

International Interest Rate Strategist

The ongoing yield shortage – but what to grab?

- **Overview:** We would be very wary of fading the rally in Bunds here. In light of the ongoing grab for yield and demand for soft core we examine the relative merits of flatteners in different markets. We expect the richness of 5s to extend to 10s.
- **Bunds could reach new record lows in August:** 10yr Bunds are likely to be supported in the near-term by curve extensions, month-end and summer seasonals. We wouldn't be surprised if 10yr Bund yield reach 1% over the summer.
- **Upcoming cash flows in Italy & Spain:** Although today's Bono auction was poor, coupon payments are likely to support the next Bono auction. Cash flows are also supportive for upcoming BTP auctions. We recommend tactical longs in 2yr BTPs.
- **Too early to fade the rally in French linkers:** The strong rally in French real yields and break-even inflation spreads can continue in the very near-term. We prefer using OATe over Bunde to express tactical break-even widenings.
- **SSA Strategy – Focus on EIB:** We provide a overview of EIB, highlighting key characteristics for SSA market investors. In the current environment, we continue to see relative value in 5yr EIB vs core EMU markets.
- **End- July EGBI/ WGBI Projections:** The projected duration changes should be most supportive of liquid core EMU markets. The month-end changes also point to long-end led steepening of the Treasury and gilt curves.
- **EMU RV:** We present four RV trades in the Netherlands, France and Finland.
- **Algorithmic Trading Signals:** Maintain longs in Bunds and UST, but short Gilts into rallies.

Mark Schofield
+44-20-7986-9224
mark.schofield@citi.com

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

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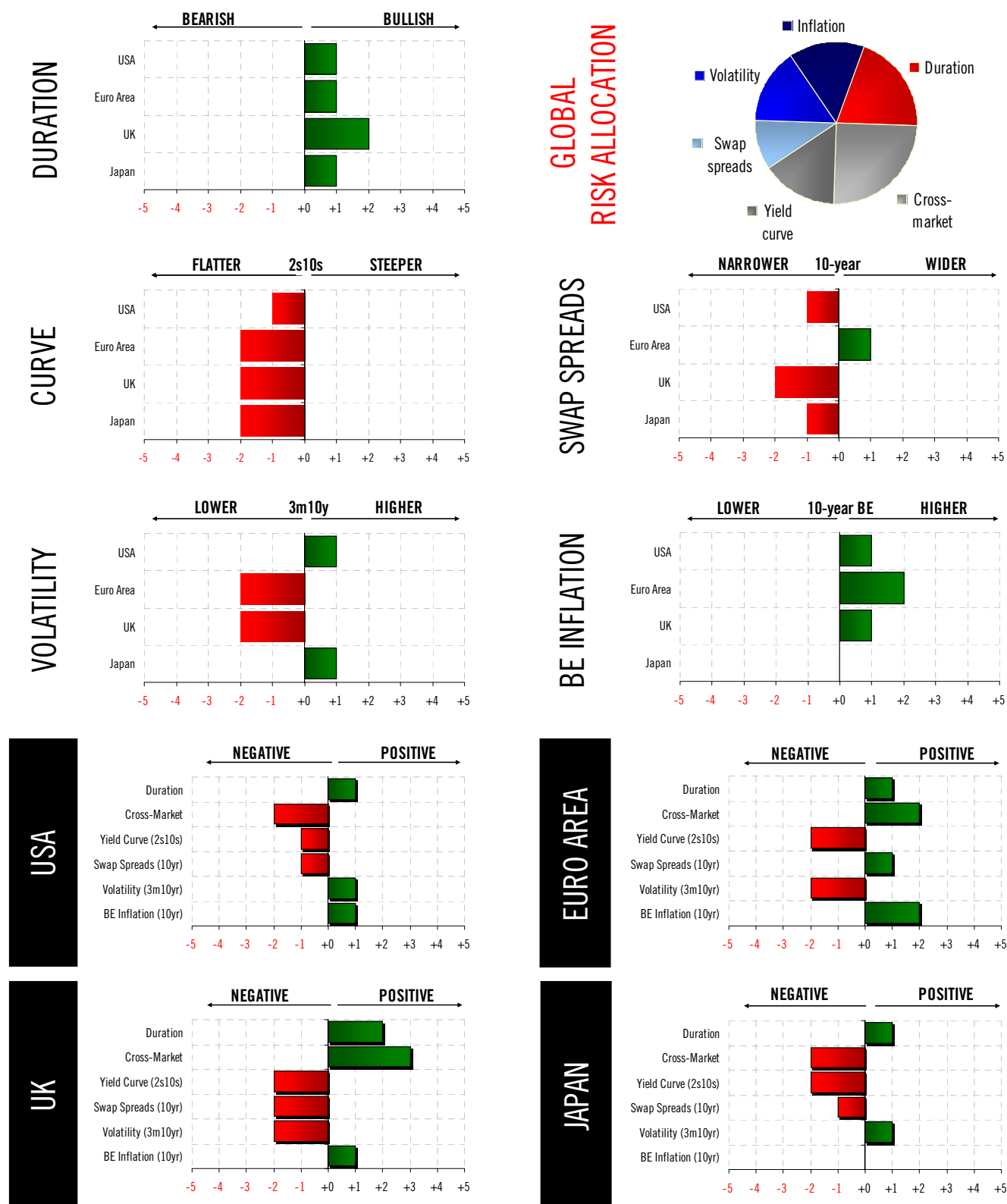
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Figure 1. Strategy Summary Table

GLOBAL	View	Strategies
Direction	The yield grab continues with yields moving lower and front-end curves flatter. 10yr Bund yields are near record lows, but could go lower still as investors extend along the curve in the hunt for increasingly scarce yield. We also note that seasonals tend to support core yields at this time of year. It wouldn't be a surprise if 10yr Bund yields break lower towards 1%.	Our long OEU2 trade has hit its target but we still think the rally has further to run. Do not fade it. Existing longs may want to hold on with trailing stops, otherwise duration neutral.
Yield Curve	2s5s in core Europe has bull flattened aggressively in the rally but the move appears to be drifting further out along the curve. With GC rates falling again we think 2s can remain well bid and begin to stall the 2s5s flattener in core Europe and we would look to replace these with 5s10s. We expect 10s30s to retain a steepening bias in Europe and a QE related flattening bias in Gilts.	10s30s steepeners in Germany. Also boxed against Gilts. Peripheral EMU flatteners, outright and boxed against core steepeners. Receive the belly of EUR 7s10s15s, 3yF
Cross-market	The UST vs Bund spread remains correlated to forward short rate differentials. However with short rates close to zero in both markets a rate rise somewhere is needed to generate a significant move in the spread. This seems unlikely anytime soon so range trading will probably persist. In the long run we favour Bunds and Gilts over US Treasuries.	Buy 2x5 ATMF/+100 payer spread in USD versus EUR Long 10yr Bunds vs USTs Long 30yr gilts vs USTs 5s10s box Germany (flattener) vs Japan (steepener)
EMU Spreads	The hunt for yield has driven a strong tightening in soft core spreads to Germany. Italy has also held up relatively well, especially in the front-end. We scope for this to continue as the hunt for yield intensifies and given supportive cash-flows over the coming weeks. Spain, however, has come under renewed pressure with 10yr yields back above 7% for the third time in a month. Weak demand at its 19 July auction does not bode well.	Consider tactical long positions in 2-3yr Italy Flatteners in Spain Long France vs Austria 2s10s flatteners in Netherlands vs Germany
Swap Spreads	In the UK, Mediums are likely to be supported in the coming months by a favourable net cash requirement and a dwindling free-float. This should support 10yr swap spreads over the summer. We do not subscribe to the fiscal transfer story as a reason for Bund spreads to cheapen.	Long 10yr gilt swap spreads. Buy soft core EMU vs swaps at positive spreads if you expect an EMU break-up.
Inflation	Core euro real yields have richened sharply ahead of the impending removal of BTPei from the Barclays flagship inflation indices. It is too soon to fade the rally. French linkers should benefit in the coming days from coupons, month-end and seasonals. In the UK, uncertainty over the RPI calculation and next week's syndication are weighing on BEs.	Tactical long in OATei22 break-even Buy Bunde16 break-even as a long-term trade. In the near-term, consider Bunde16-20 real yield steepener and/or long Sell 30yr UK break-evens. 10s30s TIPS break-evens steepeners as a LT structural trade.
Volatility	In Europe, we see good value in using the cheapness of the top left of the vol grid to initiate long duration trades in the front-end of the curve (where carry & roll is still elevated). GBP 2y2y vol (and 1y5y vol) looks too rich relative to fundamentals, we recommend selling straddles.	Long EUR 3y2y Receiver (ATMF) Short rolling USD 1m5yr straddles Sell GBP 2y2y ATMF straddle
European SSA	The tone in European SSA markets remains constructive and we expect spreads to continue to tighten in core names as the hunt for yield intensifies.	5yr EIB vs France Curve extension trades in 5yr-10yr EIB and KfW Start reducing exposure to 4yr EIB vs EU spreads given performance
Risk Allocation	Markets retain their preference for safe-haven assets and are generally reluctant to engage. Summer and the Olympics are unlikely to improve this situation. We recommend an extremely cautious risk allocation to all strategies and trading very opportunistically.	

Source: Citi Research

Figure 2. Global Summary



Source: Citi Research

Tradesheet

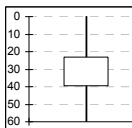
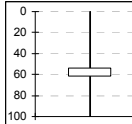
Record of Our Open Trades

Figure 3. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
UK	Sell GBP 2y2y ATMf straddle	Open 76bp Current 72bp P&L 4bp Target 0bp Stop 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol IIRS 12 July 2012	
Volatility	Sell GBP 2y2y ATMf (1.04%) straddle at 76bps			
EUR / US	Buy USD Payer Spread vs EUR (delta-weighted and fx-adjusted)	Open 5bp Current 4bp P&L -1bp Target 25bp Stop -5bp	Range-bound short rates with short term cash-flow support for Europe IIRS 12 July 2012	
Duration	Buy 108 units USD 2yr5yr ATMf payer at 2.1% Sell 108 units USD 2yr5yr ATMf+100 payer at 0.8% Buy 100 units EUR 2yr5yr ATMf payer at 1.9% Buy 100 units EUR 2yr5yr ATMf+100 payer at 0.64%			
Germany	Germany 10s30s steepener	Open 88bp Current 87bp P&L -1bp Target 120bp Stop 75bp	Replaces 5s30s steepener. Regulatory pressures expected to weigh on long end. IIRS 12 July 2012	
Curve	Buy DBR 1.75% Jul22 at 1.24% Sell DBR 2.5% Jan44 at 2.12%			
UK	Buy UKT 1.75% Sep22s YYS	Open -23.9bp Current -24bp P&L 0bp Target -34bp Stop -19bp	Net cash-flows and a dwindling free-float support Mediums over the coming months UK Rates Strategy 11 July 2012	
Duration	Buy UKT 1.75% Sep22s YYS at -23.9bps			
Europe	Buy EIB 4.75% Oct17 vs OAT 4.25% Oct17	Open 34bp Current 24bp P&L 10bp Target 15bp Stop 45bp	Rally in core fixed income has driven some core SSA-EMU spreads to historically attractive levels. Euro Rates Strategy 9 July 2012	
Cross Market	Buy EIB 4.75% Oct17 at 1.44% Sell OAT 4.25% Oct17 at 1.1%			
EUR / UK	Buy 1m5y GBP straddle vs EUR (delta-hedged)	Open 4% Current 3.6% P&L 0% Target 0.2% Stop -0.04%	Policy response from the ECB & BoE supports higher 1m5y GBP vol relative to EUR vol European Volatility Strategy 27 June 2012	
Volatility	Buy GBP 1m5y straddle (delta-hedged) Sell EUR 1m5y straddle (delta-hedged)			
US / Europe	Long 10yr Bund vs UST	Open 14bp Current 28bp P&L 14bp Target 35bp Stop 4bp	The recent weakness in equities, the upcoming NCR profile & our ARTS weekly trading signal suggests buying 10yr Bunds vs USTs Interest Rate Strategy Update 25 June 2012	
Cross Market	Sell UST 1.75% May22 at 1.62% Buy Bund 1.75% Jul22 at 1.48%			
US / UK	Buy 30yr Gilt vs UST	Open 36bp Current 31bp P&L 5bp Target 0bp Stop 50bp	With Operation Twist extension largely priced in, QE resumption should help gilts outperform treasuries UK Rates Strategy 20 June 2012	
Cross Market	Buy UKT 4.5% Dec42 at 3.09% Sell UST 3% May42 at 2.74%			
Europe	Long 10yr OAT vs RAGB	Open 27bp Current 22bp P&L 5bp Target 5bp Stop 38bp	France's latest spurt of outperformance, driven by the long end, has refocused attention on spreads again Morning Call 29 May 2012	
Cross Market	Buy OAT 3% Apr22 at 2.52% Sell RAGB 3.65% Apr22 at 2.25%			
Europe	Buy EUR 3y2yF Receiver	Open 41bp Current 60bp P&L 19bp Target 61bp Stop 31bp	Active roll on the underlying, ECB likely to cut rates and introduce extra liquidity measures IIRS 10 May 2012	
Duration	Buy EUR 3y2yF Receiver (ATMF = 1.63%) at 41bps			
UK / US	Long 10yr Gilt vs UST	Open 15bp Current 6bp P&L 9bp Target -5bp Stop 25bp	Growth in the UK continues to disappoint and more QE is likely at some stage IIRS 26 April 2012	
Cross Market	Buy UKT 4% Mar22 at 2.10% Sell UST 2% Feb22 at 1.95%			
Europe	Sell EUR 6m15y Strangle and buy OTM receiver	Open 3bp Current 22bp P&L 25bp Target 25bp Stop -10bp	Adjustment of GGB swap hedges should put downward pressure on 15yr EUR yields Update on Long Duration Trades, 28 Feb 2012	
Duration	Buy EUR 6m15y receiver (ATMF-10) for 20bps Sell EUR 6m15y receiver (ATMF-35) for 11bps Sell EUR 6m15y payer (ATMF+30) for 12bps			

Source: Citi Research

Figure 4. Record of our Open Trades (continued)

US / Europe		Pay USD 2y 2y fwd vs EUR	Open	40bp	We expect divergence between UST and core EMU yields <i>IIRS 23 February 2012</i>	
<i>Cross Market</i>	Pay USD 2y 2y fwd at 1.27% Receive EUR 2y 2y fwd at 1.67%		Current	23bp		
			P&L	17bp		
			Target	0bp		
			Stop	60bp		
UK / Europe		Bund 5s30s steepener vs gilts flattener	Open	62bp	Free-float profile suggests support to UK long end by QE, hedged by EUR steepener against EUR driven risk of mid-curve repricing <i>Interest Rate Strategy Focus on QE 14 Sep2011</i>	
<i>Cross Market</i>	UKT 5s30s flattener at 234bp DBR 5s30s steepener at 172bp		Current	54bp		
			P&L	8bp		
			Target	0bp		
			Stop	100bp		

Source: Citi Research

Overview

The ongoing yield shortage: what to grab

Robert Crossley
+44-20-7986-9255
robert.crossley@citi.com

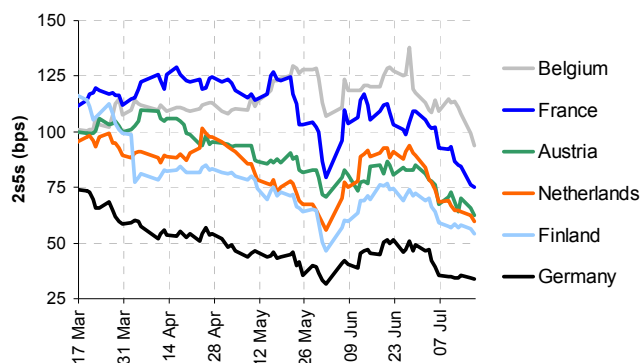
**We would not be surprised to see 10yr
Bund yields make a move on 1% in
August**

With core yields having fallen again this week, and low or negative front end yields, inside we look at the prospects for and drivers of Bund yields over the summer – see page 11. Investors are hunting for increasingly scarce yield. The extensions along curves and increased interest in the pick up available in SSA trades – see [Euro SSA Strategy](#) – are symptomatic of this, and we expect this dynamic to continue. Seasonals are consistently supportive of Bunds (and US Treasuries) to the end of August. In addition, at the end of this month projected index changes are most supportive of Germany, and looking at Europe as a whole, they are most supportive of the 10yr part of the curve. All this, together with the ongoing crisis in Europe, and it's slow and/or distant solutions, points to the scope for even lower Bund yields. Like the front end, it is not about value: it's all about flow.

**5s have outperformed sharply, leaving
5s10s looking steep**

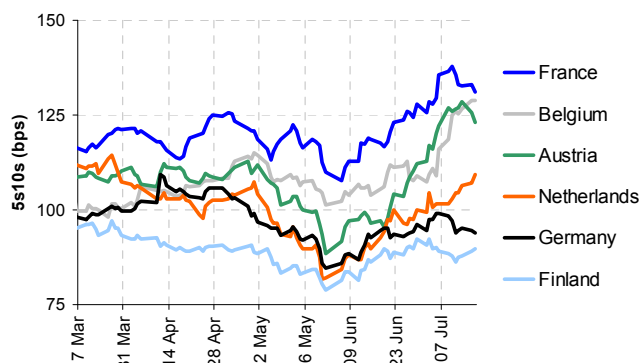
The soft core yield grab has already seen 2s5s flatten hard (Figure 5) leaving 5s10s looking rather steep (Figure 6). The charts use exact 2, 5 and 10yr maturities.

Figure 5. 2s5s have flattened hard recently



Source: Citi Research

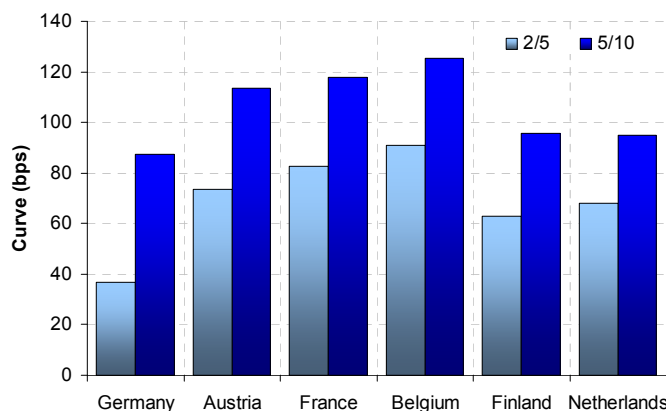
Figure 6. 5s' outperformance has steepened 5s10s



Source: Citi Research

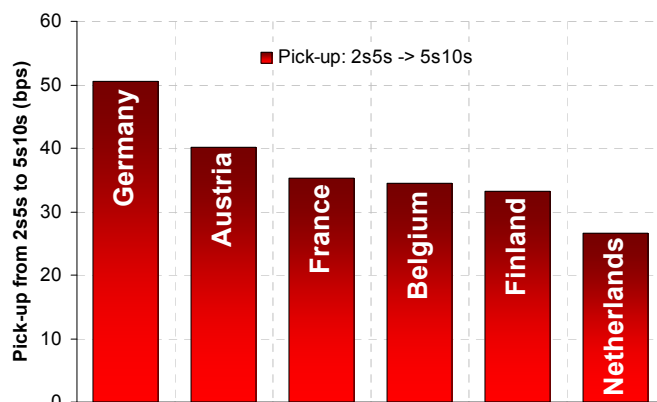
As we discussed last week, we expect investors' need for yield, and the low level of 5yrs, to push money out along the curve. Our demand data - see [Global Flow Monitor](#) - also shows the clear preference for the 10yr sector and liquid markets. Figure 7 below shows the yield pick-up between 2s and 5s on the one hand, and 5s and 10s on the other. Figure 8 shows the pick-up extending from 2s5s into 5s10s.

Figure 7. 5s10s is steepest in Belgium



Source: Citi Research

Figure 8. But the pickup from 2s5s into 5s10s is largest in Germany



Source: Citi Research

The pickup going from 2s5s to 5s10s is greatest in Germany

Bond selection can be very important

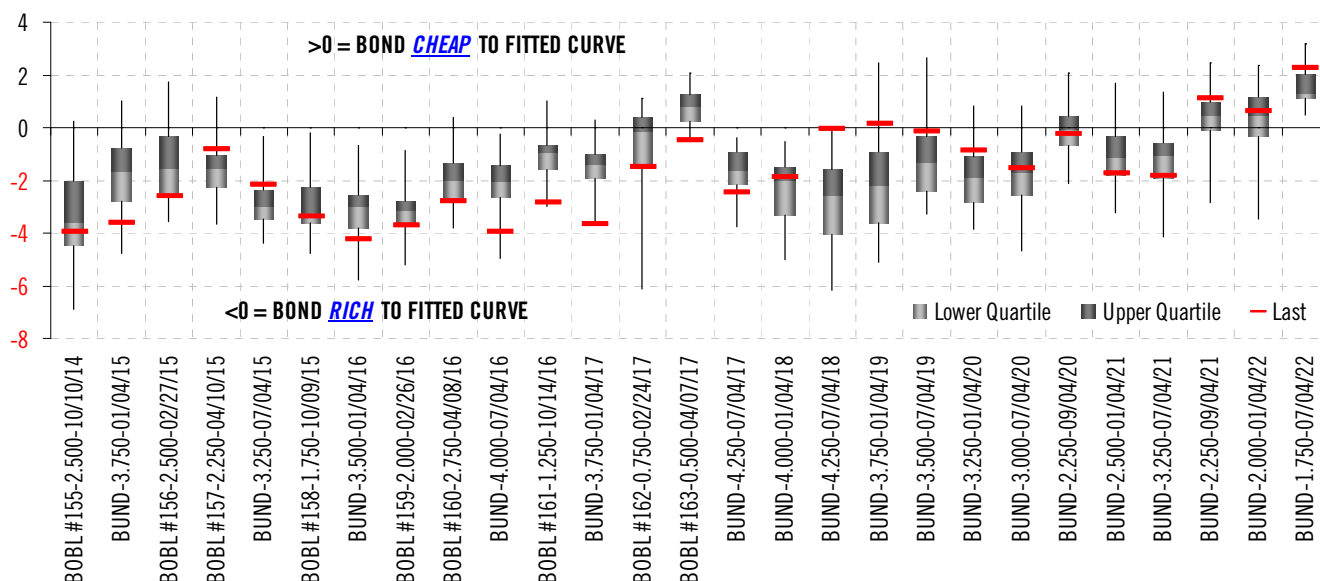
Interesting bonds in Germany...

Although 5s10s is steepest in Belgium (followed by France and Austria) the pick-up between 2s5s and 5s10s is actually greatest in Germany.

Below we have included the box whisker plots for 2-10yr Germany, Austria, France and Belgium, showing the current deviation from the fitted curve (red bars) and the range of the deviation. As you can see, individual bond selection can be very important when implementing curve trades in this environment.

In Germany, Jul18s look like the bond to avoid as the short leg of a 5s10s flattener: some of the 2017 bonds look much more attractive. Jul22s looks the best long.

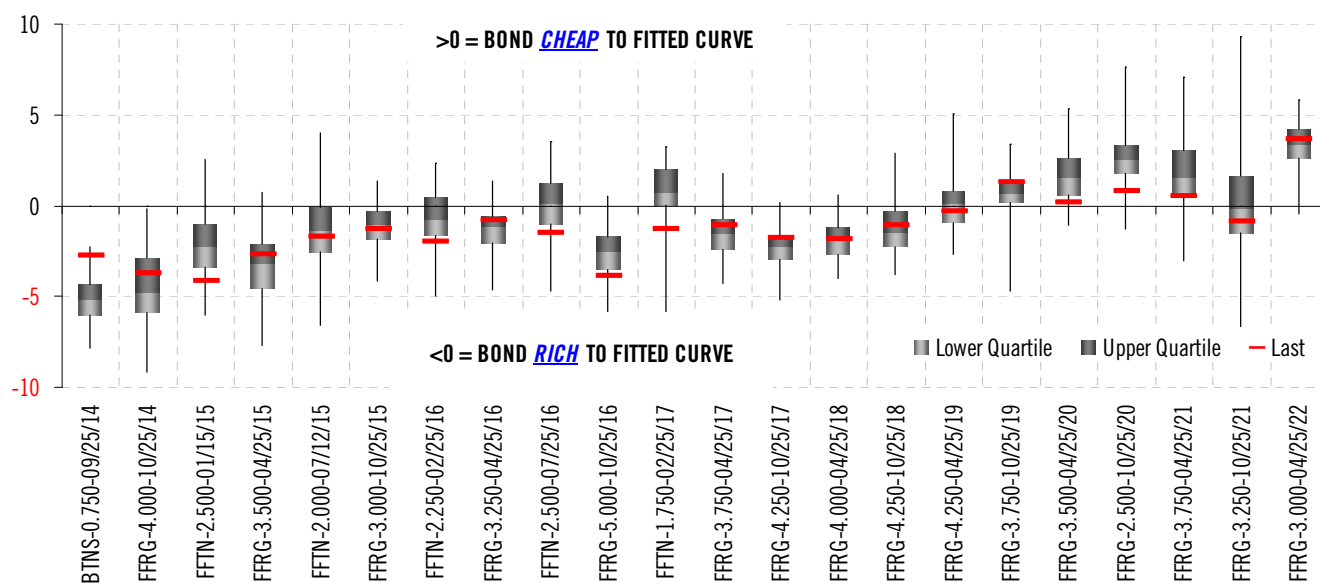
Figure 9. Germany 2-10yrs, box whisker plot of deviation from fitted curve



Source: Citi Research

22s look the most interesting long in France too. Oct16s look richest in 5yrs.

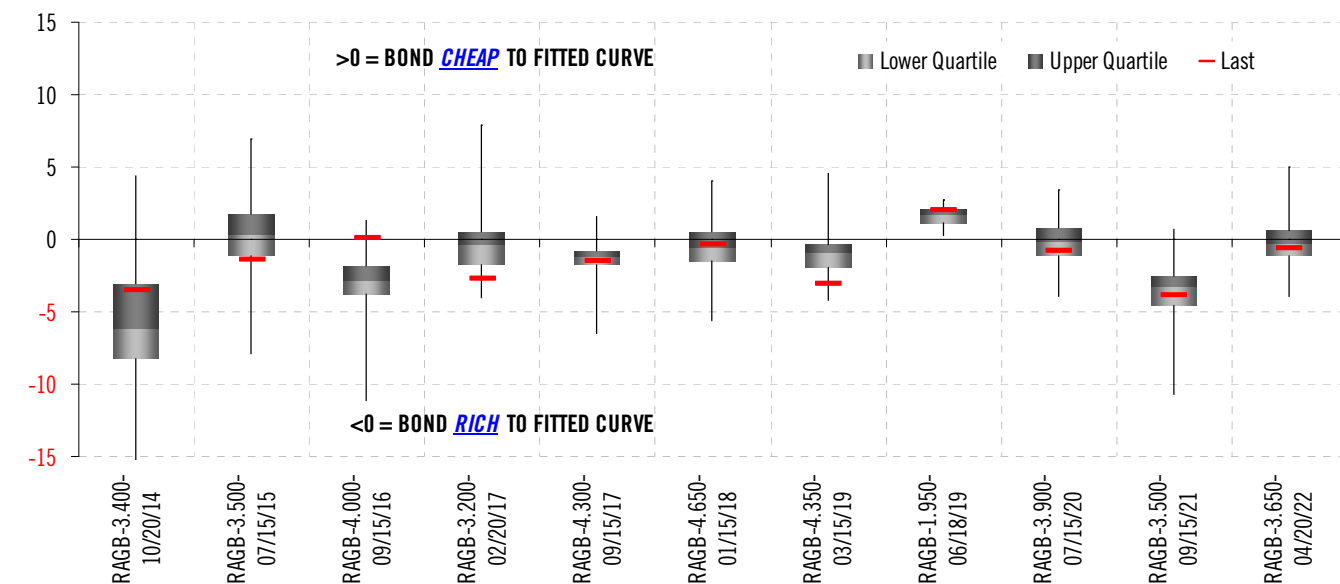
Figure 10. France 2-10yrs, box whisker plot of deviation from fitted curve



Source: Citi Research

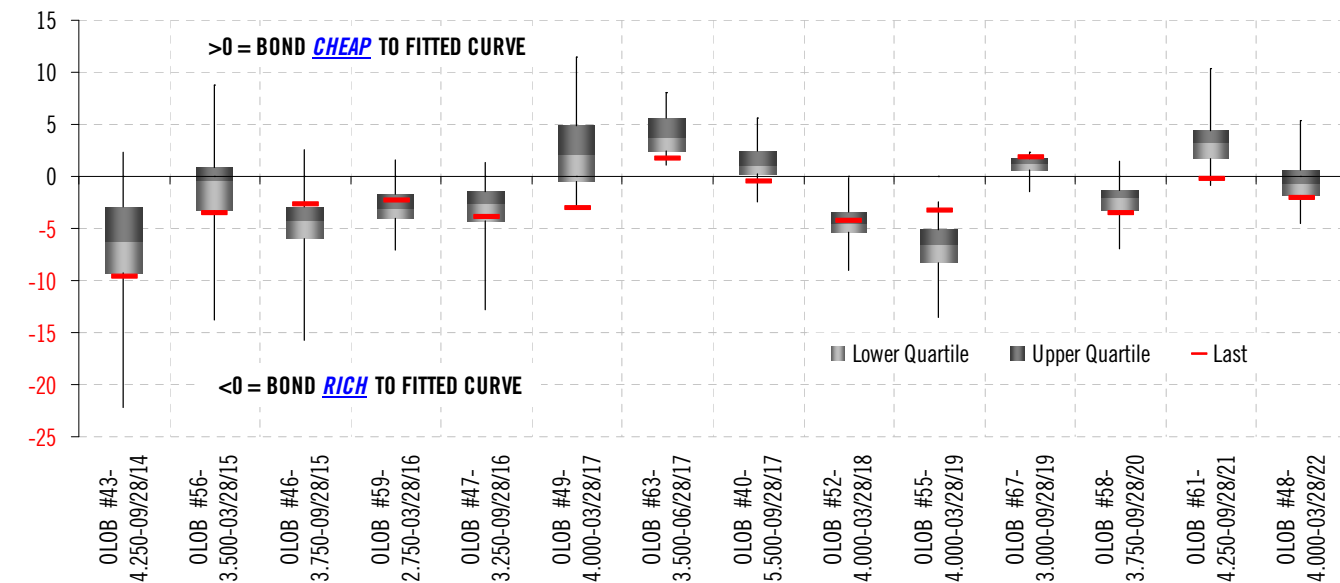
In Austria, Feb17s looks the richest bond in the 5yr sector.

Figure 11. Austria 2-10yrs, box whisker plot of deviation from fitted curve



Source: Citi Research

Figure 12. Belgium 2-10yrs, box whisker plot of deviation from fitted curve



Source: Citi Research

Conclusion

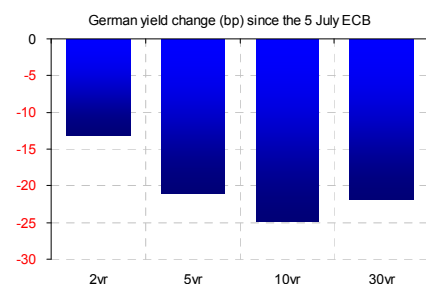
We expect core yields to be driven lower, and definitely wouldn't rule out the possibility of 1% in 10yr Bunds over the summer. 5s10s flatteners are preferable to 2s5s as the yield grab gathers momentum. The biggest pickup in 5s10s relative to 2s5s is in Germany, though the Belgian and French 5s10s curves are steeper on an absolute basis. We recommend selecting individual bonds carefully and provide some tools to help identify prospective bonds.

Jamie Searle
+44-20-7986-9493
jamie.searle@citi.com

Bunds could record new lows in August

The German yield curve continues to push lower and flatter. Since the ECB meeting on 5 July, 10yr yields have fallen 25bp to just 1.22% (at the time of writing). This is just a whisker above the record lows set at the beginning of June. At these levels, it is tempting to establish tactical short positions, but there are several factors which make us think that it won't be long before the record lows are broken.

Figure 13. The 10yr sector of the Bund curve has rallied the most since the ECB meeting

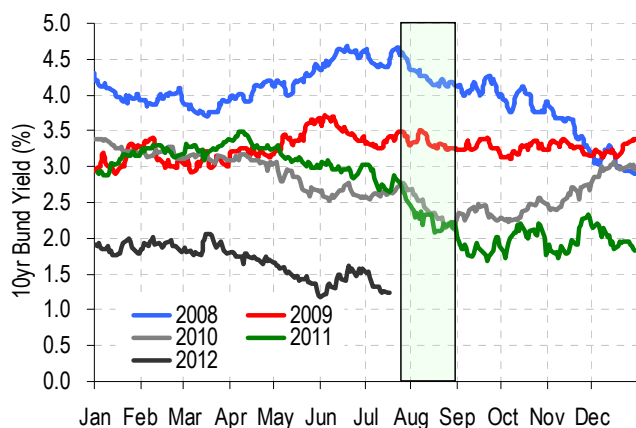


Source: Citi Research, Bloomberg.

- First, the yield-grab is continuing apace into the soft core, but also further out along the German curve. With 2yr Schatz yields now negative and 5yr Bobls yielding less than 0.3%, the 10yr sector stands to benefit from extension trades as investors hunt for increasingly scarce yield. As we highlighted in last week's [IIRS](#), 2s5s curve flatteners are likely to be increasingly extended into 5s10s. The 5s10s Bund curve has already started to flatten in the last couple of weeks (Figure 16), but we expect this has further to run, even if it has become something of a consensus trade.
- Second, month-end changes are supportive for Germany in the very near-term. The Citi EGBI is projected to extend by 0.11 years at the end of July. The country breakdown is most supportive for Germany, especially in the long-end of the curve (see p20).
- Third, seasonals at this time of year are supportive for 10yr Bunds. This is probably related to lack of risk appetite and position-squaring ahead of the holiday period, and may have been exaggerated in the last few years given the crisis backdrop. Figure 14 below offers a simple historical representation of the seasonals for 10yr Bunds. The box highlights the period from the last week of July until the end of August. Bund yields have fallen during this period in each of the last four yields and by a large average of 45bp. In each year, the rally has been at least 20bp (Figure 15).

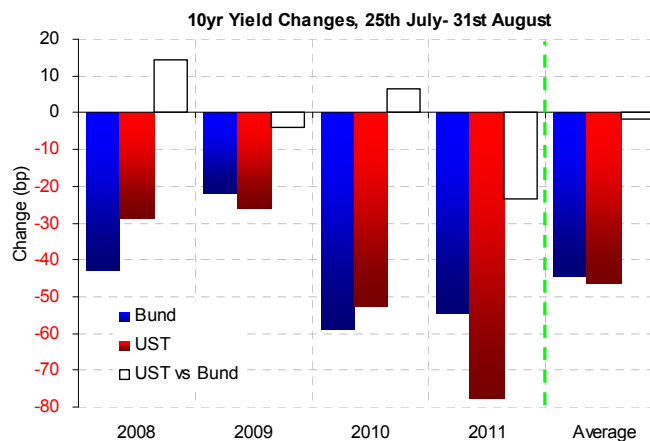
A very similar seasonal pattern can be observed for 10yr Treasuries (average rally of 46bp). Indeed, as our US colleagues point out in their [latest weekly](#), 10yr Treasury yields have fallen in Q3 in 14 of the last 17 years, with August being the best performing month.

Figure 14. Bund yields consistently fall from late July to end-August



Source: Citi Research, Bloomberg.

Figure 15. The magnitude of the yield change over this period is large



Source: Citi Research, Bloomberg.

Don't be surprised if 10yr Bund yield reach 1% over the summer

No two years are exactly alike, but the consistency of the rally over the last few years is striking. There are no obvious reasons why 2012 should be any different in our view. Yes, the starting point for yields is much lower, but it is difficult to argue

that risk appetite will be any greater over the summer this year than in previous years. Rather, we suspect it will be even lower this year given the distraction of the Olympics and, more importantly, the lack of resolution to the euro sovereign debt crisis.

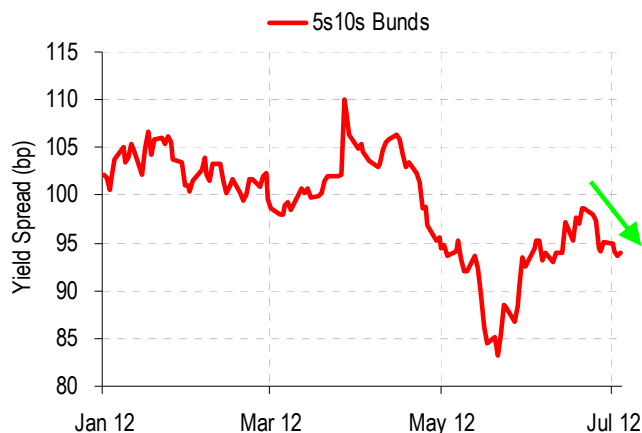
Conclusion: 10yr Bunds are likely to be supported in the near-term by curve extensions, month-end index changes and summer seasonals

Volatility, illiquidity and headline risks in non-core markets are likely to keep investors firmly in the core and soft core markets, even at such unrewarding outright yield levels. With this in mind, and given the seasonals, we recommend holding core duration over the coming weeks. The 10yr sector, in particular, is likely to find support given the ongoing yield grab and bull flattening dynamic.

Don't fade the rally

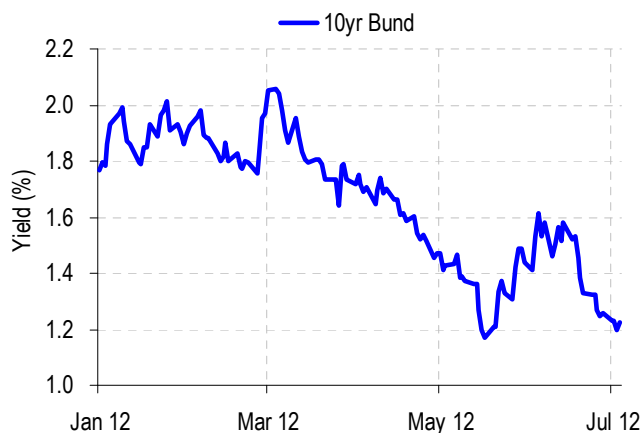
We doubt it will be long before the record lows for 10yr Bunds are broken and we would not rule out a further strong rally in Bunds down to around 1%. In short, don't fade the rally.

Figure 16. 5s10s Germany has started to flatten



Source: Citi Research, Bloomberg.

Figure 17. 10yr Bunds are testing the record lows



Source: Citi Research, Bloomberg.

Upcoming cash flows in Italy & Spain

Spain

Nishay Patel
+44-20-7986-1007
nishay.patel@citi.com

Today's Spanish auction was poor: Earlier today Spain issued €2.98bn across the 3-, 5- and 7-year sectors. Although the amount allotted at the auction was just shy of the maximum indicative size of €3bn the yield tail was large (at around 9bp).

Large yield tails are likely to stay: Our estimates suggest the *Tresoro* will have to issue an average of €2.9bn in each of the nine remaining auctions to fulfill their 2012 funding requirement of €85bn. It is, therefore, highly likely that the Treasury will aim to issue at least €2.9bn in upcoming auctions. Unless sentiment improves, this may well result in further large tails (in order achieve this goal).

But the next auction should be supported by cash-flows: As ever, upcoming Spanish auctions will be closely watched. It is worth noting that the next Spanish auction due to be held on 2 August will coincide with €7.7bn of Spanish coupon payments that will settle on 30 July. However, the reprieve is likely to be short-lived. After July, the next round of Spanish coupon payments will be in October.

Figure 18. Spanish coupon payments on 30 July 2012

Coupons	2yr	5yr	10yr	15yr	30yr	Total
Spain	2.0	2.0	0.8	1.1	1.9	7.7

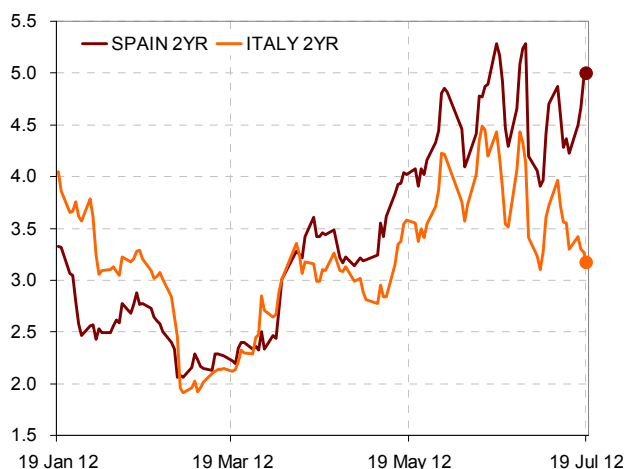
Source: Citi Research, Bloomberg

Italy

Front-end BTPs are well supported: Despite the recent underperformance of Spain the price action in BTP yields has been encouraging. This has been particularly true for the front-end (2yr sector) which has rallied by 40bp since last Friday's strong 3yr BTP auction (Figure 19).

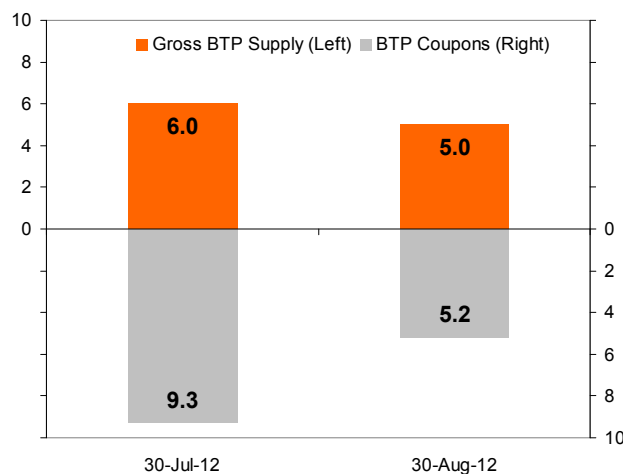
Large upcoming BTP coupons: In a similar fashion to Spain, the next two BTP auctions are well supported by coupons payments. As shown in Figure 20, there will be €9.3bn of coupon payments eligible for reinvestment into the next BTP auction on 30 July. The net imbalance is strongly negative at €3.3bn (coupons outweigh supply). The following BTP auction on 30 August is matched by €5.2bn BTP coupons (note that Italy has cancelled the mid-month auction in August).

Figure 19. 2yr Spain and Italy have diverged sharply



Source: Citi Research

Figure 20. Gross BTP supply and coupons eligible for reinvestment



Source: Citi Research

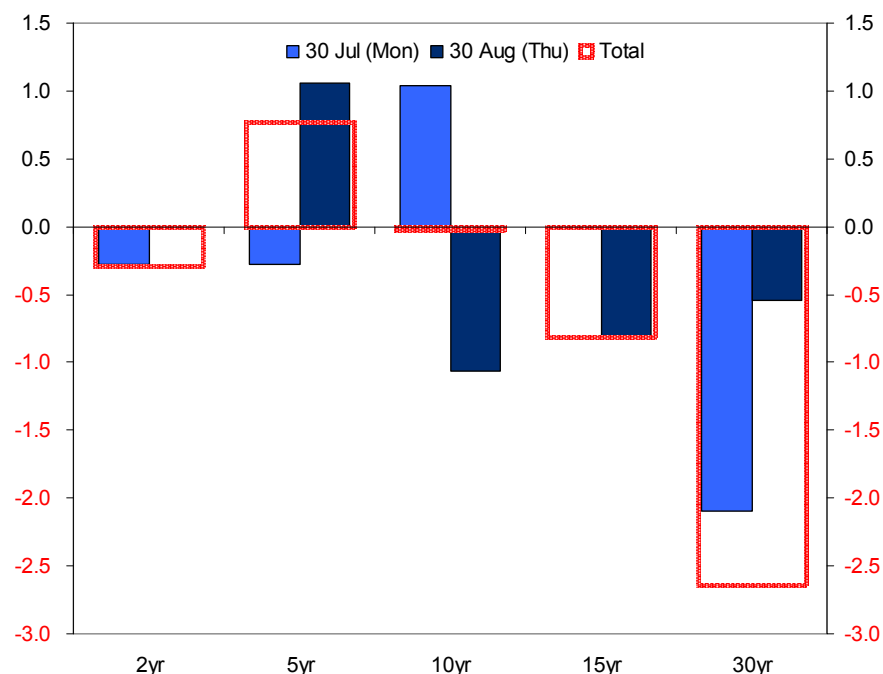
Flow to have a greater impact over the summer: Taking into account the high probability that market liquidity is poor over the summer, it is more likely that the reinvestment of BTP coupons could be strongly supportive for BTP yields over the next six weeks. Of course, there is a risk that negative headlines surrounding the eurozone resurface during the summer and the low liquidity in markets exacerbates sell-offs in non-core markets.

Picking the right sector: We suggest expressing long duration positions in the 2yr sector of the BTP curve for the following reasons:

1. Last Friday's auction was a clear indicator for demand for short-end Italy and the price action since highlights ongoing appetite for short-end Italy as investors hunt for yield without taking on significant credit risk.
2. We do not forecast any 3yr BTP issuance in the next two BTP auctions. The imbalance between coupon payments and supply is strongly supportive for the front-end (Figure 21).
3. With the next two ECB meetings scheduled for 2 August and 6 September the announcement of more LTROs and/or a cut to the policy rate may provide an additional source of downward pressure on front-end BTP yields.

Avoid 30yr BTPs: Although 30yr BTPs have the most negative net cash flow (Figure 21) we would avoid expressing long duration positions in this sector as it is unlikely to benefit from the ongoing yield grab. Furthermore, long-end BTPs could continue to underperform other maturities in the event that any outstanding holders of BTPeIs (that track inflation indices) are unable to reduce their holdings at month-end due to poor liquidity. If this were to materialise, bond holders may look to short 30yr BTPs in order to offset their credit risk. Of course, the removal of BTPeIs from a major inflation index has been anticipated for several months but it is still a risk to long 30yr BTP positions so we prefer to express longs in 2yr BTPs.

Figure 21. Net DV01 of BTPs (gross supply minus coupon payments, €millionbp)



Source: Citi Research

Euro inflation: too early to fade the rally

Jamie Searle
+44-20-7986-9493
jamie.searle@citi.com

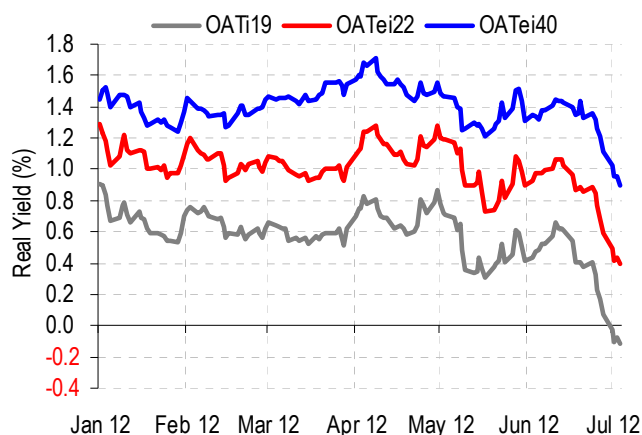
French real yields and break-even inflation spreads have rallied strongly in the last week or so. From a tactical perspective, it is too early to fade the rally in both. However, it is unlikely that French linkers will be able to sustain such historically rich real yield levels beyond month-end and the BTPei index drop.

The strong rally in real yields is not hard to explain

French real yields are at historic lows but demand remains high

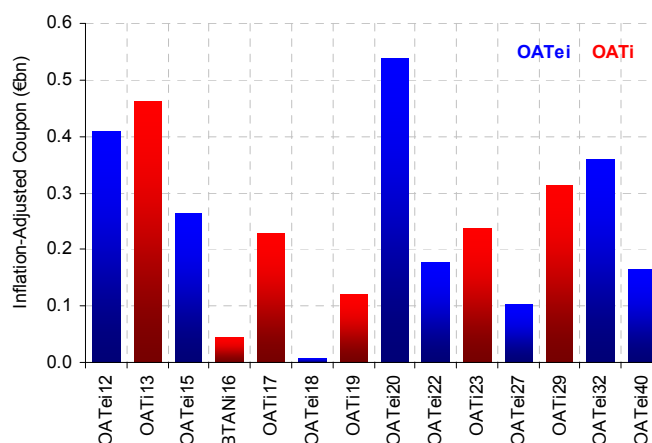
French real yields have fallen around 50bp in just over a week. As Figure 22 shows, the real yield for OATi19 has dipped into negative territory, OATei22 has fallen below 0.5% and OATei40 has fallen below 1%. These three bonds were all re-opened today (19 July). The auction was well received, highlighting the strength of appetite for French linkers, despite the historic richness of real yields.

Figure 22. Sharp rally in real yields



Source: Citi Research, Bloomberg.

Figure 23. OATei/i July Coupon Payments by Issue



Source: Citi Research, Bloomberg.

The impending BTPei index drop has given a boost to core linkers

The strength of the recent rally in French real yields is not hard to explain. Real yields were already moving lower following the ECB rate cut and subsequent yield grab, but the Moody's downgrade of Italy has accelerated the trend. The Moody's downgrade means that BTPei will fall out of the flagship Barclays inflation indices at month-end. As we discussed in a recent note (see [Euro Inflation Strategy](#), 18 July), the removal of BTPei from these indices has been long anticipated, but there will still be forced selling at month-end and the impact could be large given that BTPei are almost 30% of the euro index. This should strongly benefit French and German linkers as investors rebalance to meet the new index.

French linkers also stand to benefit from re-investment flows

But it doesn't end there. In the coming days, there are plenty of other seasonal supports for French linkers in particular. On the 25 July, there will be €3.4bn coupon payments (split €2bn OATei, €1.4bn OATi). On the same day, €13.6bn of OATei12 will redeem. Then, at month-end, the Citi euro inflation-linked index (investment grade, so BTPei will not be excluded) is projected to extend by a historically significant 0.42 years as OATi13 falls out of the index.

Too early to fade the rally in real yields, despite their richness

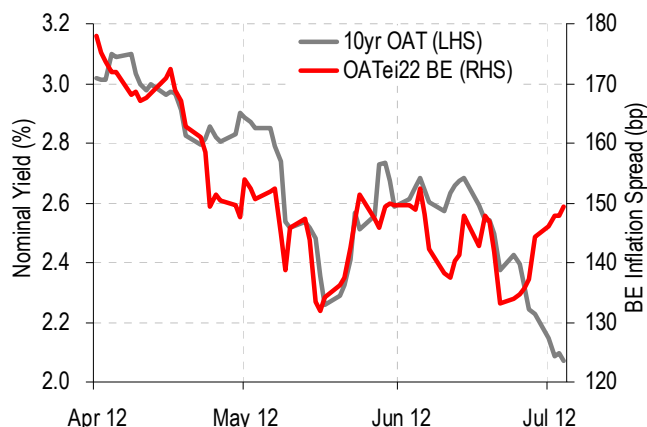
For all of these reasons, we think it is too early to fade the rally in real yields, despite the historic richness. However, once these supports fade and month-end is over, then real yields are likely to come under increasing pressure.

Break-evens rallying from cheap levels

The strong rally in real yields has pushed break-evens off the recent lows, helped along by the recovery in oil prices. Break-evens are unlikely to be able to sustain the rally over the medium-term unless nominal yields begin to move higher (Figure

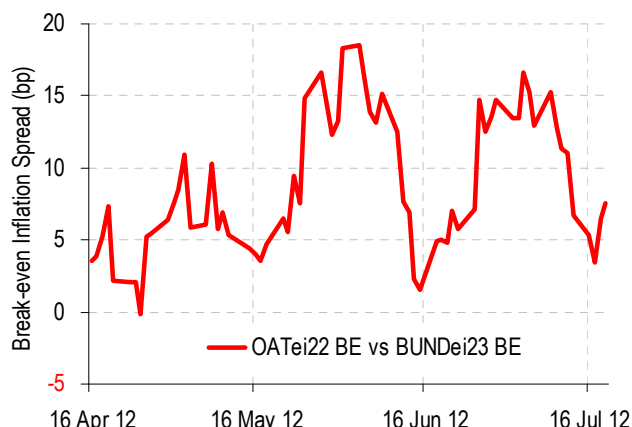
24). But in the near-term, the BTPei index drop and strong demand for core linkers should push break-evens higher still.

Figure 24. Break-evens have rallied despite nominal yields moving lower



Source: Citi Research, Bloomberg.

Figure 25. OATei22 cheap vs Bunde23 on a break-even inflation basis



Source: Citi Research, Bloomberg.

OATei offer the best value for break-even longs

The best value for tactical break-even longs can be found in OATei rather than Bunde23. The former have lagged as break-evens have widened, probably as the market built a concession for the AFT auction on 19 July. This is shown by the break-even box between OATei22 and Bunde23 in Figure 25.

Supply pressure could switch from France to Germany

The box has already turned and we expect the reversal to continue. It is possible that supply pressure will soon switch to Germany. The last inflation auction from Germany was a re-opening of Boblei18 on 13 June. Germany plan to issue €2-3bn in July-September and could now respond to the increased appetite for core linkers with issuance. Bunde23 is a good candidate to be re-opened. The next inflation auction from France is not until the 20 September.

Express tactical break-even wideners with 10yr OATei

Moreover, French linkers stand to benefit the most from the BTPei index drop and should receive a further boost from re-investment flows from the upcoming cash-flows. With this in mind, we prefer using 10yr OATei to express tactical break-even wideners.

Peter Goves
+44-20-798-3215
peter.goves@citi.com

What EIB does and how it is legislated for within the EU framework

EIB is the EU's development policy orientated bank

SSA Issuer Focus: EIB

We develop our theme of trading core European SSA names vs core EMU sovereigns and outline some key characteristics of the European Investment Bank (EIB). It is not our intention to provide accountancy style balance sheet analysis, but rather to provide a brief overview of the issuer for the purposes of trade ideas within the European SSA sector. We continue to see relative value in the belly of EIB's curve versus some AAA EMU sovereigns.

The European Investment Bank is the bank of the 27 EU Member States primarily focused on project finance. It was established by the Treaty of Rome in 1958 and more recently was incorporated within the EU Treaty (Article 308 and Article 309). Article 309 in the EU Treaty refers to the task of the EIB as follows:

"to contribute, by having recourse to the capital market and utilizing its own resources, to the balanced and steady development of the internal market in the interest of the Union. For this purpose, the Bank shall, operating on a non-profit-making basis, grant loans and give guarantees which facilitate the financing of the following projects in all sectors of the economy:

- a) *projects for developing less-developed regions*
- b) *projects for modernizing or converting undertakings or for the developing fresh activities called by the establishment or functioning of the internal market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States*
- c) *projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States."*

Figure 26. 2011 EIB Select Key Figures (€bn)

Balance Sheet	471.8
Net Income	2.3
Callable Capital	220.8
Paid-in Capital	11.6
Own Funds	42.5
Disbursed Loans	395.6
Borrowings outstanding	401.4
Bond Issuance	76.0

Source: EIB 2011 Financial Report

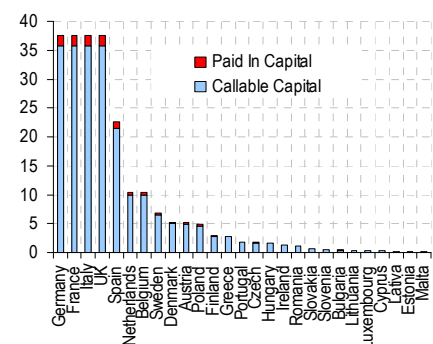
Key fundamentals – the largest supranational rated by S&P

Organisation: The EIB's Statutes within the EU legal framework lay down its governance structure. In this way, EIB is an integral part of the broader European project. It has (amongst other things) a Board of Governors (27 ministers of the member states), a Board of Directors and a Management Committee. In its 2011 Financial Report, the EIB's balance sheet size was stated as €472bn, making it the largest supranational rated by S&P. Further key data is shown in Figure 26.

Capital structure: EIB borrows on the capital markets and funds, in part, development projects to further *"the objectives of the EU by making long-term financing available for sound investment"* (EIB's mission statement). As laid out in EIB's Statutes, the aggregate amount outstanding of loans and guarantees must not at any time exceed 250% of its subscribed capital, reserves, non-allocated provisions and profit and loss account surplus. This is often referred to as EIB's gearing ratio. EIB's total subscribed capital is €232bn of which €11.6bn is paid in (distinguishing it from other entities such as the EFSF for example) and the rest "callable" upon its shareholders. It's own funds also include €22bn in reserves and €2.3bn in net income (which it retains as opposed to paying dividends).

Paid in capital to increase: At the recent EU summit (28th June), the EU recommended that EIB's paid-in capital be increased by €10bn from €11.6 to €22.6bn. This would raise total subscribed capital from €232bn to €242bn. Consequently, the proportion of paid-in capital will rise from 5% to 9%. The consequent credit improvement was recently affirmed by Moody's on 29th July.

Figure 27. Contribution Capital Shares (€bn)

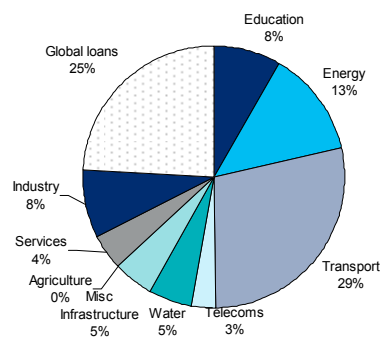


Source: EIB, Citi.

Credit positives & challenges – EIB is rated AAA by Moody's and S&P

Understanding the credit drivers behind such an issuer can, for the most part, help explain secondary market performance. For instance, it is not simply the case that the overarching credit quality (rated Aaa/AAA) is a linear function of the underlying guarantors. Broader considerations are taken into account by the rating agencies, which we highlight below. Such factors contribute to our view that we continue to see relative value in EIB as a core European SSA issuer.

Figure 28. EIB's Outstanding Loans by Sector



Source: EIB 2011 Financial Report

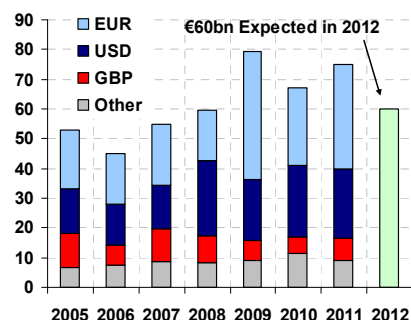
■ **Loan portfolio performance:** Both Moody's¹ and S&P² detail the relatively high quality of EIB's assets. At the end of 2011, 87% of EIB's assets were Investment Grade and 90% of borrowers were from the EU. Impaired loans accounted for 0.1% of the loan portfolio. The diversification by region and sector (Figure 28) is also a credit positive. Clearly, should the asset quality deteriorate then this would be a credit negative, but neither rating agency has this as a near-term concern.

■ **Integration at EU Treaty level:** As the EIB is included within the EU Treaty, it forms an integral part of the wider European project. It also has an established history of market access issuing bonds in many currencies to a global investor base. The recent announcement to increase shareholder capital also underlines the support from its shareholders³. Furthermore, there is historic precedent for the EIB (as a multilateral development bank) to be exempted in restructuring cases as was the case during the Greece debt exchange (2012)⁴.

■ **Access to ECB funding:** As of 8th July 2009, the EIB became eligible as a counterparty in ECB monetary policy operations. This enables the EIB to repo securities for liquidity purposes. As EIB states, it is the only supranational to have access to such central bank liquidity⁴.

A key credit challenge at the moment is the underlying creditworthiness of the EU sovereigns. When S&P downgraded several sovereigns on 13th January 2012, the proportion of EIB's subscribed capital from S&P AAA rated sovereigns fell from 62% to 43%. Despite this however, EIB itself remained AAA by S&P. Sovereign downgrade risk and wider macro uncertainty helps explain in part the spread movements of late last year. However, the sovereign downgrades themselves of January 2012 illustrate how EIB's rating, as governed by Moody's and S&P criteria, is not simply a function of the underlying distribution of guarantor ratings alone, but also incorporates other credit aspects as outlined above.

Figure 29. EIB Gross Issuance (€bn)



Source: Dealogic DCM Analytics, EIB, Citi

Bond supply and demand - €60bn expected in 2012

EIB issued €76bn in 2011 and is set to issue around €60bn this year across various currencies (Figure 29), mostly in EUR and USD bonds. To date, the EIB has raised over 75% of the expected supply this year. As of December 2011, 44% of its bonds outstanding were in EUR, 26% in USD and 14% in GBP. It has an established benchmark programme and issues across a range of maturities with relatively liquid secondary market curves.

Demand for EIB bonds is diversified among a variety of investors and by geography. As of December 2011, the distribution by investor type buying EIB bonds was: 35% central banks, 22% fund managers, 37% banks and 6% corporates. Europe and the ME accounted by 58% of demand, Asia 30% and the Americas 12%⁴.

¹ Moody's: "Moody's Disclosure on Credit Ratings of European Investment Bank" 7th March 2012

² S&P "European Investment Bank" 28th September 2011

³ Moody's: "EIB's €10bn increase in paid-in capital is credit positive" 29th June 2012

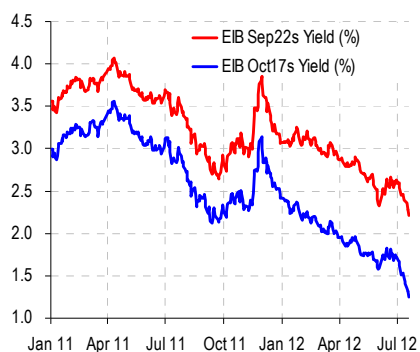
⁴ EIB Investor Presentation June 2012

EIB bonds should continue to perform in a hunt-for-yield environment

EIB in the current market context – where it trades

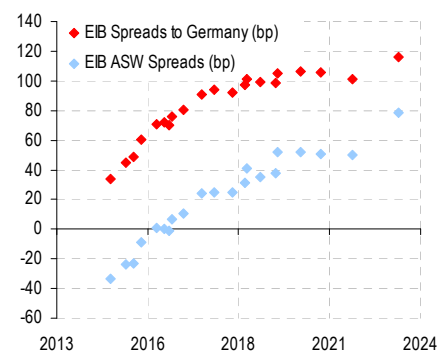
EIB bonds have performed well in 2012 (Figure 30) and many euro bonds in the front-end of the curve now trading through swaps. The credit curves of EIB for its euro denominated bonds is shown in Figure 31. In the current climate, EIB is benefitting from the hunt-for-yield dynamic and given its high credit quality and reasonable secondary market liquidity, we believe trades involving EIB can be an effective way of gaining incremental returns in a low yield environment ([Why we like the European SSA market in a low yield environment](#) 9th July).

Figure 30. EIB 5yr and 10yr Yields (%)



Source: Citi Research

Figure 31. EIB € Credit Curves (bp)



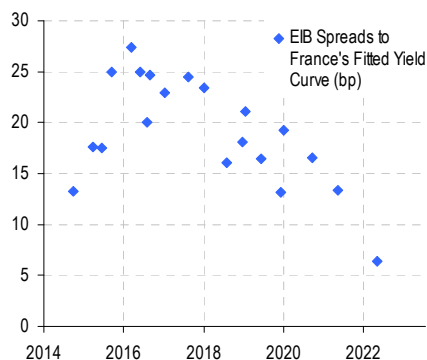
Source: Citi Research

Relative value in the belly of EIB's curve

We continue to see relative value in 5yr EIB vs 5yr France

In terms of trading strategies, we continue to see relative value in the belly of EIB's curve vs some core EMU government bonds (Figure 32). Strong appetite for France, for example, has driven the spread to EIB to historically attractive levels in the 5yr sector (Figure 33). Last week ([IIRS](#) 12th July), we recommended EIB 4.75% Oct17 vs OAT 4.25% Oct17 with a target spread of 10bp (Figure 34). We continue to advocate such a strategy – as well as the broader theme of trading core SSA names vs core EMU sovereigns – given the current market tone and the need for incremental yield.

Figure 32. EIB to France* (bp)



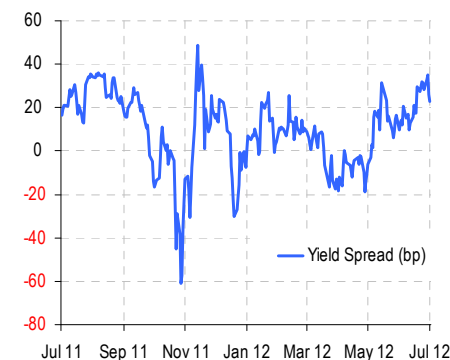
Source: Citi Research *EIB yields minus the maturity matched point on Citi's fitted curve for France govt bonds.

Figure 33. EIB 5yr vs 5y France Yields (%)



Source: Citi Research

Figure 34 EIB Oct17s – OAT Oct17s Yield Spread



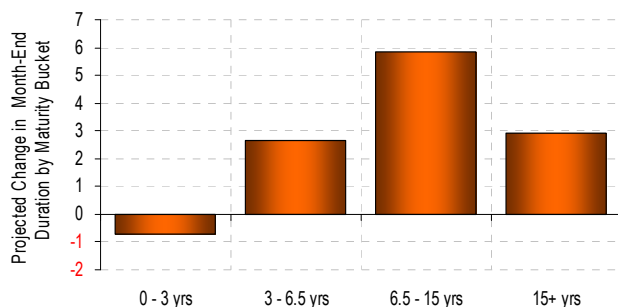
Source: Citi Research

End-July EGBI Projections

Aman Bansal
+91-22-4277-5021
aman1.bansal@citi.com

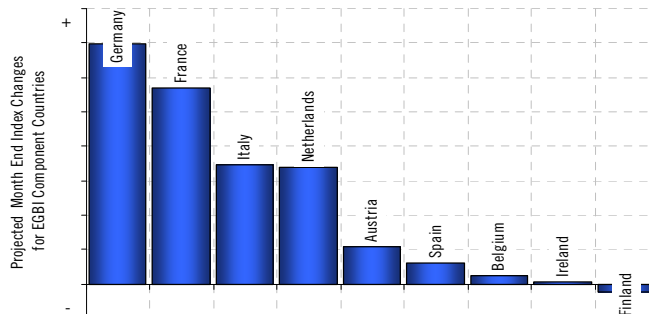
We expect the EGBI to extend by 0.11 at the end of July⁵. The curve breakdown of the projected weighted duration changes (Figure 35) points to support for the 10yr sector.

Figure 35. End-July Projected Index Changes by Curve Sector (Weighted Duration)



Source: Citi Research

Figure 36. End-July Projected Index Changes by Country (Weighted Duration)



Source: Citi Research

Figure 36 shows that at a country level, it is the large liquid core of Germany, France and the Netherlands that are positioned to benefit the most from the projected index changes. Italy too should receive support to the extent that index-followers do not allow themselves to be taken short by the change.

Looking at a country level (i.e., from the perspective of domestic portfolio managers), Finland should extend the most in the past year, largely due to RFGB Jul13s dropping out, which is equivalent to 10% of Finland's index weight⁶

The Netherlands, Germany, Spain and France also have large bonds dropping out of the index and consequently see their durations increase.

In Austria, the 10yr issuance was duration neutral, and the 30yr bond does not qualify for the index yet due to its size.

Potential impact of projected changes on domestic curves

Figure 37 below summarises the price pressures on individual country curves from the projected index changes. The most significant potential support is for 30yr Germany and 10yr Finland.

Although we think 10s30s in Germany has scope to eventually steepen further, towards US and UK levels⁷, this projected index change could slow the move temporarily or provide improved entry levels.

Long 10yr Core Paper

The projected index changes are supportive for the 10yr sector of the core markets. This should provide a near-term boost to these markets, which also stand to benefit from curve extensions and seasonals (see p11). In particular, we favour long positions in 10yr Bunds.

Support for:

- 10yr Finland, Germany, France, and the Netherlands, and also Spain
- 30yr Germany and Netherlands
- 5yr Netherlands and Finland

Trade Idea:

Buy 10yr Bunds

⁵ Supply is the main driver of duration projections but other factors, e.g., yield level and curve shape, also affect the calculations and are subject to change.

⁶ Long end issues from Finland and Austria do not qualify for inclusion in the index due to minimum outstanding requirement of €2.5bn.

⁷ See [pg 11 of IIRS 12 July 2012](#), 12 July for further details

Figure 37. Summary of Pressure on Prices of Individual Country Curve Sectors

	2yr	5yr	10yr	30yr	
Germany			↑	↑ ↑	Germany
Netherlands		↑	↑	↑	Netherlands
Finland		↑	↑ ↑		Finland
France			↑		France
Spain			↑		Spain
	2yr	5yr	10yr	30yr	

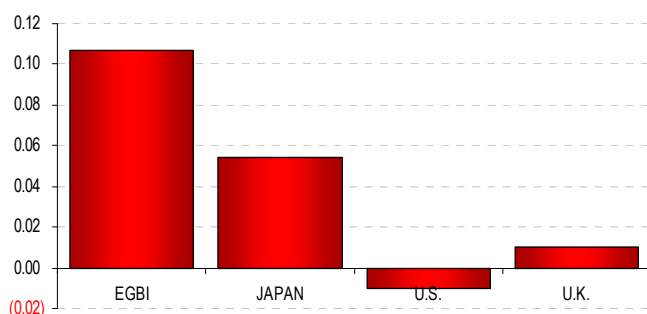
Source: Citi Research

End-July WGBI Projections

Figure 38 shows the projected end-July index changes for the Europe (EGBI), Japan, UK and US components of the WGBI, including the central bank operations in the US, UK and Japan⁸.

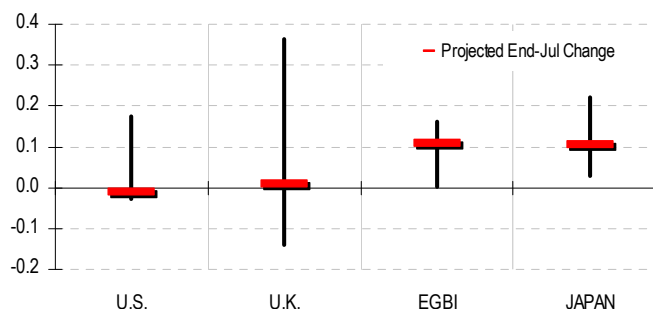
Figure 39 places the projected month-end changes in the context of their respective 12-month ranges.

Figure 38. Projected End-July Duration Changes for WGBI Components



Source: Citi Research

Figure 39. Projected Duration Changes vs 12-Month Range



Source: Citi Research

WGBI Components

The US index is projected to remain almost unchanged, the compositional change offset by the extended *Operation Twist*.

Gilt issuance this month was almost duration neutral, with supply in the 5-year sector offset by an ultra-long end supply in the 40yr sector.

The month-end index changes point to long-end led steepening in Treasury and gilt curves.

This is a summary of our analysis. Full details will be published separately.

⁸ BoJ buyback numbers are an estimate, so the actual index change may vary from the projections. Future operations by the Fed and the BoE are quantified assuming that their impact will be similar to that of similar past operations.

European Relative Value Trades

Mohit Aggarwal
+91-22-4277-5022
mohit1.aggarwal@citi.com

Investors looking to generate returns on a micro level may wish to consider the following relative value trades in the Netherlands, France and Finland.

The Netherlands: Fading the richness of Jul17 and Jul19

Flattening Bias

■ Switch from 4% Jul19 to 3.25% Jul21 for a 34bps yield pick up (Figure 40).

Microfly

■ Sell 4.5% Jul17 vs 2.75% Jan15 and 3.5% Jul20 (Figure 41).

Figure 40. Netherlands: 3.25% Jul21 – 4% Jul19 yield spread (bp)



Source: Citi Research

Figure 41. Netherlands: 2.75% Jan15, 4.5% Jul17, 3.5% Jul20 fly (bp)



Source: Citi Research

France: Taking advantage of rich Oct15s

Microfly

■ Sell 3% Oct15 vs 2.5% Jan15 and 2.5% Jul16 (Figure 42).

Finland: Fading the richness of 3s

Microfly

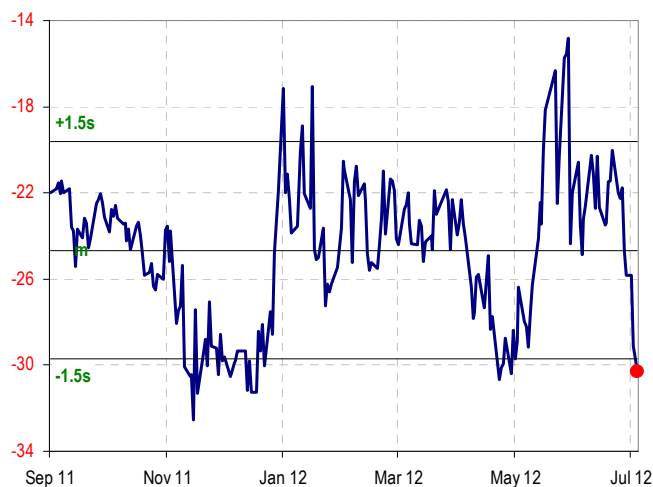
■ Sell 4.25% Jul15 vs 3.125% Sep14 and 1.875% Apr17 (Figure 43).

Figure 42. France: 2.5% Jan15, 3% Oct15, 2.5% Jul16 fly (bp)



Source: Citi Research

Figure 43. Finland: 3.125% Sep14, 4.25% Jul15, 1.875% Apr17 fly (bp)



Source: Citi Research

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

GERMANY

Versus Fitted Yield Curve						Versus Swap Curve (CAS)					
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)
<div><div></div><div>Richest</div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div>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Source: Citi Research

Figure 45 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 46 and Figure 47) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 45 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

These summary tables should help facilitate efficient screening of bonds and, among other things, provide a selection of starting points when considering switches.

Relative Value Tables – All Maturities

Figure 45. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); All bonds on each curve

		Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
GERMANY	Richest	1	2.50 Jul44 (30y)	-2.06	Apr12	3	1	6.25 Jan30	-2.80	Jan00	9
		2	2.50 Feb15	-2.06	Jan10	17	2	5.50 Jan31	-2.56	Oct00	17
		3	3.75 Jan15	-2.02	Nov04	23	3	4.75 Jul34	-2.13	Jan03	20
		4	3.25 Jul42	-1.83	Jul10	15	4	4.00 Jan37 (UB)	-1.60	Jan05	23
		5	3.50 Jan16	-1.67	Nov05	23	5	3.25 Jul42	-1.20	Jul10	15
	Cheapest	5	4.25 Jul39	1.96	Jan07	14	5	3.25 Jul15	1.29	May05	21
		4	2.25 Sep21	2.36	Aug11	16	4	2.50 Feb15	1.45	Jan10	17
		3	4.75 Jul34	2.61	Jan03	20	3	3.75 Jan15	1.50	Nov04	23
		2	1.75 Jul22 (10y)	2.63	Apr12	5	2	2.25 Apr15	1.51	Apr10	19
		1	4.00 Jan37 (UB)	3.21	Jan05	23	1	2.50 Oct14	1.70	Sep09	17
FRANCE	Richest	1	4.00 Apr60	-2.00	Apr09	8	1	4.25 Apr19	-3.00	Apr03	28
		2	2.00 Jul15	-1.78	Jun10	21	2	4.25 Oct17	-2.98	Oct06	21
		3	3.00 Oct15	-1.30	Oct04	33	3	4.00 Apr18	-2.97	Apr07	24
		4	4.50 Apr41 (30y)	-1.12	Apr09	15	4	4.00 Apr60	-2.96	Apr09	8
		5	4.00 Apr55	-1.06	Apr04	15	5	4.25 Oct18	-2.96	Oct07	22
	Cheapest	5	3.25 Apr16	0.71	Apr05	28	5	4.00 Oct14	-2.08	Oct03	20
		4	4.25 Oct23	0.74	Oct06	31	4	4.50 Apr41 (30y)	-2.02	Apr09	15
		3	3.75 Apr17	0.75	Apr06	25	3	4.00 Oct38	-1.85	Oct05	24
		2	4.00 Oct38	1.29	Oct05	24	2	4.75 Apr35	-1.78	Apr03	18
		1	4.75 Apr35	1.98	Apr03	18	1	0.75 Sep14	-1.62	Sep11	4
ITALY	Richest	1	4.50 Aug18 (MFB)	-2.15	Feb08	22	1	4.75 Jun17	0.41	Jun12	3
		2	5.25 Aug17	-1.81	Feb02	23	2	2.50 Mar15 (BTS)	0.94	Mar12	5
		3	4.00 Feb37	-1.70	Aug05	25	3	4.25 Aug14	1.00	Feb04	27
		4	4.50 Feb18	-1.41	Aug07	25	4	4.25 Feb15	1.15	Aug04	21
		5	4.75 Aug23	-1.35	Feb08	21	5	3.00 Jun15	1.26	Jun10	19
	Cheapest	5	5.75 Feb33	1.94	Feb02	15	5	5.00 Mar25	1.72	Mar09	20
		4	3.00 Apr15	1.99	Jan10	20	4	5.75 Feb33	1.75	Feb02	15
		3	5.00 Aug34	2.00	Aug03	21	3	5.00 Aug34	1.76	Aug03	21
		2	4.50 Feb20	2.44	Feb04	21	2	5.00 Sep40 (30y)	1.76	Sep09	20
		1	4.25 Mar20	2.46	Sep09	23	1	5.00 Aug39	1.77	Aug07	19
N'LANDS	Richest	1	2.50 Jan33	-1.28	Mar12	4	1	4.00 Jul16	-2.02	Jul06	13
		2	3.50 Jul20	-0.44	Feb10	15	2	3.25 Jul15	-1.99	Jun05	14
		3	3.75 Jan42 (30y)	-0.39	May10	10	3	4.50 Jul17	-1.99	Jul07	15
		4	2.75 Jan15	-0.20	Jul09	13	4	2.50 Jan17 (5y)	-1.95	Jun11	8
		5	3.75 Jan23	-0.03	Jan06	10	5	4.00 Jul18	-1.91	Feb08	15
	Cheapest	5	2.25 Jul22 (10y)	1.36	Feb12	9	5	3.25 Jul21	-1.52	Mar11	11
		4	4.00 Jul16	1.58	Jul06	13	4	2.50 Jan33	-0.97	Mar12	4
		3	3.25 Jul21	1.65	Mar11	11	3	1.25 Jan18	-0.71	Jul12	6
		2	2.50 Jan17 (5y)	1.76	Jun11	8	2	4.00 Jan37	0.44	Apr05	12
		1	4.00 Jan37	1.84	Apr05	12	1	3.75 Jan42 (30y)	0.67	May10	10
SPAIN	Richest	1	3.30 Oct14	-1.58	Jul09	17	1	4.90 Jul40	1.67	Jun07	13
		2	4.65 Jul25	-1.20	Feb10	14	2	4.70 Jul41 (30y)	1.69	Sep09	11
		3	4.25 Oct16 (5y)	-1.18	Sep11	7	3	4.20 Jan37	1.70	Jan05	16
		4	5.50 Jul17	-1.15	Mar02	15	4	5.90 Jul26	1.74	Mar11	7
		5	5.90 Jul26	-1.11	Mar11	7	5	4.65 Jul25	1.74	Feb10	14
	Cheapest	5	5.75 Jul32	1.36	Jan01	14	5	3.25 Apr16	1.78	Nov10	17
		4	4.60 Jul19	1.37	Feb09	13	4	5.85 Jan22 (10y)	1.78	Nov11	4
		3	4.10 Jul18	1.57	Feb08	16	3	3.80 Jan17	1.79	Oct06	13
		2	4.00 Jul15	2.01	Jan12	4	2	4.00 Jul15	1.80	Jan12	4
		1	3.00 Apr15	2.05	Mar10	18	1	3.00 Apr15	1.81	Mar10	18
BELGIUM	Richest	1	5.50 Sep17	-1.88	Jun02	8	1	4.00 Mar18	-3.16	Jan08	10
		2	4.25 Sep22 (10y)	-1.24	Jan12	8	2	5.50 Sep17	-3.13	Jun02	8
		3	4.00 Mar17	-1.23	Jan07	11	3	3.50 Jun17 (5y)	-3.10	Mar11	6
		4	4.00 Mar32	-1.12	Mar12	4	4	4.00 Mar19	-3.06	Jan09	10
		5	4.00 Mar18	-1.05	Jan08	10	5	4.00 Mar17	-3.03	Jan07	11
	Cheapest	5	2.75 Mar16	0.24	Mar10	10	5	4.25 Sep14 (2y)	-2.24	Jan04	13
		4	4.50 Mar26	0.58	Jun11	4	4	4.25 Mar41 (30y)	-2.23	Apr10	6
		3	4.00 Mar19	0.68	Jan09	10	3	4.50 Mar26	-2.19	Jun11	4
		2	3.75 Sep15	0.98	Mar05	11	2	5.00 Mar35	-1.85	May04	14
		1	3.75 Sep20	1.27	Jan10	18	1	4.00 Mar32	-1.72	Mar12	4

Source: Citi Research

Relative Value Tables – Max 12Yr Maturity

Figure 46. 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				Richest				
	1	2.50 Feb15	-2.06	Jan10	17	1	2.00 Jan22	-1.12	Nov11	16
	2	3.75 Jan15	-2.02	Nov04	23	2	2.50 Jan21	-1.08	Nov10	19
	3	3.50 Jan16	-1.67	Nov05	23	3	3.00 Jul20	-1.07	Apr10	22
	4	1.75 Oct15	-1.04	Sep10	16	4	3.25 Jul21 (RX)	-1.05	Apr11	19
	5	3.00 Jul20	-0.85	Apr10	22	5	2.25 Sep20	-1.04	Aug10	16
	5	0.50 Apr17 (5y)	1.40	Apr12	5	5	3.25 Jul15	1.29	May05	21
	4	2.00 Jan22	1.43	Nov11	16	4	2.50 Feb15	1.45	Jan10	17
	3	4.25 Jul17 (OE)	1.44	May07	19	3	3.75 Jan15	1.50	Nov04	23
	2	2.25 Sep21	2.36	Aug11	16	2	2.25 Apr15	1.51	Apr10	19
	1	1.75 Jul22 (10y)	2.63	Apr12	5	1	2.50 Oct14	1.70	Sep09	17
		Cheapest				Cheapest				
FRANCE		Richest				Richest				
	1	2.00 Jul15	-1.78	Jun10	21	1	4.25 Apr19	-3.00	Apr03	28
	2	3.00 Oct15	-1.30	Oct04	33	2	4.25 Oct17	-2.98	Oct06	21
	3	2.50 Jan15	-0.86	Jan10	20	3	4.00 Apr18	-2.97	Apr07	24
	4	3.50 Apr20	-0.83	Feb10	27	4	4.25 Oct18	-2.96	Oct07	22
	5	3.50 Apr15	-0.73	Apr04	22	5	3.75 Oct19	-2.94	Oct08	25
	5	0.75 Sep14	0.48	Sep11	4	5	2.00 Jul15	-2.56	Jun10	21
	4	4.00 Oct14	0.50	Oct03	20	4	3.50 Apr15	-2.32	Apr04	22
	3	3.25 Apr16	0.71	Apr05	28	3	2.50 Jan15	-2.25	Jan10	20
	2	4.25 Oct23	0.74	Oct06	31	2	4.00 Oct14	-2.08	Oct03	20
	1	3.75 Apr17	0.75	Apr06	25	1	0.75 Sep14	-1.62	Sep11	4
		Cheapest				Cheapest				
ITALY		Richest				Richest				
	1	4.50 Aug18 (MFB)	-2.15	Feb08	22	1	4.75 Jun17	0.41	Jun12	3
	2	5.25 Aug17	-1.81	Feb02	23	2	2.50 Mar15 (BTS)	0.94	Mar12	5
	3	4.50 Feb18	-1.41	Aug07	25	3	4.25 Aug14	1.00	Feb04	27
	4	4.75 Aug23	-1.35	Feb08	21	4	4.25 Feb15	1.15	Aug04	21
	5	4.75 May17	-0.97	Feb12	4	5	3.00 Jun15	1.26	Jun10	19
	5	3.00 Jun15	1.05	Jun10	19	5	4.25 Mar20	1.56	Sep09	23
	4	2.50 Mar15 (BTS)	1.48	Mar12	5	4	4.50 Feb20	1.57	Feb04	21
	3	3.00 Apr15	1.99	Jan10	20	3	3.75 Aug21	1.58	Feb06	27
	2	4.50 Feb20	2.44	Feb04	21	2	4.75 Sep21	1.60	Mar11	22
	1	4.25 Mar20	2.46	Sep09	23	1	4.75 Aug23	1.60	Feb08	21
		Cheapest				Cheapest				
N'LANDS		Richest				Richest				
	1	3.50 Jul20	-0.44	Feb10	15	1	4.00 Jul16	-2.02	Jul06	13
	2	2.75 Jan15	-0.20	Jul09	13	2	3.25 Jul15	-1.99	Jun05	14
	3	3.75 Jan23	-0.03	Jan06	10	3	4.50 Jul17	-1.99	Jul07	15
	4	4.00 Jul18	-0.01	Feb08	15	4	2.50 Jan17 (5y)	-1.95	Jun11	8
	5	4.00 Jul19	0.18	Feb09	13	5	4.00 Jul18	-1.91	Feb08	15
	5	0.75 Apr15	1.11	Jan12	3	5	2.75 Jan15	-1.66	Jul09	13
	4	2.25 Jul22 (10y)	1.36	Feb12	9	4	2.25 Jul22 (10y)	-1.62	Feb12	9
	3	4.00 Jul16	1.58	Jul06	13	3	3.75 Jan23	-1.52	Jan06	10
	2	3.25 Jul21	1.65	Mar11	11	2	3.25 Jul21	-1.52	Mar11	11
	1	2.50 Jan17 (5y)	1.76	Jun11	8	1	1.25 Jan18	-0.71	Jul12	6
		Cheapest				Cheapest				
SPAIN		Richest				Richest				
	1	3.30 Oct14	-1.58	Jul09	17	1	4.00 Apr20	1.74	Jan10	16
	2	4.25 Oct16 (5y)	-1.18	Sep11	7	2	3.15 Jan16	1.76	Sep05	16
	3	5.50 Jul17	-1.15	Mar02	15	3	4.30 Oct19	1.76	Jun09	15
	4	3.25 Apr16	-0.88	Nov10	17	4	4.85 Oct20	1.76	Jul10	16
	5	3.80 Jan17	-0.76	Oct06	13	5	4.80 Jan24	1.76	Sep08	15
	5	4.30 Oct19	1.12	Jun09	15	5	3.25 Apr16	1.78	Nov10	17
	4	4.60 Jul19	1.37	Feb09	13	4	5.85 Jan22 (10y)	1.78	Nov11	4
	3	4.10 Jul18	1.57	Feb08	16	3	3.80 Jan17	1.79	Oct06	13
	2	4.00 Jul15	2.01	Jan12	4	2	4.00 Jul15	1.80	Jan12	4
	1	3.00 Apr15	2.05	Mar10	18	1	3.00 Apr15	1.81	Mar10	18
		Cheapest				Cheapest				
BELGIUM		Richest				Richest				
	1	5.50 Sep17	-1.88	Jun02	8	1	4.00 Mar18	-3.16	Jan08	10
	2	4.25 Sep22 (10y)	-1.24	Jan12	8	2	5.50 Sep17	-3.13	Jun02	8
	3	4.00 Mar17	-1.23	Jan07	11	3	3.50 Jun17 (5y)	-3.10	Mar11	6
	4	4.00 Mar18	-1.05	Jan08	10	4	4.00 Mar19	-3.06	Jan09	10
	5	3.50 Jun17 (5y)	-0.76	Mar11	6	5	4.00 Mar17	-3.03	Jan07	11
	5	3.00 Sep19	0.10	Apr12	4	5	3.75 Sep20	-2.87	Jan10	18
	4	2.75 Mar16	0.24	Mar10	10	4	4.00 Mar22	-2.79	May06	14
	3	4.00 Mar19	0.68	Jan09	10	3	3.75 Sep15	-2.67	Mar05	11
	2	3.75 Sep15	0.98	Mar05	11	2	3.50 Mar15	-2.58	Mar09	10
	1	3.75 Sep20	1.27	Jan10	18	1	4.25 Sep14 (2y)	-2.24	Jan04	13
		Cheapest				Cheapest				

Source: Citi Research

Relative Value Tables – Min 8yr Maturity

Figure 47. 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	2.50 Jul44 (30y)	-2.06	Apr12	3	1	6.25 Jan30	-2.80	Jan00	9
		2	3.25 Jul42	-1.83	Jul10	15	2	5.50 Jan31	-2.56	Oct00	17
		3	2.25 Sep20	-0.36	Aug10	16	3	4.75 Jul34	-2.13	Jan03	20
		4	2.50 Jan21	-0.23	Nov10	19	4	4.00 Jan37 (UB)	-1.60	Jan05	23
		5	4.75 Jul40	0.41	Jul08	16	5	3.25 Jul42	-1.20	Jul10	15
	Cheapest	5	4.25 Jul39	1.96	Jan07	14	5	2.25 Sep20	-1.04	Aug10	16
		4	2.25 Sep21	2.36	Aug11	16	4	2.25 Sep21	-0.99	Aug11	16
		3	4.75 Jul34	2.61	Jan03	20	3	4.75 Jul40	-0.95	Jul08	16
		2	1.75 Jul22 (10y)	2.63	Apr12	5	2	2.50 Jul44 (30y)	-0.83	Apr12	3
		1	4.00 Jan37 (UB)	3.21	Jan05	23	1	1.75 Jul22 (10y)	-0.73	Apr12	5
FRANCE	Richest	1	4.00 Apr60	-2.00	Apr09	8	1	4.00 Apr60	-2.96	Apr09	8
		2	4.50 Apr41 (30y)	-1.12	Apr09	15	2	2.50 Oct20	-2.88	Oct09	30
		3	4.00 Apr55	-1.06	Apr04	15	3	4.00 Apr55	-2.81	Apr04	15
		4	3.50 Apr26	-0.92	Apr10	28	4	3.75 Apr21	-2.77	Apr05	31
		5	3.75 Apr21	-0.45	Apr05	31	5	3.25 Oct21	-2.73	Oct10	6
	Cheapest	5	5.75 Oct32	-0.03	Oct00	23	5	3.00 Apr22 (10y)	-2.64	Feb12	14
		4	3.25 Oct21	0.02	Oct10	6	4	5.75 Oct32	-2.21	Oct00	23
		3	4.25 Oct23	0.74	Oct06	31	3	4.50 Apr41 (30y)	-2.02	Apr09	15
		2	4.00 Oct38	1.29	Oct05	24	2	4.00 Oct38	-1.85	Oct05	24
		1	4.75 Apr35	1.98	Apr03	18	1	4.75 Apr35	-1.78	Apr03	18
ITALY	Richest	1	4.00 Feb37	-1.70	Aug05	25	1	5.50 Sep22 (10y-IK)	1.40	Mar12	8
		2	4.75 Aug23	-1.35	Feb08	21	2	4.00 Feb37	1.55	Aug05	25
		3	4.50 Mar26	-0.81	Sep10	14	3	3.75 Mar21	1.56	Sep10	23
		4	5.50 Sep22 (10y-IK)	-0.75	Mar12	8	4	4.00 Sep20	1.56	Mar10	22
		5	5.00 Sep40 (30y)	-0.69	Sep09	20	5	5.00 Mar22	1.56	Sep11	9
	Cheapest	5	4.75 Sep21	0.71	Mar11	22	5	5.00 Mar25	1.72	Mar09	20
		4	4.00 Sep20	0.80	Mar10	22	4	5.75 Feb33	1.75	Feb02	15
		3	5.00 Aug39	1.67	Aug07	19	3	5.00 Aug34	1.76	Aug03	21
		2	5.75 Feb33	1.94	Feb02	15	2	5.00 Sep40 (30y)	1.76	Sep09	20
		1	5.00 Aug34	2.00	Aug03	21	1	5.00 Aug39	1.77	Aug07	19
N'LANDS	Richest	1	2.50 Jan33	-1.28	Mar12	4	1	2.25 Jul22 (10y)	-1.62	Feb12	9
		2	3.75 Jan42 (30y)	-0.39	May10	10	2	3.75 Jan23	-1.52	Jan06	10
		3	3.75 Jan23	-0.03	Jan06	10	3	3.25 Jul21	-1.52	Mar11	11
	Cheapest	3	2.25 Jul22 (10y)	1.36	Feb12	9	3	2.50 Jan33	-0.97	Mar12	4
		2	3.25 Jul21	1.65	Mar11	11	2	4.00 Jan37	0.44	Apr05	12
		1	4.00 Jan37	1.84	Apr05	12	1	3.75 Jan42 (30y)	0.67	May10	10
SPAIN	Richest	1	4.65 Jul25	-1.20	Feb10	14	1	4.90 Jul40	1.67	Jun07	13
		2	5.90 Jul26	-1.11	Mar11	7	2	4.70 Jul41 (30y)	1.69	Sep09	11
		3	5.85 Jan22 (10y)	-0.74	Nov11	4	3	4.20 Jan37	1.70	Jan05	16
		4	4.90 Jul40	-0.56	Jun07	13	4	5.90 Jul26	1.74	Mar11	7
		5	4.80 Jan24	-0.39	Sep08	15	5	4.65 Jul25	1.74	Feb10	14
	Cheapest	5	4.20 Jan37	-0.27	Jan05	16	5	4.85 Oct20	1.76	Jul10	16
		4	4.70 Jul41 (30y)	0.14	Sep09	11	4	4.80 Jan24	1.76	Sep08	15
		3	5.50 Apr21	0.53	Jan11	20	3	5.75 Jul32	1.76	Jan01	14
		2	4.85 Oct20	0.64	Jul10	16	2	5.50 Apr21	1.77	Jan11	20
		1	5.75 Jul32	1.36	Jan01	14	1	5.85 Jan22 (10y)	1.78	Nov11	4
BELGIUM	Richest	1	4.25 Sep22 (10y)	-1.24	Jan12	8	1	4.25 Sep22 (10y)	-3.01	Jan12	8
		2	4.00 Mar32	-1.12	Mar12	4	2	4.25 Sep21	-2.87	Jan11	8
		3	4.25 Sep21	-0.75	Jan11	8	3	3.75 Sep20	-2.87	Jan10	18
		4	4.00 Mar22	-0.70	May06	14	4	4.00 Mar22	-2.79	May06	14
	Cheapest	4	4.25 Mar41 (30y)	-0.39	Apr10	6	4	4.25 Mar41 (30y)	-2.23	Apr10	6
		3	5.00 Mar35	-0.37	May04	14	3	4.50 Mar26	-2.19	Jun11	4
		2	4.50 Mar26	0.58	Jun11	4	2	5.00 Mar35	-1.85	May04	14
		1	3.75 Sep20	1.27	Jan10	18	1	4.00 Mar32	-1.72	Mar12	4

Source: Citi Research

Current ARTS Trading Signals

David Bieber
+44 207 986 4976
david.bieber@citi.com

The short and long term signals have maintained a small long duration exposure...

... Driven by a stronger momentum component ...

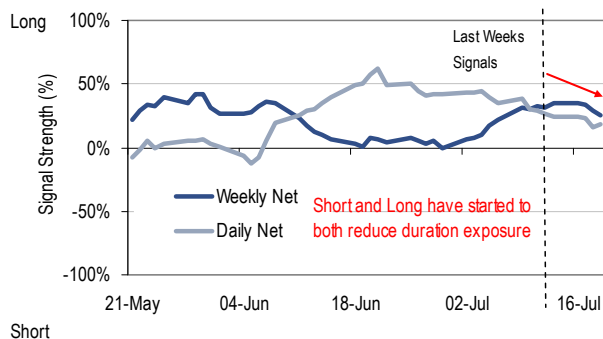
... However risk and fundamentals signals have no clear directional trend...

Signals are mildly long duration but diversified - in Bunds and UST the models maintain duration exposure but in Gilts they are shorting duration in to rallies.

The daily and weekly algorithmic rates trading signals⁹ (D-ARTS / W-ARTS) are long duration by 24% / 18% respectively, mainly driven by supportive momentum dynamics (see Figure 48). However both models have been reducing their duration exposure this week (and taking profits) due to weakening of signals.

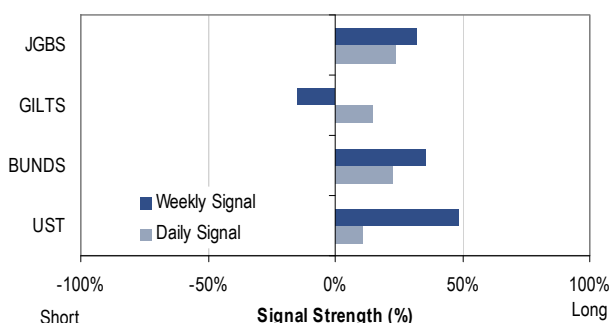
Momentum has reduced in strength due to larger contribution of mean reversion (i.e. value is trumping trend as yield move which reduces the long position). Meanwhile weak fundamentals have become more fairly priced given the recent move to lower yield. This pattern is fairly consistent across models, suggesting that yields will continue to move lower but gains are limited. In Bunds and UST we continue to maintain duration exposure but in Gilts the models are shorting duration into rallies. The most consistent signal this week is a long Bund position at around 1/3 of maximum risk budget (see Figure 49).

Figure 48. Evolution history of the daily / weekly 10y net signal



Source: Citi Research

Figure 49. Breakdown of current daily and weekly net signals

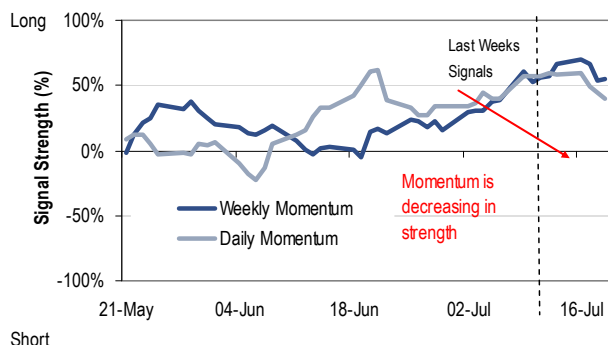


Source: Citi Research

The momentum signals remain supportive broadly cross all assets given the recent rally in yields ...

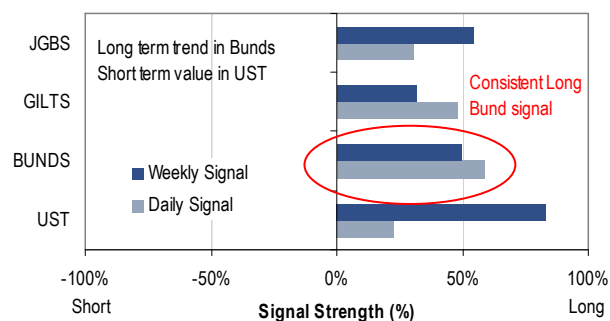
Both long and short term momentum signals have decreased in strength to around 50% of maximum exposure (see Figure 50). This weakening of the signal is being driven by the move to lower yields which results in a larger component of mean reversion (i.e. the recent richening of yields suggests there is a larger probability that yields will correct higher). This pattern is fairly consistent across assets and the most consistent short / long term signal is a long Bund position (see Figure 51).

Figure 50. Evolution history of the daily / weekly 10y momentum signal



Source: Citi Research, Bloomberg

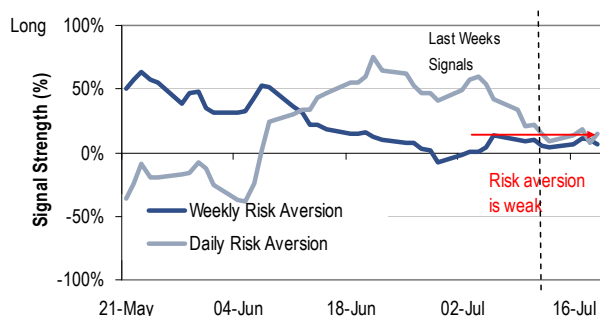
Figure 51. Breakdown of current daily and weekly momentum signals



Source: Citi Research, Bloomberg

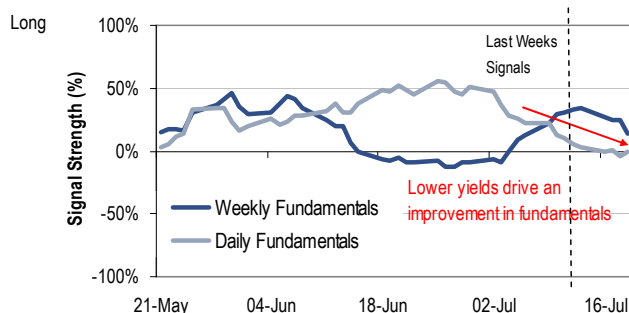
⁹ The current signals are calibrated as of market close 5th July 2012.

Figure 52. Evolution history of the daily / weekly 10y risk aversion signal



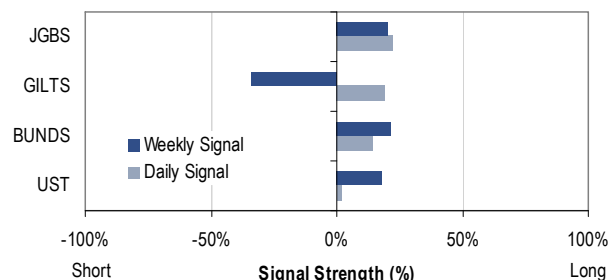
Short
Source: Citi Research

Figure 54. Evolution history of the daily / weekly 10y fundamental signal



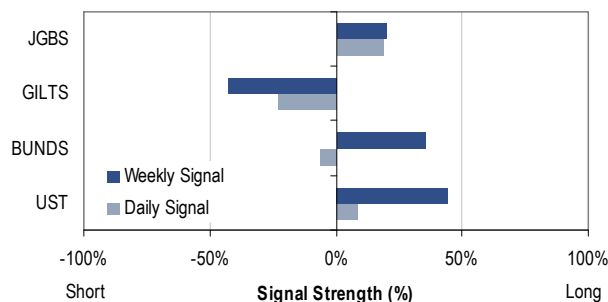
Short
Source: Citi Research, Bloomberg

Figure 53. Breakdown of current daily and weekly risk aversion signals



Source: Citi Research, Bloomberg

Figure 55. Breakdown of current daily and weekly fundamental signals



Source: Citi Research, Bloomberg

... Meanwhile risk aversion has no clear directional bias due to a breakdown in risk asset and rate correlations ...

... And fundamentals have improved due to bonds becoming more fairly priced given the recent move lower in yields.

The signals suggest should maintain duration in Bund and UST but short duration into rallies in Gilts.

Meanwhile, risk aversion remains subdued with no clear trend in either the short or long term signals (see Figure 52 and Figure 53). This weak signal is being driven by the current volatile and unstable relationship between risk asset and rates. The outlier this week in a short Gild position – this is a result of Gilts having a stronger mean reversion component (relative to other assets). As Gilts rally relative to UK equities the models calculate a higher probability of a correction to higher yields.

Finally, the models find that short and long term fundamentals signals have moved to more neutral position. This is a result of fundamentals become more fairly priced in response to lower yields (see Figure 54 and Figure 55). However there is significant dispersion between assets – in Gilts there is a consistent message in both short and long term signals of stronger fundamentals. In contrast, fundamentals remain weak in Bunds and UST in the longer term.

In summary, the long duration position in D-ARTS is being driven by supportive momentum while other signals remain weak. There remain a consistent (but weak message) of a trend to lower yields in both UST and Bunds. However in Gilts positioning is more mixed - the signals suggest that yields will correct higher in the longer term. Hence the models are maintaining a small long duration position in UST and Bunds while shorting Gilts into rallies.

Global Supply Monitor

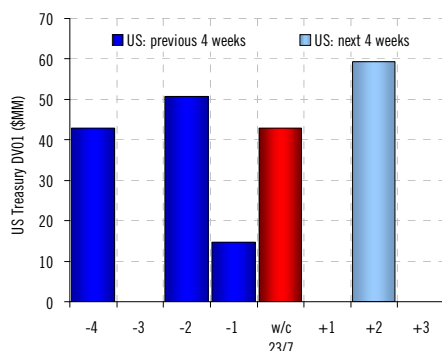
Nishay Patel
+44-20-7986-1007
nishay.patel@citi.com

Mohit Aggarwal
+91-22-4277-5022
mohit1.aggarwal@citi.com

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

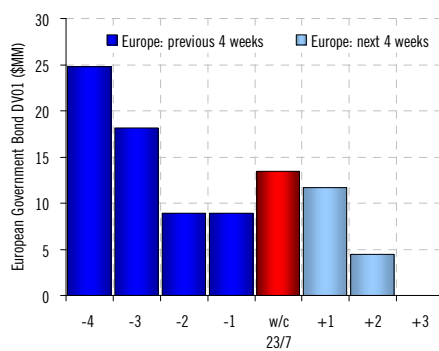
Figure 56 to Figure 58 show the \$DV01 of projected issuance over the next four weeks and the previous four weeks. The DV01 of issuance in the week commencing 23 July is shown in red.

Figure 56. Estimated \$DV01 of US Treasury Issuance (Previous 4 and Next 4 Weeks)



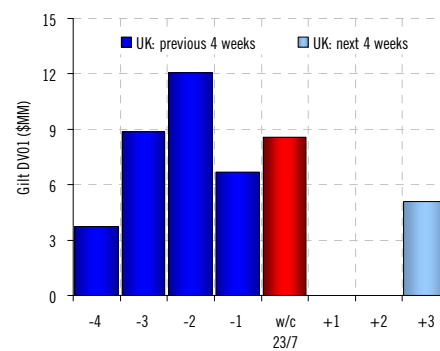
Source: US Treasury, Citi estimates

Figure 57. Estimated \$DV01 of Euro Bond Issuance (Previous 4 and Next 4 Weeks)



Source: DMOs, Citi estimates

Figure 58. Estimated \$DV01 of UK Gilt Issuance (Previous 4 and Next 4 Weeks)



Source: DMO, Citi estimates

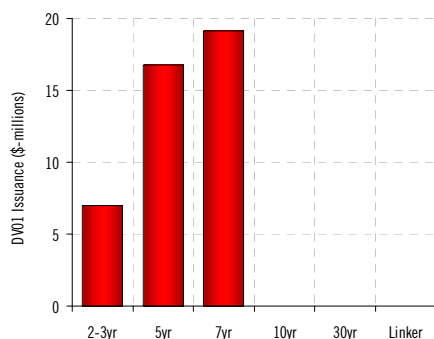
DV01 of expected USD, EUR and GBP issuance split by maturity (week beginning 23 July)

US Treasury supply falls in the 2-, 5- and 7-year sector next week for approximately \$43million/bp (Figure 59).

The DV01 of euro issuance is large (around €11million/bp). Approximately 66% of total issuance (in DV01 terms) is expected to come in the 30-year sector (Figure 60).

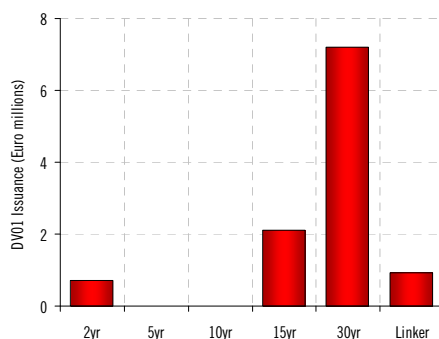
Next week's gilt issuance comes in the form of a linker syndication (linker' 44) at around £5.5million/bp (Figure 61).

Figure 59. USD DV01: Split by Maturity (23 July– 27 July)



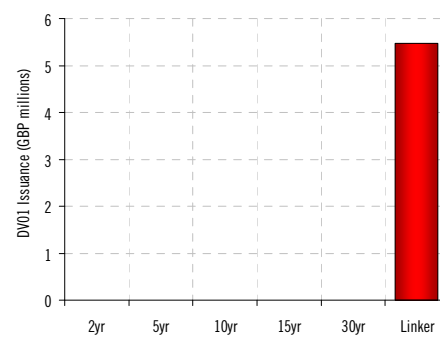
Source: US Treasury, Citi estimates

Figure 60. EUR DV01: Split by Maturity (23 July– 27 July)



Source: DMOs, Citi estimates

Figure 61. GBP DV01 Split by Maturity (23 July – 27 July)

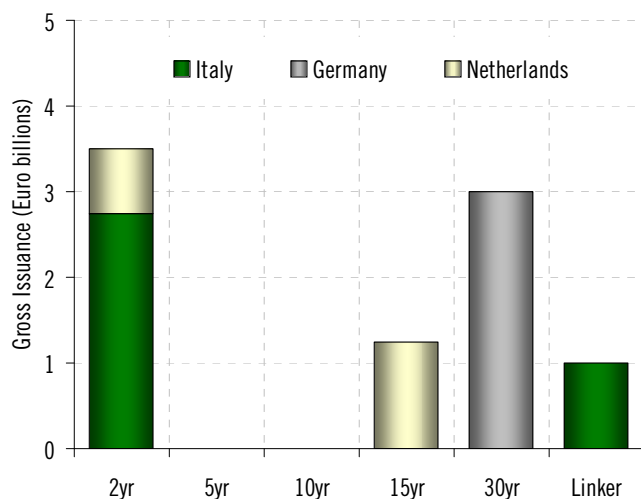


Source: DMO, Citi estimates

Expected euro gross and DV01 split by country and maturity (week beginning 23 July)

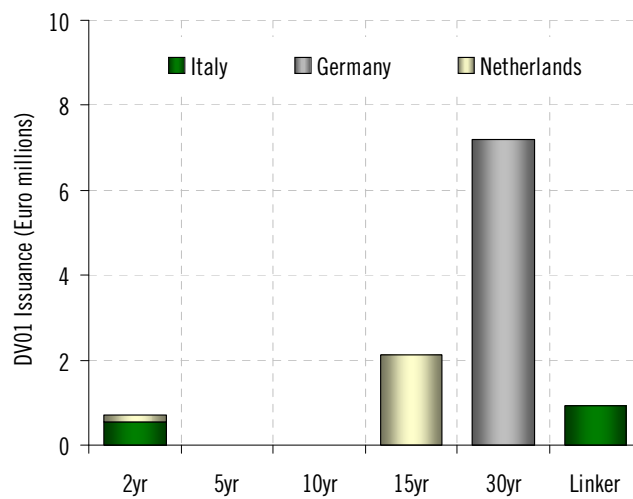
In Europe, issuance comes from the Netherlands (€1.5-2.5bn), Germany (€3bn), and Italy (estimated €3.8bn) - Figure 62. In DV01 terms, approximately two-third of total issuance is expected to come from Germany (Figure 63).

Figure 62. Euro Gross Issuance next week



Source: DMOs, Citi estimates, Bloomberg

Figure 63. Euro DV01 Issuance next week



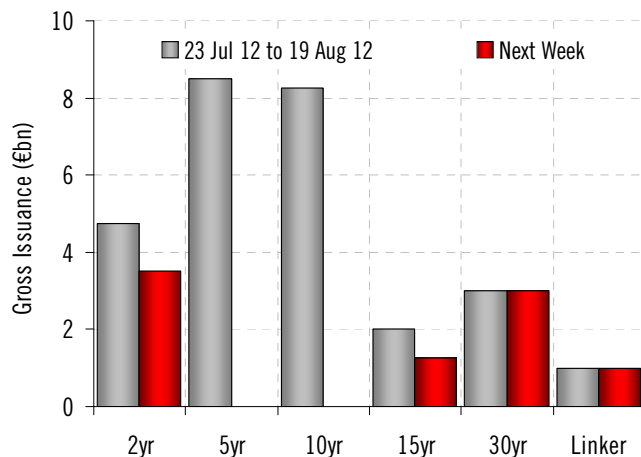
Source: DMOs, Citi estimates, Bloomberg

Expected euro issuance (gross and DV01) by maturity for the next four-weeks (23 July – 19 Aug)

Over the next four weeks, 61% of total issuance comes from the 5- and 10-year sectors (Figure 64).

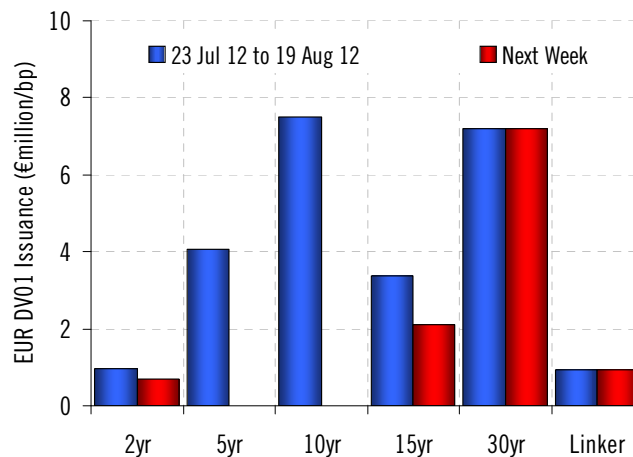
In DV01 terms, the 30yr sector accounts for 30% of the total issuance at around €7million/bp - all of which falls in the coming week (Figure 65).

Figure 64. Euro Gross Issuance over the Next Four Weeks



Source: DMOs, CITI estimates, Bloomberg

Figure 65. Euro DV01 Issuance over the Next Four Weeks



Source: DMOs, CITI estimates, Bloomberg

US coupons for the next four weeks – maturity split

US Treasury coupon payments are light until the week commencing 13 August which sees \$22bn of coupon payments across all the sectors (Figure 66).

Figure 66. Maturity Split of UST Coupon Payments over the Next Four Weeks (USD-Billions)*

Week Commencing	2-3yr	5yr	7yr	10yr	30yr	Linker	Total
23 Jul							
30 Jul	2.4	2.0	0.5				4.9
06 Aug							
13 Aug	4.3	2.6	2.3	6.2	6.4	0.5	22.3
Total	6.7	4.6	2.8	6.2	6.4	0.5	27.2

Source: Citi Research, Bloomberg

*This table is on a trade-date basis

Euro coupons for the next four weeks – maturity split

There will be sizeable coupon payments and redemptions next week from Italy (€9.3bn) and Spain (€7.7bn of coupons and €13bn redemption) - Figure 67 and Figure 69.

Figure 67. Maturity Split of Euro Coupon Payments over the Next Four Weeks (EUR-Billions)*

Week Commencing	2yr	5yr	10yr	15yr	30yr	Linker	Total
23 Jul	4.0	5.2	2.8	1.1	3.9		17.0
30 Jul							
06 Aug							
13 Aug							
Total	4.0	5.2	2.8	1.1	3.9		17.0

Source: Citi Research, Bloomberg

*This table is on a trade-date basis

UK coupons for the next four weeks – maturity split

There are minimal gilt coupon payments over the next four weeks (Figure 68).

Figure 68. Maturity Split of Gilt Coupon Payments over the Next Four Weeks (GBP-Billions)*

Week Commencing	2yr	5yr	10yr	15yr	30yr	Linker	Total
23 Jul						0.4	0.4
30 Jul							
06 Aug							
13 Aug						0.3	0.3
Total						0.7	0.7

Source: Citi Research, Bloomberg

*This table is on a trade-date basis

Euro coupons and redemptions split by maturity and country

Figure 69 below shows a weekly breakdown of euro coupons and redemptions, split by sector and country for the next four weeks.

Figure 69. Euro Coupons and Redemptions by Maturity and Country for the Next 4 weeks (EUR Billions)

WEEK 1	Week Beginning 23 Jul (Mon)		Coupons	Redemptions	WEEK 2	Week Beginning 30 Jul (Mon)		Coupons	Redemptions
		Austria					Austria		
		Belgium					Belgium		
		Germany					Germany		
		Finland					Finland		
	Coupons	France				Coupons	France		
2yr	4.0	Greece			2yr		Greece		
5yr	5.2	Ireland			5yr		Ireland		
10yr	2.8	Italy	9.3		10yr		Italy		
15yr	1.1	Netherlands			15yr		Netherlands		
30yr	3.9	Portugal			30yr		Portugal		
Linker		Spain	7.7	12.9	Linker		Spain		
	17.0		17.0	12.9		0.0		0.0	0.0
WEEK 3	Week Beginning 06 Aug (Mon)		Coupons	Redemptions	WEEK 4	Week Beginning 13 Aug (Mon)		Coupons	Redemptions
		Austria					Austria		
		Belgium					Belgium		
		Germany					Germany		
		Finland					Finland		
	Coupons	France				Coupons	France		
2yr		Greece			2yr		Greece		
5yr		Ireland			5yr		Ireland		
10yr		Italy			10yr		Italy		
15yr		Netherlands			15yr		Netherlands		
30yr		Portugal			30yr		Portugal		
Linker		Spain			Linker		Spain		
	0.0		0.0	0.0		0.0		0.0	0.0

Source: Citi Research, Bloomberg

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

Provisional auction calendar for the next four weeks

Figure 70. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYM2 (UST) G M2 (Gilt) RXM2 (Bund)
23 Jul (Mon)	US	4.25 - 5	Outright Treasury Coupon Purchases : 31/7/2018 - 15/5/2020		-37k
23 Jul (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
24 Jul (Tue)	Netherlands	2.0	DSL Jul14 and Jan28 (issue confirmed, size €1.5-2.5bn)		20k
24 Jul (Tue)	UK	3.8	New 01/8% Index-linked Gilt 2044 syndication (week commencing 23 July, estimated size)		57k
24 Jul (Tue)	US	35.0	2-Year		83k
24 Jul (Tue)	US	1.5 - 2	Outright Treasury Coupon Purchases : 15/2/2036 - 15/5/2042		-49k
24 Jul (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
25 Jul (Wed)	Germany	3.0	Bund 2.5% Jul44 reopening (issue and size confirmed)		62k
25 Jul (Wed)	US	35.0	5-Year		199k
25 Jul (Wed)	US	4.5 - 5.5	Outright Treasury Coupon Purchases : 15/8/2020 - 15/5/2022		-50k
25 Jul (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
26 Jul (Thu)	Italy	2.8	CTZ (estimated size)		5k
26 Jul (Thu)	Italy	1.0	BTPEi (estimated size)		8k
26 Jul (Thu)	US	29.0	7-Year		227k
26 Jul (Thu)	US	1.5 - 2	Outright Treasury Coupon Purchases : 15/2/2036 - 15/5/2042		-49k
27 Jul (Fri)	US	7 - 8	Outright Treasury Coupon Sales : 15/5/2015 - 30/9/2015		22k
Weekly \$DV01 of Issuance				46.1	
Total Number of Futures Contracts					346k 23k 94k

Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYM2 (UST) G M2 (Gilt) RXM2 (Bund)
30 Jul (Mon)	Italy	6.0	BTP 5yr and 10yr (estimated tenors and size)		38k
30 Jul (Mon)	Belgium	2.0	OLO 5yr, 10yr and 15yr (estimated tenors and size)		19k
30 Jul (Mon)	US	1.5 - 2	Outright Treasury Coupon Purchases : 15/2/2036 - 15/5/2042		-49k
30 Jul (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
31 Jul (Tue)	US	4.25 - 5	Outright Treasury Coupon Purchases : 31/7/2018 - 15/5/2020		-37k
31 Jul (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
01 Aug (Wed)	Germany	4.0	Bobl-163 0.5% Apr17 reopening (issue and size confirmed)		17k
01 Aug (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
02 Aug (Thu)	Spain	2.8	Bono 2yr and 5yr (estimated tenors and size)		8k
Weekly \$DV01 of Issuance				-0.7	
Total Number of Futures Contracts					-86k -33k 82k

Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYM2 (UST) G M2 (Gilt) RXM2 (Bund)
06 Aug (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
07 Aug (Tue)	US	32.0	3-Year		76k
07 Aug (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
08 Aug (Wed)	Germany	4.0	Bund 1.75% Apr22 reopening (issue and size confirmed)		31k
08 Aug (Wed)	US	24.0	10-Year		254k
08 Aug (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
09 Aug (Thu)	US	16.0	30-Year		374k
Weekly \$DV01 of Issuance				58.7	
Total Number of Futures Contracts					704k -33k 31k

Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYM2 (UST) G M2 (Gilt) RXM2 (Bund)
13 Aug (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
14 Aug (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
15 Aug (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
16 Aug (Thu)	UK	1.6	4½% Treasury Gilt 2034 (issue confirmed, estimated size)		34k
Weekly \$DV01 of Issuance				0.1	
Total Number of Futures Contracts					0k 0k 0k

The next release of the approximate purchase and sale amounts and tentative Outright operation schedule will be at 1400 (NY Time) on 31 July 2012
Source: DMOs, Citi 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

There is a large amount of issuance settling in week 2 which results in a positive NCR (\$56bn) as \$114bn of gross supply easily outweighs \$58bn of coupon payments and redemptions (Figure 71).

Figure 71. 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 Buybacks	A - B - C - D NCR
23 Jul					5.6	-5.6
30 Jul	114.0	4.9	109.1	52.7		56.4
06 Aug						
13 Aug	72.0	22.3	49.7	51.6		-1.9
Total	186.0	27.2	158.8	104.3	5.6	48.9
Average	46.5	6.8	39.7	26.1	1.4	12.2
YTD Average	42.8	2.9	39.9	24.1	-0.1	15.9

Source: US Treasury, Citi estimates, Bloomberg

Euro cash-flow profile over the next four weeks

There are large coupon payments (€17bn) and redemptions (€13) from Italy and Spain settling in week 2 which results in a negative (-€15bn) NCR during the week (Figure 72).

Figure 72. 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
23 Jul	20.0	3.9	16.1	13.2	2.9
30 Jul	14.8	17.0	-2.3	12.9	-15.1
06 Aug	6.8		6.8		6.8
13 Aug	4.0		4.0		4.0
Total	45.5	20.9	24.6	26.1	-1.5
Average	11.4	5.2	6.1	6.5	-0.4
YTD Average	17.1	4.2	12.9	11.6	1.3

Source: DMOs, Citi estimates, Bloomberg

UK cash-flow profile over the next four weeks

The NCR is strongly negative (-£9bn) over the next four weeks as £5.4bn of gross supply is easily offset by £2.5bn of coupon payments/redemptions and £12bn of APF buybacks (Figure 73).

Figure 73. 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	D Buybacks	A - B - C - D NCR
23 Jul	3.8	2.1	1.7		3.0	-1.3
30 Jul					3.0	-3.0
06 Aug				0.2	3.0	-3.2
13 Aug	1.6	0.3	1.4		3.0	-1.6
Total	5.4	2.3	3.1	0.2	12.0	-9.1
Average	1.4	0.6	0.8	0.0	3.0	-2.3
YTD Average	3.4	0.8	2.6	1.8	2.8	-2.0

Source: DMO, Citi estimates, Bloomberg

JGB settlement cash-flow profile over the next four weeks

Figure 74 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 strongly positive over the next four weeks (¥7trillion). By comparison the YTD average of the NCR is only ¥0.4trillion.

Figure 74. 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
23 Jul	2.5		2.5		2.5
30 Jul	1.5		1.5		1.5
06 Aug	5.0		5.0		5.0
13 Aug	0.7		0.7	2.8	-2.1
Total	9.7	0.0	9.7	2.8	6.9
Average	2.4		2.4	0.7	1.7
YTD Average	2.3	0.2	2.1	1.7	0.4

Source: Citi 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.

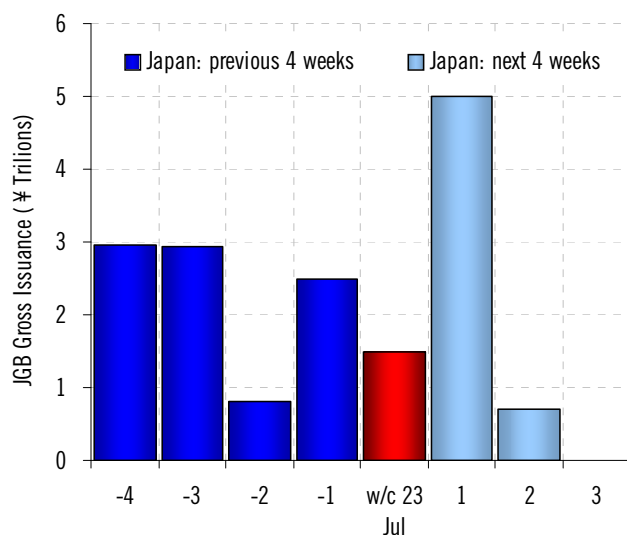
Trade date basis: In Europe if the coupon payment falls on Monday 5th March, for example, it would be allocated to the previous week (the week commencing 27 February) as that would be when you would trade to use the money you know is coming in on Monday 5th March. In other words, you don't wait for the 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 71, Figure 72, Figure 73 and Figure 74) 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 7 February the money would leave your account during the w/c 15 February. In addition, TIPS often settle during a different week from conventional supply.

Historical and projected DV01 of JGB issuance (weekly)

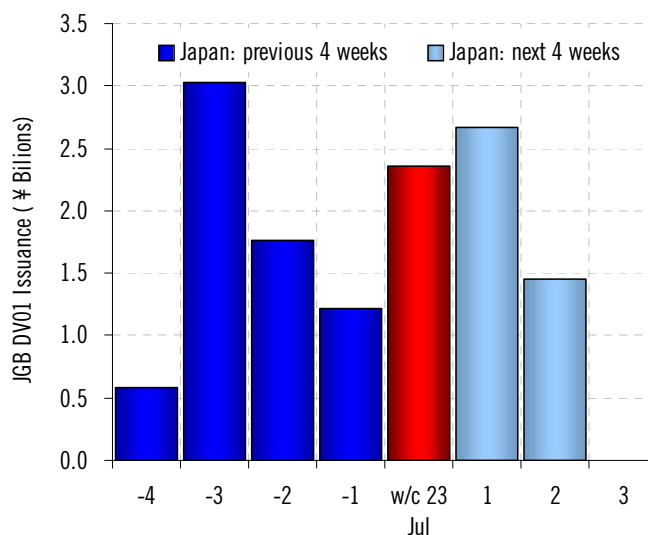
Figure 75 and Figure 76 show projected JGB gross and ¥DV01 of issuance over the next four weeks and the previous four weeks. There will be a 20-year JGB issuance and an *Auction for Enhanced Liquidity* (10-20 years) next week for a total of ¥1.5trillion (Figure 75). In DV01 terms, this is equivalent to around ¥2.4billion/bp (Figure 76).

Figure 75. Estimated Gross JGB Issuance (Previous 4 and Next 4 weeks)



Source: Citi estimates, BoJ, MoF

Figure 76. Estimated ¥DV01 of JGB Issuance (Previous 4 and Next 4 weeks)



Source: Citi estimates, BoJ, MoF

JGB coupons for the next four weeks – maturity split

There are minimal coupon payments over the next four weeks (Figure 77).

Figure 77. Maturity Split of JGB Coupon Payments over the Next Four weeks (JPY-Billions)*

Week commencing	2yr	5yr	10yr	20yr	30yr	TOTAL
23 Jul						
30 Jul						
06 Aug	7					7
13 Aug			5	4		8
Total	7		5	4		15

Source: Citi estimates, Bloomberg

*This table is on a trade-date basis

JGB auction calendar for the next four weeks

Figure 78 shows our JGB issuance expectations for the next four weeks and weekly \$DV01.

Figure 78. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (JPY Millions).

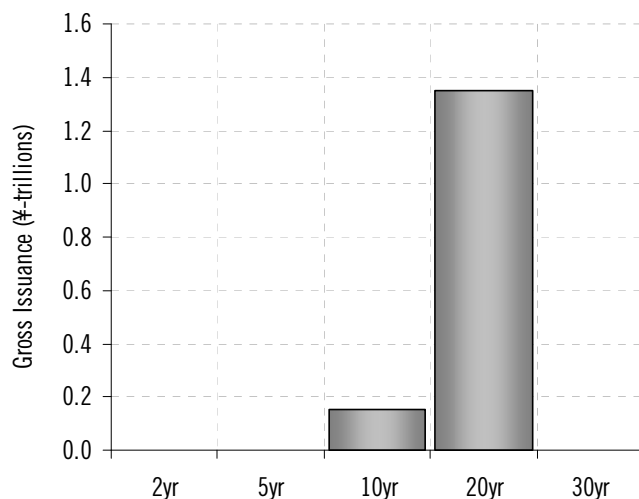
Auction Date	Country Issuing	Estimated Size (Local Ccy)	Issue Details (Estimated)	Weekly DV01	
				¥ millions	\$ millions
24 Jul (Tue)	JPY	300	AEL (10-20 years)	386	5
26 Jul (Thu)	JPY	1200	20year	1968	25
Weekly DV01 of Issuance				¥2354	\$30
31 Jul (Tue)	JPY	2700	2year	535	7
02 Aug (Thu)	JPY	2300	10year	2139	27
Weekly DV01 of Issuance				¥2674	\$34
07 Aug (Tue)	JPY	400	40year	880	11
10 Aug (Fri)	JPY	300	AEL (20-30 years)	576	7
Weekly DV01 of Issuance				¥1456	\$18

Source: Citi estimates, BoJ, MoF

Expected JGB gross and DV01 issuance by maturity (week beginning 23 July)

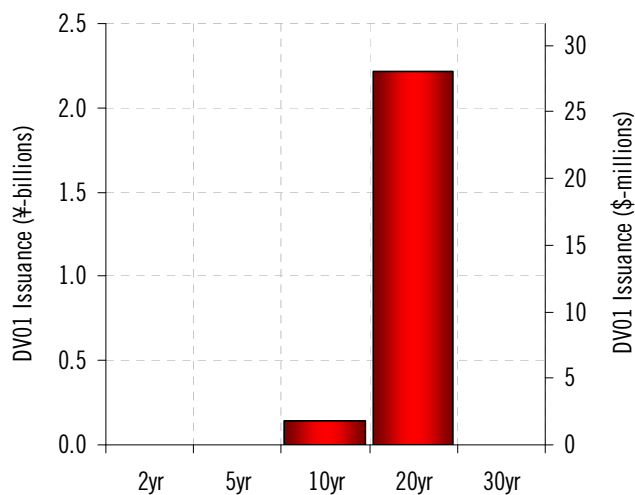
Figure 79 and Figure 80 show a split of next week's JGB issuance by maturity.

Figure 79. JGB Gross Split by Maturity (Week Beginning 23 July)



Source: Citi Research, Bloomberg

Figure 80. JGB DV01 Split by Maturity (Week Beginning 23 July)



Source: Citi Research, Bloomberg

Figure 81. UK, US and EMU-11 Gross Supply – Citi forecasts

2012 Cashflow Tables

Gross Supply (\$bn nominal)									A	B	C	D = A - B - C	E	F = D - E
US	2yr	3yr	5yr	7yr	10yr	30yr	TIPS	Gross Supply	Coupons	C Fed Purchases	Net Supply	Redemptions	NCR	
Jan-12	35	32	35	29	21	13	15	180	12	-4	172	93	79	
Feb-12	35	32	35	29	24	16	9	180	25	2	153	110	43	
Mar-12	35	32	35	29	21	13	13	178	8	-1	170	90	81	
Apr-12	35	32	35	29	21	13	16	181	5		176	103	73	
May-12	35	32	35	29	24	16	13	184	27		157	96	61	
Jun-12	35	32	35	29	21	13	7	172	4		168	87	82	
Jul-12	35	32	35	29	21	13	15	180	13	0	167	115	53	
Aug-12	35	32	35	29	24	16	14	185	26		159	101	58	
Sep-12	35	32	35	29	21	13	13	178	3		175	88	87	
Oct-12	35	32	35	29	21	13	8	173	9		164	91	74	
Nov-12	35	32	35	29	24	16	13	184	22		162	110	52	
Dec-12	35	32	35	29	21	13	14	179	7		172	90	82	
Total	420	384	420	348	264	168	150	2154	161	-3	1996	1172	824	

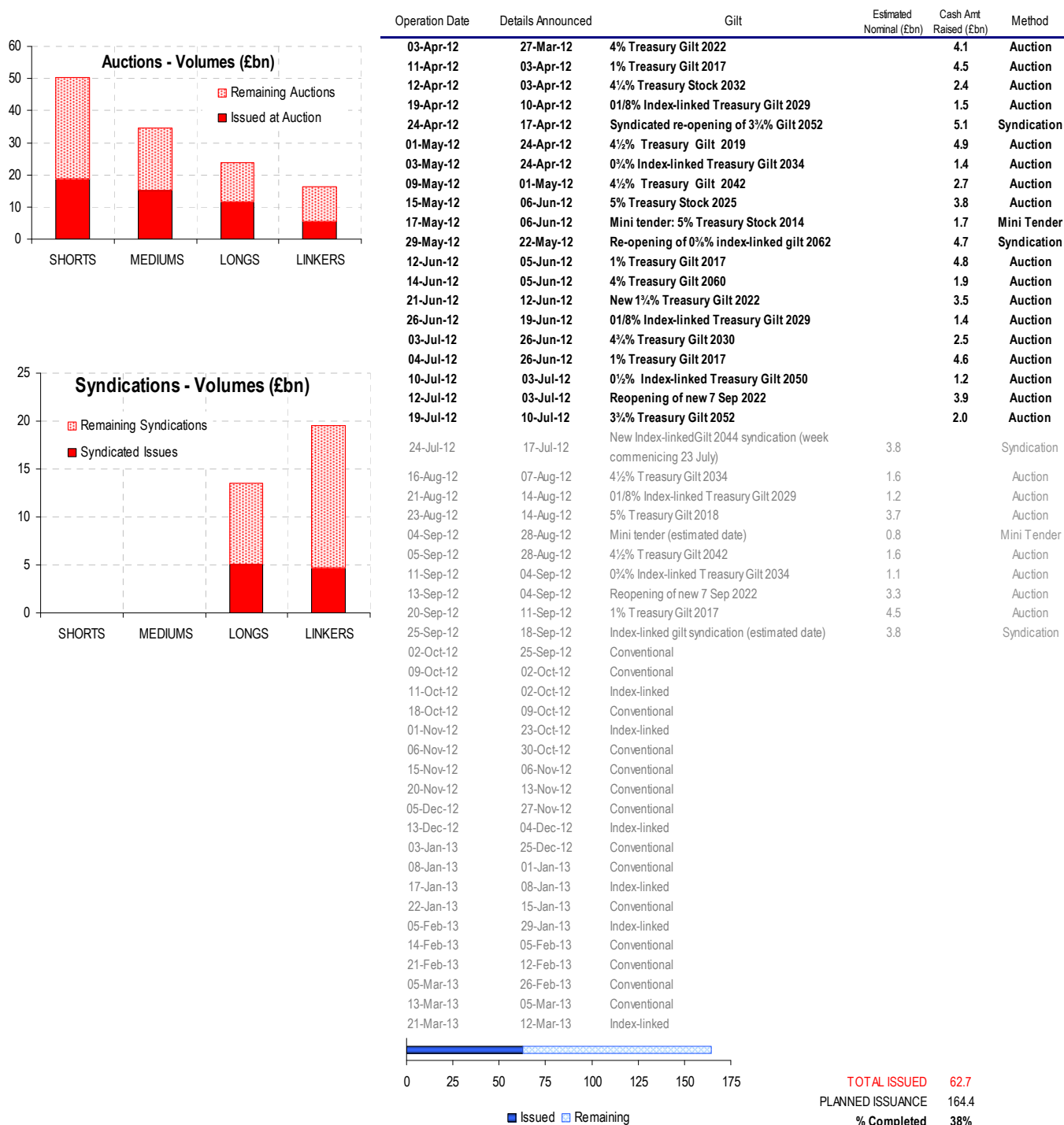
(for fixed rate government bonds and index-linked notes)

Gross Supply			Gross Supply (€bn)			Tickers used in our supply estimates
	2012	2013		2012	2013	
EMU-11 (€bn)	780	691	Germany	184	166	Schatz, Bobl, Bund, Bundeig, Boblei
- excluding GRC, IRE and PRT			France	192	179	OAT,BTAN,BTANI,OATi,OATei
			Italy	195	139	BTP, BTPei, CCT, CTZ
Gross Supply	2012	2013	Spain	85	101	SPGB
US (\$bn)	2154	2035	Netherlands	60	44	DSL
			Belgium	32	38	OLO
Gross Supply *	11/12	12/13	Austria	23	15	RAGB
UK (€bn)	179	164	Finland	11	8	RFGB
*UK supply forecasts on financial year basis (cash amt)			Total	780	691	

**UK supply forecasts on financial year basis (cash amt)*

Source: DMOs, Citi estimates, Bloomberg

Figure 82. UK Gilt Remit and Progress for FY2012/13



Source: Citi Research

Figure 83. 2012 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	22.3	26.9	26.8	3.1	10.5	2.3	92	28	64	54	10
Feb	19.7	25.1	34.9		1.6	3.3	85	12	72	38	35
Mar	24.5	17.8	15.6	2.3	8.2	4.6	73	16	57	56	1
Apr	19.6	16.8	17.3	1.7	5.4	3.6	64	29	35	75	-40
May	22.0	21.1	19.3	3.5		3.6	69	5	65		65
Jun	18.4	20.8	19.1	2.7	6.3	3.1	70	5	65	29	36
Jul	20.3	24.2	24.3	2.0	3.0	4.3	78	38	40	112	-72
Aug	8.8	7.5	5.8				22	9	13	12	1
Sep	13.8	23.1	26.0	1.0	5.5	2.5	72	16	56	56	
Oct	17.8	23.3	15.3	3.5	3.0	2.5	65	26	39	69	-31
Nov	13.8	24.5	17.3	1.0		3.5	60	5	55	13	42
Dec	10.3	8.0	10.0	1.5			30	3	27	59	-32
Total	211	239	232	22	43	33	780	193	588	573	15

GERMANY	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.0	4.0	5.0		3.0		16	13	3	25	-22
Feb	5.0	4.0	9.0				18	1	17		17
Mar	5.0	4.0				2.0	11		11	19	-8
Apr	5.0	4.0	5.0		3.0		17	3	14	16	-2
May	5.0	5.0	5.0			1.5	17		17		17
Jun	5.0	5.0	5.0			1.0	16	1	15	19	-4
Jul	5.0	4.0	5.0		3.0	2.0	19	13	6	27	-21
Aug	5.0	4.0	4.0				13		13		13
Sep	5.0	5.0	10.0				20	1	19	18	1
Oct	5.0	4.0	4.0		2.0		15	2	13	16	-3
Nov	5.0	7.0	4.0			2.0	18		18		18
Dec	4.0						4		4	17	-13
Total	58.0	50.0	56.0		11.0	8.5	184	35	149	157	-8

FRANCE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.9	4.3	4.8		3.6	1.7	19	3	17	15	2
Feb	3.4	6.7	8.5			1.8	20	1	20		20
Mar	4.0	5.5	6.1	2.3		1.6	20		20		20
Apr	5.3	4.0	4.7	1.7	1.2	2.5	19	17	3	20	-17
May	4.1	6.6	5.9	1.9		1.4	20		20		20
Jun	4.3	7.5	3.5	2.0	0.7	1.4	19		19		19
Jul	1.8	7.1	9.4			1.3	20	7	12	29	-17
Aug											
Sep	3.0	6.4	4.5		1.5	1.5	17		16	12	4
Oct	4.0	6.0	4.5			1.5	16	15	1	20	-19
Nov	2.5	6.5	2.5	1.0		1.5	14		14		14
Dec		2.5	3.0	1.5			7		7	5	1
Total	37.3	63.1	57.4	10.3	7.0	16.2	191	43	148	102	47

ITALY	CTZ/3yr	5yr/CCT	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	9.4	6.4	3.5			0.6	20	1	19		19
Feb	7.6	4.9	4.7			1.5	19	10	9	36	-28
Mar	8.7	4.8	4.4			1.0	19	7	11	27	-16
Apr	5.9	3.6	5.1			1.0	16	2	14	27	-14
May	7.0	4.4	3.9	0.6		0.8	17	5	12		12
Jun	6.4	2.9	5.9			0.6	16	2	14		14
Jul	7.2	4.5	4.9			1.0	18	1	17	17	-1
Aug	2.5	2.0	1.8				6	9	-3	12	-15
Sep	5.3	6.8	6.0	1.0		1.0	20	7	13	10	2
Oct	5.5	4.8	4.5	1.5		1.0	17	2	15	18	-3
Nov	5.0	6.8	3.8				16	5	11	13	-3
Dec	4.0	4.8	3.8				13	2	10	31	-20
Total	74.5	56.4	52.1	3.1		8.5	195	53	141	192	-51

Source: DMOs, Citi estimates, Bloomberg

Figure 84. 2012 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		11.5	5.3				17	7	10		10
Feb	3.6	4.6	5.3				14		13	1	12
Mar	4.0	3.5					8		8		8
Apr	2.2	1.0	1.9				5	4	1	12	-11
May	2.6	2.9					5		5		5
Jun	2.6	1.6	0.6				5		5		5
Jul	2.6	2.1	1.3				6	8	-2	13	-15
Aug	1.3	1.5					3		3		3
Sep		3.5	2.0		1.0		7		7		7
Oct	2.5	2.3	2.3		1.0		8	4	4	15	-11
Nov		2.3	2.3				5		5		5
Dec	2.3		2.3				5		5		5
Total	23.7	36.6	23.2		2.0		86	22	63	41	22

NETHERLANDS	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	4.1				1.5		6	4	2	14	-13
Feb		4.0	6.0				10		10		10
Mar	2.8				4.2		7		7		7
Apr	1.1	3.5			1.1		6		6		6
May	3.3		2.9				6		6		6
Jun			2.2		1.7		4		4		4
Jul	3.7	6.0		1.3			11	6	5	15	-10
Aug											
Sep			1.8		1.8		4		4		4
Oct	0.8	1.5		1.3			4		4		4
Nov	1.3		2.3				4		4		4
Dec											
Total	17.0	14.9	15.1	2.5	10.2		60	10	50	30	20

BELGIUM	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan			4.5				5		5		5
Feb		1.0	1.4		1.6		4		4		4
Mar			4.0		4.0		8	7	1	4	-2
Apr											
May		0.5	1.0	1.0			3		3		3
Jun		0.8	1.3	0.7			3		3		3
Jul		0.5	0.8	0.8			2		2		2
Aug											
Sep	0.5		1.3		0.5		2	5	-2	9	-12
Oct		4.0					4		4		4
Nov		0.5	0.8				1		1		1
Dec										6	-6
Total	0.5	7.4	14.9	2.7	6.4		32	12	20	19	1

GREECE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar											
Apr											
May											
Jun											
Jul											
Aug											
Sep											
Oct											
Nov											
Dec											
Total								0	0	0	-0

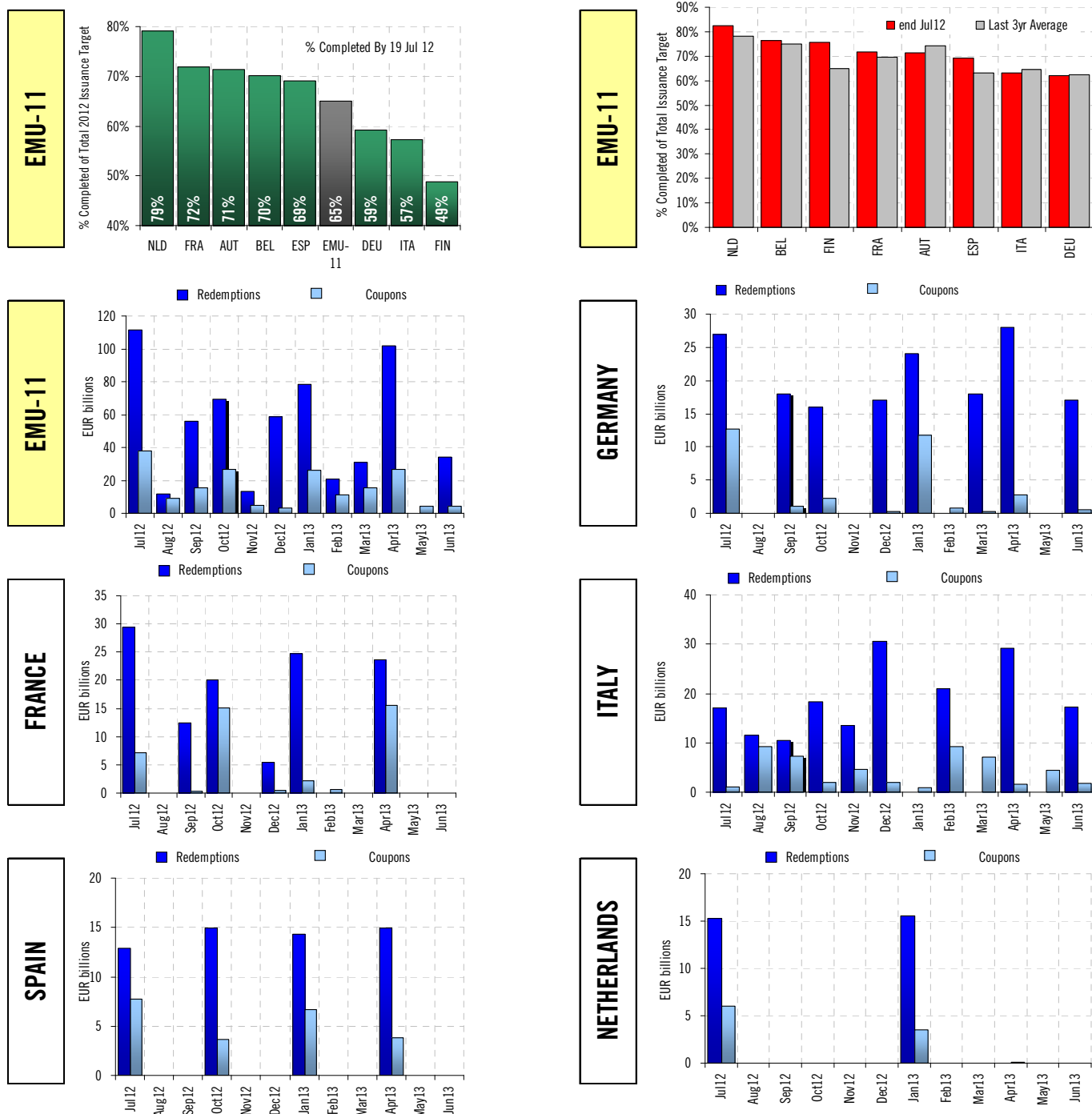
Source: DMOs, Citi estimates, Bloomberg

Figure 85. 2012 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		0.7	3.7		2.0		6	1	6		6
Feb											
Mar			1.1				1	1			
Apr		0.7	0.6				1		1		1
May		0.7	0.6				1		1		1
Jun		3.0	0.7		2.4		6		6		6
Jul								2	-2	10	-13
Aug											
Sep		0.8			0.8		2	1			
Oct		0.8		0.8			2	1	1		1
Nov		0.8	1.0				2		2		2
Dec		0.8	1.0				2		2		2
Total		8.1	8.7	0.8	5.2		23	7	16	10	5
FINLAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan				3.0			3		3		3
Feb											
Mar											
Apr								1	-1		-1
May		1.0					1		1		1
Jun					1.5		2		2		2
Jul			3.0				3	1	2		2
Aug											
Sep		0.8	0.5				1	1	1	6	-5
Oct											
Nov		0.8	0.8				2		2		2
Dec											
Total		2.5	4.3	3.0	1.5		11	2	9	6	3
PORTUGAL	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar											
Apr								1	-1		-1
May											
Jun								2	-2	10	-12
Jul											
Aug											
Sep								1	-1		-1
Oct								1	-1		-1
Nov											
Dec											
Total								5	-5	10	-15
IRELAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan											
Feb											
Mar								1	-1	6	-6
Apr								1	-1		-1
May											
Jun											
Jul											
Aug											
Sep											
Oct								1	-1		-1
Nov											
Dec											
Total								4	-4	6	-10

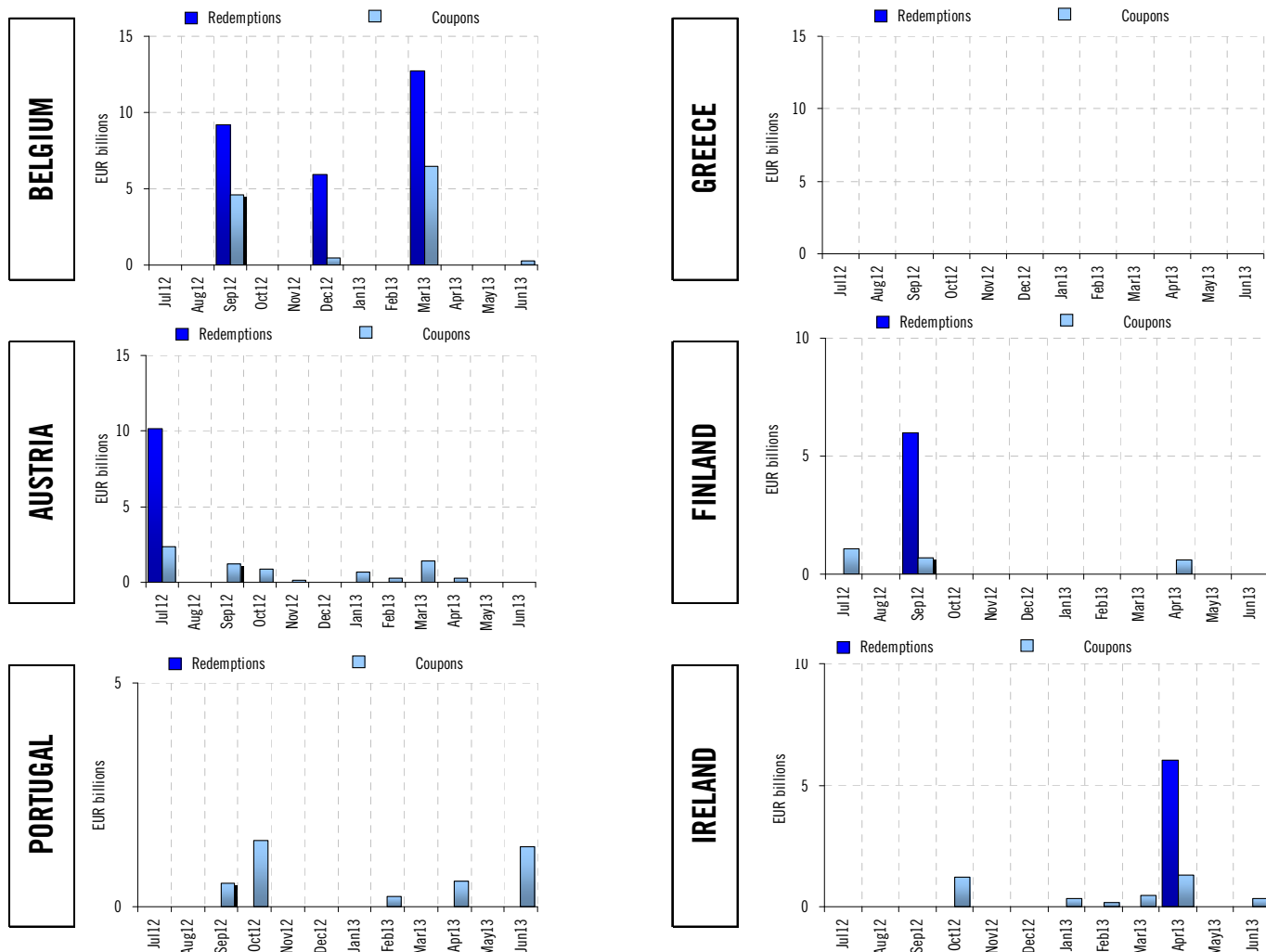
Source: DMOs, Citi estimates, Bloomberg

Figure 86. 2012 EMU Issuance Progress and Cash flow profile – Citi Forecasts (Euro in Billions)



Source: DMOs, Citi estimates, Bloomberg

Figure 87. 2012 EMU Issuance Progress and Cash flow profile – Citi Forecasts (Euro in Billions)



Size of bond market (fixed rate bonds and linkers)	Sector					
	2yr	5yr	10yr	15yr	30yr	Total
Germany	383	277	161	63	88	972
France	353	310	260	78	128	1129
Netherlands	98	69	51	12	28	258
Italy	447	354	274	132	120	1327
Spain	186	111	116	38	54	504
Belgium	85	82	56	24	28	275
Austria	48	49	39	15	14	165
Finland	24	22	13	9	0	67
Ireland	18	27	26	8	0	80
Portugal	24	40	23	0	7	94
Greece	0	0	0	0	0	0

Credit Rating (LT local currency)	S&P		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
Germany	AAA	Stable	Aaa	Stable	AAA	Stable
France	AA+	-ve	Aaa	-ve	AAA	-ve
Netherlands	AAA	-ve	Aaa	Stable	AAA	Stable
Italy	BBB+	-ve	Baa2	-ve	A-	-ve
Spain	BBB+	-ve	Baa3	-ve watch	BBB	-ve
Belgium	AA	-ve	Aa3	-ve	AA	-ve
Austria	AA+	-ve	Aaa	-ve	AAA	Stable
Finland	AAA	-ve	Aaa	Stable	AAA	Stable
Ireland	BBB+	-ve	Ba1	-ve	BBB+	-ve
Portugal	BB	-ve	Ba3	-ve	WD	-ve
Greece	CCC	Stable	C		CCC	

Source: DMOs, Citi estimates, Bloomberg

EUR: Coupons & Redemptions (next 3mths)

Figure 88. EMU-11 Redemptions over the next three months (€bn)

Redemptions = €128bn											
Redemptions	DEU 34	FRA 26	NLD 0	ITA 40	ESP 13	BEL 9	AUT 0	FIN 6	PRT 0	GRC 0	IRL 0
(Wed) 25-Jul-12		13.2									
(Mon) 30-Jul-12					12.9						
(Fri) 31-Aug-12				11.5							
(Fri) 14-Sep-12	18.0										
(Sat) 15-Sep-12				10.4				6.0			
(Thu) 20-Sep-12		12.4									
(Fri) 28-Sep-12						9.2					
(Sun) 30-Sep-12											0.0
(Fri) 12-Oct-12	16.0										
(Mon) 15-Oct-12				18.4							

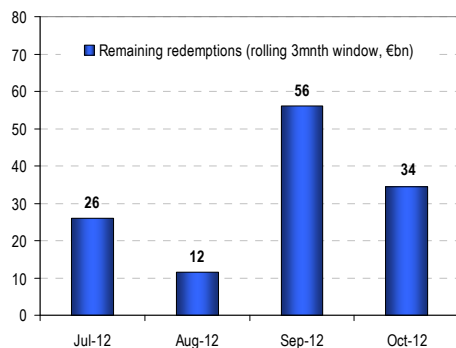
Source: DMOs, Bloomberg, Citi estimates

Figure 89. EMU-11 Coupon Payments over the next three months (€bn)

Coupons = €43bn											
Coupons	DEU 3	FRA 4	NLD 0	ITA 18	ESP 8	BEL 5	AUT 1	FIN 1	PRT 2	GRC 0	IRL 1
(Wed) 25-Jul-12		3.9									
(Mon) 30-Jul-12					7.7						
(Wed) 01-Aug-12				9.3							
(Sat) 18-Aug-12											0.0
(Sat) 01-Sep-12				5.4							
(Tue) 04-Sep-12	0.7										
(Thu) 13-Sep-12	0.1										
(Fri) 14-Sep-12	0.1										
(Sat) 15-Sep-12				1.8			1.2	0.7			
(Thu) 20-Sep-12	0.0	0.1									
(Sun) 23-Sep-12									0.5		
(Tue) 25-Sep-12		0.3									
(Fri) 28-Sep-12						4.6					
(Sun) 30-Sep-12											0.0
(Mon) 01-Oct-12				0.2							
(Tue) 09-Oct-12	0.3										
(Wed) 10-Oct-12	0.4										
(Thu) 11-Oct-12	0.6										
(Fri) 12-Oct-12	0.7										
(Sun) 14-Oct-12	0.2										
(Mon) 15-Oct-12				1.7					0.9		
(Tue) 16-Oct-12									0.3		
(Thu) 18-Oct-12											1.2

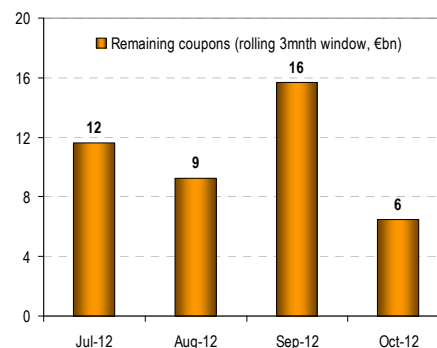
Source: DMOs, Bloomberg, Citi estimates

Figure 90. EMU-11 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Figure 91. EMU-11 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 92. Citi 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
Jun 12	115.29	-0.1	2.3	124.78	0.0	1.9	241.80	-0.2	2.8	229.48	-0.1	1.7
Jul 12	114.66	-0.5	2.3	124.14	-0.5	1.8	240.80	-0.4	2.6	229.08	-0.2	1.4
Aug 12	114.84	0.2	2.3	124.67	0.4	1.7	241.70	0.4	2.4	228.98	-0.0	1.1
Sep 12	115.26	0.4	1.9	124.49	-0.1	1.6	242.40	0.3	1.9	229.08	0.0	1.0
Oct 12	115.68	0.4	2.0	124.15	-0.3	1.2	242.70	0.1	2.0	228.98	-0.0	1.1
Nov 12	115.80	0.1	2.0	124.30	0.1	1.1	243.00	0.1	1.9	228.88	-0.0	1.2

Shaded = Already released

Source: Citi Research, Bloomberg

Figure 93. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread	Chg (bp)
				1 Sep	1 Oct	1 Nov					1 Sep	1 Oct	1 Nov		
Repo (%)				0.15	0.15	0.15									
TIPS 1/14	-0.89	-24	-24	-23	-45	-59	US-4.000-02/15/14	110	19	16	-24	-46	-60	11	-3
TIPS 4/14	-0.96	-30	-30	-20	-38	-50	US-1.875-04/30/14	118	24	22	-21	-39	-52	-4	-12
TIPS 7/14	-1.24	-22	-22	-19	-36	-48	US-2.625-07/31/14	147	17	14	-20	-37	-49	5	-8
TIPS 1/15	-1.13	-16	-16	-15	-27	-35	US-2.250-01/31/15	139	11	9	-15	-28	-37	13	-6
TIPS 4/15	-1.13	-12	-12	-13	-25	-32	US-2.500-04/30/15	142	6	4	-14	-26	-33	7	-2
TIPS 7/15	-1.24	-14	-14	-13	-23	-30	US-4.250-08/15/15	157	7	5	-13	-25	-32	19	-4
TIPS 1/16	-1.22	-8	-8	-11	-20	-25	US-2.625-02/29/16	162	3	1	-12	-21	-28	15	-1
TIPS 4/16	-1.17	-8	-8	-10	-18	-23	US-2.000-04/30/16	160	2	1	-10	-19	-25	15	-1
TIPS 7/16	-1.25	-9	-9	-10	-18	-23	US-4.875-08/15/16	172	3	2	-11	-19	-25	23	-3
TIPS 1/17	-1.18	-9	-9	-8	-15	-19	US-3.125-01/31/17	173	5	3	-9	-17	-22	21	-4
TIPS 4/17	-1.23	-7	-7	-8	-14	-18	US-0.875-04/30/17	181	3	2	-9	-16	-21	11	-3
TIPS 7/17	-1.24	-9	-9	-8	-14	-18	US-4.750-08/15/17	186	5	3	-9	-16	-21	21	-4
TIPS 1/18	-1.10	-8	-8	-7	-12	-15	US-3.500-02/15/18	181	4	3	-8	-14	-18	25	-4
TIPS 7/18	-1.13	-5	-5	-6	-11	-14	US-4.000-08/15/18	189	3	2	-7	-13	-17	28	-2
TIPS 1/19	-1.00	-5	-5	-5	-10	-12	US-2.750-02/15/19	187	3	2	-7	-12	-16	29	-2
TIPS 7/19	-1.02	-5	-5	-5	-9	-12	US-3.625-08/15/19	196	4	3	-7	-12	-15	30	-3
TIPS 1/20	-0.90	-2	-2	-4	-8	-10	US-3.625-02/15/20	193	2	1	-6	-11	-14	31	-1
TIPS 7/20	-0.87	-3	-3	-4	-8	-9	US-2.625-08/15/20	201	3	2	-6	-10	-13	30	-1
TIPS 1/21	-0.76	-2	-2	-4	-7	-8	US-3.625-02/15/21	198	2	2	-5	-10	-13	32	-1
TIPS 7/21	-0.76	-2	-2	-3	-6	-8	US-2.125-08/15/21	211	3	2	-5	-9	-12	25	-1
TIPS 1/22	-0.64	-3	-3	-3	-6	-7	US-2.000-02/15/22	209	4	3	-5	-9	-11	26	-2
TIPS 1/25	-0.32	-1	-1	-2	-4	-5	US-7.625-02/15/25	206	2	2	-4	-8	-10	38	-1
TIPS 1/26	-0.23	-1	-1	-2	-4	-4	US-6.000-02/15/26	211	3	2	-4	-7	-9	34	-1
TIPS 1/27	-0.19	1	1	-2	-3	-4	US-6.625-02/15/27	213	2	1	-4	-7	-9	33	-0
TIPS 1/28	-0.10	-0	-0	-2	-3	-4	US-6.125-11/15/27	211	4	3	-4	-6	-8	37	-3
TIPS 4/28	-0.06	-0	-0	-2	-3	-4	US-5.500-08/15/28	212	4	3	-4	-7	-8	34	-2
TIPS 1/29	-0.08	1	1	-2	-3	-3	US-5.250-02/15/29	217	3	2	-3	-6	-8	32	-2
TIPS 4/29	-0.05	-0	-0	-2	-3	-4	US-5.250-02/15/29	215	4	3	-4	-6	-8	33	-3
TIPS 4/32	0.01	0	0	-1	-3	-3	US-5.375-02/15/31	215	3	3	-3	-6	-7	36	-3
TIPS 2/40	0.31	1	1	-1	-2	-2	US-4.625-02/15/40	217	2	2	-2	-4	-5	36	-1
TIPS 2/41	0.33	1	1	-1	-1	-2	US-4.750-02/15/41	217	2	1	-2	-4	-5	36	-1
TIPS 2/42	0.38	0	0	-1	-1	-1	US-3.125-02/15/42	220	2	2	-2	-4	-5	33	-2

Source: Citi Research

Figure 94. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	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 Sep	1 Oct	1 Nov					1 Sep	1 Oct	1 Nov		
Repo (%)				0.12	0.11	0.10									
OATi13	-1.26	-16	-16	-13	-90	-59	FFRG 4/13	122	11	8	-11	-86	-51	25	3
BTPei14	3.11	-23	-23	10	-6	17	BTP 8/14	82	-1	-3	-12	-47	-46	58	11
OATei15	-0.97	-25	-25	-8	-31	-30	FFRG 4/15	115	17	15	-8	-32	-31	39	-9
BUNDei16	-0.92	-22	-22	-6	-25	-23	BUND 1/16	95	18	17	-6	-24	-23	28	-13
BTANi16	-0.79	-24	-24	-2	-17	-8	FFRG 4/16	127	10	9	-3	-19	-11	47	-2
BTPei16	4.60	26	26	9	4	20	BTP 8/16	25	-35	-37	-5	-21	-18	120	40
OATi17	-0.57	-25	-25	-1	-13	-5	FFRG 4/17	135	7	7	-3	-16	-10	43	-3
BTPei17	4.78	21	21	8	4	17	BTP 8/17	44	-27	-28	-5	-19	-17	104	31
BOBLei18	-0.77	-21	-21	-4	-15	-14	BUND 1/18	115	17	16	-4	-16	-16	22	-13
OATei18	-0.25	-38	-38	-3	-13	-11	FFRG 4/18	133	20	19	-5	-16	-16	25	-16
OATi19	-0.12	-29	-29	0	-8	-2	FFRG 4/19	151	11	10	-2	-12	-8	40	-6
BTPei19	5.07	36	36	6	4	14	BTP 9/19	49	-30	-31	36	-14	-13	113	34
BUNDei20	-0.65	-20	-20	-3	-11	-10	BUND 1/20	142	16	15	-4	-13	-13	15	-12
OATei20	0.15	-32	-32	-2	-9	-7	FFRG 4/20	151	14	14	-4	-13	-13	23	-10
BTPei21	5.30	56	56	5	4	12	BTP 9/20	34	-50	-51	31	-12	-12	143	66
OATei22	0.39	-30	-30	-1	-7	-5	FFRG 4/21	149	12	12	-3	-11	-11	37	-8
BUNDei23	-0.45	-17	-17	-2	-7	-6	BUND 1/22	159	14	14	-3	-10	-10	21	-10
OATi23	0.40	-28	-28	1	-4	0	FFRG 10/23	184	9	9	-2	-9	-6	25	-4
BTPei23	5.35	56	56	5	3	10	BTP 8/23	63	-46	-47	-3	-10	-10	126	50
BTPei26	5.46	52	52	4	3	9	BTP 3/26	76	-33	-33	25	-9	-9	122	37
OATei27	0.73	-29	-29	0	-4	-3	FFRG 4/26	178	9	8	-3	-8	-9	24	-4
OATi29	0.78	-31	-31	1	-3	1	FFRG 4/29	193	10	10	-2	-7	-5	17	-7
OATei32	0.91	-27	-27	0	-3	-2	FFRG 10/32	193	7	6	-2	-7	-8	14	-4
BTPei35	5.37	52	52	3	2	6	BTP 8/34	113	-28	-28	-3	-8	-8	96	30
OATei40	0.92	-29	-29	0	-2	-1	FFRG 10/38	211	10	9	-2	-6	-6	6	-8
BTPei41	5.14	35	35	2	2	5	BTP 9/40	135	-11	-11	20	-8	-8	83	13

Source: Citi Research

Figure 95. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	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 Sep	1 Oct	1 Nov					1 Sep	1 Oct	1 Nov		
Repo (%)				0.44	0.42	0.41									
UKTi'13	-2.49	-46	-47	0	1	1	UKT 9/13	262	39	40	4	7	11	-11	-25
UKTi'16	-1.87	-20	-20	2	4	5	UKT 9/16	225	12	12	2	4	5	32	-9
UKTi'17	-1.50	-8	-7	-10	-21	-17	UKT 3/18	220	1	0	-10	-22	-19	40	1
UKTi'20	-1.09	-14	-15	2	4	6	UKT 3/20	223	10	10	1	2	3	44	-9
UKTi'22	-0.74	-8	-7	-4	-10	-7	UKT 3/22	225	6	6	-6	-12	-11	58	-5
UKTi'24	-0.55	-12	-12	2	4	5	UKT 3/25	242	11	11	0	1	1	50	-9
UKTi'27	-0.28	-5	-5	-2	-6	-4	UKT 12/27	244	3	3	-4	-9	-8	57	-4
UKTi'29	-0.12	-5	-5	-2	-5	-3	UKT 12/30	251	3	2	-4	-8	-7	51	-4
UKTi'30	-0.24	-7	-8	2	3	5	UKT 6/32	276	5	5	0	0	0	34	-6
UKTi'32	-0.10	-4	-4	-2	-4	-2	UKT 6/32	263	2	1	-4	-7	-7	51	-3
UKTi'34	-0.01	-4	-4	-2	-4	-2	UKT 9/34	267	3	3	-3	-7	-6	47	-4
UKTi'35	-0.06	-5	-5	2	3	4	UKT 3/36	279	4	4	0	0	0	38	-5
UKTi'37	0.01	-2	-2	-1	-3	-2	UKT 12/38	280	1	1	-3	-6	-6	43	-3
UKTi'40	0.05	-2	-2	-1	-3	-2	UKT 12/38	276	1	1	-3	-6	-6	47	4
UKTi'42	0.04	-2	-2	-1	-3	-1	UKT 9/39	282	1	1	-3	-6	-6	46	3
UKTi'47	0.08	-2	-2	-1	-2	-1	UKT 12/46	290	0	0	-2	-5	-5	39	-1
UKTi'50	0.10	-1	-1	-1	-2	-1	UKT 12/46	288	-0	-0	-2	-5	-5	39	4
UKTi'55	0.09	-2	-2	-1	-2	-1	UKT 12/55	297	0	0	-2	-4	-5	33	-1
UKTi'62	0.09	-2	-2	-1	-2	-1	UKT 1/60	296	1	1	-2	-4	-4	34	-3

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
18-Jul-12	NOTE	Euro Inflation Strategy: BTPei Index Drop Supports OATe/i Auctions	-	EUR
18-Jul-12	NOTE	Euro SSA Strategy: Opportunities in the Front End of Core SSA Curves	-	EUR
16-Jul-12	NOTE	Global Flow Monitor: Demand for Europe, Germany and France	-	Global
12-Jul-12	IIRS	Overview: The UST-Bund spread in a zero rate world	9	Global
		Funding rates and the yield curve: Curve dynamics shifting	11	Global
		Value in European SSA Markets: Spreads likely to tighten further	12	EUR
		Coupon and index support for French linkers	13	EUR
		Update: Outlook for GBP gamma	16	UK
12-Jul-12	NOTE	Euro Inflation Strategy: Coupon, index and seasonal support for French linkers	-	EUR
11-Jul-12	NOTE	UK Rates Strategy: Gilts - Mediums to be supported by QE	-	UK
09-Jul-12	NOTE	Rates Strategy: Why we like the European SSA market in a low yield environment	-	EUR
05-Jul-12	IIRS	Are Spanish and Irish bonds now cheap?	8	EUR
		Impact of QE3 on gilt cash flows & free floats	12	UK
		Fading the cheapness of EUR 7s10s15s fwd	15	EUR
		Extension Trades in KfW and EIB	17	EUR
03-Jul-12	NOTE	Euro Rates Strategy: Relative Value in European SSA	-	EUR
03-Jul-12	NOTE	EUR RV Trade: Receive 10s vs 7s and 15s, 3yF	-	EUR
02-Jul-12	NOTE	Global Flow Monitor: Flow Analysis Shows Divergences in Demand for Europe	-	Global
02-Jul-12	NOTE	Euro Rates Strategy: EMU-11 July Supply Outlook	-	EUR
02-Jul-12	NOTE	Interest Rate Strategy: Are we any nearer an EMU crisis resolution?	-	EUR
29-Jun-12	NOTE	Euro Inflation Strategy: Great Stress Often Provides Great Opportunity	-	EUR
29-Jun-12	NOTE	Rate Strategy Comment: EU Summit Update	-	EUR
28-Jun-12	IIRS	Overview: Are we really any nearer an EMU solution?	10	EUR
		The EMU Crisis: Summit Solutions - A Spotters Guide	13	EUR
		EMU Downgrade Concerns & Index Eligibility	17	EUR
		Sovereign Ratings Outlook	19	Global
		Euro Inflation: Front-End Opportunities	20	EUR
		Trade Idea: Sell EUR vs GBP 1m5y vol	23	Global
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27-Jun-12	NOTE	Trade Idea: Sell EUR vs GBP 1m5y vol	-	Global
27-Jun-12	NOTE	European Volatility Strategy	-	EUR
26-Jun-12	NOTE	Global Flow Monitor	-	Global
26-Jun-12	NOTE	Month-End Index-Linked Index Projections	-	Global
25-Jun-12	NOTE	Interest Rate Strategy Update: Buy Bunds versus US Treasuries	-	Global
22-Jun-12	NOTE	Global Month-End Index Projections	-	Global
21-Jun-12	IIRS	The threat of EMU breakup	8	EUR
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Global Rates Team

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	Name	Office Number	Email Address
GLOBAL HEAD	Mark Schofield ¹	(44-20) 7986-9224	mark.schofield@citi.com
LONDON	Rates Strategy		
	Robert Crossley ¹	(44-20) 7986-9255	robert.crossley@citi.com
	Jamie Searle ¹	(44-20) 7986-9493	jamie.searle@citi.com
	Nishay Patel ¹	(44-20) 7986-1007	nishay.patel@citi.com
	Peter Goves ¹	(44-20) 7986-3215	peter.goves@citi.com
	Portfolio Strategy Group		
	David Bieber ¹	(44-20) 7986-4976	david.bieber@citi.com
MUMBAI	Aman Bansal ⁵	(91 22) 4277 5021	aman1.bansal@citi.com
	Mohit Aggarwal ⁵	(91 22) 4277 5022	mohit1.aggarwal@citi.com
NEW YORK	Rates & MBS Strategy		
	Brett Rose ²	(1-212) 723-6439	brett.rose@citi.com
	Neela Gollapudi ²	(1-212) 723-3075	neela.gollapudi@citi.com
	Inger Daniels ²	(1-212) 723-3274	inger.daniels@citi.com
	Bond Portfolio Analysis		
	Rob Rowe ²	(1-212) 723-1168	robert.rowe@citi.com
	Martin Bernstein ²	(1-212) 723-6067	martin.bernstein@citi.com
	Rohit Thapliyal ²	(1-212) 723-1696	rohit.thapliyal@citi.com
	Shuo Li ²	(1-212) 723-1179	shuo2.li@citi.com
Asia Pac	APAC Rates Strategy		
	Steven Mansell ⁹	(61-2) 8225 4900	steven.mansell@citi.com
	Sandeep Arora ⁶	(813-6) 270-7228	sandeep.k.arora@citi.com
	Japan Rates Strategy		
	Eiji Dohke ⁶	(813-6) 270-7246	eiji.dohke@citi.com
	Maki Shimizu ⁶	(813-6) 270-7249	maki.shimizu@citi.com
	Jacy Sun ⁶	(813-6) 270-7247	jacy.sun@citi.com
	Bond Portfolio Analysis		
	Hideaki Takahashi ⁶	(813-6) 270-7231	hideaki.takahashi@citi.com
	Yukichi Shimosato ⁶	(813-6) 270-7995	yukichi.shimosato@citi.com

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Appendix A-1

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