

Developed Market Rates

29 September 2011 | 48 pages

International Interest Rate Strategist

The EFSF and Central Bank Meetings

- **Overview:** Ratification of the EFSF and policy actions from the ECB and MPC will be the main focus of the next week or so. We expect current optimism to wane and look to go long duration and sell spreads on any corrections.
- **EFSF Ratification:** We expect the amended EFSF framework will be ratified by all 17 member states, as necessary, and the new rules enacted by mid-October 2011. However ratification of the current proposal will bring little relief in our view.
- **EFSF Leverage:** With interest in increasing the effective capacity of the EFSF intensifying we summarize the main options, look at the salient points for bond markets and explore some of the implications for spreads.
- **Central Bank Meetings:** Ahead of next week's ECB and BoE meetings we recommend EUR 5s10s (or EUR 5s30s) conditional bull-steepeners and buying gilts 10y 20yr fwd versus UST 10y 20yr fwd.

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

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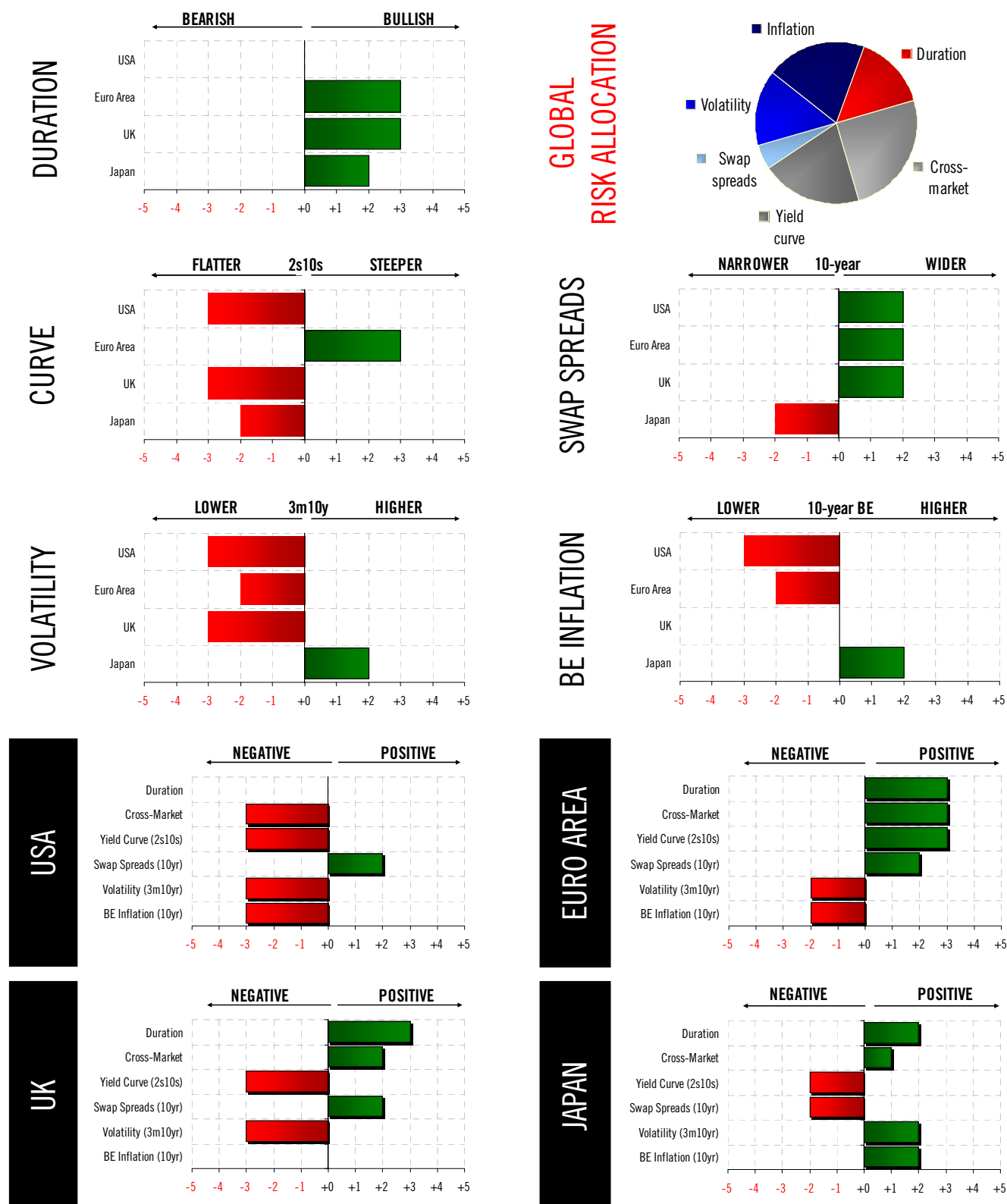
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Figure 1. Strategy Summary Table

GLOBAL	View	Strategies
Direction	The Fed announcement has failed to boost risk assets and this continues to support long duration trades. With US data improving relative to Europe we favour longs in Bobls rather than in US Treasuries. Possible UK QE also likely to be supportive	Long Dec Bobl - target 123.00, stop below at 121.00. Long 30yr UKT at 3.60% - target 3.35%, stop 3.70%
Yield Curve	The larger than expected maturity extension by the Fed has flattened the yield curve dramatically. We still think that the curve is too steep for the policy to have a meaningful impact on risk assets and therefore continue to favour flatteners in USD and GBP. With the ECB more likely to act via monetary policy than asset purchases we think the EUR curve might re steepen.	UST 10s30s flattener. Box 5s10s or 5s30s steepeners in EUR/DBR versus USD/UST or GBP/UKT
Cross-market	Euro data has taken a sharp turn down vs US and UK. With Fed & MPC more likely to respond with asset purchases but ECB to remain focussed on short rates we would receive EUR vs USD	Rec 5yr EUR vs pay 5yr USD. Buy 30yr Gilts versus 30yr DBR, possibly hedged with paying GBP2yr2yr vs EUR 2yr2yr
EMU Spreads	Short term risk reward is unappealingly symmetrical and we expect further positive reporting of EFSF-leverage headlines as momentum seems to grow. However there are still significant hurdles to be overcome before the headlines become reality.	Sell into Tier 2 strength rather than buy weakness. Reduce Tier 2 risk here in anticipation of more positive sounding EFSF leverage headlines. (Don't) buy the rumour, sell the fact.
Swap Spreads	UST swap spreads likely to be supported, in the long end, by Fed purchases. Bund swap spreads are hostage to flight-to-quality and broader uncertainty. Bunds viewed as the "last AAA issuer". Fair value is no longer a credible measurement and swap spread volatility is very high.	Consider a 5s30s swap spread convergence trade in either US Treasuries or Bunds. Any EMU fiscal transfer would reverse the widening in 5-10yr sector while 30s could benefit if the banking crisis worsens
Inflation	The risk backdrop continues to dominate inflation markets. Global break-evens have fallen a long way, but the escalating sovereign debt crisis coupled with growth concerns suggests that it is too early to position for widening.	Keep risk light. Bundeis look attractive versus OATe on a break-even basis especially given the relative supply dynamics.
Volatility	Rising EMU default risks is keeping gamma well bid. Eventually expectations for low short rates are likely to get rolled further and further out, at which point we expect top left vols to underperform	Sell 3m10yr vs 1yr10yr EUR straddles. Sell EUR 1m30y ATMF payer and buy 3m30y ATMF+25 payer.
Risk Allocation	We are in a spiral of growth/debt/growth concerns which is very unhealthy. We recommend scaling risk right back.	

Source: Citi Investment Research and Analysis

Figure 2. Global Summary



Source: Citi Investment Research and Analysis

Tradesheet

New Trades

1. Long 5yr Germany

Buy OEZ1 at 121.60

Open 121.60. Target 123. Stop 121. Current 121.60

Record of Open Trades

Figure 3. Record of our Open Trades

Country	Trade	Levels	Rationale + Publication Date	
Europe	Buy 5yr Germany	Open 121.60 Current 122 P&L 0bp Target 123.00 Stop 121.00	We expect current optimism to wane IIRS 29 September 2011	
<i>Duration</i>	Buy OEZ1 at 121.60 (CTD = Bund 4% Jul16)			
USD	Sell UST 10yr and Buy UST 30yr	Open 110bp Current 107bp P&L 3bp Target 60bp Stop 135bp	Fed policy should be supportive for UST 30yrs relative to UST 10yrs IIRS 22 September 2011	
<i>Cash curve</i>	Sell UST 2 1/8 Aug21 for 1.76% Buy UST 3.75% Aug41 for 2.86%			
EUR	Sell 3m10y EUR straddle vs 1y10y	Open -0.38% Current -0.44% P&L 0.06% Target -0.8% Stop -0.2%	High implied vols on short expiries are unlikely to realise. Buying low long fwd benefits from an EMU breakup What Happens if Greece defaults 14 Sep 2011	
<i>Volatility</i>	Sell 3m10y EUR (ATMF=2.67%) straddle for 48bps Buy 1y10y EUR (ATMF=2.83%) straddle for 86bps			
UK / Germany	Bund 5s30s steepener vs gilts flattener	Open 62bp Current 61bp P&L 1bp Target 0bp Stop 100bp	Free-float profile suggests support to UK long end by QE, hedged by EUR steepener against EUR driven risk of mid-curve repricing Interest Rate Strategy Focus on QE 14 Sep 2011	
<i>Cross Market</i>	UKT 5s30s flattener at 234bp DBR 5s30s steepener at 172bp			
US / EUR	Receive 5yr EUR vs USD	Open 82bp Current 78bp P&L 4bp Target 40bp Stop 100bp	Different policy response expectation from ECB and Fed support EUR 5yr relative to US International Rate Strategy Update 8 Sep 2011	
<i>Cross Market</i>	Receive 5yr EUR at 2.00% Pay 5yr USD at 1.18%			
EUR / USD	Sell EUR 6m2yr straddle vs 6m2y USD straddle	Open 67% Current 43.9% P&L 0.23% Target 0% Stop 1%	Convergence in a stable policy rate world IIRS 1 Sep 2011	
<i>Volatility</i>	Sell 6m2yr EUR straddle at 1.15% Buy 6m2yr USD straddle at 0.48%			
Europe	Sell EUR 3m2yr straddle (delta hedged)	Open 0.88% Current 0.47% P&L 0.41% Target 0% Stop 1%	Stable policy rates looking increasingly likely IIRS 11 Aug 2011	
<i>Volatility</i>	Sell EUR 3m2yr straddle at 0.88% (delta hedged)			
Europe	Sell EUR 6m2yr straddle (delta hedged)	Open 1.03% Current 0.74% P&L 0.29% Target 0% Stop 1.3%	The spread of breakevens looks unsustainable relative to the current trading range EMU Crisis Update: Crossing the Rubicon 13-Jul-11	
<i>Volatility</i>	Sell EUR 6m2yr straddle at 1.03% (delta hedged)			
UK / EUR	Pay 1yr2yr GBP vs Rec 1yr2yr EUR	Open 0.53% Current 0.2% P&L 0.33% Target 0% Stop 0.75%	Relative risks regarding policy rate expectations favour short UK vs Europe Morning Call 9 June 2011	
<i>Cross Market</i>	Pay 1y2y GBP at 2.12% Receive 1y2y EUR at 2.65%			

Source: Citi Investment Research and Analysis

Global Economic Outlook and Strategy

Following the latest [Global Economic Outlook and Strategy September 2011](#) publication from our global economists and market strategists, we highlight Citi's key views in the US, Euro Area, UK, China and Japan.

Global

Prospects for global growth continue to deteriorate quickly, both for advanced economies and emerging markets. Based on this, our economists expect global growth to slow to 3.0% this year from 4.0% last year. Growth forecasts for 2012 were also cut to 2.9% from 3.2% last month and 3.7% two months ago.

US

Although the reversal of temporary drags has given the latest quarter a solid boost, deteriorating financial conditions and lingering policy uncertainties continue to weigh on business confidence. Our economists have trimmed a bit further the (already subpar) growth estimates through to next year, with unemployment expected to remain high over the medium term. Enhanced monetary accommodation is likely to persist throughout 2013. New fiscal supports for growth are expected to be limited.

Euro Area

With likely multiple debt restructuring in the periphery countries, the Euro Area will probably fall back into recession. While an enlarged and probably leveraged EFSF is likely to limit the repercussions of the defaults, additional austerity measures and tighter financing conditions will probably undermine economic activity. In this environment, the ECB is likely to cut rates back to 1.0% by year-end and the ECB is also likely to put in place additional non-standard measures.

UK

The UK economy is likely to be close to recession in the next few quarters, with consumer spending remaining sluggish and weakness in business investment and exports (the previous engines of recovery). Citi expects the MPC to restart QE soon and on a large scale.

Japan

2012 GDP growth forecasts have also been revised down for Japan to 2.1% under the judgment that the European sovereign debt crisis will enter a new phase and the Euro area will fall into a recession in coming quarters. While Japan's direct trade exposure to Europe is modest, dysfunctional financial markets in Europe will likely have a much broader impact on the Japanese economy via indirect channels. We expect additional BoJ easing in October.

China

Citi has also cut the 2012 growth forecast from 9.0% to 8.7% for China, reflecting a deteriorating external outlook as multiple debt restructurings in the Euro Area may push the region into recession. With growth decelerating and inflation falling, we expect no further monetary tightening and fiscal policy may be more proactive to forestall downside risks.

GDP (YoY) 2011F 3.0%

CPI 2011F 4.0%

GDP (YoY) 2011F 1.7%

CPI 2011F 3.2%

Rates on hold at 0.25% in 2011F & 2012F

GDP (YoY) 2011F 1.6%

CPI 2011F 2.7%

Two 25bp cuts in Q4: 2011F 1.00%

GDP (YoY) 2011F 1.0%

CPI 2011F 4.4%

Rates on hold at 0.5% in 2011F & 2012F

GDP (YoY) 2011F -0.4%

CPI 2011F 0.0%

Rates on hold at 0.1% in 2011F & 2012F

GDP (YoY) 2011F 9.0%

CPI 2011F 5.3%

Rates on hold at 3.5% in 2011F & 2012F

Figure 4. Interest Rate and Bond Market Forecasts (End of Period), as of 28 Sep 2011

	Forecast End Period					
	Current	4Q 11	1Q 12	2Q 12	3Q 12	4Q 12
US						
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Libor	0.37	0.38	0.40	0.45	0.50	0.60
2 Year Treasury Yield	0.24	0.25	0.25	0.35	0.40	0.65
5 Year Treasury Yield	0.95	0.95	0.95	1.25	1.35	1.60
10 Year Treasury Yield	1.98	2.00	2.00	2.30	2.60	2.90
30 Year Treasury Yield	3.09	3.10	3.10	3.35	3.60	3.90
2-10 Year Treasury Curve	174	175	175	195	220	225
2 Year Swap Spread (Swap Less Govt.), bp	28	34	34	35	35	35
10 Year Swap Spread (Swap Less Govt.), bp	18	20	20	20	22	25
30 Year Mortgage Yield	4.05	4.1	4.1	4.3	4.4	4.7
10 Year Breakeven Inflation	188	195	205	215	225	240
Euro Area						
Policy Rate	1.50	1.00	1.00	1.00	1.00	1.00
Overnight Rate (EONIA)	1.05	0.60	0.40	0.40	0.40	0.40
3-Month Libor	1.50	1.10	0.70	0.70	0.80	0.90
2 Year Treasury Yield	0.40	0.25	0.25	0.25	0.30	0.35
5 Year Treasury Yield	0.90	0.80	0.75	0.65	0.70	0.75
10 Year Treasury Yield	1.93	1.50	1.25	1.35	1.50	1.50
30 Year Treasury Yield	2.49	2.35	2.15	2.10	2.25	2.20
2-10 Year Treasury Curve	153	125	100	110	120	115
10 Year BTP-Bund Spread	390	450	475	450	425	400
10 Year Swap Spread (Swap Less Govt.), bp	71	85	80	75	70	60
10 Year Breakeven Inflation	135	125	115	120	125	130
Japan						
Policy Rate	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.19	0.19	0.17	0.15	0.15	0.15
2 Year Treasury Yield	0.13	0.15	0.15	0.15	0.10	0.10
5 Year Treasury Yield	0.34	0.35	0.45	0.45	0.40	0.35
10 Year Treasury Yield	1.01	1.20	1.20	1.10	1.05	1.05
30 Year Treasury Yield	1.92	2.00	2.10	2.10	2.05	2.00
2-10 Year Treasury Curve	88	105	105	95	95	95
2 Year Swap Spread (Swap Less Govt.), bp	21	20	24	24	22	20
10 Year Swap Spread (Swap Less Govt.), bp	-1	1	5	5	3	1
10 Year Breakeven Inflation	NA	NA.	NA	NA	NA	NA
UK						
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50
3-Month Libor	0.93	1.00	0.90	0.85	0.85	0.85
2 Year Treasury Yield	0.54	0.45	0.40	0.30	0.35	0.45
5 Year Treasury Yield	1.29	1.25	1.20	1.10	1.15	1.30
10 Year Treasury Yield	2.34	2.00	1.65	1.65	1.80	1.80
30 Year Treasury Yield	3.54	3.30	3.10	3.00	3.00	3.00
2-10 Year Treasury Curve	180	155	125	135	145	135
10 Year Swap Spread (Swap Less Govt.), bp	32	45	60	60	60	60
10 Year Breakeven Inflation	263	245	225	235	250	265
Australia						
Policy Rate	4.75	4.75	4.75	4.75	5.00	5.00
3-Month Libor	4.74	5.00	5.10	5.20	5.30	5.40
2 Year Treasury Yield	3.47	3.60	3.75	4.00	4.25	4.50
5 Year Treasury Yield	3.66	3.80	3.95	4.20	4.45	4.70
10 Year Treasury Yield	4.31	4.30	4.45	4.60	4.90	5.10
2-10 Year Treasury Curve	84	70	70	60	65	60
10 Year Swap Spread (Swap Less Govt.), bp	72	65	60	60	55	50

Source: Citi Investment Research and Analysis

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Overview

Focus shifts to ECB, MPC meetings and the EFSF ratification

The Fed's Operation Twist announcement has come and gone much as anticipated. 10yr yields are at similar levels to two weeks ago but the curve has seen a huge pivotal flattening. We still think that the long end of the curve is too steep to engender a significant re-allocation of risk and therefore expect current trends to remain in place.

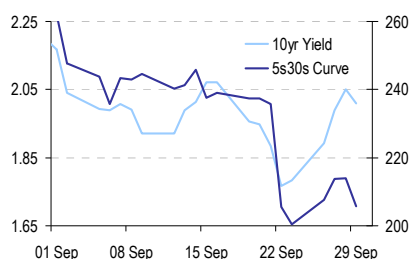
Focus will now shift to the ongoing EFSF ratification process, the longer term prospects for this as a potential provider of a resolution and to the forthcoming ECB and MPC meetings; we examine these in greater detail in this week's publication.

With respect to the EFSF ratification we think that the process will eventually be completed and that throughout the run-in there is a possibility of further compression in spreads, assisted by the seemingly non-stop stream of speculation over how an eventual resolution may be achieved. Ultimately, however, we still believe that a rescue package in whatever form it may take will need to significantly exceed the current maximum capacity of the EFSF and that the logistical and political hurdles to leveraging or upsizing the facility that are yet to be overcome are substantial. With spreads having retraced significantly in recent days we are biased to sell strength rather than buy dips.

With Euro area and UK economic data deteriorating and our economics team expecting the Euro area to return to recession next year the central bank meetings take on a more interesting complexion now. On balance we think that the ECB will probably wait until November to cut rates but that they will ease by 50bp this year. We also expect the resumption of 12m LTROs and covered bond purchases. In the UK we expect the MPC to re-open its APF and to act aggressively to ensure that the policy gains traction quickly.

With the data deteriorating so fast and bond yields having corrected we now think it makes sense to go long duration again. Our first choice would be 5yr Bobls (Dec Bobl contract), but we would also consider 30yr Gilts. We would avoid significant duration risk in the US, however, and continue to prefer the 10s30s flattening trade. Given the very different policy stances of the ECB and the MPC we think that buying long dated Gilts against Bunds looks attractive ahead of possible QE but there is a caveat that the more aggressive nature of the UK policy stance could rekindle risk assets somewhat. If you fear such a response we would suggest either the 5s30s Gilt-Bund box trade that we recommended in last week's publication or hedging the long 30yr Gilt versus Bund trade by receiving EUR 2yr2yr forward against paying GBP 2yr2yr forward at the current spread of 20bp.

Figure 5. UST 10YR Yield and 5s20s Curve



Source: Citi Investment Research and Analysis

Trade:

Buy OEZ1 at 121.60
Target 123.00, stop 121.00

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EFSF Ratification and Leverage Proposals

EFSF Ratification Gathering Speed

The approval process for the upgraded EFSF is gathering speed. To the best of our knowledge, twelve countries have now approved the proposal (at least in their Lower Houses) including Finland on 28 September and Germany on 29 September. Austria is expected to vote in favour on 30 September. We expect all 17 countries to ratify the amended EFSF by mid-October. The vote in Slovakia presents the greatest hurdle, but coalition parties appear to be moving closer to an agreement. Please see page 11 for a summary of the ratification progress and timetable.

Why the EFSF ratification is so important

We believe failure to ratify the EFSF would send the strongest signal yet of the inability of European governments to deal with the euro sovereign debt crisis. The market is already acutely aware of the deficiencies of the European decision-making process to respond to the crisis, but such a blunt reminder could set off another spiral of risk aversion and higher non-core yields.

Moreover, the approval of the EFSF has taken on heightened importance as it paves the way for the enhanced measures now reportedly being discussed, most notably leveraging the EFSF to increase its firepower (see below).

Merkel survives EFSF vote

The EFSF vote in Germany passed with a large majority (523 in favour, 85 against, 3 abstentions). This was always highly likely to be the case thanks to support from the opposition parties. What is more significant is that the coalition votes alone were enough to secure the majority needed of 311. There were 315 coalition 'yes' votes out of the 330 available meaning that the coalition achieved the majority by a not entirely comfortable 4 votes. However, this was an important hurdle for Merkel and will be seen as a positive for her leadership in our view.

Slovakia edging closer to passing the EFSF

While not entirely clear (thanks to the muddled waters of the inner workings of Europe), our understanding is that the new EFSF framework needs 100% approval from the member states before it can become operational. So every country vote is as important as the next and unanimity is needed.

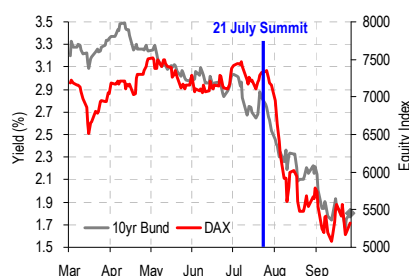
The biggest stumbling block to complete EFSF ratification is probably Slovakia where opposition to the proposal is the greatest, including from one of the junior coalition parties (SaS). However, a member of the SaS has recently been reported as saying that the coalition is close to agreement on the EFSF. Slovakia's Premier has also recently said that the vote will take place by 17 October.

But ratification of the current proposal will bring little relief

As we have repeatedly argued, EFSF 2.0, which is currently being ratified, is simply too small to offer a sufficient backstop to deal with the crisis. The markets agreed and were quick to dismiss the 21 July proposal (Figure 6 and Figure 7). In this respect, EFSF ratification, by itself, only serves to prevent a further acceleration in the pace of the crisis, but does little to bring any relief in our view.

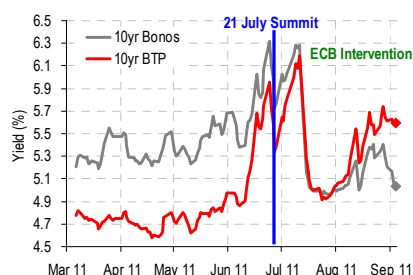
The market needs more than just this ratification, and there is finally a growing political recognition that the EFSF needs to be enlarged, possibly via some form of leverage. However, it seems unlikely that there is much public progress with such a proposal until the existing EFSF amendment is ratified. As always with Europe, there will be many political and legal hurdles to be overcome: it is likely to be some time before a clear plan emerges, and even longer before for any plan is agreed by all the necessary parties. There is plenty of scope for disappointment. We advocate remaining long Bunds in the medium term and buying any dips.

Figure 6. 10yr Bund vs DAX



Source: Citi Investment Research and Analysis

Figure 7. 10yr Spain & Italy



Source: Citi Investment Research and Analysis

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EFSF Approval Progress / Timetable

A summary of progress to date and the likely timetable for the approval by the remaining countries is shown below.

Figure 8. Progress by Country in Approving EFSF Proposals

Country	Approved?	Status	Approval Date	Original Max Guarantee Limit (€bn)	New Max Guarantee Limit (€bn)
Austria	No	Parliamentary panel had previously failed to allow for quick approval vote on 21st Sept. The Finance Committee has since approved the EFSF amendments (27th Sept). Karlheinz Kopf (head of the People's Party) has indicated a Parliamentary vote could occur on 30th Sept. A simple Parliamentary majority is required for approval which should have smooth passage as the government controls 108 out of 183 Parliamentary seats. On 26th Sept, Finance Minister Maria Fekter stated she was certain Parliament would approve the measures (Austrian Press Agency).	30th Sept	12.24	21.64
Netherlands	No	EFSF amendments are to be included in a supplementary budget set for approval in the first week of Oct	Early Oct	25.14	44.45
Malta	No	Parliament returns from recess on 3rd October.	Unknown	0.40	0.70
Portugal	No	Over the course of the EFSF programme, the EFSF is set to disburse €26bn to Portugal. To provide these funds, the EFSF is set to issue €38bn over three years. To date, 2 benchmark bonds have been issued totalling €8bn with a further 2 bonds expected in 2011.	Unknown	11.04	19.51
Slovakia	No	Slovakia's Premier has said that EFSF vote must be held before the EU Summit on 17 October, "regardless of the outcome". The Premier has also said that the idea of linking the EFSF vote with a confidence vote may be "premature" and could lead to political instability. Previously it had been suggested that the EFSF vote may be tied to the 11 October confidence vote in order to garner support from a junior coalition party (SaS) who oppose the amended EFSF.	Unknown	4.37	7.73
France	Yes	France was the first country in the euro area to adopt the EFSF changes.	8th Sept	89.66	158.49
Belgium	Yes	Procedures successfully passed through the Lower House with the Senate giving the final approval.	14th Sept	15.29	27.03
Italy	Yes	The EFSF approval process was incorporated into wider debates on fiscal reforms.	15th Sept	78.79	139.27
Spain	Yes	Lower House approval took place on 15th Sept. The Senate subsequently followed suit and approved the EFSF amendments on 20th Sept.	15th Sept	52.35	92.54
Luxembourg	Yes	The Grand Duchy's Lower House voted 54-5 in favour of EFSF changes at a special session on 16th Sept.	16th Sept	1.10	1.95
Greece	Yes	The Greek Parliament approved the EFSF amendment on 21st Sept in principle. The vote split was 183 in favour, 38 against and the remaining 79 abstaining.	21st Sept	12.39	21.90
Ireland	Yes*	Lower House approval took place on the 21st Sept. The Seanad passed the Bill on the 22nd Sept and it is currently being prepared for the President's signature.	21st Sept	7.00	12.38
Estonia	Yes*	The Cabinet has approved the new measures which were presented by the the Finance Minister Jürgen Ligi on 8th Sept. Estonian legislators approved the EFSF bill at its first reading on 27th Sept. The final reading is scheduled for 29th Sept and the legislation still requires moderation to satisfy certain constitutional requirements.	27th Sept	0.00	1.99
Slovenia	Yes*	Domestic politics on pension reform are a cause for uncertainty. The government no longer holds a majority in Parliament and lost a vote of confidence on 20th Sept when 51-36 voted to oust Prime Minister Borut Pahor. Despite losing the confidence vote, the government saw parliamentarians vote 49-4 in favour of the enhanced EFSF on 27th Sept.	27th Sept	2.07	3.66
Finland	Yes	Parliamentary approval occurred on 28th Sept with 103 - 66 in favour of EFSF enhancement.	28th Sept	7.91	13.97
Germany	Yes*	The Cabinet approved the new measures on 31st Aug and the Bundestag voted in favour of the EFSF enhancements by 523-85 with 3 abstentions on 29th Sept. The constitutional court has previously asked the government to ensure Parliament (or a sub-committee) is involved in the decision-making process of the EFSF.	29th Sept	119.39	211.05
Cyprus	Yes	Cyprus Parliament approved the EFSF enhancements on 29th Sept	29th Sept	0.86	1.53
* Indicates that provisional legislative votes have been passed but further proceedings are required for the bill to be formally ratified in full.				440	780

Source: National News Agencies, Reuters, Bloomberg, Government Finance Ministries, CIRA.

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EFSF Leverage Proposals: Squaring the Circle

Introduction

In their 28 September note, “*Still Too Early For A Grand Plan*” our economists outline the options for increasing the effective capacity of the EFSF. Below we recap the salient points for bond markets and explore some of the implications for spreads.

The current move in spreads may receive further impetus from headlines around the 03 October Eurogroup meeting where EFSF leverage is apparently going to be discussed¹. While this could cause further short covering of Tier 2 spreads and even attract speculative longs we think that waiting to fade the move is a better approach than joining it: the risk/reward is unappealingly symmetrical at current levels in our view. Buy Germany, especially on dips, and reduce Tier 2 spread risk here.

Why the leverage debate is intensifying

Why the leverage debate is intensifying

The twin problems of austerity fatigue in recipient countries and bailout-fatigue in donor countries, together with the fact that further and meaningful extension of the EFSF guarantees would probably lead to sovereign downgrades, (in particular of the AAAs) have intensified the leverage debate considerably.

How much money is there to leverage?

How much money is there to leverage?

€300bn is left from the effective capacity of the EFSF of €440bn after existing commitments. If €30bn is reserved for extension of existing/new bailout programmes, and €70bn for loans to governments in order to recapitalize banks, that would leave €200bn for guarantees to a third party.

Two main proposals for increasing the EFSF's firepower

There are two main options to increase the EFSF's firepower, in the absence of another change in the EFSF framework agreement (which would require ratification by all 17 member states):

Option 1

1. Leveraging via repo operations with either the Eurosystem or market participants, using purchased sovereign bonds.

Option 2

2. Provision by the EFSF of (first loss) guarantees to a third party up to the EFSF's €440bn capacity. The third party, which could be either the ECB, or joint SPV with the EIB or private investors, would then purchase government bonds.

Advantages of Option 1

Option 1 advantages

Use of the repo facility is likely to be quicker and cheaper than the amount of EFSF issuance that would be required to fund the likely purchases of Italian and Spanish government bonds. Reducing reliance on investor appetite for bonds is a significant positive in our view.

¹ Although decisions on how to increase the EFSF's effective capacity can only come after the current round of ratification, the Austrian Finance Minister has stated that the Eurogroup will discuss measures to increase the EFSF's firepower at the 03 October meeting.

Disadvantages of Option 1

Option 1 disadvantages

Using repos to increase the effective EFSF capacity above €440bn² would, in the view of our economists, *"likely prompt the credit rating agencies to react immediately with a downgrade of the EFSF's AAA rating"*. However, the loss of the EFSF's AAA rating, ultimately, might be the price that has to be paid.

To obtain the status of an eligible counterparty in the Eurosystem that the EFSF would require to use ECB open market operations, the EFSF would need to become a bank. That would, in the view of our experts, probably require a change in the EFSF framework and hence ratification by all 17 member countries³.

Ways to sidestep the ratification hurdle

One way to sidestep this would be for the EFSF to repo bonds to the private sector, but it is an open question how happy counterparties would be conducting large scale repo operations with an EFSF that might not be AAA-rated. However this is a possibility. Another way to sidestep the ratification difficulty would be to access the ECB window through an SPV created by an entity that is already an eligible counterparty with the ECB, e.g., the EIB. As our economists put it however, "it is not obvious" that this would be consistent with the mandate of the EIB. To change that the 27 EU member countries that own the EIB would have to agree. No mean feat. And the EIB's balance sheet⁴ might not be large enough to support a €2tn SPV.

But no free lunch

But *"what the 17 euro area member states gain as ultimate beneficial owners of the ECB [whose lending to the EFSF is secured] they lose as providers of the guarantee"*⁵.

What is Option 2?

Option 2

Provision by the EFSF of (first loss) guarantees to a third party up to the EFSF's €440bn capacity. The third party, which could be either the ECB, or joint SPV with the EIB or private investors, would then purchase government bonds, up to the specified leverage limit.

Advantages of Option 2

Option 2 advantages

Article 2(3) of the amended EFSF structure explicitly gives the right to provide guarantees. *"However, the question remains who is willing to use these guarantees in order to purchase, in a leveraged way, government securities"*.

Disadvantages of Option 2

ECB independence

For the ECB to take the role of the Fed in their TALF programme the ECB would have to change its stance considerably. *"Backed by guarantees from the EFSF it will be hard to explain that the purchases are done to improve the transmission mechanism of monetary policy"*. The ECB could do large scale purchases in a non-inflationary way even without any EFSF guarantees, but its independence may be called into question if it was forced to. That is why the Option 1 EIB/EFSF SPV (to access ECB open market operations) idea is more attractive in many ways.

² The amount backed 100% by the guarantees of the AAA-rated member states.

³ Also, Bundesbank President Jens Weidmann regards ECB funding of the EFSF as *"equivalent to the monetary financing of state budgets"*. Widening divisions within the ECB Governing Council will not be well received by markets.

⁴ €438bn and subscribed capital of €262bn.

⁵ Logically, "The EA member states ought to be indifferent between the EFSF borrowing €2.2bn unsecured in the market of the EFSF borrowing €2.2bn from the ECB through repo".

Problems with EIB/EFSF SPV idea

All roads lead to Frankfurt

All roads lead to Frankfurt

"The only viable way of substantially leveraging up the EFSF would be an arrangement with the ECB... [but] this would require a turnaround in the ECB's crisis management policy. In our view, such a turnaround is only likely if the ECB sees actions (and not just pledges) from the euro area governments to implement austerity measures and structural reforms and to introduce a stricter version of the Stability and Growth Pact with automatic and biting penalties." (Juergen Michels, et al. "Still Too Early For A Grand Plan", 28 September 2011)

Conditions under which the ECB would stop and resume bond purchases

We expect the ECB will continue its bond purchases under the SMP until the EFSF has the capacity to take over, but will only continue beyond that point if it has guarantees from the EFSF, or when it is obvious that the support from the EFSF is not able to restore or maintain market stability.

Quid pro quo

In return for agreeing to leverage up the EFSF by using the ECB the core donor countries will likely require Troika-like commitments from the fiscally-challenged weaker countries in the form of fiscal austerity and structural reforms.

The bottom line

(Don't) buy the rumour, sell the fact

Necessary progress has been made towards increasing the effective capacity of the EFSF⁶. And there also seems to be plenty of activity going on frantically behind the scenes. The market has inferred some momentum that was sorely lacking previously and shorts have covered accordingly and spreads have tightened. In coming days around the 03 October Eurogroup discussions spreads may tighten further as positive sounding headlines emerge.

We can't help feeling the market is getting ahead of itself here

But despite the progress, we can't help feeling the market is getting ahead of itself. Any "grand plan" is still some way off, and disappointment seems more likely than not. Excitement over headlines quickly fades in the absence of a stream of concrete details of the plans and the current tightening has already made the risk/reward of positions unattractively symmetrical.

Position adjustment should not be confused with new demand

The recent spread tightening should not be misinterpreted as a sign of a fundamental improvement, or with a fundamental change in investor appetite. Fresh end user longs are only going to emerge because something has happened to fundamentally improve the economic trajectory. Lowering of bond yields by themselves will not bring that about. However we are moving in the right direction. But as always, everything hinges on the politics and how the theoretical plans are watered down and executed.

Conclusion

Squaring the circle

The circle that Europe has always had to square is that the political acceptability/workability of any 'solution' tends to be inversely proportional to the economic efficacy/impact. The current proposals are a welcome step towards solving that conundrum, but markets are getting ahead of themselves again in our view. Buy Germany, especially on dips. Reduce Tier 2 risk.

⁶ However, it is also important to keep one's eye on some key facts: structural problems still need to be addressed, however the time is bought to allow this to happen. That time has to be used wisely and not squandered by short term political priorities. And growth is a necessary condition of any path out of the woods

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ECB Meeting: EUR Volatility Trades

In this section we present two EUR swaption trades to take advantage of our views ahead of forthcoming ECB meetings.

- **View:** Our economists expect the ECB to cut rates by 50bps before the end of this year. The ECB is also likely to expand non-standard measures to support the banking sector by providing a 12M LTRO (starting in October)⁷.
- With the ECB more likely to act via monetary policy than asset purchases we think the EUR curve will steepen.

Trade 1

Conditional EUR 5s10s bull-steepener with 1year expiry

- **Trade Details:** Buy 1y5y EUR receivers (ATMF = 2.35%) for 39bps and sell 1y10y EUR receivers (ATMF = 2.83%) for 44bps.

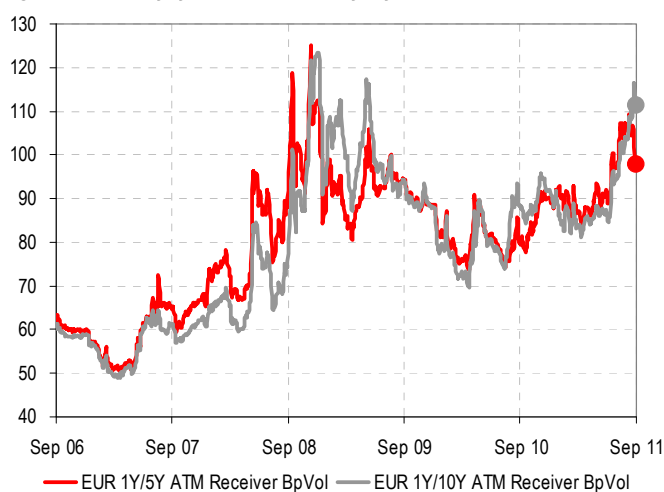
Figure 9. Trade Details for Swaption trade (indicative mid market levels)

Ccy	Expiry	Tenors	Type	Strike	Spot Rate	ATM Forward	Spot-Fwd	Normal Vol	B/E Recs	Cost (bps)
EUR	1y	5y	R	A	2.06	2.35	-29	98	1.96	39
EUR	1y	10y	R	A	2.64	2.83	-20	111	2.39	44
Spread					0.58	0.49	9		0.43	-5

Source: Citi Investment Research and Analysis

- **Favourable spread on underlying:** The current spot spread between 5s10s euro swaps is 59bps. The 1year forward spread is 9bps lower (flatter) than spot.
- **Favourable volatility spread:** The recent fall in EUR1y5y normalized volatility relative to EUR 1y10y normalized volatility has pushed the volatility spread between the two points to extreme levels. The current volatility spread is now close to the 5year high (which was last seen during the crisis in 2008).
- **Volatility slide:** The net 1year volatility slide is only 1bpv against you.
- **Cost:** Based on current levels this trade has a net premium take in of 5bps and offers a 9bp better entry level than the underlying spot spread.

Figure 10. EUR 1y5y bpvol and EUR 1y10y bpvol



Source: Citi Investment Research and Analysis

Figure 11. EUR 1y10y – EUR 1y5y (bpvol spread)



Source: Citi Investment Research and Analysis

⁷ Euro Weekly, 23 September 2011 and Global Economic Outlook and Strategy, 28 September 2011

Trade 2

Conditional 5s30s bull-steepener with a 2year expiry

- **Alternative trade with same rationale:** Another way to express our view ahead of upcoming ECB meetings would be to use a slightly longer expiry and incorporate a larger segment of the EUR curve.
- **Trade Details:** Buy 2y5y EUR receivers (ATMF = 2.70%) for 55bps and sell 2y30y EUR receivers (ATMF = 2.97%) for 60bps.

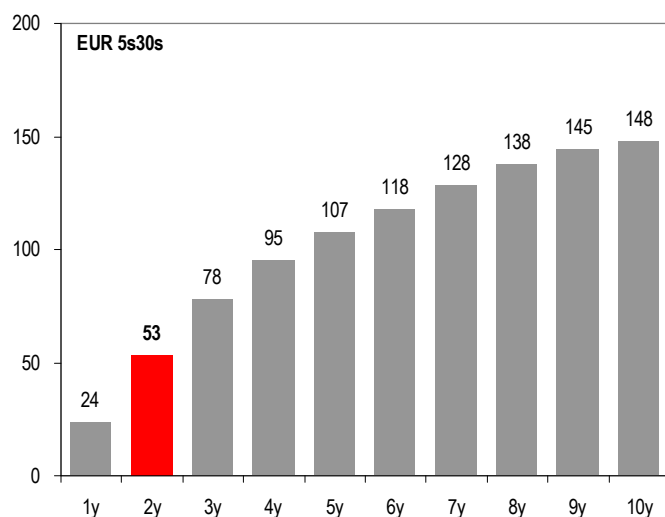
Figure 12. Trade Details for Swaption trade (indicative mid market levels)

Ccy	Expiry	Tenors	Type	Strike	Spot Rate	ATM Forward	Spot-Fwd	Normal Vol	B/E Recs	Cost (bps)
EUR	2y	5y	R	A	2.05	2.70	-65	97	2.15	55
EUR	2y	30y	R	A	2.85	2.97	-12	105	2.37	60
Spread					0.80	0.27	53		0.22	-5

Source: Citi Investment Research and Analysis

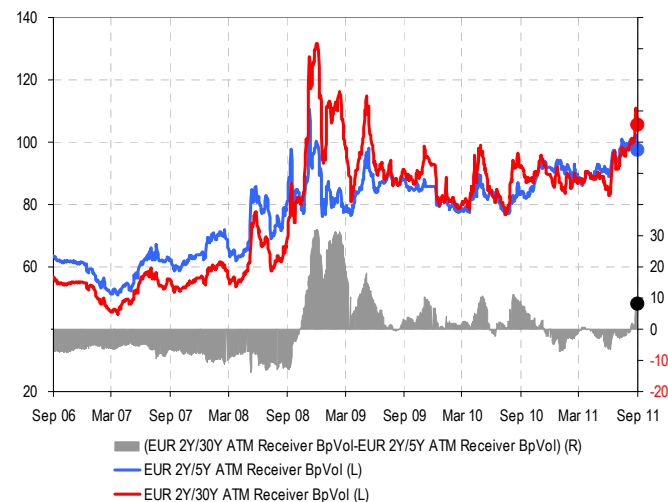
- **EUR 5s30s forward spreads:** As shown in Figure 13 below, forward 5s30s spreads are significantly below current spot levels (for example the 2yr forward is 53bps flatter than the spot spread). Thus providing a better entry level than spot.
- **Volatility spread:** We see good value in using a 2year expiry which (like our first trade recommendation) has also seen a divergence between the volatility levels of the two receivers. The net 2year volatility slide is 26bpv against you.

Figure 13. Spot 5s30s spread minus forward 5s30s spread (bp)



Source: Citi Investment Research and Analysis

Figure 14. EUR 2y5y bpvol vs EUR 2y30y bpvol



Source: Citi Investment Research and Analysis

- **Risk to the trade:** As highlighted in our analysis of the implications of a Greek restructuring event on the euro swap curve⁸, we expect re-hedging flows to result in a sizeable amount of paying in the 30year area of the euro swap curve. In the event that a Greek restructuring proposal does not take place, we would expect investors who currently have EUR 5s30s (or even EUR 10s30s) steepeners to unwind existing positions. This would be negative for our trade recommendation. However the structure contains a significant cushion.
- **Cost:** Based on current levels this trade has a net premium take in of 4bps and offers a 53bp better entry level than the underlying spot spread.

⁸ IIRS 1 September 2011

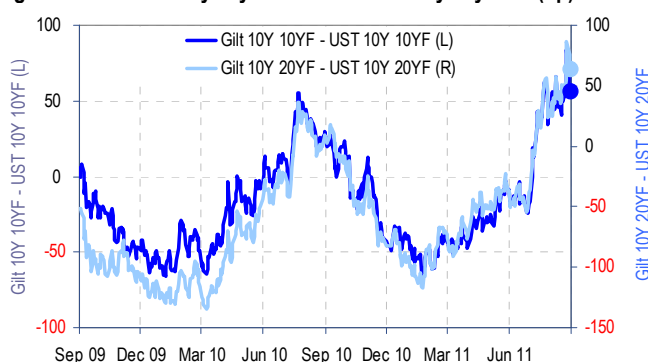
QE Trade update: Gilt-UST 10yr 10yr fwd

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Buy Gilt 10y 20yr fwd vs UST 10y 20yr fwd

- **Fundamental view:** We continue to expect the 30yr sector of the gilt curve to outperform 30yr US Treasuries as the likelihood of further QE in the UK increases. In last week's publication [Sterling Rates Strategy: Buy Long-Dated Gilts Ahead of Possible QE](#) we recommended buying Gilt 10y 10yrs fwd vs UST 10y 10yr fwd.
- Based on recent market moves, buying gilts 10y 20yr fwd vs UST 10y 20yr fwd now offers a better entry level than our original trade recommendation.
- **Correlation:** The Gilt-UST 10y 20yr fwd spread is closely correlated with the Gilt-UST 10y 10yr fwd spread (Figure 15).
- **Good entry level:** The Gilt-UST 10y 20yr fwd is now trading above the Gilt-UST 10y 10yr fwd – for second time in last six years. On previous occasions the spread has not breached zero for a sustainable period (Figure 16).

Figure 15. Gilt-UST 10y 10yr fwd vs Gilt-UST 10y 20yr fwd (bp)



Source: Citi Investment Research and Analysis

Figure 16. Gilt-UST 10y 20yr fwd - Gilt-UST 10y 10yr fwd (bp)



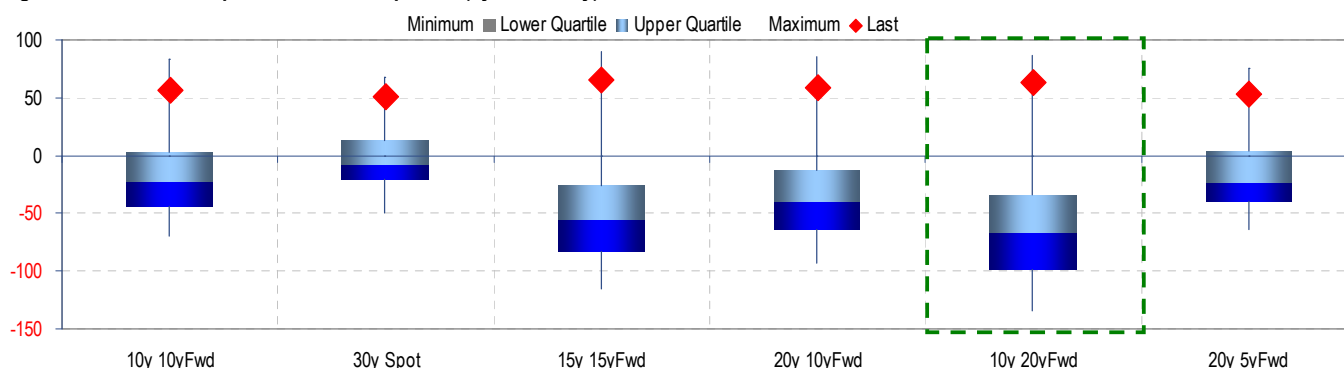
Source: Citi Investment Research and Analysis

Please note that for the forward trade we use indicative target levels for a synthetic forward trade constructed from the gilt curve.

For actual trades we would recommend a hard p/l target and stop-loss.

- Comparing similar forward spreads with the spot 30yr spread reveals some interesting dynamics:
 - All forward gilt spreads are trading at similar levels and are slightly above the spot 30yr spread. The median and lower quartile for the spot 30yr Gilt-UST spread is greater than other forward Gilt-UST spreads on a 2yr history.
 - The Gilt-UST 10y 20yr fwd has the most scope to retrace to the 2yr median. Furthermore, the Gilt-UST 10y 20y fwd is 122bps away from its 2yr average.

Figure 17. Box-whisker plots of Gilt-UST spreads (2year history)



Source: Citi Investment Research and Analysis

European Relative Value Tables

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

For example, Figure 18 shows the five cheapest and richest bonds in Germany relative to a fitted yield curve (shown on the left half of the page) and to the euro swap curve (right half of page). The table identifies benchmarks and CTDs and also gives the amount outstanding and initial issue date.

Figure 18. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

Versus Fitted Yield Curve						Versus Swap Curve (CAS)					
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
GERMANY		Richest						Richest			
	1	3.25 Jul42 (30y)	-7.77	Jul10	10		1	4.75 Jul34	-2.89	Jan03	20
	2	4.25 Jul18	-2.90	May08	21		2	6.25 Jan30	-2.84	Jan00	9
	3	4.00 Oct13	-2.89	Sep08	16		3	4.00 Oct13	-2.81	Sep08	16
	4	2.00 Feb16	-2.52	Jan11	16		4	5.50 Jan31	-2.69	Oct00	17
	5	4.25 Jan14	-2.48	Oct03	24		5	2.25 Apr14	-2.65	Mar09	19
	5	2.75 Apr16 (5y-OE)	1.55	Apr11	12		5	3.25 Jul21 (10y)	-1.65	Apr11	19
	4	2.25 Sep20	1.59	Aug10	16		4	4.00 Jan37 (UB)	-0.37	Jan05	23
	3	2.50 Jan21	1.91	Nov10	19		3	3.25 Jul42 (30y)	-0.36	Jul10	10
	2	4.25 Jul39	4.21	Jan07	14		2	4.75 Jul40	-0.27	Jul08	16
	1	4.00 Jan37 (UB)	5.98	Jan05	23		1	4.25 Jul39	0.11	Jan07	14
		Cheapest						Cheapest			

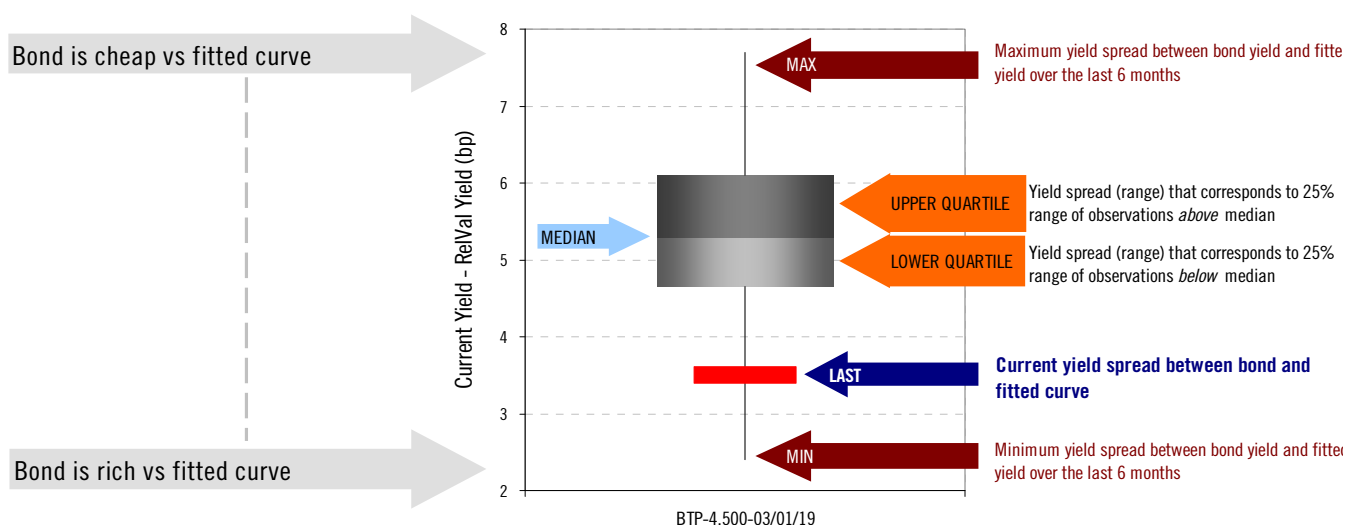
Source: Citi Investment Research and Analysis

Figure 20 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 21 and Figure 22) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 20 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

Read in conjunction with the regular box whisker plots in the following pages these summary tables should help facilitate efficient screening of bonds and, among other things, provide a selection of starting points when considering switches.

How to interpret the box plot charts on pages 22 and 23.

Figure 19. Boxplot: Yield spread between bond and fitted curve



Relative Value Tables – All Maturities

Figure 20. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); All bonds on each curve

GERMANY

Source: Citi Investment Research and Analysis

Relative Value Tables – Max 12Yr Maturity

Figure 21. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

	Versus Fitted Yield Curve						Versus Swap Curve (CAS)					
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)	
GERMANY	Richest	1	3.75 Jan19	-2.65	Nov08	24	Richest	1	4.00 Oct13	-1.65	Sep08	16
		2	3.00 Jul20 (RX)	-2.46	Apr10	22		2	2.25 Apr14	-1.61	Mar09	19
		3	3.50 Jul19	-2.44	May09	24		3	4.25 Jan14	-1.57	Oct03	24
		4	3.25 Jan20	-2.20	Nov09	22		4	2.50 Oct14	-1.56	Sep09	17
		5	4.25 Jul18	-2.19	May08	21		5	3.75 Jan15	-1.44	Nov04	23
		5	2.75 Apr16 (5y)	0.55	Apr11	12		5	2.50 Jan21	-1.05	Nov10	19
		4	2.25 Sep20	0.71	Aug10	16		4	2.75 Apr16 (5y)	-1.03	Apr11	12
		3	4.00 Jul16 (OE)	0.76	May06	23		3	2.25 Sep20	-1.00	Aug10	16
		2	3.75 Jan17	0.86	Nov06	20		2	3.25 Jul21	-0.87	Apr11	19
	Cheapest	1	3.50 Jan16	1.36	Nov05	23	Cheapest	1	2.25 Sep21 (10y)	1.13	Aug11	6
FRANCE	Richest	1	3.25 Apr16	-2.82	Apr05	28	Richest	1	3.25 Apr16	-0.60	Apr05	28
		2	3.75 Apr21	-2.56	Apr05	31		2	2.25 Feb16	-0.53	Feb10	19
		3	3.25 Oct21 (10y)	-2.48	Oct10	6		3	4.00 Apr18	-0.26	Apr07	24
		4	2.25 Feb16	-1.83	Feb10	19		4	2.00 Jul15	-0.19	Jun10	21
		5	2.00 Jul15	-1.56	Jun10	21		5	3.75 Apr17	-0.19	Apr06	25
		5	3.75 Apr17	0.13	Apr06	25		5	3.75 Oct19	0.52	Oct08	25
		4	4.25 Oct17	0.23	Oct06	21		4	3.75 Apr21	0.68	Apr05	31
		3	4.25 Oct18	0.28	Oct07	22		3	3.50 Apr20	0.73	Feb10	27
		2	5.00 Oct16	0.87	Oct00	25		2	4.00 Oct13	0.80	Oct02	24
	Cheapest	1	4.25 Apr19	1.54	Apr03	28	Cheapest	1	2.50 Oct20	0.90	Oct09	29
ITALY	Richest	1	4.75 Sep21 (10y-IK)	-3.98	Mar11	22	Richest	1	3.75 Aug15	1.38	Feb05	26
		2	3.75 Mar21	-3.09	Sep10	23		2	3.75 Apr16 (5y)	1.42	Apr11	12
		3	3.75 Aug15	-2.91	Feb05	26		3	3.00 Jun15	1.43	Jun10	19
		4	4.00 Sep20	-2.17	Mar10	22		4	4.25 Feb15	1.44	Aug04	21
		5	4.25 Feb15	-1.87	Aug04	21		5	3.00 Apr15	1.45	Jan10	20
		5	4.25 Mar20	2.15	Sep09	23		5	4.00 Sep20	1.77	Mar10	22
		4	4.50 Feb20	2.31	Feb04	21		4	4.25 Mar20	1.79	Sep09	23
		3	4.50 Feb18	2.59	Aug07	25		3	4.50 Feb20	1.79	Feb04	21
		2	4.50 Mar19	2.66	Sep08	23		2	3.75 Aug21	1.85	Feb06	27
	Cheapest	1	4.25 Sep19	2.89	Mar09	22	Cheapest	1	4.75 Aug23	1.89	Feb08	21
N'LANDS	Richest	1	1.00 Jan14	-2.65	Jan11	10	Richest	1	1.00 Jan14	-1.51	Jan11	10
		2	4.00 Jul18	-1.93	Feb08	15		2	4.00 Jul18	-1.25	Feb08	15
		3	4.00 Jul16 (5y)	-1.37	Jul06	13		3	2.75 Jan15	-1.14	Jul09	13
		4	2.75 Jan15	-1.33	Jul09	13		4	3.75 Jul14	-1.13	Mar04	14
		5	3.75 Jul14	-0.98	Mar04	14		5	4.00 Jul19	-1.09	Feb09	13
		5	3.50 Jul20	-0.54	Feb10	15		5	3.75 Jan23	-0.87	Jan06	10
		4	4.00 Jul19	-0.33	Feb09	13		4	3.25 Jul21 (10y)	-0.86	Mar11	11
		3	3.25 Jul21 (10y)	-0.30	Mar11	11		3	4.00 Jul16 (5y)	-0.84	Jul06	13
		2	4.50 Jul17	0.12	Jul07	15		2	4.50 Jul17	-0.84	Jul07	15
	Cheapest	1	3.25 Jul15	0.57	Jun05	14	Cheapest	1	3.25 Jul15	-0.78	Jun05	14
SPAIN	Richest	1	3.00 Apr15	-3.02	Mar10	16	Richest	1	3.00 Apr15	0.10	Mar10	16
		2	3.15 Jan16	-2.99	Sep05	16		2	3.15 Jan16	0.11	Sep05	16
		3	4.40 Jan15	-2.32	Jun04	18		3	3.30 Oct14	0.16	Jul09	15
		4	2.50 Oct13 (2y)	-1.83	Jun10	16		4	4.40 Jan15	0.18	Jun04	18
		5	3.30 Oct14	-1.66	Jul09	15		5	3.25 Apr16	0.25	Nov10	14
		5	3.25 Apr16	0.25	Nov10	14		5	4.60 Jul19	0.42	Feb09	13
		4	4.30 Oct19	0.51	Jun09	15		4	4.30 Oct19	0.47	Jun09	15
		3	5.50 Jul17	1.65	Mar02	15		3	4.00 Apr20	0.49	Jan10	16
		2	3.40 Apr14	1.92	Apr11	7		2	4.85 Oct20	0.55	Jul10	16
	Cheapest	1	3.80 Jan17	2.38	Oct06	13	Cheapest	1	5.50 Apr21 (10y)	0.64	Jan11	17
BELGIUM	Richest	1	4.00 Mar19	-1.98	Jan09	10	Richest	1	4.25 Sep13	0.14	Jan03	16
		2	3.75 Sep20	-1.68	Jan10	18		2	4.00 Mar14	0.44	Apr08	12
		3	3.75 Sep15	-0.97	Mar05	11		3	4.25 Sep14	0.50	Jan04	13
		4	4.00 Mar22	-0.91	May06	14		4	3.50 Mar15	0.57	Mar09	10
		5	3.50 Mar15	-0.86	Mar09	10		5	3.75 Sep15	0.61	Mar05	11
		5	4.25 Sep13	1.19	Jan03	16		5	3.50 Jun17	0.80	Mar11	6
		4	4.00 Mar14	2.20	Apr08	12		4	5.50 Sep17	0.82	Jun02	8
		3	3.50 Jun17	2.40	Mar11	6		3	3.75 Sep20	0.91	Jan10	18
		2	4.00 Mar17	2.49	Jan07	11		2	4.00 Mar22	0.95	May06	14
	Cheapest	1	5.50 Sep17	3.46	Jun02	8	Cheapest	1	4.25 Sep21 (10y)	0.97	Jan11	8

Source: Citi Investment Research and Analysis

Relative Value Tables – Min 8yr Maturity

Figure 22. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

		Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
GERMANY	Richest	1	4.00 Jan37 (UB)	-2.55	Jan05	23	1	3.25 Jan20	-1.10	Nov09	22
		2	3.00 Jul20 (RX)	-2.46	Apr10	22	2	3.00 Jul20 (RX)	-1.08	Apr10	22
		3	3.25 Jan20	-2.20	Nov09	22	3	2.50 Jan21	-1.05	Nov10	19
		4	4.75 Jul34	-2.20	Jan03	20	4	2.25 Sep20	-1.00	Aug10	16
		5	2.50 Jan21	-0.47	Nov10	19	5	3.25 Jul21	-0.87	Apr11	19
	Cheapest	5	2.25 Sep21 (10y)	0.01	Aug11	6	5	5.50 Jan31	0.32	Oct00	17
		4	3.25 Jul42 (30y)	0.08	Jul10	10	4	4.00 Jan37 (UB)	0.41	Jan05	23
		3	4.25 Jul39	0.46	Jan07	14	3	4.75 Jul40	0.56	Jul08	16
		2	5.50 Jan31	0.65	Oct00	17	2	4.25 Jul39	0.87	Jan07	14
		1	2.25 Sep20	0.71	Aug10	16	1	2.25 Sep21 (10y)	1.13	Aug11	6
FRANCE	Richest	1	3.75 Apr21	-2.56	Apr05	31	1	3.25 Oct21 (10y)	0.37	Oct10	6
		2	3.25 Oct21 (10y)	-2.48	Oct10	6	2	3.75 Oct19	0.52	Oct08	25
		3	4.50 Apr41 (30y)	-1.99	Apr09	15	3	3.75 Apr21	0.68	Apr05	31
		4	4.25 Oct23	-1.64	Oct06	31	4	3.50 Apr20	0.73	Feb10	27
		5	4.00 Apr55	-1.54	Apr04	15	5	2.50 Oct20	0.90	Oct09	29
	Cheapest	5	4.75 Apr35	-0.34	Apr03	18	5	4.25 Oct23	2.19	Oct06	31
		4	3.75 Oct19	0.13	Oct08	25	4	4.00 Oct38	2.20	Oct05	24
		3	3.50 Apr26	0.20	Apr10	22	3	4.75 Apr35	2.22	Apr03	18
		2	4.00 Apr60	1.72	Apr09	8	2	5.75 Oct32	2.31	Oct00	23
		1	5.75 Oct32	2.31	Oct00	23	1	3.50 Apr26	2.67	Apr10	22
ITALY	Richest	1	4.75 Sep21 (10y-IK)	-3.98	Mar11	22	1	4.75 Sep21 (10y-IK)	1.64	Mar11	22
		2	3.75 Mar21	-3.09	Sep10	23	2	4.00 Feb37	1.67	Aug05	25
		3	4.00 Feb37	-3.04	Aug05	25	3	3.75 Mar21	1.72	Sep10	23
		4	4.00 Sep20	-2.17	Mar10	22	4	5.00 Sep40 (30y)	1.76	Sep09	20
		5	5.00 Mar25	-1.91	Mar09	20	5	5.00 Aug39	1.76	Aug07	19
	Cheapest	5	5.00 Aug39	1.72	Aug07	19	5	4.50 Mar26	1.84	Sep10	14
		4	4.25 Mar20	2.15	Sep09	23	4	3.75 Aug21	1.85	Feb06	27
		3	5.00 Aug34	2.18	Aug03	21	3	5.00 Mar25	1.85	Mar09	20
		2	4.50 Feb20	2.31	Feb04	21	2	5.75 Feb33	1.86	Feb02	15
		1	5.75 Feb33	2.44	Feb02	15	1	4.75 Aug23	1.89	Feb08	21
N'LANDS	Richest	1	4.00 Jan37	-2.15	Apr05	12	1	3.75 Jan42 (30y)	-1.23	May10	10
		2	3.75 Jan23	-0.61	Jan06	10	2	3.50 Jul20	-1.01	Feb10	15
	Cheapest	2	3.25 Jul21 (10y)	-0.30	Mar11	11	2	3.25 Jul21 (10y)	-0.86	Mar11	11
		1	3.75 Jan42 (30y)	1.57	May10	10	1	4.00 Jan37	-0.08	Apr05	12
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
SPAIN	Richest	1	4.70 Jul41 (30y)	-1.41	Sep09	11	1	4.30 Oct19	0.47	Jun09	15
		2	4.85 Oct20	-1.35	Jul10	16	2	4.00 Apr20	0.49	Jan10	16
		3	4.00 Apr20	-1.18	Jan10	16	3	4.85 Oct20	0.55	Jul10	16
		4	5.90 Jul26	-0.83	Mar11	6	4	5.50 Apr21 (10y)	0.64	Jan11	17
		5	4.80 Jan24	-0.64	Sep08	15	5	4.80 Jan24	1.00	Sep08	15
	Cheapest	5	4.65 Jul25	-0.39	Feb10	14	5	5.90 Jul26	1.20	Mar11	6
		4	5.50 Apr21 (10y)	0.19	Jan11	17	4	4.70 Jul41 (30y)	1.33	Sep09	11
		3	5.75 Jul32	0.38	Jan01	14	3	5.75 Jul32	1.33	Jan01	14
		2	4.30 Oct19	0.51	Jun09	15	2	4.90 Jul40	1.35	Jun07	13
		1	4.90 Jul40	1.12	Jun07	13	1	4.20 Jan37	1.36	Jan05	16
BELGIUM	Richest	1	3.75 Sep20	-1.68	Jan10	18	1	3.75 Sep20	0.91	Jan10	18
		2	4.00 Mar22	-0.91	May06	14	2	4.00 Mar22	0.95	May06	14
		3	5.00 Mar35	-0.75	May04	14	3	4.25 Sep21 (10y)	0.97	Jan11	8
	Cheapest	3	4.25 Sep21 (10y)	0.11	Jan11	8	3	4.50 Mar26	1.14	Jun11	4
		2	4.25 Mar41 (30y)	1.15	Apr10	6	2	4.25 Mar41 (30y)	1.24	Apr10	6
		1	4.50 Mar26	1.86	Jun11	4	1	5.00 Mar35	1.31	May04	14

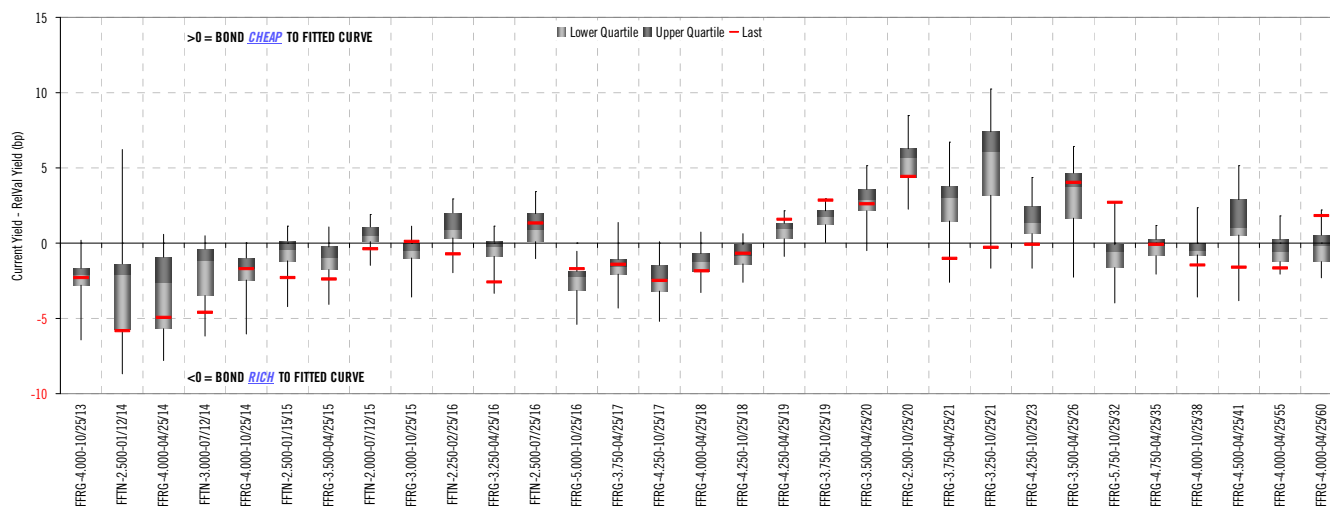
Source: Citi Investment Research and Analysis

European Relative Value Charts

This section presents a selection of relative value charts⁹ for France, Belgium, Italy and Spain, and places current levels in the context of their 6-month trading range. A positive (negative) value indicates that a bond is cheap (rich) relative to the fitted curve.

France: current yield vs fitted yield curve

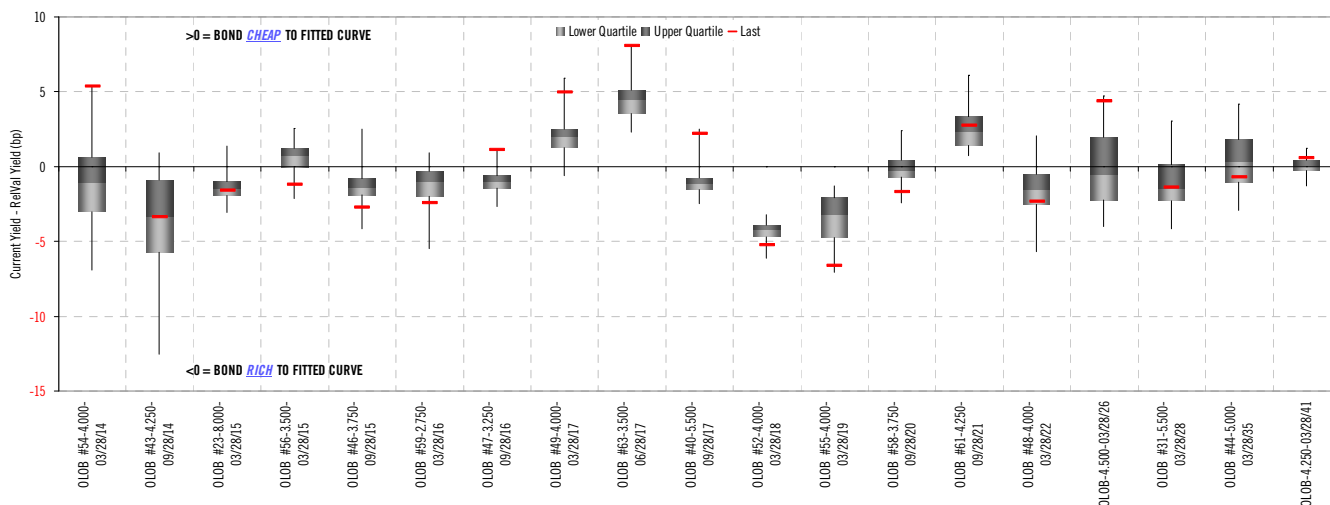
Figure 23. France: Current bond curve minus fitted curve (bps), 6-month history.



Source: Citi Investment Research and Analysis

Belgium: current yield vs fitted yield curve

Figure 24. Belgium: Current bond curve minus fitted curve (bps), 6-month history.



Source: Citi Investment Research and Analysis

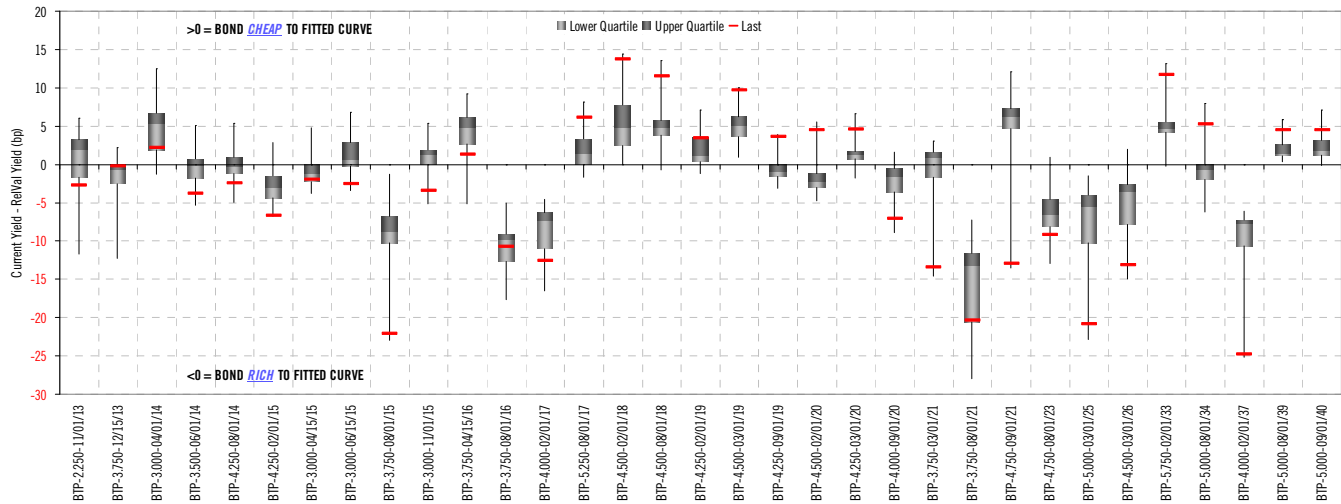
⁹ Criteria: (1) Fixed rate bonds issued in local currency, (2) minimum amount outstanding €1bn/£1bn, (3) maturity > 2yrs and (4) issued since 1 Jan 2000.

Lower Quartile Range = the range between the median and the lower quartile (the 25th percentile)

Upper Quartile Range = the range between the median and the upper quartile (the 75th percentile)

Italy: current yield vs fitted yield curve

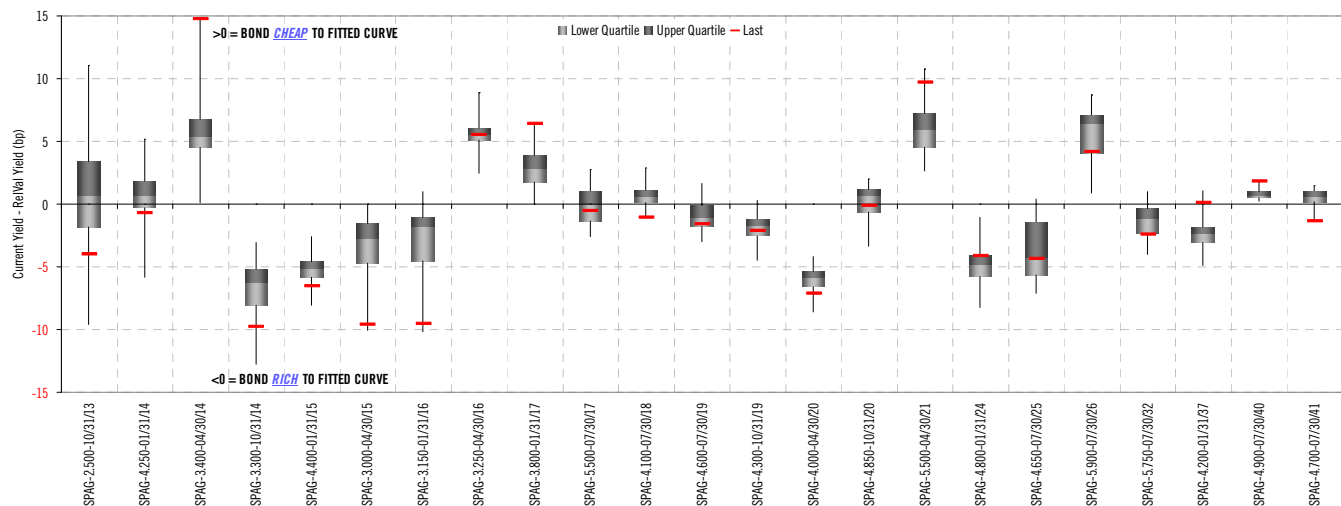
Figure 25. Italy: Current bond curve minus fitted curve (bps), 6-month history.



Source: Citi Investment Research and Analysis

Spain: current yield vs fitted yield curve

Figure 26. Spain: Current bond curve minus fitted curve (bps), 6-month history.



Source: Citi Investment Research and Analysis

Global Supply Monitor

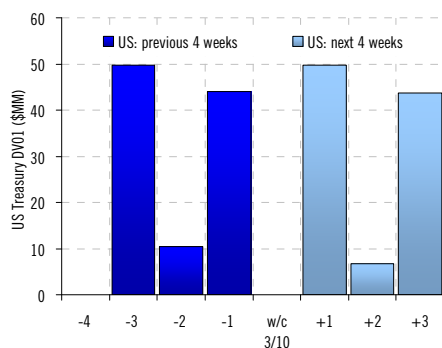
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Historical and projected DV01 of USD, EUR and GBP issuance (weekly)

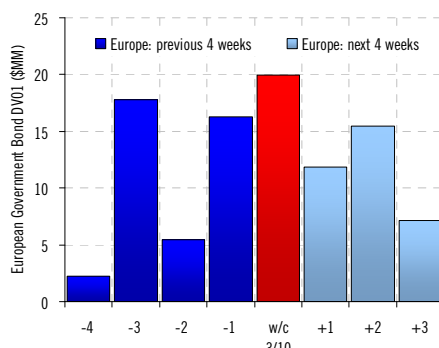
Figure 27 to Figure 29 show the \$DV01 of projected issuance over the next four weeks and the previous four weeks. The DV01 of issuance in the week commencing 3 October is shown in red. There is sizeable issuance from the Europe next week at \$20million/bp.

Figure 27. Estimated \$DV01 of US Treasury Issuance (Previous 4 and Next 4 Weeks)



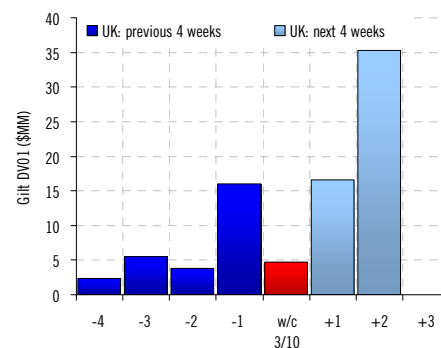
Source: US Treasury, CIRA estimates

Figure 28. Estimated \$DV01 of Euro Bond Issuance (Previous 4 and Next 4 Weeks)



Source: DMOS, CIRA estimates

Figure 29. Estimated \$DV01 of UK Gilt Issuance (Previous 4 and Next 4 Weeks)



Source: DMO, CIRA estimates

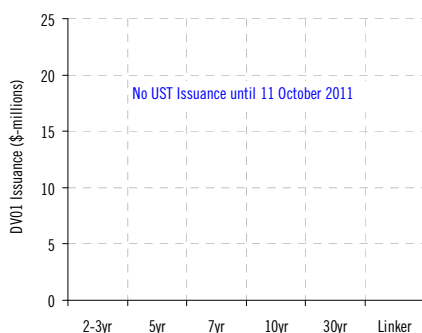
DV01 of expected USD, EUR and GBP issuance split by maturity (week beginning 3 October)

There is no UST supply until 11 October 2011 (Figure 30).

In Europe, around 34% of the total issuance next week is expected to come from the 10year sector at €4.5million/bp (Figure 31).

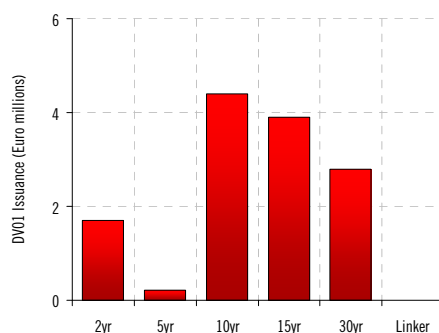
The UK DMO will issue approximately £3million/bp of the Gilt 3.75% 2021 Tuesday next week (Figure 32).

Figure 30. USD DV01 Split by Maturity (26 Sep – 3 Oct)



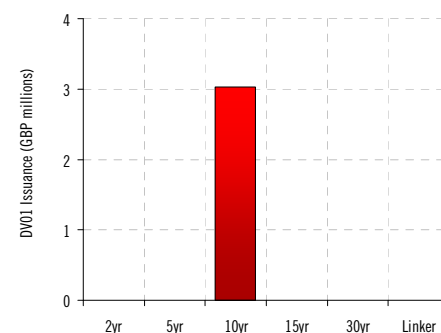
Source: US Treasury, CIRA estimates

Figure 31. EUR DV01 Split by Maturity (26 Sep – 3 Oct)



Source: DMOs, CIRA estimates

Figure 32. GBP DV01 Split by Maturity (26 Sep – 3 Oct)

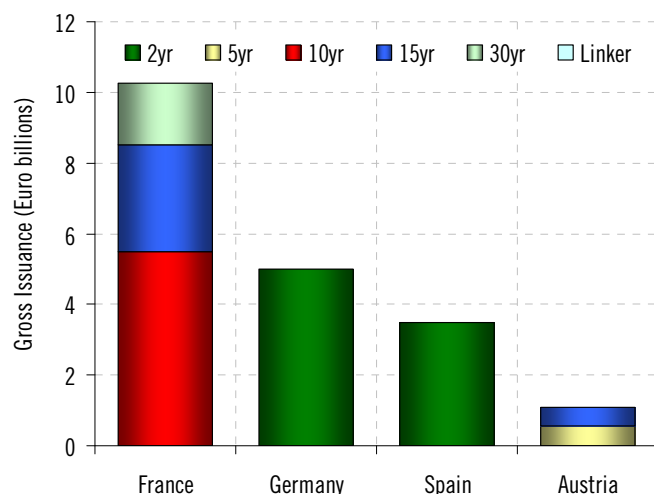


Source: DMO, CIRA estimates

Expected euro gross and DV01 split by country and maturity (week beginning 3 October)

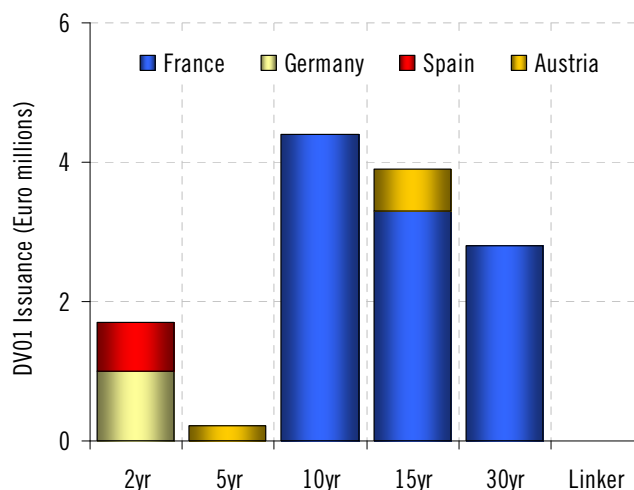
Euro issuance in the week beginning 3 October is split among France (€10.25bn), Germany (€5bn), Spain (€3.5bn estimated) and Austria (€1.1bn) - Figure 33. In DV01 terms, 34% of total issuance falls in the 10year sector at approximately €4.5million/bp (Figure 34).

Figure 33. Euro Gross Issuance this week



Source: DMOs, CIRA estimates, Bloomberg

Figure 34. Euro DV01 Issuance this week



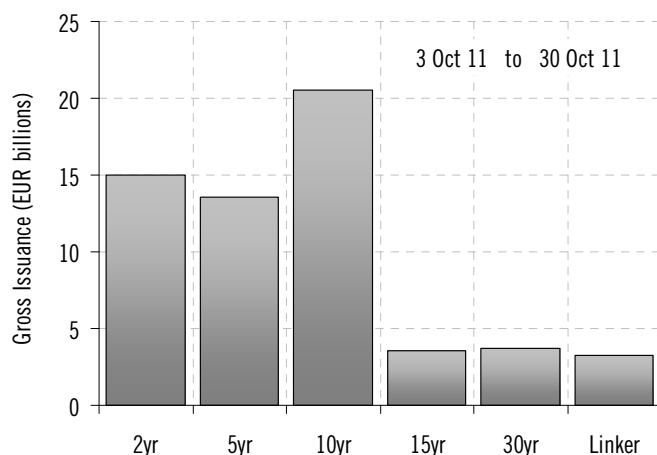
Source: DMOs, CIRA estimates, Bloomberg

Expected euro issuance (gross and DV01) by maturity for the next four-weeks (3 October – 30 October)

Over the next four weeks, the 2-, 5- and 10-year sectors account for approximately 82% of the total euro supply each (Figure 35).

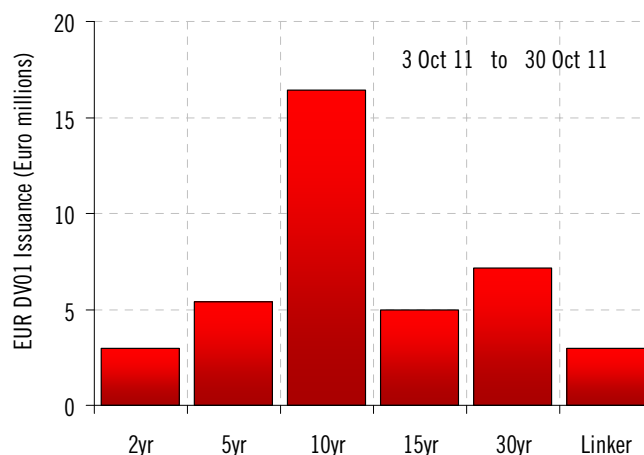
In DV01 terms, the 30year sector accounts for 41% of total issuance at €16.5million/bp (Figure 36).

Figure 35. Euro Gross Issuance over the Next Four Weeks



Source: DMOs, CIRA estimates, Bloomberg

Figure 36. Euro DV01 Issuance over the Next Four Weeks



Source: DMOs, CIRA estimates, Bloomberg

US coupons for the next four weeks – maturity split

Most of UST coupons over the next four weeks come from the 2- to 5-year sectors (Figure 37).

Figure 37. Maturity Split of UST Coupon Payments over the Next Four Weeks (USD-Billions)*

Week Commencing	2-3yr	5yr	7yr	10yr	30yr	Linker	Total
03 Oct							
10 Oct	1.5	0.1			0.8		2.3
17 Oct							
24 Oct	3.2	2.5	0.7				6.4
Total	4.7	2.6	0.7		0.8		8.7

Source: CIRA, Bloomberg

*This table is on a trade-date basis

Euro coupons for the next four weeks – maturity split

There will be a total of €31.7bn of coupon payments over the next four weeks. The 2-, 5- and 10-year sectors account for approximately 25% of total coupon payments each (Figure 38).

Figure 38. Maturity Split of Euro Coupon Payments over the Next Four Weeks (EUR-Billions)*

Week Commencing	2yr	5yr	10yr	15yr	30yr	Linker	Total
03 Oct	1.3	0.7					2.0
10 Oct	1.6	1.4	1.2				4.3
17 Oct	3.2	4.9	4.8	2.6	2.3		17.8
24 Oct	1.9	0.9	1.4	3.3			7.6
Total	8.1	7.9	7.5	5.9	2.3		31.7

Source: CIRA, Bloomberg

*This table is on a trade-date basis

UK coupons for the next four weeks – maturity split

There are virtually zero gilt coupon payments over the next four weeks (Figure 39).

Figure 39. Maturity Split of Gilt Coupon Payments over the Next Four Weeks (GBP-Billions)*

Week Commencing	2yr	5yr	10yr	15yr	30yr	Linker	Total
03 Oct							
10 Oct						0.2	0.2
17 Oct							
24 Oct							
Total						0.2	0.2

Source: CIRA, Bloomberg

*This table is on a trade-date basis

Euro coupons and redemptions split by maturity and country

Figure 40 below shows a weekly breakdown of euro coupons and redemptions, split by sector and country for the next four weeks.

Figure 40. Euro Coupons and Redemptions by Maturity and Country for the Next 4 Weeks (EUR Billions)

Week Beginning 03 Oct (Mon)			Coupons	Redemptions	Week Beginning 10 Oct (Mon)			Coupons	Redemptions	
Coupons	2yr	1.3	Austria	2.0	Coupons	2yr	1.6	Austria	0.6	17.0
	5yr	0.7	Belgium			5yr	1.4	Belgium		
	10yr		Germany			10yr	1.2	Germany		
	15yr		Finland			15yr		Finland		
	30yr		France			30yr		France		
	Linker		Greece			Linker		Greece		
			Ireland					Ireland		
			Italy					Italy		
			Netherlands					Netherlands		
			Portugal					Portugal		
		Spain			Spain					
2.0			2.0	0.0	4.5			4.5	17.0	

Week Beginning 17 Oct (Mon)			Coupons	Redemptions	Week Beginning 24 Oct (Mon)			Coupons	Redemptions	
Coupons	2yr	3.2	Austria	15.5	Coupons	2yr	1.9	Austria	3.7	14.1
	5yr	4.9	Belgium			5yr	0.9	Belgium		
	10yr	4.8	Germany			10yr	1.4	Germany		
	15yr	2.6	Finland			15yr	3.3	Finland		
	30yr	2.3	France			30yr		France		
	Linker		Greece			Linker		Greece		
			Ireland					Ireland		
			Italy					Italy		
			Netherlands					Netherlands		
			Portugal					Portugal		
		Spain			Spain					
17.8			17.8	15.7	7.6			7.6	14.1	

Source: CIRA, Bloomberg

**This table is on a trade-date basis*

Provisional auction calendar for the next four weeks

Figure 41. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Auction Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ1 (UST)	G Z1 (Gilt)	RXZ1 (Bund)
04 Oct (Tue)	Austria	1.1	RAGB 2015 and 2037 (issue and size confirmed)				9k
04 Oct (Tue)	UK	3.25	3¼% Treasury Gilt 2021 (issue confirmed and size confirmed)			31k	
05 Oct (Wed)	Germany	5	Schatz 0.75% 9/2013 reopening (issue and size confirmed)				9k
06 Oct (Thu)	France	10.25	OAT 10y, 15y and 30y (estimated size)				113k
06 Oct (Thu)	Spain	3.5	Bono 5.5% Apr14 (issue confirmed, estimated size)				7k
Weekly \$DV01 of Issuance				24.7			
Total Number of Futures Contracts					0k	31k	138k

Auction Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ1 (UST)	G Z1 (Gilt)	RXZ1 (Bund)
11 Oct (Tue)	Netherlands	2.5	DSL Jan17 reopening (issue confirmed, size €2 - 3bn)				9k
11 Oct (Tue)	UK	2.1	October 1¼% Index-linked Treasury Gilt 2037 (issue confirmed, estimated size)			67k	
11 Oct (Tue)	US	32	3-Year		100k		
12 Oct (Wed)	Germany	2	Bund 3.25% 7/2042 reopening (issue and size confirmed)				36k
12 Oct (Wed)	US	21	10-Year		228k		
13 Oct (Thu)	Italy	6.75	BTP 5yr and 10yr (estimated tenors)				37k
13 Oct (Thu)	UK	2.1	4¼% Treasury Gilt 2039 (issue confirmed, estimated size)			42k	
13 Oct (Thu)	US	13	30-Year		292k		
Weekly \$DV01 of Issuance				78.1			
Total Number of Futures Contracts					621k	109k	82k

Auction Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ1 (UST)	G Z1 (Gilt)	RXZ1 (Bund)
17 Oct (Mon)	UK	3.5	Syndicated 50 year Index-linked gilt in second half of October (estimated size)			207k	
19 Oct (Wed)	Germany	5	Bund 2.25% 9/2021 reopening (issue and size confirmed)				38k
20 Oct (Thu)	France	9.25	BTAN/Index-linked OAT (estimated size)				37k
20 Oct (Thu)	Spain	4.25	Obligaciones 10yr (estimated size)				32k
20 Oct (Thu)	UK	4.8	1¼% Treasury Gilt 2017			26k	
20 Oct (Thu)	US	7	30-Year TIPS		83k		
Weekly \$DV01 of Issuance				57.5			
Total Number of Futures Contracts					83k	233k	108k

Auction Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ1 (UST)	G Z1 (Gilt)	RXZ1 (Bund)
25 Oct (Tue)	Netherlands	2.5	DSL Jul15 and Jul19 (issue confirmed, size €2 - 3bn)				9k
25 Oct (Tue)	US	35	2-Year		109k		
26 Oct (Wed)	US	34	5-Year		204k		
27 Oct (Thu)	Italy	1.5	BTPei (estimated size)				13k
27 Oct (Thu)	US	29	7-Year		232k		
28 Oct (Fri)	Italy	6	BTP 3yr and 10yr (estimated size)				27k
Weekly \$DV01 of Issuance				50.8			
Total Number of Futures Contracts					545k	0k	49k

Source: DMOs, CIRA estimates

The three figures on this page show the upcoming profile gross and net supply, coupons and redemptions, and the resultant NCR, for each of the next four weeks.

These are calculated on a *settlement date* basis.

US net cash-requirements (NCR) over the next four weeks

The US NCR is positive over the next four weeks as \$66bn of gross supply easily offsets \$5.9bn of coupon payments and \$60bn of redemptions (Figure 42). All things being equal, the upcoming NCR profile should put upward pressure on US Treasury yields over the next four weeks.

Figure 42. US Weekly Cash Flow Profile for Next Four Weeks, USD Billions

Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	D Net Buybacks	A - B - C - D NCR
03 Oct		3.5	-4		1	-5
10 Oct					1	-1
17 Oct	66	2.3	64		1	62
24 Oct					1	-1
Total	66	5.9	60		5	55
Average	17	1.5	15		1	14
YTD Average	40	3.7	36	14	16	6

Source: US Treasury, CIRA estimates, Bloomberg

Euro cash-flow profile over the next four weeks

Europe also sees a positive net cash flow over the next four weeks, much higher than its YTD average (Figure 43). On a weekly basis, the NCR is strongly negative during week 4, which should put downward pressure on EMU AAA yields, ceteris paribus.

Figure 43. Estimated Euro Weekly Cash Flow Profile for Next Four Weeks, EUR Billions

Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	A - B - C NCR
03 Oct	16.1	0.2	15.9		15.9
10 Oct	21.3	2.6	18.6	17.0	1.6
17 Oct	8.8	4.8	3.9		3.9
24 Oct	21.0	16.9	4.1	15.7	-11.6
Total	67.1	24.6	42.5	32.7	9.9
Average	16.8	6.1	10.6	8.2	2.5
YTD Average	15.0	4.2	10.8	9.9	1.0

Source: DMOs, CIRA estimates, Bloomberg

Gilt cash-flow profile over the next four weeks

The UK NCR is positive over the next four weeks (Figure 44) because of minimal coupon payments and no redemptions during this period.

Figure 44. Estimated UK Weekly Cash Flow Profile for Next Four Weeks, GBP Billions

Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	A - B - C NCR
03 Oct	3.3		3.3		3.3
10 Oct	4.2		4.2		4.2
17 Oct	8.3	0.2	8.1		8.1
24 Oct					
Total	15.8	0.2	15.5		15.5
Average	3.9	0.1	3.9		3.9
YTD Average	2.9	0.9	2.0	0.9	1.1

Source: DMO, CIRA estimates, Bloomberg

JGB settlement cash-flow profile over the next four weeks

Figure 45 shows the profile of JGB gross and net supply, coupons and redemptions, and the resultant NCR, for each of the next four weeks. The NCR is positive over the next four weeks as ¥9.3trillion of gross issuance easily offsets ¥0.01trillion of coupon payments and ¥2.5trillion of redemptions (Figure 45).

Figure 45. Estimated JGB Weekly Cash Flow Profile for Next Four Weeks (JPY-Trillions) *

Settling in week commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	A - B - C Net Cash Requirement
03 Oct	2.6		2.6		2.6
10 Oct	2.5		2.5		2.5
17 Oct	0.7	0.01	0.7	2.5	-1.8
24 Oct	3.5		3.5		3.5
Total	9.3	0.01	9.3	2.5	6.8
Average	2.3		2.3	0.6	1.7
YTD Average	2.2	0.18	2.0	1.7	0.3

Source: CIRA estimates, Bloomberg, BoJ

*This table is on a settlement-date basis

Explanation of trade-date and settlement-date:

Throughout the *Supply Monitor* section coupons and redemption payments are allocated on a trade date basis *except in the cash flow tables* shown above. In these cash flow tables; gross supply, coupons and redemptions are on a settlement date basis. This is to keep everything in line with US supply settling during the middle or end of the month instead of just T+3 as in Europe for example.

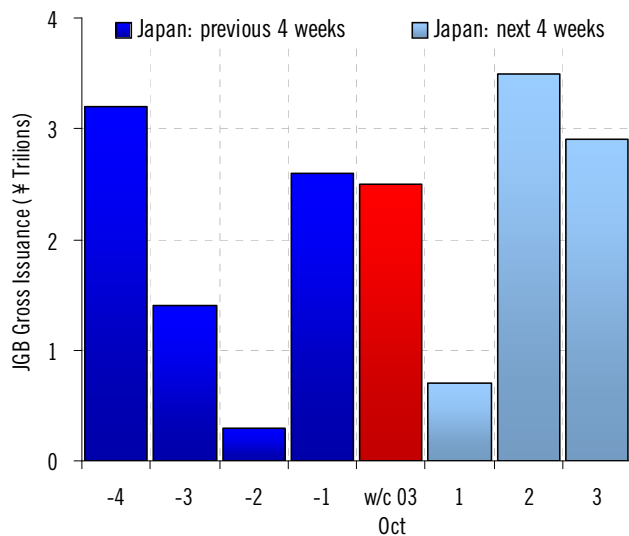
Trade date basis: In Europe if the coupon payment falls on Monday 1st March, for example, it would be allocated to the previous week (the week commencing 28 February) as that would be when you would trade to use the money you know is coming in on Monday 1st March. In other words, you don't wait for the money to hit your account to use it. Since we are trying to account for the impact of those payments we allocate them on a trade date basis, rather than settlement date.

Settlement date basis: The net cash requirement tables (Figure 42, Figure 43, Figure 44 and Figure 45) are on a settlement basis. In the US, conventional supply settles either during the middle of the month or at the end of the month. (If there is a Treasury auction during the last week of the month it will settle in the following week). Consequently, if you participate in the UST 3-year auction on 8 March the money would leave your account during the w/c 14 March. In addition, TIPS often settle during a different week from conventional supply.

Historical and projected DV01 of JGB issuance (weekly)

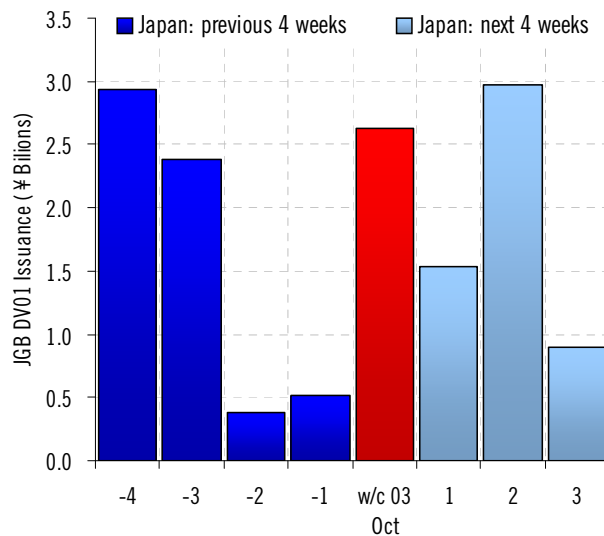
Figure 46 and Figure 47 show projected JGB gross and ¥DV01 of issuance over the next four weeks and the previous four weeks. Next week sees ¥2200 billion of issuance in the 10-year sector and a 20-30 year AEL from Japan (Figure 46 and Figure 47).

Figure 46. Estimated Gross JGB Issuance (Previous 4 and Next 4 Weeks)



Source: CIRA estimates, BoJ, MoF

Figure 47. Estimated ¥DV01 of JGB Issuance (Previous 4 and Next 4 Weeks)



Source: CIRA estimates, BoJ, MoF

JGB coupons for the next four weeks – maturity split

There are minimal JGB coupon payments over the next four weeks (Figure 48).

Figure 48. Maturity Split of JGB Coupon Payments over the Next Four Weeks (JPY-Billions)*

Week commencing	2yr	5yr	10yr	20yr	30yr	TOTAL
03 Oct						
10 Oct	10					10
17 Oct						
24 Oct						
Total	10					10

Source: CIRA estimates, Bloomberg

*This table is on a trade-date basis

JGB auction calendar for the next four weeks

Figure 49 shows our JGB issuance expectations for the next four weeks and weekly \$DV01.

Figure 49. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (JPY Millions).

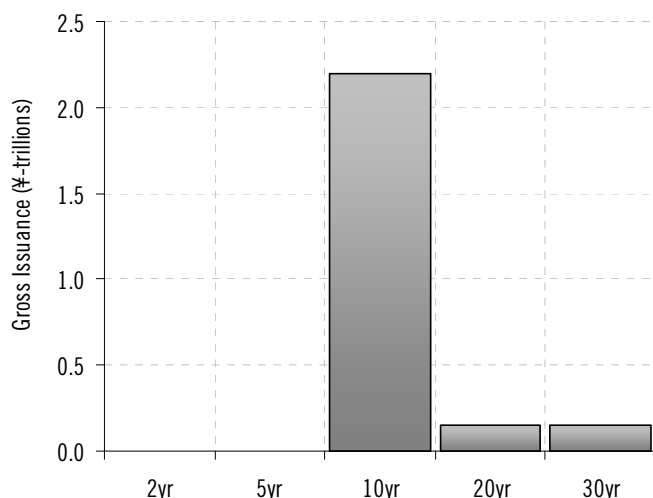
Auction Date	Country Issuing	Estimated Size (Local Ccy)		Issue Details (Estimated)	Weekly DV01	
					¥ millions	\$ millions
04 Oct (Tue)	JPY	2200	10year		2046	27
06 Oct (Thu)	JPY	300	AEL (20-30years)		576	8
Weekly DV01 of Issuance					¥2622	\$34
13 Oct (Thu)	JPY	700	30year		1540	20
Weekly DV01 of Issuance					¥1540	\$20
18 Oct (Tue)	JPY	2400	5year		1164	15
20 Oct (Thu)	JPY	1100	20year		1804	24
Weekly DV01 of Issuance					¥2968	\$39
24 Oct (Mon)	JPY	300	AEL (10-20years)		386	5
26 Oct (Wed)	JPY	2600	2year		515	7
Weekly DV01 of Issuance					¥900	\$12

Source: CIRA estimates, BoJ, MoF

Expected JGB gross and DV01 issuance by maturity (week beginning 3 October)

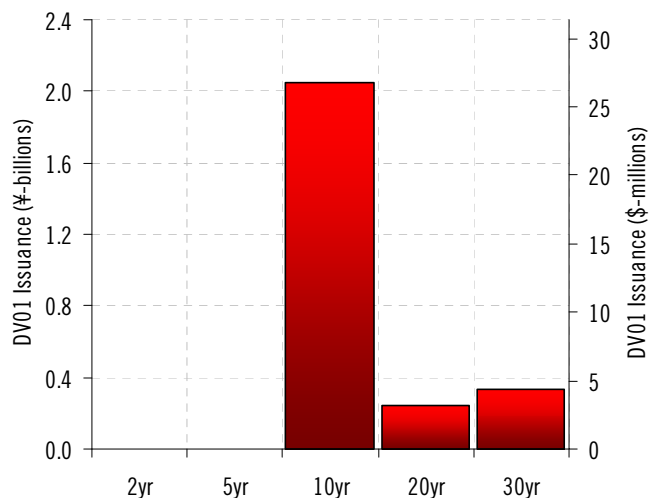
Figure 51 shows the DV01 split of JGB issuance next week by maturity.

Figure 50. JGB Gross Split by Maturity (Week Beginning 3 October)



Source: CIRA, Bloomberg

Figure 51. JGB DV01 Split by Maturity (Week Beginning 3 October)



Source: CIRA, Bloomberg

Appendix – global supply forecasts

Figure 52. UK, US and EMU-11 Gross Supply – Citi forecasts

2011 Cashflow Tables												
Nominal Gross Supply (£bn)							A	B	C = A - B	D	E = C - D	
UK	2yr	5yr	10yr	15yr	30yr	Linker	Gross Supply	Coupons	Net Supply	Redemptions	NCR	
Oct-10		4.1	3.3		6.2	2.2	16	2	14		14	
Nov-10		4.4	3.3		2.1	1.4	11	1	10		10	
Dec-10		3.8			2.2	0.9	7	10	-3		-3	
Jan-11			3.0		2.5	4.2	10		9		9	
Feb-11		3.8	3.0		2.2	1.1	10	1	9	7	3	
Mar-11		4.3	2.8		2.5	0.9	10	5	5		5	
Apr-11		5.0	3.8		2.0	2.0	13	2	11		11	
May-11		5.0		3.3	2.2	4.8	15	1	14		14	
Jun-11		4.8	3.6	2.5	5.0	1.5	17	10	7	24	-17	
Jul-11		5.1	3.6		2.2	5.1	16	2	14		14	
Aug-11		4.7			2.0	2.0	9	1	8		8	
Sep-11	0.0	4.8	3.0	0.0	5.5	0.9	14	11	3	24	-20	
Total		50	29	6	36	27	148	45	103	54	49	

Gross Supply								A	B	C	D = A - B - C	E	F = D - E
US	2yr	3yr	5yr	7yr	10yr	30yr	TIPS	Gross Supply	Coupons	Fed Purchases	Net Supply	Redemptions	NCR
Jan-11	35	32	35	29	21	13	13	178	11	115	52	66	-14
Feb-11	35	32	35	29	24	16	9	180	32	98	51	75	-25
Mar-11	35	32	35	29	21	13	11	176	10	108	58	54	3
Apr-11	35	32	35	29	21	13	14	179	6	84	90	75	15
May-11	35	32	35	29	24	16	11	182	34	104	44	49	-6
Jun-11	35	32	35	29	21	13	7	172	4	91	77	38	39
Jul-11	35	32	35	29	21	13	13	178	15	16	147	57	90
Aug-11	35	32	35	29	24	16	10	181	38	11	132	82	50
Sep-11	35	32	35	29	21	13	11	176	4	12	160	61	98
Oct-11	35	32	34	29	21	13	7	171	12	5	154	61	92
Nov-11	35	32	34	29	24	16	11	181	30	5	146	92	54
Dec-11	35	32	34	29	21	13	10	174	11	5	158	90	68
Total	420	384	417	348	264	168	127	2128	206	654	1267	801	466

Gross issuance forecasts for 2011 to 2013			
Gross Supply	2011	2012	2013
EMU-11 (£bn)	786	761	746
- excluding Greece and Ireland			
Gross Supply	2011	2012	2013
US (\$bn)	2128	2045	2035

Gross Supply *	10/11	11/12	12/13	13/14
UK (£bn)	165	167.5	126	106

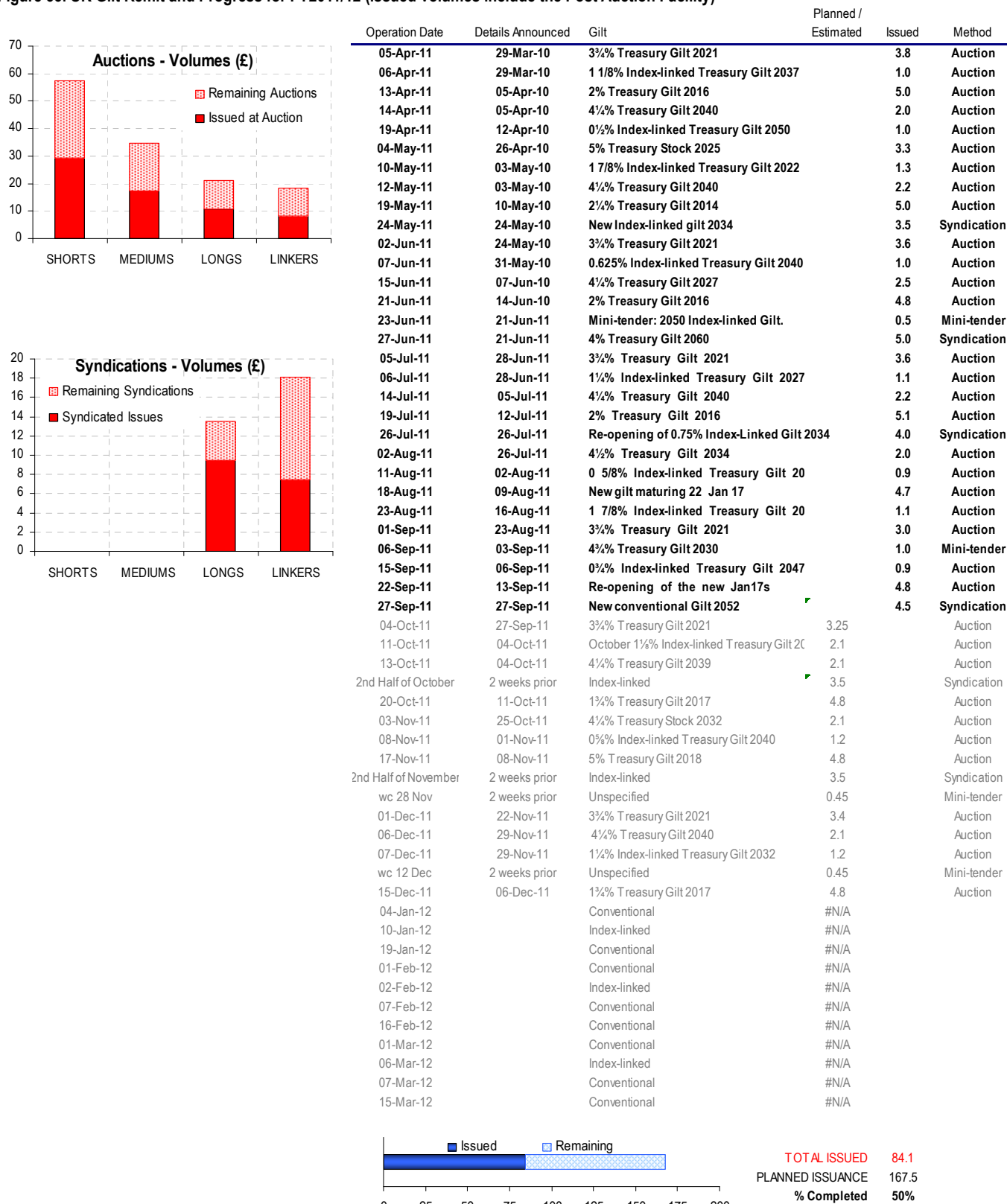
Gross Supply (£bn)	2011	2012	2013
Germany	191	180	195
France	206	184	197
Italy	160	188	145
Spain	91	84	86
Netherlands	53	40	43
Belgium	33	40	37
Portugal**	22	17	16
Austria	18	19	19
Finland	12	8	7
Ireland**	24	20	19
Greece**	41	47	35

*UK supply forecasts on financial year basis

** Pre-bailout supply forecasts

Source: DMOs, CIRA estimates, Bloomberg

Figure 53. UK Gilt Remit and Progress for FY2011/12 (Issued volumes include the Post Auction Facility)



Source: Citi Investment Research and Analysis

Figure 54. 2011 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

EMU-11	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	18.3	21.0	27.1	7.3	3.2	7.0	84	29	55	63	-8
Feb	16.8	21.8	22.6	3.6	5.2	4.5	74	13	62	24	38
Mar	20.8	24.1	20.4	8.3	0.9	5.2	80	16	63	45	18
Apr	17.7	19.7	20.3	6.5	6.1	6.7	77	29	48	57	-9
May	16.1	19.5	21.0	3.3	4.4	3.7	68	5	62	6	56
Jun	18.7	20.1	17.9	7.5	0.9	4.9	70	5	65	20	45
Jul	14.8	9.0	19.4	8.0	3.0	2.6	57	42	15	82	-67
Aug	13.4	1.4	10.6		1.0		26	12	14	26	-12
Sep	15.6	28.3	21.2	0.8	3.1	4.8	74	15	58	69	-11
Oct	15.7	14.3	21.4	3.6	3.8	4.3	63	28	34	47	-12
Nov	13.8	17.3	19.8	4.5	2.8	2.8	61	4	57	4	52
Dec	10.8	11.6	8.8	6.5			38	3	35	18	17
Total	192	208	230	60	34	46	771	201	570	464	106

GERMANY	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	6.0	6.0	5.0		2.0	1.0	20	14	6	23	-17
Feb	7.0	5.0	4.0				16	1	15		15
Mar	6.0	5.0	4.0			2.0	17	1	16	15	1
Apr	5.0	6.0	6.0		2.0	3.0	22	4	18	19	-1
May	7.0	6.0	5.0				18		18		18
Jun	6.0	6.0	4.0				16	1	15	15	
Jul	4.0		4.0		2.0		10	14	-4	24	-28
Aug	7.0		6.0				13		13		13
Sep	5.0	6.0	5.0			2.0	18	1	17	16	1
Oct	5.0		5.0		2.0	1.0	13	3	10	17	-7
Nov	6.0	5.0	6.0			1.0	18		18		18
Dec	5.0	5.0					10		10	18	-8
Total	69.0	50.0	54.0		8.0	10.0	191	37	154	147	6

FRANCE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	3.9	5.1	5.0	4.0	1.2	3.0	22	3	19	18	1
Feb	4.8	6.1	4.4	3.1		3.0	21		21		21
Mar	5.6	6.5	3.2	2.1		1.8	19		19		19
Apr	1.6	6.9	4.4	3.7	1.4	1.9	20	17	3	18	-15
May	4.6	5.2	5.8	1.7	1.9	2.2	21		21		21
Jun	4.1	3.9	7.2	2.5		1.9	20		20		20
Jul	5.0	3.4	7.2	2.4		1.6	20	7	12	29	-17
Aug											
Sep	5.1	8.2	3.8		1.6	1.3	20		20	13	6
Oct	3.3	4.3	5.5	3.0	1.8	1.8	20	15	4	16	-12
Nov	2.3	4.3	3.3	2.5	1.5	1.8	16		16		16
Dec		2.8	3.3	1.8			8		7		7
Total	40.1	56.5	53.1	26.8	9.4	20.2	206	44	162	94	68

ITALY	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	3.9	3.3	3.6	3.3		3.0	17		17		17
Feb	3.2	3.5	6.1		1.7	1.5	16	11	5	19	-13
Mar	4.5	3.1	3.3	2.2		1.5	14	6	9	16	-8
Apr	3.6	4.9	3.7	1.5		1.8	15	1	14		14
May	3.9	3.6	3.3		1.8	1.5	14	4	10		10
Jun	2.6	3.5	3.0			3.0	12	1	11		11
Jul	3.5	2.0	2.7	3.0		0.9	12		12		12
Aug	3.0		3.8				7	10	-4	20	-24
Sep	3.0	3.9	7.4			1.5	16	6	10	32	-23
Oct	3.3	3.8	5.8			1.5	14	2	12		12
Nov	3.0	3.3	4.0	2.0			12	4	9		9
Dec	2.5	3.3	2.5	2.0			10	1	9		9
Total	39.8	38.1	49.0	13.9	3.5	16.1	160	47	114	88	26

Source: DMOs, Citi estimates, Bloomberg

Figure 55. 2011 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

SPAIN	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		3.0	6.0				9	6	3		3
Feb	1.9	1.6	2.5		1.0		7		7		7
Mar		3.8	3.2	4.0	0.9		12		12		12
Apr	4.1		2.5	0.9			8	4	3	16	-12
May		3.4	2.5		0.7		7		7		7
Jun	2.8	1.2	1.3	1.5			7		7		7
Jul	1.5	1.5	1.8	0.8			6	8	-2	15	-18
Aug	2.7	1.4					4		4		4
Sep		3.6	4.0				8		8		8
Oct	3.5		4.3				8	4	4	14	-10
Nov		3.5	3.0		1.3		8		8		8
Dec	3.3		3.0	2.8			9		9		9
Total	19.8	23.0	34.1	9.9	3.9		91	22	69	45	24
NETHERLANDS	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.5	1.5					6	4	2	14	-12
Feb					1.8		2		2		2
Mar	3.7		6.0				10		10		10
Apr	1.0		1.6		1.8		4		4		4
May			3.2				3		3		3
Jun	3.2	5.5					9		9		9
Jul		1.8	1.8	1.8			5	6	-1	14	-15
Aug											
Sep	2.5	2.2					5		5		5
Oct		5.0					5		5		5
Nov	2.5		2.0				5		5		5
Dec											
Total	17.4	16.0	14.7	1.8	3.6		53	10	43	28	15
BELGIUM	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan			3.0				3		3		3
Feb		1.1	1.6	0.5			3		3		3
Mar		5.0					5	6	-1	6	-7
Apr	0.8		1.2		0.9		3		3		3
May	0.7	0.7	1.2	0.9			3		3		3
Jun				3.5			4		3		3
Jul			1.1		1.0		3		3		3
Aug	0.7		0.8		1.0		3		3		3
Sep		0.7	0.9	0.8	0.8		3	5	-1	8	-9
Oct	0.7	0.7	0.9				2		2		2
Nov		0.7	0.9				2		2		2
Dec								1	-1		-1
Total	2.8	9.3	11.6	5.6	3.7		33	12	21	14	8
GREECE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar								2	-2	8	-10
Apr											
May								2	-2	6	-8
Jun											
Jul								3	-3		-3
Aug								2	-2	6	-8
Sep								1	-1		-1
Oct								1	-1		-1
Nov											
Dec											
Total								11	-11	20	-31

Source: DMOs, Citi estimates, Bloomberg

Figure 56. 2011 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

AUSTRIA	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan			4.0				4	1	3	8	-5
Feb		0.9			0.7		2		1		1
Mar		0.7	0.7				1	1			
Apr		0.9	0.8				2		1		1
May		0.7		0.7			1		1		1
Jun			0.9		0.9		2		2		2
Jul	0.9		0.8				2	2	-1		-1
Aug											
Sep		0.7			0.7		1	1			
Oct		0.6		0.6			1	1			
Nov		0.6	0.6				1		1		1
Dec		0.6					1		1		1
Total	0.9	5.5	7.7	1.2	2.3		18	7	10	8	2

FINLAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		1.5					2		2		2
Feb			4.0				4		4	6	-2
Mar											
Apr		1.0		0.5			2	1	1		1
May											
Jun			1.5				2		2		2
Jul								1	-1		-1
Aug											
Sep		3.0					3	1	2		2
Oct											
Nov											
Dec											
Total		5.5	5.5	0.5			12	3	9	6	3

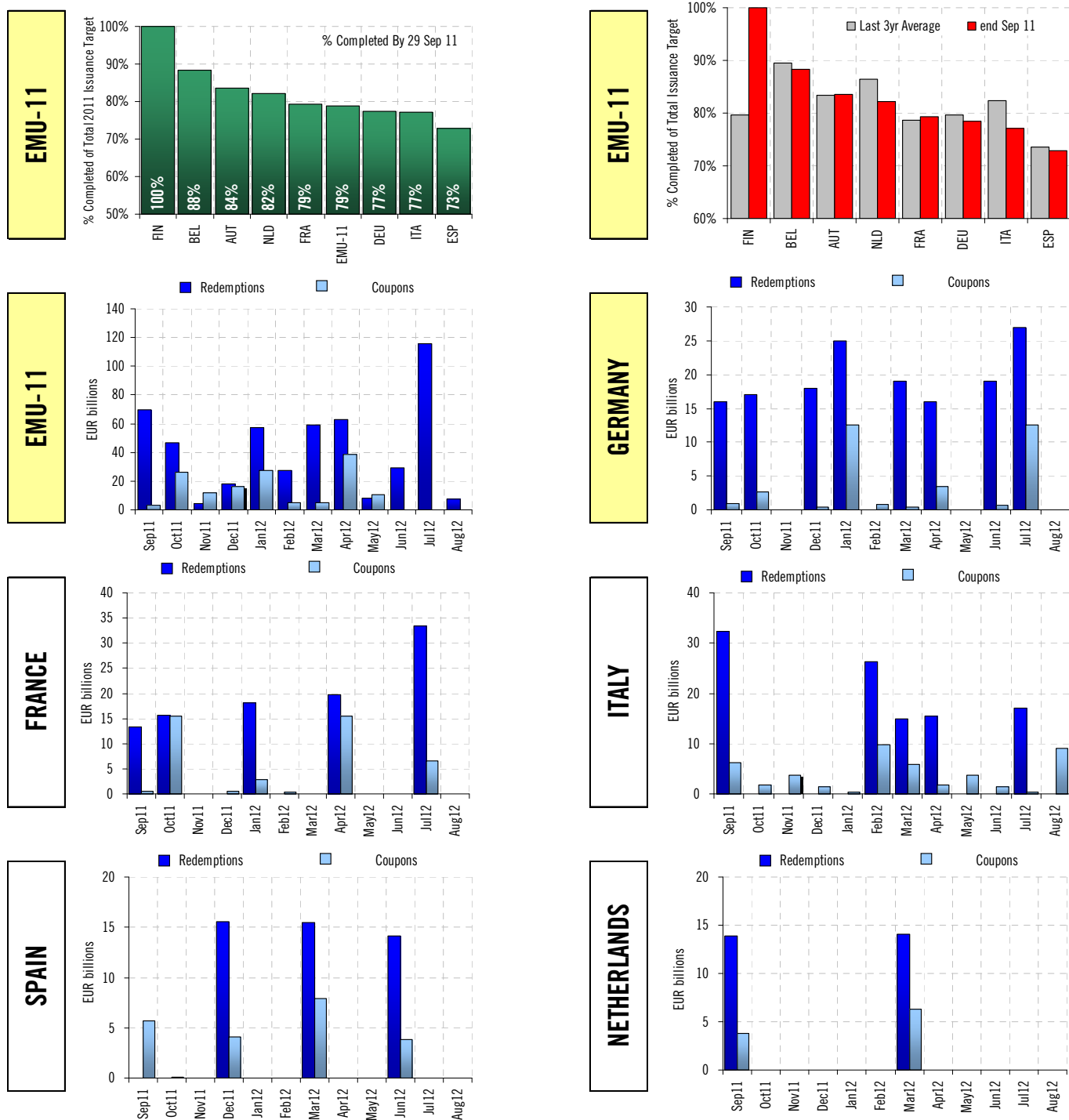
PORTUGAL*	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		0.7	0.6				1		1		1
Feb		3.5					4		4		4
Mar	1.0						1		1		1
Apr	1.7						2	1	1	4	-3
May											
Jun								2	-2	5	-7
Jul											
Aug											
Sep								1	-1		-1
Oct								1	-1		-1
Nov											
Dec											
Total	2.7	4.2	0.6				7	5	3	9	-7

*Pre-bailout supply forecasts

IRELAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar								1	-1		-1
Apr								1	-1		-1
May											
Jun											
Jul											
Aug											
Sep											
Oct								1	-1		-1
Nov										4	-5
Dec											
Total								4	-4	4	-9

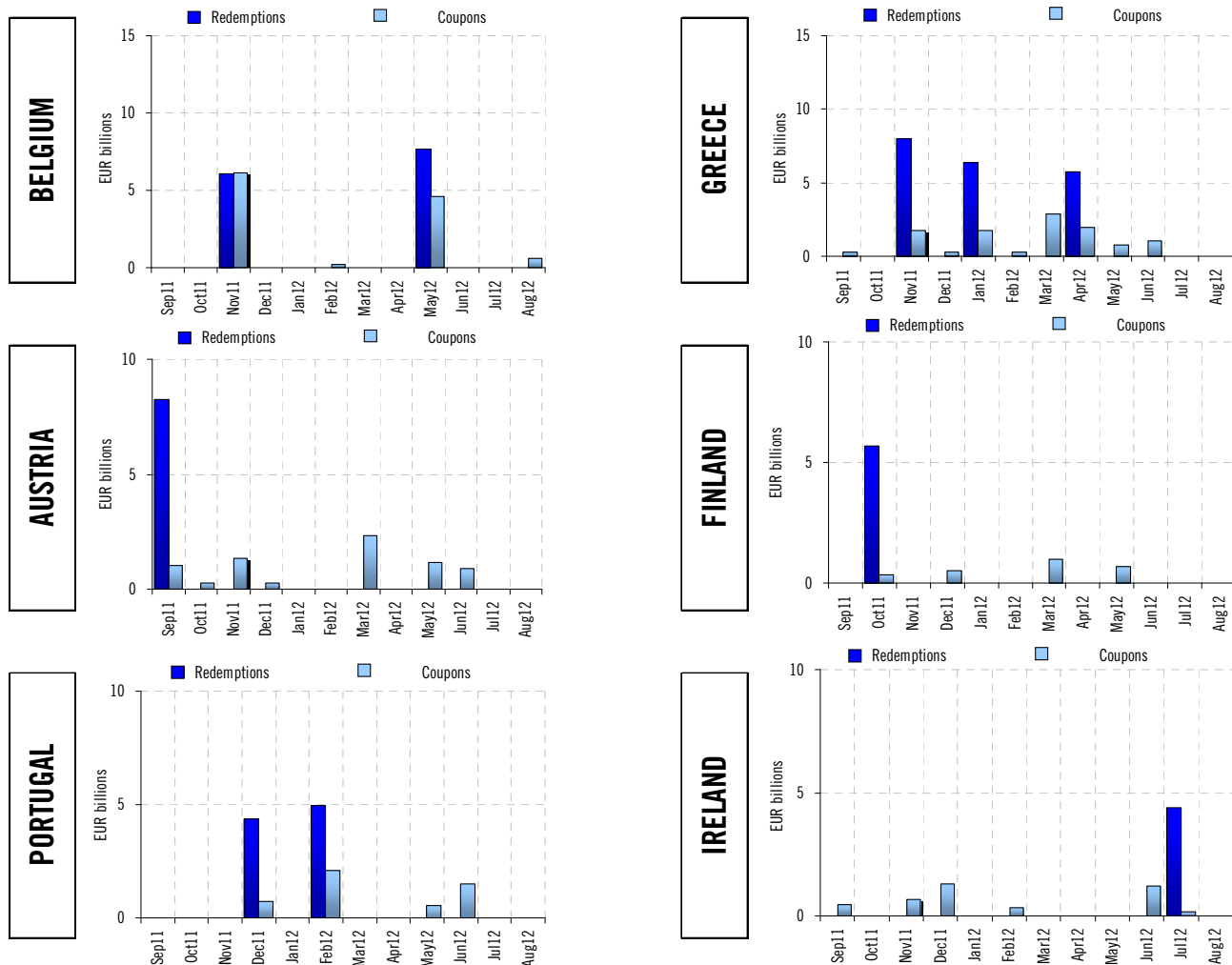
Source: DMOs, Citi estimates, Bloomberg

Figure 57. 2011 EMU Issuance Progress and Cash flow profile – Citi Forecasts (Euro in Billions)



Source: DMOs, Citi estimates, Bloomberg

Figure 58. 2011 EMU Issuance Progress and Cash flow profile – Citi Forecasts (Euro in Billions)



Size of bond market (fixed rate bonds and linkers)	Sector						Credit Rating (LT local currency)	S&P		Moody's		Fitch	
	2yr	5yr	10yr	15yr	30yr	Total		Rating	Outlook	Rating	Outlook	Rating	Outlook
Germany	392	296	167	73	83	1011		AAA	Stable	Aaa	Stable	AAA	Stable
France	320	317	246	104	122	1110		AAA	Stable	Aaa	Stable	AAA	Stable
Italy	322	256	272	142	120	1113		A	-ve	Aa2		AA-	Stable
Spain	153	127	76	53	54	464		AA	-ve	Aa2		AA+	-ve
Netherlands	85	78	53	12	22	251		AAA	Stable	Aaa	Stable	AAA	Stable
Belgium	79	85	51	19	23	257		AA+	-ve	Aa1	Stable	AA+	-ve
Greece	73	50	38	32	17	209		CC	-ve	Ca	Developing	CCC	
Austria	34	60	44	15	11	165		AAA	Stable	Aaa	Stable	AAA	Stable
Finland	19	21	17	6	0	62		AAA	Stable	Aaa	Stable	AAA	Stable
Portugal	26	40	24	7	7	104		BBB-	-ve	Ba2	-ve	BBB-	
Ireland	28	10	43	8	0	90		BBB+	Stable	Ba1	-ve	BBB+	-ve

Source: DMOs, Citi estimates, Bloomberg

Inflation Forecasts, Carry & Weekly Changes

Figure 59. CIRA Inflation Forecasts

Month	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change
Aug 11	112.23	0.2	2.5	122.59	0.5	2.2	236.10	0.6	5.2	226.55	0.3	3.8
Sep 11	112.62	0.3	2.6	122.59	-0.0	2.3	237.20	0.5	5.3	226.90	0.2	3.9
Oct 11	112.96	0.3	2.6	122.59	0.0	2.1	238.20	0.4	5.5	226.70	-0.1	3.7
Nov 11	113.13	0.2	2.6	122.59	-0.0	2.1	238.80	0.3	5.3	226.50	-0.1	3.5
Dec 11	113.62	0.4	2.4	122.59	0.0	1.6	240.20	0.6	5.2	226.00	-0.2	3.1
Jan 12	112.74	-0.8	2.4	122.59	-0.0	1.9	239.30	-0.4	4.5	226.60	0.3	2.9

Shaded = Already released

Source: Citi Investment Research and Analysis

Figure 60. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

TIPS	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.09	0.09	0.09									
TIPS 4/13	-0.76	8	8	14	21	10	US-3.125-04/30/13	101	-4	-4	13	19	7	2	1
TIPS 7/13	-0.91	8	8	11	17	6	US-4.250-08/15/13	118	-4	-4	10	15	3	24	2
TIPS 1/14	-0.87	13	13	9	13	5	US-4.000-02/15/14	123	-4	-5	8	11	2	12	3
TIPS 4/14	-0.79	10	10	8	12	5	US-1.875-04/30/14	119	-1	-2	7	10	2	12	2
TIPS 7/14	-0.85	11	11	7	11	4	US-2.625-07/31/14	127	-3	-3	6	9	1	31	6
TIPS 1/15	-0.78	8	8	6	9	4	US-2.250-01/31/15	131	3	3	5	7	1	25	4
TIPS 4/15	-0.74	7	7	6	9	4	US-2.500-04/30/15	133	8	8	5	6	0	20	1
TIPS 7/15	-0.77	8	8	6	8	4	US-4.250-08/15/15	145	11	11	4	5	-1	27	-1
TIPS 1/16	-0.63	7	7	5	8	4	US-2.625-02/29/16	147	13	13	4	5	-1	24	-1
TIPS 4/16	-0.65	6	6	5	7	4	US-2.000-04/30/16	152	14	14	3	4	-1	17	-1
TIPS 7/16	-0.63	6	6	5	7	4	US-4.875-08/15/16	156	14	14	3	4	-1	28	0
TIPS 1/17	-0.50	8	8	5	7	4	US-3.125-01/31/17	158	14	14	3	3	-1	27	1
TIPS 7/17	-0.48	9	9	4	6	4	US-4.750-08/15/17	169	15	15	2	3	-2	28	0
TIPS 1/18	-0.31	15	15	4	6	4	US-3.500-02/15/18	165	11	11	2	3	-1	32	4
TIPS 7/18	-0.27	16	16	4	6	4	US-4.000-08/15/18	170	12	12	2	2	-2	38	4
TIPS 1/19	-0.18	17	17	4	6	4	US-2.750-02/15/19	174	11	11	2	2	-2	35	5
TIPS 7/19	-0.12	16	16	4	6	4	US-3.625-08/15/19	177	14	14	2	2	-2	42	2
TIPS 1/20	-0.06	13	13	3	5	4	US-3.625-02/15/20	179	17	17	1	1	-2	40	-2
TIPS 7/20	0.00	14	14	3	5	4	US-2.625-08/15/20	184	17	16	1	1	-2	42	-1
TIPS 1/21	0.08	13	13	3	5	4	US-3.625-02/15/21	182	18	17	1	1	-2	44	-2
TIPS 7/21	0.13	12	12	3	5	4	US-2.125-08/15/21	188	18	18	1	1	-2	44	-2
TIPS 1/25	0.49	15	15	3	4	4	US-7.625-02/15/25	189	16	16	1	0	-2	54	2
TIPS 1/26	0.57	16	16	3	4	4	US-6.000-02/15/26	195	16	15	1	0	-2	50	3
TIPS 1/27	0.61	16	16	2	4	4	US-6.625-02/15/27	196	16	16	0	0	-2	51	3
TIPS 1/28	0.68	17	17	2	4	4	US-6.125-11/15/27	195	15	15	0	0	-2	54	4
TIPS 4/28	0.74	17	17	3	4	4	US-5.500-08/15/28	194	15	15	1	0	-2	54	5
TIPS 1/29	0.71	16	16	2	4	4	US-5.250-02/15/29	201	16	15	0	0	-2	49	4
TIPS 4/29	0.76	15	15	2	4	4	US-5.250-02/15/29	196	16	16	1	0	-2	53	3
TIPS 4/32	0.81	15	15	2	4	3	US-5.375-02/15/31	197	16	16	0	0	-2	56	5
TIPS 2/40	1.00	13	13	2	3	3	US-4.625-02/15/40	202	15	15	0	0	-2	54	6
TIPS 2/41	1.00	13	13	2	3	3	US-4.750-02/15/41	203	15	15	0	0	-2	53	6

Source: Citi Investment Research and Analysis

Figure 61. Eur Inflation- Linked Carry (based on forecasts above)- One week changes

IL	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.87	0.78	0.75									
BOBLei13	-0.42	-12	-12	4	23	41	BUND 1/13	86	22	17	7	29	49	52	-5
OATi13	-0.37	-7	-7	23	18	14	FFRG 4/13	126	9	8	22	17	11	57	-4
BTPei14	3.62	-27	-27	14	36	59	BTP 8/14	94	25	22	3	12	21	81	-15
OATei15	0.03	-12	-12	3	11	18	FFRG 4/15	138	14	11	1	8	13	42	-10
BUNDei16	-0.19	7	7	2	8	14	BUND 1/16	124	15	13	1	7	12	36	-9
BTANI16	0.12	-7	-7	9	8	7	FFRG 4/16	156	10	9	8	5	2	42	-8
BTPei16	3.94	-17	-17	9	23	37	BTP 8/16	96	12	10	2	7	12	81	-6
OATi17	0.29	-4	-4	8	7	7	FFRG 4/17	164	9	8	6	4	1	38	-9
BTPei17	4.20	-12	-12	8	20	32	BTP 8/17	103	6	4	1	5	9	77	-1
BUNDei18	0.10	17	17	2	6	11	BUND 1/18	134	8	7	1	4	7	37	-3
OATi19	0.61	3	3	6	6	6	FFRG 4/19	171	6	6	5	2	0	37	-5
BTPei19	4.36	-8	-8	6	16	25	BTP 9/19	110	3	2	1	4	7	75	1
BUNDei20	0.30	13	13	1	6	9	BUND 1/20	145	15	14	1	3	6	33	-11
OATei20	0.79	1	1	2	6	11	FFRG 4/20	170	13	11	0	3	5	19	-10
BTPei21	4.61	-0	-0	5	13	21	BTP 9/20	87	-5	-7	0	3	5	102	21
OATi22	0.99	3	3	2	5	9	FFRG 4/21	160	11	10	0	2	3	32	-8
OATi23	1.01	11	11	5	5	5	FFRG 10/23	194	6	6	3	1	0	22	-6
BTPei23	4.80	-4	-4	5	12	19	BTP 8/23	120	-1	-2	0	2	4	73	5
HELRei25	13.33	-165	-165	13	29	45	HELRei 3/24	531	2	-1	-9	-17	-26	-335	-1
BTPei26	5.03	-8	-8	4	11	17	BTP 3/26	121	-3	-4	0	2	3	76	5
OATei27	1.32	9	9	1	4	7	FFRG 4/26	189	9	8	0	1	2	10	-7
OATi29	1.21	7	7	4	4	4	FFRG 4/29	218	10	10	2	0	-1	-1	-9
HELRei30	10.69	-145	-145	8	18	29	HELRei 3/26	812	-24	-29	-14	-29	-45	-611	26
OATei32	1.34	7	7	1	4	6	FFRG 10/32	211	11	10	0	1	1	-9	-8
BTPei35	4.51	4	4	3	7	11	BTP 8/34	198	-8	-9	-1	-1	-1	5	12
OATei40	1.34	9	9	1	3	4	FFRG 10/38	215	8	8	0	0	0	-5	-5
BTPei41	4.64	7	7	2	6	10	BTP 9/40	181	-15	-16	-1	0	-1	30	19

Source: Citi Investment Research and Analysis

Figure 62. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

UKTi	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.54	0.53	0.52									
UKTi'13	-2.09	2	1	2	3	5	UKT 9/13	270	1	2	1	2	4	42	20
UKTi'16	-1.29	8	8	2	4	7	UKT 9/16	268	3	3	0	1	1	38	10
UKTi'17	-0.97	8	10	8	14	19	UKT 3/18	271	5	4	6	10	13	33	7
UKTi'20	-0.42	11	10	2	4	7	UKT 3/20	263	4	4	0	0	0	37	1
UKTi'24	-0.03	5	5	2	4	6	UKT 3/25	287	5	5	0	0	0	43	1
UKTi'27	0.12	2	3	4	7	9	UKT 12/27	299	7	6	2	3	4	43	-0
UKTi'30	0.13	1	1	2	3	4	UKT 6/32	322	7	7	0	0	-1	28	-1
UKTi'32	0.22	0	0	3	5	8	UKT 6/32	313	7	7	1	2	2	40	-1
UKTi'34	0.29	-2	-1	3	5	7	UKT 9/34	315	8	8	1	2	2	35	-2
UKTi'35	0.22	-3	-3	1	2	3	UKT 3/36	327	9	9	0	-1	-1	26	-3
UKTi'37	0.29	-3	-3	2	4	6	UKT 12/38	324	10	10	1	1	1	31	-4
UKTi'40	0.31	-4	-4	2	4	5	UKT 12/38	322	12	11	1	1	1	33	-1
UKTi'42	0.30	-3	-3	2	4	5	UKT 9/39	327	10	9	0	1	0	31	-1
UKTi'47	0.32	-3	-3	2	3	4	UKT 12/46	331	11	10	0	0	0	25	-4
UKTi'50	0.35	-2	-2	2	3	4	UKT 12/46	328	9	9	0	0	0	26	-1
UKTi'55	0.34	-2	-2	2	3	4	UKT 12/55	333	11	11	0	0	0	23	-5

Source: Citi Investment Research and Analysis

Summary of Recent Publications

Date	Publication	Topic	Page	Region
28-Sep-11	NOTE	Euro Rates Strategy Update: EFSF Ratification Gathering Speed	-	Europe
27-Sep-11	NOTE	Euro Inflation Strategy: BTPei19 Auction	-	EUR
23-Sep-11	NOTE	Sterling Rates Strategy: Buy long-dated Gilts ahead of possible QE	-	UK
22-Sep-11	IIRS	Overview: Fed flatteners and BTP risks	8	Global
		The Fed's flattening trade: QE or not QE?	9	US
		BTP Risks: Putting recent developments into perspective	11	EUR
		EFSF Approval Progress / Timetable	16	EUR
		End-September EGBI/ WGBI Projection	17	Global
22-Sep-11	NOTE	Interest Rate Strategy Update: FOMC Summary — Curve Flattening to Persist	-	US
19-Sep-11	NOTE	Global Flow Monitor: US and European Flow Analysis	-	Global
19-Sep-11	NOTE	Interest Rate Strategy Update: ECB liquidity measures and interest rate markets	-	EUR
15-Sep-11	IIRS	Overview: Rising default risk in EMU and the potential impact of further QE in the US and UK	8	Global
		Focus on EMU: What happens if Greece defaults?	9	EUR
		US and UK QE in the Spotlight: Is QE good or bad for bonds?	14	Global
		Sovereign Ratings Outlook - September 2011	25	Global
14-Sep-11	NOTE	Interest Rate Strategy Update: What happens if Greece defaults?	-	EUR
14-Sep-11	NOTE	Focus on QE: Is QE likely to be good or bad for bonds?	-	Global
12-Sep-11	NOTE	The Bigger Picture: The Backdrop to European Supply This Week	-	EUR
12-Sep-11	NOTE	Global Flow Monitor: US and European Flow Analysis	-	Global
08-Sep-11	IIRS	Overview: A tale of slowing growth and rising debt	8	Global
		US Rates Strategy: Catalysts for Higher Yields	10	US
		Euro: Receive 5yr EUR vs USD /We expect AAA yields to remain depressed	13	EUR
		UK Rates Strategy: QE policy remains on hold for now	25	UK
		Global Inflation Strategy: Risk appetite still the dominant driver	27	Global
		Japan Rates Strategy: Medium-term sector safe until next BoJ action	30	Japan
		Covered Bond Strategy: Widening to Continue Despite "Safe Haven" Status	32	EUR
08-Sep-11	NOTE	Rate Strategy Update: Receive 5yr EUR vs USD	-	Global
07-Sep-11	NOTE	The Outlook for BTPs: Where do BTP yields go from here?	-	EUR
05-Sep-11	NOTE	Global Flow Monitor: US and European Flow Analysis	-	Global
01-Sep-11	IIRS	Overview: Trading in a stable policy rate world	8	Global
		US Rates Strategy: Survey vs economic data	12	US
		Euro Rates Strategy: Implications of the proposed GGB exchange	15	EUR
		UK Rates Strategy: 10yr gilt-Bund/ Gilt Calendar Update	25	UK
		Global Inflation Strategy: Stay short global break-evens	28	Global
		Japan Rates Strategy: Will the new administration be short-lived?	31	Japan
		European Supply Outlook: September	46	EUR

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Figure 63. Citi Global Interest Rate Strategy Team, For informational purposes only

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