

European Rates Weekly

Searching For Direction

- **Duration Scorecard:** We introduce a simple Bund forecasting tool that aims to help ourselves and investors better manage duration risk. The tool is designed to aggregate information coming from several indicators.
- **Algorithmic Trading Signals:** Reduce core long duration and wait for more attractive yield levels to re-enter longs.
- **Moody's keeps Spain at Baa3:** Moody's concluded its review of Spain's rating at Baa3 (Negative Outlook). The negative impact of a further Spanish downgrade has been averted (including expulsion from some benchmark indices) and the current improved sentiment may last a little longer than most previously expected.
- **Analysis of flows after Spain's downgrade:** Continuation of core selling and peripheral buying, but duration neutral. Demand for 2-5yr sector in both core and peripherals. Selling of 5-10yr in core, outweighing buying of peripherals in 5-10s. Better buying of Italy than Spain. Good interest in small AAAs.
- **Gilts:** 10s30s is likely to remain largely directional, but we continue to believe that the curve will exhibit a flattening bias in the coming weeks. Selling 5yr gilts vs 2s and 7s looks attractive from a relative value perspective and offers positive carry.
- **EUR Vol – Sell Vega and Buy Gamma:** Gamma has fallen significantly since the start of the year resulting in extremely elevated calendar spreads. Given upcoming event risks over the next year, we think this is a good time to sell vega vs gamma.
- **SSA Strategy:** The economic backdrop remains generally supportive for high quality assets. Supply pressures should also progressively wane going into year-end for the core European SSA market.
- **Month-end EGBI projection highlights:** End-October changes are supportive of the core – especially France and Germany – and also Italy. Changes also point to support for 10yr and 30yr Austria and France, 10yr Germany, and 30yr Netherlands
- **Upcoming Supply:** Within Europe, next week's supply comes from Finland (max €1.5bn), Germany (€4bn) and Italy (estimated €4.25bn). There will be large coupon payments (€20bn from France and Spain) and €35bn of redemptions (from France and Spain) next week. Next week's US issuance falls in the 2-, 5- and 7-year sectors at approximately \$43 million/bp.

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

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Contents

Tradesheet	5
Bund: A Framework for Direction	7
Current ARTS Trading Signals	8
Moody's keeps Spain at Baa3...what next?	10
Flows before and after Spain's downgrade	11
Sterling Rates Strategy	12
EUR Vol: Sell Vega vs Gamma	14
SSA Supply and Relative Value	16
Month-end EGBI projection highlights	17
European Relative Value Tables	19
Relative Value Tables – All Maturities	20
Relative Value Tables – Max 12Yr Maturity	21
Relative Value Tables – Min 8yr Maturity	22
Supply Analysis and Forecasts	23
EUR: Coupons & Redemptions (next 3mths)	25
Inflation Forecasts, Carry & Weekly Changes	26
Summary of Recent Publications	28
Appendix A-1	29

Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Recent policy measures have bought time but fundamental and implementation risks remain. On any medium term horizon we would still rather be long than short. In the short term, we view the risk-reward as unattractive.	Neutral on duration with Bunds at 1.60%. Cross-market trades and swap spreads offer much better value than outright duration trades.
Money Market	We like receiving longer-dated 1y forwards. This trade profits - of course - from a rate cut scenario as well in a situation of long-term unchanged rates, in which the market is desperate to grab the additional yield in forward space. This strategy rolls down by a cumulative 80bp in 24 months. Looking at Japan, the JPY 1y1y rate dropped to a low of 0.08% in June 2003.	Receive EUR 1y3yF
Yield Curve	Curves remain directional and any move lower in 10yr Bunds is likely to alleviate some of the steepening pressure in 2s10s and 5s10s.	10s30s steepeners in Germany as a long-term trade (or boxed with Gilts). Use POs (over cash) for 5s30s flatteners in OAT or OLOs if you have a long-end flattening view
Cross-market	We continue to prefer Bunds to Treasuries over the longer-term and expect a reversal of the recent tightening to continue.	Long 2x5 ATMf/+100 payer spread in USD versus EUR Long 30yr gilts vs USTs Receive EUR 2y2y vs USD 2y2y
EMU Spreads	EMU spreads have benefited from Moody's affirmation of Spain at the Investment Grade Baa3 rating. This is supportive of spreads in the near-term. We continue to see good demand at Spanish auctions.	Sell 5yr Austria vs Germany. Retain flatteners in BTPs
Swap Spreads	Bund spreads have tightened significantly in the last two months. 30yr spreads are at levels which are likely to attract real money interest and we favour wideners here. We suggest selling Schatz vs EONIA as a way to express a deposit rate cut into negative territory. Gilt spreads continue to cheapen, influenced by the core market sell-off and corporate issuance.	Sell Schatz vs EONIA Long 30yr Bund swap spreads
Inflation	Several cross-market spreads across global inflation are at interesting levels. We see scope for some reversal in the near-term. We favour selling 10yr US inflation swaps vs EUR and buying 10yr UK cash break-evens vs euro.	Sell 10yr CPI ZC swaps vs 10yr HICPXT ZC swaps Buy UKTI 2022 vs OATe22 break-even Sell OATe22 vs Bunde23 real yield spread Sell OATe40 break-even outright or boxed vs UKTI 2040 10s30s TIPS break-evens steepeners as a LT structural trade.
Volatility	EUR calendar spreads are too high. We suggest selling vega vs gamma. EUR front-end fwds are considerably elevated vs spot and do not reflect further ECB action. GBP 2y2y vol is too rich vs fundamentals, we continue to suggest selling straddles on a rolling basis.	Buy EUR Gamma vs Vega Sell EUR 3y1y ATMf straddles and buy EUR 3y1y ATMf-25 receivers. Sell GBP 2y2y ATMf straddles
SSA	The sell off in Germany has led to even tighter spreads and core SSA issuers have also preformed vs swaps. We continue to expect a largely range-bound market in Q4 with yields remaining relatively low.	Long 4yr KfW vs France (medium term, strategic spread widener) Micro extension trades in core issuers
Risk Allocation	Keep overall risk light but continue to trade opportunistically rather than strategically. Prefer cross-market and swap spread risk than outright duration trades.	

Source: Citi Research

Tradesheet

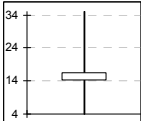
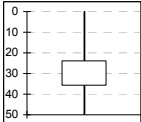
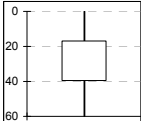
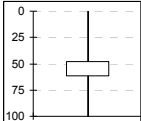
Record of Our Open Trades

Figure 2. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
Europe / US	Sell 10yr US CPI ZC swap vs EUR HICPXT ZC swap	Open 71bp Current 67bp	The Fed's inflationary stance looks well priced and some reversal of recent trends is likely in the near-term. The US-euro inflation swap differential is at appealing historical levels Global Inflation Strategy 9 October 2012	
	Inflation Sell 10yr US CPI ZC swap at 2.79% Buy 10yr EUR HICPXT ZC swap at 2.08%	P&L 4bp Target 50bp Stop 80bp		
Europe	Receive EUR 30s50s	Open 18bp Current 17bp	Long-end of EUR swap curve is pricing in more than required de-hedging by Dutch pension funds. CVA activity should support the trade. European Rates Weekly 11 October 2012	
Duration	Receive EUR 30s50s at 18bp	P&L 1bp Target 5bp Stop 22bp		
Europe	Receive EUR 1y3yF	Open 136bp Current 132bp	ECB rate cut and very high carry should be supportive for this trade IIRS 13 September 2012	
Duration	Receive EUR 1y3yF at 1.36%	P&L 4bp Target 50bp Stop 150bp		
Europe	Sell 5yr Austria vs 5yr Germany	Open 24bp Current 21bp	Risk of delay to the ECB's OMT programme and attractive entry levels IIRS 13 September 2012	
EMU Spreads	Sell RAGB 4% Sep16 at 0.59% Buy Bobl 1.25% Oct16 at 0.35%	P&L -3bp Target 40bp Stop 16bp		
Europe	Italy 2s10s flattener	Open 280bp Current 260bp	We expect this strategy to work in both a risk-on environment (duration extension across front-end BTPs) & risk-off environment (increase in credit risk would bear-flatten the curve) Assessing the Impact of a Theoretical OMT... 12 September 2012	
Curve	Sell BTP 4.25% Jul14 at 2.20% Buy BTP 5.5% Sep22 at 5.00%	P&L 20bp Target 250bp Stop 290bp		
Europe	France 2s5s Steepener	Open 70bp Current 66bp	Proxy for shorting France vs Germany IIRS 16 August 2012	
Curve	Buy BTAN 3% Jul14 at 0.14% Sell OAT 3.75% Apr17 at 0.86%	P&L -4bp Target 100bp Stop 60bp		
Europe	Sell EUR 1y3yF ATM straddle and buy ATM-25 receiver	Open 63bp Current 54bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken IIRS 9 August 2012	
Volatility	Sell EUR 1y3yF ATM (-1.36%) straddle for 98bp Buy EUR 1y3yF ATM-25 receiver for 35bp	P&L 9bp Target 30bp Stop 73bp		
Europe	Long KfW 1.375% Feb17s vs OAT 5% Oct16s	Open 1bp Current 2bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify IIRS 2 August 2012	
Cross Market	Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%	P&L 1bp Target 20bp Stop -10bp		
UK	Sell GBP 2y2y ATM straddle	Open 76bp Current 56bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol IIRS 12 July 2012	
Volatility	Sell GBP 2y2y ATM (1.04%) straddle at 76bps	P&L 20bp Target 0bp Stop 114bp		
Europe / US	Buy USD Payer Spread vs EUR (delta-weighted and fx-adjusted)	Open 5bp Current 5bp	Range-bound short rates with short term cash-flow support for Europe IIRS 12 July 2012	
Duration	Buy 108 units USD 2yr5yr ATM payer at 2.1% Sell 108 units USD 2yr5yr ATM+100 payer at 0.8% Sell 100 units EUR 2yr5yr ATM payer at 1.9% Buy 100 units EUR 2yr5yr ATM+100 payer at 0.64%	P&L 0bp Target 25bp Stop -5bp		
Germany	Germany 10s30s steepener	Open 88bp Current 88bp	Replaces 5s30s steepener. Regulatory pressures expected to weigh on long end. IIRS 12 July 2012	
Curve	Buy DBR 1.75% Jul22 at 1.24% Sell DBR 2.5% Jan44 at 2.12%	P&L 0bp Target 120bp Stop 75bp		

Source: Citi Research

Figure 3. Record of our Open Trades (continued)

US / Europe	Long 10yr Bund vs UST	Open 14bp Current 16bp P&L 2bp Target 35bp Stop 4bp	The recent weakness in equities, the upcoming NCR profile & our ARTS weekly trading signal suggests buying 10yr Bunds vs USTs Interest Rate Strategy Update 25 June 2012	
US / UK	Long 30yr Gilt vs UST	Open 36bp Current 24bp P&L 12bp Target 0bp Stop 50bp	With Operation Twist extension largely priced in, QE resumption should help gilts outperform treasuries UK Rates Strategy 20 June 2012	
US / Europe	Pay USD 2y 2y fwd vs EUR	Open 40bp Current 17bp P&L 23bp Target 0bp Stop 60bp	We expect divergence between UST and core EMU yields IIRS 23 February 2012	
UK / Europe	Bund 5s30s steepener vs gilts flattener	Open 62bp Current 48bp P&L 14bp Target 0bp Stop 100bp	Free-float profile suggests support to UK long end by QE, hedged by EUR steepener against EUR driven risk of mid-curve repricing Interest Rate Strategy Focus on QE 14 Sep2011	

Source: Citi Research

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Bund: A Framework for Direction

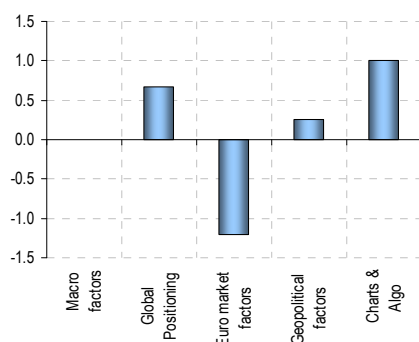
We introduce a simple Bund forecasting tool that aims to help ourselves and investors better manage duration risk. The tool is designed to aggregate information coming from several indicators (Figure 4). Market specific information is blended with macroeconomic information via a set of subjective weights. They reflect our best guess about the relevance of a single indicator. The time horizon analyzed here is one week.

Putting the Pieces Together

Forecasting the Bund is a challenging enterprise. To simplify matters, we assume the Bund reflects a confined set of publicly available information. We can narrow down this information set to five sub-sets (Figure 5): Macroeconomic factors, global positioning, euro market factors, event risk, chart & algo.

In the current market context, we have decided to assign less weight to macroeconomic factors. We keep the uniform weights for remaining sub-sets, in order to prevent introducing too much discretion into this tool. Note that these may change slightly going forward.

Figure 4. Contribution to Bund signals



Source: Citi Research

Figure 5. Bund weekly cheat sheet – Week 22-26 October 2012

Citi Bund Weekly Cheat Sheet: Week 22-26 October				
Category	Variable	Score	Weight	Comments
Macro factors		0.0	10.0%	
	ECB	1	2.0%	Refi rate cut in Dec
	FED	0	2.0%	QE3 supportive for risk on
	Inflation	0	2.0%	Peak in HICP reached
	Growth related data	1	2.0%	PMI to remain weak
	Risk On/Off	-2	2.0%	Risk-on spilling over into the new week
Global Positioning		0.7	22.5%	
	CFTC	-1	7.5%	+400k lots in 6 months, top of the range
	T-Note	2	7.5%	15bp sell-off in a week
	Citi surprise	1	7.5%	US surprises have rallied hard since July
Euro market factors		-1.2	22.5%	
	Supply	-1	4.5%	Bund auction 4bn
	Positioning	-1	4.5%	Overweights in core markets
	Equity	-2	4.5%	CB liquidity driving equity
	Sovereign credit	-2	4.5%	Continued peripheral performance
	FX	0	4.5%	–
Event risk		0.3	22.5%	
	Elections	1	5.6%	Spanish regional elections on Sunday
	EU & G20 Summits	1	5.6%	Potential disappointment
	Stability mechanisms	0	5.6%	Spain unlikely to request help next week
	Middle East / Oil	-1	5.6%	No particular event next week
Charts & Algo		1.0	22.5%	
	Technicals	2	11.3%	Rebound on 13950 sup
	ARTS	0	11.3%	Almost flat risk short-term
Recommendation				
	Actual RXZ2	139.80		(Thursday close)
	Actual CTD yield	1.40%		
	10d del. volatility	5.9%		
	Conviction level	8%		
Trade		Buy		

Source: Citi Research

Weekly Bund Strategy

According to our analysis, we recommend buying Bunds on a weekly horizon. The level of conviction in this trade is low at around 10%.

Current ARTS Trading Signals

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Short and long term signals remain diverged ...

... in the long term the models continue to be supportive of duration but in the short term continue to be neutral ...

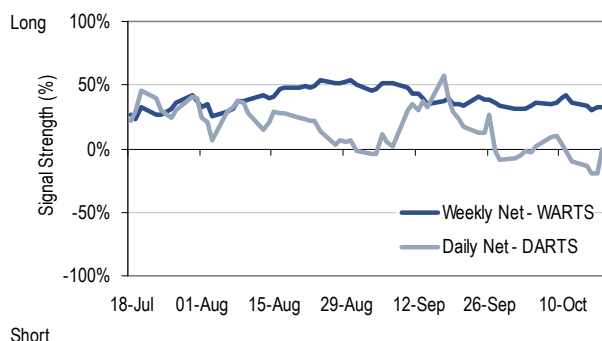
... This is a result of differing outlooks on risk and fundamentals.

Reduce core long term duration position and remain neutral in the short term until risk/reward improves.

This week the daily and weekly algorithmic rates trading signals¹ continue to remain dislocated, with the long term signals (WARTS) reducing its long duration exposure by ¼ to 30% while the short term models (DARTS) have reduced shorts (Figure 6). This dislocation of signals is caused by differing outlooks of risk aversion and fundamentals. In the WARTS models, both risk aversion and fundamentals remain supportive of long duration positions. In contrast DARTS risk aversion is weak and fundamentals relatively stronger, driving a net short duration positions.

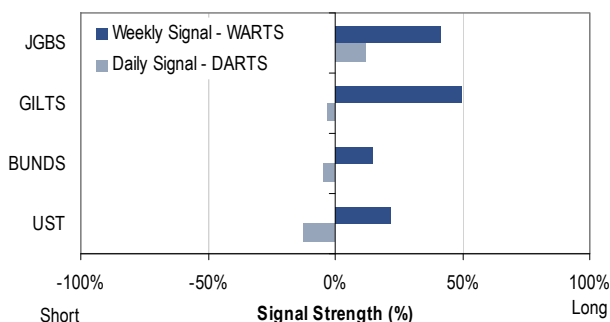
At an asset level there is broad agreement of the long duration positions in WARTS and neutral position in DARTS (Figure 7). The signals suggest investors should reduce core duration exposure while waiting to re-initiate new longs positions.

Figure 6. Evolution history of the daily / weekly 10y net signal



Source: Citi Research

Figure 7. Breakdown of current daily and weekly net signals

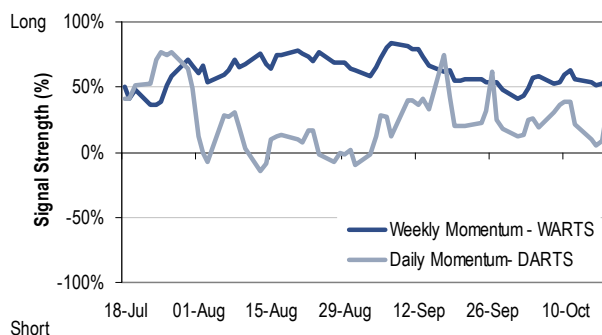


Source: Citi Research

Momentum signal has mildly strengthened in both the long and short term models ...

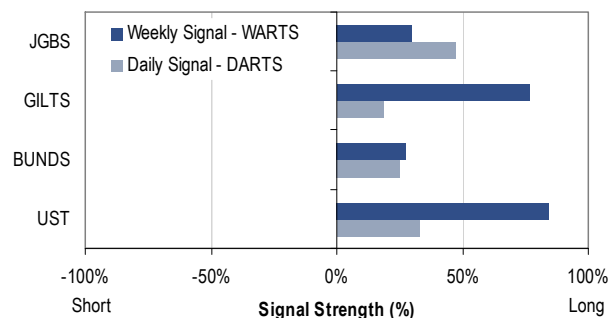
The momentum signal remains long duration both DARTS and WARTS models (Figure 8). Reversion dynamics still dominate the WARTS driving the signals to maintain longs as yields rise. In contrast trend and reversion are balanced in DARTS, suggesting yields are currently in a range bound trading environment in the short term. At an asset level there is broad agreement that momentum is mildly supportive of duration as yields approach the top of their trading ranges (Figure 9).

Figure 8. Evolution history of the daily / weekly 10y momentum signal



Source: Citi Research, Bloomberg

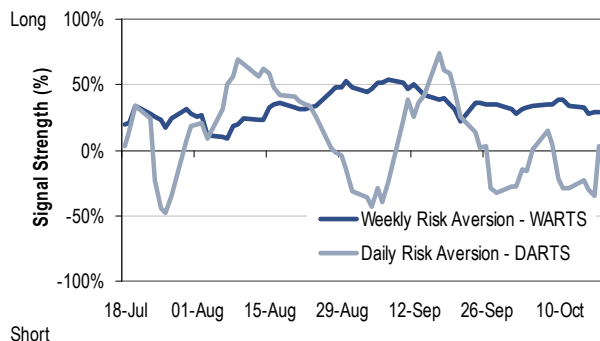
Figure 9. Breakdown of current daily and weekly momentum signals



Source: Citi Research, Bloomberg

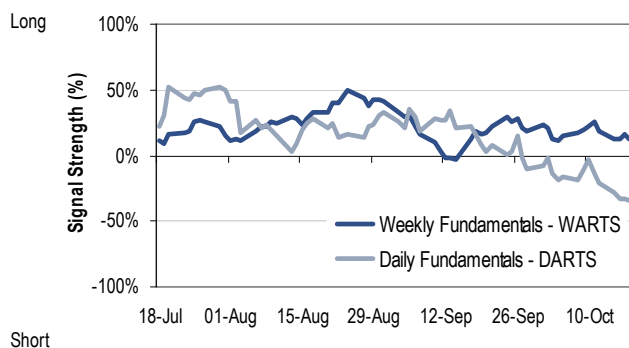
¹ The current signals are calibrated as of market close 10th October 2012.

Figure 10. Evolution history of the daily / weekly 10y risk aversion signal



Source: Citi Research

Figure 12. Evolution history of the daily / weekly 10y fundamental signal



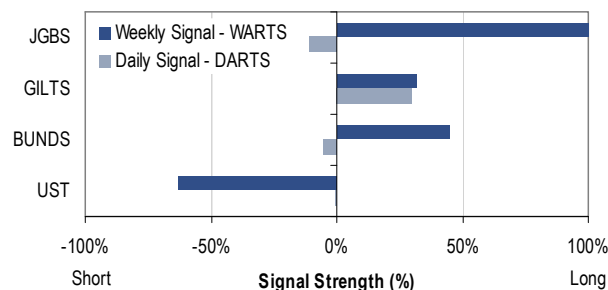
Source: Citi Research, Bloomberg

... Meanwhile risk aversion remains diverse across models due to a difference in short and long term asset correlations.

... Finally fundamentals have strengthened as economics improve.

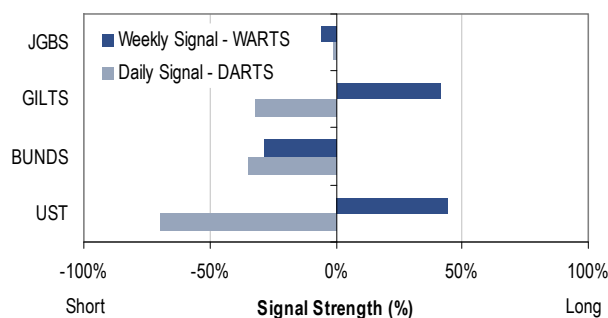
The signals suggest that investors should wait for more attractive yields before adding to duration in the short term.

Figure 11. Breakdown of current daily and weekly risk aversion signals



Source: Citi Research, Bloomberg

Figure 13. Breakdown of current daily and weekly fundamental signals



Source: Citi Research, Bloomberg

Meanwhile, the risk aversion signal remains elevated in WARTS but neutral in DARTS (Figure 10). Again this is due to differing outlooks to trend and reversion (as seen in the momentum model). For instance DARTS finds a range bound trading environment in yields but a trending environment in WARTS (due to the difference in regression windows). At the asset level signals are diversified, with broad agreement of "risk on" in UST but strong risk-off dynamics in JGBs (Figure 11).

Finally, fundamentals continue to strengthen both in DARTS and WARTS (Figure 12). Steeper curves and improved economic data² are driving DARTS to switch into net short positions. However in the longer term the outlook is more mixed due to weaker longer term trends. In both Gilts and UST, the WARTS signals find fundamentals weak and therefore continue to supporting long duration position (Figure 13).

In summary, the models have identified contrasting trading regimes in the short and long term. On a technical basis, DARTS identifies a range bound trading environment (hence reducing duration as yields approach the top of the recent trading ranges). In contrast WARTS remains long due to stronger longer term trends (however these have weakened somewhat recently). The combined models hold a long duration position of 15% but are waiting for risk / reward to become more attractive before adding to duration. A short term alternative (other than being mildly short) is to move into 10/30s flattening positions in Gilts which increasingly look attractive in the DARTS.

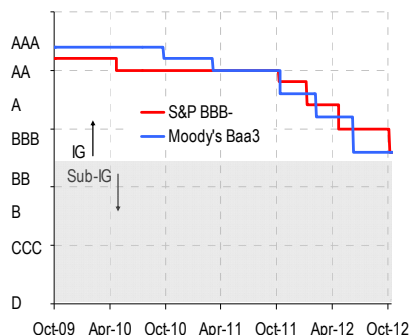
² For instance Citi economic surprise indices have recently all moved into a positive domain

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Figure 14. Spain's Rating History



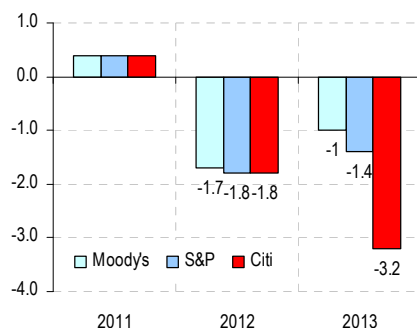
Source: Moody's, S&P, Citi.

Much bigger reaction in spreads to Moody's Baa3 confirmation compared with the relatively muted reaction to S&P's recent two notch downgrade

For now at least, market access appears reasonably secure

Risks reduced but not eradicated

Figure 15. Real GDP Growth Expectations (%)



Source: Moody's, S&P, Citi.

Moody's keeps Spain at Baa3...what next?

Market access is key

After an extended period of uncertainty, Moody's finally concluded its review (which began mid June) of Spain's rating on 16th October. The sovereign remains Investment Grade at Baa3 but on Negative Outlook (Figure 14). The three key drivers behind this confirmation are:

- Reduced risk of Spain losing market access
 - Moody's expects Spain to access a precautionary credit line soon which would be more flexible than a formal Troika programme
 - Credible backstop of the ECB's OMT reduces the risk of loss of market access
 - Monitoring of Spain's progress, possibly involving the IMF, is a credit positive
- Spain's commitment at fiscal and structural reform
- Bank recap package should alleviate solvency issues within the financial sector

The confirmation of the Investment Grade rating was a welcome relief to the market. Across the curve, spreads to Germany rallied some 40bp and 10yr Bunds rose 8bp (mid-day moves on 17th October). The favourable conclusion has served to erode some of the credit risk premium embedded within Spanish yields. Going forward, this is supportive for peripheral primary markets (and risk appetite) more generally.

Steepening pressure likely in the event that aid is sought

The prospect of unlimited ECB purchases is highly likely to provide a degree of insulation to the front end of Spain's yield curve. Furthermore, appetite is strongest for shorter dated sectors (as indicated at primary auctions) which has increasingly become the preferred habitat for domestic accounts. Should Spain enter a programme (such as an EFSF/ESM ECCL) which consequently unlocks potential OMT purchases then we would expect steepening in 2s5s and 2s10s from the prevailing yield levels at activation. Of course, uncertainty will remain regarding precisely if and at what level the ECB will engage in secondary market purchases. However, for now, some of the pressure on Spanish yields has subsided and in the near term, market access appears reasonably secure.

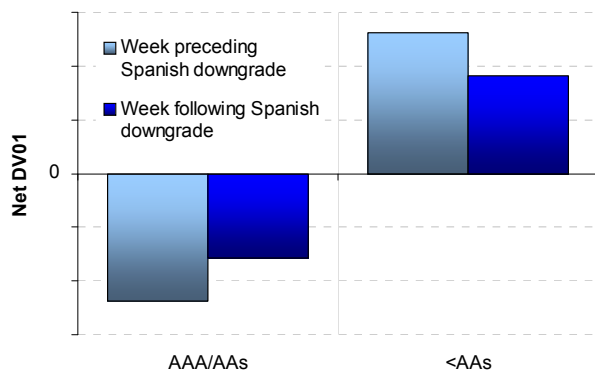
Negative Outlook by Moody's (and S&P) – what to watch out for

Given the current climate of a somewhat artificial, but improved sentiment, investors are increasingly focused on what could derail the current market tone. In our view, much of the rally is predicated on Spain formally requesting aid. Lack of progress on this front is unlikely to be a near-term market positive. Over the longer-term, both Moody's and S&P continue to have Spain on Negative Outlook and Citi expects much weaker growth prospects next year (Figure 15). Furthermore, Moody's indicated that risks to their baseline scenario were "high".

Should growth markedly undershoot base expectations to the extent that debt sustainability is further called into question, then ratings pressure is likely to re-emerge. Exogenous shocks from euro area policy making (such as lack of progress in banking union) and from a sovereign contemplating EMU exit are also key variables in how Spain's rating might evolve over the medium-term. For now however, one potential negative has been averted (including expulsion from some benchmark indices) and the current stasis and improved sentiment may last a little longer than most previously expected.

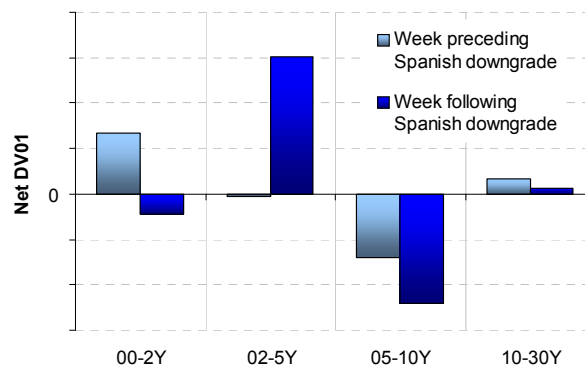
Flows before and after Spain's downgrade³

Figure 16. Decreased selling of the core, and decreased buying of peripherals, in the week following Spain's downgrade.



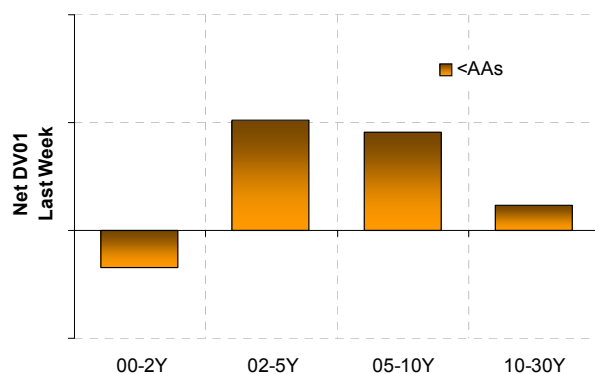
Source: Citi Research

Figure 17. Clear front-end led-steepening flow after downgrade. Another week of duration-neutral curve flows: curve, not duration, risk.



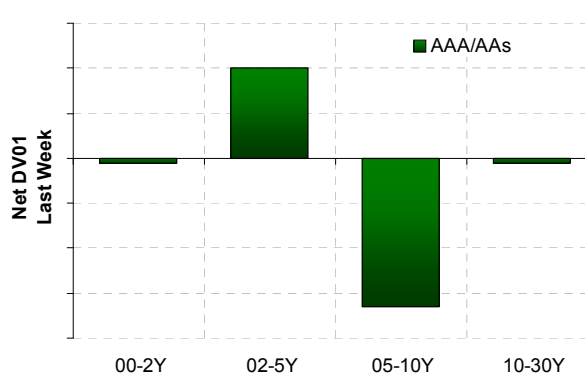
Source: Citi Research

Figure 18. Peripheral buying after downgrade focused on 2-5yr and 5-10yr buckets. Absence of net demand for duration or very short end.



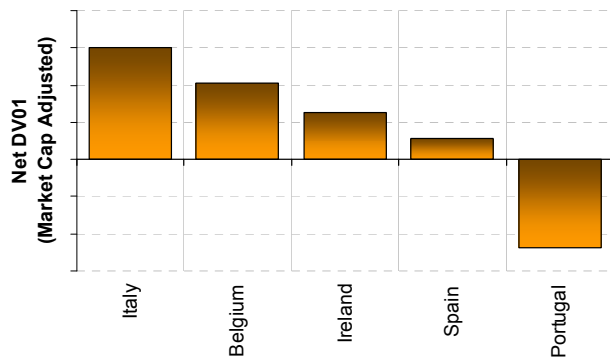
Source: Citi Research

Figure 19. Demand for 2-5yr sector in both core and peripherals. Selling of 5-10yr in core, outweighing buying of peripherals in 5-10s.



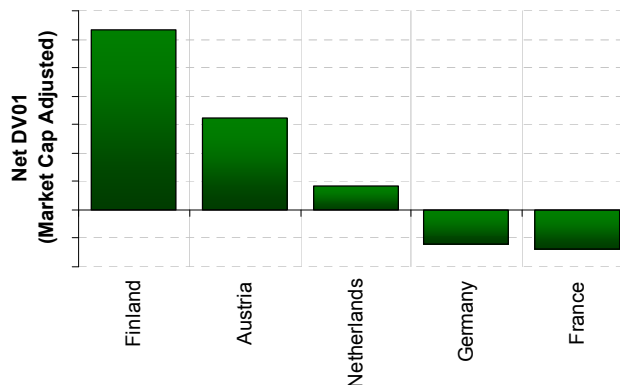
Source: Citi Research

Figure 20. Market-cap adjusted flows show better buying of Italy (and Belgium) than Spain in week after Spanish downgrade



Source: Citi Research

Figure 21. Market-cap adjusted flows in core show strongest buying of the smallest AAA markets of Finland and Austria



Source: Citi Research

³ This analysis is based on all customer trades executed on Citi's electronic platform. Net DV01 is the the DV01 purchases – DV01 of sales.

Sterling Rates Strategy

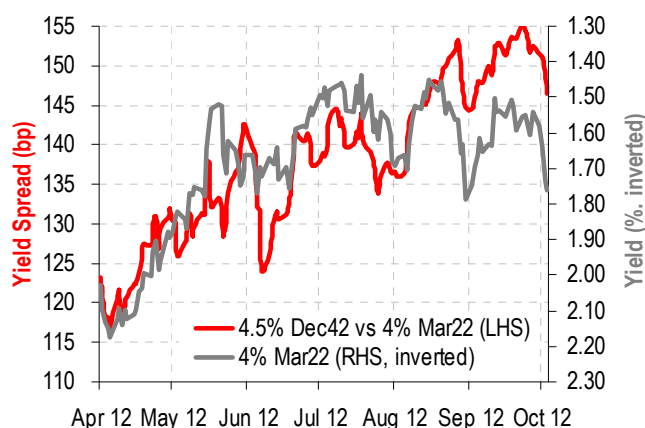
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In the last few days, 10yr gilt yields have broken out of the 1.68%-1.78% range that has held for the last three weeks. The move higher in yields was predominantly inspired by Bunds, but helped along by the MPC minutes which cast further doubt over a QE extension in November. The bearish tone helped to flatten the 10s30s curve from its highs. The curve is likely to remain directional, but we continue to believe that the curve will exhibit a flattening bias in the coming weeks.

Tactical 10s30s flatteners

As discussed in last week's [European Rates Weekly](#), the 30yr sector of the gilt curve has underperformed recently, partly related to issuance pressure. The 10s30s curve has bear flattened in the last few days (Figure 22), but, according to the regression coefficients, not by as much as it should have done given the move in 10yr yields. This is shown by the uptick in the regression residual between 10s30s and 10s (using one-year of historical data, r-squared = 0.83). As Figure 23 shows, 10s30s now looks around 15bp too steep according to the regression residual.

Figure 22. The 10s30s gilt curve looks steep vs the level of yields



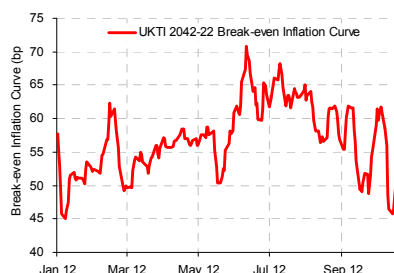
Source: Citi Research, Bloomberg.

Figure 23. 10s30s is 15bp too steep vs 10s, according to a 1yr regression



Source: Citi Research, Bloomberg.

Figure 24. Flatness of 10s30s BEI curve



Source: Citi Research, Bloomberg.

We view this as a tactical opportunity to put on flatteners. The primary motivation is to capture the supply-related underperformance of 30s. However, the trade should also benefit from the usual seasonal bias towards flatteners in Q4 (in the last 10 years, 10s30s has steepened in Q4 on only three occasions, one of which was the exceptional 2008). Moreover, flatteners should receive a boost from index-related flows. In early December, the 4.25% Dec27s will drop out of the 15yr+ gilt index and in doing so trigger a 0.46yr extension. There is also growing support for flatteners in the Algorithmic Trading Signals (see page 8 for details). The main risk to flatteners is a renewed bout of risk aversion and a strong rally in core yields. Undeniably, 10s30s flatteners will work best in a bearish environment.

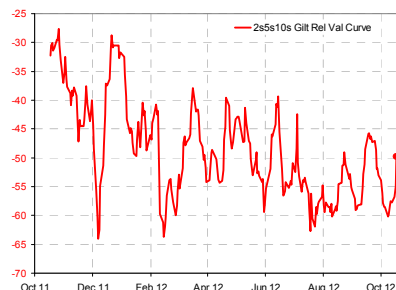
Real yield alternative

A good case can also be made for 10s30s flatteners on the real yield curve. The real yield curve is at historically steep levels relative to the conventional curve. As Figure 24 shows, the 10s30s break-even box is close to its flattest levels this year. There is plenty more IL gilt supply to come in November-December (around £6bn), but the long-end of the curve should attract demand given historically cheap relative valuations. Moreover, the 5yr+ and 15yr+ indices will extend by around 0.9yrs and 1.3yrs respectively in November (when the 2017s and 2027s drop out). This should encourage extension trades and put flattening pressure on the curve.

Relative value on the gilt curve with positive carry

Below we identify two flies within the 2-10yr sector of the conventional gilt curve which look attractive from a relative value perspective and offer positive carry. In order to identify the best opportunities from a relative value perspective, we screen for flies with high z-scores, a low correlation to the curve, and which have exhibited good mean reversion.

Figure 25. 2s5s10s gilt fly



Source: Citi Research

2s5s7s flies

Many of the flies identified by this approach are centered on the 2016-17 maturities. This is unsurprising given the recent richness of the broader 2s5s10s gilt fly. However, in the last few days, the 2s5s10s fly has started to cheapen from the lows (as shown in Figure 25 using the fitted gilt curve). The micro-flies identified below are likely to perform well if the current dynamic continues and 5s lose their richness.

Both flies featured below use UKT 4.5% 3/2019, the bond re-opened this week, as the longer-wing and UKT 2.75% 1/2015 as the shorter-wing. The flies benefit from positive carry of 4-5bp over a three-month horizon.

■ Fly 1: sell UKT 4% 9/2016 vs buy UKT 2.75% 1/2015 and UKT 4.5% 3/2019

- Current level = -35bp (see Figure 26 for the 1yr history), z-score (1yr) = -1.8, distance to mean = 8.7bp.
- Positive carry over 3mths = 4.1bp

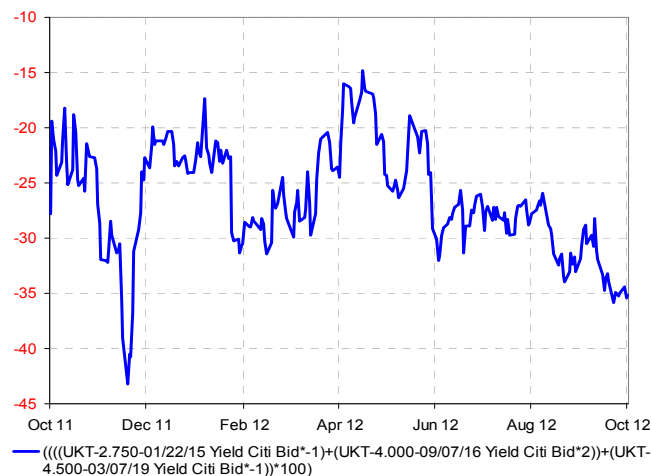
■ Fly 2: sell UKT 1.75% 1/2017 vs buy UKT 2.75% 1/2015 and UKT 4.5% 3/2019

- Current level = -4.7bp (see Figure 27 for the 1yr history), z-score (1yr) = -1.4, distance to mean = 6.9bp.
- Positive carry over 3mths = 4.8bp

Issuance pressure in the sub 10yr sector shifting to 5s

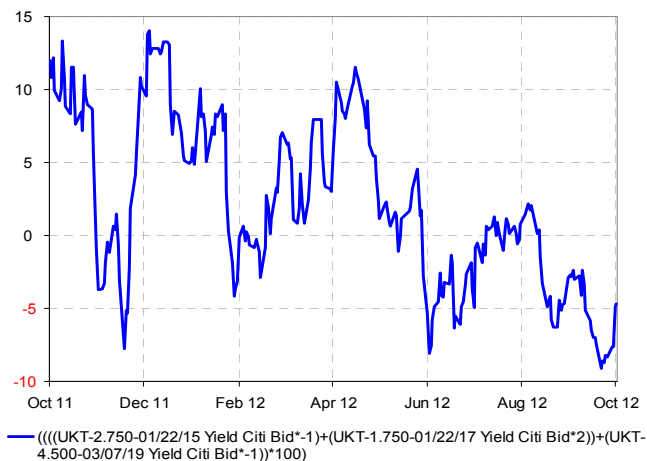
This week's auction of UKT 4.5% 3/2019 has probably put pressure on the 7yr sector. Issuance pressure within the sub 10yr sector will next fall on the 5yr area when UKT 1% 9/2017 is re-opened on 20 November. This is likely to put some pressure on the bullets of both of the flies.

Figure 26. Fly 1: sell 4_16 vs buy 2T_15 & 4H_19



Source: Citi Research

Figure 27. Fly 2: sell 1T_17 vs buy 2T_15 & 4H_19



Source: Citi Research

EUR Vol: Sell Vega vs Gamma

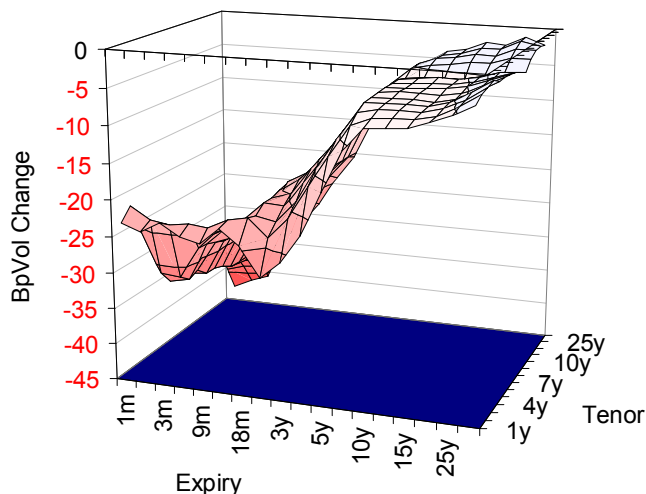
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One of our core themes in our outlook for EUR volatility markets in 2012⁴ was to sell gamma and buy vega (1y10y vs 5y10y). Having taken profits on this recommendation in early 2012⁵ we now suggest scaling into long EUR gamma vs vega positions.

EUR gamma has fallen significantly since the start of the year...

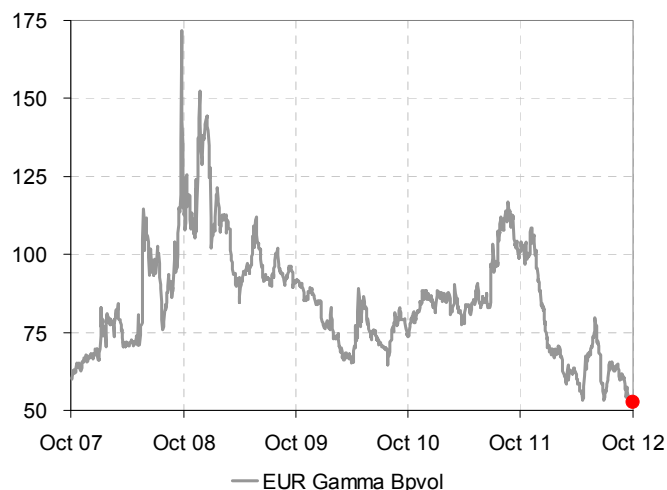
Since the start of the year EUR vol has fallen across the grid. The move has been most pronounced in shorter expiries where points such as 1y5y and 1y10y are approximately 25bpvol lower (Figure 28).

Figure 28. EUR bpvol change since the start of 2012



Source: Citi Research

Figure 29. EUR gamma is at 5yr lows

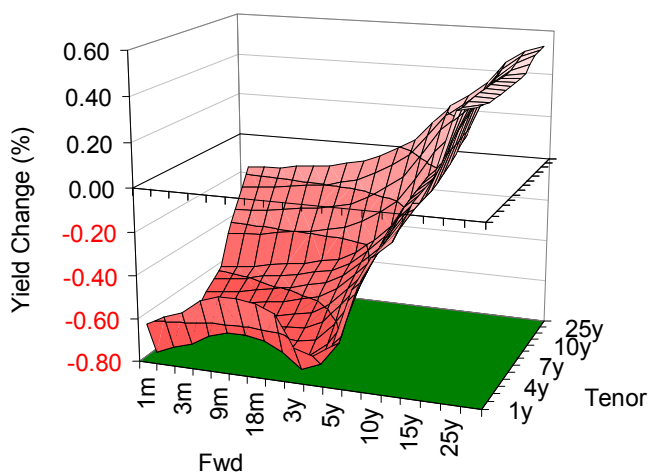


Source: Citi Research

...On the back of lower realised vol and lower fwd rates on the underlying

As can be seen in Figure 29 above blended EUR gamma is now trading at a 5yr low. In our view, this has been a result of lower realised volatility and a decline in the forwards - Figure 30

Figure 30. Short dated fwd rates have fallen sharply this year



Source: Citi Research

Figure 31. Bpvol spread between Vega (blended) and Gamma (blended)



Source: Citi Research

⁴ International Interest Rate Strategist - The Outlook for 2012

⁵ International Interest Rate Strategist - Take central banks at face-value...for now

Vega has lagged the decline in gamma...

The sharp decline in EUR gamma has driven calendar spreads higher (the bpvol spread between short expiries and long expiries has widened considerably) - Figure 31. For example the EUR 5y10y-1y10y bpvol spread is almost at its highest level in 5 years (likewise for 5y5y-1y5y) - Figure 32.

...Leaving calendar spreads extremely elevated...

Comparing calendar spreads with risk indicators, such as Citi's Global Risk Aversion Macro index⁶ (which spikes during periods of stress), highlights the scope for tighter vol spreads (Figure 33). Comparing the calendar spread shown in Figure 33 to the VIX index points to the same conclusion.

...Given upcoming event risks we suggest selling vega vs gamma

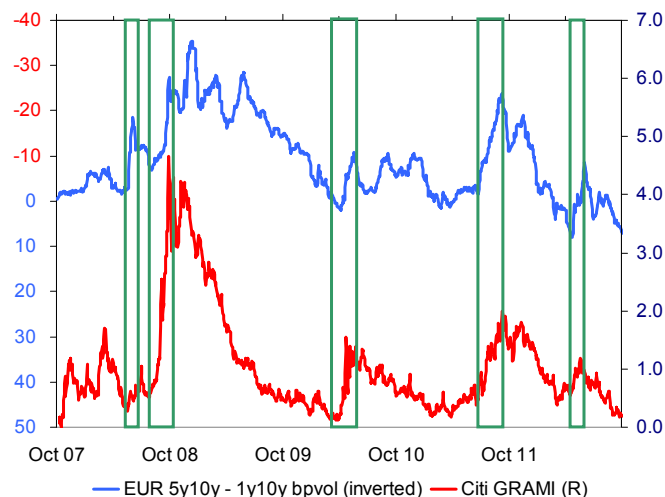
Owning gamma at current levels looks attractive given upcoming events such as the US fiscal cliff, the possibility of Spain leaving IG bond indices, consensus growth forecasts being revised lower and Citi's expectation that Greece will leave the eurozone in 12-18months with a 60% probability⁷.

Figure 32. EUR 1y10y bpv is historically cheap to 5y10y bpv



Source: Citi Research

Figure 33. EUR 1y10y bpv rises more than 5y10y when GRAMI spikes

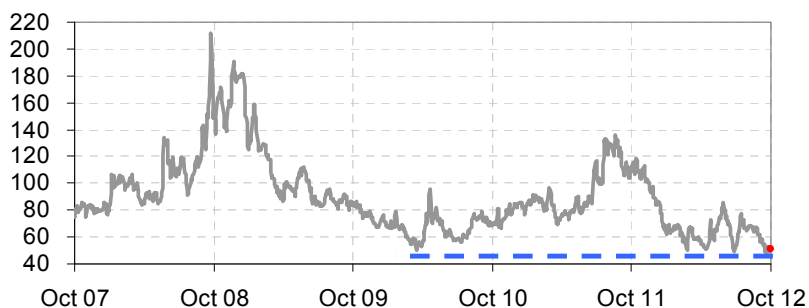


Source: Citi Research

Summary: To gain exposure to event risks over the next 12-18months we recommend investors sell vega vs gamma.

If you are looking to buy gamma outright then EUR 1m5y looks the most attractive from both a technical and risk-reward perspective.

Figure 34. EUR 1m5y bpvol has previously found support at current levels (50bpv)



Source: Citi Research

⁶ The Bloomberg ticker is GRAMI Index

⁷ Euro Economics Weekly - Grexit

SSA Supply and Relative Value

Waning supply pressures from EIB and KfW

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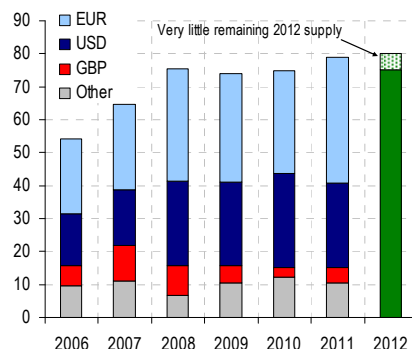
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EIB and KfW Supply Progress

With so much already issued from some core SSA issuers, we are not expecting supply to weigh significantly on secondary market yields in the near-term. This is particularly relevant for KfW and EIB:

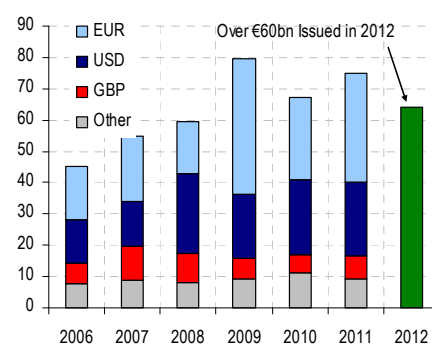
- **KfW** has issued ~94% of its expected 2012 funding programme of €80bn (Figure 35) and hence there is little expected supply for the remainder of Q4. Demand remains reasonably strong, as seen most recently at the launch of the 7yr KfW 1.25% Oct19s.
- **EIB** has actually issued more than the €60bn funding programme for 2012. (Figure 36). This was achieved in mid-September and while there might continue to be occasional taps, we are not expecting a significant surge in issuance in Q4.

Figure 35. KfW Gross Issuance (€bn)



Source KfW, DCM Analytics, Citi.

Figure 36. EIB Gross Issuance (€bn)



Source: EIB, DCM Analytics, Citi.

Yields to remain low in Q4 – keep hunting for switches on the curves

Relative value idea in EIB 7yr-9yr sector

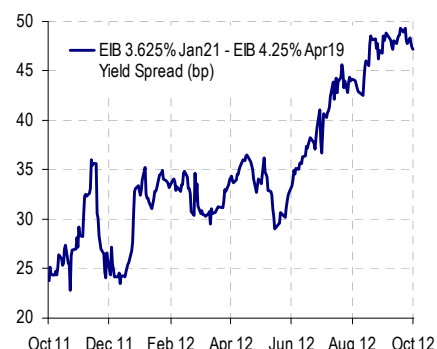
Fundamentally, we see little reason to expect a sharp correction in core SSA yields in the near-term. The economic backdrop remains generally supportive for high quality assets and supply pressures should progressively wane going into year-end. Given the strong rally over the summer, we expect a largely range-bound market in Q4 (Figure 37). We therefore continue to hunt for relative value on core curves, and extension trades have been a popular strategy in 2012 to seek out incremental yield. Some bond switches in EIB's 7yr-9yr sector look historically interesting such as the move out of EIB 4.25% Apr19s and into EIB 3.625% Jan21 (Figure 38).

Figure 37. 5yr EIB & KfW Spreads to Germany



Source: Citi, *Based on Citi Model Fitted Cash Curves

Figure 38. EIB Jan21 – EIB Apr19 (Yield Spread).



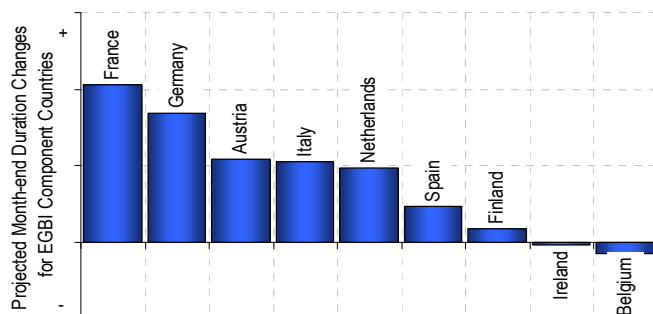
Source: Citi Research

Month-end EGBI projection highlights

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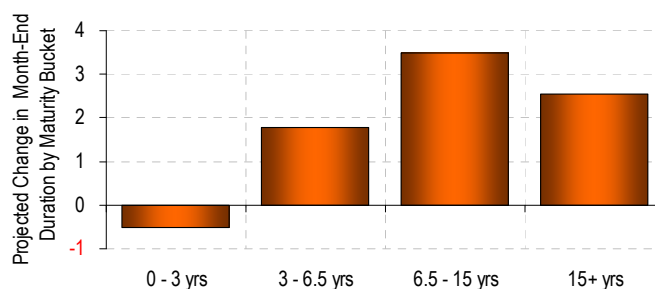
Projected end-October EGBI changes are supportive of the core – especially France and Germany – and also Italy (Figure 39). The support for the 10yr sector ties in with our [analysis](#) of the lengthening of the optimal point for vol-adjusted carry.

Figure 39. Projected month-end EGBI changes supportive of the core – especially France and Germany – and also of Italy



Source: Citi Research

Figure 40. Curve breakdown of the projected weighted duration changes points to support for the 10yr sector



Source: Citi Research

Projected changes point to support for 10 and 30yr Austria and France, 10yr Germany, and 30yr Netherlands (Figure 41).

Figure 41⁸. Summary of price pressures individual domestic curves shows support for the long ends of France and the Netherlands, and Austria in particular. Support for 10yr Germany too.

	2yr	5yr	10yr	30yr	
Germany			↑		Germany
Netherlands		↑	↑	↑	Netherlands
Finland			↑		Finland
France			↑	↑	France
Austria	↓	↑	↑	↑	Austria
	2yr	5yr	10yr	30yr	

Source: Citi Research

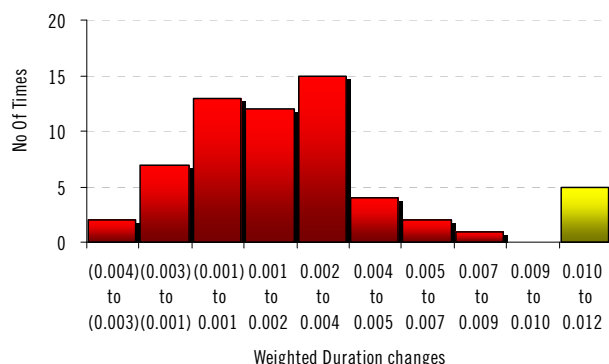
Trade 1

We recommend switching into 30s out of 10s in Austria

- 10s30s in Austria is already very steep
- We expect the Austria component of the EGBI to extend significantly this month (Figure 42) and for the change to put flattening pressure on the curve (Figure 43)
- The profile of remaining issuance should support the long-end of the Austrian curve: we expect only two auctions in the 5- and 10yr sectors in the rest of 2012, and more issuance in 10s than 30s in core/semi-core in general.

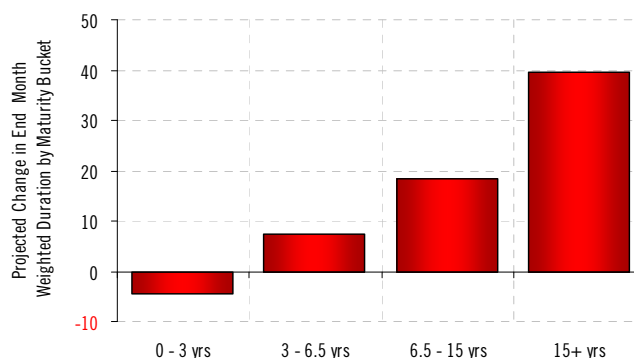
⁸ Green arrows indicate support for prices relative to other points on the domestic curve (and red arrows point to downward price pressure). Double arrows indicate particularly strong pressure on that part of the domestic curve while white/transparent arrows indicate weaker price pressures.

Figure 42. Distribution of month-end weighted-duration changes in Austria show that October's should be the biggest over the last 5 years



Source: Citi Research

Figure 43. Strong support for the long end of Austria due to the inclusion of the 2044s on grounds of size outstanding



Source: Citi Research

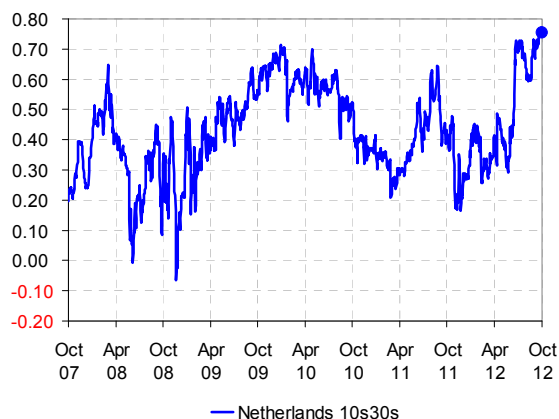
Trade 2

We recommend lengthening exposure in the Netherlands

UFR-inspired cheapening of the long end of the Netherlands has driven 10s30s to its steepest levels in five years (Figure 44). We have argued that this steepening has been due to speculative and CVA flows – see page 12-13 of our 11 October [European Rates Weekly](#).

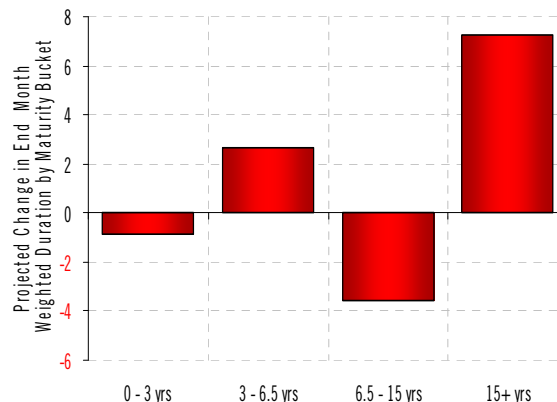
With projected index changes clearly pointing to flattening pressure on the long end of the Netherlands (Figure 45) and 10yr issuance on 13 November we would recommend positioning for some short term flattening pressure, or at least reduce steepening exposure.

Figure 44. Netherlands 10s30s is at its steepest in 5yrs



Source: Citi Research, Bloomberg

Figure 45. Netherlands: Maturity split of projected index changes (weighted duration) shows potential strong 10s30s flattening pressure



Source: Citi Research

The above is a short excerpt from our full analysis of the projected month-end index changes. Please see 18 October [European Month-end Index Projections](#) for the full report.

European Relative Value Tables

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Regular readers will be familiar with the Relative Value Appendix showing individual bonds from the major EMU 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 46 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 46. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

</

Source: Citi Research

Figure 47 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 48 and Figure 49) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 47 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.

Relative Value Tables – All Maturities

Figure 47. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); All bonds on each curve

	Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued	
GERMANY	Richest	1	4.25 Jul17 (OE)	-1.81	May07	Richest	1	5.50 Jan31	0.49	Oct00
		2	1.25 Oct16	-1.43	Sep11		2	4.00 Jan37 (UB)	0.60	Jan05
		3	0.75 Feb17	-1.22	Jan12		3	4.75 Jul40	0.61	Jul08
		4	6.25 Jan30	-1.12	Jan00		4	6.25 Jan30	0.62	Jan00
		5	2.50 Jul44 (30y)	-1.05	Apr12		5	3.25 Jul42	0.64	Jul10
		5	3.75 Jan19	1.41	Nov08		5	1.75 Jul22	1.64	Apr12
		4	4.75 Jul34	1.74	Jan03		4	3.25 Jan20	1.65	Nov09
		3	3.25 Jul15	1.75	May05		3	3.75 Jan19	1.65	Nov08
		2	3.50 Jan16	2.06	Nov05		2	2.00 Jan22	1.65	Nov11
	Cheapest	1	1.75 Oct15	2.57	Sep10	Cheapest	1	2.25 Sep21	1.65	Aug11
FRANCE	Richest	1	3.25 Apr16	-1.48	Apr05	Richest	1	2.75 Oct27	-2.08	Oct11
		2	2.25 Feb16	-0.93	Feb10		2	4.00 Oct38	-1.71	Oct05
		3	4.00 Apr55	-0.87	Apr04		3	4.75 Apr35	-1.69	Apr03
		4	3.50 Apr26	-0.81	Apr10		4	4.50 Apr41 (30y)	-1.67	Apr09
		5	1.75 Feb17	-0.49	Feb11		5	5.75 Oct32	-1.59	Oct00
		5	3.50 Apr15	1.49	Apr04		5	1.00 Jul17 (5y)	-0.65	Jul11
		4	4.00 Oct38	1.50	Oct05		4	2.00 Jul15	-0.52	Jun10
		3	2.50 Jan15	1.79	Jan10		3	3.50 Apr15	-0.37	Apr04
		2	5.00 Oct16	1.91	Oct00		2	2.50 Jan15	-0.28	Jan10
	Cheapest	1	4.00 Oct14	2.32	Oct03	Cheapest	1	4.00 Oct14	-0.01	Oct03
ITALY	Richest	1	5.00 Aug39	-1.65	Aug07	Richest	1	4.75 Aug23	-2.41	Feb08
		2	5.00 Sep40 (30y)	-1.63	Sep09		2	5.50 Sep22 (IK)	-2.41	Mar12
		3	4.50 Mar19	-1.33	Sep08		3	5.00 Sep40 (30y)	-2.38	Sep09
		4	2.50 Mar15	-1.12	Mar12		4	5.00 Mar22	-2.38	Sep11
		5	4.75 Jun17 (5y)	-1.09	Jun12		5	4.00 Feb37	-2.37	Aug05
		5	4.00 Feb17	1.45	Aug06		5	3.00 Apr15	-1.70	Jan10
		4	3.75 Aug21	1.50	Feb06		4	3.00 Nov15	-1.69	Nov10
		3	3.75 Mar21	1.74	Sep10		3	3.00 Jun15	-1.67	Jun10
		2	3.75 Aug15	1.79	Feb05		2	3.75 Aug15	-1.67	Feb05
	Cheapest	1	4.00 Feb37	2.01	Aug05	Cheapest	1	4.50 Jul15	-1.34	Jul12
N'LANDS	Richest	1	1.25 Jan18	-1.20	Jul12	Richest	1	2.50 Jan33	-0.59	Mar12
		2	2.50 Jan33	-1.16	Mar12		2	3.75 Jan42 (30y)	-0.40	May10
		3	4.50 Jul17 (5y)	-0.91	Jul07		3	4.00 Jan37	-0.39	Apr05
		4	2.50 Jan17	-0.40	Jun11		4	4.00 Jul18	-0.27	Feb08
		5	4.00 Jul18	-0.17	Feb08		5	4.50 Jul17 (5y)	-0.21	Jul07
		5	2.25 Jul22 (10y)	0.29	Feb12		5	1.25 Jan18	0.09	Jul12
		4	4.00 Jan37	0.35	Apr05		4	4.00 Jul16	0.35	Jul06
		3	0.75 Apr15	0.50	Jan12		3	3.25 Jul15	0.75	Jun05
		2	4.00 Jul16	0.52	Jul06		2	0.75 Apr15	0.96	Jan12
	Cheapest	1	2.75 Jan15	0.78	Jul09	Cheapest	1	2.75 Jan15	1.02	Jul09
SPAIN	Richest	1	4.70 Jul41 (30y)	-2.12	Sep09	Richest	1	3.75 Oct15	-2.81	Sep12
		2	4.10 Jul18	-1.27	Feb08		2	4.70 Jul41 (30y)	-1.80	Sep09
		3	5.50 Jul17 (5y)	-0.94	Mar02		3	4.90 Jul40	-1.77	Jun07
		4	4.60 Jul19	-0.87	Feb09		4	5.75 Jul32	-1.73	Jan01
		5	3.30 Oct14 (2y)	-0.71	Jul09		5	4.10 Jul18	-1.72	Feb08
		5	4.85 Oct20	1.30	Jul10		5	5.85 Jan22 (10y-FBB)	-1.57	Nov11
		4	3.75 Oct15	1.52	Sep12		4	4.65 Jul25	-1.55	Feb10
		3	5.50 Apr21	2.00	Jan11		3	3.00 Apr15	-1.52	Mar10
		2	4.00 Apr20	2.32	Jan10		2	4.40 Jan15	-1.50	Jun04
	Cheapest	1	4.20 Jan37	2.41	Jan05	Cheapest	1	3.30 Oct14 (2y)	-1.49	Jul09
BELGIUM	Richest	1	5.50 Sep17	-0.83	Jun02	Richest	1	5.00 Mar35	-2.25	May04
		2	4.00 Mar18	-0.73	Jan08		2	4.00 Mar32	-2.20	Mar12
		3	4.25 Sep21	-0.71	Jan11		3	4.25 Mar41 (30y)	-2.14	Apr10
		4	4.00 Mar32	-0.44	Mar12		4	4.50 Mar26	-1.98	Jun11
		5	3.50 Mar15	-0.05	Mar09		5	4.00 Mar22	-1.72	May06
		5	3.75 Sep15	1.34	Mar05		5	3.50 Mar15	-1.60	Mar09
		4	4.00 Mar19	1.36	Jan09		4	5.50 Sep17	-1.58	Jun02
		3	3.25 Sep16	1.38	Jan06		3	4.00 Mar18	-1.58	Jan08
		2	2.75 Mar16	1.51	Mar10		2	3.25 Sep16	-1.57	Jan06
	Cheapest	1	3.75 Sep20	1.60	Jan10	Cheapest	1	4.00 Mar17	-1.56	Jan07

Source: Citi Research

Relative Value Tables – Max 12Yr Maturity

Figure 48. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

	Versus Fitted Yield Curve						Versus Swap Curve (CAS)				
GERMANY		Rank		ZScore	Issued		Rank		ZScore	Issued	
	Richest	1	4.25 Jul17 (OE)	-1.81	May07	Richest	1	1.50 Sep22 (10y)	1.04	Sep12	
		2	1.25 Oct16	-1.43	Sep11		2	0.50 Apr17	1.37	Apr12	
		3	0.75 Feb17	-1.22	Jan12		3	2.25 Apr15	1.38	Apr10	
		4	2.25 Apr15	-1.03	Apr10		4	2.50 Feb15	1.42	Jan10	
		5	0.50 Apr17	-1.00	Apr12		5	2.75 Apr16	1.42	Apr11	
	Cheapest	5	4.25 Jul18	1.31	May08	Cheapest	5	1.75 Jul22	1.64	Apr12	
		4	3.75 Jan19	1.41	Nov08		4	3.25 Jan20	1.65	Nov09	
		3	3.25 Jul15	1.75	May05		3	3.75 Jan19	1.65	Nov08	
		2	3.50 Jan16	2.06	Nov05		2	2.00 Jan22	1.65	Nov11	
1		1.75 Oct15	2.57	Sep10	1		2.25 Sep21	1.65	Aug11		
FRANCE		Rank		ZScore	Issued		Rank		ZScore	Issued	
	Richest	1	3.25 Apr16	-1.48	Apr05	Richest	1	3.75 Apr21	-1.37	Apr05	
		2	2.25 Feb16	-0.93	Feb10		2	3.25 Oct21 (OAT)	-1.37	Oct10	
		3	1.75 Feb17	-0.49	Feb11		3	2.50 Oct20	-1.36	Oct09	
		4	2.50 Jul16	-0.37	Jul10		4	4.25 Oct23	-1.35	Oct06	
		5	3.75 Apr21	-0.26	Apr05		5	3.00 Apr22	-1.34	Feb12	
	Cheapest	5	4.25 Oct17	1.39	Oct06	Cheapest	5	1.00 Jul17 (5y)	-0.65	Jul11	
		4	3.50 Apr15	1.49	Apr04		4	2.00 Jul15	-0.52	Jun10	
		3	2.50 Jan15	1.79	Jan10		3	3.50 Apr15	-0.37	Apr04	
		2	5.00 Oct16	1.91	Oct00		2	2.50 Jan15	-0.28	Jan10	
1		4.00 Oct14	2.32	Oct03	1		4.00 Oct14	-0.01	Oct03		
ITALY		Rank		ZScore	Issued		Rank		ZScore	Issued	
	Richest	1	4.50 Mar19	-1.33	Sep08	Richest	1	4.75 Aug23	-2.41	Feb08	
		2	2.50 Mar15	-1.12	Mar12		2	5.50 Sep22 (IK)	-2.41	Mar12	
		3	4.75 Jun17 (5y)	-1.09	Jun12		3	5.00 Mar22	-2.38	Sep11	
		4	4.25 Sep19	-1.01	Mar09		4	4.75 Sep21	-2.34	Mar11	
		5	4.50 Feb18 (MFB)	-0.97	Aug07		5	3.75 Aug21	-2.30	Feb06	
	Cheapest	5	5.00 Mar22	1.27	Sep11	Cheapest	5	3.00 Apr15	-1.70	Jan10	
		4	4.00 Feb17	1.45	Aug06		4	3.00 Nov15	-1.69	Nov10	
		3	3.75 Aug21	1.50	Feb06		3	3.00 Jun15	-1.67	Jun10	
		2	3.75 Mar21	1.74	Sep10		2	3.75 Aug15	-1.67	Feb05	
1		3.75 Aug15	1.79	Feb05	1		4.50 Jul15	-1.34	Jul12		
N'LANDS		Rank		ZScore	Issued		Rank		ZScore	Issued	
	Richest	1	1.25 Jan18	-1.20	Jul12	Richest	1	4.00 Jul18	-0.27	Feb08	
		2	4.50 Jul17 (5y)	-0.91	Jul07		2	4.50 Jul17 (5y)	-0.21	Jul07	
		3	2.50 Jan17	-0.40	Jun11		3	4.00 Jul19	-0.18	Feb09	
		4	4.00 Jul18	-0.17	Feb08		4	3.50 Jul20	-0.11	Feb10	
		5	3.50 Jul20	-0.13	Feb10		5	3.25 Jul21	-0.02	Mar11	
	Cheapest	5	4.00 Jul19	0.23	Feb09	Cheapest	5	1.25 Jan18	0.09	Jul12	
		4	2.25 Jul22 (10y)	0.29	Feb12		4	4.00 Jul16	0.35	Jul06	
		3	0.75 Apr15	0.50	Jan12		3	3.25 Jul15	0.75	Jun05	
		2	4.00 Jul16	0.52	Jul06		2	0.75 Apr15	0.96	Jan12	
1		2.75 Jan15	0.78	Jul09	1		2.75 Jan15	1.02	Jul09		
SPAIN		Rank		ZScore	Issued		Rank		ZScore	Issued	
	Richest	1	4.10 Jul18	-1.27	Feb08	Richest	1	3.75 Oct15	-2.81	Sep12	
		2	5.50 Jul17 (5y)	-0.94	Mar02		2	4.10 Jul18	-1.72	Feb08	
		3	4.60 Jul19	-0.87	Feb09		3	4.60 Jul19	-1.71	Feb09	
		4	3.30 Oct14 (2y)	-0.71	Jul09		4	4.30 Oct19	-1.69	Jun09	
		5	4.00 Jul15	-0.57	Jan12		5	5.50 Jul17 (5y)	-1.68	Mar02	
	Cheapest	5	5.85 Jan22 (10y-FBB)	1.15	Nov11	Cheapest	5	4.00 Jul15	-1.60	Jan12	
		4	4.85 Oct20	1.30	Jul10		4	5.85 Jan22 (10y-FBB)	-1.57	Nov11	
		3	3.75 Oct15	1.52	Sep12		3	3.00 Apr15	-1.52	Mar10	
		2	5.50 Apr21	2.00	Jan11		2	4.40 Jan15	-1.50	Jun04	
1		4.00 Apr20	2.32	Jan10	1		3.30 Oct14 (2y)	-1.49	Jul09		
BELGIUM		Rank		ZScore	Issued		Rank		ZScore	Issued	
	Richest	1	5.50 Sep17	-0.83	Jun02	Richest	1	4.00 Mar22	-1.72	May06	
		2	4.00 Mar18	-0.73	Jan08		2	4.25 Sep21	-1.69	Jan11	
		3	4.25 Sep21	-0.71	Jan11		3	4.25 Sep22 (10y)	-1.68	Jan12	
		4	3.50 Mar15	-0.05	Mar09		4	3.75 Sep20	-1.67	Jan10	
		5	4.25 Sep22 (10y)	0.09	Jan12		5	3.00 Sep19	-1.65	Apr12	
	Cheapest	5	3.75 Sep15	1.34	Mar05	Cheapest	5	3.50 Mar15	-1.60	Mar09	
		4	4.00 Mar19	1.36	Jan09		4	5.50 Sep17	-1.58	Jun02	
		3	3.25 Sep16	1.38	Jan06		3	4.00 Mar18	-1.58	Jan08	
		2	2.75 Mar16	1.51	Mar10		2	3.25 Sep16	-1.57	Jan06	
1		3.75 Sep20	1.60	Jan10	1		4.00 Mar17	-1.56	Jan07		

Source: Citi Research

Relative Value Tables – Min 8yr Maturity

Figure 49. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

	Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued	
GERMANY	Richest	1	6.25 Jan30	-1.12	Jan00	Richest	1	5.50 Jan31	0.49	Oct00
		2	2.50 Jul44 (30y)	-1.05	Apr12		2	4.00 Jan37 (UB)	0.60	Jan05
		3	3.25 Jul42	-0.86	Jul10		3	4.75 Jul40	0.61	Jul08
		4	2.25 Sep21	-0.53	Aug11		4	6.25 Jan30	0.62	Jan00
		5	5.50 Jan31	0.00	Oct00		5	3.25 Jul42	0.64	Jul10
		5	4.25 Jul39	1.15	Jan07		5	3.25 Jul21 (RX)	1.61	Apr11
		4	1.50 Sep22 (10y)	1.22	Sep12		4	2.50 Jan21	1.62	Nov10
		3	2.50 Jan21	1.29	Nov10		3	1.75 Jul22	1.64	Apr12
		2	4.00 Jan37 (UB)	1.32	Jan05		2	2.00 Jan22	1.65	Nov11
	Cheapest	1	4.75 Jul34	1.74	Jan03	Cheapest	1	2.25 Sep21	1.65	Aug11
FRANCE	Richest	1	4.00 Apr55	-0.87	Apr04	Richest	1	2.75 Oct27	-2.08	Oct11
		2	3.50 Apr26	-0.81	Apr10		2	4.00 Oct38	-1.71	Oct05
		3	4.00 Apr60	-0.34	Apr09		3	4.75 Apr35	-1.69	Apr03
		4	3.75 Apr21	-0.26	Apr05		4	4.50 Apr41 (30y)	-1.67	Apr09
		5	5.75 Oct32	-0.22	Oct00		5	5.75 Oct32	-1.59	Oct00
		5	4.50 Apr41 (30y)	0.82	Apr09		5	3.75 Apr21	-1.37	Apr05
		4	3.25 Oct21 (OAT)	1.30	Oct10		4	3.25 Oct21 (OAT)	-1.37	Oct10
		3	4.25 Oct23	1.36	Oct06		3	2.50 Oct20	-1.36	Oct09
		2	3.00 Apr22	1.36	Feb12		2	4.25 Oct23	-1.35	Oct06
	Cheapest	1	4.00 Oct38	1.50	Oct05	Cheapest	1	3.00 Apr22	-1.34	Feb12
ITALY	Richest	1	5.00 Aug39	-1.65	Aug07	Richest	1	4.75 Aug23	-2.41	Feb08
		2	5.00 Sep40 (30y)	-1.63	Sep09		2	5.50 Sep22 (IK)	-2.41	Mar12
		3	4.75 Aug23	-0.51	Feb08		3	5.00 Sep40 (30y)	-2.38	Sep09
		4	5.00 Aug34	-0.35	Aug03		4	5.00 Mar22	-2.38	Sep11
		5	5.50 Nov22 (10y)	0.19	May12		5	4.00 Feb37	-2.37	Aug05
		5	4.50 Mar26	0.56	Sep10		5	3.75 Mar21	-2.29	Sep10
		4	5.00 Mar22	1.27	Sep11		4	5.75 Feb33	-2.28	Feb02
		3	3.75 Aug21	1.50	Feb06		3	4.50 Mar26	-2.28	Sep10
		2	3.75 Mar21	1.74	Sep10		2	5.00 Mar25	-2.22	Mar09
	Cheapest	1	4.00 Feb37	2.01	Aug05	Cheapest	1	5.50 Nov22 (10y)	-1.79	May12
N'LANDS	Richest	1	2.50 Jan33	-1.16	Mar12	Richest	1	2.50 Jan33	-0.59	Mar12
		2	3.25 Jul21	0.01	Mar11		2	3.75 Jan42 (30y)	-0.40	May10
		3	3.75 Jan23	0.04	Jan06		3	4.00 Jan37	-0.39	Apr05
		3	3.75 Jan42 (30y)	0.07	May10		3	3.25 Jul21	-0.02	Mar11
		2	2.25 Jul22 (10y)	0.29	Feb12		2	2.25 Jul22 (10y)	-0.01	Feb12
	Cheapest	1	4.00 Jan37	0.35	Apr05	Cheapest	1	3.75 Jan23	0.00	Jan06
SPAIN	Richest	1	4.70 Jul41 (30y)	-2.12	Sep09	Richest	1	4.70 Jul41 (30y)	-1.80	Sep09
		2	5.75 Jul32	-0.63	Jan01		2	4.90 Jul40	-1.77	Jun07
		3	5.90 Jul26	-0.56	Mar11		3	5.75 Jul32	-1.73	Jan01
		4	4.80 Jan24	-0.07	Sep08		4	4.20 Jan37	-1.72	Jan05
		5	4.90 Jul40	0.05	Jun07		5	4.85 Oct20	-1.66	Jul10
		5	4.65 Jul25	0.39	Feb10		5	5.50 Apr21	-1.62	Jan11
		4	5.85 Jan22 (10y-FBB)	1.15	Nov11		4	4.80 Jan24	-1.61	Sep08
		3	4.85 Oct20	1.30	Jul10		3	5.90 Jul26	-1.60	Mar11
		2	5.50 Apr21	2.00	Jan11		2	5.85 Jan22 (10y-FBB)	-1.57	Nov11
	Cheapest	1	4.20 Jan37	2.41	Jan05	Cheapest	1	4.65 Jul25	-1.55	Feb10
BELGIUM	Richest	1	4.25 Sep21	-0.71	Jan11	Richest	1	5.00 Mar35	-2.25	May04
		2	4.00 Mar32	-0.44	Mar12		2	4.00 Mar32	-2.20	Mar12
		3	4.25 Sep22 (10y)	0.09	Jan12		3	4.25 Mar41 (30y)	-2.14	Apr10
		3	4.25 Mar41 (30y)	0.46	Apr10		3	4.00 Mar22	-1.72	May06
		2	4.50 Mar26	0.80	Jun11		2	4.25 Sep21	-1.69	Jan11
	Cheapest	1	5.00 Mar35	0.96	May04	Cheapest	1	4.25 Sep22 (10y)	-1.68	Jan12

Source: Citi Research

Supply Analysis and Forecasts

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Our regular detailed supply analysis is now published separately under the title “*Weekly Supply Monitor*”. Please click [here](#) for the latest issue.

This publication includes 3 main areas:

Analysis of supply in the coming week and month

- Weekly DV01 of supply in EUR, GBP, and USD – historic and projected
- Maturity split of expected issuance next week in EUR, GBP, and USD
- Gross supply (and DV01) next week and month, by maturity and country
- 4-week issuance calendar incl. buybacks (DV01 and futures equivalents)

Profile of cash flows

- Coupons by maturity for each of the next 4 weeks in EUR, GBP, and USD
- Total coupons for each of the next 4 weeks, by maturity sector and country
- Coupon payment dates and amounts by country for next 3 months
- Monthly coupon totals for next 3 months

- Redemptions for each of the next 4 weeks, by maturity sector and country
- Redemption dates and amounts by country for next 3 months
- Monthly redemption totals for next 3 months

- Net cash requirement for each of the next 4 weeks for EUR, GBP and USD
- 2012 monthly net cash requirements by maturity for GBP and USD

Detailed supply forecasts

- 2012 and 2013 forecasts by currency and for each EMU-11 country
- Monthly EMU-11 net and gross supply by country and maturity to end-2012
- YTD issuance progress: percentage and vs 3yr average at this stage
- UK gilt remit progress by maturity + syndications

Analysis of upcoming supply

Coupons...

Redemptions...

Net cash requirements...

Supply forecasts

Click here for link...

Please click [here](#) for the document.

Provisional auction calendar for the next four weeks

Figure 50. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) RXZ2 (Bund)	
22 Oct (Mon)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-52k	
23 Oct (Tue)	Finland	1.5	1.625% Sep22, 2.625% Jul42 (issue confirmed, max size €1.5bn)			23k
23 Oct (Tue)	US	35.0	2-Year		86k	
23 Oct (Tue)	US	7 - 8	Outright Treasury Coupon Sales: 15/6/2015 - 31/8/2015		26k	
24 Oct (Wed)	Germany	4.0	Bund 1.5% Sep22 reopening (issue and size confirmed)			34k
24 Oct (Wed)	US	35.0	5-Year		206k	
25 Oct (Thu)	US	29.0	7-Year		235k	
25 Oct (Thu)	US	4.5 - 5.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2022		-52k	
26 Oct (Fri)	Italy	3.5	CTZ (estimated size)			6k
26 Oct (Fri)	Italy	0.8	BTPei (estimated size)			6k
26 Oct (Fri)	US	1.5 - 2	Outright Treasury Coupon Purchases: 15/11/2022 - 15/2/2031		-33k	
Weekly \$DV01 of Issuance				43.7		
Total Number of Futures Contracts					416k	70k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) RXZ2 (Bund)	
29 Oct (Mon)	Belgium	3.0	OLO 5yr, 10yr and 15yr (estimated tenors and size)			30k
29 Oct (Mon)	US	7 - 8	Outright Treasury Coupon Sales : 15/11/2015 - 31/12/2015		26k	
30 Oct (Tue)	Italy	7.0	BTP 5yr and 10yr (estimated tenors and size)			45k
30 Oct (Tue)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-52k	
31 Oct (Wed)	Germany	2.0	Bund 2.5% Jul44 reopening (issue and size confirmed)			45k
31 Oct (Wed)	France	6.5	OAT 5yr, 10yr and 15yr (estimated tenors and size)			56k
31 Oct (Wed)	US	4.25 - 5.25	Outright Treasury Coupon Purchases : 15/11/2018 - 15/8/2020		-48k	
Weekly \$DV01 of Issuance				18.7		
Total Number of Futures Contracts					-74k	175k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) RXZ2 (Bund)	
06 Nov (Tue)	Austria	1.8	RAGB 5yr and 10yr (estimated size and tenor)			12k
06 Nov (Tue)	US	32.0	3-Year		79k	
07 Nov (Wed)	Germany	4.0	Bobl-164 0.5% Oct17 reopening (issue and size confirmed)			18k
07 Nov (Wed)	US	24.0	10-Year		262k	
08 Nov (Thu)	Spain	3.1	Bono 2yr, 5yr and 10yr (estimated tenor and size)			13k
08 Nov (Thu)	US	16.0	30-Year		387k	
Weekly \$DV01 of Issuance				65.3		
Total Number of Futures Contracts					727k	43k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) RXZ2 (Bund)	
13 Nov (Tue)	Netherlands	2.5	DSL Jul22 reopening (issue confirmed, size €2-3bn)			21k
14 Nov (Wed)	Germany	5.0	New Schatz Dec14 (issue and size confirmed)			9k
14 Nov (Wed)	Italy	5.8	BTP 3yr, 5yr and 10yr (estimated tenor and size)			20k
15 Nov (Thu)	France	8.5	BTAN/Index-linked OAT (estimated size)			37k
Weekly \$DV01 of Issuance				12.4		
Total Number of Futures Contracts					0k	88k

The next release of the approximate purchase and sale amounts and tentative Outright operation schedule will be at 1400 (NY Time) on 31 October 2012
Additional issues expected in November: Finland 10yr (€0.5bn) and 15yr (€1bn). These have not been included in the cash flow tables.

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3mths)

Figure 51. EMU-11 Redemptions over the next three months (€bn)

Redemptions = €171bn											
Redemptions	DEU 41	FRA 50	NLD 16	ITA 44	ESP 15	BEL 6	AUT 0	FIN 0	PRT 0	GRC 0	IRL 0
(Thu) 25-Oct-12		20.1									
(Wed) 31-Oct-12					15.0						
(Thu) 01-Nov-12				13.5							
(Fri) 14-Dec-12	17.0										
(Sat) 15-Dec-12				18.7							
(Mon) 24-Dec-12						5.9					
(Wed) 26-Dec-12		5.5									
(Mon) 31-Dec-12				11.5							
(Fri) 04-Jan-13	24.0										
(Sat) 12-Jan-13		24.7									
(Tue) 15-Jan-13			15.5								

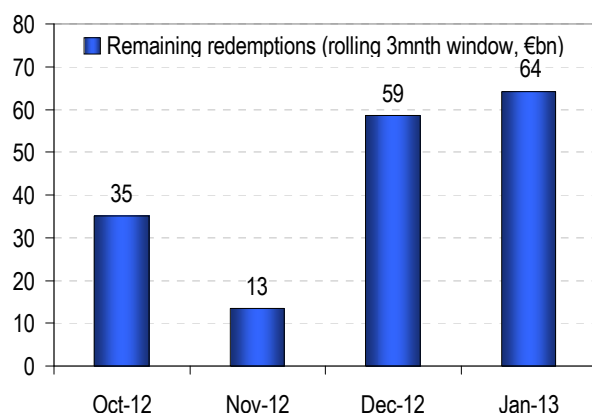
Source: DMOs, Bloomberg, Citi estimates

Figure 52. EMU-11 Coupon Payments over the next three months (€bn)

Coupons = €31bn											
Coupons	DEU 0	FRA 16	NLD 0	ITA 7	ESP 4	BEL 0	AUT 1	FIN 0	PRT 0	GRC 0	IRL 1
(Thu) 18-Oct-12											1.483
(Sat) 20-Oct-12							0.9				
(Thu) 25-Oct-12		15.8							0.4		
(Wed) 31-Oct-12					4.4						
(Thu) 01-Nov-12				4.4							
(Thu) 15-Nov-12				0.4							
(Thu) 22-Nov-12							0.2				
(Sat) 01-Dec-12				1.0							
(Thu) 13-Dec-12	0.0										
(Fri) 14-Dec-12	0.2										
(Sat) 15-Dec-12				1.0							
(Sat) 22-Dec-12				0.1							
(Mon) 24-Dec-12						0.5					
(Wed) 26-Dec-12		0.5									

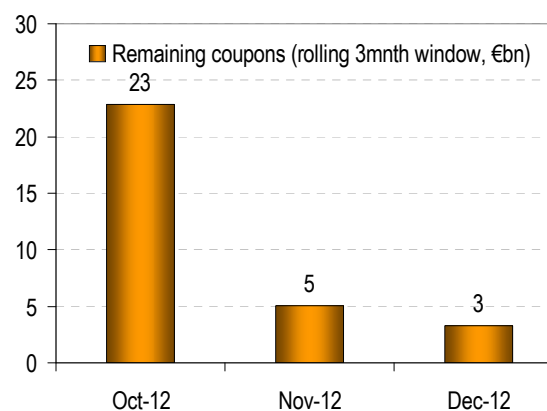
Source: DMOs, Bloomberg, Citi estimates

Figure 53. EMU-11 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Figure 54. EMU-11 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 55. Citi Inflation Forecasts

Month	EUR HICP _{XT}			France CPI _{XT}			UK RPI			US CPURNSA		
	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change
Sep 12	115.97	0.8	2.6	124.74	-0.3	1.8	244.20	0.5	2.6	231.41	0.4	2.0
Oct 12	116.35	0.3	2.6	124.53	-0.2	1.5	244.50	0.1	2.7	231.41	0.0	2.2
Nov 12	116.45	0.1	2.6	124.80	0.2	1.5	244.70	0.1	2.6	231.51	0.0	2.3
Dec 12	116.91	0.4	2.6	125.29	0.4	1.4	245.80	0.4	2.7	231.31	-0.1	2.5
Jan 13	115.88	-0.9	2.6	124.54	-0.6	1.2	244.30	-0.6	2.6	232.21	0.4	2.4
Feb 13	116.21	0.3	2.4	124.89	0.3	1.1	245.30	0.4	2.3	232.61	0.2	2.2

Shaded = Already released

Source: Citi Research, Bloomberg

Figure 56. 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 Dec	1 Jan	1 Feb					1 Dec	1 Jan	1 Feb		
Repo (%)				0.15	0.15	0.15									
TIPS 1/14	-1.33	19	19	45	37	31	US-4.000-02/15/14	159	-18	-11	44	35	28	11	10
TIPS 4/14	-1.26	10	10	37	31	26	US-1.875-04/30/14	153	-9	-3	36	29	23	6	1
TIPS 7/14	-1.61	19	19	29	21	15	US-2.625-07/31/14	190	-17	-12	28	19	12	9	9
TIPS 1/15	-1.41	15	15	24	18	14	US-2.250-01/31/15	175	-12	-7	23	16	11	15	4
TIPS 4/15	-1.38	18	18	21	16	13	US-2.500-04/30/15	174	-14	-10	20	14	10	12	7
TIPS 7/15	-1.57	10	10	18	13	10	US-4.250-08/15/15	196	-5	-1	17	11	7	19	-1
TIPS 1/16	-1.52	16	16	16	12	8	US-2.625-02/29/16	198	-11	-8	15	9	5	15	6
TIPS 4/16	-1.48	12	12	14	10	8	US-2.000-04/30/16	197	-5	-3	13	8	5	13	1
TIPS 7/16	-1.56	9	9	14	10	7	US-4.875-08/15/16	211	-2	0	12	7	3	20	-2
TIPS 1/17	-1.48	14	14	12	9	7	US-3.125-01/31/17	211	-6	-4	11	6	3	18	3
TIPS 4/17	-1.47	11	11	11	8	6	US-0.875-04/30/17	216	-1	1	10	5	2	11	-1
TIPS 7/17	-1.51	9	9	11	8	6	US-4.750-08/15/17	223	0	2	9	5	2	20	-2
TIPS 1/18	-1.42	13	13	10	7	6	US-3.500-02/15/18	227	-2	-1	8	4	1	14	1
TIPS 7/18	-1.42	13	13	9	7	5	US-4.000-08/15/18	233	-2	-0	7	4	1	18	0
TIPS 1/19	-1.24	11	11	9	7	6	US-2.750-02/15/19	229	1	2	7	4	1	20	-2
TIPS 7/19	-1.24	13	13	8	6	5	US-3.625-08/15/19	240	1	2	6	3	0	18	-2
TIPS 1/20	-1.10	13	13	8	6	5	US-3.625-02/15/20	236	1	2	6	3	0	20	-2
TIPS 7/20	-1.04	12	12	7	6	5	US-2.625-08/15/20	242	1	2	5	2	0	22	-2
TIPS 1/21	-0.90	13	13	7	6	6	US-3.625-02/15/21	236	-1	0	5	2	0	26	-0
TIPS 7/21	-0.85	12	12	7	6	5	US-2.125-08/15/21	243	0	1	5	2	0	25	-1
TIPS 1/22	-0.72	12	12	6	6	5	US-2.000-02/15/22	241	0	1	4	2	0	25	-1
TIPS 7/22	-0.68	12	12	6	5	5	US-1.625-08/15/22	247	0	1	4	2	0	24	-1
TIPS 1/25	-0.37	12	12	6	5	5	US-7.625-02/15/25	239	1	1	3	1	-1	35	-1
TIPS 1/26	-0.23	12	12	5	5	5	US-6.000-02/15/26	241	1	2	3	1	-1	35	-2
TIPS 1/27	-0.17	15	15	5	5	5	US-6.625-02/15/27	243	-1	-0	3	1	-1	35	0
TIPS 1/28	-0.07	15	15	5	5	5	US-6.125-11/15/27	241	-1	-1	2	1	-1	38	0
TIPS 4/28	-0.06	14	14	5	5	5	US-5.500-08/15/28	246	0	1	3	1	0	31	-1
TIPS 1/29	-0.03	13	13	5	5	5	US-5.250-02/15/29	247	1	1	2	1	-1	33	-1
TIPS 4/29	-0.01	13	13	5	5	5	US-5.250-02/15/29	245	1	2	3	1	0	33	-2
TIPS 4/32	0.09	12	12	4	4	5	US-5.375-02/15/31	242	1	1	2	1	-1	39	-2
TIPS 2/40	0.40	11	11	3	3	4	US-4.625-02/15/40	242	1	1	1	0	-1	41	-1
TIPS 2/41	0.42	10	10	3	3	4	US-4.750-02/15/41	242	1	2	1	0	-1	41	-1
TIPS 2/42	0.48	10	10	3	3	3	US-3.125-02/15/42	246	2	2	1	0	-1	37	-2

Source: Citi Research

Figure 57. 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 Dec	1 Jan	1 Feb					1 Dec	1 Jan	1 Feb		
Repo (%)				0.09	0.09	0.09									
BTPei14	0.60	1	1	53	78	91	BTP 8/14	157	-14	-11	39	52	50	24	10
OATei15	-1.39	4	4	27	36	35	FFRG 4/15	171	3	5	26	34	32	24	-6
BUNDei16	-1.11	7	7	22	30	30	BUND 1/16	135	1	3	22	29	29	28	-3
BTANi16	-1.12	11	11	-5	-13	-10	FFRG 4/16	167	-3	-0	-7	-16	-14	48	-4
BTPei16	2.09	-0	-0	30	45	54	BTP 8/16	110	-14	-13	21	27	27	73	11
OATi17	-0.94	8	8	-4	-9	-7	FFRG 4/17	177	-3	-0	-6	-13	-12	45	-3
BTPei17	2.37	-2	-2	25	37	45	BTP 8/17	127	-15	-14	16	21	20	59	13
BOBLEi18	-0.78	8	8	15	20	20	BUND 1/18	145	1	2	13	17	17	30	-3
OATei18	-0.54	6	6	14	19	20	FFRG 4/18	167	-1	-0	12	15	14	28	-1
OATi19	-0.44	7	7	-2	-5	-3	FFRG 4/19	186	-2	-0	-4	-10	-9	44	-3
BTPei19	2.76	-11	-11	19	28	34	BTP 9/19	132	-7	-6	11	15	14	59	4
BUNDei20	-0.49	15	15	12	16	16	BUND 1/20	160	-4	-3	10	13	12	25	1
OATei20	-0.09	9	9	12	17	18	FFRG 4/20	177	-5	-4	9	12	11	24	2
OATi21	-0.03	-	-	-1	-3	-1	FFRG 4/21	194	-	-	-4	-8	-8	44	-
BTPei21	3.12	-10	-10	15	23	28	BTP 9/20	112	-14	-14	8	11	10	90	32
OATi22	0.22	8	8	10	13	15	FFRG 4/21	169	-4	-4	7	9	8	41	1
BUNDei23	-0.23	14	14	8	11	12	BUND 1/22	172	-4	-3	6	8	7	30	1
OATi23	0.22	8	8	0	-2	0	FFRG 10/23	210	-4	-3	-3	-7	-7	35	-3
BTPei23	3.36	-13	-13	13	20	25	BTP 8/23	139	-7	-7	7	9	9	72	4
BTPei26	3.64	-9	-9	12	18	21	BTP 3/26	144	-12	-12	6	7	7	77	9
OATei27	0.59	13	13	7	10	11	FRTR 4/26	202	-9	-8	5	5	4	23	6
OATi29	0.53	11	11	0	-1	1	FFRG 4/29	226	-6	-5	-3	-6	-6	20	1
OATei32	0.69	9	9	6	8	9	FFRG 10/32	223	-4	-4	4	4	3	7	1
BTPei35	3.65	-6	-6	8	12	14	BTP 8/34	184	-10	-10	3	3	2	47	7
OATei40	0.74	8	8	4	6	7	FFRG 10/38	235	-3	-3	2	3	2	5	0
BTPei41	3.71	-4	-4	7	10	12	BTP 9/40	180	-13	-13	3	3	2	60	10

Source: Citi Research

Figure 58. 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 Dec	1 Jan	1 Feb					1 Dec	1 Jan	1 Feb		
Repo (%)				0.41	0.40	0.39									
UKTi Jul16	-1.75	14	13	3	5	7	UKT 9/16	230	-4	-4	2	4	5	40	3
UKTi Nov17	-1.49	8	7	9	8	7	UKT 3/18	240	3	3	7	6	3	26	-4
UKTi Apr20	-1.00	13	13	3	5	7	UKT 3/20	234	-1	-1	1	2	2	34	1
UKTi Nov22	-0.69	9	9	6	6	6	UKT 3/22	241	2	2	4	3	1	41	-2
UKTi Mar24	-0.37	8	7	5	5	6	UKT 3/25	247	3	4	3	2	0	35	-4
UKTi Jul24	-0.39	11	11	2	4	6	UKT 3/25	249	-0	-0	0	1	1	40	-0
UKTi Nov27	-0.12	10	9	4	5	5	UKT 12/27	253	2	2	2	1	0	44	-2
UKTi Mar29	0.04	8	7	4	4	5	UKT 12/30	258	0	0	2	1	0	39	-0
UKTi Jul30	-0.03	8	8	2	4	5	UKT 6/32	279	0	0	0	0	0	26	-0
UKTi Nov32	0.10	7	7	3	4	4	UKT 6/32	266	1	1	1	1	-1	42	-2
UKTi Mar34	0.18	6	6	3	4	4	UKT 9/34	272	2	2	1	0	-1	36	-3
UKTi Jan35	0.17	7	7	2	3	4	UKT 3/36	282	0	0	0	0	-1	29	-1
UKTi Nov37	0.23	6	5	3	3	4	UKT 12/38	283	0	0	1	0	-1	32	-2
UKTi Mar40	0.27	5	5	3	3	3	UKT 9/39	285	1	1	1	0	-1	33	-4
UKTi Nov42	0.27	5	4	2	3	3	UKT 12/42	291	1	1	0	0	-2	33	-4
UKTi Mar44	0.32	4	3	2	2	3	UKT 12/42	286	2	2	0	-1	-2	37	-5
UKTi Nov47	0.31	5	5	2	2	3	UKT 12/46	294	0	0	0	-1	-2	33	-4
UKTi Mar50	0.32	4	4	2	2	2	UKT 12/49	296	1	1	0	-1	-2	30	-5
UKTi Mar52	0.35	4	3	2	2	2	UKT 7/52	297	2	2	0	-1	-2	31	-5
UKTi Nov55	0.31	4	3	2	2	2	UKT 12/55	298	2	2	0	-1	-1	33	-5
UKTi Mar62	0.30	3	3	1	2	2	UKT 1/60	297	3	3	0	-1	-2	35	-6

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
17-Oct-12	NOTE	Euro Rates Strategy: Spain confirmed at Baa3...what next for yields?	-	EUR
17-Oct-12	NOTE	Euro Inflation Strategy: New OATi21 Auction & Trade Ideas	-	EUR
16-Oct-12	NOTE	European Flow Update in Pictures	-	EUR
12-Oct-12	European Weekly	Spain and the implications of its downgrade	8	EUR
		Postscript: Understanding S&P's downgrade of Spain	11	EUR
		EUR Swap Curve: Pension Fund Regulation & the Long End	12	EUR
		Sterling Rates Strategy: Value in 30yr gilts	14	UK
		SSA Strategy	17	EUR
		Revealing demand trends for European bonds	20	EUR
		Increasing cash flow support for Europe vs the US	22	EUR
11-Oct-12	NOTE	Weekly Supply Monitor: Euro, US and UK supply outlook	-	Global
11-Oct-12	NOTE	Spain and Standard & Poor's: The real significance of S&P's downgrade of Spain	-	EUR
09-Oct-12	NOTE	Global Inflation Strategy: Assessing value in global inflation swaps	-	Global
08-Oct-12	NOTE	European Flow Analysis: Revealing Demand Trends For European Bonds	-	EUR
05-Oct-12	NOTE	European Rates Strategy: Spain Short-end RV and the OMT	-	EUR
04-Oct-12	European Weekly	Euro Money Markets: All Fine? Not really...	8	EUR
		The trade-off between carry and duration	9	Global
		UK Inflation Strategy: Take profits on short positions in 10yr break-even	13	UK
		SSA Strategy: Yields remain low and relatively range bound	15	EUR
04-Oct-12	NOTE	Weekly Supply Monitor: Euro, US and UK supply outlook	-	EUR
03-Oct-12	NOTE	Euro Rates Strategy: Unchanged ECB, but Rich in Carry	-	EUR
27-Sep-12	NOTE	Euro SSA Strategy: An Introduction to Core European SSA Issuers	-	EUR
27-Sep-12	IIRS	Focus on France: Budget expectations – unrealistic GDP baseline	8	EUR
		The Demand for French Government Bonds	13	EUR
		EMU-11: October Supply Outlook	24	EUR
26-Sep-12	NOTE	Euro Rate Strategy: EMU-11 October Supply Outlook	-	EUR
25-Sep-12	NOTE	Month-End Index-Linked Index Projections	-	Global
20-Sep-12	IIRS	Euro Money Markets: Eurozone's Lost Decade	10	EUR
		UK Inflation Strategy: CPAC presents downside risks to break-evens	12	GBP
		Swaps & Swaptions	14	EUR
		Bearish 5y? Check the EUR Payer Skew	15	EUR
		SSA Issuer Focus: EFSF/ESM	16	EUR

Appendix A-1

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