

iTraxx Tranches Views & Trades

Sell equity protection and sell straddles

- **Remain constructive on equity and junior mezz and bearish on the most senior tranches.** The tranche market didn't re-price at all during the recent volatile market. If investors add junior longs when spreads grind boringly tighter and don't unwind them when we have bouts of volatility, the only reason to change our views (long juniors, short seniors) would be fear of default risk and idiosyncratic single name stories resurfacing. We don't think that happens anytime soon.
- **Junior tranches are held as "medium term longs", and won't be easily unwound.** We feel that investors are using the tranche market to source "medium term longs" (in juniors only thus far), and they are not going to easily unwind them when we hit a bump. In this respect, the tranche market is behaving like the cash bond market, where investors are happy to add longs in the primary market but not to unwind positions in volatile periods. Cash bond and tranche positions feel "sticky" and it may take a large and sustained sell-off for investors to unwind them.
- **iTraxx S21 tranches are expected to start trading on 27th March**, a week after the index roll.
- **Trade ideas:**
 - **Sell Jun-18 S9 equity protection and monetize the positive convexity by selling front-month ATM straddles** (both delta-hedged). Equity tranche longs provide positive time value and positive convexity (gamma) at the expense of a large default exposure. We believe the positive gamma is not needed and selling front-month ATM delta-hedged straddles is a good way of monetizing it. The trade offers positive time value on both legs at the expense of negative jump-to-default.
 - **Buy 9-100% S9 Jun-18 protection, delta-hedged.** As we argued earlier this year ([More mezz, less seniors](#)), we've lost faith in the seniors and would play them from the short side. Seniors do not only have no natural seller, but they actually look tight vs. competitors like the tightest names in the index or iTraxx Non-Financials. If anything we expect investors still holding senior longs to eventually capitulate.
 - **Sell 3-6% S9 Jun-18 protection, delta-hedged.** We saw a substantial increase in trading and interest on mezzanine tranches over the first three weeks of the year; a fair amount of that from new investors. We expect that to continue if volatility remains low.

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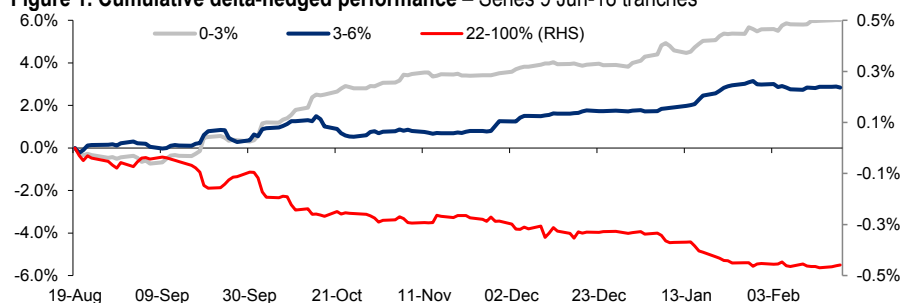
See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Juniors have outperformed in both stable and volatile periods. We think this continues. The stark difference in the market environment during the first three and second three weeks of the year didn't have a meaningful impact on the tranche market. The outperformance of juniors and underperformance of senior tranches continued during both periods:

- The **bullish tone over the first three weeks of the year** drove investors to synthetic longs in general and junior tranche longs in particular. We had tranche teach-ins with clients looking at the tranche market for the first time in years, all with the same rationale: looking for high spread longs. We saw more interest in equity and, especially, junior mezz tranches than we had seen for a long time. Against this backdrop, junior tranches outperformed and senior tranches (where we continue to see no sellers of protection) took all the risk leaving the junior part of the capital structure.
- The **mini-EM sell-off triggered very bearish flows in the index and options space**, and a very aggressive pick-up in intra-day volatility. Although we didn't see much cash selling, the market felt very vulnerable. However, as Figure 1 shows, tranche performance didn't react much to the turbulence. Equity and junior mezz kept outperforming and seniors underperforming. The sell-off was systemic in nature, pushing correlations higher and helping the junior tranches. No sign of single name distress, which would be very damaging for junior tranches.

Figure 1. Cumulative delta-hedged performance – Series 9 Jun-18 tranches



Source: Citi Research, Markit. As % of notional. From a protection seller's point of view. Assuming daily delta rebalancing.

In our view, investors are using the tranche market to source “**medium term longs**” (in juniors only thus far), and they are not going to easily unwind them when we hit a bump. In this respect, the tranche market is behaving like the cash bond market, where investors are happy to add longs in the primary market but not to unwind positions in volatile periods. The reasons for not wanting to unwind these “medium term longs” may be different in both markets, but the end result feels the same to us. Cash bond and tranche positions feel “sticky” and it may take a large and sustained sell-off for investors to unwind them.

What's next? Given recent tranche performance in quiet and volatile times, we are inclined to think juniors continue to outperform and seniors to underperform going forward.

- **We believe the demand for high spread junior tranches continues.** Only a surprising return of default risk concerns or idiosyncratic risk stories will make holders of junior risk unwind positions, in our view, and we think that's not a very likely scenario.

- **The demand for senior tranche risk is still not there**, and if anything we expect investors still holding senior longs to eventually capitulate.

So we stick to the views expressed in our last two publications:¹ **Constructive on equity and junior mezz and bearish on the most senior tranches.**

Our base case scenario for the near term is the market environment we saw during the first two or three weeks of the year: low volatility and investors looking to add more medium term longs – cash in the primary market and high spread synthetic longs. We think real money investors will favor mezz vs. equity in order to get some subordination, and fast money investors will continue adding equity longs to maximize the roll-down.

Visit our [iTraxx tranche daily analytics](#) for more details on tranche pricing and performance: [Series 9](#) and [Series 19](#).

The main push-back we get on the views above is the historically high level of correlation. It is true that correlations are high, we just don't see what's going to take them lower anytime soon.

Figure 2. S9 – Tranche levels

Upfront for 0-3%, flat spreads for the rest (bp).

Series 9	Jun-15	Jun-18
0-3%	1%	22%
3-6%	46	367
6-9%	24	223
9-12%	16	140
12-22%	10	74
22-100%	5	28
Ref	25	78

Source: Citi Research, Markit. COB yesterday.

Figure 3. S9 – 3m performance delta-hedged *

From a protection seller's point of view.

Series 9	Jun-15	Jun-18
0-3%	1.50%	2.53%
3-6%	0.18%	2.12%
6-9%	0.10%	0.77%
9-12%	0.01%	0.32%
12-22%	-0.04%	-0.31%
22-100%	-0.04%	-0.19%
Ref **	0.23%	0.93%

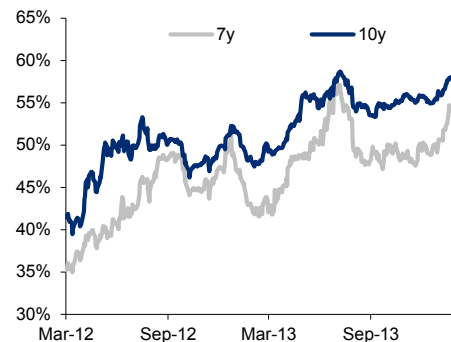
* As % of notional. ** Outright performance for the index.

Assuming daily delta rebalancing for the tranches.

Source: Citi Research, Markit.

Figure 4. S9 – Correlations

Equity tranche implied correlations.



Source: Citi Research, Markit.

Figure 5. S19 – Tranche levels

Upfront for 0-3%, flat spreads for the rest (bp).

Series 19	Jun-16	Jun-18
0-3%	2%	14%
3-6%	83	267
6-9%	53	171
9-12%	32	105
12-22%	20	62
22-100%	9	24
Ref	32	64

Source: Citi Research, Markit. COB yesterday.

Figure 6. S19 – 3m performance delta-hedged *

From a protection seller's point of view.

Series 19	Jun-16	Jun-18
0-3%	1.30%	1.83%
3-6%	0.80%	2.13%
6-9%	0.49%	0.64%
9-12%	0.13%	0.34%
12-22%	-0.04%	-0.12%
22-100%	-0.05%	-0.15%
Ref **	0.30%	0.63%

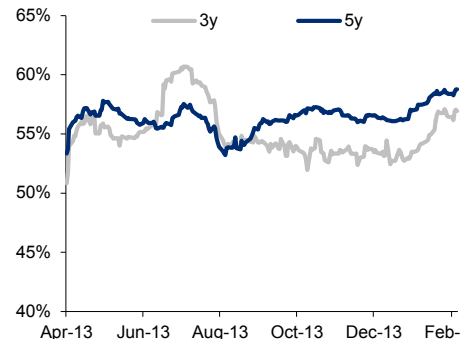
* As % of notional. ** Outright performance for the index.

Assuming daily delta rebalancing for the tranches.

Source: Citi Research, Markit.

Figure 7. S19 – Correlations

Equity tranche implied correlations.



Source: Citi Research, Markit.

¹ [Mezz may be back next year](#), 15-Nov., and [More mezz, less seniors](#), 15-Jan.

What to do with all this? Correlations in shorter dated (Jun-15) tranches have increased substantially relative to longer dated (Jun-18) tranches – see Figure 8 – which probably means the upside in equity is in the Jun-18 tranches near term. In our first trade idea below we recommend **selling Jun-18 S9 equity protection and monetizing the positive convexity by selling front-month ATM straddles**; the trade is positive time value on both legs.

Senior tranches continue having a hard time finding protection sellers, and the truth is that when compared with other “stable” longs, like the tightest names in the index, they don’t look particularly attractive – see Figure 9. In our second trade idea we recommend **buying protection on 9-100% tranches**, delta-hedged.

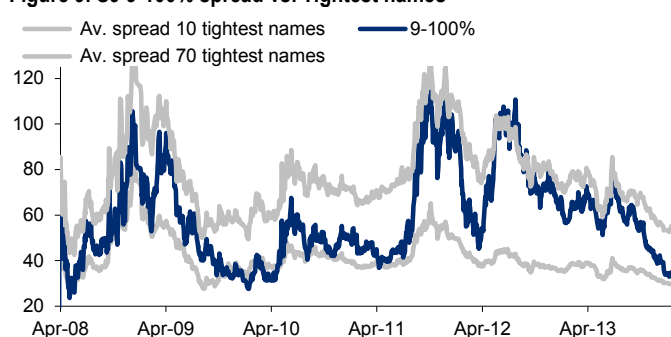
Finally, we are still quite bullish on junior mezz and would open a **long risk position in Jun-18 3-6% S9 tranches**. We do so delta-hedged, to play the relative value between the tranche and the index, but we also like the outright long in that tranche.

Figure 8. iTraxx S9 Equity Correlations



Source: Citi Research, Markit.

Figure 9. S9 9-100% spread vs. Tightest names



Source: Citi Research, Markit. Interpolated 5y historical spread for the tranches.

Trade Ideas

No. 1 – Sell equity tranche protection & sell straddles

- **We believe equity tranches will continue to outperform** as fast money and the most sophisticated real money investors continue adding longs to position for their large roll down.
- **We also like selling front dated straddles** to exploit the premium between implied and realised vol: i.e. we expect, on average, realised vol to be below implied; 1m Main options are currently implying above 2bp per day. See [iTraxx Options Views & Trades: Vol starts the year expensive - we start by selling receivers](#).
- **Equity tranche longs, delta-hedged, provide positive time value and positive convexity (gamma) at the expense of a large default exposure. We believe the positive gamma is not needed and that selling front-month ATM delta-hedged straddles is a good way of monetizing it:** selling straddles provides negative gamma and positive theta (time value) – see Figure 10 and Figure 11. The trade offers positive time value on both legs at the expense of negative jump-to-default.

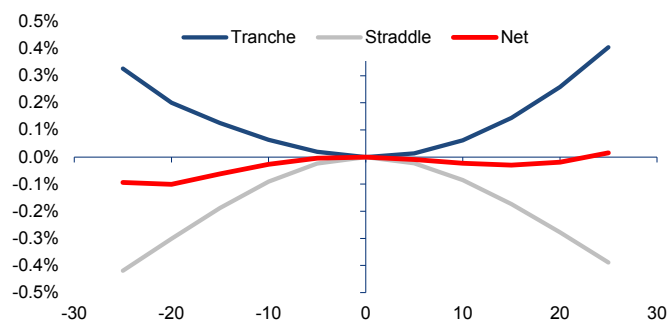
Figure 10. Trade exposure

	Sell equity tranche prot. (delta-hedged)	Sell straddle (delta-hedged)	Total
Gamma	Positive	Negative	Neutral
Time value	Positive	Positive	Positive
Jump-to-Default	Very negative		Very negative
Correlation	Long		Long
Implied vol		Short	Short

Source: Citi Research.

Figure 11. Spread exposure

X-axis: spread shock, in bp. Y-axis: trade MtM as % of tranche notional, using a straddle notional equal to 50% of the tranche notional



Source: Citi Research.

Figure 12. iTraxx Series 9 Tranche Trade: Sell Jun-18 equity tranche protection, delta-hedged

Tranche	Mat.	Upfront	Coupon (bp)	Par spread (bp)	Protection	Notional (€m)	Upfront (€m)	Coupon (€m)	1m time value (€m)
0-3%	Jun-18	22.13%	500	1,150	Sell	10	2.21	0.50	0.12
Index	Jun-18	-4.03%	175	79	Buy	79.0	3.18	-1.38	-0.12
		Total					5.40	-0.88	0.00

Source: Citi Research. We plan to dynamically delta-hedge the trade. Indicative prices shown.

Figure 13. iTraxx Series 20 Option Trade: Sell front month straddles, delta-hedged

Type	Strike	Expiry	Price	Position	Notional	Upfront	Delta	Gamma	Theta	Vega
Receiver	75	19-Mar	17.9c	Sell	50,000,000	89,286	11,159	-985	1,233	-1,840
Payer	75	19-Mar	19.0c	Sell	50,000,000	94,825	-12,674	-966	2,254	-1,840
Index	@ 74 bp			Buy prot.	3,180,000	38,739	1,516		-69	
		Total				222,850	1	-1,951	3,419	-3,680

Source: Citi Research. We plan to dynamically delta-hedge the trade, keep it until expiry and enter an ATM delta-hedged front-month straddle. Indicative prices shown.

We are using Main S9 Jun-18 equity tranches and S20 Dec-18 front-month straddles, so the trade has a basis risk between the two indices. The more volatile is S9 vs. S20, the better for the trade. As Figure 12 and Figure 13 show, both indices are trading at very similar levels (the S9 index has a 1y shorter maturity).

We size the trade in order for the gamma on both legs to neutralize each other as much as possible – see Figure 11. The notional on the ATM straddle is 50% the notional on the equity tranche.

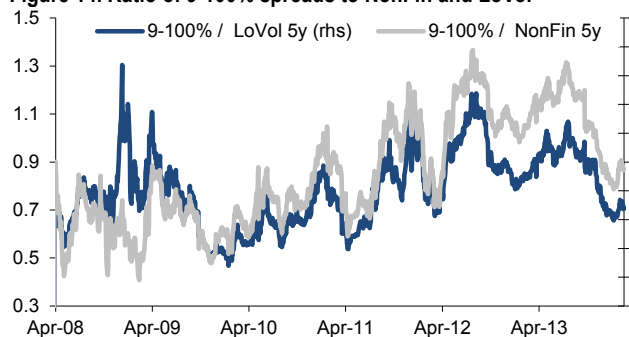
In terms of sensitivities, expressed in terms of the equity tranche notional:

- **Positive time value:** The 1m time value on the equity tranche leg is ~22c, and the short straddle adds an additional ~14c.
- **Negative jump-to-default:** The jump-to-default on the equity tranche is ~1087c of its notional (negative), and the short ATM straddle adds an additional 6c to the negative default exposure.
- **Long correlation:** If equity implied correlation falls 1% the trade will lose ~64c.
- **Short implied vol:** the trade will lose ~0.4c if implied vol goes up 1%.

No. 2 – Buy 9-100% S9 Jun-18 protection, delta-hedged

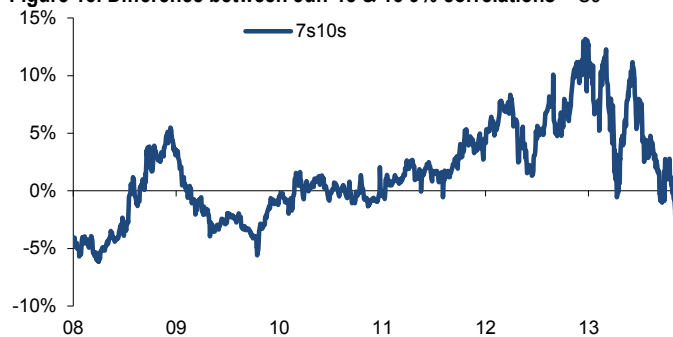
- **Still no sellers in sight; remain short.** As we argued earlier this year ([More mezz. less seniors](#)), we've lost faith in the seniors and would play them from the short side. Seniors do not only have no natural seller, but they actually look tight vs. competitors like the tightest names in the index or iTraxx Non-Financials – see Figure 9 and Figure 14.
- **We prefer to short Jun-18 senior tranches** given that, correlation-wise, they are tight vs. Jun-15. As Figure 15 shows, 9% correlation in Jun-18 is low vs. Jun-15: 0-9% Jun-18 tranches are wide, and 9-100% tight, vs. Jun-15. **We short all tranches above 9%, weighted by their width** – i.e. short the 9-100% tranche delta-hedge. To us, there's very little difference between 9-12%, 12-22% and 22-100%.

Figure 14. Ratio of 9-100% spreads to NonFin and LoVol



Source: Citi Research, Markit. On-the-run Non Financials and Low Volatility (Main excluding Financials and HiVol). Interpolated 5y historical spread for the tranches.

Figure 15. Difference between Jun-18 & 15 9% correlations – S9



Source: Citi Research, Markit. Jun-18 9% correlation minus Jun-15 9% correlation.

Figure 16. Sell Jun-18 S9 3-6% delta-hedged protection

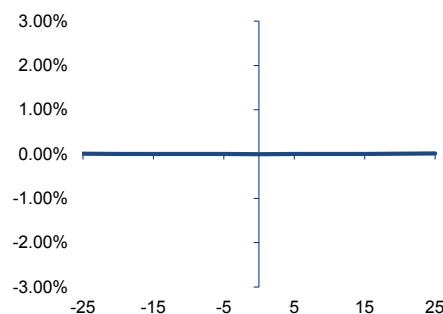
Tranche	Maturity	Upfront	Coupon (bp)	Par spread (bp)	Protection	Notional (€m)	Upfront (€m)	Coupon (€m)	12 m time value (€m)
9-12%	Jun-18	1.67%	100	145	Buy	3	-0.05	-0.03	-0.09
12-22%	Jun-18	-1.12%	100	78	Buy	10	0.11	-0.10	-0.18
22-100%	Jun-18	0.04%	25	29	Buy	78	-0.03	-0.20	-0.43
Index	Jun-18	-4.03%	175	79	Sell	57.7	-2.33	1.01	0.87
Total							-2.30	0.69	0.16

Source: Citi Research, Markit. Indicative prices shown. We plan to dynamically delta-hedge the trade. Indicative prices shown.

The trade is pretty much neutral to general spread widening, positive time value and long correlation, as Figure 17, Figure 18 and Figure 19 show. The trade jump-to-default is around 0.32% of the 22-100% tranche notional.

Figure 17. Spread exposure – bp shocks

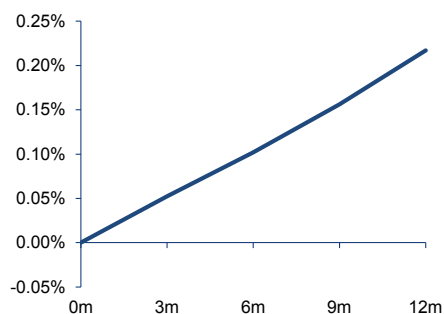
X-axis: spread shock, in bp, to all the maturities of all the credits in the index. Y-axis: trade MtM as % of 22-100% notional.



Source: Citi Research, Markit.

Figure 18. Trade time value

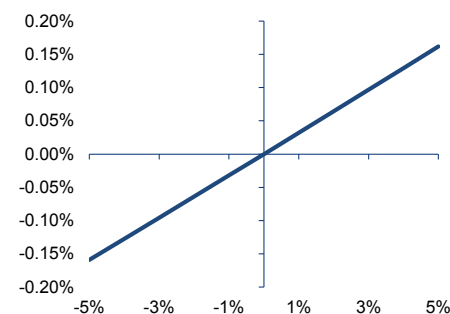
Including roll-down and carry, as % of 22-100% notional.



Source: Citi Research, Markit.

Figure 19. Correlation exposure - % shocks

X-axis: correlation shock, % additive. Y-axis: trade MtM as % of 22-100% notional.

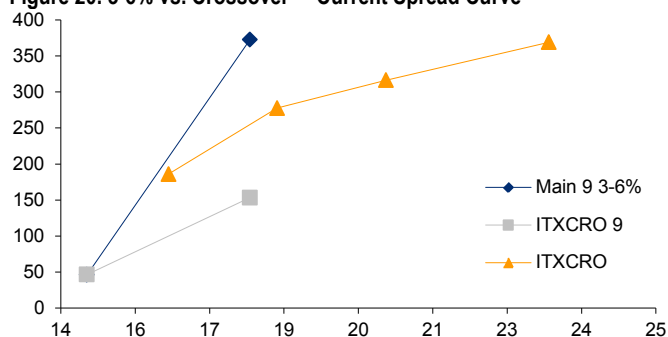


Source: Citi Research, Markit.

No. 3 – Sell 3-6% S9 Jun-18 protection, delta-hedged

- **Junior mezz should be the main beneficiary of another round of boring low volatile days in the credit markets.** We saw a substantial increase in trading and interest on mezzanine tranches over the first three weeks of the year; a fair amount of that from new investors. We expect that to continue as the index grinds tighter less than 0.5bp per day. Moreover, the past three volatile weeks have provided the best possible pitch for mezz (and equity) tranche delta-hedged longs: they outperformed.
- **At ~370bp, 3-6% looks very attractive vs. competitors like iTraxx Crossover (below 300bp)** – see Figure 20. Correlation-wise, the 3-6% tranche currently trades wide vs. the 6-9% tranche, as Figure 21 shows. **We like both outright long risk as well as delta-hedged longs in the 3-6% tranche;** it very much depends on how much risk the investor wants to add.

Figure 20. 3-6% vs. Crossover – Current Spread Curve



Source: Citi Research, Markit. In bp, as of COB yesterday.

Figure 21. Difference between 9% and 6% correlation – S9 Jun-18



Source: Citi Research, Markit.

Figure 22. Sell Jun-18 S9 3-6% delta-hedged protection

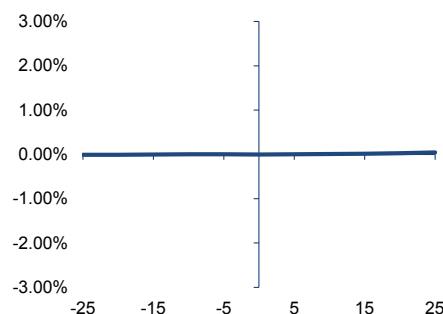
Tranche	Maturity	Upfront	Coupon (bp)	Par spread (bp)	Protection	Notional (€m)	Upfront (€m)	Coupon (€m)	12 m time value (€m)
3-6%	Jun-18	-5.25%	500	375	Sell	25	-1.31	1.25	1.86
Index	Jun-18	-4.03%	175	79	Buy	117.5	4.74	-2.06	-1.76
Total							3.42	-0.81	0.10

Source: Citi Research, Markit. Indicative prices shown. We plan to dynamically delta-hedge the trade. Indicative prices shown.

The trade is pretty much neutral to general spread widening, positive time value and long correlation, as Figure 23, Figure 24 and Figure 25 show. The trade jump-to-default is around 0.3% of the tranche notional. A very similar exposure to the previous trade.

Figure 23. Spread exposure – bp shocks

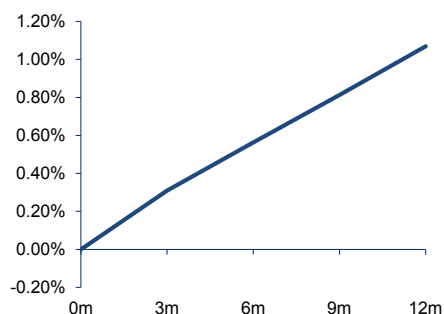
X-axis: spread shock, in bp, to all the maturities of all the credits in the index. Y-axis: trade MtM as % of tranche notional.



Source: Citi Research, Markit.

Figure 24. Trade time value

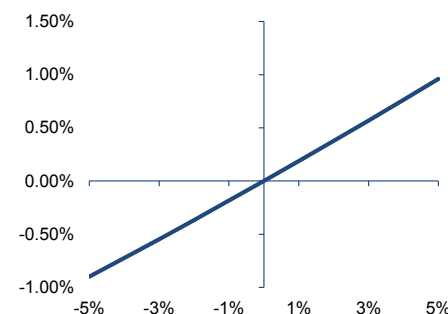
Including roll-down and carry, as % of tranche notional.



Source: Citi Research, Markit.

Figure 25. Correlation exposure - % shocks

X-axis: correlation shock, % additive. Y-axis: trade MtM as % of tranche notional.



Source: Citi Research, Markit.

Trade Recommendations Summary

We are opening the trades recommended in this report and taking profits on our two tranche trades (6-9% vs. Crossover and 3-6% vs. super senior). Our Main vs. Senior Fins. options trade expired yesterday.

Figure 26. Open trades – Summary and P&L

Trade Description	Leg	Format	Direct.	Notnl.	Entry Upfront	Entry Spread	Coupon	Current Upf.	Current Spread	P&L* Total	P&L* Month**
Sell 1m Main straddles *** 09-Jan-14	Sell 1m Main straddles	Price	Buy	1.00	0.00%			0.20%		0.20%	
									Total	0.20%	
Payer spread vs. index long *** 09-Jan-14	Buy 3m 25-60% pay spread	Price	Buy	1.00	0.00%			0.00%		0.00%	
	Sell index prot.	Price	Buy	1.00	0.00%			0.03%		0.03%	
									Total	0.03%	
SenFin vs. Xover Recs *** 09-Jan-14	Buy 3m SenFin Recs	Price	Buy	3.40	0.00%			-0.06%		-0.22%	
	Sell 3m Xover Recs	Price	Buy	1.00	0.00%			-0.36%		-0.36%	
									Total	-0.58%	
Flattener vs. OTM payer *** 13-Feb-14	3s5s flattener Main	Price	Buy	1.00	0.00%			0.02%		0.02%	
	Sell 3m 120bp Main payer	Price	Buy	0.75	0.00%			0.02%		0.01%	
									Total	0.03%	
Equity tranche vs. straddle *** 20-Feb-14	Sell Jun-18 S9 equity prot., DH	Price	Buy	1.00	0.00%						
	Sell 1m Main straddles, DH	Price	Buy	0.50	0.00%						
									Total		
Equity tranche vs. straddle *** 20-Feb-14	Buy Jun-18 S9 9-12% prot., DH	Price	Buy	0.03	0.00%						
	Buy Jun-18 S9 12-22% prot., DH	Price	Buy	0.10	0.00%						
	Buy Jun-18 S9 22-100% prot., DH	Price	Buy	0.78	0.00%						
									Total		
Mezz tranche long *** 20-Feb-14	Sell Jun-18 S9 3-6% prot., DH	Price	Buy	1.00	0.00%						
									Total		

Source: Citi Research. Spreads and coupons in bp. * P&L expressed as % of the leg with notional equal to 1. ** Over the last month. Prices as of COB yesterday. *** We track the trade P&L by using an initial 0% upfront and a current upfront equal to the trade P&L in %. DH = delta hedged.

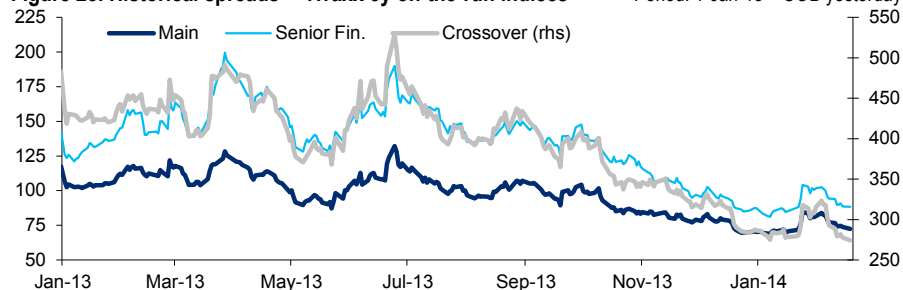
Figure 27. Open and closed trades summary statistics

Number	Open	Closed*	Percentage	Open	Closed*
In profit	3	16	In profit	75%	76%
In loss	1	5	In loss	25%	24%
	4	21			

Source: Citi Research. * Since 1-Jun-13. Excluding the trade ideas opened in the current publication.

Representative Market Conditions

Figure 28. Historical spreads – iTraxx 5y on-the-run indices



Source: Citi Research, Markit. In bp.

Figure 29. Closed trades since Oct-13 – Summary and P&L

Trade Description	Leg	Format	Direct.	Notnl.	Entry Upfront	Entry Spread	Coupon	Final Upfront	Final Spread	P&L* Total
Commerzbank sub/senior compr.	Sub CDS	Prot.	Sell	1.00	-5.65%	375	500	-8.03%	327	3.24%
Opened: 13-Aug-13	Senior CDS	Prot.	Buy	2.51	2.37%	150	100	1.95%	140	-1.49%
Closed: 14-Oct-13									Total	1.75%
RBS sub/senior compr.	Sub CDS	Prot.	Sell	1.00	-7.71%	339	500	-11.10%	254	4.25%
Opened: 13-Aug-13	Senior CDS	Prot.	Buy	2.02	2.80%	168	100	1.77%	139	-2.43%
Closed: 14-Sep-13									Total	1.82%
BNP sub/senior compr.	Sub CDS	Prot.	Sell	1.00	-14.42%	198	500	-16.21%	168	2.65%
Opened: 13-Aug-13	Senior CDS	Prot.	Buy	1.68	0.86%	118	100	0.26%	105	-1.30%
Closed: 14-Oct-13									Total	1.36%
S19 3-6% vs. S20 Crossover	Main S19 3-6% Jun-18	Prot.	Sell	1.00	-3.25%	422	500	-5.70%	366	2.99%
Opened: 26-Sep-13	Crossover S20 Dec-18	Prot.	Buy	1.00	-5.18%	386	500	-6.96%	343	-2.32%
Closed: 14-Oct-13									Total	0.67%
iTraxx vs. CDX IG super senior	Main S9 22-100% Jun-18	Prot.	Sell	1.00	0.60%	37	25	0.34%	32	0.29%
Opened: 26-Sep-13	CDX IG S9 30-100% Dec-17	Prot.	Buy	1.00	-3.54%	13	100	-3.43%	16	0.00%
Closed: 4-Nov-13									Total	0.29%
Senior Fin vs. Xover straddle	Xover Dec-13 400bp straddle	Price	Sell	1.00	2.64%			2.63%		0.00%
Opened: 9-Oct-13	SenFin Dec-13 140bp straddle	Price	Buy	2.05	1.29%			1.48%		0.40%
Closed: 15-Nov-13									Total	0.40%
325-350-375 Nov. Crossover Receiver Ladder	325 Xover Nov Rec	Price	Sell	2.00	0.18%			0.02%		0.32%
Opened: 23-Oct-13	350 Xover Nov Rec	Price	Sell	1.00	0.61%			0.47%		0.14%
Closed: 15-Nov-13	375 Xover Nov Rec	Price	Buy	1.00	1.45%			1.46%		0.01%
									Total	0.47%
CDX IG vs. Main Receivers	CDX IG S21 Nov 85 Receiver	Price	Buy	1.00	0.47%			0.62%		0.15%
Opened: 15-Oct-13	Main S20 Nov 100 Receiver	Price	Sell	1.00	0.52%			0.91%		-0.39%
Closed: Expired 20-Nov-13									Total	-0.24%
S19 Jun-16 0-3% vs. 3-6%	Main S19 0-3% Jun-16	Prot.	Sell	1.00	8.00%	839	500	3.88%	725	5.11%
Open: 26-Sep-13	Main S19 3-6% Jun-16	Prot.	Buy	2.00	-7.00%	234	500	-9.75%	132	-7.47%
Closed: 9-Dec-13									Total	-2.36%
SenFin vs. Main	Senior Fin. 5y S20	Prot.	Sell	1.00	0.60%	112	100	0.07%	102	0.61%
Open: 26-Sep-13	Main 5y S20	Prot.	Buy	1.35	-0.79%	84	100	-0.94%	81	-0.32%
Closed: 9-Dec-13									Total	0.29%
S9 super senior vs. light delta	Main S9 22-100% Jun-18	Prot.	Sell	1.00	0.18%	30	25	0.03%	26	0.19%
Open: 15-Nov-13	Main S9 index Jun-18	Prot.	Buy	0.33	-3.65%	93	175	-4.24%	77	-0.29%
Close: 14-Jan-14									Total	-0.10%
75-85 Main January strangle	75bp Jan Main receiver	Price	Sell	1.00	0.08%			0.19%		-0.11%
Open: 9-Dec-13	85bp Jan Main Payer	Price	Sell	1.00	0.13%			0.00%		0.13%
Close: 14-Jan-14									Total	0.02%
Sell Crossover Receiver	275bp Feb. Receiver	Price	Sell	1.00	0.32%			0.17%		0.15%
Open: 9-Jan-14									Total	0.15%
Close: 13-Feb-14										
iTraxx Main Eq. Notional Flattener	Main S19 3y	Prot.	Buy	1.00	-0.97%	65	100	-1.57%	33	-1.04%
Open: 5-Sep-13	Main S19 5y	Prot.	Sell	1.00	0.24%	105	100	-1.47%	65	2.15%
Close: 13-Feb-14									Total	1.11%
S9 6-9% vs. S20 Crossover	Main S9 6-9% Jun-18	Prot.	Sell	1.17	-0.25%	294	300	-3.19%	223	4.37%
Open: 15-Nov-13	Crossover S20 Dec-18	Prot.	Buy	1.00	-7.07%	344	500	-9.80%	274	-4.06%
Close: 19-Feb-14									Total	0.31%
3-6% vs. super senior	Main S9 3-6% Jun-18	Prot.	Sell	1.00	-5.50%	366	500	-5.34%	367	0.34%
Open: 14-Jan-14	Main S9 22-100% Jun-18	Prot.	Buy	9.00	0.03%	26.625	25	0.12%	28	0.60%
Close: 19-Feb-14									Total	0.94%
Main vs. SenFin vol ***	Sell Feb 70 Main straddles, DH	Price	Buy	1.00	0.00%			-0.02%		-0.02%
Open: 21-Jan-14	Buy Feb 80 SenFin straddles, DH	Price	Buy	0.50	0.00%			0.02%		0.01%
Close: Expired									Total	-0.01%

Source: Citi Research. Spreads and coupons in bp. * P&L expressed as % of the leg with notional equal to 1. *** We track the trade P&L by using an initial 0% upfront and a final upfront equal to the trade P&L in %.

Notes: The list of open trades reflects our current views; we have no plans to provide regular coverage or updates to these trades. P&L on trade ideas includes carry and roll costs but not trading commissions/costs. Results should not, and cannot, be viewed as an indicator of future performance.

Risks: When buying calls and puts (or receivers and payers) the maximum loss is the premium paid. When selling calls (or receivers), the maximum potential loss would occur as the index spread decreases but is limited by the index spread being floored at zero. For puts (or payers), the maximum potential loss (amount below the strike) would eventuate should the index price fall to zero. Sector index options are cash settled. The above calculations do not include any additional fees or transaction costs. Note that ratio writing would leave the writer uncovered in one leg of the trade.

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Analytics, Past Trade Ideas & Publications

Figure 30. Analytics – Available at Citi Velocity

Options	iTraxx Volatility Report CDX Volatility Report European Cross-Asset Volatility Report Volatility P&L Report – Credit Indices	Tranches	iTraxx Series 9 Tranche Report iTraxx Series 19 Tranche Report
Curves	iTraxx Curve P&L Report	Indices	CDS Indices Positioning Report CDS Indices Trading Volumes Report

Source: Citi Research.

Figure 31. Past Trade Ideas

Options vs. Curves -	Flatteners vs. OTM payers	13 Feb 2014
Options -	Sell Main vol, buy SenFin vol	21 Jan 2014
Tranches -	More mezz, less seniors - 3-6% vs. super senior	15 Jan 2014
Options -	SenFin vs. Xover Recs	9 Jan 2014
Options -	Payer spread vs. index long	9 Jan 2014
Options -	Sell 1m Main straddles	9 Jan 2014
Options -	Sell Crossover Receiver	9 Jan 2014
Options -	Sell strangles and go on holidays: Position for spreads to stay in the recent range in mid-January	9 Dec 2013
Tranches -	Sell S9 Jun-18 6-9% protection vs. Xover 5y S20	15 Nov 2013
Tranches -	Sell S9 Jun-18 22-100% protection vs. light delta	15 Nov 2013
Indices -	Long risk Senior Fins. vs. short risk Main	5 Nov 2013
Options -	Crossover receiver ladders	23 Oct 2013
Options -	Long risk CDX IG vs. Main via Receivers	15 Oct 2013
Options -	Buy Senior Financials straddles vs. sell Crossover straddles	9 Oct 2013
Tranches -	Long risk equity vs. short risk 3-6% in S19 Jun-16 (3y)	26 Sep 2013
Tranches -	Long risk S19 Jun-18 (5y) 3-6% vs. 5y S20 Crossover	26 Sep 2013
Tranches -	Long risk iTraxx S9 Jun-18 (10y) super senior vs. short risk CDX IG S9 Dec-17 (10y) super senior	26 Sep 2013
Indices -	Equal Notional 3s5s Flatteners: Adding cautious longs by selling forward protection	5 Sep 2013
Single Names -	Sub/Senior compression trades in European banks	13 Aug 2013
Options -	iTraxx Senior Financials vs. CDX IG via Receivers	7 Aug 2013
Tranches -	Sell Jun-16 3-6% Series 19 protection vs. Buy Jun-18 Series 9 index protection	9 Jul 2013
Options -	Option trades ahead of the FOMC	18 Jun 2013
Tranches -	iTraxx Series 9 vs. Series 19 Jun-18 equity tranches	5 Jun 2013
Options -	Hedging via Crossover Bearish Ladders	16 May 2013
Options -	Buy Main straddles; sell CDX IG straddles	1 May 2013
Tranches -	Views & Trades on iTraxx Series 9 Tranches	18 April 2013
Single Names -	Beware of retail and food releveraging – short risk retailers & food vs. Main Non-Financials	18 April 2013
Options -	Receiver 1x2s – Mind the tail if going long	2 Apr 2013
Single Names -	Long insurers vs. short premium autos	19 Mar 2013
Tranches -	Flatteners in iTraxx Equity Tranches	6 Mar 2013
Tranches -	Long risk 3-6% vs. short risk 0-3% - Jun-15 iTraxx Series 9 tranches	12 Feb 2013
Options -	Long risk Main vs. Crossover via indices and receiver options	12 Feb 2013

Source: Citi Research.

Figure 32. Other publications

iTraxx Roll - Potential Changes: Crossover number of constituents will increase to 60 names	10 Feb 2014
2014 European Credit Outlook: Strategy // Positioning and Trades	13 Jan 2014
Global Structured Credit Outlook: A Rockier Ride (R Roy, A Basu, K Malhotra, R Brauchler)	20 Dec 2013
2013 Trading Volumes in European Credit: CDS Indices, Single Name CDS and IG Bonds	5 Dec 2013
Credit Options - What did investors do in 2013? What will they do in 2014? (2013 European Credit Conference Presentation)	4 Dec 2013
Credit Index Options 1-0-1: Launching our option pricing tool @ CitiVelocity (2013 European Credit Conference Presentation)	2 Dec 2013
Europe Returns: Assessing value across flow and structured credit assets	22 Nov 2013
iTraxx Tranches Views & Trades: Mezz may be back next year	15 Nov 2013
Financial CDS to get a re-vamp	7 Aug 2013
Hedging menu: payer spreads, 3s5s flatteners and Jun 15/18 equity tranche flatteners	28 Mar 2013
What bail-in means for CDS	11 Feb 2013

Source: Citi Research.

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Appendix A-1

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