

Euro Rates Strategy

EMU 2014 Supply Projections

- **Gross issuance:** We forecast €864bn of gross issuance from EMU-10 sovereigns in 2014, €14bn higher than 2013.
- **Net cash requirement:** We estimate a 2014 net cash requirement (NCR = gross supply minus coupons and redemptions) of +€63bn as €864bn of gross supply outweighs €184bn of coupons and €616bn of redemptions.
- **Country level:** We highlight our supply projections for each country in EMU-10 along with expected new bond issues.
- Comparing 2014 supply to 2013 shows that Germany is projected to have the largest decrease in gross issuance next year (-€22bn) and Italy has the largest increase (+€26bn).
- The NCR is least supportive for Spain (+€26bn) & France (+€51bn) in 2014.

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Figure 1. EMU 2014 Gross issuance, coupons and redemptions by country (€bn)

	A	B	A-B	C	A-B-C
Country	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Germany	161	28	133	144	-11
France	198	40	158	106	51
Italy	245	53	193	191	2
Spain	120	26	94	68	26
Netherlands	49	9	40	32	8
Austria	29	7	22	22	0
Belgium	39	12	28	26	2
Finland	10	2	8	7	2
Ireland	7	4	2	7	-4
Portugal	4	4	-0	14	-14
Total	864	184	679	616	63

Source: DMOs, Citi estimates. Bloomberg

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

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Overview of 2014 EMU issuance forecasts

Forecast Summary

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■ **2014 Gross Issuance:** We forecast €864bn of gross issuance from EMU-10 sovereigns in 2014, just €14bn higher than 2013.

■ We estimate a 2014 net cash requirement (NCR = gross supply minus coupons and redemptions) of +€63bn as €864bn of gross supply outweighs €184bn of coupons and €616bn of redemptions.

Figure 2. 2014 & 2013 Gross Issuance, Coupons and Redemptions (€bn)

	A	B	A-B	C	A-B-C
Year	Gross Supply	Coupons	Net Supply	Redemptions	NCR
2014	864	184	679	616	63
2013	850	199	651	567	83
Change	+14	-15	+29	+49	-20

Source: DMOs, Bloomberg, Citi Research

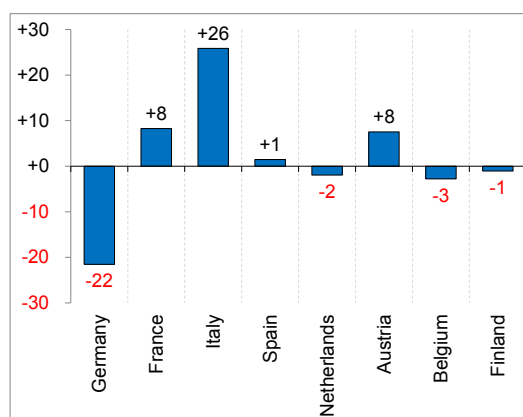
■ Figure 3 shows the change in gross issuance from 2013 to 2014. Germany has the largest decrease (-€22bn) and Italy has the largest increase (+€26bn)

Figure 3. Gross supply: 2013 vs 2014 (€bn)

Country	2013	2014	Change
Germany	183	161	-22
France	189	198	+8
Italy	220	245	+26
Spain	119	120	+1
Netherlands	51	49	-2
Austria	22	29	+8
Belgium	42	39	-3
Finland	12	10	-1
Ireland	8	7	-1
Portugal	6	4	-2
Total	850	864	+14

Source: DMOs, Bloomberg, Citi Research

Figure 4. Change in gross supply: 2014 vs 2013 (€bn)



Source: DMOs, Bloomberg, Citi Research

■ **2014 NCR:** Figure 5 displays the split of gross supply, coupon and redemptions by country. The NCR is least supportive for Spain and France.

Figure 5. 2014 Issuance forecasts by country

	A	B	A-B	C	A-B-C
Country	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Germany	161	28	133	144	-11
France	198	40	158	106	51
Italy	245	53	193	191	2
Spain	120	26	94	68	26
Netherlands	49	9	40	32	8
Austria	29	7	22	22	0
Belgium	39	12	28	26	2
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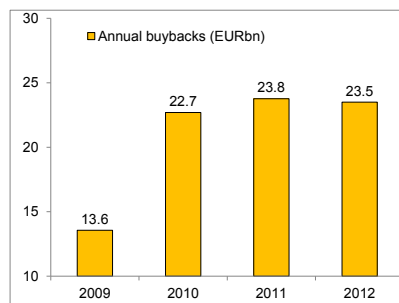
Source: DMOs, Bloomberg, Citi Research

Country Profiles: Gross supply & new bonds

Germany (€161bn)

- **Gross issuance:** We expect Germany to issue around €161bn of bonds in 2014, €22bn less than 2013. This is a result of lower redemptions and Germany returning to a surplus in 2014.
- **New bonds:** We expect Germany to issue 4 x 2yrs, 3 x 5yrs, 3 x 10yr and 1 x 30yr in 2014. A new 10yr Bund is also likely.

Figure 6. France: Annual buybacks (€bn)



Source: AFT

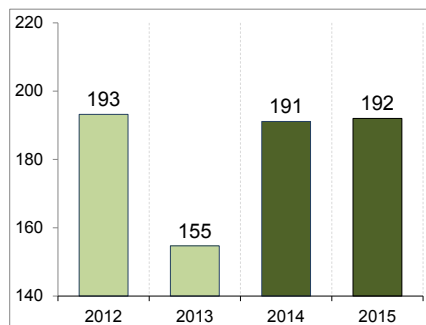
France (€197.5bn)

- **Gross issuance:** The French Treasury projects €174bn (net of buybacks) of gross issuance in 2014. We envisage around €23.5bn of buybacks in 2014 which will take total bond issuance for 2014 to €197.5bn.
- We expect 2014 bond issuance (€197.5bn) to be split in the following way: 2yr (€37bn), 5yr (€60.5bn), 10yr (€55bn), 15yr (€18bn), 30yr (€10bn) and linkers (€17bn).
- **New bonds:** We expect France to issue 1 x 2yr, 2 x 5yrs, at least 1 x 10yr and 1 x 15yr in 2014.

Italy (€245bn)

- **Gross issuance:** Reuters cited some comments from Maria Cannata (Head of Italy's DMO) on 24 September stating that gross issuance in 2014 will be similar to 2013 (i.e. around €470bn of BOT, BTP, CCT, CTZ, BTPei).
- We expect €245bn of gross issuance from BTP, CCT, CTZ and BTPei in 2014. This is higher than our 2013 forecast (€220bn) due to higher redemptions in 2014 offsetting a small decline in the deficit.
- **New BTP 7yr:** The Italian Treasury has stated that there has been interest among investors for a new 7yr BTP and that issuance would take place via either a regular auction or through a syndication. We expect issuance to take place in 2014 for at least €3bn (benchmark size) in the first instance.
- **Buybacks:** As acknowledged by the Italian Treasury, Italy faces a heavy redemption schedule in 2015 (€192bn of government bonds will be redeeming) vs €155bn in 2013. The Treasury has stated that it would look to conduct debt buybacks or bond swaps in 2014 to ease the Treasury's refinancing risk in 2015. For now, we think the majority of the reduction in 2015 redemptions will come from bond swaps rather than buybacks given the large amount of supply (€245bn of bonds) that will take place.
- In the event that an LTRO is announced by the ECB (Citi expects a 2yr LTRO to be announced by early 2014) we would expect the majority of the reduction in 2015 redemptions to come from buybacks (as opposed to debt swaps).

Figure 7. Italy bond redemptions (€bn)



Source: Citi Research, Bloomberg

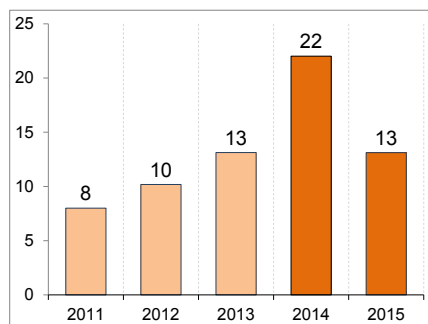
Spain (€120bn)

- **Gross issuance:** Reuters reported on 30 September that the Spanish Treasury sees gross debt issuance for 2014 as €244bn. We expect Bono issuance to be approximately €120bn (which is virtually the same as our 2013 estimate).
- **New bonds:** Reuters reported on 10 September 2013 that Spain would look to issue a new 30yr Bono in 4Q13 or at the beginning of next year. We think it is more likely that this would occur in early 2014.

Netherlands (€49bn)

- **Gross issuance:** On 20 September the DSTA announced in its quarterly outlook that the 2014 funding requirement for the Netherlands will be €93.7bn. This is around €4bn lower than 2013. We expect gross DSL issuance of around €49bn in 2014, roughly in line with 2013 gross issuance (€51bn).
- **New bonds:** We expect the Netherlands to issue 1 x 2yr, 1 x 5yr, 1 x 10yr and 1 x 30yr in 2014.

Figure 8. Austria: Redemptions (€bn)



Source: Citi Research, Bloomberg

Austria (€29bn)

- **Gross issuance:** We expect Austria to issue around €29bn of bonds in 2014, €7bn higher than 2013 issuance. This is largely due to a €9bn increase in redemptions from 2013 to 2014.
- **New bonds:** Austria will issue 1 x 5yr, 1 x 10yr and 1 x 30yr in 2014, in our view.

Belgium (€39bn)

- **Gross issuance:** We expect €39bn of gross issuance from Belgium in 2014, €3bn lower than 2013 issuance. This is a result of a small decrease in the fiscal deficit from 2013 to 2014.
- **New bonds:** We believe that Belgium will issue 1 x 5yr and 1 x 10yr in 2014. There is a possibility that a new 15yr also comes to the market.

Finland (€10bn)

- **Gross issuance:** We expect Finland to issue around €10bn of bonds in 2014. This is slightly less than our estimate for 2013 issuance (€12bn).

Ireland (€7bn)

- **Gross issuance:** The next time Ireland comes to the market is likely to be in early 2014. We forecast around €7bn of bond issuance from Ireland in 2014. We expect Ireland to conduct a series of bond auctions in 2014 and possibly a syndicated reopening too.
- **OMT eligibility:** Citi expects Ireland will agree to a conditional ESM program to extend post-2013, aiming to fund itself fully but with the backstop of the OMT¹.

Portugal (€4bn)

- **Financial support:** Citi expects Portugal to get a second bailout in 2014, with early restructuring of some public sector liabilities other than marketable central government debt¹.
- **Gross issuance:** We forecast only €4bn of bond issuance from Portugal. This is most likely to occur in 2H14 and via a syndication. For now, we do not expect Portugal to be able to conduct regular bond auctions in 2014.

¹ Global Economic Outlook and Strategy - September 2013

Appendix A-1

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