.4							
(Thu) 22-Nov-12							0.2				

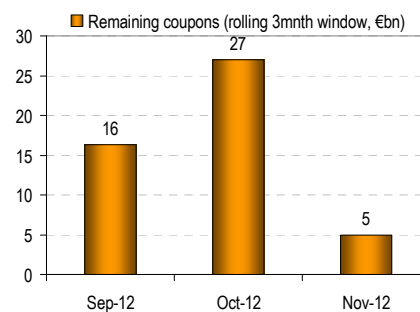
Source: DMOs, Bloomberg, Citi estimates

Figure 77. EMU-11 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Figure 78. EMU-11 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 79. Citi Inflation Forecasts

Month	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change
Jul 12	114.65	-0.6	2.3	124.22	-0.4	1.9	242.10	0.1	3.2	229.10	-0.2	1.4
Aug 12	114.96	0.3	2.4	124.97	0.6	1.9	241.90	-0.1	2.5	229.90	0.3	1.5
Sep 12	115.42	0.4	2.1	124.78	-0.2	1.9	242.60	0.3	2.0	230.40	0.2	1.5
Oct 12	115.84	0.4	2.1	124.58	-0.2	1.5	242.80	0.1	2.0	230.40	-0.0	1.8
Nov 12	115.96	0.1	2.1	124.84	0.2	1.5	243.00	0.1	1.9	230.40	0.0	1.8
Dec 12	116.34	0.3	2.1	125.35	0.4	1.5	244.10	0.5	2.0	230.20	-0.1	2.0

Shaded = Already released

Source: Citi Research, Bloomberg

Figure 80. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Oct	1 Nov	1 Dec					1 Oct	1 Nov	1 Dec		
Repo (%)				0.13	0.13	0.13									
TIPS 1/14	-1.16	10	10	-22	-3	6	US-4.000-02/15/14	140	-10	-15	-22	-5	4	9	6
TIPS 4/14	-1.12	4	4	-18	-2	6	US-1.875-04/30/14	138	-3	-7	-19	-4	4	4	0
TIPS 7/14	-1.47	4	4	-17	-5	0	US-2.625-07/31/14	174	-5	-8	-18	-7	-2	9	4
TIPS 1/15	-1.33	2	2	-13	-3	1	US-2.250-01/31/15	164	-2	-5	-14	-4	-1	11	1
TIPS 4/15	-1.33	1	1	-12	-3	1	US-2.500-04/30/15	165	-1	-4	-12	-4	-1	6	1
TIPS 7/15	-1.46	-1	-1	-11	-3	0	US-4.250-08/15/15	183	1	-2	-12	-5	-2	15	0
TIPS 1/16	-1.37	0	0	-9	-2	1	US-2.625-02/29/16	179	-1	-3	-10	-4	-2	15	2
TIPS 4/16	-1.33	-2	-2	-8	-2	1	US-2.000-04/30/16	178	1	-1	-9	-4	-2	14	1
TIPS 7/16	-1.41	-4	-4	-8	-2	0	US-4.875-08/15/16	191	1	-0	-9	-4	-2	21	1
TIPS 1/17	-1.31	-6	-6	-7	-2	1	US-3.125-01/31/17	189	4	2	-8	-3	-2	20	-1
TIPS 4/17	-1.32	-4	-4	-6	-2	1	US-0.875-04/30/17	195	2	0	-7	-3	-2	12	1
TIPS 7/17	-1.35	-5	-5	-6	-2	1	US-4.750-08/15/17	202	2	1	-7	-4	-3	21	1
TIPS 1/18	-1.24	-4	-4	-6	-1	1	US-3.500-02/15/18	201	1	-1	-7	-3	-2	20	2
TIPS 7/18	-1.25	-4	-4	-5	-1	1	US-4.000-08/15/18	207	-1	-2	-6	-3	-2	25	4
TIPS 1/19	-1.11	-7	-7	-5	-1	1	US-2.750-02/15/19	207	3	2	-6	-3	-2	24	-1
TIPS 7/19	-1.10	-6	-6	-4	0	1	US-3.625-08/15/19	214	2	1	-5	-3	-2	26	-0
TIPS 1/20	-0.97	-4	-4	-4	0	2	US-3.625-02/15/20	212	1	-0	-5	-3	-2	27	1
TIPS 7/20	-0.93	-4	-4	-3	0	2	US-2.625-08/15/20	219	0	-1	-5	-3	-2	28	2
TIPS 1/21	-0.80	-6	-6	-3	0	2	US-3.625-02/15/21	213	2	1	-4	-3	-2	33	-1
TIPS 7/21	-0.79	-5	-5	-3	0	2	US-2.125-08/15/21	224	1	-0	-4	-2	-2	29	1
TIPS 1/22	-0.69	-5	-5	-3	0	2	US-2.000-02/15/22	223	0	-0	-4	-2	-2	27	1
TIPS 7/22	-0.68	-5	-5	-2	0	2	US-1.625-08/15/22	230	1	-0	-4	-2	-2	26	1
TIPS 1/25	-0.33	-6	-6	-2	1	3	US-7.625-02/15/25	217	1	0	-3	-2	-2	42	0
TIPS 1/26	-0.22	-7	-7	-2	1	3	US-6.000-02/15/26	220	1	1	-3	-2	-2	41	-0
TIPS 1/27	-0.17	-7	-7	-2	1	3	US-6.625-02/15/27	222	1	1	-3	-2	-2	40	0
TIPS 1/28	-0.09	-7	-7	-1	1	3	US-6.125-11/15/27	222	1	1	-3	-2	-2	42	0
TIPS 4/28	-0.06	-8	-8	-1	1	3	US-5.500-08/15/28	224	2	2	-3	-2	-2	38	-1
TIPS 1/29	-0.07	-7	-7	-1	1	3	US-5.250-02/15/29	228	2	1	-3	-2	-2	36	0
TIPS 4/29	-0.04	-8	-8	-1	1	3	US-5.250-02/15/29	225	3	2	-3	-2	-2	37	-1
TIPS 4/32	0.03	-8	-8	-1	1	2	US-5.375-02/15/31	225	3	2	-3	-2	-2	40	-1
TIPS 2/40	0.33	-7	-7	-1	1	2	US-4.625-02/15/40	227	2	1	-2	-1	-2	40	-0
TIPS 2/41	0.34	-7	-7	-1	1	2	US-4.750-02/15/41	227	2	2	-2	-1	-2	40	-1
TIPS 2/42	0.40	-8	-8	-1	1	2	US-3.125-02/15/42	231	3	3	-2	-1	-2	36	-1

Source: Citi Research

Figure 81. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Oct	1 Nov	1 Dec					1 Oct	1 Nov	1 Dec		
Repo (%)				0.09	0.08	0.06									
BTPei14	2.14	-7	-7	-19	5	39	BTP 8/14	96	-19	-24	-31	-24	-7	75	31
OATei15	-1.24	-15	-15	-21	-16	-6	FFRG 4/15	146	15	12	-22	-17	-7	33	-11
BUNDei16	-1.09	-9	-9	-17	-12	-3	BUND 1/16	116	6	4	-17	-12	-3	35	0
BTANi16	-1.04	-12	-12	-13	0	-6	FFRG 4/16	154	12	10	-14	-2	-9	42	-8
BTPei16	3.72	21	21	-6	9	30	BTP 8/16	54	-21	-23	-15	-10	0	119	28
OATi17	-0.80	-6	-6	-10	1	-4	FFRG 4/17	162	7	5	-11	-2	-8	39	-3
BTPei17	4.05	21	21	-5	9	26	BTP 8/17	68	-17	-19	-13	-9	-2	106	23
BOBLEi18	-0.81	-6	-6	-10	-7	-1	BUND 1/18	128	2	1	-11	-8	-3	35	3
OATei18	-0.40	-1	-1	-9	-5	1	FFRG 4/18	153	3	1	-11	-9	-4	27	-0
OATi19	-0.30	6	6	-7	2	-1	FFRG 4/19	174	-4	-5	-8	-2	-7	38	6
BTPei19	4.46	27	27	-3	7	20	BTP 9/19	77	-20	-21	-10	-7	-2	108	24
BUNDei20	-0.65	-4	-4	-8	-5	0	BUND 1/20	153	0	-1	-9	-7	-3	26	3
OATei20	-0.01	5	5	-7	-3	2	FFRG 4/20	172	-1	-2	-9	-7	-4	21	2
BTPei21	4.65	15	15	-2	6	17	BTP 9/20	77	-8	-9	-8	-7	-4	122	29
OATei22	0.23	7	7	-5	-2	2	FFRG 4/21	169	-2	-3	-7	-6	-4	36	3
BUNDei23	-0.45	-3	-3	-5	-3	0	BUND 1/22	170	-1	-2	-6	-5	-3	30	4
OATi23	0.23	7	7	-4	2	1	FFRG 10/23	208	-2	-3	-6	-2	-5	24	3
BTPei23	4.74	12	12	-2	6	14	BTP 8/23	107	1	-0	-7	-6	-3	103	2
BTPei26	4.84	14	14	-1	5	12	BTP 3/26	111	-3	-4	-6	-5	-3	108	5
OATei27	0.55	8	8	-4	-1	2	FFRG 4/26	203	-2	-3	-5	-5	-3	19	3
OATi29	0.59	9	9	-3	2	1	FFRG 4/29	216	1	0	-4	-2	-4	19	0
OATei32	0.68	9	9	-3	-1	2	FFRG 10/32	218	1	-0	-4	-4	-3	9	0
BTPei35	4.63	8	8	-1	3	8	BTP 8/34	159	-3	-4	-5	-5	-4	72	5
OATei40	0.73	5	5	-2	-1	1	FFRG 10/38	231	4	3	-3	-3	-3	8	-3
BTPei41	4.46	3	3	-1	3	7	BTP 9/40	175	-0	-1	-4	-5	-4	65	2

Source: Citi Research

Figure 82. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Oct	1 Nov	1 Dec					1 Oct	1 Nov	1 Dec		
Repo (%)				0.43	0.42	0.40									
UKTi'16	-2.01	-11	-12	1	2	4	UKT 9/16	236	2	2	1	3	4	40	0
UKTi'17	-1.64	-13	-11	-1	-6	-4	UKT 3/18	232	4	2	-2	-7	-5	42	-5
UKTi'20	-1.19	-11	-11	2	3	5	UKT 3/20	228	1	1	1	1	2	50	-6
UKTi'22	-0.83	-10	-9	0	-2	0	UKT 3/22	230	0	-1	-1	-4	-3	63	-6
UKTi'24	-0.62	-9	-9	2	3	5	UKT 3/25	245	-0	-0	0	1	1	54	-5
UKTi'27	-0.30	-9	-8	0	-1	1	UKT 12/27	241	0	-1	-1	-3	-3	63	-5
UKTi'29	-0.15	-11	-10	0	0	1	UKT 12/30	250	2	1	-1	-3	-3	55	-6
UKTi'30	-0.26	-9	-9	1	3	4	UKT 6/32	274	0	0	0	0	0	38	-5
UKTi'32	-0.11	-9	-8	0	0	1	UKT 6/32	259	-0	-1	-1	-3	-3	56	-4
UKTi'34	-0.02	-9	-9	0	0	1	UKT 9/34	265	0	-0	-1	-3	-3	49	-4
UKTi'35	-0.07	-8	-8	1	2	3	UKT 3/36	279	-1	-1	0	0	0	39	-3
UKTi'37	0.01	-7	-7	0	0	1	UKT 12/38	279	-2	-3	-1	-3	-3	42	-2
UKTi'40	0.05	-7	-6	0	0	1	UKT 9/39	282	-2	-3	-1	-3	-3	41	-1
UKTi'42	0.04	-6	-6	0	0	1	UKT 12/42	289	-2	-3	-1	-2	-3	39	-1
UKTi'44	0.09	-7	-7	0	0	1	UKT 12/42	284	-1	-1	-1	-2	-3	42	-2
UKTi'47	0.07	-6	-5	0	0	1	UKT 12/46	293	-3	-3	-1	-2	-3	36	-0
UKTi'50	0.10	-5	-5	0	0	1	UKT 12/49	295	-3	-3	-1	-2	-3	34	-0
UKTi'55	0.09	-5	-5	0	0	1	UKT 12/55	298	-3	-3	-1	-2	-2	33	-0
UKTi'62	0.09	-6	-6	0	0	1	UKT 1/60	296	-2	-2	-1	-2	-2	35	-1

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
29-Aug-12	NOTE	Euro Rates Strategy: EMU-11: September Supply Outlook	-	EUR
24-Aug-12	NOTE	Global Month-End Index-Linked Index Projections	-	Global
23-Aug-12	IIRS	Overview: Risks moving into September	10	EUR
		Falling coupon support for periphery supply	13	EUR
		Periphery front-ends remain vulnerable	14	EUR
		Update on Sovereign Ratings Forecasts	15	Global
		Bund Calendar Roll: RXU2-RXZ2	16	EUR
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		Schatz Calendar Roll: DUU2-DUZ2	18	EUR
		End-August EGBI / WGBI Projections	19	Global
23-Aug-12	NOTE	Global Month-End Index Projections: Support for Germany, Belgium and Ireland	-	Global
16-Aug-12	IIRS	Overview	8	EUR
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Appendix A-1

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