

European Rates Weekly

ECB, liquidity and the carry trade

- **Liquidity and the carry trade:** What is the risk for the “ECB carry trade” should excess liquidity collapse further and money market rates remain elevated? We have discussed this scenario in a note last year. Here, we provide updates of the euro area liquidity situation, the ECB’s policy options and implications for carry trades.
- **Where is the value in USD – EUR widening?:** We provide a snapshot of our latest yield spread forecasts and put them in the context of forward levels currently being priced in the market. We continue to see value in 5yr (preferred point) and 10yr USD-EUR widening positions.
- **EUR Vol - cheap RV trade against EUR/USD consensus:** The consensus view is that with diminishing headwinds, the US economy will continue to expand over the next couple of years whilst there are still risks on the downside for the faint recovery in the euro area. As a hedge, we look at cheap off-consensus RV trades.
- **UK Rates - beware the front-end:** We look at the behaviour of 2yr gilt yields ahead of previous hiking cycles. The 2yr yield consistently widens to around 100bp over the prevailing policy rate prior to the first hike. This serves as a warning ahead of the forthcoming hiking cycle, which we now expect to begin in late 2014.
- **Enter tactical Bund 2s10s steepener:** We expect steepeners to be supported by three main reasons: (1) the reduction in 2yr bond supply is likely to put downward pressure on 2yr yields during the course of the year, (2) Citi’s expectation of an ECB rate cut is also likely to put downward pressure on 2yr yields and (3) the implications of Fed tapering (bearish for USTs) is likely to weigh on the long-end..
- **Why we like KfW and RENTEN (but might not trade the spread):** Fundamental and supply dynamics currently justify recent price action in our view within the German agency space. We expect RENTEN to trade tight or even inside KfW.
- **Covered bonds:** Kommunalkredit Austria announced its return to the market in the near-term. We like this name within the Austrian covered bond segment and on a cross-asset basis. We present the cover pool as well as the ownership structure.
- **Sovereign ratings outlook:** We detail our latest views regarding potential rating changes for various EMU sovereigns together with a combined calendar of Moody’s and S&P for the coming weeks.
- **Relative value trades:** We highlight a number of relative value opportunities in the 2-10yr sector of the German, Belgian, Spanish and gilt yield curves.

Supply: Within Europe, next week’s bond supply comes from Netherlands (€1-2bn), Italy (around €13bn) and Germany (€5bn). We expect the US Treasury to issue around \$111bn across 2yr, 5yr and 7yr conventionals and 2yr FRNs. The UK DMO will issue around £4bn of linker ’68 next week.

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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 | We do not expect a substantial deviation in Bund yields from current levels based on the modest euro area recovery, low inflation and accommodative ECB policy. | Buy the dips in Bund yields |
| Money Market | ECB carry trade should generate enough carry to compensate for PnL losses resulting from extreme liquidity swings. We continue to like decoupling strategies with USD money markets. diverge from inflation expectations. In the UK, we now expect the first hike in Q4 of this year - this is likely to put pressures on the late 'white'. | Eonia 1yr/1yr1yr flattener Short-sterling H6 vs H5 flatteners |
| Yield Curve | Enter EUR 5s30s steepeners in forward space to optimise carry. This based on our expectations for ECB policy and our supply projections. Initiate tactical Bund 2s10s steepeners (between 157-160bp) given our expectation of ECB policy rates, technical levels and a reduction in supply. In the UK, we still like 10s30s gilt flatteners given upcoming supply/cash-flow dynamics. We also expect 2s10s to flatten by more than the 6mth forwards. | Tactical Bund 2s10s steepeners Buy gilt 3.25% 2044 vs 2.25% Sep23 Receive EUR 3y2y vs 5y25y (5s30s steepeners) Receive EUR 5y5yF vs 15y15yF (or receive EUR 5s15s30s) Take profits on receive GBP 2s5s10s Hold BTP 2s10s steepener |
| Cross-market | Over the longer-term, we still expect Bunds to outperform given diverging growth/inflation fundamentals between Europe and the US. We continue to like 10yr gilt-Bund wideners given our forecast that the ECB will cut rates in 2014, but the MPC will hike. The MPC are likely to hike before the Fed, suggesting Gilt-USTs will widen over the coming quarters from the current flat spread. | Sell 10yr gilts vs USTs Stay short 10yr gilts vs Bunds Long Bunds vs UST (add on corrections) |
| EMU Spreads | We would not fade the rally in periphery EMU spreads just yet, despite the impressive move so far in 2014. We believe demand will remain firm amid an environment of growing market confidence and hunt-for-yield. We continue to expect Spain to outperform Italy and note there is Q4 GDP data from Spain later in January. | Long Ireland vs France Long Spain vs Italy Sell France vs Belgium and Germany (in either 5s or 10s) Sell 20yr DSLs vs Bunds Range trade 10yr OAT-Bunds |
| Swap Spreads | we expect swap spreads to widen further across the curve due to a reduction in 2014 Bund issuance our expectation of their being reduced swapped issuance from corporates & US debt ceiling concerns. Our preferred point for ASW wideners is the 5yr sector. In the UK, the lack of supply in longs this quarter may help 30yr swap spreads to richen. Supply trends are also supportive over the longer-term. | Buy 5yr Germany vs swaps Hold long 10yr Bund ASW positions for another 4bps Take profit on 30yr Bund ASW wideners |
| Inflation | Euro break-evens have fallen back sharply ahead of supply. There could be some support as the range-lows approach, but low inflation prints are likely to prevent break-evens from widening. In the UK, the market awaits next week's IL68 syndication. We continue to like 30s50s break-even steepeners (or real yield curve flatteners). | Buy IL68 vs IL44 break-even inflation Sell Bunde123 break-evens Take profits on buy OATi17 vs BTANI16 on a break-even inflation basis |
| 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. | Long 1y3y ATMF 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 3yr KfW vs the Netherlands Long 2yr KfW vs France Long EU vs other supras with larger supply pipelines |
| For a list of outstanding trade strategies please see the Tradesheet section of this report | | |

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 25th– 31st January

Bund Directional Scorecard (1wk horizon)

| | |
|-------------------------|-------------|
| RECOMMENDATION | Long |
| Conviction level | 3% |

RXH4 (EOD Thurs) = 141.86
CTD yield = 1.51% 10day del vol = 2.89%

SIGNAL STRENGTH (+/-2)

| | | |
|--------------|------------|---------------------|
| MACRO | 0.2 | Weight = 40% |
|--------------|------------|---------------------|

| | | | |
|---------------------|----|--|------|
| ECB | 1 | Monetary policy to be accommodative for as long as needed | 7.5% |
| Fed, BoE and BOJ | 0 | Dovish forward guidance but modest tapering broadly priced | 7.5% |
| Inflation | 2 | Headline inflation projected to remain in 0.7-0.8% for next 4 months | 7.5% |
| Growth related data | -1 | PMIs likely to continue to indicate mild expansion | 7.5% |
| Citi surprise | 0 | Citi Economic Surprise Index rising slightly but still low | 5.0% |
| Middle East / Oil | 1 | Brent prices stabilising near 2 month low | 5.0% |

| | | |
|----------------------------|-------------|---------------------|
| EURO MARKET FACTORS | -0.1 | Weight = 23% |
|----------------------------|-------------|---------------------|

| | | | |
|------------------|----|--|------|
| Supply | -1 | Up to €7bn in core supply with no supportive cash flows | 5.0% |
| Risk appetite | -1 | GRAMI index indicates very low levels of risk aversion | 5.0% |
| Flow | 1 | Demand for core improving | 2.5% |
| Equity | -1 | Eurostoxx50 at new 5 year highs | 2.5% |
| Sovereign credit | -1 | Peripheral yields at multi year low and spreads tightening | 2.5% |
| FX | 1 | EUR effective exchange rate range-bound near 6m lows | 5.0% |

| | | |
|-------------------|------------|---------------------|
| EVENT RISK | 0.0 | Weight = 15% |
|-------------------|------------|---------------------|

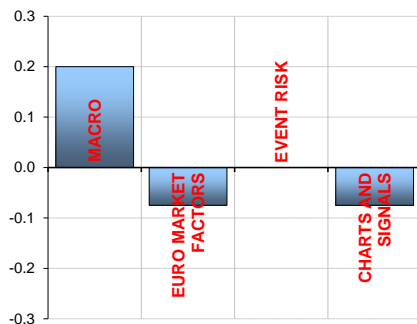
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|----------------------|---|---|------|
| Politics | 0 | No political event likely to impact the market in near-term | 5.0% |
| 3yr LTRO | 0 | We expect a new 1yr LTRO in 1H14 | 5.0% |
| Stability mechanisms | 0 | Nothing on the agenda in the near-term | 5.0% |

| | | |
|---------------------------|-------------|---------------------|
| CHARTS AND SIGNALS | -0.1 | Weight = 23% |
|---------------------------|-------------|---------------------|

| | | | |
|------------|----|--|------|
| Technicals | 0 | Continue to expect a range about 1.8% in 10y Bunds | 5.0% |
| T-Note | 0 | Neutral | 5.0% |
| CFTC | -1 | Positioning slightly short | 7.5% |
| ARTS | 0 | Neutral | 5.0% |

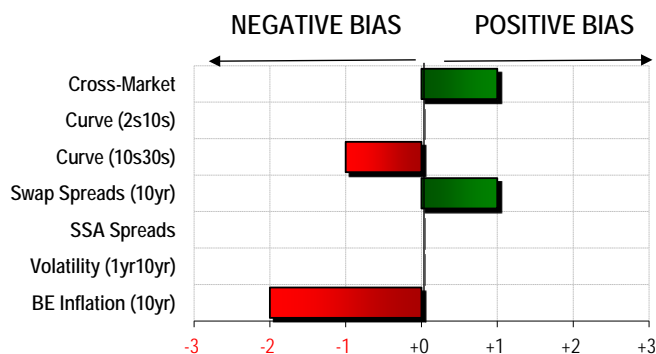
Source: Citi Research Futures trading involves a substantial risk of loss.

Figure 3. Contribution to Bund Signals



Source: Citi Research

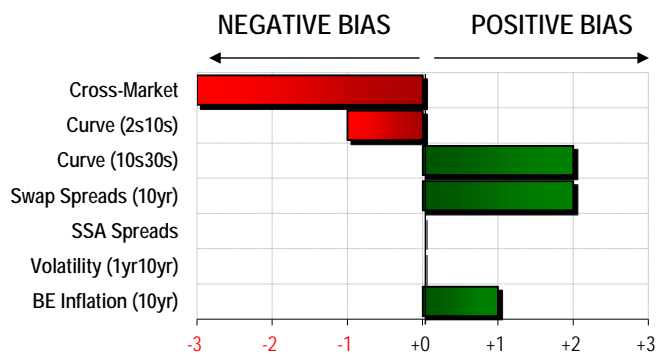
Figure 4. EURO AREA (Near-term Bias)



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

New Trades

Please see p19 for details

1. Sell UKT 2.25% Sep23 vs UST 2.5% Aug23

Sell UKT 2.25% Sep23 at 2.82%

Buy UST 2.5% Aug23 at 2.77%

Open 6.5bp. Current 6.5bp. Target 30bp. Stop -5bp.

Please see p21 for details

2. Tactical Bund 2s10s steepener

Buy Schatz Dec15 at 0.15%

Sell DBR Aug23 at 1.73%

Open 158bp. Current 158bp. Target 175bp. Stop 150bp.

Please see *Euro Rates Strategy* (20th Jan 2014) for details

3. Long 10yr Ireland vs France

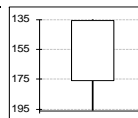
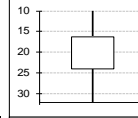
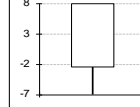
Buy Ireland 3.9% May23s at 3.03%

Sell OAT 1.75% May23 at 2.19%

Open 85bp. Current 83bp. Target 60bp. Stop 98bp.

Record of Our Closed Trades

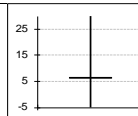
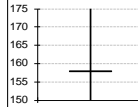
Figure 6. Record of our Closed Trades

| Region | Trade | Levels | Rationale | |
|------------|---------------------------------------|---|--|---|
| EUR | Long 10yr Ireland vs Germany | Open 176bp Current 136bp P&L 40bp Target 135bp Stop 196bp | Hit Target 23 January 2014. European Rates Weekly 5 Dec 2013 |  |
| UK | Receive 5yr GBP swaps vs 2yr and 10yr | Open 24bp Current 16bp P&L 8bp Target 10bp Stop 32bp Revised Stop 24bp | Taking Profits. UK Rates Strategy, 21 January 2014. UK Rates Strategy, 6 January 2014 Revised Stop: The Morning Call, 14 January 2014 |  |
| EUR | Buy OAT17 break-even vs BTANI16 | Open -2.4bp Current 8bp P&L 10bp Target 8bp Stop 7bp | Hit Target 16 January 2014. European Rates Weekly, 21 November 2013 |  |

Source: Citi Research

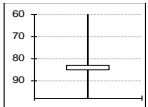
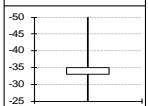
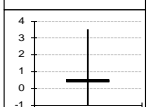
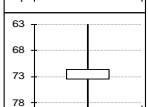
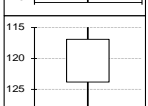
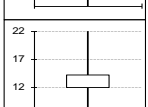
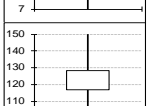
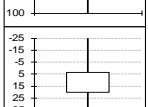
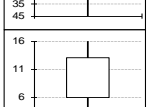
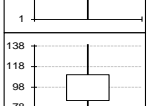
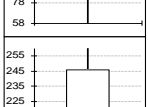
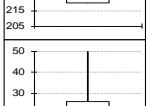
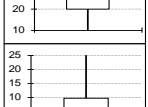

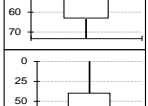
Record of Our Open Trades

Figure 7. Record of our Open Trades

| Region | Trade | Levels | Rationale + Publication Date | |
|----------------|--|--|---|---|
| UK / US | Sell UKT 2.25% Sep23 vs UST 2.5% Aug23 | Open 6.5bp Current 7bp P&L 0bp Target 30bp Stop -5bp | We expect the MPC to hike three quarters ahead of the Fed European Rates Weekly, 23 January 2014 |  |
| EUR | Tactical Bund 2s10s steepener | Open 158bp Current 158bp P&L 0bp Target 175bp Stop 150bp | Reduction in 2yr supply. Citi's expectation of ECB rate cut and implication of Fed tapering European Rates Weekly, 23 January 2014 |  |

Source: Citi Research

Figure 8. Record of our Open Trades (continued)

| | | | | | |
|-----------------|---|--|--|--|---|
| EUR | Long 10yr Ireland vs France | Open 85bp Current 83bp | | We expect Ireland to gravitate towards the soft core as a key trend in 2014 |  |
| Cross Market | Buy Ireland 3.9% May23s at 3.03% Sell OAT 1.75% May23 at 2.19% | P&L 2bp Target 60bp Stop 98bp | | Euro Rates Strategy, 20 January 2014 | |
| EUR | Buy 5yr Germany vs Swaps | Open -33bp Current -35bp | | Attractive entry levels, a reduction in swapped issuance and 5yr bund supply in 2014 & a cheap option to express a change in sentiment |  |
| Swap Spreads | Buy Bobl-167 (Oct18) vs swaps (YYS) at -33bp | P&L -2bp Target -50bp Stop -24bp | | European Rates Weekly, 16 January 2014 | |
| UK | Buy IL gilt 2068 break-even vs IL gilt 2044 | Open 0.5bp Current 0bp | | A pick-up in LDI activity, extensions in the 15yr+ IL gilt index and infrequent 50yr supply should steepen the 30s50s |  |
| Inflation | Buy IL gilt 2068 break-even at 347bp Sell IL gilt 2044 break-even at 346.5bp | P&L 0bp Target 3.5bp Stop -1bp | | European Rates Weekly, 16 January 2014 | |
| UK | Gilt 10s30s flatteners | Open 73.5bp Current 72bp | | Tactical 10s30s flatteners given upcoming supply/demand and cash-flow dynamics |  |
| Curve | Buy gilt 3.25% Jan44 at 3.56% Sell gilt 2.25% Sep23 at 2.82% | P&L 2bp Target 63bp Stop 79bp | | UK Rates Strategy, 15 January 2014 | |
| EUR | Sell Bundel23 break-even inflation spread | Open 123.8bp Current 117bp | | Low inflation prints and higher issuance are likely to weigh on break-evens |  |
| Inflation | Sell Bundel23 break-even inflation at 123.8bp | P&L 7bp Target 115bp Stop 128.5bp | | European Rates Weekly, 9 January 2014 | |
| EUR | Long Bund Jan37 vs DSL Jan37 | Open 12bp Current 14bp | | Optically attractive entry level + relative supply pressures are more favourable for Bunds than DSLs |  |
| Cross Market | Buy Bund 4% Jan37 at 2.72% Sell DSL 4% Jan37 at 2.84% | P&L 2bp Target 22bp Stop 7bp | | European Rates Weekly, 9 January 2014 | |
| EUR | Receive EUR 3y2y vs 5y25y | Open 117bp Current 128bp | | Current level of the 5yr point does not reflect our expectations of Euro Area fundamentals and ECB policy: large amount of net 30yr issuance from core |  |
| Swaps | Receive EUR 3y2y at 203bp Pay EUR 5y25y at 320bp | P&L 11bp Target 150bp Stop 100bp | | Euro Rates Strategy, 8 January 2014 | |
| EUR | Long 10yr Spain vs Italy | Open 20bp Current 4bp | | Spain has a stable rating and lower political risks compared with Italy |  |
| Cross Market | Buy Bono 4.4% Oct23s at 4.26% Sell BTP 4.5% May23s at 4.06% | P&L 16bp Target -25bp Stop 45bp | | European Rates Weekly 5 Dec 2013 | |
| EUR | Sell France vs Belgium and Germany | Open 6bp Current 13bp | | 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% | P&L 7bp Target 16bp Stop 1bp | | Euro Rates Strategy, 8 November 2013. | |
| EUR / UK | Sell UKT Sep23 vs DBR Aug23 | Open 85bp Current 110bp | | 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% | P&L 25bp Target 140bp Stop 58bp Revised Stop 85bp | | European Rates Weekly, 24 October 2013. Revised Stop: UK Rates Strategy, 11 November 2013 | |
| EUR | BTP 2s10s steepener | Open 220bp Current 246bp | | Redemptions to support 2s in 2014. Political uncertainty & long-end issuance to weigh on 10s. |  |
| Curve | Buy BTP 3.75% Apr16 at 1.98% Sell BTP 4.5% May23 at 4.18% | P&L 26bp Revised Target 260bp Revised Stop 240bp | | European Rates Weekly, 11 October 2013. Revised Levels: The Morning Call, 14 November 2013 | |
| UK | Sell 30yr gilt swap spreads vs 10yr | Open 20bp Current 26bp | | 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 | P&L 6bp Target 50bp Stop 10bp | | UK Rates Strategy, 30 July 2013 | |
| Europe | Receive EUR 10y2y vs 12y3y | Open 4bp Current 10bp | | 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% | P&L 6bp Target 25bp Stop -5bp | | The Morning Call, 23 January 2013 | |
| Europe | Sell EUR 1y3yF ATM straddle and buy ATM -25 receiver | Open 63bp Current 31bp | | Fwd levels in front-end EUR swaps are too high when additional policy measures by the ECB are likely to be undertaken |  |
| Volatility | Sell EUR 1y3yF ATM (-1.36%) straddle for 98bp Buy EUR 1y3yF ATM -25 receiver for 35bp | P&L 32bp Target 30bp Stop 73bp | | IIRS 9 August 2012 | |
| UK | Sell GBP 2y2y ATM straddle | Open 76bp Current 40bp | | The fundamental backdrop in the UK supports selling GBP 2y2y vol |  |
| Volatility | Sell GBP 2y2y ATM (1.04%) straddle at 76bps | P&L 36bp Target 0bp Stop 114bp | | IIRS 12 July 2012 | |

Source: Citi Research

European Rates Strategy Yield Outlook

Full details can be found in the latest [Global Economic Outlook and Strategy](#).

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Core Europe: We do not expect much change in Bund yields from current levels in coming quarters. Inflation remains very low (0.8% YoY) and the euro area recovery is modest. We expect the front end of the EUR curve to decouple further from the US given Citi's forecast of further ECB easing. Spreads to Bunds should stay around current levels with OAT-Bund spreads range-bound at 50bp-75bp.

EMU Periphery: EMU periphery markets continue to enjoy healthy supports, and we forecast Bono spreads to Bunds at 125bp and BTP spreads to Bunds at 150bp for Q4 2014. Citi's economists are lifting the 2014 Spain growth forecast from 0.2% to 0.9% this month, and this is one reason why we continue to expect Spain's government bonds to continue to outperform. By contrast, Italy's more muted economic prospects may limit BTP outperformance. Performance is likely to be even stronger for Ireland, especially in light of its IG status by Moody's (with prospects for further upgrades), improving growth outlook and the prospect that the public debt/ GDP ratio will edge down this year. We target a spread to Bunds of 85bp by Q4 2014 (from the current level of 118bp).

UK: We are lifting our gilt forecasts this month, particularly in the front end. We have brought forward the first rate hike to Q4 2014 (previously Q2-15) and expect policy rates to move up to 2% by late-2015. This should mean bear-flattening in 2s10s (and 5s10s) for the first time since early 2008. The 10s30s curve is also likely to flatten; partly reflecting directionality and partly as the result of strong demand for the very long-end as pension funds de-risk. On a cross-market basis, our forecast changes suggest that the 10yr gilt-Treasury spread could widen to around +30bp in a year from now and make us even more bearish on 10yr gilts vs Bunds.

Figure 9. Interest Rate and Bond Market Forecasts as of 22 January 2014

| | | Quarterly Average | | | | | |
|---|---------|-------------------|-------|-------|-------|-------|-------|
| | Current | 1Q 14 | 2Q 14 | 3Q 14 | 4Q 14 | 1Q 15 | 2Q 15 |
| Euro Area | | | | | | | |
| Policy Rate | 0.25 | 0.25 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Overnight Rate (EONIA) | 0.36 | 0.20 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3-Month (EURIBOR) | 0.28 | 0.25 | 0.10 | 0.15 | 0.15 | 0.15 | 0.15 |
| 2 Year Schatz Yield | 0.17 | 0.20 | 0.00 | 0.05 | 0.10 | 0.10 | 0.10 |
| 5 Year Bobl Yield | 0.83 | 0.75 | 0.50 | 0.50 | 0.50 | 0.60 | 0.60 |
| 10 Year Bund Yield | 1.75 | 1.75 | 1.70 | 1.70 | 1.80 | 1.90 | 1.90 |
| 30 Year Bund Yield | 2.64 | 2.65 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 |
| 2-10 Year Bund Curve | 158 | 155 | 170 | 165 | 170 | 180 | 180 |
| 10 Year BTP-Bund Spread | 192 | 180 | 170 | 160 | 150 | 150 | 150 |
| 10 Year Bono-Bund Spread | 195 | 175 | 160 | 140 | 140 | 125 | 125 |
| 2 Year BTP-Schatz Spread | 84 | 85 | 75 | 75 | 50 | 50 | 50 |
| 2 Year Bono Schatz Spread | 83 | 85 | 75 | 75 | 50 | 50 | 50 |
| 10 Year OAT-Bund Spread | 66 | 65 | 65 | 65 | 65 | 65 | 65 |
| 10 Year Swap Spread (Swap Less Govt.), bp | 22 | 25 | 25 | 25 | 25 | 20 | 20 |
| 10 Year Breakeven Inflation | 153 | 145 | 145 | 150 | 150 | 150 | 150 |
| UK | | | | | | | |
| Policy Rate | 0.50 | 0.50 | 0.50 | 0.50 | 0.67 | 1.08 | 1.42 |
| 3-Month Libor | 0.52 | 0.55 | 0.60 | 0.70 | 1.00 | 1.45 | 1.70 |
| 2 Year Treasury Yield | 0.56 | 0.70 | 1.10 | 1.50 | 1.70 | 1.85 | 1.95 |
| 5 Year Treasury Yield | 1.80 | 2.00 | 2.35 | 2.65 | 2.80 | 2.95 | 3.05 |
| 10 Year Treasury Yield | 2.89 | 3.05 | 3.25 | 3.40 | 3.60 | 3.70 | 3.80 |
| 30 Year Treasury Yield | 3.61 | 3.70 | 3.80 | 3.90 | 4.00 | 4.05 | 4.10 |
| 2-10 Year Treasury Curve | 232 | 235 | 215 | 190 | 190 | 185 | 185 |
| 10 Year Swap Spread (Swap Less Govt.), bp | 3 | 5 | 10 | 15 | 15 | 20 | 20 |
| 10 Year Breakeven Inflation | 309 | 310 | 320 | 325 | 330 | 335 | 335 |

Source: Citi Research

ECB, Liquidity and the Carry Trade

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What is the risk for the “ECB carry trade” should excess liquidity collapse further and money market rates remain elevated? We’ve already discussed this scenario in a note last year¹. Here, we provide an update of the liquidity situation in the Eurozone, ECB’s policy options and the implications for carry trades.

Liquidity Situation

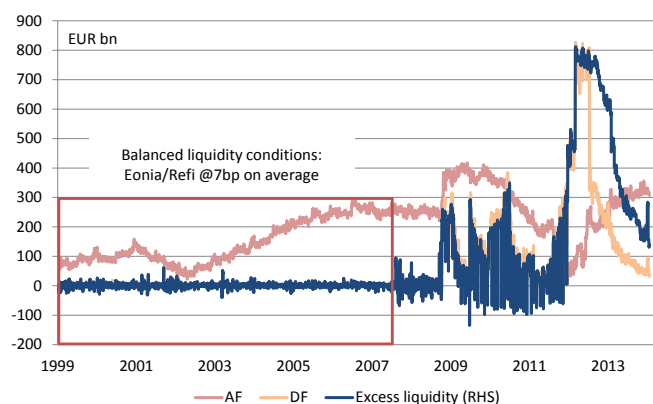
Eonia/Refi is slightly positive in times of normal liquidity

The average Eonia/Refi spread was 7bp until from 2004 to mid-2007 (the so-called “normal” sample). Intra-period volatility resulted mainly from front-loading behavior as well as the use of FTOs at reserve ultimo. According to ECB’s own research on liquidity management²: “In the pre-crisis period, Eonia stayed almost constant at approximately 7-8 bps above the MBR most of the time with increasing volatility towards the end of the maintenance period; on the last day of the maintenance period EONIA converged towards the MBR level”.

How to analyze money markets with low excess liquidity?

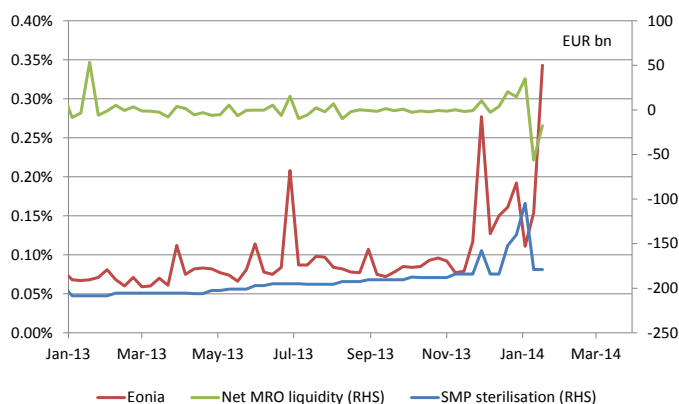
Excess liquidity has recently dropped as low as EUR 131bn. The decline in excess liquidity is a longer-term process, as banks repay 3y LTROs, cash hoarding needs decline and AFs increase with the cycle (Figure 10). This dynamics and the related increase in O/N rates (Eonia fixed at 0.313% on average during the new reserve period), change the way we look at money markets in several ways:

Figure 10. What if excess liquidity goes to zero?



Source: Citi Research

Figure 11. Net liquidity from MROs and SMP quick-tenders



Source: ECB, Citi Research

Intra-week volatility vs intra-reserve volatility

■ Just like in the quiet days we used to have intra-period volatility, we’re likely to experience fixing volatility between MROs. We have LTRO-repayments announced every Friday as well as MROs and SMP sterilization every Tuesday (Figure 11), with the additional complication of ECB meetings and ECB talk which could fuel speculations of Refi rate cuts anytime. So, a typical weekly Eonia cycle could look like higher fixings into Friday (or after a high repayment) and subsequent drop in fixings on a large MRO allotment or on the back of increased speculation about additional ECB measures.

The importance of MROs

■ In the old days, MROs accounted for about 75% of all ECB OMOs. This had changed with full allotment and super-long LTROs, but MROs are gaining in importance now that LTROs are being repaid.

¹ [“What of excess liquidity goes to zero?”](#) (17 Oct-13)

² [“The Euro Overnight Interbank Market and ECB’s Liquidity Management Policy During Tranquil and Turbulent Times”](#) (Oct-10)

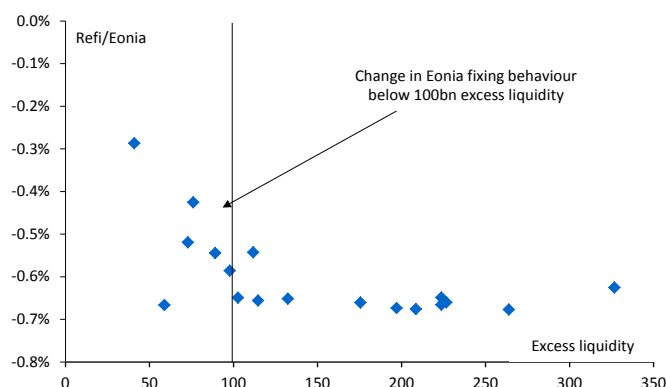
A natural cap on fixings

- In the hypothetical event of zero excess liquidity, Eonia would likely fix on average at 7bp above Refi (i.e. $0.25\% + 0.07\% = 0.32\%$). In that case, the shape of the Eonia curve would provide us with unbiased policy anticipation like in the past (and not the current blend of liquidity and policy signals). Example: Assume Dec15 ECB at 35 with 150bn of excess liquidity. How much of the step between the week and Dec15 ECB is explained by liquidity expectations and how much is genuine rate hike beliefs? Impossible to say.

What can we learn from the expiry of the original 12-months LTRO?

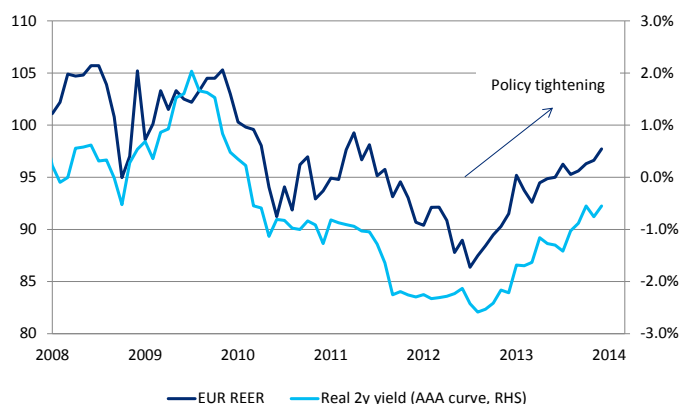
In 2010, we had an example of how Eonia fixings can be affected by variations in excess liquidity (Figure 12). The Depo/Refi spread was 75bp during the life of the first 12-month LTRO (current spread 25bp), but we can still observe how Eonia fixings rose as excess liquidity dropped below EUR 100bn. As mentioned above, in a “normal” environment of marginal liquidity deficit, we would expect O/N rates to fix on average 7bp over the main Refi rate.

Figure 12. The 2010 experience with excess liquidity



Source: Citi Research

Figure 13. Policy tightening via real rates and real effective Euro



Source: BOE, Citi Research

ECB's Policy Options

Higher real rates would trigger the ECB to act

During the last press conference, Mr Draghi announced that the ECB would “act” if the inflation outlook slows down further and/or if money market rates were to rise to unsustainable levels. We think that ECB’s own version of “forward guidance” has gained in importance as a result of declining excess liquidity. This is because the ECB has not been in control of liquidity and market rates ever since it switched to fixed rate full allotment tenders.

Eonia fixing not a problem as long as the curve remains flat

An increase in Eonia fixing might be interpreted as a “normalization” of the interbank market, but it is (real) rates at longer maturities that actually drive the economy. The overall stance of monetary policy is already tight relative to the cycle (Figure 13) and the ECB surely does not need further reduction of policy accommodation coming from nominal interest rates. Therefore, Mr Draghi is unlikely to have issues with the Eonia fixing at 0.32% (natural O/N cap), as long as the money market curve stays flat or rate hike expectation resulting in a steeper curve do not diverge from inflation expectations and ECB’s own projections (Figure 14). In any case, even with only 50% of a 25bp rate hike priced in by the end of 2015 and zero excess liquidity, we are unlikely to see 1y1y Eonia trading higher than levels seen in Sep-13 (assume 1y @32 and 2y @45, then 1y1y is implied somewhere around 58).

What can the ECB do?

The question is then: “What options does Mr Draghi have in order to prevent higher money market rates, given the ECB does not control either the amount or the market price of liquidity?”.

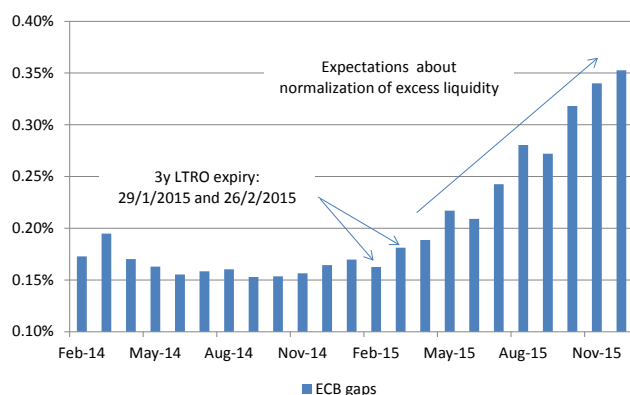
Several policy options stand ready (more or less)

We've looked at policy options in the recent past³ and our conclusion was that the margin for further policy easing is rather limited. More in detail, the scope for adding excess liquidity to the system is constrained by the current tender procedure and long-term liquidity injections are limited to cutting the reserve requirement (currently EUR 103bn), allowing for an unsterilized balance sheet item (the SMP portfolio is booked under Item 7.1.), offering a new LTRO at more profitable conditions and/or making a 180-degree turn and expanding the balance sheet via outright QE.

Chances of QE? Slim and only if inflation surprises again.

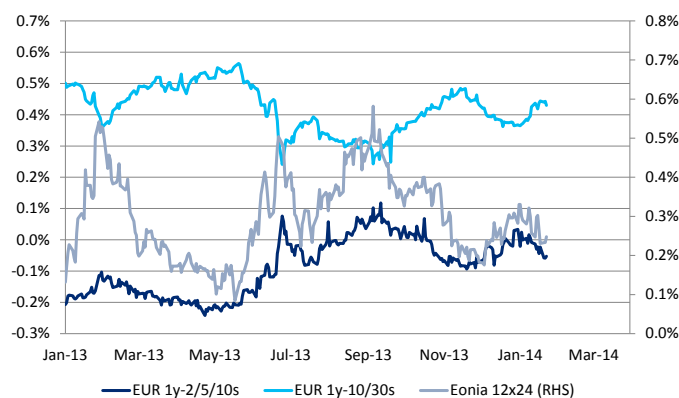
On this last point, our view has not changed. If ECB's intention is to reduce the fragmentation between core and non-core, thus improving the transmission mechanism, then how could a GDP-weighted or market-cap weighted QE scheme be of any benefit? The ECB would end up buying more France (23% of Citi's EGBI) and less Spain (only 13% of EGBI). On the other hand, QE might have its merits should the ECB target an overall lower level of bond yields, perhaps in an attempt to minimize the risk of persistent deflation expectations. From a market perspective, we would find such a solution a bit precipitous, especially in comparison with ECB's own staff projections (HICP improving to 1.3% in 2015) and Draghi's powerful arguments against a European "Japan scenario". Final point: Do we need QE now that EGB spreads are compressing?

Figure 14. ECB curve and liquidity expectations



Source: Citi Research

Figure 15. Carry trades? Correlated, of course.



Source: Citi Research

Implications for ECB Carry Trades

Analyzing the carry trade

Most strategies playing the so-called ECB carry trade are by definition correlated trades. The basic idea is to capture both the superior roll-down at the front-end of the curve as well as some degree of curve flattening. In order to optimize risk, we use a two-step approach:

Risk-adjusted carry

- We divide ECB carry trades into three simple categories (delta, curve, fly) and compute for each the roll-down per unit of risk. If available, we use implied volatility, otherwise we compute delivered vol. The analysis (Figure 16) suggests that long-end forward steepeners have a superior vol-adjusted carry profile vs the 2013 average. Also, the carry is double as large as the carry on outright delta trades like EUR 3y1y. Forward butterflies deliver the maximum amount carry/vol, albeit below 2013's average.

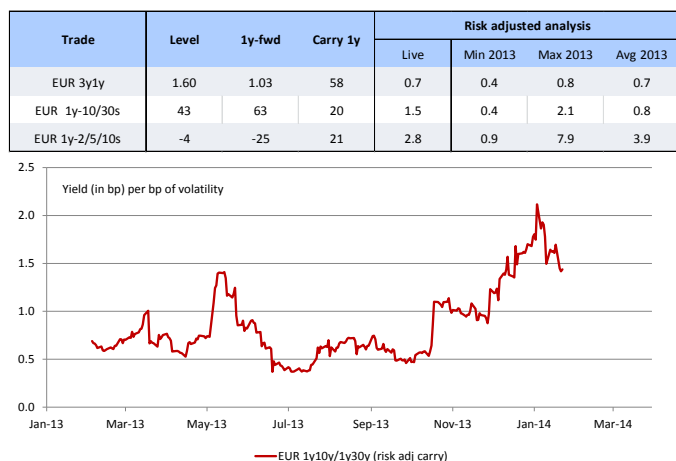
Theta vs beta

- Since ECB carry trades are correlated to the front-end of the curve, we also analyze the beta of our main categories with respect to Eonia 1y1y. A profitable

³ ["Low\(er\)-for-Longer: Themes & Trades"](#) (28 Nov-13, p. 6-7)

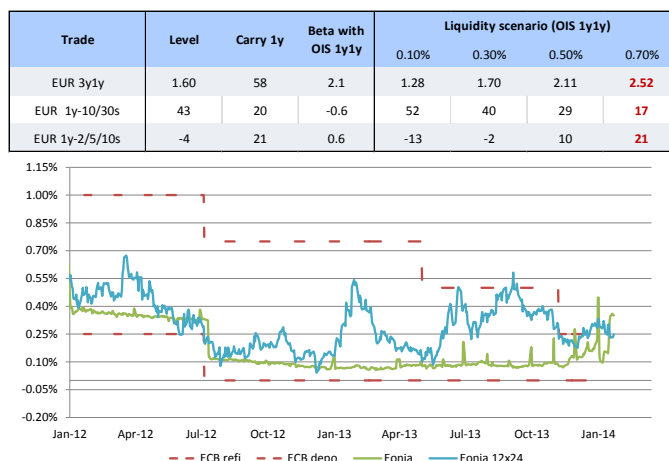
ECB carry trade should generate enough carry to compensate for PnL-losses resulting from extreme liquidity swings⁴. As a reference sample, we use 2013, which in our view is representative of various scenarios from rate cuts to adverse jumps in excess liquidity as well as exogenous expectations resulting from FED's tapering. According to our analysis, all three version of the ECB carry trade would consume their yearly carry in the event of a liquidity shock large enough to push Eonia 1y1y above 0.50%. We've traded above 0.50% on three occasions last year and it's no surprise that the ECB carry trade became a less popular strategy in the second half of the year. Positioning played a key role in pushing Eonias to these levels, especially in the aftermath of ECB's May rate cut to 0.50%. Positioning is less skewed at this stage, though, because more investors can now express the ECB carry trade via peripheral EGBs relative to 12 months ago (simply as the perception of risk has changed).

Figure 16. Risk-adjusted carry



Source: Citi Research

Figure 17. Sensitivity to liquidity shocks



Source: Citi Research

Different variations of the ECB carry trade

In terms of trading strategies, we've advised several variations of ECB carry trade in the past. Here an update of such structures:

[Eonia 1y/1y1y flattener](#): Entered 21bp, live 9bp⁵.

[Rec EUR 10y2y / Pay 12y3y](#): Entered 4bp, live 1bp, carry 12m +10bp.

[Rec EUR 3y2y / Pay 5y25y](#): Entered 117bp, live 126bp, carry 12m +49bp.

[Rec EUR 5y5y / Pay 20y5y](#): Entered -24bp, live -12bp, carry 12m +33bp.

[Rec EUR 2y1y / Pay USD 2y1y](#): Entered 40/45bp, live 90bp, target 125/150bp.

[Buy Bono Oct-23 / Sell BTP May-23](#): Entered 20bp, live 0bp, target -25bp.

⁴ ECB carry trades base on the assumption that the ECB won't hike rates during their forecast horizon (2 years), hence there is no need to analyse the scenario of increasing rate expectations.

⁵ We've tested these levels several times in 2012/2013. At this point, the trade is not very interesting in terms of risk/reward and location.

Where is the value in USD-EUR wideners?

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Relative Value

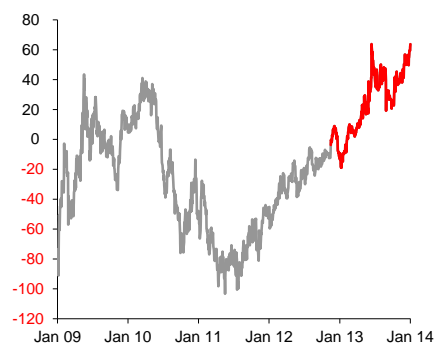
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Recap of views

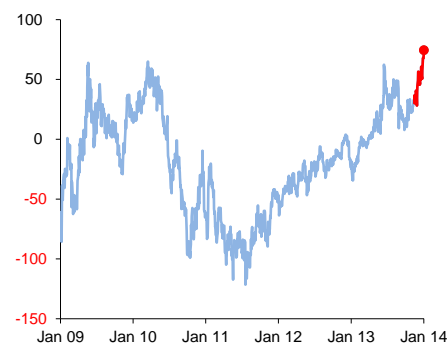
One of our favourite strategies in the last 24 months to express an improvement in the US economy relative to Europe alongside our expectations of a policy rate divergence between the two economies has been to express bearish UST positions vs Bunds. These have been in two forms: (1) initially via USD-EUR 5y5y⁶ spread wideners using swaps and (2) more recently via USD-EUR 2y1y⁷ wideners in swaps. In the context of current levels, net carry and our rates forecasts we provide an assessment of where opportunities lie in cash and derivatives space.

Figure 18. USD-EUR 5y5y



Source: Citi Research

Figure 19. USD-EUR 2y1y



Source: Citi Research

Outlook for the two economies

With diminishing headwinds the market is expecting the US economy to continue to expand over the next couple of years. Our economists forecast +3.1% yoy for both 2014 and 2015. Moreover tapering is broadly priced in to be completed either in the third or fourth quarter of this year and rate hikes to start in 2015. At the same time there still are risks on the downside for the admittedly faint recovery in the Eurozone (as reiterated by Draghi at the last monthly ECB press conference).

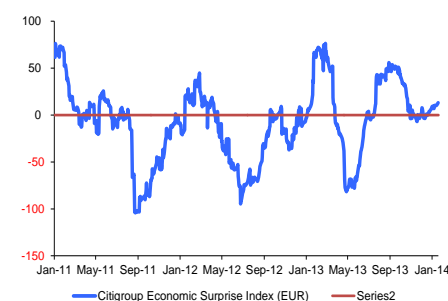
The above “decoupling view” has been recently strengthened by the fact that positive data flow in the US has shown to be often stronger than estimated by polls of economists (Figure 20) whilst (weaker) economic releases in the Eurozone has been close to consensus, as of late (Figure 21).

Figure 20. US Citigroup Economic Surprise Index



Source: Citi Research

Figure 21. EUR Citigroup Economic Surprise Index

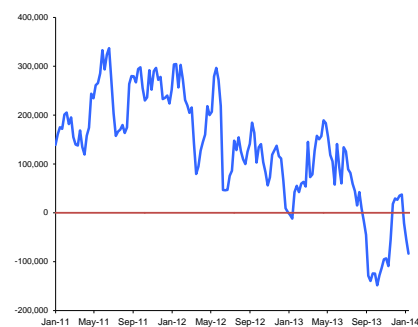


Source: Citi Research

⁶ [European Rates Weekly: 2013 Outlook](#), 6 December 2012

⁷ [European Rates Weekly: 2014 Outlook](#), 5 December 2013

Figure 22. Net speculative futures positions (US 5y Tsy)



Source: CFTC

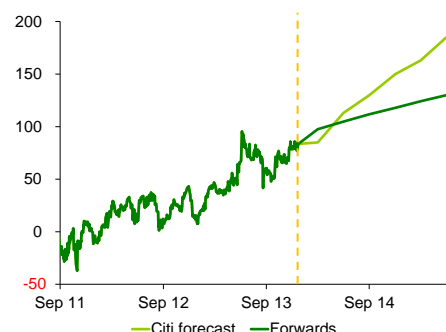
It is not surprising then that the “short USD, long EUR” theme in interest space is currently one of the main global consensus trades. Indeed, CFTC positioning in US rates confirm that specs have added short positions in the 2y and 5y sector where they are currently net shorts. There has been some scale back in shorts on the 10y sector where nevertheless specs are still net short.

It is important to put what is namely a popular cross-market view (higher UST yields relative to Europe) in the context of current market expectations. We take a look at this below.

Identifying value: rates forecasts vs forwards

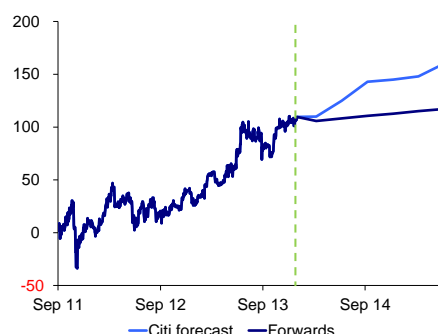
- The three charts below show our forecasts for UST-Bund spreads (in cash) for the 5yr, 10yr and 5y5yF. As can be seen in the charts below, our forecasts for 5yr and 10yr spreads are wider than the current level of forwards imply. The differential between our spread forecasts and forwards in 2Q15 in the 5yr sector is around 60bp and in the 10yr sector it is 40bp⁸.

Figure 23. 5yr UST-Bund forecast and forwards



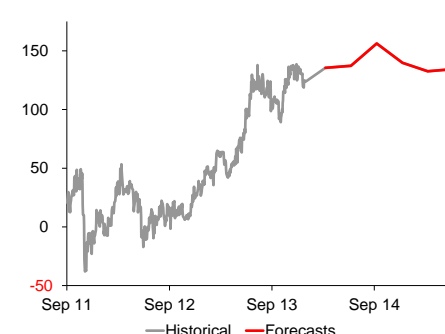
Source: Citi Research

Figure 24. 10yr UST-Bund forecast and forwards



Source: Citi Research

Figure 25. 5y5yF UST-Bund forecast and forwards



Source: Citi Research

Trading strategy: still room for further widening

- **5yr & 10yr:** The 5yr sector offers the most room for spread widening relative to the forwards. We therefore recommend holding onto front-end spread wideners (as we feel the negative carry on these positions will be outweighed by spread moves). The 10yr point also offers some value.
- **5y5yF:** Our forecasts for the 5y5yF (in cash space) are approximately 155bp in 3Q14. We see value in running wideners (in either bonds or swaps) for another 25bps and suggest applying a time stop of end-3Q14 for this trade. As shown in the *Appendix*, the net carry on paying USD 5y5y vs EUR 5y5y is virtually flat over a 6month horizon.

⁸ We note that USD-EUR spread wideners are negative carry (as can be seen with the upward sloping forward spreads). However, as our forecasts show we expect the level of carry to be outweighed by the magnitude of expected spread widening.

EUR Vol: Cheap RV Trade against EUR/USD Consensus

The need for insurance against the scenario where consensus trade turns into pain trade: long USD 10y10y ATM receiver swaption vs. short EUR 10y10y ATM receiver swaption (FX adj. notional)

With USD/EUR 10y yield spread now above 109bp we like to look at cheap trades that operate as insurance against the baseline scenario. In our view options allow for interesting hedges at the current market juncture; in particular longs in USD 10y10y receiver vs. EUR are currently attractive.

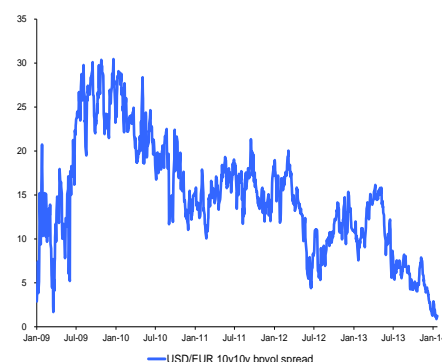
We remind our readers first that as a result of our EUR volatility supply analysis⁹, everything else equal intermediate vega implied vols (such as 10y10y) should undergo mild down pressure (given our CMS linked notes outlook). In the meantime US strategy is bullish USD vol with regard to same region of the vol surface¹⁰.

Observe next that USD/EUR implied bpvol spreads for intermediate and long maturities look historically cheap (Figure 26). For instance, the spread on the pivot 10y10y point is currently hovering around 3bp: valuation is low in absolute terms and attractive from a historical standpoint as shown by the evolution of the spread in Figure 27.

Figure 26. USD/EUR implied bpvol differentials

| | 1y | 2y | 3y | 4y | 5y | 6y | 7y | 8y | 9y | 10y | 12y | 15y | 20y | 25y | 30y |
|-----|----|----|----|----|----|----|----|----|----|-----|-----|-----|-----|-----|-----|
| 1m | -2 | 5 | 17 | 22 | 26 | 26 | 24 | 24 | 23 | 22 | 22 | 20 | 18 | 17 | 17 |
| 2m | -5 | 5 | 18 | 19 | 22 | 22 | 20 | 21 | 19 | 18 | 18 | 16 | 16 | 16 | 15 |
| 3m | -6 | 6 | 14 | 20 | 19 | 18 | 18 | 17 | 16 | 15 | 16 | 14 | 14 | 14 | 14 |
| 6m | 3 | 15 | 20 | 22 | 22 | 20 | 19 | 18 | 17 | 16 | 17 | 15 | 14 | 15 | 14 |
| 9m | 11 | 20 | 22 | 23 | 22 | 20 | 19 | 18 | 16 | 16 | 16 | 14 | 14 | 14 | 13 |
| 1y | 16 | 27 | 27 | 26 | 22 | 21 | 19 | 18 | 17 | 15 | 15 | 14 | 14 | 13 | 13 |
| 2y | 36 | 31 | 28 | 25 | 20 | 19 | 18 | 17 | 16 | 14 | 14 | 12 | 11 | 11 | 10 |
| 3y | 33 | 28 | 24 | 21 | 18 | 18 | 17 | 16 | 15 | 14 | 13 | 12 | 10 | 10 | 10 |
| 4y | 26 | 22 | 21 | 19 | 16 | 15 | 14 | 14 | 13 | 13 | 13 | 12 | 10 | 9 | 9 |
| 5y | 21 | 18 | 18 | 16 | 15 | 14 | 13 | 13 | 12 | 11 | 11 | 10 | 8 | 8 | 8 |
| 6y | 19 | 17 | 16 | 15 | 13 | 12 | 11 | 10 | 9 | 9 | 8 | 8 | 7 | 7 | 7 |
| 7y | 16 | 15 | 14 | 12 | 11 | 10 | 9 | 8 | 7 | 7 | 7 | 7 | 6 | 7 | 7 |
| 8y | 14 | 13 | 12 | 11 | 10 | 9 | 8 | 7 | 7 | 6 | 6 | 6 | 6 | 7 | 7 |
| 9y | 11 | 11 | 10 | 9 | 8 | 8 | 7 | 6 | 6 | 5 | 5 | 5 | 4 | 6 | 7 |
| 10y | 9 | 9 | 8 | 7 | 6 | 5 | 5 | 4 | 4 | 3 | 3 | 3 | 3 | 5 | 6 |
| 15y | 1 | 1 | 0 | 0 | -1 | 0 | 1 | 1 | 1 | 2 | 2 | 2 | 4 | 6 | 7 |
| 20y | -1 | 0 | 0 | 0 | 0 | 1 | 1 | 2 | 2 | 3 | 3 | 4 | 7 | 7 | 9 |
| 25y | 1 | 1 | 1 | 1 | 2 | 3 | 3 | 4 | 4 | 6 | 6 | 8 | 10 | 10 | 11 |
| 30y | 1 | 2 | 2 | 2 | 3 | 4 | 4 | 5 | 6 | 7 | 8 | 9 | 11 | 11 | 13 |

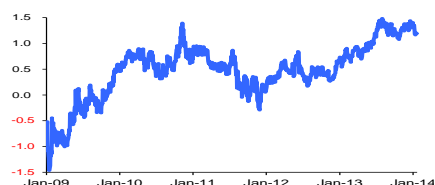
Figure 27. Evolution of USD/EUR 10y10y bpvol



Source: Citi Research

Source: Citi Research

Figure 28. Evolution of USD/EUR 10y10y swap rate spread



Source: Citi Research

In the meantime, as its historical evolution shows, USD/EUR 10y10y swap rate spread looks toppish (Figure 28).

With regard to rolldown considerations, we compute one-year rolldown PnL (in terms of option premium upfront) for long positions on USD ATM receiver swaptions in Figure 29. In Figure 30 we compute one year rolldown PnL for short positions on EUR ATM receiver swaptions (in terms of expected cost of closing out the short position, assuming unchanged vol surface and forward swap term structures). Figure 31 sums values from the other two tables: as displayed in the table the long USD, short EUR spread on 10y10y ATM receiver swaptions currently rolls at around 4% over one year horizon. Admittedly, rolldown is higher for shorter maturities but the hedge would then stop to be a cheap insurance given significantly higher implied vol differentials, as exhibited above in Figure 26.

⁹ [European Rates Weekly, 9 January 2014](#), page 20-22

¹⁰ [US Rates and MBS Weekly, 10 January 2014](#), page 11-12

Figure 29. 1y rolldown for long USD ATMF receiver swaption positions

| | 1y | 2y | 3y | 4y | 5y | 6y | 7y | 8y | 9y | 10y | 15y | 20y | 30y |
|-----|------|------|------|------|------|-----|-----|-----|-----|-----|-----|------|------|
| 1y | 111% | 135% | 133% | 117% | 106% | 87% | 73% | 58% | 48% | 42% | 8% | -11% | -28% |
| 2y | 92% | 92% | 82% | 69% | 60% | 48% | 40% | 34% | 29% | 24% | 9% | 3% | -4% |
| 3y | 67% | 60% | 52% | 43% | 35% | 28% | 23% | 19% | 16% | 13% | 5% | 1% | -2% |
| 4y | 46% | 39% | 30% | 24% | 20% | 16% | 14% | 11% | 9% | 7% | 1% | -1% | -3% |
| 5y | 29% | 22% | 17% | 14% | 10% | 9% | 7% | 6% | 5% | 4% | 1% | 0% | -2% |
| 6y | 16% | 12% | 10% | 8% | 8% | 7% | 6% | 5% | 4% | 3% | 1% | -1% | -1% |
| 7y | 10% | 8% | 8% | 8% | 7% | 6% | 5% | 4% | 3% | 2% | 1% | 0% | -1% |
| 8y | 8% | 7% | 6% | 5% | 4% | 3% | 3% | 2% | 1% | 1% | 1% | 0% | -1% |
| 9y | 7% | 7% | 6% | 4% | 3% | 3% | 2% | 1% | 1% | 2% | 1% | 2% | 0% |
| 10y | 8% | 6% | 4% | 4% | 3% | 2% | 2% | 2% | 2% | 1% | 4% | 4% | 0% |
| 15y | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 1% | 1% | 1% | 0% | 1% | |
| 20y | 3% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 1% | 1% |
| 30y | 3% | 3% | 2% | 2% | 2% | 2% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |

Source: Citi Research

Figure 30. 1y rolldown for short EUR ATMF receiver swaption positions

| | 1y | 2y | 3y | 4y | 5y | 6y | 7y | 8y | 9y | 10y | 15y | 20y | 30y |
|-----|------|------|------|------|------|------|------|------|------|------|-----|-----|------|
| 1y | 15% | -32% | -39% | -38% | -35% | -31% | -28% | -24% | -20% | -16% | 16% | 53% | 110% |
| 2y | -28% | -33% | -32% | -29% | -26% | -24% | -21% | -18% | -15% | -12% | 2% | 12% | 20% |
| 3y | -31% | -29% | -27% | -24% | -23% | -20% | -18% | -15% | -13% | -10% | -1% | 5% | 9% |
| 4y | -24% | -22% | -21% | -19% | -17% | -14% | -12% | -10% | -8% | -7% | 1% | 5% | 6% |
| 5y | -20% | -18% | -17% | -15% | -13% | -11% | -9% | -8% | -6% | -3% | 2% | 4% | 4% |
| 6y | -19% | -16% | -14% | -12% | -11% | -9% | -7% | -5% | -4% | -2% | 1% | 3% | 2% |
| 7y | -16% | -13% | -11% | -10% | -9% | -7% | -5% | -4% | -2% | -1% | 1% | 1% | 0% |
| 8y | -12% | -10% | -9% | -7% | -6% | -5% | -3% | -2% | -1% | 0% | 2% | 2% | 1% |
| 9y | -9% | -7% | -6% | -4% | -3% | -1% | 0% | 1% | 1% | 2% | 2% | 2% | 1% |
| 10y | -7% | -5% | -3% | -1% | 0% | 1% | 2% | 2% | 3% | 3% | 3% | 3% | 1% |
| 15y | 4% | 4% | 4% | 4% | 4% | 3% | 3% | 2% | 2% | 2% | 1% | 0% | -1% |
| 20y | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | -1% | -2% | -3% | -3% |
| 30y | -4% | -4% | -4% | -5% | -5% | -5% | -5% | -5% | -5% | -4% | -4% | -4% | -4% |

Source: Citi Research

Figure 31. Total 1y rolldown from Figure 29 and Figure 30.

| | 1y | 2y | 3y | 4y | 5y | 6y | 7y | 8y | 9y | 10y | 15y | 20y | 30y |
|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1y | 126% | 104% | 94% | 80% | 71% | 56% | 44% | 34% | 28% | 26% | 24% | 43% | 81% |
| 2y | 64% | 59% | 50% | 40% | 34% | 24% | 19% | 16% | 13% | 12% | 11% | 15% | 16% |
| 3y | 35% | 30% | 25% | 18% | 13% | 8% | 5% | 4% | 3% | 3% | 4% | 5% | 6% |
| 4y | 22% | 17% | 10% | 5% | 3% | 2% | 2% | 1% | 1% | 1% | 2% | 4% | 4% |
| 5y | 9% | 4% | 0% | -1% | -3% | -2% | -2% | -1% | 0% | 3% | 4% | 2% | |
| 6y | -3% | -4% | -4% | -4% | -3% | -2% | -2% | -1% | 0% | 1% | 2% | 2% | 1% |
| 7y | -6% | -4% | -3% | -2% | -2% | -1% | 0% | 0% | 1% | 1% | 2% | 2% | 0% |
| 8y | -4% | -3% | -3% | -2% | -2% | -2% | -1% | 0% | 1% | 2% | 3% | 3% | 0% |
| 9y | -2% | -1% | 0% | 0% | 0% | 1% | 2% | 2% | 3% | 3% | 4% | 4% | 1% |
| 10y | 1% | 1% | 1% | 2% | 3% | 3% | 4% | 4% | 4% | 7% | 7% | 2% | |
| 15y | 6% | 7% | 7% | 6% | 6% | 5% | 5% | 4% | 4% | 3% | 2% | 0% | 0% |
| 20y | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 0% | -1% | -1% |
| 30y | -1% | -2% | -2% | -3% | -3% | -3% | -3% | -3% | -3% | -3% | -3% | -2% | -2% |

Source: Citi Research

Trade construction

Assuming FX adjusted trade construction, investors receive money upfront to enter trade. For instance, buying USD 100mn ATMF 10y10y receiver vs. selling EUR 74mn ATMF 10y10y receiver translates to investor receiving EUR 450k upfront. More detailed risk and sensitivity analysis is available upon request.

UK Strategy: Beware the front-end!

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Following the change to the Citi view on UK policy rates (see [UK Economics](#), 22 January), we have made significant changes to our gilt yield forecasts (see below and the just published [Global Economic Outlook and Strategy](#)). We have brought forward the timing of the first rate hike to Q4 of this year (previously Q2 2015) and expect policy rates to move up to 2% by late-2015. This is earlier, and quicker, than consensus expectations. For the gilt market, this is likely to mean that the front-end loses its anchor in the coming quarters, the 2s10s curve begins to bear flatten sooner than we previously anticipated and 10yr gilts underperform on a cross-market basis, both vs Bunds and, for the first time in a while, vs Treasuries.

Mirror, signal, maneuver

The latest jobless data and the MPC minutes signal earlier rate hikes, in our view

As our economists have recently highlighted, Carney may well resort to car-driver analogies over the coming months to describe policy moving towards neutral (see [UK Economics Weekly](#), 17 January). The gradual move towards zero interest rates (the first waymark on the road to neutral policy) could be described as “taking the foot off the accelerator” (Carney used this phrase to describe the modifications to the FLS late last year).

Taking the car-driving analogy a step further, yesterday’s jobless data could be akin to the rear-view mirror, the MPC minutes the first signal (perhaps to be reinforced by upcoming Carney speeches) and eventual rates hikes will be the maneuver.

- **Mirror:** The fall in the headline jobless rate to 7.1% suggests that forward guidance will soon be over in our view. This data is for the September-November period. The jobless rate today could already be below 7% (and the jobless data itself is a lagging indicator of growth).
- **Signal:** The MPC minutes could be read as a subtle signal to prepare for rate hikes. The minutes incorporated a new section beginning “looking beyond the immediate policy decision”. This included a fairly weak pledge that there would be “no immediate need” to raise rates when the 7% threshold is reached and that “when the time did come to raise Bank Rate, it would be appropriate to do so only gradually”. This appears to be a subtle shift in focus and is preparing the market for the nearing hiking cycle in our view. Carney’s upcoming speeches (24 January in Davos and then on 29 January in Scotland) could provide further signals.
- **Maneuver:** The maneuver into the slow lane, the rate hike, is likely to happen late this year when the MPC embark on its first hiking cycle for eight years.

The front-end may lose its ‘lower-for-longer’ anchor

The MPC may try and slow the sell-off, to make it orderly, but front-end yields look set to move higher

While the MPC may be vigilant to any excessive re-pricing in the front-end, if it threatens to seriously dent growth prospects, 2yr yields are, nonetheless, likely to lose their ‘lower-for-longer’ anchor over the coming months. As it stands, 2yr gilt yields (at 0.57%) are only just above the prevailing policy rate. Moreover, the rise in 2yr yields in recent months can be associated with a dwindling flight-to-quality premium as the EMU crisis has eased (Figure 32). The market is yet to adequately price-in the forthcoming hiking cycle, in our view. The 1yr forward for the 2yr gilt yield is around 1.20% vs our forecast of 1.85%.

Front-end behaviour ahead of a hiking cycle

2yr gilt yields typically widen to around 100bp over the prevailing policy rate prior to the first hike

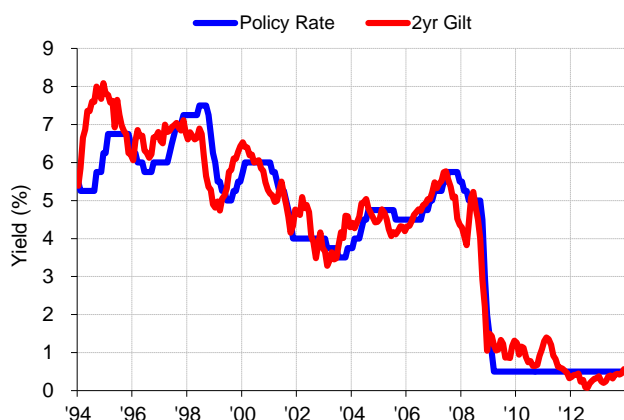
The anticipated 2015-16 tightening cycle is likely to be fairly typical in terms of its pace

We expect 2yr gilt yields to drift higher over the coming quarters reaching around 1.50% before the first rate hike. This profile is consistent with previous hiking cycles. The differential between 2yr gilt yields and policy rates typically reaches around 100bp before the first hike (or more in the case of 1994), and subsequently narrows.

This is true of all the hiking cycles over the past 20yrs, except for 2006-07 (Figure 33). At the time, this cycle was viewed as a fine-tuning exercise as policy rates were already perceived to be close to neutral. As such, the market did not anticipate an aggressive tightening cycle (even though, with hindsight, it eventually amounted to 125bp). This was especially true as the market had become accustomed to a sustained period of sub-target inflation and therefore did not expect rates to move much higher. The hiking cycle in 2006-07 also occurred during a period in which the Fed left rates on hold at what proved the top of the policy rate cycle.

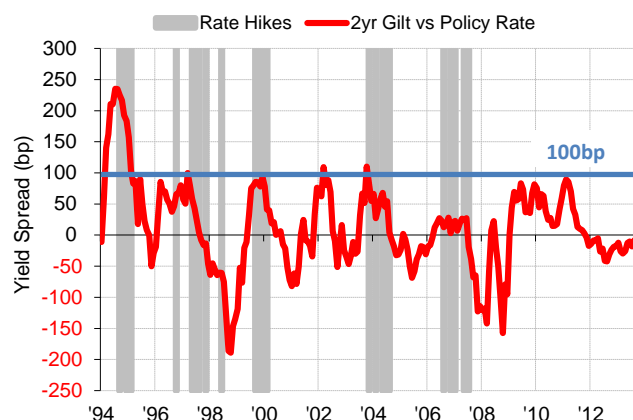
The experience of 2006-07 is unlikely to be mirrored this time, in our view. The pace of the forthcoming cycle (around 150bp in one-year) is likely to be similar to a 'typical' hiking cycle of the past 20 years. We would expect 2yr gilt yields to reach a spread of around 100bp above policy rates, just before the first hike which we expect around November of this year.

Figure 32. 2yr gilt yields are only just above policy rates



Source: Citi Research, Bloomberg.

Figure 33. 2yr gilt yields tend to reach 100bp above the prevailing policy rate before the first rate hike



Source: Citi Research, Bloomberg.

What about the QE unwind?

A recent BoE paper suggests that the QE unwind will have minimal impact on asset prices and the real economy

A passive unwind of QE could begin fairly soon, but the market impact is likely to be fairly limited

Another consideration for policy tightening in this cycle is the QE unwind. There has been much attention on this in recent days; not least thanks to a Bank of England paper earlier this week (authored by Miles/Schanz) entitled "The relevance of otherwise of the central bank's balance sheet". The paper argued that QE works when markets are 'dysfunctional', as they were in the years following 2008 when QE was in operation. However, it also argues that QE is ineffective (via the portfolio balance effect) when markets are functioning 'normally'. The implication is that there will be little impact on asset prices and the real economy when QE is unwound.

The Bank of England has a choice between a 'passive' unwind, by not re-investing redeeming APF holdings, or an 'active' unwind which also involves asset sales. Under forward guidance, all redemptions are re-invested until the jobless rate hits 7%. But with guidance about to end, the MPC will be free to choose. They have

A faster unwind could put steepening pressure on the 2s10s curve as domestic banks buy short gilts to replace falling reserves at the BoE

already said that asset sales will not take place until rates have risen, but this does not preclude a more passive unwind. APF gilt holdings which redeem this year are £8bn in March, which will probably be re-invested, and £13bn in September which we expect to simply roll-off. A more active unwind involving asset sales is unlikely for some time, in our view. With gilt issuance running at historically elevated levels, the MPC will not want to disrupt the gilt market, as Carney acknowledged in September last year when testifying in front of the Treasury Select Committee.

It is also worth noting that a QE unwind will reduce the reserves held at the Bank of England by UK banks. These reserves make up the majority (around 70%) of UK banks' liquid asset holdings. A passive unwind would not have much impact as there is already a buffer between liquid asset holdings and regulatory requirements. However, if QE is unwound quickly, UK banks may need to replace dwindling reserves by buying short gilts to prop up liquid asset holdings. In this scenario, the QE unwind would slow any flattening of the gilt curve.

Our new yield forecasts

The table below shows our new yields forecasts for the UK (note that these forecasts are quarterly averages). Below, we discuss the highlights.

Figure 34. Citi gilt yield forecasts – quarterly averages

| UK | Current | 1Q 14 | 2Q 14 | 3Q 14 | 4Q 14 | 1Q 15 | 2Q 15 |
|--------------------|---------|-------|-------|-------|-------|-------|-------|
| Policy Rate | 0.50 | 0.50 | 0.50 | 0.50 | 0.67 | 1.08 | 1.42 |
| 2yr | 0.56 | 0.70 | 1.10 | 1.50 | 1.70 | 1.85 | 1.95 |
| 5yr | 1.80 | 2.00 | 2.35 | 2.65 | 2.80 | 2.95 | 3.05 |
| 10yr | 2.89 | 3.05 | 3.25 | 3.40 | 3.60 | 3.70 | 3.80 |
| 30yr | 3.61 | 3.70 | 3.80 | 3.90 | 4.00 | 4.05 | 4.10 |
| 2s10s | 232 | 235 | 215 | 190 | 190 | 185 | 185 |
| 10s30s | 72 | 65 | 55 | 50 | 40 | 35 | 30 |
| 10yr gilt-Bund | 113 | 130 | 155 | 170 | 180 | 180 | 190 |
| 10yr gilt-Treasury | 5 | 20 | 30 | 27 | 35 | 32 | 30 |
| 10yr break-even | 286 | 280 | 285 | 290 | 295 | 300 | 300 |
| 10yr real yield | -0.20 | -0.05 | 0.05 | 0.15 | 0.30 | 0.35 | 0.45 |

Source: Citi Research

Conclusion - Long-term trading strategies

Target 190bp for 2s10s

■ **Flatter 2s10s ahead:** We expect bear flattening in 2s10s (and 5s10s) to begin from around Q2 and continue for the rest of the year. This would be the first time this dynamic has been seen on a sustained basis since 2008. Over the next six months, we expect 2s10s to flatten by around 45bp compared with 13bp implied by the forwards.

Target 35bp for 10s30s

■ **10s30s also likely to flatten, helped along by LDI-demand:** The combination of a bearish yield environment and strong demand for the long-end (with pension fund deficits falling, the opportunity to de-risk is unlikely to be missed) is likely to flatten the 10s30s gilt curve. We forecast 10s30s to flatten to a level of around 35bp in about a year from now (currently 72bp). This compares with a 1yr forward of around 55bp.

Target +190bp for 10yr gilt-Bunds

■ **10yr gilt-Bunds likely to widen further:** The gulf between the policy outlook in the UK (where we expect hikes in 2014) and the euro area (where we expect cuts) continues to grow. We now expect 10yr gilt-Bunds to widen to around

180bp in late 2014 compared with 113bp currently. In contrast, the forwards imply the spread will remain broadly unchanged.

Target +35bp for 10yr gilt-Treasury

- **Gilts to underperform Treasuries:** The spread between 10yr gilts and Treasuries has remained in single digits for three months now. We expect this to change over the coming quarters as gilts underperform, perhaps to around 30-35bp over Treasuries. The forwards are flat. Note that we see no reason why the MPC can't hike before the Fed, as is sometimes argued, and indeed anticipate the MPC will begin their hiking cycle three quarters earlier.

EMU: Tactical Bund 2s10s steepeners

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Figure 35. Bund 2s10s: now trading within our target entry level (157-160bp) for steepeners



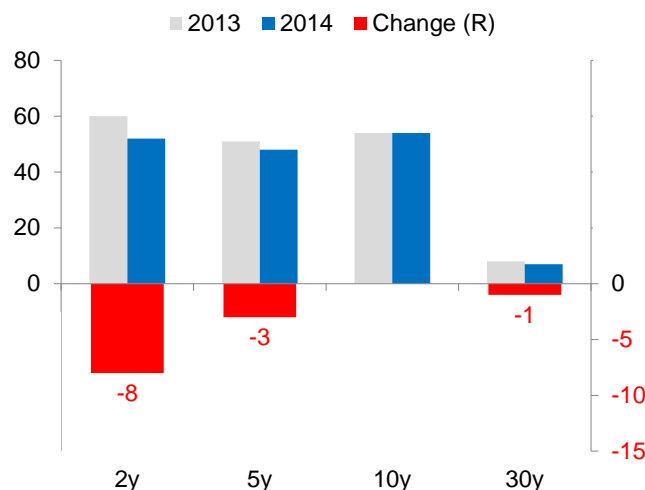
Source: Citi Research

The current level of Bund 2s10s is within the range of our target entry level (157bp-160bp) for steepeners ([EMU: trading strategies for 2014 supply](#)). We expect 2s10s steepeners to perform from current levels for the following reasons:

- The reduction in 2yr bond supply for Germany in 2014 vs 2013 is likely to put downward pressure on 2yr yields during the course of the year (Figure 36)
- Citi's expectation of an ECB rate cut is also likely to put downward pressure on 2yr yields. Furthermore, our economists also expect the ECB to announce a fixed rate 1yr LTRO in 2H14.
- The implications of Fed tapering (bearish for USTs) is likely to match the bullish impact of ECB policy and tighter peripheral yields in the 10yr sector.

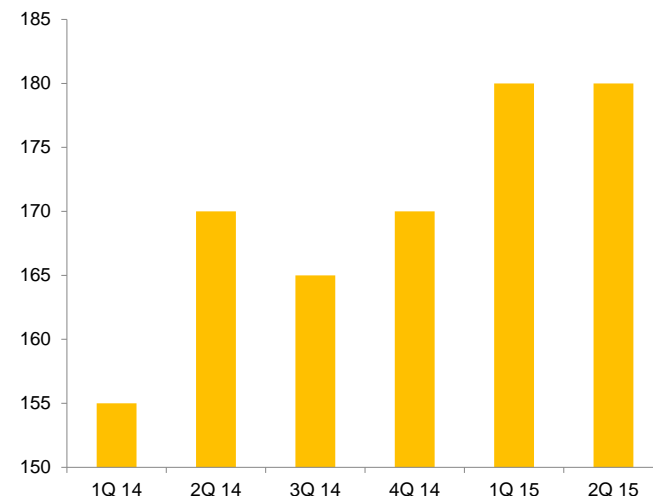
We acknowledge that this trade does have some negative carry. However, we feel that the current level of forwards (165bp in 2Q14) will outweighed due to the reasons discussed above. We suggest having a target of 175bp for Bund 2s10s steepeners.

Figure 36. Germany bond issuance: the decrease in 2014 bond issuance is mainly in the front-end of the curve.



Source: Citi Research, DMO

Figure 37. Citi's forecasts for Bund 2s10s (average levels for each period)



Source: Citi Research

Trade details: Buy Schatz Dec15 vs 2% Aug23

- Current = 158bp. Open = 158bp¹¹
- Target = 175bp. Stop = 150bp

¹¹ [The Morning Call: Bund 2s10s steepener](#), 22 January 2014

SSA Relative Value Insights

Peter Goves

EGB and SSA

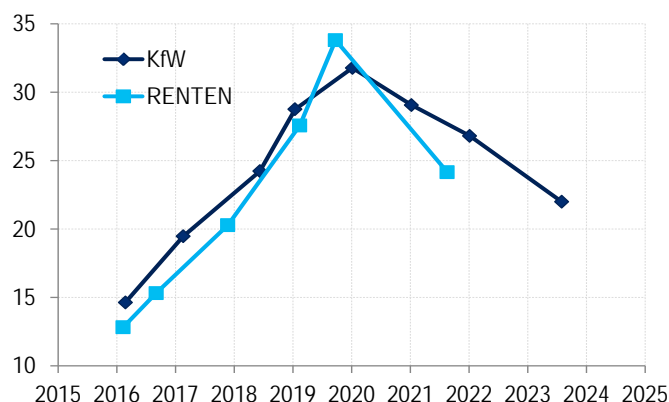
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RENTEN vs KfW – to RV or not RV

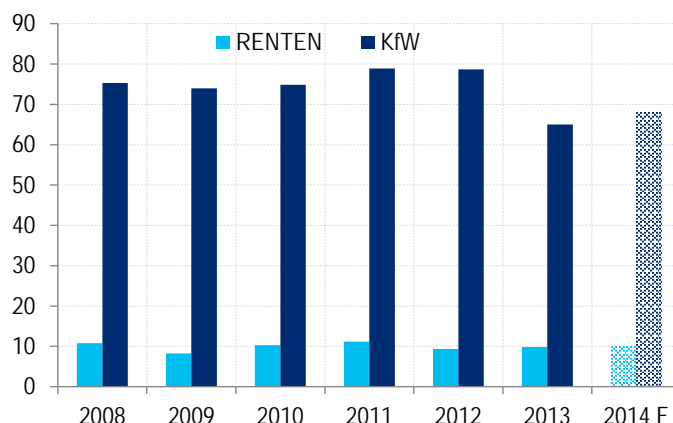
- **RENTEN flat or inside KfW:** There are now many instances where RENTEN is now trading inside KfW (Figure 38). Although this might be historically unusual, we would not fade the move: we think this can be justified both from a fundamental and technical standpoint.
- **Fundamentals – guarantee structure:** Both entities benefit from Germany's Anstaltslast (maintenance obligation) and an explicit guarantee (KfW since 1998 and RENTEN as of January 2014). Both are 0% risk weighted and are AAA/Aaa.
- **Technicals – supply pipelines:** One key difference between the two entities is their relative size (RENTEN total assets around €88bn in 2012, KfW total assets around €512bn in 2012). From a markets perspective, KfW has indicated a 2014 funding programme of €65bn-€70bn and a RENTEN a funding programme of €10bn across all currencies, in line with historical trends (Figure 39).

Figure 38. KfW and RENTEN spread curves to Germany (bp)



Source: Citi Research

Figure 39. KfW and RENTEN historical supply (all currencies, €bn)

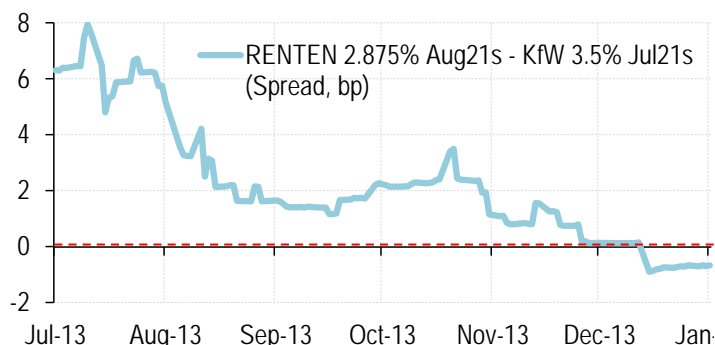


Source: Citi Research

RENTEN's curve likely to remain inside KfW's curve

We continue to like core German agencies for their credit quality and we especially monitor the RV between them and Bunds/OATS. However, *within* German agencies themselves, we think there are good reasons why RENTEN can trade inside KfW given RENTEN's relative "scarcity premium". We would not fade the move.

Figure 40. RENTEN has compressed to KfW and we expect a tight spread between the issuers



Source: Citi Research

Covered Bond Strategy

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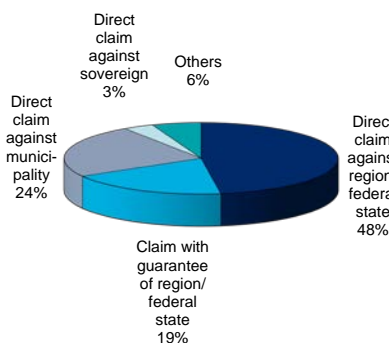
First public sector covered bond in 2014 ahead

KA announced today its return to the market for the first time in 2014 with the issuance of a public sector covered bond in Benchmark size. We like this name within the Austrian covered bond universe as well as on a cross-asset basis.

Kommunalkredit Austria: Attractive Alternative in the Core

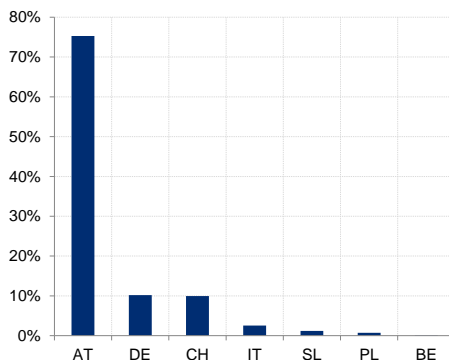
Cover pool summary: The recently announced issuance of the Austrian lender will probably be the first covered bond in 2014 that is backed by loans to the public sector. While playing a minor role in most countries, the share of public sector backed covered bonds is relatively high in Austria. Its pool consists mainly of direct claims or claims with guarantees from the region or the federal state. From a geographical perspective, the bulk of the assets (75%) are claims on the Austrian public sector bodies, followed by Germany and France. Hence, it should not surprise that c. 95% are claims on Aaa-rated counterparties.

Figure 41. Pool distribution by borrower type, %



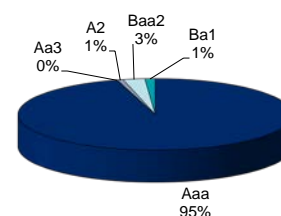
Source: Moody's, Citi Research

Figure 42. Pool distribution by country, %



Source: Moody's, Citi Research

Figure 43. Split by country exposure rating, %

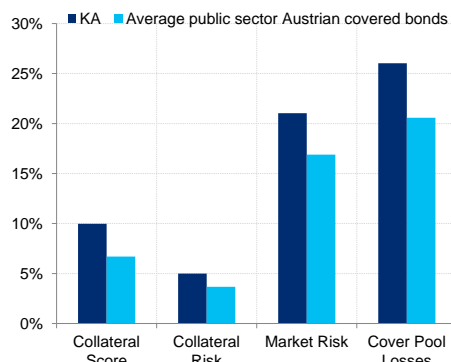


Source: Moody's, Citi Research

Cover pool quality seems to be below Austrian average

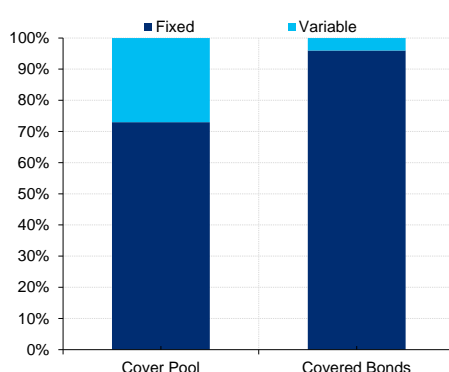
Potential risks: When we compare Moody's key figures to other public sector covered bond programs, the quality of KA's cover pool seems to be below average. We think that this is driven less by interest rate mismatch, duration mismatch or borrower concentration (in fact, these key values compare rather positively to other covered bond programs) than by the currency mismatch, which is un-hedged within this program. This drives a higher (i.e. worse) Collateral Score, as well as higher (i.e. worse) Cover Pool Losses (= collateral risk + market risk).

Figure 44. Moody's key figures in comparison, %



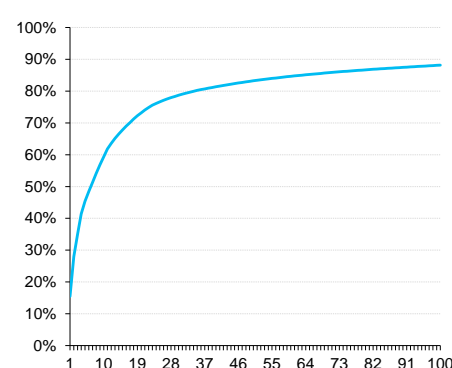
Source: Moody's, Citi Research

Figure 45. Interest rate mismatch, %



Source: Moody's, Citi Research

Figure 46. Borrower concentration (cover pool volume by number of borrowers), %



Source: Moody's, Citi Research

Figure 47. Key figures: KA

| | |
|-------------------------------------|-----------|
| Covered Bonds, EURmn | 4,403 |
| Cover Pool, EURmn | 5,806 |
| Current OC, % | 31.9% |
| Committed OC, % | 28.0% |
| Fixed rate assets, % | 73.0% |
| Fixed rate liabilities, % | 96.0% |
| WAL liabilities, years | 3.8 |
| WAL assets, years | 10.6 |
| Avg. exposure to borrowers | 5,436,104 |
| Exposure to 10 largest borrowers, % | 59.4% |
| Loans in non-domestic currency, % | 17.1% |
| Loans in arrears, % | 0.0% |
| Covered Bond Rating | Aa2/-- |
| Issuer Rating | Baa3/--A |
| <i>Moody's Key Figures</i> | |
| Collateral Score, % | 11.5% |
| Market Risk, % | 20.0% |
| Cover Pool Losses, % | 26.4% |
| Timely Payment Indicator | High |
| TPI Leeway | 0 |

Source: Moody's, Citi Research

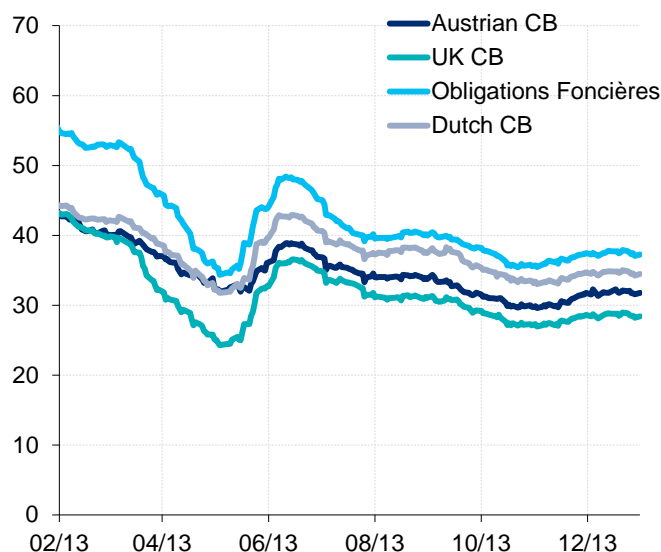
That said, it should also be stated that the issuer tries to minimize this risk by issuing covered bonds in currencies other than the euro. So far, this has been done by placing CHF-denominated covered bonds. However, there are still claims that are denominated in USD. We think that this is the main risk within the covered bond program of KA, which – apart from this – looks relatively strong.

Ownership structure: As can be seen by looking at Moody's key figures, there are higher-quality cover pools that can be found in the Austrian public sector segment. That said, we think that one of the main strengths of the covered bond program is the ownership structure of the issuer. In November 2008, the Republic of Austria took over the shares of Dexia Crédit Local and Österreichische Volksbanken-AG (in total 99.78%), while the rest (0.22%) belong to the Austrian Association of Municipalities. The Republic of Austria transferred its shares to FIMBAG in 2012. This entity acts as a trustee in favour of the Republic of Austria. Although this is not an explicit guarantee, we would agree with the way Moody's puts it: the entity "is strongly supported by our assumption of a very high probability of systemic support from the bank's 99.78% shareholder, the Republic of Austria [...]". Apart from that, we think that there is one further supportive factor for covered bonds from the issuer. As a potential buyer for the bank couldn't be found at the beginning of 2013, it was decided to wind down the banking business of the entity (i.e. the issuer will not grant new loans but only look after outstanding loans). Hence, we expect that the volume of long-term funding via issuing covered bonds will become lower over the longer term.

Secondary market opportunities

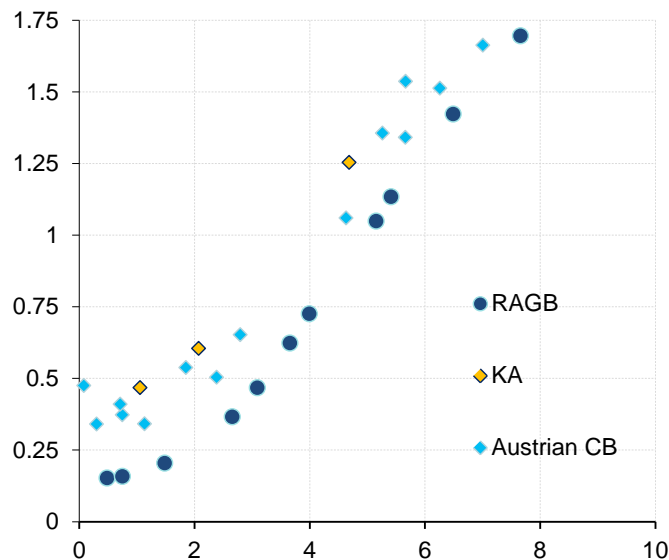
Austrian covered bonds joined the overall covered bond rally in 2013 but have been trading range-bound since the beginning of this year – in common with other (semi-) core covered bond segments. Within the Austrian covered bond segment, KA's covered bonds are trading cheaper than those of most of its peers.

Figure 48. Spread universe on an index level, ASW, bp



Source: Markit, Citi Research

Figure 49. Austrian covered bond universe, yield, %

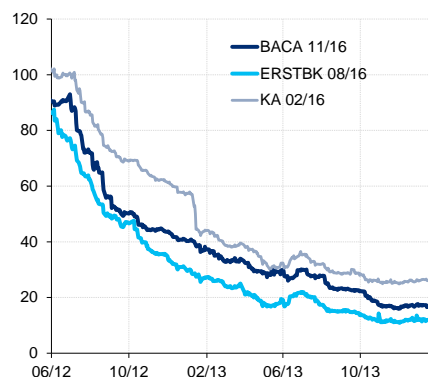


Source: Citi Research

KA looks attractive against ASFING

We are aware that the covered bond program is seen as slightly riskier than the average Austrian cover pool. That said, we see little near-term risk that the issuers and/or the covered bonds (given TPI leeway of zero) are downgraded. Given the issuer's ownership structure, we see KA's covered bonds as attractive against those of its peers, and also against sovereign (guaranteed) debt. Here, we think that **switching from ASFING 10/15 vs KA 02/16** looks attractive after the latest cheapening (see figures below).

Figure 50. Selected Austrian covered bonds, ASW, bp



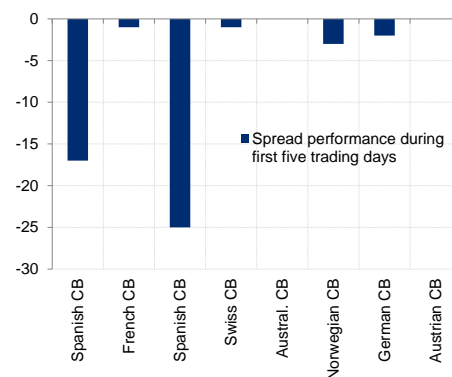
Source: Citi Research

Figure 51. KA 02/16 vs ASFING 10/15, ASW, bp



Source: Citi Research

Figure 52. Primary market a good choice for core covered bonds?



Source: Citi Research

Post-pricing performance has been weak for core names in 2014

At the current stage, the relative attractiveness of primary market deals looks to have lost momentum given the rather poor performance so far in 2014 (see right graph above). Peripheral covered bonds have been the exception to the rule in this respect as their performance has been strong in YTD. Nearly all (semi-)core covered bonds have been unable to perform strongly in the aftermath of book building. This is a clear difference from the pattern of 2013. At that time, even expensively priced core names were sought after pricing, which made participation in primary market deals more attractive compared with the outstanding bonds on the issuers' curves. Hence, as this relative attractiveness appears to have lost momentum, we see few arguments that speak against turning to the already outstanding bonds of KA at the current stage.

Sovereign Ratings Outlook

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The *Sovereign Ratings Outlook* is a joint product between the Citi economics and rate strategy teams, with input from various other research teams. We aim to forecast the direction and scale of sovereign debt ratings (local currency), as well as any changes in the ratings outlook, for a range of countries. These are our judgments over the ratings outlook, rather than model-determined recommendations. All economic and fiscal forecasts are consistent with those published in Citi's monthly "*Global Economic Outlook and Strategy*" or other research. We do not aim to make a judgment on the financial market implications of ratings changes, except in so far as we expect any such market implications to affect other sovereign ratings.

Given economic updates in this publication and based on rating agency criteria, we highlight our economists' and strategists' main expectations for sovereign ratings over the near (2-3 quarters) and longer (2-4 years) term.

Figure 53. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

| Country | S&P Ratings | | | | Moody's Ratings | | | |
|-------------|----------------|-----------------|---|--|-----------------|-----------------|---|--|
| | Current Rating | Current Outlook | Citi Near-term (Up to 9 Months) Forecast Rating | Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook | Current Rating | Current Outlook | Citi Near-term (Up to 9 Months) Forecast Rating | Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook |
| US | AA+ | Stable | AA+ (Stable) | AA+ | Aaa | Stable | Aaa (Stable) | Aaa |
| Canada | AAA | Stable | AAA (Stable) | AAA | Aaa | Stable | Aaa (Stable) | Aaa |
| Japan | AA- | Neg | AA- (Neg) | A+ ↓ | Aa3 | Stable | Aa3 (Stable) | A1 ↓ |
| Germany | AAA | Stable | AAA (Stable) | AAA | Aaa | Neg | Aaa (Neg) | Aaa |
| France | AA | Stable | AA (Stable) | AA | Aa1 | Neg | Aa2 Stable ↓ | Aa2 ↓ |
| Italy | BBB | Neg | BBB- (Neg) ↓ | BBB- ↓ | Baa2 | Neg | Baa2 (Neg) | Baa3 ↓ |
| Spain | BBB- | Stable | BBB- (Stable) | BBB- | Baa3 | Stable | Baa3 (Stable) | Baa3 |
| Austria | AA+ | Stable | AA+ (Stable) | AA+ | Aaa | Neg | Aaa (Neg) | Aaa |
| Belgium | AA | Neg | AA (Neg) | AA | Aa3 | Neg | Aa3 (Neg) | Aa3 |
| Finland | AAA | Stable | AAA (Stable) | AAA | Aaa | Stable | Aaa (Stable) | Aaa |
| Greece | B- | Stable | B- (Stable) | B- | Caa3 | Stable | Caa3 (Stable) | Caa3 |
| Ireland | BBB+ | Positive | A- (Stable) ↑ | A- ↑ | Baa3 | Positive | Baa2 (Stable) ↑ | A3 ↑↑↑ |
| Netherlands | AA+ | Stable | AA+ (Stable) | AA+ | Aaa | Neg | Aaa (Neg W) | Aa1 ↓ |
| Portugal | BB | Neg | BB (Neg) | BB | Ba3 | Stable | Ba3 Stable | Ba3 |
| UK | AAA | Neg | AAA (Stable) | AAA | Aa1 | Stable | Aa1 (Stable) | Aa1 |
| Switzerland | AAA | Stable | AAA (Stable) | AAA | Aaa | Stable | Aaa (Stable) | Aaa |
| Sweden | AAA | Stable | AAA (Stable) | AAA | Aaa | Stable | Aaa (Stable) | Aaa |
| Denmark | AAA | Stable | AAA (Stable) | AAA | Aaa | Stable | Aaa (Stable) | Aaa |
| Norway | AAA | Stable | AAA (Stable) | AAA | Aaa | Stable | Aaa (Stable) | Aaa |
| EU | AA+ | Stable | AA+ (Stable) | AA+ | Aaa | Neg | Aaa (Neg) | Aa1 ↓ |
| EIB | AAA | Stable | AAA (Stable) | AAA | Aaa | Neg | Aaa (Stable) | Aaa |
| ESM | Not rated | | | | Aa1 | Neg | Aa1 (Neg) | Aa2 ↓ |
| EFSF | AA | Stable | AA (Stable) | AA | Aa1 | Neg | Aa1 (Neg) | Aa2 ↓ |

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. NA Not available. Sources: Moody's, S&P and Citi Research

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Expected Ratings Issues

Overview: 2014 has started with the first euro area upgrade by Moody's (other than Greece's exit from default status) since 2002, with Ireland restored to Investment Grade Baa3 on 17th January. In their 2014 Outlook (25th November 2013), Moody's stated "After several tumultuous years, global sovereign credit worthiness is likely to be comparatively stable in 2014"¹². The only EMU sovereigns at present where we see lingering downgrade risk later in 2014 are Italy and France, which still carry a negative outlook by at least one rating agency.

EMU calendar: In the new regulatory environment, the rating agencies have published a calendar indicating dates when potential rating actions can occur. Note that the agencies are under no obligation to publish when there is no change (as Moody's recently did not announce anything regarding Portugal on 17th Jan). Citi has combined S&P's and Moody's into one document here: [S&P and Moody's Sovereign Credit Ratings Calendar for 2014](#). Key dates over the coming weeks are shown in Figure 54.

Figure 54. Upcoming Rating Calendar

| Date | Sovereign | Rating Agency | Current Rating | Current Outlook |
|-----------|------------|---------------|----------------|-----------------|
| 24-Jan-14 | France | Moody's | Aa1 | Neg |
| 31-Jan-14 | EFSF | Moody's | Aa1 | Neg |
| 07-Feb-14 | Finland | Moody's | Aaa | Stable |
| 14-Feb-14 | Italy | Moody's | Baa2 | Neg |
| 21-Feb-14 | Spain | Moody's | Baa3 | Stable |
| 28-Feb-14 | Austria | Moody's | Aaa | Neg |
| 28-Feb-14 | Belgium | S&P | AA | Neg |
| 28-Feb-14 | Luxembourg | Moody's | Aaa | Neg |
| 28-Feb-14 | Germany | Moody's | Aaa | Neg |

Source: Citi Research, Moody's, S&P, Bloomberg

Ireland: Moody's upgraded Ireland from Ba1 Stable (sub-IG) to Baa3 Pos (IG) on the evening of Friday 17th January. We expected Ireland to be upgraded in 2014 ([2014 Outlook](#)), but this rating action has come earlier than anticipated and was a positive market surprise. Ireland is now rated Investment Grade by all three rating agencies with a positive outlook by both Moody's and S&P. We expect another upgrade of Ireland by both agencies later this year ([Ireland UPGRADED](#)).

Portugal: S&P recently spared Portugal another downgrade despite having the sovereign on negative watch. Given that 2013 fiscal targets were probably met and Portugal's recent presence in capital markets, we had anticipated the "no change" decision ([QuickPost](#)) and believe such drivers will keep Portugal's rating at current levels for the time being.

Spain and Italy: European fixed income markets gave a sigh of relief when Moody's took its Baa3 rating for Spain off negative outlook in December last year. This was the last rating agency to do so for Spain (S&P having done so in November). Given on-going fundamental improvements, we expect Spain's rating to remain at current levels (BBB-, Baa3). However, economic and political risks remain for Italy which still has a negative outlook by both Moody's and S&P. This signifies the increased likelihood of further downgrade pressure over the medium term.

France: France's Aa1 rating by Moody's has carried a negative outlook since November 2012 (when France was moved from Aaa to Aa1). In their latest Credit Opinion (Dec 2013), Moody's indicated that a downgrade could occur in conjunction with an assessment of the government's progress in addressing its fiscal pressures. On balance, we think France's rating will be left unchanged later this week (see Figure 54) and that any potential action by Moody's might occur at the next calendar date (23 May). In any such scenario, this would normalize the rating to S&P's AA rating and the spread impact is likely to be muted in our view.

UK: Given the strong performance of the UK economy, we believe S&P will return its AAA rating of the UK back to stable in 2014. The next opportunity for this to occur is on 6th June when the UK features in S&P's calendar. We do not anticipate a further cut by Moody's which rates the UK Aa1 (stable outlook).

US: The US is rated AA+ Stable by S&P and Aaa Stable by Moody's and as such, we do not anticipate any change in the US rating over the long term, although the rating agencies are likely to follow any return of the debt ceiling debate in Q1.

¹² Moody's Investor Service "2014 Outlook – Global Sovereigns" 25 November 2013.

Relative value trades

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We highlight a number of relative value opportunities in the 2-10yr sector of the German, Belgian, Spanish and gilt yield curves.

Germany: fade the richness of Oct17 or Jul16

Sell Oct17s vs surrounding issues

■ Sell 0.5% Oct17 vs 3.75% Jan17 and 3.75% Jan19 (3m carry: -0.6bp) - Figure 55

Sell Jul16s vs surrounding issues

■ Sell 4% Jul16 vs 2.75% Apr16 and 3.75% Jan17 (3m carry: 1.1bp) - Figure 56.

Belgium: switch into Mar16

Switch into Mar16

■ Switch from 3.25% Sep16 to 2.75% Mar16 (3m carry: 1.9bp) - Figure 57.

Figure 55. Germany: 3.75% Jan17, 0.5% Oct17, 3.75% Jan19 microfly (bp)



Source: Citi Research

Figure 56. Germany: 2.75% Apr16, 4% Jul16, 3.75% Jan17 microfly (bp)



Source: Citi Research

Figure 57. Belgium: 3.25% Sep16 – 2.75% Mar16 yield spread (bp)



Source: Citi Research

Spain: 2s3s steepener

Switch into Jan16s

■ Switch from 3.8% Jan17 to 3.15% Jan16 at 40bp (3m carry: 0.8bp) – Figure 58.

UK: 6s7s steepener, take advantage of cheapness of Mar18s

Switch into Sep20s

■ Switch from 3.75% Sep21 to 3.75% Sep20 at 18bp (3m carry: 1.1bp) – Figure 59

Buy Mar18s vs surrounding issues

■ Buy 5% Mar18 vs 1.75% Jan17 and 4.75% Mar20 (3m carry: 3.7bp) – Figure 60.

Figure 58. Spain: 3.8% Jan17 – 3.15% Jan16 yield spread (bp)



Source: Citi Research

Figure 59. UK: 3.75% Sep21 – 3.75% Sep20 yield spread (bp)



Source: Citi Research

Figure 60. UK: 1.75% Jan17, 5% Mar18, 4.75% Mar20 microfly (bp)



Source: Citi Research

Relative value tables

Regular readers will be familiar with the Relative Value Appendix showing individual bonds from the major EMU/UK markets in the context of their 6-month trading range relative to our fitted curve. We have expanded this approach and summarized the results below.

For example, Figure 61 shows the five cheapest and richest bonds in Germany relative to a fitted yield curve (shown on the left half of the page) and to the euro swap curve (right half of page). The table identifies benchmarks and CTDs and also gives the amount outstanding and initial issue date.

Figure 61. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Source: Citi Research

Figure 62 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 63 and Figure 64) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 62 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

These summary tables should help facilitate efficient screening of bonds and, among other things, provide a selection of starting points when considering switches.

EMU relative value table – all maturities

Figure 62. Coupon Adjusted Spread 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 | 1.00 Oct18 | -1.81 | Sep13 | 17 | | 1 | 1.00 Feb19 (5y) | -1.99 | Jan14 | 5 | |
| | 2 | 0.25 Apr18 | -1.54 | Apr13 | 17 | | 2 | 2.50 Jul44 (30y) | 0.15 | Apr12 | 16 | |
| | 3 | 0.50 Oct17 | -1.47 | Sep12 | 16 | | 3 | 4.00 Jan37 | 0.31 | Jan05 | 23 | |
| | 4 | 0.50 Apr17 | -1.41 | Apr12 | 18 | | 4 | 4.75 Jul40 | 0.37 | Jul08 | 16 | |
| | 5 | 2.50 Jul44 (30y) | -1.26 | Apr12 | 16 | | 5 | 4.25 Jul39 (UB) | 0.37 | Jan07 | 14 | |
| | 5 | 1.50 Sep22 | 1.19 | Sep12 | 18 | | 5 | 3.75 Jan17 | 1.00 | Nov06 | 20 | |
| | 4 | 3.25 Jul42 | 1.28 | Jul10 | 15 | | 4 | 1.25 Oct16 | 1.00 | Sep11 | 16 | |
| | 3 | 4.75 Jul40 | 1.30 | Jul08 | 16 | | 3 | 1.50 Sep22 | 1.04 | Sep12 | 18 | |
| | 2 | 4.25 Jul39 (UB) | 1.41 | Jan07 | 14 | | 2 | 2.00 Feb16 | 1.06 | Jan11 | 16 | |
| | 1 | 2.75 Apr16 | 1.59 | Apr11 | 18 | | 1 | 2.75 Apr16 | 1.24 | Apr11 | 18 | |
| | | Cheapest | | | | | | Cheapest | | | | |
| FRANCE | | Richest | | | | | | Richest | | | | |
| | 1 | 4.25 Oct23 (OAT) | -2.40 | Oct06 | 33 | | 1 | 4.50 Apr41 | -0.78 | Apr09 | 24 | |
| | 2 | 1.75 May23 | -2.19 | May12 | 26 | | 2 | 3.25 May45 (30y) | -0.73 | May12 | 9 | |
| | 3 | 2.25 Oct22 | -1.96 | Oct11 | 24 | | 3 | 4.00 Apr55 | -0.72 | Apr04 | 15 | |
| | 4 | 1.00 Jul17 | -1.47 | Jul11 | 18 | | 4 | 4.00 Oct38 | -0.67 | Oct05 | 24 | |
| | 5 | 3.00 Apr22 | -1.42 | Feb12 | 33 | | 5 | 4.75 Apr35 | -0.52 | Apr03 | 21 | |
| | 5 | 4.25 Apr19 | 1.21 | Apr03 | 31 | | 5 | 1.00 May18 | 2.04 | May12 | 21 | |
| | 4 | 2.25 May24 (10y) | 1.28 | Nov13 | 9 | | 4 | 2.25 May24 (10y) | 2.08 | Nov13 | 9 | |
| | 3 | 3.75 Apr21 | 1.63 | Apr05 | 34 | | 3 | 3.75 Oct19 | 2.12 | Oct08 | 32 | |
| | 2 | 3.50 Apr20 | 2.64 | Feb10 | 36 | | 2 | 2.50 Oct20 | 2.26 | Oct09 | 34 | |
| | 1 | 2.50 Oct20 | 2.83 | Oct09 | 34 | | 1 | 3.50 Apr20 | 2.37 | Feb10 | 36 | |
| | | Cheapest | | | | | | Cheapest | | | | |
| ITALY | | Richest | | | | | | Richest | | | | |
| | 1 | 4.50 Mar19 | -2.88 | Sep08 | 24 | | 1 | 5.75 Feb33 | -1.78 | Feb02 | 15 | |
| | 2 | 4.50 Mar24 | -2.57 | Aug13 | 19 | | 2 | 4.50 Mar19 | -1.77 | Sep08 | 24 | |
| | 3 | 5.50 Nov22 (IK) | -1.52 | May12 | 21 | | 3 | 5.00 Sep40 | -1.76 | Sep09 | 21 | |
| | 4 | 5.50 Sep22 | -1.30 | Mar12 | 20 | | 4 | 3.75 Mar21 | -1.76 | Sep10 | 24 | |
| | 5 | 4.75 May17 | -1.07 | Feb12 | 14 | | 5 | 4.75 Sep44 (30y) | -1.74 | Mar13 | 9 | |
| | 5 | 3.50 Jun18 | 1.69 | Apr13 | 17 | | 5 | 4.75 Sep16 | -1.43 | Sep11 | 16 | |
| | 4 | 3.75 Aug16 | 1.82 | Feb06 | 27 | | 4 | 3.50 Dec18 (MFB) | -1.42 | Sep13 | 17 | |
| | 3 | 4.00 Feb17 | 1.90 | Aug06 | 26 | | 3 | 4.75 Aug23 | -1.28 | Feb08 | 25 | |
| | 2 | 3.50 Nov17 | 2.18 | Nov12 | 17 | | 2 | 2.75 Nov16 | -1.25 | Sep13 | 12 | |
| | 1 | 4.75 Aug23 | 2.29 | Feb08 | 25 | | 1 | 1.50 Dec16 | 0.98 | Jan14 | 5 | |
| | | Cheapest | | | | | | Cheapest | | | | |
| N'LANDS | | Richest | | | | | | Richest | | | | |
| | 1 | 2.50 Jan17 | -1.84 | Jun11 | 16 | | 1 | 2.50 Jan17 | 0.13 | Jun11 | 16 | |
| | 2 | 1.75 Jul23 (10y) | -1.55 | Mar13 | 16 | | 2 | 3.75 Jan42 (30y) | 0.14 | May10 | 14 | |
| | 3 | 0.50 Apr17 | -1.18 | Jan14 | 4 | | 3 | 4.50 Jul17 | 0.37 | Jul07 | 15 | |
| | 4 | 4.50 Jul17 | -1.02 | Jul07 | 15 | | 4 | 2.50 Jan33 | 0.41 | Mar12 | 10 | |
| | 5 | 1.25 Jan19 (5y) | -0.93 | Jun13 | 8 | | 5 | 0.50 Apr17 | 0.45 | Jan14 | 4 | |
| | 5 | 2.50 Jan33 | 0.71 | Mar12 | 10 | | 5 | 2.25 Jul22 | 0.83 | Feb12 | 15 | |
| | 4 | 3.25 Jul21 | 0.99 | Mar11 | 16 | | 4 | 3.25 Jul21 | 0.93 | Mar11 | 16 | |
| | 3 | 3.50 Jul20 | 1.26 | Feb10 | 15 | | 3 | 4.00 Jul16 | 1.04 | Jul06 | 13 | |
| | 2 | 4.00 Jul16 | 2.02 | Jul06 | 13 | | 2 | 3.50 Jul20 | 1.07 | Feb10 | 15 | |
| | 1 | 4.00 Jul19 | 2.31 | Feb09 | 14 | | 1 | 4.00 Jul19 | 1.17 | Feb09 | 14 | |
| | | Cheapest | | | | | | Cheapest | | | | |
| SPAIN | | Richest | | | | | | Richest | | | | |
| | 1 | 3.15 Jan16 | -1.88 | Sep05 | 21 | | 1 | 4.20 Jan37 | -2.11 | Jan05 | 16 | |
| | 2 | 4.00 Apr20 | -1.74 | Jan10 | 20 | | 2 | 4.90 Jul40 | -2.09 | Jun07 | 13 | |
| | 3 | 3.80 Jan17 | -1.51 | Oct06 | 21 | | 3 | 5.15 Oct28 | -2.09 | Jul13 | 8 | |
| | 4 | 5.90 Jul26 | -1.11 | Mar11 | 12 | | 4 | 4.70 Jul41 (30y) | -2.09 | Sep09 | 12 | |
| | 5 | 2.10 Apr17 | -1.01 | Nov13 | 8 | | 5 | 5.75 Jul32 | -2.02 | Jan01 | 15 | |
| | 5 | 4.60 Jul19 | 1.46 | Feb09 | 18 | | 5 | 3.25 Apr16 | -1.71 | Nov10 | 21 | |
| | 4 | 4.90 Jul40 | 1.60 | Jun07 | 13 | | 4 | 4.80 Jan24 | -1.70 | Sep08 | 15 | |
| | 3 | 4.80 Jan24 | 1.66 | Sep08 | 15 | | 3 | 4.10 Jul18 | -1.62 | Feb08 | 19 | |
| | 2 | 4.50 Jan18 | 2.17 | Nov12 | 19 | | 2 | 2.10 Apr17 | -1.24 | Nov13 | 8 | |
| | 1 | 4.10 Jul18 | 3.99 | Feb08 | 19 | | 1 | 2.75 Apr19 | 0.50 | Jan14 | 4 | |
| | | Cheapest | | | | | | Cheapest | | | | |
| BELGIUM | | Richest | | | | | | Richest | | | | |
| | 1 | 4.00 Mar32 | -2.20 | Mar12 | 8 | | 1 | 3.50 Jun17 | -1.61 | Mar11 | 13 | |
| | 2 | 3.50 Jun17 | -2.02 | Mar11 | 13 | | 2 | 5.50 Sep17 | -1.61 | Jun02 | 8 | |
| | 3 | 2.25 Jun23 (10y) | -1.91 | Jan13 | 14 | | 3 | 2.25 Jun23 (10y) | -1.52 | Jan13 | 14 | |
| | 4 | 5.50 Sep17 | -1.56 | Jun02 | 8 | | 4 | 4.25 Mar41 | -1.47 | Apr10 | 12 | |
| | 5 | 4.25 Sep22 | -1.54 | Jan12 | 15 | | 5 | 4.25 Sep22 | -1.46 | Jan12 | 15 | |
| | 5 | 1.25 Jun18 (5y) | 1.06 | Feb13 | 12 | | 5 | 3.75 Jun45 (30y) | -1.20 | Sep13 | 4 | |
| | 4 | 5.00 Mar35 | 1.58 | May04 | 18 | | 4 | 4.00 Mar18 | -1.18 | Jan08 | 12 | |
| | 3 | 2.75 Mar16 | 1.69 | Mar10 | 10 | | 3 | 3.25 Sep16 | -1.07 | Jan06 | 13 | |
| | 2 | 4.00 Mar18 | 1.84 | Jan08 | 12 | | 2 | 2.75 Mar16 | 0.12 | Mar10 | 10 | |
| | 1 | 4.25 Sep21 | 2.01 | Jan11 | 15 | | 1 | 2.60 Jun24 | 0.33 | Jan14 | 5 | |
| | | Cheapest | | | | | | Cheapest | | | | |

Source: Citi Research

EMU relative value table – max 12yr maturity

Figure 63. Coupon Adjusted Spread 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 | 1.00 Oct18 | -1.81 | Sep13 | 17 | 1 | 1.00 Feb19 (5y) | -1.99 | Jan14 | 5 |
| | | 2 | 0.25 Apr18 | -1.54 | Apr13 | 17 | 2 | 2.00 Aug23 (10y) | 0.42 | Sep13 | 18 |
| | | 3 | 0.50 Oct17 | -1.47 | Sep12 | 16 | 3 | 1.00 Oct18 | 0.56 | Sep13 | 17 |
| | | 4 | 0.50 Apr17 | -1.41 | Apr12 | 18 | 4 | 1.50 May23 | 0.81 | May13 | 18 |
| | | 5 | 2.00 Aug23 (10y) | -1.05 | Sep13 | 18 | 5 | 1.50 Feb23 (RX) | 0.83 | Jan13 | 18 |
| | Cheapest | 5 | 2.00 Feb16 | 0.49 | Jan11 | 16 | 5 | 3.75 Jan17 | 1.00 | Nov06 | 20 |
| | | 4 | 2.00 Jan22 | 0.57 | Nov11 | 20 | 4 | 1.25 Oct16 | 1.00 | Sep11 | 16 |
| | | 3 | 3.75 Jan17 | 0.66 | Nov06 | 20 | 3 | 1.50 Sep22 | 1.04 | Sep12 | 18 |
| | | 2 | 1.50 Sep22 | 1.19 | Sep12 | 18 | 2 | 2.00 Feb16 | 1.06 | Jan11 | 16 |
| | | 1 | 2.75 Apr16 | 1.59 | Apr11 | 18 | 1 | 2.75 Apr16 | 1.24 | Apr11 | 18 |
| FRANCE | Richest | 1 | 4.25 Oct23 (OAT) | -2.37 | Oct06 | 33 | 1 | 4.25 Oct23 (OAT) | 0.11 | Oct06 | 33 |
| | | 2 | 1.75 May23 | -2.14 | May12 | 26 | 2 | 2.25 Oct22 | 0.42 | Oct11 | 24 |
| | | 3 | 2.25 Oct22 | -1.94 | Oct11 | 24 | 3 | 3.00 Apr22 | 0.66 | Feb12 | 33 |
| | | 4 | 1.00 Jul17 | -1.46 | Jul11 | 18 | 4 | 5.00 Oct16 | 0.71 | Oct00 | 29 |
| | | 5 | 3.00 Apr22 | -1.39 | Feb12 | 33 | 5 | 1.75 May23 | 0.78 | May12 | 26 |
| | Cheapest | 5 | 4.25 Apr19 | 1.22 | Apr03 | 31 | 5 | 1.00 May18 | 2.04 | May12 | 21 |
| | | 4 | 2.25 May24 (10y) | 1.36 | Nov13 | 9 | 4 | 2.25 May24 (10y) | 2.09 | Nov13 | 9 |
| | | 3 | 3.75 Apr21 | 1.69 | Apr05 | 34 | 3 | 3.75 Oct19 | 2.13 | Oct08 | 32 |
| | | 2 | 3.50 Apr20 | 2.68 | Feb10 | 36 | 2 | 2.50 Oct20 | 2.27 | Oct09 | 34 |
| | | 1 | 2.50 Oct20 | 2.87 | Oct09 | 34 | 1 | 3.50 Apr20 | 2.38 | Feb10 | 36 |
| ITALY | Richest | 1 | 4.50 Mar19 | -2.88 | Sep08 | 24 | 1 | 4.50 Mar19 | -1.77 | Sep08 | 24 |
| | | 2 | 4.50 Mar24 | -2.57 | Aug13 | 19 | 2 | 3.75 Mar21 | -1.76 | Sep10 | 24 |
| | | 3 | 5.50 Nov22 (IK) | -1.52 | May12 | 21 | 3 | 4.25 Mar20 | -1.74 | Sep09 | 24 |
| | | 4 | 5.50 Sep22 | -1.30 | Mar12 | 20 | 4 | 4.50 Feb20 | -1.72 | Feb04 | 23 |
| | | 5 | 4.75 May17 | -1.07 | Feb12 | 14 | 5 | 4.50 Mar24 | -1.67 | Aug13 | 19 |
| | Cheapest | 5 | 3.50 Jun18 | 1.69 | Apr13 | 17 | 5 | 4.75 Sep16 | -1.43 | Sep11 | 16 |
| | | 4 | 3.75 Aug16 | 1.82 | Feb06 | 27 | 4 | 3.50 Dec18 (MFB) | -1.42 | Sep13 | 17 |
| | | 3 | 4.00 Feb17 | 1.90 | Aug06 | 26 | 3 | 4.75 Aug23 | -1.28 | Feb08 | 25 |
| | | 2 | 3.50 Nov17 | 2.18 | Nov12 | 17 | 2 | 2.75 Nov16 | -1.25 | Sep13 | 12 |
| | | 1 | 4.75 Aug23 | 2.29 | Feb08 | 25 | 1 | 1.50 Dec16 | 0.98 | Jan14 | 5 |
| N'LANDS | Richest | 1 | 2.50 Jan17 | -1.84 | Jun11 | 16 | 1 | 2.50 Jan17 | 0.13 | Jun11 | 16 |
| | | 2 | 1.75 Jul23 (10y) | -1.55 | Mar13 | 16 | 2 | 4.50 Jul17 | 0.37 | Jul07 | 15 |
| | | 3 | 0.50 Apr17 | -1.18 | Jan14 | 4 | 3 | 0.50 Apr17 | 0.45 | Jan14 | 4 |
| | | 4 | 4.50 Jul17 | -1.02 | Jul07 | 15 | 4 | 1.75 Jul23 (10y) | 0.50 | Mar13 | 16 |
| | | 5 | 1.25 Jan19 (5y) | -0.93 | Jun13 | 8 | 5 | 0.00 Apr16 | 0.58 | Jan13 | 15 |
| | Cheapest | 5 | 2.25 Jul22 | 0.66 | Feb12 | 15 | 5 | 2.25 Jul22 | 0.83 | Feb12 | 15 |
| | | 4 | 3.25 Jul21 | 0.99 | Mar11 | 16 | 4 | 3.25 Jul21 | 0.93 | Mar11 | 16 |
| | | 3 | 3.50 Jul20 | 1.26 | Feb10 | 15 | 3 | 4.00 Jul16 | 1.04 | Jul06 | 13 |
| | | 2 | 4.00 Jul16 | 2.02 | Jul06 | 13 | 2 | 3.50 Jul20 | 1.07 | Feb10 | 15 |
| | | 1 | 4.00 Jul19 | 2.31 | Feb09 | 14 | 1 | 4.00 Jul19 | 1.17 | Feb09 | 14 |
| SPAIN | Richest | 1 | 3.15 Jan16 | -1.88 | Sep05 | 21 | 1 | 5.50 Apr21 | -1.92 | Jan11 | 24 |
| | | 2 | 4.00 Apr20 | -1.74 | Jan10 | 20 | 2 | 4.00 Apr20 | -1.89 | Jan10 | 20 |
| | | 3 | 3.80 Jan17 | -1.51 | Oct06 | 21 | 3 | 5.85 Jan22 (FBB) | -1.86 | Nov11 | 19 |
| | | 4 | 2.10 Apr17 | -1.01 | Nov13 | 8 | 4 | 4.30 Oct19 | -1.86 | Jun09 | 19 |
| | | 5 | 4.30 Oct19 | -0.68 | Jun09 | 19 | 5 | 4.85 Oct20 | -1.85 | Jul10 | 18 |
| | Cheapest | 5 | 4.40 Oct23 (10y) | 1.37 | May13 | 18 | 5 | 3.25 Apr16 | -1.71 | Nov10 | 21 |
| | | 4 | 4.60 Jul19 | 1.46 | Feb09 | 18 | 4 | 4.80 Jan24 | -1.70 | Sep08 | 15 |
| | | 3 | 4.80 Jan24 | 1.66 | Sep08 | 15 | 3 | 4.10 Jul18 | -1.62 | Feb08 | 19 |
| | | 2 | 4.50 Jan18 | 2.17 | Nov12 | 19 | 2 | 2.10 Apr17 | -1.24 | Nov13 | 8 |
| | | 1 | 4.10 Jul18 | 3.99 | Feb08 | 19 | 1 | 2.75 Apr19 | 0.50 | Jan14 | 4 |
| BELGIUM | Richest | 1 | 3.50 Jun17 | -2.02 | Mar11 | 13 | 1 | 3.50 Jun17 | -1.61 | Mar11 | 13 |
| | | 2 | 2.25 Jun23 (10y) | -1.91 | Jan13 | 14 | 2 | 5.50 Sep17 | -1.60 | Jun02 | 8 |
| | | 3 | 4.25 Sep22 | -1.56 | Jan12 | 15 | 3 | 2.25 Jun23 (10y) | -1.52 | Jan13 | 14 |
| | | 4 | 5.50 Sep17 | -1.56 | Jun02 | 8 | 4 | 4.25 Sep22 | -1.46 | Jan12 | 15 |
| | | 5 | 2.60 Jun24 | -1.08 | Jan14 | 5 | 5 | 4.00 Mar22 | -1.44 | May06 | 14 |
| | Cheapest | 5 | 3.00 Sep19 | 0.53 | Apr12 | 9 | 5 | 4.00 Mar17 | -1.26 | Jan07 | 11 |
| | | 4 | 1.25 Jun18 (5y) | 1.07 | Feb13 | 12 | 4 | 4.00 Mar18 | -1.18 | Jan08 | 12 |
| | | 3 | 2.75 Mar16 | 1.68 | Mar10 | 10 | 3 | 3.25 Sep16 | -1.07 | Jan06 | 13 |
| | | 2 | 4.00 Mar18 | 1.84 | Jan08 | 12 | 2 | 2.75 Mar16 | 0.11 | Mar10 | 10 |
| | | 1 | 4.25 Sep21 | 1.99 | Jan11 | 15 | 1 | 2.60 Jun24 | 0.33 | Jan14 | 5 |

Source: Citi Research

EMU relative value table – min 8yr maturity

Figure 64. Coupon Adjusted Spread 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) | | | | |
|---------|----------|-------------------------|------------------|--------|--------|------------|-------------------------|------------------|--------|--------|------------|
| | | GERMANY | | | | | FRANCE | | | | |
| | | Rank | | ZScore | Issued | Size (€bn) | Rank | | ZScore | Issued | Size (€bn) |
| GERMANY | Richest | 1 | 2.50 Jul44 (30y) | -1.26 | Apr12 | 16 | 1 | 2.50 Jul44 (30y) | 0.15 | Apr12 | 16 |
| | | 2 | 2.00 Aug23 (10y) | -1.05 | Sep13 | 18 | 2 | 4.00 Jan37 | 0.31 | Jan05 | 23 |
| | | 3 | 1.50 May23 | -0.69 | May13 | 18 | 3 | 4.75 Jul40 | 0.37 | Jul08 | 16 |
| | | 4 | 1.50 Feb23 (RX) | -0.67 | Jan13 | 18 | 4 | 4.25 Jul39 (UB) | 0.37 | Jan07 | 14 |
| | | 5 | 1.75 Jul22 | -0.23 | Apr12 | 24 | 5 | 3.25 Jul42 | 0.38 | Jul10 | 15 |
| | | 5 | 5.50 Jan31 | 1.06 | Oct10 | 17 | 5 | 5.50 Jan31 | 0.62 | Oct10 | 17 |
| | | 4 | 1.50 Sep22 | 1.19 | Sep12 | 18 | 4 | 1.50 May23 | 0.81 | May13 | 18 |
| | | 3 | 3.25 Jul42 | 1.28 | Jul10 | 15 | 3 | 1.50 Feb23 (RX) | 0.83 | Jan13 | 18 |
| | | 2 | 4.75 Jul40 | 1.30 | Jul08 | 16 | 2 | 1.75 Jul22 | 0.91 | Apr12 | 24 |
| | Cheapest | 1 | 4.25 Jul39 (UB) | 1.41 | Jan07 | 14 | 1 | 1.50 Sep22 | 1.04 | Sep12 | 18 |
| FRANCE | Richest | 1 | 4.25 Oct23 (OAT) | -2.37 | Oct06 | 33 | 1 | 4.50 Apr41 | -0.77 | Apr09 | 24 |
| | | 2 | 1.75 May23 | -2.14 | May12 | 26 | 2 | 3.25 May45 (30y) | -0.72 | May12 | 9 |
| | | 3 | 2.25 Oct22 | -1.94 | Oct11 | 24 | 3 | 4.00 Apr55 | -0.71 | Apr04 | 15 |
| | | 4 | 3.00 Apr22 | -1.39 | Feb12 | 33 | 4 | 4.00 Oct38 | -0.67 | Oct05 | 24 |
| | | 5 | 4.00 Apr55 | -0.92 | Apr04 | 15 | 5 | 4.75 Apr35 | -0.51 | Apr03 | 21 |
| | | 5 | 4.00 Oct38 | -0.40 | Oct05 | 24 | 5 | 2.75 Oct27 | 0.54 | Oct11 | 18 |
| | | 4 | 3.50 Apr26 | -0.26 | Apr10 | 30 | 4 | 3.00 Apr22 | 0.66 | Feb12 | 33 |
| | | 3 | 2.75 Oct27 | 0.54 | Oct11 | 18 | 3 | 1.75 May23 | 0.78 | May12 | 26 |
| | | 2 | 3.25 May45 (30y) | 1.19 | May12 | 9 | 2 | 3.50 Apr26 | 0.81 | Apr10 | 30 |
| | Cheapest | 1 | 2.25 May24 (10y) | 1.36 | Nov13 | 9 | 1 | 2.25 May24 (10y) | 2.09 | Nov13 | 9 |
| ITALY | Richest | 1 | 4.50 Mar24 | -2.57 | Aug13 | 19 | 1 | 5.75 Feb33 | -1.78 | Feb02 | 15 |
| | | 2 | 5.50 Nov22 (IK) | -1.52 | May12 | 21 | 2 | 5.00 Sep40 | -1.76 | Sep09 | 21 |
| | | 3 | 5.50 Sep22 | -1.30 | Mar12 | 20 | 3 | 4.75 Sep44 (30y) | -1.74 | Mar13 | 9 |
| | | 4 | 4.75 Sep44 (30y) | -0.93 | Mar13 | 9 | 4 | 5.00 Aug39 | -1.74 | Aug07 | 19 |
| | | 5 | 5.75 Feb33 | -0.63 | Feb02 | 15 | 5 | 5.00 Aug34 | -1.71 | Aug03 | 21 |
| | | 5 | 5.00 Mar22 | 1.03 | Sep11 | 18 | 5 | 5.50 Sep22 | -1.56 | Mar12 | 20 |
| | | 4 | 4.00 Feb37 | 1.06 | Aug05 | 25 | 4 | 4.75 Sep28 | -1.55 | Jan13 | 16 |
| | | 3 | 5.00 Aug39 | 1.10 | Aug07 | 19 | 3 | 4.50 May23 (10y) | -1.52 | Mar13 | 18 |
| | | 2 | 4.50 Mar26 | 1.62 | Sep10 | 21 | 2 | 4.50 Mar26 | -1.48 | Sep10 | 21 |
| | Cheapest | 1 | 4.75 Aug23 | 2.29 | Feb08 | 25 | 1 | 4.75 Aug23 | -1.28 | Feb08 | 25 |
| N'LANDS | Richest | 1 | 1.75 Jul23 (10y) | -1.57 | Mar13 | 16 | 1 | 3.75 Jan42 (30y) | 0.14 | May10 | 14 |
| | | 2 | 3.75 Jan42 (30y) | -0.73 | May10 | 14 | 2 | 2.50 Jan33 | 0.42 | Mar12 | 10 |
| | | 3 | 3.75 Jan23 | 0.17 | Jan06 | 11 | 3 | 1.75 Jul23 (10y) | 0.50 | Mar13 | 16 |
| | | 3 | 4.00 Jan37 | 0.33 | Apr05 | 13 | 3 | 4.00 Jan37 | 0.51 | Apr05 | 13 |
| | | 2 | 2.25 Jul22 | 0.63 | Feb12 | 15 | 2 | 3.75 Jan23 | 0.74 | Jan06 | 11 |
| | Cheapest | 1 | 2.50 Jan33 | 0.71 | Mar12 | 10 | 1 | 2.25 Jul22 | 0.83 | Feb12 | 15 |
| SPAIN | Richest | 1 | 5.90 Jul26 | -1.11 | Mar11 | 12 | 1 | 4.20 Jan37 | -2.11 | Jan05 | 16 |
| | | 2 | 5.85 Jan22 (FBB) | -0.45 | Nov11 | 19 | 2 | 4.90 Jul40 | -2.10 | Jun07 | 13 |
| | | 3 | 5.15 Oct44 | -0.44 | Oct13 | 4 | 3 | 5.15 Oct28 | -2.09 | Jul13 | 8 |
| | | 4 | 4.70 Jul41 (30y) | -0.38 | Sep09 | 12 | 4 | 4.70 Jul41 (30y) | -2.09 | Sep09 | 12 |
| | | 5 | 4.65 Jul25 | -0.28 | Feb10 | 14 | 5 | 5.75 Jul32 | -2.02 | Jan01 | 15 |
| | | 5 | 5.75 Jul32 | 0.47 | Jan01 | 15 | 5 | 5.85 Jan22 (FBB) | -1.86 | Nov11 | 19 |
| | | 4 | 4.20 Jan37 | 1.10 | Jan05 | 16 | 4 | 4.65 Jul25 | -1.83 | Feb10 | 14 |
| | | 3 | 4.40 Oct23 (10y) | 1.36 | May13 | 18 | 3 | 5.40 Jan23 | -1.83 | Jan13 | 17 |
| | | 2 | 4.90 Jul40 | 1.57 | Jun07 | 13 | 2 | 4.40 Oct23 (10y) | -1.80 | May13 | 18 |
| | Cheapest | 1 | 4.80 Jan24 | 1.66 | Sep08 | 15 | 1 | 4.80 Jan24 | -1.70 | Sep08 | 15 |
| BELGIUM | Richest | 1 | 4.00 Mar32 | -2.27 | Mar12 | 8 | 1 | 2.25 Jun23 (10y) | -1.52 | Jan13 | 14 |
| | | 2 | 2.25 Jun23 (10y) | -1.91 | Jan13 | 14 | 2 | 4.25 Mar41 | -1.47 | Apr10 | 12 |
| | | 3 | 4.25 Sep22 | -1.59 | Jan12 | 15 | 3 | 4.25 Sep22 | -1.46 | Jan12 | 15 |
| | | 4 | 2.60 Jun24 | -1.08 | Jan14 | 5 | 4 | 4.00 Mar32 | -1.45 | Mar12 | 8 |
| | | 4 | 4.00 Mar22 | -0.86 | May06 | 14 | 4 | 5.00 Mar35 | -1.39 | May04 | 18 |
| | | 3 | 4.25 Mar41 | -0.67 | Apr10 | 12 | 3 | 4.50 Mar26 | -1.30 | Jun11 | 8 |
| | | 2 | 3.75 Jun45 (30y) | -0.15 | Sep13 | 4 | 2 | 3.75 Jun45 (30y) | -1.20 | Sep13 | 4 |
| | | 1 | 5.00 Mar35 | 1.58 | May04 | 18 | 1 | 2.60 Jun24 | 0.33 | Jan14 | 5 |
| | Cheapest | | | | | | | | | | |

Source: Citi Research

UK relative value table

Figure 65. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

| | | Versus Govt Curve (CAS) | | | | | Versus Swap Curve (CAS) | | | | |
|------------|----------|-------------------------|------------------|--------|--------|------------|-------------------------|------------------|--------|--------|------------|
| | | Rank | | ZScore | Issued | Size (€bn) | Rank | | ZScore | Issued | Size (€bn) |
| | | | | | | | | | | | |
| ALL | Richest | 1 | 4.00 Mar22 | -3.23 | Feb09 | 37 | 1 | 1.75 Jan17 | -2.14 | Aug11 | 27 |
| | | 2 | 3.75 Sep21 | -2.79 | Mar11 | 28 | 2 | 4.00 Sep16 | -2.05 | Mar06 | 35 |
| | | 3 | 4.00 Jan60 | -2.65 | Oct09 | 19 | 3 | 1.75 Jul19 | -1.98 | Nov13 | 9 |
| | | 4 | 4.50 Sep34 | -2.47 | Jun09 | 26 | 4 | 1.00 Sep17 | -1.93 | Mar12 | 31 |
| | | 5 | 2.25 Mar14 | -2.41 | Mar09 | 35 | 5 | 1.25 Jul18 (5y) | -1.40 | Feb13 | 34 |
| | Cheapest | 5 | 2.25 Sep23 (10y) | 1.81 | Jun13 | 20 | 5 | 4.25 Mar36 | 0.75 | Feb03 | 26 |
| | | 4 | 2.75 Jan15 | 1.90 | Nov09 | 29 | 4 | 4.25 Sep39 | 0.77 | Mar09 | 19 |
| | | 3 | 1.75 Jan17 | 2.30 | Aug11 | 27 | 3 | 4.75 Dec38 | 0.84 | Apr04 | 25 |
| | | 2 | 3.50 Jul68 | 2.36 | Jun13 | 10 | 2 | 2.25 Mar14 | 1.33 | Mar09 | 35 |
| | | 1 | 2.00 Jan16 | 2.49 | Nov10 | 32 | 1 | 2.75 Jan15 | 1.59 | Nov09 | 29 |
| 2yr - 7yr | Richest | 1 | 1.25 Jul18 (5y) | -1.61 | Feb13 | 34 | 1 | 1.75 Jan17 | -2.15 | Aug11 | 27 |
| | | 2 | 4.75 Mar20 | -0.76 | Mar05 | 33 | 2 | 4.00 Sep16 | -2.06 | Mar06 | 35 |
| | | 3 | 3.75 Sep20 | -0.67 | Jun10 | 24 | 3 | 1.75 Jul19 | -2.00 | Nov13 | 9 |
| | | 4 | 1.75 Jul19 | -0.10 | Nov13 | 9 | 4 | 1.00 Sep17 | -1.94 | Mar12 | 31 |
| | | 5 | 4.00 Sep16 | 0.26 | Mar06 | 35 | 5 | 1.25 Jul18 (5y) | -1.42 | Feb13 | 34 |
| | Cheapest | 5 | 5.00 Mar18 (WX) | 0.88 | May07 | 34 | 5 | 2.00 Jan16 | -1.01 | Nov10 | 32 |
| | | 4 | 1.00 Sep17 | 1.18 | Mar12 | 31 | 4 | 4.50 Mar19 | -0.04 | Sep08 | 35 |
| | | 3 | 3.75 Sep19 | 1.55 | Jul09 | 28 | 3 | 4.75 Mar20 | 0.00 | Mar05 | 33 |
| | | 2 | 1.75 Jan17 | 2.24 | Aug11 | 27 | 2 | 3.75 Sep20 | 0.06 | Jun10 | 24 |
| | | 1 | 2.00 Jan16 | 2.46 | Nov10 | 32 | 1 | 3.75 Sep19 | 0.49 | Jul09 | 28 |
| 7yr - 15yr | Richest | 1 | 4.00 Mar22 | -3.27 | Feb09 | 37 | 1 | 2.25 Sep23 (10y) | -1.23 | Jun13 | 20 |
| | | 2 | 3.75 Sep21 | -2.83 | Mar11 | 28 | 2 | 1.75 Sep22 | -1.23 | Jun12 | 28 |
| | | 3 | 1.75 Sep22 | -1.49 | Jun12 | 28 | 3 | 4.00 Mar22 | -1.18 | Feb09 | 37 |
| | | 4 | | | | | 4 | | | | |
| | | 5 | | | | | 5 | | | | |
| | Cheapest | 4 | 5.00 Mar25 (G) | 0.42 | Sep01 | 34 | 3 | 3.75 Sep21 | -0.78 | Mar11 | 28 |
| | | 2 | 4.25 Dec27 | 0.78 | Sep06 | 29 | 2 | 5.00 Mar25 (G) | -0.39 | Sep01 | 34 |
| | | 1 | 2.25 Sep23 (10y) | 1.71 | Jun13 | 20 | 1 | 4.25 Dec27 | -0.12 | Sep06 | 29 |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| >15yr | Richest | 1 | 4.00 Jan60 | -3.00 | Oct09 | 19 | 1 | 3.50 Jul68 | -0.46 | Jun13 | 10 |
| | | 2 | 4.50 Sep34 | -2.60 | Jun09 | 26 | 2 | 4.00 Jan60 | -0.31 | Oct09 | 19 |
| | | 3 | 3.25 Jan44 (30y) | -1.56 | Oct12 | 24 | 3 | 4.25 Dec49 | -0.31 | Sep08 | 19 |
| | | 4 | 3.50 Jul68 | -1.24 | Jun13 | 10 | 4 | 4.25 Dec55 | -0.29 | May05 | 23 |
| | | 5 | 4.25 Jun32 | -1.19 | May00 | 35 | 5 | 4.25 Dec46 | -0.15 | May06 | 21 |
| | Cheapest | 5 | 4.25 Mar36 | 1.08 | Feb03 | 26 | 5 | 4.50 Dec42 | 0.50 | Jun07 | 26 |
| | | 4 | 3.75 Jul52 | 1.17 | Sep11 | 20 | 4 | 4.25 Dec40 | 0.68 | Jun10 | 24 |
| | | 3 | 4.50 Dec42 | 1.27 | Jun07 | 26 | 3 | 4.25 Mar36 | 0.74 | Feb03 | 26 |
| | | 2 | 4.25 Dec40 | 1.31 | Jun10 | 24 | 2 | 4.25 Sep39 | 0.75 | Mar09 | 19 |
| | | 1 | 4.75 Dec38 | 1.52 | Apr04 | 25 | 1 | 4.75 Dec38 | 0.82 | Apr04 | 25 |

Source: Citi Research

4 Week Auction Calendar: US, EMU-10, UK

Mohit Aggarwal
Nishay Patel

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

Figure 66. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

| Date | Country | Nominal Size (Local Ccy, bn) | Issue Details | DV01 \$million/bp | Approx. Number 10yr Futures | | |
|-----------------------------------|-------------|---------------------------------|--|----------------------|-----------------------------|-------------|-------------|
| | | | | | TYH4 (UST) | G H4 (Gilt) | RXH4 (Bund) |
| 27 Jan (Mon) | US | 1 - 1.5 | Outright Treasury Coupon Purchases: 15/2/2036 - 15/11/2043 | | -28k | | |
| 28 Jan (Tue) | Netherlands | 1.8 | DSL 4% Jul16 and 4% Jan37 (issue confirmed, €1.2bn) | | | | 26k |
| 28 Jan (Tue) | Italy | 4.0 | CTZ (estimated size) | | | | 7k |
| 28 Jan (Tue) | Italy | 1.2 | BTPei (estimated size) | | | | 9k |
| 28 Jan (Tue) | UK | 4.0 | Syndication of 01/8% Index-linked Treasury Gilt 2068 (issue confirmed, week commencing 27 January) | | | 215k | |
| 28 Jan (Tue) | US | 32.0 | 2-year | | 103k | | |
| 28 Jan (Tue) | US | 2.25 - 3 | Outright Treasury Coupon Purchases: 15/2/2021 - 15/11/2023 | | -23k | | |
| 29 Jan (Wed) | Germany | 5.0 | New Bund Feb24 (issue and size confirmed) | | | | 38k |
| 29 Jan (Wed) | US | 15.0 | 2-Year FRN | | 48k | | |
| 30 Jan (Thu) | Italy | 6.0 | BTP 5yr and 10yr (estimated tenor and size) | | | | 37k |
| 30 Jan (Thu) | Italy | 1.8 | CCTeu (estimated size) | | | | 7k |
| 30 Jan (Thu) | US | 35.0 | 5-year | | 189k | | |
| 30 Jan (Thu) | US | 29.0 | 7-year | | 224k | | |
| 30 Jan (Thu) | US | 1 - 1.5 | Outright Treasury Coupon Purchases: 15/2/2036 - 15/11/2043 | | -28k | | |
| 31 Jan (Fri) | US | 3.75 - 4.75 | Outright Treasury Coupon Purchases : 15/2/2018 - 31/10/2018 | | -19k | | |
| Weekly \$DV01 of Issuance | | | | 90.8 | | | |
| Total Number of Futures Contracts | | | | | 467k | 215k | 124k |

| Date | Country | Nominal Size (Local Ccy, bn) | Issue Details | DV01 \$million/bp | Approx. Number 10yr Futures | | |
|-----------------------------------|---------|---------------------------------|---|----------------------|-----------------------------|-------------|-------------|
| | | | | | TYH4 (UST) | G H4 (Gilt) | RXH4 (Bund) |
| 04 Feb (Tue) | Austria | 1.4 | RAGB 5yr and 10yr (estimated tenor and size) | | | | 8k |
| 04 Feb (Tue) | UK | 4.4 | 1.75% Treasury Gilt 2019 (issue confirmed, estimated size) | | | 24k | |
| 05 Feb (Wed) | Germany | 4.0 | Bobl Feb19 re-opening (issue and size confirmed) | | | | 16k |
| 06 Feb (Thu) | France | 8.5 | OAT 5yr, 10yr and 15yr (estimated tenors and size) | | | | 71k |
| 06 Feb (Thu) | Spain | 5.5 | Bono/Obligaciones 2yr, 5yr and 15yr (estimated tenors and size) | | | | 23k |
| Weekly \$DV01 of Issuance | | | | 23.0 | | | |
| Total Number of Futures Contracts | | | | | 0k | 24k | 118k |

| Date | Country | Nominal Size (Local Ccy, bn) | Issue Details | DV01 \$million/bp | Approx. Number 10yr Futures | | |
|-----------------------------------|-------------|---------------------------------|---|----------------------|-----------------------------|-------------|-------------|
| | | | | | TYH4 (UST) | G H4 (Gilt) | RXH4 (Bund) |
| 11 Feb (Tue) | Germany | 1.0 | Boblei/Bundei (estimated size) | | | | 8k |
| 11 Feb (Tue) | Netherlands | 2.5 | DSL 1.25% Jan19 re-opening (issue confirmed, estimated size) | | | | 10k |
| 11 Feb (Tue) | UK | 1.4 | 01/8% Index-linked Treasury Gilt 2024 (issue confirmed, estimated size) | | | 16k | |
| 11 Feb (Tue) | US | 30.0 | 3-year | | 97k | | |
| 12 Feb (Wed) | Germany | 5.0 | New Schatz Mar16 (issue and size confirmed) | | | | 8k |
| 12 Feb (Wed) | US | 24.0 | 10-year | | 263k | | |
| 13 Feb (Thu) | Italy | 7.3 | BTP 3yr, 7yr and 30yr (estimated tenor and size) | | | | 49k |
| 13 Feb (Thu) | UK | 2.0 | 3¼% Treasury Gilt 2052 (issue confirmed, estimated size) | | | 44k | |
| 13 Feb (Thu) | US | 16.0 | 30-year | | 361k | | |
| Weekly \$DV01 of Issuance | | | | 77.7 | | | |
| Total Number of Futures Contracts | | | | | 720k | 60k | 75k |

| Date | Country | Nominal Size (Local Ccy, bn) | Issue Details | DV01 \$million/bp | Approx. Number 10yr Futures | | |
|-----------------------------------|-------------|---------------------------------|--|----------------------|-----------------------------|-------------|-------------|
| | | | | | TYH4 (UST) | G H4 (Gilt) | RXH4 (Bund) |
| 17 Feb (Mon) | Belgium | 4.0 | We believe the auction will be cancelled and a 5yr syndication will be conducted in February. Should the auction be conducted, we would expect it to be around €3bn. | | | | 16k |
| 17 Feb (Mon) | UK | 2.4 | Mini-tender (estimated issue) | | | 6k | |
| 18 Feb (Tue) | Netherlands | 4.0 | New DSL Jan47 (issue confirmed, min €3bn) | | | | 81k |
| 19 Feb (Wed) | Germany | 5.0 | Bund Feb24 re-opening (issue and size confirmed) | | | | 38k |
| 20 Feb (Thu) | France | 9.7 | OAT 2yr and 5yr, index-linked OAT (estimated tenors and size) | | | | 39k |
| 20 Feb (Thu) | Spain | 5.8 | Bono/Obligaciones 2yr, 5yr and 10yr (estimated tenors and size) | | | | 32k |
| 20 Feb (Thu) | UK | 3.4 | 2¼% Treasury Gilt 2023 (issue confirmed, estimated size) | | | 30k | |
| 20 Feb (Thu) | US | 9.0 | 30-year TIPS | | 106k | | |
| Weekly \$DV01 of Issuance | | | | 47.3 | | | |
| Total Number of Futures Contracts | | | | | 106k | 35k | 206k |

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on January 31, 2013. Therefore we have only included Fed buybacks upto January 31 in this calendar.
Source: DMOs, Citi Research

EUR: Coupons & Redemptions (next 3 mths)

Figure 67. EMU-10 Redemptions over the next three months (€bn)

| Redemptions = €100bn | | | | | | | | | | | |
|----------------------|-----------|----------|----------|-----------|-----------|----------|----------|----------|----------|----------|----------|
| Redemptions | DEU 34 | FRA 0 | NLD 0 | ITA 43 | ESP 14 | BEL 9 | AUT 0 | FIN 0 | PRT 0 | GRC 0 | IRL 0 |
| (Fri) 31-Jan-14 | | | | 14.5 | 14.2 | | | | | | |
| (Sat) 01-Mar-14 | | | | 13.4 | | | | | | | |
| (Fri) 14-Mar-14 | 15.0 | | | | | | | | | | |
| (Fri) 28-Mar-14 | | | | | | 8.7 | | | | | |
| (Tue) 01-Apr-14 | | | | 14.8 | | | | | | | |
| (Fri) 11-Apr-14 | 19.0 | | | | | | | | | | |

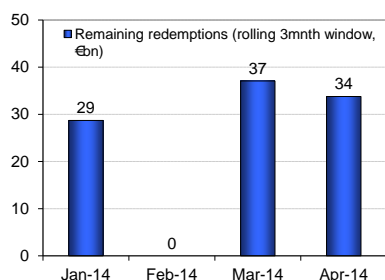
Source: DMOs, Bloomberg, Citi Research

Figure 68. EMU-10 Coupon Payments over the next three months (€bn)

| Coupons = €44bn | | | | | | | | | | | |
|-----------------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|
| Coupons | DEU 3 | FRA 1 | NLD 0 | ITA 18 | ESP 9 | BEL 6 | AUT 2 | FIN 1 | PRT 1 | GRC 0 | IRL 2 |
| (Sun) 26-Jan-14 | | | | | | | 0.1 | | | | |
| (Fri) 31-Jan-14 | | | | | 8.4 | | | | | | |
| (Sat) 01-Feb-14 | | | | 8.4 | | | | | | | |
| (Sat) 15-Feb-14 | 0.3 | | | | | | | | 0.4 | | |
| (Tue) 18-Feb-14 | | | | | | | | | | | 0.16 |
| (Thu) 20-Feb-14 | | | | | | | 0.3 | | | | |
| (Sun) 23-Feb-14 | 0.1 | | | | | | | | | | |
| (Mon) 24-Feb-14 | 0.1 | | | | | | | | | | |
| (Tue) 25-Feb-14 | | 1.0 | | | | | | | | | |
| (Wed) 26-Feb-14 | 0.3 | | | | | | | | | | |
| (Thu) 27-Feb-14 | 0.4 | | | | | | | | | | |
| (Sat) 01-Mar-14 | | | | 7.0 | | | | | | | |
| (Thu) 13-Mar-14 | 0.0 | | | | | | | | | | 0.6 |
| (Fri) 14-Mar-14 | 0.0 | | | | | | | | | | |
| (Sat) 15-Mar-14 | | | | 1.9 | | | 1.4 | | | | |
| (Thu) 20-Mar-14 | | | | | | | | | | | 0.2 |
| (Fri) 28-Mar-14 | | | | | | 6.4 | | | | | |
| (Mon) 31-Mar-14 | | | | | 0.3 | | | | | | |
| (Tue) 01-Apr-14 | | | | 0.2 | | | | | | | |
| (Mon) 07-Apr-14 | 0.1 | | | | | | | | | | |
| (Tue) 08-Apr-14 | 0.5 | | | | | | | | | | |
| (Thu) 10-Apr-14 | 0.4 | | | | | | | | | | |
| (Fri) 11-Apr-14 | 0.4 | | | | | | | | | | |
| (Sun) 13-Apr-14 | 0.0 | | | | | | | | | | |
| (Tue) 15-Apr-14 | 0.6 | | 0.1 | 0.8 | | | | 0.7 | 0.6 | | |
| (Fri) 18-Apr-14 | | | | | | | | | | | 1.0 |
| (Sun) 20-Apr-14 | | | | | | | 0.3 | | | | |

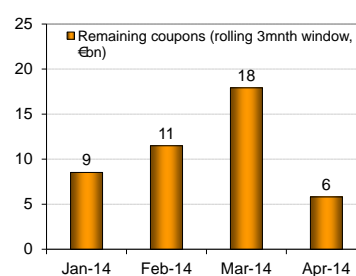
Source: DMOs, Bloomberg, Citi Research

Figure 69. EMU-10 remaining redemptions over the next 3 months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 70. EMU-10 remaining coupons over the next 3 months (€bn)



Source: DMOs, Bloomberg, Citi Research

ESP and ITA Bill Issuance Projections

This page contains our projections for Spanish and Italian bill supply in 2013.

Auction calendar for the next four weeks

Figure 71. Provisional Bill Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (EUR Million/bp)

| Week | Date | Country | Issue Details | Total Size (€bn) |
|----------------------|--------------|---------|---|------------------|
| Week 1 | 28 Jan (Tue) | Spain | 3month (16 April 2014) and 9 month (17 October 2014) - tenors confirmed, estimated issue and size | 3.4 |
| | 29 Jan (Wed) | Italy | 6 month (31 July 2014; issue confirmed, estimated size) | 9 |
| Total Size in Week 1 | | | | 12.4 |
| Week 3 | 12 Feb (Wed) | Italy | 12 month (13 February 2015; issue confirmed, estimated size) | 9 |
| Total Size in Week 3 | | | | 9.0 |

Italy announces issue size 3 business days before the auction

Spain announces issue details 1 business day before the auction

Source: DMOs, Citi Research

2014 projections for bill supply

Figure 72. 2014 Italy and Spain Bill Supply – Citi Forecast (Euro Billion)

| SPAIN | 3m | 6m | 9m | 12m | 18m | Gross Supply | Redemptions | NCR |
|-------|-----|------|------|------|-----|--------------|-------------|-----|
| Jan | 0.9 | 1.3 | 2.5 | 3.5 | | 8 | 8 | |
| Feb | 0.9 | 1.3 | 2.5 | 4.0 | | 9 | 11 | -3 |
| Mar | 0.9 | 1.3 | 2.5 | 4.0 | | 9 | 10 | -1 |
| Apr | 0.9 | 1.5 | 3.0 | 4.0 | | 9 | 12 | -3 |
| May | 0.9 | 1.5 | 3.0 | 4.0 | | 9 | 8 | 1 |
| Jun | 0.9 | 1.5 | 3.0 | 4.0 | | 9 | 14 | -4 |
| Jul | 0.8 | 1.5 | 3.0 | 4.0 | | 9 | 8 | 2 |
| Aug | 0.8 | 1.5 | 3.0 | 4.0 | | 9 | 8 | 1 |
| Sep | 0.8 | 1.5 | 3.0 | 4.0 | | 9 | 8 | 2 |
| Oct | 0.8 | 1.5 | 3.0 | 3.8 | | 9 | 9 | |
| Nov | 0.8 | 1.5 | 3.0 | 3.8 | | 9 | 8 | 1 |
| Dec | 0.8 | 1.5 | 3.0 | 3.8 | | 9 | 8 | 1 |
| Total | 9.9 | 17.3 | 34.5 | 46.8 | | 108 | 112 | -3 |

| ITALY | 3m* | 6m | 9m | 12m | Flexible BOT | Gross Supply | Redemptions | NCR |
|-------|-----|-------|----|------|--------------|--------------|-------------|-----|
| Jan | | 9.0 | | 9.3 | | 18 | 20 | -1 |
| Feb | | 9.0 | | 9.0 | | 18 | 19 | -1 |
| Mar | | 9.0 | | 9.0 | | 18 | 16 | 2 |
| Apr | 3.0 | 9.0 | | 9.0 | | 21 | 17 | 4 |
| May | | 9.0 | | 6.5 | 3.0 | 19 | 14 | 5 |
| Jun | | 9.0 | | 6.5 | | 16 | 15 | 1 |
| Jul | | 9.0 | | 6.5 | | 16 | 19 | -4 |
| Aug | | 9.0 | | 8.0 | | 17 | 18 | -1 |
| Sep | | 8.5 | | 8.0 | 3.0 | 20 | 19 | 1 |
| Oct | | 8.5 | | 8.0 | | 17 | 19 | -2 |
| Nov | | 7.0 | | 7.0 | | 14 | 16 | -2 |
| Dec | | 7.0 | | 6.0 | | 13 | 15 | -2 |
| Total | 3.0 | 103.0 | | 92.8 | 6.0 | 205 | 206 | -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 estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 73. 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 |
| Dec 13 | 117.28 | 0.4 | 0.8 | 125.82 | 0.4 | 0.6 | 253.40 | 0.5 | 2.7 | 233.05 | -0.0 | 1.5 |
| Jan 14 | 116.13 | -1.0 | 0.9 | 125.37 | -0.4 | 0.8 | 252.10 | -0.5 | 2.6 | 234.15 | 0.5 | 1.7 |
| Feb 14 | 116.46 | 0.3 | 0.8 | 125.55 | 0.1 | 0.7 | 253.60 | 0.6 | 2.4 | 234.95 | 0.3 | 1.2 |
| Mar 14 | 117.76 | 1.1 | 0.7 | 126.53 | 0.8 | 0.7 | 254.20 | 0.2 | 2.2 | 236.55 | 0.7 | 1.6 |
| Apr 14 | 118.14 | 0.3 | 1.1 | 126.47 | -0.0 | 0.8 | 255.30 | 0.4 | 2.3 | 237.66 | 0.5 | 2.2 |
| May 14 | 118.15 | 0.0 | 1.0 | 126.74 | 0.2 | 0.9 | 256.00 | 0.3 | 2.4 | 238.26 | 0.3 | 2.3 |

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 74. US TIPS Inflation-linked Carry (based on forecasts above) – One week changes

| Bond | RY (%) | Chg (bp) | Carry-adj chg | Carry: RY (bp) | | | Ref | BE (bp) | Chg (bp) | Carry-adj chg | Carry: BE (bp) | | | ZC Swap - BE Spread (bp) | Chg (bp) |
|-----------------|--------|----------|---------------|----------------|-------------|-------------|-------------------|---------|----------|---------------|----------------|-------|-------|--------------------------|----------|
| | | | | 1 Mar | 1 Apr | 1 May | | | | | 1 Mar | 1 Apr | 1 May | | |
| <i>Repo (%)</i> | | | | <i>0.08</i> | <i>0.08</i> | <i>0.08</i> | | | | | | | | | |
| TIPS 4/15 | -1.37 | -15 | -9 | -18 | 14 | 38 | US-2.500-04/30/15 | 153 | 10 | 4 | -19 | 12 | 36 | 1 | -3 |
| TIPS 7/15 | -1.75 | -12 | -7 | -18 | 5 | 21 | US-4.250-08/15/15 | 198 | 6 | 0 | -19 | 3 | 18 | 4 | -0 |
| TIPS 1/16 | -1.33 | -9 | -6 | -11 | 8 | 22 | US-2.625-02/29/16 | 173 | 6 | 2 | -12 | 5 | 17 | 10 | -3 |
| TIPS 4/16 | -1.17 | -8 | -5 | -9 | 9 | 21 | US-2.000-04/30/16 | 165 | 5 | 2 | -11 | 5 | 16 | 10 | -2 |
| TIPS 7/16 | -1.41 | -7 | -4 | -9 | 6 | 16 | US-4.875-08/15/16 | 507 | 312 | 309 | -24 | -24 | -28 | -303 | -310 |
| TIPS 1/17 | -1.04 | -6 | -3 | -6 | 7 | 17 | US-3.125-01/31/17 | 207 | 25 | 22 | -10 | 1 | 7 | -11 | -23 |
| TIPS 4/17 | -0.87 | -6 | -4 | -5 | 8 | 17 | US-0.875-04/30/17 | 35 | -142 | -144 | -3 | 11 | 22 | 157 | 144 |
| TIPS 7/17 | -1.02 | -5 | -3 | -5 | 6 | 15 | US-4.750-08/15/17 | 475 | 272 | 270 | -17 | -15 | -18 | -261 | -270 |
| TIPS 1/18 | -0.67 | -4 | -3 | -4 | 7 | 15 | US-3.500-02/15/18 | 145 | -47 | -49 | -5 | 4 | 10 | 65 | 49 |
| TIPS 4/18 | -0.50 | -4 | -2 | -3 | 7 | 15 | US-0.625-04/30/18 | -45 | -231 | -233 | 0 | 12 | 22 | 252 | 233 |
| TIPS 7/18 | -0.64 | -4 | -3 | -3 | 7 | 14 | US-4.000-08/15/18 | 469 | 263 | 261 | -13 | -12 | -14 | -245 | -261 |
| TIPS 1/19 | -0.36 | -4 | -2 | -2 | 7 | 14 | US-2.750-02/15/19 | 54 | -146 | -148 | -2 | 7 | 14 | 166 | 148 |
| TIPS 7/19 | -0.31 | -4 | -3 | -2 | 7 | 13 | US-3.625-08/15/19 | 227 | 17 | 15 | -6 | 0 | 3 | 5 | -16 |
| TIPS 1/20 | -0.07 | -4 | -3 | -1 | 7 | 13 | US-3.625-02/15/20 | 429 | 229 | 228 | -9 | -8 | -9 | -200 | -228 |
| TIPS 7/20 | -0.04 | -4 | -3 | -1 | 6 | 12 | US-2.625-08/15/20 | 90 | -126 | -128 | -2 | 4 | 8 | 148 | 127 |
| TIPS 1/21 | 0.18 | -4 | -3 | -1 | 7 | 12 | US-3.625-02/15/21 | 261 | 55 | 54 | -5 | -2 | 0 | -25 | -55 |
| TIPS 7/21 | 0.20 | -4 | -3 | -1 | 6 | 11 | US-2.125-08/15/21 | 61 | -159 | -160 | -2 | 4 | 8 | 183 | 159 |
| TIPS 1/22 | 0.39 | -5 | -4 | 0 | 6 | 11 | US-2.000-02/15/22 | 38 | -175 | -176 | -1 | 4 | 8 | 205 | 174 |
| TIPS 7/22 | 0.40 | -5 | -4 | 0 | 6 | 10 | US-1.625-08/15/22 | 85 | -137 | -138 | -2 | 3 | 6 | 165 | 136 |
| TIPS 1/23 | 0.54 | -4 | -4 | 0 | 6 | 10 | US-2.000-02/15/23 | 42 | -175 | -176 | -1 | 4 | 7 | 206 | 173 |
| TIPS 7/23 | 0.54 | -5 | -5 | 0 | 5 | 10 | US-2.500-08/15/23 | 219 | -3 | -4 | -3 | 0 | 1 | 35 | 2 |
| TIPS 1/25 | 0.70 | -8 | -7 | 0 | 5 | 10 | US-7.625-02/15/25 | 746 | 535 | 534 | -11 | -15 | -21 | -489 | -537 |
| TIPS 1/26 | 0.80 | -7 | -7 | 0 | 5 | 9 | US-6.000-02/15/26 | 616 | 398 | 397 | -8 | -10 | -14 | -356 | -400 |
| TIPS 1/27 | 0.87 | -4 | -3 | 0 | 5 | 9 | US-6.625-02/15/27 | 644 | 422 | 421 | -8 | -11 | -14 | -381 | -424 |
| TIPS 1/28 | 0.96 | -3 | -3 | 0 | 5 | 8 | US-6.125-11/15/27 | 542 | 321 | 320 | -7 | -8 | -11 | -276 | -323 |
| TIPS 4/28 | 0.93 | -5 | -5 | 0 | 5 | 9 | US-5.500-08/15/28 | 100 | -130 | -131 | -1 | 2 | 4 | 165 | 128 |
| TIPS 1/29 | 0.99 | -4 | -4 | 0 | 5 | 8 | US-5.250-02/15/29 | 180 | -49 | -49 | -2 | 0 | 1 | 88 | 47 |
| TIPS 4/29 | 0.98 | -5 | -4 | 0 | 5 | 8 | US-5.250-02/15/29 | 129 | -100 | -101 | -2 | 1 | 3 | 138 | 99 |
| TIPS 4/32 | 1.09 | -5 | -4 | 0 | 4 | 7 | US-5.375-02/15/31 | 181 | -46 | -47 | -2 | 0 | 1 | 91 | 45 |
| TIPS 2/40 | 1.31 | -5 | -5 | 0 | 3 | 5 | US-4.625-02/15/40 | 183 | -46 | -47 | -2 | 0 | 0 | 94 | 44 |
| TIPS 2/41 | 1.32 | -4 | -4 | 0 | 3 | 5 | US-4.750-02/15/41 | 209 | -22 | -23 | -2 | -1 | 0 | 68 | 20 |
| TIPS 2/42 | 1.38 | -4 | -4 | 0 | 3 | 4 | US-3.125-02/15/42 | 65 | -170 | -170 | -1 | 1 | 2 | 213 | 168 |
| TIPS 2/43 | 1.38 | -6 | -6 | 0 | 2 | 4 | US-3.125-02/15/43 | 57 | -178 | -179 | -1 | 1 | 2 | 221 | 176 |

Source: Citi Research, Bloomberg

Figure 75. EUR Inflation-linked Carry (based on forecasts above) – One week changes

| Bond | RY (%) | Chg (bp) | Carry-adj chg | Carry: RY (bp) | | | Ref | BE (bp) | Chg (bp) | Carry-adj chg | Carry: BE (bp) | | | ZC Swap - BE Spread (bp) | Chg (bp) |
|-----------------|--------|----------|---------------|----------------|-------------|-------------|------------|---------|----------|---------------|----------------|-------|-----|--------------------------|----------|
| | | | | 1 Mar | 1 Apr | 1 May | | | | | 1 Mar | 1 Apr | ### | | |
| <i>Repo (%)</i> | | | | <i>0.19</i> | <i>0.19</i> | <i>0.19</i> | | | | | | | | | |
| OATei15 | -0.90 | -3 | -0 | 18 | -63 | -51 | FFRG 4/15 | 110 | 1 | -2 | 18 | -63 | -52 | 15 | 1 |
| BUNDei16 | -0.42 | -3 | -1 | 14 | -37 | -27 | BUND 1/16 | 56 | -1 | -2 | 14 | -37 | -26 | 11 | 1 |
| BTANI16 | -0.86 | 1 | 2 | 10 | -8 | -6 | FFRG 4/16 | 120 | -1 | -3 | 10 | -10 | -8 | 30 | -1 |
| BTPei16 | 0.79 | 11 | 11 | 16 | -22 | -9 | BTP 8/16 | 64 | -7 | -9 | 12 | -32 | -24 | 45 | 7 |
| OATi17 | -0.67 | 1 | 1 | 8 | -5 | -3 | FFRG 4/17 | 126 | -3 | -4 | 7 | -7 | -6 | 28 | -0 |
| BTPei17 | 1.17 | 12 | 12 | 13 | -14 | -3 | BTP 8/17 | 82 | -6 | -8 | 8 | -24 | -19 | 39 | 5 |
| BOBLEi18 | -0.33 | -3 | -3 | 7 | -18 | -12 | BUND 1/18 | 79 | -3 | -4 | 7 | -20 | -14 | 28 | 0 |
| OATei18 | -0.20 | 1 | 2 | 7 | -16 | -11 | FFRG 4/18 | 107 | -5 | -6 | 6 | -20 | -16 | 31 | 2 |
| BTPei18 | 1.42 | 7 | 7 | 11 | -10 | -1 | BTP 8/18 | 88 | -3 | -4 | 6 | -19 | -15 | 42 | 1 |
| OATi19 | -0.17 | 1 | 1 | 6 | -1 | 1 | FFRG 4/19 | 134 | -4 | -5 | 4 | -5 | -5 | 31 | 1 |
| BTPei19 | 1.71 | 6 | 5 | 9 | -7 | 1 | BTP 9/19 | 96 | -2 | -3 | 45 | -16 | -13 | 43 | 0 |
| BUNDei20 | -0.11 | -2 | -1 | 6 | -12 | -8 | BUND 1/20 | 105 | -5 | -6 | 4 | -14 | -11 | 25 | 3 |
| OATei20 | 0.13 | 1 | 2 | 6 | -11 | -6 | FFRG 4/20 | 132 | -5 | -6 | 4 | -15 | -12 | 21 | 2 |
| OATi21 | 0.29 | -0 | -0 | 5 | 0 | 2 | FFRG 4/21 | 140 | -3 | -3 | 3 | -4 | -4 | 40 | 0 |
| BTPei21 | 2.28 | 6 | 6 | 8 | -4 | 3 | BTP 9/21 | 103 | -3 | -4 | 38 | -13 | -10 | 52 | 0 |
| OATei22 | 0.47 | -0 | -0 | 5 | -7 | -4 | FFRG 4/21 | 122 | -3 | -3 | 3 | -12 | -10 | 46 | 0 |
| BUNDei23 | 0.22 | -2 | -2 | 4 | -7 | -4 | BUND 1/22 | 117 | -4 | -5 | 2 | -10 | -8 | 44 | 2 |
| OATi23 | 0.56 | -0 | 0 | 4 | 1 | 3 | FFRG 10/23 | 170 | -3 | -4 | 2 | -4 | -4 | 23 | 1 |
| BTPei23 | 2.60 | 6 | 6 | 7 | -3 | 3 | BTP 8/23 | 112 | -4 | -4 | 3 | -11 | -9 | 61 | 2 |
| OATei24 | 0.75 | 1 | 1 | 4 | -5 | -2 | FFRG 10/23 | 151 | -5 | -5 | 2 | -10 | -9 | 31 | 2 |
| BTPei26 | 2.81 | 4 | 4 | 6 | -2 | 3 | BTP 3/26 | 119 | -2 | -3 | 25 | -9 | -8 | 70 | 0 |
| OATei27 | 0.93 | 2 | 2 | 3 | -4 | -1 | FFRG 4/26 | 172 | -5 | -5 | 1 | -9 | -8 | 25 | 3 |
| OATi29 | 0.89 | -0 | -0 | 3 | 1 | 3 | FFRG 4/29 | 198 | -3 | -4 | 1 | -3 | -4 | 16 | 1 |
| OATei32 | 1.07 | -0 | -0 | 3 | -3 | -1 | FFRG 10/32 | 194 | -3 | -4 | 1 | -7 | -7 | 12 | 2 |
| BTPei35 | 2.78 | 0 | 0 | 4 | -1 | 2 | BTP 8/34 | 174 | -1 | -1 | 1 | -7 | -7 | 32 | -0 |
| OATei40 | 1.17 | -1 | -1 | 2 | -2 | -1 | FFRG 4/41 | 208 | -3 | -4 | 0 | -5 | -5 | 5 | 2 |
| BTPei41 | 3.13 | -2 | -2 | 3 | -1 | 2 | BTP 9/40 | 154 | 2 | 2 | 16 | -6 | -6 | 60 | -3 |

Source: Citi Research

Figure 76. UK Gilts Inflation-linked Carry (based on forecasts above) – One week changes

| Bond | RY (%) | Chg (bp) | Carry-adj chg | Carry: RY (bp) | | | Ref | BE (bp) | Chg (bp) | Carry-adj chg | Carry: BE (bp) | | | ZC Swap - BE Spread (bp) | Chg (bp) |
|-----------------|--------|----------|---------------|----------------|-------------|-------------|-----------|---------|----------|---------------|----------------|-------|-------|--------------------------|----------|
| | | | | 1 Mar | 1 Apr | 1 May | | | | | 1 Mar | 1 Apr | 1 May | | |
| <i>Repo (%)</i> | | | | <i>0.43</i> | <i>0.43</i> | <i>0.43</i> | | | | | | | | | |
| UKTi Jul16 | -1.78 | 7 | 6 | 3 | 6 | 9 | UKT 9/16 | 266 | -0 | -0 | 1 | 2 | 4 | 42 | 1 |
| UKTi Nov17 | -1.47 | 3 | 4 | 9 | -9 | 3 | UKT 3/18 | 301 | 2 | 1 | 6 | -15 | -5 | 10 | -15 |
| UKTi Nov19 | -0.90 | 4 | 4 | 7 | -4 | 5 | UKT 9/19 | 294 | 1 | -0 | 4 | -10 | -4 | 24 | -1 |
| UKTi Apr20 | -0.70 | 5 | 4 | 3 | 6 | 9 | UKT 3/20 | 284 | -1 | -1 | 0 | 0 | 0 | 29 | -0 |
| UKTi Nov22 | -0.40 | 3 | 3 | 6 | -2 | 5 | UKT 3/22 | 291 | -2 | -3 | 3 | -7 | -3 | 37 | -1 |
| UKTi Mar24 | -0.14 | 2 | 2 | 5 | -1 | 5 | UKT 3/25 | 305 | -3 | -4 | 2 | -6 | -3 | 22 | 0 |
| UKTi Jul24 | -0.13 | 2 | 1 | 3 | 5 | 7 | UKT 3/25 | 305 | -3 | -3 | 0 | -1 | -1 | 30 | 0 |
| UKTi Nov27 | -0.02 | 2 | 2 | 4 | 0 | 4 | UKT 12/27 | 318 | -3 | -4 | 1 | -5 | -3 | 28 | -0 |
| UKTi Mar29 | 0.09 | 2 | 2 | 3 | 0 | 4 | UKT 12/30 | 323 | -2 | -3 | 1 | -5 | -3 | 23 | -1 |
| UKTi Jul30 | 0.06 | 2 | 2 | 2 | 4 | 5 | UKT 6/32 | 331 | -3 | -3 | 0 | -1 | -1 | 24 | -6 |
| UKTi Nov32 | 0.06 | 2 | 2 | 3 | 0 | 3 | UKT 6/32 | 331 | -2 | -3 | 1 | -4 | -3 | 28 | -1 |
| UKTi Mar34 | 0.10 | 2 | 2 | 3 | 0 | 3 | UKT 9/34 | 333 | -2 | -3 | 1 | -4 | -3 | 26 | -1 |
| UKTi Jan35 | 0.11 | 1 | 1 | 1 | 3 | 4 | UKT 3/36 | 337 | -1 | -2 | -1 | -1 | -2 | 25 | -2 |
| UKTi Nov37 | 0.08 | 1 | 1 | 2 | 0 | 2 | UKT 12/38 | 340 | -1 | -1 | 0 | -4 | -3 | 24 | -2 |
| UKTi Mar40 | 0.10 | 1 | 1 | 2 | 0 | 2 | UKT 9/39 | 341 | -1 | -1 | 0 | -4 | -3 | 22 | -1 |
| UKTi Nov42 | 0.07 | 1 | 1 | 2 | 0 | 2 | UKT 12/42 | 345 | -1 | -1 | 0 | -4 | -3 | 21 | -2 |
| UKTi Mar44 | 0.10 | 1 | 1 | 2 | 0 | 2 | UKT 1/44 | 346 | -1 | -2 | 0 | -3 | -3 | 18 | -2 |
| UKTi Nov47 | 0.07 | 1 | 1 | 2 | 0 | 2 | UKT 12/46 | 345 | -1 | -2 | 0 | -3 | -3 | 20 | -2 |
| UKTi Mar50 | 0.08 | 2 | 2 | 2 | 0 | 2 | UKT 12/49 | 343 | -1 | -2 | 0 | -3 | -3 | 20 | -2 |
| UKTi Mar52 | 0.09 | 1 | 1 | 1 | 0 | 1 | UKT 7/52 | 343 | -1 | -1 | 0 | -3 | -3 | 19 | -2 |
| UKTi Nov55 | 0.05 | 1 | 1 | 1 | 0 | 1 | UKT 12/55 | 344 | -1 | -1 | 0 | -3 | -2 | 19 | -2 |
| UKTi Mar62 | 0.05 | 2 | 2 | 1 | 0 | 1 | UKT 1/60 | 343 | -2 | -2 | 0 | -3 | -3 | 18 | -1 |
| UKTi Mar68 | 0.06 | 2 | 2 | 1 | 0 | 1 | UKT 7/68 | 345 | -2 | -2 | 0 | -2 | -2 | 16 | -1 |

Source: Citi Research

Summary of Recent Publications

| Date | Publication | Topic | Page | Region |
|-----------|-----------------|---|------|--------|
| 23-Jan-14 | NOTE | Euro SSA Strategy: Relative Value Insights – RENTEN vs KfW | - | EUR |
| 23-Jan-14 | NOTE | UK Rates Strategy: Beware the front-end, the hiking cycle is nearing | - | EUR |
| 22-Jan-14 | NOTE | Linker Index Projection: Projected changes supportive for German real yields | - | EUR |
| 22-Jan-14 | NOTE | Month-end Index Changes: supportive for Spain, France and Italy | - | EUR |
| 21-Jan-14 | NOTE | Covered Bond Strategy: Kommunalkredit Austria: Attractive Alternative in the Core | - | EUR |
| 21-Jan-14 | NOTE | UK Rates Strategy: Hold a bearish bias into the UK jobless data and MPC minutes | - | UK |
| 20-Jan-14 | NOTE | European Flow Monitor: Net demand for Portugal has now turned to positive | - | EUR |
| 20-Jan-14 | NOTE | European SSA Strategy: Weekly chart-pack and market monitor: 10th-17th January | - | EUR |
| 20-Jan-14 | NOTE | Euro Rates Strategy: Ireland now Baa3 – trade the upgrade | - | EUR |
| 17-Jan-14 | NOTE | Euro Rates Strategy: Ireland UPGRADED back to Investment Grade, Baa3 (Pos) | - | EUR |
| 17-Jan-14 | NOTE | Euro Rates Strategy: Update: Outlook for EUR Swap Spreads | - | EUR |
| 17-Jan-14 | NOTE | Euro Rates Strategy: Alert: Portugal NOT downgraded by S&P overnight | - | EUR |
| 16-Jan-14 | European Weekly | OAT: Another Year of Flat Performance? | 8 | EUR |
| | | EUR Vol: Backtesting of Receiver Carry Trades | 10 | EUR |
| | | UK Rates – time for 10s30s flatteners? | 13 | UK |
| | | EGB Strategy – spreads to nudge tighter still | 15 | EUR |
| | | Update: Outlook for EUR Swap Spreads | 17 | EUR |
| | | UK Inflation Strategy – all eyes on IL68s | 22 | UK |
| | | SSA Strategy – Trading KfW | 24 | EUR |
| | | Covered Bond Strategy | 26 | EUR |
| 16-Jan-14 | NOTE | Weekly Supply Monitor: Euro, UK and US Supply Outlook | - | EUR |
| 15-Jan-14 | NOTE | UK Rates Strategy: Tactical opportunity for 10s30s gilt flatteners | - | UK |
| 14-Jan-14 | NOTE | Euro SSA Strategy: Relative Value Insights – another way to trade KfW | - | EUR |
| 13-Jan-14 | NOTE | European Flow Monitor: Diverging trends between France and Belgium | - | EUR |
| 13-Jan-14 | NOTE | European SSA strategy: Weekly spread and issuance monitor: 6th-13th January | - | EUR |
| 9-Jan-14 | European Weekly | EMU: Trading strategies for 2014 Supply | 9 | EUR |
| | | Scale into 5s30s steepeners using forwards | 13 | EUR |
| | | UK Rates – supply and demand trends | 16 | UK |
| | | Euro Inflation: fade the rally ahead of supply | 19 | EUR |
| | | EUR Vol: Supply in Vega Space | 20 | EUR |
| | | Trading upcoming SSA supply | 23 | EUR |
| | | Covered Bond Strategy | 25 | EUR |

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Appendix A-1

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