

# UK Rates Strategy

## Seasonality in November

- **Conclusion:** Every year is different, but the consistency of gilt outperformance of Bunds in November (with small drawdowns), and the clear tendency for gilt yields to fall (though with bigger drawdowns), suggests not flying in the face of history. Our analysis points to being long the UK in November - or at the very least, being wary of being short it.
- **Gilt/Bund seasonality in November:** Gilts have exhibited a consistent tendency to outperform Bunds in November. Although absolute adverse moves have been small, our analysis suggests running tight trailing stops as the maximum positive moves have often occurred intra-month.
- **UK November directional seasonality:** 10yr gilt and swap yields have also historically both fallen in November, but this behaviour has been more pronounced in swaps.

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**Robert Crossley**  
+44-20-7986-9255  
robert.crossley@citi.com

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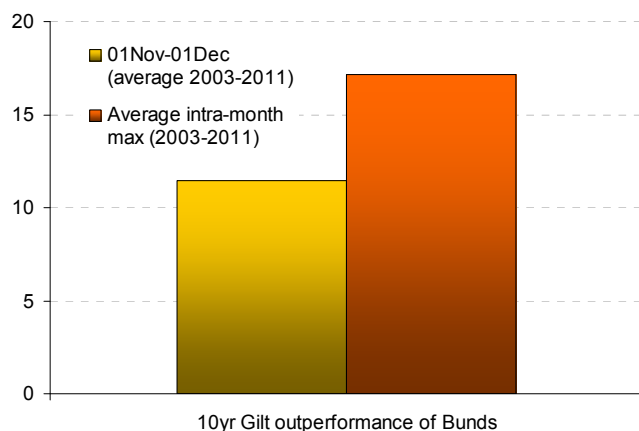
# UK Rates Strategy

Robert Crossley  
+44-20-7986-9455  
[robert.crossley@citi.com](mailto:robert.crossley@citi.com)

## UK outperformance in November

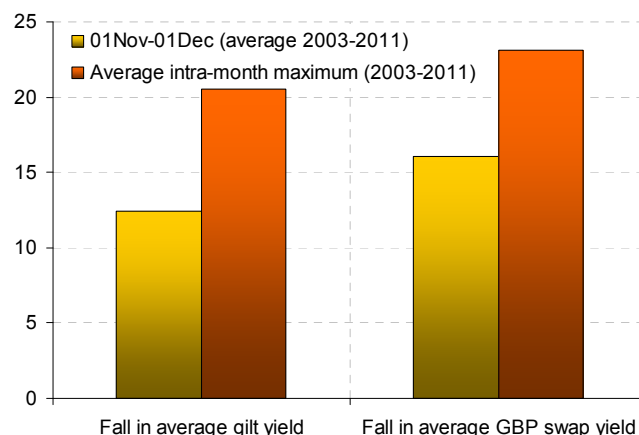
Gilts have outperformed Bunds by an average of 11bps in November, but the maximum average intra-month change from 01 November has been a much larger 17bps (Figure 1). This consistent tendency has been more pronounced in swaps than bonds (Figure 2).

Figure 1. Average gilt outperformance of Bunds in November, and maximum intra-month underperformance



Source: Citi Research

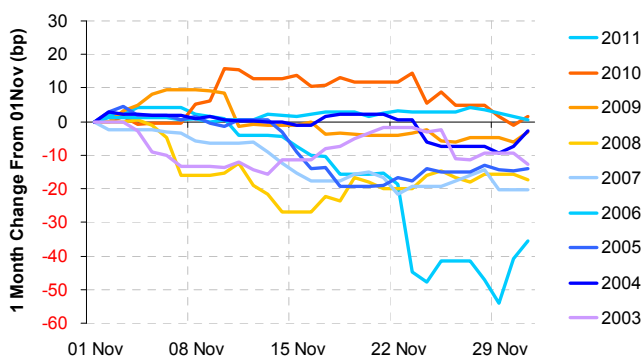
Figure 2. November fall in UK yields and intra-month fall (averages)



Source: Citi Research

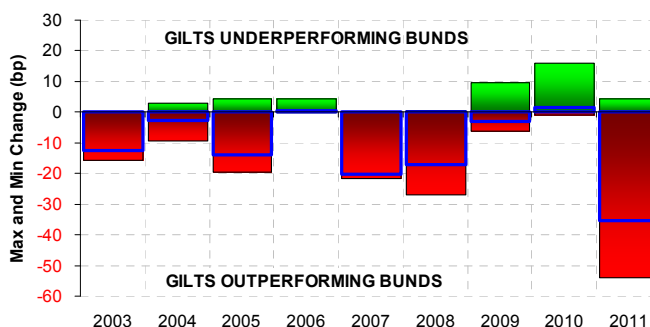
In Figure 4 below, red bars show the maximum intra-month gilt outperformance of Bunds each year since 2003. Green bars show the maximum intra-month drawdown of long UK/short Germany trades in November. Transparent blue bars show the change at month-end, i.e., the extent of the gilt outperformance from the beginning of the month.

Figure 3. Gilts have consistently outperformed Bunds in November



Source: Citi Research, Bloomberg

Figure 4. Drawdowns of long UK/short Germany trades in November have been small, and positive moves have often peaked intra-month.



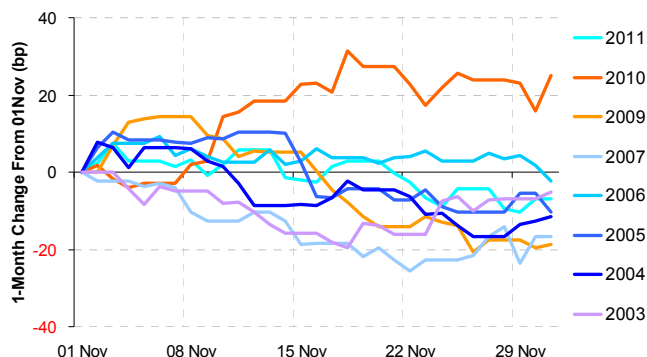
Source: Citi Research, Bloomberg

But it isn't just on a cross-market basis that the UK exhibits seasonality in November.

## UK yields have consistently fallen in November

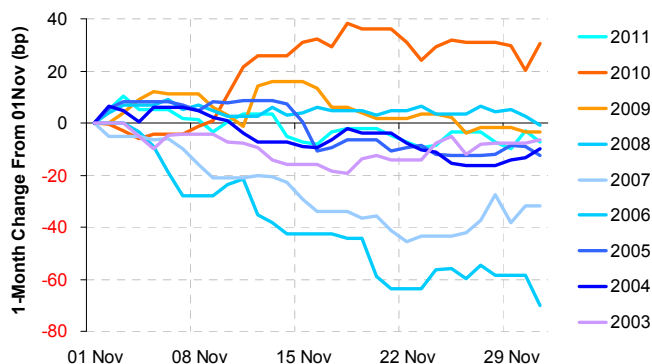
UK yields, in both bonds and swaps, have clearly tended to fall in November.

Figure 5. 10yr GBP swap yields have tended to fall in November



Source: Citi Research, Bloomberg. NB 2008 not shown to avoid extending scale to -98

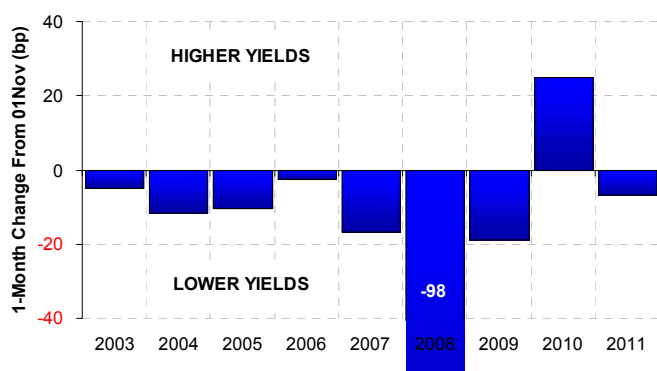
Figure 6. 10yr gilt yields have also tended to fall in November



Source: Citi Research, Bloomberg

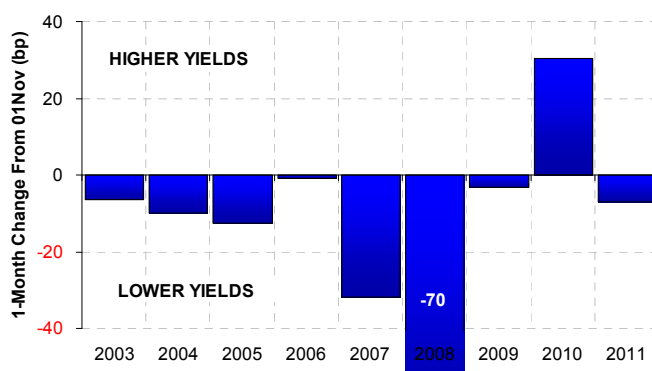
The extent of the fall has tended to be more pronounced in swaps than bonds.

Figure 7. Extent of Bund underperformance of gilts in November



Source: Citi Research, Bloomberg

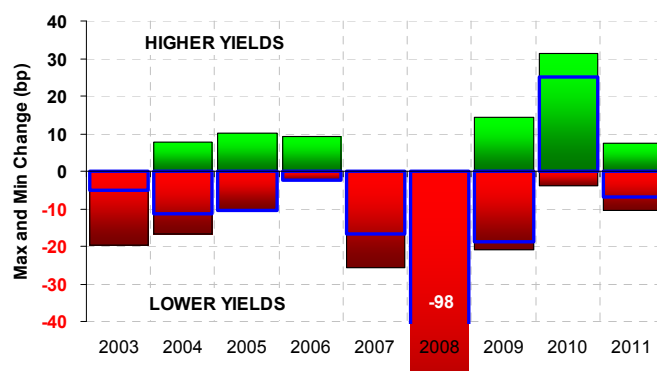
Figure 8. Extent of Bund underperformance of Treasuries in November



Source: Citi Research, Bloomberg

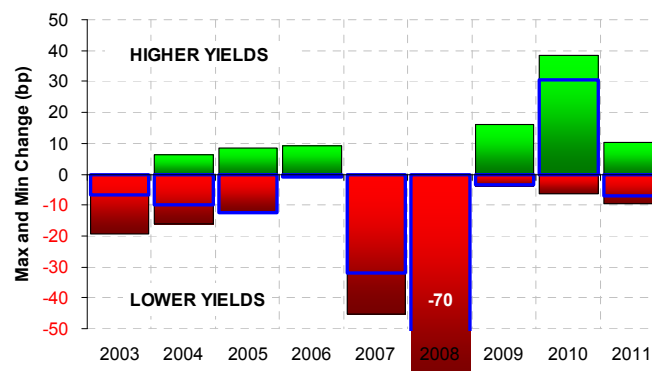
The figures below show the maximum intra-month fall, and rise, in yields from 01 November. These suggest trailing stops less than 10bps.

Figure 9. Drawdowns of receiving 10yr GBP in November, and positive moves peaking intra-month, suggest trailing stops less than 10bps



Source: Citi Research

Figure 10. Max and min intra-month drawdowns in November for long 10yr gilt positions (shown below) look less favorable than in swaps



Source: Citi Research

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