30 January 2014 | 40 pages

Developed Markets
Western Europe

European Rates Weekly

What if T-Notes Sell Off?

- **Bunds: What if T-Notes Sell Off?** Has the relationship between USD and EUR fixed income changed during the past 8 months? What can we say about our Bunds in the event of a sell-off in Treasuries? We continue to recommend receiving EUR 2y1y vs USD 2y1y and tactical Bund 2s10s steepeners.

- **EUR Vol:** at the long-end of the EUR and USD curves implied correlations have gradually decoupled over the past year to attractive levels. Short EUR 10s30s Floor positions vs long USD Cap look attractive given the EUR/USD implied spread vol differential and levels of CMS forwards.

- **Time for the UK to de-couple from the US?** Our economists expect the MPC hiking cycle to start earlier and be quicker than market pricing. Furthermore, the first hike is likely to be three quarters ahead of the Fed. This is far from priced into the 2yr gilt-UST spread, in our view. In contrast, in the 30y sector, we expect the UK to *outperform* the US and recommend receiving 15y15y GBP vs USD.

- **Analysing the impact of USTs on Bund 2s10s:** We expect the beta of 2yr Bunds to 2yr USTs to be much lower than the beta of 10yr Bunds to 10yr USTs in coming quarters. Furthermore, based on our expectation of an ECB rate cut the beta of the 2yr point is likely to move into negative territory. Regardless of an ECB rate cut, the impact of a rise in UST yields points to steepening pressure on Bund 2s10s.

- **SSA spreads do not correlate well with yield levels:** Rising US yields are not in themselves a negative for credit spreads. For European SSA spreads, other drivers such as guarantee structures, supply and SSA regulatory treatment are more prominent. We continue to expect a range-bound spread environment in 2014.

- **Covered bonds:** Will US government bond yields moving higher affect spread products like covered bonds? We don't think so. Instead, ECB policy and European regulatory developments should continue to be the main drivers for covered bonds.

- **Relative value trades:** We highlight a number of relative value opportunities in the 2-5yr sector of the French, Dutch, Austrian, Italian and gilt yield curves.

- **Supply:** Within Europe, next week's bond supply comes from Austria (€1.21bn), Germany (€4bn), France (around €8.5bn) and Spain (around €5.5bn). The UK DMO will issue £4bn of a conventional gilt (1.75% 2019) on Tuesday.

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	We do not expect a substantial deviation in Bund yields from current levels based on the modest euro area recovery, low inflation and accommodative ECB policy. Current EM disturbances are also likely to keep core yields low in the near-term.	Buy the dips in Bund yields
Money Market	ECB carry trade should generate enough carry to compensate for PnL-losses resulting from extreme liquidity swings. We continue to like decoupling strategies with USD money markets. diverge from inflation expectations. In the UK, we now expect the first hike in Q4 of this year - this is likely to put pressures on the late 'white' contracts.	Eonia 1yr/1yr1yr flattener Short-sterling H6 vs H5 flatteners
Yield Curve	Enter EUR 5s30s steepeners in forward space to optimise carry. This based on our expectations for ECB policy and our supply projections. Initiate tactical Bund 2s10s steepeners given our expectation of ECB policy rates, technical levels and a reduction in supply. In the UK, 10s30s flatteners have not performed well so far, but we still think this is the right trade once the dust settles on the IL68 syndication.	Tactical Bund 2s10s steepeners Buy gilt 3.25% 2044 vs 2.25% Sep23 Receive EUR 3y2y vs 5y25y (5s30s steepeners) Receive EUR 5y5yF vs 15y15yF (or receive EUR 5s15s30s) Hold BTP 2s10s steepener
Cross-market	Over the longer-term, we still expect Bunds to outperform USTs given the diverging policy/growth/inflation outlook. We also still like 10yr gilt-Bund wideners given our forecast that the ECB will cut rates in 2014, but the MPC will hike. The MPC are likely to hike well before the Fed, suggesting 2yr/10yr Gilt-USTs will widen. However, in the 30yr sector, we expect the opposite given relative demand/supply pressures.	Receive 15y15y GBP vs USD Sell 10yr gilts vs USTs Stay short 10yr gilts vs Bunds Long Bunds vs UST (add on corrections)
EMU Spreads	A softer spread environment may emerge in the near term as the supply profile turns less supportive with fewer offsetting coupon and redemption money. It remains unclear the extent to which the current EM disturbances will affect spreads. On a cross market basis, we continue to expect Spain to outperform Italy, for Ireland to eventually gravitate towards the soft core and remain short DSL 37s vs Bunds.	Stopped out of long Ireland vs France Long Spain vs Italy Sell France vs Belgium and Germany (in either 5s or 10s) Sell 20yr DSLs vs Bunds Range trade 10yr OAT-Bunds
Swap Spreads	We expect swap spreads to widen further across the curve due to a reduction in 2014 Bund issuance our expectation of their being reduced swapped issuance from corporates & US debt ceiling concerns. Our preferred point for ASW wideners is the 5yr sector. In the UK, the lack of supply in longs this quarter may help 30yr swap spreads to richen. Supply trends are also supportive over the longer-term.	Remain long 5yr Germany vs swaps Lighten up on long 10yr Bund ASW positions Take profit on 30yr Bund ASW wideners
Inflation	Euro break-evens remain under pressure and have reached multi-year lows. Our recommendation to sell Bundei23 break-even has reached its target, but there is little sign of a turnaround with inflation still printing at low levels. In the UK, the IL68 syndication has finally passed. 30s50s break-even steepeners are under pressure, but we stick with them for now.	Buy IL68 vs IL44 break-even inflation Take profits on sell Bundei23 break-evens
Volatility	Whilst black swans can, and indeed have, appeared to wreak havoc on carry trades (they showed up at least twice in 2013), we believe that long positions on receiver swaptions in the top left corner are the safest way to play the ECB at the current market juncture, given the limited downside and the current cheap gamma vol valuation.	Long 1y3y ATMF Receiver Swaption
SSA	Look to the primary market for liquidity pockets to add exposure selectively. Move up in quality, especially from EMU sovereigns of lower ratings, when spread levels and liquidity permit.	Long 3yr KfW vs the Netherlands Long 2yr KfW vs France Long EU vs other supras with larger supply pipelines
For a list of outstanding trade strategies please see the Tradesheet section of this report		

Source: Citi Research

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 31 Jan – 6 Feb

Bund Directional Scorecard (1wk horizon)

RECOMMENDATION	Long
Conviction level	9%

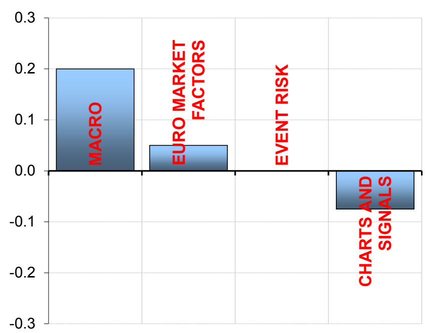
RXH4 (EOD Thurs) = 143.2

CTD yield = 1.39%   10day del vol = 3.27%

	SIGNAL STRENGTH (+/-2)		
MACRO	**0.2**		**Weight = 40%**
ECB	1	Monetary policy to be accommodative for as long as needed	7.5%
Fed, BoE and BOJ	0	Dovish forward guidance but modest tapering broadly priced	7.5%
Inflation	2	Headline inflation projected to remain in 0.7-0.8% for next 4 months	7.5%
Growth related data	-1	PMIs likely to continue to indicate mild expansion	7.5%
Citi surprise	0	Citi Economic Surprise Index rising slightly but still low	5.0%
Middle East / Oil	1	Brent prices stabilising near 2 month low	5.0%
EURO MARKET FACTORS	**0.1**		**Weight = 23%**
Supply	-1	Up to €7bn in core supply with no supportive cash flows	5.0%
Risk appetite	1	EM disturbances prompting flight to quality bids	5.0%
Flow	1	Demand for core improving	2.5%
Equity	0	Eurostoxx50 losing momentum and affected by EM concerns	2.5%
Sovereign credit	-1	Peripheral yields at multi year low	2.5%
FX	1	EUR effective exchange rate range-bound near 6m lows	5.0%
EVENT RISK	**0.0**		**Weight = 15%**
Politics	0	No political event likely to impact the market in near-term	5.0%
3yr LTRO	0	We expect a new 1yr LTRO in 1H14	5.0%
Stability mechanisms	0	Nothing on the agenda in the near-term	5.0%
CHARTS AND SIGNALS	**-0.1**		**Weight = 23%**
Technicals	0	Continue to expect a range about 1.8% in 10y Bunds	5.0%
T-Note	0	Neutral	5.0%
CFTC	-1	Positioning slightly short	7.5%
ARTS	0	Neutral	5.0%

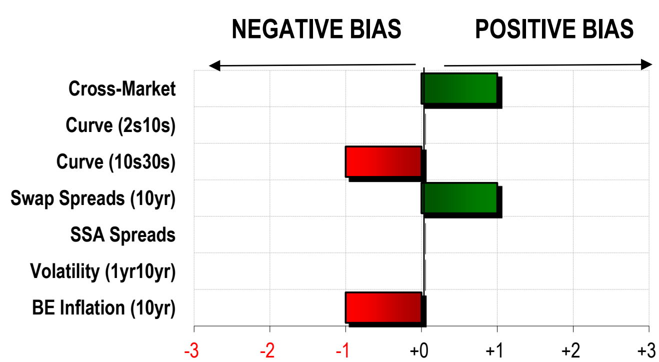
Source: Citi Research Note: Futures trading involves a substantial risk of loss.

Figure 3. Contribution to Bund Signals



Source: Citi Research

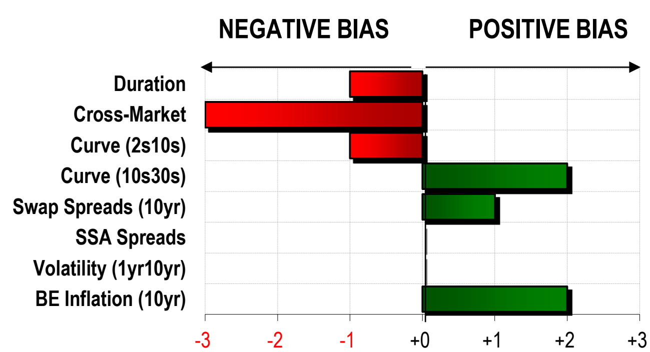
Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

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

Figure 5. UK (Near-term Bias)



Source: Citi Research

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

Tradesheet

New Trades

Please see p13 for details

1. Receive 15y15y GBP vs USD

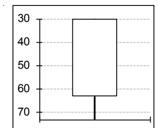
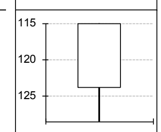
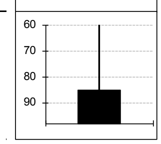
Receive 15y15y GBP at 3.61%

Pay 15y15y USD at 4.24%

Open -63bp. Current -63bp. Target -100bp. Stop -40bp.

Record of Our Closed Trades

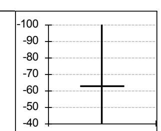
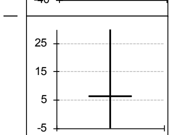
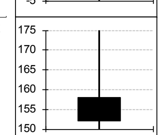
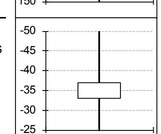
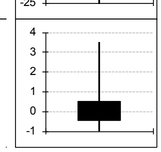
Figure 6. Record of our Closed Trades

Region	Trade	Levels		Rationale	
Europe	**Sell EUR 1y3yF ATMF straddle and buy ATMF-25 receiver**	Open	63bp		
		Current	30bp	Hit Target 30 January 2014	
Volatility	Sell EUR 1y3yF ATMF (=1.36%) straddle for 98bp	**P&L**	**33bp**		
	Buy EUR 1y3yF ATMF-25 receiver for 35bp	Target	30bp		
		Stop	73bp	*IIRS 9 August 2012*	
EUR	**Sell Bundei23 break-even inflation spread**	Open	123.8bp		
		Current	115bp	Hit Target 24 January 2014	
Inflation	Sell Bundei23 break-even inflation at 123.8bp	**P&L**	**9bp**		
		Target	115bp		
		Stop	128.5bp	*European Rates Weekly, 9 January 2014*	
EUR	**Long 10yr Ireland vs France**	Open	85bp		
		Current	98bp	Hit Stop 30 January 2014	
Cross Market	Buy Ireland 3.9% Mar23s at 3.03%	**P&L**	**-13bp**		
	Sell OAT 1.75% May23 at 2.19%	Target	60bp		
		Stop	98bp	*Euro Rates Strategy, 20 January 2014*	

Source: Citi Research

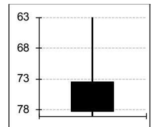
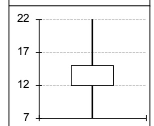
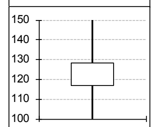
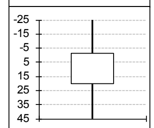
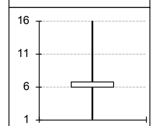
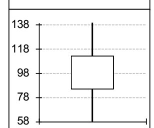
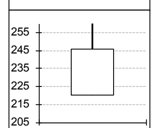
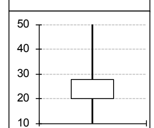
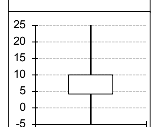
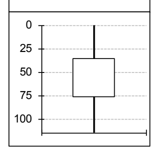
Record of Our Open Trades

Figure 7. Record of our Open Trades

Region	Trade	Levels		Rationale + Publication Date	
UK / US	**Receive 15y15y GBP vs USD**	Open	-63bp		
		Current	-63bp	30yr UK to benefit from LDI while 30yr US faces an increasing supply burden	
Cross Market	Receive 15y15y GBP at 3.61%	**P&L**	**0bp**		
	Pay 15y15y USD at 4.24%	Target	-100bp		
		Stop	-40bp	*European Rates Weekly, 30 January 2014*	
UK / US	**Sell UKT 2.25% Sep23 vs UST 2.5% Aug23**	Open	6.5bp		
		Current	7bp	We expect the MPC to hike three quarters ahead of the Fed	
Cross Market	Sell UKT 2.25% Sep23 at 2.82%	**P&L**	**0bp**		
	Buy UST 2.5% Aug23 at 2.77%	Target	30bp		
		Stop	-5bp	*European Rates Weekly, 23 January 2014*	
EUR	**Tactical Bund 2s10s steepener**	Open	158bp	Reduction in 2yr supply, Citi's expectation of ECB rate cut and implication of Fed tapering	
		Current	152bp		
Curve	Buy Schatz Dec15 at 0.15%	**P&L**	**-6bp**		
	Sell DBR Aug23 at 1.73%	Target	175bp		
		Stop	150bp	*European Rates Weekly, 23 January 2014*	
EUR	**Buy 5yr Germany vs Swaps**	Open	-33bp	Attractive entry levels, a reduction in swapped issuance and 5yr bund supply in 2014 & a cheap option to express a change in sentiment	
		Current	-37bp		
Swap Spreads	Buy Bobl-167 (Oct18) vs swaps (YYS) at -33bp	**P&L**	**4bp**		
		Target	-50bp		
		Stop	-24bp	*European Rates Weekly, 16 January 2014*	
UK	**Buy IL gilt 2068 break-even vs IL gilt 2044**	Open	0.5bp	A pick-up in LDI activity, extensions in the 15yr+ IL gilt index and infrequent 50yr supply should steepen the 30s50s	
		Current	0bp		
Inflation	Buy IL gilt 2068 break-even at 347bp	**P&L**	**-1bp**		
	Sell IL gilt 2044 break-even at 346.5bp	Target	3.5bp		
		Stop	-1bp	*European Rates Weekly, 16 January 2014*	

Source: Citi Research

Figure 8. Record of our Open Trades (continued)

Market / Type	Trade	Levels		Rationale	Chart
UK *Curve*	**Gilt 10s30s flatteners** Buy gilt 3.25% Jan44 at 3.56% Sell gilt 2.25% Sep23 at 2.82%	Open Current **P&L** Target Stop	73.5bp 78bp **-5bp** 63bp 79bp	Tactical 10s30s flatteners given upcoming supply/demand and cash-flow dynamics *UK Rates Strategy, 15 January 2014*	
EUR *Cross Market*	**Long Bund Jan37 vs DSL Jan37** Buy Bund 4% Jan37 at 2.72% Sell DSL 4% Jan37 at 2.84%	Open Current **P&L** Target Stop	12bp 15bp **3bp** 22bp 7bp	Optically attractive entry level + relative supply pressures are more favourable for Bunds than DSLs *European Rates Weekly, 9 January 2014*	
EUR *Swaps*	**Receive EUR 3y2y vs 5y25y** Receive EUR 3y2y at 203bp Pay EUR 5y25y at 320bp	Open Current **P&L** Target Stop	117bp 128bp **11bp** 150bp 100bp	Current level of the 5yr point does not reflect our expectations of Euro Area fundamentals and ECB policy; large amount of net 30yr issuance from core *Euro Rates Strategy, 8 January 2014*	
EUR *Cross Market*	**Long 10yr Spain vs Italy** Buy Bono 4.4% Oct23s at 4.26% Sell BTP 4.5% May23s at 4.06%	Open Current **P&L** Target Stop	20bp -2bp **22bp** -25bp 45bp	Spain has a stable rating and lower political risks compared with Italy *European Rates Weekly 5 Dec 2013*	
EUR *Cross Market*	**Sell France vs Belgium and Germany** Sell BTAN 1.75% Feb17 at 0.51% Buy OLO 4% Mar17 at 0.66% Buy Bobl 0.5% Apr17 at 0.30%	Open Current **P&L** Target Stop	6bp 7bp **1bp** 16bp 1bp	Attractive entry level, possible auction concession and non-supportive cash flow profile for OATs into year-end *Euro Rates Strategy, 8 November 2013.*	
EUR / UK *Cross Market*	**Sell UKT Sep23 vs DBR Aug23** Sell UKT 2.25% Sep23 at 2.60% Buy DBR 2% Aug23 at 1.75%	Open Current **P&L** Target Stop Revised Stop	85bp 112bp **27bp** 140bp 58bp 85bp	Entry levels are attractive for medium-term gilt-Bund wideners *European Rates Weekly, 24 October 2013.* *Revised Stop: UK Rates Strategy, 11 November 2013*	
EUR *Curve*	**BTP 2s10s steepener** Buy BTP 3.75% Apr16 at 1.98% Sell BTP 4.5% May23 at 4.18%	Open Current **P&L** Revised Target Revised Stop	220bp 246bp **26bp** 260bp 240bp	Redemptions to support 2s in 2014. Political uncertainty & long-end issuance to weigh on 10s. *European Rates Weekly, 11 October 2013.* *Revised Levels: The Morning Call, 14 November2013*	
UK *Swap spread*	**Sell 30yr gilt swap spreads vs 10yr** Sell gilt 3.25% Jan44 ASW at 20bp Buy gilt 1.75% Sep22 ASW at 0bp	Open Current **P&L** Target Stop	20bp 28bp **8bp** 50bp 10bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve. *UK Rates Strategy, 30 July 2013*	
Europe *Curve*	**Receive EUR 10y2y vs 12y3y** Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%	Open Current **P&L** Target Stop	4bp 10bp **6bp** 25bp -5bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility *The Morning Call, 23 January 2013*	
UK *Volatility*	**Sell GBP 2y2y ATMF straddle** Sell GBP 2y2y ATMF (1.04%) straddle at 76bps	Open Current **P&L** Target Stop	76bp 35bp **41bp** 0bp 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol *IIRS 12 July 2012*	

Source: Citi Research

Bunds: What if T-Notes Sell Off?

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Has the relationship between USD and EUR fixed income changed during the past 8 months? What can we say about our Bunds in the event of a sell-off in Treasuries?

USTs expected to trade wider vs Bunds at the end of 2014…

Treasury/Bund spreads widened by 65bp in 2013 and are now trading close to the highest levels of the 20y sample. For 2014, we are forecasting further widening towards a target spread of 145bp[1], i.e. the Jun-99 highs. Our view is predicated upon the concept of "decoupling" between the two fixed income markets.

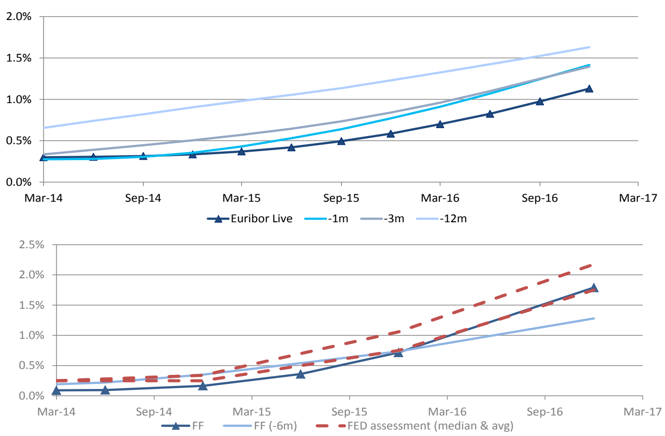
…but "complete decoupling" is a very rare event in G10 rates

This is a rather vague concept[2] and we have underestimated the importance of Treasuries in determining Bund yields in the past[3]. A fully fledged decoupling in G10 rates is such a rare event that markets find it particularly difficult to price such a scenario in forward curves. In addition to US/EU spread's volatility, this is another very good reason for focusing on this topic.

Limited impact of ECB's forward guidance?

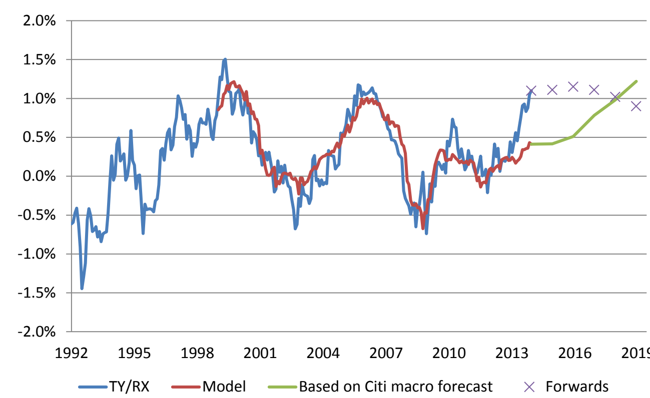
Looking at the front-end (Figure 9), we note how FED expectations are aligned with FOMC's assessment, while ECB expectations follow Mr Draghi's version of "forward guidance" only to a certain extent. One could argue that the ECB need forward guidance to isolate Euro rates from tapering, but such a statement would question the effectiveness of ECB's own policy tools.

Figure 9. Front-end de-coupling has room to go…



Source: FOMC, Citi Research

Figure 10. …but the 10y US/EU spread is already historically wide



Source: Citi Research

In the scenario of a protracted Treasury sell-off from current levels (2.75%), we need to consider the following points:

US/EU spreads are already wide vs fundamentals

1) Compared to a basic fundamental model, the US/EU spread is already very wide (Figure 10). Only a further divergence in fundamentals – in addition to the one we're already observing/forecasting – can push the two markets in almost opposite direction. Furthermore, by feeding Citi's economic projections into our equation, we can see that the market is already anticipating our scenario by almost 3 years. Forward curves do not imply much widening from here and actually price a convergence between US and EU yields in 5 years.

[1] GEOS (Jan-14).

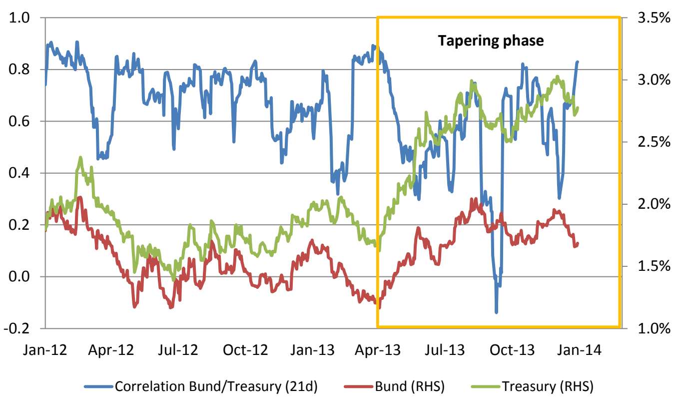
[2] Does "decoupling" require negative correlation or is a directional spread widening sufficient?

[3] "Bund: Decoupling?" (8 Jul-13)

Decoupling must be rooted in purely domestic factors

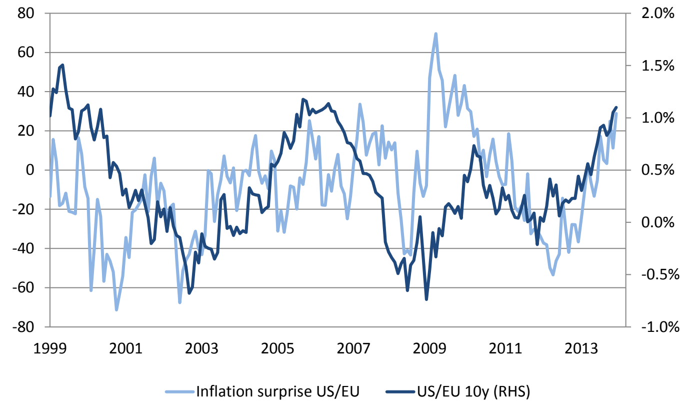
2) Correlation between Treasuries and Bunds is back to "normal" levels (i.e. around 0.8, Figure 11) such that decoupling can only occur in the event of a fast Treasury sell-off driven by purely endogenous factors. Similarly, a domestic inflation or policy surprise could lead Bunds to substantially lower yields without spilling over into US markets. In our year-end forecast, we tacitly assume a Bund sensitivity-to-Treasury of 0.3, which is a result of FED's tapering and ECB additional round of policy easing.

Figure 11. US/EU correlation is back to pre-selloff levels



Source: Citi Research

Figure 12. Inflation dynamics do matter!



Source: Citi Research

Conclusions and Trade Ideas

ECB easing vs FED Tapering

The probability of a decoupling between the Eurozone and the US has increased again in 2013 and is unlikely to abate in 2014, especially as we are likely to experience FED's tapering versus further ECB easing[4]. Looking through weekly volatility, we maintain our forecast for Bunds at 1.80% and Treasuries at 3.25% at the end of this year.

ECB's forward guidance likely to anchor front-end, but what about 5s and 10s?

In the event of a fast UST sell-off, we expect the ECB to retain control over the front-end of the curve, but cannot exclude a period of bearish US/EU 10y spread widening. It's unclear at this stage to what extent Mr Draghi's "enhanced" forward guidance will be enough to stabilize also the 5y point, which has proven very directional during last summer's sell-off.

We like two trade ideas to play the scenario discussed above:

- Receive EUR 2y1y vs pay USD 2y1y (entered on 5 Dec-13 @45bp, live 82bp)
- Germany 2/10s steepeners (entered 22 Jan-14 @157bp, live 153bp)

[4] Not just in terms of standard rate cuts, but potentially also in the form of balance sheet expansion via non-standard measures.

Vol: EUR 10s30s Floor vs USD 10s30s Cap

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Curve roll down still attractive on EUR and USD long-end

EUR 10s30s is currently hovering around 62bp whereas USD 10s30s is at 80bp. Currently the risk scenario for significantly flatter long-end of the curves is a tapering lead selloff of the 10 year sector in USD. Given that change in USD monetary policy has been priced in, a sharp acceleration in the rate of tapering would be required for pronounced 10s30s tightening. At the same time we reason that going forward pension DB deleverage steepening pressure is likely to be a more important driver on the EUR curve. Accordingly, given RV considerations in vol space as outlined below, we suggest investors enter the trade exhibited in Figure 13 for EUR 11.44k (offer on USD cap is 22.5 cents, bid on EUR floor is 21.5 cents with USDEUR @ 0.74).

Figure 13. Short EUR 10s30s Floor vs USD Cap

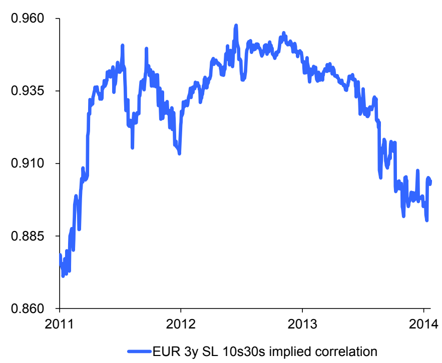
Sell	EUR	100mn	3y	0.14%	SL 10s30s Floor
Buy	USD	136mn	3y	0.22%	SL 10s30s Cap

Source: Citi Research

EUR 10s30s options looking expensive vs USD

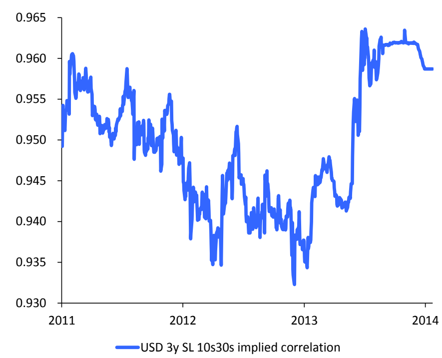
We point out that at the long-end EUR and USD implied correlations have gradually decoupled over the past year to attractive levels. To illustrate the point Figure 14 and Figure 15 show the evolution of correlation of 3 year maturity single look ATMF 10s30s spread options for the EUR and USD curves respectively.

Figure 14. Implied correlation for EUR 3y SL ATMF 10s30s options



Source: Citi Research

Figure 15. Implied correlation for USD 3y SL ATMF 10s30s options



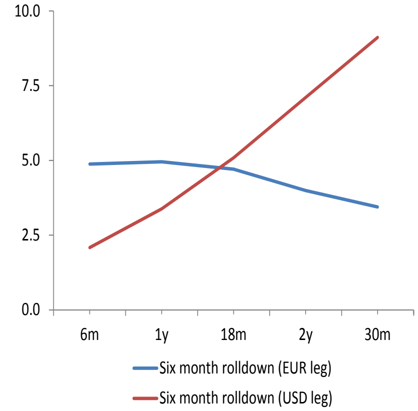
Source: Citi Research

As a result, the implied spread vol differential between USD and EUR has sunk to negative territory (Figure 16). After having traded below -8bp last November it has gradually mean reverted since then. In relative terms EUR floors (caps) still look expensive vs USD caps (floors).

Figure 16. USD/EUR 3y SL ATMF 10s30s implied spread vol differential

Source: Citi Research

Figure 17. Six month roll down over the first two and half years of the trade



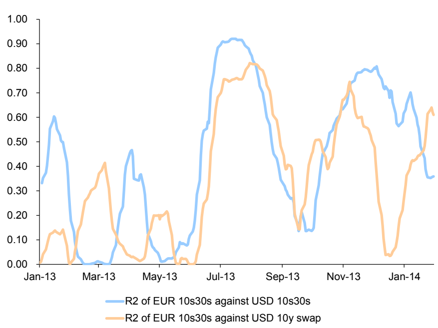
Source: Citi Research

Moreover, the roll down of the trade is positive on both the EUR and the US leg (Figure 17).

Risks to the trade

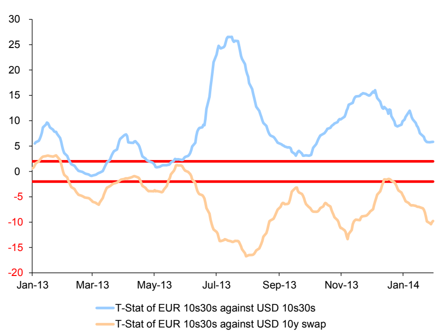
We mentioned above the risk to the trade in the scenario of a massive sell-off lead by the USD 10 year sector. In Figure 18 and Figure 19 we analyse the relationship between the EUR and the USD long-end as well as the time varying influence of the USD belly on EUR 10s30s. Admittedly, USD rates still appear to be an important driver of the long-end of the EUR curve. In our view, the relationship should weaken in the medium term in the base line scenario of ALM driven bear steepening pressures at the long-end of the EUR curve.

Figure 18. R2 of EUR 10s30s against USD 10s30s and USD 10y swap (63d)



Source: Citi Research

Figure 19. T-Stats of EUR 10s30s against USD 10s30s and USD 10y swap (63d)



Source: Citi Research

UK Rates – time to de-couple from the US?

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Citi expects the MPC to hike rates in Q4 of this year, the ECB to cut rates in Q2 and the Fed to be on hold until H2 2015. Such divergence in the policy rate outlook points to further de-coupling among the major bond markets. From a UK perspective, we maintain our long-standing view that gilts will significantly underperform Bunds – our latest yield forecasts target a spread of 180bp for 10yr gilt-Bunds by Q4 of this year (currently 102bp). However, our focus this week is on gilt-Treasury spreads. Previously, we have assumed that 10yr gilts will remain locked in a tight trading range vs Treasuries, as has been the case for the last four months. We now expect 10yr gilts to underperform by around 20bp over the next six months or so. The greatest divergence, however, is likely to be in the front-end.

MPC rate hikes – 'earlier and quicker' vs 'later and slower'

Expectations for the first hike are skewed towards later rather than earlier

Judging by OIS forwards, the market is pricing in the first rate hike from the MPC in 1Q15. This is also the most popular choice among economists surveyed by Reuters (on 23 January, after the jobless report/MPC minutes but before Davos). Interestingly, the survey also shows a skew in the distribution of the forecasts towards the first hike being later rather than earlier (Figure 20). It seems that there is a reluctance to forecast the first hike this year. In contrast, Citi expect the first hike in 4Q14 (November).

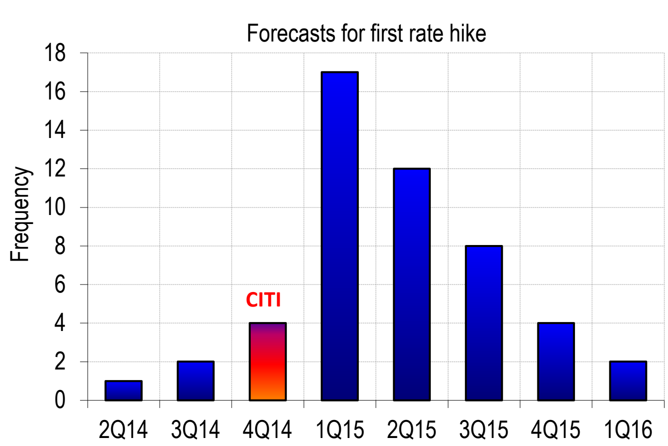
What does "gradual" mean?

Once the hiking cycle begins, our economists expect the pace of the hiking cycle to be similar to previous MPC hiking cycles (Figure 21). This translates to around 100bp within 3 quarters. In total, we expect the upcoming hiking cycle to add 150bp, with the MPC pausing at 2% (zero real rates) in late-2015. So in our base case, "gradual" means stopping short of neutral policy rates. The market's interruption of "gradual" appears to be different. As Figure 21 shows, OIS forwards are pricing a slower-than-average pace of hikes with it taking 4 quarters to add 100bp.

Our economists expect the hiking cycle to start earlier and be quicker than the market's pricing which is later and slower

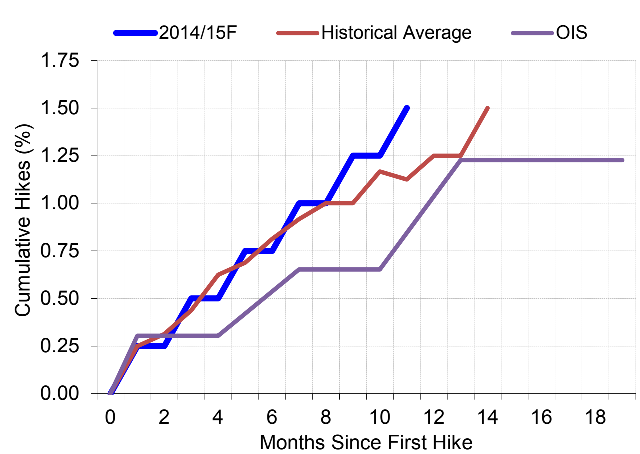
In a nutshell, our economists expect the hiking cycle to start earlier and be quicker than the market's pricing which is later and slower. Next week's MPC meeting and the crucial 12 February Inflation Report will provide further clues as to which scenario is more likely. Much will depend on how the MPC update guidance and their expectations for business investment and wage growth. Even if the market is right and the hikes do start later, we are not convinced that they will be as "gradual" as currently implied. As our economists have highlighted, this seems inconsistent with the MPC's views on growth, spare capacity and policy neutrality (see *UK Economics Weekly*, 24 January)

Figure 20. Distribution of forecasts for the first rate hike



Source: Citi Research, Reuters.

Figure 21. Pace of the hiking cycle: forecasts vs forwards vs history



Source: Citi Research

Front-end divergence vs the US

2yr gilts typically yield 100bp above the prevailing policy rate at the time of the first hike

We expect 2yr gilt yields to drift higher over the coming quarters as the first hike nears. The experience of previous hiking cycles shows that 2yr gilts tend to yield around 100bp more than the prevailing policy rate at the time of the first hike (see *Beware the front-end!*). This suggests that 2yr gilt yields could rise to around 1.50% over the course of this year from 0.51% currently.

The Fed have successfully managed to separate rate hike expectations from tapering

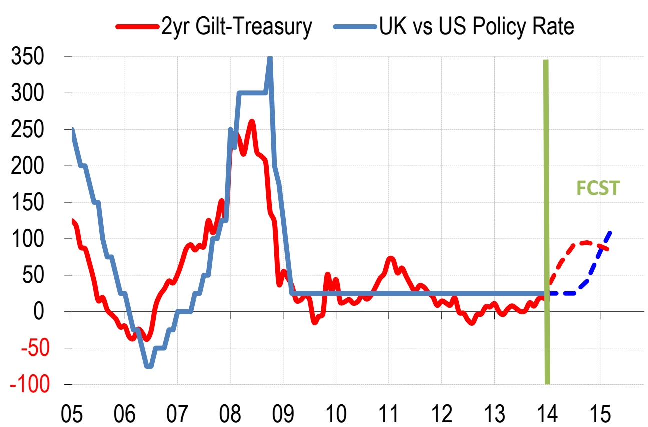
In contrast, the front-end of the US is likely to remain anchored by stable policy rates. At the current trajectory, tapering is not due to end until late this year and the Fed has said that policy will remain highly accommodative until a “considerable time” after the asset purchase program ends. We expect the Fed to hike in 3Q15, three quarters later than the MPC.

The market is already pricing in earlier hikes from the MPC than the Fed, but we still believe there is an opportunity, especially in selling 2yr gilts vs Treasuries.

We expect MPC language and data to support our view that rate hikes will be earlier and quicker than current market pricing

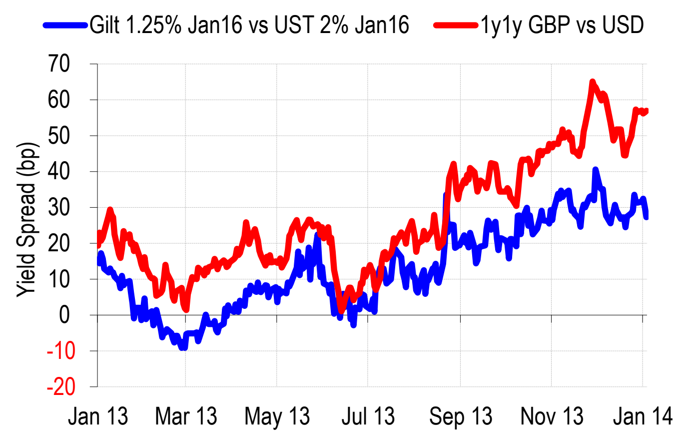
- First, as argued above, we expect the MPC to hike earlier and more quickly than market pricing. If this view finds support in the coming weeks - from MPC language, or data outcomes - we would expect 2yr gilt yields to move higher. As Figure 22 illustrates, our relative forecasts for policy rates and 2yr yields suggest that the 2yr gilt-Treasury spread could rise to around 90bp ahead of the anticipated divergence in policy rates.

Figure 22. History & forecasts for 2yr gilt-UST & UK-US policy rates



Source: Citi Research, Bloomberg.

Figure 23. 2yr gilt-UST is lagging the widening in 1y1y GBP



Source: Citi Research, Bloomberg.

The 2yr gilt-UST spread is lagging in the front-end re-pricing

- Second, the spread between 2yr gilts and Treasuries appears to be lagging the re-pricing in relative policy rate expectations. As Figure 23 shows, while the 2yr gilt-Treasury spread has widened, it is around 30bp tighter than the spread between 1y1y GBP and USD swaps.

Our forecasts diverge significantly from the forwards

- Third, the forwards imply a slight tightening in the spread vs our forecasts for sharp widening (Figure 24).

GBP-USD long-end box opportunity

In contrast to the front-end, we expect 30yr gilts to outperform Treasuries

Figure 24 below shows the projected move in gilt-Treasury spreads across the curve according to our yield forecasts. It also compares them with the implied forwards, which project a continuation of the tight yield spread between gilts and Treasuries. The sharp widening forecast in the front-end stands out, but it is also noticeable that we expect 30yr gilts to *outperform* Treasuries.

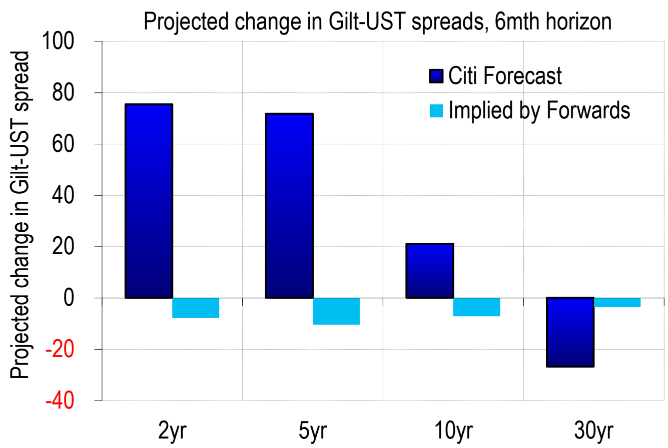
The long-end of the UK is likely to be supported by LDI demand while the long-end of the US faces an increasing supply burden as QE winds down

This is partly a reflection of the sharp flattening we expect in the 10s30s gilt curve on the back of a bearish yield environment (this curve is very directional) and the likely strength of LDI demand for 30yr+ gilts as pension funds continue to de-risk and lock-in their improving deficit positions. On the US side, 30yr Treasuries face a large supply burden which is likely to be increasingly exposed as QE draws to an end.

Trade ideas: box 10s30s flatteners in the UK vs US; or sell 30yr Treasuries vs gilts; or receive 15y15y GBP vs USD

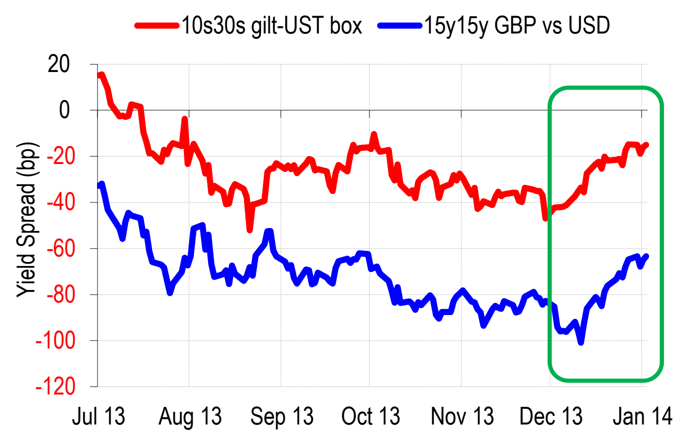
In terms of trades, this suggest boxing 10s30s flatteners in the UK with steepeners in the US; or simply selling 30yr Treasuries vs gilts; or expressing in forwards such as receive 15y15y GBP vs USD. Following the recent strong performance of 30yr Treasuries (thought to have been driven by pension fund demand) and the poor performance of 30yr gilts (as the market digests the IL68 syndication), there is a tactical opportunity to enter such trades - Figure 25.

Figure 24. Projected change in gilt-UST spreads, forecasts vs forwards



Source: Citi Research, Bloomberg.

Figure 25. Tactical opportunity to receive 15y15y GBP vs USD



Source: Citi Research, Bloomberg.

Trade summary and risks to the view

Receive 15y15y GBP vs USD

The outlook presented above suggests a longer-term strategy of selling 2yr gilts vs Treasuries. At the other end of the curve, we prefer to be long 30yr gilts vs Treasuries in some form, either as a simple cross-market spread, as a 10s30s box or using 15y15y swaps (see trade recommendation below).

The February Inflation Report, positioning and EM stress all present near-term risks to our core views

For the front-end, the risk to our view is that the MPC's new guidance supports later and more gradual rate hikes; although we are not convinced this is credible. Another risk, for the cross-market spread, is that the market begins to bring forward US rate hikes or just closes the gap between the MPC and the Fed. Positioning is likely to be another factor, especially in the current, volatile environment of EM stress.

New trade: Receive 15y15y GBP vs USD.

Open -63bp, target -100bp, stop -40bp. Flat carry.

Analysing the impact of USTs on Bund 2s10s

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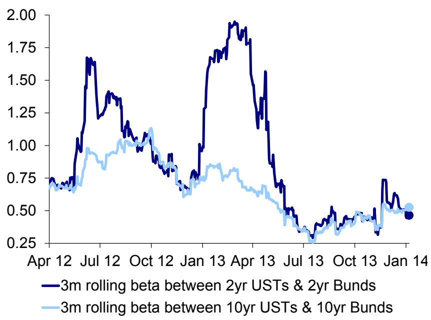
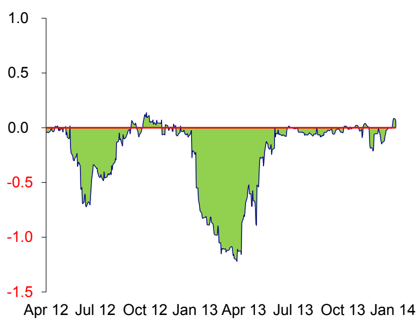
Figure 26. 3m rolling beta of 2yr bunds to 2yr USTs and 10yr Bunds to 10yr USTs



Source: Citi Research

Figure 27. Beta of 10s less beta of 2s



Source: Citi Research

<u>Please note:</u> In order to minimize the impact of benchmark rolls we have used a fitted bond curve for our beta analysis. The levels used for Bund 2s10s in our scenario analysis refer to Schatz Dec15 and Bund Aug23. This ensures a fair comparison with our latest yield forecasts that were published before yesterday's new 10yr Bund.

Current level of betas: close to historical lows

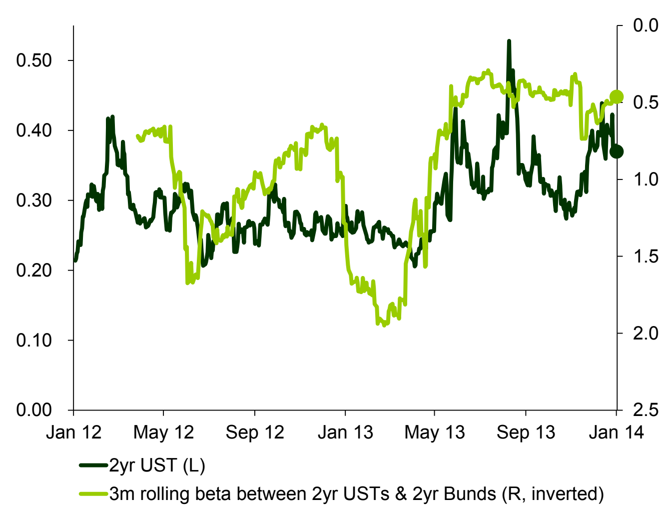
Examining the current level of betas between UST and Bunds in the 2yr and 10yr sectors highlights a number of interesting observations:

- The current level of betas (using daily changes over a 3month period) for both the 2yr and 10yr points are close to their lowest levels in the last year (Figure 26).
- The beta for the 2yr point is 0.47 which is slightly lower than the 10yr beta of 0.53 (Figure 27). Previously, the beta of 2yr Bunds to USTs has been much higher than the 10yr beta (Figure 27).

Betas vs yields: a clear illustration of decoupling

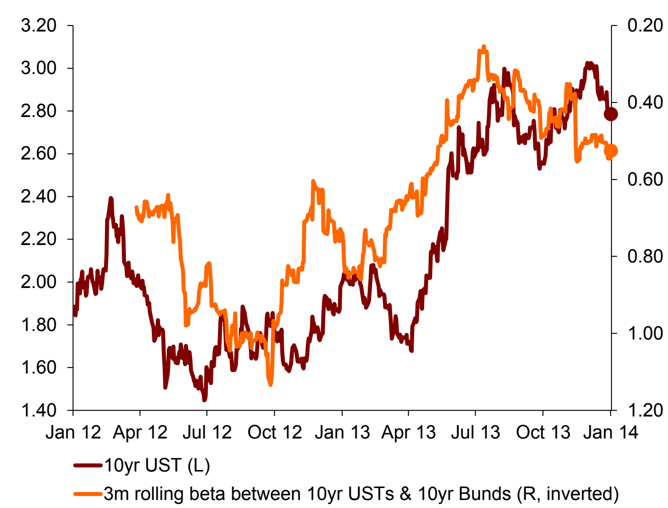
- **2yr point:** The beta of 2yr Bunds to USTs was relatively stable in 2H13 (an environment which saw large moves in 2yr USTs) - Figure 28. Interestingly as front-end USTs moved higher between May 2013 and September 2013 the beta of yield changes fell sharply but in the rally since September 2013 the beta has been low and (fairly) stable. Effectively this shows that the beta of 2yr Bunds to 2yr USTs can stay low despite UST yields moving higher.
- **10yr point:** Comparing the beta level of 10yr Bunds vs USTs relative to the level of 10yr UST yields shows that (generally) over the last year the yield betas has declined as UST yields have risen (Figure 29). Effectively this highlights that 10yr Bunds have (and can) decouple from UST yields.

Figure 28. 2yr UST yields vs 3m rolling beta of 2yr Bunds to 2yr UST



Source: Citi Research

Figure 29. 10yr UST yields vs 3m rolling beta of 10yr Bunds to 10yr UST



Source: Citi Research

Outlook for betas: expect the 2yr beta to be lower than 10yr beta

- Based on Citi's expectation of further ECB rate cuts (both refi and deposit) we believe that the 2yr beta is likely to move much lower (and even enter negative territory). Thus, we expect 2yr Bund yields to decline as 2yr UST yields eventually move higher in the lead up to the first Fed hike.

- We expect the 10yr beta to move lower than current levels (0.5) and to reach the August lows of 0.3 (see section *Bunds: What if T-Notes Sell Off?* of this document for a write up).Overall, we expect the beta of the 2yr point to be much lower than the 10yr point.

Scenario analysis: identifying two scenarios (ECB rate cut vs no cut)

- **Scenario 1:** ECB rate cut (0% refi rate and negative deposit rate – Citi's base case for ECB policy rates). No change in market expectations for Fed hikes
  - We would expect the beta of the 2yr point to be negative (around -0.1) and the beta of the 10yr point to be 0.3.

- **Scenario 2:** no ECB rate cut but ECB policy rates remain very low. No change in market expectations for Fed hikes
  - We would expect the beta of the 2yr point to be in the region of 0.2 and the 10yr point to have a beta of around 0.35.

Impact of higher UST yields to Bund 2s10s for different betas

- Below we input the beta levels discussed above to calculate the implied level of Bund 2s10s (Scenario 1 = Figure 30 and Scenario 2 = Figure 31).

- As can be seen in both examples below (where the beta of the 10yr point is greater than the 2yr point) we would expect Bund 2s10s to steepen. Furthermore, as discussed in last week's weekly other factors (that are not modeled below) are supportive for steepeners such as a reduction in front-end Bund issuance and the introduction of a fixed rate 1yr LTRO.

Figure 30. Scenario 1: Bund 2s10s steepens sharply from current levels

	Current	Yield shift			
2yr	+0	+20	+40	+60	+80
UST (Jan16)	0.35	0.55	0.75	0.95	1.15
Bund (Dec15)	0.10	0.08	0.06	0.04	0.02

	Current	Yield shift			
10yr	+0	+20	+40	+60	+80
UST (Nov23)	2.71	2.91	3.11	3.31	3.51
Bund (Aug23)	1.62	1.68	1.74	1.80	1.86

	Current	Yield shift			
Implied level	+0	+20	+40	+60	+80
Bund 2s10s	1.52	1.60	1.68	1.76	1.84

Source: Citi Research

Figure 31. Scenario 2: gradual steepening of Bund 2s10s

	Current	Yield shift			
2yr	+0	+20	+40	+60	+80
UST (Jan16)	0.35	0.55	0.75	0.95	1.15
Bund (Dec15)	0.10	0.14	0.18	0.22	0.26

	Current	Yield shift			
10yr	+0	+20	+40	+60	+80
UST (Nov23)	2.71	2.91	3.11	3.31	3.51
Bund (Aug23)	1.62	1.70	1.78	1.86	1.94

	Current	Yield shift			
Implied level	+0	+20	+40	+60	+80
Bund 2s10s	1.52	1.56	1.60	1.64	1.68

Source: Citi Research

Conclusion

We expect the beta of 2yr Bunds to 2yr USTs to be much lower than the beta of 10yr Bunds to 10yr USTs in coming quarters. Furthermore, based on our expectation of an ECB rate cut the beta of the 2yr point is likely to move into negative territory. Regardless of an ECB rate cut, we expect the impact of a rise in UST yields to put steepening pressure on Bund 2s10s. We continue to hold Bund 2s10s steepeners.

SSA Strategy – uncorrelated to UST rises?

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How much should investors be concerned about the prospect of rising US yields and the impact that might have on core European fixed income? We believe the fundamental link behind credit markets and yield levels is perhaps weaker than many might first believe. In our view, SSA spreads are much more related to guarantee structures, supply dynamics and asset quality (which is likely to remain healthy in an environment of economic recovery).

The case from the credit markets

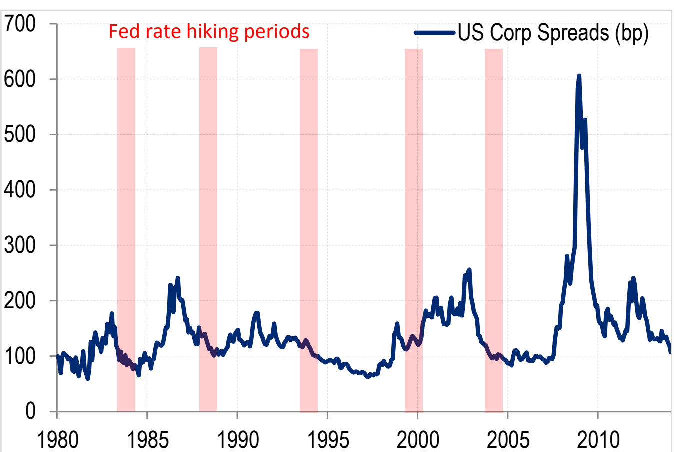
Corporate spreads have historically rallied in rate hiking cycles

In the context of the broader credit market, a rise in UST yields need not necessarily adversely affect spread levels. As Figure 32 shows, corporate credit spreads traditionally rally, not sell off, during periods of rate hikes. Of course, no two cycles are ever the same and it is very difficult to compare with today's environment given the vastly expanded array of policy options now invoked (such as "tapering" and forward guidance). Credit spreads have shown correlation to metrics like interest coverage levels and hence borrowing costs (of which core market yields are clearly a part) do come into the equation. However, at least historically, the credit spread component of the overall borrowing cost has been much more driven by measures of default risk and leverage. Drivers such as profit growth and debt growth are perhaps more important for spreads than the absolute level of interests rates.

Little correlation between European credit spreads and US Treasury yields

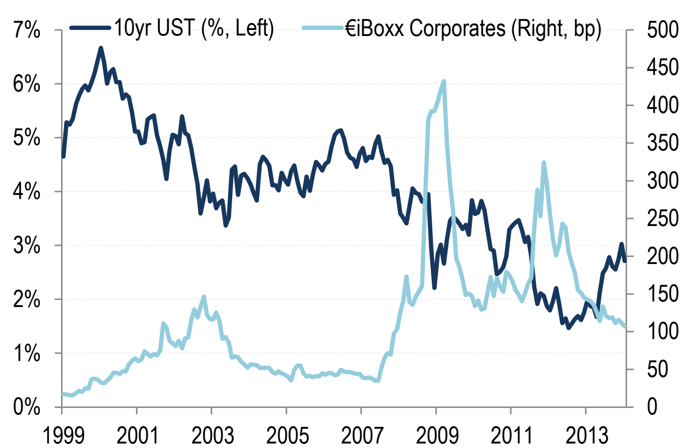
The beginning of rate hiking cycles is typically associated with rising growth prospects, and hence all things being equal, growing expectations of corporate profitability. For most investment grade credits (of which SSAs are clearly a part) with relatively comfortable interest coverage levels and balance sheet liquidity, there is therefore less sensitivity to steadily rising core bond yields, especially when accompanied by higher growth expectations. This helps explain why corporate credit spreads do not tend to exhibit much correlation to underlying moves in government yield levels (Figure 33).

Figure 32. US Broad Investment Grade Spreads to Treasuries (bp)



Source: Citi Research, Yield Book.

Figure 33. 10yr US Govt Bond Yield (%) and € iBoxx spread to Libor (bp)



Source: Citi Research, Yield Book, Bloomberg

Are SSA spreads affected from rising US yields?

Loose ECB policy and liquidity provision are still dominant drivers

This provides some context for assessing European SSA spreads. We believe the relationship between such spreads and the level of US yields is relatively weak – and weaker still in this *current* environment for various idiosyncratic reasons:

- Central bank liquidity remains much higher than at any point in recent history

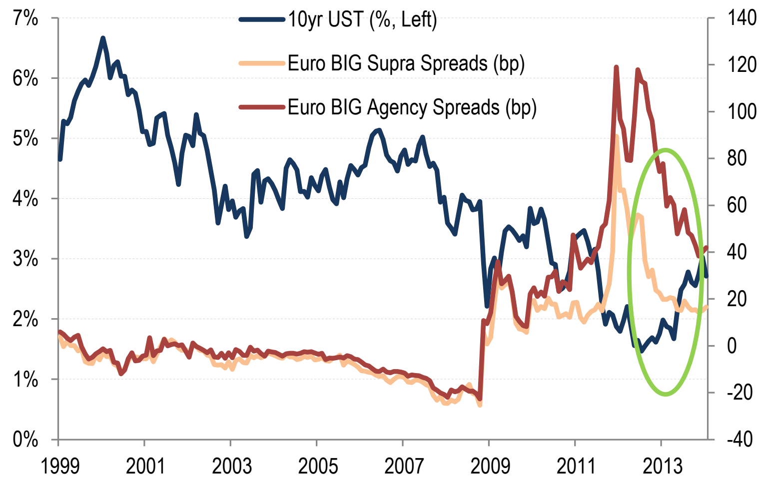
- Regulatory demand for high quality assets has increased over recent years

We already have evidence that rising US yields in the current cycle are not detrimental to SSA spreads

This different historical context is important and means that there are now other prominent drivers to keep spreads low that were not as pertinent in previous rounds of rising UST yields. Indeed, there is already evidence that of the weak correlation between UST yields and European SSA spreads. Over recent months, spreads have rallied and remained low during a period of 10yr UST yields moving from 2.5% to over 3% (Figure 34). We see little reason for this dynamic to change.

Furthermore, during the long period before the European debt crisis took in 2008, core European agency and supra spreads were benign for several years despite all the various gyrations in US rates (Figure 34).

Figure 34. 10yr UST yields and EuroBIG Agency and Supra spreads to swaps (bp)



Source: Citi Research, YieldBook.

Conclusion – the real drivers of spreads

European factors dominate for spreads, not Fed monetary policy in itself

We are tacitly assuming a beta of Bunds to Treasuries of 0.3 in our forecasts as our lead article makes clear (page9). This is lower than previous cycles and this beta relates to the underlying core German yield, not to the additional SSA spread where the relationship is likely to be even weak still. European SSA spreads have their own separate drivers which will continue to involve the following:

- Strength and nature of the underlying guarantee structure
- EMU sovereign credit quality
- SSA balance sheet liquidity
- Regulatory treatment of SSAs as high quality liquid assets
- Supply dynamics and the need to help fund economic recovery in EMU
- Demand structure and the influence of Asian accounts

Rising US yields that are symptomatic of a positive re-appraisal of wider growth prospects are not in themselves a negative for credit spreads. For the European SSA market in particular, we believe other drivers as listed above will be dominant and we continue to expect a largely range-bound spread environment in 2014.

Covered Bond Strategy

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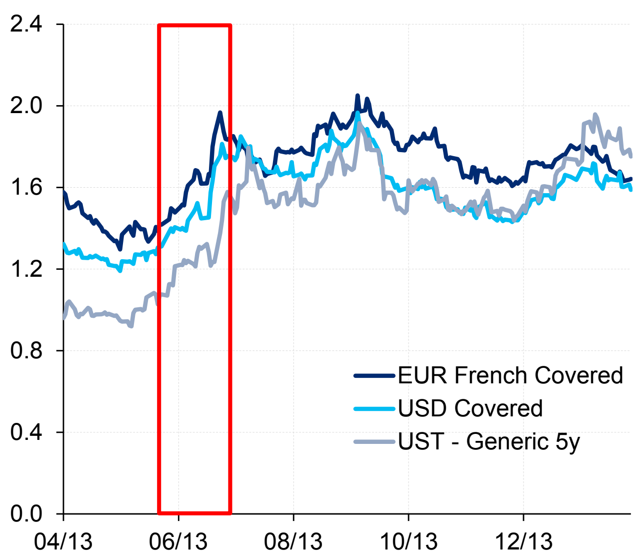
Will US government bond yields moving higher affect spread products like covered bonds? We don't think so. Instead, ECB policy and regulatory developments will continue to be the main drivers for covered bonds.

Covered Bonds – keeping calm and staying tight?

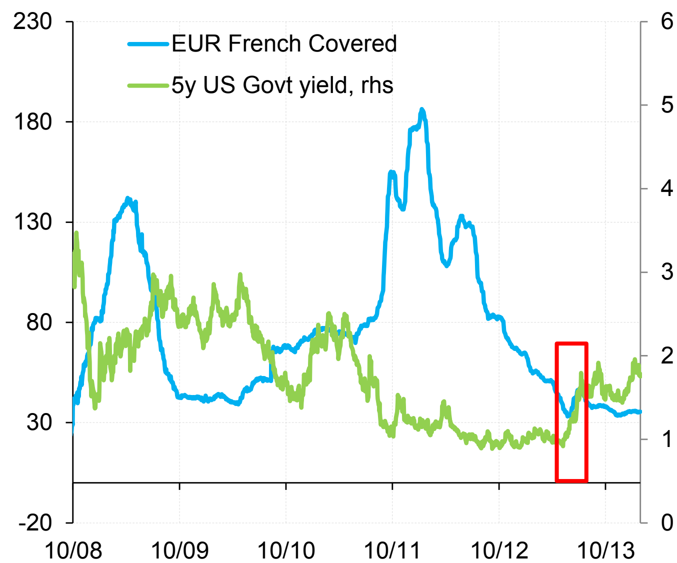
Since the beginning of the year, US Treasuries have been rallying given the general turmoil in EM FX markets, bringing 10y yields again back to the 3% range. This move is in contrast to the pattern recorded since mid-2012 where there was a substantial sell-off during the tapering announcements in June 2013. Even covered bond investors will remember this period when low-beta and high-beta covered bond spreads to swaps widened. But where has this come from? Was the spread-widening in covered bonds driven by higher yields in US Treasuries or by the announcement of reduced monetary easing by the Fed or even something else?

Figure 35. Yield development of 5yr UST and index yield development of the EUR French covered bond index and USD covered bond index, %



Source: Bloomberg, Markit, Citi Research; red rectangle: tapering announcement and the reaction

Figure 36. US govt bond yield (%) vs EUR French Covered Bond Index (bp)



Source: Bloomberg, Markit, Citi Research; red rectangle: tapering announcement and the reaction

Figure 37. Correlation calculations

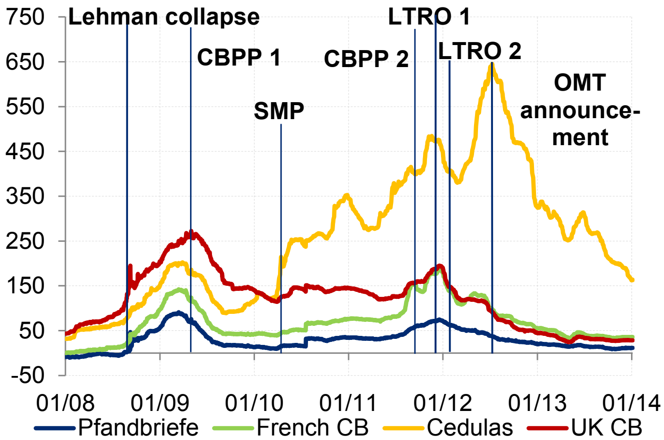
Class 1	Class 2	Period	R^2
Yield 5y UST	Yield EUR French CBs	1y	0.608
Yield 5y UST	Yield USD CBs	1y	0.883
Yield 5y UST	Yield EUR French CBs	5y	0.582
Yield 5y UST	Spread EUR French CBs	1y	-0.601

Source: Citi Research

We argue that covered bond spreads are not linked to US bond yields although yields between euro covered bonds and US government bonds can develop in a similar fashion. The left figure above shows the yield development of the generic 5y US government bond (we chose 5y given the duration of the covered bond indices), the French euro covered bond index and the general dollar covered bond index. The graph reflects what calculations prove: 1-year correlations between the asset classes are substantially positive, especially between dollar covered bonds and US government bonds and slightly weaker in the medium-term (1y) and long-term (5y) for the French euro covered bond index and US-Treasuries – see left.

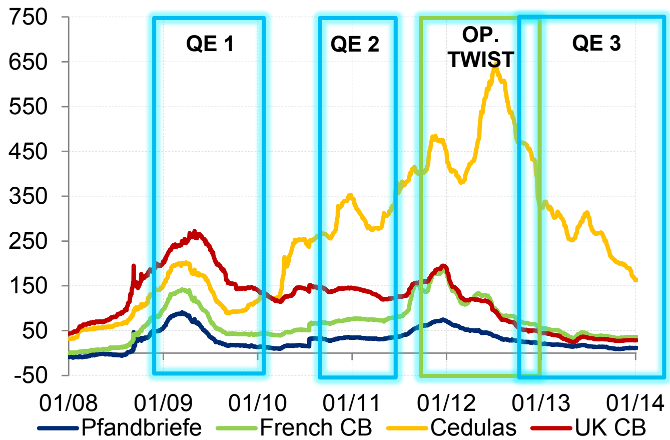
On the contrary, covered bond spreads and US government bond yields develop rather on the contrary (see left). The US government bond rally in 2010 and 2011 was accompanied by spread widening in covered bonds. Looking at the last eight months, US Treasuries in general sold off quite steadily. During this period, covered bonds were rallying constantly with the exception of spread widening in mid-June 2013. Since the beginning of the year, (semi-) core covered bonds have been range-trading while US government bonds have again become slightly richer.

Figure 38. Crisis reactions of the ECB and covered bond spreads, bp



Source: Citi Research; CBPP: Covered Bond Purchase Program

Figure 39. Crisis reactions of the FED and covered bond spreads, bp



Source: Citi Research

Conclusion

Covered bond spreads should not be affected by higher US government bond yields

We are not convinced that higher yields in the US government bond market will adversely disturb covered bond spreads. However, a more fundamental link to covered bond spreads is given by monetary policy actions and reactions. But even in this case, we argue that the scope reaction of covered bond spreads clearly depends on which central bank eases or tightens monetary policy. The ECB policy has been the main driver for covered bond spreads – not surprisingly as this asset class has been used as the policy transmission channel twice. In contrast, we can't see any clear pattern of covered bond markets being affected by monetary easing from the Fed. That being said, the first signs of monetary tightening by the US central bank led to a general re-pricing of risk and so of covered bonds as well. However, we think that the continuation of tapering will have a smaller impact on covered bond spreads than the initial announcement of reducing asset purchases by the Fed in June 2013. And that's why US government bonds can continue to yield higher – covered bond spreads should not be utterly impressed.

Recommendation

Overweighing low duration peripheral covered bonds should be attractive

If investors think that core covered bond yields will rise in sympathy with US government bond yields, it might make sense to overweight peripheral segments while getting a higher yield and lower duration at the same time. This can be attractive for such investors which track a covered bond index. This is made possible as the peripheral segments display a lower average duration than non-peripheral covered bond segments. In a simplified example, we show that a portfolio which is underweight selected core and semi-core segments with higher durations while being overweight the peripheral segments will reduce total duration by 0.3 years, increase overall yield by 0.2% and eventually lead to some excess return while also reducing overall delta risk.

Figure 40. Higher expected core yields and way out with overweighing peripheral covered bonds

	Bmk Weight	Active	New Weight	MV	Weighted MV	modD	Weighted modD	Yield	Weighted yield
Core segments	0.37	-0.25	0.28	320	240	3.9	2.9	1.2	0.9
Semi-core segments	0.33	-0.25	0.25	280	210	4.8	3.6	1.5	1.1
Peripheral segments	0.3	0.5	0.48	252	378	3.3	5.0	2.4	3.6
Total Portfolio	1	0	1	852	828	4.1	3.8	1.7	1.9

Source: Citi Research

Relative value trades

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We highlight a number of relative value opportunities in the 2-5yr sector of the French, Dutch, Austrian, Italian and gilt yield curves.

France: take advantage of cheapness of Oct20s

Buy Oct20s vs surrounding issues

- Buy 2.5% Oct20 vs 4.25% Apr19 and 3.25% Oct21 (3m carry: -0.4bp) - Figure 41

Netherlands: fade the richness of Jan17s

Sell Jan17s vs surrounding issues

- Sell 2.5% Jan17 vs 0% Apr16 and 4.5% Jul17 (3m carry: -0.9bp) - Figure 42.

Austria: fade the richness of Sep17s

Sell Sep17s vs surrounding issues

- Sell 4.3% Sep17 vs 3.2% Feb17 and 1.95% Jun19 (3m carry: 1bp) - Figure 43

Figure 41. France: 4.25% Apr19, 2.5% Oct20, 3.25% Oct21 microfly (bp)

Source: Citi Research

Figure 42. Netherlands: 0% Apr16, 2.5% Jan17, 4.5% Jul17 microfly (bp)

Source: Citi Research

Figure 43. Austria: 3.2% Feb17, 4.3% Sep17, 1.95% Jun19 microfly (bp)

Source: Citi Research

Italy: 4s5s steepener

Switch into Feb18s

- Switch from 4.25% Feb19 to 4.5% Feb18 at 26bp (3m carry: 2.4bp) - Figure 44.

UK: take advantage of cheapness of Mar18s

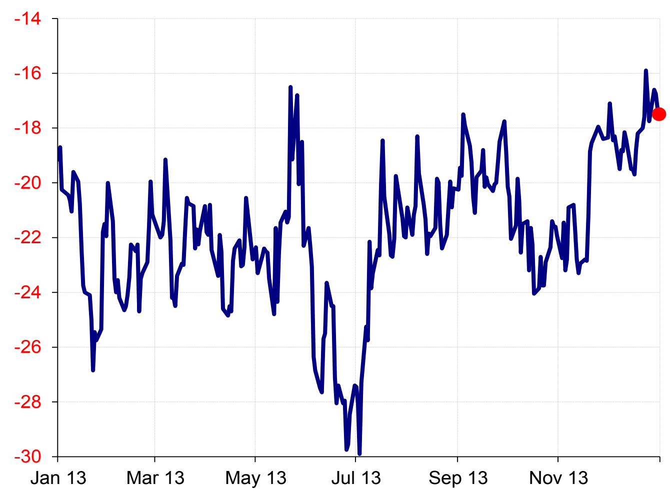
Buy Mar18s vs surrounding issues

- Buy 5% Mar18 vs 1.75% Jan17 and 4.75% Mar20 (3m carry: 3.8bp) - Figure 45.

Figure 44. Italy: 4.25% Feb19 – 4.5% Feb18 yield spread (bp)

Source: Citi Research

Figure 45. UK: 1.75% Jan17, 5% Mar18, 4.75% Mar20 microfly (bp)



Source: Citi Research

Relative value tables

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

For example, Figure 46 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 46. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	**1.00 Oct18**	**-1.78**	Sep13	17
	2	**0.25 Apr18**	**-1.63**	Apr13	17
	3	**3.75 Jan19 (OE)**	-1.33	Nov08	24
	4	**2.50 Jul44 (30y)**	-1.05	Apr12	16
	5	**0.50 Feb18**	-1.05	Jan13	17
	5	**6.25 Jan30**	**0.80**	Jan00	9
	4	**1.50 Sep22**	0.85	Sep12	18
	3	**4.25 Jul39 (UB)**	1.01	Jan07	14
	2	**2.75 Apr16**	1.04	Apr11	18
Cheapest	1	**5.50 Jan31**	1.17	Oct00	17

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	**1.00 Feb19 (5y)**	-1.42	Jan14	5
	2	**2.50 Jul44 (30y)**	-0.43	Apr12	16
	3	**4.00 Jan37**	-0.29	Jan05	23
	4	**2.00 Aug23 (10y)**	-0.28	Sep13	18
	5	**4.75 Jul34**	-0.24	Jan03	20
	5	**2.75 Apr16**	0.39	Apr11	18
	4	**1.25 Oct16**	0.39	Sep11	16
	3	**0.50 Oct17**	0.43	Sep12	16
	2	**3.00 Jul20**	0.47	Apr10	22
Cheapest	1	**3.25 Jan20**	0.50	Nov09	22

Source: Citi Research

Figure 47 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 48 and Figure 49) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 47 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

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

EMU relative value table – all maturities

Figure 47. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); All bonds on each curve

GERMANY

	Versus Govt Curve (CAS) Rank		ZScore	Issued	Size (€bn)		Versus Swap Curve (CAS) Rank		ZScore	Issued	Size (€bn)
Richest	1	1.00 Oct18	-1.78	Sep13	17	Richest	1	1.00 Feb19 (5y)	-1.42	Jan14	5
	2	0.25 Apr18	-1.63	Apr13	17		2	2.50 Jul44 (30y)	-0.43	Apr12	16
	3	3.75 Jan19 (OE)	-1.33	Nov08	24		3	4.00 Jan37	-0.29	Jan05	23
	4	2.50 Jul44 (30y)	-1.05	Apr12	16		4	2.00 Aug23 (10y)	-0.28	Sep13	18
	5	0.50 Feb18	-1.05	Jan13	17		5	4.75 Jul34	-0.24	Jan03	20
	5	6.25 Jan30	0.80	Jan00	9		5	2.75 Apr16	0.39	Apr11	18
	4	1.50 Sep22	0.85	Sep12	18		4	1.25 Oct16	0.39	Sep11	16
	3	4.25 Jul39 (UB)	1.01	Jan07	14		3	0.50 Oct17	0.43	Sep12	16
	2	2.75 Apr16	1.04	Apr11	18		2	3.00 Jul20	0.47	Apr10	22
Cheapest	1	5.50 Jan31	1.17	Oct00	17	Cheapest	1	3.25 Jan20	0.50	Nov09	22

FRANCE

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 May23	-2.70	May12	26	Richest	1	1.75 Feb17	-1.45	Feb11	20
	2	4.25 Oct23 (OAT)	-2.51	Oct06	33		2	5.00 Oct16	-1.25	Oct00	29
	3	2.25 Oct22	-1.82	Oct11	24		3	2.50 Jul16	-1.23	Jul10	26
	4	1.75 Feb17	-1.67	Feb11	20		4	3.75 Apr17	-1.09	Apr06	35
	5	3.75 Apr17	-1.62	Apr06	35		5	1.00 May19	-1.01	Jan14	5
	5	1.00 May18	0.89	May12	23		5	4.25 Apr19	0.77	Apr03	31
	4	3.25 May45 (30y)	0.93	May12	9		4	3.75 Apr21	0.78	Apr05	34
	3	2.75 Oct27	1.34	Oct11	18		3	2.25 May24 (10y)	1.01	Nov13	10
	2	2.50 Oct20	1.63	Oct09	35		2	3.50 Apr20	1.12	Feb10	36
Cheapest	1	2.25 May24 (10y)	1.72	Nov13	10	Cheapest	1	2.50 Oct20	1.22	Oct09	35

ITALY

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar19	-3.28	Sep08	24	Richest	1	4.50 Mar19	-1.40	Sep08	24
	2	4.25 Feb19 (5y)	-2.95	Feb03	25		2	4.25 Feb19 (5y)	-1.30	Feb03	25
	3	4.50 Mar24	-2.35	Aug13	19		3	4.25 Sep19	-1.22	Mar09	25
	4	3.50 Dec18 (MFB)	-1.74	Sep13	17		4	3.75 Apr16 (BTS)	-1.20	Apr11	16
	5	5.50 Nov22 (IK)	-1.28	May12	21		5	5.75 Feb33	-1.19	Feb02	15
	5	4.75 Sep16	1.79	Sep11	16		5	4.50 Mar26	-0.74	Sep10	21
	4	4.50 Feb18	1.84	Aug07	25		4	3.75 Aug21	-0.58	Feb06	28
	3	3.75 Aug16	2.09	Feb06	27		3	4.75 Aug23	-0.49	Feb08	25
	2	4.75 Aug23	2.11	Feb08	25		2	3.75 May21	-0.28	Oct13	8
Cheapest	1	3.50 Nov17	2.54	Nov12	17	Cheapest	1	1.50 Dec16	1.27	Jan14	5

N'LANDS

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-1.86	Jun11	16	Richest	1	0.50 Apr17	-0.97	Jan14	4
	2	1.75 Jul23 (10y)	-1.22	Mar13	16		2	2.50 Jan17	-0.97	Jun11	16
	3	0.50 Apr17	-0.96	Jan14	4		3	1.75 Jul23 (10y)	-0.34	Mar13	16
	4	3.75 Jan23	-0.91	Jan06	11		4	4.50 Jul17	-0.31	Jul07	15
	5	1.25 Jan19 (5y)	-0.88	Jun13	8		5	3.75 Jan42 (30y)	-0.30	May10	14
	5	2.50 Jan33	0.83	Mar12	10		5	4.00 Jul16	0.17	Jul06	14
	4	3.25 Jul21	1.08	Mar11	16		4	4.00 Jul18	0.21	Feb08	15
	3	4.00 Jul19	1.72	Feb09	14		3	3.25 Jul21	0.31	Mar11	16
	2	3.50 Jul20	1.73	Feb10	15		2	4.00 Jul19	0.53	Feb09	14
Cheapest	1	4.00 Jul16	1.95	Jul06	14	Cheapest	1	3.50 Jul20	0.60	Feb10	15

SPAIN

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.00 Apr20	-1.72	Jan10	20	Richest	1	4.00 Apr20	-1.49	Jan10	20
	2	3.15 Jan16	-1.65	Sep05	21		2	4.30 Oct19	-1.48	Jun09	19
	3	3.80 Jan17	-1.63	Oct06	21		3	3.30 Jul16	-1.47	Apr13	17
	4	4.30 Oct19	-1.04	Jun09	19		4	4.25 Oct16	-1.47	Sep11	21
	5	4.70 Jul41 (30y)	-0.62	Sep09	12		5	3.15 Jan16	-1.46	Sep05	21
	5	5.50 Jul17	1.75	Mar02	20		5	4.10 Jul18	-1.20	Feb08	19
	4	4.80 Jan24	1.97	Sep08	15		4	5.15 Oct44	-0.91	Oct13	4
	3	4.40 Oct23 (10y)	2.15	May13	18		3	2.10 Apr17	-0.70	Nov13	8
	2	4.50 Jan18	2.45	Nov12	19		2	3.80 Apr24	0.88	Jan14	10
Cheapest	1	4.10 Jul18	3.02	Feb08	19	Cheapest	1	2.75 Apr19	1.57	Jan14	4

BELGIUM

	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
Richest	1	4.25 Sep22	-2.77	Jan12	15	Richest	1	2.25 Jun23	-1.53	Jan13	14
	2	4.00 Mar32	-2.67	Mar12	8		2	4.25 Sep22	-1.51	Jan12	15
	3	4.50 Mar26	-2.31	Jun11	8		3	3.50 Jun17	-1.46	Mar11	13
	4	2.25 Jun23	-2.26	Jan13	14		4	4.00 Mar22	-1.43	May06	14
	5	3.50 Jun17	-1.58	Mar11	13		5	5.50 Sep17	-1.42	Jun02	8
	5	3.00 Sep19	0.68	Apr12	9		5	4.00 Mar18	-1.11	Jan08	12
	4	4.25 Sep21	1.01	Jan11	15		4	4.00 Mar19	-1.10	Jan09	11
	3	4.00 Mar18	1.73	Jan08	12		3	3.75 Jun45 (30y)	-1.07	Sep13	4
	2	2.75 Mar16	1.84	Mar10	10		2	2.75 Mar16	-0.17	Mar10	10
Cheapest	1	5.00 Mar35	1.88	May04	18	Cheapest	1	2.60 Jun24 (10y)	0.23	Jan14	5

Source: Citi Research

EMU relative value table – max 12yr maturity

Figure 48. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

Versus Govt Curve (CAS) / Versus Swap Curve (CAS)

GERMANY

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.00 Oct18	-1.76	Sep13	17	Richest	1	1.00 Feb19 (5y)	-1.41	Jan14	5
	2	0.25 Apr18	-1.63	Apr13	17		2	2.00 Aug23 (10y)	-0.28	Sep13	18
	3	3.75 Jan19 (OE)	-1.33	Nov08	24		3	1.00 Oct18	0.00	Sep13	17
	4	0.50 Feb18	-1.01	Jan13	17		4	1.50 Feb23 (RX)	0.11	Jan13	18
	5	0.50 Apr17	-1.00	Apr12	18		5	1.75 Jul22	0.14	Apr12	24
	5	3.25 Jan20	0.65	Nov09	22		5	2.75 Apr16	0.39	Apr11	18
	4	3.00 Jul20	0.66	Apr10	22		4	1.25 Oct16	0.39	Sep11	16
	3	2.00 Feb16	0.72	Jan11	16		3	0.50 Oct17	0.43	Sep12	16
	2	1.50 Sep22	0.86	Sep12	18		2	3.00 Jul20	0.47	Apr10	22
Cheapest	1	2.75 Apr16	1.06	Apr11	18	Cheapest	1	3.25 Jan20	0.50	Nov09	22

FRANCE

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.75 May23	-2.74	May12	26	Richest	1	1.75 Feb17	-1.45	Feb11	20
	2	4.25 Oct23 (OAT)	-2.53	Oct06	33		2	5.00 Oct16	-1.25	Oct00	29
	3	2.25 Oct22	-1.85	Oct11	24		3	2.50 Jul16	-1.23	Jul10	26
	4	1.75 Feb17	-1.67	Feb11	20		4	3.75 Apr17	-1.09	Apr06	35
	5	3.75 Apr17	-1.62	Apr06	35		5	1.00 May19	-1.01	Jan14	5
	5	3.50 Apr20	0.58	Feb10	36		5	4.25 Apr19	0.77	Apr03	31
	4	3.25 Apr16	0.76	Apr05	35		4	3.75 Apr21	0.77	Apr05	34
	3	1.00 May18	0.88	May12	23		3	2.25 May24 (10y)	1.00	Nov13	10
	2	2.50 Oct20	1.60	Oct09	35		2	3.50 Apr20	1.12	Feb10	36
Cheapest	1	2.25 May24 (10y)	1.66	Nov13	10	Cheapest	1	2.50 Oct20	1.22	Oct09	35

ITALY

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar19	-3.28	Sep08	24	Richest	1	4.50 Mar19	-1.40	Sep08	24
	2	4.25 Feb19 (5y)	-2.96	Feb03	25		2	4.25 Feb19 (5y)	-1.30	Feb03	25
	3	4.50 Mar24	-2.36	Aug13	19		3	4.25 Sep19	-1.22	Mar09	25
	4	3.50 Dec18 (MFB)	-1.75	Sep13	17		4	3.75 Apr16 (BTS)	-1.20	Apr11	16
	5	5.50 Nov22 (IK)	-1.28	May12	21		5	4.50 Feb20	-1.18	Feb04	23
	5	4.75 Sep16	1.79	Sep11	16		5	4.50 May23 (10y)	-0.80	Mar13	18
	4	4.50 Feb18	1.83	Aug07	25		4	3.75 Aug21	-0.58	Feb06	28
	3	3.75 Aug16	2.09	Feb06	27		3	4.75 Aug23	-0.49	Feb08	25
	2	4.75 Aug23	2.11	Feb08	25		2	3.75 May21	-0.28	Oct13	8
Cheapest	1	3.50 Nov17	2.52	Nov12	17	Cheapest	1	1.50 Dec16	1.27	Jan14	5

N'LANDS

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-1.86	Jun11	16	Richest	1	0.50 Apr17	-0.97	Jan14	4
	2	1.75 Jul23 (10y)	-1.21	Mar13	16		2	2.50 Jan17	-0.97	Jun11	16
	3	0.50 Apr17	-0.96	Jan14	4		3	1.75 Jul23 (10y)	-0.34	Mar13	16
	4	3.75 Jan23	-0.91	Jan06	11		4	4.50 Jul17	-0.31	Jul07	15
	5	1.25 Jan19 (5y)	-0.87	Jun13	8		5	0.00 Apr16	-0.21	Jan13	15
	5	0.00 Apr16	0.57	Jan13	15		5	4.00 Jul16	0.17	Jul06	14
	4	3.25 Jul21	1.08	Mar11	16		4	4.00 Jul18	0.21	Feb08	15
	3	4.00 Jul19	1.72	Feb09	14		3	3.25 Jul21	0.31	Mar11	16
	2	3.50 Jul20	1.73	Feb10	15		2	4.00 Jul19	0.53	Feb09	14
Cheapest	1	4.00 Jul16	1.95	Jul06	14	Cheapest	1	3.50 Jul20	0.60	Feb10	15

SPAIN

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Apr20	-1.71	Jan10	20	Richest	1	4.00 Apr20	-1.49	Jan10	20
	2	3.15 Jan16	-1.64	Sep05	21		2	4.30 Oct19	-1.48	Jun09	19
	3	3.80 Jan17	-1.61	Oct06	21		3	3.30 Jul16	-1.47	Apr13	17
	4	4.30 Oct19	-1.03	Jun09	19		4	4.25 Oct16	-1.47	Sep11	21
	5	4.25 Oct16	-0.41	Sep11	21		5	3.15 Jan16	-1.46	Sep05	21
	5	5.50 Jul17	1.77	Mar02	20		5	4.80 Jan24	-1.22	Sep08	15
	4	4.80 Jan24	1.97	Sep08	15		4	4.10 Jul18	-1.20	Feb08	19
	3	4.40 Oct23 (10y)	2.15	May13	18		3	2.10 Apr17	-0.70	Nov13	8
	2	4.50 Jan18	2.46	Nov12	19		2	3.80 Apr24	0.87	Jan14	10
Cheapest	1	4.10 Jul18	3.02	Feb08	19	Cheapest	1	2.75 Apr19	1.57	Jan14	4

BELGIUM

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Sep22	-2.83	Jan12	15	Richest	1	2.25 Jun23	-1.53	Jan13	14
	2	2.25 Jun23	-2.30	Jan13	14		2	4.25 Sep22	-1.51	Jan12	15
	3	3.50 Jun17	-1.59	Mar11	13		3	3.50 Jun17	-1.46	Mar11	13
	4	4.00 Mar22	-1.16	May06	14		4	4.00 Mar22	-1.43	May06	14
	5	5.50 Sep17	-1.10	Jun02	8		5	5.50 Sep17	-1.42	Jun02	8
	5	4.00 Mar19	0.28	Jan09	11		5	3.75 Sep20	-1.17	Jan10	18
	4	3.00 Sep19	0.63	Apr12	9		4	4.00 Mar18	-1.11	Jan08	12
	3	4.25 Sep21	0.91	Jan11	15		3	4.00 Mar19	-1.10	Jan09	11
	2	4.00 Mar18	1.71	Jan08	12		2	2.75 Mar16	-0.17	Mar10	10
Cheapest	1	2.75 Mar16	1.84	Mar10	10	Cheapest	1	2.60 Jun24 (10y)	0.23	Jan14	5

Source: Citi Research

EMU relative value table – min 8yr maturity

Figure 49. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

GERMANY

	Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44 (30y)	-1.01	Apr12	16	1	2.50 Jul44 (30y)	-0.43	Apr12	16
	2	1.50 Feb23 (RX)	-0.94	Jan13	18	2	4.00 Jan37	-0.29	Jan05	23
	3	1.75 Jul22	-0.92	Apr12	24	3	2.00 Aug23 (10y)	-0.28	Sep13	18
	4	2.00 Aug23 (10y)	-0.88	Sep13	18	4	4.75 Jul34	-0.24	Jan03	20
	5	1.50 May23	-0.18	May13	18	5	4.75 Jul40	-0.22	Jul08	16
	5	4.75 Jul40	0.75	Jul08	16	5	5.50 Jan31	0.05	Oct00	17
	4	6.25 Jan30	0.81	Jan00	9	4	1.50 Feb23 (RX)	0.11	Jan13	18
	3	1.50 Sep22	0.86	Sep12	18	3	1.75 Jul22	0.14	Apr12	24
	2	4.25 Jul39 (UB)	1.03	Jan07	14	2	1.50 May23	0.16	May13	18
Cheapest	1	5.50 Jan31	1.18	Oct00	17	1	1.50 Sep22	0.32	Sep12	18

FRANCE

	Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 May23	-2.74	May12	26	1	4.25 Oct23 (OAT)	-0.91	Oct06	33
	2	4.25 Oct23 (OAT)	-2.53	Oct06	33	2	4.50 Apr41	-0.88	Apr09	24
	3	2.25 Oct22	-1.85	Oct11	24	3	3.25 May45 (30y)	-0.83	May12	9
	4	3.00 Apr22	-1.39	Feb12	33	4	4.00 Apr55	-0.82	Apr04	15
	5	4.50 Apr41	-1.02	Apr09	24	5	4.00 Oct38	-0.80	Oct05	24
	5	5.75 Oct32	-0.71	Oct00	25	5	1.75 May23	-0.36	May12	26
	4	3.50 Apr26	-0.13	Apr10	30	4	3.00 Apr22	-0.07	Feb12	33
	3	3.25 May45 (30y)	0.90	May12	9	3	3.50 Apr26	0.22	Apr10	30
	2	2.75 Oct27	1.30	Oct11	18	2	2.75 Oct27	0.23	Oct11	18
Cheapest	1	2.25 May24 (10y)	1.66	Nov13	10	1	2.25 May24 (10y)	1.00	Nov13	10

ITALY

	Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.50 Mar24	-2.36	Aug13	19	1	5.75 Feb33	-1.19	Feb02	15
	2	5.50 Nov22 (IK)	-1.28	May12	21	2	5.00 Sep40	-1.14	Sep09	21
	3	5.50 Sep22	-1.21	Mar12	20	3	5.00 Aug34	-1.13	Aug03	21
	4	5.75 Feb33	-1.08	Feb02	15	4	5.00 Aug39	-1.11	Aug07	19
	5	4.75 Sep44 (30y)	-0.73	Mar13	9	5	4.75 Sep44 (30y)	-1.10	Mar13	9
	5	4.50 May23 (10y)	0.87	Mar13	18	5	5.00 Mar25	-0.84	Mar09	22
	4	5.00 Aug39	0.89	Aug07	19	4	4.75 Sep28	-0.81	Jan13	16
	3	4.00 Feb37	0.92	Aug05	25	3	4.50 May23 (10y)	-0.80	Mar13	18
	2	4.50 Mar26	0.99	Sep10	21	2	4.50 Mar26	-0.74	Sep10	21
Cheapest	1	4.75 Aug23	2.11	Feb08	25	1	4.75 Aug23	-0.49	Feb08	25

N'LANDS

	Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 Jul23 (10y)	-1.20	Mar13	16	1	1.75 Jul23 (10y)	-0.34	Mar13	16
	2	3.75 Jan23	-0.91	Jan06	11	2	3.75 Jan42 (30y)	-0.30	May10	14
	3	3.75 Jan42 (30y)	-0.65	May10	14	3	3.75 Jan23	-0.20	Jan06	11
	3	4.00 Jan37	-0.01	Apr05	14	3	4.00 Jan37	0.04	Apr05	14
	2	2.25 Jul22	0.52	Feb12	15	2	2.25 Jul22	0.04	Feb12	15
Cheapest	1	2.50 Jan33	0.85	Mar12	10	1	2.50 Jan33	0.08	Mar12	10

SPAIN

	Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.70 Jul41 (30y)	-0.62	Sep09	12	1	5.85 Jan22 (FBB)	-1.40	Nov11	19
	2	5.90 Jul26	-0.53	Mar11	12	2	5.15 Oct28	-1.38	Jul13	8
	3	5.15 Oct44	-0.40	Oct13	4	3	5.75 Jul32	-1.36	Jan01	15
	4	5.75 Jul32	0.24	Jan01	15	4	4.20 Jan37	-1.36	Jan05	16
	5	5.15 Oct28	0.48	Jul13	8	5	5.40 Jan23	-1.36	Jan13	17
	5	4.65 Jul25	0.65	Feb10	14	5	4.40 Oct23 (10y)	-1.28	May13	18
	4	5.40 Jan23	0.83	Jan13	17	4	4.65 Jul25	-1.27	Feb10	14
	3	3.80 Apr24	1.26	Jan14	10	3	4.80 Jan24	-1.22	Sep08	15
	2	4.80 Jan24	1.97	Sep08	15	2	5.15 Oct44	-0.91	Oct13	4
Cheapest	1	4.40 Oct23 (10y)	2.15	May13	18	1	3.80 Apr24	0.87	Jan14	10

BELGIUM

	Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.25 Sep22	-2.79	Jan12	15	1	2.25 Jun23	-1.52	Jan13	14
	2	4.00 Mar32	-2.66	Mar12	8	2	4.25 Sep22	-1.50	Jan12	15
	3	4.50 Mar26	-2.31	Jun11	8	3	4.00 Mar22	-1.43	May06	14
	4	2.25 Jun23	-2.28	Jan13	14	4	4.00 Mar32	-1.39	Mar12	8
	4	4.25 Mar41	-0.56	Apr10	12	4	4.50 Mar26	-1.30	Jun11	8
	3	3.75 Jun45 (30y)	-0.16	Sep13	4	3	5.00 Mar35	-1.29	May04	18
	2	2.60 Jun24 (10y)	0.12	Jan14	5	2	3.75 Jun45 (30y)	-1.07	Sep13	4
Cheapest	1	5.00 Mar35	1.88	May04	18	1	2.60 Jun24 (10y)	0.24	Jan14	5

Source: Citi Research

UK relative value table

Figure 50. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

ALL

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.00 Jan60	-3.32	Oct09	19
	2	3.25 Jan44 (30y)	-2.98	Oct12	24
	3	4.50 Sep34	-2.51	Jun09	26
	4	4.00 Mar22	-2.28	Feb09	37
	5	1.75 Sep22	-1.98	Jun12	28
	5	5.00 Mar18 (WX)	2.82	May07	34
	4	4.75 Dec30	2.90	Oct07	29
	3	3.50 Jul68	2.91	Jun13	10
	2	4.25 Dec40	3.17	Jun10	24
Cheapest	1	4.50 Dec42	3.33	Jun07	26

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 Jul19	-2.33	Nov13	9
	2	1.75 Jan17	-2.30	Aug11	27
	3	1.00 Sep17	-1.95	Mar12	31
	4	2.25 Sep23 (10y)	-1.90	Jun13	24
	5	1.25 Jul18 (5y)	-1.88	Feb13	34
	5	4.25 Dec40	0.88	Jun10	24
	4	4.25 Mar36	0.89	Feb03	26
	3	4.25 Sep39	0.89	Mar09	19
	2	4.75 Dec38	1.01	Apr04	25
Cheapest	1	2.25 Mar14	1.02	Mar09	35

2yr - 7yr

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.25 Jul18 (5y)	-0.92	Feb13	34
	2	1.75 Jul19	-0.70	Nov13	9
	3	1.75 Jan17	0.30	Aug11	27
	4	4.50 Mar19	0.39	Sep08	35
	5	4.00 Sep16	0.50	Mar06	35
	5	3.75 Sep19	0.77	Jul09	28
	4	3.75 Sep20	0.96	Jun10	24
	3	4.75 Mar20	1.01	Mar05	33
	2	1.00 Sep17	2.36	Mar12	31
Cheapest	1	5.00 Mar18 (WX)	2.84	May07	34

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 Jul19	-2.33	Nov13	9
	2	1.75 Jan17	-2.29	Aug11	27
	3	1.00 Sep17	-1.95	Mar12	31
	4	1.25 Jul18 (5y)	-1.88	Feb13	34
	5	4.00 Sep16	-1.81	Mar06	35
	5	5.00 Mar18 (WX)	-1.50	May07	34
	4	4.50 Mar19	-0.58	Sep08	35
	3	3.75 Sep19	-0.06	Jul09	28
	2	3.75 Sep20	0.25	Jun10	24
Cheapest	1	4.75 Mar20	0.25	Mar05	33

7yr - 15yr

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.00 Mar22	-2.27	Feb09	37
	2	1.75 Sep22	-1.96	Jun12	28
	3	3.75 Sep21	-1.05	Mar11	28
	4				
	5				
	5				
	4				
	3	5.00 Mar25 (G)	-0.07	Sep01	34
	2	4.25 Dec27	0.68	Sep06	29
Cheapest	1	2.25 Sep23 (10y)	1.04	Jun13	24

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.25 Sep23 (10y)	-1.90	Jun13	24
	2	1.75 Sep22	-1.57	Jun12	28
	3	5.00 Mar25 (G)	-1.20	Sep01	34
	4				
	5				
	5				
	4				
	3	4.00 Mar22	-1.15	Feb09	37
	2	4.25 Dec27	-0.71	Sep06	29
Cheapest	1	3.75 Sep21	-0.57	Mar11	28

>15yr

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.00 Jan60	-3.27	Oct09	19
	2	3.25 Jan44 (30y)	-2.91	Oct12	24
	3	4.50 Sep34	-2.49	Jun09	26
	4	4.25 Dec55	-0.61	May05	23
	5	4.25 Dec49	0.14	Sep08	19
	5	3.75 Jul52	2.00	Sep11	20
	4	4.75 Dec30	2.92	Oct07	29
	3	4.25 Dec40	3.22	Jun10	24
	2	4.50 Dec42	3.36	Jun07	26
Cheapest	1	3.50 Jul68	3.36	Jun13	10

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.50 Jul68	-0.79	Jun13	10
	2	4.00 Jan60	-0.46	Oct09	19
	3	4.25 Dec49	-0.21	Sep08	19
	4	4.25 Dec55	-0.18	May05	23
	5	3.25 Jan44 (30y)	-0.07	Oct12	24
	5	4.50 Dec42	0.72	Jun07	26
	4	4.25 Dec40	0.88	Jun10	24
	3	4.25 Mar36	0.89	Feb03	26
	2	4.25 Sep39	0.89	Mar09	19
Cheapest	1	4.75 Dec38	1.02	Apr04	25

Source: Citi Research

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

Supply
Mohit Aggarwal
Nishay Patel

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

Figure 51. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
04 Feb (Tue)	Austria	1.2	RAGB 1.15% Oct18 and 3.8% Jan62 (issue confirmed, size €1.21)				14k
04 Feb (Tue)	UK	4.0	1.75% Treasury Gilt 2019 (issue and size confirmed)			21k	
05 Feb (Wed)	Germany	4.0	Bobl Feb19 re-opening (issue and size confirmed)				16k
06 Feb (Thu)	France	8.5	OAT 5yr, 10yr and 15yr (estimated tenors and size)				70k
06 Feb (Thu)	Spain	5.5	Bono/Obligaciones 2yr, 5yr and 15yr (estimated tenors and size)				22k
			Weekly $DV01 of Issuance	**23.6**			
			Total Number of Futures Contracts		**0k**	**21k**	**123k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
11 Feb (Tue)	Germany	1.0	Boblei/Bundei (estimated size)				8k
11 Feb (Tue)	Netherlands	2.5	DSL 1.25% Jan19 re-opening (issue confirmed, estimated size)				10k
11 Feb (Tue)	UK	1.4	01/8% Index-linked Treasury Gilt 2024 (issue confirmed, estimated size)			16k	
11 Feb (Tue)	US	30.0	3-year		95k		
12 Feb (Wed)	Germany	5.0	New Schatz Mar16 (issue and size confirmed)				8k
12 Feb (Wed)	US	24.0	10-year		259k		
13 Feb (Thu)	Italy	7.3	BTP 3yr, 7yr and 30yr (estimated tenor and size)				49k
13 Feb (Thu)	UK	2.0	3¾% Treasury Gilt 2052 (issue confirmed, estimated size)			43k	
13 Feb (Thu)	US	16.0	30-year		355k		
			Weekly $DV01 of Issuance	**77.5**			
			Total Number of Futures Contracts		**708k**	**59k**	**75k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
17 Feb (Mon)	Belgium	4.0	We believe the auction will be cancelled and a 5yr syndication will be conducted in February. Should the auction be conducted, we would expect it to be around €3bn.				16k
17 Feb (Mon)	UK	1.6	Mini-tender (estimated issue)			4k	
18 Feb (Tue)	Netherlands	4.0	New DSL Jan47 (issue confirmed, min €3bn)				80k
19 Feb (Wed)	Germany	5.0	Bund Feb24 re-opening (issue and size confirmed)				38k
20 Feb (Thu)	France	9.7	OAT 2yr and 5yr, index-linked OAT (estimated tenors and size)				39k
20 Feb (Thu)	Spain	5.8	Bono/Obligaciones 2yr, 5yr and 10yr (estimated tenors and size)				31k
20 Feb (Thu)	UK	3.4	2¼% Treasury Gilt 2023 (issue confirmed, estimated size)			29k	
20 Feb (Thu)	US	9.0	30-year TIPS		104k		
			Weekly $DV01 of Issuance	**46.8**			
			Total Number of Futures Contracts		**104k**	**33k**	**204k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYH4 (UST)	G H4 (Gilt)	RXH4 (Bund)
25 Feb (Tue)	Italy	3.5	CTZ (estimated size)				6k
25 Feb (Tue)	Italy	1.2	BTPei (estimated size)				9k
25 Feb (Tue)	US	32.0	2-Year		101k		
26 Feb (Wed)	Germany	3.0	New Bund Aug46 (issue and size confirmed)				60k
26 Feb (Wed)	US	35.0	5-year		186k		
26 Feb (Wed)	US	10.0	2-Year FRN (re-opening)		32k		
27 Feb (Thu)	Italy	6.5	BTP 5yr and 10yr (estimated tenor and size)				33k
27 Feb (Thu)	Italy	1.8	CCTeu (estimated size)				7k
27 Feb (Thu)	US	29.0	7-year		221k		
			Weekly $DV01 of Issuance	**61.4**			
			Total Number of Futures Contracts		**540k**	**0k**	**115k**

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on January 31, 2013. Therefore we have not included Fed buybacks in this calendar.

Source: DMOs, Citi Research

EUR: Coupons & Redemptions (next 3 mths)

Figure 52. EMU-10 Redemptions over the next three months (€bn)

	Redemptions = €121bn										
Redemptions	DEU 34	FRA 21	NLD 0	ITA 43	ESP 14	BEL 9	AUT 0	FIN 0	PRT 0	GRC 0	IRL 0
(Fri) 31-Jan-14				14.5	14.2						
(Sat) 01-Mar-14				13.4							
(Fri) 14-Mar-14	15.0										
(Fri) 28-Mar-14						8.7					
(Tue) 01-Apr-14				14.8							
(Fri) 11-Apr-14	19.0										
(Fri) 25-Apr-14		21.0									

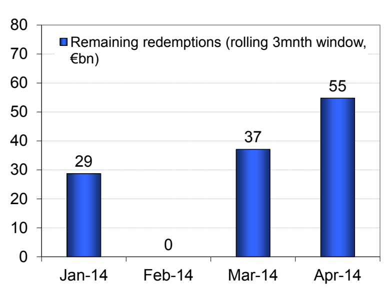
Source: DMOs, Bloomberg, Citi Research

Figure 53. EMU-10 Coupon Payments over the next three months (€bn)

	Coupons = €60bn										
Coupons	DEU 3	FRA 18	NLD 0	ITA 18	ESP 9	BEL 6	AUT 2	FIN 1	PRT 1	GRC 0	IRL 2
(Fri) 31-Jan-14					8.4						
(Sat) 01-Feb-14				8.4							
(Sat) 15-Feb-14	0.27								0.4		
(Tue) 18-Feb-14											0.16
(Thu) 20-Feb-14							0.3				
(Sun) 23-Feb-14	0.1										
(Mon) 24-Feb-14	0.1										
(Tue) 25-Feb-14		1.0									
(Wed) 26-Feb-14	0.3										
(Thu) 27-Feb-14	0.4										
(Sat) 01-Mar-14				7.0							
(Thu) 13-Mar-14	0.0										0.6
(Fri) 14-Mar-14	0.0										
(Sat) 15-Mar-14				1.9			1.4				
(Thu) 20-Mar-14											0.2
(Fri) 28-Mar-14						6.4					
(Mon) 31-Mar-14					0.3						
(Tue) 01-Apr-14				0.2							
(Mon) 07-Apr-14	0.1										
(Tue) 08-Apr-14	0.5										
(Thu) 10-Apr-14	0.4										
(Fri) 11-Apr-14	0.4										
(Sun) 13-Apr-14	0.0										
(Tue) 15-Apr-14	0.6		0.1	0.8				0.7	0.6		
(Fri) 18-Apr-14											1.0
(Sun) 20-Apr-14							0.3				
(Fri) 25-Apr-14		16.7									

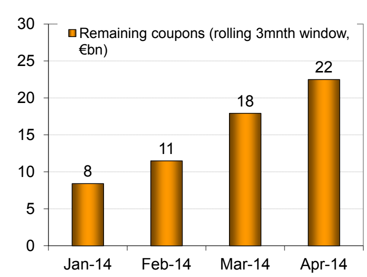
Source: DMOs, Bloomberg, Citi Research

Figure 54. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 55. EMU-10 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

ESP and ITA Bill Issuance Projections

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

Auction calendar for the next four weeks

Figure 56. Provisional Bill Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (EUR Million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 2	12 Feb (Wed)	Italy	12 month (13 February 2015; issue confirmed, estimated size)	9
			Total Size in Week 2	**9.0**
Week 3	18 Feb (Tue)	Spain	6month (22 August 2014) and 12month (new bill) - tenors confirmed, estimated issue and size	5.3
			Total Size in Week 3	**5.3**
Week 4	25 Feb (Tue)	Spain	3month (16 May 2014) and 9month (21 November 2014) - tenors confirmed, estimated issue and size	3.4
	26 Feb (Wed)	Italy	6 month (29 August 2014; issue confirmed, estimated size)	9
			Total Size in Week 4	**12.4**

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

Source: DMOs, Citi Research

2014 projections for bill supply

Figure 57. 2014 Italy and Spain Bill Supply – Citi Forecast (Euro Billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	0.9	1.0	2.5	3.1		8	8	
Feb	0.9	1.3	2.5	4.0		9	11	-3
Mar	0.9	1.3	2.5	4.0		9	10	-1
Apr	0.9	1.5	3.0	4.0		9	12	-3
May	0.9	1.5	3.0	4.0		9	8	1
Jun	0.9	1.5	3.0	4.0		9	14	-4
Jul	0.8	1.5	3.0	4.0		9	8	2
Aug	0.8	1.5	3.0	4.0		9	8	1
Sep	0.8	1.5	3.0	4.0		9	8	2
Oct	0.8	1.5	3.0	3.8		9	9	
Nov	0.8	1.5	3.0	3.8		9	8	1
Dec	0.8	1.5	3.0	3.8		9	8	1
Total	9.9	17.0	34.5	46.3		108	111	-4

ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		9.0		9.3		18	20	-1
Feb		9.0		9.0		18	19	-1
Mar		9.0		9.0		18	16	2
Apr	3.0	9.0		9.0		21	17	4
May		9.0		6.5	3.0	19	14	5
Jun		9.0		6.5		16	16	
Jul		9.0		6.5		16	19	-4
Aug		9.0		8.0		17	18	-1
Sep		8.5		8.0	3.0	20	19	1
Oct		8.5		8.0		17	19	-2
Nov		7.0		7.0		14	16	-2
Dec		7.0		6.0		13	15	-2
Total	3.0	103.0		92.8	6.0	205	207	-2

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

Source: DMOs, Bloomberg, Citi estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 58. Citi Inflation Forecasts

	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY
Month	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change
Dec 13	117.28	0.4	0.8	125.82	0.4	0.6	253.40	0.5	2.7	233.05	-0.0	1.5
Jan 14	116.13	-1.0	0.9	125.37	-0.4	0.8	252.10	-0.5	2.6	234.15	0.5	1.7
Feb 14	116.46	0.3	0.8	125.55	0.1	0.7	253.60	0.6	2.4	234.95	0.3	1.2
Mar 14	117.76	1.1	0.7	126.53	0.8	0.7	254.20	0.2	2.2	236.55	0.7	1.6
Apr 14	118.14	0.3	1.1	126.47	-0.0	0.8	255.30	0.4	2.3	237.66	0.5	2.2
May 14	118.15	0.0	1.0	126.74	0.2	0.9	256.00	0.3	2.4	238.26	0.3	2.3

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 59. US TIPS Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Mar	1 Apr	####	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Mar	1 Apr	1 May	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.08*	*0.08*	*0.08*									
TIPS 4/15	-1.46	-16	-10	-12	19	43	*US-2.500-04/30/15*	163	15	9	-13	18	41	7	3
TIPS 7/15	-1.85	-15	-9	-12	10	26	*US-4.250-08/15/15*	207	11	5	-13	9	23	11	7
TIPS 1/16	-1.41	-11	-8	-7	12	25	*US-2.625-02/29/16*	178	7	3	-8	9	21	17	5
TIPS 4/16	-1.26	-12	-9	-6	11	24	*US-2.000-04/30/16*	169	8	4	-7	9	19	15	3
TIPS 7/16	-1.49	-11	-8	-6	9	19	*US-4.875-08/15/16*	203	6	3	-8	5	13	11	4
TIPS 1/17	-1.13	-11	-8	-4	9	19	*US-3.125-01/31/17*	188	6	3	-6	5	13	16	3
TIPS 4/17	-0.95	-9	-7	-3	9	18	*US-0.875-04/30/17*	181	5	2	-5	5	12	17	3
TIPS 7/17	-1.11	-9	-7	-3	8	16	*US-4.750-08/15/17*	207	3	1	-6	4	9	15	4
TIPS 1/18	-0.78	-10	-8	-2	8	16	*US-3.500-02/15/18*	196	3	1	-5	3	8	20	4
TIPS 4/18	-0.60	-9	-7	-2	9	16	*US-0.625-04/30/18*	189	2	0	-4	4	8	24	4
TIPS 7/18	-0.74	-10	-8	-2	8	14	*US-4.000-08/15/18*	209	3	1	-4	2	6	20	4
TIPS 1/19	-0.47	-9	-8	-1	8	15	*US-2.750-02/15/19*	202	2	0	-4	3	7	23	3
TIPS 7/19	-0.41	-9	-8	-1	7	14	*US-3.625-08/15/19*	212	3	1	-4	2	5	24	2
TIPS 1/20	-0.17	-10	-9	-1	7	13	*US-3.625-02/15/20*	202	4	2	-3	2	5	31	1
TIPS 7/20	-0.13	-9	-8	-1	7	12	*US-2.625-08/15/20*	217	3	1	-3	1	4	25	1
TIPS 1/21	0.09	-8	-8	0	7	12	*US-3.625-02/15/21*	205	2	0	-3	1	4	35	2
TIPS 7/21	0.11	-8	-7	0	6	11	*US-2.125-08/15/21*	220	1	0	-3	1	3	28	2
TIPS 1/22	0.31	-8	-7	0	6	11	*US-2.000-02/15/22*	212	2	1	-3	1	3	33	1
TIPS 7/22	0.32	-8	-7	0	6	11	*US-1.625-08/15/22*	223	2	0	-2	1	3	30	1
TIPS 1/23	0.45	-9	-8	0	6	10	*US-2.000-02/15/23*	217	3	2	-2	1	2	33	-1
TIPS 7/23	0.45	-9	-8	0	6	10	*US-2.500-08/15/23*	223	2	1	-2	1	2	33	-0
TIPS 1/25	0.62	-10	-10	0	6	10	*US-7.625-02/15/25*	212	4	3	-2	0	1	45	-3
TIPS 1/26	0.74	-8	-8	0	5	9	*US-6.000-02/15/26*	217	2	1	-2	0	1	43	-2
TIPS 1/27	0.82	-3	-3	0	5	9	*US-6.625-02/15/27*	217	-2	-3	-2	0	1	45	3
TIPS 1/28	0.92	-3	-2	0	5	8	*US-6.125-11/15/27*	215	-3	-4	-2	0	1	49	3
TIPS 4/28	0.89	-4	-4	0	5	9	*US-5.500-08/15/28*	225	-1	-2	-2	0	1	38	1
TIPS 1/29	0.95	-4	-4	0	5	8	*US-5.250-02/15/29*	223	-1	-2	-2	0	1	43	1
TIPS 4/29	0.93	-4	-4	0	5	8	*US-5.250-02/15/29*	225	-1	-2	-2	0	1	40	0
TIPS 4/32	1.06	-4	-4	0	4	7	*US-5.375-02/15/31*	223	-1	-2	-2	0	1	46	-0
TIPS 2/40	1.28	-3	-3	0	3	5	*US-4.625-02/15/40*	226	-0	-1	-1	0	0	48	-2
TIPS 2/41	1.29	-2	-1	0	3	5	*US-4.750-02/15/41*	226	-2	-3	-1	0	0	48	0
TIPS 2/42	1.34	-2	-2	0	3	4	*US-3.125-02/15/42*	229	-1	-2	-1	-1	0	46	-1
TIPS 2/43	1.35	-3	-3	0	3	4	*US-3.125-02/15/43*	231	-0	-1	-1	-1	-1	44	-1

Source: Citi Research, Bloomberg

Figure 60. EUR Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Mar	1 Apr	####	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Mar	1 Apr	####	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.17*	*0.17*	*0.16*									
OATei15	-0.88	2	1	18	-63	-51	*FFRG 4/15*	105	-5	-5	18	-63	-51	17	3
BUNDei16	-0.40	2	1	13	-37	-27	*BUND 1/16*	48	-8	-7	14	-37	-26	18	7
BTANi16	-0.85	1	1	10	-9	-6	*FFRG 4/16*	109	-11	-11	10	-9	-7	34	4
BTPei16	0.85	6	5	15	-24	-10	*BTP 8/16*	57	-8	-7	11	-32	-24	52	7
OATi17	-0.65	3	2	8	-5	-3	*FFRG 4/17*	111	-14	-14	7	-7	-5	34	6
BTPei17	1.23	6	5	12	-15	-4	*BTP 8/17*	74	-8	-8	8	-24	-18	44	5
BOBLei18	-0.35	-2	-2	7	-19	-13	*BUND 1/18*	71	-8	-7	7	-20	-14	31	4
OATei18	-0.23	-3	-4	7	-17	-11	*FFRG 4/18*	98	-9	-9	6	-19	-15	34	4
BTPei18	1.46	4	3	10	-11	-2	*BTP 8/18*	82	-7	-7	6	-19	-15	46	4
OATi19	-0.19	-1	-2	5	-2	0	*FFRG 4/19*	123	-12	-12	4	-5	-4	36	5
BTPei19	1.73	2	1	8	-8	0	*BTP 9/19*	89	-6	-6	45	-16	-13	47	4
BUNDei20	-0.17	-6	-6	5	-13	-8	*BUND 1/20*	101	-3	-3	4	-14	-11	26	1
OATei20	0.09	-4	-4	5	-12	-7	*FFRG 4/20*	123	-9	-9	4	-15	-12	25	5
OATi21	0.26	-3	-3	4	0	2	*FFRG 4/21*	131	-10	-10	3	-4	-4	44	4
BTPei21	2.27	-0	-1	7	-5	2	*BTP 9/21*	103	-0	-0	38	-13	-10	49	-2
OATei22	0.42	-5	-6	4	-8	-4	*FFRG 4/21*	115	-7	-7	3	-11	-10	49	3
BUNDei23	0.17	-4	-4	4	-7	-4	*BUND 1/22*	111	-5	-5	2	-10	-8	46	3
OATi23	0.50	-6	-6	4	0	2	*FFRG 10/23*	163	-7	-7	2	-4	-4	25	2
BTPei23	2.61	1	0	6	-4	2	*BTP 8/23*	109	-3	-3	3	-11	-9	61	1
OATei24	0.69	-6	-6	3	-6	-3	*FFRG 10/23*	145	-7	-7	2	-10	-8	34	3
BTPei26	2.82	2	1	5	-3	2	*BTP 3/26*	115	-5	-5	25	-9	-7	72	3
OATei27	0.87	-6	-6	3	-5	-2	*FFRG 4/26*	166	-5	-6	1	-8	-8	26	2
OATi29	0.82	-7	-7	3	0	2	*FFRG 4/29*	193	-5	-5	1	-3	-4	17	1
OATei32	1.00	-7	-7	3	-4	-1	*FFRG 10/32*	189	-4	-4	1	-7	-6	13	1
BTPei35	2.79	1	0	3	-2	1	*BTP 8/34*	169	-5	-6	1	-7	-7	35	3
OATei40	1.11	-5	-5	2	-2	-1	*FFRG 4/41*	202	-6	-6	1	-5	-5	7	2
BTPei41	3.13	-0	-1	3	-1	2	*BTP 9/40*	150	-3	-4	17	-6	-5	60	0

Source: Citi Research

Figure 61. UK Gilts Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Mar	1 Apr	1 May	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Mar	1 Apr	1 May	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.43*	*0.43*	*0.43*									
UKTi Jul16	-1.81	-3	-3	2	5	8	*UKT 9/16*	263	-3	-3	1	2	4	36	-6
UKTi Nov17	-1.52	-4	-4	10	-9	3	*UKT 3/18*	299	-3	-4	7	-14	-4	6	-18
UKTi Nov19	-0.94	-3	-3	7	-4	5	*UKT 9/19*	290	-4	-5	5	-9	-3	24	0
UKTi Apr20	-0.75	-4	-5	2	5	8	*UKT 3/20*	282	-2	-2	0	0	0	27	-2
UKTi Nov22	-0.43	-2	-2	6	-2	5	*UKT 3/22*	287	-4	-5	3	-7	-3	37	1
UKTi Mar24	-0.17	-3	-3	5	-1	5	*UKT 3/25*	300	-5	-5	2	-6	-2	23	2
UKTi Jul24	-0.17	-4	-4	2	4	6	*UKT 3/25*	301	-4	-4	0	0	-1	31	1
UKTi Nov27	-0.06	-3	-3	4	-1	4	*UKT 12/27*	316	-3	-3	2	-5	-3	27	-1
UKTi Mar29	0.04	-4	-4	3	0	3	*UKT 12/30*	322	-1	-1	1	-4	-3	21	-3
UKTi Jul30	0.03	-3	-3	2	3	5	*UKT 6/32*	330	-1	-1	0	0	-1	22	-7
UKTi Nov32	0.03	-2	-2	3	0	3	*UKT 6/32*	330	-1	-2	1	-4	-3	27	-1
UKTi Mar34	0.07	-3	-3	3	0	3	*UKT 9/34*	333	-0	-1	1	-4	-3	23	-2
UKTi Jan35	0.06	-4	-4	1	2	4	*UKT 3/36*	337	0	0	0	-1	-1	22	-3
UKTi Nov37	0.05	-3	-3	2	0	2	*UKT 12/38*	341	0	0	1	-4	-2	21	-3
UKTi Mar40	0.07	-2	-2	2	0	2	*UKT 9/39*	341	-0	-1	0	-3	-3	20	-1
UKTi Nov42	0.04	-2	-2	2	0	2	*UKT 12/42*	344	-0	-1	0	-3	-3	20	-1
UKTi Mar44	0.08	-2	-2	2	0	2	*UKT 1/44*	345	-1	-1	0	-3	-2	18	-0
UKTi Nov47	0.05	-2	-2	2	0	2	*UKT 12/46*	344	-1	-1	0	-3	-2	20	-0
UKTi Mar50	0.05	-2	-2	1	0	2	*UKT 12/49*	342	-0	-1	0	-3	-2	20	0
UKTi Mar52	0.06	-3	-3	1	0	1	*UKT 7/52*	343	-0	-0	0	-3	-2	19	0
UKTi Nov55	0.02	-2	-2	1	0	1	*UKT 12/55*	343	-1	-1	0	-3	-2	21	2
UKTi Mar62	0.02	-2	-2	1	0	1	*UKT 1/60*	342	-1	-1	0	-2	-2	20	2
UKTi Mar68	0.03	-3	-3	1	0	1	*UKT 7/68*	344	-1	-1	0	-2	-2	18	2

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
30-Jan-14	NOTE	European Rates Strategy: The Month-End RV Pack	-	EUR
27-Jan-14	NOTE	European Flow Monitor: Demand for non-core markets is now positive	-	EUR
27-Jan-14	NOTE	SSA Strategy: Weekly chart-pack and market monitor: 18th-24th January*	-	EUR
23-Jan-14	European Weekly	ECB, Liquidity and the Carry Trade	9	EUR
		Where is the value in USD-EUR wideners?	13	Global
		UK Strategy: Beware the front-end!	17	UK
		EMU: Tactical Bund 2s10s steepeners	21	EUR
		SSA Relative Value Insights	22	EUR
		Covered Bond Strategy	23	EUR
		Expected Ratings Issues	27	EUR
23-Jan-14	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
23-Jan-14	NOTE	Euro SSA Strategy: Relative Value Insights – RENTEN vs KfW	-	EUR
23-Jan-14	NOTE	UK Rates Strategy: Beware the front-end, the hiking cycle is nearing	-	EUR
22-Jan-14	NOTE	Linker Index Projection: Projected changes supportive for German real yields	-	EUR
22-Jan-14	NOTE	Month-end Index Changes: supportive for Spain, France and Italy	-	EUR
21-Jan-14	NOTE	Covered Bond Strategy: Kommunalkredit Austria: Attractive Alternative in the Core	-	EUR
21-Jan-14	NOTE	UK Rates Strategy: Hold a bearish bias into the UK jobless data and MPC minutes	-	UK
20-Jan-14	NOTE	European Flow Monito: Net demand for Portugal has now turned to positive	-	EUR
20-Jan-14	NOTE	European SSA Strategy: Weekly chart-pack and market monitor: 10th-17th January	-	EUR
20-Jan-14	NOTE	Euro Rates Strategy: Ireland now Baa3 – trade the upgrade	-	EUR
17-Jan-14	NOTE	Euro Rates Strategy: Ireland UPGRADED back to Investment Grade, Baa3 (Pos)	-	EUR
17-Jan-14	NOTE	Euro Rates Strategy: Update: Outlook for EUR Swap Spreads	-	EUR
17-Jan-14	NOTE	Euro Rates Strategy: Alert: Portugal NOT downgraded by S&P overnight	-	EUR
16-Jan-14	European Weekly	OAT: Another Year of Flat Performance?	8	EUR
		EUR Vol: Backtesting of Receiver Carry Trades	10	EUR
		UK Rates – time for 10s30s flatteners?	13	UK
		EGB Strategy – spreads to nudge tighter still	15	EUR
		Update: Outlook for EUR Swap Spreads	17	EUR
		UK Inflation Strategy – all eyes on IL68s	22	UK
		SSA Strategy – Trading KfW	24	EUR
		Covered Bond Strategy	26	EUR

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Notes

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Appendix A-1

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