20 March 2014 | 44 pages

Developed Markets
Western Europe

European Rates Weekly

Bunds: Caught between Yellen and HICP

- **Bunds face opposing forces:** We expect Bunds to continue trading as a function of opposing forces. We do not see the scope for a dominance of either "deflation" or "FOMC" in Bunds' pricing equation (yet) and maintain our target of 1.8% for Q4 14.
- **UK rates – views post FOMC and Budget:** This week's events have increased our conviction in being outright bearish on the front-end. The reaction of the long-end to the announcement of pension reforms is overdone, in our view. In linkers, we expect the drop in issuance to be very supportive, especially over the next quarter.
- **EUR Vol - Conditional bull steepeners revisited:** Given the shape of implied volatility term structures, front-end receiver swaptions can be cheaply financed via receiver swaptions on medium/long swap tenors. We argue though that the choice of the "funding" swaption should not be based on the vol pick-up only.
- **Outlook for EUR 10s30s post FOMC:** We expect the upcoming supply profile for core EGBs to put flattening pressure on the curve and we see little risk-reward in fading the post FOMC flattening of 10s30s. For those looking to enter flatteners we see better value in 10s20s than 10s30s.
- **We remain constructive on EMU periphery:** We take a look at returns in Q1 and the thawing primary market. We believe Portugal will make a "clean" exit from its bailout programme and now pencil in Greek bond issuance in May.
- **Euro inflation:** Heavy inflation-linked supply during a negative carry period of March is weighing on the inflation-linked market. This has been particularly true for OATei18, which looks cheap on several metrics.
- **Supra trades, EU supply & EFSF/ESM as Level 1 HQLA:** The Basel Committee indicated the ESM/EFSF are to have a 0% risk weight and are to be considered Level 1 HQLA. In other developments, there was good demand for the first EU benchmark in over a year and we see relative value between supras vs France.
- **Covered Bonds:** Bail-in has become a main regulatory and rating driver for covered bonds in 2014. Last week, the UK HM Treasury published a consultation paper on the implementation of bail-in procedures. We look at this in more detail.
- **Technicals:** Bunds are at the bottom of their upward channel in the short-term with an upside target of 143.99. Gilts are likely to remain range-bound in the near-term within 109.3-111.1, but longer-term outlook remains bearish with a target of 106.1.
- **Supply:** In Europe, next week's supply comes from the Netherlands (min €5bn) and Italy (around €11bn). The UK DMO will issue £0.9bn of linker '52 next Thursday.

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	The FOMC and core market moves do little to change our key Bund view. We expect Bund yields to remain relatively low around 1.6% - 1.8% on average and would buy if they near the 2% level.	Play the range: sell at 1.6% and buy at 2%.
Money Market	We continue to like decoupling strategies with USD money markets such as buying ERM4 vs EDM4. In the UK, we retain a bearish bias on the very front-end and recommend selling the rallies. .	Buy ERM4 vs EDM4 (or use U4) Receive EUR 2y1y vs USD 2y1y
Yield Curve	We expect the supply profile over the next four weeks to put flattening pressure on EUR 10s30s. Investors who currently hold steepeners are advised to lighten up on these positions. An attractive way to capture a decline in curvature in the front-end of the euro curve is to receive the belly of EUR 1y1y/3y1y/5y2y using -1:1.5:-1 weights as this trade offers positive carry and a short duration exposure. In the UK, the steepening of 10s30s in reaction to pension reforms is overdone in our view.	Receive belly of EUR 1y1y/3y1y/5y2y (using -1:1.5:-1 weights) Take profits on EUR 3y2y vs 5y25y (5s30s steepeners) Hold BTP 10s30s steepener
Cross-market	The FOMC further supports the view for Bunds to outperform USTs given the diverging policy/growth/inflation outlook. Despite the 10yr spread already at historic wides, we think this can move further. Gilts have richened vs Bunds thanks to the BoE buybacks (and perhaps lower issuance), but we would fade this move given the longer-term fundamentals.	Hold long 30yr gilts vs USTs as a tactical trade Sell 10yr gilts vs USTs (medium-term) Stay short 10yr gilts vs Bunds Long Bunds vs UST (add on corrections)
EMU Spreads	Over the longer-term we still expect Spain to outperform based on their relative fundamentals. We are more comfortable with Austrian risk given Moody's recent action and growing clarity regarding its banking sector. We continue to expect Ireland to gravitate towards the soft core and welcome the recent success in the 10yr auction. We remain short DSL 37s vs Bunds. We also expect Portugal to make a clean exit from its Troika programme and for Greece to issue bonds in May; such events are likely to galvanize further spread tightening in these markets.	Long Spain vs Italy Remain short France vs Belgium and Germany (in either 5s or 10s) Sell 20yr DSLs vs Bunds Range trade 10yr OAT-Bunds (50bp/70bp)
Swap Spreads	We suggest adding to Bobl Jun14 ASW wideners at 40bp or below. In the UK, the 10yr sector looks very rich vs swaps vs the wings. Front-end spreads are likely to benefit from the drop in short gilt issuance.	Long 5yr Germany vs swaps
Inflation	Euro break-evens remain under pressure from high issuance, negative carry and lower inflation prints. This looks set to continue in the near-term. On an RV basis, we see value in OATei18. In the UK, the reduction in IL gilt issuance in FY2014-15 is likely to richen the long-end, both on the curve and on a break-even inflation basis.	Take profits on sell BTPei16 vs BTPei18 Sell BTPei18 vs OATei18 break-even Sell BTPei19 vs BTPei17 and BTPei23 real yield Sell OATei22 vs OATei20 and OATei24 real yield Buy IL gilt 2017 break-even
Volatility	Whilst black swans can, and indeed have, appeared to wreak havoc on carry trades (they showed up at least twice in 2013), we believe that long positions on receiver swaptions in the top left corner are the safest way to play the ECB at the current market juncture, given the limited downside and the current cheap gamma vol valuation.	Long 1y3y ATMF Receiver Swaption
SSA	Look to the primary market for liquidity pockets to add exposure selectively. Move up in quality, especially from EMU sovereigns of lower ratings, when spread levels and liquidity permit.	Long the front-end of EIB vs France Long Dutch agencies vs the Netherlands Long EU vs other supras with larger supply pipelines
For a list of outstanding trade strategies please see the Tradesheet section of this report		

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

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 21-27 Mar

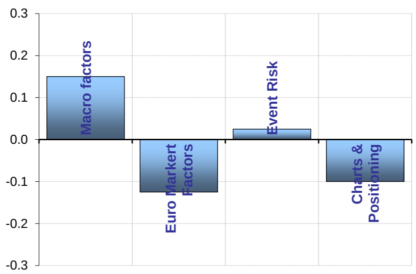
Bund Directional Scorecard (1w horizon)

Recommendation	**Sell**	RXM4 (EOD Thurs) = 142.36	
Conviction level	**Low**	CTD yield = 1.34%	10day del vol = 4.4%

	Signal Strength (+/-2)		
Macro factors	**0.2**	**Weight =**	**38%**
ECB	1	Lower-for-longer theme expected to continue	7.5%
Fed, BoE and BOJ	-1	Fed tone hawkish	7.5%
Inflation	2	HICP likely to fall to 0.6% yoy in March	7.5%
Growth related data	-1	PMI likely to point to continued expansion	5.0%
Citi surprise	0	Citi Economic Surprise Index close to zero	5.0%
Middle East / Oil	1	Citi expects Brent at $100 in 2Q14	5.0%
Euro Markert Factors	**-0.1**	**Weight =**	**25%**
Supply	0	Core supply slightly offset by cash flows	5.0%
Risk appetite	-1	GRAMI indicates low levels of risk aversion	5.0%
Flow	0	Core demand flat over a 4 week period	2.5%
Equity	0	Eurostoxx50 near middle of the YTD range	5.0%
Sovereign credit	-1	Peripheral yields at multi year low	5.0%
FX	-1	EUR EER at its strongest level in 2 years	2.5%
Event Risk	**0.0**	**Weight =**	**13%**
Politics	1	Developments in the Ukraine remain key near-term uncertainty	2.5%
3yr LTRO	0	We expect a new 1yr LTRO in 2H14	5.0%
Stability mechanisms	0	Nothing on the agenda in the near-term	5.0%
Charts & Positioning	**-0.1**	**Weight =**	**25%**
Technicals	1	Bottom of the upward channel	5.0%
T-Note	-1	Bearish	10.0%
CFTC	-1	Shorts slightly up	5.0%
ARTS	0	Neutral	5.0%

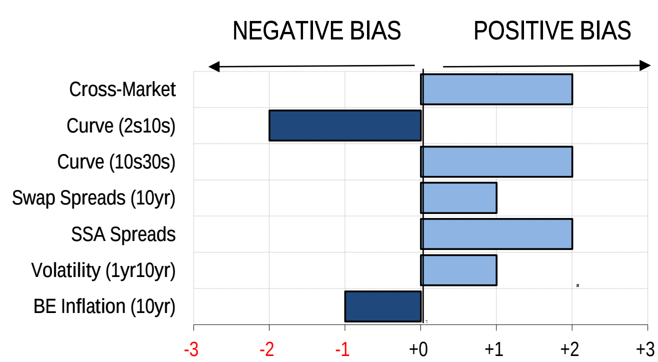
Source: Citi Research

Figure 3. Contribution to Bund Signals



Source: Citi Research

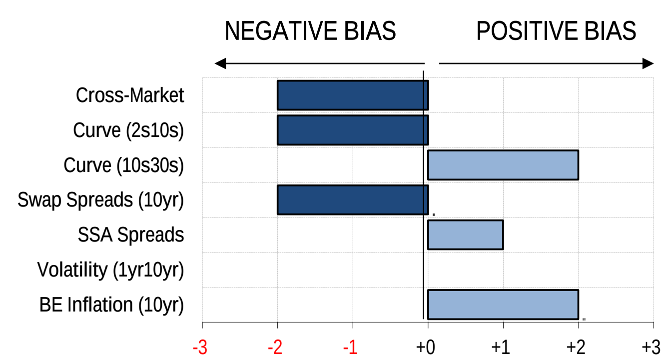
Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

POSITIVE bias = bullish vs UST, flatter curve, wider swap spreads, tighter SSA spreads, higher implied vol, wider BE inflation

Figure 5. UK (Near-term Bias)



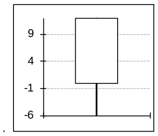
Source: Citi Research

POSITIVE bias = bullish vs Bunds, flatter curve, wider swap spreads, tighter SSA spreads, higher implied vol, wider BE inflation

Tradesheet

Record of Our Closed Trades

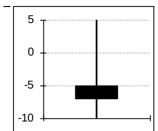
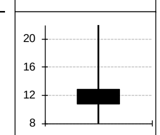
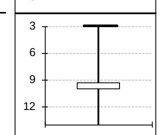
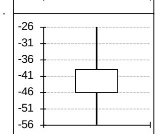
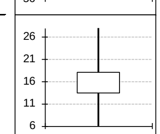
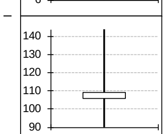
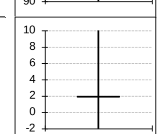
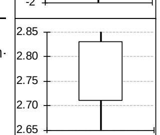
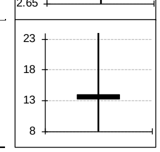
Figure 6. Record of our Closed Trades

Region	Trade	Levels		Rationale	
EUR	Buy BTPei18 vs BTPei16	Open	66.5bp		
		Current	67.6bp	Hit Target 17 March 2014	
Inflation	Buy BTPei18 at 1.259%	P&L (carry-adj)	12bp		
	Sell BTPei16 at 0.594%	Target P&L carry-adj	12bp		
		Stop P&L carry-adj	-6bp	*The Morning Call, 25 February 2014*	
		Time Stop	1 April 2014		

Source: Citi Research

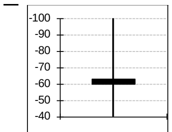
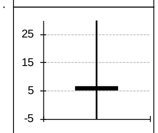
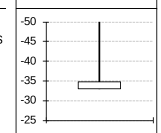
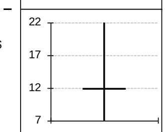
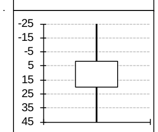
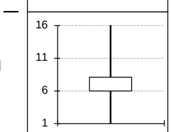
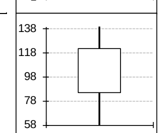
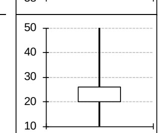
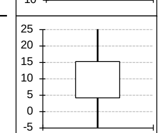
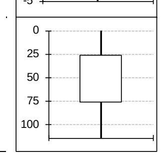
Record of Our Open Trades

Figure 7. Record of our Open Trades

Region	Trade	Levels		Rationale + Publication Date	
EUR	Buy ERM4 and sell EDM4	Open	-5bp		
		Current	-7bp	Attractive entry levels and benefits from ECB policy rate view	
Money Markets	Buy ERM4 at 99.69	P&L	-2bp		
	Sell EDM4 at 99.74	Target	5bp		
		Stop	-10bp	*Euro Rates Strategy, 11 March 2014*	
UK/ US	Buy 30yr gilts vs Treasuries	Open	12.8bp	Gilts likely to find support from coupon and redemption money, APF reinvestments and light supply.	
		Current	11bp		
Cross Market	Buy gilt 3.25% Jan44 at 3.47%	P&L	-2bp		
	Sell UST 3.625% Feb44 at 3.6%	Target	22bp		
		Stop	8bp	*UK Rates Strategy, 28 February 2014*	
EUR	Buy BNG 2.5% Nov17 vs DSL 2.25% Jan18	Open	10bp		
		Current	9.3bp	Tactically good entry point for spread compression trade	
SSA	Buy BNG 2.5% Nov17 at 0.63%	P&L	0.7bp		
	Sell DSL 2.25% Jan18 at 0.53%	Target	3bp		
		Stop	14bp	*European Rates Weekly, 27 February 2014*	
EUR	Sell BTPei19 vs BTPei17 and BTPei23	Open	-46bp		
		Current	-39bp	Fade the richness of 5yr BTPei.	
Inflation	Buy BTPei17 at 1.04%	P&L	7bp		
	Sell BTPei19 at 1.53%	Target	-26bp		
	Buy BTPei23 at 2.48%	Stop	-56bp	*European Rates Weekly, 20 February 2014*	
EUR	Sell BTPei18 break-even vs OATei18	Open	13.5bp	BTPei likely to reverse some of the richness now that Boblei18 and OATei18 auctions are over.	
		Current	18bp		
Inflation	Sell BTPei18 break-even at 79.5bp	P&L	5bp		
	Buy OATei18 break-even at 93bp	Target	28bp		
		Stop	6bp	*European Rates Weekly, 20 February 2014*	
EUR	BTP 10s30s steepener	Open	106bp	Macro factors, cash flow profile, expect strong demand for new 10yr BTP and +ve carry are supportive for steepeners	
		Current	109bp		
Curve	Buy BTP Aug23 at 3.49%	P&L	3bp		
	Buy BTP Sep44 at 4.54%	Target	144bp		
		Stop	90bp	*European Rates Weekly, 20 February 2014*	
EUR	Buy OATei20 and OATei24 vs OATei22	Open	2bp	OATei22 looks too rich on the curve; OATei24 likely to perform after auction is out of the way	
		Current	2bp		
Inflation	Buy OATei20 at 0.10%	P&L	0bp		
	Sell OATei22 at 0.42%	Target	10bp		
	Buy OATei24 at 0.72%	Stop	-2bp	*Euro Inflation Strategy, 19 February 2014*	
UK	Buy IL gilt 2017 break-evens	Open	2.71%		
		Current	2.83%	We believe that RPI-CPI wedge to widen over the medium-term	
Inflation	Buy IL gilt 2017 break-evens at 2.71%	P&L	12bp		
		Target	2.85%		
		Stop	2.65%	*UK Rates Strategy, 18 February 2014*	
EUR	Buy 30yr Netherlands vs Austria	Open	14bp	Close to historically tight levels. Uncertainty surrounding the Austria banking sector	
		Current	13.25bp		
Cross Market	Buy DSL Jan42 at 2.67%	P&L	-0.75bp	should weigh on Austrian bonds	
	Sell RAGB Jun44 at 2.81%	Target	24bp		
		Stop	8bp	*European Rates Weekly, 12 February 2014*	

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

Figure 8. Record of our Open Trades (continued)

UK / US *Cross Market*	Receive 15y15y GBP vs USD Receive 15y15y GBP at 3.61% Pay 15y15y USD at 4.24%	Open -63bp Current -60bp P&L -3bp Target -100bp Stop -40bp	30yr UK to benefit from LDI while 30yr US faces an increasing supply burden *European Rates Weekly, 30 January 2014*	
UK / US *Cross Market*	Sell UKT 2.25% Sep23 vs UST 2.5% Aug23 Sell UKT 2.25% Sep23 at 2.82% Buy UST 2.5% Aug23 at 2.77%	Open 6.5bp Current 5bp P&L -1bp Target 30bp Stop -5bp	We expect the MPC to hike three quarters ahead of the Fed *European Rates Weekly, 23 January 2014*	
EUR *Swap Spreads*	Buy 5yr Germany vs Swaps Buy Bobl-167 (Oct18) vs swaps (YYS) at -33bp	Open -33bp Current -35bp P&L 2bp Target -50bp Stop -33bp	Attractive entry levels, a reduction in swapped issuance and 5yr bund supply in 2014 & a cheap option to express a change in sentiment *European Rates Weekly, 16 January 2014* *Revised Stop: The Morning Call. 5 Feb*	
EUR *Cross Market*	Long Bund Jan37 vs DSL Jan37 Buy Bund 4% Jan37 at 2.72% Sell DSL 4% Jan37 at 2.84%	Open 12bp Current 12bp P&L 0bp Target 22bp Stop 7bp	Optically attractive entry level + relative supply pressures are more favourable for Bunds than DSLs *European Rates Weekly, 9 January 2014*	
EUR *Cross Market*	Long 10yr Spain vs Italy Buy Bono 4.4% Oct23s at 4.26% Sell BTP 4.5% May23s at 4.06%	Open 20bp Current 2bp P&L 18bp Target -25bp Stop 45bp	Spain has a stable rating and lower political risks compared with Italy *European Rates Weekly 5 Dec 2013*	
EUR *Cross Market*	Sell France vs Belgium and Germany Sell BTAN 1.75% Feb17 at 0.51% Buy OLO 4% Mar17 at 0.66% Buy Bobl 0.5% Apr17 at 0.30%	Open 6bp Current 8bp P&L 2bp Target 16bp Stop 1bp	Attractive entry level, possible auction concession and non-supportive cash flow profile for OATs into year-end *Euro Rates Strategy, 8 November 2013.*	
EUR / UK *Cross Market*	Sell UKT Sep23 vs DBR Aug23 Sell UKT 2.25% Sep23 at 2.60% Buy DBR 2% Aug23 at 1.75%	Open 85bp Current 122bp P&L 37bp Target 140bp Stop 58bp Revised Stop 85bp	Entry levels are attractive for medium-term gilt-Bund wideners *European Rates Weekly, 24 October 2013.* *Revised Stop: UK Rates Strategy, 11 November 2013*	
UK *Swap spread*	Sell 30yr gilt swap spreads vs 10yr Sell gilt 3.25% Jan44 ASW at 20bp Buy gilt 1.75% Sep22 ASW at 0bp	Open 20bp Current 26bp P&L 6bp Target 50bp Stop 10bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve. *UK Rates Strategy, 30 July 2013*	
Europe *Curve*	Receive EUR 10y2y vs 12y3y Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%	Open 4bp Current 15bp P&L 11bp Target 25bp Stop -5bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility *The Morning Call, 23 January 2013*	
UK *Volatility*	Sell GBP 2y2y ATMF straddle Sell GBP 2y2y ATMF (1.04%) straddle at 76bps	Open 76bp Current 26bp P&L 50bp Target 0bp Stop 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol *IIRS 12 July 2012*	

Source: Citi Research

Bunds: Caught between Yellen and HICP

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Just when we thought that trading Bunds had become digital on Eurozone inflation, the FOMC has kindly reminded us that US/Europe correlation may be low, but not yet negative. Despite increased geopolitical volatility, rising deflation fears and a surprisingly hawkish FOMC, our medium-term view on Bund yields has not shifted by an inch and we're still confident with a 1.6-2.0% range for this year.

Let's go through the main drivers in more detail.

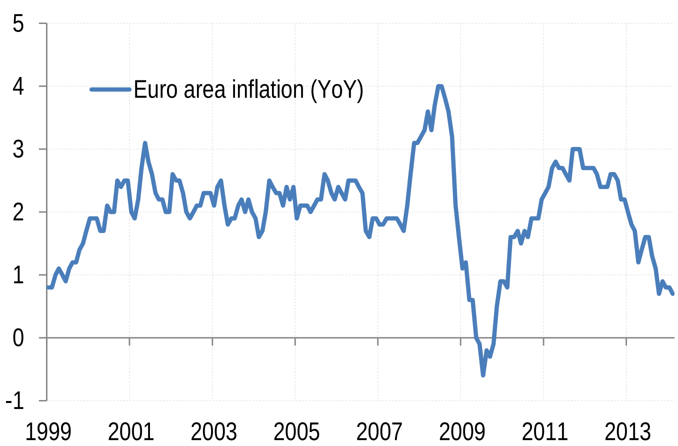
HICP

It's fair to say that the ECB could be behind the curve with regards to major macro trends like disinflation/deflation. However, we're not in deflation yet (Figure 9). Under open-ended forward-guidance, a credible central banker needs to prevent market expectations from moving in the opposite direction to the guidance path. This is even more true when inflation is a policy target, since one important component of future inflation are today's price expectations.

Inflation and inflation expectations

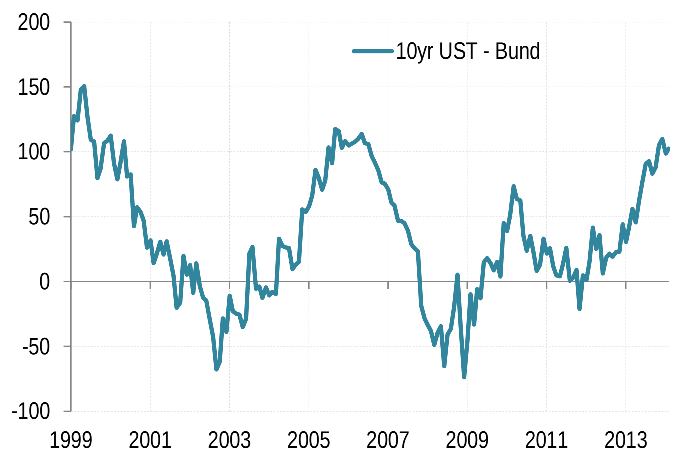
We think that market's current paranoia with deflation may also result from the surprising November rate cut. The argument is simple: If the market is concerned about deflation, acting on it poses the risk of validating these expectations and can result in an abrupt loss of central bank credibility. Because of that, we think the ECB is prepared to look through incoming information in the near-term and will act only if inflation expectations deteriorate sharply, perhaps as a function of substantial downward HICP surprises.

Figure 9. Euro area inflation (YoY, %)



Source: Citi Research, Bloomberg

Figure 10. 10yr UST-Bund spread - we still favour long Europe vs US



Source: Citi Research, Bloomberg

FOMC

Fed guidance now a blend of time- and state-contingent policy trajectories

Ok, Mrs Yellen's conference and the Committee's statement are a masterpiece of expectations management. The Chairwoman has easily removed the unemployment rate from the two-pillar state-contingent guidance inherited from her predecessor. The FED's guidance is now a blend of time- and state-contingent policy trajectories, a very flexible policy approach in light of the structural changes of the US labour market, which Mrs Yellen had already identified in the past. Our view of the FOMC message is: "We don't know where NAIRU is, we think it's not 6.5%, but we're not even sure about the lag structure of labour costs. Therefore we keep an easy policy stance as long as we don't see price pressures, independently of the unemployment rate. Our best guess is for another 12 months".

Exogenous factors

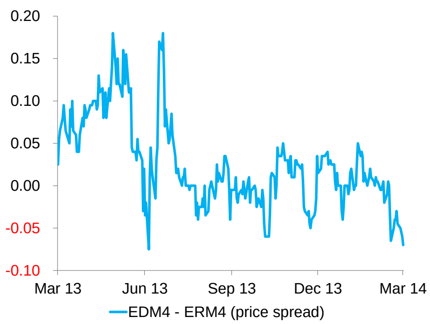
Geo-political factors as a driver of Bund yields

Looking at the price action vs the news, we think the risk premium associated with geopolitical tensions in Crimea is no worth more than 15bp. More complex is the discussion around emerging markets in general and the consequences of a potential revision to Chinese GDP and hence to global growth. This matters especially for the business cycle in peripheral Eurozone countries, both in terms of their export led recovery as well as the adjustment in competitiveness and the associated underperformance of inflation. Just imagine the consequences on debt sustainability of a real economic shock coupled with a pronounced deflation in countries with a high debt/GDP ratio and unemployment rate.

Outlook and trading strategies

We maintain our lower-for-longer theme for core European rates and still prefer EUR-USD wideners

Figure 11. We continue to see value in buying ERM4 vs EDM4



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

We therefore maintain the view that Bunds are likely to remain range-bound in the quarters ahead (around a handle of 1.7%-1.8%), we look for further outperformance of core European rates vs the US given the differences in business cycle dynamics and the likely path of monetary policy by the Fed vs the ECB and we also expect EUR 10s30s to undergo flattening pressure over the next four weeks (see p15).

Strategies we continue to like and ones also detailed in our earlier scenario analysis, *European Rates Weekly - What if T-Notes Sell Off?* Include receiving EUR 2y1y vs USD 2y1y. In the very front-end ("white pack"), we have an outstanding trade recommendation to *buy Euribor Jun14 futures vs Eurodollar Jun14 future* (current -7c, target +5c). This is largely a result of Citi's view that the ECB will cut rate policy rates in June. The outcome of yesterday's FOMC meeting does not change our rationale for this trade recommendation and we suggest taking advantage of the small sell-off in the very front-end of the euro curve (M4 and U4) to add to this position.

Futures trading involves substantial risk of loss.

Conclusion – Bunds face opposing forces

Trade the range in Bunds: sell bunds below 1.6% and buy Bunds above 2%.

In conclusion, we expect Bunds to continue trading as a function of opposing forces. We do not see the scope for a dominance of either "deflation" or "FOMC" in Bunds' pricing equation (yet) and maintain our target of 1.8% for the end of 2014. The price performance of correlated ECB-carry trades (e.g. forward-steepener type of risk) will reflect this dynamics. Risks are skewed to the downside and result mainly from current trends in HICP and EM growth. In the long-run, we continue to see clear risks of "japanification". But, for now our duration strategy is fairly basic: Sell Bunds below 1.6% and buy Bunds above 2%.

UK Rates – Views post FOMC & Budget

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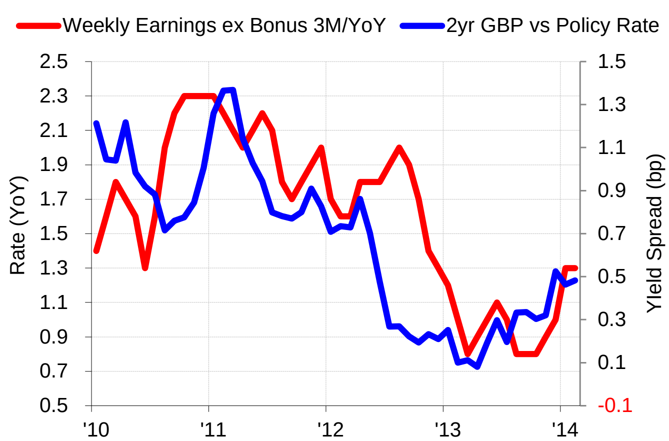
There has been plenty for the gilt market to digest over the last couple of days including the latest jobless report and MPC minutes, the UK Budget (which included major pension reforms), a surprisingly large fall in gilt issuance (see *UK Rates Strategy* for full details) and the FOMC. These events have increased our conviction in being outright bearish on the front-end. They have also *not* dented our relatively bullish medium-term view on the long-end, despite the market's initial reaction to the pension reforms. Finally, we expect long-dated IL gilts to perform very well in the coming months thanks to the relatively low level of issuance.

Pressures building on the front-end

A more hawkish outlook from the Fed, and the pick-up in average earnings, removes two of the remaining anchors for the GBP front-end

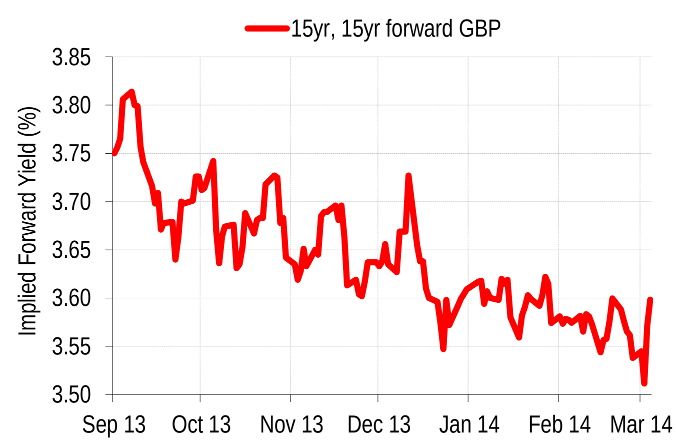
The front-end lacks risk premium, in our view. The MPC has shifted from 'lower-for-longer' mode to preparing the market for rate hikes. The new forward guidance allows considerable flexibility for the MPC to respond to the data. We expect the data to be strong and the MPC to hike in November of this year, well before market expectations of spring 2015. Regardless, the uncertainty in the policy rate outlook justifies a greater risk premium, in our view. The lack of risk premium in the UK to date may partly reflect the relatively dovish policy outlook for the Fed. We have always maintained that the domestic outlook would eventually push front-end GBP yields higher independently, but the bringing forward of rate hike expectations in the US following the FOMC should soften the resistance to such a move. Moreover, while the jobless rate held steady at 7.2% this week, the average earnings data was higher than expected. If the pickup in wage growth continues, as we expect it will, this should allow a fairly sharp re-pricing in the front-end (Figure 12). We continue to expect 2yr gilt yields to trade around 1.5% at the time of the first hike. In the last week, 2yr gilt yields have moved 7bp higher to 0.67% currently, but the move has a long way to go, in our view. This outright view hasn't changed despite the reduction in issuance in shorts announced in the new gilt remit, although this should support front-end swap spreads.

Figure 12. Weak average earnings has kept a lid on the front-end



Source: Citi Research, Bloomberg.

Figure 13. Long-dated GBP forwards have cheapened since the Budget



Source: Citi Research, Bloomberg.

Reaction to pension reforms is overdone, in our view

The long-end of the gilt curve has come under pressure since the Budget. This may partly reflect the skew in issuance towards longs, but the greater driver was arguably the announcement in the Budget of major pension reforms. A popular trade post-Budget has been to pay the historically rich 15yr, 15yr GBP forward. This is understandable given the headlines and it has, so far, worked well - Figure 13.

Fade the cheapening in the 15yr, 15yr GBP forward

However, we are not at all convinced that the correction will have legs. It may overshoot in the near-term, owing to the uncertainty created by yet another consultation on pensions, but we would look to fade the cheapening. We expect the 15yr, 15yr GBP forward to gradually richen over the medium-term. In particular, we think that the concerns related to the pension reforms are overblown.

The market appears to be concerned about less demand for gilts from annuity hedging and switching from DB to DC to capture the new flexibility

The reaction of the long-end to the pension reforms can be put down to two main concerns. First, that there might be less demand for gilts from annuity hedging given that the reforms mean that those in defined contribution (DC) schemes will no longer be forced into taking an annuity (to avoid punitive tax rates). Second, that the new flexibility afforded to DC schemes may spur those in defined benefit (DB) schemes to switch, as is currently permissible, therefore reducing LDI hedging needs.

Demand for gilts from the flow of new annuities is very small and should not be a concern, in our view

Both concerns are overdone, in our view. In the Treasury consultation paper on the issue[1], the Treasury estimates that new flows into annuities are worth around £11bn a year of which around 10% is invested in gilts. So even in the unlikely event that no new annuities are taken out, the impact on the gilt market from the lack of flow should be minimal. Existing annuities are not impacted by the reforms.

The Treasury may well legislate against the ability to transfer from DB to DC

It also seems unlikely that the Treasury will allow DB schemes to transfer to DC. It has already been announced that this will not be allowed for public DB schemes, which are unfunded and therefore any transfer would result in cost to the Exchequer. For private DB schemes, a consultation has been announced (lasting twelve weeks to 11 June) to address this issue. The consultation document makes it clear that allowing transfers from DB to DC could have *"a detrimental impact on the wider economy"* and that the government *"intends to proceed with caution".* The starting position of the consultation is that the right to transfer private DB schemes to DC should be removed unless *"the issues and risks around other options can be shown to be manageable"*. The Treasury are clearly well aware of the importance of DB schemes to the demand for gilts (and other asset classes) and therefore the ability of the UK to fund itself. The last thing it is going to do is to take action which negatively impacts demand from its largest, most reliable investor base, namely hedgers of DB pension schemes.

Uncertainty is likely to weigh on the long-end in the near-term, but the medium-term prospects remain strong, in our view

The reforms have introduced uncertainty which is likely to weigh on the long-end in the near-term. But, in our minds, the risk of significant transfers out of DB schemes into DC is very low (and may well be legislated against). Demand from LDI is likely to remain strong over the coming quarters and issuance is on a declining trend (more on that below with respect to linkers). This should keep the 15yr, 15yr GBP forward well supported and we maintain our existing recommendation to be long vs the USD equivalent (see *Tradesheet*).

Buy linkers – less supply, no less demand

Less linker issuance in the next fiscal year is likely to richen break-evens further…

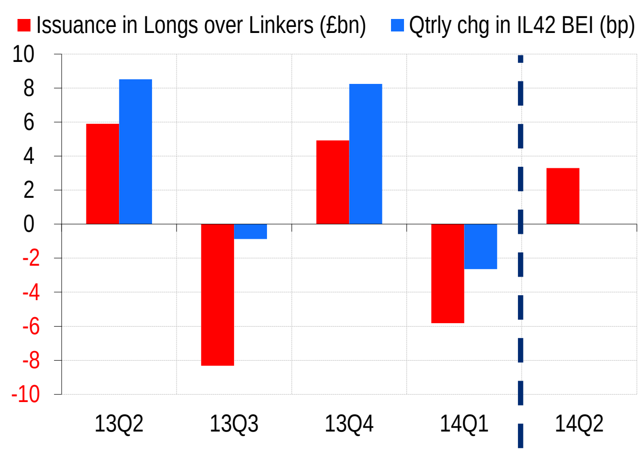
As discussed above, we don't expect the pension reforms to dent demand from LDI for longs or linkers. We expect this investor base to maintain current demand levels and potentially increase them if solvency ratios improve. For linkers, there will also be less issuance in FY2014-15 in absolute terms. The DMO plans to issue £31bn in linkers in FY2014-15. This is £7.4bn les than FY2013-14 and it would be the lowest absolute issuance in this sector since FY2009-10.

[1] 'Freedom and choice in pensions', HM Treasury, March 2014.

…especially in April-June given the likelihood of higher issuance in longs than linkers

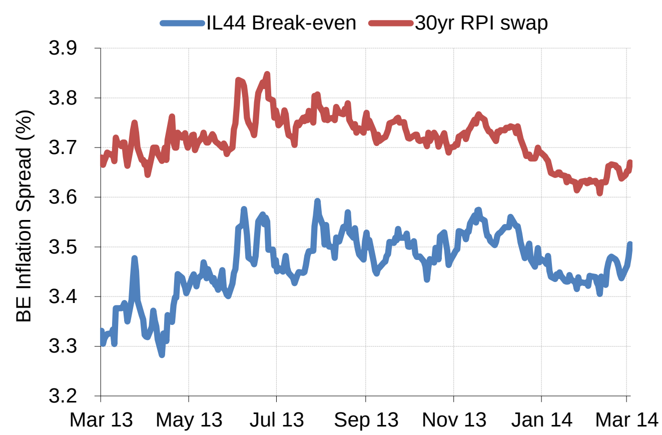
Furthermore, there will probably be one less syndication - two rather than three - and the first of these is unlikely until the July-September quarter. This view is inferred from the provisional auction calendar for April-June which shows four linker auctions and just two long gilt auctions (on 2 April and 15 May). This opens a gap for a long gilt syndication in June, in our view.

Figure 14. Impact of issuance differentials on 30yr break-evens



Source: Citi Research, DMO, Bloomberg.

Figure 15. 30yr RPI is lagging the rally in 30yr cash break-evens



Source: Citi Research, Bloomberg.

Issuance differentials tends to impact break-even perforamnce

The combination of less supply in linkers and no less demand presents a supportive backdrop. There has already been a significant reaction in the market with long-end break-evens re-pricing higher. We expect this to continue, especially given the favourable issuance split between longs and linkers which we anticipate in the April-June quarter. As shown in Figure 14, the quarterly differential between supply in longs vs supply in linkers does seem to have a bearing on the performance of 30yr break-evens over the quarter. Long-dated break-evens have already re-priced sharply higher, but this looks set to continue.

Buy 30yr RPI vs cash break-evens or consider 10s30s real yield flatteners

Given how far break-evens have already moved, alternative ways of expressing this view include long 30yr RPI swaps (outright or vs cash break-evens) which have lagged (Figure 15) or 10s30s real yield flatteners. The latter fits with our medium-term, fundamental bear flattening view of UK 10s30s curves.

EUR Vol: Conditional Bull Steepeners Revisited

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With the final February CPI inflation for the Eurozone having printed 10bp below expectations at 0.7% y/y, construed as expiry trades, front-end receiver swaptions continue to look attractive to investors who want to continue to play the "low for longer" theme in the Eurozone. Even better, given the current shape of implied volatility term structures, front-end receivers can be cheaply financed via receiver swaptions on medium/long swap tenors. We argue below though that the choice of the "funding" swaption should not be based on the vol pick up only.

Figure 16. Zero cost and DV01 neutral 2y fwd 2s20s bull conditional steepener

Buy	2y2y	1.20%	Receiver x7.73
Sell	2y20y	2.76%	Receiver x1

Source: Citi Research

Among all conditional bull steepeners we currently favour 2s20s with two year expiry. Figure 16 shows the required notionals and strikes for a DV01 neutral construction.

Tables below show vol pick-ups for conditional curve trades up to five year maturity. For instance, number 19 in the top left corner of Figure 17 is the difference between 1m5y implied volatility and 1m2y implied volatility. Since it is a positive number it tells that either 2s5s bull conditional steepeners or 2s5s bear conditional flatteners are attractive for one month expiry. Vice versa, for negative points in the table either bull conditional flatteners or bear conditional steepeners are recommended.

Figure 17. 2y swap receiver swaption can be cheaply financed via swaptions on longer tenors

	5y-2y	10y-2y	15y-2y	20y-2y	25y-2y	30y-2y
1M	19	21	19	17	16	15
2M	21	24	21	19	18	17
3M	20	23	20	18	16	15
6M	20	23	20	18	16	15
9M	19	22	19	16	14	13
1Y	18	21	17	14	13	11
18M	13	15	11	8	7	5
2Y	9	9	5	2	1	0
3Y	3	2	-3	-5	-7	-8
4Y	0	-2	-7	-9	-11	-12
5Y	0	-2	-7	-10	-12	-13

Source: Citi Research

Figure 18. Attractive funding for 5y swap receiver swaption is only via options on 10y swap

	10y-5y	15y-5y	20y-5y	25y-5y	30y-5y
1M	1	-1	-2	-3	-1
2M	3	0	-2	-3	0
3M	3	1	-2	-4	-1
6M	3	-1	-3	-4	-1
9M	3	0	-3	-5	-2
1Y	3	-1	-4	-5	-3
18M	2	-3	-5	-7	-6
2Y	0	-5	-7	-8	-8
3Y	-2	-6	-9	-10	-11
4Y	-3	-7	-10	-11	-12
5Y	-2	-7	-10	-11	-12

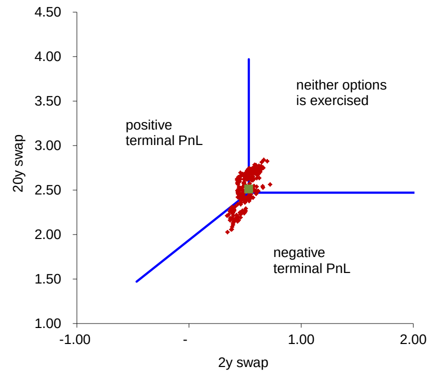
Source: Citi Research

In our view, the best zero cost DV01 neutral conditional bull steepener should not be chosen according to a simple vol pick-up maximization exercise

Admittedly we have expressed preference for a point with only 2 vols pick up: we like it better than 2s30s because in market sessions with a flattening bias that would move against the position we expect the 30y sector to outperform the 20y sector. Moreover we prefer it to 2s5s because it fares better on charts that show the decomposition of terminal payoff region against one year history of the curve. These charts are not shown here. Below we plot instead a selection of those charts to show why we like two year expiry best despite better vol pick up for lower expiries: indeed for two year expiry, the associated forwards imply that the 2s20s conditional bull steepener displays good "intrinsic" value vis-à-vis one year history of the curve Not the case for lower expiries: see Figure 19 to Figure 21.

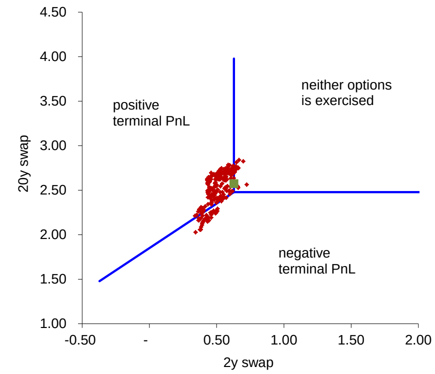
We remark last that for EUR 100mn x EUR 773mn notionals, one year rolldown PnL is worth around EUR 2.26mn.

Figure 19. 1m fwd 2s20s bull steepener vs. 1y history of 2s20s (red scatter)



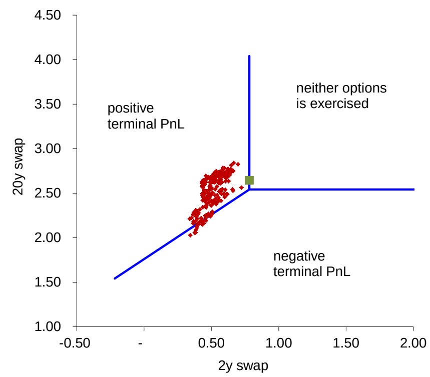
Source: Citi Research

Figure 20. 6m fwd 2s20s bull steepener vs. 1y history of 2s20s (red scatter)



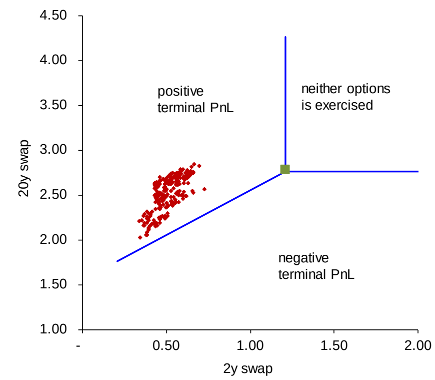
Source: Citi Research

Figure 21. 1y fwd 2s20s bull steepener vs. 1y history of 2s20s (red scatter)



Source: Citi Research

Figure 6. 2y fwd 2s20s bull steepener vs. 1y history of 2s20s (red scatter): attractive "intrinsic" value!



Source: Citi Research

EUR RV: Outlook for 10s30s post FOMC

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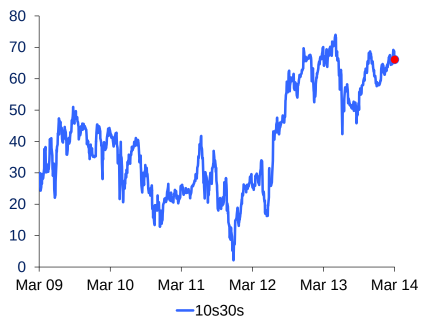
Figure 22. EUR 10s30s



Source: Citi Research

Large imbalance between 10yr and 30yr supply over the next four weeks is likely to put flattening pressure on the curve

We are not tempted to initiate steepening trades (in both spot and forward space) at current levels.

Have a look at 10s20s flatteners if looking to put on 10s30s flatteners at current levels

Bottom line: Following a hawkish FOMC meeting overnight EUR 10s30s has flattened by around 2bp today. The curve spread of 66bp continues to remain steep and the recent flattening is likely to provoke some discussion around curve steepeners. We are not tempted to initiate 10s30s steepeners at current levels for the reasons discussed below.

Main drivers of YTD moves

Prior to the FOMC, the level of 10s30s was close to 70bp (a level where the curve has faced resistance in the past and was ~5bp below the 5yr high of 74bp). This was largely due to two factors: (1) the rally in 5yr yields between the beginning of the year and 14 March and (2) long-end core EGB issuance (e.g. new 20yr Belgium supply for €5bn) have also had an impact on the curve but to a much smaller degree, in our view.

Following yesterday's FOMC meeting and the press conference the sell-off in the 5yr point (for both EUR and USD) has resulted in a flatter EUR 10s30s curve (i.e. due to directionality).

Short-term outlook

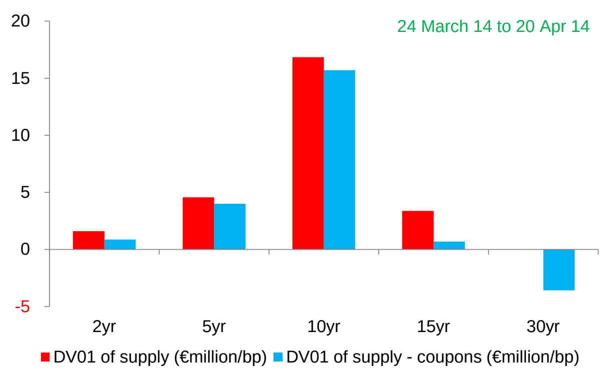
Over the next 4 weeks, there will be a sizeable amount of 10yr issuance in core EGBs relative to other maturity points, especially on 30yrs (Figure 23). All things being equal, we would expect the supply profile over the next month to put flattening pressure on the curve due to the DV01 of 10yr supply being significantly higher than 30s.

Trading strategy

Prior to yesterday's FOMC meeting we expected 10s30s to undergo flattening pressure due to upcoming supply profile and we continue to hold this view[2]. Investors who currently hold steepeners are advised to lightening up on these positions ahead of upcoming supply pressures (which we expect to have a flattening bias on the curve).

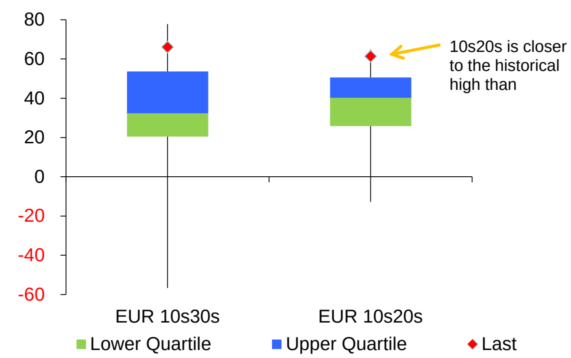
For those looking to enter EUR 10s30s flatteners at current levels tactical 10s20s flatteners offer a better alternative, in our view. This is due to the following reasons: (1) 10s20s are much closer to the ten year high than 10s30s (Figure 24); (2) the net carry on 10s20s flatteners (-16bp/year) is less negative than 10s30s (-21bp/year); and (3) we expect 10s20s to also benefit from supply-related flattening pressures.

Figure 23. There will be a large amount of 10yr issuance in core EGBs over the next 4 weeks relative to 15s and 30s.



Source: DMO, Citi Research

Figure 24. Boxplot of EUR 10s30s & 10s20s using a ten year history (bp)



Source: Citi Research

[2] Euro Rates Strategy, 19 March 2014

EGB Strategy – thawing periphery markets

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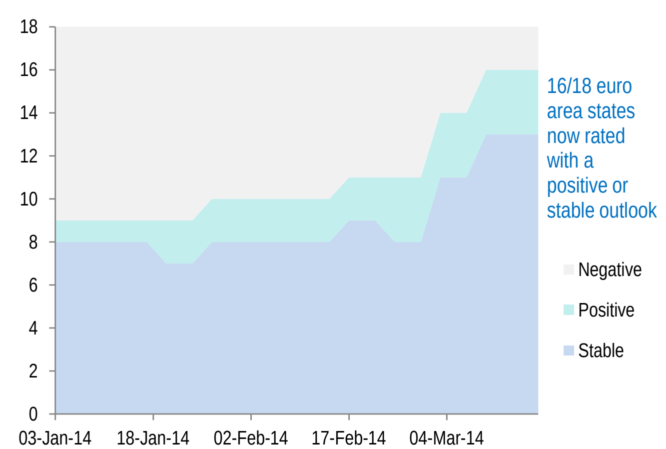
Euro area credit quality is stabilizing – literally

One of the striking features of the European government bond market so far in 2014 has been the firm secondary market tone in the face of various bouts of event risk. It has also been busy start to the year for the rating agencies, particularly Moody's. Specifically, there has been a notable shift in rating outlooks. In fact, Moody's now rates 16 out of the 18 euro area states with a positive or stable outlook, from just 9 at the beginning of the year (Figure 25). These include:

2 upgrades have occurred within EMU-11 already in 2014…more to follow?

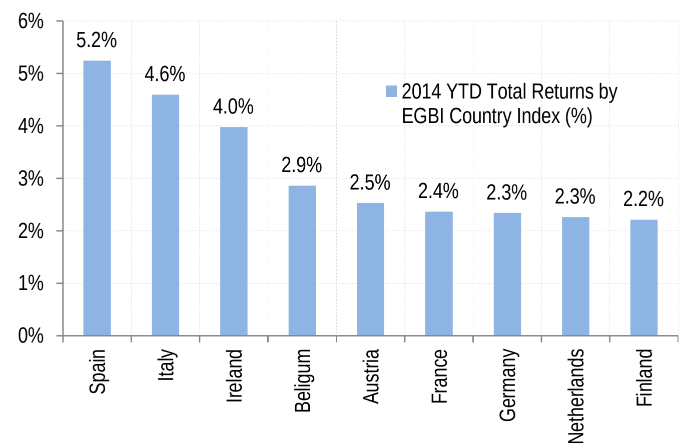
- **Ireland** upgraded from Ba1 stable to Baa3 positive on 17th January
- **Italy** outlook revised from Baa2 negative to Baa2 stable on 14th February
- **Spain** upgraded to Baa2 positive from Baa3 stable on 21st February
- **Germany** outlook revised from Aaa negative to Aaa stable on 28th February
- **Austria** outlook revised from Aaa negative to Aaa stable on 28th February
- **Netherlands** outlook revised from Aaa negative to Aaa stable on 7th March
- **Belgium** outlook revised from Aa3 negative to Aa3 stable on 7th March

Figure 25. 2014 Progression of euro area outlooks as rated by Moody's



Source: Citi Researc, Moody's

Figure 26. 2014 YTD Total Returns by EGBI Sub-Index (%)



Source: Citi Research, Yield Book.

Returns have been positive in Q1 across the board

Assessing performance in Q1, returns have been ubiquitously positive for the EGBI indices. Core markets have returned around 2.2%-2.5% and the periphery has returned up to 5.2% led by Spain (Figure 26). Looking ahead, we think periphery yields can compress further to the core with momentum likely to be spurred by the ongoing thawing of primary markets. Now that Ireland has issued in an auction, Portugal has undertaken several exchanges, the focus is clearly on how Portugal will exit its programme later in Q2 and what prospects Greece has for supply.

Ireland's market access is secure

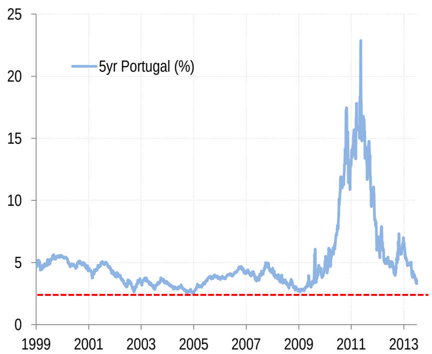
Returns have been positive in Q1 across the board

Ireland's performance, rating upgrade and return to full market access have been key highlights for the EGB market so far this year (*Euro Rates Strategy - Ireland's first auction since 2010 is an important milestone*). Looking ahead, we expect Ireland's market access to remain secure, having made a "clean exit" from its Troika programme and being fully funded for the year. Following the €3.75bn syndication in January and the €1bn raised in the March auction, Ireland has achieved 60% of its

€8bn 2014 funding target. Going forward, the NTMA has indicated one or two auctions will be carried out per quarter with a statement being issued at the beginning of each quarter. Such auctions will be important for the gradual broadening and diversification of the demand structure for Irish government bonds, which its investment grade status now permits. Together with further rating upgrades later this year (*Global Economic Outlook and Strategy*), we forecast 10yr Irish spreads to Bunds average 110bp in Q4 (from 141bp at the time of writing).

Portugal: "clean" exit likely in May

Figure 27. 5yr Portugal (Yield, %)



Source: Citi Research

Issuance to date: To date, Portugal has issued €6.25bn (€3.25bn in January, 5yr sector, and €3bn in February, 10yr sector) and had indicated a €11bn-€13bn in gross issuance of PGBs for 2014. The success of these sales earlier this year bodes well for Portugal's looming exit of its own Troika programme where we think the probability of a "clean" exit has grown considerably.

Clean exist looking likely: In the latest development, German Chancellor Angela Merkel said she would support any decision taken by Portugal regarding this matter following a meeting this week with Portuguese PM Passos Coelho. Although nothing has been formally agreed, given that the bailout programme ends in May, a decision looks likely to be taken in April. In our view, a clean exit would have an important signaling effect, bolster market sentiment further and continue to support the spread tightening tone. In terms of absolute funding costs, at just 3.31%, 5yr Portuguese yields are just 80bp away from their all-time low of 2.52% achieved in September 2005 (Figure 27). 10yr spreads to Germany currently trade around 270bp and our view going forward is for spread tightening to continue with a "clean exit" scenario likely to promote sustained impetus over the summer months.

Greece: Piraeus bank setting the tone – Greek bond supply soon?

Senior unsecured issuance this week by the Greek banking sector

Greek bank issues debt: There have also been encouraging developments regarding prospects for Greece to engage with capital markets this year. Within the corporate credit market, Piraeus (Caa1/CCC) became the first Greek bank to issue debt in 5 years: the bank issued €0.5bn in a 3yr senior unsecured transaction this week. The coupon of 5% has also been cited as a feature that helped galvanize demand given the extent of the rally in the wider periphery. This has now set a precedent in our view and is an important step for the wider Greek market.

Agreement reached with the Troika

Troika negotiations: Also this week, the Greek Prime Minister Antonis Samaras announced that an agreement has been reached with the Troika regarding bailout negotiations. The Troika acknowledged the €2.9bn primary budget surplus and stated that the economy "*is beginning to stabilize and is poised for a gradual resumption of growth, broadly in line with our previous projection*" (*Debt Update*).

Prospects for government bond issuance in May or perhaps earlier

We expect bond issuance in May: We believe such developments open the door to some form of Greek bond issuance, probably ahead of the European elections in May. Indeed, Reuters reported this week[3] that a senior Greek finance ministry official indicated the possibility of a €1.5bn-€2bn bond sale in the 5yr sector although no decision has formally been taken. We believe the hunt for yield remains a strong structural demand driver for the wider periphery and the ongoing improvement in investor sentiment has helped thaw the primary market for a variety of issuers. Evidence that Greece can engage with capital markets would spur such investor confidence further, in our view, and provide a powerful signal to the wider market. We pencil in €1.5bn in Greek bond supply in May but acknowledge this could come in April.

[3] Reuters "*Greek mulls early return to markets with 1.5-2 bln euro bond issue*" 19th March

Conclusion: Outlook and trading strategies

We remain broadly constructive on the periphery market

Recent events, from EM or the FOMC announcement, have done little to derail the wider market tone in the periphery. Spanish and Italian yields continue their march lower with supply still being digested relatively well. Our key views remain unchanged. We expect periphery spreads to Germany to grind tighter still – with ongoing momentum from the primary market likely to be a key support for this dynamic. We continue to expect 10yr Bono, BTP and Irish government bonds to trade around 140bp, 160bp and 110bp respectively by Q4 2014. This maintains our slight preference for Spain over Italy and for Ireland to gravitate towards the soft core gradually over the course of the year.

EUR break-even outlook and RV in OATei

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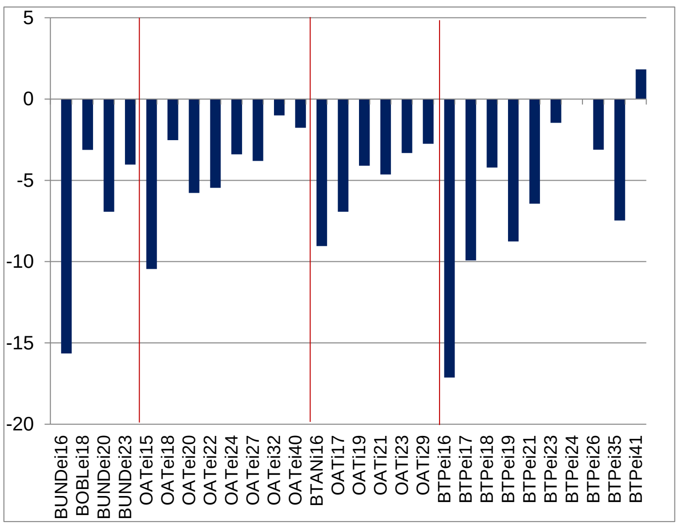
Heavy inflation-linked supply during a negative carry period of March is weighing on the inflation-linked market. This has been particularly true for OATei18 which look cheap on several metrics. We analyse various drivers of break-evens and recommend trading positions around OATei18.

Supply pressure and negative carry

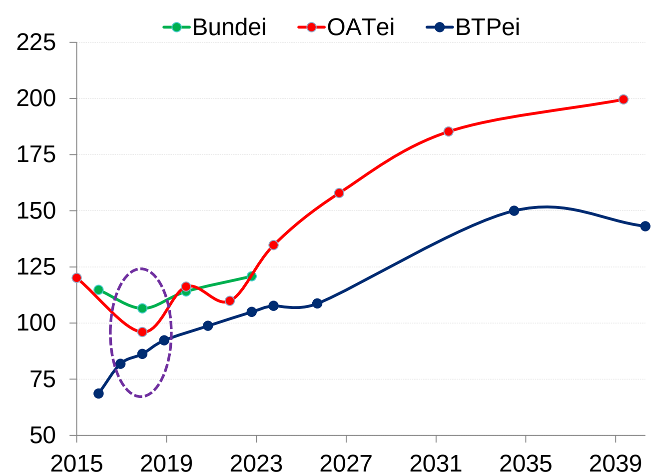
March has seen a heavy supply schedule for euro linkers this year with €7bn month to date supply as compared to total January-February supply of only €7.9bn. This increase in supply has come against a backdrop of negative carry over March. This has led to euro break-evens tightening across the board on a carry-adjusted basis (Figure 28).

Figure 28. Carry-adjusted break-even change over March



Source: Citi Research

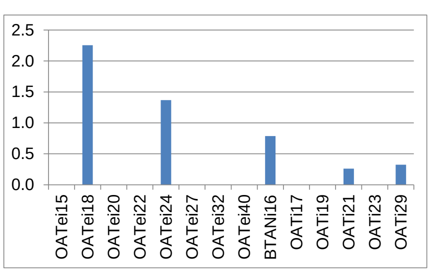
Figure 29. Seasonally adjusted break-even curves



Source: Citi Research

Euro break-evens are not likely to be helped by realized inflation figures either. The Ukraine crisis has failed to give a boost to energy prices and subdued food and energy prices are likely to keep downward pressure on the headline HICP (and HICPxT) figure. Our economists expect it to bottom at 0.6% yoy in March before staging some recovery in April. It is therefore unsurprising that euro break-evens have been under pressure and we expect it to continue until the market starts to position for positive carry over April-June (for instance, projected carry for OATei15 is 138bps over this period).

Figure 30. French inflation-linked supply: YTD split (€bn)



Source: Citi Research

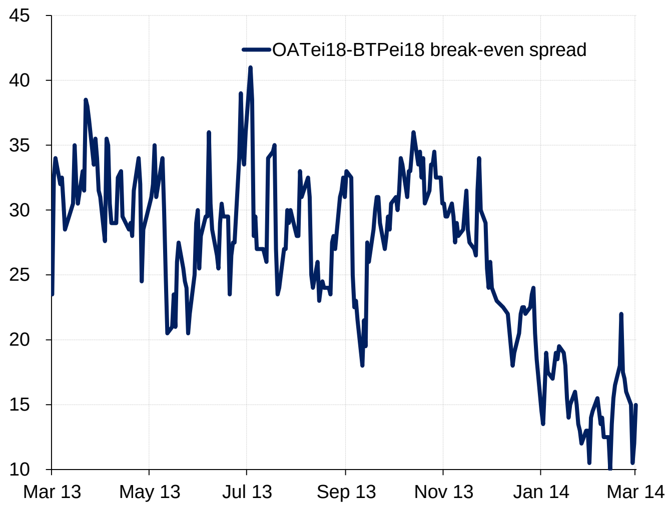
OATei18 look cheap on various metrics

On a more micro level, the sell-off in break-evens has not been consistent across the curves. Up until last week, the 5yr sector was trading cheap on a seasonally adjusted basis in all the three markets. Thanks to the sell-off being less severe in this sector than surrounding issues, the relative cheapness of the 5yr sector is reduced to some extent. This is particularly true for BTPei18 which is now trading largely in line with the rest of the curve. However, OATei18 still look cheap vs surrounding issues (Figure 29). This can perhaps be attributed to three consecutive reopenings of the issue. The bond comprises 46% of the 2014 French linker supply so far (Figure 30). Now that today's auction is over, we expect OATei18 break-evens to recover vs surrounding issues and BTPei18. We therefore recommend holding on to long positions in OATei18 break-evens vs BTPei18 (Figure 31).

Buy OATei18 ASW

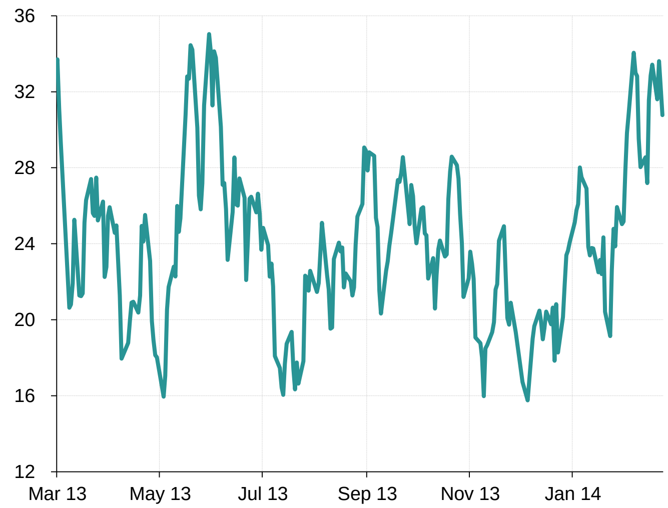
Another attractive trade is to buy OATei18 vs swaps. The bond has cheapened significantly on this metric and this can also be seen vs the reference conventional. OATei18 offers a historically attractive pickup of 30bps vs the reference conventional on an asset swap basis (Figure 32).

Figure 31. OATei18 break-evens vs BTPei18



Source: Citi Research

Figure 32. OATei18 ASW vs ref conventional



Source: Citi Research

Trading strategy

OATei18 break-evens have been under pressure due to regular reopenings of the issue and now look cheap on various metrics. The bond has failed to richen on the domestic curve in line with peers on a seasonally adjusted basis. We retain our long position in OATei18 break-even vs BTPei18 and also think it looks good value vs swaps.

SSA Strategy – Supra drivers & trades

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Keeping on top of supra spread drivers

The SSA market has absorbed a fair amount of new – and varied - information recently from rating agencies, regulatory updates and new issuance. Such factors can be important spread drivers and continue to grab investors' attention. We put recent events in the context of the market outlook and view such developments as generally positive for the supranational sector. We also present various trade ideas for the EU, ESM, and EIB both within the SSA sector and vs EMU sovereigns.

ESM/EFSF as Level 1 HQLA – Basel announcement

ESM and EFSF now 0% risk weighed according to Basel Committee

In their recent news letter dated 18th March, the Basel Committee on Banking Supervision stated that banks can *"apply a 0% risk weight to claims on the European Stability Mechanism (ESM) and European Financial Stability Facility (EFSF).*" This is significant as Basel is ultimately the provider of global guidelines for harmonizing banking regulation. In practice, this means the following:

- **Zero risk weight in Basel documentation:** The EFSF and ESM are now to be included in the original Basel documentation (paragraph 56 of "*Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version*") in the list of entities receiving the 0% risk weight. This already includes the BIS, the IMF, the ECB and the EC.

- **Level 1 High Quality Liquid Assets:** The EFSF and ESM are also now recognized by Basel as Level 1 High Quality Liquid Assets for the purposes of banks' Liquidity Coverage Ratio as defined in "*Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*."

Figure 33. Definition of Liquidity Coverage Ratio (LCR)

$$\frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calender days}} \geq 100\%$$

Source: BIS, Citi Research

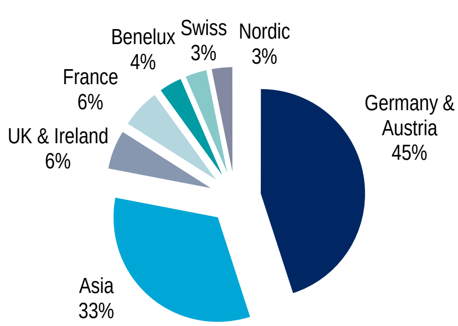
This is an important boost for ESM and EFSF bonds as it clearly provides further impetus for regulatory demand for such high quality assets. The LCR is essentially designed to promote the short-term resilience of a bank's liquidity risk profile by ensuring it has an adequate stock of HQLA. Such assets need to be able to be converted into case easily and immediately so that liquidity needs for a 30 calendar day stress scenario can be met. This Basel announcement therefore supports EFSF and ESM spreads. Further details on this topic can be found in our recent *Monthlies: The evolving regulatory landscape and the market outlook* and *EBA & HQLA, ECB & AQR: Acronyms to look out for in 2014*

The EU doesn't disappoint – strong return to market and firm spreads

New 10yr EU priced at MS+9

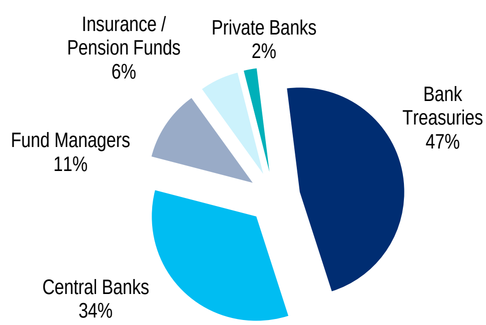
Lack of concession is impressive: The EU issued its first euro benchmark bond this week in over a year in a widely anticipated EFSM transaction. The €2.6bn 10y benchmark (EU 1.875% Apr24s) priced at MS+9bp tightening from the guidance of +11bp. Proceeds will be on-lent to Ireland (€0.8bn) and Portugal (€1.8bn).

Figure 34. New 10yr EU take up by geography (%)



Source: Citi Research

Figure 35. New 10yr EU take up by investor type (%)



Source: Citi Research

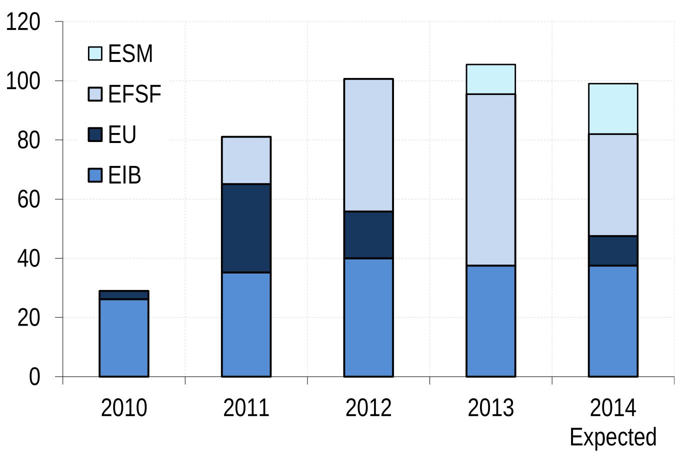
Asia take up was 33%

Strong demand was evident in the pricing and in the order book (€4.7bn from 140 investors according to the EU press release). Asia maintained a strong presence in the deal, accounting for 33% of the take up (Figure 34). The 10yr maturity also proved popular for an array of investor types, with bank treasuries taking the lion share of 47% followed by the central bank community at 34% (Figure 35).

Funding programme adjusted to reflect MFA aid to the Ukraine

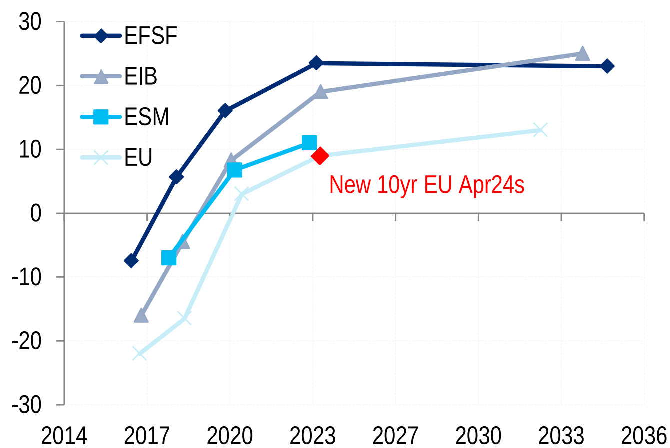
€2.1bn in Q2 and up to €2bn more for MFA: Given the EU's scarcity premium and smaller supply pipeline (Figure 36), it is the primary market where we continue to see opportunities to add to exposure and hunt out relative value. Such liquidity pockets can provide good access points for this high quality supranational. Looking ahead, note that the EU has €2.1bn to issue in Q2 to complete EFSM commitments and has now signalled up to €2bn under the Macro-Financial Assistance facility including funding for loans to the Ukraine. Further details can be found in our recent Weekly, *SSA Strategy – the EU and the Ukraine.*

Figure 36. EUR Supranational supply (€bn)



Source: Citi Research, Issuer Presentations

Figure 37. Supranational spreads to swaps (YYS curves, bp)



Source: Citi Research

High credit quality, scarcity premium and constructive market tone to support EU spreads going forward

We expect EU spreads to remain tight: The lack of significant concession in the new 10yr EU issue is testament to a strong technical backdrop where structural demand and the hunt for yield remains firm. As another small positive, the EU also had its outlook revised from negative to stable by Moody's (which rates the EU Aaa, *Euro SSA Strategy - The Return Of The EU: First Batch Of Supply Since 2012*). This agency also noted various key credit supports for this supras which include:

- Joint and several nature of EU liabilities among the member states
- Debt service protection features (such as budgetary resources and the Commission's right to make capital calls)
- Conservative debt management and the need to balance for a balanced budget

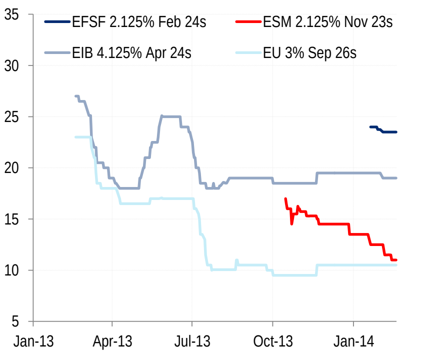
Key message: We generally expect EU spreads therefore to remain tight both for fundamental and technical reasons (Figure 37).

Supra trade ideas and strategy recommendations

Supras provide investors with diversified exposure to European sovereign credit

Supranationals provides investors with the opportunity to gain diversified exposure to European sovereign credit – both at the EU and euro area level. We highlight the following trading themes. Further details on European supranationals as a market can also be found in our primer, *Supranationals in focus – overview & opportunities.*

Figure 38. 10yr supra spreads to swaps (bp)



Source: Citi Research

Hold ESM vs EIB and peers

- **Striking performance of ESM:** At 11bp in the 10yr sector, the ESM is now trading flat to the longer dated and better rated EU Sep26s (Figure 38). It has also strikingly outperformed EIB - with the EIB now trading wider than the ESM in the 7yr and 10yr sectors. We believe this is largely due to powerful technical forces at work, namely the "scarcity" premium the ESM appears to be adopting.
- **We would not fade the move:** Given this, we would not fade recent moves and do not believe ESM-EIB spreads are range-bound. The ESM is less liquid and although we do not expect further significant performance, spreads can probably nudge tighter still vs peers.

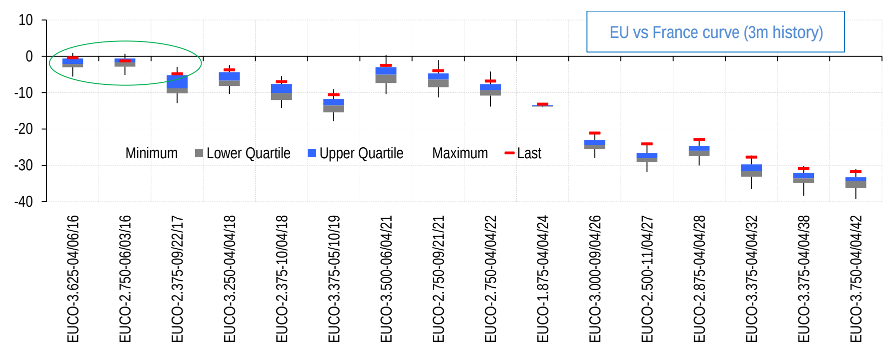
Key message and more details: Details on this topic can be found in our *Euro SSA Strategy - RV Insights – ESM vs EIB & Why We Wouldn't Fade Recent Moves*.

EU has cheapened vs France – look at the front-end

Front end of the EU vs France

Analysing the spread curve of the EU vs France reveals that EU bonds tend to trade inside France, but that such spreads are often in single digits and historically cheap in the front-end of the curve (Figure 39).

Figure 39. EU vs France Curve (Red bar = current spread; box-whisker on 3m history)

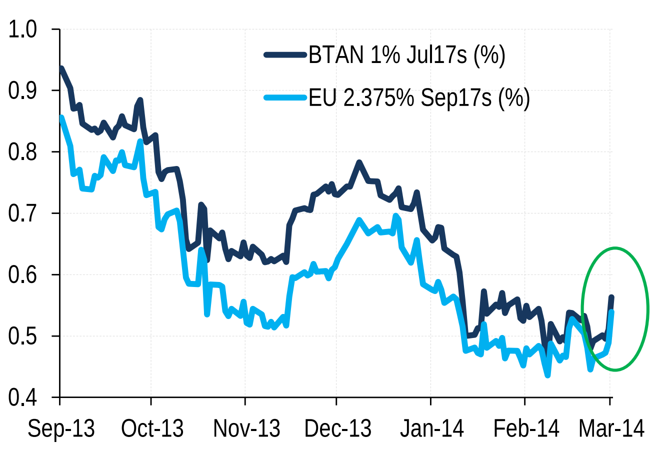


Source: Citi Research

Step up quality switches

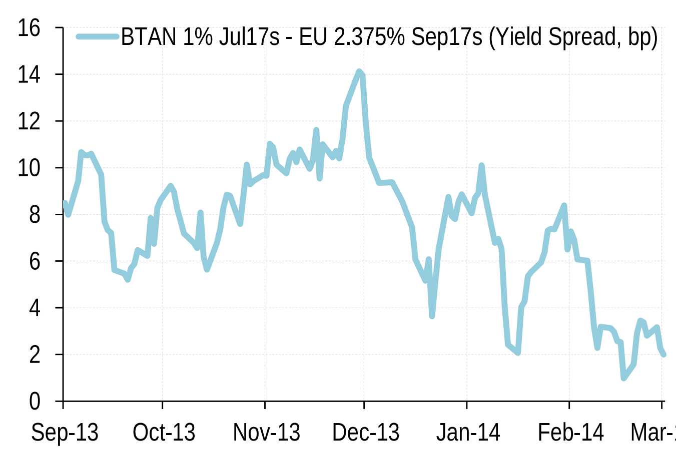
One such example is the spread between BTAN Jul17s and EU Sep17s where the strong performance of France (AA/Aa1) now enables a move up in quality into the better rated EU for a historically small yield spread give up (Figure 40, Figure 41).

Figure 40. 3yr France and 3yr EU (Yields, bp)



Source: Citi Research

Figure 41. 3yr France – 3yr EU (Yield spread, bp)



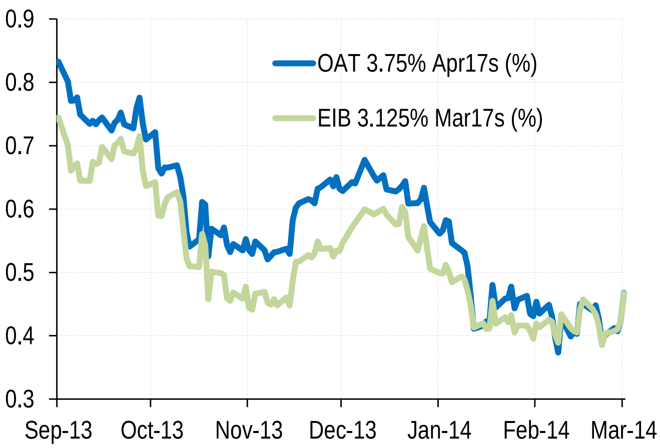
Source: Citi Research

EIB vs France – opportunities not just in the front-end

Front-end EIB vs France

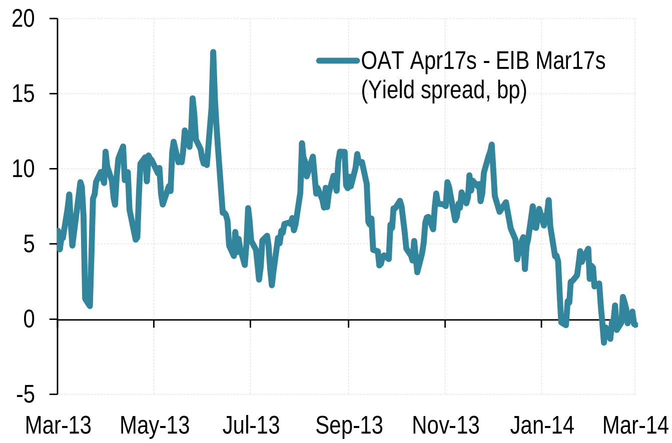
There are similar opportunities for EIB vs France in the front end as is the case between EIB Mar17s and OAT Apr17s (Figure 42, Figure 43).

Figure 42. 3yr EIB and France (Yields, %)



Source: Citi Research

Figure 43. 3yr OAT vs EIB (Yield spread, bp)

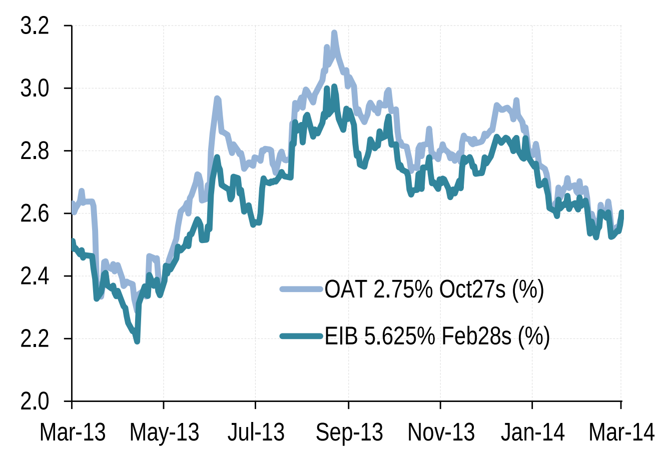


Source: Citi Research

Long-end EIB vs France

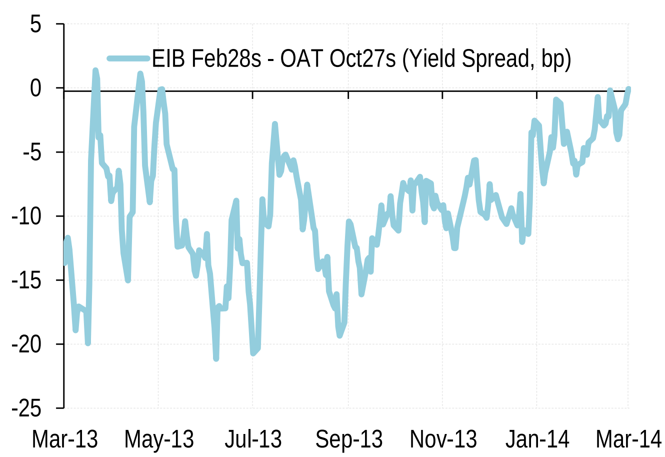
Longer dated idea: However, we can also find cases in the longer-end of the curve where switches out of France (AA/Aa1) and into EIB (AAA/Aaa) can be made at a flat spread – and at a spread which is historically extreme. One such example is the differential between EIB Feb28s and OAT Oct27s (Figure 44, Figure 45).

Figure 44. 14yr France and 14yr EIB Yields (%)



Source: Citi Research

Figure 45. 14yr EIB vs France (Yield spread, bp)



Source: Citi Research

Conclusion – buoyant activity in euro SSAs & supra opportunities

Market remains buoyant

We continue to like the European supranational market due to its high credit quality, regulatory demand drivers and for the switches which can be achieved vs some EMU sovereigns. Our main message is to engage with the EU in the primary market (noting adjustments to its funding programme due to Ukraine assistance) and to seek out the RV between supras and core EMU sovereigns such as France.

Covered Bond Strategy

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Bail-in has become a main regulatory and rating driver for covered bonds in 2014. Last week, the UK HM Treasury published a consultation paper on the implementation of bail-in procedures. We look at this in more detail.

Bail-in, HM Treasury and UK Covered Bonds

Consultation paper on bail-in powers following BRRD

Five years ago, the UK introduced a Special Resolution Regime (SRR) as part of the Banking Act 2009. Last year, the Financial Services Act 2013 has been an update which also introduced the bail-in stabilization option. With the upcoming European Bank Recovery and Resolution Directive (BRRD) which should be agreed upon in May 2014 with a transposition deadline of January 2015, some amendments of the 2013 Act become necessary. With the consultation document published recently, HM Treasury would like to get feedback on the following statutory instruments which will act as secondary legislation:

- The bail-in order should also apply for building societies. For this, the 2013 act needs to be amended to facilitate the exercise of bail-in powers. This will affect the different ownership and corporate structure of building societies.
- The Banking Act 2009 restricts bail-in provisions in special cases. More specifically, this assures that safeguards for certain financial arrangements (certain types of set-off and netting arrangements) are put into place.
- Moreover, the Banking Act 2009 regulates the mandatory compensation arrangements following bail-in. In other words, it should be assured that no shareholder or creditor will be worse off in a bail-in than in insolvency.

Moreover, HM Treasury wants to have feedback on the following points:

- "A proposal to align the creditor hierarchies in insolvency for banks and building societies through early transposition of the depositor preference provisions in the European Bank Recovery and Resolution Directive (BRRD) […];
- A proposal to implement changes to the Financial Collateral Arrangements Directive (FCAD) in what is currently Art. 107 BRRD through amendments to the Financial Collateral Arrangement (No 2) Regulations 2003 […and] applying the bail-in tool to banking group companies […]".[4]

Secured liabilities are excluded from any bail-in procedures

Firstly, it should be stated that covered bonds are generally excluded from any bail-in procedures in the UK following Art. 48B (8) of the Banking Act. However, the modification that is deemed to be necessary to comply with the EU BRRD has meeting points with UK covered bonds. Firstly, building societies are covered bond issuers and secondly covered bonds have been issued by banking groups.

Bail-in at Building Societies

How can "shareholders" of building societies be bailed in?

Within a resolution regime the shareholders (or owners) will lose its rights and duties as part of the bail-in. In case of a building society, the owners of building societies do not have the analogous status as shareholders. However, as it is seen as quite similar, HM treasury suggests that a demutualization would be in line with bail-in principles as otherwise the convergence of debt instruments into shares would mean that new shareowners were put in a worse position than if the entity declared insolvency. Usually, the "owners" of a building society are put into rights by having a savings account or by having borrowed a secured loan. These rights entail voting powers on certain decisions, among others the decision on winding up of the

[4] https://www.gov.uk/government/consultations/bail-in-powers-implementation-including-draft-secondary-legislation/bail-in-powers-implementation, HM Treasury, 13.03.2014

society. By demutualization, this right will be curtailed as shares will be cancelled and a deposit will be created in the new demutualized entity. Eventually, before a bail-in gets used, the building society will be converted into a public limited company whereas all rights, assets and liabilities (including covered bonds) will be transferred to the plc in order to enact the demutualization. The transfer has to assure that former "owners" maintain the same rights, e.g. building societies' depositors become depositors at the plc so that their risk of a bail-in remains the same. After this, a bail-in can be applied like for normal banks.

Bail-in at banking group companies

Covered bond SPVs would not be covered by stabilization powers

A further necessary modification will affect covered bond issuance vehicles, we understand. Under the Banking Act 2009, Banking group companies (BGC) are defined as an undertaking which is in the same group as a bank. In a draft consultation paper for secondary legislation in September 2013, HM specified the characteristics that have to be fulfilled to make an undertaking a BGC. Importantly, within the secondary legislation, bail-in applications have not been mentioned as this was before the Banking Act 2013 was amended to provide for bail-in options given the BRRD. Moreover, covered bond SPV's have been "excluded from being a [BGC] for the purposes of the [bail-in] stabilization powers"[5] unless they fall within the definition of an "investment firm" or a "financial institution". Following BRRD, the latter would be within scope of stabilization powers. However, covered bond SPVs would not be covered by this.

What happens if covered bonds were under-collateralized at insolvency?

HM Treasury now considers broadening the ability to apply bail-in stabilization tools and in particular raises the question "whether covered bond vehicles and securitization companies, which will be excluded in their entirety from the other tools (unless they fall within the definition of an "investment firm" or a "financial institution"), should be within the scope of the bail-in power." It is clearly stated that covered bonds as a secured liability will be excluded from any bail-ins according to section 48B(8)a. However, the government raises the question what will happen if covered bonds were under-collateralized as this would result in an unsecured liability of the failing firm and the SPV. Should such unsecured liabilities be capable of being bailed-in? Although being a very theoretical question as UK covered bond programs have several safety cushions to prevent ensure overcollateralization, the under-collateralization of covered bonds during insolvency would probably make creditors losing money. Hence HM treasury raises the question if covered bond vehicles which are not "financial institutions" or "investment firms" should be within the scope of being bailed in.

Conclusion

The consultation paper looks for an answer to an open question raised by Art. 38 within the BRRD

We think that the UK law is very clear on the exclusion of covered bonds in case of bail-in procedures being in line with BRRD. Moreover, Art. 38 BRRD gives national regulators leeway in exercising resolution powers in case of a situation where liabilities exceed the amount of pledged assets "although Member States shall ensure that all secured assets related to a covered bond cover pool remain unaffected, segregated and with enough funding"[6]. The latest published consultation paper raises exactly the question of which scope the UK regulator grants itself in situations of under-collateralized liabilities. The consultation period is open for comments until 7th of May.

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5 https://www.gov.uk/government/consultations/secondary-legislation-for-non-bank-resolution-regimes/secondary-legislation-for-non-bank-resolution-regimes, HM Treasury, 20.09.2013

6 http://register.consilium.europa.eu/doc/srv?l=EN&t=PDF&gc=true&sc=false&f=ST%2017958%202013%20INIT&r=http%3A%2F%2Fregister.consilium.europa.eu%2Fpd%2Fen%2F13%2Fst17%2Fst17958.en13.pdf, European Council, 18.12.2013

Technical update: Bunds and gilts

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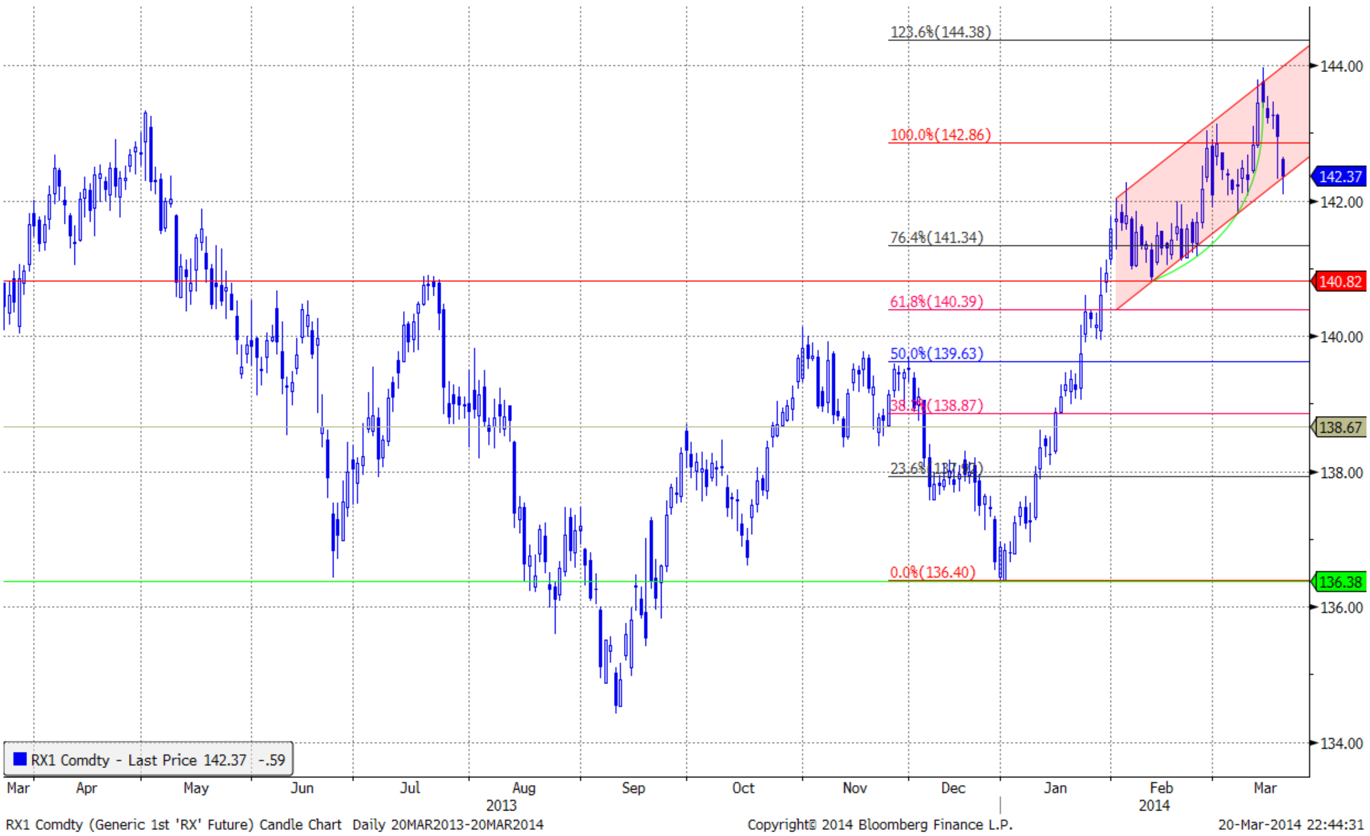
Bunds at the bottom of upward channel

After the parabolic move ended last week, Bunds have sold off to the bottom of the upward channel (Figure 46). We would recommend short-term longs here with a tight stop below the channel lower (142.34) and target at channel upper (143.99).

Over a longer horizon on the weekly chart, however, this latest rally has seen Bunds move from the bottom of the channel to its top (Figure 47). More importantly, they have not been able to breach it. If Bunds do not manage to break the 143.3 level sustainably, we might see Bunds retracing the rally back to 134.4.

Figure 46. 10yr continuous daily Bund futures with Fibonacci levels (upward channel marked)



Source: Bloomberg

Figure 47. Weekly range (roll-adjusted)

Source: Bloomberg

Resistances

1. Channel upper (currently at 143.99, ascending at 6c/day)
2. 144.4 (23.6% Fibonacci extension)

Supports

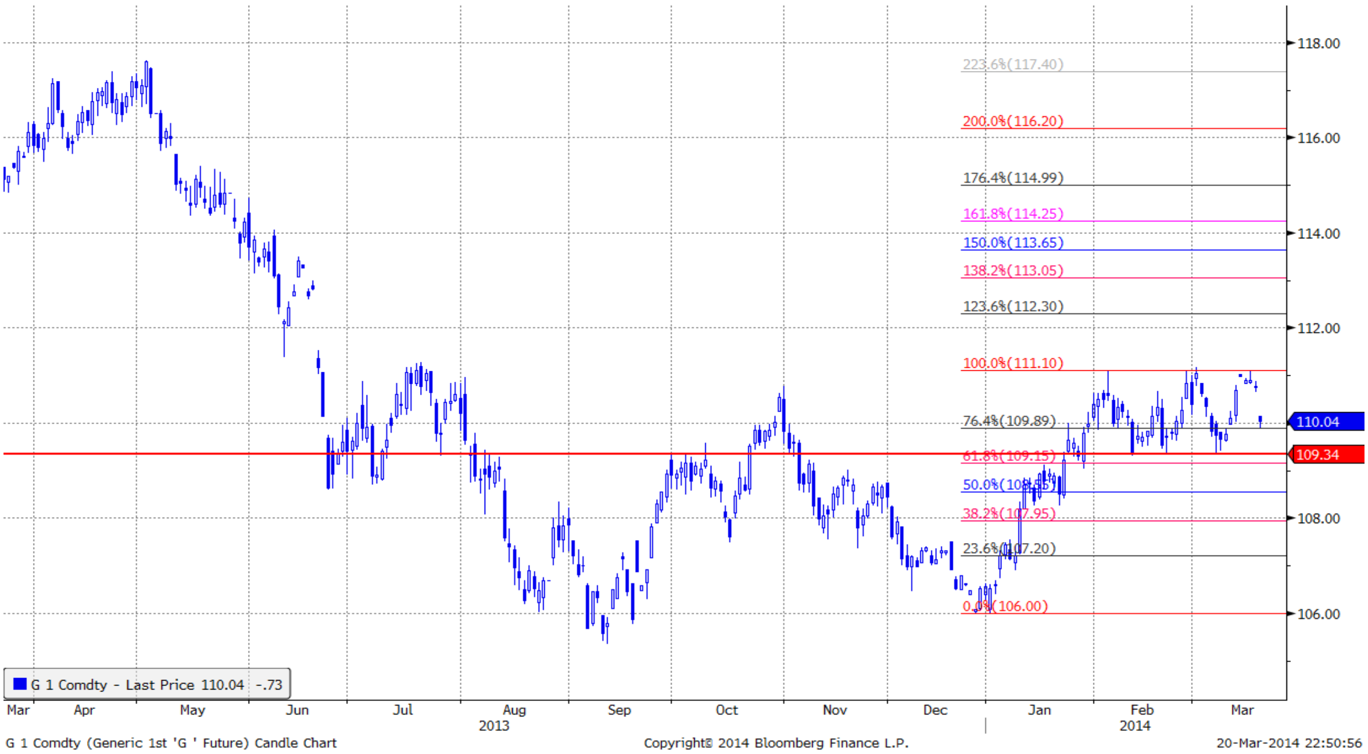
1. Channel lower (currently at 142.34, ascending at 6c/day)
2. 140.8.

Gilts – range-bound in short-term, bearish long-term

Gilts have established a trading range of 109.3-111.1 on a daily chart (Figure 48). As discussed previously (*European Rates Weekly*), 109.3 is a key support and these two levels are likely to contain gilts in the short-term. A break out from the range would give a measuring target of 1.8 points in the same direction. Until that happens, we would trade this range with tight stop just outside the range.

However, for a longer-term analysis, we look at the weekly chart wherein gilts are struggling to breach 110.9 and are now firmly at the top of the 106.1-110.9 range (Figure 49). Therefore, the long-term outlook remains bearish with the ultimate target of a sell-off at 106.1 level.

Figure 48. 10yr continuous daily gilt futures with Fibonacci levels



Source: Bloomberg

Figure 49. Weekly range (roll-adjusted)

Source: Bloomberg

Supports

1. 109.3
2. 107.9 (strong support and 61.8% Fibonacci retracement of the latest rally)
3. 106.1 (bottom of the long-term trading range and also the lowest level in a year, on a roll-adjusted basis)

Resistances

1. 112.3 (23.6% Fibonacci extension)
2. 113 (38.2% Fibonacci extension).

Relative value trades

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We highlight a number of relative value opportunities in the 5yr sector of the French, Austrian, Finland and Spanish yield curves.

France: take advantage of cheapness of Apr20s

Buy Apr20s vs surrounding issues

- Buy 3.5% Apr20 vs 3.75% Oct19 and 3% Apr22 (3m carry: -0.6bp) - Figure 50.
- *Or,* Buy 3.5% Apr20 vs 4.25% Apr19 and 3% Apr22 (3m carry: -0.6bp) - Figure 51.

Austria: take advantage of cheapness of Jun19s

Buy Jun19s vs surrounding issues

- Buy 1.95% Jun19 vs 4.65% Jan18 and 3.9% Jul20 (3m carry: 3bp) - Figure 52.

Figure 50. France: 3.75% Oct19, 3.5% Apr20, 3% Apr22 microfly (bp)

Source: Citi Research

Figure 51. France: 4.25% Apr19, 3.5% Apr20, 3% Apr22 microfly (bp)

Source: Citi Research

Figure 52. Austria: 4.65% Jan18, 1.95% Jun19, 3.9% Jul20 (bp)

Source: Citi Research

Finland: take advantage of cheapness of Jul19s

Buy Jul19s vs surrounding issues

- Buy 4.375% Jul19 vs 1.125% Sep18 and 3.375% Apr20 (3m carry: 1.1bp) - Figure 53.

Spain: fade the richness of Jul19s

Sell Jul19s vs surrounding issues

- Sell 4.6% Jul19 vs 3.75% Oct18 and 4.85% Oct20 (3m carry: 0.1bp) - Figure 54.

Figure 53. Finland: 1.125% Sep18, 4.375% Jul19, 3.375% Apr20 microfly (bp)

Source: Citi Research

Figure 54. Spain: 3.75% Oct18, 4.6% Jul19, 4.85% Oct20 microfly (bp)

Source: Citi Research

Relative value tables

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

For example, Figure 55 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 55. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44	-2.66	Apr12	16
	2	0.75 Feb17	-2.25	Jan12	16
	3	0.50 Feb18	-2.07	Jan13	17
	4	0.50 Apr17	-1.90	Apr12	18
	5	0.50 Oct17	-1.83	Sep12	16
	5	4.25 Jul39	2.13	Jan07	14
	4	6.25 Jan30	2.33	Jan00	9
	3	5.50 Jan31	2.42	Oct00	17
	2	4.00 Jan37	2.48	Jan05	23
Cheapest	1	4.75 Jul34	2.86	Jan03	20

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44	-0.93	Apr12	16
	2	2.50 Aug46	-0.92	Feb14	3
	3	4.75 Jul40	-0.84	Jul08	16
	4	4.25 Jul39	-0.82	Jan07	14
	5	3.25 Jul42	-0.66	Jul10	15
	5	3.25 Jul21	0.48	Apr11	19
	4	2.25 Sep21	0.51	Aug11	16
	3	1.25 Oct16	0.54	Sep11	16
	2	4.00 Jul16	0.63	May06	23
Cheapest	1	2.75 Apr16	1.01	Apr11	18

Source: Citi Research

Figure 56 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 57 and Figure 58) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 56 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

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

EMU relative value table – all maturities

Figure 56. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); All bonds on each curve

GERMANY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44	-2.66	Apr12	16
	2	0.75 Feb17	-2.25	Jan12	16
	3	0.50 Feb18	-2.07	Jan13	17
	4	0.50 Apr17	-1.90	Apr12	18
	5	0.50 Oct17	-1.83	Sep12	16
	5	4.25 Jul39	2.13	Jan07	14
	4	6.25 Jan30	2.33	Jan00	9
	3	5.50 Jan31	2.42	Oct00	17
	2	4.00 Jan37	2.48	Jan05	23
Cheapest	1	4.75 Jul34	2.86	Jan03	20

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44	-0.93	Apr12	16
	2	2.50 Aug46	-0.92	Feb14	3
	3	4.75 Jul40	-0.84	Jul08	16
	4	4.25 Jul39	-0.82	Jan07	14
	5	3.25 Jul42	-0.66	Jul10	15
	5	3.25 Jul21	0.48	Apr11	19
	4	2.25 Sep21	0.51	Aug11	16
	3	1.25 Oct16	0.54	Sep11	16
	2	4.00 Jul16	0.63	May06	23
Cheapest	1	2.75 Apr16	1.01	Apr11	18

FRANCE

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.75 Apr17	-1.65	Apr06	35
	2	4.25 Oct23 (OAT)	-1.59	Oct06	33
	3	4.25 Oct17	-1.59	Oct06	30
	4	1.75 Feb17	-1.51	Feb11	20
	5	4.00 Apr55	-1.45	Apr04	15
	5	3.25 Apr16	1.47	Apr05	35
	4	4.75 Apr35	2.07	Apr03	21
	3	3.25 Oct21	2.10	Oct10	36
	2	2.50 Jul16	2.44	Jul10	29
Cheapest	1	5.75 Oct32	2.53	Oct00	26

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	1.75 Feb17	-1.85	Feb11	20
	2	4.25 Oct23 (OAT)	-1.78	Oct06	33
	3	3.75 Apr17	-1.75	Apr06	35
	4	4.25 Oct17	-1.57	Oct06	30
	5	1.00 Jul17	-1.56	Jul11	18
	5	3.75 Oct19	0.17	Oct08	32
	4	3.50 Apr20	0.32	Feb10	36
	3	3.75 Apr21	0.38	Apr05	34
	2	3.25 Oct21	0.39	Oct10	36
Cheapest	1	2.50 Oct20	0.51	Oct09	35

ITALY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.75 Jun17	-2.29	Jun12	15
	2	5.75 Feb33	-2.27	Feb02	15
	3	4.75 May17	-2.05	Feb12	14
	4	5.00 Aug34	-1.66	Aug03	21
	5	4.50 Feb20	-1.40	Feb04	23
	5	3.50 Jun18	1.63	Apr13	20
	4	4.00 Sep20	1.70	Mar10	25
	3	4.50 Mar26	1.85	Sep10	21
	2	4.50 Aug18	1.95	Feb08	25
Cheapest	1	4.75 Sep28	2.72	Jan13	18

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	5.00 Aug34	-2.04	Aug03	21
	2	5.75 Feb33	-1.98	Feb02	15
	3	5.00 Aug39	-1.97	Aug07	19
	4	4.75 Aug23	-1.95	Feb08	25
	5	4.00 Feb37	-1.94	Aug05	26
	5	2.75 Nov16	-1.65	Sep13	12
	4	4.50 Aug18	-1.64	Feb08	25
	3	1.50 Dec16	-1.52	Jan14	12
	2	2.50 May19	-1.39	Feb14	8
Cheapest	1	3.75 Sep24	-0.56	Mar14	4

N'LANDS

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-2.25	Jun11	16
	2	3.75 Jan42	-1.37	May10	14
	3	1.25 Jan18	-1.34	Jul12	15
	4	4.50 Jul17	-1.15	Jul07	15
	5	4.00 Jul16	-0.92	Jul06	14
	5	0.00 Apr16	0.91	Jan13	15
	4	0.50 Apr17	1.05	Jan14	4
	3	2.50 Jan33	1.10	Mar12	10
	2	1.25 Jan19	1.37	Jun13	10
Cheapest	1	2.25 Jul22	1.52	Feb12	15

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.75 Jan42	-1.81	May10	14
	2	4.00 Jan37	-1.59	Apr05	14
	3	2.50 Jan17	-1.36	Jun11	16
	4	1.25 Jan18	-1.19	Jul12	15
	5	4.50 Jul17	-1.10	Jul07	15
	5	3.75 Jan23	-0.39	Jan06	11
	4	3.50 Jul20	-0.19	Feb10	15
	3	0.50 Apr17	-0.08	Jan14	4
	2	2.25 Jul22	-0.08	Feb12	15
Cheapest	1	3.25 Jul21	-0.03	Mar11	16

SPAIN

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	4.90 Jul40	-2.55	Jun07	13
	2	4.20 Jan37	-1.74	Jan05	16
	3	4.00 Apr20	-1.50	Jan10	20
	4	3.30 Jul16	-1.38	Apr13	17
	5	3.25 Apr16	-1.34	Nov10	21
	5	4.50 Jan18	1.34	Nov12	19
	4	4.85 Oct20	1.40	Jul10	18
	3	4.80 Jan24	1.43	Sep08	15
	2	4.40 Oct23	1.79	May13	18
Cheapest	1	5.40 Jan23	2.17	Jan13	17

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.25 Apr16	-1.97	Nov10	21
	2	3.30 Jul16	-1.96	Apr13	17
	3	2.75 Apr19	-1.92	Jan14	9
	4	4.10 Jul18	-1.87	Feb08	19
	5	4.25 Oct16	-1.85	Sep11	21
	5	5.75 Jul32	-1.72	Jan01	15
	4	5.15 Oct44	-1.67	Oct13	5
	3	5.15 Oct28	-1.64	Jul13	8
	2	2.10 Apr17	-1.47	Nov13	13
Cheapest	1	3.80 Apr24	-1.31	Jan14	13

BELGIUM

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.00 Sep19	-2.49	Apr12	9
	2	5.50 Sep17	-1.72	Jun02	8
	3	2.60 Jun24	-1.72	Jan14	6
	4	4.25 Sep22	-1.62	Jan12	15
	5	4.00 Mar17	-1.52	Jan07	11
	5	3.00 Jun34	1.00	Mar14	5
	4	5.00 Mar35	1.61	May04	18
	3	3.75 Sep20	1.81	Jan10	18
	2	2.75 Mar16	1.94	Mar10	10
Cheapest	1	4.25 Sep21	3.24	Jan11	15

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	3.00 Sep19	-2.50	Apr12	9
	2	4.00 Mar18	-2.50	Jan08	12
	3	1.25 Jun18	-2.36	Feb13	12
	4	4.00 Mar19	-2.23	Jan09	11
	5	4.25 Sep22	-2.19	Jan12	15
	5	4.00 Mar32	-1.14	Mar12	8
	4	4.25 Mar41	-1.13	Apr10	14
	3	5.00 Mar35	-0.99	May04	18
	2	3.00 Jun34	0.00	Mar14	5
Cheapest	1	3.50 Feb64	0.00	Feb14	0

Source: Citi Research

EMU relative value table – max 12yr maturity

Figure 57. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

Versus Govt Curve (CAS) | Versus Swap Curve (CAS)

GERMANY

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	0.75 Feb17	-2.25	Jan12	16	Richest	1	2.00 Aug23	-0.04	Sep13	18
	2	0.50 Feb18	-2.07	Jan13	17		2	4.00 Jan18	0.01	Nov07	20
	3	0.50 Apr17	-1.90	Apr12	18		3	1.75 Feb24	0.02	Jan14	14
	4	0.50 Oct17	-1.83	Sep12	16		4	1.50 May23	0.05	May13	18
	5	1.50 May23	-1.65	May13	18		5	0.50 Feb18	0.08	Jan13	17
	5	3.25 Jul21	0.71	Apr11	19		5	3.25 Jul21	0.48	Apr11	19
	4	2.25 Sep21	0.86	Aug11	16		4	2.25 Sep21	0.51	Aug11	16
	3	1.50 Sep22	0.99	Sep12	18		3	1.25 Oct16	0.54	Sep11	16
	2	2.75 Apr16	1.69	Apr11	18		2	4.00 Jul16	0.63	May06	23
Cheapest	1	1.00 Feb19	1.86	Jan14	13	Cheapest	1	2.75 Apr16	1.01	Apr11	18

FRANCE

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Apr17	-1.65	Apr06	35	Richest	1	1.75 Feb17	-1.85	Feb11	20
	2	4.25 Oct23 (OAT)	-1.59	Oct06	33		2	4.25 Oct23 (OAT)	-1.78	Oct06	33
	3	4.25 Oct17	-1.59	Oct06	30		3	3.75 Apr17	-1.75	Apr06	35
	4	1.75 Feb17	-1.51	Feb11	20		4	4.25 Oct17	-1.57	Oct06	30
	5	1.00 Jul17	-1.15	Jul11	18		5	1.00 Jul17	-1.56	Jul11	18
	5	2.50 Oct20	1.28	Oct09	35		5	3.75 Oct19	0.17	Oct08	32
	4	3.75 Apr21	1.37	Apr05	34		4	3.50 Apr20	0.32	Feb10	36
	3	3.25 Apr16	1.47	Apr05	35		3	3.75 Apr21	0.38	Apr05	34
	2	3.25 Oct21	2.10	Oct10	36		2	3.25 Oct21	0.39	Oct10	36
Cheapest	1	2.50 Jul16	2.44	Jul10	29	Cheapest	1	2.50 Oct20	0.51	Oct09	35

ITALY

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 Jun17	-2.36	Jun12	15	Richest	1	4.75 Aug23	-1.95	Feb08	25
	2	4.75 May17	-2.12	Feb12	14		2	3.75 May21	-1.94	Oct13	13
	3	4.50 Feb20	-1.44	Feb04	23		3	4.50 May23 (IK)	-1.91	Mar13	18
	4	4.50 Mar19	-1.11	Sep08	24		4	5.00 Mar25	-1.90	Mar09	22
	5	4.00 Feb17	-0.84	Aug06	26		5	3.75 Mar21	-1.89	Sep10	24
	5	1.50 Dec16	1.51	Jan14	12		5	2.75 Nov16	-1.65	Sep13	12
	4	3.50 Jun18	1.59	Apr13	20		4	4.50 Aug18	-1.64	Feb08	25
	3	4.00 Sep20	1.67	Mar10	25		3	1.50 Dec16	-1.52	Jan14	12
	2	4.50 Mar26	1.82	Sep10	21		2	2.50 May19	-1.39	Feb14	8
Cheapest	1	4.50 Aug18	1.91	Feb08	25	Cheapest	1	3.75 Sep24	-0.56	Mar14	4

N'LANDS

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-2.21	Jun11	16	Richest	1	2.50 Jan17	-1.36	Jun11	16
	2	1.25 Jan18	-1.19	Jul12	15		2	1.25 Jan18	-1.19	Jul12	15
	3	4.50 Jul17	-1.05	Jul07	15		3	4.50 Jul17	-1.10	Jul07	15
	4	4.00 Jul16	-0.89	Jul06	14		4	4.00 Jul16	-0.85	Jul06	14
	5	1.75 Jul23	-0.52	Mar13	16		5	4.00 Jul18	-0.82	Feb08	15
	5	0.00 Apr16	0.93	Jan13	15		5	3.75 Jan23	-0.39	Jan06	11
	4	3.25 Jul21	1.00	Mar11	16		4	3.50 Jul20	-0.19	Feb10	15
	3	0.50 Apr17	1.15	Jan14	4		3	0.50 Apr17	-0.08	Jan14	4
	2	1.25 Jan19	1.68	Jun13	10		2	2.25 Jul22	-0.08	Feb12	15
Cheapest	1	2.25 Jul22	1.90	Feb12	15	Cheapest	1	3.25 Jul21	-0.03	Mar11	16

SPAIN

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Apr20	-1.50	Jan10	20	Richest	1	3.25 Apr16	-1.97	Nov10	21
	2	3.30 Jul16	-1.38	Apr13	17		2	3.30 Jul16	-1.96	Apr13	17
	3	3.25 Apr16	-1.34	Nov10	21		3	2.75 Apr19	-1.92	Jan14	9
	4	4.25 Oct16	-1.04	Sep11	21		4	4.10 Jul18	-1.87	Feb08	19
	5	3.80 Apr24	-1.04	Jan14	13		5	4.25 Oct16	-1.85	Sep11	21
	5	4.50 Jan18	1.34	Nov12	19		5	3.75 Oct18	-1.76	Jul13	19
	4	4.85 Oct20	1.40	Jul10	18		4	4.30 Oct19	-1.76	Jun09	21
	3	4.80 Jan24	1.43	Sep08	15		3	3.80 Jan17	-1.75	Oct06	21
	2	4.40 Oct23	1.79	May13	18		2	2.10 Apr17	-1.47	Nov13	13
Cheapest	1	5.40 Jan23	2.17	Jan13	17	Cheapest	1	3.80 Apr24	-1.31	Jan14	13

BELGIUM

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.00 Sep19	-2.49	Apr12	9	Richest	1	3.00 Sep19	-2.50	Apr12	9
	2	5.50 Sep17	-1.72	Jun02	8		2	4.00 Mar18	-2.50	Jan08	12
	3	2.60 Jun24	-1.72	Jan14	6		3	1.25 Jun18	-2.36	Feb13	12
	4	4.25 Sep22	-1.62	Jan12	15		4	4.00 Mar19	-2.23	Jan09	11
	5	4.00 Mar17	-1.52	Jan07	11		5	4.25 Sep22	-2.19	Jan12	15
	5	1.25 Jun18	0.63	Feb13	12		5	3.25 Sep16	-2.00	Jan06	13
	4	4.00 Mar22	0.78	May06	14		4	3.50 Jun17	-1.85	Mar11	13
	3	3.75 Sep20	1.81	Jan10	18		3	2.60 Jun24	-1.85	Jan14	6
	2	2.75 Mar16	1.94	Mar10	10		2	3.75 Sep20	-1.80	Jan10	18
Cheapest	1	4.25 Sep21	3.24	Jan11	15	Cheapest	1	2.75 Mar16	-1.32	Mar10	10

Source: Citi Research

EMU relative value table – min 8yr maturity

Figure 58. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

GERMANY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44	-2.66	Apr12	16
	2	1.50 May23	-1.65	May13	18
	3	1.50 Feb23	-1.56	Jan13	18
	4	2.00 Aug23	-1.09	Sep13	18
	5	1.75 Jul22	-0.52	Apr12	24
	5	4.25 Jul39	2.13	Jan07	14
	4	6.25 Jan30	2.33	Jan00	9
	3	5.50 Jan31	2.42	Oct00	17
	2	4.00 Jan37	2.48	Jan05	23
Cheapest	1	4.75 Jul34	2.86	Jan03	20

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul44	-0.93	Apr12	16
	2	2.50 Aug46	-0.92	Feb14	3
	3	4.75 Jul40	-0.84	Jul08	16
	4	4.25 Jul39	-0.82	Jan07	14
	5	3.25 Jul42	-0.66	Jul10	15
	5	6.25 Jan30	0.16	Jan00	9
	4	1.50 Feb23	0.17	Jan13	18
	3	5.50 Jan31	0.18	Oct00	17
	2	1.75 Jul22	0.26	Apr12	24
Cheapest	1	1.50 Sep22	0.39	Sep12	18

FRANCE

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Oct23 (OAT)	-1.61	Oct06	33
	2	4.00 Apr55	-1.51	Apr04	15
	3	2.25 May24	-1.06	Nov13	18
	4	2.25 Oct22	-0.33	Oct11	25
	5	1.75 May23	-0.23	May12	26
	5	4.00 Oct38	0.71	Oct05	24
	4	2.75 Oct27	0.78	Oct11	25
	3	3.50 Apr26	0.79	Apr10	30
	2	4.75 Apr35	2.04	Apr03	21
Cheapest	1	5.75 Oct32	2.51	Oct00	26

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Oct23 (OAT)	-1.78	Oct06	33
	2	4.00 Apr55	-1.27	Apr04	15
	3	3.25 May45	-1.14	May12	9
	4	4.00 Apr60	-1.11	Apr09	11
	5	4.50 Apr41	-0.98	Apr09	24
	5	4.75 Apr35	-0.63	Apr03	21
	4	2.25 Oct22	-0.57	Oct11	25
	3	3.50 Apr26	-0.51	Apr10	30
	2	5.75 Oct32	-0.33	Oct00	26
Cheapest	1	3.00 Apr22	-0.10	Feb12	33

ITALY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	5.75 Feb33	-2.28	Feb02	15
	2	5.00 Aug34	-1.67	Aug03	21
	3	4.00 Feb37	-1.36	Aug05	26
	4	5.00 Aug39	-0.76	Aug07	19
	5	4.50 Mar24	-0.66	Aug13	23
	5	5.00 Mar25	0.72	Mar09	22
	4	4.50 May23 (IK)	0.84	Mar13	18
	3	4.75 Aug23	1.25	Feb08	25
	2	4.50 Mar26	1.82	Sep10	21
Cheapest	1	4.75 Sep28	2.68	Jan13	18

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	5.00 Aug34	-2.04	Aug03	21
	2	5.75 Feb33	-1.98	Feb02	15
	3	5.00 Aug39	-1.97	Aug07	19
	4	4.75 Aug23	-1.95	Feb08	25
	5	4.00 Feb37	-1.94	Aug05	26
	5	4.75 Sep44	-1.81	Mar13	11
	4	5.50 Sep22	-1.78	Mar12	20
	3	5.50 Nov22	-1.74	May12	21
	2	4.75 Sep28	-1.66	Jan13	18
Cheapest	1	3.75 Sep24	-0.56	Mar14	4

N'LANDS

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Jan42	-1.00	May10	14
	2	1.75 Jul23	-0.52	Mar13	16
	3	3.75 Jan23	-0.48	Jan06	11
	3	4.00 Jan37	1.12	Apr05	14
	2	2.50 Jan33	1.45	Mar12	10
Cheapest	1	2.25 Jul22	1.90	Feb12	15

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Jan42	-1.81	May10	14
	2	4.00 Jan37	-1.59	Apr05	14
	3	2.75 Jan47	-1.01	Feb14	4
	3	1.75 Jul23	-0.50	Mar13	16
	2	3.75 Jan23	-0.39	Jan06	11
Cheapest	1	2.25 Jul22	-0.08	Feb12	15

SPAIN

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.90 Jul40	-2.54	Jun07	13
	2	4.20 Jan37	-1.74	Jan05	16
	3	3.80 Apr24	-1.02	Jan14	13
	4	4.70 Jul41	-0.88	Sep09	12
	5	5.75 Jul32	-0.53	Jan01	15
	5	5.90 Jul26	-0.09	Mar11	12
	4	5.15 Oct28	1.07	Jul13	8
	3	4.80 Jan24	1.44	Sep08	15
	2	4.40 Oct23	1.79	May13	18
Cheapest	1	5.40 Jan23	2.18	Jan13	17

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.65 Jul25	-1.85	Feb10	14
	2	4.80 Jan24	-1.84	Sep08	15
	3	4.20 Jan37	-1.84	Jan05	16
	4	4.90 Jul40	-1.82	Jun07	13
	5	4.40 Oct23	-1.81	May13	18
	5	5.90 Jul26	-1.74	Mar11	12
	4	5.75 Jul32	-1.72	Jan01	15
	3	5.15 Oct44	-1.67	Oct13	5
	2	5.15 Oct28	-1.64	Jul13	8
Cheapest	1	3.80 Apr24	-1.31	Jan14	13

BELGIUM

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Sep22	-1.31	Jan12	15
	2	2.60 Jun24	-1.25	Jan14	6
	3	2.25 Jun23	-0.29	Jan13	14
	4	4.00 Mar32	-0.18	Mar12	8
	5	3.50 Feb64	0.00	Feb14	0
	5	4.50 Mar26	1.05	Jun11	8
	4	4.00 Mar22	1.16	May06	14
	3	4.25 Mar41	1.59	Apr10	14
	2	5.00 Mar35	1.78	May04	18
Cheapest	1	3.75 Jun45	4.91	Sep13	4

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Sep22	-2.19	Jan12	15
	2	2.25 Jun23	-2.11	Jan13	14
	3	4.00 Mar22	-2.04	May06	14
	4	2.60 Jun24	-1.85	Jan14	6
	5	4.50 Mar26	-1.47	Jun11	8
	5	4.00 Mar32	-1.14	Mar12	8
	4	4.25 Mar41	-1.13	Apr10	14
	3	5.00 Mar35	-0.99	May04	18
	2	3.00 Jun34	0.00	Mar14	5
Cheapest	1	3.50 Feb64	0.00	Feb14	0

Source: Citi Research

UK relative value table

Figure 59. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

Versus Govt Curve (CAS)

Segment		Rank	Bond	ZScore	Issued	Size (€bn)
ALL	Richest	1	2.25 Sep23	-2.75	Jun13	27
		2	5.00 Sep14	-2.18	Jul02	41
		3	4.25 Dec27	-2.07	Sep06	29
		4	4.50 Mar19	-1.93	Sep08	35
		5	3.25 Jan44	-1.67	Oct12	24
		5	4.75 Mar20	1.17	Mar05	33
		4	3.75 Jul52	1.24	Sep11	22
		3	4.50 Dec42	1.39	Jun07	26
		2	3.75 Sep20	1.45	Jun10	24
	Cheapest	1	4.25 Dec40	1.62	Jun10	24
2yr - 7yr	Richest	1	4.50 Mar19	-1.91	Sep08	35
		2	1.75 Jul19 (5y)	-1.45	Nov13	18
		3	3.75 Sep19	-0.94	Jul09	28
		4	1.00 Sep17	-0.90	Mar12	31
		5	5.00 Mar18 (WX)	-0.73	May07	34
		5	1.25 Jul18	0.06	Feb13	34
		4	4.00 Sep16	0.79	Mar06	35
		3	1.75 Jan17	0.95	Aug11	29
		2	4.75 Mar20	1.19	Mar05	33
	Cheapest	1	3.75 Sep20	1.48	Jun10	24
7yr - 15yr	Richest	1	2.25 Sep23 (10y)	-1.80	Jun13	27
		2	4.25 Dec27	-1.71	Sep06	29
		3	5.00 Mar25 (G)	-1.08	Sep01	34
		4				
		5				
		5				
		4				
		3	3.75 Sep21	1.32	Mar11	28
		2	4.00 Mar22	1.33	Feb09	37
	Cheapest	1	1.75 Sep22	1.51	Jun12	28
>15yr	Richest	1	4.00 Jan60	0.00	Jan12	0
		2	4.75 Dec30	0.81	Oct07	29
		3	3.25 Jan44 (30y)	1.01	Oct12	24
		4	4.50 Sep34	1.16	Jun09	26
		5	4.00 Jan60	1.21	Oct09	19
		5	4.50 Dec42	2.40	Jun07	26
		4	4.25 Sep39	2.64	Mar09	19
		3	4.25 Dec40	3.24	Jun10	24
		2	3.75 Jul52	4.18	Sep11	22
	Cheapest	1	3.50 Jul68	7.08	Jun13	10

Versus Swap Curve (CAS)

Segment		Rank	Bond	ZScore	Issued	Size (€bn)
ALL	Richest	1	2.75 Sep24	-1.94	Mar14	3
		2	3.25 Jan44	-1.91	Oct12	24
		3	4.25 Dec27	-1.89	Sep06	29
		4	1.75 Jul19	-1.88	Nov13	18
		5	4.75 Dec30	-1.86	Oct07	29
		5	4.00 Sep16	-0.19	Mar06	35
		4	4.00 Jan60	0.00	Jan12	0
		3	2.75 Jan15	0.01	Nov09	29
		2	4.75 Sep15	0.30	Sep03	38
	Cheapest	1	5.00 Sep14	0.44	Jul02	41
2yr - 7yr	Richest	1	1.75 Jul19 (5y)	-1.88	Nov13	18
		2	4.50 Mar19	-1.86	Sep08	35
		3	5.00 Mar18 (WX)	-1.76	May07	34
		4	1.25 Jul18	-1.63	Feb13	34
		5	1.00 Sep17	-1.60	Mar12	31
		5	3.75 Sep19	-1.49	Jul09	28
		4	3.75 Sep20	-1.17	Jun10	24
		3	4.75 Mar20	-1.13	Mar05	33
		2	1.75 Jan17	-0.94	Aug11	29
	Cheapest	1	4.00 Sep16	-0.19	Mar06	35
7yr - 15yr	Richest	1	2.75 Sep24	-1.94	Mar14	3
		2	4.25 Dec27	-1.89	Sep06	29
		3	2.25 Sep23 (10y)	-1.75	Jun13	27
		4				
		5				
		5				
		4				
		3	1.75 Sep22	-1.39	Jun12	28
		2	3.75 Sep21	-1.28	Mar11	28
	Cheapest	1	4.00 Mar22	-1.19	Feb09	37
>15yr	Richest	1	3.25 Jan44 (30y)	-1.91	Oct12	24
		2	4.75 Dec30	-1.86	Oct07	29
		3	4.25 Dec46	-1.72	May06	21
		4	4.25 Jun32	-1.67	May00	35
		5	4.25 Dec49	-1.66	Sep08	19
		5	4.25 Dec40	-1.28	Jun10	24
		4	4.25 Sep39	-1.27	Mar09	19
		3	4.25 Mar36	-1.23	Feb03	26
		2	4.75 Dec38	-1.13	Apr04	25
	Cheapest	1	4.00 Jan60	0.00	Jan12	0

Source: Citi Research

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

Mohit Aggarwal
Nishay Patel

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

Figure 60. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
24 Mar (Mon)	US	0.5 - 0.75	Outright Treasury Coupon Purchases: 15/11/2024 - 15/2/2031		-10k		
24 Mar (Mon)	UK	1.4	Gilt APF Buyback: 7-15yrs			-12k	
25 Mar (Tue)	Netherlands	5.0	New DSL Jul24 via DDA (issue confirmed, min €5bn)				39k
25 Mar (Tue)	US	32.0	2-Year		105k		
25 Mar (Tue)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2044		-26k		
26 Mar (Wed)	Italy	3.5	CTZ (estimated size)				6k
26 Mar (Wed)	US	35.0	5-year		192k		
26 Mar (Wed)	US	13.0	2-Year FRN (re-opening)		42k		
26 Mar (Wed)	US	2.25 - 2.75	Outright Treasury Coupon Purchases: 15/5/2021 - 15/2/2024		-24k		
27 Mar (Thu)	UK	0.9	0.25% Index-linked Treasury Gilt 2052 (issue confirmed, estimated size)			35k	
27 Mar (Thu)	US	29.0	7-year		227k		
27 Mar (Thu)	US	3.75 - 4.5	Outright Treasury Coupon Purchases: 31/12/2018 - 30/11/2019		-23k		
28 Mar (Fri)	Italy	5.8	BTP 5yr and 10yr (estimated tenor and size)				33k
28 Mar (Fri)	Italy	1.8	CCTeu (estimated size)				7k
28 Mar (Fri)	US	1 - 1.25	Outright Treasury Coupon Purchases : 15/2/2036 - 15/2/2044		-26k		
			Weekly $DV01 of Issuance	47.1			
			Total Number of Futures Contracts		457k	23k	85k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
02 Apr (Wed)	Germany	3.0	Bobl Feb19 re-opening (issue and size confirmed)				12k
02 Apr (Wed)	UK	2.5	Conventional Long (estimated size)			25k	
03 Apr (Thu)	France	8.0	OAT 10yr and 15yr (estimated tenors and size)				75k
03 Apr (Thu)	Spain	5.0	Bono 2yr and 5yr (estimated tenors and size)				11k
			Weekly $DV01 of Issuance	19.9			
			Total Number of Futures Contracts		0k	25k	98k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
08 Apr (Tue)	Austria	3.5	We believe that the auction will be replaced by a new 10yr syndication				27k
08 Apr (Tue)	Germany	1.0	Boblei/Bundei (estimated size)				8k
08 Apr (Tue)	Netherlands	2.5	DSL 5yr (estimated tenor and size)				10k
08 Apr (Tue)	UK	1.5	Index-linked (estimated size)			23k	
08 Apr (Tue)	US	28.0	3-year		91k		
09 Apr (Wed)	Germany	4.0	Schatz Mar16 re-opening (issue and size confirmed)				7k
09 Apr (Wed)	US	21.0	10-Year (re-opening)		233k		
10 Apr (Thu)	US	13.0	30-year (re-opening)		297k		
11 Apr (Fri)	Italy	7.0	BTP 3yr, 7yr and 30yr (estimated tenor and size)				45k
			Weekly $DV01 of Issuance	66.9			
			Total Number of Futures Contracts		622k	23k	96k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYM4 (UST)	G M4 (Gilt)	RXM4 (Bund)
16 Apr (Wed)	Germany	4.0	Bund Feb24 re-opening (issue and size confirmed)				31k
17 Apr (Thu)	France	9.7	OAT 2yr and 5yr, index-linked OAT (estimated tenors and size)				36k
17 Apr (Thu)	US	13.0	5-year TIPS		155k		
			Weekly $DV01 of Issuance	22.8			
			Total Number of Futures Contracts		155k	0k	67k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on March 31, 2014. Therefore we have only included Fed buybacks up to March 31 in this calendar.
Additional isssue expected in Apr: Italy 15yr syndication (€5bn). It is not included in the table above as the timing of this supply events has not been announced.

Source: DMOs, Citi Research

EMU: Coupons & Redemptions (Next 3mths)

Figure 61. EMU-10 Bond Redemptions over the next three months (€bn)

	Redemptions = €130bn										
Redemptions	DEU 34	FRA 21	NLD 0	ITA 47	ESP 15	BEL 9	AUT 0	FIN 0	PRT 4	GRC 0	IRL 0
(Fri) 28-Mar-14						8.7					
(Tue) 01-Apr-14				14.8							
(Fri) 11-Apr-14	19.0										
(Fri) 25-Apr-14		20.7									
(Wed) 30-Apr-14					15.4						
(Fri) 30-May-14				12.8							
(Sun) 01-Jun-14				19.4							
(Fri) 13-Jun-14	15.0										
(Mon) 16-Jun-14									4.4		

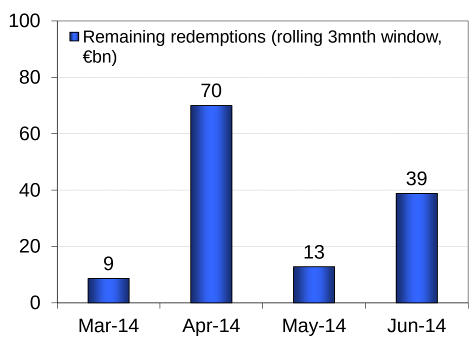
Source: DMOs, Bloomberg, Citi Research *This table is on a calendar-date basis*

Figure 62. EMU-10 Coupon Payments over the next three months (€bn)

	Coupons = €47bn										
Coupons	DEU 3	FRA 18	NLD 0	ITA 10	ESP 5	BEL 6	AUT 1	FIN 1	PRT 2	GRC 0	IRL 1
(Fri) 28-Mar-14						6.5					
(Mon) 31-Mar-14					0.3						
(Tue) 01-Apr-14				0.2							
(Mon) 07-Apr-14	0.1										
(Tue) 08-Apr-14	0.5										
(Thu) 10-Apr-14	0.4										
(Fri) 11-Apr-14	0.4										
(Sun) 13-Apr-14	0.0										
(Tue) 15-Apr-14	0.7		0.1	0.8				0.8	0.6		
(Fri) 18-Apr-14											1.0
(Sun) 20-Apr-14							0.3				
(Fri) 25-Apr-14		16.8									
(Wed) 30-Apr-14					5.0						
(Thu) 01-May-14				5.7							
(Thu) 15-May-14	0.3			0.8							
(Tue) 20-May-14											0.0
(Fri) 23-May-14							0.1				
(Sun) 25-May-14		1.5									
(Sun) 01-Jun-14				1.6							
(Sat) 14-Jun-14									0.5		
(Sun) 15-Jun-14				0.6					0.9		
(Mon) 16-Jun-14									0.2		
(Wed) 18-Jun-14							0.1				0.3
(Fri) 20-Jun-14	0.2						0.2				

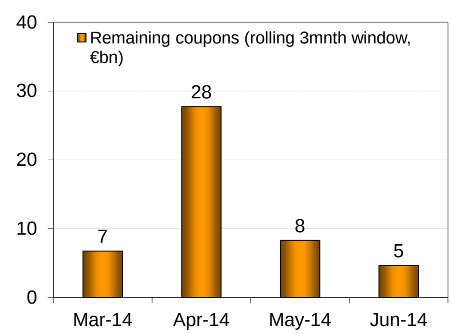
Source: DMOs, Bloomberg, Citi Research *This table is on a calendar-date basis*

Figure 63. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research *This chart is on a calendar-date basis*

Figure 64. EMU-10 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research *This chart is on a calendar-date basis*

ESP and ITA Bill Issuance Projections

This page contains our projections for Spanish and Italian bill supply in 2014. Please note that this is the only page in this document (other than page 1) which refers to bills.

Auction calendar for the next four weeks

Figure 65. Provisional Bill Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (EUR Million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 1	27 Mar (Thu)	Italy	6 month (30 September 2014; issue confirmed, estimated size)	8.5
			Total Size in Week 1	8.5
Week 3	10 Apr (Thu)	Italy	12 month (14 April 2015; issue confirmed, estimated size)	9
	10 Apr (Thu)	Spain	6month (17 October 2014) and 12month (new bill) - tenors confirmed, estimated issue and size	5.5
			Total Size in Week 3	14.5

Italy announces issue size 3 business days before the auction
Spain announces issue details 1 business day before the auction

Source: DMOs, Citi Research

This table is on a calendar-date basis

2014 projections for bill supply

Figure 66. 2014 Italy and Spain Bill Supply – Citi Forecast (Euro Billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	1.0	1.0	2.2	3.1		**7**	8	**-1**
Feb	0.9	0.9	2.2	3.6		**8**	11	**-4**
Mar	1.3	1.0	2.0	3.5		**8**	10	**-2**
Apr	0.9	1.5	3.0	4.0		**9**	12	**-3**
May	0.9	1.5	3.0	4.0		**9**	8	**1**
Jun	0.9	1.5	3.0	4.0		**9**	14	**-5**
Jul	0.8	1.5	3.0	4.0		**9**	8	**2**
Aug	0.8	1.5	3.0	4.0		**9**	8	**2**
Sep	0.8	1.5	3.0	4.0		**9**	7	**2**
Oct	0.8	1.5	3.0	3.8		**9**	9	
Nov	0.8	1.5	3.0	3.8		**9**	8	**1**
Dec	0.8	1.5	3.0	3.8		**9**	7	**2**
Total	**10.3**	**16.5**	**33.4**	**45.5**		**106**	**110**	**-5**

ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		8.1		9.3		**17**	20	**-2**
Feb		8.6		8.0		**17**	19	**-3**
Mar		9.0		7.6		**17**	16	
Apr	3.0	9.0		9.0		**21**	17	**4**
May		9.0		6.5	3.0	**19**	14	**5**
Jun		9.0		6.5		**16**	16	
Jul		9.0		6.5		**16**	18	**-3**
Aug		9.0		8.0		**17**	17	
Sep		8.5		8.0	3.0	**20**	19	**1**
Oct		8.5		8.0		**17**	19	**-2**
Nov		7.0		7.0		**14**	16	**-2**
Dec		7.0		6.0		**13**	15	**-2**
Total	**3.0**	**101.8**		**90.4**	**6.0**	**201**	**206**	**-5**

*3month bills will be issued only for specific cash needs. In this case, auctions shall be held on the 12 month BOT auction dates

Source: DMOs, Bloomberg, Citi Research

This table is on a calendar-date basis

Inflation Forecasts, Carry & Weekly Changes

Figure 67. Citi Inflation Forecasts

Month	EUR HICPxT Index Forecast	EUR HICPxT MoM Change	EUR HICPxT YoY Change	France CPIxT Index Forecast	France CPIxT MoM Change	France CPIxT YoY Change	UK RPI Index Forecast	UK RPI MoM Change	UK RPI YoY Change	US CPURNSA Index Forecast	US CPURNSA MoM Change	US CPURNSA YoY Change
Jan 14	115.93	-1.2	0.7	125.04	-0.6	0.5	252.60	-0.3	2.8	233.92	0.4	1.6
Feb 14	116.28	0.3	0.6	125.71	0.5	0.8	253.60	0.4	2.4	234.78	0.4	1.1
Mar 14	117.57	1.1	0.5	126.88	0.9	0.9	254.20	0.2	2.2	236.28	0.6	1.5
Apr 14	117.93	0.3	0.9	126.78	-0.1	1.0	255.30	0.4	2.3	236.78	0.2	1.8
May 14	117.94	0.0	0.8	127.04	0.2	1.2	256.00	0.3	2.4	237.28	0.2	1.9
Jun 14	117.98	0.0	0.8	127.17	0.1	1.1	256.20	0.1	2.6	237.48	0.1	1.7

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 68. US TIPS Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 May	1 Jun	1 Jul	*Ref*	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 May	1 Jun	1 Jul	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.09*	*0.09*	*0.09*									
TIPS 4/15	-1.42	37	32	34	96	117	*US-2.500-04/30/15*	159	-35	-31	34	94	114	15	12
TIPS 7/15	-1.79	28	25	24	68	79	*US-4.250-08/15/15*	204	-23	-20	22	65	75	17	1
TIPS 1/16	-1.32	27	25	20	53	63	*US-2.625-02/29/16*	175	-18	-16	18	50	57	17	-1
TIPS 4/16	-1.15	28	25	18	47	56	*US-2.000-04/30/16*	166	-17	-15	16	43	49	14	-1
TIPS 7/16	-1.38	29	26	15	41	47	*US-4.875-08/15/16*	201	-16	-14	13	36	39	8	-1
TIPS 1/17	-0.98	25	23	14	36	42	*US-3.125-01/31/17*	182	-9	-7	11	30	34	14	-6
TIPS 4/17	-0.79	26	24	14	34	39	*US-0.875-04/30/17*	176	-8	-7	10	27	31	13	-5
TIPS 7/17	-0.94	28	26	12	31	36	*US-4.750-08/15/17*	204	-12	-11	9	24	26	8	-1
TIPS 1/18	-0.59	28	27	12	28	34	*US-3.500-02/15/18*	191	-10	-9	8	21	23	13	-2
TIPS 4/18	-0.43	28	27	11	27	32	*US-0.625-04/30/18*	186	-8	-6	7	20	22	14	-4
TIPS 7/18	-0.57	29	27	10	25	30	*US-4.000-08/15/18*	206	-11	-10	6	18	19	12	0
TIPS 1/19	-0.28	29	28	10	24	29	*US-2.750-02/15/19*	198	-10	-9	6	17	18	15	0
TIPS 7/19	-0.23	24	23	9	22	26	*US-3.625-08/15/19*	207	-6	-5	5	15	16	17	-3
TIPS 1/20	-0.01	23	22	9	21	25	*US-3.625-02/15/20*	200	-4	-4	5	13	14	22	-4
TIPS 7/20	0.01	22	21	8	19	23	*US-2.625-08/15/20*	215	-4	-4	4	12	12	17	-3
TIPS 1/21	0.21	18	17	8	18	22	*US-3.625-02/15/21*	204	-1	-0	4	11	12	27	-6
TIPS 7/21	0.23	19	18	7	17	20	*US-2.125-08/15/21*	217	-3	-2	3	10	10	22	-3
TIPS 1/22	0.41	15	14	7	16	19	*US-2.000-02/15/22*	209	0	1	3	9	10	29	-5
TIPS 7/22	0.41	18	17	7	15	18	*US-1.625-08/15/22*	220	-4	-3	3	8	9	25	-1
TIPS 1/23	0.54	15	14	6	14	17	*US-2.000-02/15/23*	213	-2	-2	3	8	8	31	-2
TIPS 7/23	0.53	17	16	6	14	17	*US-2.500-08/15/23*	219	-4	-4	2	7	7	30	-0
TIPS 1/24	0.64	15	14	6	13	16	*US-2.750-02/15/24*	214	-3	-2	2	7	7	34	-1
TIPS 1/25	0.71	13	12	6	13	16	*US-7.625-02/15/25*	205	-1	-1	2	7	7	46	-3
TIPS 1/26	0.82	14	14	6	12	15	*US-6.000-02/15/26*	210	-4	-4	2	6	6	44	-0
TIPS 1/27	0.89	11	10	5	12	14	*US-6.625-02/15/27*	211	-1	-1	2	6	5	45	-3
TIPS 1/28	0.98	11	10	5	11	13	*US-6.125-11/15/27*	210	-1	-0	1	5	5	48	-4
TIPS 4/28	0.96	11	10	5	12	14	*US-5.500-08/15/28*	219	-1	-1	2	6	6	37	-3
TIPS 1/29	1.01	12	11	5	11	13	*US-5.250-02/15/29*	218	-3	-3	2	5	5	41	-2
TIPS 4/29	0.99	10	9	5	11	14	*US-5.250-02/15/29*	220	-1	-0	2	5	5	38	-4
TIPS 4/32	1.11	12	11	4	9	12	*US-5.375-02/15/31*	218	-3	-3	1	4	4	44	-2
TIPS 2/40	1.32	9	9	3	7	8	*US-4.625-02/15/40*	223	-3	-3	1	2	2	46	-1
TIPS 2/41	1.33	9	9	3	7	8	*US-4.750-02/15/41*	222	-4	-3	1	2	2	47	-1
TIPS 2/42	1.39	10	9	3	6	7	*US-3.125-02/15/42*	225	-4	-4	0	2	1	44	-0
TIPS 2/43	1.39	7	6	3	5	7	*US-3.125-02/15/43*	227	-1	-1	0	2	1	43	-3
TIPS 2/44	1.38	7	6	3	6	7	*US-3.625-02/15/44*	228	-1	-1	0	2	1	43	-3

Source: Citi Research, Bloomberg

Figure 69. EUR Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 May	1 Jun	1 Jul	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 May	1 Jun	1 Jul	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.20*	*0.19*	*0.19*									
OATei15	-1.25	-12	10	-9	76	100	*FFRG 4/15*	145	14	-8	-9	76	99	28	2
BUNDei16	-0.51	-2	12	-2	54	71	*BUND 1/16*	70	9	-5	-2	54	71	16	-1
BTANi16	-0.80	5	12	13	53	47	*FFRG 4/16*	109	0	-7	13	52	46	32	4
BTPei16	0.32	-3	7	2	52	69	*BTP 8/16*	75	5	-6	-2	44	57	49	1
OATi17	-0.61	9	14	10	38	34	*FFRG 4/17*	108	-2	-7	9	36	31	32	5
BTPei17	0.68	-3	4	3	39	51	*BTP 8/17*	87	4	-5	-2	30	38	40	1
BOBLei18	-0.47	3	10	-1	27	34	*BUND 1/18*	85	7	-0	-1	25	32	23	-3
OATei18	-0.33	2	8	0	25	32	*FFRG 4/18*	106	6	-0	-2	23	28	35	-2
BTPei18	1.00	-6	-0	3	31	41	*BTP 8/18*	90	7	1	-2	23	29	43	-3
OATi19	-0.19	6	9	7	25	23	*FFRG 4/19*	118	2	-1	5	22	18	33	1
BTPei19	1.25	-4	1	3	27	36	*BTP 9/19*	97	5	-1	-1	19	24	43	-1
BUNDei20	-0.20	6	11	0	19	24	*BUND 1/20*	102	5	0	-1	17	21	29	-1
OATei20	0.02	5	9	0	19	25	*FFRG 4/20*	124	4	-1	-2	16	19	29	0
OATi21	0.22	5	7	6	19	18	*FFRG 4/21*	128	2	-0	3	15	12	38	-1
BTPei21	1.85	-2	1	3	22	29	*BTP 9/21*	103	4	0	-1	14	17	52	-1
OATei22	0.33	2	5	1	15	19	*FFRG 4/21*	116	5	1	-1	11	14	50	-2
BUNDei23	0.12	5	8	0	13	16	*BUND 1/22*	112	5	2	-1	10	12	45	-2
OATi23	0.45	1	3	5	17	16	*FFRG 10/23*	157	3	1	3	12	10	25	-3
BTPei23	2.20	-2	0	3	19	25	*BTP 8/23*	110	3	-0	-1	11	13	60	-1
OATei24	0.62	-0	2	1	12	16	*FFRG 10/23*	140	4	1	-2	8	10	39	-2
BTPei24	2.32	-4	-2	3	17	23	*BTP 9/24*	112	6	3	-1	10	12	64	-3
BTPei26	2.50	-2	0	3	16	21	*BTP 3/26*	113	3	0	-1	9	10	74	-0
OATei27	0.82	-0	2	1	11	14	*FFRG 4/26*	162	3	1	-1	7	8	31	-0
OATi29	0.79	0	1	4	12	12	*FFRG 4/29*	189	2	0	1	7	5	20	0
OATei32	0.96	1	3	1	9	12	*FFRG 10/32*	187	0	-2	-1	5	6	17	2
BTPei35	2.60	-2	-0	2	10	13	*BTP 8/34*	154	2	0	-1	4	5	52	0
OATei40	1.06	1	2	1	6	8	*FFRG 4/41*	202	0	-1	-1	3	3	9	2
BTPei41	2.88	-0	1	2	9	11	*BTP 9/40*	147	1	-1	-1	4	4	64	1

Source: Citi Research

Figure 70. UK Gilts Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Apr	1 May	1 Jun	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Apr	1 May	1 Jun	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.42*	*0.42*	*0.42*									
UKTi Jul16	-1.99	4	3	1	3	5	*UKT 9/16*	285	4	4	0	1	1	42	-1
UKTi Nov17	-1.50	4	7	-5	2	4	*UKT 3/18*	297	5	1	-6	-1	-2	26	-15
UKTi Nov19	-0.92	6	7	-3	2	5	*UKT 9/19*	287	2	-0	-4	-1	-2	40	2
UKTi Apr20	-0.85	4	4	1	3	6	*UKT 3/20*	291	3	3	0	0	0	29	-0
UKTi Nov22	-0.44	4	5	-2	2	4	*UKT 3/22*	291	4	2	-3	-1	-2	43	1
UKTi Mar24	-0.18	4	5	-1	2	4	*UKT 3/25*	305	3	2	-2	-1	-2	24	-3
UKTi Jul24	-0.24	4	4	1	3	5	*UKT 3/25*	312	3	3	0	0	-1	29	1
UKTi Nov27	-0.06	4	5	-1	2	3	*UKT 12/27*	318	4	2	-2	-1	-2	33	0
UKTi Mar29	0.04	2	3	-1	2	3	*UKT 12/30*	325	5	4	-2	-1	-2	24	-3
UKTi Jul30	-0.03	3	2	1	2	4	*UKT 6/32*	338	5	5	0	0	-1	21	-7
UKTi Nov32	0.02	3	3	-1	1	3	*UKT 6/32*	333	5	4	-1	-1	-2	31	-1
UKTi Mar34	0.06	2	3	-1	1	2	*UKT 9/34*	336	5	4	-1	-1	-2	25	-3
UKTi Jan35	0.02	2	2	0	2	3	*UKT 3/36*	343	5	5	0	-1	-1	22	-3
UKTi Nov37	0.03	2	2	-1	1	2	*UKT 12/38*	343	5	5	-1	-1	-2	25	-2
UKTi Mar40	0.04	1	2	-1	1	2	*UKT 9/39*	345	6	6	-1	-1	-2	21	-3
UKTi Nov42	0.02	2	2	0	1	2	*UKT 12/42*	349	6	5	-1	-1	-2	21	-3
UKTi Mar44	0.05	2	2	0	1	2	*UKT 1/44*	350	6	5	-1	-1	-2	18	-4
UKTi Nov47	0.02	1	2	0	1	1	*UKT 12/46*	350	6	6	-1	-1	-2	19	-3
UKTi Mar50	0.02	1	2	0	1	1	*UKT 12/49*	348	6	6	-1	-1	-2	18	-5
UKTi Mar52	0.04	2	2	0	1	1	*UKT 7/52*	349	6	6	-1	-1	-2	16	-5
UKTi Nov55	0.00	2	2	0	1	1	*UKT 12/55*	349	6	6	-1	-1	-2	18	-4
UKTi Mar62	0.00	3	3	0	1	1	*UKT 1/60*	348	6	6	-1	-1	-2	18	-4
UKTi Mar68	0.01	3	3	0	0	1	*UKT 7/68*	350	6	5	-1	-1	-2	15	-3

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
19-Mar-14	NOTE	UK Rates Strategy: Surprisingly large fall in gilt issuance	-	UK
19-Mar-14	NOTE	Euro Rates Strategy: Outlook For EUR 10s30s	-	EUR
18-Mar-14	NOTE	Covered Bond Strategy: The Multi-Cédula Road Map	-	EUR
17-Mar-14	NOTE	Euro SSA Strategy: The Return Of The EU: First Batch Of Supply Since 2012	-	EUR
17-Mar-14	NOTE	European Flow Monitor: Demand for Ireland Remains Very Strong	-	EUR
17-Mar-14	NOTE	European SSA Strategy: Weekly chart-pack and market monitor: 7th – 14th March	-	EUR
14-Mar-14	NOTE	Covered Bond: Moody's Ups Three Irish ACS – RBS Covered Bond Rating	-	EUR
14-Mar-14	NOTE	EUR Volatility: Vega, Flow Dynamics & Investors' Preferences	-	EUR
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13-Mar-14	NOTE	Covered Bond Strategy: Moody's methodology change ups 15 covered bonds	-	EUR
13-Mar-14	NOTE	Euro SSA Strategy: ESM vs EIB And Why We Wouldn't Fade Recent Moves	-	EUR
11-Mar-14	NOTE	Euro Rates Strategy: Tactical RV trade: Buy ERM4 vs EDM4 (or ERU4 vs EDU4)	-	EUR
10-Mar-14	NOTE	SSA Strategy: Weekly chart-pack and market monitor: 28th February – 7th March	-	EUR
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Appendix A-1

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