

Global Rates Strategy

Forecast Changes and Trading Opportunities

- **Summary.** This note highlights where we disagree with what is priced into the market. We highlight the best markets to express directional views, and the maturities where we see the most upside for cross-market and curve trades. We also look at the implications of our European strategy team's 75bps downward revision of their Q4 10yr Bund forecast.
- **Duration.** If bullish duration outright then 10yr Spain is the obvious candidate in Q4 and if you are bearish duration outright then 10yr ACGBs stand out. We see only 30bps of upside in shorting 10yr USTs vs what is priced in over the forecast horizon.
- **Cross-market themes.** Short Australia vs Italy, Spain, Germany or France in Q4. If you don't like -ACGB/+BTP but like peripheral risk then look at buying BTPs or Bonos vs Bunds. Long 10yr Bunds vs USTs or ACGBs, long 30yr Bunds vs USTs.
- **Curves.** Flatteners in Italy and Germany.
- Figure 1 below provides a summary of the salient Q4 mispricings, but see below for a much more detailed table of opportunities all the way out to 2016, categorized by trade type, e.g., curve, duration and cross-market.

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Figure 1. What's not priced in: differences between Citi forecasts and the forwards in Q4

Upside vs the forwards (bps) i.e., what's not priced in	Max (to end 14Q4)
Long 2yr Germany/short Australia	★ 130
Short 10yr US/long Spain	★ 110
Long 10yr Spain	★ 100
Long 10yr Spain/short Germany	★ 65
Long 10yr Germany/short Australia	★ 60
2s10s flattener in Italy	★ 60
Short 10yr US/long Germany	★ 50
2s10s flattener in Germany	★ 40
Long 10yr France	★ 35
Long 30yr Germany/short US	★ 30
Long 10yr UK vs US	★ 25
Long 10yr or 30yr Germany/short UK	★ 20

Source: Citi Research

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

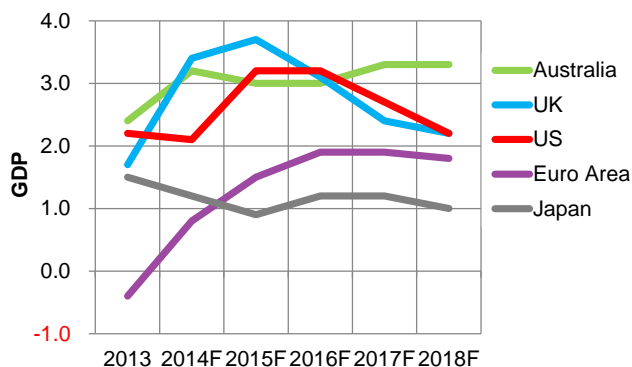
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Forecasts on 1 page: yields, GDP, policy rates

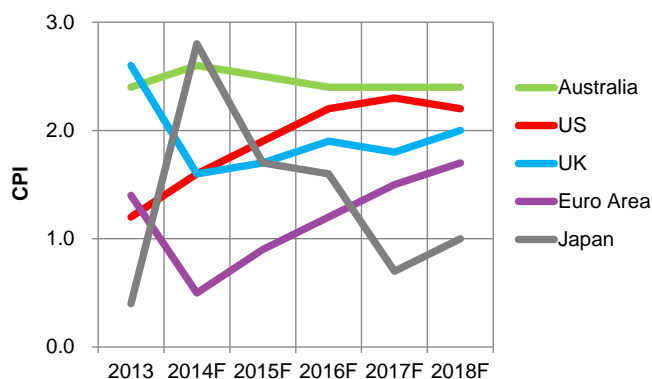
Below we provide a summary of the growth and inflation trajectories underlying our latest forecasts and highlight the timing and path of policy rate changes (and the consequent curve moves). For the detailed economic and political background please see our [Global Economic Outlook and Strategy - August 2014](#).

Figure 2. Forecast GDP trajectories. Biggest change in Europe.



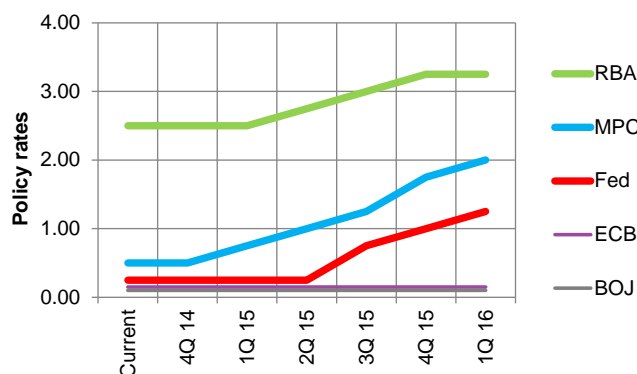
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 3. Forecast CPI trajectories. Largest change in the US.



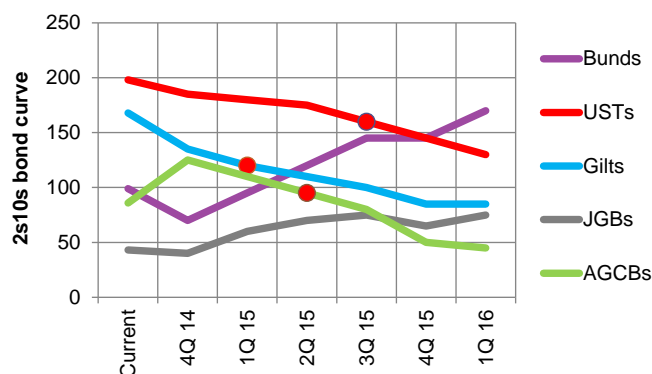
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 4. When do we expect the first/next rate hike? We still expect the UK to hike first.



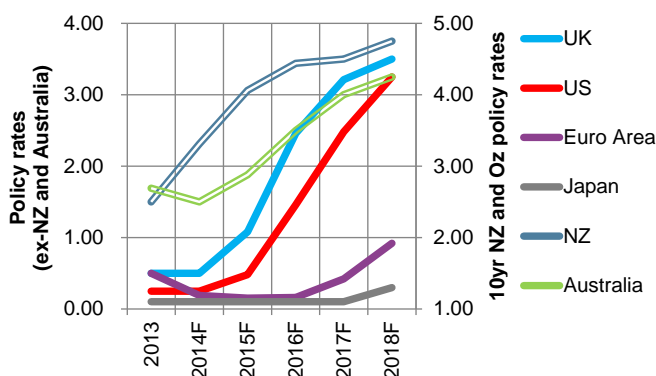
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 5. What do we expect to happen to curves? We expect the gilt curve to flatten the most, and US 2s10s to flatten by about 70bps from current levels. We expect the Bund and JGB curves to steepen.



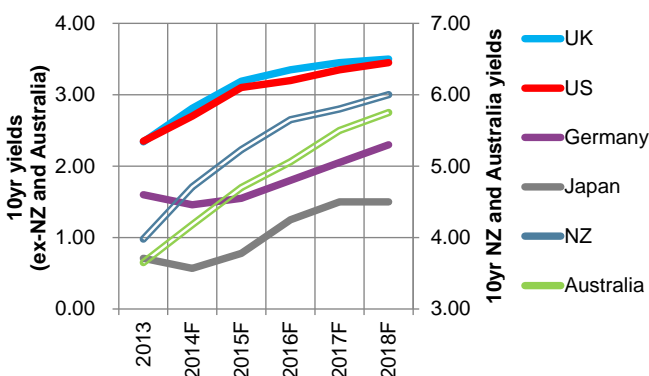
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 6. Similar rate of policy rate hikes in US and UK



Source: Citi Research. [Global Economic Outlook and Strategy - July 2014](#)

Figure 7. 10yr yields forecast to rise most/steeply in NZ and Australia



Source: Citi Research. [Global Economic Outlook and Strategy - July 2014](#)

What has changed from last month?

Quite a lot. Our European team has revised down their Q4 Bund forecast by 70bps. The evolution of forecast changes over the last 3 months is shown below. Changes from the previous month are in red, and especially large moves in bold.

Figure 8. Summary 10yr yield f'casts (August)

Average 10yr yield	14Q4	15H1	15H2
US	2.70	2.98	3.18
Germany	0.75	1.13	1.50
UK	2.50	2.90	3.23
Australia	3.80	4.13	4.48
Japan	0.50	0.75	0.80

Source: Citi Research. Changes from previous in red.

Figure 9. Summary 10yr yield forecasts (July)

Average 10yr yield	14Q4	15H1	15H2
US	2.85	3.03	3.18
Germany	1.45	1.53	1.58
UK	3.05	3.15	3.23
Australia	3.85	4.10	4.55
Japan	0.50	0.75	0.80

Source: Citi Research. Changes from previous in red.

Figure 10. Summary 10yr yield forecasts (June)

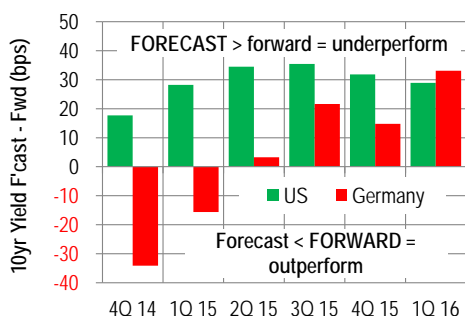
Average 10yr yield	14Q4	15H1	15H2
US	2.90	3.03	3.18
Germany	1.50	1.53	1.58
UK	3.05	3.15	3.23
Australia	3.80	4.10	4.55
Japan	0.55	0.75	0.80

Source: Citi Research. Changes from previous in red.

Before we look at the reasons behind the abrupt change in the Bund forecast below we quickly compare all the above forecasts to the forwards.

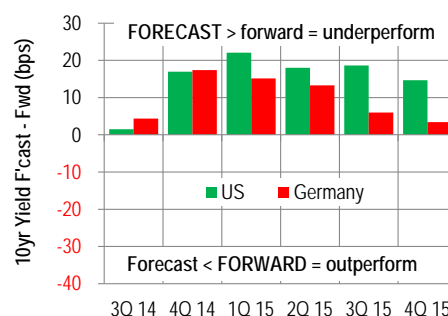
Our US team's forecasts imply that the market is underpricing the sell-off by an average of around 30bps over the forecast horizon, compared to around 15bps last month (green bars in Figure 11 below left). Our European team's revisions (Figure 8) imply 10yr Bunds are around 35bps cheap to the forwards in Q4 (red bars in Figure 11 below left). As you can see from Figure 13 we are still forecasting significant underperformance of Australia relative to what is priced in.

Figure 11. US and Germany: 10yr forecasts vs the forwards



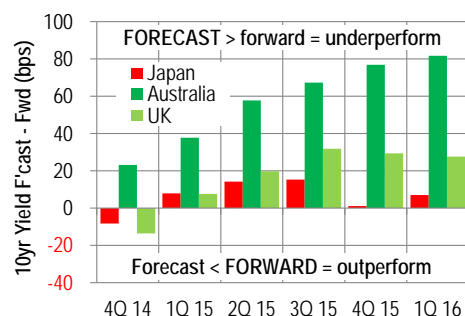
Source: Citi Research

Figure 12. Last month's forecast/forward gaps for comparison



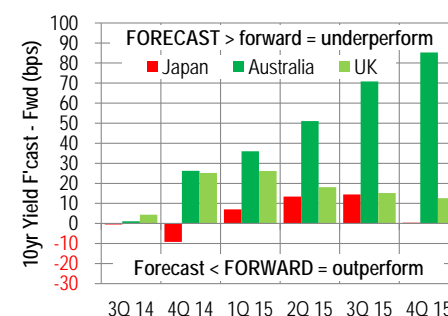
Source: Citi Research

Figure 13. Japan, Australia and UK: 10yr forecasts vs the forwards



Source: Citi Research

Figure 14. Last month's forecast/forward gaps for comparison

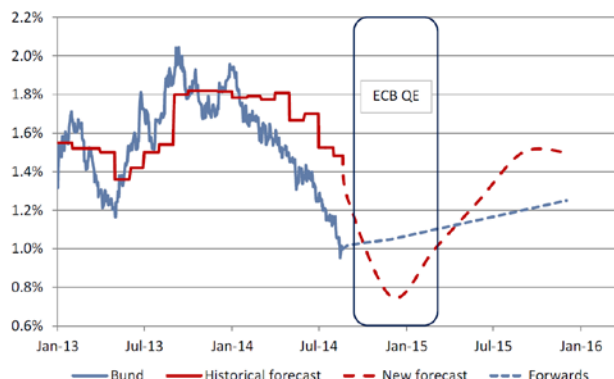


Source: Citi Research

Significant downward revision to Bund forecasts

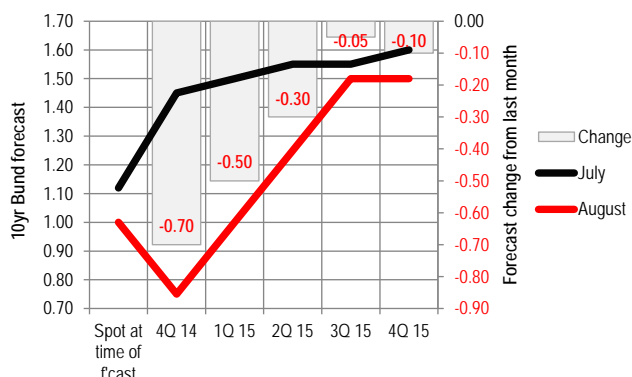
The most dramatic change in our forecasts this month comes from our European team. Figure 15 plots the evolution of their forecasts and 10yr yields, and Figure 16 below compares the trajectory of 10yr Bund forecasts this month to the forecast trajectory last month.

Figure 15. Citi 10yr Bund forecasts vs actual



Source: Citi Research. See [European Rates Strategy - Bund: Yields to Dip Into QE](#), Alessandro Tentori.

Figure 16. 10yr Bund yield forecasts: July vs August



Source: Citi Research.

Alessandro Tentori, our head of European rates strategy, writes:

Our new Bund projections differ radically from last month's... Given the digital nature of QE ("they either do it or they don't"), the continued disappointment on the fundamental front, ongoing geopolitical tensions as well as other systemically relevant central banks shifting back their exit plans, we have revised our year-end call for Bunds. We now expect Bund yields to dip to 0.75% in Q4 and then to rebound back to 1% in Q1 2015... Our view has always been and still is that the Eurozone is heading towards a full Japanisation, with all the consequences it bears in terms of income re-distribution and restructuring of the industrial landscape. Our biggest uncertainty is about the exact timing, i.e. this cycle or the next?¹

Please see [European Rates Strategy - Bund: Yields to Dip Into QE](#) for a full explanation. Here we focus on the trades that fall out of the gaps between the forecasts and what is already priced in.

Two Q4 trades implied by the Bund forecast revisions

In particular, this month's large change in the Bund forecasts has significant implications for Q4 trades. The two that stand out are short 10yr US/Europe and 2s10s flatteners:

- There is now an implied 50bps of outperformance of Bunds over USTs in Q4, i.e., over and above what is priced in.
- We expect nearly 40bps of 2s10s flattening relative to the forwards in Q4.

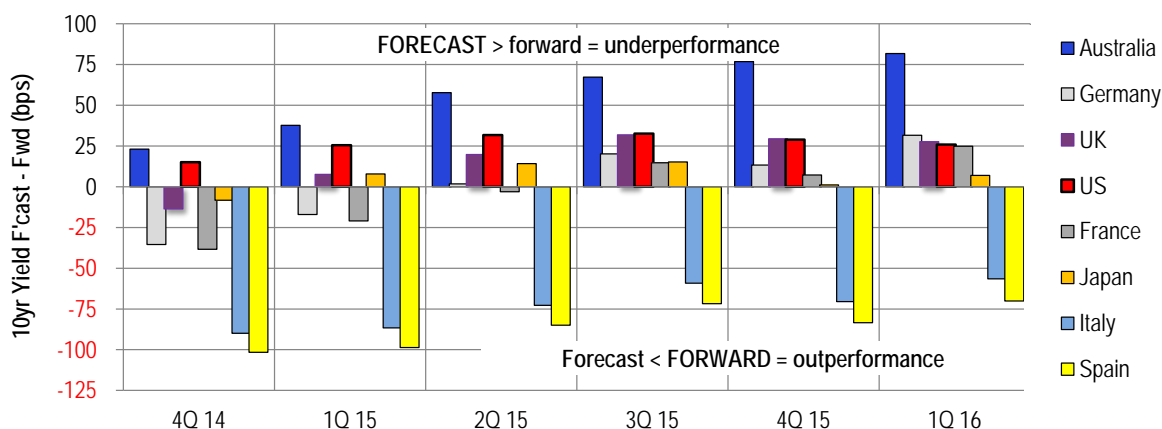
Below we highlight the biggest gaps between the forecasts and the forwards globally and rank the trades by their upside.

¹ See [European Rates Strategy - Bund: Yields to Dip Into QE](#).

Where are the largest forecast/forward gaps globally?

Short 10yr Australia, long Germany, France, Spain and Italy. As you can see from the figure below, our 10yr Australian and peripheral forecasts still diverge significantly from the forwards. Our European team's forecasts now imply decreasing, rather than the previously increasing, scope for outperformance in Italy and Spain, relative to what is priced in. We still see most, and increasing, scope for underperformance in Australia. The US and UK are 20-30bps too rich vs the forwards, while Bunds and OATs are around 35bps cheap.

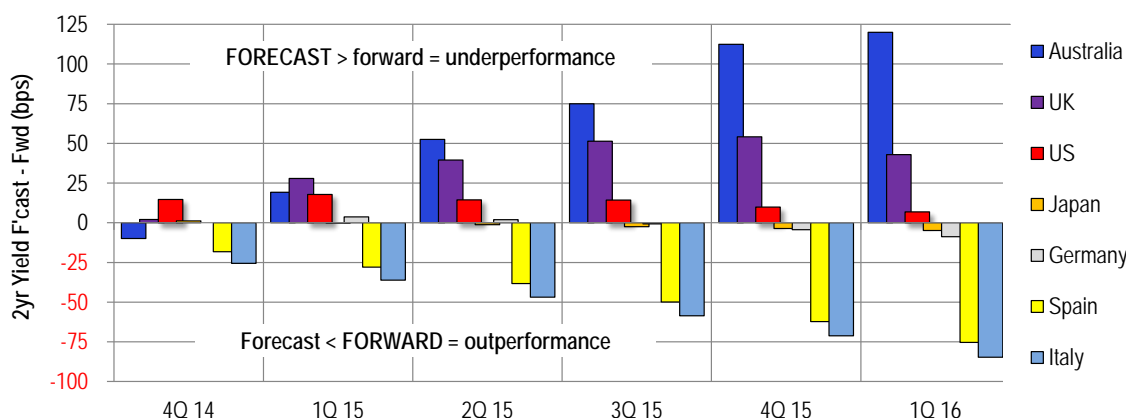
Figure 17. Comparison of 10yr forecasts with what is priced in



Source: Citi Research

In 2s, (Figure 18 below), the divergences from the forwards in Italy and Spain are smaller than in 10s, but larger in Australia (from 2Q15 onwards). We still think the market is underpricing the rise in front end gilt yields further out.

Figure 18. Comparison of 2yr forecasts with what is priced in. We disagree with the sell-off priced into BTPs and Bonos, and think the market continues to underestimate the rise in 2yr gilt and ACGB yields further out.



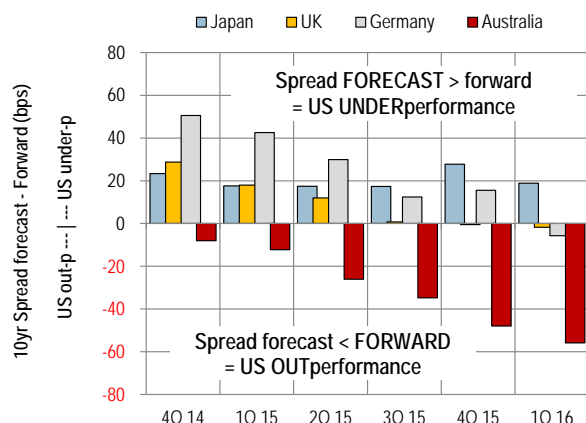
Source: Citi Research

Forwards mispricing US cross-market spreads

Sell the US, except vs Australia (and 2yr UK)

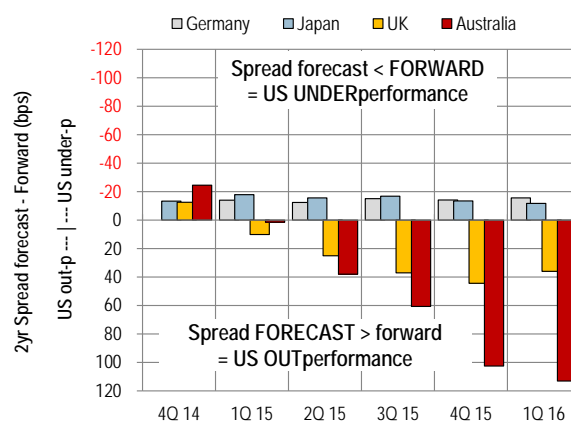
Figure 19 (below left) compares 10yr spreads to the US with what is priced in. As you can see, we expect significant US underperformance vs Germany², which decreases as you go further out, and significant US outperformance of Australia, which increases as the horizon extends. Both of these are principally driven by the non-US leg however.

Figure 19. Forecast 10yr spreads to the US vs what's priced in



Source: Citi Research

Figure 20. Forecast 2yr spreads to the US vs what's priced in



Source: Citi Research

Figure 20 (above right) compares 2yr US cross-market spreads with the forwards.

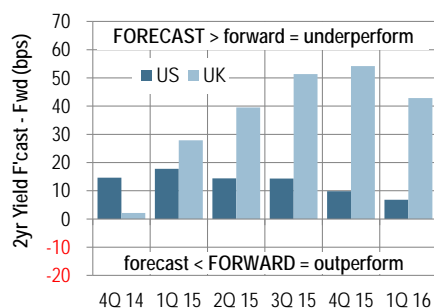
- **Buy Australia vs the US in 2s, not 10s, and only for Q4.** We see 2yr Australia underperforming the US in 14Q4 by around 25bps, before underperforming significantly (40-110bps) in subsequent quarters as the Bund mispricing falls while the ACGB mispricing increases.
- **Buy the UK vs the US in 10s for 25bps. Sell UK vs US, but only in 2s further forward.** While the mispricing of the 10yr spread is only material in 14Q4 and 15Q1 (Figure 19 above left), the (opposite) mispricing grows with time in 2s (Figure 20, above right).
- **Only 15-20bps of juice in 2yr Bund or JGB spreads to USTs.** We see 2yr Germany and Japan outperforming the US by only 15-20bps (Figure 20, above right), similar to 10s (Figure 19 above left).

² Last month the Bund forecasts implied little scope for outperformance vs the US in both 10s and 2s, and only small outperformance in 30s. This has all changed this month.

Express short UK vs US views in 2s but the reverse in 10s

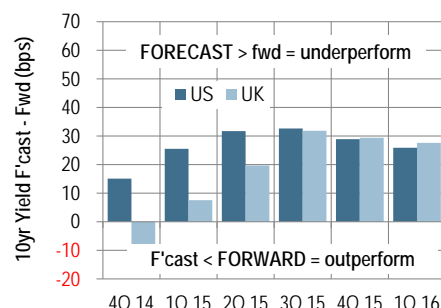
Comparing our forecasts and the forwards points to putting on gilt/UST wideners, but only at the short end, from 15Q2 onwards. As Figure 21 makes clear, this is mainly driven by the UK leg. In 10s we see the US underperforming by 20bps in 14Q4 and 15Q1 (Figure 22). In 30s the overpricing is similar in the US and UK (Figure 23).

Figure 21. 2yr US and UK forecasts vs fwds



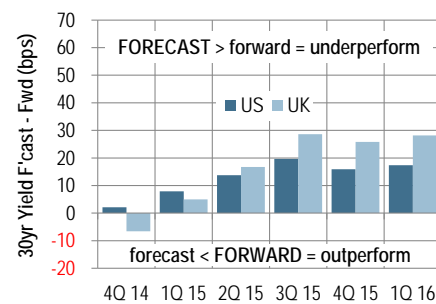
Source: Citi Research

Figure 22. 10yr US and UK forecasts vs fwds



Source: Citi Research

Figure 23. 30yr US and UK forecasts vs fwds

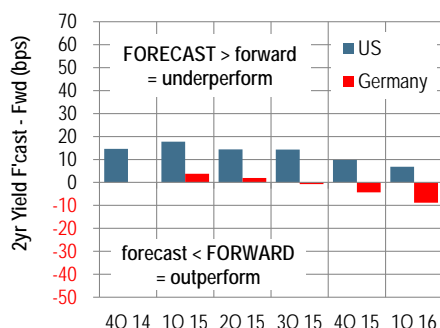


Source: Citi Research

Express -US/+Germany in 10s and 30s in Q4, not 2s

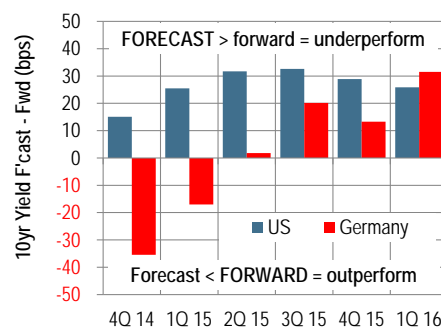
The gap between our US/Germany forecasts and what is priced in is greatest in 10yrs³ (Figure 25) to the tune of 50bps (in Q4). In 30s we think the widening is underpriced by 30bps in Q4, but overpriced by around 50bps in 16Q1 (Figure 26).

Figure 24. 2yr US and German forecasts vs the forwards: we see only minimal scope for profit shorting the US vs Germany in 2s.



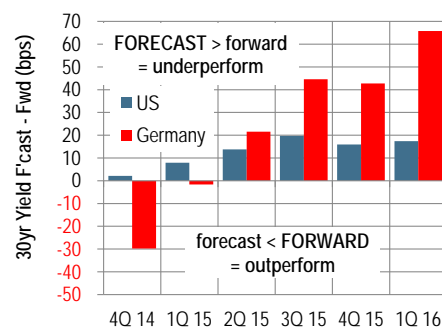
Source: Citi Research

Figure 25. 10yr US and German forecasts vs the forwards: we think the forwards underprice the widening by 50bps in Q4



Source: Citi Research

Figure 26. 30yr US and German forecasts vs the forwards: we think the forwards underprice the widening by 30bps in Q4, but overprice it by 50bps in 16Q1.



Source: Citi Research

In 2s the upside is very small, i.e., our forecasts are more-or-less on top of the forwards in both front ends (Figure 24 above left).

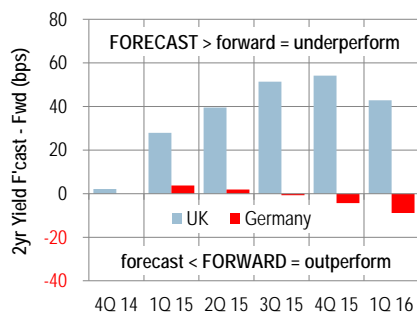
³ Last month this gap was largest in 30s. The previous month it was largest in 2yrs and smallest in 30yrs.

-UK/+Germany: mispricing still only at the front end

We still see considerably more upside expressing UK/Germany wideners in 2s than in 10s (or 30s). Figure 27 - Figure 29 compare 2, 10 and 30yr UK and German forecasts to their respective forwards. You can see that the largest divergence between Citi's UK/Germany forecasts exists in 2s, driven entirely by the UK leg.

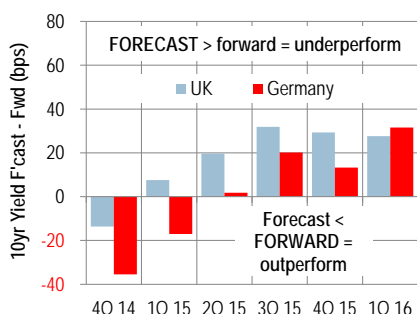
Restricting our attention to Q4 however, the forecasts imply 20bps of gilt underperformance in both 10s (Figure 28) and 30s (Figure 29). This is driven by the German leg, unlike in 2s.

Figure 27. 2yr UK and German f'casts vs fwds



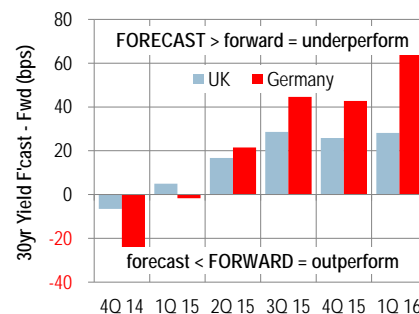
Source: Citi Research

Figure 28. 10yr UK and German f'casts vs fwds



Source: Citi Research

Figure 29. 30yr UK and German f'casts vs fwds



Source: Citi Research

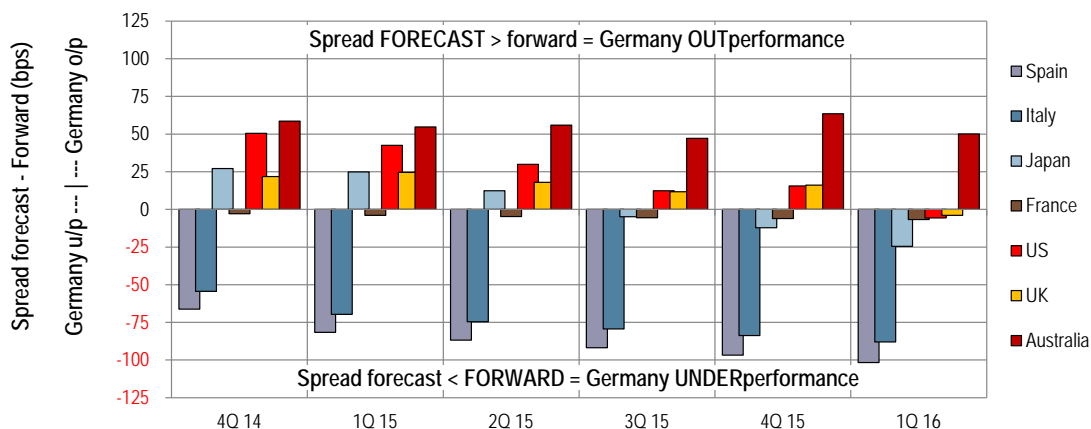
As in 30yr US/Germany, in 30yr UK Germany we anticipate German outperformance in Q4 giving way to significant German underperformance in 16Q1 (Figure 29). Again, this is predominantly driven by the Bund forecast.

Peripheral spreads and 10yr ACGB/Bund

Our forecasts imply significant German outperformance versus the US and Australia in Q4, and, to a lesser extent, Japan (see Figure 30 below).

In 14Q4 we expect Germany to underperform Italy and Spain by around 60bps. This mispricing increases in subsequent quarters to peak at 80-90bps in 1Q16⁴.

Figure 30. Outperformance of 10yr Germany greatest vs Australia and the US: underperformance greatest vs Italy and Spain, vs what is priced in.



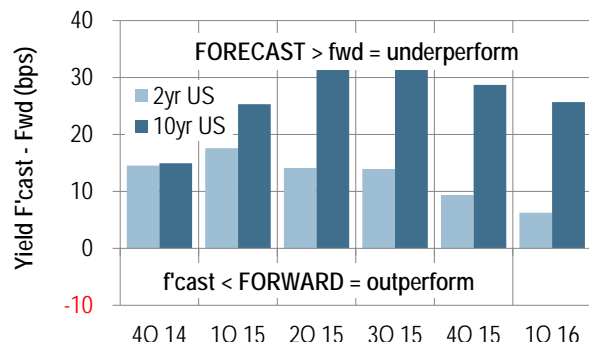
Source: Citi Research

⁴ Last month's peak was around 40bps lower at 55bps in 4Q15, which was the longest period forecast.

US curve – market overestimating 2s10s flattening

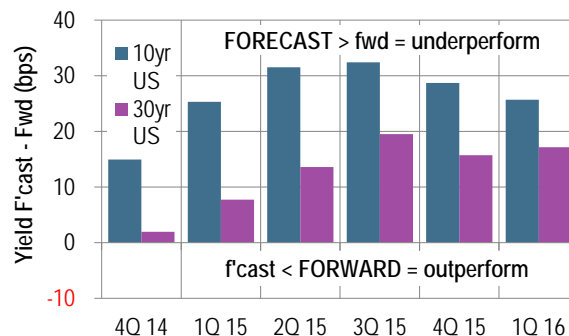
Our US team's forecasts still imply that the market is overestimating the flattening (see Figure 31 below left) in 2s10s from the middle of next year, due to 10s not pricing in enough of a sell-off. In 10s30s they still see the forwards pricing insufficient flattening, but only by about 10bps (Figure 32).

Figure 31. Market underpricing 10yr UST yield rises by more than 2yrs = market overestimating flattening



Source: Citi Research

Figure 32. Scope for up to 10bps of 10s30s flattening over and above what is priced in. Better opportunity in 2s10s.

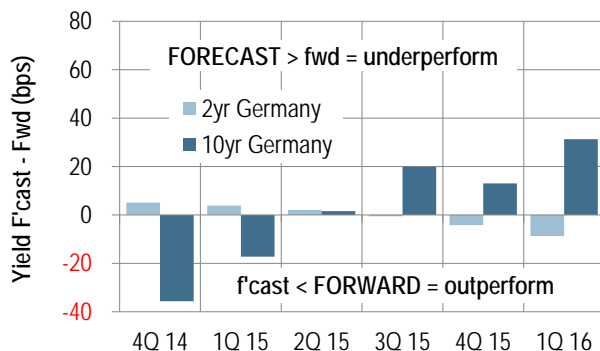


Source: Citi Research

German curve – too much flattening priced into 10s30s

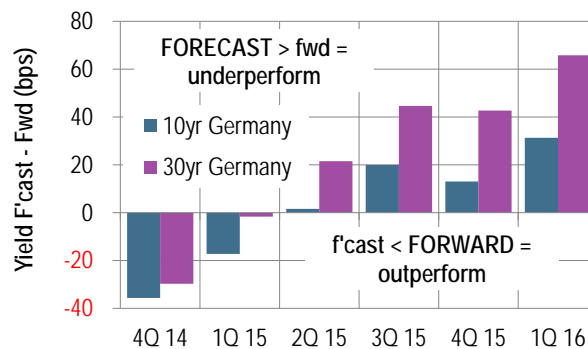
We still see too much flattening priced into 10s30s in Germany from the middle of next year, but not enough flattening is priced into 2s10s in 14Q4 to the tune of around 35bps. Our European team now expects both 10s and 30s to outperform the forwards by 30-40bps in Q4.

Figure 33. 10yr yields too high 3-9m forward = not enough flattening priced into 2s10s in Q4.



Source: Citi Research

Figure 34. 30yr forwards too low. Too much 10s30s flattening priced in.



Source: Citi Research

UK curve – 2s10s flattening underpriced by 20bps

We expect UK 2s10s to flatten by around 20bps more than the forwards over time⁵. As you can see from Figure 35 we think 2yr yields are going to rise by significantly more than is priced in, but 10yrs keeps the gap around 20bps. Our forecasts imply no opportunity in 10s30s vs what is already priced in (Figure 36).

Figure 35. UK: 2 and 10yr forecasts vs the forwards

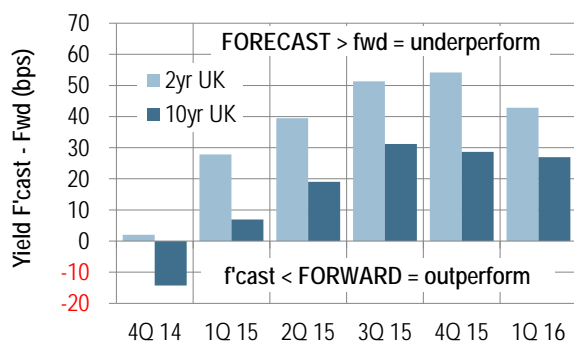
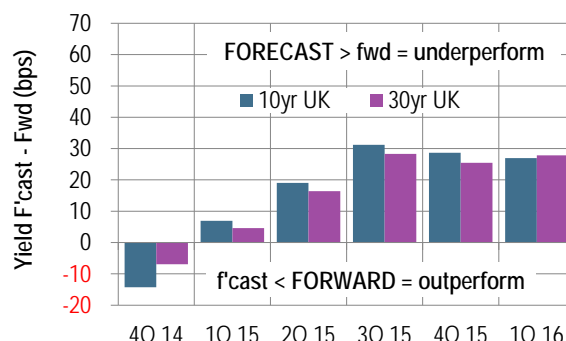


Figure 36. UK: 10yr and 30yr forecasts vs the forwards



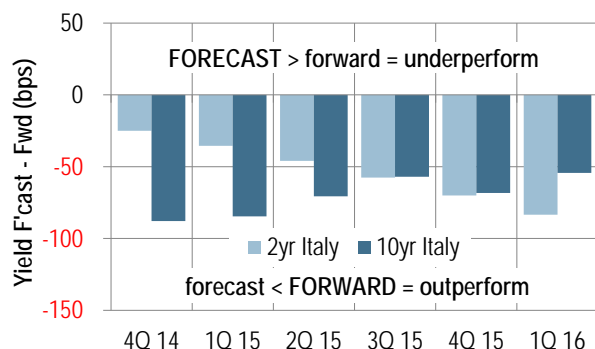
Italian curve opportunity same size as vs Bunds

We expect around 60bps of 10yr BTP outperformance vs both 2yr BTPs and Germany in Q4. Our European team still expects Italy to significantly outperform the forwards, and see too much steepening priced in (Figure 37): they still expect 2yr yields to remain unchanged over the forecast horizon, but now see 10s as rising by between 55 and 90bps less than the forwards over the forecast horizon⁶. Put another way, last month the market was pricing in a stable curve, which has given way to steepening: our forecasts disagree with this steepening priced in.

Australian curve – mispricings largest further out

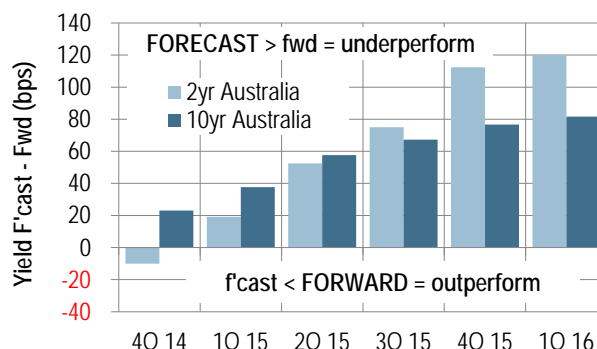
Our forecasts imply around 30bps of 10yr led-steepening in Q4 versus the forwards, giving way to 2yr led flattening a year further out (Figure 38).

Figure 37. Italy: 2 and 10yr forecasts vs the forwards



Source: Citi Research

Figure 38. Australia: 2 and 10yr forecasts vs the forwards



Source: Citi Research

⁵ This is down from 40bps last month due to our pushing back the timing of the first rate hike in the aftermath of the dovish Quarterly Inflation Report and Carney comments. Our economists have not changed their forecast of the magnitude of rate hikes required, only the timing of the first move.

⁶ Last month they were forecasting unchanged yields in both 2s and 10s.

What are the trades?

Below we rank and group the gaps between our latest forecasts and what is priced in. We also indicate the change in upside from last month.

Figure 39. Summary of trades/ upside vs the forwards⁷

Upside vs the forwards (bps) i.e., what's not priced in			Max (to 16Q1)	Change in max to end-15	Previous max to end-15
DURATION	Short duration	Short 2yr Australia	★ 120	+28	92
		Short 10yr Australia	★ 80	-5	85
		Short 2yr UK	★ 55	+0	55
		Short 10yr US	★ 30	+10	20
	Long duration	Long 2yr Italy	★ 85	+15	70
		Long 10yr Italy (or Spain)	★ 80	+30	50
		Long 10yr Germany	★ 30	-20	50
		Long 10yr France	★ 35	+10	25
CROSS-MARKET	Peripherals & APAC	Long 10yr Italy/short Australia	★ 160	+20	140
		Long 2yr US/short Australia	★ 110	+10	100
		Long 10yr Germany/short Australia	★ 70	-15	85
		Long 10yr BTPs vs Bunds	★ 70	+20	50
		Long 10yr US/short Australia	★ 50	-20	70
	US/Germany	Short 10yr US/Germany	★ 50	+35	15
		Short 30yr US/Germany	★ 45	+15	30
		Short 2yr US/Germany	★ 10	+5	5
	UK/Germany	Short 2yr UK/long Germany	★ 50	+0	50
		Long 30yr UK/Germany	★ 45	+20	25
		Short 10yr UK/Germany	★ 20	+10	10
	US/UK	Short 2yr UK/long US	★ 50	-10	60
		Short 30yr UK/US	★ 10	+0	10
		Short 10yr UK/US	★ 0	-5	5
CURVE	Steepeners	Italy 2s10s flatteners	★ 60		
		Germany 10s30s steepeners	★ 30	-5	35
		US 2s10s steepeners	★ 20	-5	25
	Flatteners	Germany 2s10s flatteners	★ 40	-	-
		Australia 2s10s flatteners	★ 40	-	-
		US 10s30s flatteners	★ 20	-10	30
		UK 2s10s flatteners	★ 20	-20	40

Source: Citi Research. A negative change signifies less upside compared to last month. A positive change denotes a greater maximum gap between the forecast and the forwards compared to last month.

See Figure 1 for a table of the top trades focusing on just Q4.

⁷ For a comprehensive set of global economic and yield forecasts, together with accompanying in-depth economic and political analysis, please see [Global Economic Outlook and Strategy - August 2014](#). NB Throughout this note we use the relevant Citi par bond curve to calculate the forwards. These do not deviate materially from FWCM on Bloomberg

Appendix: Forecast summary tables

Figure 40. Global 10yr yield forecasts and largest changes from spot

	US	Germany	UK	Japan	Australia	France	Italy	Spain
Current	2.40	1.00	2.40	0.51	3.43	1.38	2.50	2.32
4Q 14	2.70	0.75	2.50	0.50	3.80	1.05	1.85	1.50
1Q 15	2.90	1.00	2.80	0.70	4.00	1.30	2.00	1.65
2Q 15	3.05	1.25	3.00	0.80	4.25	1.55	2.25	1.90
3Q 15	3.15	1.50	3.20	0.85	4.40	1.80	2.50	2.15
4Q 15	3.20	1.50	3.25	0.75	4.55	1.80	2.50	2.15
1Q 16	3.25	1.75	3.30	0.85	4.65	2.05	2.75	2.40
Max bp change	+85	+75	+90	+34	+122	+67	+25	+8
Max % change	35%	75%	38%	67%	36%	49%	10%	3%

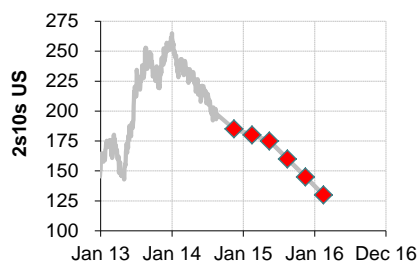
Source: Citi Research. Quarter averages. Please see [Global Economic Outlook and Strategy - August 2014](#).

Figure 41. Key cross-market spread forecasts and largest moves from spot

	UST/Bund	UST/JGB	Gilt/Bund	UST/ACGB	OAT/Bund	BTP/Bund	Bono/Bund	BTP/Bono
Current	140	189	140	103	38	150	132	18
4Q 14	195	220	175	110	30	110	75	35
1Q 15	190	220	180	110	30	100	65	35
2Q 15	180	225	175	120	30	100	65	35
3Q 15	165	230	170	125	30	100	65	35
4Q 15	170	245	175	135	30	100	65	35
1Q 16	150	240	155	140	30	100	65	35
Max widening	+55	+56	+40	+37				+17
Max narrowing					-8	-50	-67	

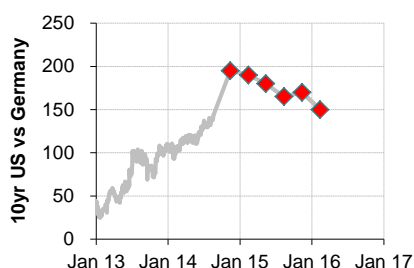
Source: Citi Research. Quarter averages. Please see [Global Economic Outlook and Strategy - August 2014](#).

Figure 42. UST flattening



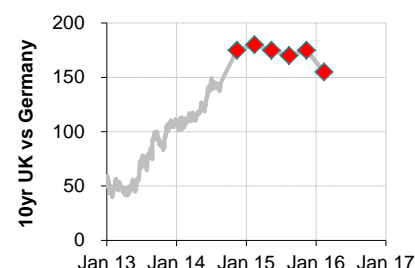
Source: Citi Research

Figure 43. 10yr UST/Bund widening



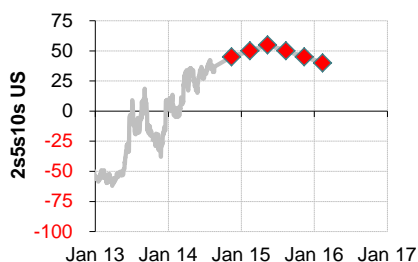
Source: Citi Research

Figure 44. 10yr Gilt/Bund widening



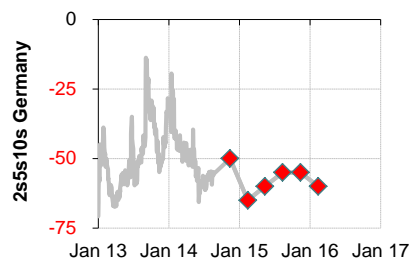
Source: Citi Research

Figure 45. Underperformance of 5yr UST on the curve peaking in Q1



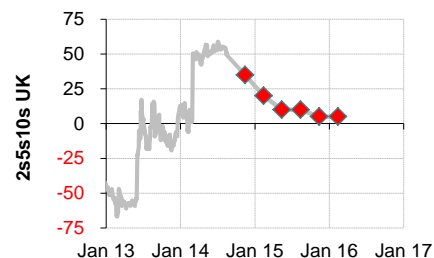
Source: Citi Research

Figure 46. Outperformance of 5yr Germany on the curve over the next year



Source: Citi Research

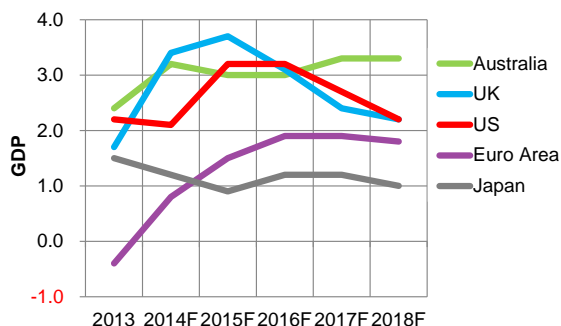
Figure 47. Strong outperformance of 5yr gilts vs 2s and 10s



Source: Citi Research

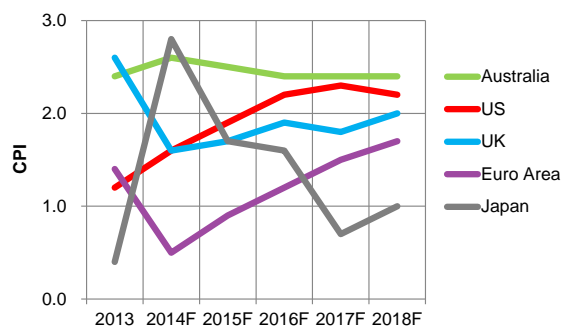
Global inflation breakeven forecasts

Figure 48. GDP forecasts



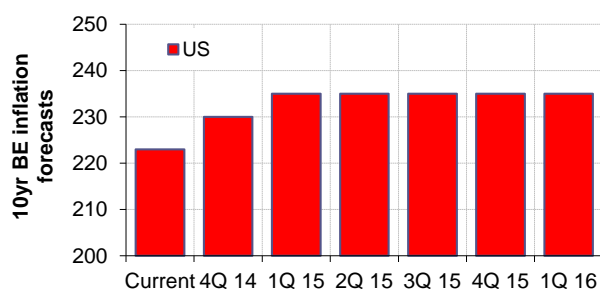
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 49. CPI forecasts



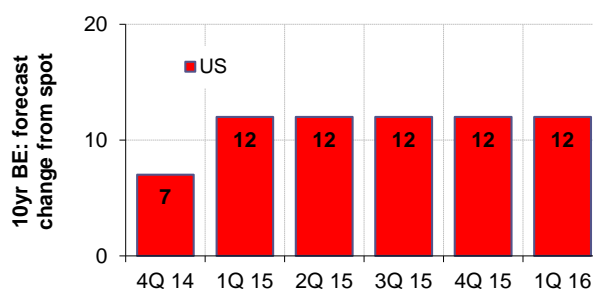
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 50. US 10yr BE forecasts



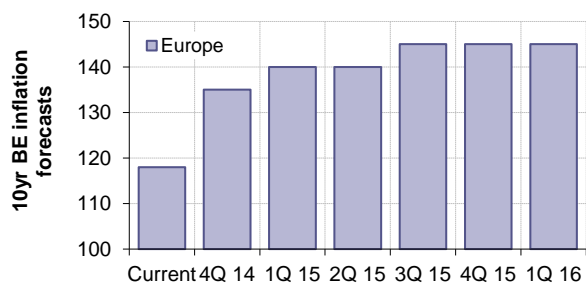
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 51. US 10yr BE forecasts: change from spot



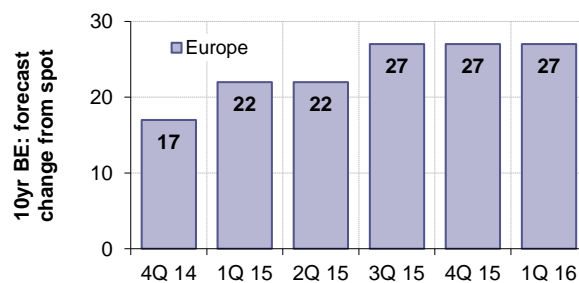
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 52. European 10yr BE forecasts



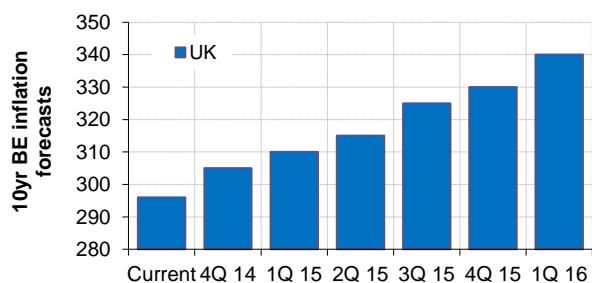
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 53. European 10yr BE forecasts: change from spot



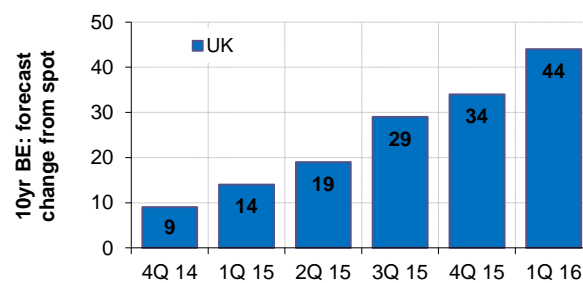
Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 54. UK 10yr BE forecasts



Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Figure 55. UK 10yr BE forecasts: change from spot



Source: Citi Research. [Global Economic Outlook and Strategy - August 2014](#)

Please see [Global Inflation Strategy - Real yields on fire](#) and [Global Economic Outlook and Strategy - August 2014](#) for more detail, e.g., carry and forwards.

Figure 56. Latest yield forecasts (quarterly averages)

	Current	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16
US	Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.75	1.25
	3m LIBOR	0.23	0.23	0.35	0.65	0.85	1.30
	2yr Treasury Yield	0.42	0.85	1.10	1.30	1.55	1.95
	5yr Treasury Yield	1.56	2.00	2.25	2.45	2.60	2.80
	10yr Treasury Yield	2.40	2.70	2.90	3.05	3.15	3.25
	30yr Treasury Yield	3.15	3.30	3.40	3.50	3.60	3.65
	2s10s Treasuries	198	185	180	175	160	145
	2yr Sw ap Spread (Sw ap - Bond)	23	16.5	15	15	15	15
	10yr Sw ap Spread (Sw ap - Bond)	15	15	15	15	15	15
	30yr Sw ap Spread (Sw ap - Bond)	-3	-5	-5	-5	-5	-5
	30yr Mortgage Yield	4.12	4.60	4.80	4.90	5.05	5.25
	10yr Breakeven Yield	223	230	235	235	235	235
Euro Area	Policy Rate	0.15	0.15	0.15	0.15	0.15	0.15
	Overnight Rate (EONIA)	0.01	0.05	0.00	0.00	0.00	0.00
	3m EURIBOR	0.15	0.15	0.15	0.15	0.15	0.15
	2yr Schatz	-0.01	0.05	0.05	0.05	0.05	0.05
	5yr Bobl	0.22	0.15	0.20	0.35	0.50	0.60
	10yr Bund	1.00	0.75	1.00	1.25	1.50	1.75
	30yr Bund	1.87	1.60	1.90	2.15	2.40	2.65
	2s10s Germany	99	70	95	120	145	170
	10yr BTP/Bund	150	110	100	100	100	100
	10yr Bono/Bund	132	75	65	65	65	65
	2yr BTP/Schatz	32	25	25	25	25	25
	2yr Bono/Schatz	22	15	15	15	15	15
	10yr OAT/Bund	38	30	30	30	30	30
	10yr Sw ap Spread (Sw ap - Bond)	23	25	20	20	20	20
	10yr Breakeven Yield	118	135	140	140	145	145
Japan	Policy Rate	0.10	0.10	0.10	0.10	0.10	0.10
	3m LIBOR	0.13	0.15	0.15	0.15	0.15	0.15
	2yr JGB	0.08	0.10	0.10	0.10	0.10	0.10
	5yr JGB	0.15	0.15	0.20	0.20	0.25	0.25
	10yr JGB	0.51	0.50	0.70	0.80	0.85	0.85
	30yr JGB	1.66	1.65	1.75	1.80	1.80	1.80
	2s10s JGBs	43	40	60	70	75	75
	2yr Sw ap Spread (Sw ap - Bond)	10	8	8	11	12	12
	10yr Sw ap Spread (Sw ap - Bond)	13	10	15	15	18	18
UK	Policy Rate	0.50	0.50	0.75	1.00	1.25	2.00
	3-Month Libor	0.56	0.55	1.00	1.25	1.55	2.05
	2yr Gilt	0.72	1.15	1.60	1.90	2.20	2.45
	5yr Gilt	1.83	2.00	2.30	2.50	2.75	2.90
	10yr Gilt	2.40	2.50	2.80	3.00	3.20	3.30
	30yr Gilt	3.11	3.10	3.25	3.40	3.55	3.60
	2s10s Gilts	168	135	120	110	100	85
	10yr Sw ap Spread (Sw ap - Bond)	13	12	15	20	20	25
	10yr Breakeven Yield	296	305	310	315	325	330
Australia	Policy Rate	2.50	2.50	2.50	2.75	3.00	3.25
	3-Month Libor	2.65	2.75	2.80	3.10	3.25	3.50
	2yr ACGB	2.57	2.55	2.90	3.30	3.60	4.20
	5yr ACGB	2.98	3.40	3.70	4.05	4.30	4.85
	10yr ACGB	3.43	3.80	4.00	4.25	4.40	4.65
	2s10s ACGB	86	125	110	95	80	50
	10yr Sw ap Spread (Sw ap - Bond)	39	40	40	45	45	50

Source: Citi Research. Please see [Global Economic Outlook and Strategy - August 2014](#)

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Appendix A-1

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