

Developed Market Rates

31 January 2012 | 10 pages

Euro Rates Strategy

EMU-11: February Supply Outlook

- **Gross Issuance (€82bn):** For the month of February 2012, we forecast €82bn of gross supply, €17bn higher than the 2012 monthly average. 76% of issuance in February comes from Italy (€23.5bn), Germany (€20bn) and France (€18.5bn).
- **Coupons (€12bn) and Redemptions (€38bn):** Almost all February coupon payments and redemptions come from Italy (€10bn coupon payments settling on 1 February, a €26bn BTP redemption and a CTZ redemption on 29 February for €10.6bn).
- **Net Cash Requirement (€32bn):** The February net cash requirement (gross supply minus coupon payments and redemptions) is the third highest for 2012.

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

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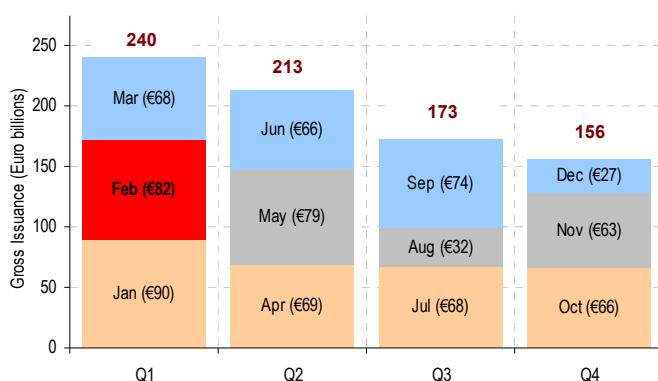
EMU-11: February Supply Outlook

Gross Issuance in February

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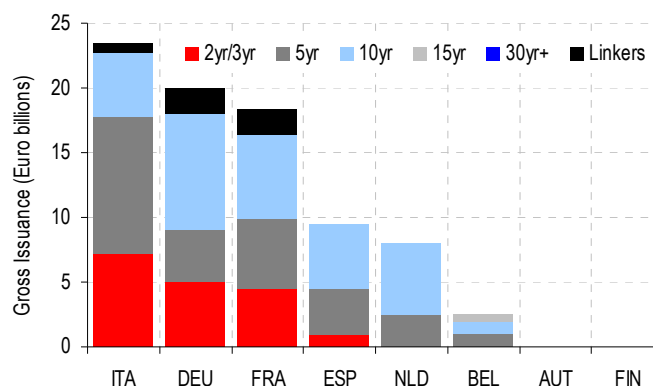
- We forecast €82bn of gross supply in February (Figure 1), €8bn less than January and €17bn higher than the 2011 average.
- We expect the majority of euro issues to be active in February. 76% of issuance in February comes from Italy (€23.5bn), Germany (€20bn) and France (€18.5bn) - Figure 2.

Figure 1. Euro Government Gross Supply by Quarter, 2012F (€bn)



Source: DMOs, CIRA estimates

Figure 2. February Gross Issuance by Country and Maturity (€bn)

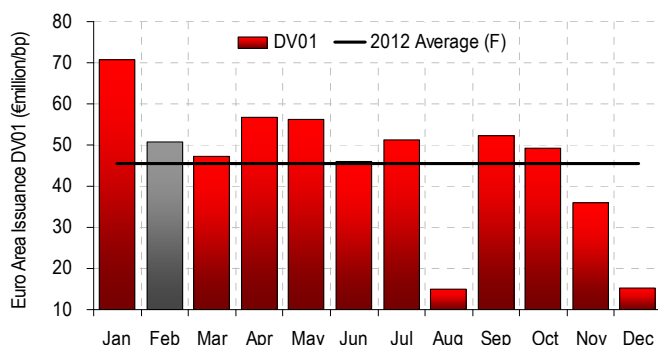


Source: DMOs, CIRA estimates

DV01 of Issuance by Maturity

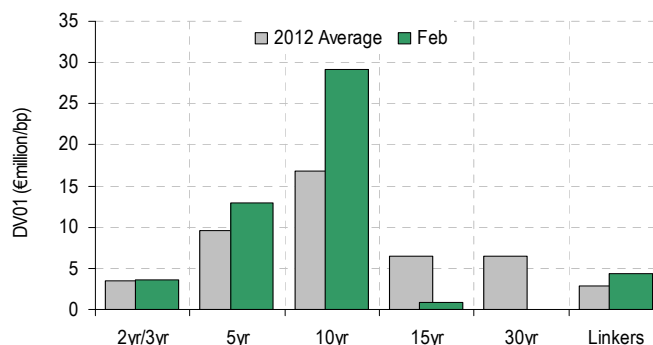
- Figure 3 shows the DV01 of issuance for February and the 2012 average by maturity. The DV01 of issuance in February is €20million/bp lower than January.
- Within conventional issuance, the 10yr sector accounts for 57% of total issuance (€29million/bp). Issuance in longer maturities will be extremely light, in our view.

Figure 3. DV01 of Euro Government Supply, 2012F (€million/bp)



Source: DMOs, CIRA estimates

Figure 4. 2012 DV01 of Issuance by Maturity (€million/bp)



Source: DMOs, CIRA estimates

- **Italian Issuance:** There is a possibility that Italy issues a 15yr (or 30yr) BTP at its mid-month auction¹ on 14 February. However, for now, we do not expect the Tresor to issue in the 15yr+ sector in February for two reasons: 1) it is likely the Tresor will wait for 10yr BTPs to be better received before issuing further out on the curve (last Monday's auction was supported by coupon payments across the curve which will not be the case at the February mid-month auction); (2) with the next 10yr auction scheduled for end-February we would expect the Tresor to wait until March (at the earliest) before issuing in this sector.

¹ As highlighted in the Tresor's guidelines for public debt management 15 and 30yr BTPs will be offered at mid-month auctions according to market demand.

- In the event that the Treasury chooses to issue a 15yr+ BTP we would expect it to issue an *off-the-run* 15yr BTP for only €1bn (much lower than the average size of long-end BTP auctions in 2011)².

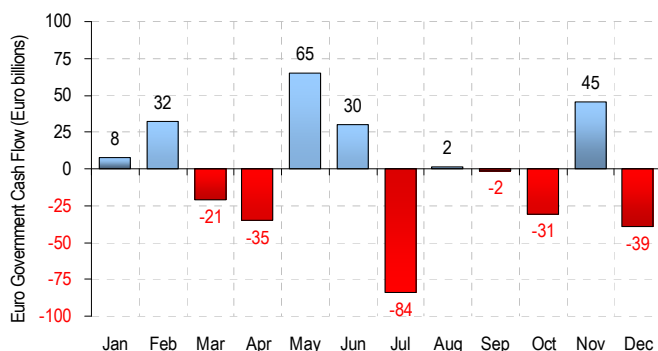
February Coupons (€12bn) and Redemptions (€38bn)

- Almost all February coupon payments and redemptions come from Italy (€10bn coupon payments settling on 1 February, a €26bn BTP redemption and a CTZ redemption on 29 February for €10.6bn).

February Net Cash Requirement (NCR)

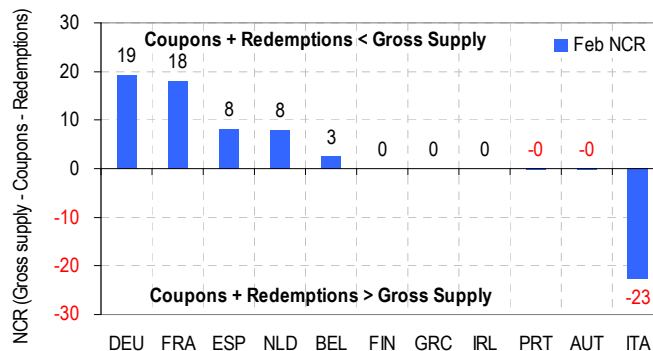
- The February NCR is the third highest for 2012 (€32bn) as €82bn of gross supply outweighs only €12bn coupons and €38bn redemptions (Figure 5).

Figure 5. Euro Government NCR, 2012 (€bn)



Source: DMOs, CIRA estimates

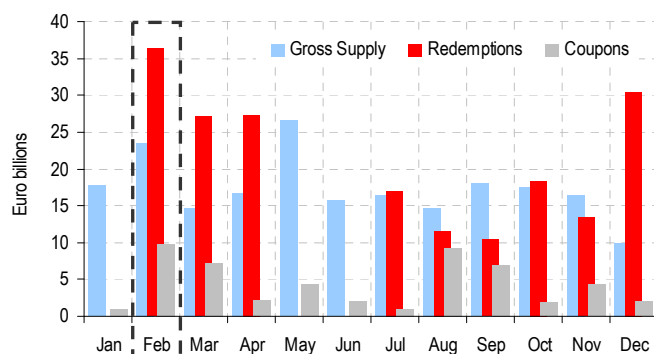
Figure 6. Euro Government NCR, February 2012 (€bn)



Source: DMOs, CIRA estimates

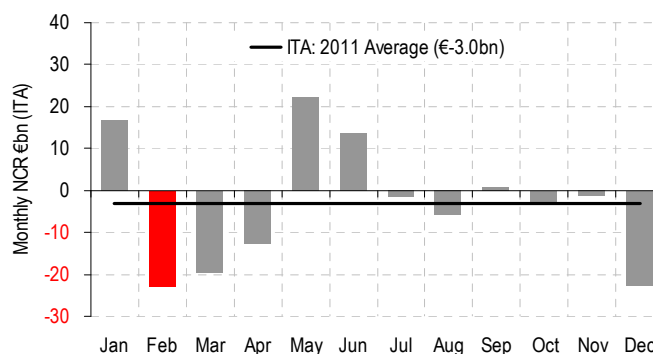
- The NCR is strongly positive for the Netherlands (€19bn) and Germany (€18bn) due to minimal coupon payments and redemptions in these countries (Figure 6).
- Italy experiences the most positive NCR (Figure 7). Furthermore, Italy's NCR is negative until May (Figure 8).

Figure 7. Italy: Gross Supply, Redemptions, Coupons, 2012 (€bn)



Source: DMOs, CIRA estimates

Figure 8. Italy: Gross Supply, Redemptions, Coupons, 2012 (€bn)



Source: DMOs, CIRA estimates

² Italy has only held one auction in the 15yr+ segment of the curve since the SMP began purchases of Italian bonds – this was a 15yr reopening (BTP 5% Mar25) on 13 October 2011 for €1bn.

Appendix: 2012 EMU-11 Supply

Figure 9. 2012 Euro Government Bond Supply – Citi Forecasts (€bn)

EMU-11	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	24.5	23.5	26.5	3.8	9.2	2.2	90	28	62	54	8
Feb	17.8	26.9	32.0	0.5		4.8	82	12	70	38	32
Mar	15.5	28.3	10.8	10.8		2.8	68	18	50	71	-21
Apr	17.3	19.5	17.0	5.5	7.0	2.5	69	29	40	75	-35
May	19.0	25.0	20.5	6.8	2.3	5.5	79	6	73	8	65
Jun	19.8	17.0	17.0	6.5	1.8	3.5	66	5	60	30	30
Jul	18.5	14.3	21.0	4.5	3.8	5.5	68	40	28	112	-84
Aug	13.3	10.5	8.0				32	11	21	19	2
Sep	17.5	22.8	25.3	1.5	4.0	3.0	74	16	58	60	-2
Oct	17.3	18.8	18.0	3.8	4.5	3.5	66	27	39	69	-31
Nov	15.5	26.0	17.0	1.0		3.5	63	4	59	13	45
Dec	10.5	6.8	8.0	1.5			27	3	23	63	-39
Total	206	239	221	46	32	37	782	198	583	612	-29

GERMANY	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.0	4.0	5.0		3.0		16	13	3	25	-22
Feb	5.0	4.0	9.0			2.0	20	1	19		19
Mar	5.0	4.0					9		9	19	-10
Apr	5.0	3.0	5.0		3.0		16	3	13	16	-3
May	5.0	5.0	5.0			2.0	17		17		17
Jun	5.0	4.0	5.0				14	1	13	19	-6
Jul	5.0	4.0	4.0		2.0	2.0	17	13	4	27	-23
Aug	5.0	4.0	4.0				13		13		13
Sep	5.0	5.0	9.0				19	1	18	18	
Oct	5.0	4.0	4.0		2.0		15	2	13	16	-3
Nov	5.0	7.0	4.0			2.0	18		18		18
Dec	4.0						4		4	17	-13
Total	58.0	48.0	54.0		10.0	8.0	178	34	144	157	-13

FRANCE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	3.0	6.2	4.8	1.2	2.4	1.7	19		17	15	2
Feb	4.5	5.4	6.5			2.0	18	3	18		18
Mar	5.0	6.0	3.3	2.3		1.8	18		18		18
Apr	3.0	6.5	4.0	3.5	1.8	1.5	20	16	4	20	-15
May	4.0	4.5	5.5	2.0	1.8	2.0	20		20		20
Jun	3.5	3.5	6.5	2.0		2.0	18		18		18
Jul	4.5	3.3	6.5	2.0		2.0	18	7	11	29	-18
Aug											
Sep	4.5	7.5	4.0		1.8	1.5	19		19	12	6
Oct	4.0	7.0	4.0			2.0	17	15	2	20	-18
Nov	2.5	6.5	2.5	1.0		1.5	14		14		14
Dec		2.5	3.0	1.5			7		7	5	1
Total	38.5	58.9	50.6	15.5	7.6	18.0	189	42	147	102	45

ITALY	CTZ/3yr	5yr/CCT	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	8.7	5.4	3.2			0.5	18	1	17		17
Feb	7.3	10.5	5.0			0.8	24	10	14	36	-23
Mar	5.5	4.8	3.5			1.0	15	7	7	27	-20
Apr	5.8	5.0	4.0	1.0		1.0	17	2	15	27	-13
May	9.0	11.0	4.0	1.0		1.5	27	4	22		22
Jun	6.3	3.5	3.5		1.0	1.5	16	2	14		14
Jul	6.5	3.5	3.5	1.5		1.5	17	1	15	17	-2
Aug	5.8	5.0	4.0				15	9	6	12	-6
Sep	5.0	4.0	6.0	1.5		1.5	18	7	11	10	1
Oct	4.5	4.0	6.0		1.5	1.5	18	2	16	18	-3
Nov	4.5	9.0	3.0				17	4	12	13	-1
Dec	4.0	3.5	2.5				10	2	8	31	-23
Total	72.7	69.1	48.2	5.0	2.5	10.8	208	52	156	192	-36

Source: DMOs, CIRA estimates

Figure 10. 2012 Euro Government Bond Supply – Citi Forecasts (€bn)

SPAIN	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.3	7.2	5.3				17	6	11		11
Feb	1.0	3.5	5.0				10		9	1	8
Mar		3.0	3.0	3.5			10		10		10
Apr		2.5	2.5	1.0			6	4	2	12	-10
May		2.5	2.5		0.5		6		6		6
Jun	2.5	1.0	1.0	1.5			6		6		6
Jul	1.5	1.5	1.5	1.0			6	7	-2	13	-15
Aug	2.5	1.5					4		4		4
Sep		3.5	3.0		1.0		8		8		8
Oct	2.5	1.0	2.5		1.0		7	3	4	15	-11
Nov	1.5	1.8	2.5				6		6		6
Dec	2.5		2.5				5		5		5
Total	18.3	29.0	31.3	7.0	2.5		88	21	67	41	26

NETHERLANDS	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.6				1.5		6	4	2	14	-12
Feb		2.5	5.5				8		8		8
Mar		3.0		5.0			8		8		8
Apr	2.5	1.5			1.5		6		5		5
May			3.0	1.3			4		4		4
Jun	2.5	5.0					8		8		8
Jul		1.5	2.8		1.3		6	6		15	-16
Aug											
Sep	2.5	2.0					5		5		5
Oct	0.8	1.5	0.8	3.0			6		6		6
Nov	2.0		2.8				5		5		5
Dec											
Total	14.8	17.0	14.8	9.3	4.3		60	10	51	30	21

BELGIUM	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan			4.5				5		5		5
Feb		1.0	1.0	0.5			3		3		3
Mar		4.5					5	6	-2	5	-7
Apr	1.0		0.5		0.8		2		2		2
May	1.0		0.5	0.8			2		2		2
Jun				3.0			3		3		3
Jul		0.5	0.8		0.5		2		2		2
Aug											
Sep	0.5		1.3		0.5		2	4	-2	13	-15
Oct	0.5	0.5	0.8				2		2		2
Nov		0.5	0.8				1		1		1
Dec								1	-1	8	-8
Total	3.0	7.0	10.0	4.4	2.1		26	12	15	26	-11

GREECE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar								1	-1	14	-16
Apr											
May								1	-1	8	-9
Jun										1	-1
Jul								3	-3		-3
Aug								2	-2	8	-9
Sep								1	-1		-1
Oct								1	-1		-1
Nov											
Dec										2	-2
Total								10	-10	33	-43

Source: DMOs, CIRA estimates

Figure 11. 2012 Euro Government Bond Supply – Citi Forecasts (€bn)

AUSTRIA	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		0.7	3.7		2.0		6	1	6		6
Feb											
Mar		1.0	1.0				2	1	1		1
Apr		1.0	1.0				2		2		2
May		1.0		0.8			2		2		2
Jun			1.0		0.8		2		2		2
Jul	1.0		1.0				2	2		10	-11
Aug											
Sep		0.8			0.8		2	1			
Oct		0.8		0.8			2	1	1		1
Nov		0.8	1.0				2		2		2
Dec		0.8					1		1		1
Total	1.0	6.7	8.7	1.5	3.5		21	7	15	10	4
FINLAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan				2.5			3		3		3
Feb											
Mar		2.0					2		2		2
Apr								1	-1		-1
May		1.0		1.0			2		2		2
Jun											
Jul			1.0				1	1			
Aug											
Sep			2.0				2	1	1	6	-5
Oct											
Nov		0.5	0.5				1		1		1
Dec											
Total		3.5	3.5	3.5			11	2	8	6	2
PORTUGAL	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar											
Apr								1	-1		-1
May											
Jun								2	-2	10	-12
Jul											
Aug											
Sep								1	-1		-1
Oct								1	-1		-1
Nov											
Dec											
Total								5	-5	10	-15
IRELAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar								1	-1	6	-6
Apr								1	-1		-1
May											
Jun											
Jul											
Aug											
Sep											
Oct								1	-1		-1
Nov											
Dec											
Total								4	-4	6	-10

Source: DMOs, CIRA estimates

Appendix A-1

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