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Developed Markets  
Western Europe

# European Inflation-linked Index Projection

## Changes supportive for BTPei real yields

- **EuroILSI:** We project the EuroILSI to remain largely unchanged at the end of March. The projected changes should be relatively supportive for 10yr real yields on the curve.
- **Italy to extend while France likely to contract:** We expect the Italian index to extend slightly, but the French index is likely to contract in weighted duration terms. When considered with the conventional index changes, this should put downward pressure on French break-evens at the margin.
- **EMU extension in context of US and UK:** Among the three indices, only the TIPS index is expected to extend at the end of March. Please see [Citi Treasury Index March Compositional Adjustment](#) for details of TIPS index projections. The gilt index is projected to contract slightly.

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Figure 1. Projected End-March Change in EuroILSI

EMU ILSI Duration			Largest absolute Duration changes over last year		
Mar Index	Apr Index (e)	Duration Change(e)	Minimum	Maximum	Average Absolute Change
7.22	7.21	-0.001	-0.01	0.35	0.04

Source: Citi Research

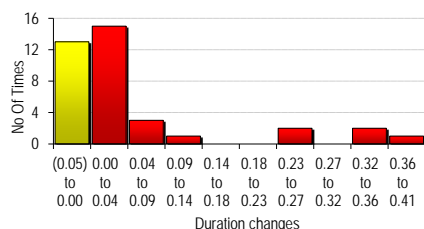
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## European Inflation-linked Index Projection

The European Inflation-linked Securities Index (EuroILSI) is projected to remain largely unchanged at the end of March (Figure 1). As Figure 2 shows, the overall change should be one of the smallest in the last 3 years.

Figure 2. End-March duration change in context of 3-year distribution



Source: Citi Research

### Compositional change

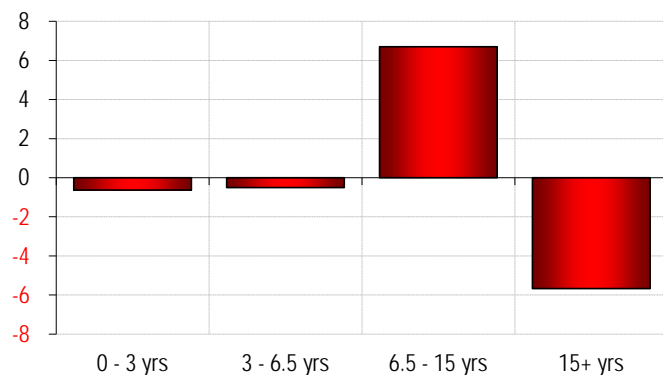
Issuance over the fixing period from 25 February to 25 March will be eligible for inclusion in the EuroILSI Index at the end of March. Over this period, we had supply from Italy (€1.15bn of BTPei18 and €4.5bn of BTPei24), Germany (€1bn of Boblei18) and France (€1.5bn across OATei18, OATei24 and OATi21).

Bonds that fall below 1 year residual maturity on the last calendar day of the month are excluded from the index. No bond will drop out at the end of March.

### Projected changes supportive for France

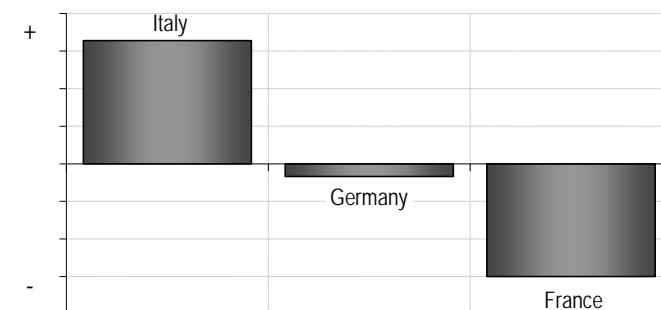
At the Euro level, changes should be supportive for 10yr real yields on the curve and put steepening pressure on 10s30s part of the curve (Figure 3). We expect index changes to be relatively supportive for Italy (Figure 4). Combining ILSI projections with the conventional index changes (see – [EMU Month-end Index Projections - Changes supportive for Germany and France](#)), the changes are likely to weigh on French break-evens at the margin.

Figure 3. Projected duration changes: Split by sector



Source: Citi Research

Figure 4. Projected weighted duration changes: Split by country



Source: Citi Research

### Country breakdown

**French index to contract by its largest amount in 2 years (weighted duration)**

Figure 5 shows detailed analysis of end-March EuroILSI changes. Among the individual country indices that make up the EuroILSI, only the Italian index is projected to extend slightly. On a weighted duration basis, French index is projected to contract by its largest amount in 2 years.

Figure 5. End-March EuroILSI Projections

21-Mar-14	Mar Index		Apr Index*		Projected Change			Largest absolute duration changes over last year (unweighted)		
	% weight in Index	Duration	% weight in Index	Duration	Weighted Dur Change X 100	Weight Change	Duration Change	Minimum	Maximum	Average Absolute Change
Germany	16.9	4.98	16.8	4.96	(0.67)	(0.08)	(0.02)	(0.02)	0.08	0.04
Italy	31.1	7.65	31.9	7.67	6.56	0.78	0.01	(0.03)	1.05	0.10
France	52.1	7.68	51.4	7.67	(6.00)	(0.71)	(0.01)	(0.03)	0.04	0.02

Source: Citi Research

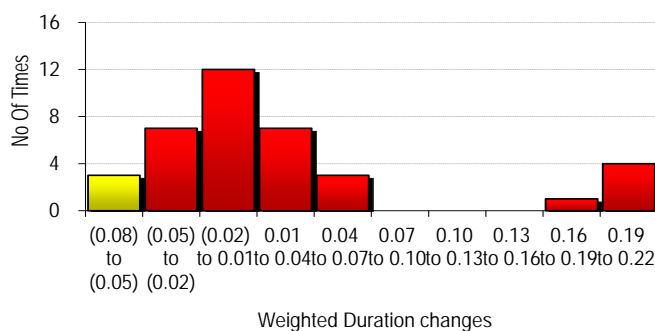
\*Projected

## Historical distribution and changes on the curve

Figure 6 to Figure 11 show the distributions of weighted duration changes and the curve splits of the projected changes. The extension in BTPei index is likely to be historically significant (Figure 10).

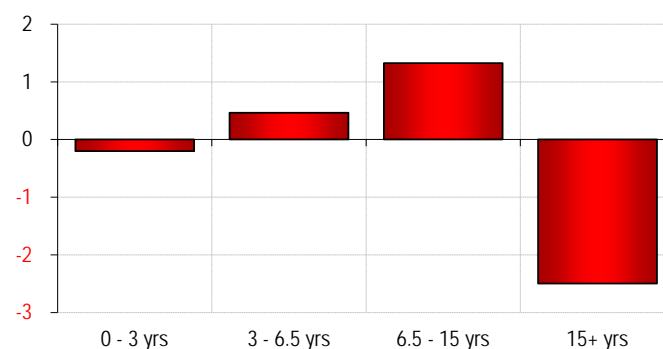
On individual curves, the index changes should put some steepening pressure on the 10s30s part of the BTPei real yield curve.

Figure 6. France: Distribution of Month-End Duration Changes Over The Last Three Years (Weighted Duration)



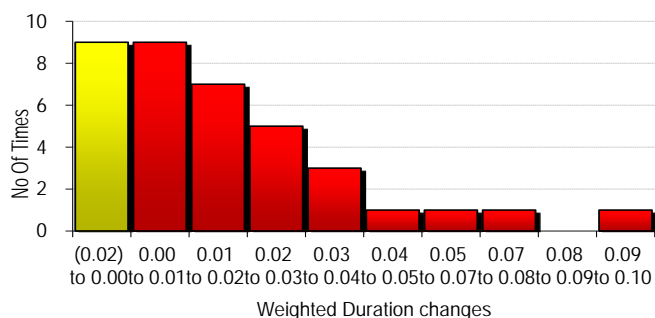
Source: Citi Research

Figure 7. France: End-March Projected Index Change by Maturity (Weighted Duration)



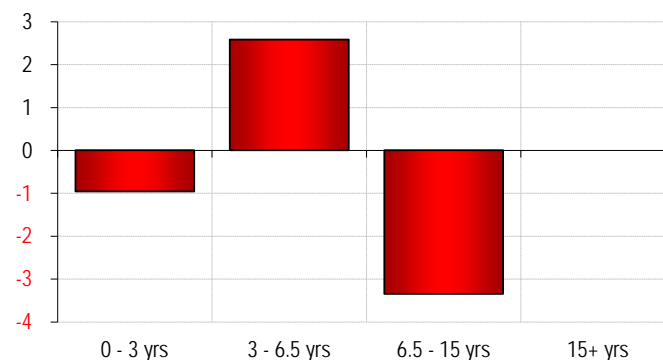
Source: Citi Research

Figure 8. Germany: Distribution of Month-End Duration Changes Over The Last Three Years (Weighted Duration)



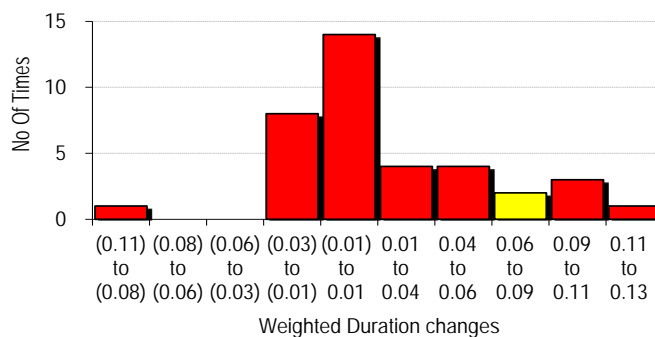
Source: Citi Research

Figure 9. Germany: End-March Projected Index Change by Maturity (Weighted Duration)



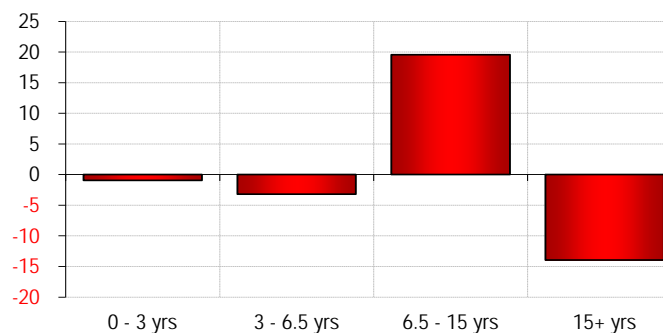
Source: Citi Research

Figure 10. Italy: Distribution of Month-End Duration Changes Over The Last Three Years (Weighted Duration)



Source: Citi Research

Figure 11. Italy: End-March Projected Index Change by Maturity (Weighted Duration)



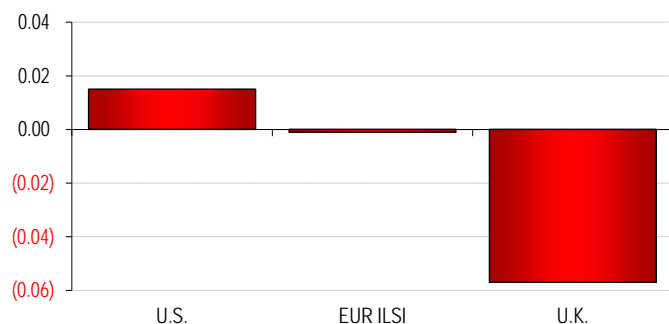
Source: Citi Research

## Euro extension in context of US and UK

Here we look at the relative extensions in EMU, US and UK (Figure 12) and place them in the context of their respective 12-month ranges (Figure 13).

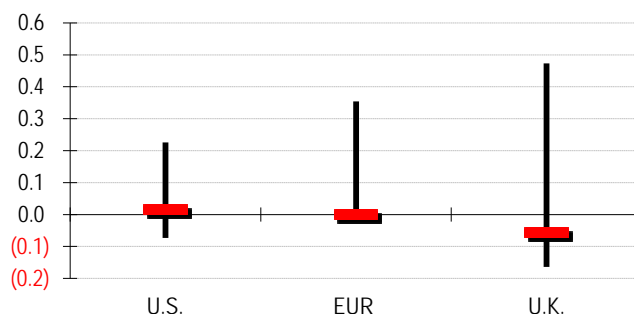
Among the three indices, the TIPS index is the only index expected to extend at the end of March. Please see [Citi Treasury Index March Compositional Adjustment](#) for details. We expect the gilt index to contract, largely because of no long-end issuance during the fixing period.

Figure 12. Relative extensions in EMU, US and UK



Source: Citi Research

Figure 13. Projected duration changes vs 12-month range



Source: Citi Research

Figure 15 shows the detailed breakdown of the projected changes.

Figure 14. Details of month-end changes in EMU, US and UK

21-Mar-14	Mar Index	Apr Index*	Projected Change	3yr Z-Score	1 year range of duration changes		
					Average Absolute Change	Minimum	Maximum
EUR ILSI	7.215	7.214	(0.00)	(0.45)	0.04	(0.01)	0.35
U.S.	8.255	8.270	0.01	(0.58)	0.08	(0.07)	0.23
U.K.	18.426	18.369	(0.06)	(0.81)	0.12	(0.16)	0.47

Source: Citi Research

## Appendix A-1

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