15 August 2013 │ 32 pages **Western Europe**

European Rates Weekly

EMU spread outlook and downgrade concerns

- **Spain's rating and the periphery market rally:** Despite the constructive tone in EMU spreads, downgrade concerns remain since many sovereigns are on negative outlook. Spain is still rated at the lowest IG rating by both Moody's and S&P. While a downgrade is not our base case in the near-term, we look at the medium-term drivers as detailed by the rating agencies and the possible market impact.
- **MPC minutes fail to reassure:** This week's MPC minutes and the latest update on the UK jobless rate have failed to bring any respite to sterling rates. We still think the very front-end looks cheap, but fresh longs should be confined to the 1-2yr sector. Beyond that, guidance does not appear to be strong enough to cap yields and further bear steepening in the 2s10s curve is likely over the coming months.
- **Gilt calendar roll - a first look:** Our fair value estimate for the (U3-Z3) roll is approximately 3 ticks higher than current market pricing. Given that both contracts share the same CTD and the likelihood of a switch is extremely low, we expect the calendar roll to be driven by repo and positioning from speculative accounts. We suggest rolling shorts early and longs late.
- **Moody's supra rating methodology:** Moody's recently published a draft proposal to revise its credit rating methodology for supranationals. In short, the proposal is to introduce a reference "scorecard" that quantifies several factors to act as a stylized representation of their credit assessment. We welcome this enhancement and increased transparency and provide an overview of the core features below.
- **Covered bonds:** La Banque Postale might not be the first covered bond to end the summer break, but it will probably be the first inaugural bond supply after the summer. We expect that the first bond to price similar to the richer trading names.
- **Supply:** Within Europe, all of next week's bond supply comes from 2yr Germany (€5bn). We expect the US Treasury to re-open around $16bn of 5yr TIPS next Thursday. The UK DMO will issue £1.75bn of the new linker '19 on Tuesday.

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Contents

Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Our duration scorecard for the week ahead is slightly bullish, but with very low conviction.	Buy the dips in Bunds based on the lower-for-long outlook
Money Market	Another ECB rate cut and a new LTRO is likely and we do not expect a significant repricing of EONIA rates in the medium-term. Positioning continues to dominate in the short-end. We look to re-enter receiving ECB Mar14 EONIA once intra-day volatility reduces. In the UK, we would confine fresh longs in the front-end to the 1-2yr sector. We particularly like the short-sterling red pack.	Hold long ERZ3 1x2 call spread Stopped out of receiving ECB Mar14 EONIA Stopped out of receiving GBP 2y1y vs 1y1y Long Short-sterling red pack
Yield Curve	Take profits on EUR 30s50s flatteners. In the UK, the path of least resistance is for a steeper 2s10s curve.	Take profits on EUR 30s50s flatteners UKT 2s10s steepeners Sell 10yr OATs vs 5yr and 30yr
Cross-market	"Forward guidance" from the ECB and the MPC reinforces our views that Bund/gilt yields will outperform vs UST yields over the medium-term.	Receive 5yr GBP vs USD Look to re-enter 10yr gilts vs UST Long Bunds vs UST trades over the medium-term (add on corrections)
EMU Spreads	We continue to see any spread widening between Belgium and the soft core as a buying opportunity (remain long 5yr OLOs vs OATs). Periphery politics remains the main such of headline risk, but so far, BTP and Bono spreads to Germany continue to grind in. Separately, 2yr DSL-RAGB spreads are too tight and are attractive levels to initiate wideners	Buy 5yr Belgium vs France Buy 2yr Netherlands vs Austria Prefer 2yr Spain vs Italy
Swap Spreads	Schatz spreads are looking cheap to Bobl spreads. Buying Schatz ASW vs Bobl ASW is working, we still think this has further to go. Hold long RXU3 vs ASW position. The end of QE in the UK coupled with fiscal and supply risks is likely to put steepening pressure on 10s30s gilts vs swaps	Hold long RXU3 ASW spreads Remain long Schatz in ASW vs Bobl ASW Sell 30yr GBP swap spreads vs 10yrs
Inflation	Euro break-evens continue to perform well as nominal yields rise. We continue to hold our long position in Boblei18 break-evens vs 5yr HICPxT. Our long position in Bundei23 vs OATei24 is also beginning to work. In the UK, linkers should benefit from £21bn of cash flows settling tomorrow. 5yr gilt real yields should eventually benefit from forward guidance.	Sell OATei24 vs Bundei23 break-even inflation box Buy Boblei18 break-even vs inflation swap Sell 5yr, 5yr euro HICPxT as a long-term fundamental trade Long 5yr UK real yields
Volatility	Fade the back up in EUR 30yr yields and the historically low level of 1m30y bpv using ATMF receivers. Selling EUR 2y1y ATMF straddles and buy OTM receivers looks attractive given the elevated level of the upper break-even	Buy EUR 1m30y ATMF receiver Sell EUR 2y1y ATMF straddle and buy EUR 2y1y ATM-15 receiver
SSA	Spreads continue to grind in and at -10bp in 10yr KfW ASW, we would much rather look at relative, rather an absolute value in the near-term. We expect yields to compress further given the constructive tone and for curves to bull flatten in 3s5s.	Fade the outperformance of Austrian agencies vs Dutch agencies Extension trades in 3s5s supras and agencies such as EIB Maintain front-end KfW vs France over the medium term Prefer EU vs EIB in the sub 5yr sectors
For a list of outstanding trade strategies please see the Tradesheet section of this report		

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

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 16th – 22nd August

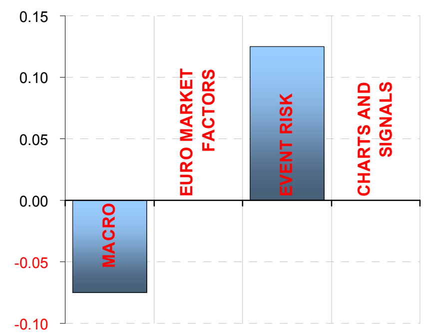
Bund Directional Scorecard (1wk horizon)

RECOMMENDATION	Long	RXU3 (EOD Thurs) = 140.49
Conviction level	3%	CTD yield = 1.43% 10day del vol = 5.42%

	SIGNAL STRENGTH (+/-2)		
MACRO	**-0.1**		**Weight = 35%**
ECB	1	Rates to remain low for an extended period of time	7.5%
Fed, BoE and BOJ	0	FOMC minutes might shed more light on QE tapering	10.0%
Inflation	0	Inflation outlook benign over the medium term	2.5%
Growth related data	-1	August PMI likely to confirm mild expansion	7.5%
Citi surprise	-1	Citi Economic Surprise Index remains elevated	5.0%
Middle East / Oil	-1	Brent at its highest level in 4 months	2.5%
EURO MARKET FACTORS	**0.0**		**Weight = 30%**
Supply	0	2yr supply from Germany. No cash flows.	5.0%
Risk appetite	-1	Risk sentiment improving	5.0%
Positioning	1	Positioning from speculative accounts is likely to be short	10.0%
Equity	-1	SX5E at highest level in 2 years	2.5%
Sovereign credit	-1	Peripheral spreads tightest in 2 years	5.0%
FX	1	EUR effective exchange rate retreating from highs	2.5%
EVENT RISK	**0.1**		**Weight = 15%**
Politics	1	Political developments in Italy pose a headline risk	7.5%
3yr LTRO	1	Excess liquidity remains high at €259bn with repayments slowing	5.0%
Stability mechanisms	0	ESM activation unlikely in the short-term	2.5%
CHARTS AND SIGNALS	**0.0**		**Weight = 20%**
Technicals	-1	Bollinger squeeze and ADX indicate bearish sentiments	7.5%
T-Note	1	Treasury yields hovering at 2yr highs, scope for a correction	7.5%
CFTC	0	Positioning largely neutral	5.0%

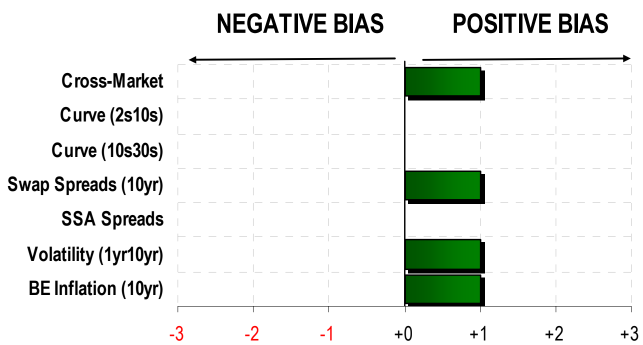
Source: Citi Research

Figure 3. Contribution to Bund Signals



Source: Citi Research

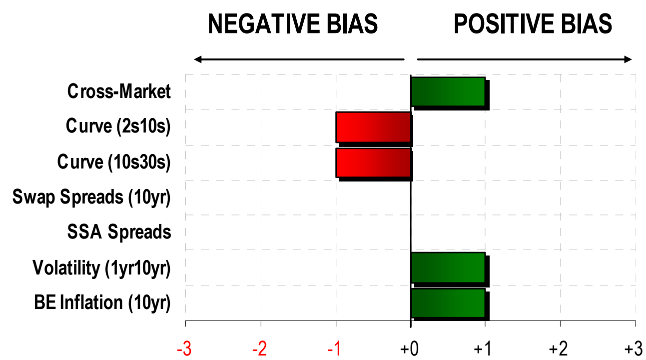
Figure 4. EURO AREA (Near-term Bias)



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)



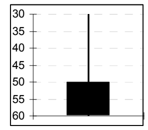
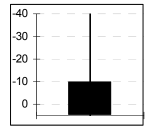
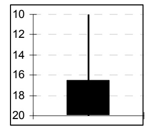
Source: Citi Research

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

Tradesheet

Record of Our Closed Trades

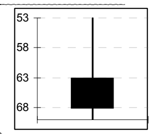
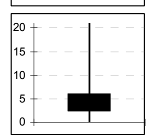
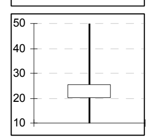
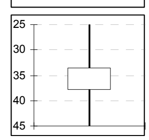
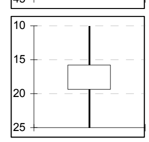
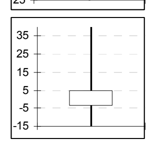
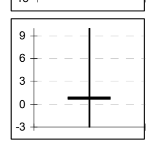
Figure 6. Record of our Closed Trades

Region	Trade	Levels		Rationale	
UK	**Receive GBP 2y1y vs GBP 1y1y**	Open	50bp		
		Current	60bp	Hit Stop 14 August 2013.	
Forwards	Receive GBP 2y1y at 1.37%	**P&L**	**-10bp**		
	Pay GBP 1y1y at 0.87%	Target	30bp		
		Stop	60bp	*European Rates Weekly, 8 August 2013*	
UK / US	**Buy 10yr gilts vs Treasuries**	Open	-10bp		
		Current	5bp	Hit Stop 14 August 2013.	
Cross Market	Buy gilt 1.75% Sep22 at 2.43%	**P&L**	**-15bp**		
	Sell UST 1.625% Aug22 at 2.53%	Target	-40bp		
		Stop	5bp	*The Morning Call, 10 July 2013*	
Europe	**Receive ECB Eonia Mar14**	Open	16.5bp		
		Current	20bp	Hit Stop 13 August 2013.	
Forwards	Receive ECB Eonia Mar14 at 16.5bp	**P&L**	**-3.5bp**		
		Target	10bp		
		Stop	20bp	*ECB: Higher Excess, Fixing Normalize, 5 August*	

Source: Citi Research

Record of Our Open Trades

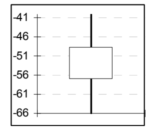
Figure 7. Record of our Open Trades

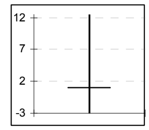
Region	Trade	Levels		Rationale + Publication Date	
Europe	**Long EIB 2.5% Oct18s vs EIB 3.5% Apr16s**	Open	63bp		
		Current	68bp	Constructive tone to support bull flatteneing.	
Curve	Buy EIB 2.5% Oct18s at 1.11%	**P&L**	**-5bp**		
	Sell EIB 3.5% Apr16s at 0.48%	Target	53bp		
		Stop	70bp	*European Rates Weekly, 8 August 2013*	
Europe	**Buy EUR 1m30y ATMF receiver**	Open	6bp		
		Current	2bp	Attractive entry level, strong seasonal support and low entry cost.	
Volatality	Buy EUR 1m30y ATMF(2.55%) receiver at 6bp	**P&L**	**-4bp**		
		Target	21bp		
		Stop	0bp	*The Morning Call, 8 August 2013*	
UK	**Sell 30yr gilt swap spreads vs 10yr**	Open	20bp		
		Current	26bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve.	
Swap spread	Sell gilt 3.25% Jan44 ASW at 20bp	**P&L**	**6bp**		
	Buy gilt 1.75% Sep22 ASW at 0bp	Target	50bp		
		Stop	10bp	*UK Rates Strategy, 30 July 2013*	
Europe	**Sell OATei24 break-even vs Bundei23**	Open	38bp		
		Current	33bp	Relative outperformance of 10yr OATei break-evens is overdone, especially now that the 25 July coupons have been paid.	
Inlfation	Sell OATei24 break-even at 168bp	**P&L**	**5bp**		
	Buy Bundei23 break-even at 130bp	Target	25bp		
		Stop	45bp	*European Rates Weekly, 25 July 2013*	
Europe	**Buy 5yr Belgium vs France**	Open	19.5bp		
		Current	16bp	Tactical long supported by upcoming cash flows.	
Cross Market	Buy OLO 4% Mar18 at 1.15%	**P&L**	**4bp**		
	Sell OAT 4% Apr18 at 0.95%	Target	10bp		
		Stop	25bp	*Euro Rates Strategy, 24 July 2013*	
Europe	**Sell OAT 5s10s30s**	Open	-4bp		
		Current	5bp	Impact of France's removal from ECB AAA curve on the long-end is overestimated, in our view. Trade offers positive roll on ASW curve.	
Curve	Buy OAT Nov18 at 1.10%	**P&L**	**9bp**		
	Sell OAT May23 at 2.19%	Target	40bp		
	Buy OAT May45 at 3.32%	Stop	-15bp	*European Interest Rate Strategy, 22 July 2013*	
Europe	**Buy 2yr Netherlands vs Austria**	Open	1bp		
		Current	1bp	Attractive entry level to move up the credit curve. Relative value is also supportive.	
Cross Market	Buy DSL 0.75% Apr15 at 16bp	**P&L**	**0bp**		
	Sell RAGB 3.5% Jul15 at 17bp	Target	10bp		
		Stop	-3bp	*The Morning Call, 17 July 2013*	

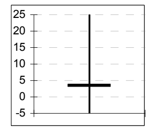
Source: Citi Research

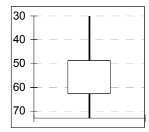
Figure 8. Record of our Open Trades (continued)

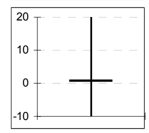
Market	Trade	Open	Current	P&L	Target	Stop	Rationale
Europe *Inflation*	**Buy Boblei18 break-even vs 5yr HICPxT swap** Buy Boblei18 break-even at 98bp Sell 5yr HICPxT swap at 155bp	-57bp	-48.6bp	**8bp**	-40bp	-66bp	Euro break-evens should be supported by rally in oil and upcoming coupon payments. *The Morning Call, 16 July 2013*
Europe *Money Market*	**Buy ERZ3 1x2 call spread** Buy ERZ3 99.750/.875 1x2 call spread at 1c	1c	1c	**0c**	12.5c	-3c	Dec Euribor has cheapened 30/35c since May ECB rate cut. Howevre, a cut to the deposit rate would be required for a signifcant rally. *Euribor, 24 June 2013*
Europe *Curve*	**Receive EUR 10y2y vs 12y3y** Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%	4bp	3bp	**-1bp**	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*
Europe *Volatility*	**Sell EUR 1y3yF ATMF straddle and buy ATMF-25 receiver** Sell EUR 1y3yF ATMF (=1.36%) straddle for 98bp Buy EUR 1y3yF ATMF-25 receiver for 35bp	63bp	49bp	**14bp**	30bp	73bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken *IIRS 9 August 2012*
Europe *Cross Market*	**Long KfW 1.375% Feb17s vs OAT 5% Oct16s** Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%	1bp	0bp	**-1bp**	20bp	-10bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify *IIRS 2 August 2012*
UK *Volatility*	**Sell GBP 2y2y ATMF straddle** Sell GBP 2y2y ATMF (1.04%) straddle at 76bps	76bp	44bp	**32bp**	0bp	114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol *IIRS 12 July 2012*

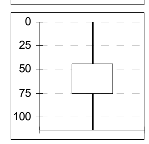












Source: Citi Research

Euro Rates – Spain's rating and EMU spreads

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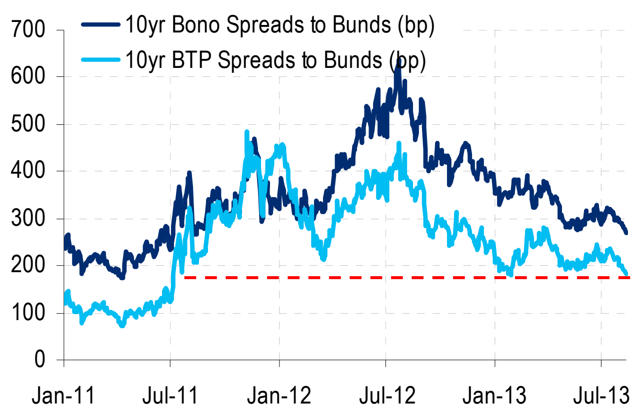
Spanish rating concerns & the tightening in EMU spreads

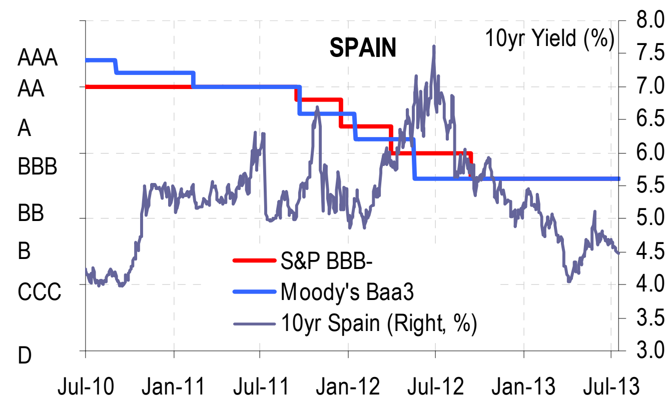
Spreads near 2yr lows: Better than expected economic data, a lack of supply, lowering systemic concerns and central bank policy have created a ripe environment for periphery spreads to grind in. The extent of the rally is now attracting attention and it's not hard to see why: the last time 10yr Bono spreads to Bunds were at current levels was back in Q3 2011 (Figure 9). Furthermore, mapping the history of 10yr Bono yields to Spain's rating (Figure 10) shows that, barring the episode earlier this year, the last time yields were at 4.5%, Spain was rated just one to two notches below AAA at AA (S&P) and Aa1 (Moody's). This indicates just how far ratings have moved in the last two years. Yields may be back to levels seen two years ago, but the economic reality remains very different. What's topical at present is how the extent of the rally is increasingly calling into question the risk-reward going forward.

Figure 9. 10yr BTP and Bono Spreads to Bunds (bp)



Source: Citi Research, Bloomberg

Figure 10. Spain's Rating (Moody's and S&P) and Yield History (%)



Source: Citi Research, Bloomberg, Moody's, S&P

Near-term supports: We see a variety of factors that have helped support spreads recently and, in the absence of negative catalyst, such drivers can probably keep spreads nudging tighter over the remaining summer weeks:

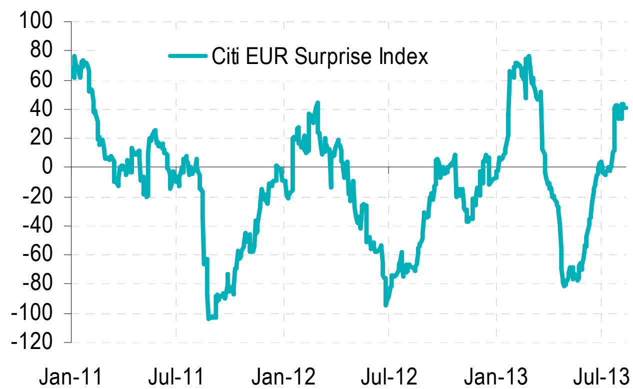
- **Lack of supply:** Gross supply in August is around €31bn (77% from Germany and the rest from Italy). At €17mn/bp in DV01 terms, this is the lowest for any month in 2013 (*EMU August supply outlook, European Rates Weekly 1st August*).

- **Improving data:** Recent economic data have been surprising to the upside, including flash PMIs, ZEW surveys and 2Q euro area GDP. Citi's EUR surprise index is now firmly in positive territory (Figure 11).

- **Lower headline risk:** Although periphery politics remain on the radar, wider systemic concerns and spread contagion have been limited (*Periphery politics and the spread outlook, 18th July*). The recent downgrade of Italy by S&P was largely shrugged off by the market and general risk aversion remains low as evidenced by the low level of Citi's GRAMI index (Figure 12).

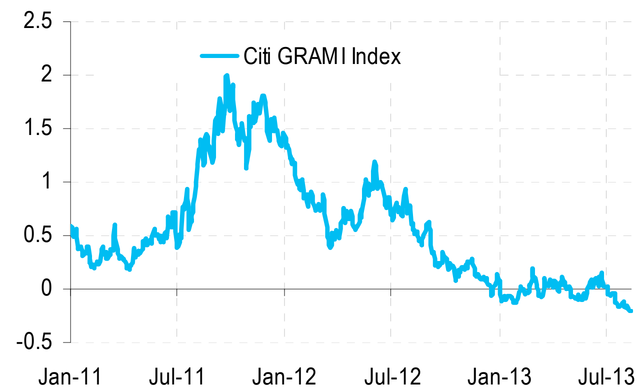
- **Central bank policy:** The August ECB meeting did little to change our view that ECB rates are likely to remain low for the foreseeable future. Draghi reiterated the ECB's forward guidance which provides a key support for core EMU markets over the medium term. Periphery markets continue to benefit from the inactive OMT which remains a credible backstop in our view.

Figure 11. Positive data surprises



Source: Citi Research

Figure 12. Relatively low risk aversion in markets



Source: Citi Research

With ratings on "negative outlook", downgrade concerns refuse to go away

Medium term challenges remain: Although the current market tone is likely to continue for the time being, various risk factors remain for the medium term. One such factor is the prospect of further sovereign downgrades. Empirically, the market has cared less and less about one notch downgrades *within* the Investment Grade (IG) space (as was the case in the last downgrades of France and Italy for example). It is when issuers cross over and become sub-IG that concerns can rise, not least because of implications regarding various index memberships. This is why, at the lowest IG rating with negative outlook by both Moody's and S&P, the market preoccupation with the Spanish rating persists. In the rating agencies' own language, the negative outlook signifies, amongst other things, that medium-term risks to their baseline scenarios are "high and skewed to the downside" (Moody's Credit Opinion on Spain, 11th July 2013).

What does "negative outlook" actually mean?

The "rating outlook" is meant to signify the likely direction of any potential rating change, should it occur over the medium term. Different rating agencies have different criteria and different data sets to assess empirically what a (negative) outlook has historically meant.

On average for Moody's, the next rating action following an outlook assignment has occurred within about a year, but the timing has varied historically.

- **Moody's:** According to Moody's "*Rating Symbols and Definition*" June 2013, a rating outlook is an opinion regarding the likely rating direction over the medium-term. They note that "*A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive or developing outlook indicates a higher likelihood of a rating change over the medium term*". Furthermore, "*On average, after the initial assignment of a positive or negative rating outlook, the next rating action – either a change in outlook, a rating review, or a change in rating – has followed within about a year, but outlooks have also remained in place for much shorter and much longer periods of time. The next rating action subsequent to the assignment of a negative (positive) rating outlook has historically been a downgrade or review for possible downgrade (upgrade or review for possible upgrade) about one half of the time; rating actions in the opposite direction are less common.*"

S&P rating outlook assess potential rating change over the next 6-24m

- **S&P:** For S&P, "*a rating outlook assesses the potential direction of a long-term credit rating other the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action*" (S&P Ratings

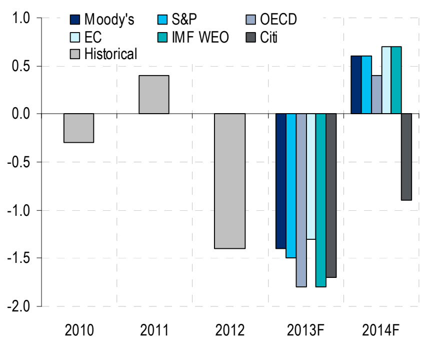
Definitions, June 2013). In their recent note on Spain (July 2013), S&P noted that if certain conditions were met "*The negative outlook reflects our opinion that we could lower the ratings on Spain during the next 12-16months*". S&P has rated Spain at BBB- with a negative outlook since October 2012, hence the 12-16m remaining outlook period as of July 2013.

What could prompt Spain's rating to go up or down?

Arguably, rating drivers have become more idiosyncratic, pertaining to domestic fundamentals rather than systemic fears (such as a "Grexit" scenario, the probability of which has significantly reduced in our view). This is why we saw no causal link between S&P's recent action on Italy and any potential other rating actions on other sovereigns (*European Rates Weekly - When Do Downgrades Matter?*).

Due to differing criteria, one rating agency can rate a sovereign IG whilst the other rates the same sovereign as sub-IG. This is currently the case for Ireland which is rated BBB+ by S&P, but Ba1 by Moody's. Below we detail what the rating agencies have said in their most recent reports regarding Spain (not an exhaustive list).

Figure 13. Spanish GDP Forecasts (%)



Source: Citi, Moody's, S&P, IMF, OECD, EC

Moody's drivers: Moody's last Credit Opinion on Spain dates from 11th July 2013 in which it rates Spain at Baa3 with a negative outlook. Moody's base case assumes a return to positive growth in 2014 (0.6% expected) and for the debt ratio to continue to rise, peaking around 100% of GDP.

- **What could change the rating down:** "We would consider downgrading Spain in the event of an inability to implement the fiscal and structural reforms that are aimed at stabilising its debt burden, and/or in the event of a loss of access to private markets". As stated, this is not meant as an exhaustive list; Moody's also comments that "*Our debt projections rest on the assumption that the budget deficit will consistently be reduced every year and that the economy returns to positive growth in 2014. However, the risks to this forecast are significant.*"

- **What could change the rating up:** "*The outlook on Spain's rating could be returned to stable if the pace and strength of the country's economic recovery were to materially exceed our current expectations and to lead to an earlier stabilisation of the general government debt ratio at a lower level than is currently anticipated.*"

S&P's drivers: S&P's last analysis of Spain dates the 12th July 2013, rating Spain at BBB- with a negative outlook. S&P forecasts 0.6% real GDP growth in 2014 and believes the Spanish economy is recalibrating. In their view, the negative outlook reflects S&P's opinion that the rating could be lowered over the next 12-16months (as of the date of their report), if they observe that:

- ***"Political support** for the current reform agenda is waning. For example, the government's willingness to implement additional reforms could weaken if GDP growth were to contract more steeply than currently anticipated, or if unemployment worsened;*

- ***Eurozone support** is failing to engender sufficient investor confidence to keep government borrowing costs at sustainable levels and to stem potential capital outflows; and*

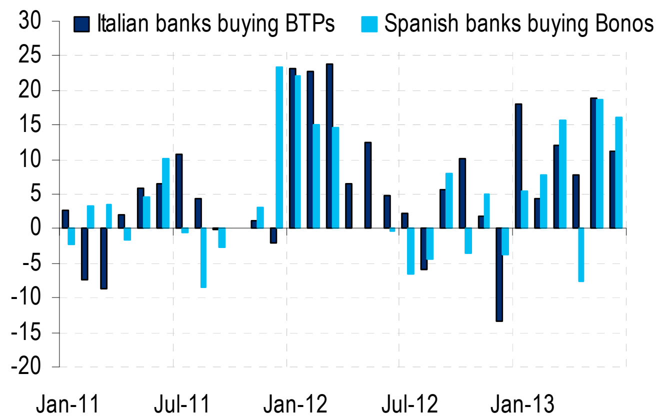
- ***Net general government debt** looks likely to exceed 100% of GDP due to deviations from the government's fiscal targets, weakening growth, one-off debt-increasing items (for example from additional contingent liabilities), or if interest payments rise above 10% of general government revenues."*

S&P also indicates that the rating outlook could move to "stable" if S&P sees "*continuous improvements in the economy's external position, even as growth resumes, or if the government's budgetary and structural reform measures, coupled with ongoing eurozone support, stabilize Spain's credit metrics*."

Mechanics of a downgrade scenario

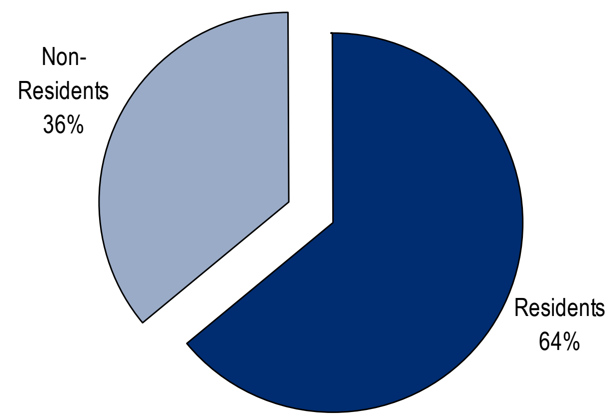
We have detailed that the changing demand structure for periphery debt (whereby more and more is held by domestic banks, Figure 14) is likely to have implications regarding the market impact of downgrades going forward (*European Rates Weekly - When Do Downgrades Matter?*). Again, a situation of simultaneous downgrades by both Moody's and S&P in the near term such that Spain is no longer eligible for CITI benchmark indices, is not our base case.

Figure 14. Flows of Domestic Bank Purchases of their own Government Debt (€bn)



Source: Citi Research, ECB

Figure 15. Holders of Spanish government debt (%)



Source: Citi Research, Tesoro

Curve impact: Defaults are more common in corporate credit than in the world of government bonds. Typically, as (perceived) default risk intensifies, pressure is focused on the front-end of curves, with the credit term structure ultimately inverting in a distressed environment. In this example, the market essentially trades the expected recovery value of the asset. However, the current context for the EMU market might alter such dynamics. The following two reasons could provide a degree of insulation to the front-end should downgrade risk intensify:

Domestic bid

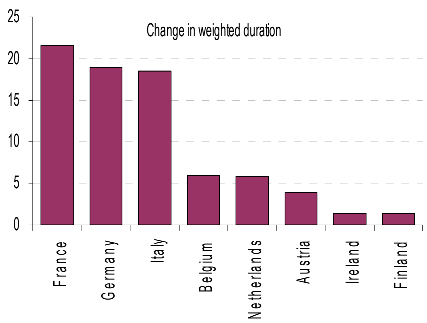
- **Domestic holdings:** The share of domestic holdings of Spanish government bonds has risen and stands at approximately two-thirds of outstanding debt (Figure 15). For the period of Jan-Jun 2013, Spanish banks have bought around €55bn in Spanish govt securities (around €9bn per month), representing over 70% of net issuance. Appetite has been for shorter-dated maturities (where much of issuance over the last year has come). The existence of a reliable buyer base should work to reduce volatility to some credit rating changes and insulate the front end of curves where the bid is more strongly felt.

Central bank policy

- **OMT:** For the front-end of EMU curves to invert, or come near to inverting, the market would in effect be testing the resolve of the ECB "to do whatever it takes". One base case would be for OMT to be activated which would see front-end spreads rally in the event of a potentially unlimited buyer in the 1-3yr sector.

With this in mind, once a sovereign requests the necessary ESM aid, it is a workable assumption that the power to unlock potentially unlimited ECB purchases would insulate the front-end of curves, driving an outperformance of this sector. With the front-end anchored, we would expect the usual bear-steepening / bull-flattening dynamic to manifest itself, largely as a function of the perceived level of systemic risk.

Figure 16. France, Germany and Italy are likely to benefit the most in a scenario of Spain leaving EGBI



Source: Citi Research

Index scenarios: For Citi's EGBI index, a loss of IG status from *both* S&P and Moody's would be required for a sovereign to lose its index eligibility. This is not our base case in the near-term. For the purpose of scenario analysis given that it is Spain that it is rated at the lowest IG rating by both Moody's and S&P, we provide consequent changes within the Citi indices. Spain is the fourth largest component of EGBI, accounting for around 11.8% of its total market value. However, the duration of the Spanish index is shorter than the EGBI average, which should result in an EGBI extension in the event of Spain leaving. The biggest extension is likely to be in the long-end, with 15yrs+ sector registering an extension of around 0.29 years. In terms of country split, we would expect the biggest changes in weighted duration of a theoretical Spanish exit to be France, followed by Germany and Italy (*European Rates Weekly - When Do Downgrades Matter?*).

Wider market implications: A downgrade that would eject a sovereign from certain benchmark indices would certainly be a significant event to say the least. Core markets such as Germany are likely to attract renewed safe haven demand, but the degree of contagion elsewhere is likely to be a function of the perception about the crisis management response. In this sense, OMT has changed the landscape in terms of alleviating systemic concerns (and helps explain the rally to date). In our view, OMT would likely provide a de facto ceiling for yields because of the market's belief in the commitment behind it.

Conclusion – domestic fundamentals back in focus

Rating changes can occur any time. Sovereigns need not be on "review" or "negative watch" for their ratings to change as was the case with Moody's regarding France in November last year and more recently with S&P regarding Italy. It is not our base case that a downgrade of the Spanish sovereign is imminent given the more "medium-term" nature of what the rating agencies say are their rating drivers. Systemic concerns that could affect ratings are also much lower today than they have been in the past. However, Spain does remain on negative outlook by both Moody's and S&P which means the market's preoccupation with its rating is unlikely to dissipate completely until such outlooks are removed. With that in mind, economic data and domestic fundamentals are likely to remain prominent to the wider spread outlook, as will the ongoing political commitment for structural reforms.

UK Rates – MPC minutes fail to reassure

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Just over a week on from the introduction of forward guidance by the MPC and the market remains underwhelmed. The front-end continues to sell-off, albeit lagging the move further out along the curve. This, at least in part, owes something to summer illiquidity and the tendency of the sterling market to overshoot. However, the MPC minutes and the latest estimate for the jobless rate have done little to encourage a correction. We still think the *very* front-end looks too cheap, but beyond that further bear steepening seems likely in the coming months.

Little respite for the front-end from the MPC minutes

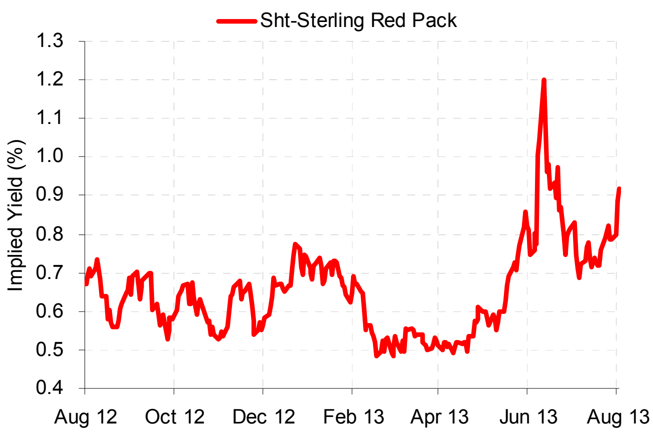
The lack of a unanimous vote should not concern markets

The MPC minutes revealed an 8-1 vote in favour of forward guidance. The dissenter in this one-off vote was Martin Weale on the basis of the rather technical consideration that the time horizon for the inflation knockout should be shorter than 18-24 months. However, Weale still agreed with the adoption of forward guidance and all members will now operate within its framework. So, in practical terms, the lack of a unanimous vote should not concern markets.

Of more concern is the apparent disagreement over whether the front-end sell-off is, or is not, justified

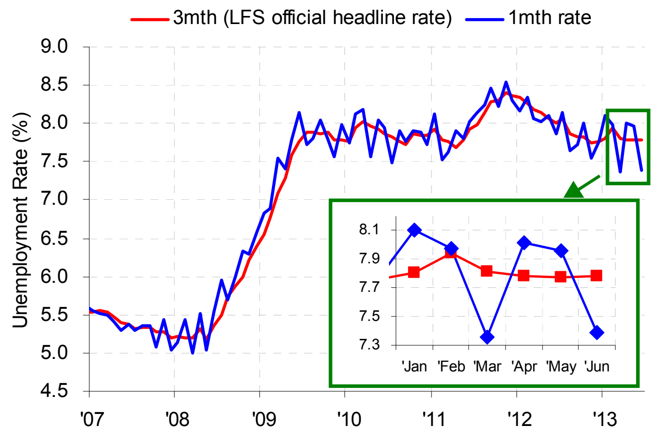
Perhaps of more concern is the apparent range of views among MPC members. In particular, a split appears to have emerged on whether the rise in front-end yields should still be judged as *"unwarranted"* as was the case last month. The minutes for August revealed that most members judged that the rise in front-end yields *"remained greater than could be reconciled with the improvement in the economic outlook"*. However, other members *"did not think market interest rates were obviously out of line with their view of the outlook"*. The wording is a bit fuzzy, but it doesn't look reassuring for the front-end. Furthermore, the acknowledgement in the minutes that *"some rise since May might be justified"* alters the risk-reward for front-end longs. The MPC no longer appears to be targeting a correction in front-end yields back to the pre-May levels. While we still believe that the *very* front-end looks cheap (such as the Short-Sterling red pack, see Figure 17 and below), anything from 2yrs and out is likely to struggle to perform in the near-term.

Figure 17. Short-sterling red pack



Source: Citi Research, Bloomberg.

Figure 18. Jobless rate – headline 3mth avg vs single month estimates



Source: Citi Research, ONS.

Further intervention from the MPC may yet be needed

The risk already materialising is that the failure of the MPC to strengthen the message of forward guidance will add fuel to the sell-off, especially with the data still improving. If this gathers momentum, then the MPC may have to consider further intervention to prevent an *"unwarranted rise in market interest rates that prematurely tightened financial conditions"*. This could be in the form of stronger communication (Carney will next be speaking on 28 August) or more QE. Indeed, the minutes hinted that the previous supporters of more QE (two members) may reinstate their vote in favour if the market impact of forward guidance disappoints.

Unemployment rate steady, somewhat surprisingly

The jobless rate was unchanged at 7.8% in April-June

This week's update on the now all-important jobless rate also failed to bring any relief to the front-end. The headline three-month rate for April-June was unchanged at 7.8%. This was inline with the median but below the Citi forecast of 8%.

The jobless rate will need to pickup to 8% in July to prevent the 3mth average from falling below 7.8%

The headline three-month rate has now been steady at 7.8% for the last three months (Figure 18). We had expected a rise given that the single month estimates for April and May were both 8%. In the event, the single month estimate for June was 7.4% - the same as March – allowing the three-month average to remain at 7.8%. It also means that the headline rate will edge lower at the next reading (released 11 September) unless the estimate for July is 8% or higher.

The market is likely to be overly sensitive to any fall in the jobless rate

The market is likely to be overly sensitive to any fall in the jobless rate given the proximity of the MPC's 7% threshold.

Strategy summary – improving data trumping guidance

This week's events have added to the bearish momentum

Given the lack of reassurance from the MPC minutes or the unemployment data, it is little wonder that the bearish momentum in the market has continued. The only bullish news this week was that core CPI fell back to 2% in July. For now, then, the market looks set to continue to react more to improving economic data than to the MPC's forward guidance.

Front-end longs should be confined to the very front-end only

The Short-sterling red pack still looks too cheap, to us

Our strategy from last week to receive GBP 2y1y vs 1y1y stopped out on Wednesday following the MPC minutes and jobless report. We would now confine any fresh bullish trades to the very front-end of the curve only. For example, we still believe that the Short-sterling red pack (currently comprising of September 2014 through to June 2015 expiries) looks too cheap (Figure 17). The market seems to disagree with the MPC's base case that policy rates will be on hold until the second half of 2016, but a rate hike around end-2014 seems highly unlikely to us. In the very least, we would expect guidance to take out some of this term premia in short-sterling.

The path of least resistance is for a steeper 2s10s curve

The long-end will likely be driven by non-domestic factors

For the long-end, 10yr yields are now back to levels last seen in mid-2011. The outlook for this part of the curve continues to depend more on international drivers, especially the performance of Treasuries, than domestic policy.

Bear steepening of 2s10s seems most likely over the coming months

For the curve, the path of least resistance is still steepening, in our view. The market impact of forward guidance may have disappointed, but it still should keep the 2yr sector well anchored vs longer maturities. We envisage bear steepening of 2s10s over the coming months and quarters. Further out, the usual bear flattening dynamic is likely, especially now that it seems increasingly unlikely that guidance will be strong enough to cap yields much beyond the 2yr sector.

Gilt Calendar Roll: G U3-G Z3

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(1) Fair value vs current market level

Based on current levels we see fair value for the roll as 94 ticks

Hedge ratio: 1000 U3 = 999 Z3

- We currently see fair value for the G U3/G Z3 roll at 94 ticks (Figure 19). Based on repo rates at the time of writing, our fair value for the roll is approximately 3 ticks higher than current market pricing. Investors would require 999 Z3 contracts for every 1000 U3 contracts that they hold.[1]

Figure 19. Gilt Roll September - December Contracts

	G U3	G Z3
CTD	UKT-5.000-03/07/25	UKT-5.000-03/07/25
Repo to delivery	0.44% (GC--0.02%)	0.44% (GC--0.02%)
Fair value estimate	**94 ticks**	
Fair value estimate - current market level	3 ticks	
Hedge Ratio (contracts)	**1000 (U3) = 999 (Z3)**	

Source: Citi Research

(2) Probability of a CTD switch and implications on the roll

Front contract: deliverables basket

A CTD switch would occur in both contracts if Mar23-Mar25 flatten by over 9bps

- There are 3 bonds eligible for delivery into September (Figure 20). Gilt 5% Mar25 is the current CTD to September and is trading 3 cents rich to futures. As shown in the table below, we assign a 97% probability that Mar25s will be CTD at expiry.

Figure 20. Deliverables into G U3 – September Contract Details

	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
G U3	**UKT-5.000-03/07/25**	**1.091572**	**0.59**	**0.03**	**109.82**	**0.27**	**33**	**97%**
	UKT-2.250-09/07/23	0.856739	1.04	0.81	110.74	-6.29	8	3%
	UKT-1.750-09/07/22	0.831088	1.72	1.55	111.66	-12.73	28	0%

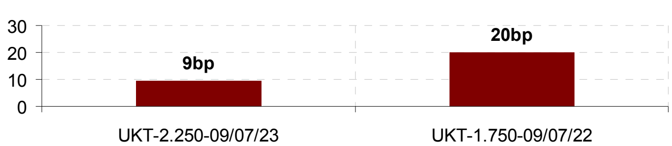
Source: Citi Research

A CTD switch in the front contract is very unlikely, in our view

- Figure 21 shows the required cheapening for gilt deliverables versus the current CTD to September (Mar25s) to result in a CTD switch. For example, if Sep23s (second CTD) were to cheapen by over 9bps vs the 5% Mar25 (current CTD to September) it will become the new CTD to September.

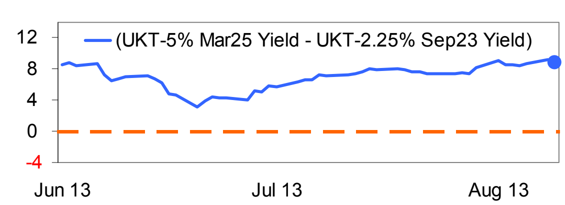
- Based on the historical spread between the current CTD (Mar25) and CTD2 (Sep23), the likelihood of a CTD switch is very low (Figure 22).

Figure 21. Required cheapening vs 5% Mar25 for a CTD switch (bps)



Source: Citi Research

Figure 22. Required yield spread for a CTD switch to occur (orange line) vs current yield spread between CTD and CTD2 (blue line)



Source: Citi Research

[1] Futures trading involves substantial risk of loss.

Back contract: deliverables basket

There is a very low probability of a CTD switch in the back contract, in our view

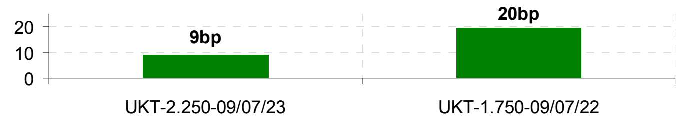
- Gilt 5% Mar25 is the current CTD to December and is trading 10 cents rich to futures (Figure 24).

Figure 23. Deliverables into G Z3 – December Contract Details

	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
G Z3	**UKT-5.000-03/07/25**	**1.089918**	**1.76**	**0.06**	**108.95**	**0.31**	**33**	**89%**
	UKT-2.250-09/07/23	0.859648	1.50	0.80	109.82	-1.80	8	11%
	UKT-1.750-09/07/22	0.834998	2.05	1.54	110.73	-3.93	28	0%

Source: Citi Research

Figure 24. Required cheapening vs 5% Mar25 for a CTD switch (bps)



Source: Citi Research

Unlikely to have a CTD switch in the back contract

- For a CTD switch to occur in the back contract, Sep23s would have to cheapen by over 9ps vs Mar25 (current CTD to December) - Figure 24. Based on the historical spread between Mar25s and Sep22s, we see the likelihood of a CTD switch in the back contract as extremely low (Figure 22).

(3) Free-float of deliverables

We do not expect the level of free-floats to have a major impact on repo levels

- We do not expect the level of free-float (amount outstanding – BoE holdings – DMO holdings) to have a huge impact on the repo level of each bond.

(4) Main factors that would affect the value of the roll

Repo levels and positioning favours rolling shorts early and longs late

- **Impact on the roll from a change in repo:** For every 10bps change in repo to December, the fair value of the roll changes by approximately 5 ticks (Figure 25). With the repo rate for both contracts close to GC the risk-reward favours rolling shorts early and longs late.
- **Positioning:** Based on our investor intelligence, we think the majority of speculative investors are slightly short 10yr gilt futures. From a positioning perspective this points to rolling shorts early and longs late.

(5) Open Interest vs previous rolls

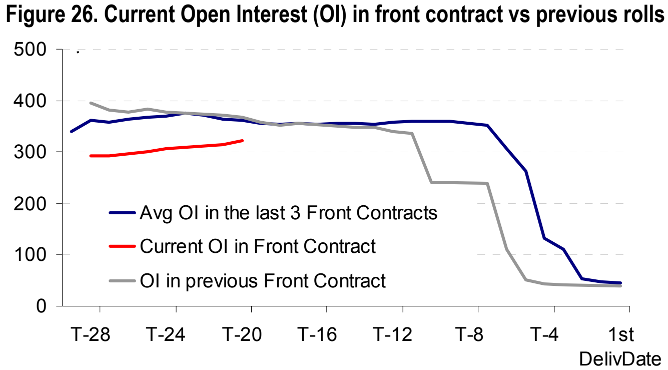
- As has been the case with previous gilt rolls, we would expect the roll to gather momentum around 10 days before the first delivery date (2 September 2013) - Figure 26. Thus, roll activity should pick up very soon.

Figure 25. Fair Value of U3-Z3 Futures Roll for different repo rates

Repo of Z3 CTD (UKT-5.000-03/07/25) to expiry	Repo of U3 CTD (UKT-5.000-03/07/25) to expiry: 0.34	0.44	0.54
-0.06	121	118	115
0.04	116	113	110
0.14	112	108	105
0.24	107	103	100
0.34	102	99	95
0.44	97	94	90
0.54	92	89	86
0.64	87	84	81
0.74	82	79	76

Source: Citi Research

Figure 26. Current Open Interest (OI) in front contract vs previous rolls



Source: Citi Research, Bloomberg

Conclusion: bullish on the roll

We are bullish on the roll: roll shorts early and longs roll late

Once roll activity starts to pick up, we suggest rolling shorts early and longs late for two reasons: (1) with the repo rate for gilt deliverables in both contracts trading close to GC, the risk-reward is skewed towards the repo level of deliverables widening to GC which would increase the value of the roll, and (2) we believe speculative investors are slightly short gilts. We are therefore bullish on the gilt roll.

Euro SSA Strategy

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Moody's recently published a draft proposal to revise its credit rating methodology for supranational institutions. In short, the proposal is to introduce a reference "scorecard" that quantifies several factors to act as a stylised representation of their credit assessment. We welcome this enhancement and provide an overview of the core features below.

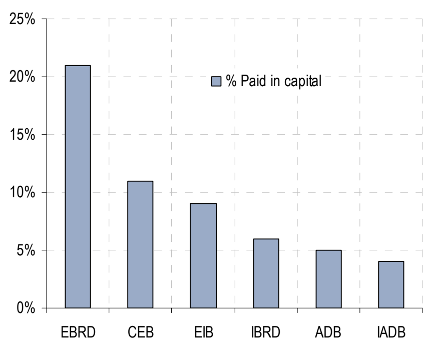
Moody's enhances rating methodology for supras

Definition of a supranational: Moody's[2] characterizes supranationals as either Multinational Development Banks (MDBs) or Other Supranational Entities (OSEs):

- **Multinational Development Banks:** Jointly owned entity by a group of governments to further some economic or social development policy goal. Capital structure typically comprises some paid-in capital and then "callable" capital. Examples include the EIB and IBRD (Figure 27).

- **Other Supranational Entities:** Similar to MNBs but with no paid-in capital. Their capital structure is therefore more reliant on guarantees, grants and taxes and hence their credit quality is more linked to that of the underlying distribution of guarantors. Examples include the EFSF and EU.

Figure 27. MDBs have a proportion of capital that is "paid-in" unlike OSEs



Source: Citi Research, Moody's

In both cases, note that (at least for the supranationals rated by Moody's), there has never been a default by a supranational and there has never been a case where callable capital has been called. Common fundamental characteristics include:

- Not profit maximising, but orientated around some policy goal
- Chartered by international treaty
- Historically treated with preferred creditor status by governments

Scorecard factors

Moody's proposal is to introduce a factor scorecard focusing on certain credit indicators. Each factor is given a weight to approximate its importance to the overall rating, after which adjustments can be made. It is important to note that the scorecard is to provide a reference tool rather than something to be used in an axiomatic fashion. As Moody's comments, "*the illustrative mapping in this document uses historical results while our ratings are based on our forward-looking expectations. As a result, we would not expect the scorecard-indicated rating to match the actual rating in every case. We would expect very few rating changes to result from the publication of the methodology*". In short, the scorecard has two broad factors which indicate the supra's "intrinsic financial strength" and then a final factor where adjustments can be made according to the degree of member support.

Factor 1: Capital Adequacy (60%) - This is important in assessing the ability to absorb credit or market losses that result from its operations and to preserve the supra's ability to repay debt. It has the following sub-components:

- **50% Position:** Ratio of usable equity to loans, equity operations and risk-weighted treasury assets and also includes the debt to usable equity ratio
- **40% Asset quality:** Weighted average borrower rating; % non-performing loans out of gross loans outstanding
- **10% Profitability:** Net income to total assets; net interest and dividend margin to earning assets

[2] "*Multilateral Development Banks and Other Supranational Entities*" Moody's, 12th August 2013

Factor 2: Liquidity (40%) - This is important in the assessment of the shock absorption capacity. Furthermore, the liquidity position is important because supras are likely to have to use their own resources in the time between a shock and the actual delivery of underlying member support. Liquidity is therefore a function of the amount of cash available and the quality of securities held that can be readily converted into cash. This factor is driven by the following:

– **50% Position:** Short-term debt plus currently maturing long-term debt all divided by discounted liquidity assets

– **50% Funding:** Bond-implied ratings as measured by Moody's and the weighted average cost of debt

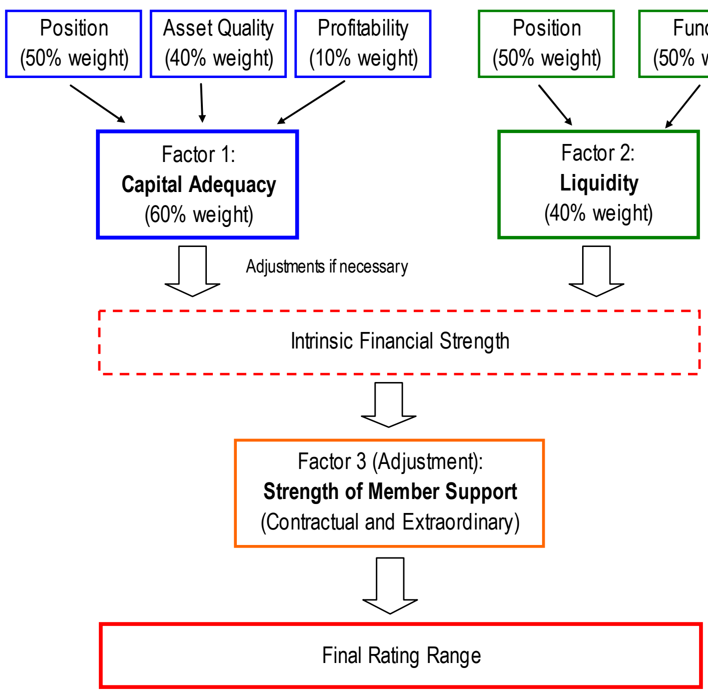
Factor 3: Strength of Member Support – Once the Intrinsic Financial Strength is assessed from Factor1 and Factor2, adjustments can be made based on the degree of underlying member support. This incorporates the following and also notes the fact that, should capital calls be required, different members might provide support at different times depending on their own availability of funds.

– **Contractual support:** This assesses the contractual obligation to provide additional capital upon request, ie, the callable capital as legally documented. Moody's focuses on the ratio of total debt to discounted callable capital.

– **Extraordinary support:** This takes into account the underlying member's ability and willingness to provide support. Moody's details the median average weighting and assesses the propensity to provide such support.

Final adjustments can be made and schematically, this scorecard process is also presented below in Figure 28.

Figure 28. Schematic Representation of Moody's Rating Methodology for Supras

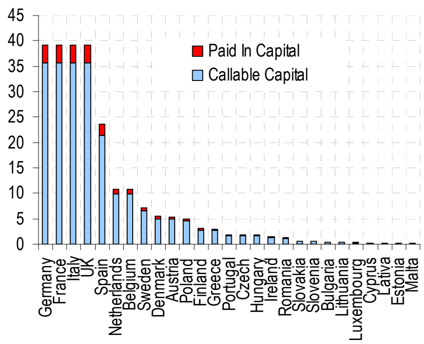


Source: Citi Research, Moody's

Scorecard supports the idea the SSA ratings are not "mechanical"

While the scorecard serves to illuminate characteristics pertaining to a supra's credit quality, it is important to recognize, in our view, that this must be viewed in context. Supra ratings, like most ratings, are not mechanically derived by a fixed algorithm but take into account other qualitative aspects such as franchise value and the degree to which there has been a strong tradition of market access.

Figure 29. Moody's median-weighted shareholder rating for EIB is now Aa1 (EIB's shareholders, total subscribed capital €bn)



Source: Citi Research, EIB

EIB provides a good example of this point. Moody's describes EIB as a "positive outlier" in that its rating is higher than indicated by the scorecard approach. Furthermore, in their latest Credit Opinion on EIB (5th August), it is recognized that "mechanically", EIB's median-weighted shareholder rating is Aa1 (like many other supras). This follows Moody's downgrades of the UK and France to Aa1. Moody's also notes that EIB is more "leveraged" than other supras in that its gearing ratio limit (possible loans to total subscribed capital) at 2.5x is higher than 1x which is more typical for supras. However, such factors are mitigated by the following characteristics:

- Strong legal framework in the EU Treaty and EIB Statutes
- Strong involvement in development finance such that in times of stress, EIB is likely to be one of the few providers of long-term funding for troubled countries
- Access to ECB liquidity operations – unique among supranationals and a factor that significantly reduces liquidity risk

In this sense, EIB's "mechanical" scorecard characteristics must be placed into the wider context to fully appreciate its overall rating as determined by Moody's.

Conclusion – enhanced transparency is welcome

While modifications may occur to the scorecard to better take into account feedback, such moves that enhance transparency are welcome. We also agree that such approaches can be useful to ascertain specific credit characteristics of an entity but that this should always be placed into a wider context and not viewed in isolation. Broader factors such as the degree of shareholder support, franchise value, the policy mandate and the historical establishment of market traditions are also important. We look forward to the development of this enhanced rating methodology; further details are expected in October later this year.

Covered Bond Strategy

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La Banque Postale might not be the first covered bond ending the summer break but will probably be the first inaugural covered bond issuance after the summer. We expect that the first bond will price similar to the richest trading names.

La Banque Postale is ready for its debut

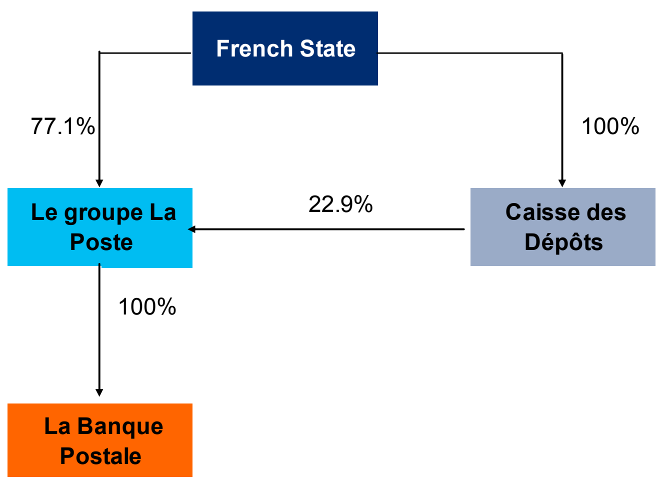
French supply is well sought

Year to date, French covered bond supply has been disappointing. In total, French banks have issued €11.8bn which is just 18% of the meagre €61bn euro benchmark issuance in 2013. While we expect some issuers to return in the next four months, one newcomer is about to be ready to place its inaugural benchmark/jumbo covered bond to the primary market. In June, LBP received its issuing license by the French Autorité de contrôle prudential (ACP, the French prudential authority). Back in 2011, the entity already announced that a part of the bank's strategic plan would be the creation of a covered bond issuing entity until 2015. The name might be familiar to covered bond market participants. LBP has a decisive role in the business structure of CAFFIL which issued its first deal under the new name recently (more information on the ownership structure of CAFFIL, see also *Euro SSA and Covered Bond Monthly*).

The French state is again involved heavily

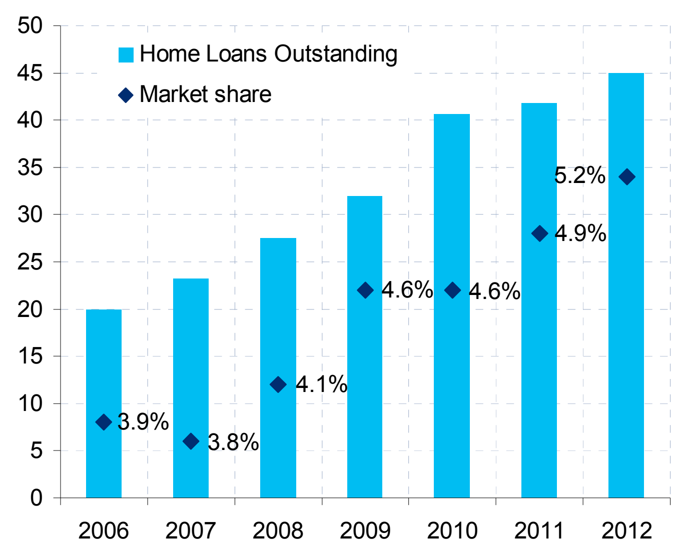
LBP is a wholly owned entity of Le Groupe La Poste (LP) which is legally bound to keep a majority stake in LBP. LP itself is controlled by the French state who is the main stakeholder, directly and indirectly via Caisse des Dépôts (22.9%). S&P thinks that "there is a very high likelihood that the Republic of France would provide timely and sufficient extraordinary support to LP in the event of financial distress. "[3] However, although LP's role for the French government is seen as very important, the public company gets a rating deduction and is not rated in line with the French government. While France is currently rated Aaa/AA+/AA+, LP displays --/A/AA- and its affiliate, LBP, is rated --/A+/A+. Therefore, LBP's covered bond program already received a AAA by S&P. At the current stage, the covered bonds have an unused uplift of three notches.

Figure 30. Ownership structure



Source: LBP, Citi Research

Figure 31. Market share (%) and home loans outstanding (EURbn)



Source: LBP, Citi Research

[3] S&P: La Poste, 05.11.2012

According to S&P, the following points are key strengths and weaknesses to the issuer:

Strengths:

- Implicit support from the Republic of France
- Strong franchise and critical market share in French household banking
- Above-average funding profile and strong liquidity position

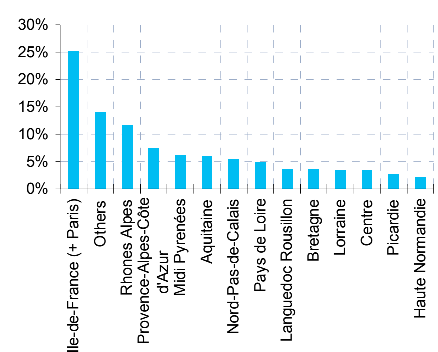
Weaknesses:

- Spread risk generated by large portfolios of securities
- Structural interest-rate exposure
- Concentration of the loan book

Cover pool is exclusively French risk

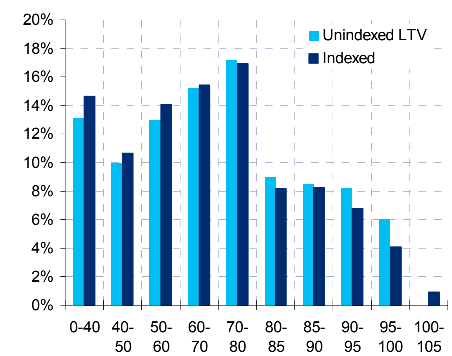
The cover pool is exclusively composed of French residential loans. A potential new issuance volume of €1bn would result in an OC ratio of 104.49%. The contractual minimum overcollateralization is 8.1%. The expected weighted average life of the assets is 7.57 years. This would fit perfectly to an issuance into the hot spot for this year's primary market activity (37% of all covered bonds issued had a maturity of seven years). It is common for French Obligations à l'Habitat (OH) to be mainly backed by home loans guaranteed by Crédit Logement. The same applies for LBP SFH covered bond program. 90% of all loans are guaranteed by Crédit Logement while 10% of the pool consists of 1st lien mortgages without state guarantee.

Figure 32. Geographical distribution, %



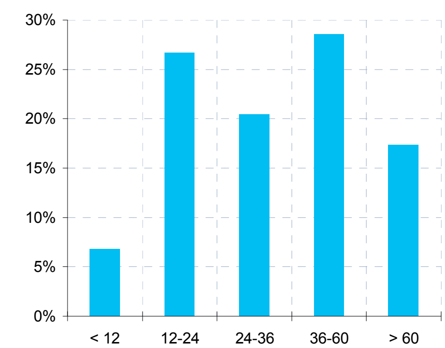
Source: LBP, Citi Research

Figure 33. LTV brackets, %



Source: LBP, Citi Research

Figure 34. Seasoning in months, %



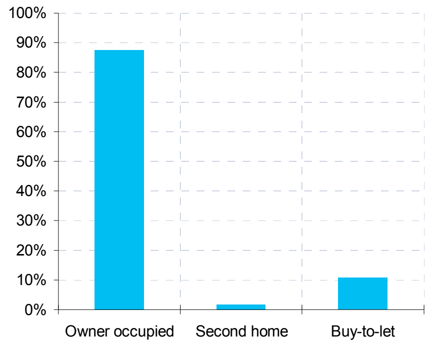
Source: LBP, Citi Research

Cover pool is very granular

The substitution assets (€109mn) are exclusively rated between AAA and AA- and are ECB eligible. None of the loans transferred to the pool are in arrears. The purpose of the bulk of the collateral is owner occupation (87%), followed by buy-to-let purpose (11%). All loans are amortising gradually. Moreover, all loans are fixed rate assets. The latter should help to minimize the necessity to use derivatives given the issuer's eagerness to issue fixed rate bonds. However, the documentation allows the issuer to diversify its covered bond funding by using floating rate bonds. This would then probably imply that the issuer would use derivatives to minimise asset liability mismatches but also that hedging risk would be introduced. The average loans size is €62,892. This already points out that the pool is very granular. This is reconfirmed by the fact that the 31,887 loans do not lead to concentration risk. The exposure to the ten largest borrowers is only 0.21%. The WA indexed current LTV (calculated on the basis of the current outstanding amount of the loans to the appraised values or prices of the residential assets using an indexation methodology) stands at 64.66% which is a bit lower than the unindexed current LTV

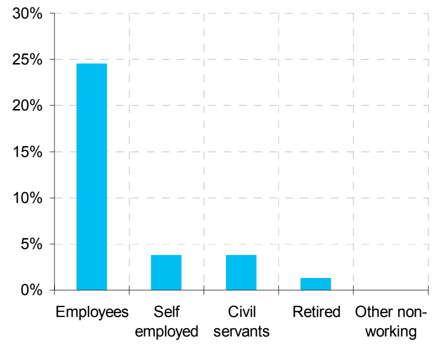
(calculated on the basis of the current outstanding amount of the loans and the initial valuation / price of the residential assets) at 66.37%. This reflects the latest developments on the French housing market.

Figure 35. Loan purpose, %



Source: LBP, Citi Research

Figure 36. Pool composition by borrowers, %



Source: LBP, Citi Research

Figure 37. Cover pool key figures

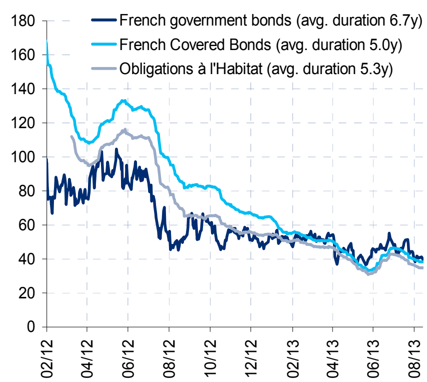
Outstanding assets (EURbn)	2.005
Expected liabilities (EURbn)	1
Expected OC	104.49%
Number of loans	31887
Average outstanding balance, EUR	62892
Expected WAL, years	7.57
Loans in arrears	0.00%
WA unindexed current LTV	66.37%
WA indexed current LTV	64.66%
WA debt to income	27.60%
Share Crédit Logement guarantees	90.15%
Share fixed rate assets	100.00%
WA Seasoning (months)	37
WA Term to maturity (years)	16

Source: LBP, S&P, Citi Research

The program's bank account is the ECB

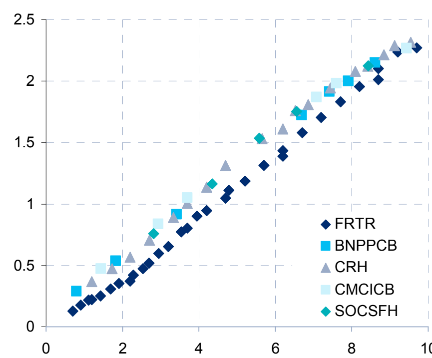
When S&P forms its covered bond rating, it also takes into account supporting ratings, i.e. the ratings of the account bank and hedging counterparties. So far, the latter doesn't exist but will be considered once hedging counterparties are needed. More importantly, in our eyes, is the bank account involved in LBP's SFH program. While many other OH issuers use their parent company as the bank account, LBP uses the AAA rated ECB through Banque de France. As there is no replacement framework, S&P links the covered bond rating and the outlook to the ratings to those on the European Central Bank.

Figure 38. French Covered bonds vs government debt, ASW-spread, bp



Source: Markit, Citi Research

Figure 39. Current yield levels, %



Source: Citi Research

Conclusion – strong parent company and high quality cover pool

LBP should price in line with strongest French covered bond issuers

Given the ownership structure of the issuer and the high quality of the cover pool, we think that the inaugural issuance will be priced at levels of the strongest French names. Although the issuance is the inaugural covered bond of the bank, we don't think that a substantial new issue premium has to be provided except if the issuer came to market behind a potential wave of new issuances. However, the recent past showed that issuance waves in 2013 were very small and the demand overhang is still substantial in the covered bond space.

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

Mohit Aggarwal

Nishay Patel

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

Figure 40. 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 TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
19 Aug (Mon)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-35k		
20 Aug (Tue)	UK	1.75	New index-linked gilt maturing on 22 November 2019 (issue and size confirmed)			16k	
20 Aug (Tue)	US	0.75 - 1	Outright Treasury Coupon Purchases: 15/11/2024 - 15/2/2031		-15k		
21 Aug (Wed)	Germany	5.0	New Schatz Sep15 (issue and size confirmed)				9k
22 Aug (Thu)	US	16.0	5-Year TIPS (re-opening)		205k		
22 Aug (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-35k		
23 Aug (Fri)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-32k		
			Weekly $DV01 of Issuance	**10.6**			
			Total Number of Futures Contracts		**89k**	**16k**	**9k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
26 Aug (Mon)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-35k		
27 Aug (Tue)	Belgium	3.0	OLO 5yr and 10yr (estimated size and tenors)				18k
27 Aug (Tue)	Italy	2.5	CTZ (estimated size)				4k
27 Aug (Tue)	Italy	1.0	BTPei (estimated size)				8k
27 Aug (Tue)	US	34.0	2-Year		89k		
27 Aug (Tue)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 31/8/2017 - 15/5/2018		-24k		
28 Aug (Wed)	US	35.0	5-Year		220k		
28 Aug (Wed)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-32k		
29 Aug (Thu)	Italy	5.5	BTP 5yr and 10yr (estimated tenor and size)				33k
29 Aug (Thu)	US	29.0	7-Year		250k		
29 Aug (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases : 15/2/2036 - 15/8/2043		-35k		
			Weekly $DV01 of Issuance	**42.9**			
			Total Number of Futures Contracts		**434k**	**0k**	**64k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
03 Sep (Tue)	Austria	1.3	RAGB 5yr and 10yr (estimated size and tenors)				8k
03 Sep (Tue)	UK	1.5	01/8% Index-linked Treasury Gilt 2024 (issue confirmed, estimated size)			16k	
04 Sep (Wed)	Germany	5.0	New Bobl-167 Oct18 (issue and size confirmed)				21k
05 Sep (Thu)	Spain	3.0	Bono 2yr and 5yr (estimated tenors and size)				10k
05 Sep (Thu)	France	7.5	OAT 5yr, 10yr and 30yr (estimated tenors and size)				71k
			Weekly $DV01 of Issuance	**19.3**			
			Total Number of Futures Contracts		**0k**	**16k**	**110k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
10 Sep (Tue)	Netherlands	2.5	DSL Jul23 re-opening (issue confirmed, size €2-3bn)				20k
10 Sep (Tue)	UK	2.6	3¼% Treasury Gilt 2044 (issue confirmed, estimated size)			48k	
10 Sep (Tue)	US	31.0	3-Year		81k		
11 Sep (Wed)	Germany	5.0	New Bund Aug23 (issue and size confirmed)				39k
11 Sep (Wed)	US	21.0	10-Year (re-opening)		245k		
12 Sep (Thu)	Italy	5.0	BTP New Nov16				28k
12 Sep (Thu)	Italy	1.3	CCTeu (estimated size)				5k
12 Sep (Thu)	UK	3.6	2¼% Treasury Gilt 2023 (issue confirmed, estimated size)			34k	
12 Sep (Thu)	US	13.0	30-year (re-opening)		316k		
			Weekly $DV01 of Issuance	**75.9**			
			Total Number of Futures Contracts		**642k**	**82k**	**93k**

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on August 30, 2013. Therefore we have only provided details of Fed buybacks upto 30 August. Additional issues expected in September: Belgium 30yr (€4bn), Finland 5yr (€4bn), Ireland 5yr and 10yr (€1.2bn). These are not included in the cash flow tables and gross supply charts of this report as the timing of these supply events have not been announced.

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3 mths)

Figure 41. EMU-10 Redemptions over the next three months (€bn)

	Redemptions = €142bn										
Redemptions	DEU 33	FRA 32	NLD 0	ITA 28	ESP 16	BEL 14	AUT 13	FIN 0	PRT 6	GRC 0	IRL 0
(Fri) 13-Sep-13	17.0										
(Mon) 23-Sep-13									5.8		
(Wed) 25-Sep-13		10.7									
(Sat) 28-Sep-13						13.5					
(Mon) 30-Sep-13				10.6							
(Fri) 11-Oct-13	16.0										
(Sun) 20-Oct-13							13.1				
(Fri) 25-Oct-13		21.1									
(Thu) 31-Oct-13					16.2						
(Fri) 01-Nov-13				17.8							

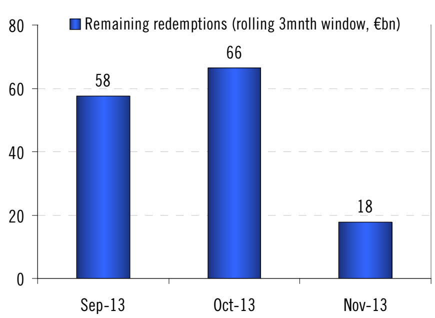
Source: DMOs, Bloomberg, Citi Research

Figure 42. EMU-10 Coupon Payments over the next three months (€bn)

	Coupons = €50bn										
Coupons	DEU 3	FRA 17	NLD 0	ITA 15	ESP 5	BEL 5	AUT 2	FIN 1	PRT 2	GRC 0	IRL 2
(Sun) 18-Aug-13											0.001
(Sun) 01-Sep-13				6.5							
(Wed) 04-Sep-13	0.99										
(Fri) 13-Sep-13	0.1										
(Sun) 15-Sep-13				1.9			1.3	0.5			
(Fri) 20-Sep-13	0.0										0.02
(Mon) 23-Sep-13									0.3		
(Wed) 25-Sep-13		0.3									
(Sat) 28-Sep-13						4.6					
(Tue) 01-Oct-13				0.2							
(Wed) 09-Oct-13	0.3										
(Thu) 10-Oct-13	0.4										
(Fri) 11-Oct-13	0.6										
(Sun) 13-Oct-13	0.1										
(Mon) 14-Oct-13	0.2										
(Tue) 15-Oct-13				0.8					1.0		
(Wed) 16-Oct-13									0.4		
(Fri) 18-Oct-13											1.6
(Sun) 20-Oct-13							1.0				
(Fri) 25-Oct-13		16.2							0.4		
(Thu) 31-Oct-13					5.1						
(Fri) 01-Nov-13				5.5							

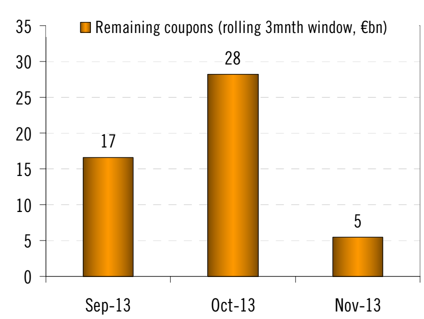
Source: DMOs, Bloomberg, Citi Research

Figure 43. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 44. 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 45. Provisional Bill Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (EUR Million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 1	20 Aug (Tue)	Spain	6month (21 February 2014), 12month (new issuance) - tenors confirmed, estimated size	5
			Total Size in Week 1	**5.0**
Week 2	27 Aug (Tue)	Spain	3month (22 November 2013), 9month (16 May 2014) - tenors confirmed, estimated size	3.6
	28 Aug (Wed)	Italy	6 month (28 February 2014; issue confirmed, estimated size)	9
			Total Size in Week 2	**12.6**
Week 4	11 Sep (Wed)	Italy	12 month (12 September 2014; issue confirmed, estimated size)	7
			Total Size in Week 4	**7.0**

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

Source: DMOs, Citi Research

2013 projections for bill supply

Figure 46. 2013 Italy and Spain Bill Supply – Citi Forecast (Euro Billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	1.3	1.8		3.2	2.5	9	5	3
Feb	1.0	2.9	3.7	3.6		11	9	2
Mar	1.8	2.3	2.6	4.0		11	12	-2
Apr	0.9	1.3	2.2	4.6		9	8	1
May	0.9	1.2	2.6	3.3		8	6	2
Jun	1.1	1.1	2.6	4.0		9	10	-1
Jul	0.9	1.9	3.0	2.9		9	5	3
Aug	1.0	1.5	2.6	3.5		9	11	-3
Sep	1.0	1.3	2.6	4.0		9	8	1
Oct	1.0	1.3	2.6	4.0		9	8	1
Nov	1.0	1.3	2.6	4.0		9	11	-2
Dec	1.0	1.3	2.6	4.0		9	9	
Total	**12.9**	**19.0**	**29.6**	**45.2**	**2.5**	**109**	**103**	**7**

ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		9.8		9.8		20	21	-2
Feb		10.1		9.7		20	19	
Mar		9.4		7.8		17	19	-2
Apr	3.0	9.2		8.9		21	18	3
May		9.2		7.0	3.0	19	16	4
Jun		9.2		7.0		16	16	
Jul		9.8		7.0	2.5	19	11	9
Aug		9.0		8.6		18	18	-1
Sep	3.0	9.0		7.0		19	20	-1
Oct		9.0		7.0		16	17	-1
Nov		9.0		7.5		17	16	1
Dec		10.0		7.5		18	25	-8
Total	**6.0**	**112.6**		**94.7**	**5.5**	**219**	**216**	**2**

*3month bills will 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 47. Citi Inflation Forecasts

Month	EUR HICPxT Index Forecast	EUR HICPxT MoM Change	EUR HICPxT YoY Change	France CPIxT Index Forecast	France CPIxT MoM Change	France CPIxT YoY Change	UK RPI Index Forecast	UK RPI MoM Change	UK RPI YoY Change	US CPURNSA Index Forecast	US CPURNSA MoM Change	US CPURNSA YoY Change
Jun 13	117.07	0.1	1.5	125.78	0.2	0.8	249.70	-0.1	3.3	233.45	0.2	1.7
Jul 13	116.22	-0.7	1.4	125.35	-0.3	0.9	249.70	0.0	3.1	233.60	0.1	2.0
Aug 13	116.24	0.0	1.0	125.83	0.4	0.6	250.70	0.4	3.2	234.00	0.2	1.6
Sep 13	116.54	0.3	0.5	125.53	-0.2	0.6	251.70	0.4	3.1	234.20	0.1	1.2
Oct 13	116.96	0.4	0.6	125.82	0.2	0.8	252.60	0.4	2.8	234.10	-0.0	1.2
Nov 13	117.04	0.1	0.9	125.72	-0.1	0.9	252.80	0.1	2.9	233.90	-0.1	1.6

Source: Citi Research, Bloomberg *Shaded = Already released*

Figure 48. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Sep	Carry: RY (bp) 1 Oct	Carry: RY (bp) 1 Nov	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Sep	Carry: BE (bp) 1 Oct	Carry: BE (bp) 1 Nov	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.11*	*0.10*	*0.10*									
TIPS 1/15	-1.20	3	3	4	1	6	*US-2.250-01/31/15*	143	-1	1	4	0	4	4	-0
TIPS 4/15	-1.09	5	5	4	2	7	*US-2.500-04/30/15*	137	-3	-1	3	0	4	4	-0
TIPS 7/15	-1.40	4	4	3	-1	2	*US-4.250-08/15/15*	175	-2	-1	2	-2	-1	7	-2
TIPS 1/16	-1.09	7	7	3	1	5	*US-2.625-02/29/16*	158	-5	-4	2	-1	1	20	0
TIPS 4/16	-1.00	3	3	3	2	5	*US-2.000-04/30/16*	156	1	1	2	-1	1	18	-5
TIPS 7/16	-1.20	-7	-7	2	1	3	*US-4.875-08/15/16*	187	11	12	1	-2	-2	13	-15
TIPS 1/17	-0.91	9	9	2	2	4	*US-3.125-01/31/17*	177	-4	-4	1	-1	-1	18	1
TIPS 4/17	-0.78	4	4	2	2	5	*US-0.875-04/30/17*	176	2	2	1	-1	-1	16	-5
TIPS 7/17	-0.89	-5	-5	2	2	4	*US-4.750-08/15/17*	196	11	11	1	-2	-2	14	-14
TIPS 1/18	-0.65	14	14	2	2	5	*US-3.500-02/15/18*	192	-6	-6	1	-2	-1	17	3
TIPS 4/18	-0.55	8	8	2	2	5	*US-0.625-04/30/18*	193	-0	-0	1	-1	-1	14	-3
TIPS 7/18	-0.64	-2	-2	2	2	4	*US-4.000-08/15/18*	204	9	10	0	-2	-2	19	-12
TIPS 1/19	-0.38	9	8	2	2	5	*US-2.750-02/15/19*	200	-0	-0	1	-1	-1	21	-2
TIPS 7/19	-0.37	14	14	2	2	5	*US-3.625-08/15/19*	213	-5	-5	0	-2	-2	19	3
TIPS 1/20	-0.12	9	9	2	3	5	*US-3.625-02/15/20*	202	1	1	0	-1	-2	29	-3
TIPS 7/20	-0.10	10	10	2	2	5	*US-2.625-08/15/20*	217	0	0	0	-2	-2	23	-2
TIPS 1/21	0.09	10	10	2	3	5	*US-3.625-02/15/21*	209	1	1	0	-1	-2	30	-3
TIPS 7/21	0.12	10	10	2	2	5	*US-2.125-08/15/21*	222	-0	-0	0	-2	-2	24	-2
TIPS 1/22	0.28	9	9	2	3	5	*US-2.000-02/15/22*	217	-0	-0	0	-1	-2	27	-2
TIPS 7/22	0.30	2	2	1	2	5	*US-1.625-08/15/22*	227	7	7	0	-1	-2	25	-9
TIPS 1/23	0.43	9	9	1	2	5	*US-2.000-02/15/23*	222	0	0	0	-1	-2	29	-2
TIPS 7/23	0.44	9	9	1	2	4	*US-2.500-08/15/23*	225	-0	0	0	-1	-2	31	-3
TIPS 1/25	0.61	5	5	1	2	5	*US-7.625-02/15/25*	220	3	3	0	-2	-2	40	-5
TIPS 1/26	0.70	10	10	1	2	4	*US-6.000-02/15/26*	227	-2	-2	0	-2	-2	36	-1
TIPS 1/27	0.78	5	5	1	2	4	*US-6.625-02/15/27*	229	3	3	0	-2	-2	38	-5
TIPS 1/28	0.88	10	10	1	2	4	*US-6.125-11/15/27*	228	-3	-3	0	-2	-2	41	-0
TIPS 4/28	0.84	9	9	1	2	4	*US-5.500-08/15/28*	239	-1	-1	0	-1	-2	28	-2
TIPS 1/29	0.91	9	9	1	2	4	*US-5.250-02/15/29*	236	-2	-2	0	-1	-2	35	-1
TIPS 4/29	0.90	8	8	1	2	4	*US-5.250-02/15/29*	237	-1	-1	0	-1	-2	33	-2
TIPS 4/32	1.02	8	8	1	2	4	*US-5.375-02/15/31*	235	-0	-0	0	-1	-2	43	-3
TIPS 2/40	1.30	14	14	1	2	3	*US-4.625-02/15/40*	234	-6	-6	0	-1	-2	49	3
TIPS 2/41	1.31	11	11	1	2	3	*US-4.750-02/15/41*	234	-3	-3	0	-1	-2	50	-0
TIPS 2/42	1.36	12	12	1	1	2	*US-3.125-02/15/42*	238	-4	-4	0	-1	-2	46	1
TIPS 2/43	1.38	11	11	1	1	2	*US-3.125-02/15/43*	238	-2	-2	0	-1	-2	46	-0

Source: Citi Research, Bloomberg

Figure 49. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Sep	1 Oct	1 Nov	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Sep	1 Oct	1 Nov	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.09*	*0.10*	*0.10*									
BTPei14	0.33	-4	-4	5	-70	-72	*BTP 8/14*	74	3	4	1	-84	-99	36	-4
OATei15	-0.95	6	6	0	-45	-51	*FFRG 4/15*	125	-4	-4	0	-46	-54	14	3
BUNDei16	-0.60	3	3	1	-31	-33	*BUND 1/16*	84	3	3	0	-31	-35	15	-1
BTANi16	-0.78	3	3	1	-13	-3	*FFRG 4/16*	129	-0	0	1	-15	-6	29	7
BTPei16	1.39	-10	-10	3	-19	-15	*BTP 8/16*	84	4	4	0	-28	-31	50	-2
OATi17	-0.56	3	3	1	-9	-1	*FFRG 4/17*	136	1	1	0	-12	-5	28	5
BTPei17	1.70	-8	-8	3	-13	-9	*BTP 8/17*	110	3	3	0	-23	-26	34	-1
BOBLei18	-0.46	4	4	1	-17	-18	*BUND 1/18*	110	3	3	0	-18	-21	20	-1
OATei18	-0.28	2	2	1	-15	-16	*FFRG 4/18*	134	3	3	0	-18	-20	24	-1
BTPei18	2.03	-5	-5	2	-10	-6	*BTP 8/18*	104	0	0	0	-18	-20	46	1
OATi19	-0.18	5	5	1	-5	1	*FFRG 4/19*	150	2	2	0	-8	-4	32	0
BTPei19	2.07	-6	-6	2	-8	-5	*BTP 9/19*	128	4	4	38	-16	-18	30	-3
BUNDei20	-0.23	9	9	1	-12	-12	*BUND 1/20*	130	1	1	0	-14	-16	20	1
OATei20	0.06	8	8	1	-11	-11	*FFRG 4/20*	152	-1	-1	0	-14	-16	18	4
OATI21	0.25	6	6	1	-3	2	*FFRG 4/21*	158	1	1	0	-6	-4	39	4
BTPei21	2.59	-2	-2	2	-6	-2	*BTP 9/21*	121	-4	-4	33	-12	-14	52	5
OATei22	0.40	7	7	1	-8	-7	*FFRG 4/21*	144	-0	-0	0	-11	-13	41	1
BUNDei23	0.11	10	10	0	-7	-7	*BUND 1/22*	140	1	1	0	-9	-11	36	0
OATi23	0.49	7	7	1	-3	2	*FFRG 10/23*	192	2	1	0	-6	-4	19	1
BTPei23	2.84	-5	-5	2	-4	-1	*BTP 8/23*	128	-2	-2	0	-10	-12	60	3
OATei24	0.67	10	10	1	-6	-5	*FFRG 10/23*	173	-2	-3	0	-9	-11	23	5
BTPei26	3.02	-4	-4	1	-3	-1	*BTP 3/26*	137	0	0	23	-9	-10	65	2
OATei27	0.83	9	9	1	-5	-4	*FFRG 4/26*	189	-1	-1	0	-8	-10	19	3
OATi29	0.77	11	11	1	-1	2	*FFRG 4/29*	216	-2	-2	0	-4	-3	14	6
OATei32	0.96	8	8	0	-4	-3	*FFRG 10/32*	211	0	0	0	-7	-8	4	2
BTPei35	3.01	-3	-3	1	-2	-1	*BTP 8/34*	184	3	3	0	-6	-8	32	-1
OATei40	1.07	8	8	0	-3	-2	*FFRG 4/41*	223	-1	-1	0	-5	-6	1	4
BTPei41	3.26	-5	-5	1	-2	0	*BTP 9/40*	169	2	2	16	-6	-7	55	-1

Source: Citi Research

Figure 50. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Oct	1 Nov	1 Dec	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Oct	1 Nov	1 Dec	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.42*	*0.42*	*0.42*									
UKTi Jul16	-2.00	1	1	2	4	6	*UKT 9/16*	274	4	4	1	2	2	36	2
UKTi Nov17	-1.53	14	16	-8	-2	4	*UKT 3/18*	285	-4	-6	-11	-7	-3	25	9
UKTi Apr20	-0.96	10	10	3	6	8	*UKT 3/20*	287	1	1	0	0	0	32	-1
UKTi Nov22	-0.47	13	13	-2	2	6	*UKT 3/22*	288	-1	-2	-6	-4	-3	48	5
UKTi Mar24	-0.18	13	13	-1	2	5	*UKT 3/25*	305	0	-1	-5	-4	-3	32	2
UKTi Jul24	-0.29	11	10	3	5	7	*UKT 3/25*	316	3	2	-1	-1	-1	29	-1
UKTi Nov27	-0.03	10	10	-1	2	5	*UKT 12/27*	319	2	2	-4	-4	-3	39	1
UKTi Mar29	0.07	8	9	-1	2	4	*UKT 12/30*	325	4	4	-4	-3	-3	33	-1
UKTi Jul30	-0.03	5	5	2	4	6	*UKT 6/32*	343	7	7	-1	-1	-1	22	-3
UKTi Nov32	0.07	5	5	-1	2	4	*UKT 6/32*	333	7	6	-4	-3	-3	36	-1
UKTi Mar34	0.11	4	4	-1	1	3	*UKT 9/34*	336	8	7	-3	-3	-3	32	-3
UKTi Jan35	0.06	3	3	2	3	4	*UKT 3/36*	344	8	8	-1	-1	-2	28	-2
UKTi Nov37	0.08	2	3	-1	1	3	*UKT 12/38*	344	8	7	-3	-3	-3	31	-2
UKTi Mar40	0.10	2	2	0	1	3	*UKT 9/39*	345	8	8	-3	-3	-3	29	-3
UKTi Nov42	0.07	1	2	0	1	2	*UKT 12/42*	352	8	7	-3	-3	-3	27	-2
UKTi Mar44	0.12	1	1	0	1	2	*UKT 1/44*	354	8	8	-3	-3	-3	24	-11
UKTi Nov47	0.08	1	1	0	1	2	*UKT 12/46*	354	9	8	-3	-3	-3	25	-4
UKTi Mar50	0.08	1	1	0	1	2	*UKT 12/49*	354	9	8	-2	-3	-3	23	-4
UKTi Mar52	0.10	1	1	0	1	2	*UKT 7/52*	354	9	9	-2	-3	-3	24	-4
UKTi Nov55	0.04	0	1	0	1	2	*UKT 12/55*	356	9	9	-2	-3	-3	23	-4
UKTi Mar62	0.02	0	0	0	1	1	*UKT 1/60*	357	9	9	-2	-3	-3	21	-4

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
01-Aug-13	European Weekly	Money market outlook and ECB policy	8	EUR
		UK Rates – Guidance underwhelms, for now	11	UK
		Bund seasonals and performance in August	14	EUR
		Buy EUR 1m30y ATMF receiver	15	EUR
		SSA Summer Switches	16	EUR
		Covered Bond Strategy	17	EUR
08-Aug-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	EUR
07-Aug-13	NOTE	Euro SSA Strategy: Summer Switches	-	EUR
05-Aug-13	NOTE	ECB: Higher Excess, Fixings Normalize	-	EUR
05-Aug-13	NOTE	European Flow Monitor: Demand for the Core Extends Further, Led by 2-5yrs	-	EUR
01-Aug-13	European Weekly	A balancing act from the ECB	8	EUR
		UK Rates: Scenarios for ‘guidance day’	10	UK
		With QE less likely, who will buy all the gilts?	12	UK
		SSA Strategy: The sterling SSA market	20	UK
		Covered Bond Strategy	21	EUR
		EMU-10: August Supply Outlook	23	EUR
01-Aug-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
30-Jul-13	NOTE	European Rates Strategy: The Month-end RV Pack	-	EUR
30-Jul-13	NOTE	UK Rates Strategy: With QE less likely, who will buy all the gilts?	-	UK
29-Jul-13	NOTE	Flow Monitor: Demand for core markets has held up, unlike for the non-core	-	EUR
25-Jul-13	European Weekly	OAT: The long-end after the downgrade	8	EUR
		Belgium – overview and long OLOs vs OATs	10	EUR
		EUR/USD decoupling with positive carry	15	Global
		Where is the carry in euro swaps?	16	EUR
		Euro inflation: OATei24 look relatively rich	21	EUR
		SSA Strategy	23	EUR
		Covered Bond Strategy	25	EUR
		End-July EGBI Projection	28	EUR
		EMU Inflation Linked Index Projection	29	EUR

Appendix A-1

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