

European Rates Weekly

The Trade-Off Between Carry and Duration

- **Euro Money Markets:** Following the October ECB meeting, we evaluate the prospects for carry trades at the front-end of the EUR curve. We maintain our preference to receive EUR 1y 3yF.
- **Carry and Duration Risk:** Carry remains an important factor for investors keen to eke out returns. The quality of carry has changed significantly recently, especially in EUR, and comparisons of volatility-adjusted carry show that the optimal maturities have increased. The more attractive carry environment should help put downward pressure on yields and support taking more duration risks.
- **UK Inflation:** The near-term risk-reward for 10yr break-evens is now much more balanced, despite possible RPI reform. We recommend taking profits on tactical short positions established around the CPAC meeting. Next week's new IL gilt Mar24s is likely to attract switch interest out of the relatively rich Nov22s.
- **European SSA:** Although core SSA spreads are somewhat softer, this follows the strong rally over the summer months. Fundamentally, we do not see drivers for a significant re-pricing in yields in the near-term. We also review issuance patterns in KfW and the EU which probably helps explain cross issuer spreads in the front-end.
- **Algorithmic Trading Signals:** Maintain core long duration but wait for more attractive yield levels to re-enter longs.
- **3 EMU RV Trades:** Switching into Oct14s in France presents an attractive short-term opportunity. The relative cheapness of Apr15s in the Netherlands also provides a good switching opportunity on the domestic curve.

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

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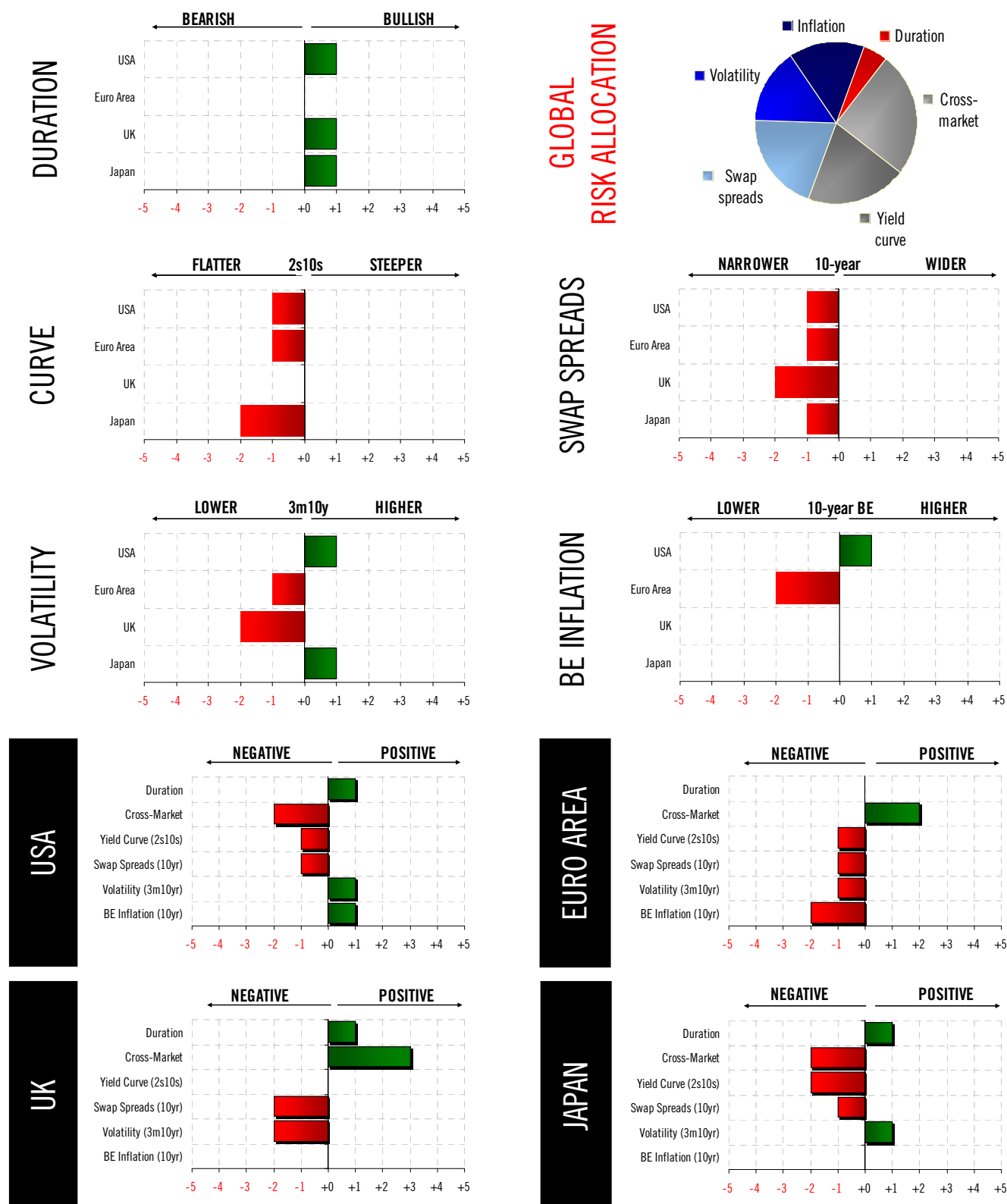
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Figure 1. Strategy Summary Table

GLOBAL	View	Strategies
Direction	Recent policy measures have bought time but fundamental and implementation/political risks remain. On any medium term horizon we would still rather be long than short, especially given our economists warning that Grexit remains a possibility over the coming months.	Neutral on duration with Bunds at 1.45%. Cross-market trades and swap spreads offer much better value than outright duration trades.
Money Market	We like receiving longer-dated 1y forwards. This trade profits - of course - from a rate cut scenario as well in a situation of long-term unchanged rates, in which the market is desperate to grab the additional yield in forward space. This strategy rolls down by a cumulative 80bp in 24 months. Looking at Japan, the JPY 1yly rate dropped to a low of 0.08% in June 2003.	Receive EUR 1y3yF
Yield Curve	There has been interest in 5s10s Bund flatteners around the 12m highs. We see scope for further flattening, especially given our bullish duration bias.	10s30s steepeners in Germany as a long-term trade (or boxed with Gilts). Use POs (over cash) for 5s30s flatteners in OAT or OLOs if you have a long-end flattening view
Cross-market	We continue to prefer Bunds to Treasuries over the longer-term and expect a reversal of the recent tightening to continue.	Long 2x5 ATMF/+100 payer spread in USD versus EUR Long 30yr gilts vs USTs Receive EUR 2y2y vs USD 2y2y
EMU Spreads	With so much priced in the aftermath of the OMT the risks are skewed to flatter periphery curves. We would not dismiss the wider and challenging fundamental backdrop as a governor of EMU spreads in the longer term. The risk-reward of semi-core vs core wideners also looks appealing here.	Sell 5yr Austria vs Germany 2s10s flatteners in Spain and Italy
Swap Spreads	Bund spreads have tightened significantly in the last two months. 30yr spreads are at levels which are likely to attract real money interest and we favour wideners here. We suggest selling Schatz vs EONIA as a way to express a deposit rate cut into negative territory. Gilt spreads continue to cheapen, influenced by the core market sell-off and corporate issuance.	Sell Schatz vs EONIA Long 30yr Bund swap spreads
Inflation	We recommend taking profits in tactical short positions in 10yr UK break-evens established around the time of the CPAC meeting. The market has arguably almost fully priced in RPI reform making the risk-reward unattractive. Euro break-evens continue to challenge 1yr highs and remain rich vs fundamentals, in our view.	Sell OATei22 vs Bunde23 real yield spread Sell OATei40 break-even outright or boxed vs UKTI 2040 10s30s TIPS break-evens steepeners as a LT structural trade.
Volatility	We recommend bullish positions in EUR front-end fwds which are considerably elevated vs spot and do not reflect further ECB action. GBP 2y2y vol is too rich vs fundamentals, we suggest selling straddles.	Sell EUR 3y1y ATMF straddles and buy EUR 3y1y ATMF-25 receivers. Alternatively, sell EUR 3y1y ATMF payers Sell GBP 2y2y ATMF straddles
European SSA	Although spreads have been somewhat softer recently, we do not think this marks the start of significant underperformance. Recent moves should be placed in the context of the summer rally and we expect a largely range bound market in Q4.	Long KfW vs France in the 4yr sector Micro extension trades in core issuers
Risk Allocation	Keep overall risk light but continue to trade opportunistically rather than strategically. Prefer cross-market and swap spread risk than outright duration trades.	

Source: Citi Research

Figure 2. Global Summary



Source: Citi Research

Tradesheet

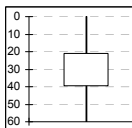
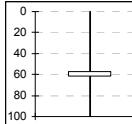
Record of Our Open Trades

Figure 3. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
Europe	Receive EUR 1y3yF	Open 136bp Current 121bp P&L 15bp Target 50bp Stop 150bp	ECB rate cut and very high carry should be supportive for this trade IIRS 13 September 2012	
Europe	Sell 5yr Austria vs 5yr Germany	Open 24bp Current 27bp P&L 3bp Target 40bp Stop 16bp	Risk of delay to the ECB's OMT programme and attractive entry levels IIRS 13 September 2012	
Europe	Italy 2s10s flattener	Open 280bp Current 278bp P&L 2bp Target 250bp Stop 290bp	We expect this strategy to work in both a risk-on environment (duration extension across front-end BTPs) & risk-off environment (increase in credit risk would bear-flatten the curve) Assessing the Impact of a Theoretical OMT... 12 September 2012	
Europe	France 2s5s Steepener	Open 70bp Current 71bp P&L 1bp Target 100bp Stop 60bp	Proxy for shorting France vs Germany IIRS 16 August 2012	
Europe	Sell EUR 1y3yF ATM straddle and buy ATM-25 receiver	Open 63bp Current 53bp P&L 10bp Target 30bp Stop 73bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken IIRS 9 August 2012	
Europe	Long KfW 1.375% Feb17s vs OAT 5% Oct16s	Open 1bp Current 2bp P&L 1bp Target 20bp Stop -10bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify IIRS 2 August 2012	
UK	Sell GBP 2y2y ATM straddle	Open 76bp Current 65bp P&L 12bp Target 0bp Stop 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol IIRS 12 July 2012	
Europe / US	Buy USD Payer Spread vs EUR (delta-weighted and fx-adjusted)	Open 5bp Current 7bp P&L 2bp Target 25bp Stop -5bp	Range-bound short rates with short term cash-flow support for Europe IIRS 12 July 2012	
Germany	Germany 10s30s steepener	Open 88bp Current 88bp P&L 0bp Target 120bp Stop 75bp	Replaces 5s30s steepener. Regulatory pressures expected to weigh on long end. IIRS 12 July 2012	
US / Europe	Long 10yr Bund vs UST	Open 14bp Current 16bp P&L 2bp 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	
US / UK	Long 30yr Gilt vs UST	Open 36bp Current 24bp P&L 12bp Target 0bp Stop 50bp	With Operation Twist extension largely priced in, QE resumption should help gilts outperform treasuries UK Rates Strategy 20 June 2012	

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	21bp		
			P&L	19bp		
			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	57bp		
			P&L	5bp		
			Target	0bp		
			Stop	100bp		

Source: Citi Research

Euro Money Markets

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With the October ECB out of the way, it's time to evaluate the prospects for carry trades at the front-end of the EUR curve.

All Fine? Not really...

Looking at the Eonia curve, there is meaningless probability of the ECB cutting deposit rates by year-end (Dec ECB @7/8bp). In our view, a cut of the main refinancing rate or unchanged interest rates are two scenarios that cover almost entirely the probability space for standard policy response in 2012.

In our view, the level of 'complacency' with regards to macroeconomic trajectories and the ability to manage the sovereign crisis expressed by Eurozone and ECB officials is out of place. While market stress indicators like the Euro cross-currency basis have retraced significantly from the widest levels reached in June, the price for hard-currency liquidity is by no means consistent with an 'old normal' market environment.

Furthermore, the strong correlation between Euro cross-ccy and peripheral CDS (Figure 5) is both a source of concern as well as valid hedging vehicle for large dealing books. In economic terms, this relationship embeds a sovereign risk premium into the otherwise stable premium for swapping local cash flows into hard currency cash flows.

Figure 5. Euro cross-ccy basis as an index of stress

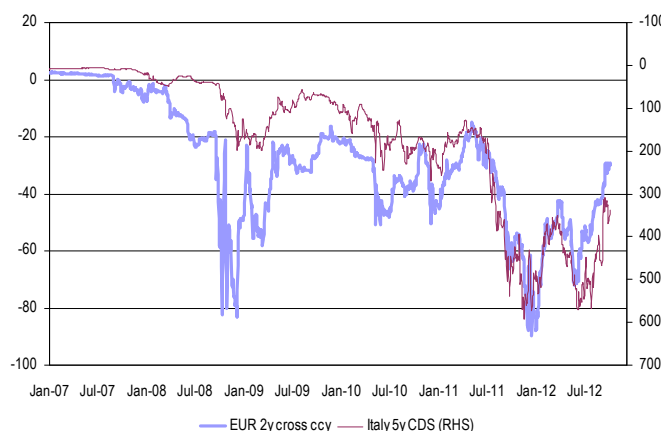
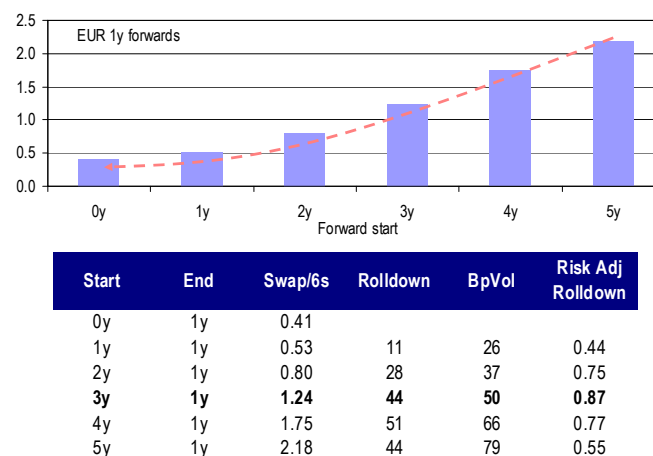


Figure 6. The Japan-style trade in detail



Source: Citi Research

Source: Citi Research

In terms of trade ideas, we maintain the view expressed in [previous publications](#) and like receiving EUR 3y1y @1.24%. The position rolls down by about 70bp in 24 months (EUR 1y1y @0.53%) with the additional gear of profiting from the ECB cutting rates and the Japan-style scenario (JPY 1y1y around 10bp at the low in 2003). Looking at volatility-adjusted roll-down, the 3y1y point seems to dominate the forward space of 1y-rates (Figure 6).

The trade-off between carry and duration

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Carry remains an important consideration for investors keen to eke out returns. Although the absolute level of total carry is broadly similar across currencies, there are significant differences in terms of the relative contributions of roll and carry. Equally importantly, the quality of carry has changed significantly recently, and especially in EUR. Comparisons of volatility-adjusted carry show that the optimal points on the various curves have got longer. Carry is rarely the dominant driver of direction or relative demand, but it is important to know where it is most attractive and how it is changing. It is supportive of taking more duration risk.

This article is an updated and extended version of the analysis published in our 3 October [The Morning Call: EMU Flow, Carry and Duration Risk](#).

Volatility-adjusted carry – extended analysis

Volatility-adjusted carry peaks at the 10yr point in EUR

Figure 7 shows carry adjusted for volatility¹ across the five major markets. You can clearly see it peaking in the 10yr point for EUR, USD and AUD, and the 20yr point for GBP and JPY.

Figure 7. Volatility-adjusted carry highest in 10yr and 20yr parts of the curve

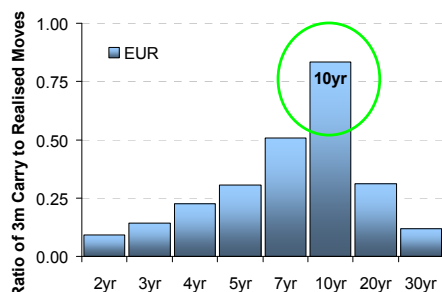
		Max	Average	2yr	3yr	4yr	5yr	7yr	10yr	20yr	30yr
EUR	10yr	0.83	0.32	0.09	0.14	0.23	0.31	0.51	0.83	0.31	0.12
USD	10yr	1.32	0.47	0.07	0.15	0.28	0.44	0.92	1.32	0.42	0.21
GBP	20yr	0.70	0.34	0.01	0.09	0.17	0.26	0.41	0.63	0.70	0.48
JPY	20yr	1.43	0.47	-0.26	-0.08	0.08	0.27	0.72	0.99	1.43	0.63
AUD	10yr	0.24	0.06	-0.24	-0.04	0.05	0.12	0.23	0.24	0.11	0.02

Source: Citi Research

Comparison of the variation in volatility-adjusted carry with maturity, across currencies

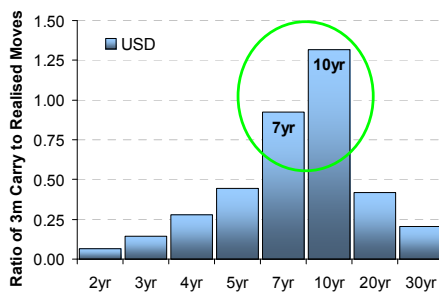
The three figures below show how volatility-adjusted carry varies with tenor in EUR, USD and GBP. As you can see, volatility-adjusted carry in EUR is much higher at 10yr point than other maturities (Figure 8). In USD the high point is also 10yrs, but 7yrs is also significantly higher than other maturities (Figure 9). In GBP, vol-adjusted carry increases with maturity out to 20yrs, after which it falls off.

Figure 8. Volatility-adjusted carry in EUR much higher at 10yr point than other maturities



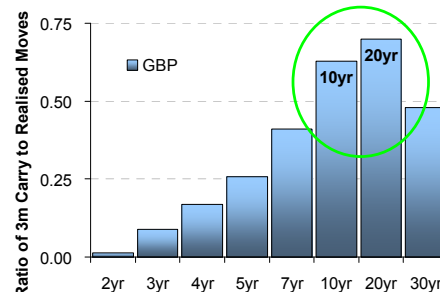
Source: Citi Research

Figure 9. Volatility-adjusted carry in USD is highest at 10yr point, but also high in 7s



Source: Citi Research

Figure 10. Volatility-adjusted carry increases with maturity up to the 20yr point in GBP



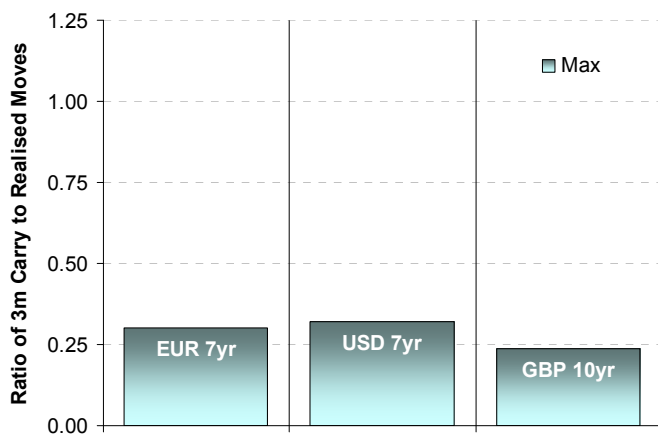
Source: Citi Research

¹ We have used swaps for ease of calculation, comparison and accuracy. Carry here is used to denote total carry = carry + roll. We decompose total carry towards the end of the article.

Taking duration risk is far more attractive than previously in terms of carry and roll

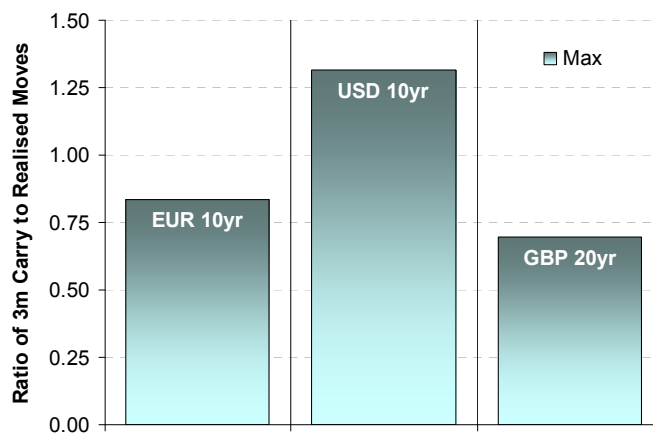
Compared to just a month ago, volatility-adjusted carry has increased significantly, and the high-point on the curve has moved longer. In other words, while previously investors were not rewarded (in carry terms) for taking duration risk beyond the 7yr point in EUR, for example, the quality of carry now points to extending on the curve. And the quality of carry has also risen, i.e., in carry terms, taking duration risk is far more attractive than previously.

Figure 11. A month ago, vol-adjusted carry was much lower and peaked at shorter maturities compared to today.



Source: Citi Research

Figure 12. Compared to a month ago, vol-adjusted carry is much higher and peaks at longer maturities.



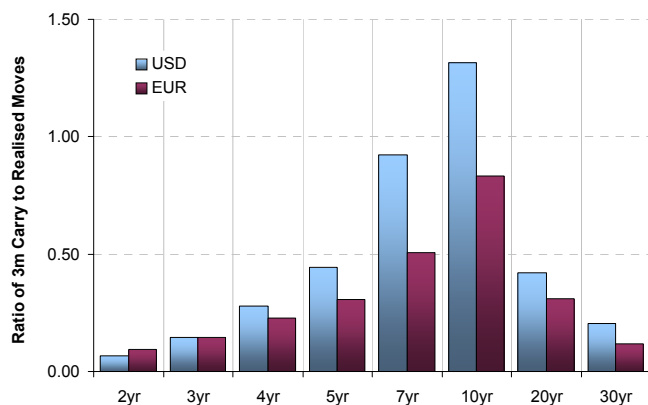
Source: Citi Research

Comparing volatility-adjusted carry across the curve in EUR and USD

Relative vol-adjusted carry favours USD over EUR in 7 and 10yrs

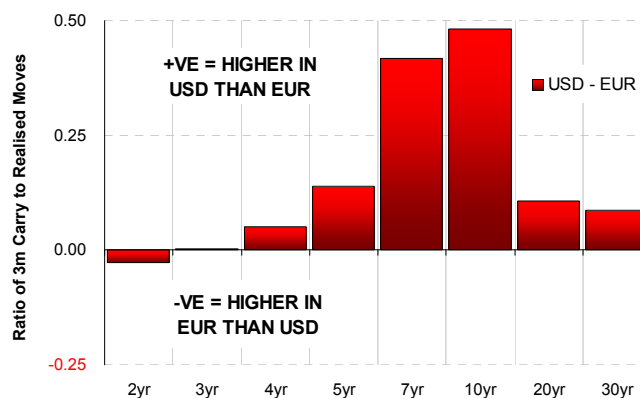
The figures below compare vol-adjusted carry across the curve in different currencies. The 10yr point is where it peaks in both USD and EUR (Figure 13) but this is also where the differential, in favour of USD, is greatest (Figure 14).

Figure 13. Vol-adjusted carry more attractive in USD than EUR across the curve (except 2yrs)



Source: Citi Research

Figure 14. The differential (in favour of USD) is highest in 7 and 10yrs.



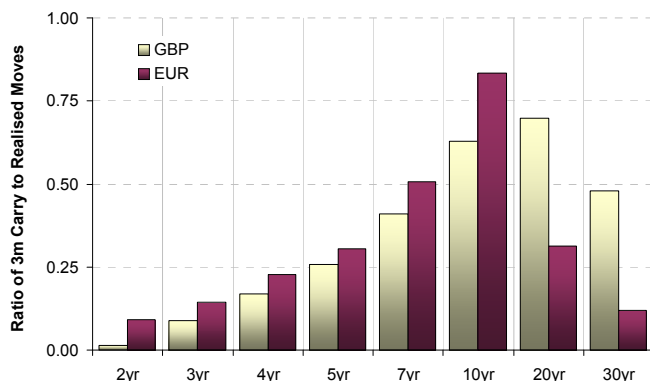
Source: Citi Research

Comparing volatility-adjusted carry across the curve in EUR and GBP

Relative vol-adjusted carry favours GBP over EUR in 20 and 30yr maturities

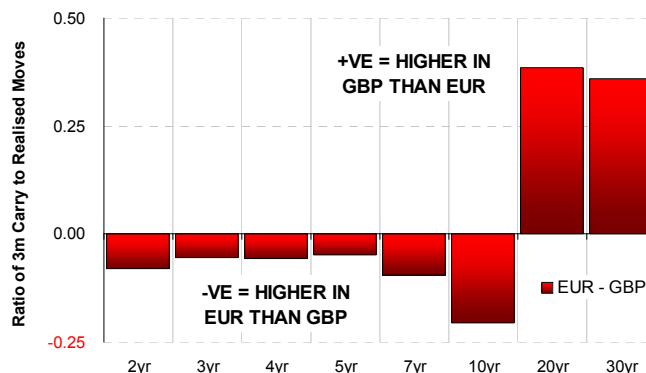
Vol-adjusted carry peaks at the 20yr point in GBP, rather than 10yrs as it does in EUR (Figure 15). Vol-adjusted carry differentials between EUR and GBP are negligible out to 10yrs, but turn significantly in favour of GBP for longer maturities (Figure 16).

Figure 15. Vol-adjusted carry more attractive in EUR than GBP, but beyond 10yrs this relative advantage turns strongly in favour of GBP



Source: Citi Research

Figure 16. Clear differential in favour of GBP over EUR in 20 and 30yrs



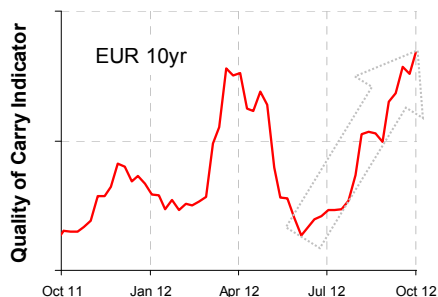
Source: Citi Research

Changes in quality of carry

Quality of carry in EUR is at its highest for two years

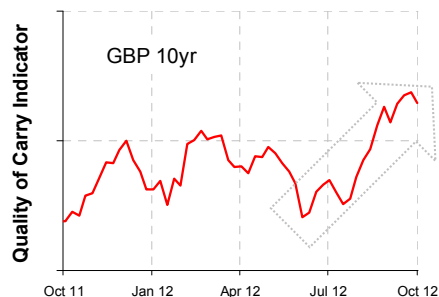
Given the relative curve moves, it is no surprise that the biggest increase in carry and roll on offer has been in EUR, but it is worth highlighting that this is around its highest level in two years in EUR (Figure 17). Quality of carry in 10yr GBP has also moved to its recent highs (Figure 18), but is lower than in EUR. The increase in USD has been the least (Figure 19).

Figure 17. Quality of carry has risen sharply in 10yr EUR over the last 3 months



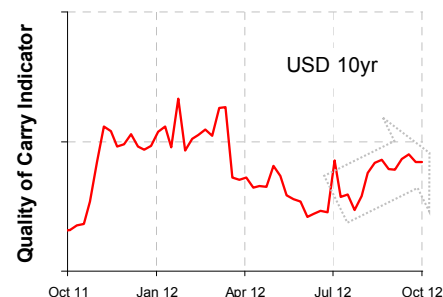
Source: Citi Research

Figure 18. Quality of carry in 10yr GBP has risen in the last 3m, but less than in EUR



Source: Citi Research

Figure 19. The rise in the quality of 10yr USD carry in the last 3 months has been more muted



Source: Citi Research

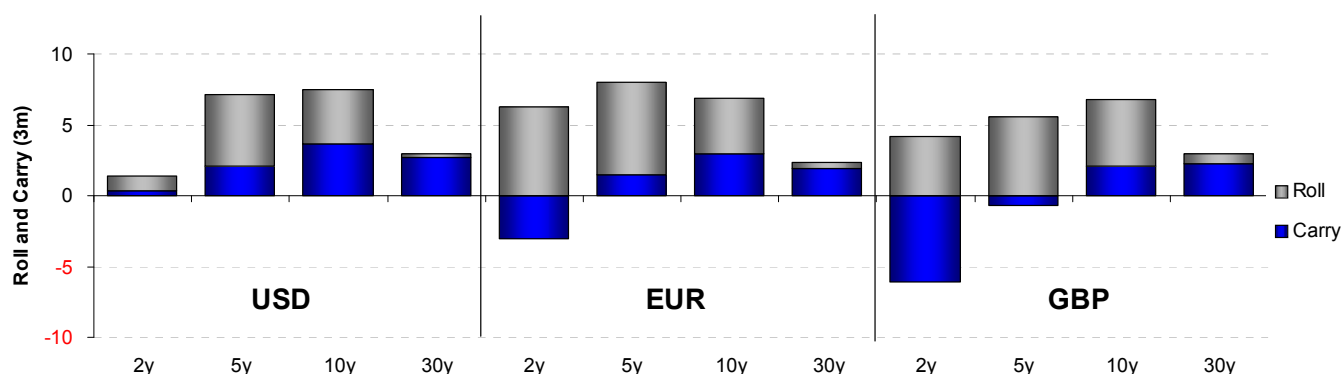
Decomposing total carry into carry and roll

Decomposing total carry into carry and roll

As well as looking at volatility-adjusted total carry, it is also important to be aware of their relative contributions of roll and carry, as these can and do vary significantly between maturities and currencies.

Figure 20 below decomposes total carry into its constituent elements of carry and roll. Carry is highest and positive in 10yrs in EUR and USD, and in 10 and 30yrs in GBP. Roll is the largest element of total carry at the 2, 5, and 10yr points of the EUR curve, and is highest in 2 and 5yrs. And lastly, roll is very similar at 2, 5, and 10yr maturities in GBP.

Figure 20. Decomposition of Total Carry into Carry and Roll shows the dominance of roll in most maturities, but also the variation between the split in different maturities and currencies



Source: Citi Research

Conclusion – downward pressure on yields

Carry and roll are only part of the story, but it remains important to know which maturities are most attractive after the recent market moves.

Carry and roll are only part of the story, but it remains important to know which maturities are most attractive, and how attractive carry is, given recent market moves.

Compared to a month ago, vol-adjusted carry peaks at longer maturities and is much more attractive. Volatility-adjusted carry is highest at the 10yr point of the curve in both EUR and USD, and in GBP it increases with maturity up to the 20yr point. Relative vol-adjusted carry favours USD over EUR in 7 and 10yrs, and GBP over EUR in 20 and 30yr maturities. Quality of carry in EUR (and GBP) is higher than it has been for two years.

The more attractive carry environment should encourage extensions on the curve

While previously, investors were not rewarded (in total carry terms) for taking duration risk beyond the 7yr point in EUR, for example, changes in volatility-adjusted carry now point to extending on the curve in all currencies. All together, and *ceteris paribus*, the more attractive carry environment should encourage extensions on the curve and put downward pressure on yields.

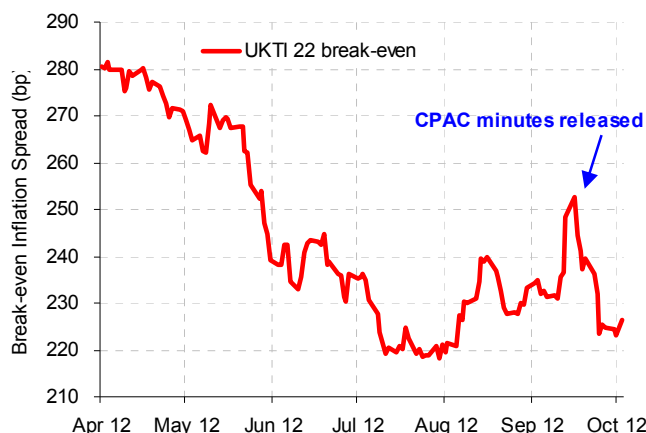
UK Inflation Strategy

Take profits on short positions in 10yr break-even

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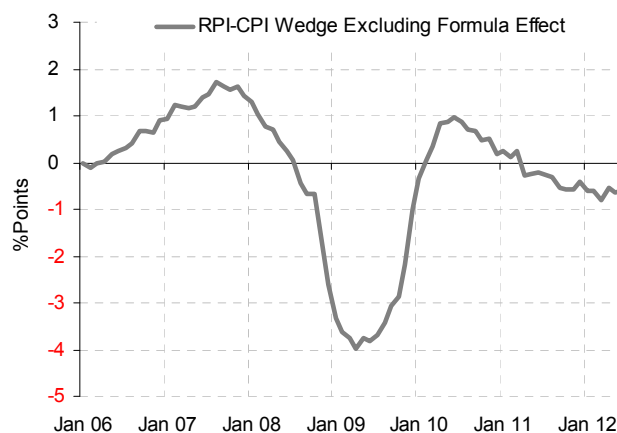
UK break-evens have fallen sharply since the CPAC (Consumer Price Advisory Committee) meeting three weeks ago (Figure 21). In the 10yr sector, break-evens have fallen around 25bp and, in the last few days, have settled around 2.25%. This is just shy of our 2.20% target set on 20 September following the release of the minutes from the CPAC meeting (see the [IIRS](#) of that date, page 13). Following recent moves, the near-term risk-reward of holding tactical short positions in 10yr break-evens has deteriorated. The market has quickly moved towards fully pricing out the formula effect. However, the ultimate decision, which may rest with the Chancellor, is still far from certain. Inevitably, the discussion will turn increasingly political as the process moves forward (rather than based on statistical best practice). With this in mind, we find it prudent to take profits on short positions in 10yr break-evens.

Figure 21. 10yr break-evens have moved sharply lower since CPAC



Source: Citi Research, Bloomberg.

Figure 22. The wedge would be negative without the formula effect



Source: Citi Research, UK ONS.

10yr break-evens could ultimately trade some distance below 2%, assuming the formula effect is removed

The UK DMO will issue a new 2024 IL gilt via auction next Thursday

Medium-term risks to break-evens are still to the downside

While the very near-term outlook for UK break-evens may have become more balanced, medium-term risks still look skewed to the downside. Our economists warn of a sustained inflation undershoot over the medium-term (for details, see [UK Economics Weekly - Further Inflation Decline Ahead](#), 21 September). Moreover, they also point out that the RPI-CPI wedge is likely to be negative over the coming years if steps are taken to eliminate the formula effect (given stable policy rates as well as stable house prices and council tax rates). Indeed, if it wasn't for the formula effect, the wedge would already be negative (Figure 22). Taken together, this could mean that 10yr break-evens ultimately trade some distance below 2%.

Issuance not helped by CPAC uncertainty

The CPAC consultation will run until 30 November and a final decision may not be made until early 2013. So RPI uncertainty is not going to disappear quickly. Meanwhile, issuance is ongoing. Next Thursday, the DMO will issue a new index-linked gilt in the 10yr area of the curve (maturity 22 March 2024). This will be the second new IL gilt to be issued within just three weeks. The first was the syndicated launch of a new £4bn 2052 maturity on 25 September. The new 12yr will be much smaller, just £1.5bn, as, unusually, it will be launched via auction rather than syndication. This may mean the new bond takes longer to establish itself, although there are likely to be frequent re-openings, the first one coming on 13 December.

Estimating fair value for the 2024 IL gilt

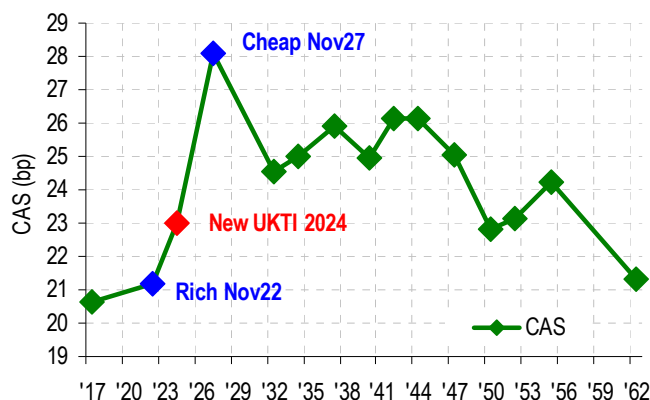
Fair value is around Nov22s +28.5bp, according to our estimates

We estimate fair value for the new Mar24s to be around Nov22s +28.5bp. This compares with grey market pricing (at the time of writing) of +31.5bp. Our estimate is primarily based on an interpolation of the Coupon Adjusted Spread (CAS) curve (Figure 23). In our estimates, we have ignored 8-month lag issues (such as the Jul24s) and focused on surrounding 3-month lag issues.

The new Mar24s falls between the rich Nov22s and cheap Nov27s

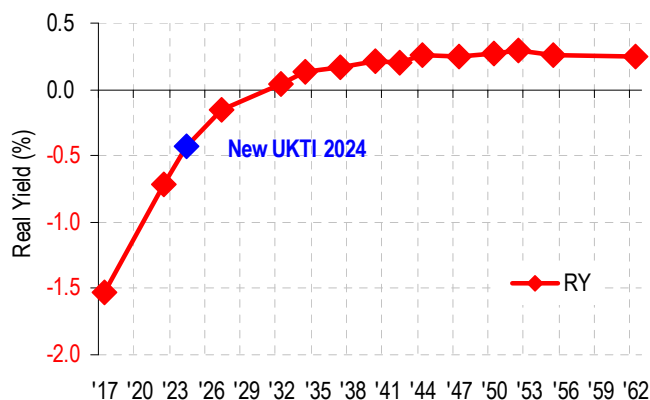
The new Mar24s will fall between the relatively rich Nov22s and the relatively cheap Nov27s (the latter is under pressure ahead of index bucket changes on 22 November which will see the Nov27s fall out of the 15yr+ index). At current levels, the fair value estimate translates to a real yield of -0.43% (Figure 24) and a break-even inflation spread (vs the 5% Mar25s) of 2.35%.

Figure 23. The Mar24s fall between the rich Nov22s and cheap Nov27s



Source: Citi Research.

Figure 24. The new bond will fill a gap in the 10-15yr sector



Source: Citi Research.

Further concession may be needed

Switching out of Nov22s and into Mar24s looks appealing

Current grey market pricing is a little cheaper than our fair value estimate. However, this shouldn't be surprising given the uncertainty of RPI reform. Further concession may be needed, especially as it may take a while for the new bond to establish itself as a new benchmark within the 10yr sector. This status is currently held by the Nov22s, which look rich on the curve and haven't been re-opened since August 2011. Over time, the richness of this bond is likely to alleviate and we expect to see growing interest to switch into the new Mar24s if relative valuations look attractive.

The auction is also likely to benefit from the cheapening of real yields and break-evens over the last few weeks. As discussed above, the near-term risk-reward for 10yr break-evens is now much more balanced, despite possible RPI reform. Much of the downside from the CPAC meeting is now arguably in the price and long-term investors may be tempted to scale in around current levels. Next week's new 2024 IL gilt will offer an opportunity to do so.

SSA Strategy

Yields remain low and relatively range bound

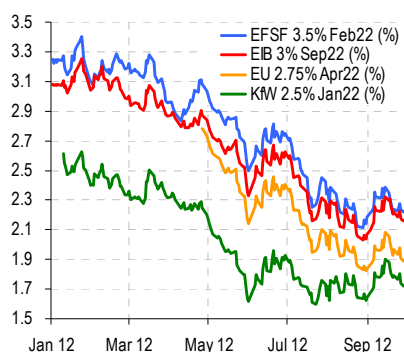
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We largely expect a range-bound market in core SSA yields in Q4

After the strong rally over the summer months, the recent tone in the core European SSA market has been somewhat softer. Yields remain near historically low levels (Figure 25), as with many core EMU markets, and spreads to swaps have drifted wider (Figure 26). With returns to protect before year-end, investors are probably less willing to take on significant extra exposure and hence the current secondary market dynamic is perhaps not all that surprising in the wider context.

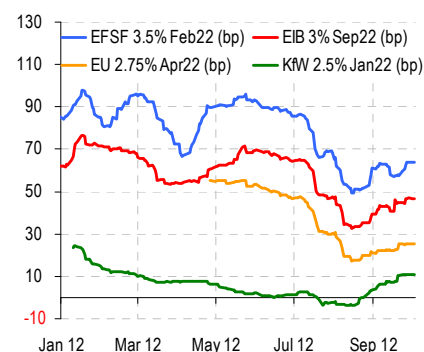
Fundamentally, we see little reason to expect a sharp correction or re-pricing in the near term. The economic backdrop remains generally supportive for higher-quality assets and supply pressures should progressively wane going into year-end. However, with yields already low, having rallied strongly over the summer, we would largely expect a range-bound market for much of Q4 in core SSA bonds.

Figure 25. 10yr Core SSA Yields (%)



Source: Citi Research

Figure 26. 10yr Core SSA ASW Spreads (bp)



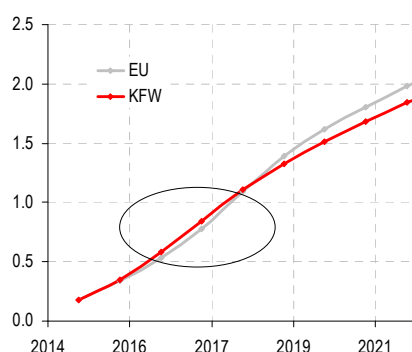
Source: Citi Research

Supply supports for the front-end of EU's curve on a relative basis

Sub 5yr KfW vs EU yields

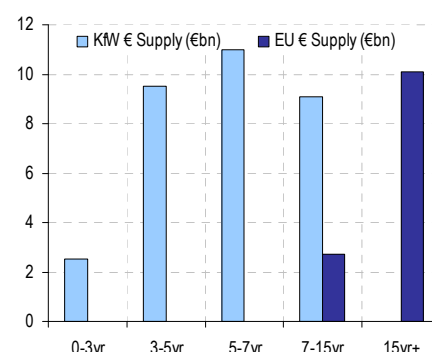
The changing supply dynamic in 2012 and the emergence of heightened issuance from the EU have contributed to various curve dynamics, in our view. For instance, there has been recent focus on the outperformance of 3yr-5yr EU bonds vs KfW. The fitted cash curves can be seen in Figure 27. In some cases EU yields are slightly below those of KfW, which is historically unusual.

Figure 27. Fitted Cash Curves for EU & KfW (%)



Source: Citi Research

Figure 28. KfW and EU 2012 € Issuance (€bn)



Source: Citi Research, DCM Analytics

Differing supply dynamics in KfW and EU issuance

However, we suspect supply is probably a key variable in the recent persistence of this dynamic. The EU has issued €12.8bn across five benchmarks so far in 2012. The majority of this comes in the longer-end of the curve ranging from the €3bn in EU 3.75% Apr42 in January to the €2.3bn supplied in EU 2.875% Apr28 more recently in June. EU supply would therefore weigh on longer-dated sectors and importantly, the EU does not issue bonds below 5yrs in maturity.

This is in contrast to KfW which issues across its curve. Most recently in September, KfW issued €5bn in a new 5yr benchmark, KfW 0.875% Oct17. Also note that KfW's longest dated euro bond is the KfW 4.625% Jan23. These differences in issuance by maturity bucket between the EU and KfW can be seen in Figure 28. This probably goes some way to explaining the moves in KfW vs EU in the sub-5yr sectors, especially over recent months.

The EU has indicated it will issue €3bn later in October which completes its 2012 issuance programme (leaving just €4.7bn to issue in 2013 and complete the total EFSM supply commitments). Given that the EU does not issue below 5yrs, the remaining EU supply in 2012 shouldn't directly put upward pressure on EU yields relative to KfW in shorter-dated maturities and hence affect the spread, *ceteris paribus*.

We continue to prefer relative value in KfW – France in the 4yr sector

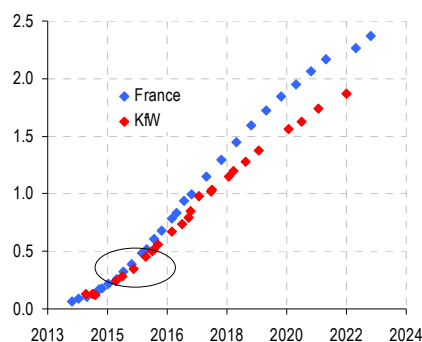
We do, however, see better risk/reward in KfW vs France in sub 5yr sectors. Hunting for relative value in this part of the curve, and noting the relative attractiveness of spread widening trades within core EMU markets, the opportunity to move into KfW (AAA/Aaa) from France (AA+/Aaa) looks appealing.

In terms of issuance, KfW has completed over €65bn of its expected €80bn (across all currencies) in 2012 supply. Using a simple characteristic that roughly half of KfW's supply is denominated in euros, remaining issuance for 2012 is much less in absolute amounts than what we anticipate for France (over €20bn in sectors up to and including 10yr).

In general, we would advocate switching into KfW where bonds are trading at similar yield levels and where any yield spread give-up is minimal (Figure 29). For example, over time, we would expect the single-digit spread between KfW Apr16s and OAT Apr16s to move wider from its historically tight levels.

Fundamental and market details about KfW and other SSA issuers can be found in our recent piece: [Euro SSA Strategy - An Introduction to Core European SSA Issuers](#).

Figure 29. KfW and France Yield Curves (%)



Source: Citi Research

Current ARTS Trading Signals

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Short- and long-term signals remain diverged ...

... in the long term the models continue to be supportive of duration but in the short term continue to be neutral ...

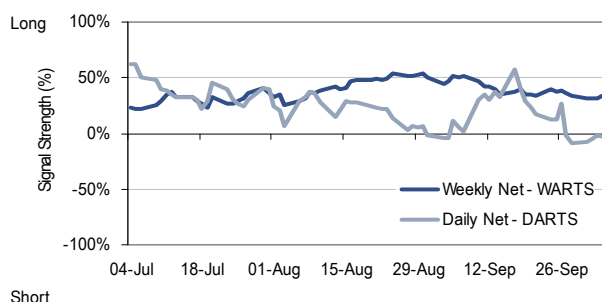
... this is being driven by differing outlooks of momentum and risk aversion.

Duration risk/reward continues to remain attractive in longer term while signals remain neutral in the short term.

This week the daily and weekly algorithmic rates trading signals² remain dislocated, with the long-term signals (WARTS) maintaining a long duration exposure of 34% while the short-term models (DARTS) continue to point to a neutral position (see Figure 30). This dislocation of signals is caused by broadly differing outlooks across all signal dynamics. In the WARTS models, both momentum and risk aversion signals remain supportive of long duration position while fundamentals are fairly priced. In contrast, DARTS finds that momentum is weaker in the shorter term, while both risk aversion and fundamentals signals are supportive of short duration positions.

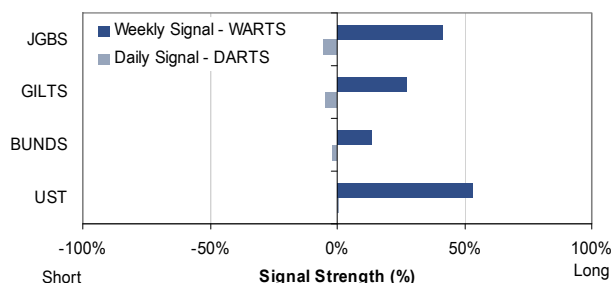
As last week, the divergent outlooks can be explained by different aspects of mean reversion. Lower yields increase both the probability of a sell-off in the short term (mean reversion). Meanwhile fundamentals become more fairly priced as yields move lower. At an asset level there is broad agreement of the long duration position in WARTS and neutral position in DARTS (see Figure 31). The signals suggest that risk/reward has fallen and investors should wait for yields to increase before re-initiating new long positions.

Figure 30. Evolution history of the daily / weekly 10y net signal



Source: Citi Research

Figure 31. Breakdown of current daily and weekly net signals

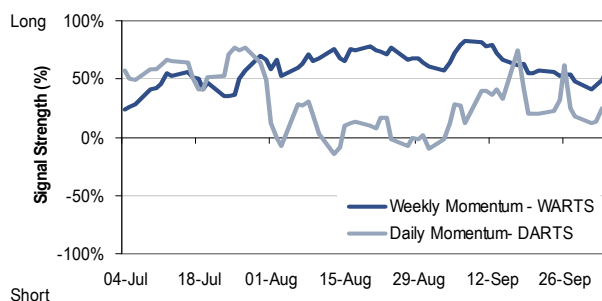


Source: Citi Research

Momentum signal has mildly strengthened given as reversion dynamics weaken...

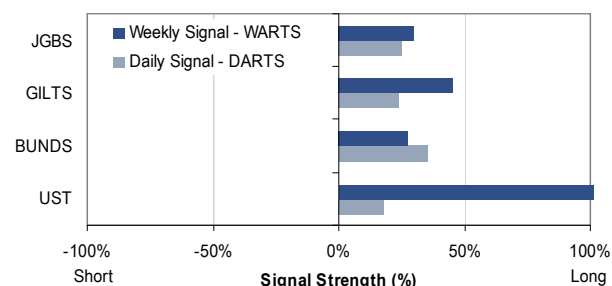
The momentum signal has mildly increased in strength in both the DARTS and WARTS models (see Figure 32). This is a result of stable yields over the last week which has driven a reduction in strength of the mean reversion component within momentum signals. At an asset level there is broad agreement that momentum is mildly supportive of duration (see Figure 33).

Figure 32. Evolution history of the daily / weekly 10y momentum signal



Source: Citi Research, Bloomberg

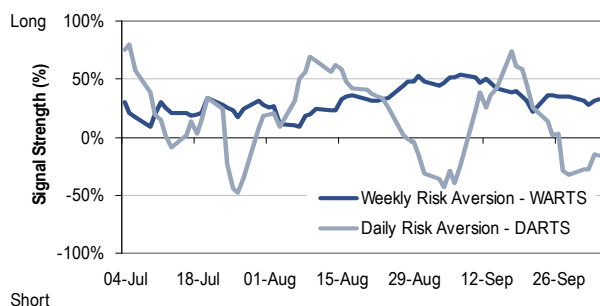
Figure 33. Breakdown of current daily and weekly momentum signals



Source: Citi Research, Bloomberg

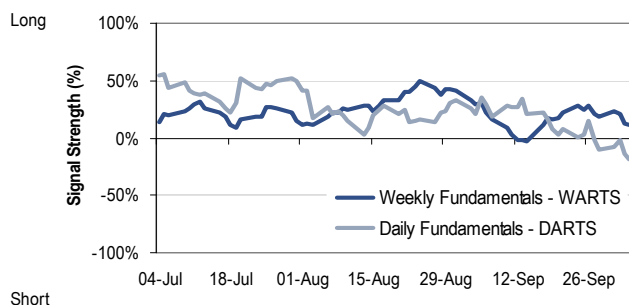
² The current signals are calibrated as of market close 03rd October 2012.

Figure 34. Evolution history of the daily / weekly 10y risk aversion signal



Source: Citi Research

Figure 36. Evolution history of the daily / weekly 10y fundamental signal



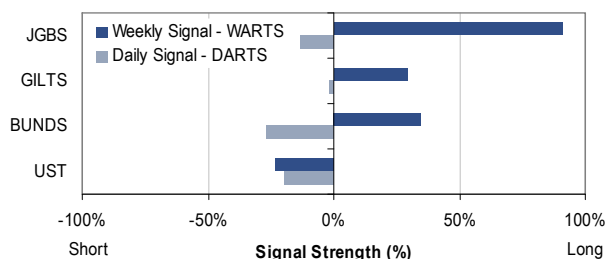
Source: Citi Research, Bloomberg

... meanwhile risk aversion is diverse across models due to differing outlooks of risk asset performance.

... finally fundamentals continue to be fair value given the recent drop in yields.

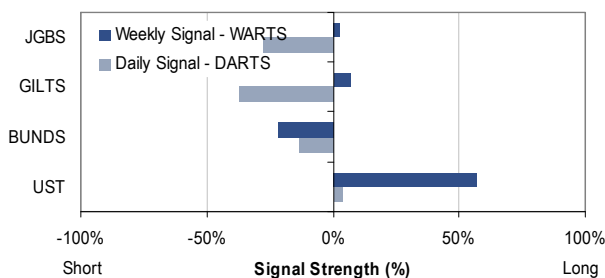
The signals suggest that investors should wait for more attractive yields before adding to duration in the short term.

Figure 35. Breakdown of current daily and weekly risk aversion signals



Source: Citi Research, Bloomberg

Figure 37. Breakdown of current daily and weekly fundamental signals



Source: Citi Research, Bloomberg

Meanwhile, the risk aversion signal remains elevated in WARTS but remains weak in DARTS (see Figure 34). The contrasting dynamics are caused by the different size of regression windows used. In DARTS, the models find that risk asset performance has been poor in the short term and therefore there is an increased probability that they will revert higher (and hence rates sell-off). However, WARTS finds that risk assets have broadly performed (given the longer regression windows). Hence WARTS finds there is an increased probability that risk asset will revert lower (and hence rates will rally). At the asset level signals are diversified with broad agreement of 'risk on' in UST but strong risk-off dynamics in JGBs (see Figure 35).

Finally, fundamentals continue to become stronger in both short- and long-term signals (see Figure 36). This dynamic is a result of yields becoming more fairly priced as yields move lower. However, at the asset level signals are highly diversified with weak fundamentals forecast in UST driving a long duration in WARTS (see Figure 37).

In summary, in the short term the signals are finely balanced. Momentum remains supportive of duration; however 'risk on' signals and stronger fundamentals are suggesting a move higher in yields. In the longer term the model continues to find duration risk/reward more attractive due to raised risk aversion outlooks in the longer term. Hence the models are around 25% invested (in the longer term) and are waiting for yields to move higher before increasing exposure. The most attractive risk/reward profile is UST, where strong momentum dynamics and weaker fundamentals are supportive of duration in the longer term.

European Relative Value Trades

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Switching into Oct14s in France presents an attractive short term opportunity. The relative cheapness of DSL Apr15 on the curve also provides a good switching opportunity on the domestic curve.

France: Taking advantage of cheapness of Oct14s

■ Buy 4% Oct14 vs 3% Jul14 and 2.5% Jan15 (Figure 38).

The Netherlands: Taking advantage of cheapness of Apr15s

■ Buy 0.75% Apr15 vs 2.75% Jan15 and 4% Jul16 (Figure 39).

Steepening Bias

■ Switch from 2.5% Jan17 to 0.75% Apr15 with a 41bps yield give up (Figure 40).

Figure 38. France: 3% Jul14, 4% Oct14, 2.5% Jan15 microfly (bp)



Source: Citi Research, Bloomberg

Figure 39. Netherlands: 2.75% Jan15, 0.75% Apr15, 4% Jul16 microfly (bp)



Source: Citi Research

Figure 40. Netherlands: 2.5% Jan17 – 0.75% Apr15 yield spread (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 41 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 41. 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)		
Richest ↑	1	1.25 Oct16	-3.66	Sep11	16	Richest ↑	1	1.50 Sep22 (10y)	-1.34	Sep12	5		
	2	4.25 Jul17 (OE)	-2.21	May07	19		2	3.25 Jul42	-0.38	Jul10	15		
	3	0.75 Feb17	-1.39	Jan12	8		3	2.50 Jul44 (30y)	-0.24	Apr12	6		
	4	6.25 Jan30	-1.11	Jan00	9		4	4.75 Jul40	-0.06	Jul08	16		
	5	3.25 Jul42	-1.09	Jul10	15		5	4.25 Jul39	-0.01	Jan07	14		
Cheapest ↓	5	4.75 Jul34	1.53	Jan03	20	Cheapest ↓	5	3.25 Jul15	1.52	May05	21		
	4	3.50 Jan16	1.91	Nov05	23		4	2.25 Apr15	1.52	Apr10	19		
	3	1.75 Oct15	2.20	Sep10	16		3	2.50 Feb15	1.53	Jan10	17		
	2	2.50 Oct14	2.36	Sep09	17		2	2.50 Oct14	1.56	Sep09	17		
	1	3.25 Jul15	2.63	May05	21		1	3.75 Jan15	1.60	Nov04	23		

Source: Citi Research

Figure 42 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 43 and Figure 44) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 42 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 42. 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	1.25 Oct16	-3.66	Sep11	16	1	1.50 Sep22 (10y)	-1.34	Sep12	5
		2	4.25 Jul17 (OE)	-2.21	May07	19	2	3.25 Jul42	-0.38	Jul10	15
		3	0.75 Feb17	-1.39	Jan12	8	3	2.50 Jul44 (30y)	-0.24	Apr12	6
		4	6.25 Jan30	-1.11	Jan00	9	4	4.75 Jul40	-0.06	Jul08	16
		5	3.25 Jul42	-1.09	Jul10	15	5	4.25 Jul39	-0.01	Jan07	14
	Cheapest	5	4.75 Jul34	1.53	Jan03	20	5	3.25 Jul15	1.52	May05	21
		4	3.50 Jan16	1.91	Nov05	23	4	2.25 Apr15	1.52	Apr10	19
		3	1.75 Oct15	2.20	Sep10	16	3	2.50 Feb15	1.53	Jan10	17
		2	2.50 Oct14	2.36	Sep09	17	2	2.50 Oct14	1.56	Sep09	17
		1	3.25 Jul15	2.63	May05	21	1	3.75 Jan15	1.60	Nov04	23
FRANCE	Richest	1	2.50 Jan15	-1.32	Jan10	20	1	4.00 Oct38	-0.90	Oct05	24
		2	3.50 Apr26	-1.20	Apr10	28	2	4.00 Apr55	-0.90	Apr04	15
		3	4.00 Apr55	-1.18	Apr04	15	3	4.50 Apr41 (30y)	-0.89	Apr09	15
		4	1.75 Feb17	-1.11	Feb11	5	4	4.00 Apr60	-0.89	Apr09	8
		5	2.50 Oct20	-0.71	Oct09	30	5	4.75 Apr35	-0.88	Apr03	18
	Cheapest	5	5.00 Oct16	1.51	Oct00	25	5	2.50 Jan15	-0.21	Jan10	20
		4	4.00 Oct38	1.57	Oct05	24	4	2.75 Oct27	-0.19	Oct11	4
		3	3.00 Apr22 (10y)	1.58	Feb12	25	3	3.50 Apr15	-0.17	Apr04	22
		2	3.25 Oct21 (OAT)	1.63	Oct10	6	2	4.00 Oct14	0.24	Oct03	20
		1	4.25 Oct23	1.72	Oct06	31	1	1.00 Jul17 (5y)	0.88	Jul11	8
ITALY	Richest	1	4.50 Mar19	-1.57	Sep08	23	1	4.75 Jun17 (5y)	-1.60	Jun12	3
		2	4.25 Sep19	-1.45	Mar09	22	2	4.75 Sep16	-1.55	Sep11	9
		3	4.25 Feb19	-1.29	Feb03	23	3	2.50 Mar15	-1.52	Mar12	5
		4	5.00 Sep40 (30y)	-1.17	Sep09	20	4	4.25 Feb15 (BTS)	-1.52	Aug04	21
		5	5.00 Aug39	-1.17	Aug07	19	5	4.25 Sep19	-1.49	Mar09	22
	Cheapest	5	4.00 Feb37	1.37	Aug05	25	5	5.75 Feb33	-1.20	Feb02	15
		4	3.75 Aug16	1.42	Feb06	27	4	5.00 Mar25	-1.17	Mar09	20
		3	3.75 Aug15	1.65	Feb05	26	3	4.50 Jul15	-1.15	Jul12	4
		2	3.75 Aug21	1.67	Feb06	27	2	4.50 Mar26	-1.13	Sep10	14
		1	3.75 Mar21	1.84	Sep10	24	1	5.50 Nov22	-0.33	May12	4
N'LANDS	Richest	1	4.50 Jul17 (5y)	-2.06	Jul07	15	1	2.50 Jan33	-0.69	Mar12	4
		2	2.50 Jan33	-1.30	Mar12	4	2	3.75 Jan42 (30y)	-0.63	May10	10
		3	2.50 Jan17	-1.12	Jun11	8	3	4.00 Jan37	-0.55	Apr05	12
		4	2.25 Jul22 (10y)	-0.35	Feb12	9	4	4.50 Jul17 (5y)	-0.27	Jul07	15
		5	3.50 Jul20	-0.34	Feb10	15	5	2.25 Jul22 (10y)	-0.27	Feb12	9
	Cheapest	5	4.00 Jul18	0.16	Feb08	15	5	1.25 Jan18	0.29	Jul12	6
		4	4.00 Jan37	0.29	Apr05	12	4	4.00 Jul16	0.31	Jul06	13
		3	4.00 Jul16	0.30	Jul06	13	3	3.25 Jul15	0.74	Jun05	14
		2	2.75 Jan15	0.81	Jul09	13	2	0.75 Apr15	1.11	Jan12	3
		1	0.75 Apr15	0.89	Jan12	3	1	2.75 Jan15	1.12	Jul09	13
SPAIN	Richest	1	4.70 Jul41 (30y)	-2.46	Sep09	11	1	4.00 Jul15	-0.91	Jan12	16
		2	5.50 Jul17	-1.32	Mar02	17	2	3.15 Jan16	-0.86	Sep05	16
		3	4.10 Jul18	-1.32	Feb08	16	3	4.10 Jul18	-0.86	Feb08	16
		4	3.80 Jan17	-1.14	Oct06	18	4	4.40 Jan15	-0.85	Jun04	18
		5	5.90 Jul26	-1.08	Mar11	7	5	3.80 Jan17	-0.85	Oct06	18
	Cheapest	5	4.00 Apr20	1.24	Jan10	16	5	5.90 Jul26	-0.65	Mar11	7
		4	3.25 Apr16	1.53	Nov10	17	4	4.20 Jan37	-0.62	Jan05	16
		3	5.50 Apr21	1.64	Jan11	20	3	4.80 Jan24	-0.61	Sep08	15
		2	4.85 Oct20	1.67	Jul10	16	2	4.65 Jul25	-0.55	Feb10	14
		1	4.20 Jan37	2.82	Jan05	16	1	3.75 Oct15	-0.46	Sep12	4
BELGIUM	Richest	1	4.00 Mar18	-0.64	Jan08	10	1	4.00 Mar32	-1.63	Mar12	5
		2	4.25 Sep21	-0.59	Jan11	14	2	5.00 Mar35	-1.61	May04	14
		3	4.00 Mar32	-0.38	Mar12	5	3	4.25 Mar41 (30y)	-1.50	Apr10	6
		4	5.50 Sep17	-0.01	Jun02	8	4	4.50 Mar26	-1.37	Jun11	4
		5	4.25 Sep22 (10y)	0.31	Jan12	8	5	2.75 Mar16	-1.19	Mar10	10
	Cheapest	5	3.75 Sep15	1.48	Mar05	11	5	4.00 Mar22	-1.13	May06	14
		4	2.75 Mar16	1.48	Mar10	10	4	3.50 Mar15	-1.13	Mar09	10
		3	3.25 Sep16	1.55	Jan06	12	3	3.00 Sep19	-1.13	Apr12	4
		2	3.00 Sep19	1.58	Apr12	4	2	3.75 Sep20	-1.12	Jan10	18
		1	3.75 Sep20	1.88	Jan10	18	1	4.25 Sep22 (10y)	-1.10	Jan12	8

Source: Citi Research

Relative Value Tables – Max 12Yr Maturity

Figure 43. 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	1	1.25 Oct16	-3.66	Sep11	16	1	1.50 Sep22 (10y)	-1.34	Sep12	5
		2	4.25 Jul17 (OE)	-2.21	May07	19	2	1.75 Jul22	1.19	Apr12	5
		3	0.75 Feb17	-1.39	Jan12	8	3	2.25 Sep21	1.25	Aug11	16
		4	2.25 Sep21	-1.06	Aug11	16	4	0.50 Apr17	1.25	Apr12	5
		5	0.50 Apr17	-0.68	Apr12	5	5	2.00 Jan22	1.27	Nov11	16
	Cheapest	5	4.00 Jan18	1.51	Nov07	20	5	3.25 Jul15	1.52	May05	21
		4	3.50 Jan16	1.91	Nov05	23	4	2.25 Apr15	1.52	Apr10	19
		3	1.75 Oct15	2.20	Sep10	16	3	2.50 Feb15	1.53	Jan10	17
		2	2.50 Oct14	2.36	Sep09	17	2	2.50 Oct14	1.56	Sep09	17
		1	3.25 Jul15	2.63	May05	21	1	3.75 Jan15	1.60	Nov04	23
FRANCE	Richest	1	2.50 Jan15	-1.32	Jan10	20	1	1.75 Feb17	-0.71	Feb11	5
		2	1.75 Feb17	-1.11	Feb11	5	2	2.50 Oct20	-0.70	Oct09	30
		3	2.50 Oct20	-0.71	Oct09	30	3	3.75 Oct19	-0.69	Oct08	25
		4	3.25 Apr16	-0.56	Apr05	28	4	3.75 Apr21	-0.69	Apr05	31
		5	3.75 Oct19	-0.48	Oct08	25	5	4.25 Oct18	-0.69	Oct07	22
	Cheapest	5	1.00 Jul17 (5y)	1.45	Jul11	8	5	2.00 Jul15	-0.28	Jun10	21
		4	5.00 Oct16	1.51	Oct00	25	4	2.50 Jan15	-0.21	Jan10	20
		3	3.00 Apr22 (10y)	1.58	Feb12	25	3	3.50 Apr15	-0.17	Apr04	22
		2	3.25 Oct21 (OAT)	1.63	Oct10	6	2	4.00 Oct14	0.24	Oct03	20
		1	4.25 Oct23	1.72	Oct06	31	1	1.00 Jul17 (5y)	0.88	Jul11	8
ITALY	Richest	1	4.50 Mar19	-1.57	Sep08	23	1	4.75 Jun17 (5y)	-1.60	Jun12	3
		2	4.25 Sep19	-1.45	Mar09	22	2	4.75 Sep16	-1.55	Sep11	9
		3	4.25 Feb19	-1.29	Feb03	23	3	2.50 Mar15	-1.52	Mar12	5
		4	2.50 Mar15	-1.09	Mar12	5	4	4.25 Feb15 (BTS)	-1.52	Aug04	21
		5	4.50 Feb18 (MFB)	-1.08	Aug07	25	5	4.25 Sep19	-1.49	Mar09	22
	Cheapest	5	4.00 Sep20	1.33	Mar10	22	5	3.75 Mar21	-1.39	Sep10	24
		4	3.75 Aug16	1.42	Feb06	27	4	4.00 Sep20	-1.38	Mar10	22
		3	3.75 Aug15	1.65	Feb05	26	3	3.75 Aug21	-1.35	Feb06	27
		2	3.75 Aug21	1.67	Feb06	27	2	4.50 Jul15	-1.15	Jul12	4
		1	3.75 Mar21	1.84	Sep10	24	1	5.50 Nov22	-0.33	May12	4
N'LANDS	Richest	1	4.50 Jul17 (5y)	-2.06	Jul07	15	1	4.50 Jul17 (5y)	-0.27	Jul07	15
		2	2.50 Jan17	-1.12	Jun11	8	2	2.25 Jul22 (10y)	-0.27	Feb12	9
		3	2.25 Jul22 (10y)	-0.35	Feb12	9	3	3.75 Jan23	-0.24	Jan06	10
		4	3.50 Jul20	-0.34	Feb10	15	4	3.50 Jul20	-0.22	Feb10	15
		5	1.25 Jan18	-0.29	Jul12	6	5	4.00 Jul19	-0.20	Feb09	13
	Cheapest	5	4.00 Jul19	-0.09	Feb09	13	5	1.25 Jan18	0.29	Jul12	6
		4	4.00 Jul18	0.16	Feb08	15	4	4.00 Jul16	0.31	Jul06	13
		3	4.00 Jul16	0.30	Jul06	13	3	3.25 Jul15	0.74	Jun05	14
		2	2.75 Jan15	0.81	Jul09	13	2	0.75 Apr15	1.11	Jan12	3
		1	0.75 Apr15	0.89	Jan12	3	1	2.75 Jan15	1.12	Jul09	13
SPAIN	Richest	1	5.50 Jul17	-1.32	Mar02	17	1	4.00 Jul15	-0.91	Jan12	16
		2	4.10 Jul18	-1.32	Feb08	16	2	3.15 Jan16	-0.86	Sep05	16
		3	3.80 Jan17	-1.14	Oct06	18	3	4.10 Jul18	-0.86	Feb08	16
		4	3.30 Oct14	-1.03	Jul09	17	4	4.40 Jan15	-0.85	Jun04	18
		5	4.40 Jan15	-0.91	Jun04	18	5	3.80 Jan17	-0.85	Oct06	18
	Cheapest	5	3.00 Apr15	1.15	Mar10	18	5	4.85 Oct20	-0.69	Jul10	16
		4	4.00 Apr20	1.24	Jan10	16	4	5.85 Jan22 (10y)	-0.69	Nov11	4
		3	3.25 Apr16	1.53	Nov10	17	3	5.50 Apr21	-0.68	Jan11	20
		2	5.50 Apr21	1.64	Jan11	20	2	4.80 Jan24	-0.61	Sep08	15
		1	4.85 Oct20	1.67	Jul10	16	1	3.75 Oct15	-0.46	Sep12	4
BELGIUM	Richest	1	4.00 Mar18	-0.64	Jan08	10	1	2.75 Mar16	-1.19	Mar10	10
		2	4.25 Sep21	-0.59	Jan11	14	2	3.50 Jun17 (5y)	-1.19	Mar11	10
		3	5.50 Sep17	-0.01	Jun02	8	3	4.00 Mar19	-1.17	Jan09	10
		4	4.25 Sep22 (10y)	0.31	Jan12	8	4	5.50 Sep17	-1.17	Jun02	8
		5	4.00 Mar22	0.64	May06	14	5	4.00 Mar18	-1.16	Jan08	10
	Cheapest	5	3.75 Sep15	1.48	Mar05	11	5	4.00 Mar22	-1.13	May06	14
		4	2.75 Mar16	1.48	Mar10	10	4	3.50 Mar15	-1.13	Mar09	10
		3	3.25 Sep16	1.55	Jan06	12	3	3.00 Sep19	-1.13	Apr12	4
		2	3.00 Sep19	1.58	Apr12	4	2	3.75 Sep20	-1.12	Jan10	18
		1	3.75 Sep20	1.88	Jan10	18	1	4.25 Sep22 (10y)	-1.10	Jan12	8

Source: Citi Research

Relative Value Tables – Min 8yr Maturity

Figure 44. 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	6.25 Jan30	-1.11	Jan00	9	1	1.50 Sep22 (10y)	-1.34	Sep12	5
		2	3.25 Jul42	-1.09	Jul10	15	2	3.25 Jul42	-0.38	Jul10	15
		3	2.25 Sep21	-1.06	Aug11	16	3	2.50 Jul44 (30y)	-0.24	Apr12	6
		4	2.50 Jul44 (30y)	-0.86	Apr12	6	4	4.75 Jul40	-0.06	Jul08	16
		5	1.50 Sep22 (10y)	-0.55	Sep12	5	5	4.25 Jul39	-0.01	Jan07	14
	Cheapest	5	2.50 Jan21	0.32	Nov10	19	5	1.75 Jul22	1.19	Apr12	5
		4	2.00 Jan22	0.49	Nov11	16	4	2.25 Sep21	1.25	Aug11	16
		3	4.25 Jul39	0.95	Jan07	14	3	2.00 Jan22	1.27	Nov11	16
		2	4.00 Jan37 (UB)	1.22	Jan05	23	2	3.25 Jul21 (RX)	1.27	Apr11	19
		1	4.75 Jul34	1.53	Jan03	20	1	2.50 Jan21	1.30	Nov10	19
FRANCE	Richest	1	3.50 Apr26	-1.20	Apr10	28	1	4.00 Oct38	-0.90	Oct05	24
		2	4.00 Apr55	-1.18	Apr04	15	2	4.00 Apr55	-0.90	Apr04	15
		3	2.50 Oct20	-0.71	Oct09	30	3	4.50 Apr41 (30y)	-0.89	Apr09	15
		4	2.75 Oct27	-0.71	Oct11	4	4	4.00 Apr60	-0.89	Apr09	8
		5	3.75 Apr21	-0.42	Apr05	31	5	4.75 Apr35	-0.88	Apr03	18
	Cheapest	5	4.75 Apr35	0.64	Apr03	18	5	3.75 Apr21	-0.69	Apr05	31
		4	4.00 Oct38	1.57	Oct05	24	4	3.25 Oct21 (OAT)	-0.58	Oct10	6
		3	3.00 Apr22 (10y)	1.58	Feb12	25	3	3.00 Apr22 (10y)	-0.58	Feb12	25
		2	3.25 Oct21 (OAT)	1.63	Oct10	6	2	4.25 Oct23	-0.51	Oct06	31
		1	4.25 Oct23	1.72	Oct06	31	1	2.75 Oct27	-0.19	Oct11	4
ITALY	Richest	1	5.00 Sep40 (30y)	-1.17	Sep09	20	1	4.75 Sep21	-1.44	Mar11	22
		2	5.00 Aug39	-1.17	Aug07	19	2	5.50 Sep22 (10y-IK)	-1.43	Mar12	2
		3	4.75 Aug23	-0.73	Feb08	21	3	4.75 Aug23	-1.42	Feb08	21
		4	5.75 Feb33	-0.07	Feb02	15	4	5.00 Mar22	-1.39	Sep11	9
		5	5.00 Aug34	0.07	Aug03	21	5	3.75 Mar21	-1.39	Sep10	24
	Cheapest	5	4.50 Mar26	0.66	Sep10	14	5	5.00 Aug34	-1.21	Aug03	21
		4	5.00 Mar22	1.21	Sep11	9	4	5.75 Feb33	-1.20	Feb02	15
		3	4.00 Feb37	1.37	Aug05	25	3	5.00 Mar25	-1.17	Mar09	20
		2	3.75 Aug21	1.67	Feb06	27	2	4.50 Mar26	-1.13	Sep10	14
		1	3.75 Mar21	1.84	Sep10	24	1	5.50 Nov22	-0.33	May12	4
N'LANDS	Richest	1	2.50 Jan33	-1.30	Mar12	4	1	2.50 Jan33	-0.69	Mar12	4
		2	2.25 Jul22 (10y)	-0.35	Feb12	9	2	3.75 Jan42 (30y)	-0.63	May10	10
		3	3.75 Jan23	-0.26	Jan06	10	3	4.00 Jan37	-0.55	Apr05	12
	Cheapest	3	3.25 Jul21	-0.23	Mar11	11	3	2.25 Jul22 (10y)	-0.27	Feb12	9
		2	3.75 Jan42 (30y)	-0.11	May10	10	2	3.75 Jan23	-0.24	Jan06	10
		1	4.00 Jan37	0.29	Apr05	12	1	3.25 Jul21	-0.19	Mar11	11
SPAIN	Richest	1	4.70 Jul41 (30y)	-2.46	Sep09	11	1	5.75 Jul32	-0.73	Jan01	14
		2	5.90 Jul26	-1.08	Mar11	7	2	4.70 Jul41 (30y)	-0.71	Sep09	11
		3	5.75 Jul32	-0.38	Jan01	14	3	4.85 Oct20	-0.69	Jul10	16
		4	5.85 Jan22 (10y)	0.15	Nov11	4	4	5.85 Jan22 (10y)	-0.69	Nov11	4
		5	4.90 Jul40	0.18	Jun07	13	5	5.50 Apr21	-0.68	Jan11	20
	Cheapest	5	4.80 Jan24	0.41	Sep08	15	5	4.90 Jul40	-0.67	Jun07	13
		4	4.65 Jul25	0.58	Feb10	14	4	5.90 Jul26	-0.65	Mar11	7
		3	5.50 Apr21	1.64	Jan11	20	3	4.20 Jan37	-0.62	Jan05	16
		2	4.85 Oct20	1.67	Jul10	16	2	4.80 Jan24	-0.61	Sep08	15
		1	4.20 Jan37	2.82	Jan05	16	1	4.65 Jul25	-0.55	Feb10	14
BELGIUM	Richest	1	4.25 Sep21	-0.59	Jan11	14	1	4.00 Mar32	-1.63	Mar12	5
		2	4.00 Mar32	-0.38	Mar12	5	2	5.00 Mar35	-1.61	May04	14
		3	4.25 Sep22 (10y)	0.31	Jan12	8	3	4.25 Mar41 (30y)	-1.50	Apr10	6
	Cheapest	3	4.00 Mar22	0.64	May06	14	3	4.25 Sep21	-1.15	Jan11	14
		2	4.25 Mar41 (30y)	0.72	Apr10	6	2	4.00 Mar22	-1.13	May06	14
		1	5.00 Mar35	1.12	May04	14	1	4.25 Sep22 (10y)	-1.10	Jan12	8

Source: Citi Research

Supply Analysis and Forecasts

Our regular detailed supply analysis is now published separately under the title “Weekly Supply Monitor”. Please click [here](#) for the most recent one.

This publication includes 3 main areas:

Analysis of supply in the coming week and month

Analysis of upcoming supply

- Weekly DV01 of supply in EUR, GBP, and USD – historic and projected
- Maturity split of expected issuance next week in EUR, GBP, and USD
- Gross supply (and DV01) next week and month, by maturity and country
- 4-week issuance calendar incl. buybacks (DV01 and futures equivalents)

Profile of cash flows

Coupons...

- Coupons by maturity for each of the next 4 weeks in EUR, GBP, and USD
- Total coupons for each of the next 4 weeks, by maturity sector and country
- Coupon payment dates and amounts by country for next 3 months
- Monthly coupon totals for next 3 months

Redemptions...

- Redemptions for each of the next 4 weeks, by maturity sector and country
- Redemption dates and amounts by country for next 3 months
- Monthly redemption totals for next 3 months

Net cash requirements...

- Net cash requirement for each of the next 4 weeks for EUR, GBP and USD
- 2012 monthly net cash requirements by maturity for GBP and USD

Detailed supply forecasts

Supply forecasts

- 2012 and 2013 forecasts by currency and for each EMU-11 country
- Monthly EMU-11 net and gross supply by country and maturity to end-2012
- YTD issuance progress: percentage and vs 3yr average at this stage
- UK gilt remit progress by maturity + syndications

Click here for link...

Please click [here](#) for the document.

Auction calendar for the next four weeks

Figure 45. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RX22 (Bund)
08 Oct (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
09 Oct (Tue)	Netherlands	2.0	DSL Jan18 reopening (issue confirmed, size €1.5-2.5bn)		9k
09 Oct (Tue)	UK	1.8	4¼% Treasury Gilt 2032 (issue and size confirmed)		32k
09 Oct (Tue)	US	32.0	3-Year		77k
09 Oct (Tue)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-53k
09 Oct (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
10 Oct (Wed)	Germany	4.0	Bobl-164 0.5% Oct17 reopening (issue and size confirmed)		17k
10 Oct (Wed)	US	21.0	10-Year (re-opening)		225k
10 Oct (Wed)	US	7 - 8	Outright Treasury Coupon Sales: 15/4/2014 - 15/2/2015		17k
10 Oct (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
11 Oct (Thu)	Italy	6.0	BTP 3yr, 5yr and 10yr (estimated tenors and size)		20k
11 Oct (Thu)	UK	1.5	New 0.125% index-linked Gilt 2024 (issue and size confirmed)		23k
11 Oct (Thu)	US	13.0	30-year (re-opening)		308k
11 Oct (Thu)	US	0.75 - 1.25	Outright TIPS Purchases: 15/1/2019 - 15/2/2042		-23k
12 Oct (Fri)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-53k

Weekly \$DV01 of Issuance

51.2

Total Number of Futures Contracts

498k

22k

46k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RX22 (Bund)
15 Oct (Mon)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 31/10/2018 - 15/8/2020		-48k
15 Oct (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
16 Oct (Tue)	US	4.5 - 5.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2022		-52k
16 Oct (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
17 Oct (Wed)	Germany	5.0	Schatz 0% Sep14 reopening (issue and size confirmed)		9k
17 Oct (Wed)	US	7 - 8	Outright Treasury Coupon Sales: 15/3/2015 - 31/5/2015		26k
17 Oct (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
18 Oct (Thu)	Spain	3.5	Obligaciones 2yr, 5yr and 10yr (estimated tenor and size)		14k
18 Oct (Thu)	France	9.3	BTAN/Index-linked OAT (estimated size)		37k
18 Oct (Thu)	UK	0.8	Mini tender (estimated date and size)		12k
18 Oct (Thu)	UK	3.6	4¼% Treasury Gilt 2019 (issue confirmed, estimated size)		27k
18 Oct (Thu)	US	7.0	30-year TIPS (re-opening)		82k
18 Oct (Thu)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-53k
19 Oct (Fri)	US	0.75 - 1.1	Outright TIPS Sales: 15/4/2014 - 31/1/2016		2k

Weekly \$DV01 of Issuance

6.0

Total Number of Futures Contracts

-42k

6k

60k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RX22 (Bund)
22 Oct (Mon)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-53k
22 Oct (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
23 Oct (Tue)	UK	4.2	Syndication of new conventional gilt maturing in the 30-year area (estimated date and size)		98k
23 Oct (Tue)	US	35.0	2-Year		84k
23 Oct (Tue)	US	7 - 8	Outright Treasury Coupon Sales: 15/6/2015 - 31/8/2015		26k
23 Oct (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
24 Oct (Wed)	Germany	4.0	Bund 1.5% Sep22 reopening (issue and size confirmed)		33k
24 Oct (Wed)	US	35.0	5-Year		202k
24 Oct (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
25 Oct (Thu)	US	29.0	7-Year		230k
25 Oct (Thu)	US	4.5 - 5.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2022		-52k
26 Oct (Fri)	Italy	3.5	CTZ (estimated size)		6k
26 Oct (Fri)	Italy	0.8	BTPei (estimated size)		6k
26 Oct (Fri)	US	1.5 - 2	Outright Treasury Coupon Purchases: 15/11/2022 - 15/2/2031		-33k

Weekly \$DV01 of Issuance

49.9

Total Number of Futures Contracts

405k

64k

46k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RX22 (Bund)
29 Oct (Mon)	Belgium	3.0	OLO 5yr, 10yr and 15yr (estimated tenors and size)		29k
29 Oct (Mon)	US	7 - 8	Outright Treasury Coupon Sales: 15/11/2015 - 31/12/2015		26k
29 Oct (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
30 Oct (Tue)	Italy	6.0	BTP 5yr and 10yr (estimated tenors and size)		38k
30 Oct (Tue)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-53k
30 Oct (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
31 Oct (Wed)	Germany	2.0	Bund 2.5% Jul44 reopening (issue and size confirmed)		44k
31 Oct (Wed)	France	5.5	OAT 5yr, 10yr and 15yr (estimated tenors and size)		45k
31 Oct (Wed)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 15/11/2018 - 15/8/2020		-48k
31 Oct (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
01 Nov (Thu)	UK	1.1	0¾% Index-linked Treasury Gilt 2047 (issue confirmed, estimated size)		36k

Weekly \$DV01 of Issuance

16.3

Total Number of Futures Contracts

-75k

3k

155k

The next release of the approximate purchase and sale amounts and tentative Outright operation schedule will be at 1400 (NY Time) on 31 October 2012

Source: DMOs, Citi estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 46. Citi Inflation Forecasts

Month	EUR HICP _{XT}			France CPI _{XT}			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
Aug 12	115.10	0.4	2.6	125.06	0.7	2.0	243.00	0.4	2.9	230.38	0.6	1.7
Sep 12	115.80	0.6	2.4	125.41	0.3	2.4	243.90	0.4	2.5	231.10	0.3	1.9
Oct 12	116.18	0.3	2.4	125.27	-0.1	2.1	244.30	0.2	2.6	231.10	0.0	2.1
Nov 12	116.28	0.1	2.4	125.52	0.2	2.0	244.60	0.1	2.6	231.20	0.0	2.2
Dec 12	116.73	0.4	2.5	126.01	0.4	2.0	245.90	0.5	2.7	231.00	-0.1	2.4
Jan 13	115.71	-0.9	2.4	125.30	-0.6	1.8	244.40	-0.6	2.7	231.90	0.4	2.3

Shaded = Already released

Source: Citi Research, Bloomberg

Figure 47. 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 (bp)	Chg (bp)
				1 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.14	0.14	0.14									
TIPS 1/14	-1.44	3	3	31	49	40	US-4.000-02/15/14	166	-4	-2	30	48	39	13	-1
TIPS 4/14	-1.34	-7	-7	26	41	34	US-1.875-04/30/14	157	6	7	25	40	32	10	-8
TIPS 7/14	-1.71	1	1	21	32	23	US-2.625-07/31/14	195	-2	-1	20	31	22	13	2
TIPS 1/15	-1.52	0	0	17	26	20	US-2.250-01/31/15	179	-2	-1	16	25	18	19	2
TIPS 4/15	-1.52	-2	-2	15	23	17	US-2.500-04/30/15	181	0	1	14	22	16	12	2
TIPS 7/15	-1.69	-11	-11	13	20	14	US-4.250-08/15/15	200	8	9	13	19	13	21	-5
TIPS 1/16	-1.66	-5	-5	11	17	12	US-2.625-02/29/16	203	2	3	11	16	10	15	2
TIPS 4/16	-1.62	-11	-11	10	15	11	US-2.000-04/30/16	200	8	9	10	14	9	14	-3
TIPS 7/16	-1.71	-16	-16	10	15	10	US-4.875-08/15/16	215	12	12	9	13	8	21	-6
TIPS 1/17	-1.64	-10	-10	9	13	9	US-3.125-01/31/17	214	7	8	8	12	7	19	0
TIPS 4/17	-1.63	-12	-12	8	12	9	US-0.875-04/30/17	217	10	10	7	10	6	13	-2
TIPS 7/17	-1.67	-14	-14	8	12	8	US-4.750-08/15/17	225	11	11	7	10	6	22	-3
TIPS 1/18	-1.59	-10	-10	7	11	8	US-3.500-02/15/18	228	8	8	6	9	5	16	1
TIPS 7/18	-1.59	-10	-10	6	10	7	US-4.000-08/15/18	234	8	8	6	8	4	20	1
TIPS 1/19	-1.43	-13	-13	6	9	7	US-2.750-02/15/19	232	11	11	5	7	4	21	-2
TIPS 7/19	-1.44	-9	-9	6	9	7	US-3.625-08/15/19	242	8	8	5	7	3	20	1
TIPS 1/20	-1.30	-7	-7	5	8	7	US-3.625-02/15/20	239	6	7	4	6	3	22	3
TIPS 7/20	-1.25	-7	-7	5	8	6	US-2.625-08/15/20	245	6	6	4	6	3	23	3
TIPS 1/21	-1.10	-9	-9	5	8	6	US-3.625-02/15/21	240	9	9	4	5	3	27	1
TIPS 7/21	-1.05	-12	-12	5	7	6	US-2.125-08/15/21	247	11	12	3	5	2	25	-1
TIPS 1/22	-0.91	-9	-9	4	7	6	US-2.000-02/15/22	245	9	9	3	4	2	26	1
TIPS 7/22	-0.87	-8	-8	4	7	6	US-1.625-08/15/22	251	8	8	3	4	2	25	2
TIPS 1/25	-0.57	-9	-9	4	6	6	US-7.625-02/15/25	244	9	9	3	3	1	35	-0
TIPS 1/26	-0.42	-11	-11	4	6	6	US-6.000-02/15/26	245	11	11	2	3	1	35	-0
TIPS 1/27	-0.37	-7	-7	4	6	5	US-6.625-02/15/27	248	8	8	2	3	1	33	-3
TIPS 1/28	-0.28	-6	-6	3	5	5	US-6.125-11/15/27	246	7	7	2	2	1	36	0
TIPS 4/28	-0.24	-10	-10	4	6	6	US-5.500-08/15/28	249	11	11	2	3	1	32	-3
TIPS 1/29	-0.21	-5	-5	3	5	5	US-5.250-02/15/29	250	6	6	2	3	1	32	1
TIPS 4/29	-0.20	-5	-5	3	6	5	US-5.250-02/15/29	249	6	6	2	3	1	33	1
TIPS 4/32	-0.09	-5	-5	3	5	5	US-5.375-02/15/31	246	6	6	2	2	1	37	0
TIPS 2/40	0.25	-5	-5	2	4	4	US-4.625-02/15/40	245	7	7	1	1	0	41	2
TIPS 2/41	0.27	-7	-7	2	4	4	US-4.750-02/15/41	245	10	10	1	1	0	41	2
TIPS 2/42	0.33	-7	-7	2	3	3	US-3.125-02/15/42	249	9	9	1	1	0	38	1

Source: Citi Research

Figure 48. 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 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.10	0.09	0.09									
BTPei14	0.66	-32	-32	18	56	82	BTP 8/14	162	17	20	10	36	49	21	-21
OATei15	-1.43	-5	-5	7	26	34	FFRG 4/15	169	2	4	7	24	32	21	-4
BUNDei16	-1.20	-4	-4	6	21	29	BUND 1/16	134	4	6	6	21	28	28	-4
BTANI16	-1.26	-7	-7	11	16	10	FFRG 4/16	178	5	8	10	14	7	38	-1
BTPei16	2.16	-37	-37	12	34	49	BTP 8/16	118	18	20	6	20	26	67	-18
OATi17	-1.02	-5	-5	9	13	9	FFRG 4/17	185	4	7	8	11	5	37	1
BTPei17	2.48	-44	-44	10	28	41	BTP 8/17	135	25	26	4	15	19	53	-22
BOBLEi18	-0.90	-8	-8	4	14	19	BUND 1/18	144	6	7	4	13	17	31	-4
OATei18	-0.56	-11	-11	4	14	19	FFRG 4/18	171	9	10	3	11	14	22	-7
OATi19	-0.53	-9	-9	7	11	8	FFRG 4/19	197	7	9	6	7	3	34	-4
BTPei19	2.93	-43	-43	8	21	31	BTP 9/19	137	28	29	3	11	14	57	-26
BUNDei20	-0.70	-9	-9	3	11	15	BUND 1/20	167	8	9	3	9	12	21	-6
OATei20	-0.16	-9	-9	4	12	17	FFRG 4/20	188	6	7	2	8	11	13	-5
BTPei21	3.35	-34	-34	6	18	26	BTP 9/20	121	22	23	2	8	10	85	-2
OATei22	0.14	-9	-9	3	10	14	FFRG 4/21	180	6	6	2	6	8	32	-4
BUNDei23	-0.47	-7	-7	2	8	11	BUND 1/22	180	7	7	2	6	7	27	-5
OATi23	0.11	-9	-9	5	8	7	FFRG 10/23	226	5	6	4	4	1	24	-1
BTPei23	3.60	-26	-26	6	16	23	BTP 8/23	144	18	19	2	7	9	72	-16
BTPei26	3.86	-25	-25	5	13	20	BTP 3/26	154	20	21	1	5	7	71	-18
OATei27	0.53	-3	-3	2	7	10	FRTR 4/26	211	-0	0	1	4	5	18	2
OATi29	0.47	-5	-5	4	6	6	FFRG 4/29	236	0	1	2	3	0	15	5
OATi32	0.64	-6	-6	2	6	9	FFRG 10/32	232	2	2	1	3	4	2	0
BTPei35	3.82	-13	-13	3	9	13	BTP 8/34	195	6	6	0	2	2	41	-3
OATei40	0.71	-4	-4	1	4	6	FFRG 10/38	242	1	2	0	2	2	1	2
BTPei41	3.81	-14	-14	3	8	11	BTP 9/40	197	6	6	0	2	2	47	-3

Source: Citi Research

Figure 49. 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 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.42	0.40	0.39									
UKTi'16	-1.87	-2	-3	1	3	5	UKT 9/16	226	-2	-1	1	3	5	40	4
UKTi'17	-1.56	-4	-4	4	8	8	UKT 3/18	228	-2	-1	3	7	6	34	4
UKTi'20	-1.06	-3	-3	2	3	5	UKT 3/20	220	0	0	1	2	2	44	5
UKTi'22	-0.73	-2	-2	3	6	6	UKT 3/22	226	1	1	2	3	3	48	2
UKTi'24	-0.45	-1	-2	1	3	5	UKT 3/25	235	0	0	0	1	1	48	5
UKTi'27	-0.17	-4	-5	2	4	5	UKT 12/27	239	4	4	1	2	1	49	1
UKTi'29	-0.02	-8	-8	2	4	5	UKT 12/30	250	7	7	1	1	1	38	-3
UKTi'30	-0.10	-7	-7	1	3	4	UKT 6/32	272	7	7	0	0	0	25	-3
UKTi'32	0.02	-9	-9	2	4	4	UKT 6/32	260	9	9	0	1	0	40	-5
UKTi'34	0.11	-10	-11	2	3	4	UKT 9/34	266	10	10	0	1	0	35	-5
UKTi'35	0.09	-8	-8	1	2	3	UKT 3/36	278	9	9	0	0	0	26	-4
UKTi'37	0.16	-8	-8	1	3	4	UKT 12/38	278	8	8	0	1	0	31	-2
UKTi'40	0.19	-7	-7	1	3	3	UKT 9/39	280	7	7	0	0	-1	32	-1
UKTi'42	0.19	-7	-7	1	2	3	UKT 12/42	287	7	7	0	0	-1	32	-1
UKTi'44	0.24	-8	-8	1	2	3	UKT 12/42	282	8	8	0	0	-1	36	-1
UKTi'47	0.23	-7	-7	1	2	3	UKT 12/46	291	7	7	0	0	-1	31	-1
UKTi'50	0.25	-6	-7	1	2	2	UKT 12/49	292	8	7	0	0	-1	30	-1
UKTi'52	0.28	-8	-8	1	2	2	UKT 7/52	293	9	9	0	0	-1	29	-2
UKTi'55	0.24	-7	-7	1	2	2	UKT 12/55	293	8	8	0	0	-1	32	-0
UKTi'62	0.24	-7	-7	1	1	2	UKT 1/60	292	8	8	0	0	-1	33	-1

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
03-Oct-12	NOTE	Euro Rates Strategy: Unchanged ECB, but Rich in Carry	-	EUR
27-Sep-12	NOTE	Euro SSA Strategy: An Introduction to Core European SSA Issuers	-	EUR
27-Sep-12	IIRS	Focus on France: Budget expectations – unrealistic GDP baseline	8	EUR
		The Demand for French Government Bonds	13	EUR
		EMU-11: October Supply Outlook	24	EUR
26-Sep-12	NOTE	Euro Rate Strategy: EMU-11 October Supply Outlook	-	EUR
25-Sep-12	NOTE	Month-End Index-Linked Index Projections	-	Global
20-Sep-12	IIRS	Euro Money Markets: Eurozone's Lost Decade	10	EUR
		UK Inflation Strategy: CPAC presents downside risks to break-evens	12	GBP
		Swaps & Swaptions	14	EUR
		Bearish 5y? Check the EUR Payer Skew	15	EUR
		SSA Issuer Focus: EFSF/ESM	16	EUR
		End-September WGBI/EGBI Projections	20	Global
20-Sep-12	NOTE	Global Month-End Index Projections: Month-End Support for France and Italy	-	Global
13-Sep-12	IIRS	Euro Money Markets	8	EUR
		Will Draghi's Words Be Enough?	10	EUR
		Assessing the Impact of a Theoretical OMT on the Italian Market	13	EUR
		Moody's Review of Spain's Rating	19	EUR
12-Sep-12	NOTE	Rates Strategy: Assessing the impact of a theoretical OMT on the Italian market	-	EUR
06-Sep-12	IIRS	Draghi Delivers, As Expected	8	EUR
		Fading the steepness of long-end OATs	11	EUR
		Opportunities in Belgian Principal Strips	12	EUR
		SSA Issuer Focus: European Union	13	EUR
04-Sep-12	NOTE	UK Rates Strategy: Attractive value in 30yr gilts ahead of auction	-	Global
30-Aug-12	IIRS	Overview: Exceptional times, exceptional measures?	8	EUR
		EMU-11: September Supply Outlook	11	EUR
		Inflation: risk-off threat to euro break-evens	14	EUR
		Futures calendar spread summary (U2-Z2)	17	Global

Global Rates Team

Figure 50. Citi Global Interest Rate Strategy Team, For informational purposes only

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Notes

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Appendix A-1

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