

Euro Inflation-Linked Index Projection

Steepening pressure on the German real yield curve

- **EMU ILSI:** We project the modified duration of the EMU ILSI to extend by an unremarkable 0.01 at the end of July. The changes should be relatively supportive for 5-10yr real yields vs the long end.
- **Changes at a country level:** We expect the changes to be relatively supportive for German real yields at the margin. They are also likely to put steepening pressure on the 5s10s curve.

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Figure 1. End-July Change in EMU ILSI

EMU ILSI Duration			Largest absolute Duration changes over last year		
End Jun	End Jul(e)	Duration Change(e)	-ve	+ve	Average Absolute Change
7.34	7.35	0.01	-0.02	0.41	0.04

Source: Citi Research

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

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EMU Inflation Linked Index Projection

We project the EMU inflation-linked securities index (ILSI) to extend by just 0.01 at the end of July (Figure 1). As Figure 2 shows, this change falls in the median bucket over the last 3-year changes.

Compositional change

Issuance over the fixing period from 25 June to 25 July will be eligible for inclusion in the EMU ILSI Index at the end of July. Over this period, there was supply from Italy (€1.15bn across BTPei18 and BTPei26), Germany (€1bn of Boblei18) and France (€1.25bn across BTANi21, OATei24 and OATei40). The BTPei auction on 26 July will count towards the end-August index reshuffle.

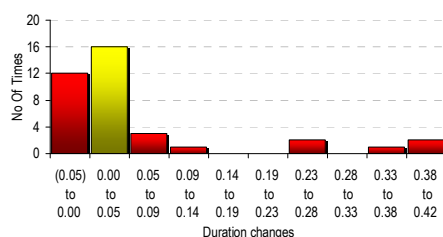
Bonds that fall below 1 year residual maturity on the last calendar day of the month are excluded from the index. No bond will drop out of the index this month.

Country breakdown

At the EMU level, changes should be relatively supportive for 5-10yr real yields vs the long end (Figure 3).

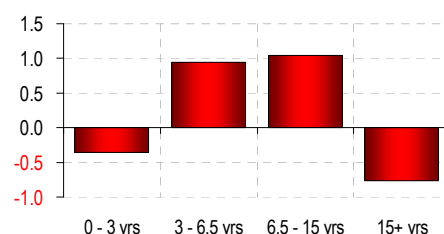
At a country level, we expect all three indices to extend at the end of July, led by the German index (Figure 4). The changes should be supportive for German real yields at the margin.

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



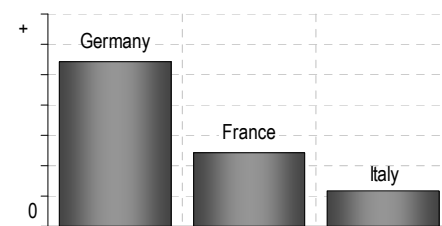
Source: Citi Research

Figure 3. Projected duration changes: Split by sector



Source: Citi Research

Figure 4. Projected weighted duration changes: Split by country



Source: Citi Research

Figure 5 shows the detailed breakdown of the projected end-July duration and index weight changes by country.

Figure 5. End-July EMU ILSI Projections

23-Jul-13	End of Jun - Actual		End of Jul - Projected		Projected Change			Largest absolute duration changes over last year (unweighted)		
	% weight in Index	Duration	% weight in Index	Duration	Weighted Dur Change X 100	Weight Change	Duration Change	-ve	+ve	Average Absolute Change
Germany	15.8	5.49	16.0	5.47	0.54	0.14	(0.02)	(0.02)	0.14	0.06
Italy	33.6	6.83	33.6	6.84	0.12	(0.04)	0.01	(0.05)	0.04	0.02
France	50.6	8.26	50.4	8.29	0.24	(0.16)	0.03	(0.03)	0.81	0.08

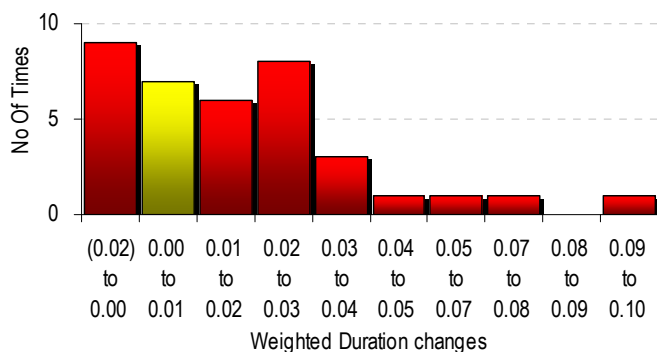
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Historical distribution and changes on the curve

Index changes likely to put steepening pressure on Germany 5s10s

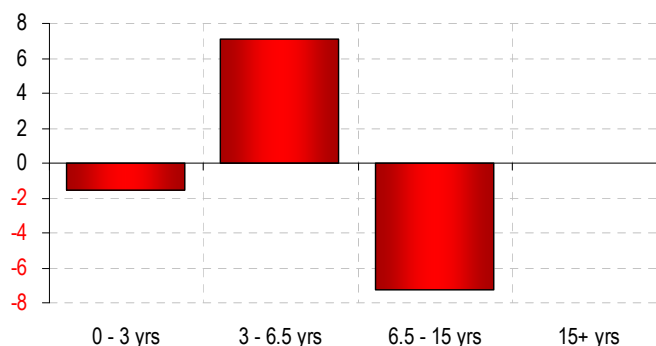
Figure 6 to Figure 11 show the distributions of weighted duration changes and the curve splits of the projected changes. On the domestic curves, the changes should put steepening pressure on Germany 5s10s, in real yield terms (Figure 7).

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



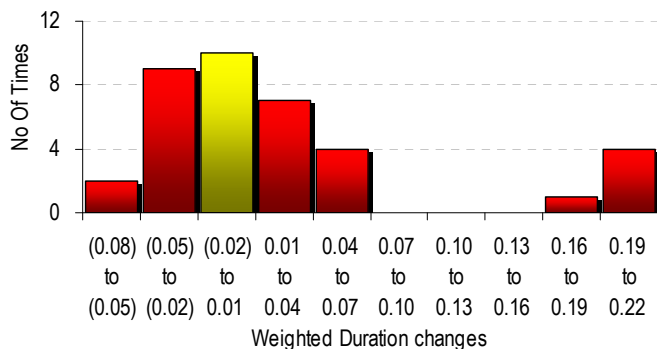
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Figure 7. Germany: End-July Projected Index Change by Maturity (Weighted Duration)



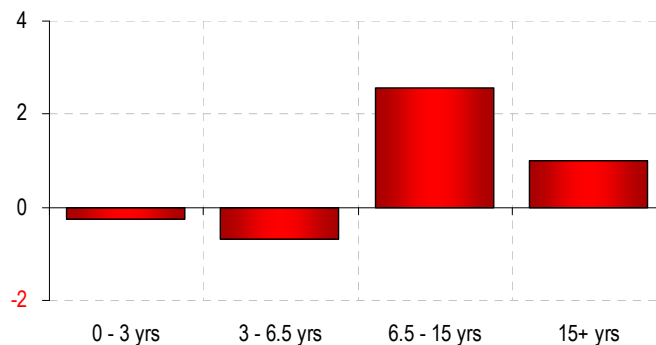
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Figure 8. France: Distribution of Month-End Duration Changes Over The Last Three Years (Weighted Duration)



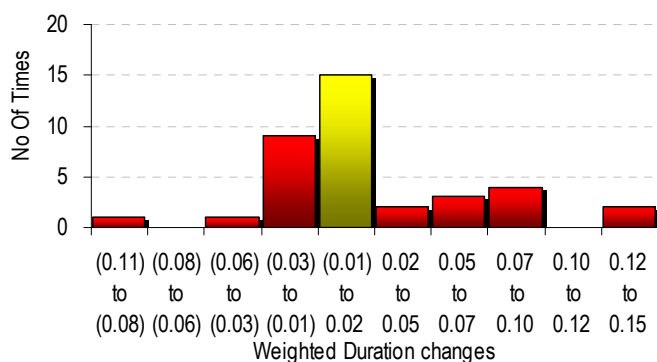
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Figure 9. France: End-July Projected Index Change by Maturity (Weighted Duration)



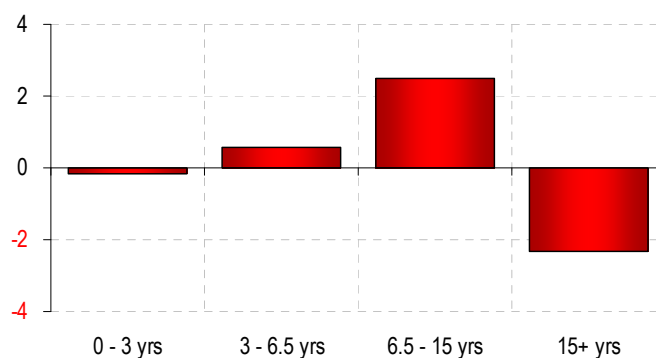
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Figure 10. Italy: Distribution of Month-End Duration Changes Over The Last Three Years (Weighted Duration)



Source: Citi Research

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



Source: Citi Research

Appendix A-1

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