

European Rates Weekly

Dissecting Bono/BTP spreads

- **Dissecting Bono/BTP spreads:** 10y Spain has gained 16bp vs Italy since early-May. Various explanations have been put forward, but the relative performance is surprising given that net flow data has been positive for BTPs and negative for Bonos. We think that this conundrum can be explained by the use of BTP futures (volumes have spiked recently) to hedge lower-rated peripheral cash portfolios.
- **Gilt curve dynamics are changing:** For five years, the 2s10s/2s5s gilt curves have consistently exhibited a pattern of bull-flattening and bear-steepening. An analysis of curve betas suggests that this pattern is beginning to reverse. We expect 2s10s/2s5s bear-flattening to become much more prominent in the coming months.
- **SSA:** The Spanish agency market has grown this week by one more issuer: Adif Alta Velocidad placed its inaugural deal on Tuesday. We present the issuer, give a market overview and look for RV opportunities.
- **Covered bonds and risk weights:** KBC recently published a press release saying that the bank removed the possibility of applying a zero-risk weight to sovereign exposure. Implications for markets should be muted. However, if followed by other issuers, spread compression between asset classes could be expected.
- **Futures rolls:** We analyse Bund, Bobl and Schatz calendar rolls. We are bullish on the Bund and bearish on Bobl and Schatz.
- **Bund technicals:** Following this week's sell-off, Bunds are likely to find support in the 145.7 region. This is the confluence of the previous channel upper and 23.6% Fibonacci extension. We expect resistance at the recent high of 146.6.
- **Month-end index changes:** Projected EGBI changes should be most supportive for Italy at the end of May. On a country level, we expect the Spanish index to extend by its largest amount in 2 years. On individual curves, we expect index changes to be most supportive for 10yr Spain and 30yr Finland.
- **Supply:** Next week's EGB supply comes from Italy (estimated €12bn), the Netherlands (€1.5-2.5bn) and Germany (€2bn). The US Treasury will issue \$107billion across 2yr, 5yr, 7yr bonds and 2yr FRNs next week. The UK DMO will issue £1.1bn of IL52 on Wednesday.

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

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	The technical levels held last week and Bunds subsequently sold-off, but they are now at fresh support levels. Our near-term duration scorecard is also bullish.	Look for opportunities to fade the rally
Money Market	We continue to like decoupling strategies between EUR and USD money markets. In the UK, we retain a bearish bias on the very front-end given our expectation of a rate hike in Q4 of this year.	Buy ERM4 vs EDM4 (or use U4) Receive EUR 2y1y vs USD 2y1y
Yield Curve	Likely ECB policy action in June should keep the front-end of core euro area curves well anchored at low yield levels. In contrast, in the UK, we increasingly like bear-flatteners as the MPC edge closer to hiking policy rates. We also continue to hold a paid position in 1y1y GBP vs 3y1y. This rolls negatively, but the front-end has plenty of room to sell-off in the coming months, in our view.	Lighten up on BTPs 2s10s flatteners ahead of the ECB Pay GBP 1y1y vs 3y1y
Cross-market	We maintain our long-standing overweight of Bunds vs Treasuries and gilts. The spread widening has much further to run, in our view. We also like selling 2yr gilts vs USTs to express a hawkish view on the UK whilst avoiding negative carry. Our tactical position short 5yr gilts vs USTs has reached its target.	Take profits on tactical short 5yr gilts vs UST Sell 2yr gilts vs UST Stay short 10yr gilts vs Bunds Long 10yr Bunds vs UST (add on corrections)
EMU Spreads	The recent volatility in the periphery has continued, but we ultimately expect the narrowing trend to reassert itself over the medium-term. Selectively, within core markets, we think scope for further spread compression is limited (such as in certain DSL-OAT spreads).	Buy 10yr Netherlands vs France
Swap Spreads	Neutral. We expect recent ranges to hold.	Hold on to long 30yr gilts vs swaps
Inflation	Euro break-evens initially bounced following last week's heavy supply but have since narrowed as the nominal market rallied. In terms of RV, last week's recommendation to buy OATei18 vs Boblei18 break-even has performed very well and we have tightened the stop. In the UK, we remain long front-end (IL17) break-evens and would add on dips.	Buy OATei18 vs Boblei18 break-even (tighten stop) Maintain long in IL gilt 2017 break-even Sell BTPei18 vs OATei18 break-even Sell BTPei19 vs BTPei17 and BTPei23 real yield Sell OATei22 vs OATei20 and OATei24 real yield
Volatility	Whilst black swans can, and indeed have, appeared to wreak havoc on carry trades (they showed up at least twice in 2013), we believe that long positions on receiver swaptions in the top left corner are the safest way to play the ECB at the current market juncture, given the limited downside and the current cheap gamma vol valuation.	Maintain 1y3y ATM Receiver Swaption
SSA	Look to the primary market for liquidity pockets to add exposure selectively. Move up in quality, especially from EMU sovereigns of lower ratings, when spread levels and liquidity permit.	Long Dutch agencies vs the Netherlands Long EU vs other supras with larger supply pipelines UKRAIL spread tighteners vs gilts and peers in the £ sector
For a list of outstanding trade strategies please see the Tradesheet section of this report		

Source: Citi Research Note: Futures trading involves a substantial risk of loss.

Duration Scorecard

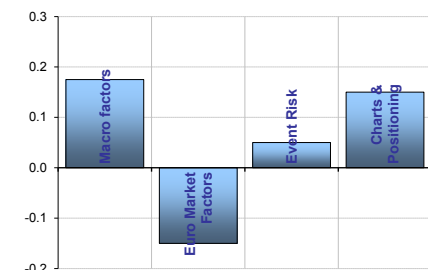
Figure 2. Bund Weekly Cheat Sheet: 23 – 29 May

Bund Directional Scorecard (1w horizon)			
Recommendation	Buy	RXM4 (EOD Thurs) = 146.11	
Conviction level	Medium	CTD yield = 1.06% 10day del vol = 4.5%	
Signal Strength (+/-2)			
Macro factors	0.2	Weight = 35%	
ECB	2	Citi expects the ECB to cut refi and depo rates in June	7.5%
Fed, BoE and BOJ	-1	FOMC likely to continue tapering	7.5%
Inflation	1	Citi expects average 2Q HICP to undershoot ECB projection	5.0%
Growth related data	1	Citi has reduced its 2014 growth estimate to 1.2% YoY	2.5%
Citi surprise	1	Citi Economic Surprise Index close to lowest in 10 months	7.5%
Middle East / Oil	-1	Brent close to a one year high	5.0%
Euro Market Factors	-0.2	Weight = 30%	
Supply	-1	Cash flow non-supportive for core next week	5.0%
Risk appetite	-1	GRAMI indicate increase in risk appetite	5.0%
Flow	0	Net demand for the core remains flat	5.0%
Equity	-1	Eurostoxx50 remains close to its highest level in 5 years	5.0%
Sovereign credit	-1	Periphery weakness likely to be short-lived	5.0%
FX	1	Euro likely to remain close to the current subdued levels	5.0%
Event Risk	0.1	Weight = 15%	
Politics	-1	Volatility ahead of EP elections likely to be short-lived	5.0%
3yr LTRO	1	Citi expects a new conditional fixed rate LTRO in 3Q14	5.0%
QE	1	Citi expects the ECB to embark upon QE in 4Q	5.0%
Charts & Positioning	0.2	Weight = 20%	
Technicals	1	Bund finding support after the sell-off	5.0%
T-Note	0	Neutral	5.0%
CFTC	1	Positioning slightly long	5.0%
ARTS	1	Mild long	5.0%

Source: Citi Research Note: Futures trading involves a substantial risk of loss.

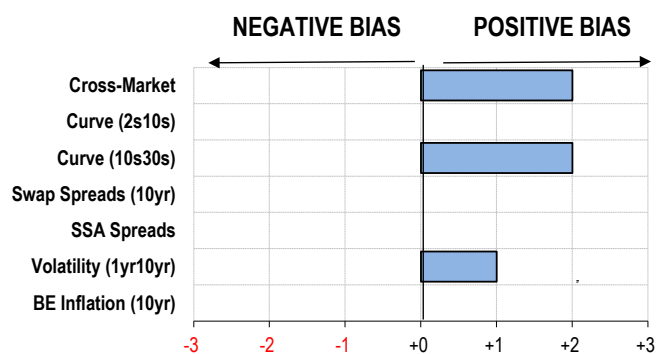
Source: Citi Research Note: Futures trading involves a substantial risk of loss.

Figure 3. Contribution to Bund Signals



Source: Citi Research

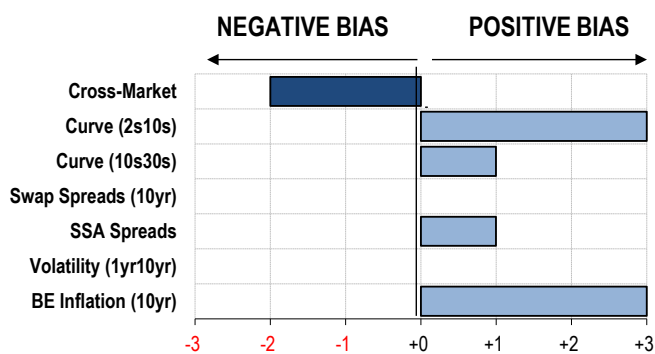
Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

POSITIVE bias = bullish vs UST, flatter curve, wider swap spreads, tighter SSA spreads, higher implied vol, wider BE inflation

Figure 5. UK (Near-term Bias)



Source: Citi Research

POSITIVE bias = bullish vs Bunds, flatter curve, wider swap spreads, tighter SSA spreads, higher implied vol, wider BE inflation

Tradesheet

Record of Our Closed Trades

Figure 6. Record of our Closed Trades

Region	Trade	Levels	Rationale	
UK / US	Sell 5yr gilts vs UST	Open 7bp Current 30bp	Hit Target 21 May 2014	
Cross Market	Sell gilt 1.75% Jul19 at 1.93% Buy UST 0.875% Jul19 at 1.86%	P&L 23bp Target 30bp Stop -5bp	Euro Rates Weekly, 27 March 2014	
EUR	Long 10yr Spain vs Italy	Open 20bp Current -14bp	Taking Profit ("Take Profit On Bono/BTPs And BTP 2/10s Flatteners", 22 May 14)	
Cross Market	Buy Bono 4.4% Oct23s at 4.26% Sell BTP 4.5% May23s at 4.06%	P&L 34bp Target -25bp Stop 45bp	European Rates Weekly 5 Dec 2013	

Source: Citi Research

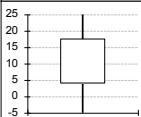
Record of Our Open Trades

Figure 7. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
EUR	Buy OATe18 break-even vs Boble18	Open 20.8bp Current 25bp	OATe1 have underperformed Bundel and BTPe1 recently and the OATe18-Boble18 spread is at 10month low.	
Inflation	Buy OATe18 break-even at 101.8bp Sell Boble18 break-even at 81bps	P&L 4bp Target 28bp Stop 17bp Revised Stop 23bp	The Morning Call, 15 May 2014 Revised stop: The Morning Call, 22 May 2014	
EUR	Buy 10yr DSLs vs OATs	Open 11bp Current 9bp	Risk-reward favours spread wideners and upcoming NCR less supportive for France	
Cross Market	Buy DSL 1.75% Jul23s at 1.70% Sell OAT 1.75% May23s at 1.81%	P&L -3bp Target 20bp Stop 5bp	Euro Rates Weekly, 24 April 2014	
UK	Pay GBP 1y1y vs 3y1y	Open 132bp Current 129bp	The very front-end is still lagging in the sell-off.	
Swap Curve	Pay GBP 1y1y at 1.47% Receive GBP 3y1y at 2.79%	P&L 3bp Target 50bp Stop 170bp	Euro Rates Weekly, 24 April 2014	
EUR	Buy ERM4 and sell EDM4	Open -5bp Current -3bp	Attractive entry levels and benefits from ECB policy rate view	
Money Market	Buy ERM4 at 99.69 Sell EDM4 at 99.74	P&L 1.8bp Target 5bp Stop -10bp	Euro Rates Strategy, 11 March 2014	
EUR	Buy BNG 2.5% Nov17 vs DSL 1.25% Jan18	Open 10bp Current 11bp	Tactically good entry point for spread compression trade	
SSA	Buy BNG 2.5% Nov17 at 0.63% Sell DSL 1.25% Jan18 at 0.53%	P&L -1bp Target 3bp Stop 14bp	European Rates Weekly, 27 February 2014	
EUR	Sell BTPe19 vs BTPe17 and BTPe23	Open -46bp Current -45bp	Fade the richness of 5yr BTPe1.	
Inflation	Buy BTPe17 at 1.04% Sell BTPe19 at 1.53% Buy BTPe23 at 2.48%	P&L 1bp Target -26bp Stop -56bp	European Rates Weekly, 20 February 2014	
EUR	Sell BTPe18 break-even vs OATe18	Open 13.5bp Current 13bp	BTPe1 likely to reverse some of the richness now that Boble18 and OATe18 auctions are over.	
Inflation	Sell BTPe18 break-even at 79.5bp Buy OATe18 break-even at 93bp	P&L 0bp Target 28bp Stop 6bp	European Rates Weekly, 20 February 2014	
EUR	BTP 10s30s steepener	Open 106bp Current 127bp	Macro factors, cash flow profile, expect strong demand for new 10yr BTP and +ve carry are supportive for steepeners	
Curve	Buy BTP Aug23 at 3.49% Buy BTP Sep44 at 4.54%	P&L 21bp Target 144bp Stop 90bp	European Rates Weekly, 20 February 2014	

Source: Citi Research Note: Futures trading involves a substantial risk of loss.

Figure 8. Record of our Open Trades (continued)

EUR	Buy OATe20 and OATe24 vs OATe22	Open 2bp Current 3bp P&L 1bp Target 10bp Stop -2bp	OATe22 looks too rich on the curve; OATe24 likely to perform after auction is out of the way	
Inflation	Buy OATe20 at 0.10% Sell OATe22 at 0.42% Buy OATe24 at 0.72%		Euro Inflation Strategy, 19 February 2014	
UK	Buy IL gilt 2017 break-evens	Open 2.71% Current 2.91% P&L 20bp Revised Target 3.15% Revised Stop 2.70%	We believe that RPI-CPI wedge to widen over the medium-term	
Inflation	Buy IL gilt 2017 break-evens at 2.71%		UK Rates Strategy, 18 February 2014 Revised: UK Inflation Strategy, 25 March 2014	
EUR	Buy 30yr Netherlands vs Austria	Open 14bp Current 15bp P&L 1bp Target 24bp Stop 8bp	Close to historically tight levels. Uncertainty surrounding the Austria banking sector should weigh on Austrian bonds	
Cross Market	Buy DSL Jan42 at 2.67% Sell RAGB Jun44 at 2.81%		European Rates Weekly, 12 February 2014	
UK / US	Sell UKT 2.25% Sep23 vs UST 2.5% Aug23	Open 6.5bp Current 20bp P&L 13bp Target 30bp Stop -5bp	We expect the MPC to hike three quarters ahead of the Fed	
Cross Market	Sell UKT 2.25% Sep23 at 2.82% Buy UST 2.5% Aug23 at 2.77%		European Rates Weekly, 23 January 2014	
EUR	Sell France vs Belgium and Germany	Open 6bp Current 5bp P&L -1bp Target 16bp Stop 1bp	Attractive entry level, possible auction concession and non-supportive cash flow profile for OATs into year-end	
Cross Market	Sell BTAN 1.75% Feb17 at 0.51% Buy OLO 4% Mar17 at 0.66% Buy Bobl 0.5% Apr17 at 0.30%		Euro Rates Strategy, 8 November 2013.	
EUR / UK	Sell UKT Sep23 vs DBR Aug23	Open 85bp Current 138bp P&L 53bp Target 140bp Stop 58bp Revised Stop 85bp	Entry levels are attractive for medium-term gilt-Bund wideners	
Cross Market	Sell UKT 2.25% Sep23 at 2.60% Buy DBR 2% Aug23 at 1.75%		European Rates Weekly, 24 October 2013. Revised Stop: UK Rates Strategy, 11 November 2013	
UK	Sell 30yr gilt swap spreads vs 10yr	Open 20bp Current 24bp P&L 4bp Target 50bp Stop 10bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve.	
Swap spread	Sell gilt 3.25% Jan44 ASW at 20bp Buy gilt 1.75% Sep22 ASW at 0bp		UK Rates Strategy, 30 July 2013	
EUR	Receive EUR 10y2y vs 12y3y	Open 4bp Current 18bp P&L 14bp Target 25bp Stop -5bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility	
Curve	Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%		The Morning Call, 23 January 2013	
UK	Sell GBP 2y2y ATM straddle	Open 76bp Current 21bp P&L 55bp Target 0bp Stop 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol	
Volatility	Sell GBP 2y2y ATM (1.04%) straddle at 76bps		IIRS 12 July 2012	

Source: Citi Research Note: Futures trading involves a substantial risk of loss

EGB: Dissecting Bono/BTP Spreads

Recent customer flows are supportive of Italy, so why the underperformance vs Spain?

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Bonos remain ahead of BTPs after 5 months of trading

European elections risk

Fundamental differences

Accounting & risk management

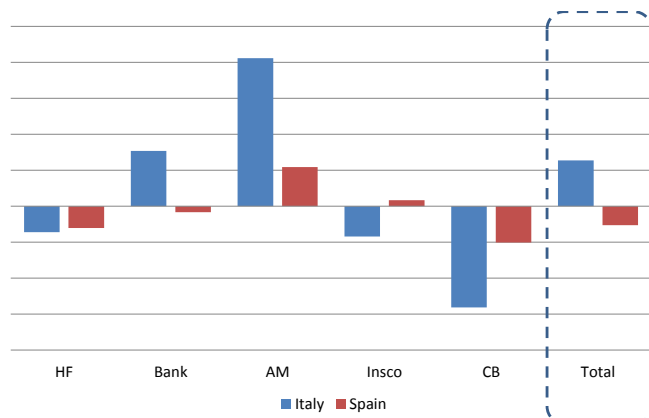
Contagion?

Since the start of this year, Spain's EGBI (+7.2%) has outperformed Italy by 1.5% on a total return basis with approximately 1% of this relative performance being attributed to the last 30 days. In spread terms, 10y Spain has gained 16bp vs Italy and Bono Apr-24 is now quoted almost 20bp through BTP Mar-24.

Several explanations have been brought forward for this difference in performance:

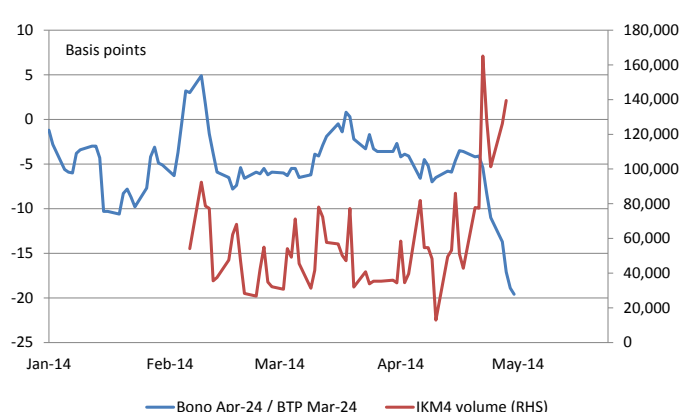
- Spain has no Euroskeptic political movement, while Mr Grillo's M5S is expected to be Italy's second largest party with a share in excess of 25% according to the most recent official polls.
- Italy's Q1 GDP was particularly surprising and casts doubts about official sector forecasts for 2014. More importantly, Rome's persistent inability to put the economy on a steeper growth trajectory seems to weight against a significant improvement in competitiveness in Spain's non-traded sectors.
- Reports about a change in [EGB risk-weighting](#) by Belgian banks.
- Greece's announcement of a retroactive capital gains tax on GGB (dismissed).

Figure 9. Bonos should not have benefited from flows...



Source: Citi Research / Voice & electronic, week 12-16 May 2014

Figure 10. ...but Italy has not benefited from a jump in futures volume



Source: Eurex, Citi Research

Customer flows do not explain BTPs underperformance

Looking at our flow reports (Figure 9), we note a wedge between fast money (sellers) and real money (buyers) appearing during the week 12-16 May. Net flows seem to have been supportive of BTPs and negative for Spain, and yet Bonos have outperformed.

Futures driven spread widening between BTPs and Bonos

We think this conundrum can be reconciled when taking into account exchange traded BTP futures (Figure 10): Daily IK-volumes have jumped from an average of 50k in March/April to 81k contracts in May with a peak of 165k contracts exchanged on Thursday 15 May. We think it is realistic to assume that the existence of a futures market has been a net negative for the cash BTP market. For example, fast hands might have used it to execute hedges against lower-rated peripheral cash portfolios as the GGB market was suffering heavily on the back of fiscal uncertainty. This could explain last week's peak in BTP futures volumes as well as the marked underperformance vs Spain.

Gilt curve dynamics are changing

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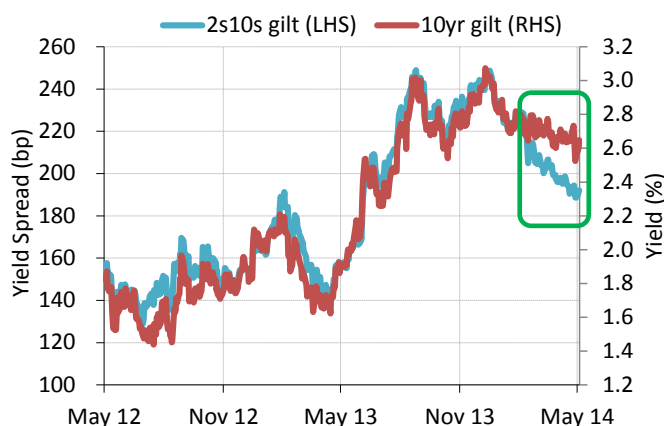
Long established curve dynamics are changing. For five years, the 2s10s gilt curve has consistently exhibited a pattern of bull-flattening and bear-steepening. This largely reflects policy rates being on hold close to the zero lower bound. There are now clear signs that this pattern is reversing as the MPC edge close to rate hikes. We expect this trend to accelerate in the coming months. In particular, we expect 2yr yields to move sharply higher as a greater premium is priced-in to reflect the uncertain timing of the first rate hike.

Accelerated flattening

The 2s10s curve has flattened sharply recently, despite range-bound yields in the long-end

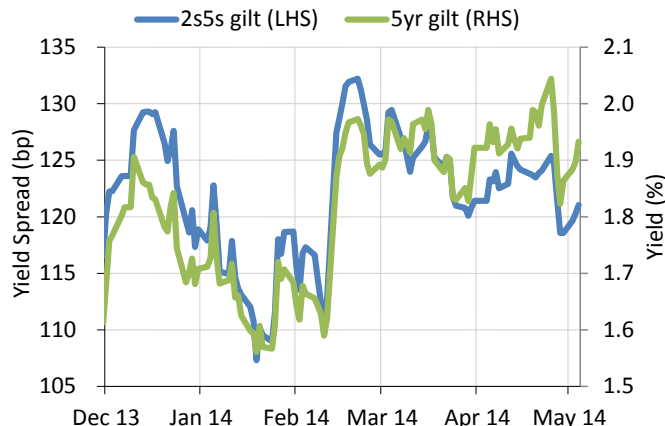
The directionality of the 2s10s gilt curve is already beginning to change. As Figure 11 shows, the relationship between 2s10s and 10s (bear-steepening, bull-flattening) has been very consistent in recent years. However, in the last few months, there has been a clear shift in the beta (shown by the green box). Despite 10yr yields being largely range-bound (influenced by international drivers), the 2s10s gilt curve has managed to flatten around 30bp. This partly reflects a modest fall in 10yr yields, but the dominant driver has been a rise in 2yr yields (influenced by domestic drivers). We think that this is the beginnings of a bear-flattening trend for 2s10s. Moreover, while the 2s5s curve continues to be led by 5s (Figure 12), this is likely to change when the first rate hike nears and the volatility in 2s increases. This shift in dynamic is much closer to happening, in our view, than widely anticipated.

Figure 11. 2s10s has flattened despite range-bound 10s



Source: Citi Research, Bloomberg.

Figure 12. 2s5s continues to be led by 5s



Source: Citi Research, Bloomberg.

Shifting betas – 5s now leading, but for how long?

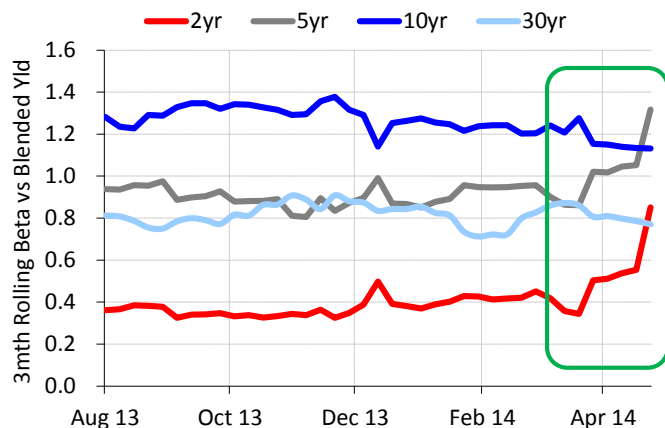
The betas of 2s and 5s vs the rest of the curve have moved sharply higher

Another way of looking at the changing curve dynamics is via betas. Figure 13 shows the three-month rolling betas of each curve point to a blended yield (weekly changes). The chart shows that 5s have recently taken over from 10s as the high beta point on the curve. It also shows the sharp increase in the beta of 2s vs the blended yield.

2s are likely to take over from 5s as the high beta point fairly soon

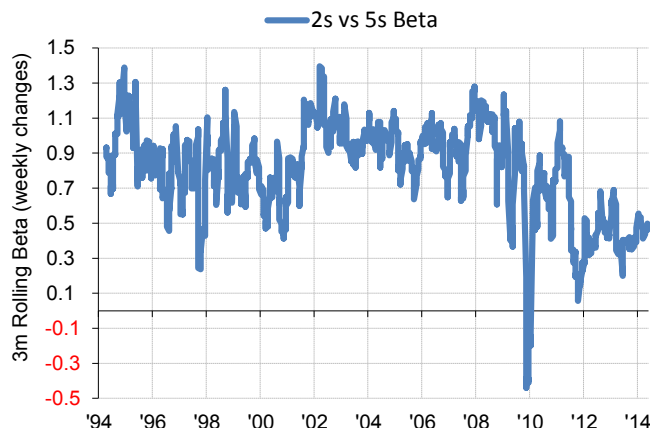
In our minds, it won't be too long until 5s are taken over by 2s as the high beta point. The current beta of 2s to 5s is very low by long-term historical standards (Figure 14). This is to be expected given the lower-for-longer approach to policy rates that has characterized the last few years. As the turn in the policy cycle nears, the beta of 2s will highly likely revert to more normal levels. Below we look at past hiking cycles to assess when 2s may begin to lead front-end bear-flattening. We think this could happen in the next couple of months, see below.

Figure 13. Gilt betas vs blended yield



Source: Citi Research, Bloomberg.

Figure 14. The beta of 2s vs 5s is historically low



Source: Citi Research, Bloomberg.

Rolling up the curve

A split vote by MPC members is increasingly likely in the coming months

The market pricing of the first rate hike has moved forward to March in the last few days having briefly moved out to May following last week's Inflation Report and the dovish press conference given by Carney. The hawkish news this week has included above consensus inflation and retail sales, but the MPC minutes were the main trigger. The minutes revealed that *"for some members the monetary policy decision was becoming more balanced"*, suggesting that a split vote may materialize in the coming months.

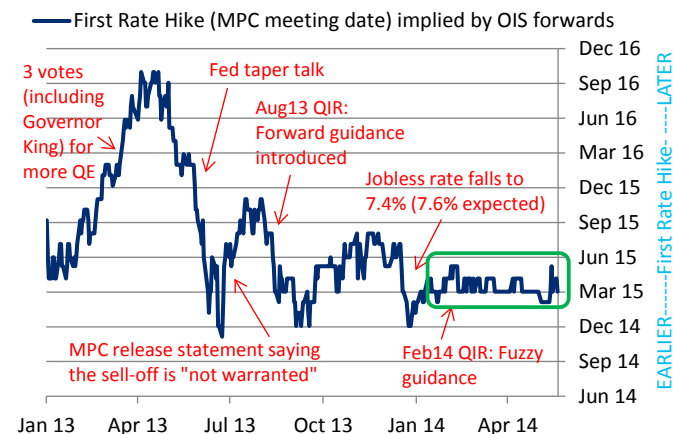
If the market-implied timing remains static, 2s will continue to roll up the curve, but we think this will be accelerated as rate hike expectations are brought forward

The market-implied timing of the first rate hike has been stable around March-April 2015 for the last few months (Figure 15). If this continues, 2yr yields will naturally begin to 'roll up' the curve. However, we think the market is pricing far too low a probability of an earlier rate hike. Our base case is that the MPC hike rates in November, which currently has an implied probability of 35% in the market.

2s5s flattening could be just months away...

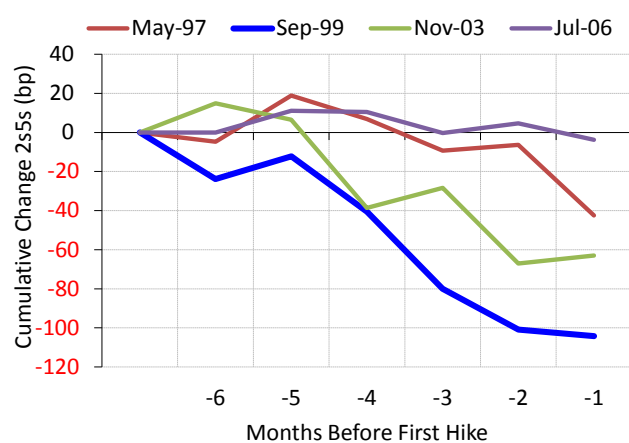
Our base case of a rate hike in November 2014 suggests that 2s5s bear-flattening may be just months away. This judgment is based on previous hiking cycles.

Figure 15. Market-implied timing of the first rate hike over time



Source: Citi Research

Figure 16. Behaviour of 2s5s in the 6mths ahead of the first rate hike



Source: Citi Research, Bloomberg.

2s5s tend to flatten quite sharply 3-4 months before the first rate hike

Our base case suggests accelerated flattening from July

2yr gilt yields tend to be 100bp above policy rates at the time of the first rate hike; currently the differential is just 20bp

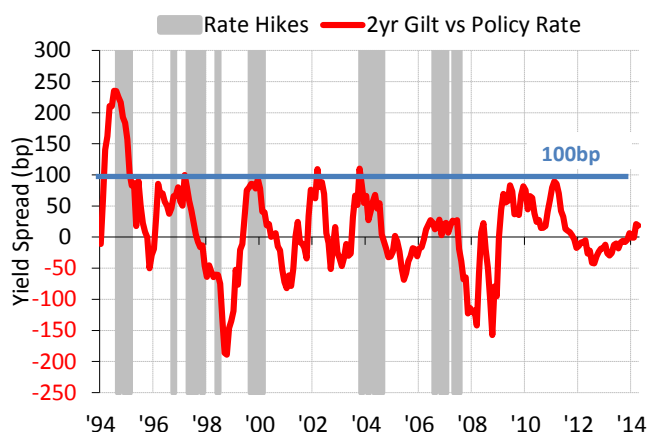
Figure 16 illustrates the behavior of the 2s5s gilt curve in the six months ahead of the last four hiking cycles. A few notable trends stand out. First, that 2s5s (unsurprisingly) flattens ahead of the first rate hike. Second, that the magnitude of the flattening in the last six months can be large; between 40-100bp (excluding 2006 when rate hikes were initially thought to be a 'fine-tuning' exercise). Third, the flattening tends to accelerate around 3-4 months before the first rate hike.

So, if upcoming data supports our base case of a November rate hike, the 2s5s curve could be bear-flattening quite sharply from around July of this year.

...and the magnitude of the flattening is likely to be large

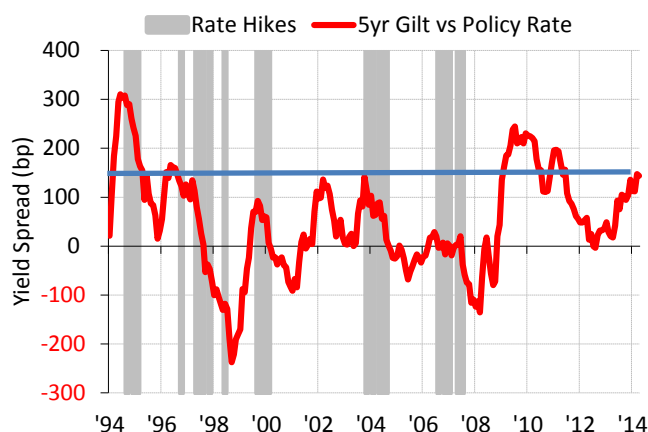
We also think that the potential magnitude of the flattening in 2s5s is significant. As Figure 17 shows, 2yr gilt yields are typically around 100bp above the prevailing policy rate at the time of the first rate. Currently, the spread is just 20bp. In contrast, 5yr gilt yields – at 140bp above policy rates – are already at spread levels typical before a hiking cycle. This suggests to us that 2s5s flattening could be quite sharp.

Figure 17. Differential between 2s and policy rates



Source: Citi Research, Bloomberg.

Figure 18. Differential between 5s and policy rates



Source: Citi Research, Bloomberg.

Strategy: be ready for 2s10s/2s5s bear-flattening, soon

Bear-flattening is likely to be happen earlier than widely anticipated

Front-end yields are likely to rise well beyond the forwards

Curve dynamics are likely to soon revert to pre-crisis norms. As policy rates become active, 2s5s and 2s10s are likely to bear-flatten and bull-steepen. This is uncontroversial, but we expect this shift in curve dynamics to become more prominent much earlier than widely anticipated.

In particular, we expect 2yr yields to rise much faster than implied by the forwards (we target 1.7% for 2yr gilts at year-end, around 55bp above the forward). The market is likely to price-in a larger yield premium to reflect the uncertain timing (and speed) of the hiking cycle. A split vote from the MPC in the coming months will likely reinforce this trend. Moreover, we expect the economic data to support an earlier rate hike (with pay growth being particularly pivotal) and this is likely to accelerate a front-end led sell-off. As a consequence, 2s are likely to take over from 5s as the high beta point, perhaps in the next couple of months.

European SSA Strategy

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The Spanish agency market has grown this week by one more issuer: Adif Alta Velocidad placed its inaugural deal on Tuesday. We present the issuer, give a market overview and look for RV opportunities.

Adif Alta Velocidad speeding up

Third Spanish agency issuance in 2014

With the newly founded entity Adif Alta Velocidad (ADIF-AV) the Spanish agency sector has grown by one more entity and the SSA market saw the third Spanish agency benchmark issuance in 2014 this week.

ADIF-AL is a follow up of ADIF and will be responsible for high speed rail network

The issuer: At the end of last year, the Spanish entity ADIF which was solely responsible for the railway infrastructure management in Spain was split into two different new entities¹: ADIF-AV will be responsible to manage the high speed rail network and ADIF will be managing the conventional rail network. ADIF-AV is the main investor in rail infrastructure in Spain. Last year, the entity invested a total amount of €2.44bn. With total assets of €40bn, the entity will be the second largest Spanish agency, just behind ICO (€102.2bn, Figure 19).

Figure 19. An overview of all Spanish agencies active in the euro benchmark format

Ticker	Issuer	Agency Type and Mission	Established	Ownership Structure	Moody's Rating	S&P Rating	Total Assets 2013 (€bn)	Bond Issuance 2013 (€bn)	Bond Debt Outstanding (€bn)
ADIFAL	Adif Alta Velocidad	Entity is responsible for the construction and amangement of Spain's high speed rail network in line with the political directives fixed by the government.	2014	ADIF-AV is a 100% State-owned Entidad Pública Empresarial (public corporate entity) created under Law 6/1997 on Organization and Functioning of the State's General Administration. It operates under the supervision of the Ministerio de Fomento (Ministry of Public Works).	Baa3e	BBB+e	40.0	0.0	1.0
ICO	Instituto de Credito Oficial	State finance agency and state owned bank. Functions include promoting economic activities contributing to growth. "Particularly, those of a social, cultural , environmental or innovative significance are awarded special attention".	1971	State owned with its own legal status as a credit institution with Articles of Incorporation approved by Royal Decree 706/1999. Explicit, irrevocable, unconditional and direct government guarantee. Self governing, attached to the Ministry of Economic Affairs and Competitiveness.	Baa2	BBB-	102.2	10.7	59.9
FADE	Electricity Deficit Amortization Fund	Fund established to regulate the process of amortising the tariff deficit within the Spanish electricity sector	2010	Explicit government guarantee. FADE was created within the Royal Decree 437/2010 and is guaranteed by Spain. Its main governing body is the Interministerial Commission; its day-to-day operations are monitored by TdA, a private fund manager.	Baa2	BBB-	15.8	9.6	25.3
FROB	Fondo de Reestructuración Ordenada Bancaria	Fund established to manage the restructuring and resolution of credit institutions	2009	Public law institution acting under legal regime within Law 9/2012 of November 2012. 100% owned by the government with explicit, unconditional and irrevocable government guarantee.	Baa2	BBB-	29.5 (2012)	0.0	5.8
CORES	Corporación de Reservas Estratégicas de Productos Petrolíferos SA	Corporation that is responsible for managing Spain's strategic oil and gas reserves	2004	Corporation governed by public law (A23 of Royal Decree 1716/2004). Chairman is appointed by the Ministry of Industry. Although there is no explicit guarantee, CORES strategic importance means there is a strong link between it and the government.	Baa3	BBB-	2.1 (2012)	0.4	0.9

Source: Issuers, Bloomberg, Citi Research

No explicit guarantee

The guarantee: ADIF-AV is a 100% State-owned Entidad Pública Empresarial (public corporate entity) created under Law 6/1997 on Organization and Functioning of the State's General Administration with legal personality, management autonomy, its own resources different from that of the State General Administration, operating

¹ http://www.adifaltavelocidad.es/en_US/empresas_servicios/doc/EyS_Inversion02.pdf

under the supervision of the Ministerio de Fomento (Ministry of Public Works). Although the entity is not explicitly guaranteed, it is still heavily dependent on and related to the State General Administration, while it is strategically important for Spain.

EBITDA yoy +45%

The financial situation: Obviously, the highest shares of expenses occur due to maintenance (39%) and energy (37%) while revenues are mostly fed by fees (49%) and electricity sales (31%). 2013 net income stood at €-231bn while EBITDA was at €158mn which is a yoy increase of 45%. Not surprisingly, a very high share of ADIV-AV assets (98%) represent tangible fixed assets while work in progress fixed assets correspond to 31% of total assets. The main sources of funds are charges for the use of the rail infrastructure, state contributions, EEU subsidies for the high speed rail infrastructure construction and debt operations, mainly with EIB (75%). As the entity has the legal characteristics of a state-owned public corporate entity (entidad pública empresarial) it cannot become insolvent and it doesn't have any capital (in form of shares). As it is not a government agency, ADIF-AV is characterized as a profit organization.

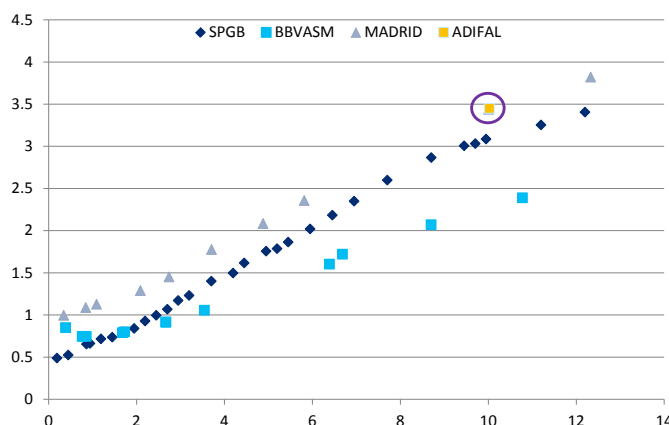
ADIF-AV is rated one notch below Spain...

The rating agencies' views: Moody's currently rates the new entity at Baa3 and gives a positive outlook. This is one notch below the sovereign but also one notch below the ratings of most of its peers. Moody's reasons this difference the following way: *"The Baa3 rating with a positive outlook reflects the strong linkage between ADIF AV's rating and that of The Kingdom of Spain. Despite the lack of explicit government guarantees, this linkage is based on ADIF AV's status as a government-related issuer (GRIs), its strategic importance to Spain, and the very high implicit government support and default dependence that we incorporate within the rating.[...] ADIF AV's rating is one notch below the Baa2 government bond rating of Spain, partly to reflect the lack of explicit guarantees from the Spanish government, but also the relative weakness of the entity's underlying credit profile compared with the credit strength of the sovereign."*²

...but trades on similar levels like Madrid

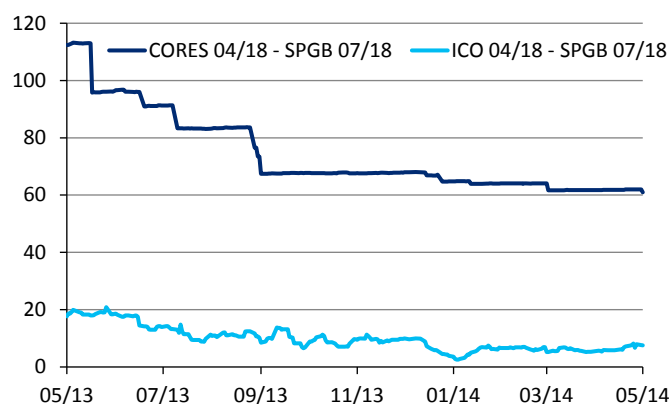
RV opportunities: The inaugural benchmark bond was priced at 50bp over SPGB but tightened by around 10bp after launch and is now trading at similar levels to Madrid. Given the rating differential and the lower liquidity in this name, we would at the current stage recommend to prefer Madrid to the new entity. As a proxy, CORES which is rated in line with ADIFAL currently trades 60bp over SPGB.

Figure 20. Spanish yield universe: SPGB, covered bonds, regions and ADIFAL



Source: Citi Research

Figure 21. Spread between Spanish agencies and SPGB, yield spread, bp



Source: Citi Research

² Moody's Credit Opinion: ADIF ALTA VELOCIDAD, 24/04/2014

Covered Bond Strategy

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KBC announced the non-zero risk treatment for domestic sovereign debt

Exposure to Hungary affected CET1 ratio

In practice, non-zero risk weights for sovereign exposure probably already apply

KBC recently published a press release saying that the bank removed the possibility of applying a zero-risk weight to domestic sovereign exposure. Implications for markets should be muted to this point. However, if this were followed by other issuers, spread compression between asset classes could be expected.

KBC and risk weights for sovereign debt: a precedent?

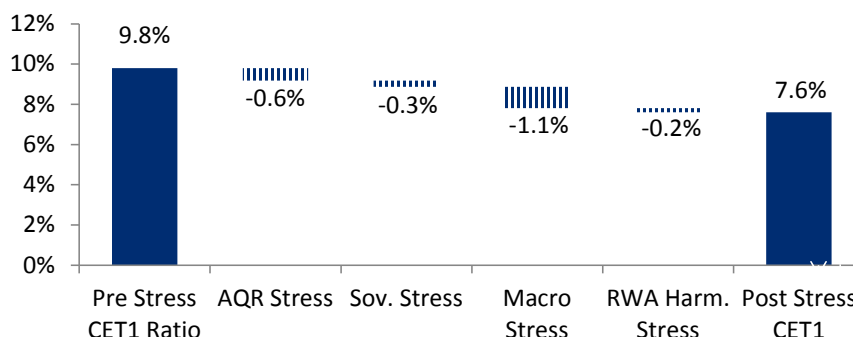
KBC is probably at the forefront of what might become a general move by European banks on how to address sovereign risk within their asset holdings. Last week, the Belgian lender announced in a press release that “*risk-weighted assets have also been affected by the National Bank of Belgium’s (BNB) request to remove the possibility of applying a zero weight to domestic sovereign exposures (Belgium, the Czech Republic, Slovakia and Hungary). This change has been taken into account as of the first quarter of 2014 (on a fully loaded basis), but the 2013 figures have not been restated.*”³ This led to an increase of RWA by €4.4bn, according to the entity.

For KBC, the effect on its capital position has been manageable. A drop of 60bps to 12.2% is still in line with national and supranational requirements. However, as RWAs on CDO collapsed and the sale of two entities should have been positive for the CET1 ratio, while the €0.5bn repayment on state aid has been negative, the effect of the RWA increase on domestic sovereign debt has clearly been given. However, the risk weight applied to sovereign exposure of Belgium and Czech Republic was very minor (around 3%, according to KBC) while the risk weight applied to Hungarian exposure was 100% as the debt is sub-investment grade and perceived to be high risk by the bank ([KBC \(KBC.BR\)](#)).

Impact for banks’ capital position and spreads

When trying to illustrate the impact of risk weight stress among others, it becomes obvious that other shocks would have a bigger impact on CET ratios of European banks. Following Citi’s latest “[Banking on Europe - The 3R’s of European Banking](#)” we argue that a macro shock would clearly have the most severe impact on capital ratios. Moreover, the “AQR impact” would also deteriorate the capital position of European banks. The AQR impact assumes that coverage ratios remain unchanged on expanded ‘problem assets’ vs. the existing NPL coverage ratio. Under the stress position “harmonized RWA” a minimum risk weight of 15% on mortgages, a 50% surcharge on market risk-weight and a 10% surcharge on EEA sovereign exposure are assumed. As shown in Figure 22, this would have the smallest impact on CET1.

Figure 22. Stress Test – Citi European Banks Universe



Source: Citi Research and Estimates, EBA '11 Stress Test, Company Reports, data as of the published report

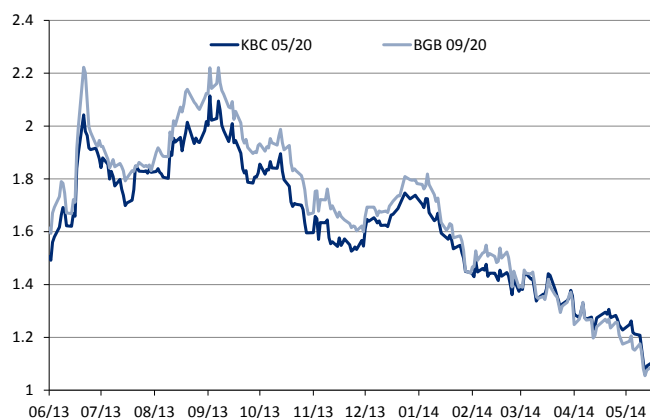
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https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM_VDB_pb_1Q2014_15_Mei_en.pdf?, 15/05/2014

How will the ECB react to that as a common supervisor?

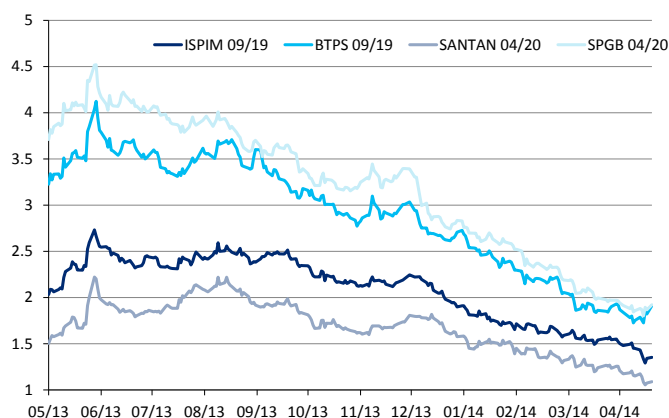
At the current stage, we don't expect any impact on EGB spreads stemming from this development. So far, we are only aware of KBC following BNB's recommendation, while many other Belgian banks are affiliates of non-Belgian banks. Moreover, there hasn't been any official announcement from any of the other European national central banks.

Figure 23. Yield development of Belgian sovereign & covered bonds, %



Source: Citi Research

Figure 24. Yields of Spanish and Italian sovereign & covered bonds, %



Source: Citi Research

Cross-asset spreads should be driven by other factors

Comparing regulatory driven demand and higher liquidity in the sovereign debt market on the one hand with a high-quality covered paper being rated at least two notches higher than the respective sovereign debt on the other hand gives a market environment as seen in Figure 23 and Figure 24, with both asset classes trading in very narrow ranges. In peripheral markets where one might expect that the zero risk weight on sovereign debt would lead to a relative advantage for covered bonds, the long-lasting pattern of Tier-1 covered bonds trading richer than government bonds is still given – although the possibility of a domestic sovereign carve-out has broadly been used. Hence, other factors like the clear rating differential, market-specific factors, asset characteristics as well as different investor bases have played a more important role for relative pricing than the different risk weights for both products.

Conclusion

The dilemma has been revealed

With KBC announcing its treatment of sovereign exposure and the BNB's recommendation to treat domestic sovereign debt as a non-zero risk weighted asset class, the market has again been pointed to one of the most obvious loopholes in European banking regulation. More importantly, in our opinion, it also brings up the regulatory dilemma between the ECB as the new supervisor for around 130 banks and the national competent authorities under the umbrella of the Single Supervisory Mechanism.

Consequences to be expected in the longer term

We think that the Belgian foray will not be alone in the longer term. In a post-crisis scenario there will probably be a higher chance than now that sovereign risk will be applicable for non-zero risk weights. This might also be supported by the ECB as this can only be in its own interest acting as a supervisor. As for now, we don't expect a substantial impact on spreads of EGB markets. In the longer term, however, other asset classes like covered bonds might be able to profit from such developments.

This is an excerpt of our latest [Covered Bond Strategy - KBC and risk weights for sovereign bonds: setting a precedent?](#)

Bund Calendar Roll: RXM4 – RXU4

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(1) Fair value vs. current market level

- We currently see fair value for the RXM4/RXU4 roll at 119 ticks (Figure 25). Based on repo rates at the time of writing, the roll is trading 3 ticks below our fair value estimate of 116 ticks. Investors would require 970 U4 contracts for every 1000 M4 contracts that they hold.

Figure 25. Bund Roll June – September Contracts

	RXM4	RXU4
CTD	BUND-1.500-02/15/23	BUND-2.000-08/15/23
Repo to delivery	0.17% (GC-0.06%)	-0.05% (GC-0.14%)
Fair value estimate	119 ticks	
Fair value estimate - current market level	+3 ticks	
Hedge Ratio (contracts)	1000 (M4) = 970 (U4)	

Source: Citi Research

(2) Probability of a CTD switch

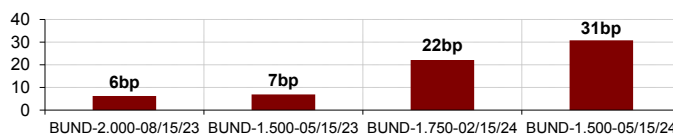
- Front contract:** Bund 1.5% Feb23 is the current CTD to June and is trading at fair value to futures. There are five bonds eligible for delivery into the March contract (Figure 26).
- Figure 27 shows the required cheapening of Bund deliverables vs. the current CTD in the front contract to become the new CTD. If Bund 2% Aug23 (second CTD) were to cheapen by over 6bp vs. the 1.5% Feb23 (current CTD to June) it would become the new CTD.

Figure 26. Deliverables into RXM4 – June Contract Details

	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
RXM4	BUND-1.500-02/15/23	0.702055	0.05	0.00	145.55	0.25	18	100%
	BUND-2.000-08/15/23	0.723710	0.62	0.55	146.31	-12.99	18	0%
	BUND-1.500-05/15/23	0.695742	0.64	0.59	146.40	-14.59	18	0%
	BUND-1.750-02/15/24	0.694387	2.07	2.01	148.44	-49.65	18	0%
	BUND-1.500-05/15/24	0.670509	2.85	2.799	149.73	-71.39	5	0%

Source: Citi Research

Figure 27. Required cheapening vs. 1.5% Feb23 for a CTD switch (bps)



Source: Citi Research

- Back contract:** Bund 2% Aug23 is the current CTD to September and is trading 4 cents rich to futures (Figure 28). Bund 1.5% Feb23 which is the CTD in the front contract is no longer eligible for delivery in the back contract.

A CTD switch in the back contract is likely

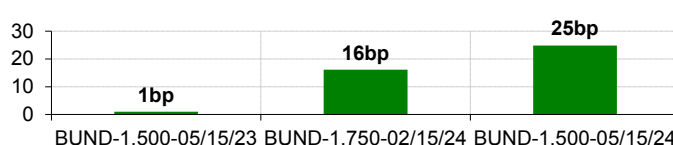
- For a CTD switch to occur in the back contract, May23 (second CTD) would have to cheapen by over 1bp vs. Aug23 (current CTD to September). In other words there is high degree of optionality in the Bund back contract.

Figure 28. Deliverables into RXU4 – September Contract Details

	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
RXU4	BUND-2.000-08/15/23	0.729535	0.64	0.04	144.42	-0.17	18	91%
	BUND-1.500-05/15/23	0.702270	0.52	0.08	144.48	-0.27	18	9%
	BUND-1.750-02/15/24	0.700342	2.03	1.55	146.58	-4.99	18	0%
	BUND-1.500-05/15/24	0.676665	2.75	2.34	147.83	-7.83	5	0%

Source: Citi Research

Figure 29. Required cheapening vs. 2.0% Aug23 for a CTD switch (bps)



Source: Citi Research

(3) Main factors that would affect the value of the roll

- **Impact on the roll from a change in the repo:** For every 10bp change in repo to September, the fair value of the roll changes by approximately 3 ticks (Figure 30). The short term outlook on the repo is quite complex at current level of excess liquidity. We are currently neutral assuming no further spikes in autonomous factors.
- **September delivery option:** High optionality in the September contract argues for bias to be short on the back contract which in turn should put upward pressure on the roll everything else equal.
- **Positioning:** Based on our investor intelligence, we think speculative investors are still net short Bunds. Along with back contract optionality this point to higher valuation of the roll.

We think speculative investors are still net short Bunds

(4) Open interest vs. previous rolls

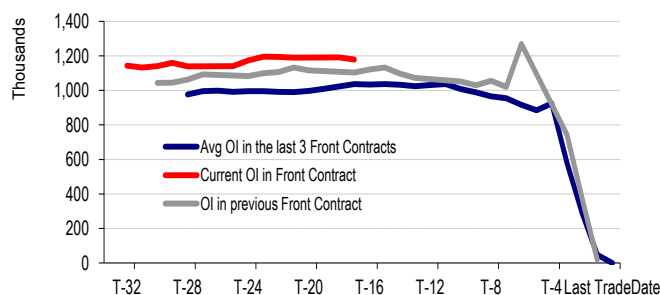
- Based on analysis of previous rolls we would expect the roll to gather momentum around 7 days before the last trade date (6 June 2014) - Figure 31.

Figure 30. Fair value level of M4 – U4 Futures Roll for different repo rates

		Repo of M4 CTD		
		0.07	0.17	0.27
Repo of U4 CTD	-0.50	124	132	140
	-0.40	121	129	137
	-0.30	119	127	135
	-0.20	116	124	132
	-0.10	114	122	130
	0.00	111	119	127
	0.10	108	116	124
	0.20	106	114	122
	0.30	103	111	119

Source: Citi Research

Figure 31. Current Open Interest (OI) in front contract vs. previous rolls



Source: Citi Research

Conclusion: bullish on the roll

We suggest rolling longs late and shorts early

We expect positioning and optionality on back contract to be the main factors for the roll. We are therefore bullish on the Bund roll and suggest therefore rolling shorts early and longs late.

Bobl Calendar Roll: OEM4 – OEU4

(1) Fair value vs. current market level

- We currently see fair value for the OEM4/OEU4 roll at -78 ticks (Figure 25). Based on repo rates at the time of writing, the roll is trading 2 ticks below our fair value estimate of -78 ticks. Investors would require 895 U4 contracts for every 1000 M4 contracts that they hold.

Figure 32. Bobl Roll June – September Contracts

	OEM4	OEU4
CTD	BUND-3.750-01/04/19	BUND-3.500-07/04/19
Repo to delivery	0.05% (GC-0.18%)	-0.1% (GC-0.19%)
Fair value estimate	-78 ticks	
Fair value estimate - current market level	2 ticks	
Hedge Ratio (contracts)	1000 (M4) = 895 (U4)	

Source: Citi Research

(2) Probability of a CTD switch

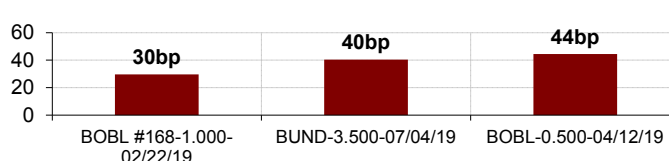
- Front contract:** Bund 3.75% Jan19 is the current CTD to June and is trading 1 cent rich to futures. There are four bonds eligible for delivery into the June contract (Figure 33).
- Figure 34 shows the required cheapening of Bobl deliverables vs. the current CTD to June to result in a CTD switch. For example Bobl Feb19 would need to cheapen by a massive 30bp vs. the current CTD in order to become the new CTD. Clearly, there is little delivery optionality in the June basket.

Figure 33. Deliverables into OEM4 – June Contract Details

	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
OEM4	BUND-3.750-01/04/19	0.912067	0.15	0.01	126.30	-0.09	24	100%
	BOBL #168-1.000-02/22/19	0.800111	1.43	1.40	128.04	-34.87	16	0%
	BUND-3.500-07/04/19	0.893437	2.33	2.19	128.75	-47.65	24	0%
	BOBL-0.500-04/12/19	0.774783	2.13	2.12	129.02	-54.24	5	0%

Source: Citi Research

Figure 34. Required cheapening vs. 3.75% Jan19 for a CTD switch (bps)



Source: Citi Research

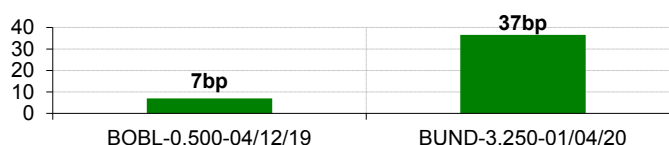
- Back contract:** Bund 3.5% July19 is the current CTD to September and is trading 1 cent rich to futures (Figure 35).
- For a CTD switch to occur in the back contract, April19 would have to cheapen by over 7bp vs. current CTD (Figure 36). We assign a low probability to a flattening move by over 7bp between April19 and July19.

Figure 35. Deliverables into OEU4 – September Contract Details

OEU4	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
	BUND-3.500-07/04/19	0.897936	1.06	0.01	127.09	-0.13	24	97%
	BOBL-0.500-04/12/19	0.784997	0.23	0.09	127.18	-0.29	5	3%
	BUND-3.250-01/04/20	0.877670	3.15	2.24	129.62	-6.46	22	0%

Source: Citi Research

Figure 36. Required cheapening vs. 3.5% Jul19 for a CTD switch (bps)



Source: Citi Research

(3) Main factors that would affect the value of the roll

- **Impact on the roll from a change in the repo:** For every 10bp change in repo to September, the fair value of the roll changes by approximately 3 ticks (Figure 37)). As mentioned earlier the short-term outlook on the repo is quite complex at current levels of excess liquidity. We keep a neutral stance assuming no further spikes in autonomous factors.
- **Positioning:** Based on our investor intelligence, we think the majority of speculative investors are moderately long Bobl, in particular via long asset swap spread positions.

(4) Open interest vs. previous rolls

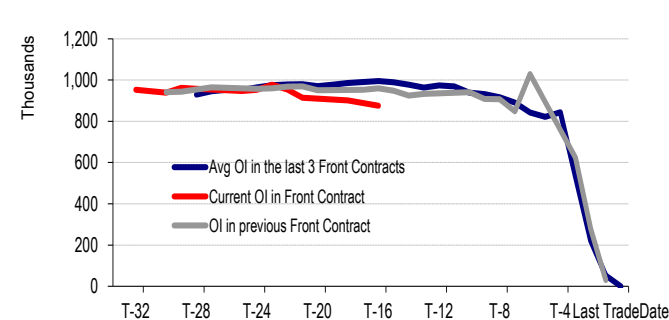
- Based on analysis of previous rolls we would expect the roll to gather momentum around 7 days before the last trade date (6 June 2014).

Figure 37. Fair value level of M4 – U4 Futures Roll for different repo rates

		Repo of M4 CTD		
		-0.05	0.05	0.15
Repo of U4 CTD	-0.50	-66	-62	-58
	-0.40	-69	-65	-61
	-0.30	-73	-68	-64
	-0.20	-76	-71	-67
	-0.10	-79	-75	-70
	0.00	-82	-78	-73
	0.10	-85	-81	-76
	0.20	-88	-84	-80
	0.30	-91	-87	-83

Source: Citi Research

Figure 38. Current Open Interest (OI) in front contract vs. previous rolls



Source: Citi Research

Conclusion: bearish on the roll

We suggest rolling longs early and shorts late

We expect positioning to be the main factor for the roll. We think that the majority of speculative investors are slightly long Bobl (mostly vs. swaps and 30yr Bunds). We are therefore bearish on the roll and suggest rolling longs early and shorts late.

Schatz Calendar Roll: DUM4 – DUU4

(1) Fair value vs. current market level

- We currently see fair value for the DUM4/DUU4 roll at 6 ticks (Figure 32). Based on repo rates at the time of writing, the roll is trading 5 ticks below our fair value estimate of 6 ticks. Investors would require 878 U4 contracts for every 1000 M4 contracts that they hold.

Figure 39. Schatz Roll June – September Contracts

	DUM4	DUU4
CTD	BUNS-0.250-03/11/16	BUNS-0.250-06/10/16
Repo to delivery	0.2% (GC-0.03%)	0% (GC-0.09%)
Fair value estimate	6 ticks	
Fair value estimate - current market level	5 ticks	
Hedge Ratio (contracts)	1000 (M4) = 878 (U4)	

Source: Citi Research

(2) Probability of a CTD switch

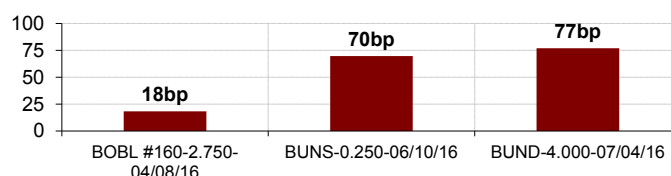
- Front contract:** Bund 0.25% Mar16 is the current CTD to June and is trading 1 cent cheap to futures. There are four bonds eligible for delivery into the June contract (Figure 33).
- Figure 34 shows the required cheapening of Schatz deliverables vs. the current CTD to June to result in a CTD switch. As shown, there is little delivery optionality in the June basket: for instance Bobl 2.75% Apr16 would need to cheapen by over 18bp vs. the current CTD in order to become the new CTD.

Figure 40. Deliverables into OEM4 – June Contract Details

	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
DUM4	BUNS-0.250-03/11/16	0.907040	0.00	-0.01	110.52	0.36	13	100%
	BOBL #160-2.750-04/08/16	0.945174	0.44	0.34	110.89	-8.28	18	0%
	BUNS-0.250-06/10/16	0.894570	1.40	1.39	112.09	-35.69	5	0%
	BUND-4.000-07/04/16	0.962125	1.83	1.69	112.29	-38.66	23	0%

Source: Citi Research

Figure 41. Required cheapening vs. 0.25% Mar16 for a CTD switch (bps)



Source: Citi Research

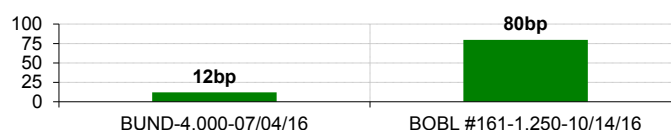
- Back contract:** Schatz 0.25% Jun16 % is the current CTD to September and is trading 4 cent cheap to futures (Figure 35).
- For a CTD switch to occur in the back contract, Bund 4% Jul16 would have to cheapen by over 12bp vs. current CTD (Figure 36). As in the case of the front contract, the basket of the back contract offers little delivery optionality.

Figure 42. Deliverables into OEU4 – September Contract Details

	Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)	Deliv Prob
DUU4	BUNS-0.250-06/10/16	0.907178	0.03	-0.04	110.46	0.13	5	100%
	BUND-4.000-07/04/16	0.966395	1.39	0.26	110.77	-0.70	23	0%
	BOBL #161-1.250-10/14/16	0.909069	2.23	1.89	112.59	-6.13	16	0%

Source: Citi Research

Figure 43. Required cheapening vs. 0.25% Jun16 for a CTD switch (bps)



Source: Citi Research

(3) Main factors that would affect the value of the roll

- **Impact on the roll from a change in the repo:** For every 10bp change in repo to September, the fair value of the roll changes by approximately 3 ticks (Figure 37)). For reasons explained in the Bund and Bobl sections we are neutral on roll from a repo perspective.
- **Positioning:** Based on our investor intelligence, we think the majority of speculative investors are moderately long Schatz, in particular we believe they have been inclined to put new long positions after the last ECB meeting.

(4) Open interest vs. previous rolls

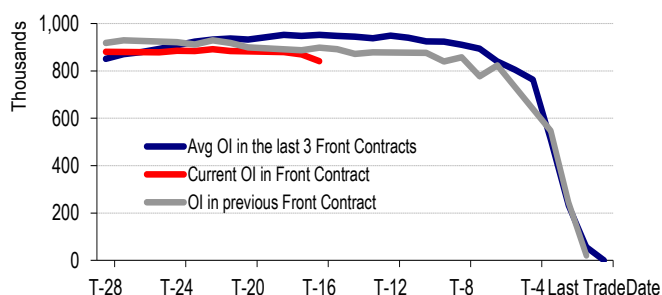
- Based on analysis of previous rolls we would expect the roll to gather momentum around 7 days before the last trade date (6 June 2014).

Figure 44. Fair value level of M4 – U4 Futures Roll for different repo rates

Repo of U4 CTD	Repo of M4 CTD		
	0.10	0.20	0.30
	-0.50	23	23
	-0.40	19	20
	-0.30	16	17
	-0.20	13	13
	-0.10	9	10
	0.00	6	7
	0.10	3	4
	0.20	-1	0
	0.30	-4	-3

Source: Citi Research

Figure 45. Current Open Interest (OI) in front contract vs. previous rolls



Source: Citi Research

Conclusion: bearish on the roll

We suggest rolling longs early and shorts late

We think the majority of speculative investors are moderately long Schatz contracts. From a positioning perspective we are therefore slightly bearish on the roll. Moreover we do not expect the recent 2s10s steepening to continue from current levels. On balance, we are therefore bearish on the roll.

Technical update: Bunds finding support

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Bunds broke out of their upward channel last week ([Bund Technical Flash: Is the rally over?](#)), however this week's sell-off has brought the June contract to the previous channel upper (Figure 39). This also coincides with a short-term support level at 145.7 and is reinforced by the 23.6% Fibonacci extension at 145.5 (Figure 40). We expect this level to act as a support.

In the event of an upward move, we expect the recent high of 146.6 to act as a resistance. This is also the 38.2% Fibonacci extension and Bund failed to breach it in the rally last week.

However, if the 145.5 level is broken, it will bring the Bund back within its previous upward channel.

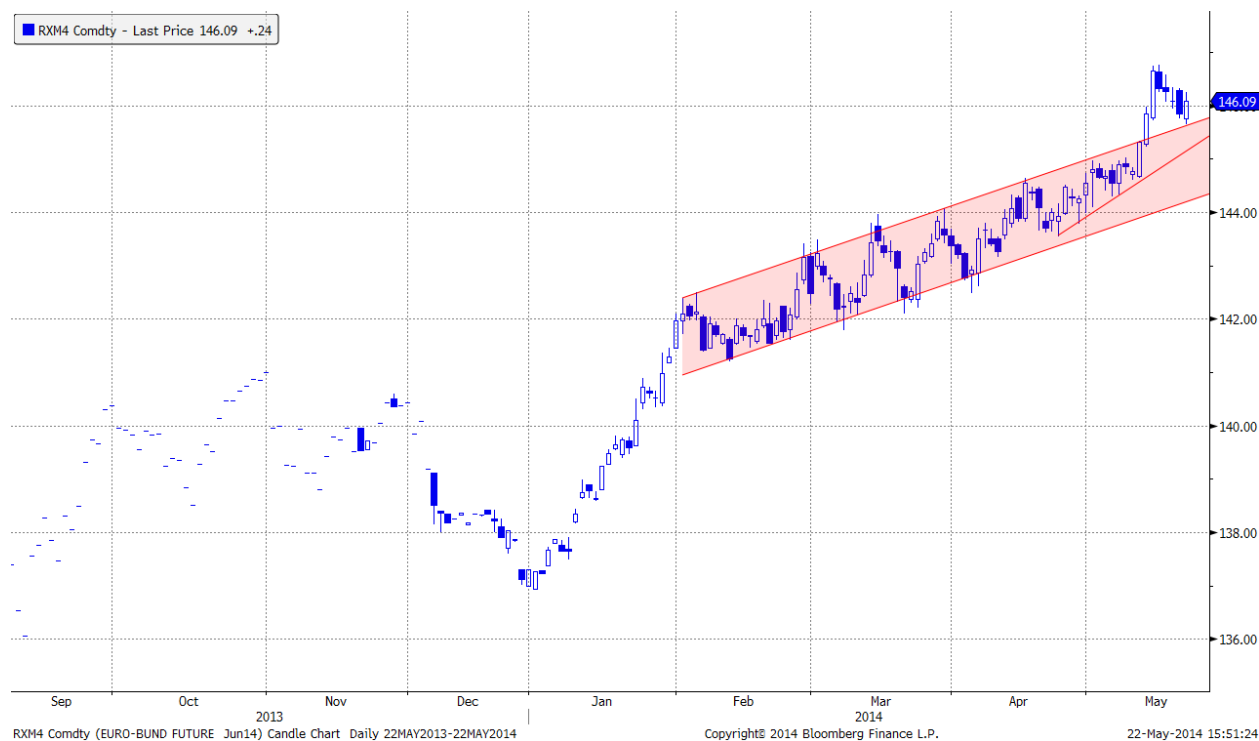
Resistances

1. 146.6 (recent resistance and 38.2% Fibonacci extension of the Jan-Mar rally)
2. 147.5 (50% Fibonacci extension).

Supports

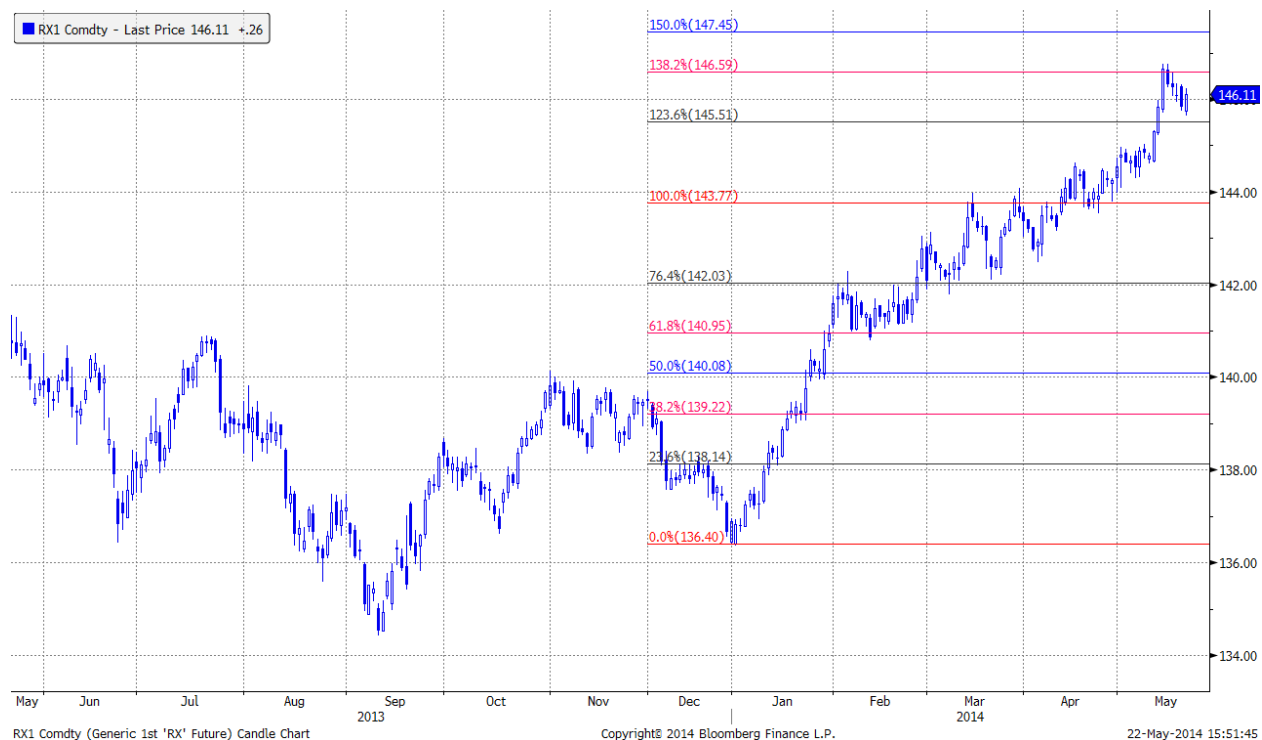
1. The previous channel upper at 145.63 (ascending at 4c/day)
2. The trendline support at 144.8 (ascending at 8c/day)

Figure 46. June Bund contract with the upward channel and trendline support



Source: Bloomberg

Figure 47. Continuous 10yr Bund contract with Fibonacci retracement levels



Source: Bloomberg

End-May EGBI Projection

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This is a summary of EGBI projections published early this week. Click [here](#) for the full note.

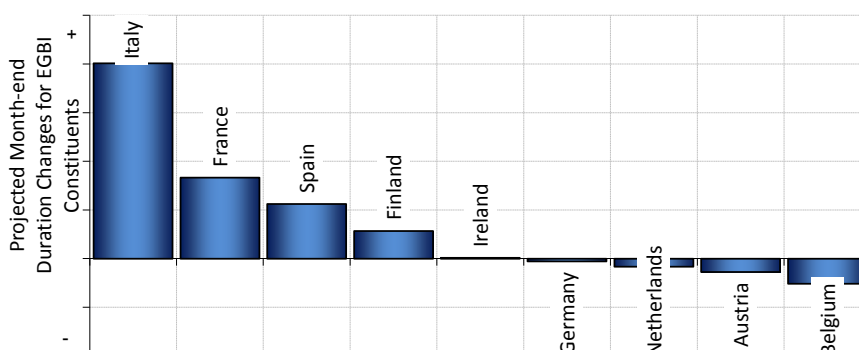
We expect the effective duration of the EGBI to increase by 0.03 at the end of May. At the EGBI level, the projected changes should be supportive for the 10yr sector on the curve. The changes should also put flattening pressure on 2s10s part of the curve.

Projected EGBI changes supportive for Italy

- For EGBI portfolios, it is the weighted duration change that is most relevant. On this metric, Italy is expected to extend the most this month, followed by France and Spain.

Projected changes most supportive for Italy, followed by France and Spain

Figure 48. Weighted duration change at the end of May



Source: Citi Research

Changes at a country level

- At a country level, we expect the Spanish index to extend by its largest amount in 2 years. This should put flattening pressure on the Spanish curve.
- On domestic curves, we expect index changes to be supportive for 10yr Spain and 30yr Finland (Figure 42). The changes should also put flattening pressure on 2s10s Spain.

Largest Spanish extension in 2 years

Support for 10yr Spain and 30yr Finland

Flattening pressure on 2s10s Spain

Figure 49. Summary of price pressures on individual domestic curves

	2yr	5yr	10yr	30yr	
Germany				↓	Germany
Finland			↑	↑↑	Finland
Spain		↑	↑↑		Spain
Italy				↑	Italy
Ireland			↑↑		Ireland
Netherlands			↑↑		Netherlands
	2yr	5yr	10yr	30yr	

Source: Citi Research

Euro Relative Value Screen – All Maturities

Figure 50. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - all bonds on each curve

	Versus Govt Curve (CAS)							Versus Swap Curve (CAS)					
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)		
GERMANY		Richest						Richest					
	1	3.25 Jul42	-2.60	Jul10	15		1	0.50 Apr19	-1.28	May14	5		
	2	0.25 Apr18	-2.02	Apr13	17		2	3.75 Jan19	-0.20	Nov08	24		
	3	1.00 Feb19	-1.98	Jan14	16		3	4.25 Jul18	-0.20	May08	21		
	4	1.00 Oct18	-1.84	Sep13	17		4	1.00 Oct18	-0.19	Sep13	17		
	5	2.50 Jan21	-1.71	Nov10	19		5	0.25 Apr18	-0.17	Apr13	17		
	5	1.25 Oct16	1.33	Sep11	16		5	1.75 Feb24	0.74	Jan14	18		
	4	4.00 Jan37	1.45	Jan05	23		4	4.00 Jan37	0.81	Jan05	23		
	3	5.50 Jan31	1.50	Oct00	17		3	6.25 Jan30	0.88	Jan00	9		
	2	4.75 Jul34	1.59	Jan03	20		2	1.25 Oct16	0.89	Sep11	16		
	1	6.25 Jan30	1.68	Jan00	9		1	2.50 Aug46	2.42	Feb14	3		
		Cheapest						Cheapest					
FRANCE		Richest						Richest					
	1	1.00 May19	-2.27	Jan14	22		1	1.75 May23	-1.79	May12	26		
	2	4.00 Apr55	-1.63	Apr04	15		2	3.25 Oct21	-1.72	Oct10	36		
	3	4.25 Apr19 (BTA)	-1.55	Apr03	31		3	3.75 Oct19	-1.71	Oct08	32		
	4	3.75 Oct19	-1.48	Oct08	32		4	4.25 Oct23 (OAT)	-1.71	Oct06	33		
	5	1.00 Nov18	-1.13	Nov12	21		5	3.00 Apr22	-1.68	Feb12	33		
	5	2.50 Jul16	1.53	Jul10	31		5	1.75 Feb17	-0.70	Feb11	20		
	4	2.50 Oct20	1.57	Oct09	35		4	5.00 Oct16	-0.38	Oct00	29		
	3	3.75 Apr21	1.60	Apr05	36		3	2.50 Jul16	-0.16	Jul10	31		
	2	3.50 Apr26	1.76	Apr10	30		2	0.25 Nov16	0.30	Apr14	6		
	1	2.75 Oct27	1.96	Oct11	26		1	2.50 May30	0.74	May14	5		
		Cheapest						Cheapest					
ITALY		Richest						Richest					
	1	5.00 Mar22	-6.22	Sep11	18		1	4.50 Feb18	-0.52	Sep07	25		
	2	4.75 Sep44	-2.81	Mar13	12		2	4.75 Jun17	-0.50	Jun12	15		
	3	5.50 Sep22	-2.15	Mar12	20		3	5.00 Mar22	-0.49	Sep11	18		
	4	4.75 Jun17	-1.75	Jun12	15		4	5.25 Aug17	-0.49	Feb02	24		
	5	5.25 Aug17	-1.65	Feb02	24		5	4.50 Mar19	-0.49	Sep08	24		
	5	5.00 Aug34	2.95	Aug03	22		5	5.00 Sep40	0.32	Sep09	21		
	4	2.75 Nov16	3.01	Sep13	12		4	1.50 Dec16	0.36	Jan14	16		
	3	1.50 Dec16	3.44	Jan14	16		3	4.75 Sep44	0.49	Mar13	12		
	2	5.00 Sep40	3.47	Sep09	21		2	1.15 May17	1.19	May14	5		
	1	4.75 Sep28	3.71	Jan13	18		1	3.75 Sep24	1.78	Mar14	11		
		Cheapest						Cheapest					
N'LANDS		Richest						Richest					
	1	4.50 Jul17	-1.95	Jul07	15		1	4.00 Jul18	-1.15	Feb08	15		
	2	4.00 Jul18	-1.66	Feb08	15		2	1.75 Jul23	-1.03	Mar13	16		
	3	0.50 Apr17	-1.59	Jan14	9		3	3.75 Jan42	-0.92	May10	14		
	4	1.75 Jul23	-1.49	Mar13	16		4	4.50 Jul17	-0.91	Jul07	15		
	5	3.75 Jan42	-0.94	May10	14		5	4.00 Jul19	-0.88	Feb09	14		
	5	1.25 Jan18	0.80	Jul12	15		5	2.50 Jan17	-0.43	Jun11	16		
	4	4.00 Jan37	1.22	Apr05	14		4	1.25 Jan18	-0.28	Jul12	15		
	3	2.25 Jul22	1.37	Feb12	15		3	2.75 Jan47	-0.03	Feb14	4		
	2	4.00 Jul16	2.20	Jul06	14		2	2.00 Jul24	0.05	Mar14	9		
	1	3.50 Jul20	2.27	Feb10	15		1	4.00 Jul16	0.38	Jul06	14		
		Cheapest						Cheapest					
SPAIN		Richest						Richest					
	1	5.85 Jan22 (FBB)	-2.36	Nov11	19		1	4.85 Oct20	-1.09	Jul10	18		
	2	5.50 Apr21	-2.07	Jan11	24		2	5.85 Jan22 (FBB)	-1.03	Nov11	19		
	3	4.85 Oct20	-1.41	Jul10	18		3	5.50 Apr21	-1.03	Jan11	24		
	4	3.30 Jul16	-1.02	Apr13	17		4	4.00 Apr20	-0.99	Jan10	22		
	5	3.80 Apr24	-0.84	Jan14	17		5	5.40 Jan23	-0.98	Jan13	17		
	5	4.30 Oct19	1.17	Jun09	21		5	4.70 Jul41	-0.64	Sep09	12		
	4	4.65 Jul25	1.19	Feb10	14		4	5.15 Oct28	-0.63	Jul13	10		
	3	4.60 Jul19	1.68	Feb09	18		3	5.15 Oct44	-0.61	Oct13	5		
	2	5.90 Jul26	1.89	Mar11	14		2	3.80 Apr24	-0.60	Jan14	17		
	1	2.75 Apr19	2.06	Jan14	16		1	5.75 Jul32	-0.59	Jan01	15		
		Cheapest						Cheapest					
BELGIUM		Richest						Richest					
	1	4.00 Mar22	-1.93	May06	14		1	4.00 Mar22	-1.35	May06	14		
	2	4.25 Sep22	-1.49	Jan12	15		2	4.25 Sep22	-1.27	Jan12	15		
	3	4.00 Mar32	-1.49	Mar12	8		3	4.25 Sep21	-1.23	Jan11	15		
	4	4.25 Mar41	-1.35	Apr10	14		4	3.00 Sep19	-1.21	Apr12	11		
	5	1.25 Jan18	-1.32	Feb13	12		5	3.75 Sep20	-1.19	Jan10	18		
	5	5.50 Sep17	0.81	Jun02	8		5	5.50 Sep17	-0.68	Jun02	8		
	4	4.25 Sep21	0.94	Jan11	15		4	4.00 Mar17	-0.55	Jan07	11		
	3	3.00 Jun34	1.04	Mar14	5		3	3.25 Sep16	-0.38	Jan06	13		
	2	3.75 Sep20	1.13	Jan10	18		2	3.50 Feb64	0.00	Feb14	0		
	1	4.00 Mar18	2.29	Jan08	12		1	3.00 Jun34	0.32	Mar14	5		
		Cheapest						Cheapest					

Source: Citi Research

Euro Relative Value Screen – Sub-12yrs

Figure 51. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - bonds with a maximum maturity of 12yrs

Versus Govt Curve (CAS)							Versus Swap Curve (CAS)						
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)		
GERMANY	Richest	1	0.25 Apr18	-2.02	Apr13	17	Richest	1	0.50 Apr19	-1.28	May14	5	
		2	1.00 Feb19	-1.98	Jan14	16		2	3.75 Jan19	-0.20	Nov08	24	
		3	1.00 Oct18	-1.84	Sep13	17		3	4.25 Jul18	-0.20	May08	21	
		4	2.50 Jan21	-1.71	Nov10	19		4	1.00 Oct18	-0.19	Sep13	17	
		5	4.25 Jul18	-1.68	May08	21		5	0.25 Apr18	-0.17	Apr13	17	
	Cheapest	5	3.75 Jan17	0.85	Nov06	20		5	2.25 Sep20	0.56	Aug10	16	
		4	1.50 Sep22	0.90	Sep12	18		4	2.25 Sep21	0.67	Aug11	16	
		3	1.75 Feb24	1.02	Jan14	18		3	4.00 Jul16	0.73	May06	23	
		2	4.00 Jul16	1.20	May06	23		2	1.75 Feb24	0.74	Jan14	18	
		1	1.25 Oct16	1.33	Sep11	16		1	1.25 Oct16	0.89	Sep11	16	
FRANCE	Richest	1	1.00 May19	-2.26	Jan14	22	Richest	1	1.75 May23	-1.79	May12	26	
		2	4.25 Apr19 (BTA)	-1.55	Apr03	31		2	3.25 Oct21	-1.72	Oct10	36	
		3	3.75 Oct19	-1.48	Oct08	32		3	3.75 Oct19	-1.71	Oct08	32	
		4	1.00 Nov18	-1.12	Nov12	21		4	4.25 Oct23 (OAT)	-1.71	Oct06	33	
		5	4.25 Oct23 (OAT)	-1.11	Oct06	33		5	3.00 Apr22	-1.68	Feb12	33	
	Cheapest	5	5.00 Oct16	1.34	Oct00	29		5	3.75 Apr17	-0.81	Apr06	37	
		4	2.50 Jul16	1.54	Jul10	31		4	1.75 Feb17	-0.70	Feb11	20	
		3	2.50 Oct20	1.56	Oct09	35		3	5.00 Oct16	-0.38	Oct00	29	
		2	3.75 Apr21	1.58	Apr05	36		2	2.50 Jul16	-0.16	Jul10	31	
		1	3.50 Apr26	1.72	Apr10	30		1	0.25 Nov16	0.30	Apr14	6	
ITALY	Richest	1	5.00 Mar22	-6.22	Sep11	18	Richest	1	4.50 Feb18	-0.52	Sep07	25	
		2	5.50 Sep22	-2.15	Mar12	20		2	4.75 Jun17	-0.50	Jun12	15	
		3	4.75 Jun17	-1.75	Jun12	15		3	5.00 Mar22	-0.49	Sep11	18	
		4	5.25 Aug17	-1.65	Feb02	24		4	5.25 Aug17	-0.49	Feb02	24	
		5	4.50 Mar24	-1.64	Aug13	23		5	4.50 Mar19	-0.49	Sep08	24	
	Cheapest	5	4.00 Sep20	1.54	Mar10	25		5	4.50 Mar26	0.17	Sep10	21	
		4	3.75 Aug21	1.62	Feb06	28		4	2.50 May19	0.26	Feb14	15	
		3	4.50 Mar26	2.75	Sep10	21		3	1.50 Dec16	0.36	Jan14	16	
		2	2.75 Nov16	3.01	Sep13	12		2	1.15 May17	1.19	May14	5	
		1	1.50 Dec16	3.44	Jan14	16		1	3.75 Sep24	1.78	Mar14	11	
N'LANDS	Richest	1	4.50 Jul17	-1.95	Jul07	15	Richest	1	4.00 Jul18	-1.15	Feb08	15	
		2	4.00 Jul18	-1.66	Feb08	15		2	1.75 Jul23	-1.03	Mar13	16	
		3	0.50 Apr17	-1.59	Jan14	9		3	4.50 Jul17	-0.91	Jul07	15	
		4	1.75 Jul23	-1.49	Mar13	16		4	4.00 Jul19	-0.88	Feb09	14	
		5	3.25 Jul21	-0.59	Mar11	16		5	3.25 Jul21	-0.79	Mar11	16	
	Cheapest	5	1.25 Jan19	0.31	Jun13	13		5	3.50 Jul20	-0.48	Feb10	15	
		4	1.25 Jan18	0.80	Jul12	15		4	2.50 Jan17	-0.43	Jun11	16	
		3	2.25 Jul22	1.37	Feb12	15		3	1.25 Jan18	-0.28	Jul12	15	
		2	4.00 Jul16	2.20	Jul06	14		2	2.00 Jul24	0.05	Mar14	9	
		1	3.50 Jul20	2.27	Feb10	15		1	4.00 Jul16	0.38	Jul06	14	
SPAIN	Richest	1	5.85 Jan22 (FBB)	-2.38	Nov11	19	Richest	1	4.85 Oct20	-1.09	Jul10	18	
		2	5.50 Apr21	-2.09	Jan11	24		2	5.85 Jan22 (FBB)	-1.03	Nov11	19	
		3	4.85 Oct20	-1.43	Jul10	18		3	5.50 Apr21	-1.03	Jan11	24	
		4	3.30 Jul16	-1.04	Apr13	17		4	4.00 Apr20	-0.99	Jan10	22	
		5	4.25 Oct16	-0.90	Sep11	21		5	5.40 Jan23	-0.98	Jan13	17	
	Cheapest	5	3.75 Oct18	1.06	Jul13	19		5	2.10 Apr17	-0.79	Nov13	76	
		4	4.30 Oct19	1.13	Jun09	21		4	4.25 Oct16	-0.79	Sep11	21	
		3	4.65 Jul25	1.17	Feb10	14		3	3.80 Jan17	-0.76	Oct06	21	
		2	4.60 Jul19	1.64	Feb09	18		2	2.75 Apr19	-0.66	Jan14	16	
		1	2.75 Apr19	2.02	Jan14	16		1	3.80 Apr24	-0.60	Jan14	17	
BELGIUM	Richest	1	4.00 Mar22	-1.93	May06	14	Richest	1	4.00 Mar22	-1.35	May06	14	
		2	4.25 Sep22	-1.49	Jan12	15		2	4.25 Sep22	-1.27	Jan12	15	
		3	1.25 Jun18	-1.32	Feb13	12		3	4.25 Sep21	-1.23	Jan11	15	
		4	2.60 Jun24	-0.69	Jan14	9		4	3.00 Sep19	-1.21	Apr12	11	
		5	3.00 Sep19	-0.38	Apr12	11		5	3.75 Sep20	-1.19	Jan10	18	
	Cheapest	5	4.00 Mar19	0.71	Jan09	11		5	3.50 Jun17	-0.80	Mar11	13	
		4	5.50 Sep17	0.81	Jun02	8		4	4.00 Mar18	-0.75	Jan08	12	
		3	4.25 Sep21	0.94	Jan11	15		3	5.50 Sep17	-0.68	Jun02	8	
		2	3.75 Sep20	1.13	Jan10	18		2	4.00 Mar17	-0.55	Jan07	11	
		1	4.00 Mar18	2.29	Jan08	12		1	3.25 Sep16	-0.38	Jan06	13	

Source: Citi Research

Euro Relative Value Screen – 8yr+

Figure 52. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - bonds with a minimum maturity of 8yrs

		Versus Govt Curve (CAS)					Versus Swap Curve (CAS)					
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)	
GERMANY	Richest	1	3.25 Jul42	-2.60	Jul10	15	Richest	1	1.50 May24	0.00	May14	5
		2	2.50 Jul44	-1.29	Apr12	16		2	2.00 Aug23	0.15	Sep13	18
		3	1.50 Feb23	-0.69	Jan13	18		3	1.50 May23	0.17	May13	18
		4	2.00 Aug23	-0.53	Sep13	18		4	1.50 Feb23	0.23	Jan13	18
		5	1.50 May23	-0.41	May13	18		5	4.75 Jul40	0.24	Jul08	16
	Cheapest	5	1.75 Feb24	1.02	Jan14	18		5	4.75 Jul34	0.72	Jan03	20
		4	4.00 Jan37	1.45	Jan05	23		4	1.75 Feb24	0.74	Jan14	18
		3	5.50 Jan31	1.50	Oct00	17		3	4.00 Jan37	0.81	Jan05	23
		2	4.75 Jul34	1.59	Jan03	20		2	6.25 Jan30	0.88	Jan00	9
		1	6.25 Jan30	1.68	Jan00	9		1	2.50 Aug46	2.42	Feb14	3
FRANCE	Richest	1	4.00 Apr55	-1.70	Apr04	15	Richest	1	1.75 May23	-1.79	May12	26
		2	4.25 Oct23 (OAT)	-1.11	Oct06	33		2	4.25 Oct23 (OAT)	-1.71	Oct06	33
		3	4.50 Apr41	-0.53	Apr09	24		3	2.25 May24	-1.67	Nov13	28
		4	2.25 May24	-0.48	Nov13	28		4	4.00 Oct38	-1.60	Oct05	24
		5	3.25 May45	-0.45	May12	11		5	4.50 Apr41	-1.59	Apr09	24
	Cheapest	5	4.00 Oct38	0.34	Oct05	24		5	4.00 Apr55	-1.49	Apr04	15
		4	4.75 Apr35	0.94	Apr03	21		4	2.75 Oct27	-1.40	Oct11	26
		3	5.75 Oct32	0.95	Oct00	26		3	4.00 Apr60	-1.36	Apr09	11
		2	3.50 Apr26	1.72	Apr10	30		2	3.50 Apr26	-1.32	Apr10	30
		1	2.75 Oct27	1.90	Oct11	26		1	2.50 May30	0.74	May14	5
ITALY	Richest	1	4.75 Sep44	-2.80	Mar13	12	Richest	1	5.50 Sep22	-0.36	Mar12	20
		2	5.50 Sep22	-2.19	Mar12	20		2	4.50 Mar24	-0.35	Aug13	23
		3	4.50 Mar24	-1.65	Aug13	23		3	5.50 Nov22	-0.31	May12	21
		4	5.50 Nov22	0.02	May12	21		4	4.50 May23 (IK)	-0.25	Mar13	18
		5	4.75 Aug23	0.51	Feb08	25		5	4.75 Aug23	-0.22	Feb08	25
	Cheapest	5	5.75 Feb33	2.65	Feb02	15		5	5.00 Aug39	0.24	Aug07	19
		4	4.50 Mar26	2.74	Sep10	21		4	4.00 Feb37	0.27	Aug05	26
		3	5.00 Aug34	2.94	Aug03	22		3	5.00 Sep40	0.32	Sep09	21
		2	5.00 Sep40	3.47	Sep09	21		2	4.75 Sep44	0.49	Mar13	12
		1	4.75 Sep28	3.71	Jan13	18		1	3.75 Sep24	1.78	Mar14	11
N'LANDS	Richest	1	1.75 Jul23	-1.47	Mar13	16	Richest	1	1.75 Jul23	-1.03	Mar13	16
		2	3.75 Jan42	-0.93	May10	14		2	3.75 Jan42	-0.92	May10	14
		3	3.75 Jan23	-0.43	Jan06	11		3	2.50 Jan33	-0.75	Mar12	10
		4	2.75 Jan47	-0.26	Feb14	4		4	3.75 Jan23	-0.74	Jan06	11
	Cheapest	4	2.00 Jul24	-0.19	Mar14	9		4	4.00 Jan37	-0.74	Apr05	14
		3	2.50 Jan33	0.08	Mar12	10		3	2.25 Jul22	-0.70	Feb12	15
		2	4.00 Jan37	1.23	Apr05	14		2	2.75 Jan47	-0.03	Feb14	4
		1	2.25 Jul22	1.44	Feb12	15		1	2.00 Jul24	0.05	Mar14	9
SPAIN	Richest	1	3.80 Apr24	-0.94	Jan14	17	Richest	1	5.40 Jan23	-0.98	Jan13	17
		2	4.20 Jan37	-0.45	Jan05	16		2	4.80 Jan24	-0.92	Sep08	15
		3	5.40 Jan23	-0.41	Jan13	17		3	4.40 Oct23	-0.92	May13	18
		4	5.15 Oct44	-0.31	Oct13	5		4	4.65 Jul25	-0.81	Feb10	14
		5	5.75 Jul32	-0.29	Jan01	15		5	5.90 Jul26	-0.68	Mar11	14
	Cheapest	5	4.70 Jul41	0.48	Sep09	12		5	4.70 Jul41	-0.64	Sep09	12
		4	5.15 Oct28	0.70	Jul13	10		4	5.15 Oct28	-0.63	Jul13	10
		3	4.40 Oct23	0.92	May13	18		3	5.15 Oct44	-0.61	Oct13	5
		2	4.65 Jul25	1.13	Feb10	14		2	3.80 Apr24	-0.60	Jan14	17
		1	5.90 Jul26	1.89	Mar11	14		1	5.75 Jul32	-0.59	Jan01	15
BELGIUM	Richest	1	4.25 Sep22	-1.48	Jan12	15	Richest	1	4.25 Sep22	-1.27	Jan12	15
		2	4.00 Mar32	-1.44	Mar12	8		2	2.25 Jun23	-1.18	Jan13	14
		3	4.25 Mar41	-1.25	Apr10	14		3	3.75 Jun45	-1.06	Sep13	4
		4	2.60 Jun24	-0.63	Jan14	9		4	4.50 Mar26	-1.03	Jun11	8
		5	3.50 Feb64	0.00	Feb14	0		5	4.00 Mar32	-1.02	Mar12	8
	Cheapest	5	3.75 Jun45	0.06	Sep13	4		5	4.25 Mar41	-1.01	Apr10	14
		4	4.50 Mar26	0.20	Jun11	8		4	2.60 Jun24	-0.89	Jan14	9
		3	2.25 Jun23	0.25	Jan13	14		3	5.00 Mar35	-0.75	May04	19
		2	5.00 Mar35	0.77	May04	19		2	3.50 Feb64	0.00	Feb14	0
		1	3.00 Jun34	1.22	Mar14	5		1	3.00 Jun34	0.32	Mar14	5

Source: Citi Research

UK Relative Value Screen

Figure 53. Coupon adjusted spread (CAS) to fitted curve and swap curve by maturity (6m history)

		Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
ALL	Richest	1	5.00 Sep14	-2.02	Jul02	41	1	5.00 Sep14	-1.89	Jul02	41
		2	4.50 Mar19	-1.18	Sep08	35	2	3.75 Sep20	-1.58	Jun10	24
		3	4.25 Dec27	-1.10	Sep06	29	3	4.75 Mar20	-1.51	Mar05	33
		4	2.75 Jan15	-0.96	Nov09	29	4	2.75 Jan15	-1.51	Nov09	29
		5	2.25 Sep23	-0.95	Jun13	27	5	3.75 Sep19	-1.50	Jul09	28
	Cheapest	5	4.25 Jun32	1.16	May00	35	5	1.75 Jan17	-0.15	Aug11	29
		4	4.25 Dec55	1.22	May00	23	4	4.00 Sep16	-0.07	Mar06	35
		3	4.25 Dec46	1.39	May06	21	3	4.00 Jan60	0.00	Jan12	0
		2	1.75 Sep22	1.54	Jun12	28	2	2.00 Jan16	0.13	Nov10	32
		1	4.25 Sep39	1.65	Mar09	19	1	2.75 Sep24	0.82	Mar14	7
2yr - 7yr	Richest	1	4.50 Mar19	-1.18	Sep08	35	1	3.75 Sep20	-1.58	Jun10	24
		2	5.00 Mar18	-0.90	May07	34	2	4.75 Mar20	-1.51	Mar05	33
		3	1.75 Jul19 (5y)	-0.57	Nov13	22	3	3.75 Sep19	-1.50	Jul09	28
		4	3.75 Sep19	-0.53	Jul09	28	4	1.75 Jul19 (5y)	-1.39	Nov13	22
		5	1.75 Jan17	-0.14	Aug11	29	5	4.50 Mar19	-1.37	Sep08	35
	Cheapest	5	4.00 Sep16	-0.01	Mar06	35	5	1.25 Jul18 (WX)	-0.96	Feb13	34
		4	1.25 Jul18 (WX)	0.17	Feb13	34	4	5.00 Mar18	-0.86	May07	34
		3	1.00 Sep17	0.22	Mar12	31	3	1.00 Sep17	-0.49	Mar12	31
		2	4.75 Mar20	0.33	Mar05	33	2	1.75 Jan17	-0.15	Aug11	29
		1	3.75 Sep20	0.41	Jun10	24	1	4.00 Sep16	-0.07	Mar06	35
7yr - 15yr	Richest	1	4.25 Dec27	-1.10	Sep06	29	1	3.75 Sep21	-1.31	Mar11	28
		2	2.25 Sep23 (10y)	-0.95	Jun13	27	2	4.00 Mar22	-0.94	Feb09	37
		3	5.00 Mar25 (G)	-0.72	Sep01	34	3	4.25 Dec27	-0.57	Sep06	29
		4					4				
		5					5				
	Cheapest	5					5				
		4					4				
		3	2.75 Sep24	-0.29	Mar14	7	3	2.25 Sep23 (10y)	-0.49	Jun13	27
		2	4.00 Mar22	0.14	Feb09	37	2	5.00 Mar25 (G)	-0.39	Sep01	34
		1	1.75 Sep22	1.50	Jun12	28	1	2.75 Sep24	0.82	Mar14	7
>15yr	Richest	1	3.25 Jan44 (30y)	-0.93	Oct12	27	1	3.75 Jul52	-1.25	Sep11	22
		2	4.75 Dec30	-0.30	Oct07	29	2	4.25 Dec55	-1.11	May05	23
		3	3.50 Jul68	-0.21	Jun13	10	3	4.25 Dec49	-1.10	Sep08	19
		4	4.75 Dec38	-0.20	Apr04	25	4	4.00 Jan60	-1.08	Oct09	19
		5	4.25 Dec40	-0.17	Jun10	24	5	3.25 Jan44 (30y)	-1.06	Oct12	27
	Cheapest	5	4.50 Dec42	0.98	Jun07	26	5	4.50 Sep34	-0.88	Jun09	28
		4	4.25 Dec55	1.09	May05	23	4	4.25 Sep39	-0.85	Mar09	19
		3	4.25 Jun32	1.09	May00	35	3	4.75 Dec30	-0.85	Oct07	29
		2	4.25 Dec46	1.26	May06	21	2	4.25 Jun32	-0.78	May00	35
		1	4.25 Sep39	1.49	Mar09	19	1	4.00 Jan60	0.00	Jan12	0

Source: Citi Research

4 Week Auction Calendar: Euro, UK and US

Aman Bansal, CFA

This is an excerpt from our latest [Weekly Supply Monitor](#) published earlier today. For further details (such as a breakdown of upcoming coupon payments, redemptions and our longer term supply forecasts) please see the full note.

Figure 54. Provisional auction calendar for the next four weeks, gross issuance (local currency, billion), DV01 (\$ million/bp)

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
27 May (Tue)	Italy	3.0	CTZ (estimated size)				5k
27 May (Tue)	Italy	1.5	BTPei (estimated size)				12k
27 May (Tue)	Netherlands	2.0	DSL Jan19 re-opening (issue confirmed, size €1.5-2.5bn)				8k
27 May (Tue)	US	30.0	2-Year		99k		
27 May (Tue)	US	0.85 - 1.1	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2044		-24k		
28 May (Wed)	Germany	2.0	Bund Aug46 re-opening (issue and size confirmed)				40k
28 May (Wed)	UK	1.1	0.25% Index-linked Treasury Gilt 2052 (issue and size confirmed)			41k	
28 May (Wed)	US	13.0	2-Year FRN (re-opening)		43k		
28 May (Wed)	US	35.0	5-year		194k		
28 May (Wed)	US	2.25 - 2.75	Outright Treasury Coupon Purchases: 15/8/2021 - 15/5/2024		-24k		
29 May (Thu)	Italy	5.8	BTP 5yr and 10yr (estimated tenor and size)				36k
29 May (Thu)	Italy	1.8	CCTeu (estimated size)				7k
29 May (Thu)	US	29.0	7-year		229k		
29 May (Thu)	US	0.85 - 1.1	Outright Treasury Coupon Purchases: 15/2/2036 - 15/5/2044		-24k		
30 May (Fri)	US	2.5 - 3.25	Outright Treasury Coupon Purchases: 31/3/2019 - 29/2/2020		-16k		
Weekly \$DV01 of Issuance				60.5			
Total Number of Futures Contracts					477k	41k	108k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
03 Jun (Tue)	Austria	3.5	RAGB 10yr and 30yr (estimated tenors and size)				27k
03 Jun (Tue)	UK	4.0	1.75% Treasury Gilt 2019 (issue confirmed, estimated size)			21k	
04 Jun (Wed)	Germany	4.0	Bobl Apr19 re-opening (issue and size confirmed)				16k
05 Jun (Thu)	France	8.3	OAT 5yr, 10yr and 15yr (estimated tenors and size)				87k
Weekly \$DV01 of Issuance				24.6			
Total Number of Futures Contracts					0k	21k	130k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
10 Jun (Tue)	Germany	1.0	Boblei/Bundei (estimated size)				8k
10 Jun (Tue)	Netherlands	3.0	DSL Apr17 re-opneing (issue confirmed, size €2.5-3.5bn)				5k
10 Jun (Tue)	UK	3.3	2.75% Treasury Gilt 2024 (issue confirmed, estimated size)			31k	
10 Jun (Tue)	US	28.0	3-Year		92k		
11 Jun (Wed)	Germany	4.0	Schatz Jun16 re-opening (issue and size confirmed)				7k
11 Jun (Wed)	US	21.0	10-Year (re-opening)		235k		
12 Jun (Thu)	Italy	7.0	BTP 3yr, 7yr and 15yr (estimated tenor and size)				44k
12 Jun (Thu)	UK	1.5	01/8% Index-linked Treasury Gilt 2019 (issue and size confirmed)			9k	
12 Jun (Thu)	US	13.0	30-year (re-opening)		300k		
Weekly \$DV01 of Issuance				64.5			
Total Number of Futures Contracts					627k	40k	63k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
17 Jun (Tue)	UK	4.3	Syndication (estimated new 30yr conventional, estimated date)			98k	
18 Jun (Wed)	Germany	5.0	Bund May24 re-opening (issue and size confirmed)				38k
19 Jun (Thu)	France	9.7	OAT 2yr and 5yr, index-linked OAT (estimated tenors and size)				37k
19 Jun (Thu)	US	7.0	30-year TIPS (re-opening)		161k		
Weekly \$DV01 of Issuance				40.3			
Total Number of Futures Contracts					161k	98k	75k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on May 30, 2014. Therefore we have only included Fed buybacks up to May 30 in this calendar. Additional issue expected in May: Spain 10yr syndication (€4bn). It is not included in the table above as the timing of this supply event has not been announced.

Source: DMOs, Citi Research

EMU: Coupons & Redemptions (Next 3mths)

Figure 55. EMU-11 Bond redemptions over the next three months (€bn)

Redemptions = €183bn											
Redemptions	DEU 40	FRA 26	NLD 14	ITA 73	ESP 16	BEL 0	AUT 10	FIN 0	PRT 4	GRC 0	IRL 0
(Fri) 30-May-14				12.8							
(Sun) 01-Jun-14				19.4							
(Fri) 13-Jun-14	15.0										
(Mon) 16-Jun-14									4.4		
(Tue) 01-Jul-14				13.9							
(Fri) 04-Jul-14	25.0										
(Sat) 12-Jul-14		25.6									
(Tue) 15-Jul-14			13.7				9.6				
(Wed) 30-Jul-14					16.4						
(Fri) 01-Aug-14				27.2							

Source: DMOs, Bloomberg, Citi Research

This table is on a calendar-date basis

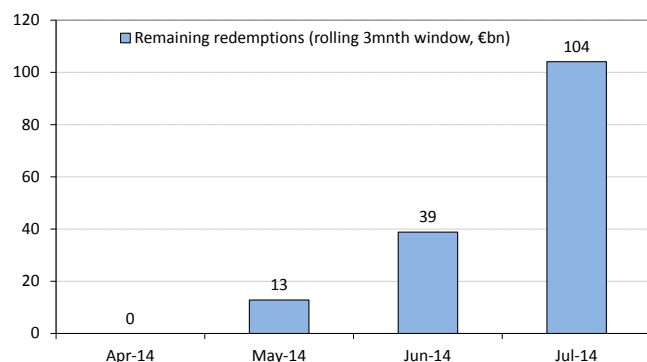
Figure 56. EMU-11 Coupon payments over the next three months (€bn)

Coupons	DEU 12	FRA 7	NLD 5	ITA 11	ESP 8	BEL 1	AUT 2	FIN 1	PRT 2	GRC 0	IRL 0
(Fri) 23-May-14							0.1				
(Sun) 25-May-14		2.0									
(Sun) 01-Jun-14				1.7							
(Sat) 14-Jun-14									0.5		
(Sun) 15-Jun-14				0.6					0.9		
(Mon) 16-Jun-14									0.2		
(Wed) 18-Jun-14							0.1				0.3
(Fri) 20-Jun-14	0.2						0.2				
(Sun) 22-Jun-14						1.0					
(Sat) 28-Jun-14						0.5					
(Tue) 01-Jul-14				0.4							
(Fri) 04-Jul-14	11.4							0.9			
(Sat) 12-Jul-14		1.4									
(Tue) 15-Jul-14			5.3	0.4			1.8				
(Sun) 20-Jul-14											0.0
(Fri) 25-Jul-14		3.8									
(Wed) 30-Jul-14					8.4						
(Fri) 01-Aug-14				8.4							
(Fri) 15-Aug-14	0.4										
(Mon) 18-Aug-14											0.0

Source: DMOs, Bloomberg, Citi Research

This table is on a calendar-date basis

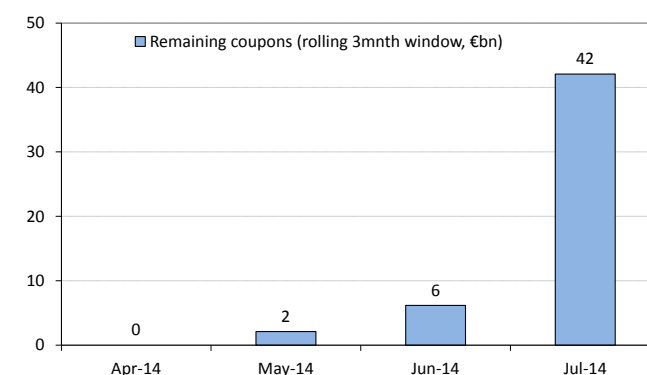
Figure 57. EMU-11 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

This chart is on a calendar-date basis

Figure 58. EMU-11 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

This chart is on a calendar-date basis

ESP and ITA Bill Issuance Projections

This page contains our projections for Spanish and Italian bill supply in 2014.

Auction calendar for the next four weeks

Figure 59. Italy and Spain provisional bill auction calendar for the next four weeks: Gross issuance (€ billion), DV01 (€ million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 1	28 May (Wed)	Italy	6 month (28 November 2014; issue confirmed, estimated size)	8.5
Total Size in Week 1				8.5
Week 3	11 Jun (Wed)	Italy	12 month (12 June 2015; issue confirmed, estimated size)	7.5
Total Size in Week 3				7.5
Week 4	17 Jun (Tue)	Spain	6month (12 December 2014) and 12month (new bill) - tenors confirmed, estimated issue and size	4.95
Total Size in Week 4				5.0

Italy announces issue size 3 business days before the auction

Spain announces issue details 1 business day before the auction

Source: DMOs, Citi Research

This table is on a calendar-date basis

2014 projections for bill supply

Figure 60. 2014 Italy and Spain Bill Supply – Citi Forecast (€ billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	1.0	1.0	2.2	3.1		7	8	-1
Feb	0.9	0.9	2.2	3.6		8	11	-4
Mar	1.3	1.0	2.0	3.5		8	10	-2
Apr	1.1	1.2	2.0	3.7		8	12	-4
May	0.9	1.4	2.6	3.8		9	8	1
Jun	1.0	1.2	2.5	3.8		8	14	-5
Jul	0.8	1.0	3.0	3.8		9	8	1
Aug	0.8	1.0	3.0	3.8		9	8	1
Sep	0.8	1.0	3.0	3.8		9	8	1
Oct	0.8	1.0	3.0	3.8		9	9	
Nov	0.8	1.0	3.0	3.8		9	8	1
Dec	0.8	1.0	3.0	3.8		9	7	2
Total	10.6	12.7	31.4	44.0		99	110	-11

ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		8.1		9.3		17	20	-2
Feb		8.6		8.0		17	19	-3
Mar		8.3		7.6		16	16	-1
Apr	3.0	7.7		7.5		18	17	1
May		8.5		7.2		16	14	2
Jun		8.5		7.5	3.0	19	16	3
Jul		8.5		7.5		16	15	1
Aug		8.5		8.0		17	17	-1
Sep		8.5		8.0	3.0	20	18	1
Oct		8.5		8.0		17	17	
Nov		7.0		7.0		14	16	-2
Dec		7.0		6.0		13	14	-1
Total	3.0	97.7		91.5	6.0	198	199	-1

*3month bills will be issued only for specific cash needs. In this case, auctions shall be held on the 12 month BOT auction dates

Source: DMOs, Bloomberg, Citi Research

This table is on a calendar-date basis

Inflation Forecasts, Carry & Weekly Changes

Figure 61. Citi Inflation Forecasts

Month	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY
	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change
Apr 14	117.57	0.2	0.6	126.24	-0.0	0.6	255.70	0.4	2.5	237.07	0.3	2.0
May 14	117.61	0.0	0.6	126.24	0.0	0.5	256.30	0.2	2.5	237.50	0.2	2.0
Jun 14	117.64	0.0	0.5	126.38	0.1	0.5	256.40	0.0	2.7	237.60	0.0	1.8
Jul 14	116.84	-0.7	0.4	125.93	-0.4	0.5	256.10	-0.1	2.6	237.70	0.0	1.8
Aug 14	116.92	0.1	0.3	126.32	0.3	0.3	257.10	0.4	2.4	238.30	0.3	1.9
Sep 14	117.51	0.5	0.3	126.08	-0.2	0.4	258.20	0.4	2.5	238.60	0.1	1.9

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 62. US TIPS Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Reference Conventional	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.09	0.09	0.09									
TIPS 7/15	-1.95	3	-6	28	32	20	US-4.250-08/15/15	209	-4	5	28	31	18	-2	-3
TIPS 1/16	-1.52	-4	-11	22	27	21	US-2.625-02/29/16	178	2	9	21	25	18	6	-5
TIPS 4/16	-1.37	-5	-11	20	24	20	US-2.000-04/30/16	170	4	10	19	22	16	3	-6
TIPS 7/16	-1.60	-11	-16	17	19	15	US-4.875-08/15/16	205	9	14	15	16	9	2	-10
TIPS 1/17	-1.24	-3	-7	15	18	16	US-3.125-01/31/17	190	0	5	13	14	9	6	-2
TIPS 4/17	-1.06	-1	-5	14	17	16	US-0.875-04/30/17	183	-1	3	11	13	9	5	-1
TIPS 7/17	-1.21	-8	-12	13	16	14	US-4.750-08/15/17	208	6	9	10	10	6	3	-8
TIPS 1/18	-0.87	-2	-5	12	15	14	US-3.500-02/15/18	197	0	3	9	9	6	6	-3
TIPS 4/18	-0.71	-4	-8	11	15	14	US-0.625-04/30/18	191	4	7	8	9	6	7	-8
TIPS 7/18	-0.86	0	-3	10	13	13	US-4.000-08/15/18	210	-1	1	7	7	4	5	-2
TIPS 1/19	-0.59	0	-3	10	13	13	US-2.750-02/15/19	205	1	3	7	7	4	6	-4
TIPS 4/19	-0.43	0	-2	10	13	13	US-1.625-04/30/19	197	0	2	6	7	4	10	-4
TIPS 7/19	-0.54	-2	-5	9	12	12	US-3.625-08/15/19	213	3	5	6	6	3	8	-6
TIPS 1/20	-0.28	-1	-3	9	12	12	US-3.625-02/15/20	201	1	3	5	6	3	18	-5
TIPS 7/20	-0.26	-1	-3	8	11	11	US-2.625-08/15/20	216	3	4	5	5	2	13	-6
TIPS 1/21	-0.05	-0	-2	8	11	11	US-3.625-02/15/21	204	3	5	4	4	2	23	-6
TIPS 7/21	-0.04	2	-0	7	10	10	US-2.125-08/15/21	218	1	2	4	4	2	17	-3
TIPS 1/22	0.13	2	0	7	9	10	US-2.000-02/15/22	210	2	3	4	4	2	23	-4
TIPS 7/22	0.14	1	-1	7	9	10	US-1.625-08/15/22	219	3	4	3	3	1	21	-5
TIPS 1/23	0.25	1	-1	6	9	9	US-2.000-02/15/23	215	3	4	3	3	1	23	-5
TIPS 7/23	0.25	3	2	6	8	9	US-2.500-08/15/23	221	1	2	3	3	1	24	-2
TIPS 1/24	0.34	3	2	6	8	9	US-2.750-02/15/24	218	1	2	3	2	1	25	-2
TIPS 7/25	0.40	4	3	6	8	9	US-7.625-02/15/25	210	-0	1	3	2	0	37	-2
TIPS 1/26	0.49	5	4	5	8	8	US-6.000-02/15/26	214	-0	1	2	2	0	36	-2
TIPS 7/27	0.58	5	4	5	7	8	US-6.625-02/15/27	213	-0	1	2	2	0	40	-2
TIPS 1/28	0.67	9	7	5	7	8	US-6.125-11/15/27	212	-3	-2	2	1	0	43	1
TIPS 4/28	0.64	7	6	5	7	8	US-5.500-08/15/28	223	-1	-0	2	2	0	31	-1
TIPS 7/29	0.70	8	6	5	7	7	US-5.250-02/15/29	222	-2	-1	2	1	0	36	-1
TIPS 4/29	0.69	6	4	5	7	8	US-5.250-02/15/29	223	0	1	2	2	0	34	-3
TIPS 7/32	0.80	5	4	4	6	7	US-5.375-02/15/31	222	1	2	1	1	0	39	-4
TIPS 2/40	1.05	8	7	3	4	5	US-4.625-02/15/40	223	-0	0	1	0	-1	43	-3
TIPS 2/41	1.05	10	10	3	4	5	US-4.750-02/15/41	224	-3	-2	1	0	-1	42	-0
TIPS 2/42	1.12	9	8	3	4	4	US-3.125-02/15/42	226	-1	-1	1	0	-1	41	-2
TIPS 2/43	1.12	9	8	2	3	4	US-3.125-02/15/43	228	-2	-1	0	0	-1	39	-1
TIPS 2/44	1.11	9	8	3	4	4	US-3.625-02/15/44	229	-1	-1	1	0	-1	38	-2

Source: Citi Research, Bloomberg

Figure 63. EUR Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Reference Conventional	BE (bp)	Chg (bp)	Carry-adj	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.18	0.14	0.12									
OATe115	-0.87	26	10	19	16	12	FFRG 4/15	100	-26	-10	20	17	11	21	6
BUNDei16	-0.40	12	2	14	14	14	BUND 1/16	46	-13	-2	15	15	15	2	1
BTANI16	-0.64	12	8	-2	-5	-3	FFRG 4/16	79	-11	-7	-2	-5	-3	27	3
BTPei16	0.43	13	3	15	19	23	BTP 8/16	63	-3	6	11	10	9	35	-6
OATi17	-0.63	10	8	-1	-3	-2	FFRG 4/17	88	-10	-8	-2	-4	-3	29	5
BTPei17	0.66	14	7	11	15	17	BTP 8/17	74	-2	5	7	6	5	34	-4
BOBLEi18	-0.60	5	0	6	6	5	BUND 1/18	76	-5	0	6	6	5	16	-0
OATe18	-0.58	3	-2	6	5	5	FFRG 4/18	101	-2	3	5	4	2	25	-2
BTPei18	0.81	16	10	9	12	14	BTP 8/18	88	-0	4	5	4	2	29	-3
OATi19	-0.44	2	-0	0	-1	0	FFRG 4/19	108	1	2	-1	-3	-3	31	-2
BTPei19	1.05	16	12	8	11	13	BTP 9/19	94	-1	2	4	3	2	33	-0
BUNDei20	-0.44	2	-2	4	4	4	BUND 1/20	98	1	4	4	3	2	20	-2
OATe20	-0.29	2	-1	5	5	5	FFRG 4/20	119	1	5	3	2	1	23	-3
OATi21	-0.05	1	-1	0	0	1	FFRG 4/21	118	3	4	-1	-3	-3	37	-4
BTPei21	1.54	13	9	7	9	11	BTP 9/21	114	2	5	3	1	0	29	-3
OATe22	0.04	1	-1	4	4	5	FFRG 4/21	108	3	5	2	1	0	47	-4
BUNDei23	-0.13	2	-1	3	3	4	BUND 1/22	108	2	5	2	1	0	38	-3
OATi23	0.15	-1	-2	0	0	2	FFRG 10/23	149	5	6	-1	-3	-3	21	-6
BTPei23	1.91	14	11	6	8	11	BTP 8/23	119	1	3	2	1	0	40	-2
OATe24	0.32	1	-1	3	4	4	FFRG 10/23	133	4	6	1	0	-1	38	-5
BTPei24	2.03	11	9	5	8	10	BTP 9/24	127	2	4	2	1	0	40	-3
SPGBEi24	1.76	-4	-7	5	7	9	SPAG 4/24	126	8	10	2	0	-1	43	-9
BTPei26	2.24	16	14	5	7	9	BTP 3/26	127	-1	1	1	0	-1	52	0
OATe27	0.51	1	-1	3	4	4	FFRG 4/26	157	3	5	1	0	-1	29	-4
OATi29	0.53	2	2	1	1	2	FFRG 4/29	178	2	3	-1	-3	-3	22	-3
BUNDei30	0.30	1	-0	2	2	3	BUND 1/30	165	3	4	1	0	-2	22	-3
OATe32	0.67	-0	-2	2	3	4	FFRG 10/32	181	5	6	1	0	-1	19	-5
BTPei35	2.49	16	15	3	5	6	BTP 8/34	158	1	2	0	-1	-2	44	-1
OATe40	0.79	1	-0	2	2	3	FFRG 4/41	195	4	5	0	-1	-1	14	-3
BTPei41	2.78	15	14	3	4	6	BTP 9/40	150	1	2	0	-1	-2	58	-1

Source: Citi Research

Figure 64. UK Gilts Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Reference Conventional	BE (bp)	Chg (bp)	Carry-adj	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Jul	1 Aug	1 Sep					1 Jul	1 Aug	1 Sep		
Repo (%)				0.42	0.42	0.43									
UKTi Jul16	-1.84	16	16	4	7	10	UKT 9/16	273	-8	-7	1	2	3	43	8
UKTi Nov17	-1.54	11	11	6	9	5	UKT 3/18	303	-0	-0	3	2	-4	10	-10
UKTi Nov19	-1.01	11	11	5	7	6	UKT 9/19	293	0	0	2	1	-3	25	1
UKTi Apr20	-0.84	15	15	3	6	9	UKT 3/20	285	-3	-3	0	0	0	26	3
UKTi Nov22	-0.55	13	13	4	6	6	UKT 3/22	293	-1	-1	1	0	-3	31	0
UKTi Mar24	-0.30	13	13	4	5	5	UKT 3/25	307	0	-0	1	0	-3	13	-4
UKTi Jul24	-0.30	14	14	3	5	7	UKT 3/25	307	-1	-1	0	0	-1	24	1
UKTi Nov27	-0.19	11	11	3	4	4	UKT 12/27	318	0	0	0	0	-3	24	-1
UKTi Mar29	-0.08	10	10	3	4	4	UKT 12/30	324	-0	-0	0	-1	-3	16	-2
UKTi Jul30	-0.11	10	10	2	4	5	UKT 6/32	334	-0	-0	0	-1	-1	17	-7
UKTi Nov32	-0.09	9	9	2	3	3	UKT 6/32	332	0	0	0	-1	-3	24	-1
UKTi Mar34	-0.04	10	10	2	3	3	UKT 9/34	335	-0	-0	0	-1	-3	20	-2
UKTi Jan35	-0.06	9	9	2	3	4	UKT 3/36	340	1	1	-1	-1	-2	19	-1
UKTi Nov37	-0.07	8	8	2	3	3	UKT 12/38	342	1	1	0	-1	-3	20	-1
UKTi Mar40	-0.05	8	8	2	2	2	UKT 9/39	344	1	1	0	-1	-3	17	-1
UKTi Nov42	-0.07	8	8	1	2	2	UKT 12/42	347	1	1	0	-1	-3	18	-1
UKTi Mar44	-0.03	8	8	1	2	2	UKT 1/44	347	1	1	0	-1	-3	15	-2
UKTi Nov47	-0.07	8	8	1	2	2	UKT 12/46	347	1	1	0	-1	-3	17	-1
UKTi Mar50	-0.07	8	8	1	2	2	UKT 12/49	346	1	1	-1	-1	-3	15	-2
UKTi Mar52	-0.06	8	8	1	2	2	UKT 7/52	346	1	1	-1	-1	-2	15	-2
UKTi Nov55	-0.10	8	8	1	2	2	UKT 12/55	347	1	1	0	-1	-2	17	-1
UKTi Mar62	-0.11	8	8	1	1	1	UKT 1/60	347	1	1	-1	-1	-2	17	-2
UKTi Mar68	-0.10	8	8	1	1	1	UKT 7/68	348	1	1	-1	-1	-2	15	-2

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
22-May-14	NOTE	Technical Flash: Bunds finding support	-	EUR
21-May-14	NOTE	Covered Bond Strategy: KBC and risk weights for sovereign bonds	-	EUR
20-May-14	NOTE	EMU Month-End Index Projections	-	EUR
20-May-14	NOTE	European Inflation-linked Index Projection	-	EUR
19-May-14	NOTE	European Flow Monitor	-	EUR
16-May-14	NOTE	Bund Technical Flash: Is the rally over?	-	EUR
15-May-14	European Weekly	ECB: What Would a Contrarian Think?	8	EUR
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15-May-14	NOTE	Covered Bond Strategy: LCR: Positive surprise ahead	-	EUR
14-May-14	NOTE	UK Rates Strategy: Stuck in the range	-	UK
13-May-14	NOTE	Covered Bond Strategy: BRRD and the German Pfandbrief Law	-	EUR
12-May-14	NOTE	European Flow Monitor: Spain And Portugal Continue To Lead EGB Demand	-	EUR
12-May-14	NOTE	Portugal upgraded - the long road back to Investment Grade?	-	EUR
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07-May-14	NOTE	Outlook for Irish bonds - stretched valuations or further tightening ahead?	-	EUR
07-May-14	NOTE	Covered Bond Strategy: Upgrades in Portugal and Ireland?	-	EUR
06-May-14	NOTE	European Flow Monitor: Net demand for non-core highest in a year	-	EUR
06-May-14	NOTE	Alert: European Rates Strategy - Bund Technical Flash: Bearish very near term	-	EUR
02-May-14	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
02-May-14	NOTE	UK Rates Strategy: Timing matters: a look at market expectations for the 'first hike'	-	UK

Appendix A-1

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