

European Month-end Index Projections

Month-end provides broad-based support to EGBs

- **European Government Bond Index (EGBI):** The EGBI is projected to extend by its largest in a year. This is primarily due to the significant amount of bonds (€108bn) dropping out of the index.
- **Broad-based support at a country-level:** The changes should be most supportive for France, followed by Italy, Germany, Spain and the Netherlands. Further, when put in an historical context, we expect French, German and Dutch indices to extend by their largest amount in a year, which should be even more supportive for core yields.
- **Curve split:** We expect index changes to be supportive for the 10yr sector of France, Austria and the Netherlands. The changes should also provide support to the ongoing richening of 10yr France vs 5s and 30s. We also expect support for 30yr Spain, putting flattening pressure on the long-end of the Spanish curve.

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Figure 1. EGBI: Projected month-end duration change

EGBI Effective Duration			Largest Duration changes over last year		
Jul Index	Aug Index (e)	Duration Change (e)	Minimum	Maximum	Average Absolute Change
6.39	6.51	0.128	0.01	0.13	0.05

Source: Citi Research

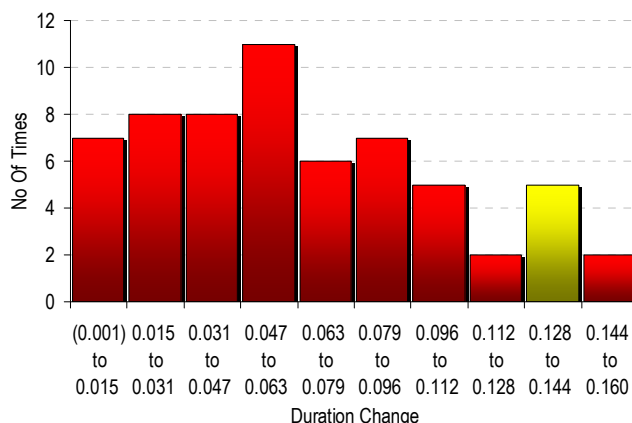
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EGBI changes: broadly supportive for EGBs

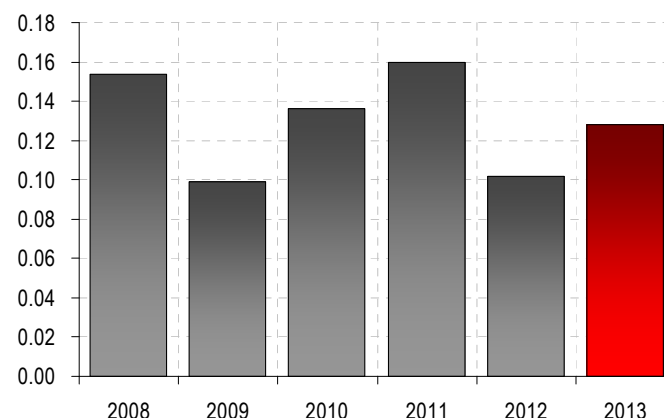
We project the effective duration of the EGBI to increase by 0.13 at the end of July (Figure 1)¹. This would be its largest extension since February 2012, driven by around €108bn of bonds dropping out of the index. This is consistent with the relatively large changes seen in July over the last few years (Figure 3).

Figure 2. Five-year distribution of month-end EGBI changes



Source: Citi Research

Figure 3. End-July EGBI changes over the last 5 years



Source: Citi Research

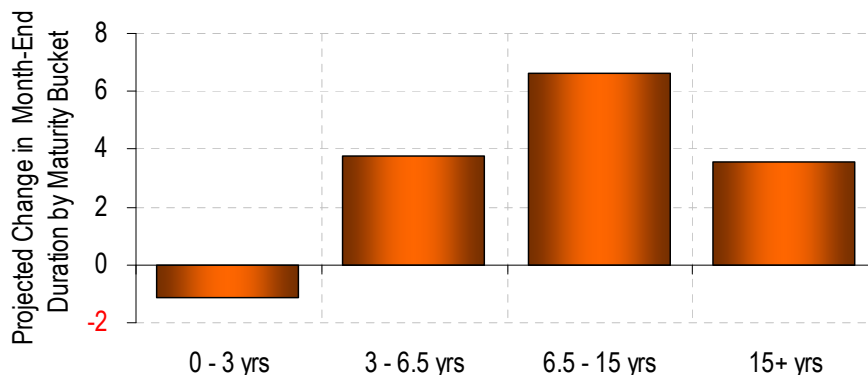
Curve breakdown of projected July EGBI changes

Flattening pressure on 2s10s

Absence of support for 2s

At the EGBI level, we expect significant support for the 10yr sector, which should put flattening pressure on 2s10s (Figure 4).

Figure 4. End-July Projected Index Changes by Curve Sector (Weighted Duration)



Source: Citi Research

Figure 5. Bonds dropping out of the EGBI at the end of July

Issuer	Bond	Outstanding amount (€bn)
Italy	BTP 4.25% Jul14	13.9
France	BTAN 3% Jul14	27.2
Netherlands	DSL 3.75% Jul14	16.4
Austria	RAGB 4.3% Jul14	9.6
Spain	Bono 4.75% Jul14	16.4
Germany	Bund 4.25% Jul14	25.0

Source: Citi Research

Bonds dropping out of the EGBI

Issuance over the fixing period, 25 June to 25 July, will be eligible for inclusion in the index at the end of July. On the other hand, bonds that fall below 1 year of residual maturity on the last calendar day of the month are excluded from the index. This month, around €108bn of bonds across 6 issuers will be dropped from the index (Figure 5). This is likely to have significant impact on the EGBI duration.

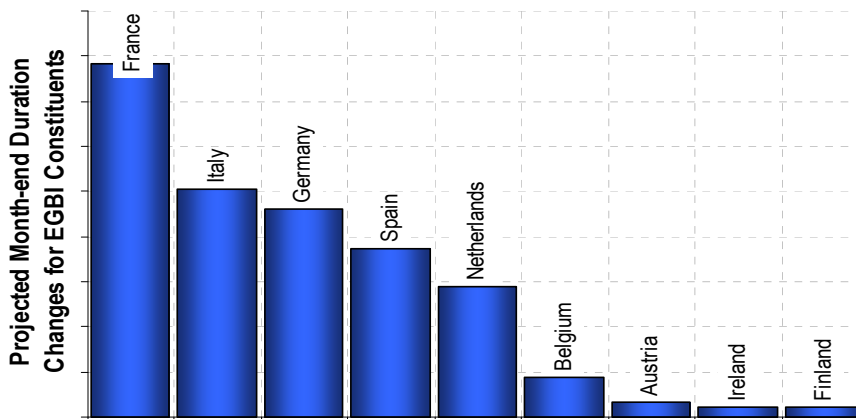
¹ Based on Citi supply estimates. Supply is the main driver of duration projections, but other factors, e.g., yield level and curve shape, also affect the calculations and are subject to change.

Projected changes most supportive for France, followed by Italy, Germany, Spain and the Netherlands

Projected changes broadly supportive for EGBs

Projected changes at a country level indicate broad-based support for EGBs when index portfolios rebalance at the end of the month. These changes should be most supportive for France, followed by Italy, Germany, Spain and the Netherlands (Figure 6). Further, when put in an historical context, we expect French, German and Dutch indices to extend by their largest amount in a year, which should be even more supportive for core yields.

Figure 6. France likely to benefit the most from end-July changes (weighted duration)



Source: Citi Research

France, Germany and the Netherlands expected to extend by their largest amount in a year (weighted duration)

Detailed analysis of the changes

Figure 7 shows detailed analysis of end-July EGBI changes. We expect significant extensions in the individual country indices which make up the EGBI. In particular, the German index is likely to extend by its largest amount in a year, and the Spanish and Dutch indices by their second-largest amounts.

For EGBI portfolios, it is the weighted duration change that is most relevant. On this metric, France, Germany and the Netherlands are projected to extend by their largest amount in a year.

Figure 7. Breakdown of end-July EGBI projections

	Jul Index		Aug Index*		Projected Change			Duration change range over last year (unweighted)				
	% weight in EGBI	Duration	% weight in Index	Duration	Weighted Dur Change X 100	Weight Change	Duration Change	-ve	+ve	Average Absolute Change	Duration 5yr Z-Score	Weighted Dur 5yr Z-Score
Germany	20.9	6.81	20.8	6.94	2.31	(0.06)	0.13	(0.05)	0.13	0.06	1.05	0.84
Italy	22.8	6.01	22.9	6.08	2.52	0.15	0.07	0.00	0.17	0.07	(0.03)	0.58
France	24.0	6.70	24.0	6.85	3.92	0.05	0.15	(0.04)	0.17	0.06	1.31	1.40
Spain	11.7	5.37	11.7	5.52	1.86	0.00	0.16	(0.06)	0.16	0.06	1.01	1.00
Belgium	6.4	6.81	6.5	6.81	0.44	0.06	0.00	(0.04)	0.36	0.07	(0.58)	0.08
Netherlands	6.5	6.65	6.5	6.96	1.44	(0.09)	0.31	(0.10)	0.34	0.07	1.95	1.53
Ireland	1.9	5.37	1.9	5.37	0.10	0.02	0.00	(0.03)	0.35	0.05	(0.18)	(0.13)
Austria	4.2	6.81	4.1	7.10	0.16	(0.15)	0.29	(0.04)	0.62	0.10	1.86	(0.15)
Finland	1.6	6.29	1.6	6.29	0.10	0.02	0.00	(0.03)	0.55	0.14	(0.53)	(0.13)

Source: Citi Research

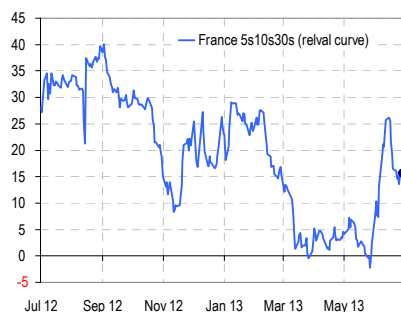
*Projected

Summary of pressures on individual country curves from the projected index changes

Support for:

- 10yr France, Austria, the Netherlands
- 5yr Netherlands
- 30yr Spain

Figure 9. France 5s10s30s



Source: Citi Research

Summary of pressures on individual country curves²

Figure 8 summarises the pressures on individual country curves from the projected index changes. Green arrows indicate support for prices relative to other points on the respective domestic curves (and red arrows point to downward price pressure). Double arrows indicate particularly strong pressure on that part of the domestic curve. White/transparent arrows indicate weaker price pressures. The underlying detail is shown below in Figure 10 to Figure 21.

Figure 8. Summary of price pressures on individual domestic curves

	2yr	5yr	10yr	30yr	
Germany			↑		Germany
France		↑	↑↑		France
Austria		↑	↑↑	↑	Austria
Spain		↑		↑	Spain
Netherlands	↓	↑↑	↑↑	↑	Netherlands
	2yr	5yr	10yr	30yr	

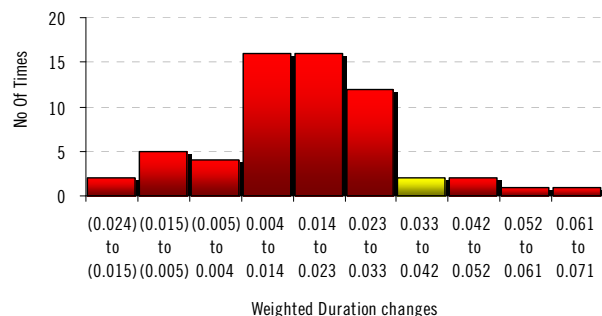
Source: Citi Research

Putting projected country changes in perspective

Below we show the distributions of weighted duration changes and the curve splits of the projected changes. As the 5yr distributions show (charts on the left below), projected extensions in France, Germany, the Netherlands and Spain are statistically significant. Furthermore, there are notable implications of changes for the individual yield curves.

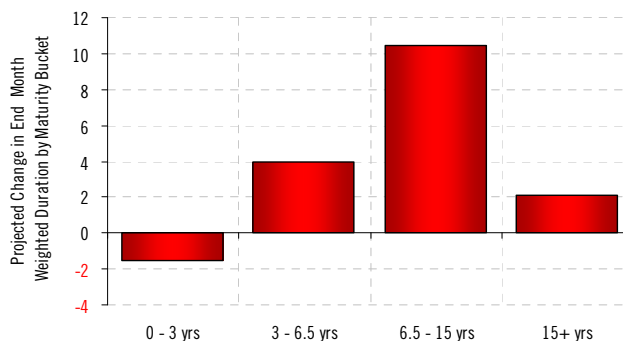
Looking at the curve split (charts on the right) we expect index changes to be supportive for the 10yr sector of France (Figure 11), Austria (Figure 15) and the Netherlands (Figure 13). The changes should also provide support to the ongoing richening of 10yr France vs 5s and 30s (Figure 9). We also expect support for 30yr Spain, putting flattening pressure on the long-end of the Spanish curve.

Figure 10. France: Distribution of month-end duration changes over the last five years (weighted duration)



Source: Citi Research

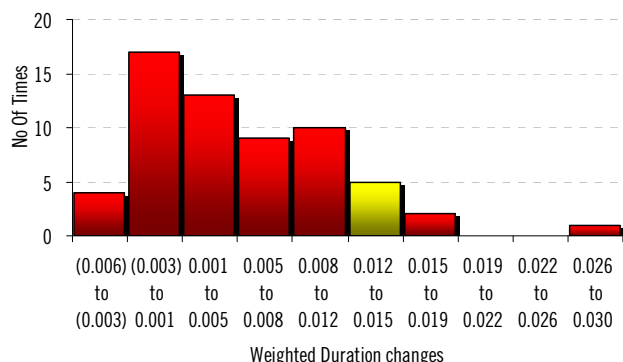
Figure 11. France: Maturity split of projected index changes (weighted duration) suggests support for the 10yr sector



Source: Citi Research

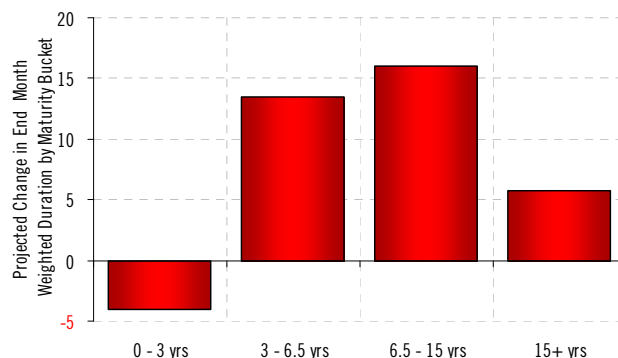
² Note that all these changes are on the domestic curve only, and should not be viewed as necessarily indicating cross-market opportunities.

Figure 12. Netherlands: Distribution of month-end duration changes over the last five years (weighted duration)



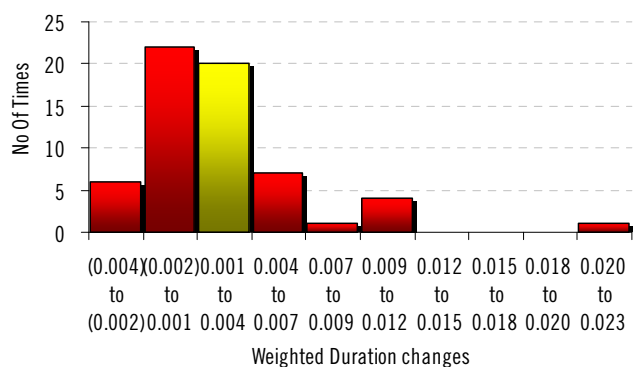
Source: Citi Research

Figure 13. Netherlands: Maturity split of projected index changes (weighted duration) indicates support for the 5-10yr sectors



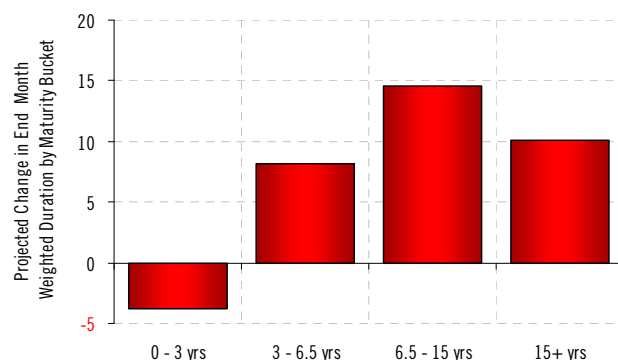
Source: Citi Research

Figure 14. Austria: Distribution of month-end duration changes over the last five years (weighted duration)



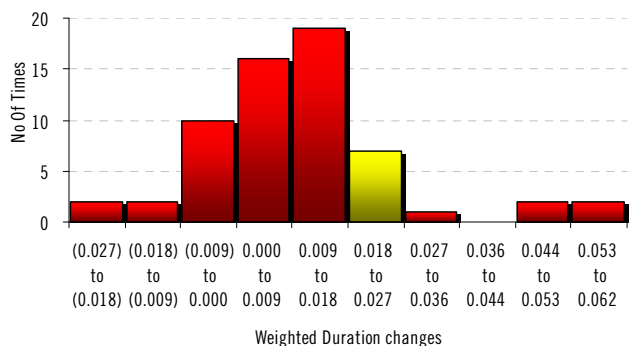
Source: Citi Research

Figure 15. Austria: Maturity split of projected index changes (weighted duration) suggests support for 5yr+ sectors



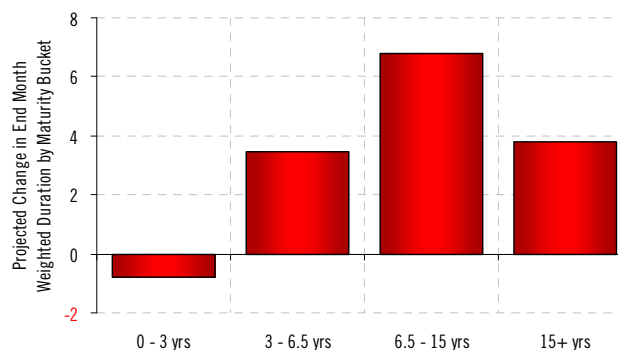
Source: Citi Research

Figure 16. Germany: Distribution of month-end duration changes over the last five years (weighted duration)



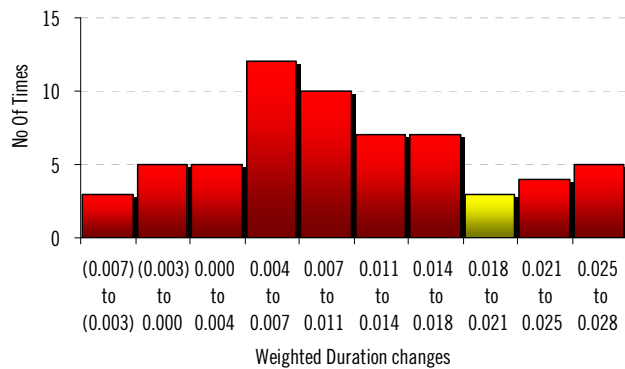
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Figure 17. Germany: Maturity split of projected index changes (weighted duration)



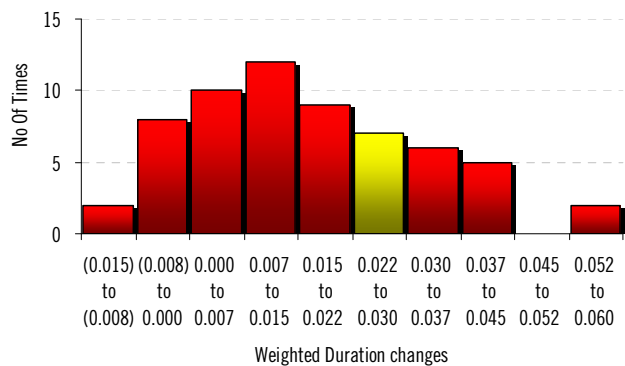
Source: Citi Research

Figure 18. Spain: Distribution of month-end duration changes over the last five years (weighted duration)



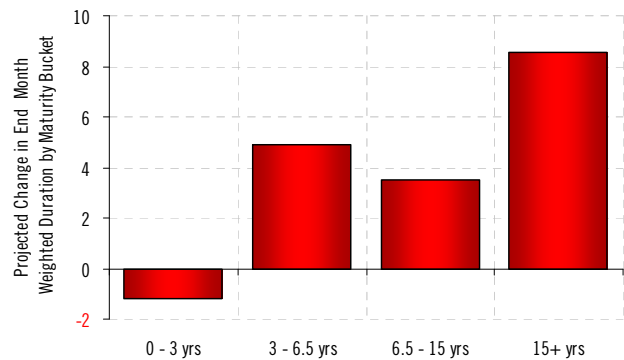
Source: Citi Research

Figure 20. Italy: Distribution of month-end duration changes over the last five years (weighted duration)



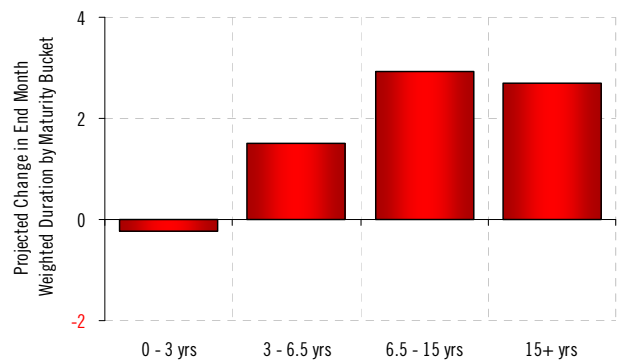
Source: Citi Research

Figure 19. Spain: Maturity split of projected index changes (weighted duration) indicates 10s30s flattening pressure on the curve



Source: Citi Research

Figure 21. Italy: Maturity split of projected index changes (weighted duration)



Source: Citi Research

Appendix A-1

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