

European SSA Strategy

Weekly Chart-Pack and Market Monitor: 14th – 21st March

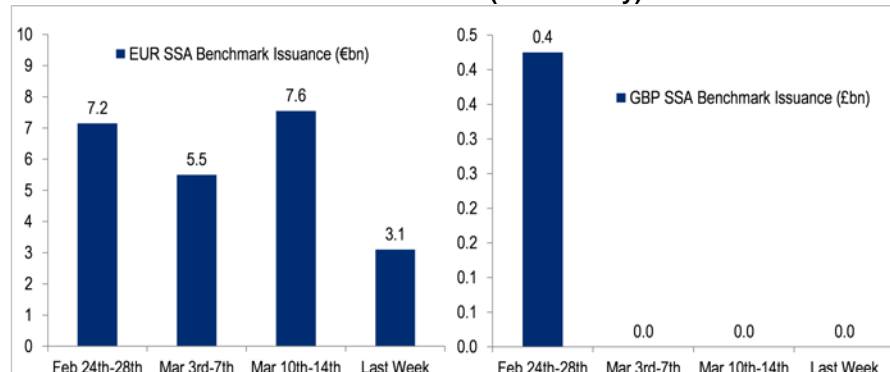
- **Wider spreads last week:** Supra spreads to France were slightly wider in the 5yr and 7yr sectors last week by 2bp. To their governments, Dutch and Austrian agency spreads were also 1bp wider.
- **Euro supply:** Supply last week was dominated by the return of the EU with €2.6bn in the 10yr sector pricing at MS+9. There was no benchmark sterling issuance last week for the third week running.
- **New issues generally tighter:** Versus their launch spreads, the EU was 1bp tighter trading at MS+8 on Friday.

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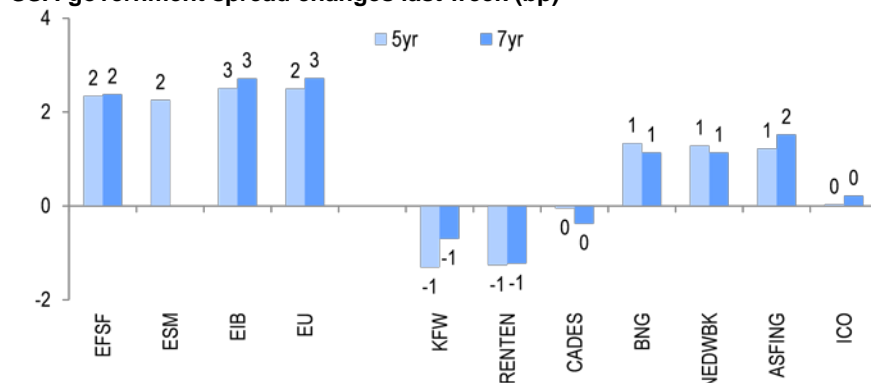
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Figure 1. Weekly issuance and last week's spread moves (to governments)

SSA benchmark issuance last four weeks (bn currency)



SSA-government spread changes last week (bp)



Source: Citi Research, Bloomberg

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

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Issuer Spread Performance: 14th – 21st March

Spreads to Swaps: levels and historical performance

- **Spreads stable:** Most SSA spreads to swaps were unchanged last week, (Figure 2). CADES was 2bp tighter in 7yr sector and the new 10yr EU was 1bp tighter to its launch spread (see page 5).

Figure 2. YYS (Yield spreads to the EUR swap curve, bp). Levels as of Friday 21st March and with 1-week and 1-month changes (bp)

3yr				5yr				7yr				10yr				20yr			
	Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ
Germany	-38	1	0	Germany	-34	1	1	Germany	-36	1	0	Germany	-22	2	0	Germany	-9	0	-1
France	-22	-1	-4	France	-3	-3	-4	France	4	-3	-5	France	27	-3	-6	France	35	-4	-6
EFSF	-8	-1	-3	EFSF	6	0		EFSF	16	0	-1	EFSF	24	0		EFSF	23	0	-2
ESM				ESM	-7	0	0	ESM	7	0		ESM	11	0	-2	ESM			
EIB	-16	0	0	EIB	-5	0	0	EIB	11	0		EIB	19	0	0	EIB	25	0	-1
EU	-22	0	1	EU	-17	0	0	EU	3	0	0	EU	8			EU	13	0	0
KFW	-22	0	0	KFW	-11	0		KFW	-8	0	-1	KFW	-3	0	-1	KFW			
RENTEN	-21	0	0	RENTEN	-13	0	0	RENTEN	-6	0	-1	RENTEN	-9	0	0	RENTEN			
CADES	-13	-1	-5	CADES	6	-3		CADES	12	-3	-5	CADES	24	-3	-4	CADES			
BNG	-2	0	0	BNG	11	0	-1	BNG	23	0		BNG	22	0	0	BNG			
NEDWBK	-5	0	0	NEDWBK	10	0	0	NEDWBK	17	0	0	NEDWBK	22	0	0	NEDWBK	25	0	-2
ASFING	-10	0	-1	ASFING	1	0	-1	ASFING	3	0	-1	ASFING	17	0	-1	ASFING	23	0	-1
ICO	65	-7	-28	ICO	87	-11	-31	ICO	132	-10	-21	ICO				ICO			

Source: Citi Research

Outright yields: levels and historical performance

- **Higher yields:** Core market yields were higher by 9bp on average in the 5yr and 7yr sectors last week largely on the back of the FOMC on Thursday (Figure 3). Drilling deeper, supras slightly underperformed France by 3bp in the 5yr and 10yr sectors.

Figure 3. Outright yield levels (%) as of Friday 21st March with 1-week and 1-month changes (bp)

3yr				5yr				7yr				10yr				20yr			
	Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ
Germany	0.27%	7	4	Germany	0.70%	10	1	Germany	1.02%	9	-2	Germany	1.63%	9	-4	Germany	2.39%	5	-6
France	0.46%	5	1	France	1.05%	6	-4	France	1.47%	5	-7	France	2.16%	4	-11	France	2.80%	1	-11
EFSF	0.62%	6	1	EFSF	1.07%	9		EFSF	1.50%	8	-2	EFSF	2.09%	7		EFSF	2.71%	5	-7
ESM				ESM	0.89%	9	2	ESM	1.48%	8		ESM	1.93%	7	-6	ESM			
EIB	0.61%	8	4	EIB	1.02%	9	1	EIB	1.54%	8		EIB	2.07%	7	-5	EIB	2.72%	5	-6
EU	0.54%	7	5	EU	0.91%	9	1	EU	1.48%	8	-3	EU	1.95%			EU	2.56%	5	-6
KFW	0.43%	6	5	KFW	0.94%	9		KFW	1.30%	8	-3	KFW	1.76%	7	-5	KFW			
RENTEN	0.37%	5	6	RENTEN	0.90%	9	1	RENTEN	1.30%	8	-2	RENTEN	1.41%	8	-3	RENTEN			
CADES	0.55%	5	0	CADES	1.14%	6		CADES	1.56%	5	-7	CADES	2.09%	4	-9	CADES			
BNG	0.65%	7	5	BNG	1.19%	9	-1	BNG	1.62%	8	-3	BNG	1.99%	7	-5	BNG			
NEDWBK	0.58%	6	5	NEDWBK	1.22%	9	0	NEDWBK	1.55%	8	-2	NEDWBK	2.04%	7	-5	NEDWBK	2.67%	5	-7
ASFING	0.67%	8	3	ASFING	1.12%	9	0	ASFING	1.37%	9	-2	ASFING	2.21%	7	-6	ASFING	2.69%	5	-6
ICO	1.29%	0	-23	ICO	1.74%	-2	-28	ICO	2.73%	-1	-23	ICO				ICO			

Source: Citi Research

Issuer curve spreads: levels and historical performance

- **Underperformance of the belly:** The underperformance of the 5yr and 7yr sectors drove 3s5s steeper and 7s10s flatter in SSA yield curves (Figure 4).

Figure 4. Yield curve steepness levels and performance in bp (tighter = flatter, wider = steeper)

3s5s				5s7s				7s10s				3s10s				10s20s			
	Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ		Now	-1wΔ	-1mΔ
Germany	43	3	-3	Germany	33	-1	-3	Germany	61	0	-3	Germany	137	2	-9	Germany	76	-4	-2
France	59	1	-4	France	42	-1	-3	France	69	-1	-4	France	170	-2	-12	France	64	-3	0
EFSF	45	2	0	EFSF	43	0	-3	EFSF	59	-1		EFSF	147	1	-6	EFSF	62	-2	-2
ESM				ESM	58	0		ESM	46	-1		ESM				ESM			
EIB	41	1	-3	EIB	52	0		EIB	53	-1		EIB	146	0	-9	EIB	65	-2	-1
EU	37	1	-4	EU	57	-1	-4	EU	47			EU	142			EU	61		
KFW	51	2		KFW	36	0		KFW	46	-1	-2	KFW	133	1	-10	KFW			
RENTEN	53	3	-5	RENTEN	40	0	-3	RENTEN	11	0	-1	RENTEN	103	3	-9	RENTEN			
CADES	60	1		CADES	41	-1		CADES	53	-1	-2	CADES	154	-2	-9	CADES			
BNG	54	2	-6	BNG	42	0		BNG	38	-1		BNG	134	1	-10	BNG			
NEDWBK	65	2	-6	NEDWBK	33	0	-2	NEDWBK	49	-1	-2	NEDWBK	146	1	-10	NEDWBK	63	-2	-3
ASFING	45	1	-3	ASFING	26	0	-2	ASFING	83	-2	-4	ASFING	154	-1	-9	ASFING	48	-1	-1
ICO	45	-2	-6	ICO	99	1	5	ICO				ICO	0	0	0	ICO			

Source: Citi Research

Cross-issuer 7yr yield spreads: relative value levels

We select 7yr yields as a proxy for a relatively liquid maturity measure. Figure 5 indicates simple yield difference between 7yr bonds (maturity shown) per issuer.

For example, in the top left, -25bp in the KfW row CADES column means that KfW is 25bp tighter than CADES (1.30% - 1.56%).

Figure 5. 7yr yields and cross issuer yield spreads – who's trading relative to whom?

Issuer			Maturity									YIELD			Germany			France			Netherlands		
			KFW	CADES	BNG	ASFING	EIB	EU	EFSF	ESM					Interpolated	Interpolated	Interpolated	Interpolated	Interpolated	Interpolated	Interpolated	Interpolated	Interpolated
			Jan-21	Apr-21	Jan-21	Oct-20	Apr-21	Jun-21	Oct-20	Mar-21													
KFW	Jan-21	1.30%		-25	-31	-7	-23	-18	-20	-17					25	-10	-3						
CADES	Apr-21	1.56%	25		-6	18	2	8	5	8					45	9	16						
BNG	Jan-21	1.62%	31	6		24	8	14	11	14					57	21	29						
ASFING	Oct-20	1.37%	7	-18	-24		-16	-11	-13	-10					38	3	10						
EIB	Apr-21	1.54%	23	-2	-8	16		6	3	6					44	8	15						
EU	Jun-21	1.48%	18	-8	-14	11	-6		-2	0					36	-1	7						
EFSF	Oct-20	1.50%	20	-5	-11	13	-3	2		3					50	15	22						
ESM	Mar-21	1.48%	17	-8	-14	10	-6	0	-3						40	4	12						
Germany	Interpolated		-25	-45	-57	-38	-44	-36	-50	-40													
France	Interpolated		10	-9	-21	-3	-8	1	-15	-4													
Netherlands	Interpolated		3	-16	-27	-10	-15	-7	-22	-12													

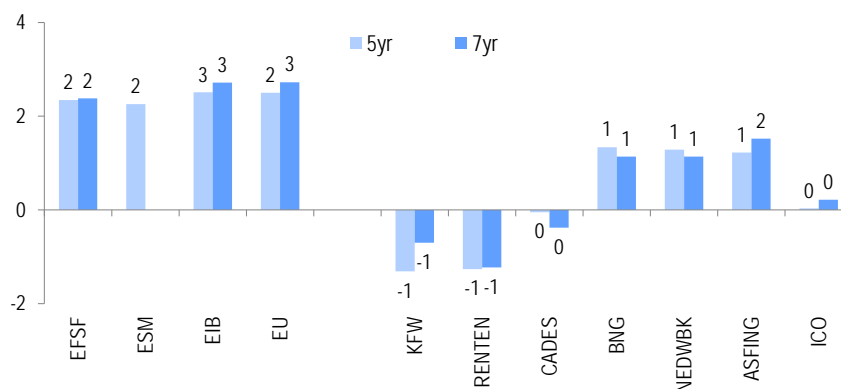
Source: Citi Research

SSA – government spread changes last week

Spread changes are based on differences between the SSA bond and the maturity matched point on the interpolated fitted government cash curve. Supranational spreads below are to the fitted cash curve of France. Agency spreads are to their reference government (Figure 6).

- **Supras slightly wider:** Supra spreads to France were mostly wider by 2-3bp in the 5yr and 7yr sectors. To their underlying sovereign, Dutch and Austrian agencies were also 1bp wider, elsewhere, spread moves were muted (Figure 6).

Figure 6. Last week changes in 5yr and 7yr SSAs vs their reference government (bp)



Source: Citi Research

Reference bonds used

The reference bonds used are shown below. The decision about which bond to use is based on the proximity to the maturity point in question, yield history and liquidity.

Figure 7. Reference bonds used all charts above

3yr		5yr		7yr		10yr		20yr	
Reference Bond Used		Reference Bond Used		Reference Bond Used		Reference Bond Used		Reference Bond Used	
EFSF	0.75% Jun-17	EFSF	1.25% Jan-19	EFSF	1.75% Oct-20	EFSF	2.125% Feb-24	EFSF	3% Sep-34
ESM		ESM	1.25% Oct-18	ESM	1.375% Mar-21	ESM	2.125% Nov-23	ESM	
EIB	4.75% Oct-17	EIB	4.25% Apr-19	EIB	1.5% Apr-21	EIB	4.125% Apr-24	EIB	3% Oct-33
EU	2.375% Sep-17	EU	3.375% May-19	EU	3.5% Jun-21	EU	1.875% Apr-24	EU	3.375% Apr-32
KFW	1.375% Feb-17	KFW	0.875% Mar-19	KFW	3.375% Jan-21	KFW	2.125% Aug-23	KFW	
RENTEN	0.625% Sep-16	RENTEN	2% Feb-19	RENTEN	1.375% Nov-20	RENTEN	2.875% Aug-21	RENTEN	
CADES	4.125% Apr-17	CADES	1.125% May-19	CADES	3.375% Apr-21	CADES	2.375% Jan-24	CADES	
BNG	3% Mar-17	BNG	1.875% Jun-19	BNG	1.875% Jan-21	BNG	2.25% Jul-23	BNG	
NEDWBK	2.25% Jan-17	NEDWBK	1.625% Aug-19	NEDWBK	3.5% Jan-21	NEDWBK	3% Nov-23	NEDWBK	3% Sep-31
ASFING	4.5% Oct-17	ASFING	4.375% Jul-19	ASFING	1.75% Oct-20	ASFING	3.375% Sep-25	ASFING	2.75% Jun-33
ICO	4.625% Jan-17	ICO	4% Apr-18	ICO	6% Mar-21	ICO		ICO	

Source: Citi Research

European SSA Issuance Monitor

Benchmark EUR SSA supply, week ending 21st March

Euro benchmark SSA issuance in the last week was €3.1bn.

Key issues: The main issue last week was €2.6bn in the new 10yr EU 1.875% Apr24s which priced at MS+9 ([SSA Strategy](#)). In the sub-sovereign sector, RHIPAL issued €0.5bn at MS+6bp in the 3yr sector (Figure 8).

Performance: As of last Friday, the new EU Apr24s – which came at little concession to the secondary curve – was 1bp tighter (Figure 8).

Figure 8. EUR fixed rate benchmark SSA issuance last week

Date	SSA	Issuer	Country	Amt (€bn)	Tenor	Bond	Issued at	Performance as of last Friday	ISIN
18-Mar-14	Supra	EU	SUPRA	2.60	10yr	EU 1.875% 24s	MS+9	-1bp	EU000A1ZE225
19-Mar-14	Sub-sov	RHIPAL	DEU	0.50	3yr	RHIPAL 1.75% 24s	MS+6	+0.5bp	DE000RLP0579

Source: Citi Research, Bloomberg

Benchmark GBP SSA supply, week ending 21st March

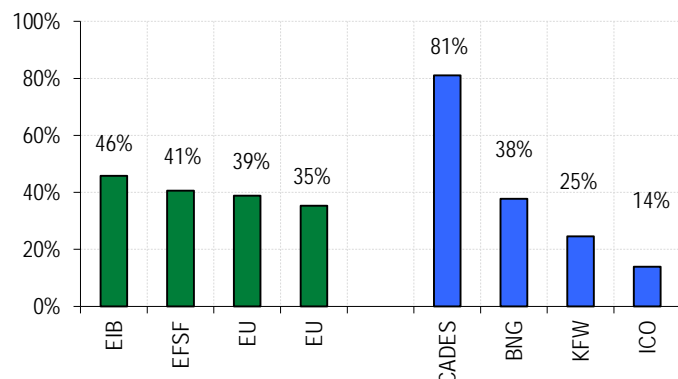
Last week, there was now new benchmark sterling SSA issuance.

Issuer completion rates

Supras around 25%-46% complete: The EU has modified its funding programme for 2014 to include up to an additional €2bn for Macro-Financial Assistance to the Ukraine (full details are available here: [SSA Strategy](#)). The €2.6bn issued last week takes it roughly 35% the way through what we expect for 2014. EIB is 46% the way through. Issuer completion rates and absolute amounts raised in the markets are shown in Figure 9 and Figure 10.

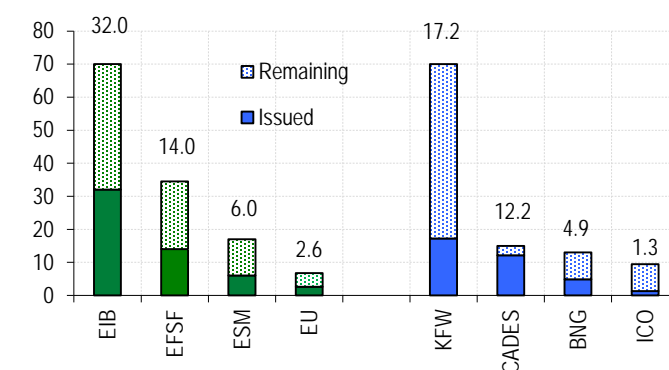
EFSF and ESM Q2 funding: Looking ahead, in their most recent newsletter, the EFSF and ESM have indicated a supply pipeline for Q2 of €10.5bn and €4bn respectively.

Figure 9. Issuer Completion Rates (%)



Source: Citi Research, DCM Analytics, Issuer Presentations, Bloomberg

Figure 10. Absolute amounts issued across all currencies (€bn)

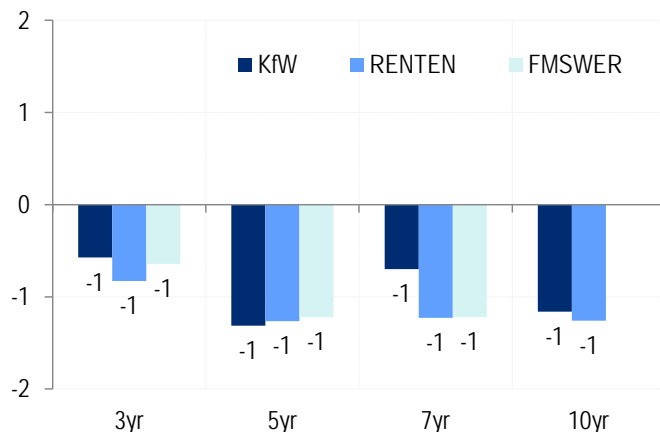


Source: Citi Research, DCM Analytics, Issuer Presentations, Bloomberg

German agencies in one page

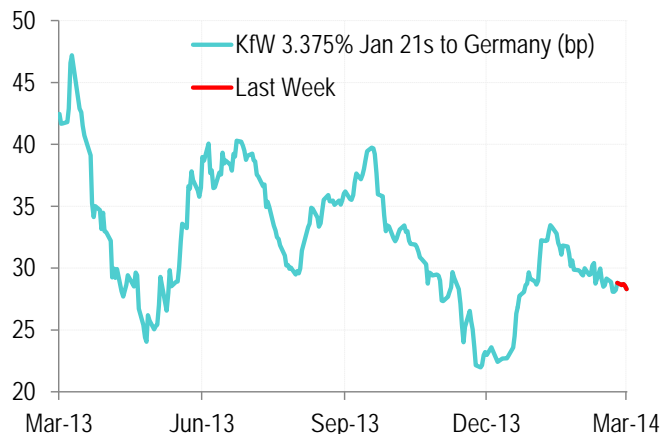
- **Muted performance:** Core agencies were ever so slightly tighter to Germany last week, on average by around 1bp across the curve (Figure 11).
- **Historical context:** 7yr KfW-Germany spreads continue to trade around 28bp which are historically approaching the tights of recent ranges (Figure 12).

Figure 11. German agencies; changes in spread to Germany (bp)



Source: Citi Research

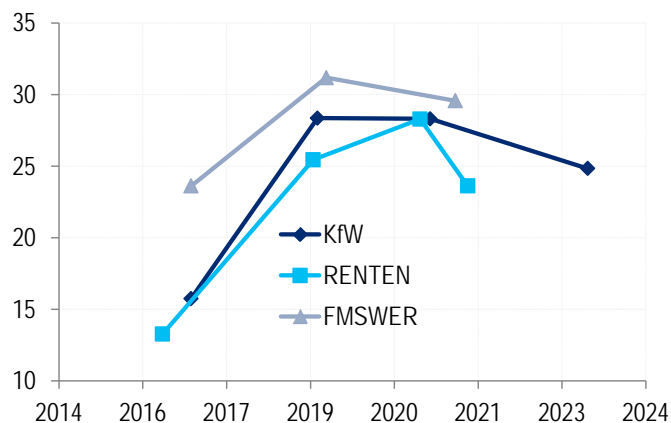
Figure 12. 7yr KfW – Germany spread history (bp)



Source: Citi Research

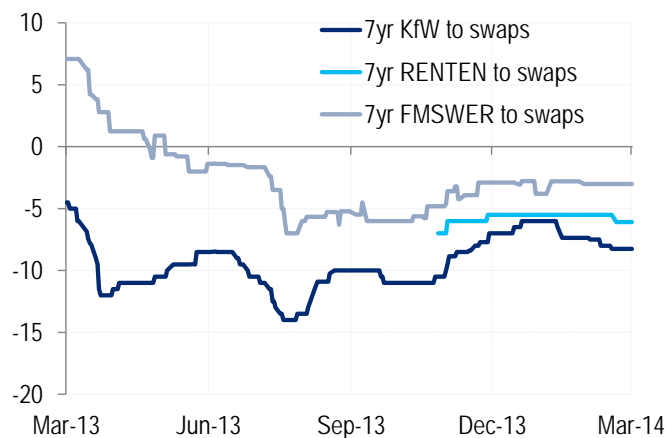
- **Curves to Germany:** KfW and RENTEN trade very similarly in their spreads to Germany (although note RENTEN is now tighter in the 5yr sector). The 7yr sector is around 27bp-30bp to Germany (Figure 13).
- **ASW performance:** Spread movements vs swaps remain muted. KfW spreads continue to grind gradually tighter to swaps (Figure 14).

Figure 13. German agencies spreads to Germany curves (bp)



Source: Citi Research

Figure 14. German agencies vs Swaps (YYs curves, bp)

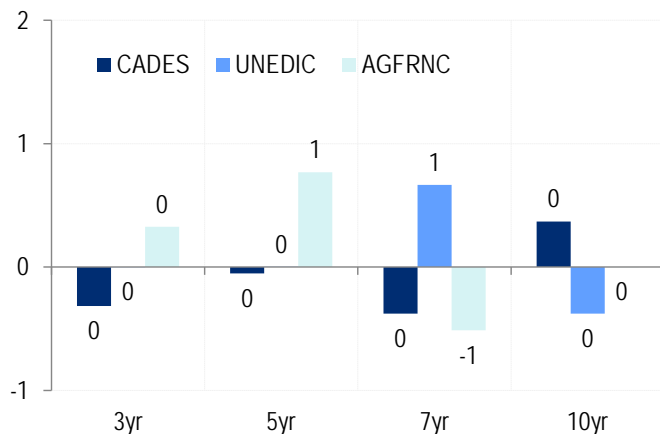


Source: Citi Research

French agencies in one page

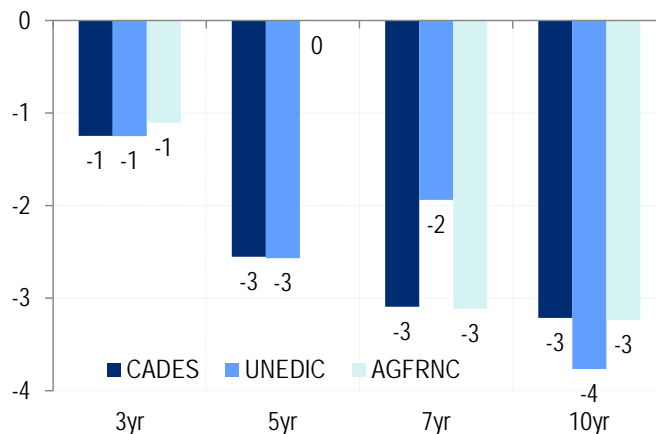
- **Spreads to France muted:** Very little change in French agency spreads to France last week (Figure 15).
- **Spreads to swaps nudged wider:** Last week, French agencies tightened vs swaps, led by the long-end (Figure 16).

Figure 15. Spread changes to France last week (bp)



Source: Citi Research. Spreads of SSA vs the maturity matched fitted sovereign curve

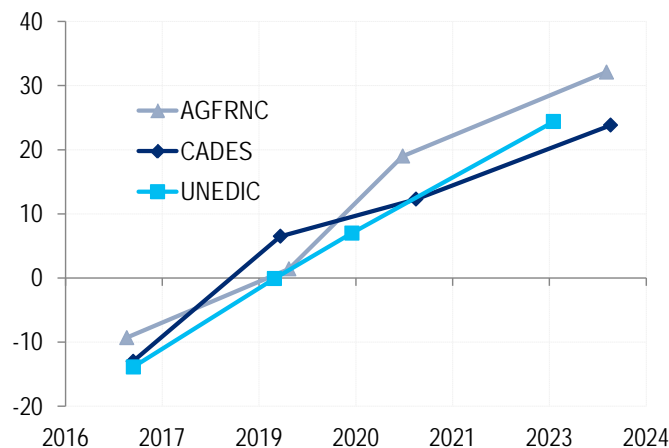
Figure 16. Spread changes to swaps last week (bp)



Source: Citi Research

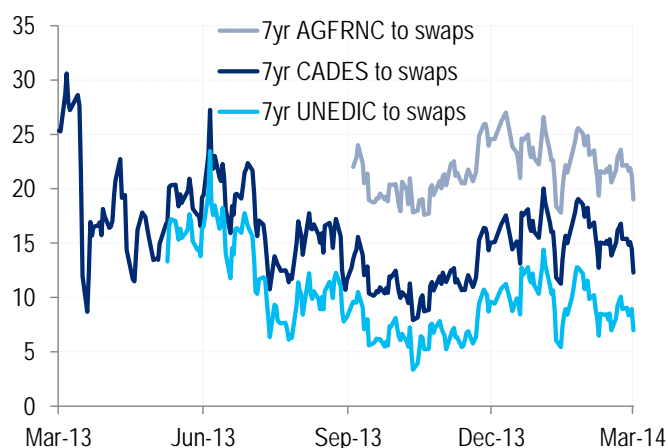
- **YYS Curves:** YYS curves are shown in Figure 18. French agencies are trading around 9bp-22bp in the 7yr sector depending on the single name.
- **French agency performance:** 7yr CADES offers around 12bp versus swaps compared to 7yr UNEDIC which offers 7bp (Figure 17).

Figure 17. French agencies YYS curves (Spreads, to swaps, bp)



Source: Citi Research

Figure 18. 7yr French agencies spreads to swaps (bp)

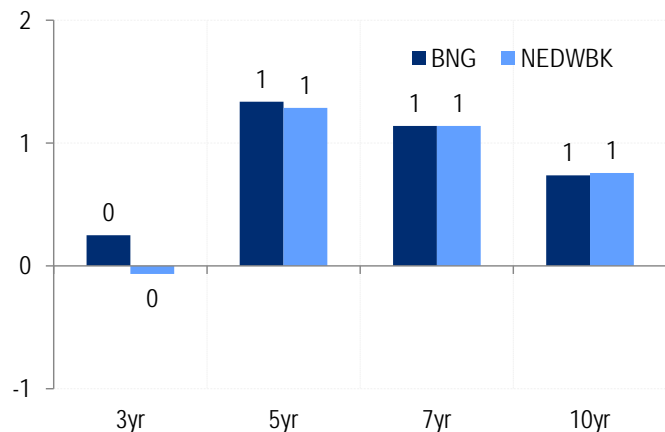


Source: Citi Research

Dutch agencies in one page

- **Spreads to the Netherlands:** Dutch agencies were trading slightly wider to the Netherlands last week in the 5yr and 7yr sector (Figure 20).
- **Historical context:** Spreads to the Netherlands widened in the 7yr sector to around 12bp (Figure 21).

Figure 19. Spread changes to the Netherlands last week (bp)



Source: Citi Research. Spreads of SSA vs the maturity matched fitted sovereign curve

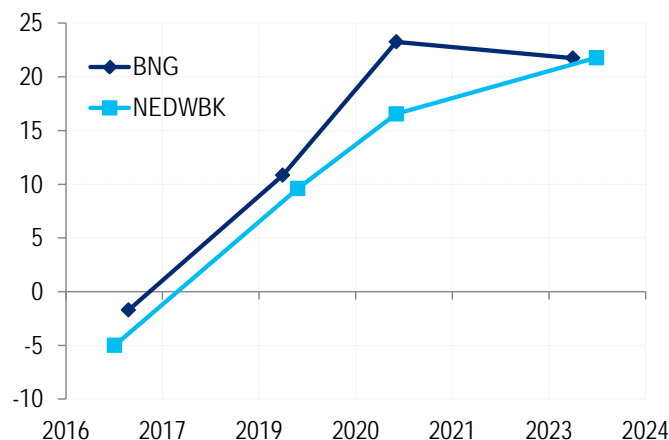
Figure 20. 7yr NEDWBK Spreads to the Netherlands (bp)



Source: Citi Research

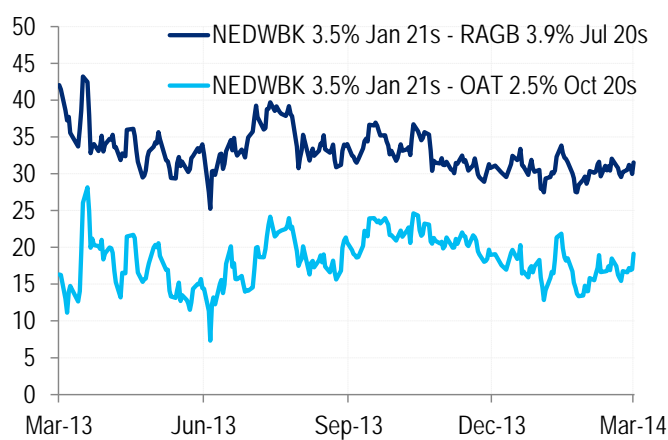
- **YYS curves:** Both BNG and NEDWBK trade tight to each other in YYS, except in the 7yr sector where NDWBK trades at 16bp vs BNG which trades nearer 23bp. Their current curves are shown in Figure 22.
- **NEDWBK vs France and Austria:** Spreads to other EMU sovereigns such as Austria and France remain low but widened at the end of last week (Figure 23).

Figure 21. Dutch agency YYS curves (bp)



Source: Citi Research

Figure 22. 7yr Dutch agencies vs France and Austria (bp)

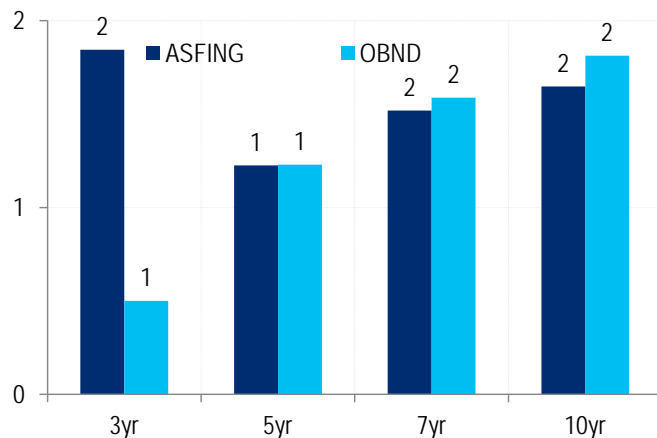


Source: Citi Research

Austrian agencies in one page

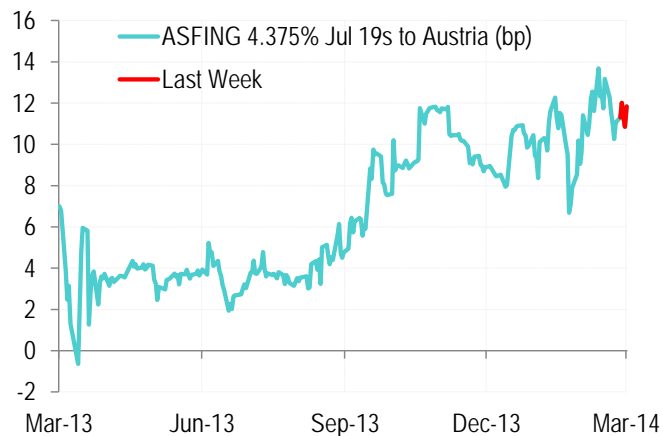
- **Spreads to the Austria:** Austrian agencies were trading 2bp wider last week, led by the long-end, as shown in Figure 20.
- **Historical context:** After good performance the week before, spreads to Austria were softer and trade around 11bp in the 5yr sector (Figure 21).

Figure 23. Spread changes to Austria last week (bp)



Source: Citi Research. Spreads of SSA vs the maturity matched fitted sovereign curve

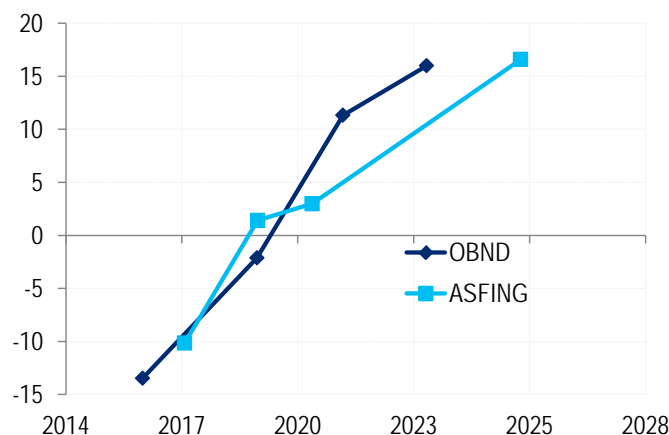
Figure 24. 5yr ASFING Spreads to Austria (bp)



Source: Citi Research

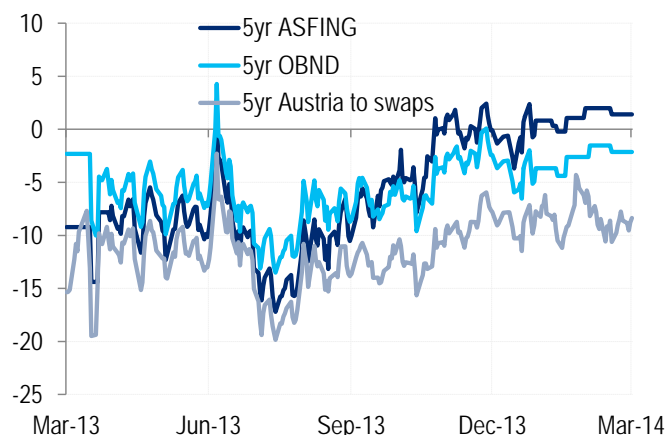
- **YYS curves:** YYS curves are shown in Figure 22 and indicate how ASFING and OBND trade tight to each other, especially in the front-end.
- **OBND and ASFING vs swaps:** Agency spread movements vs swaps remain more muted than Austria spread movements to swaps. (Figure 23).

Figure 25. Austrian agency YYS curves (bp)



Source: Citi Research

Figure 26. 5yr Austrian agencies vs swaps (bp)

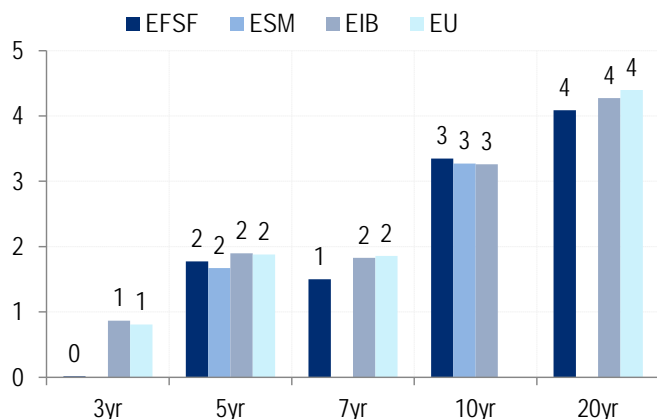


Source: Citi Research

Supranationals in one page

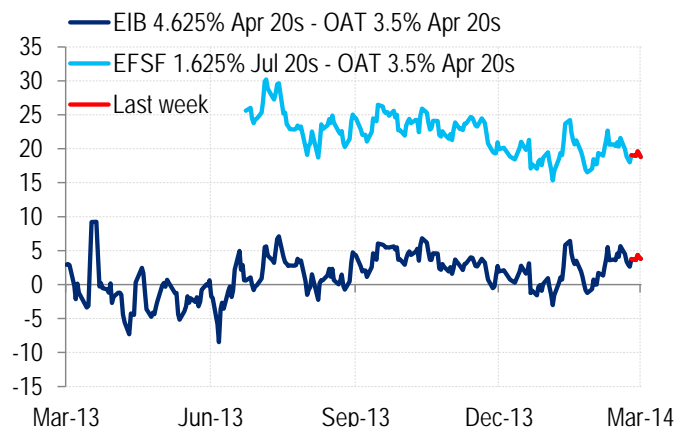
- **Spread performance vs France:** Spreads were wider to France last week, especially in the 10yr sector which were up by 4bp (Figure 28).
- **Relative value to France:** Spreads to France for 6yr EIB and EFSF are shown in Figure 29.

Figure 27. Spread changes to France last week (bp)



Source: Citi Research. Spreads of SSA vs the maturity matched fitted sovereign curve

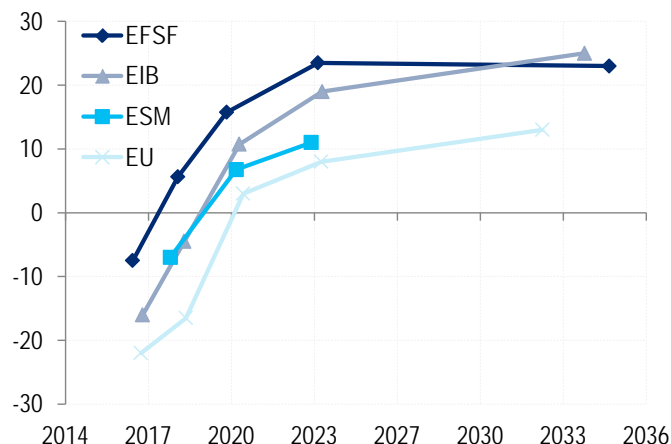
Figure 28. 6yr EFSF vs France (Yield spreads vs OATs, bp)



Source: Citi Research

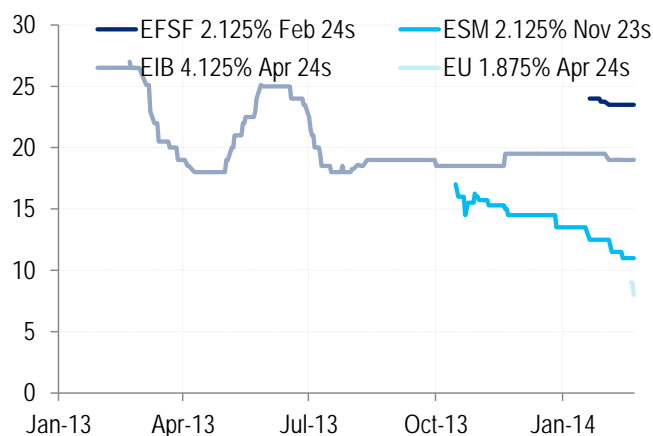
- **Supras vs swpas:** YYS curves for the main supras are shown in Figure 30. EU trades the tightest, while ESM and EIB trade on very similar levels up to 5 years while ESM trades tighter in the longer end of the curve.
- **Performance vs swaps:** The ESM stands out as it convincingly tightens versus its peers (Figure 31). The ESM now trades at 11bp in the 10yr sector. For more information on the striking performance of ESM, please see the following: [RV Insights – ESM vs EIB And Why We Wouldn't Fade Recent Moves](#). Separately, the new 10yr EU is trading around 8bp from its launch spread 9bp and initial guidance of 11bp ([SSA Strategy](#)).

Figure 29. Supra YYS curves (bp)



Source: Citi Research

Figure 30. 10yr supra spreads to swaps (bp)



Source: Citi Research

Appendix A-1

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