Citi Research

July 2014

European Fixed Income Markets

Trading Rates in Summer 2014: Boring vs Volatile

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Summary of Trade Ideas

The summer is magic

	Boring scenario	Volatile scenario
Money markets	Receive OIS 2y1y @24bp	Pay Mar ECB @3bp
Bund	Sell RXU4 144.50 Sep-14 puts @12 cents	Buy OBL Apr-19 vs UST Apr-19 @135bp
Yield curve	Receive EUR 10y2y vs pay EUR 12y3y @9bp	Receive EUR 20y10y vs pay EUR 30y10y @-13bp
Swaps RV	Receive EUR 1y2y/1y10y/1y30y @69bp	Pay EUR 1y1y/3y1y/5y2y @-63bp
Swap spreads	Sell BKO Jun-16 TED @17.5bp	Buy OEU4 ASW vs DUU4 & RXU4 @17.5bp
EGB	Bonos and BTPs compression vs Bunds	Sell OT 10y @3.58%
Inflation	Sell OATei24 BE @136bp	EUR 2/5s HICPxt flattener @45bp
Volatility	Sell EUR 1y30y straddle @50bpvol	Buy EUR 2y2y 50bp payer spread @25.5 cents
UK	Buy Gilt Jul-19 vs UST Jul-19 @33bp	Gilt 2/5s flattener @121bp
SSA	Buy KfW Jul-21 vs DSL Jul-21 @0bp	Buy KfW Jul-21 vs EFSF Jul-21 @7.5bp
Covered Bonds	Buy MONTE Feb-18 vs DKRED Jan-18 @111bp	Buy ISPIM Sep-19 vs Oct-19 @52bp
Regulation	Buy NEDWBK Jan-21 vs OAT Oct-20 @24bp	Buy DBR Jan-20 vs sell DANBNK Feb-20 @45bp

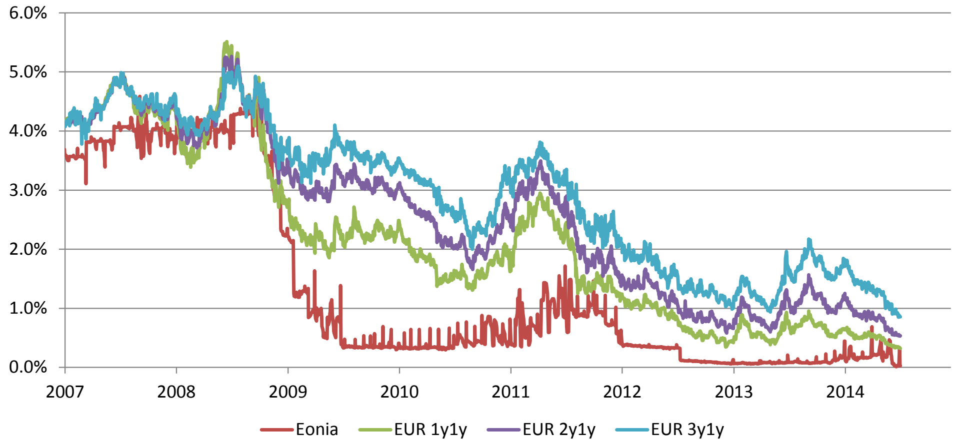
Futures trading involves substantial risk of loss

Source: Citi Research

1. The Trades

Money Markets – Boring Scenario

Rolling down to negative Eonia



The purest expression of ECB carry trades is via 1y-forwards like 2y1y (0.54%). Absent liquidity shocks (higher excess will be priced in as we move within 1m of the TLTRO's settlement → risk of negative Eonia), the trend towards lower 3m and 6m fixings should help the performance of these trades.

Over the past 12 months, both the Euro$ and the Euribor curve have aggressively re-priced a dovish scenario, while the Sterling strip is pricing in 80% of a hike by Nov-14 (and almost +125bp in 24 months). Given ECB's policy, a re-pricing of the FF curve would leave Euribors more or less unchanged.

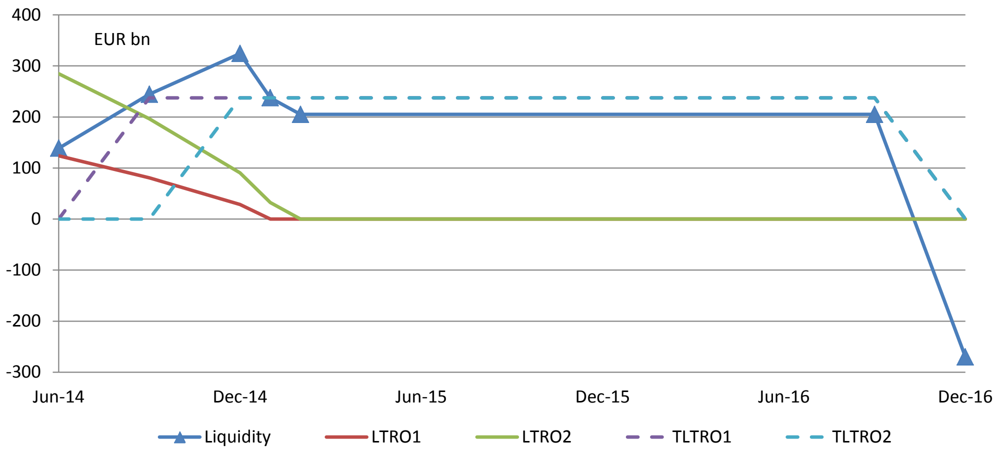
	Euribor				Euro$				Short Sterling			
Date	Spot	-3m	-12m	Change	Spot	-3m	-12m	Change	Spot	-3m	-12m	Change
Sep-14	0.18	0.27	0.44	-0.26	0.24	0.26	0.65	-0.41	0.67	0.59	0.74	-0.07
Dec-14	0.16	0.28	0.51	-0.35	0.29	0.31	0.79	-0.50	0.89	0.72	0.81	0.08
Mar-15	0.16	0.30	0.59	-0.42	0.39	0.40	0.97	-0.58	1.13	0.91	0.90	0.23
Jun-15	0.17	0.33	0.68	-0.51	0.59	0.58	1.19	-0.60	1.38	1.12	1.03	0.35
Sep-15	0.19	0.38	0.78	-0.59	0.83	0.81	1.44	-0.61	1.62	1.34	1.19	0.43
Dec-15	0.22	0.43	0.89	-0.68	1.08	1.08	1.73	-0.65	1.85	1.56	1.38	0.47
Mar-16	0.25	0.50	1.03	-0.78	1.35	1.38	2.03	-0.68	2.06	1.77	1.58	0.48
Jun-16	0.30	0.59	1.17	-0.86	1.61	1.68	2.32	-0.70	2.25	1.97	1.79	0.46

TRADE: Receive OIS 2y1y @24bp, target 6bp, stop 30bp, carry +20bp/12m.

Source: Citi Research

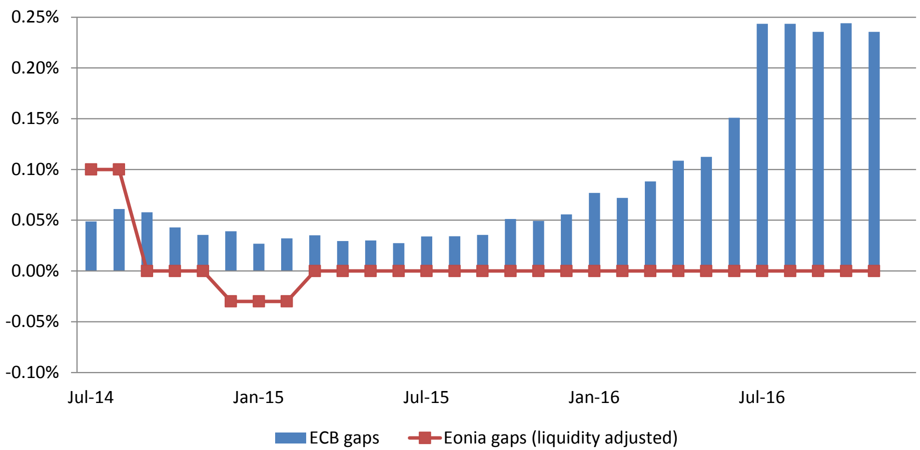
Money Markets – Volatile Scenario

What if TLTRO demand is weak?



The baseline scenario sees excess liquidity increasing into year-end as a result of strong TLTRO demand.
Any surprise to this assumption will trigger severe fixing uncertainty and a potential re-pricing of Eonias.

The current ECB curve already deviates from a curve assuming full liquidity (and negative deposit rates). This is especially true for longer maturities.
A negative TLTRO-liquidity surprise should be played via near ECB-gaps as the market would assume additional liquidity measure in case of "unwarranted tightening" of conditions.

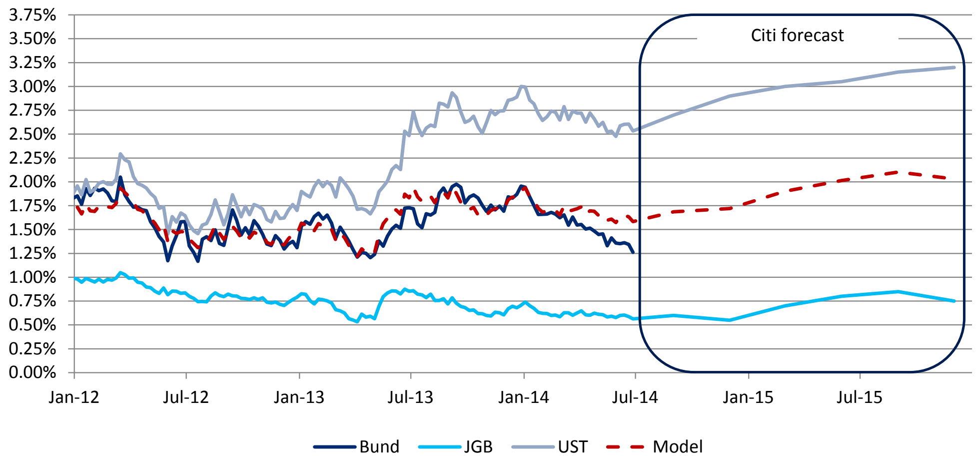


TRADE: Pay Mar ECB @3bp, target 15bp, stop 0bp, carry +2bp/6m.

Source: Citi Research

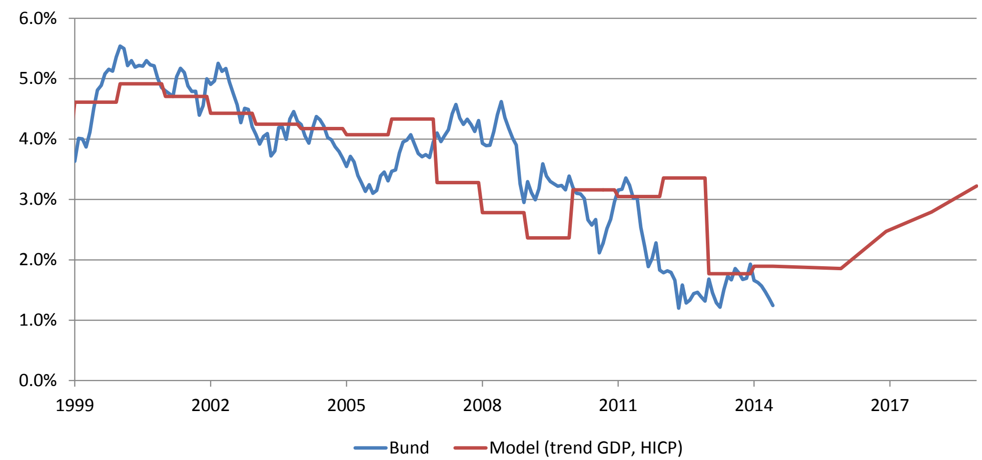
Bund – Boring Scenario

A mild drift towards higher yields



JGBs and USTs provide us with a decent historical explanation of Bund yields. Draghi's QE-talk has recently pulled Bund yields below this "fair value" by almost 30bp (consistent with €1trn of QE). Without exogenous/endogenous shocks, we expect Bunds to follow JGBs and USTs to higher yields into year end.

In our 2014 outlook, we were among the few houses forecasting lower Bund yields. We have revised our "equilibrium yield" to 1.5% following the ECB's opening to QE. We're looking for a gradual rise in yields over the medium-term, based on our inflation and potential growth forecasts.



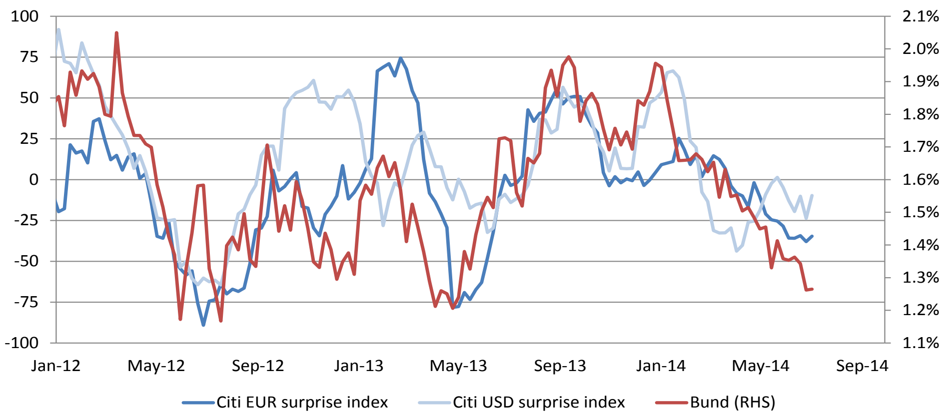
TRADE: Sell RXU4 144.50 Sep-14 puts @12c, expiry 22/8 (144.58 is 11/6 low)

Source: Citi Research

Futures trading involves substantial risk of loss

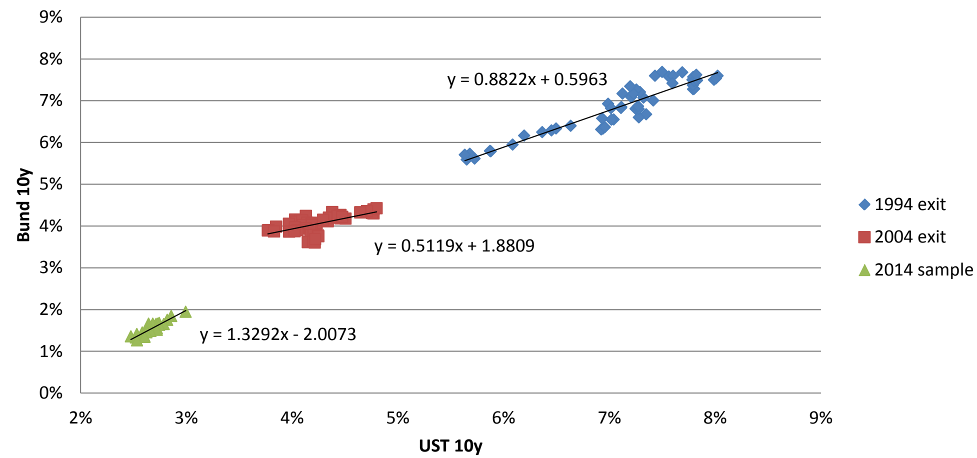
Bund – Volatile Scenario

The shock will come from USTs



Bunds follow Eurozone surprise indicators quite accurately. US data could surprise on the upside as expectations have been re-priced after a very weak Q1 GDP.
UST volatility will translate into Bund volatility, albeit with a very modest beta – a strong sign of "decoupling".

Current beta looks very high compared to previous "FED exit" episodes. However, the 2014 sample includes only a bullish market. It is reasonable to assume that the TY/RX beta will be much lower in case of a UST sell-off. In our view, the beta is likely to be 0.40 on average, which is lower than 0.51 observed during Greenspan's 2004 exit.

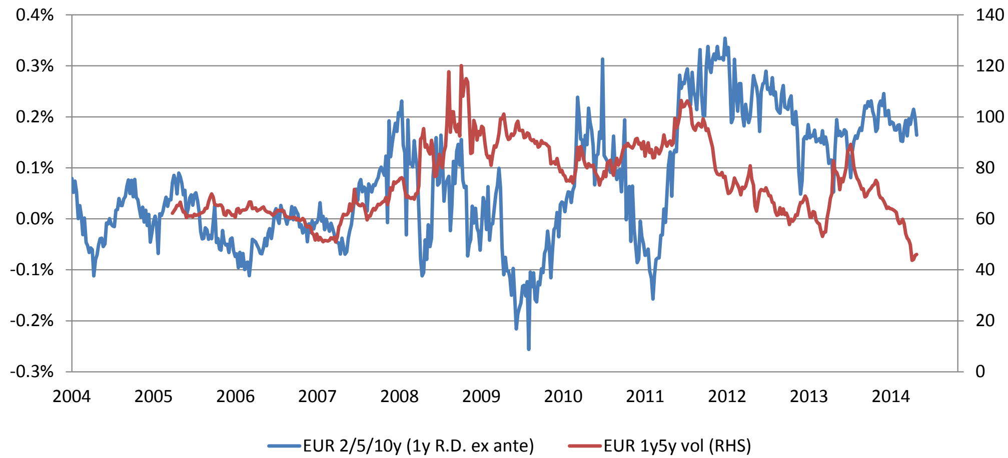


TRADE: Buy OBL Apr-19 vs UST Apr-19 @135bp, target 175bp, stop 125bp, carry +2bp/6m.

Source: Citi Research

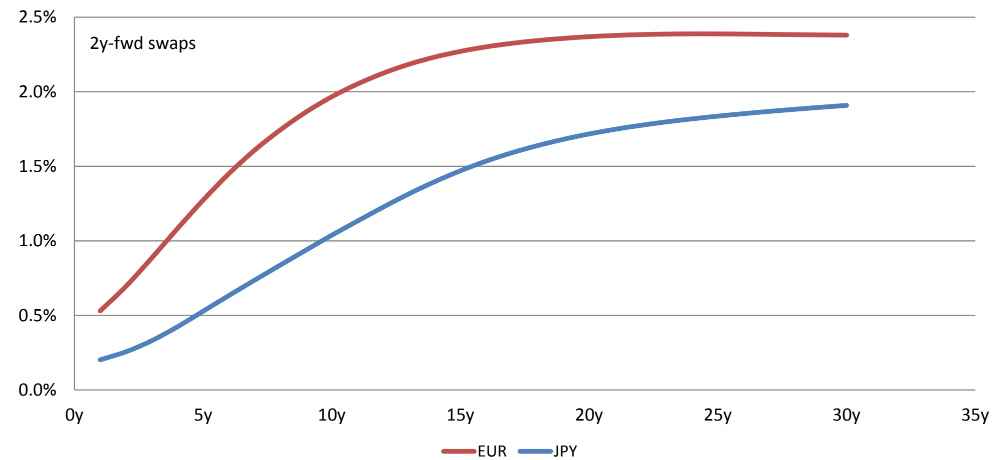
Yield Curve – Boring Scenario

Carry looks good – even in risk-adjusted terms



The ex-ante rolldown on typical ECB-carry trades (e.g. 2/5/10s on fwds) still looks very interesting despite the spot butterfly trading very close to the lows seen on the JPY curve during the QE/ZIRP period.
Risk-adjusted carry is very interesting thanks to the gradual decline in volatility.

The EUR curve has still some room to converge to a full Japan-scenario. One of the main features of the JPY curve is the absence of the 7-12y hump.
ECB-carry trades with a strong conviction about "low-for-longer" should be positioned around the EUR-hump for maximum rolldown to Eonia.

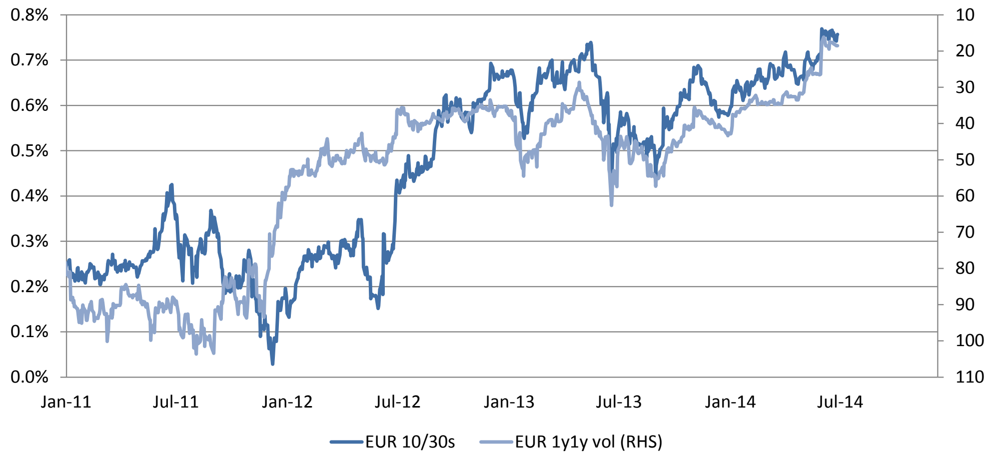


TRADE: Receive EUR 10y2y vs pay EUR 12y3y @9bp, target 18bp, stop 5bp, carry 9bp/12m.

Source: Citi Research

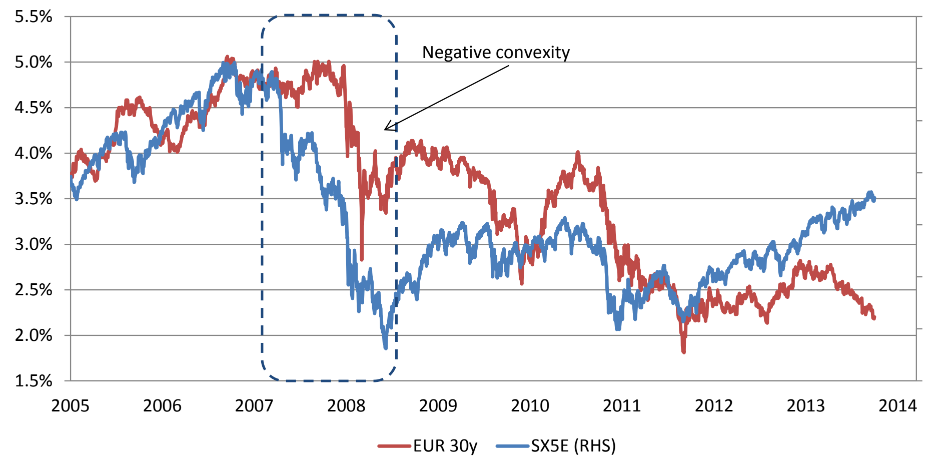
Yield Curve – Volatile Scenario

Can the stock market sustain valuations in case of strong US data?



One popular ECB-carry trade is the long-end fwd-curve steepener (both 5/30s and 10/30s and their countless fwd combinations).
The inverse relationship between curve shape and volatility underlines the short-gamma nature of these carry trades.
A sudden change in liquidity conditions could be a threat to performance.

A further risk to complacent carry-traders could come from asset allocation. Regulatory funding ratios do not suffer despite very low 30y rates, because of equity's performance (note the breakdown in correlation).
Any equity correction, perhaps triggered by FED's exit would put pension funds and inscos under regulatory pressure.

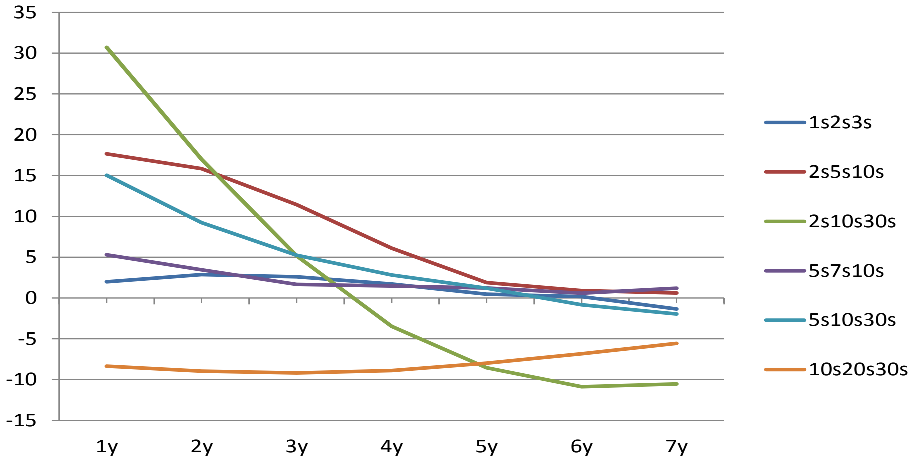


TRADE: Receive EUR 20y10y vs pay EUR 30y10y @-13bp, target 20bp, stop -20bp, carry -2bp/6m.

Source: Citi Research

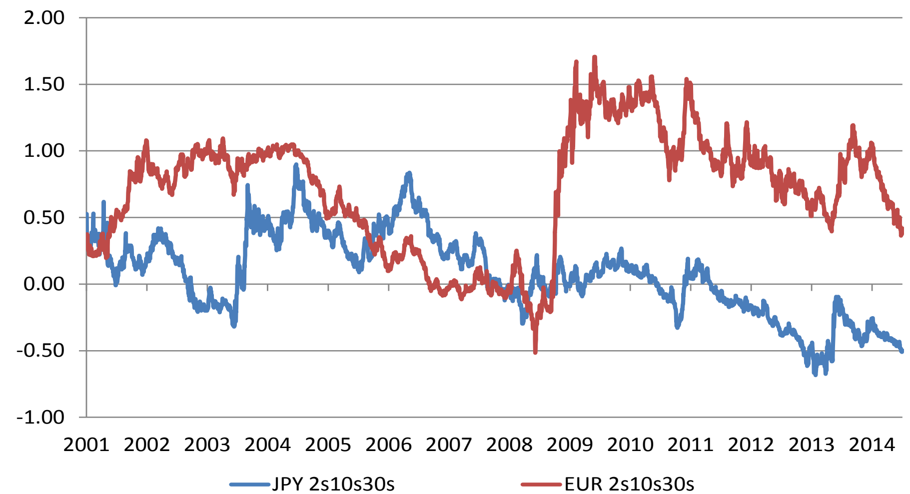
Swaps RV – Boring Scenario

More pressure to weigh on the curvature of the swap rate term structure



We classify the main types of butterflies in LHS chart where the x-axis refers to the forward starting date of the fly and the y-axis to a crude measure of one year rolldown obtained via forward par swap differences at one year intervals.

The highest rolldown is enjoyed by 1y fwd 2s10s30s fly, which still trades at high premium vs. JPY. Assuming PCA weights, fly generates €567k over the first six-months, assuming €100m in the belly.



TRADE: Receive EUR 1y2y/1y10y/1y30y @69bp, target 55bp, stop 75bp. Carry +30bp/12m.

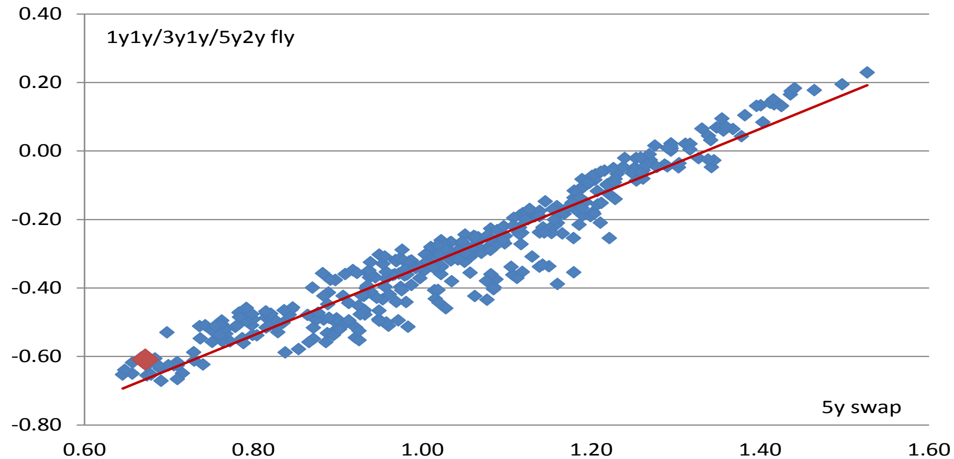
Source: Citi Research

Swaps RV – Volatile Scenario

Focus on the 5y point of the swap curve, arguably the main accumulation point at the current mkt juncture

The 1y1y/3y1y/5y2y fly is trading some 9bp above the all time low.

The fly correlates well with the 5y swap (r>0.95). However, in sharp contrast to a outright paying position on the 5y swap, a short position in the fly rolls roughly flat assuming PCA weighted construction.

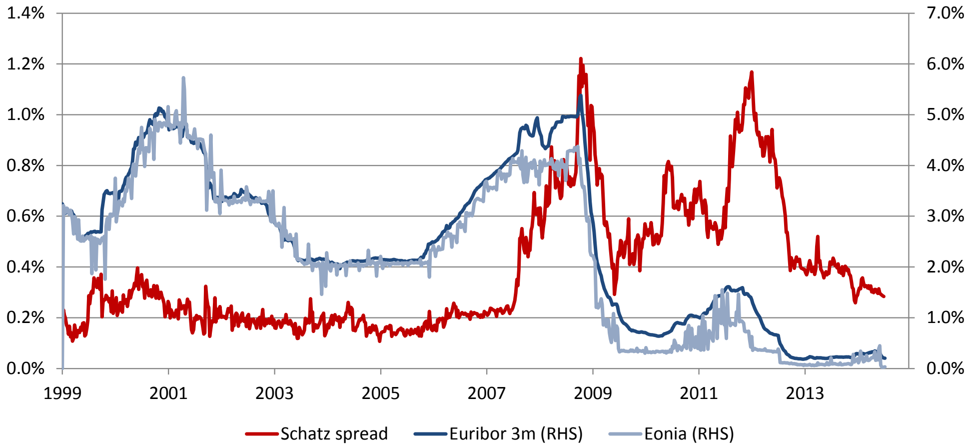


TRADE: Pay EUR 1y1y/3y1y/5y2y @-63bp, target -50bp, stop -68bp. Carry flat.

Source: Citi Research

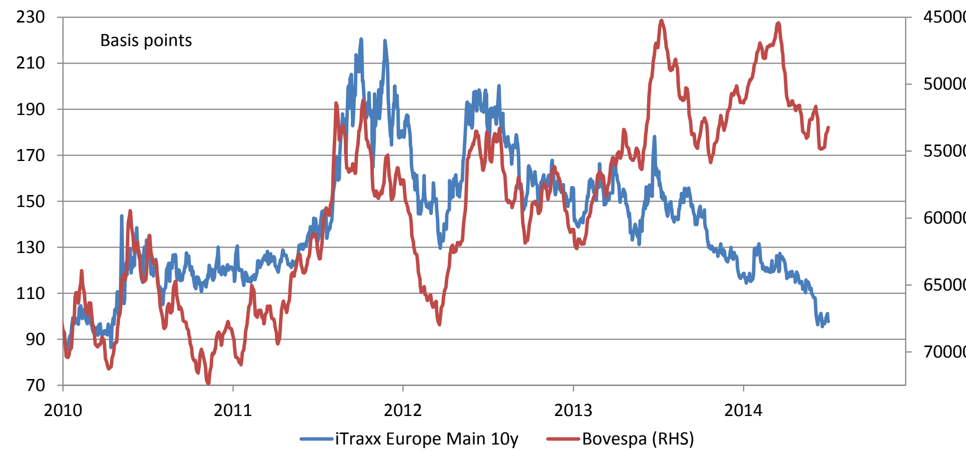
Swap Spreads – Boring Scenario

ECB targeting liquidity & credit spreads



Since 2008, the ECB has been on a mission to prevent money markets from having negative effects on investor confidence and the transmission of monetary policy. BOJ experience suggests that swap spreads will eventually drop to zero in an environment of extremely low volatility and almost infinite central bank liquidity.

ECB's action has managed to break the relationship between European credit spreads and other indicator of risks (e.g. EM equity). The combination of liquidity and credit spread targeting will push ASW tighter and prevent any spike in spreads from being long lived.

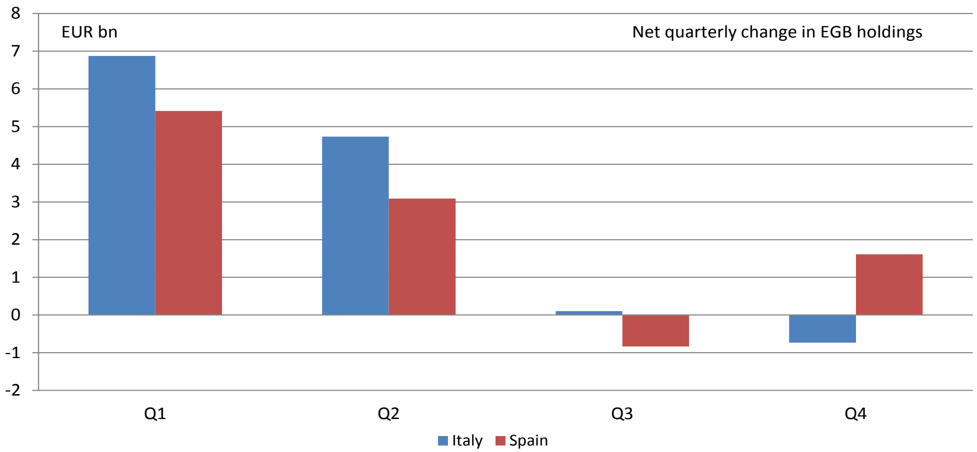


TRADE: Sell BKO Jun-16 TED @17.5bp, target 10bp, stop 20bp, carry +0.5bp/6m.

Source: Citi Research

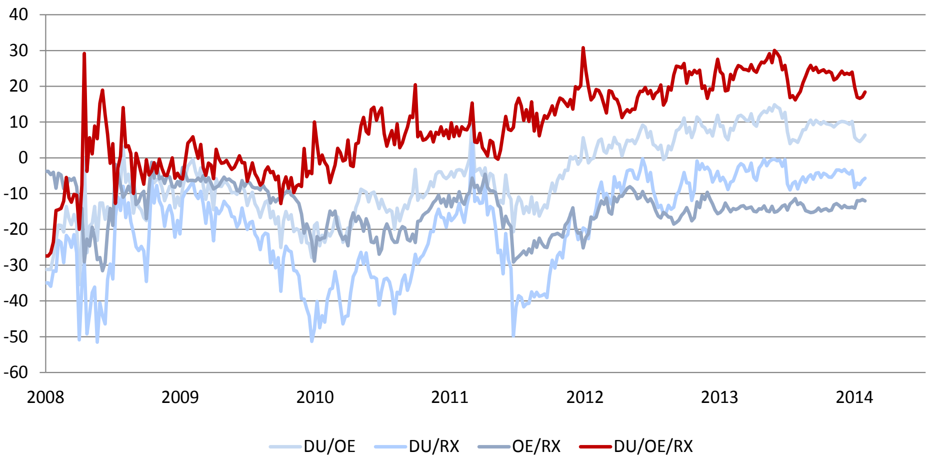
Swap Spreads – Volatile Scenario

Risk can only come from the EGB markets



The AQR could raise some questions about the sustainability of the bank-sovereign funding model. Furthermore, there seems to be a seasonality in the holding of domestic EGBs by Italian and Spanish banks.

An increase in EGB volatility would translate into a more generalised risk aversion and wider swap spreads.
With ECB excess liquidity in place, Schatz spreads are unlikely to outperform Bobls in a widening move (unless currency-redenomination risk is resuscitated).

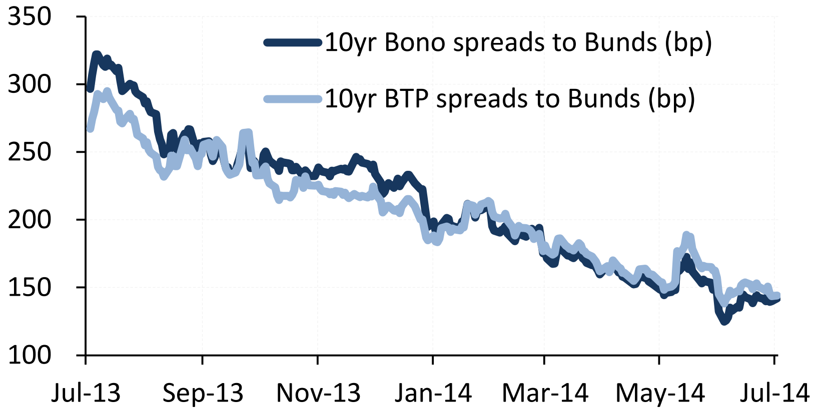


TRADE: Buy OEU4 ASW vs DUU4 & RXU4 ASW @17.5bp, target 30bp, stop 15bp, CTD carry +2.5bp.

Source: Citi Research

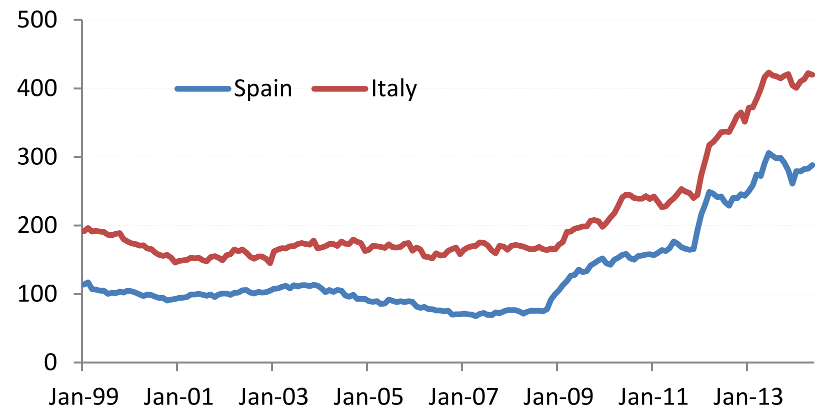
EGBs – Boring Scenario

The ongoing carry trade as yield compression between the periphery and the core continues



In the absence of negative catalysts and left to their own devices, we expect Bono and BTP spreads to continue tightening to Bunds. The periphery continues to normalise, and with rating pressure now to the upside and systemic risks at lows, the "boring scenario" is for ongoing yield compression

Domestic bank buying remains a key market support for longer dated sectors outside the main influence of ECB monetary policy. Since 2011, domestic bank holdings of their own sovereign debt has surged to €420bn in Italy and €288bn in Spain. Given that we do not see this dynamic reversing anytime soon, support for BTP and Bono markets should remain firm

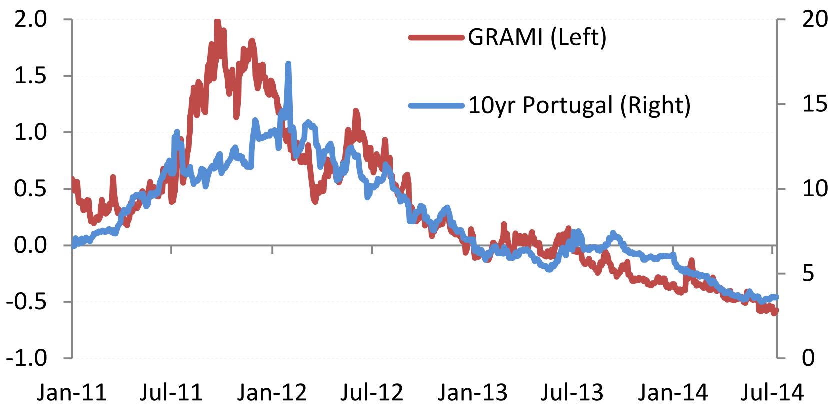


TRADE: Hold 10yr Spanish and Italian spreads to Bunds at 140bp and 144bp targeting 120bp in Q4

Source: Citi Research

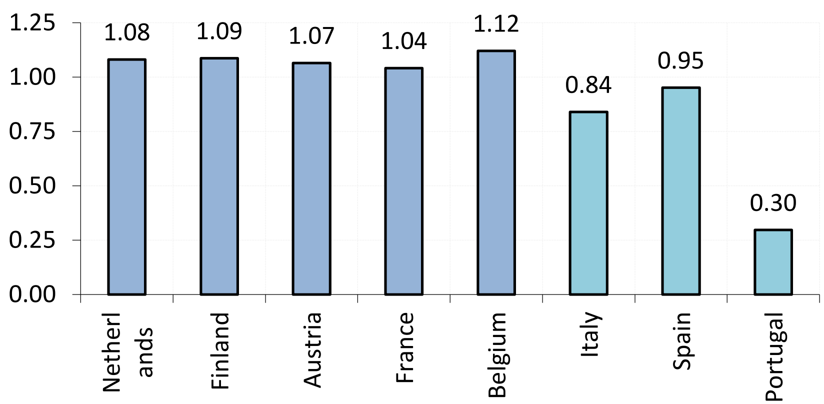
EGBs – Volatile Scenario

In the unlikely event of a rise in systemic stress / market volatility, non-core markets that are less liquid such as Portugal underperform other EGBs

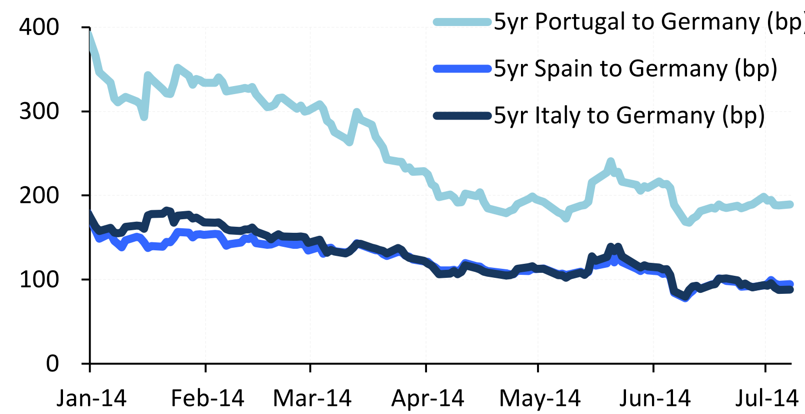


Non-core markets such as Portugal have typically been correlated to systemic stress indicators such as Citi's GRAMI Index. Portugal has also had the more negative beta in times of market volatility and today has the smallest positive beta to Germany. Smaller market and less liquidity also probably played a part in PGB underperformance at the time of the May elections

10yr Beta to Germany (1m daily yield changes)



10yr Spreads to Germany; PGBs underperform in May (bp)

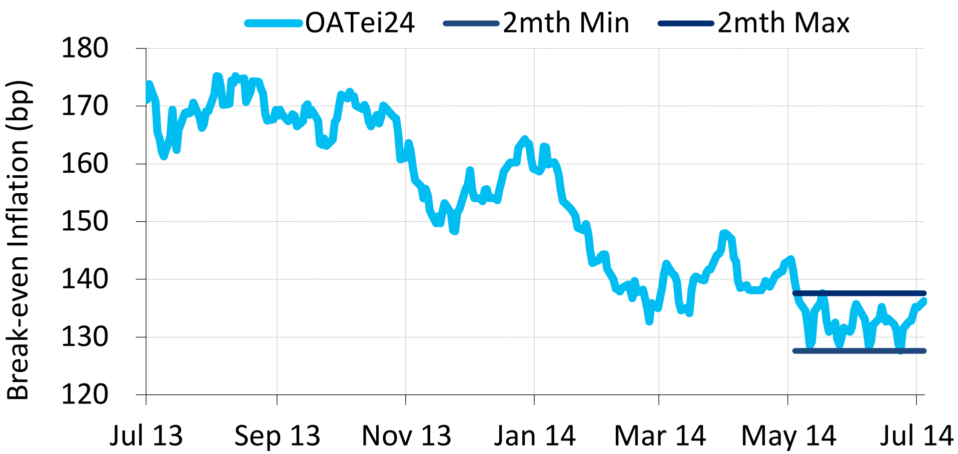


TRADE: Sell 10y Portugal outright at 3.58%, targeting 5.0% in a scenario of heightened vol

Source: Citi Research

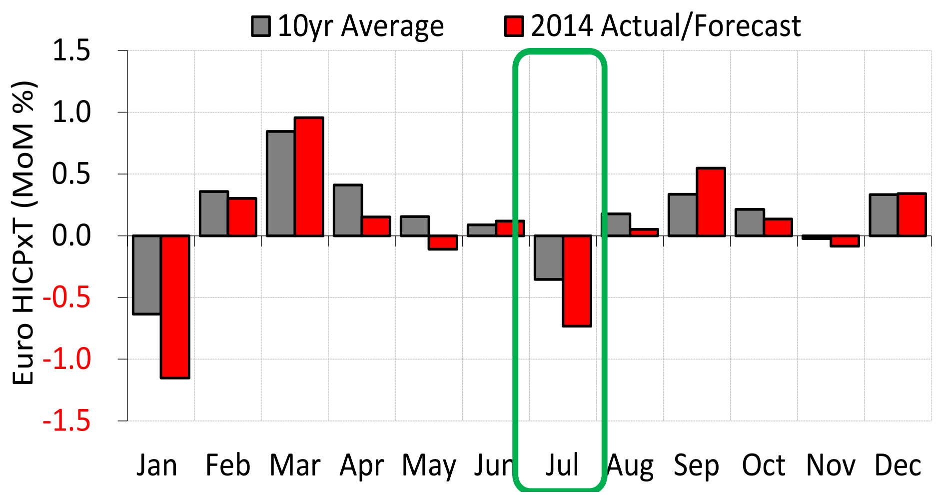
Euro Inflation – Boring Scenario

10yr euro break-even inflation spreads have been stuck in an 8bp range for 2mths. A boring scenario over the summer would see this continue. Now is a good time to sell break-evens, especially ahead of -ve carry in Sep.



Euro inflation curves are well priced for a sustained period of low inflation (and low prints over the summer). This limits the downside, especially given the possibility of more drastic action from the ECB. But at the same time, the poor inflation accrual, low real yields and heavy issuance is preventing break-evens from rallying. Break-evens are stuck in the range

The strong negative carry in September (thanks to the monthly fall in July HICPxT which this year is likely to be even more negative than usual) will soon come into view. With this in mind, we prefer to sell the rallies in euro break-evens (rather than buy the dips). Current levels offer an opportunity in our view.

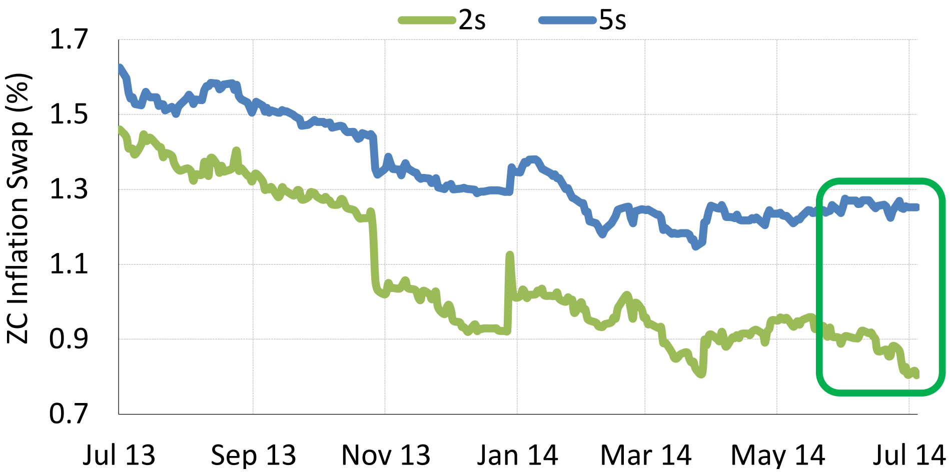


TRADE: Sell OATei24 BE @136bp, target 128bp, stop 142bp, carry +10bp to 1 October (Citi forecast).

Source: Citi Research

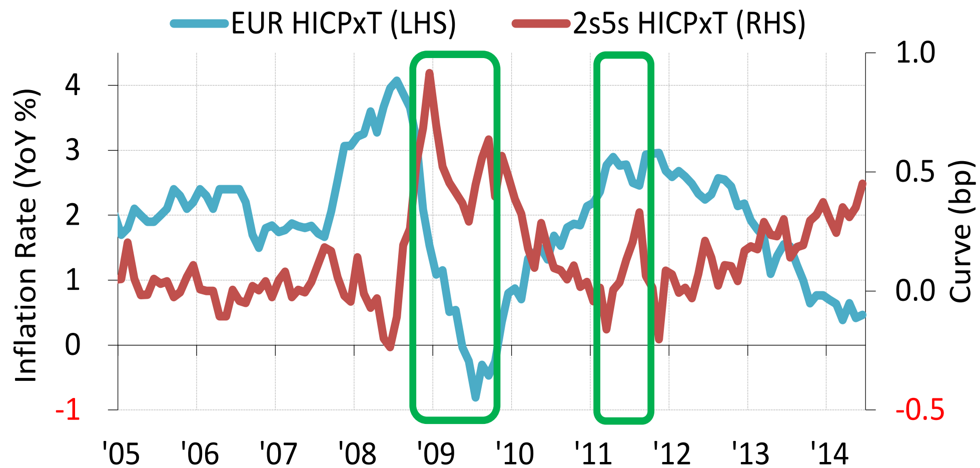
Euro Inflation – Volatile Scenario

The market is already well priced for low inflation over the summer, so the surprise would be if inflation starts to pick-up more quickly than anticipated. This could prompt 2yr inflation to quickly re-price from multi-year lows.



While 5yr HICPxT has been stable in recent weeks, 2yr HICPxT has come under renewed pressure taking it back to multi-year lows. 2s5s HICPxT has steepened around 15bp over the last 2 months

The HICPxT curve is sensitive to realised inflation. Any upside inflation surprises (from food? energy?) would likely flatten the curve. Moreover, if annual inflation is finding a base, the curve may also flatten. As the chart shows, 2s5s tends to anticipate the cyclical turning points in inflation



TRADE: EUR 2/5s HICPxt flattener @45bp, target 33bp, stop 51bp.

Source: Citi Research

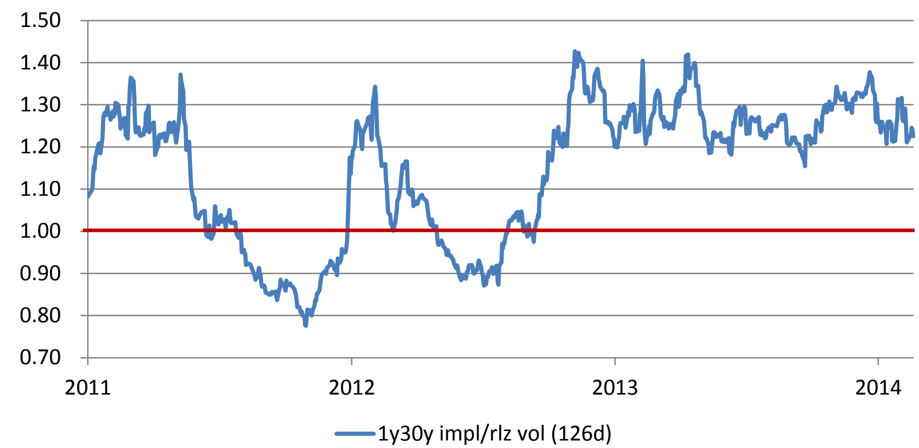
Volatility – Boring Scenario

Yet lower realised volatility will (continue to) support short volatility strategies

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	30y
1y	239%	28%	21%	21%	23%	23%	27%	35%	46%	56%	109%	181%	314%
2y	37%	38%	29%	24%	22%	23%	26%	29%	32%	35%	45%	50%	53%
3y	36%	23%	18%	15%	16%	18%	18%	19%	19%	20%	23%	25%	25%
4y	9%	8%	7%	8%	9%	10%	12%	13%	14%	14%	15%	16%	16%
5y	4%	4%	5%	6%	7%	8%	9%	9%	10%	10%	11%	12%	11%
6y	3%	3%	4%	4%	4%	4%	5%	5%	6%	6%	6%	6%	5%
7y	1%	2%	2%	3%	3%	3%	4%	4%	4%	4%	4%	4%	3%
8y	1%	2%	2%	2%	3%	2%	3%	3%	3%	3%	3%	3%	1%
9y	1%	1%	1%	2%	2%	2%	2%	2%	2%	2%	2%	2%	1%
10y	1%	1%	1%	1%	1%	2%	2%	2%	2%	2%	1%	0%	0%
15y	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-2%
20y	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-3%	-3%
30y	-2%	-2%	-2%	-2%	-3%	-3%	-3%	-3%	-3%	-2%	-2%	-2%	-3%

Assuming an unchanged vol surface and term structure, we compute one year rolldown PnL from first shorting ATMF straddle and then unwinding the structure after we posit that it has it been held one year, unhedged. Rolldown is then normalised by the unwind price, to finally obtain a total return measure, as it were. In particular, for one year maturity options the unwind price is clearly the sum of present values of the underlying swaps.

Sweet spot for short vol strategies is 1y30y in terms of rolldown. Moreover, 1y30y options trade at a significantly high premium vs. realised vol.

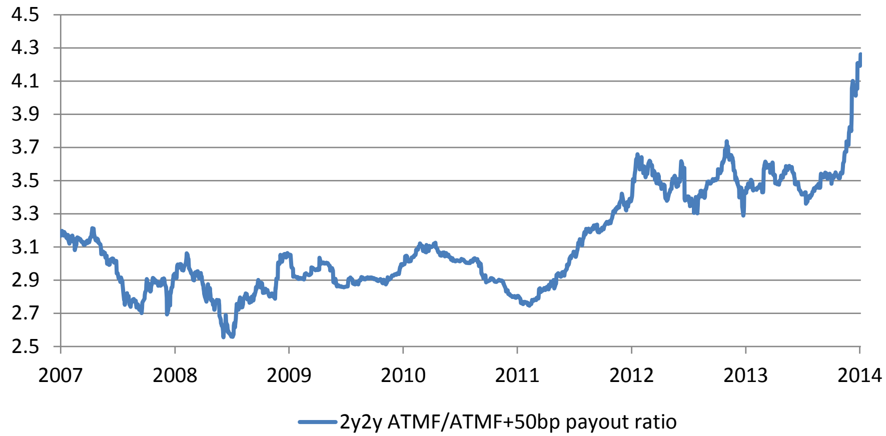


TRADE: Sell EUR 1y30y straddle at 50bpvol, target 40bp, stop 53bp. Carry +2.8mln/6m (x100mln unh).

Source: Citi Research

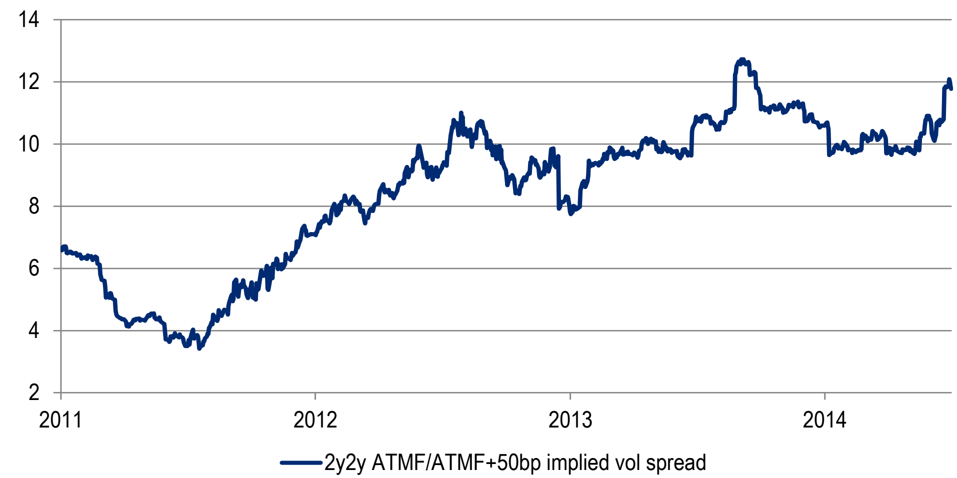
Volatility – Volatile Scenario

Play higher vol & flatter skew in the top-left for the tail scenarios of liquidity crunch and upward surprise in CPI



Attractive hedge vs. liquidity cliff risk or surprise in CPI inflation is offered by long positions on 2y2y payer spread which leaves investors long vega at inception with 1x1 structure currently offering historically high payout ratio.

Moreover, given the inverse relationship between level of rates and slope of the smile, the position sells the skew at extreme levels. The skew premium should fade in the scenario of rate normalisation.

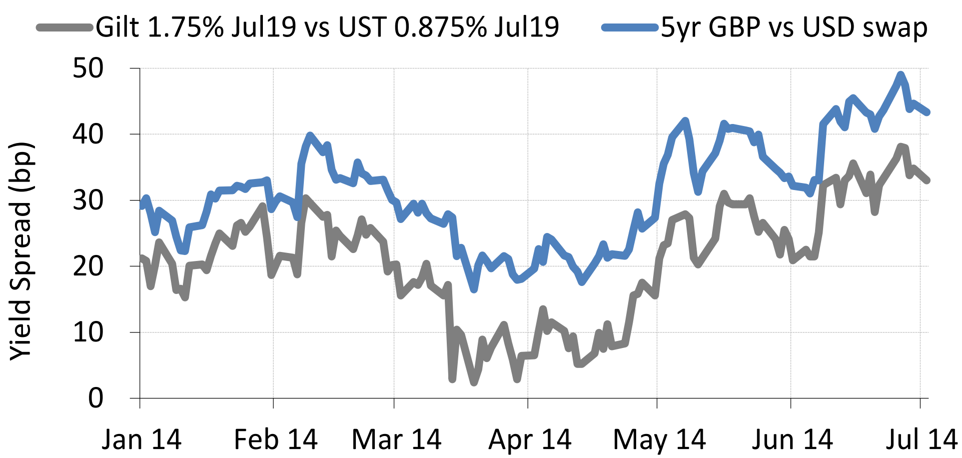


TRADE: Buy EUR 2y2y +50bp payer spread @25.5 cents. Max profit 100c. Carry -90% of prem/3m.

Source: Citi Research

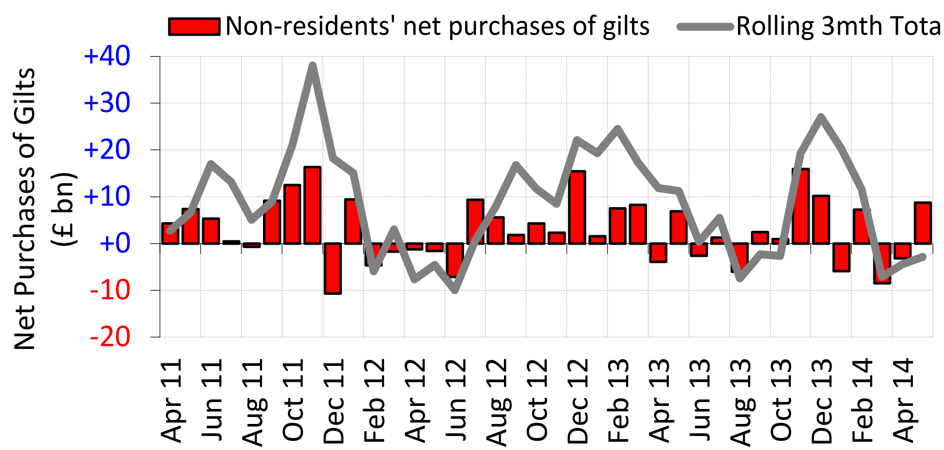
Gilt – Boring Scenario

Gilts have held a ‘special relationship’ with Treasuries for several years. An example of a boring scenario for gilts over the summer would be one in which gilts continue to trade within a very tight range to Treasuries.



5-10yr gilts continue to act as ‘substitutes’ for USTs and trade with a high beta. More recently, the re-pricing of the first rate hike in the UK has taken gilts to the cheap-end of their range vs USTs. A boring summer would see the range hold and favour gilt outperformance.

Overseas investors were net sellers of gilts in Jan-Apr to the tune of £10.2bn. In May, there was a net inflow of £8.8bn. High relative yield levels are likely to prompt more inflows into gilts over the summer from overseas investors.

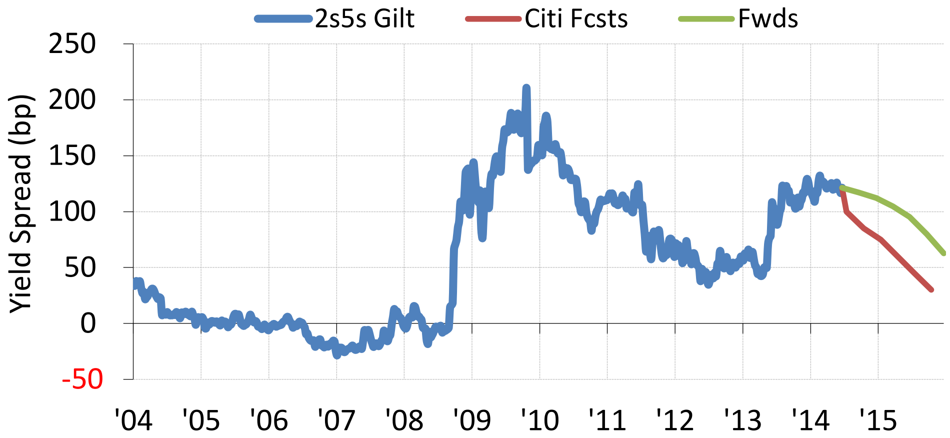


TRADE: Buy Gilt Jul-19 vs UST Jul-19 @33bp, target 26bp, stop 41bp, carry -0.9bp/2m.

Source: Citi Research

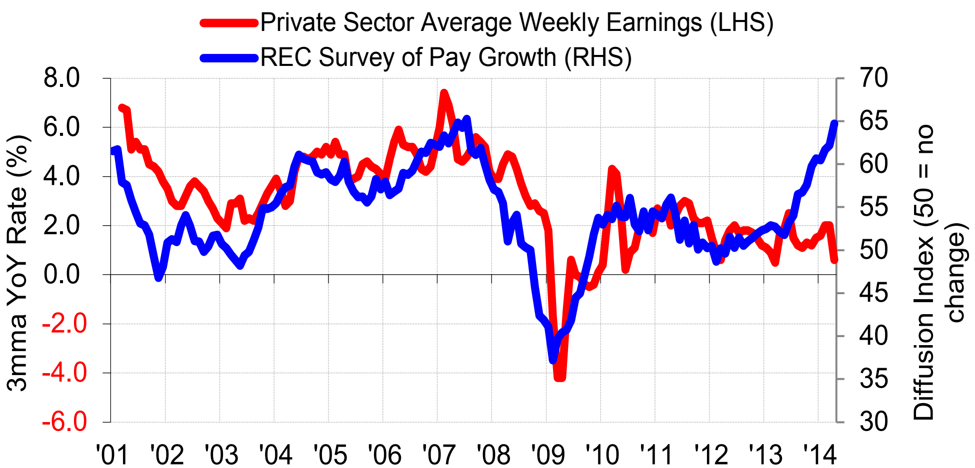
Gilt – Volatile Scenario

The market has moved to price in a high probability of a rate hike in Q4, but the market would be very unprepared for any data (such as a sudden pick-up in wage growth) or MPC rhetoric which pointed to a Q3 hike.



The 2s5 gilt curve remains historically steep, but is likely to flatten ahead of, and during, a hiking cycle. A Q3 rate hike can not be ruled out if the data strengthens even further. This would be a bigsurprise (the market prices 14% chance of an August hike) and would likely prompt 2s5s to flatten sharply, well beyond the forwards.

The most likely trigger for a sharp re-pricing of the front-end, and ultimately an even earlier rate hike, would be a sharp pick-up in real wage growth. Survey evidence, such as RECs, suggests that this is possible.

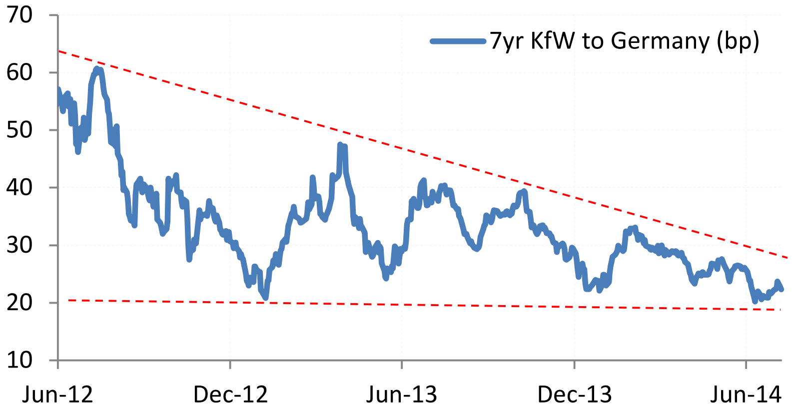


TRADE: Gilt 2/5s flattener, @121bp, target 90bp, stop 130bp, carry -4.5bp/3m.

Source: Citi Research

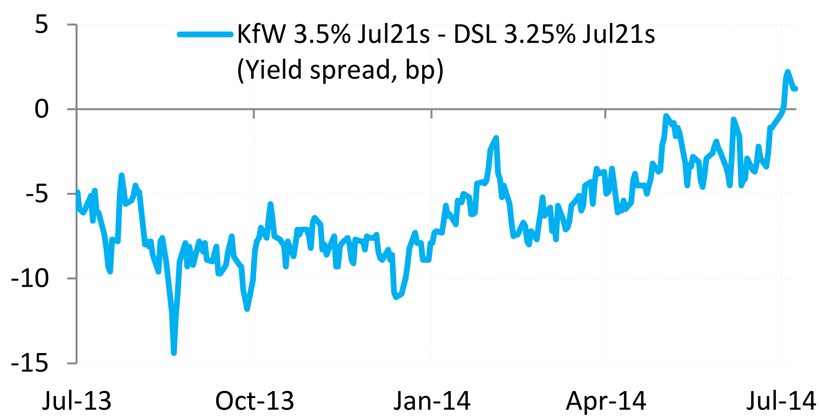
SSA – Boring Scenario

Shallower dips to buy on….we prefer cross market trades in the SSA RV hunt



KfW recently revised its 2014 funding volume down to €55bn-€60bn and is now 61% the way through. The fall in volatility and the hunt for yield now means that "buying on dips" is less feasible in the classic spread between SSAs and their reference governments. The boring scenario over the summer is likely to mean the low and range-bound spread dynamic continues

We therefore prefer viewing core names vs other EMU governments in the hunt-for-yield environment. One example at the moment is the outperformance of the Netherlands vs KfW where it is now possible to move into the German agency at a small spread pick-up

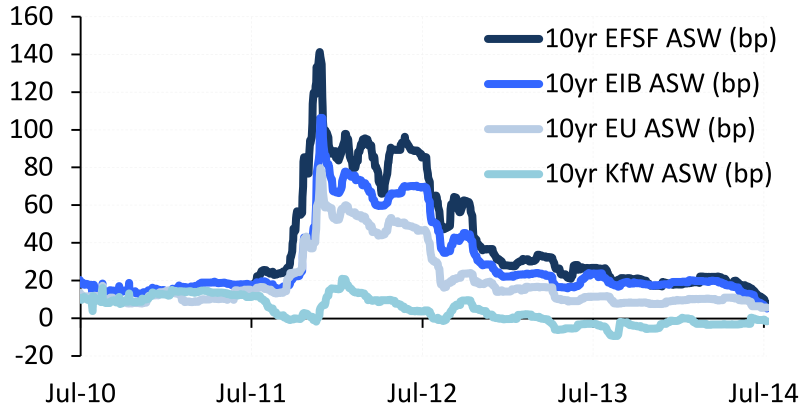


TRADE: Buy KfW Jul-21 vs DSL Jul-21 @0bp, target -6bp, stop +3bp.

Source: Citi Research

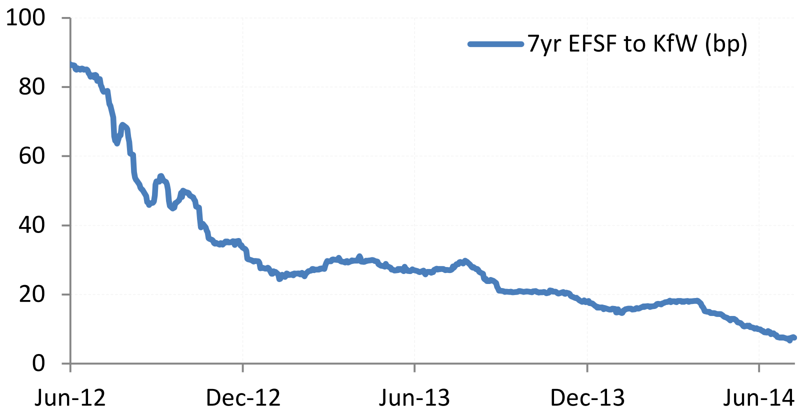
SSA – Volatile Scenario

Lower rates supras such as the EFSF underperform EIB, KfW and France in periods of volatility



In periods of enhanced market volatility, it is the higher beta, lower rated, less established supras that underperform such as the EFSF. At the peak of the crisis, 10yr ASW spreads reached 140bp; 10yr EFSF to swaps now trades at 6.5bp.

The risk-reward of holding the EFSF vs KfW is looking less and less enticing. We doubt the AA/A1 rated supra can trade at lower yields than KfW and spreads in the 7yr sector are now in single digits. KfW significantly outperforms in times of market volatility, hence in this scenario we would look to switch out of 7yr EFSF and into KfW

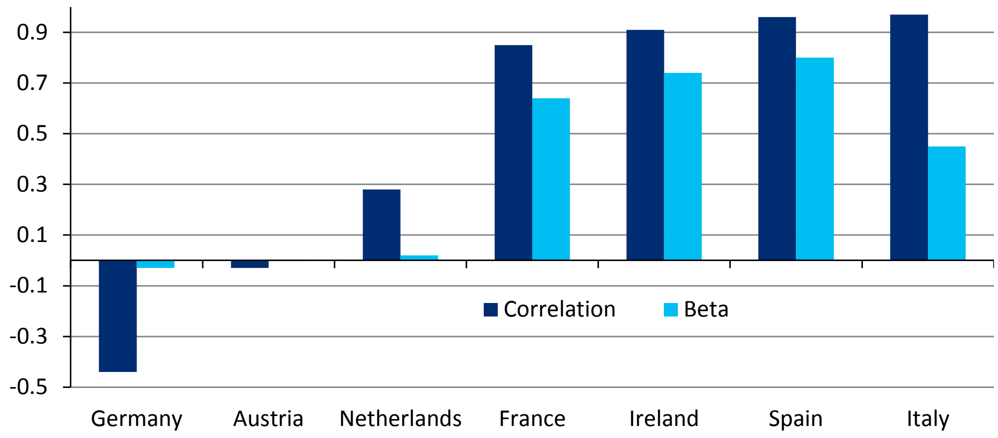


TRADE: Sell EFSF Jul-21 vs KfW Jul-21 @7.5bp, target 30bp, stop 0bp.

Source: Citi Research

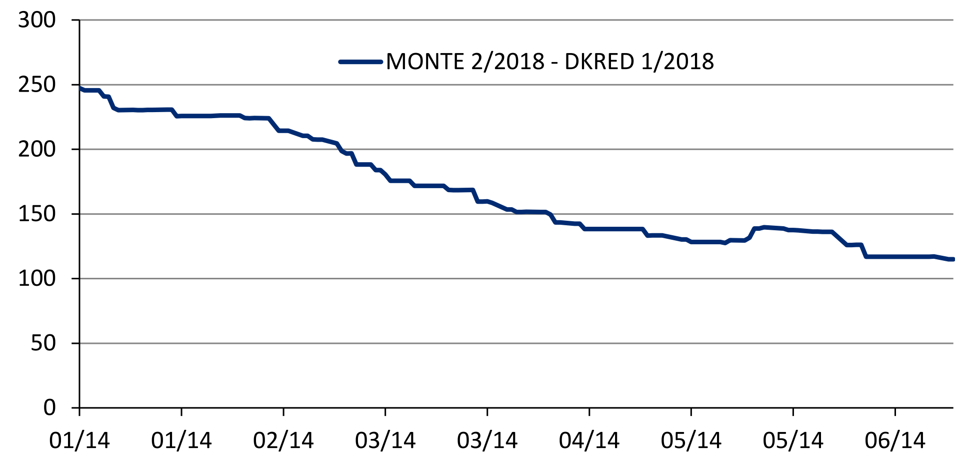
Covered Bonds – Boring Scenario

Supportive environment (vs swaps): Net negative supply, positive rating cycle for covered bonds and a benevolent regulatory treatment



Betas and Correlations between covered bonds and sovereign bonds (1yr horizon). Peripheral covered bond segments have been following movements in government bond markets very strongly – semi-core segments have done so in an increasing manner

Spread convergence has run far but there is still some potential to perform (mid-asw, bp) MONTE has seen an upgrade to investment-grade recently at Moody's. This should make the covered bonds eligible for a bigger investment group. We continue to like the bonds and expect further outperformance.

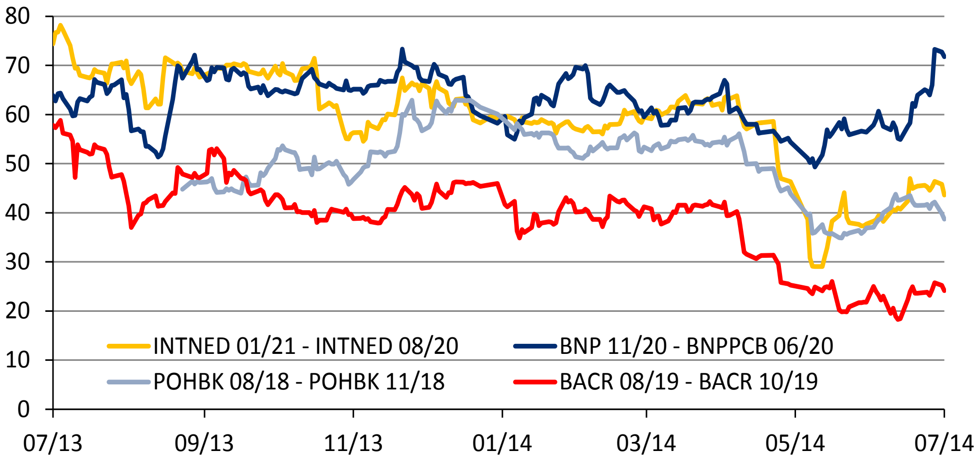


TRADE: Buy MONTE Feb-18 vs sell DKRED Jan-18 @111bp, target 90bp, stop 125bp.

Source: Markit, Citi Research

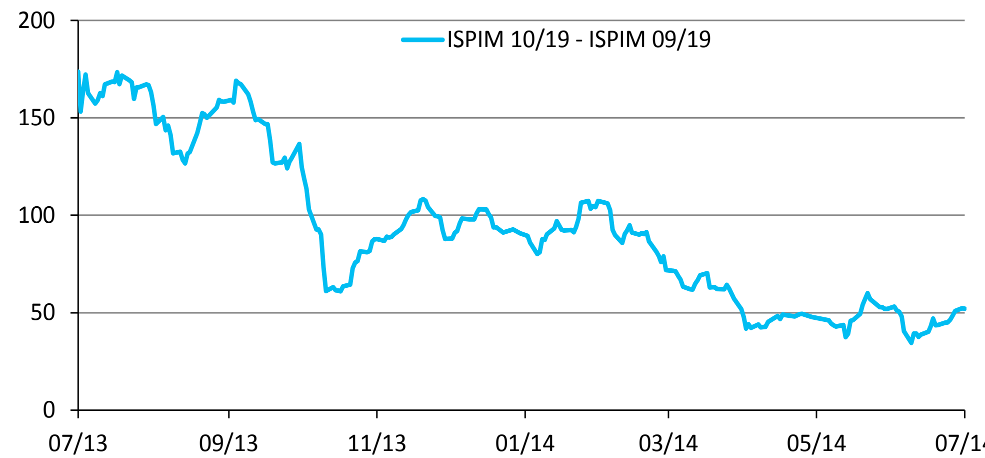
Covered Bonds – Volatile Scenario

Very tight senior-covered base & step up in quality into covered. Generally, markets may have mispriced BRRD implications for senior bonds, but higher beta of unsecured should eventually be a trigger for spread widening.



Senior-covered spread for covered bond issuers from (semi-)core markets
The introduction of BRRD in 2015 and bail-in procedures as of 2016 put senior bondholders to higher risk than in the past. This slowly seems to get priced in.

Senior-covered spread for covered bond issuers from peripheral markets (yield spread, bp)
However, with many issuers the senior-covered spread is still at all-time lows. We would use this opportunity to step up in quality when times become volatile.

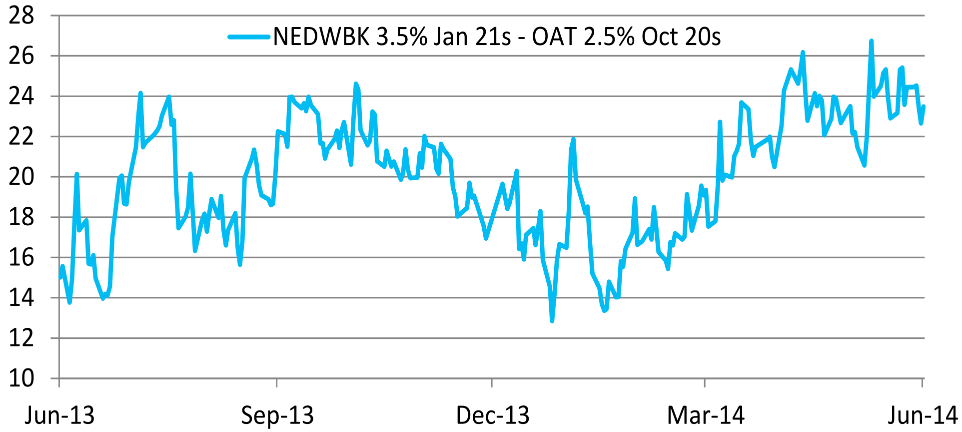


TRADE: Buy ISPIM Sep-19 vs sell ISPIM Oct-19 @52bp, target 100bp, stop 25bp.

Source: Citi Research; yield spread, bp

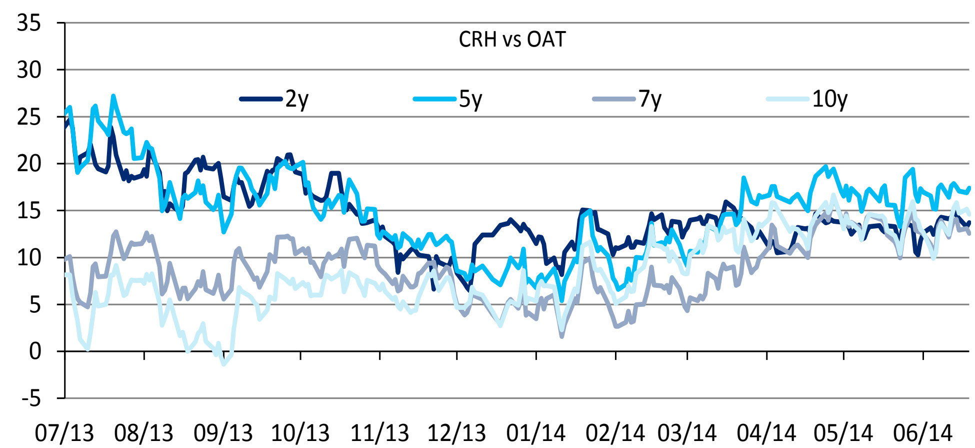
Regulatory Trends – Boring Scenario

The final composition of the LCR is key for spread markets. Expect a decision by September.



Most regions, agencies and supras will be eligible as HQLA assets in the Level 1 bucket. Even implicitly guaranteed agencies like NEDWBK woud be defined as Level 1 assets.

ECAI 1 CRR compliant covered bonds will be eligible as Level 1 assets while ECAI 2 CRR compliant covered bonds will be eligible as Level 2A assets. This should support (semi-) core covered bonds to EGBs.

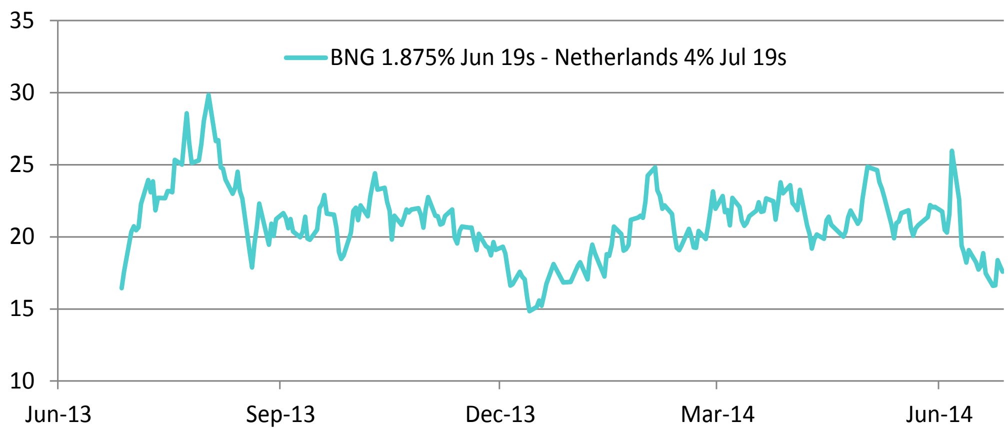


TRADE: Buy NEDWBK Jan-21 vs sell OAT Oct-20 @24bp, target 12bp, stop 30bp

Source: Citi Research; yield spread, bp

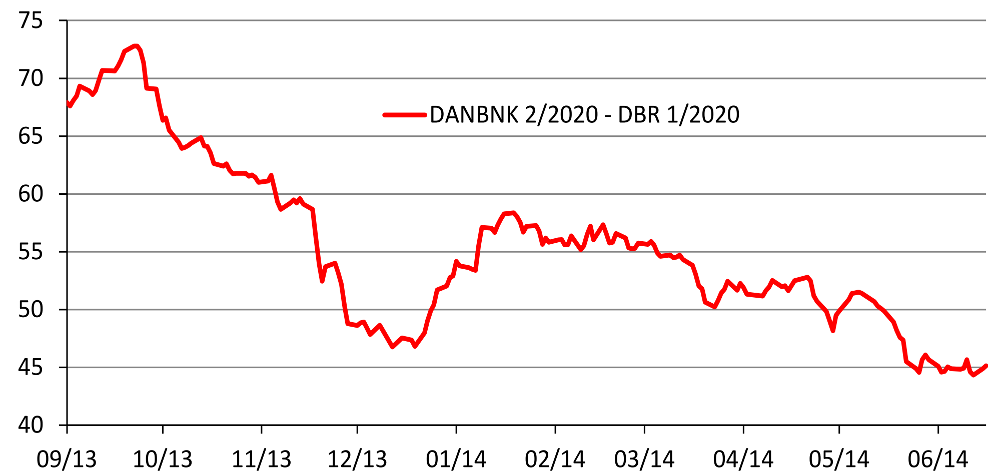
Regulatory Trends – Volatile Scenario

Several unanswered questions, esp. for regional debt with a risk weight of 20%. The most volatile scenario for covered bonds would be if they were treated following B3 recommendation, i.e. as Level 2A assets.



Dutch agencies BNG and NEDWBK rallied strongly given the expectation of both agencies becoming eligible for Level 1 assets. In the adverse scenario (Level 2A), we would prefer DSL to BNG, especially in the 5yr sector.

The Danish covered bond market would be affected most severely if covered bonds were defined as Level 2A assets. We would expect Danish covered bonds to widen slightly and underperform on a cross-asset basis.

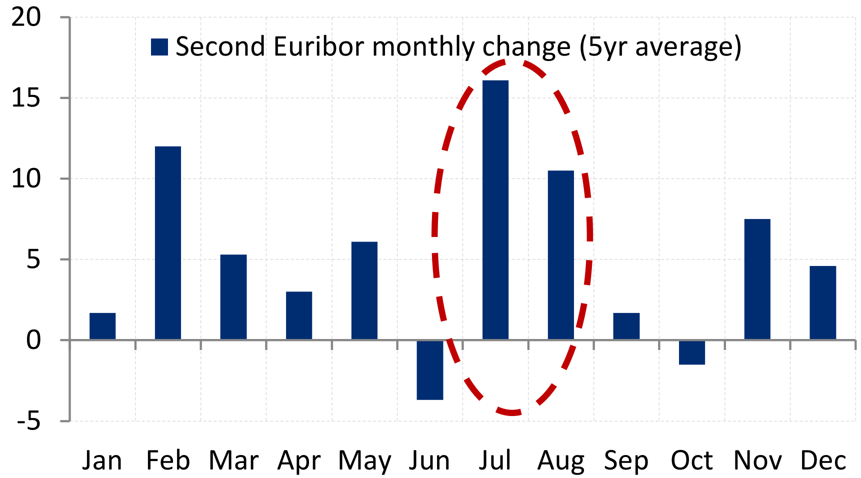


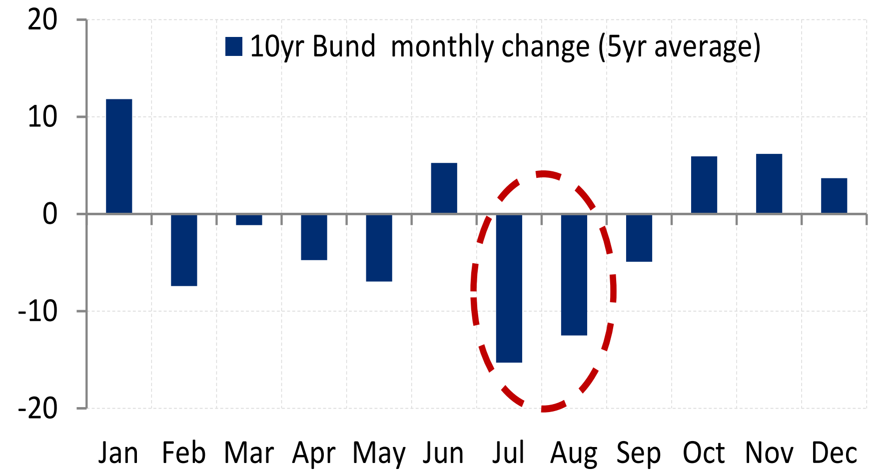
TRADE: Buy DBR Jan-20 vs sell DANBNK Feb-20 @45bp, target 60bp, stop 35bp

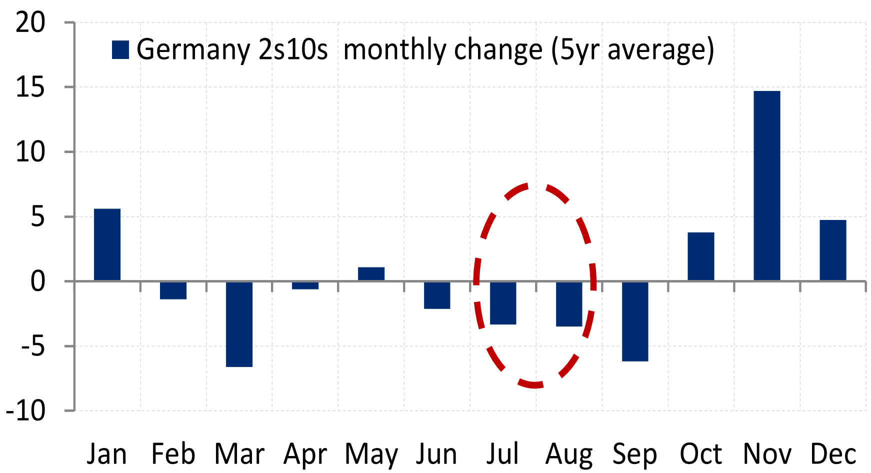
Source: Citi Research

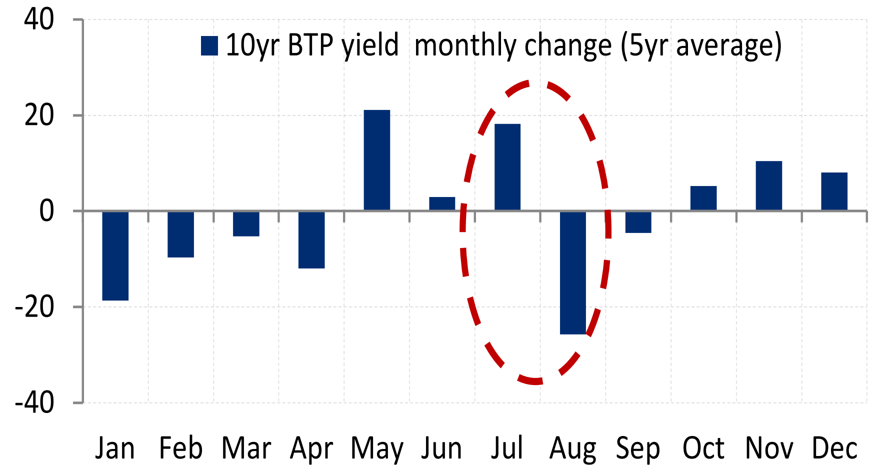
2. Seasonal Summer Patterns

Seasonal Patterns (1)



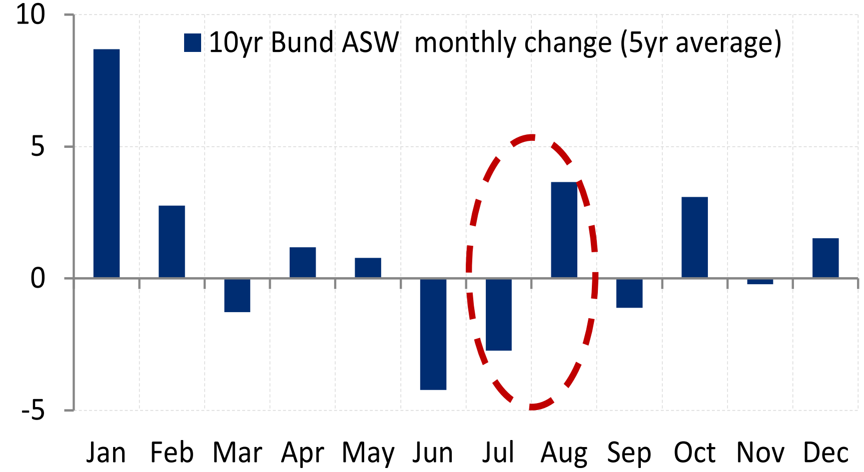


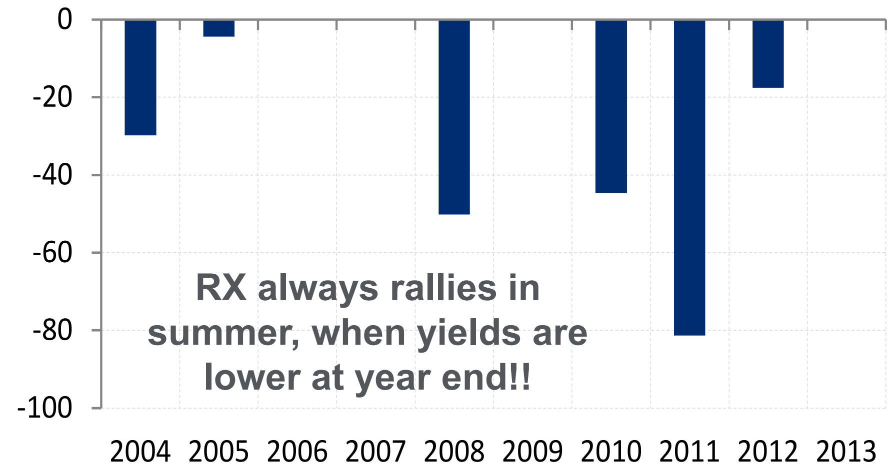


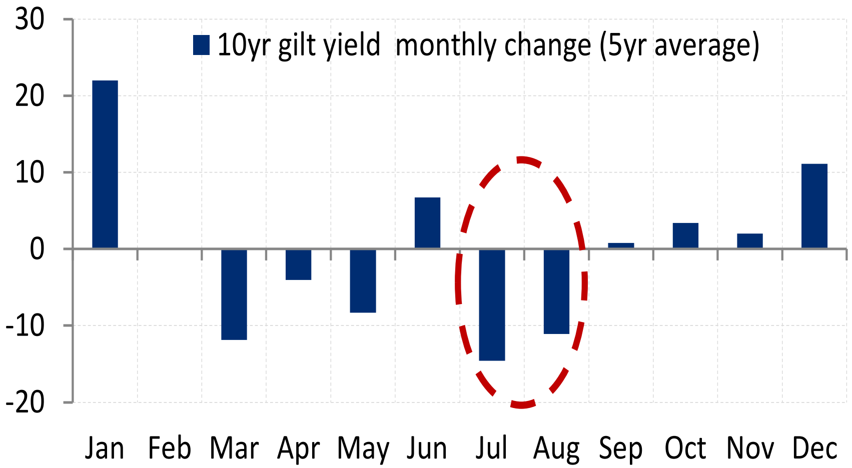


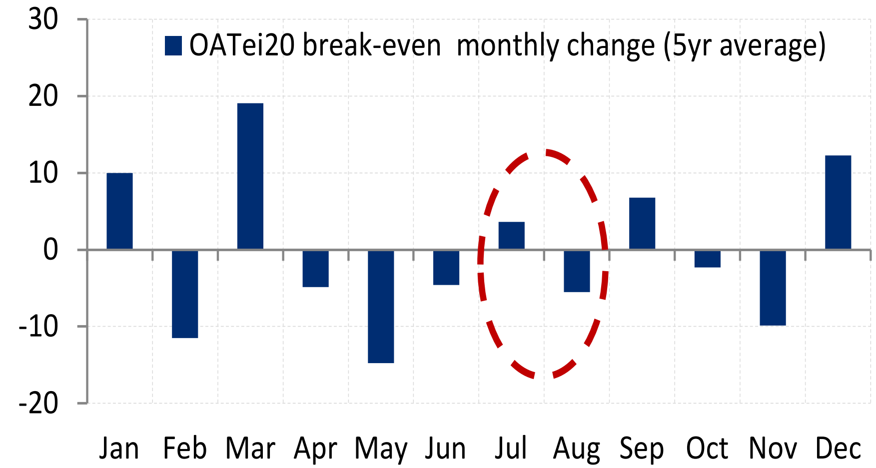
Source: Bloomberg, Citi Research

Seasonal Patterns (2)









Source: Bloomberg, Citi Research

3. Citi Forecasts

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Citi Macro Forecasts

	GDP Growth (%)				CPI Inflation (%)			
	2013	2014F	2015F	2016F	2013	2014F	2015F	2016F
Global	2.5	3.0	3.5	3.7	2.6	2.9	3.1	3.4
United States	1.9	2.2	3.2	3.2	1.1	1.6	1.9	2.2
Japan	1.5	1.5	0.9	1.2	0.4	2.8	1.7	1.6
Euro Area	-0.4	1.2	1.8	1.9	1.4	0.6	0.9	1.2
▪ Germany	0.5	2.2	2.5	2.5	1.5	1.2	1.8	2.2
▪ France	0.4	0.7	1.3	1.7	1.0	0.7	1.2	1.4
▪ Italy	-1.8	0.2	1.1	1.1	1.3	0.3	-0.2	0.3
▪ Spain	-1.2	1.3	1.9	2.2	1.5	-0.2	0.0	0.5
▪ Greece	-3.9	-0.6	1.2	1.4	-0.9	-1.6	-1.6	-1.0
▪ Ireland	-0.3	2.8	3.4	2.8	0.4	0.8	1.0	1.1
▪ Portugal	-1.4	1.2	2.0	1.9	0.4	-0.3	-0.7	-0.3
▪ Netherlands	-0.8	0.6	1.4	1.7	2.6	0.3	1.1	1.5
Sweden	1.6	2.4	2.7	2.8	0.0	-0.1	1.0	2.2
Switzerland	2.0	2.1	2.6	2.7	-0.2	-0.2	0.8	1.1
United Kingdom	1.7	3.5	3.6	2.8	2.6	1.6	1.9	2.1
Emerging Markets	4.5	4.5	5.0	5.4	4.7	4.9	5.2	5.1
China	7.7	7.3	7.0	7.5	2.6	2.6	3.2	3.8
India	4.7	5.6	6.5	7.0	9.5	8.0	6.5	6.5

Source: Citi Research

Citi Market Forecasts

	Current	4Q 2014	2Q 2015	4Q 2015	Average 2016	Average 2017
US Fed Funds	0.25	0.25	0.25	1.00	1.46	2.48
ECB Refi Rate	0.15	0.15	0.15	0.15	0.16	0.42
Japan Call Money	0.10	0.10	0.10	0.10	0.10	0.10
UK Base Rate	0.50	0.75	1.50	2.50	2.50	2.71
10 Yr US Treasury	2.59	2.90	3.05	3.20	3.20	3.35
10 Yr Euro (Bund)	1.33	1.50	1.55	1.60	1.80	2.05
10 Yr BTP-Bund (bp)	149	120	120	120	85	70
10 Yr OAT-Bund (bp)	50	40	40	40	40	40
10 Yr JGB	0.58	0.55	0.80	0.75	1.25	1.50
10 Yr Gilt	2.70	3.05	3.15	3.25	3.35	3.45
USD/EUR	1.36	1.36	1.36	1.39	1.41	1.42
YEN/USD	102	107	109	110	111	113
EUR/GBP	0.80	0.77	0.77	0.78	0.80	0.80
USD/GBP	1.70	1.77	1.77	1.77	1.77	1.78
USD/CNY	6.22	6.09	6.03	6.02	6.01	6.02

Source: Citi Research

Appendix A-1

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