

Euro Rates Strategy

EMU Supply: supportive cash flow profile for Italy in December

■ Forecast gross issuance of €31bn in December

- €25bn lower than issuance in November and €40bn lower than the 2013 monthly average
- Each of the 5yr and the 10yr sectors accounts for around 37% of total issuance at €6million/bp

■ €1bn of coupon payments and €35bn of redemptions

- Coupons: almost all the coupons come from Italy (€1bn)
- Redemptions: Germany (€15bn on 13Dec) and Italy (€20bn on 15 Dec)

■ The net cash requirement is slightly supportive for EGBs in December

- The December NCR (-€6bn) is slightly-supportive for bonds as €31bn of gross supply is outweighed by €1bn of coupon payments and €35bn of redemptions
- Italy: The NCR for Italy in December (-€13bn) is strongly supportive for bonds

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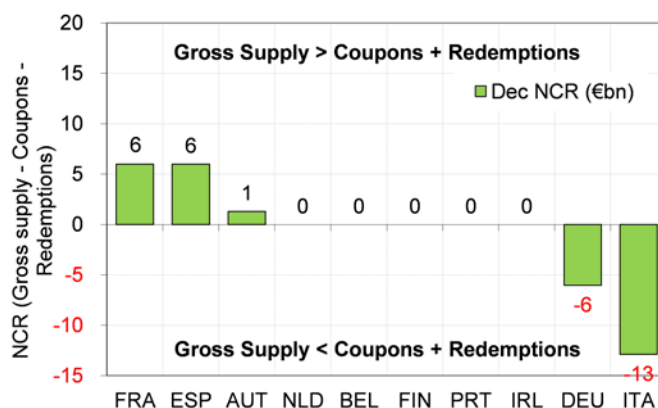
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Figure 1. EMU-10 net cash requirement: supportive for Italy and Germany



Source: DMO, Citi Research, Bloomberg

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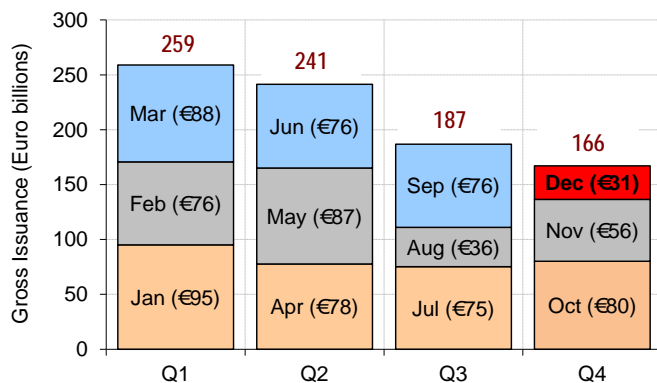
EMU-10: December Supply Outlook

Gross Issuance in December (€31bn)

€31bn of gross supply in December:
€25bn lower than issuance in November
and €40bn lower than the 2013 monthly
average

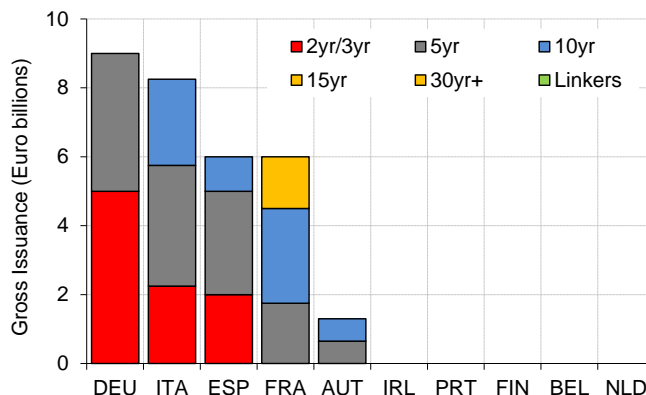
- We forecast €31bn of gross supply in December (Figure 2), €25bn lower than issuance in November and €40bn lower than the 2013 monthly average.
- Around 56% of total issuance in December comes from Germany (€9bn) and Italy (€8bn) – Figure 3.

Figure 2. Euro Government Gross Supply by Quarter, 2013F (€bn)



Source: DMOs, Citi Research

Figure 3. December Gross Issuance by Country and Maturity (€bn)



Source: DMOs, Citi Research

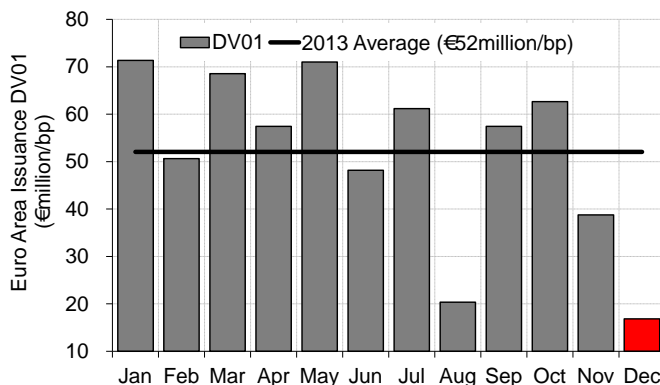
DV01 of Issuance by Maturity for December

DV01 of issuance in December is only
€17million/bp

Each of the 5yr and the 10yr sectors
accounts for around 37% of total
issuance

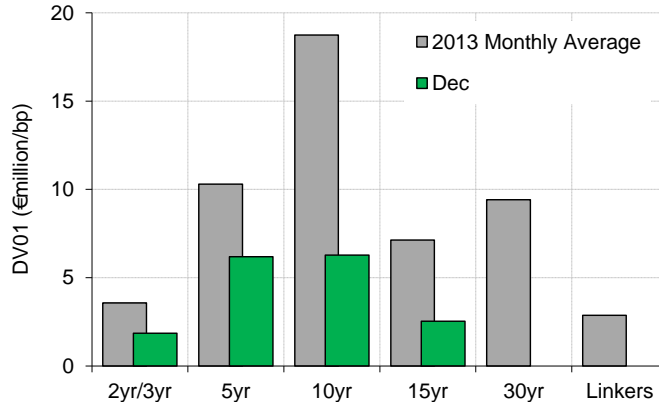
- Figure 4 shows the DV01 of issuance for December and the 2013 monthly average. The projected DV01 of issuance in December (€17million/bp) is significantly less than the 2013 monthly average (€52million/bp).
- Within conventional issuance, each of the 5yr and the 10yr sectors accounts for around 37% of total issuance at €6million/bp. The DV01 of issuance in each maturity bucket is significantly less than corresponding 2013 monthly averages (Figure 5).

Figure 4. DV01 of Euro Government Supply, 2013F (€million/bp)



Source: DMOs, Citi Research

Figure 5. Monthly DV01 of Issuance by Maturity (€million/bp)



Source: DMOs, Citi Research

Cash flows: €1bn of coupons and €35bn of redemptions

€1bn of coupons and €35bn of redemptions in December

Net Cash Requirement (NCR) = gross supply minus coupon payments and redemptions

All things being equal, a positive NCR is non-supportive for bonds

■ **December Coupons:** almost all the coupons come from Italy (€1bn)

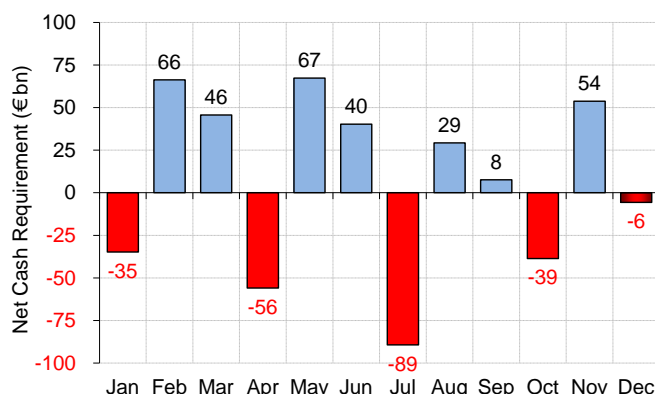
■ **December Redemptions:** Germany (€15bn on 13 December) and Italy (€20bn on 15 December)

■ **BTP cash flows:** Note that a large portion of Italian cash flows that will be paid on 1 December are likely to be reinvested at the end-Nov auction. Therefore we have included these cash flows in November rather than December.

December NCR (-€6bn) – slightly-supportive for bonds

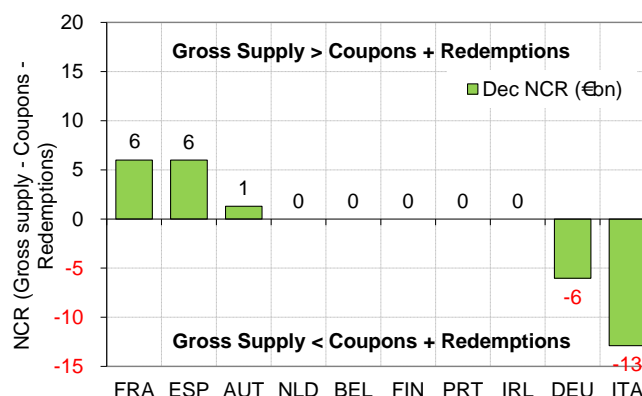
■ The EMU-10 December NCR is slightly-supportive for bonds as €31bn of gross supply is outweighed by €1bn of coupon payments and €35bn of redemptions (Figure 6, Figure 10). The NCR is supportive for Italy and Germany and non-supportive for France and Spain (Figure 7).

Figure 6. Euro Government NCR, 2013F (€bn)



Source: DMOs, Citi Research, Bloomberg

Figure 7. Euro Government NCR, December (€bn)



Source: DMOs, Citi Research, Bloomberg

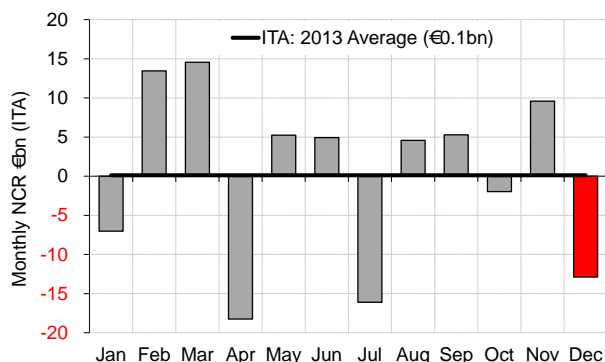
Italy: December NCR (-€13bn) is supportive for bonds

We expect the December NCR to be supportive for Italian bonds

■ The NCR for Italy in December (-€13bn) is strongly supportive for bonds as €8bn of gross supply is easily outweighed by €1bn of coupon payments and €20bn of redemptions (Figure 8 and Figure 9).

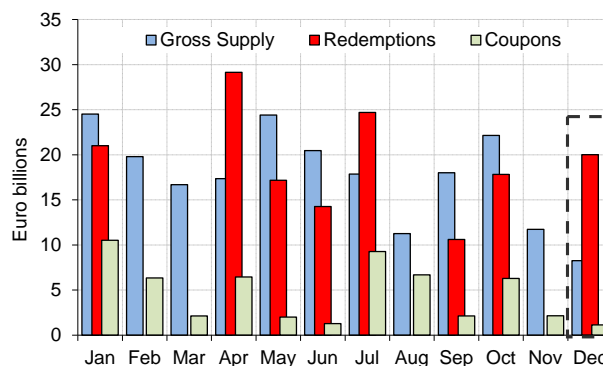
■ The NCR flips from being non-supportive in November (+€10bn) to supportive in December (-€13bn) - Figure 8 and Figure 9.

Figure 8. Italy: Monthly Net Cash Requirement 2013F (€bn)



Source: DMO, Citi Research, Bloomberg

Figure 9. Italy: Supply, Redemptions & Coupons by Month (€bn)



Source: DMO, Citi Research, Bloomberg

Appendix: 2013 EMU-10 Supply

Figure 10. 2013 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

EMU-10	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	25.1	25.7	25.2	8.7	4.6	5.8	95	37	58	92	-35
Feb	17.4	27.5	19.4	5.7	1.0	4.6	76	9	66		66
Mar	21.2	22.1	30.1	5.1	5.9	3.8	88	12	76	31	46
Apr	21.2	17.2	27.4	5.0	3.5	3.5	78	34	44	100	-56
May	17.9	24.0	30.0	5.4	6.8	3.3	87	3	85	17	67
Jun	22.4	25.4	18.8	4.8	1.2	3.6	76	5	72	31	40
Jul	18.0	20.0	22.2	6.8	5.9	2.3	75	45	30	119	-89
Aug	9.3	16.2	8.7		0.8	1.1	36	7	29		29
Sep	22.0	19.2	21.7	2.7	6.9	3.2	76	10	65	58	8
Oct	15.7	28.5	21.6	4.3	6.5	3.5	80	35	46	84	-39
Nov	15.1	18.9	15.0	0.6	3.9	2.8	56	3	54		54
Dec	9.3	12.9	6.9	1.5			31	1	29	35	-6
Total	214	258	247	51	47	37	854	201	653	567	86

GERMANY	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	5.0	5.0	5.0		2.0	1.0	18	12	6	24	-18
Feb	5.0	4.0	5.0			1.0	15	1	14		14
Mar	5.0	4.0	4.0			1.0	14		14	18	-4
Apr	5.0	4.0	4.0		2.0	1.0	16	3	13	29	-16
May	5.0	5.0	5.0			1.0	16		16		16
Jun	5.0	4.0	5.0			1.0	15	1	14	17	-3
Jul	5.0	4.0	4.0		2.0	1.0	16	12	4	22	-18
Aug	5.0	4.0	4.0				13		13		13
Sep	5.0	5.0	5.0			1.0	16	1	15	17	-2
Oct	5.0	4.0	9.0		2.0	1.0	21	2	19	16	3
Nov	5.0	4.0	4.0			1.0	14		14		14
Dec	5.0	4.0					9		9	15	-6
Total	60.0	51.0	54.0		8.0	10.0	183	32	151	158	-7

FRANCE	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	2.4	7.3	5.2	1.2		1.8	18	2	16	18	-2
Feb	2.0	7.6	5.6	4.0		2.3	21	1	20		20
Mar	5.0	5.5	3.6	1.8	4.5	1.8	22		22		22
Apr	4.3	3.6	8.4			1.7	18	17	1	22	-21
May	3.4	6.2	7.2	1.0		1.4	19	1	18		18
Jun	3.3	6.0	3.8	2.3		1.5	17		17		17
Jul	3.9	4.8	6.3	3.3		1.3	20	6	13	36	-22
Aug											
Sep	4.4	3.1	7.7		2.2	1.5	19		19	11	8
Oct	3.0	5.3	6.0	2.9		1.7	19	16	3	21	-18
Nov	3.5	3.6	4.3		2.2	1.8	15		15		15
Dec		1.8	2.8	1.5			6		6		6
Total	35.1	54.4	60.8	17.9	8.9	16.8	194	44	150	107	43

ITALY	CTZ/3yr	5yr/CCT	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	7.6	4.5	3.5	6.0		2.9	25	11	14	21	-7
Feb	6.8	4.5	5.2	1.0	1.0	1.3	20	6	13		13
Mar	5.2	5.4	3.1	2.0		1.0	17	2	15		15
Apr	6.5	5.0	3.5	1.7		0.8	17	6	11	29	-18
May	6.0	6.5	3.5	1.5	6.0	1.0	24	2	22	17	5
Jun	8.5	6.2	2.9	1.7		1.2	20	1	19	14	5
Jul	6.6	5.0	4.9		1.5		18	9	9	25	-16
Aug	3.1	4.3	2.8			1.1	11	7	5		5
Sep	7.4	5.2	3.0	1.6		0.8	18	2	16	11	5
Oct	6.6	9.9	3.5	1.4		0.8	22	6	16	18	-2
Nov	4.1	3.4	2.5		1.7		12	2	10		10
Dec	2.3	3.5	2.5				8	1	7	20	-13
Total	70.6	63.4	40.6	17.0	10.2	10.6	212	56	156	155	1

Given that the majority of Italian redemptions occur on the 1st of the month and the Italian Treasury conducts an end-month BTP auction, the coupons & redemptions in the table above are on a trade-date basis (e.g. the redemption on 1 Aug will appear in July). In our view, this is a better representation of the monthly net cash requirement.

Source: DMOs, Citi Research, Bloomberg

Figure 11. 2013 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

SPAIN	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	6.4	3.9	7.0	0.6	0.5		18	8	10	14	-4
Feb	3.6	3.1	3.1	0.7			11		11		11
Mar	2.1	3.5	5.7		0.7		12		12		12
Apr	5.4	3.2	2.4				11	4	7	15	-8
May	3.4	2.9	7.0	2.3			16		16		16
Jun	2.5	1.4	4.1				8		8		8
Jul	2.5	4.6	1.2	3.5			12	9	3	15	-12
Aug	1.1	2.7					4		4		4
Sep	2.5	1.9	2.8	1.0			8		8		8
Oct	1.1	4.8	1.4		4.0		11	6	5	16	-11
Nov		7.0	1.3	0.6			9		9		9
Dec	2.0	3.0	1.0				6		6		6
Total	32.7	42.1	37.2	8.8	5.2		126	28	98	60	38

NETHERLANDS	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan	3.8				1.5		5	4	1	16	-14
Feb		2.7					3		3		3
Mar	4.0	2.5	6.5				13		13		13
Apr				2.0			2		2		2
May		1.7	2.3				4		4		4
Jun	3.0	6.1					9		9		9
Jul			3.4		0.8		4	6	-2	16	-18
Aug											
Sep	2.6		2.3				5		5		5
Oct		1.8					2		2		2
Nov	2.5		2.2				5		5		5
Dec											
Total	15.9	14.8	16.8	2.0	2.3		52	10	42	32	10

BELGIUM	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan			4.0				4		4		4
Feb		5.0					5		5		5
Mar		1.2	1.3	1.2			4	7	-3	13	-16
Apr		1.4	2.2	1.3			5		5		5
May		1.1	1.3	0.6	0.8		4		4		4
Jun		1.7	1.3	0.8			4	1	3		3
Jul		1.6	1.5		0.9		4		4		4
Aug		1.2	1.1		0.8		3		3		3
Sep					4.0		4	5	-1	14	-14
Oct		1.8	1.7				4		4		4
Nov											
Dec											
Total		15.0	14.5	3.9	6.5		40	13	27	26	1

AUSTRIA	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan			0.6		0.6		1	1			
Feb		0.6	0.6				1		1		1
Mar			0.9		0.8		2	1			
Apr			3.0		1.5		5		4		4
May		0.7	0.7				1		1		1
Jun			0.7		0.7		1		1		1
Jul			0.9		0.8		2	2			
Aug			0.8				1		1		1
Sep		4.0	0.9		0.8		6	1	4		4
Oct								1	-1	13	-14
Nov		1.0	0.7				2		1		1
Dec		0.7	0.7				1		1		1
Total		6.9	10.2		5.1		22	7	15	13	2

Source: DMOs, Citi Research, Bloomberg

Figure 12. 2013 Euro Government Bond Supply – Citi Forecasts (Euro in Billions)

FINLAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan				1.0			1		1		1
Feb											
Mar											
Apr			4.0				4	1	3		3
May											
Jun			1.0		0.5		2		2		2
Jul								1	-1	6	-7
Aug		4.0					4		4		4
Sep								1	-1		-1
Oct		1.0			0.5		2		2		2
Nov											
Dec											
Total		5.0	5.0	1.0	1.0		12	2	10	6	4

IRELAND	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		2.5					3		2		2
Feb											
Mar			5.0				5	1	4		4
Apr								1	-1	5	-6
May											
Jun											
Jul											
Aug											
Sep											
Oct								2	-2		-2
Nov											
Dec											
Total		2.5	5.0				8	4	3	5	-1

PORTUGAL	2yr/3yr	5yr	10yr	15yr	30yr	Linkers	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Jan		2.5					3		3		3
Feb											
Mar											
Apr								1	-1		-1
May			3.0				3		3		3
Jun								1	-1		-1
Jul											
Aug											
Sep										6	-6
Oct								2	-2		-2
Nov											
Dec											
Total		2.5	3.0				6	4	1	6	-4

Source: DMOs, Citi Research, Bloomberg

Appendix A-1

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