

European Rates Weekly

EUR: Rolling down to zero?

- **More to gain in the lower-for-longer scenario:** Excess liquidity and the re-pricing of the Eurozone's macro scenario are behind the performance of ECB carry trades. We think there's more to come from "Low-for-Longer" but beware of liquidity swings.
- **EUR Vol - historically high rolldown for spread options:** Steepeners on the EUR swap curve as well as conditional bull steepeners have been popular strategies in recent months. At the same time pure curve views can be traded via spread options with caps currently enjoying historically high rolldown. We recommend investors buy 1y single look ATMF 10s30s cap, for 11.25 cents and 1y single look ATMF 2s5s floor for 13 cents.
- **Update on UK vs US:** 5yr gilts are likely to be supported in the near-term by a lack of supply, coupon re-investments and overseas demand. Still, it seems prudent to tighten the stop on our long 5yr gilt vs UST trade following recent gains. Upcoming inflation prints could also prompt UK outperformance vs the US in inflation space.
- **EGBs – it was looking all so quiet:** In contrast to the rather benign market environment seen earlier in the summer, EMU spreads have succumbed to fresh turbulence, with Portugal at the epicenter. Until certainty is achieved surrounding certain elements of Portugal's banking sector, further pressure on periphery spreads cannot be ruled out in the near-term - nor can a further rally in core rates.
- **Euro inflation – two trades for the summer:** First, sell OATe24 break-evens ahead of the negative carry in September. Second, position for a flatter 2s5s HICPxT curve given the possibility that realised inflation is bottoming out (and sustained low inflation is already well priced).
- **KfW – green bonds and reduced 2014 supply:** KfW has reduced its funding volume by €10bn to €55bn-€60bn for 2014 – a spread positive. Separately, KfW has indicated it will enter the euro green bond market. In our view, this market looks set to flourish and KfW's involvement is likely to enhance the sector's appeal further.
- **Relative value screen:** We present a grid of richest/ cheapest bonds on Euro yield curves to help facilitate efficient screening of bonds for trading decisions.
- **Supply:** Next week's EGB supply comes from France (estimated €9.6bn), Germany (€4bn) and Spain (estimated €5bn). The DMO will issue £1.5bn of the IL24 next Thursday. There is no UST supply until 24th July.

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Supportive seasonals, cashflows and now rising event risk are all supportive for Bund yields in the near-term. On a technical basis, the Bund September contract is finding resistance at 148 after reaching the measuring target of range-break at 147.5.	Trade the range in 10yr Bunds
Money Market	Following the July ECB, the current shape of the ECB curve does diverge from an Eonia curve adjusted for large excess liquidity, thus making green Euribors look cheap and Schatz TEDs too wide relative to current levels. In the UK, we retain a bearish bias on the very front-end given our expectation that the hiking cycle will be faster than currently priced.	1y/1y1y EUR steepeners Buy ERM4 vs EDM4 (or use U4) Receive EUR 2y1y vs USD 2y1y
Yield Curve	The July ECB did not change our baseline scenario with a mild bear steepening in the German curve. In the UK, we expect flattening trends to accelerate. The very front-end is likely to increasingly lead in the sell-offs and lag in the rallies as the hiking cycle nears. 2s5s is likely to flatten beyond the forwards, in our view. Long-end yields are likely to be capped by international drivers, accelerating the flattening trend in 2s10s.	2s5s gilt flatteners Pay GBP 1y1y vs 3y1y
Cross-market	We maintain our long-standing overweight of Bunds vs Treasuries and gilts. The 10yr gilt-Bund spread has widened sharply in recent weeks. Further widening is likely, but at a more moderate pace. For those looking to fade gilt underperformance, we think this is best expressed in the 5yr sector vs USTs.	Buy 5yr gilts vs UST (tactical trade) Stay short 10yr gilts vs Bunds Long 10yr Bunds vs UST (add on corrections)
EMU Spreads	Spreads have succumbed to renewed turbulence with Portugal at the epicentre. Until more certainty is achieved, further pressure cannot be ruled out. In terms of relative value, we continue to hold 7yr Italy vs Spain and look to fade the recent outperformance of OLOs vs OATs. Looking further ahead, we expect flatter spread curves in a scenario of QE. Over the summer months we note there are supportive cash flows for both Italy and Spain.	Long France vs Belgium Tactical long 7yr Italy vs Spain
Swap Spreads	Broadly neutral. We expect recent ranges to hold. In the UK, 5yr spreads offer good value vs 10yr spreads on a tactical basis.	Hold on to strategic longs in 30yr gilts vs swaps
Inflation	We prefer to sell the rallies in euro cash break-evens, especially ahead of the negative carry in September. In HICPxT swaps, we would look to fade the recent steepening of the 2s5s curve. In the UK, we remain long front-end (IL17) break-evens as long-term strategic trade to capture a widening RPI-CPI wedge over the coming years. On a tactical basis, we like buying IL19 vs TIPS 1/20.	Sell OATei24 break-evens 2s5s euro HICPxT flatteners Buy IL19 vs TIPS 1/20 on a real yield basis Maintain long in IL gilt 2017 break-even
Volatility	The announcement of the new measures by the ECB, in particular the tightening of the corridor, argues for keeping option roll down trades at the front-end of the curve.	Maintain 1y3y ATM Receiver Swaption
SSA	KfW has reduced its funding requirement for 2014 and we doubt that supply can not meaningfully disturb its spreads to Bunds in Q3/Q4.	Long 7yr KfW vs DSLs Long BNG & KfW vs France Long EU vs other supras with larger supply pipelines UKRAIL spread lighteners vs gilts and peers in the £ sector
For a list of outstanding trade strategies please see the Tradesheet section of this report		

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

Duration Scorecard

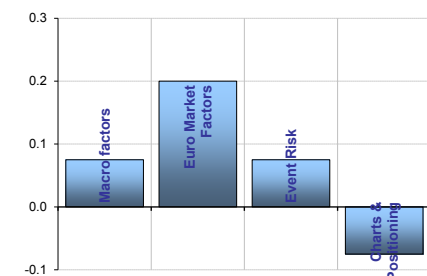
Figure 2. Bund Weekly Cheat Sheet: 11 – 17 July

Recommendation	Buy	RXU4 (EOD Thurs) = 147.66	
Conviction level	Medium	CTD yield = 0.85%	10day del vol = 2.96%

Signal Strength (+/-2)			
Macro factors	0.1	Weight = 35%	
ECB	0	Accommodative monetary policy largely priced in for now	7.5%
Fed, BoE and BOJ	0	Fed tapering largely priced in	7.5%
Inflation	1	Citi expects HICP to drop to 0.3% yoy in coming months	7.5%
Growth related data	0	No growth related release next week	2.5%
Citi surprise	1	Citi Economic Surprise Index range-bound at low levels	5.0%
Middle East / Oil	-1	Brent receding from highs	5.0%
Euro Market Factors	0.2	Weight = 35%	
Supply	-1	Cash flows not supportive for Germany next week	7.5%
Risk appetite	1	Risk aversion has increased last week	5.0%
Flow	1	Net demand for the core highest in a year (4wk m.a.)	7.5%
Equity	1	Eurostoxx50 down 4% from recent peak	5.0%
Sovereign credit	1	Periphery spreads widening	5.0%
FX	1	Euro likely to remain subdued	5.0%
Event Risk	0.1	Weight = 8%	
Politics	1	Event risk in Portugal likely to persist in the near term	2.5%
LTRO	1	TLTROs in September and December	2.5%
QE	1	Citi expects the ECB to embark upon QE in December	2.5%
Charts & Positioning	-0.1	Weight = 23%	
Technicals	-1	RXU4 finding resistance at 148	7.5%
T-Note	-1	Short	5.0%
CFTC	0	Positioning neutral	5.0%
ARTS	1	Long	5.0%

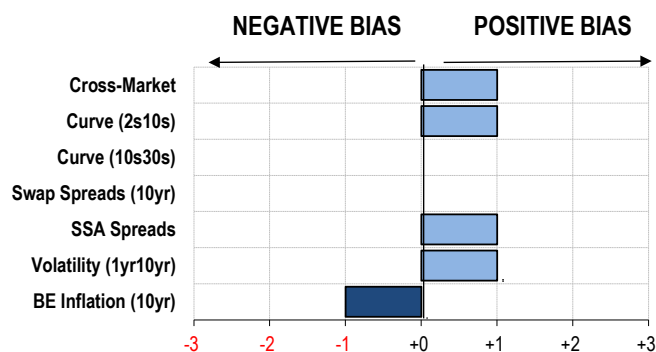
Source: Citi Research Note: Futures trading involves a substantial risk of loss.

Figure 3. Contribution to Bund Signals



Source: Citi Research

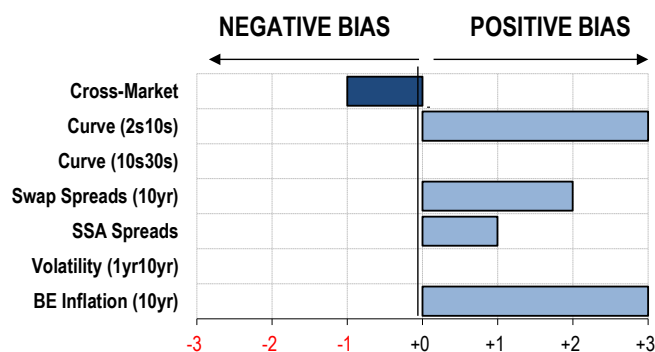
Figure 4. EURO AREA (Near-term Bias)



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

New Trades

See [Trading Rates in Summer 2014: Boring vs Volatile](#)

1. EUR HICPxT 2s5s flattener

Receive HICPxT 2yr at 0.80%

Pay HICPxT 5yr at 1.25%

Open 45bp. Current 45bp. Target 33bp. Stop 51bp

2. Sell OATei24 break-even

Sell OATei24 break-even at 136bps

Open 136bp. Current 130.5bp. Revised Target 125bp. Revised Stop 140bp

Recommended in [Trading Rates in Summer 2014: Boring vs Volatile](#)
Revised on page 14

Record of Our Closed Trades

Figure 6. Record of our Closed Trades

Region	Trade	Levels	Rationale
EUR	BTP 10s30s steepener	Open 106bp Current 144bp P&L 38bp Target 144bp Stop 90bp	Hit Target 8th July, 2014 European Rates Weekly, 20 February 2014
Curve	Buy BTP Aug23 at 3.49% Buy BTP Sep44 at 4.54%		

Source: Citi Research

Record of Our Open Trades

Figure 7. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date
EUR	EUR HICPxT 2s5s flattener	Open 45bp Current 45bp P&L 0bp Target 33bp Stop 51bp	Any inflation surprise would cause sudden pricing out of low inflation likely causing curve to flatten Trading Rates in Summer 2014, 9th July 2014
Inflation	Receive HICPxT 2yr at 0.80% Pay HICPxT 5yr at 1.25%		
EUR	Sell OATei24 break-even	Open 136bp Current 131bp P&L 6bp Revised Target 125bp Revised Stop 140bp	We recommend selling rallies ahead of negative carry in September Trading Rates in Summer 2014, 9th July Revised: European Rates Weekly, 10th July 2014
Inflation	Sell OATei24 break-even at 136bps		
EUR	Buy KfW 3.5% Jul21s vs DSL 3.25% Jul21s	Open 0bp Current 0.9bp P&L -0.9bp Target -6bp Stop 3bp	Hunt for yield likely to contain widening in KfW-DSL spreads The Morning Call, 3rd July 2014
SSA	Buy KfW 3.5% Jul21s at 0.93% Sell DSL 3.25% Jul21s at 0.93%		
EUR	Buy 10yr France vs Belgium	Open -2bp Current -1bp P&L 1bp Target 8bp Stop -7bp	The trade allows moving up the credit curve at attractive level ahead of supportive cash flow profile for France vs Belgium The Morning Call, 3rd July 2014
Cross Market	Buy OAT 1.75 Nov24 at 1.71% Sell OLO 2.6% Jun24 at 1.69%		
UK / US	Buy gilt 1.75% Jul19 vs UST 0.875% Jul19	Open 36bp Current 33bp P&L 3bp Target 26bp Revised Stop 38bp	Gilts offer tactical value vs Treasuries as overseas demand picks up The Morning Call, 1st July 2014 Revised: European Rates Weekly, 10th July 2014
Cross Market	Buy gilt 1.75% Jul19 at 2.03% Sell UST 0.875% Jul19 at 1.67%		

Source: Citi Research

Figure 8. Record of our Open Trades (continued)

UK	2s5s gilt flattener		Open Current P&L Target Stop	118bp 115bp 3bp 90bp 130bp	Front-end should price in a higher risk premium for an earlier than expected rate hike. European Rates Weekly, 26th June 2014	
EUR	Buy ERZ4 and sell EDZ4	Money Market	Open Current P&L Target Stop	10.5bp 9bp -1.5bp 15bp 0bp	Attractive entry levels and benefits from ECB policy rate view Euro Rates Strategy, 11 March 2014 Rolled from June to Dec on 12th June 2014	
EUR	Buy 7yr Italy vs Spain	Cross Market	Open Current P&L Target Stop	20bp 11bp 9bp 5bp 27bp	Tactical post-election normalisation trade European Rates Weekly 29 May 2014	
UK	Pay GBP 1y1y vs 3y1y	Swap Curve	Open Current P&L Target Stop	132bp 118bp 14bp 50bp 170bp	The very front-end is still lagging in the sell-off. Euro Rates Weekly, 24 April 2014	
EUR	Sell BTPei18 break-even vs OATei18	Inflation	Open Current P&L Target Stop	13.5bp 19bp 5bp 28bp 6bp	BTPei18 likely to reverse some of the richness now that Boblei18 and OATei18 auctions are over. European Rates Weekly, 20 February 2014	
EUR	Buy OATei20 and OATei24 vs OATei22	Inflation	Open Current P&L Target Stop	2bp 2bp 0bp 10bp -2bp	OATei22 looks too rich on the curve; OATei24 likely to perform after auction is out of the way Euro Inflation Strategy, 19 February 2014	
UK	Buy IL gilt 2017 break-evens	Inflation	Open Current P&L Revised Target Revised Stop	2.71% 2.72% 1bp 3.15% 2.70%	We believe that RPI-CPI wedge to widen over the medium-term UK Rates Strategy, 18 February 2014 Revised: UK Inflation Strategy, 25 March 2014	
EUR	Buy 30yr Netherlands vs Austria	Cross Market	Open Current P&L Target Stop	14bp 13.36bp -0.64bp 24bp 8bp	Close to historically tight levels. Uncertainty surrounding the Austria banking sector should weigh on Austrian bonds European Rates Weekly, 12 February 2014	
UK / US	Sell UKT 2.25% Sep23 vs UST 2.5% Aug23	Cross Market	Open Current P&L Target Stop	6.5bp 21bp 14bp 30bp -5bp	We expect the MPC to hike three quarters ahead of the Fed European Rates Weekly, 23 January 2014	
UK	Sell 30yr gilt swap spreads vs 10yr	Swap spread	Open Current P&L Target Stop	20bp 26bp 6bp 50bp 10bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve. UK Rates Strategy, 30 July 2013	
EUR	Receive EUR 10y2y vs 12y3y	Curve	Open Current P&L Target Stop	4bp 24bp 20bp 25bp -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	Sell GBP 2y2y ATMf straddle	Volatility	Open Current P&L Target Stop	76bp 30bp 46bp 0bp 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol IIRS 12 July 2012	

Source: Citi Research Note: Futures trading involves a substantial risk of loss

EUR: Rolling Down to Zero?

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They came, they let it roll and they won

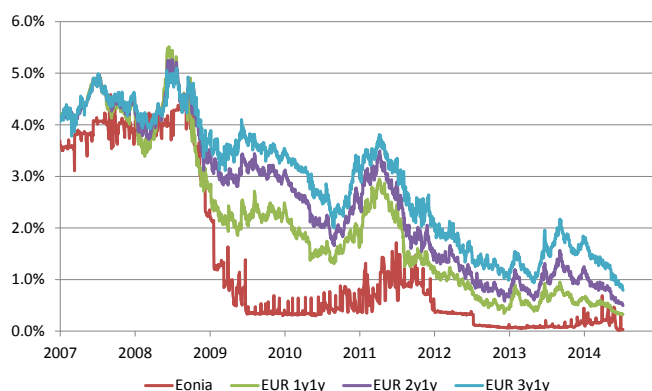
There's more to gain, assuming "Low-for-Longer" is the right scenario

Excess liquidity and the re-pricing of Eurozone's macro scenario are behind the performance of ECB carry trades. More to come under "Low-for-Longer", but beware of liquidity swings.

ECB carry trades are amongst the very few profitable macro strategies in the first half of this year. Repeatedly dovish ECB press conferences, a general reassessment of growth and inflation conditions in the Eurozone, an UST positioning that has been often skewed towards shorts and – more recently – resurgent anxiety about the state of peripheral economies are the main factors behind the positive performance of this strategy.

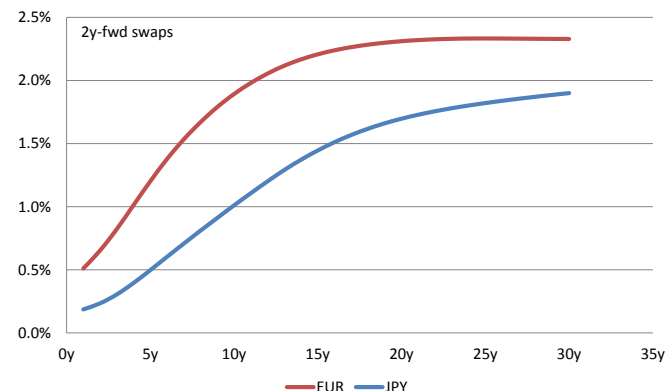
For example, EUR 2y1y started the year at 1.25% and has dropped by 75bp since then (net of positive roll-down, Figure 9). Negative deposit rates and the prospect of experiencing negative Eonia fixings at some stage on the back of TLTRO demand have increased the appetite for this kind of risk. Furthermore, ECB's success in depressing volatility to extreme levels has made front-end receivers look attractive in risk-adjusted terms. Finally, when compared to the current shape of the JPY-fwd curve, there still is some profit to be made both in delta and in theta, if the Japan scenario is the baseline one¹ (Figure 10).

Figure 9. Rolling to zero rates



Source: Citi Research

Figure 10. Still value in "japanisation" strategies



Source: Citi Research

Trade Ideas²

Rec Eonia 2y1y @23bp

The purest expression of ECB carry trades is via 1y-forwards like EUR 2y1y (0.51%). Absent liquidity shocks (higher excess will be priced in as we move within 1m of the TLTRO's settlement and consequent risk of negative Eonia), the trend towards lower 3m and 6m fixings should help the performance of this trade. We also like the trade expressed in Eonias, i.e. receive OIS 2y1y @23bp with targets around 5-6bp (stops in 30bp region, less exposed to a risk-off basis move).

Pay Mar-15 ECB @3bp

On the other side of the risk-spectrum, we can construct a scenario in which TLTRO liquidity will be below expectations and the LTRO3y expiry will create a liquidity cliff, thus shocking future O/N fixings. We think that a negative TLTRO-liquidity surprise should be played via near ECB-gaps as the market would assume additional liquidity measure in case of "unwarranted tightening" of conditions. For example, paying Mar-15 ECB @3bp with a target at 15bp is a strategy that would work in such a liquidity scenario.

¹ ["Low-for-Longer: Not Even at Half-Time"](#) (30 May-14)

² Based on trades discussed in ["Trading Rates in Summer 2014: Boring vs Volatile"](#) (9 Jul-14)

Historically High Rolldown for Spread Options

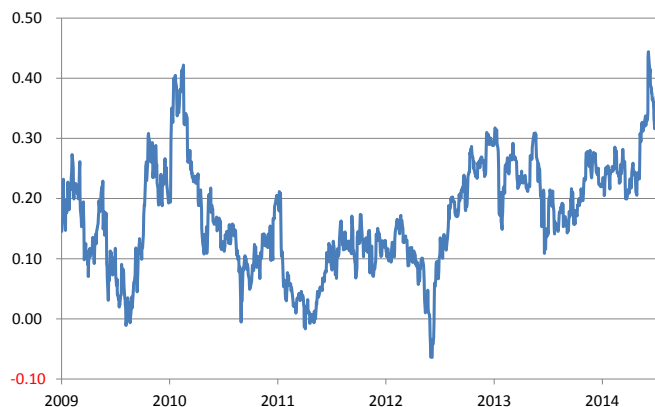
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The steepening theme has been expressed chiefly via swaps and swaptions. Caps are an attractive alternative given historically high rolldown

Steeperers on the EUR swap curve, either spot or forward starting, as well as conditional bull steepeners have been popular strategies in recent months. In fact, these are, respectively, the most appropriate positions to take advantage of the term structure dynamics and downward pressure on the top left corner of the vol surface, both resulting from monetary easing.

At this market juncture however, investors should take better notice of an additional asset class to play exactly the same theme: CMS spread option caps currently look particularly attractive, not just because trivially implied volatility is low. The key fact in our view is that the rolldown enjoyed by spread caps is historically high: we illustrate this point by plotting the evolution of the rolldown³ for 4y single look 5s30s ATMF cap in Figure 11 and 1y single look 10s30s ATMF cap in Figure 12. As it can be readily seen, current rolldown is hovering in the upper region of the historical range.

Figure 11. The rolldown for 4y ATMF 5s30s caps is currently hovering in the upper region of the historical range ...



Source: Citi Research

Figure 12. ... whilst historically high rolldown is also enjoyed by caps on 10s30s for even shorter expiries (shown here is evolution for one year expiry caps)



Source: Citi Research

More generally, we compute one year rolldown for a selection of single look ATMF spread caps, floors and straddles in Figure 13, Figure 14 and Figure 15 respectively.

10s30s spread caps appear attractive across expiries

Results show that single look 10s30s ATMF spread caps are attractive across expiries whilst for 2s30s, 5s10s and 5s30s short expiries are plagued by negative rolldown.

We note in passing the positive rolldown for 1y and 2y 2s5s flatteners via single look floors, as shown in in Figure 14. These positions suit investors who want to play further duration extension on the 5y point, which is indeed our baseline scenario as a result of our macroeconomic view.

On the other hand we don't think of 2s5s flatteners as appropriate deflation hedges for investors who want to buy insurance against a higher yield environment given our view of a 2s5s bear steepening tail risk in case of upward inflation surprises or in the event of any other repricing up scenario of the macroeconomic trajectory in the Eurozone.

³ We measure rolldown as the ratio of one-year rolldown PnL to the spot premium of the option.

Figure 13. Rolldown on 10s30s caps is positive across maturities

	2s5s	2s10s	2s20s	2s30s	5s10s	5s30s	10s30s
1y	-100%	-100%	-100%	-100%	-95%	-1%	38%
2y	-49%	-30%	-9%	-8%	8%	24%	33%
3y	-21%	3%	22%	21%	28%	31%	31%
4y	1%	19%	36%	35%	28%	34%	27%
5y	8%	19%	35%	35%	19%	26%	18%

Source: Citi Research

Figure 14. With the exception of 2s5s, unsurprisingly rolldown for floors is negative

	2s5s	2s10s	2s20s	2s30s	5s10s	5s30s	10s30s
1y	37%	-4%	-77%	-98%	-100%	-100%	-100%
2y	14%	-16%	-45%	-52%	-46%	-65%	-62%
3y	-11%	-31%	-45%	-46%	-42%	-49%	-44%
4y	-22%	-34%	-41%	-39%	-35%	-36%	-32%
5y	-28%	-36%	-37%	-34%	-32%	-29%	-26%

Source: Citi Research

Figure 15. Floors' rolldown weighs on total rolldown for ATMF spread option straddles

	2s5s	2s10s	2s20s	2s30s	5s10s	5s30s	10s30s
1y	-32%	-52%	-89%	-99%	-97%	-50%	-34%
2y	-18%	-23%	-27%	-30%	-19%	-20%	-15%
3y	-16%	-14%	-11%	-13%	-7%	-9%	-7%
4y	-10%	-8%	-2%	-2%	-4%	-2%	-2%
5y	-10%	-8%	-1%	1%	-6%	-1%	-4%

Source: Citi Research

Conclusion

Rolldown for spread option caps is currently hovering at the historical high.

We recommend investors buy 1y single look ATMF 10s30s cap, offered at 11.25 cents. We also recommend long positions on 1y single look ATMF 2s5s floor, offered at 13 cents, as a safe way to express the view of further duration extension on the 5 year point.

Risk and scenario analysis is available upon request.

UK Rates – Update on 5yr UK vs US

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Gilts have enjoyed a strong rally over the last week, outperforming both Bunds and, to a lesser extent, Treasuries. With little in the way of domestic news, the outperformance can be put down to flow, liquidity and positioning. There may be more focus on fundamentals next week with CPI/RPI on Tuesday and the labour market report on Wednesday. As discussed in [UK Rates Strategy: What moves markets?](#), the CPI has had minimal market impact in recent months (perhaps as it is unlikely to have much influence over the timing of the first rate hike, even if it is below target). In contrast, the jobless rate and average weekly earnings have a far greater propensity to move the market.

Tighten the stop on 5yr gilts vs Treasuries

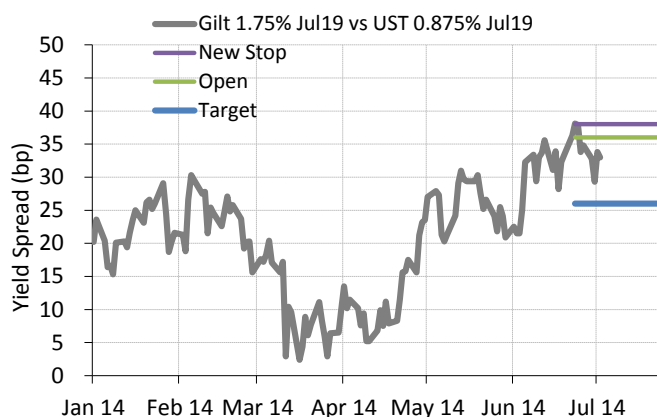
Following recent gains, it seems prudent to tighten the stop on 5yr gilts vs USTs

Recent price action has supported our trade recommendation from 1 July to buy 5yr gilts vs Treasuries (see *Tradesheet* and Figure 16 for bond details and levels). Today, we are tightening the stop to 38bp (from 41bp) to limit the downside, but maintain the target of 26bp (current 33bp).

5yr gilts are likely to be supported by the lack of supply, coupon re-investments and overseas demand

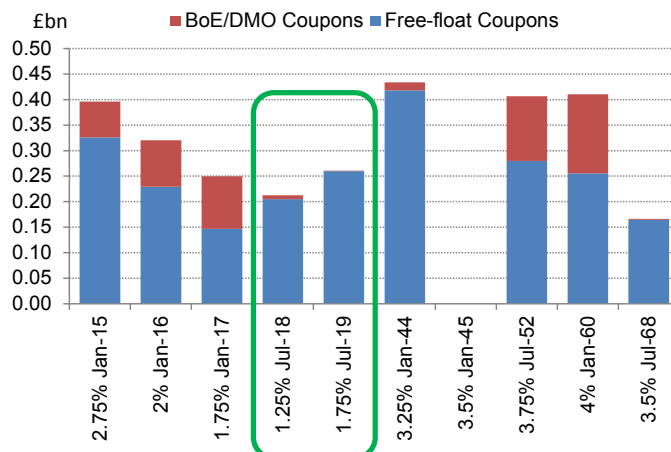
There remain several near-term supports for 5yr gilts. First, the lack of supply as the next 5yr gilt auction is not until 2 September. Second, there are potential re-investment flows from the £2.9bn gilt coupon payments due on 22 July. This falls to £2.3bn when BoE/DMO holdings are excluded. But, it is worth noting that the BoE hold very little of the 5yr gilts with January/July maturities as they are relatively young. On an adjusted basis, the coupon payments on the Jul18s and Jul19s (used in our trade recommendation) total £0.5bn (Figure 17). Third, we also anticipate further inflows into gilts from overseas attracted by the additional yield pick-up.

Figure 16. The 5yr gilt-UST spread has corrected tighter



Source: Citi Research, Bloomberg.

Figure 17. Gilt coupon payments due on 22 July



Source: Citi Research

Inflation: what about 5yr UK vs US in inflation space?

The gap between UK RPI (released 15 July) and US CPI-U (22 July) is likely to re-widen to 0.7%pts in June from 0.2%pts in May

Last week, we also discussed expressing this theme in global inflation markets (see [European Rates Weekly](#), pg18). The entry level for buying 5yr UK vs US in both real yield and break-even inflation terms looks historically attractive. This is yet to work, but we expect there to be a reversal soon given the long-term fundamental value in 5yr UK break-evens and the richness of 5yr TIPS real yields. Moreover, the inflation releases over the next couple of weeks could trigger a reversal. The cheapening of IL gilts vs TIPS can be partly explained by a narrowing in the gap between annual inflation rates for UK RPI and US CPI-U to just 0.2%pts in May from 1.3%pts in February. Citi forecasts suggest this gap will re-widen to 0.7%pts in June.

EGBs...it was looking all so quiet

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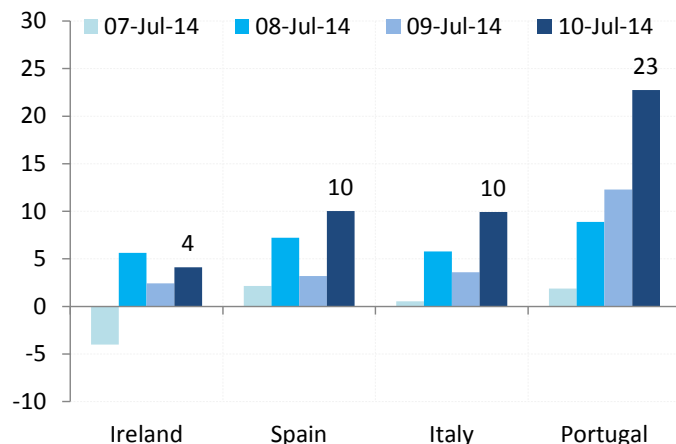
In contrast to the rather benign market environment seen earlier in the summer, EMU spreads have succumbed to fresh turbulence, with positioning and thin volumes probably exacerbating the moves. With uncertainty mounting around events in Portugal's banking sector, 10yr PGB spreads to Bunds are over 40bp wider this week (currently around 277bp). As indicated in our [Trading Rates in Summer 2014: Boring vs Volatile](#), in a scenario of renewed volatility, it is markets such as Portugal that tend to underperform, in part because of the smaller size and lack of liquidity which can make it vulnerable in times of market stress.

Portugal at the epicenter of softer periphery spreads

Portugal has underperformed this week with the return of market volatility

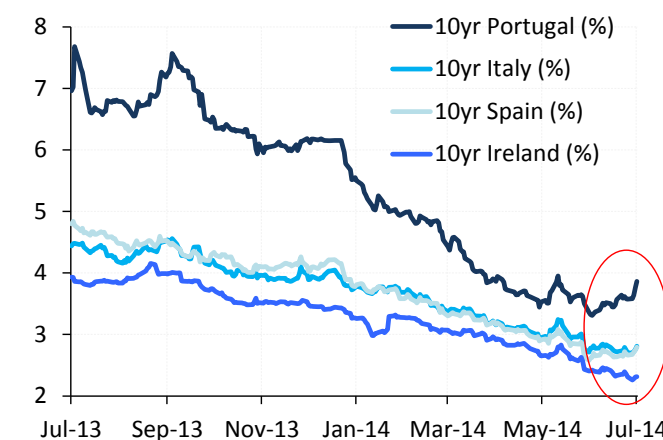
It has been a challenging week for the EMU periphery with Portugal leading the widening in spreads to Germany (Figure 18). Flows have been light and ultimately a "buy on weakness" tone might prevail, but so far this week, 10yr Portugal is trading over 40bp wider to Germany, and 10yr yields are higher by 38bp. Ireland has outperformed with 10yr yields largely unchanged on the week (Figure 19). Spain and Italy however have not been immune and 10yr spreads to Germany are around 20bp wider this week. Consequently, spreads between BTP/Bonos and Irish government bonds have widened, and in some cases, to YTD highs.

Figure 18. This week's change in 10yr periphery spreads to Bunds (bp)



Source: Citi Research

Figure 19. 10yr Periphery yields (%)



Source: Citi Research

Sell off drivers

10yr Portugal hit the 4% level intraday

Portugal itself: At the root of this week's volatility are rising concerns about the creditworthiness amid certain areas of Portugal's banking system. In our view, it will be the unfolding events within this sphere that are likely to govern the wider periphery tone over the near term. Until certainty is achieved regarding the health of certain institutions and the extent to which other authorities may need to intervene, further pressure on spreads cannot be ruled out in the near-term in our view.

Risk off among equities, corporate credit and non-core EMU fixed income

Risk off tone: However, it is important to note that it is not just EMU periphery spreads that are reflecting these concerns. The broader risk-off tone has permeated the spectrum of asset classes: equity markets are down (DJ Stoxx falling over 3% this week) and CDS markets also under pressure.

Less liquid markets like Portugal can be more vulnerable in the face of uncertainty

Less liquid markets: In addition, it is precisely those markets that are less liquid that can be more vulnerable in times of stress. Coupled with extensive performance already – 10yr Portugal having rallied from 6.13% in January to a YTD low of 3.32% in mid-June – it is understandable how thin markets can move sharply in the face of new event risk.

€19bn of supply this week from over 7 sovereigns

Some non-core spreads likely to remain under pressure

Thin market volumes, rather than large selling flows

Portugal is rated Ba2 on review for upgrade by Moody's

Supply: As another factor, note it has been a rather heavy week of EMU supply. Auctions have come from Austria, the Netherlands, Germany, Spain and Ireland and tomorrow Italy sells up to €7.5bn in BTPs. All in all there will be around €19bn in gross issuance for the market to digest.

Market outlook – near-term volatility cannot be ruled out

Spreads may struggle to perform in the near-term: Our base case is that while uncertainty persists, further pressure on spreads cannot be ruled out in the near-term. However, we would also distinguish between short-term drivers and longer-term supports. The events over recent days do little, for example, to undermine ECB credibility in providing ultimate backstops, nor do they change the fact that Portugal has successfully exited its Troika programme and has achieved secure market access with €8bn issued already in 2014.

Flows have been light: Furthermore, volumes have been relatively light and market moves have not necessarily been associated with large selling flows. Ultimately, it is therefore entirely consistent with past behaviour in a “hunt for yield” environment, that a “buy on weakness” theme prevails – this has been seen on several occasions, not least the recent European elections. However, this dynamic can take time to prevail and spreads are likely to struggle to perform in the near-term so long as uncertainty persists surrounding certain financial institutions.

Implication for Portugal's rating: One further implication of recent events may concern Portugal's rating. Importantly, Moody's rates Portugal Ba2 on *positive watch* and to be clear, we maintain Portugal's rating trajectory remains on an upward path. However, should market volatility persist and given the difficulty in assessing how events unfold clearly from here, the probability has perhaps increased that the rating is put back on “stable outlook” at the next calendar entry (5th September for Moody's) rather than upgraded again in the near-term.

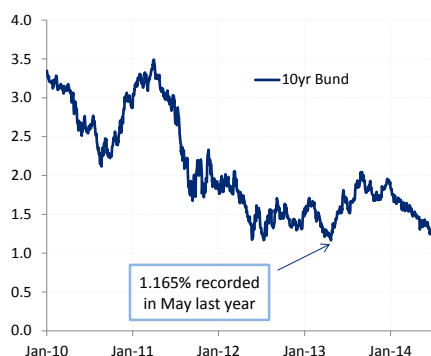
Implications for core markets – could 10yr Bunds achieve 1%?

At 1.20%, 10yr Bunds are but a whisker (well, 3bp-4bp to be precise) away from their *all time* lows of 1.165% which was achieved on 2nd May 2013 (Figure 20). As we detailed in our recent [European Rates Weekly: summer supports for core rates](#), the German market is already contending with beneficial seasonals and had supportive cash flows earlier in July. This was why we argued for Bund yields to remain low in the near-term. However, since then, the rise in event risk has lent further support to Bunds as their safe haven status resurfaces as a powerful market driver. Together with the other supports, in a scenario of heightened volatility and headline risk, it would not be surprising in our view for 10yr Bund yields to pierce their previous lows and near the 1% level which historically they have so far not hit (Figure 20).

Conclusion and trading strategies

Longer term macro fundamental drivers remain in place for core rates to remain relatively low and range bound, and event risk is only adding further support to Bund yields. For the periphery, insofar as the current wave of event risk remains localized, broader supports for the Spanish, Italian and Irish markets remain in place for spreads to resume their tightening trend once more certainty is achieved regarding the specifics of Portugal's current event risk ([Portugal - One Lender Causes Widespread Market Turbulence](#)). In the very near term however, further pressure on spreads cannot be ruled out. We therefore prefer trading strategies that focus on relative value rather than outright duration, such as the spread between 7yr Italy and Spain as detailed in our [European Rates Weekly 29th May](#).

Figure 20. 10yr Bund yields (%)



Source: Citi Research

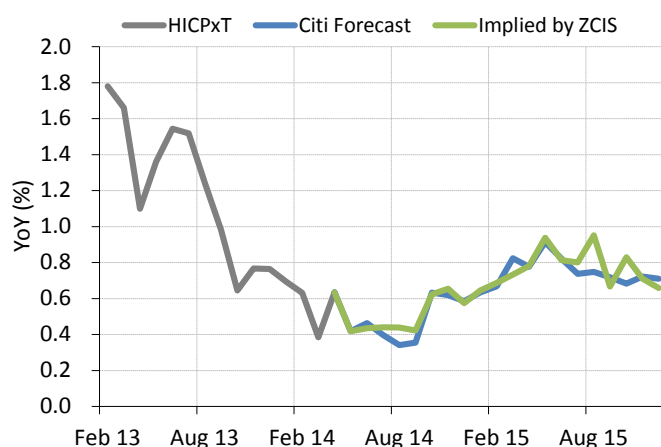
Euro Inflation – two trades for the summer

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The euro inflation market feels a bit stuck. 10yr euro break-even inflation spreads have traded within an 8bp range for the last two months. For a variety of reasons, both the downside and the upside seem to be limited, especially as the market looks well priced for a sustained period of low inflation.

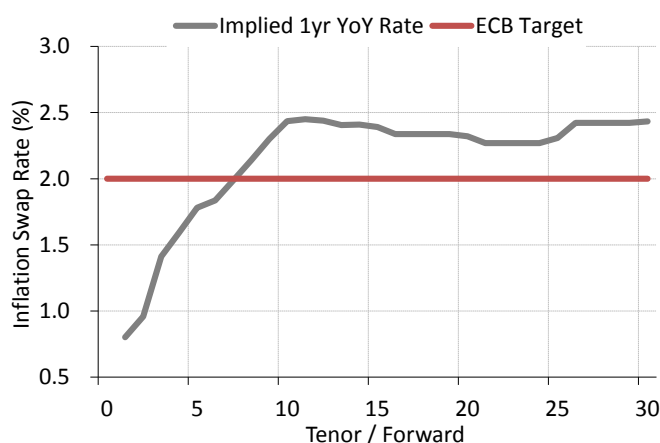
- **Limited downside:** Euro inflation curves are well-priced for both low inflation over the coming months (Figure 21) and for below-target inflation in future years (Figure 22). This somewhat limits the downside. Furthermore, selling break-evens at these levels is tantamount to challenging the ECB's ability to generate inflation and/or weaken the euro. While this ability is undoubtedly under question, more drastic policy action (such as full-blown QE) is likely if deflation threatens.

Figure 21. Upcoming inflation prints look well priced



Source: Citi Research

Figure 22. Inflation is not expected to return to target for 7yrs



Source: Citi Research

- **Limited upside:** Offsetting this, break-evens are likely to struggle to rally given the poor inflation accrual, the low level of real yields (accompanied by rallying nominal yields) and heavy issuance in 2014 (a record year for euro inflation issuance, helped by the entrance of Spain who tapped SPGBei24 this week).

This balanced backdrop is unlikely to change unless the inflation prints, unexpectedly, start to move decisively in either direction. Below, we consider two tactical trades for the summer. The first assumes the status quo while the second would benefit the most in a scenario of upside inflation surprises.

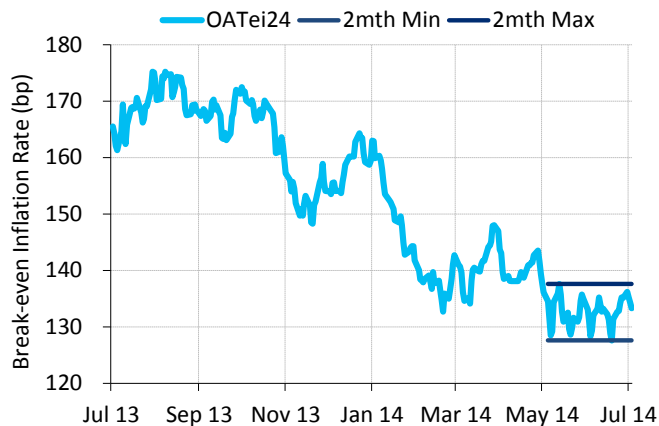
Trade 1: sell OATei24 break-even inflation spreads

This is a trade for those anticipating a relatively uneventful summer with break-evens remaining broadly stuck in the range (Figure 23). The strong negative carry in September will soon come into view. Carry in September is driven by the monthly change in inflation in July. Typically, the seasonals dictate that this is negative. In 2014, the fall in inflation could be even larger than usual (Figure 24). Citi are forecasting a monthly fall of -0.65%. This translates into negative carry on OATei24 break-evens of 10bp to 1 October. So to keep forward break-evens within the recent range, spot break-evens need to fall further. We expect the market to cheapen ahead of the negative carry, particularly in August. This makes us more inclined to sell the rallies in break-evens rather than buy the dips.

- **Trade:** Sell OATei24 break-even inflation spread. Open 136bp (see [Rates Strategy Presentations](#)), current 131bp, revised target 125bp, revised stop 140bp, carry implied by Citi HICPxt forecasts = +10bp to 1 October.

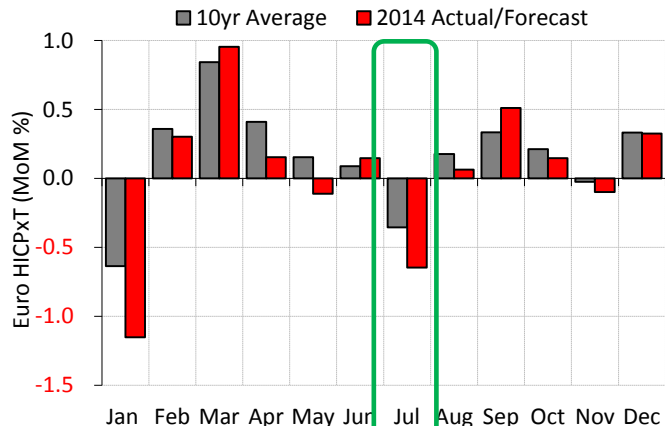
Euro break-even may face selling pressure ahead of the negative carry in September

Figure 23. OATe24 break-even inflation is at the top of the range



Source: Citi Research, Bloomberg.

Figure 24. Monthly changes in HICPxT



Source: Citi Research, Bloomberg.

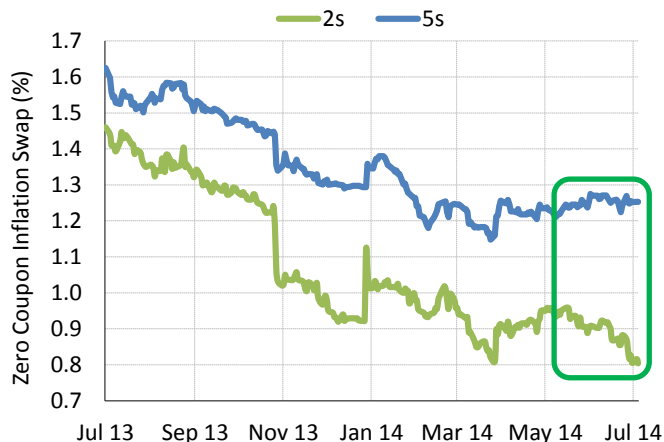
Trade 2: HICPxT 2s5s flattener

The 2s5s HICPxT curve has steepened and the risk-reward now favours flatteners, especially if the inflation rate is bottoming out

The latest annual rate for HICPxT (for May) is 0.42%. This may fall a little further in the coming months, but is probably near a base. Inflation is likely to linger around this level until the autumn when it will likely slowly start to head higher. The market is already well priced for this scenario (Figure 21). The path of realised inflation is the main determinant of the slope of the inflation curve (2s5s/2s10s). The 2s5s curve has steepened by around 15bp over the last two months taking the 2yr rate to its multi-year lows (Figure 25). So while there are risks on both sides in terms of inflation surprises, the risk-reward favours positioning for an upside surprise and inflation curve flatteners. This is especially true if inflation is finding a base given the tendency for the curve to anticipate the cyclical turning points in inflation (see the green boxes in Figure 26). In other words, the 2s5s (2s10s) inflation curve may begin to flatten even with inflation stable around current levels.

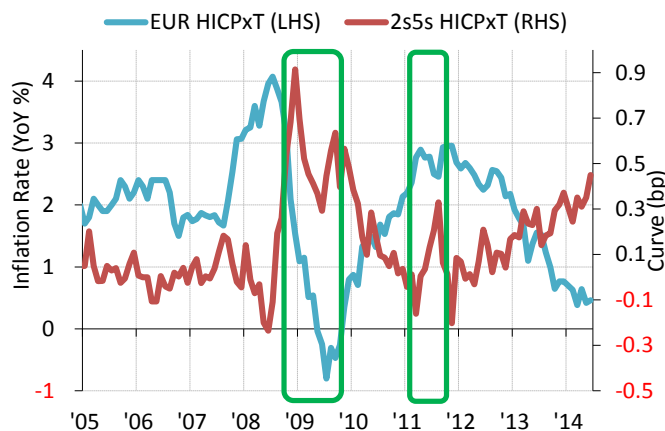
■ **Trade:** 2s5s Euro HICPxT flattener. Open/current = 45bp (see [Rates Strategy Presentations](#)), target 33bp, stop 51bp

Figure 25. Recent fall in 2yr HICPxT relative to 5yr



Source: Citi Research, Bloomberg.

Figure 26. The inflation curve tends to mirror actual inflation



Source: Citi Research, Bloomberg.

KfW – supply changes and going green

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KfW has been making the headlines recently, especially in the context of its revised funding programme and prospects of launching its first ever green bond. We detail such developments with particular focus on the implications for the market outlook. The green bond market is certainly gathering traction, both in the SSA space and the wider corporate environment. Issuance in 2014 looks set to see the largest volumes ever recorded, especially in the euro market.

KfW 2014 funding reduced – similar to last year

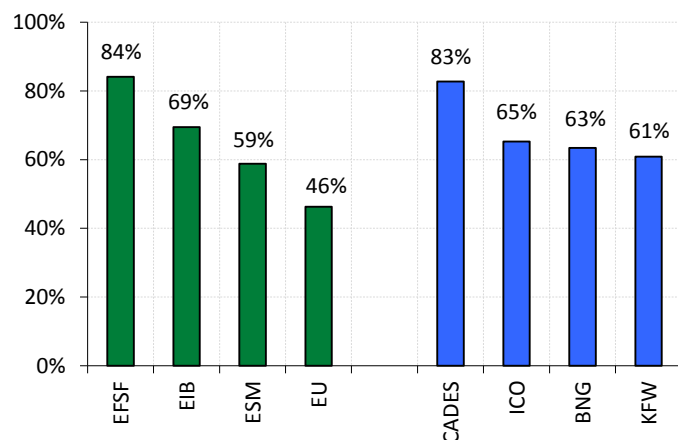
KfW 2014 funding reduced by €10bn

Less supply: KfW has reduced its 2014 funding programme from €65bn-€70bn to €55bn-€60bn. As of the 30th June, it had issued €36.5bn or 61% of the potentially new maximum for the year. This puts it more in line with peers in terms of completion rates year-to-date (Figure 27). Issuance last year stood at €65.2bn (down from €78.4bn in 2012) following a similar reduction in the funding requirement. KfW states that the reduced funding volume in 2014 is due in part to the high non-scheduled repayments of promotional loans.

Supply unlikely to disturb spreads in the near term

Market impact: Insofar as investors were anticipating a return of supply to disturb spreads and potentially offer a buying opportunity, the probability of this occurring has now been reduced. KfW now has around €18.5bn-€23.5bn left to issue for the year across *all* currencies. This time last year, a signal to “buy on dips” was around 40bp over Germany in the 7yr sector, but this year it is looking like nearer 30bp – and it is dubious this level will be seen any time soon over the quiet summer months and given the subdued supply outlook (Figure 28). The reduced funding volume for 2014 gives credence to the low and range bound spread environment to Germany within the context of 20bp-25bp over the near-term in our view.

Figure 27. YTD Completion Rates for key SSAs (%)



Source: Citi Research, Investor Presentations

Figure 28. 7yr KfW spreads to Germany (bp)



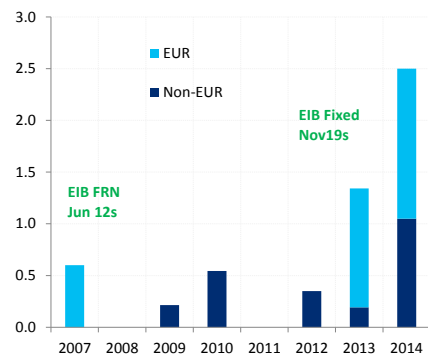
Source: Citi Research

KfW to enter the green bond market

Green bonds are flourishing with KfW set to enter the euro market soon

Separately, KfW has indicated it will soon enter the green bond market and we expect an inaugural issue of €0.5bn-€1bn in coming months. This is a positive development for the ongoing maturation of this euro SSA sector given the high profile and standing associated with KfW. KfW's Executive Board member Günther Bräunig stated that KfW's “*aim as a green bond issuer is to establish the same systematic dialogue with investors to get them engaged in climate protection finance. I am convinced that capital can provide very strong stimuli for sustainable development. The more capital market participants are committed to responsible investment, the bigger the effect*”.

Figure 29. EIB CAB Issuance (€bn)



Source: Citi Research, EIB

Green bonds have been around for some time, just not in euros

Green bond issuance in itself is nothing new having been pioneered by supras such as the World Bank and the EIB several years ago. What's grabbed the market's attention is first the surge in issuance recently, second the diversification of issuers and third, the rise in the *euro* green bond market. We first noted the "green shoots" in the euro green bond market last year and indeed, supply looks set to flourish in the quarters and years ahead (*Euro SSA Strategy - Green shoots in € green bonds*).

Within the euro space specifically, EIB is the leading issuer under its Climate Awareness programme and serves as a sector proxy (Figure 29). In July 2013, EIB issued €0.65bn in a fixed rate Climate Awareness Bond (EIB 1.375% Nov19s) and it has since increased the amount outstanding to €2.6bn (Figure 2). Such issuance enables investors to contribute to projects associated with climate change whilst benefitting from the high credit quality and expertise of EIB.

Figure 30. Euro and sterling SSA issuance of green bonds (details, amounts in ccy)

Date	Issue type	Current	Issuer	Coupon	Maturity	Amount (ccy bn)	Outstanding (ccy bn)	Bond info
11-Jul-13	new issue	EUR	EIB	1.375%	15-Nov-19	0.65	0.65	Climate Awareness Bond
03-Sep-13	tap	EUR	EIB	1.375%	15-Nov-19	0.25	0.9	Climate Awareness Bond
24-Oct-13	tap	EUR	EIB	1.375%	15-Nov-19	0.25	1.15	Climate Awareness Bond
21-Nov-13	new issue	EUR	NRWBK	0.750%	28-Nov-17	0.25	0.25	Sustainability Bond
13-Jan-14	tap	EUR	EIB	1.375%	15-Nov-19	0.35	1.5	Climate Awareness Bond
18-Feb-14	tap	EUR	EIB	1.375%	15-Nov-19	0.5	2	Climate Awareness Bond
25-Feb-14	tap	EUR	EIB	1.375%	15-Nov-19	0.25	2.25	Climate Awareness Bond
13-Mar-14	new issue	EUR	IBRD	0.250%	20-Mar-17	0.55	0.55	Green Bond
26-Mar-14	new (£) issue	GBP	EIB	2.250%	07-Mar-20	0.5	0.5	£ Climate Awareness Bond
17-May-14	tap	EUR	EIB	1.375%	15-Nov-19	0.35	2.6	Climate Awareness Bond
26-Jun-14	new issue	EUR	NEDWBK	0.625%	03-Jul-19	0.5	0.5	Green bond

Source: Citi Research, Investor Presentations

Diversification on the issuer side both within SSAs and the wider corporate sector

Indeed, the European SSA green bond market has further developed in 2014 (Figure 30) with the following key transactions:

- **EIB** has increased its CAB 1.375% Nov19s to €2.6bn
- **EIB sterling** issuance of £0.5bn in the CAB £ 2.25% Mar20
- **IBRD** issued a euro green bond with €0.55bn in IBRD 0.25% Mar17s
- **NEDWK** issued its inaugural green bond in June with €0.5bn in NEDWBK 0.625% Jul19s

The growing euro market trend looks set to continue given investor appetite and the ability SSAs have to identify and target particular bond proceeds to green projects. Furthermore, it's not just the euro SSA sector that's seeing growth, but the wider corporate sector too. In 2014 alone, there has been European green bond issuance from Unilever (£0.25bn), Iberdrola (€0.75bn) and GDF Suez (€2.5bn). This further indicates not only investor appetite for green investments but also the growing ability and willingness on behalf of issuers to utilize capital markets effectively for environmentally friendly projects.

Green Bond Principles now established

Green bond principles now in use – defining characteristics

Put simply, green bonds are (usually) vanilla, pari passu, bonds the proceeds of which are earmarked for some “green investment” usually associated with environmental or climate change projects. Given their growing importance, the *Green Bond Principles* were established in January 2014. These are voluntary guidelines that “*recommend transparency and disclosure and promote integrity in the Green Bond market by clarifying the approach for issuance of a Green Bond*”. As well as laying down guidelines for the reporting process, third party verification and detailing various definitions, the Green Bond Principles recognize various broad categories that help distinguish green bonds from regular bonds issued by promotional banks, supnationals and corporates. Specifically, use of proceeds include, but are not limited to:

- Renewable energy
- Energy efficiency (including efficient buildings)
- Sustainable waste management
- Sustainable land use
- Biodiversity conservation
- Clean transportation
- Clean water and/or drinking water

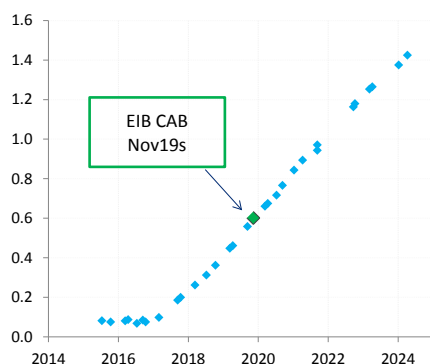
In short, we welcome the establishment of such principles in guiding the development this growing market.

Thoughts on pricing

Green bonds tend to trade in line with neighbouring issues

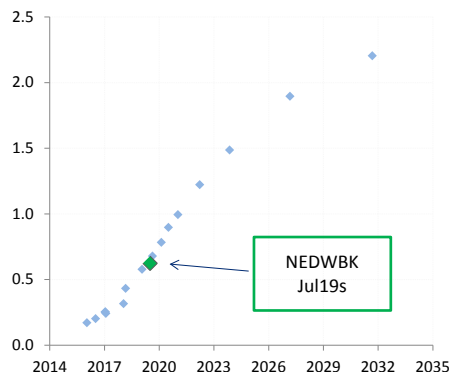
As S&P notes, the credit risk of green bond remains on the issuer’s balance sheet meaning that investors do not have to sacrifice yield to gain “green exposure” (S&P Ratings Direct, “*The Greening of the Corporate Bond Market*, 20th May 2014). In general, we detect little differentiation between green bonds and their neighbouring issues. Evidence for this can be seen in EIB’s and now NEDWBK’s yield curves (Figure 31, Figure 32). Furthermore, EIB’s Nov19s has rallied in line with EIB Se19s and the spread between the two has been generally range bound (Figure 33). At inception, smaller deals may induce a degree of liquidity premia but this may be eroded as and when bond sizes are increased.

Figure 31. EIB’s € Yield Curve (%)



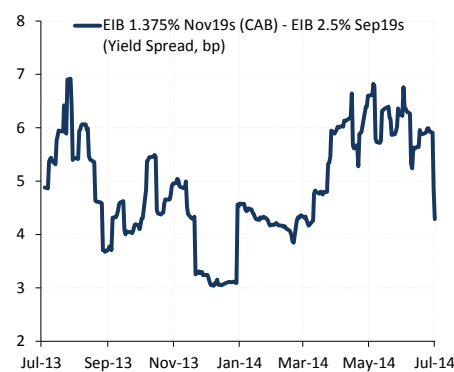
Source: Citi Research

Figure 32. NEDWBK's € Yield Curve (%)



Source: Citi Research

Figure 33. EIB Nov19s – EIB Sep19s (bp)



Source: Citi Research

Conclusion: euro green bond market looks set to flourish

The market environment remains conducive for the ongoing maturation of the green bond market – green shoots are now clearly giving way to something more substantial. The fact that KfW, with its strong market franchise and high credit quality, is set to enter the euro green bond market is testament to its development and investor appetite for green exposure. Our main message is that issuance looks set to rise and with it the opportunity for investors to diversify further among high quality assets. Tracking the euro issues within the SSA market we follow specifically, supply in 2014 already stands at over €2.5bn (the majority of which are taps of EIB's Nov19s). This year has also seen EIB issue in the sterling sector. KfW's contribution will further enhance this diversification and altogether, the additional focus green bonds hereby receive is likely to be a positive for the sector overall.

Euro Relative Value Screen – All Maturities

Figure 34. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - all bonds on each curve

Versus Govt Curve (CAS)							Versus Swap Curve (CAS)						
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)		
GERMANY	Richest	1	2.50 Jan21	-2.44	Nov10	19	Richest	1	1.50 May24	-1.26	May14	10	
		2	3.25 Jul21	-1.81	Apr11	19		2	0.50 Apr19	-0.29	May14	13	
		3	3.50 Jul19	-1.39	May09	24		3	2.50 Aug46	-0.23	Feb14	5	
		4	1.50 Sep22	-1.21	Sep12	18		4	3.25 Jul21	0.06	Apr11	19	
		5	3.75 Jan19	-1.21	Nov08	24		5	2.25 Sep21	0.14	Aug11	16	
	Cheapest	5	4.25 Jul39	0.85	Jan07	14		Cheapest	5	0.50 Apr17	0.98	Apr12	18
		4	1.50 May23	1.00	May13	18			4	0.25 Apr18	1.00	Apr13	17
		3	1.50 Feb23	1.25	Jan13	18			3	5.50 Jan31	1.03	Oct00	17
		2	1.25 Oct16	1.41	Sep11	16			2	4.75 Jul34	1.04	Jan03	20
		1	0.50 Apr17	1.44	Apr12	18			1	0.50 Oct17	1.07	Sep12	16
FRANCE	Richest	1	2.25 May24	-2.43	Nov13	28	Richest	1	3.50 Apr20	-2.35	Feb10	36	
		2	4.75 Apr35	-1.97	Apr03	21		2	2.50 Oct20	-2.34	Oct09	35	
		3	1.00 May19	-1.89	Jan14	22		3	4.00 Apr18	-2.29	Apr07	27	
		4	1.75 Nov24	-1.62	Jun14	10		4	3.75 Apr21	-2.21	Apr05	36	
		5	4.00 Apr18	-1.43	Apr07	27		5	1.00 May19	-2.18	Jan14	22	
	Cheapest	5	3.75 Apr17	1.55	Apr06	37		Cheapest	5	4.50 Apr41	-1.69	Apr09	24
		4	2.75 Oct27	1.62	Oct11	29			4	4.00 Oct38	-1.67	Oct05	24
		3	2.25 Oct22	1.84	Oct11	25			3	4.00 Apr60	-1.65	Apr09	11
		2	1.00 Jul17	2.09	Jul11	20			2	1.75 Nov24	-1.57	Jun14	10
		1	3.00 Apr22	2.19	Feb12	34			1	2.50 May30	-1.48	May14	11
ITALY	Richest	1	4.75 Jun17	-1.44	Jun12	16	Richest	1	4.75 Sep16 (BTS)	-1.37	Sep11	16	
		2	4.75 May17	-1.41	Feb12	14		2	3.75 Aug16	-1.37	Feb06	27	
		3	4.75 Sep44	-1.31	Mar13	13		3	4.75 May17	-1.36	Feb12	14	
		4	5.25 Aug17	-1.19	Feb02	24		4	4.75 Jun17	-1.36	Jun12	16	
		5	3.75 Aug16	-0.77	Feb06	27		5	5.25 Aug17	-1.32	Feb02	24	
	Cheapest	5	4.25 Sep19	1.67	May09	25		Cheapest	5	5.00 Sep40	0.04	Sep09	21
		4	4.25 Feb19	1.78	Feb03	25			4	4.00 Feb37	0.17	Aug05	26
		3	4.50 Mar19	1.95	Sep08	24			3	3.50 Mar30	0.74	May14	7
		2	3.50 Dec18	2.11	Sep13	20			2	2.15 Dec21	1.60	Jun14	5
		1	4.50 May23 (IK)	2.19	Mar13	18			1	1.50 Aug19	1.79	Jul14	5
N'LANDS	Richest	1	3.25 Jul21	-3.22	Mar11	16	Richest	1	3.25 Jul21	-3.01	Mar11	16	
		2	1.25 Jan18	-1.41	Jul12	15		2	2.25 Jul22	-2.78	Feb12	15	
		3	4.00 Jul19	-1.30	Feb09	14		3	3.50 Jul20	-2.76	Feb10	15	
		4	2.00 Jul24	-0.96	Mar14	11		4	3.75 Jan23	-2.55	Jan06	11	
		5	2.50 Jan17	-0.52	Jun11	16		5	1.75 Jul23	-2.52	Mar13	16	
	Cheapest	5	4.00 Jan37	0.71	Apr05	14		Cheapest	5	2.50 Jan33	-1.87	Mar12	10
		4	1.25 Jan19	1.02	Jun13	15			4	4.00 Jan37	-1.80	Apr05	14
		3	2.25 Jul22	1.27	Feb12	15			3	2.50 Jan17	-1.70	Jun11	16
		2	4.00 Jul16	1.29	Jul06	15			2	0.50 Apr17	-1.66	Jan14	12
		1	3.75 Jan23	1.84	Jan06	11			1	4.00 Jul16	-0.72	Jul06	15
SPAIN	Richest	1	5.75 Jul32	-2.44	Jan01	15	Richest	1	3.80 Jan17	-1.33	Oct06	21	
		2	4.20 Jan37	-2.22	Jan05	16		2	3.30 Jul16	-1.30	Apr13	17	
		3	4.50 Jan18	-1.88	Nov12	19		3	4.25 Oct16	-1.27	Sep11	21	
		4	4.90 Jul40	-1.70	Jun07	13		4	2.10 Apr17	-1.19	Nov13	20	
		5	4.10 Jul18	-1.38	Feb08	19		5	5.50 Jul17	-1.16	Mar02	20	
	Cheapest	5	4.60 Jul19	2.53	Feb09	20		Cheapest	5	5.15 Oct28	0.24	Jul13	70
		4	4.30 Oct19	2.73	Jun09	21			4	5.15 Oct44	0.30	Oct13	6
		3	4.65 Jul25	2.89	Feb10	14			3	4.70 Jul41	0.34	Sep09	12
		2	4.00 Apr20	2.92	Jan10	22			2	1.40 Jan20	1.48	Jul14	4
		1	4.80 Jan24	3.56	Sep08	15			1	2.75 Oct24	2.23	Jun14	9
BELGIUM	Richest	1	3.00 Jun34	-2.01	Mar14	5	Richest	1	3.75 Sep20	-2.60	Jan10	18	
		2	4.25 Sep22	-1.32	Jan12	15		2	4.50 Mar26	-2.53	Jun11	8	
		3	1.25 Jun18	-1.16	Feb13	12		3	4.00 Mar19	-2.44	Jan09	11	
		4	2.60 Jun24	-0.72	Jan14	11		4	3.00 Sep19	-2.42	Apr12	11	
		5	4.00 Mar22	-0.67	May06	14		5	4.00 Mar18	-2.39	Jan08	12	
	Cheapest	5	4.00 Mar17	1.74	Jan07	11		Cheapest	5	5.50 Sep17	-2.17	Jun02	8
		4	5.00 Mar35	1.98	May04	19			4	4.00 Mar32	-2.16	Mar12	8
		3	5.50 Sep17	2.15	Jun02	8			3	4.00 Mar17	-2.04	Jan07	11
		2	4.25 Mar41	2.28	Apr10	14			2	4.25 Mar41	-2.04	Apr10	14
		1	4.00 Mar32	2.47	Mar12	8			1	3.75 Jun45	-1.90	Sep13	5

Source: Citi Research

Euro Relative Value Screen – Sub-12yrs

Figure 35. Coupon adjusted spread (CAS) 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)							
	Rank		ZScore	Issued	Size (€bn)		Rank		ZScore	Issued	Size (€bn)		
GERMANY	Richest	1	2.50 Jan21	-2.44	Nov10	19	Richest	1	1.50 May24	-1.26	May14	10	
		2	3.25 Jul21	-1.81	Apr11	19		2	0.50 Apr19	-0.29	May14	13	
		3	3.50 Jul19	-1.39	May09	24		3	3.25 Jul21	0.06	Apr11	19	
		4	1.50 Sep22	-1.21	Sep12	18		4	2.25 Sep21	0.14	Aug11	16	
		5	3.75 Jan19	-1.21	Nov08	24		5	1.50 Sep22	0.18	Sep12	18	
	Cheapest	5	3.75 Jan17	0.84	Nov06	20		Cheapest	5	4.00 Jan18	0.94	Nov07	20
		4	1.50 May23	1.00	May13	18			4	0.50 Feb18	0.97	Jan13	17
		3	1.50 Feb23	1.25	Jan13	18			3	0.50 Apr17	0.98	Apr12	18
		2	1.25 Oct16	1.41	Sep11	16			2	0.25 Apr18	1.00	Apr13	17
		1	0.50 Apr17	1.44	Apr12	18			1	0.50 Oct17	1.07	Sep12	16
FRANCE	Richest	1	2.25 May24	-2.43	Nov13	28	Richest	1	3.50 Apr20	-2.35	Feb10	36	
		2	1.00 May19	-1.89	Jan14	22		2	2.50 Oct20	-2.34	Oct09	35	
		3	1.75 Nov24	-1.62	Jun14	10		3	4.00 Apr18	-2.29	Apr07	27	
		4	4.00 Apr18	-1.43	Apr07	27		4	3.75 Apr21	-2.21	Apr05	36	
		5	1.00 Nov18	-1.31	Nov12	21		5	1.00 May19	-2.18	Jan14	22	
	Cheapest	5	0.25 Nov16	1.52	Apr14	10		Cheapest	5	1.00 Jul17	-1.90	Jul11	20
		4	3.75 Apr17	1.55	Apr06	37			4	3.75 Apr17	-1.87	Apr06	37
		3	2.25 Oct22	1.84	Oct11	25			3	0.50 Nov19	-1.81	Jun14	4
		2	1.00 Jul17	2.09	Jul11	20			2	0.25 Nov16	-1.81	Apr14	10
		1	3.00 Apr22	2.19	Feb12	34			1	1.75 Nov24	-1.57	Jun14	10
ITALY	Richest	1	4.75 Jun17	-1.44	Jun12	16	Richest	1	4.75 Sep16 (BTS)	-1.37	Sep11	16	
		2	4.75 May17	-1.41	Feb12	14		2	3.75 Aug16	-1.37	Feb06	27	
		3	5.25 Aug17	-1.19	Feb02	24		3	4.75 May17	-1.36	Feb12	14	
		4	3.75 Aug16	-0.77	Feb06	27		4	4.75 Jun17	-1.36	Jun12	16	
		5	3.50 Nov17	-0.70	Nov12	17		5	5.25 Aug17	-1.32	Feb02	24	
	Cheapest	5	4.25 Sep19	1.67	May09	25		Cheapest	5	5.00 Mar25	-0.75	Mar09	22
		4	4.25 Feb19	1.78	Feb03	25			4	4.50 Mar26	-0.64	Sep10	21
		3	4.50 Mar19	1.95	Sep08	24			3	3.75 Sep24	-0.29	Mar14	17
		2	3.50 Dec18	2.11	Sep13	20			2	2.15 Dec21	1.60	Jun14	5
		1	4.50 May23 (IK)	2.19	Mar13	18			1	1.50 Aug19	1.79	Jul14	5
N'LANDS	Richest	1	3.25 Jul21	-3.22	Mar11	16	Richest	1	3.25 Jul21	-3.01	Mar11	16	
		2	1.25 Jan18	-1.39	Jul12	15		2	2.25 Jul22	-2.78	Feb12	15	
		3	4.00 Jul19	-1.28	Feb09	14		3	3.50 Jul20	-2.76	Feb10	15	
		4	2.00 Jul24	-0.96	Mar14	11		4	3.75 Jan23	-2.55	Jan06	11	
		5	2.50 Jan17	-0.51	Jun11	16		5	1.75 Jul23	-2.52	Mar13	16	
	Cheapest	5	0.50 Apr17	0.57	Jan14	12		Cheapest	5	4.50 Jul17	-2.07	Jul07	15
		4	1.25 Jan19	1.02	Jun13	15			4	4.00 Jul18	-2.02	Feb08	15
		3	2.25 Jul22	1.27	Feb12	15			3	2.50 Jan17	-1.70	Jun11	16
		2	4.00 Jul16	1.29	Jul06	15			2	0.50 Apr17	-1.66	Jan14	12
		1	3.75 Jan23	1.84	Jan06	11			1	4.00 Jul16	-0.72	Jul06	15
SPAIN	Richest	1	4.50 Jan18	-1.91	Nov12	19	Richest	1	3.80 Jan17	-1.33	Oct06	21	
		2	5.85 Jan22 (FBB)	-1.38	Nov11	19		2	3.30 Jul16	-1.30	Apr13	17	
		3	4.10 Jul18	-1.38	Feb08	19		3	4.25 Oct16	-1.27	Sep11	21	
		4	3.80 Jan17	-0.68	Oct06	21		4	2.10 Apr17	-1.19	Nov13	20	
		5	4.85 Oct20	-0.66	Jul10	18		5	5.50 Jul17	-1.16	Mar02	20	
	Cheapest	5	4.60 Jul19	2.53	Feb09	20		Cheapest	5	4.80 Jan24	-0.47	Sep08	15
		4	4.30 Oct19	2.73	Jun09	21			4	3.80 Apr24	-0.43	Jan14	21
		3	4.65 Jul25	2.89	Feb10	14			3	4.65 Jul25	-0.15	Feb10	14
		2	4.00 Apr20	2.91	Jan10	22			2	1.40 Jan20	1.48	Jul14	4
		1	4.80 Jan24	3.56	Sep08	15			1	2.75 Oct24	2.23	Jun14	9
BELGIUM	Richest	1	4.25 Sep22	-1.39	Jan12	15	Richest	1	3.75 Sep20	-2.60	Jan10	18	
		2	1.25 Jun18	-1.19	Feb13	12		2	4.50 Mar26	-2.53	Jun11	8	
		3	2.60 Jun24	-0.79	Jan14	11		3	4.00 Mar19	-2.44	Jan09	11	
		4	4.00 Mar22	-0.73	May06	14		4	3.00 Sep19	-2.42	Apr12	11	
		5	4.50 Mar26	-0.23	Jun11	8		5	4.00 Mar18	-2.39	Jan08	12	
	Cheapest	5	4.25 Sep21	0.91	Jan11	15		Cheapest	5	2.25 Jun23	-2.22	Jan13	14
		4	3.25 Sep16	1.18	Jan06	13			4	4.00 Mar22	-2.22	May06	14
		3	2.25 Jun23	1.46	Jan13	14			3	3.25 Sep16	-2.21	Jan06	13
		2	4.00 Mar17	1.72	Jan07	11			2	5.50 Sep17	-2.17	Jun02	8
		1	5.50 Sep17	2.12	Jun02	8			1	4.00 Mar17	-2.04	Jan07	11

Source: Citi Research

Euro Relative Value Screen – 8yr+

Figure 36. Coupon adjusted spread (CAS) to fitted curve and swap curve by country (6m history) - bonds with a minimum maturity of 8yrs

		Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
		GERMANY					FRANCE				
		Rank	Coupon	Issued	Size (€bn)	ZScore	Rank	Coupon	Issued	Size (€bn)	ZScore
GERMANY	Richest	1	1.50 Sep22	Sep12	18	-1.21	1	1.50 May24	May14	10	-1.26
		2	1.75 Feb24	Jan14	18	-1.19	2	2.50 Aug46	Feb14	5	-0.23
		3	3.25 Jul42	Jul10	15	-0.50	3	1.50 Sep22	Sep12	18	0.18
		4	6.25 Jan30	Jan00	9	-0.44	4	2.50 Jul44	Apr12	16	0.22
		5	2.50 Jul44	Apr12	16	-0.43	5	3.25 Jul42	Jul10	15	0.32
		5	4.00 Jan37	Jan05	23	0.66	5	4.25 Jul39	Jan07	14	0.80
		4	4.75 Jul40	Jul08	16	0.85	4	4.00 Jan37	Jan05	23	0.90
		3	4.25 Jul39	Jan07	14	0.85	3	6.25 Jan30	Jan00	9	0.96
		2	1.50 May23	May13	18	1.00	2	5.50 Jan31	Oct00	17	1.03
	Cheapest	1	1.50 Feb23	Jan13	18	1.25	1	4.75 Jul34	Jan03	20	1.04
FRANCE	Richest	1	2.25 May24	Nov13	28	-2.43	1	1.75 May23	May12	26	-2.14
		2	4.75 Apr35	Apr03	21	-1.97	2	2.25 May24	Nov13	28	-2.11
		3	1.75 Nov24	Jun14	10	-1.62	3	3.50 Apr26	Apr10	30	-2.09
		4	4.00 Oct38	Oct05	24	-0.98	4	2.25 Oct22	Oct11	25	-2.00
		5	4.25 Oct23 (OAT)	Oct06	33	-0.79	5	4.25 Oct23 (OAT)	Oct06	33	-1.94
		5	4.00 Apr55	Apr04	15	0.15	5	4.50 Apr41	Apr09	24	-1.69
		4	2.50 May30	May14	11	0.51	4	4.00 Oct38	Oct05	24	-1.67
		3	3.50 Apr26	Apr10	30	1.12	3	4.00 Apr60	Apr09	11	-1.65
		2	2.75 Oct27	Oct11	29	1.62	2	1.75 Nov24	Jun14	10	-1.57
	Cheapest	1	2.25 Oct22	Oct11	25	1.84	1	2.50 May30	May14	11	-1.48
ITALY	Richest	1	4.75 Sep44	Mar13	13	-1.32	1	5.50 Nov22	May12	21	-0.98
		2	4.50 Mar24	Aug13	23	-0.23	2	5.50 Sep22	Mar12	20	-0.98
		3	5.00 Mar25	Mar09	22	0.49	3	4.75 Aug23	Feb08	25	-0.89
		4	5.50 Sep22	Mar12	20	0.51	4	4.50 Mar24	Aug13	23	-0.84
		5	4.50 Mar26	Sep10	21	0.56	5	4.50 May23 (IK)	Mar13	18	-0.83
		5	4.75 Aug23	Feb08	25	1.10	5	4.75 Sep44	Mar13	13	-0.02
		4	4.00 Feb37	Aug05	26	1.12	4	5.00 Aug39	Aug07	19	0.01
		3	4.75 Sep28	Jan13	18	1.28	3	5.00 Sep40	Sep09	21	0.04
		2	5.00 Sep40	Sep09	21	1.51	2	4.00 Feb37	Apr05	26	0.17
	Cheapest	1	4.50 May23 (IK)	Mar13	18	2.19	1	3.50 Mar30	May14	7	0.74
N'LANDS	Richest	1	2.00 Jul24	Mar14	11	-0.96	1	2.25 Jul22	Feb12	15	-2.78
		2	3.75 Jan42	May10	15	-0.29	2	3.75 Jan23	Jan06	11	-2.55
		3	2.75 Jan47	Feb14	4	-0.22	3	1.75 Jul23	Mar13	16	-2.52
		4	1.75 Jul23	Mar13	16	0.51	4	2.00 Jul24	Mar14	11	-2.48
		4	2.50 Jan33	Mar12	10	0.57	4	2.75 Jan47	Feb14	4	-2.20
		3	4.00 Jan37	Apr05	14	0.72	3	3.75 Jan42	May10	15	-1.91
		2	2.25 Jul22	Feb12	15	1.27	2	2.50 Jan33	Mar12	10	-1.87
		1	3.75 Jan23	Jan06	11	1.84	1	4.00 Jan37	Apr05	14	-1.80
	Cheapest	1	3.75 Jan23	Jan06	11	1.84	1	4.00 Jan37	Apr05	14	-1.80
SPAIN	Richest	1	5.75 Jul32	Jan01	15	-2.44	1	5.40 Jan23	Jan13	17	-0.76
		2	4.20 Jan37	Jan05	16	-2.22	2	4.40 Oct23	May13	18	-0.64
		3	4.90 Jul40	Jun07	13	-1.70	3	4.80 Jan24	Sep08	15	-0.47
		4	4.70 Jul41	Sep09	12	-0.30	4	3.80 Apr24	Jan14	21	-0.43
		5	5.40 Jan23	Jan13	17	0.00	5	4.65 Jul25	Feb10	14	-0.15
		5	4.40 Oct23	May13	18	1.32	5	4.90 Jul40	Jun07	13	0.16
		4	3.80 Apr24	Jan14	21	2.13	4	5.15 Oct28	Jul13	10	0.24
		3	5.90 Jul26	Mar11	14	2.23	3	5.15 Oct44	Oct13	6	0.30
		2	4.65 Jul25	Feb10	14	2.88	2	4.70 Jul41	Sep09	12	0.34
	Cheapest	1	4.80 Jan24	Sep08	15	3.55	1	2.75 Oct24	Jun14	9	2.23
BELGIUM	Richest	1	3.00 Jun34	Mar14	5	-2.21	1	4.50 Mar26	Jun11	8	-2.53
		2	4.25 Sep22	Jan12	15	-1.38	2	3.00 Jun34	Mar14	5	-2.35
		3	3.75 Jun45	Sep13	5	-1.21	3	5.00 Mar35	May04	19	-2.28
		4	2.60 Jun24	Jan14	11	-0.79	4	2.60 Jun24	Jan14	11	-2.27
		4	2.25 Jun23	Jan13	14	1.46	4	2.25 Jun23	Jan13	14	-2.22
		3	5.00 Mar35	May04	19	1.95	3	4.00 Mar32	Mar12	8	-2.16
		2	4.25 Mar41	Apr10	14	2.16	2	4.25 Mar41	Apr10	14	-2.04
		1	4.00 Mar32	Mar12	8	2.36	1	3.75 Jun45	Sep13	5	-1.90
	Cheapest	1	4.00 Mar32	Mar12	8	2.36	1	3.75 Jun45	Sep13	5	-1.90

Source: Citi Research

UK Relative Value Screen

Figure 37. Coupon adjusted spread (CAS) to fitted curve and swap curve by maturity (6m history)

		Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
ALL	Richest	1	3.25 Jan44	-2.81	Oct12	27	1	1.75 Sep22	-2.89	Jun12	28
		2	3.75 Jul52	-2.32	Sep11	22	2	2.25 Sep23	-2.64	Jun13	27
		3	4.25 Dec40	-2.27	Jun10	24	3	4.00 Mar22	-2.41	Feb09	37
		4	5.00 Sep14	-1.98	Jul02	41	4	2.75 Sep24	-2.22	Mar14	10
		5	4.25 Dec55	-1.76	May05	23	5	3.75 Sep21	-2.06	Mar11	28
	Cheapest	5	4.50 Sep34	1.37	Jun09	28	5	4.00 Sep16	-0.12	Mar06	35
		4	4.00 Sep16	1.94	Mar06	35	4	2.00 Jan16	0.29	Nov10	32
		3	2.00 Jan16	2.06	Nov10	32	3	2.75 Jan15	1.41	Nov09	29
		2	4.25 Mar36	2.24	Feb03	26	2	5.00 Sep14	2.14	Jul02	41
		1	4.75 Sep15	3.02	Sep03	38	1	4.75 Sep15	2.51	Sep03	38
2yr - 7yr	Richest	1	1.75 Jan17	-1.55	Aug11	29	1	4.75 Mar20	-1.68	Mar05	33
		2	4.50 Mar19 (WX)	-0.93	Sep08	35	2	3.75 Sep20	-1.64	Jun10	24
		3	4.75 Mar20	-0.55	Mar05	33	3	1.75 Jul19 (5y)	-1.57	Nov13	30
		4	1.25 Jul18	-0.27	Feb13	34	4	1.25 Jul18	-1.55	Feb13	34
		5	1.75 Jul19 (5y)	-0.13	Nov13	30	5	4.50 Mar19 (WX)	-1.52	Sep08	35
	Cheapest	5	3.75 Sep19	0.04	Jul09	28	5	3.75 Sep19	-1.48	Jul09	28
		4	1.00 Sep17	0.30	Mar12	31	4	1.75 Jan17	-1.30	Aug11	29
		3	5.00 Mar18	0.43	May07	34	3	1.00 Sep17	-1.07	Mar12	31
		2	3.75 Sep20	1.01	Jun10	24	2	5.00 Mar18	-0.91	May07	34
		1	4.00 Sep16 (WB)	1.94	Mar06	35	1	4.00 Sep16 (WB)	-0.12	Mar06	35
7yr - 15yr	Richest	1	2.25 Sep23 (10y)	-0.85	Jun13	27	1	1.75 Sep22	-2.89	Jun12	28
		2	4.25 Dec27	-0.68	Sep06	29	2	2.25 Sep23 (10y)	-2.64	Jun13	27
		3	3.75 Sep21	-0.36	Mar11	28	3	4.00 Mar22	-2.41	Feb09	37
		4					4				
		5					5				
	Cheapest	5					5				
		4					4				
		3	4.00 Mar22	-0.13	Feb09	37	3	3.75 Sep21	-2.06	Mar11	28
		2	2.75 Sep24	0.39	Mar14	10	2	5.00 Mar25 (G)	-1.50	Sep01	34
		1	1.75 Sep22	0.43	Jun12	28	1	4.25 Dec27	-1.17	Sep06	29
>15yr	Richest	1	3.25 Jan44 (30y)	-2.64	Oct12	27	1	4.25 Jun32	-1.72	May00	35
		2	4.25 Dec40	-1.98	Jun10	24	2	4.75 Dec30	-1.62	Oct07	29
		3	3.75 Jul52	-1.64	Sep11	22	3	4.50 Sep34	-1.61	Jun09	28
		4	4.25 Dec46	-1.48	May06	21	4	4.25 Dec40	-1.58	Jun10	24
		5	4.25 Dec55	-1.46	May05	23	5	4.25 Sep39	-1.53	Mar09	19
	Cheapest	5	4.25 Sep39	0.97	Mar09	19	5	3.75 Jul52	-1.13	Sep11	22
		4	3.50 Jul68	1.05	Jun13	10	4	4.25 Dec49	-1.10	Sep08	19
		3	4.75 Dec38	1.53	Apr04	25	3	4.00 Jan60	-1.06	Oct09	21
		2	4.50 Sep34	1.53	Jun09	28	2	3.50 Jul68	-1.04	Jun13	10
		1	4.25 Mar36	2.40	Feb03	26	1	3.50 Jan45	-0.20	Jun14	5

Source: Citi Research

4 Week Auction Calendar: Euro, UK and US

Aman Bansal, CFA

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

Figure 38. Provisional auction calendar for the next four weeks, gross issuance (local currency, billion), DV01 (\$ million/bp)

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
14 Jul (Mon)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15-2-2036 - 15-5-2044		-27k		
16 Jul (Wed)	Germany	4.0	Bund May24 re-opening (issue and size confirmed)				30k
17 Jul (Thu)	France	9.6	OAT 2yr and 5yr, index-linked OAT (estimated tenors and size)				34k
17 Jul (Thu)	Spain	5.0	Bono 3yr and 10yr (estimated size and tenor)				23k
17 Jul (Thu)	UK	1.5	0.125% Index-linked Treasury Gilt 2024 (issue and size confirmed)			17k	
17 Jul (Thu)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 31-7-2018 - 31-3-2019		-10k		
Weekly \$DV01 of Issuance				14.3			
Total Number of Futures Contracts					-37k	17k	86k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
21 Jul (Mon)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15-2-2036 - 15-5-2044		-27k		
22 Jul (Tue)	Belgium	2.6	OLO 5yr, 10yr and 30yr (estimated tenors and size)				23k
22 Jul (Tue)	UK	3.3	2¾% Treasury Gilt 2024 (issue confirmed, estimated size)			32k	
23 Jul (Wed)	US	2.5 - 3.25	Outright Treasury Coupon Purchases: 15-8-2021 - 15-5-2024		-26k		
24 Jul (Thu)	US	15.0	10-year TIPS		176k		
24 Jul (Thu)	US	2 - 2.5	Outright Treasury Coupon Purchases: 30-4-2019 - 31-3-2020		-14k		
Weekly \$DV01 of Issuance				17.5			
Total Number of Futures Contracts					110k	32k	23k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
28 Jul (Mon)	Italy	2.8	CTZ Apr16 (estimated issue and size)				4k
28 Jul (Mon)	Italy	1.3	BTPEi (estimated size)				9k
28 Jul (Mon)	US	28.0	2-Year		90k		
28 Jul (Mon)	US	1 - 1.25	Outright Treasury Coupon Purchases: 15-2-2036 - 15-5-2044		-27k		
29 Jul (Tue)	UK	4.3	Syndication (25yrs+ IL in second half of July, estimated size)			189k	
29 Jul (Tue)	US	35.0	5-year		190k		
29 Jul (Tue)	US	0.3 - 0.45	Outright Treasury Coupon Purchases: 15-11-2024 - 15-2-2031		-6k		
30 Jul (Wed)	Italy	5.8	BTP 1.5% Aug19 and 3.75% Sep24 (estimated issue and size)				35k
30 Jul (Wed)	Italy	1.8	CCTeu (estimated size)				7k
30 Jul (Wed)	US	29.0	7-year		225k		
30 Jul (Wed)	US	15.0	2-Year FRN		48k		
31 Jul (Thu)	US	1 - 1.25	Outright Treasury Coupon Purchases : 15-2-2036 - 15-5-2044		-27k		
Weekly \$DV01 of Issuance				78.0			
Total Number of Futures Contracts					492k	189k	55k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU4 (UST)	G U4 (Gilt)	RXU4 (Bund)
05 Aug (Tue)	Austria	0.8	RAGB 10yr (estimated tenors and size)				6k
06 Aug (Wed)	Germany	3.0	Bobl Apr19 re-opening (issue and size confirmed)				12k
06 Aug (Wed)	UK	1.5	0.125% Index-linked Treasury Gilt 2019 (issue confirmed, estimated size)			10k	
07 Aug (Thu)	Spain	3.5	Bono 3yr and 5yr (estimated size and tenor)				11k
Weekly \$DV01 of Issuance				6.5			
Total Number of Futures Contracts					0k	10k	29k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on July 31, 2014. Therefore we have included Fed buybacks only upto that time in this calendar. Additional issue expected in July: Spain 15yr syndication (€3bn). It is not included in the table above as the timing of this supply event has not been announced.

Source: DMOs, Citi Research

EMU: Coupons & Redemptions (Next 3mths)

Figure 39. EMU-11 Bond redemptions over the next three months (€bn)

Redemptions = €188bn											
Redemptions	DEU 32	FRA 41	NLD 13	ITA 60	ESP 16	BEL 10	AUT 10	FIN 7	PRT 0	GRC 0	IRL 0
(Sat) 12-Jul-14		25.6									
(Tue) 15-Jul-14			12.5				9.6				
(Wed) 30-Jul-14					16.4						
(Fri) 01-Aug-14				27.2							
(Fri) 12-Sep-14	15.0										
(Mon) 15-Sep-14				18.4				6.5			
(Thu) 25-Sep-14		15.0									
(Sun) 28-Sep-14						10.3					
(Tue) 30-Sep-14				14.3							
(Fri) 10-Oct-14	17.0										

Source: DMOs, Bloomberg, Citi Research

This table is on a calendar-date basis

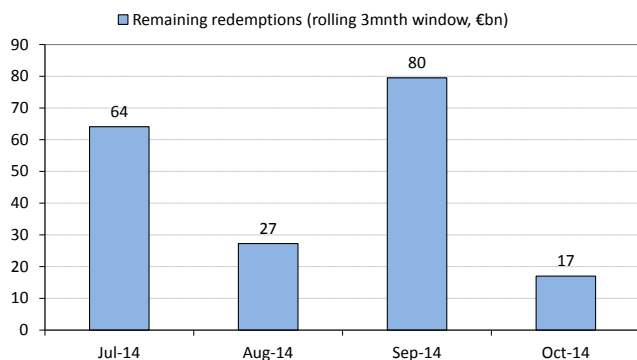
Figure 40. EMU-11 Coupon payments over the next three months (€bn)

Coupons = €48bn											
Coupons	DEU 2	FRA 5	NLD 5	ITA 19	ESP 8	BEL 4	AUT 3	FIN 1	PRT 0	GRC 0	IRL 0
(Sat) 12-Jul-14		1.4									
(Tue) 15-Jul-14			5.3	0.4			1.8				
(Sun) 20-Jul-14											0.0
(Fri) 25-Jul-14		3.9									
(Wed) 30-Jul-14					8.4						
(Fri) 01-Aug-14				8.4							
(Fri) 15-Aug-14	0.5										
(Mon) 18-Aug-14											0.0
(Mon) 01-Sep-14				7.7							
(Thu) 04-Sep-14	1.0										
(Thu) 11-Sep-14	0.0										
(Mon) 15-Sep-14				2.0			1.3	0.6			
(Sat) 20-Sep-14	0.0										0.0
(Thu) 25-Sep-14		0.1									
(Sun) 28-Sep-14						4.0					
(Thu) 09-Oct-14	0.3										
(Fri) 10-Oct-14	0.4										

Source: DMOs, Bloomberg, Citi Research

This table is on a calendar-date basis

Figure 41. EMU-11 remaining redemptions over the next 3 months (€bn)



Source: DMOs, Bloomberg, Citi Research

This chart is on a calendar-date basis

Figure 42. EMU-11 remaining coupons over the next 3 months (€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.

Auction calendar for the next four weeks

Figure 43. Italy and Spain provisional bill auction calendar for the next four weeks: Gross issuance (€ billion), DV01 (€ million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 1	15 Jul (Tue)	Spain	6month (23 January 2015) and 12month (new bill) - tenors confirmed, estimated issue and size	5.25
Total Size in Week 1				5.3
Week 2	22 Jul (Tue)	Spain	3month (17 October 2014) and 9month (10 April 2015) - tenors confirmed, estimated issue and size	4.25
Total Size in Week 2				4.3
Week 3	29 Jul (Tue)	Italy	6 month (30 January 2015; issue confirmed, estimated size)	7.5
Total Size in Week 3				7.5

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 44. 2014 Italy and Spain Bill Supply – Citi Forecast (€ 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	1.1	1.2	2.0	3.7		8	12	-4
May	0.9	1.4	2.9	3.8		9	8	1
Jun	0.9	0.9	3.0	4.6		9	14	-4
Jul	1.3	1.0	3.0	4.5		10	8	2
Aug	1.3	1.0	3.0	4.0		9	8	2
Sep	1.0	1.0	3.0	3.8		9	7	1
Oct	1.0	1.0	3.0	3.8		9	9	
Nov	1.0	1.0	3.0	3.8		9	8	
Dec	1.0	1.0	2.8	3.8		9	7	2
Total	12.5	12.5	31.9	45.8		103	110	-8
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		8.3		7.6		16	16	-1
Apr		7.7		7.5		15	17	-2
May		7.2		7.2		14	14	
Jun		8.3		7.2		15	16	
Jul		8.3		7.2		15	15	
Aug		8.3		7.2		15	17	-2
Sep		8.3		7.2		15	18	-3
Oct		7.0		8.5		16	17	-1
Nov		7.0		7.0		14	14	
Dec		7.0		6.0		13	14	-1
Total		93.9		89.6		183	197	-14

*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 45. Citi Inflation Forecasts

Month	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY
	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change
May 14	117.44	-0.1	0.4	126.27	0.0	0.6	255.90	0.1	2.4	237.90	0.3	2.1
Jun 14	117.61	0.1	0.5	126.22	-0.0	0.3	256.10	0.1	2.6	238.00	0.0	1.9
Jul 14	116.85	-0.6	0.4	125.74	-0.4	0.3	255.90	-0.1	2.5	238.10	0.0	1.9
Aug 14	116.93	0.1	0.3	126.12	0.3	0.2	257.00	0.4	2.4	238.70	0.3	2.1
Sep 14	117.53	0.5	0.4	125.89	-0.2	0.2	258.10	0.4	2.5	239.00	0.1	2.1
Oct 14	117.70	0.1	0.6	125.98	0.1	0.4	258.80	0.3	2.7	238.80	-0.1	2.2

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 46. US TIPS Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Reference Conventional	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Aug	1 Sep	1 Oct					1 Aug	1 Sep	1 Oct		
Repo (%)				0.10	0.10	0.10									
TIPS 7/15	-1.74	4	2	14	2	-11	US-4.250-08/15/15	190	-8	-5	13	1	-13	18	-2
TIPS 1/16	-1.47	-2	-4	10	4	-2	US-2.625-02/29/16	177	-4	-2	9	2	-6	13	-1
TIPS 4/16	-1.32	-3	-4	9	5	0	US-2.000-04/30/16	170	-3	-2	8	2	-4	9	-1
TIPS 7/16	-1.60	-4	-5	7	2	-3	US-4.875-08/15/16	209	-3	-2	6	-1	-8	8	0
TIPS 1/17	-1.21	-4	-5	7	4	1	US-3.125-01/31/17	191	-3	-2	5	0	-5	15	0
TIPS 4/17	-1.05	-3	-5	6	4	3	US-0.875-04/30/17	188	-4	-3	5	0	-4	11	0
TIPS 7/17	-1.19	-5	-6	6	3	1	US-4.750-08/15/17	213	-3	-2	4	-1	-6	11	-1
TIPS 1/18	-0.85	-4	-5	5	4	3	US-3.500-02/15/18	204	-2	-1	3	0	-4	12	-2
TIPS 4/18	-0.69	-4	-5	5	5	4	US-0.625-04/30/18	197	-4	-3	3	0	-3	13	-0
TIPS 7/18	-0.85	-5	-6	5	4	3	US-4.000-08/15/18	217	-4	-3	3	-1	-5	11	-1
TIPS 1/19	-0.59	-5	-6	5	4	4	US-2.750-02/15/19	211	-5	-4	3	-1	-4	12	1
TIPS 4/19	-0.45	-5	-6	4	4	4	US-1.625-04/30/19	206	-4	-4	2	0	-3	13	-0
TIPS 7/19	-0.56	-6	-7	4	4	4	US-3.625-08/15/19	219	-4	-4	2	-1	-4	15	0
TIPS 1/20	-0.35	-9	-10	4	4	4	US-3.625-02/15/20	210	-3	-2	2	-1	-3	21	-1
TIPS 7/20	-0.33	-10	-11	4	4	4	US-2.625-08/15/20	224	-2	-2	2	-1	-4	18	-1
TIPS 1/21	-0.16	-11	-12	4	4	4	US-3.625-02/15/21	215	-1	-1	2	-1	-3	25	-2
TIPS 7/21	-0.15	-13	-13	3	4	4	US-2.125-08/15/21	228	-1	-0	1	-1	-3	20	-2
TIPS 1/22	0.02	-13	-14	3	4	4	US-2.000-02/15/22	220	-0	-0	1	-1	-3	26	-1
TIPS 7/22	0.02	-14	-14	3	3	4	US-1.625-08/15/22	229	-0	-0	1	-1	-3	25	-1
TIPS 1/23	0.15	-13	-14	3	3	4	US-2.000-02/15/23	223	-1	-0	1	-1	-3	30	-0
TIPS 7/23	0.14	-13	-14	3	3	4	US-2.500-08/15/23	228	-0	0	1	-1	-3	31	-0
TIPS 1/24	0.23	-13	-14	3	3	4	US-2.750-02/15/24	225	-0	-0	1	-1	-3	31	0
TIPS 1/25	0.30	-14	-15	3	3	4	US-7.625-02/15/25	218	0	0	1	-1	-3	42	0
TIPS 1/26	0.38	-15	-16	2	3	4	US-6.000-02/15/26	223	1	1	1	-1	-3	40	-0
TIPS 1/27	0.45	-17	-17	2	3	4	US-6.625-02/15/27	223	2	2	1	-1	-3	42	-1
TIPS 1/28	0.53	-17	-17	2	3	3	US-6.125-11/15/27	223	2	2	1	-1	-3	45	-1
TIPS 4/28	0.51	-18	-18	2	3	4	US-5.500-08/15/28	232	3	3	1	-1	-2	35	-1
TIPS 1/29	0.55	-18	-19	2	3	3	US-5.250-02/15/29	231	3	3	1	-1	-2	39	-1
TIPS 4/29	0.55	-18	-18	2	3	4	US-5.250-02/15/29	232	2	3	1	-1	-2	37	-1
TIPS 4/32	0.66	-18	-18	2	3	3	US-5.375-02/15/31	231	2	2	0	-1	-2	43	0
TIPS 2/40	0.91	-14	-15	1	2	2	US-4.625-02/15/40	231	0	0	0	-1	-2	47	2
TIPS 2/41	0.91	-14	-14	1	2	2	US-4.750-02/15/41	232	-0	-0	0	-1	-2	47	2
TIPS 2/42	0.98	-14	-15	1	2	2	US-3.125-02/15/42	233	0	0	0	-1	-2	46	2
TIPS 2/43	0.98	-14	-15	1	2	2	US-3.125-02/15/43	235	0	0	0	-1	-2	44	2
TIPS 2/44	0.97	-14	-14	1	2	2	US-3.625-02/15/44	236	-0	-0	0	-1	-2	44	2

Source: Citi Research, Bloomberg

Figure 47. EUR Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Reference Conventional	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Aug	1 Sep	1 Oct					1 Aug	1 Sep	1 Oct		
Repo (%)				0.05	0.06	0.06									
OATei15	-0.48	16	20	-9	1	-83	FFRG 4/15	51	-17	-20	-9	2	-82	28	16
BUNDei16	-0.04	8	9	-4	4	-38	BUND 1/16	4	-8	-10	-4	5	-37	5	4
BTANI16	-0.55	6	7	-1	-6	-30	FFRG 4/16	59	-8	-8	-1	-5	-29	18	4
BTPei16	0.29	13	14	-2	6	-27	BTP 8/16	34	-8	-10	-4	2	-34	33	6
OATi17	-0.61	5	5	-1	-4	-20	FFRG 4/17	73	-8	-8	-1	-4	-20	21	5
BTPei17	0.41	12	12	-1	4	-17	BTP 8/17	54	-2	-4	-3	0	-24	36	0
BOBLEi18	-0.58	2	3	-2	0	-20	BUND 1/18	66	-5	-6	-2	0	-20	11	3
OATei18	-0.64	-1	0	-2	0	-19	FFRG 4/18	87	-4	-5	-3	-1	-20	26	4
BTPei18	0.49	9	10	-1	4	-12	BTP 8/18	72	-2	-3	-3	-1	-19	33	0
OATi19	-0.63	-3	-3	0	-2	-12	FFRG 4/19	105	-3	-4	-1	-4	-14	24	0
BTPei19	0.63	4	4	-1	3	-9	BTP 9/19	88	4	3	-2	-1	-16	31	-6
BUNDei20	-0.58	-4	-3	-2	0	-13	BUND 1/20	95	-2	-3	-2	-1	-15	15	-0
OATei20	-0.49	-4	-4	-2	0	-12	FFRG 4/20	113	-4	-5	-2	-1	-15	22	3
OATi21	-0.34	-4	-4	0	-1	-7	FFRG 4/21	120	-4	-4	-1	-3	-10	32	2
BTPei21	1.08	7	7	0	3	-5	BTP 9/21	110	1	0	-2	-1	-13	29	-3
OATei22	-0.21	-5	-5	-1	1	-8	FFRG 4/21	107	-3	-3	-2	-1	-11	45	2
BUNDei23	-0.31	-6	-6	-1	0	-8	BUND 1/22	107	-2	-3	-1	-1	-10	36	-0
OATi23	-0.11	-3	-3	0	-1	-5	FFRG 10/23	149	-4	-4	-1	-3	-9	22	3
BTPei23	1.49	8	8	0	3	-3	BTP 8/23	121	1	0	-2	-1	-11	35	-3
OATei24	0.06	-4	-4	-1	1	-6	FFRG 10/23	132	-3	-4	-1	-1	-10	36	1
BTPei24	1.65	8	8	0	3	-3	BTP 9/24	128	-1	-1	-1	-1	-10	37	-2
SPGBEI24	1.55	13	13	0	3	-3	SPAG 4/24	127	-0	-1	-1	-1	-10	38	-3
BTPei26	1.88	11	11	0	3	-2	BTP 3/26	125	-4	-4	-1	-1	-9	52	1
OATei27	0.32	-5	-4	0	1	-4	FFRG 4/26	152	-3	-3	-1	-1	-8	32	1
OATi29	0.36	-5	-5	0	0	-3	FFRG 4/29	175	-3	-3	-1	-2	-7	26	-0
BUNDei30	0.16	-6	-6	0	1	-4	BUND 1/30	162	-3	-4	-1	-1	-7	24	1
OATei30	0.55	-4	-4	0	1	-3	FFRG 5/30	172	-3	-4	-1	-1	-7	23	2
OATei32	0.57	-4	-4	0	1	-3	FFRG 10/32	173	-4	-4	-1	-1	-7	26	2
BTPei35	2.27	11	11	0	2	-1	BTP 8/34	151	-4	-4	-1	-1	-7	50	2
OATei40	0.70	-4	-4	0	1	-2	FFRG 4/41	189	-4	-5	-1	-1	-5	19	3
BTPei41	2.58	11	11	0	2	0	BTP 9/40	147	-2	-2	-1	-1	-6	61	-0

Source: Citi Research

Figure 48. UK Gilts Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Reference Conventional	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Aug	1 Sep	1 Oct					1 Aug	1 Sep	1 Oct		
Repo (%)				0.43	0.44	0.45									
UKTi Jul16	-1.56	1	0	3	7	12	UKT 9/16	260	-6	-5	1	3	5	45	6
UKTi Nov17	-1.25	-2	-1	-1	-3	-11	UKT 3/18	286	-6	-7	-3	-9	-19	17	1
UKTi Nov19	-0.82	-5	-5	0	-1	-5	UKT 9/19	282	-5	-6	-2	-6	-12	28	5
UKTi Apr20	-0.71	-6	-7	2	5	8	UKT 3/20	279	-5	-5	0	0	0	24	-2
UKTi Nov22	-0.48	-8	-8	0	0	-2	UKT 3/22	286	-4	-4	-2	-4	-9	35	2
UKTi Mar24	-0.25	-9	-9	0	0	-1	UKT 3/25	298	-4	-5	-1	-4	-7	18	-1
UKTi Jul24	-0.28	-8	-9	1	4	6	UKT 3/25	301	-4	-4	0	0	-1	26	0
UKTi Nov27	-0.18	-8	-8	0	0	-1	UKT 12/27	313	-4	-5	-1	-3	-6	25	3
UKTi Mar29	-0.08	-6	-6	0	0	0	UKT 12/30	319	-4	-4	-1	-3	-6	18	0
UKTi Jul30	-0.12	-6	-7	1	3	4	UKT 6/32	330	-3	-3	0	0	-1	18	-4
UKTi Nov32	-0.10	-5	-5	0	0	0	UKT 6/32	327	-5	-5	-1	-3	-5	26	3
UKTi Mar34	-0.05	-5	-5	0	0	0	UKT 9/34	330	-4	-5	-1	-3	-5	22	1
UKTi Jan35	-0.07	-4	-5	1	2	3	UKT 3/36	335	-4	-4	0	-1	-1	20	2
UKTi Nov37	-0.07	-4	-4	0	0	0	UKT 12/38	337	-4	-4	-1	-2	-4	23	3
UKTi Mar40	-0.05	-4	-4	0	0	0	UKT 9/39	338	-4	-5	-1	-2	-4	20	2
UKTi Nov42	-0.08	-4	-4	0	0	0	UKT 12/42	342	-4	-4	-1	-2	-4	20	2
UKTi Mar44	-0.03	-4	-4	0	0	0	UKT 1/44	341	-4	-4	-1	-2	-4	17	1
UKTi Nov47	-0.06	-4	-4	0	0	0	UKT 12/46	342	-4	-4	-1	-2	-4	19	2
UKTi Mar50	-0.07	-3	-3	0	0	0	UKT 12/49	341	-4	-4	-1	-2	-4	17	1
UKTi Mar52	-0.05	-3	-3	0	0	0	UKT 7/52	341	-3	-4	-1	-2	-3	17	1
UKTi Nov55	-0.09	-3	-3	0	0	0	UKT 12/55	341	-3	-4	-1	-2	-3	19	2
UKTi Mar62	-0.10	-3	-3	0	0	0	UKT 1/60	341	-3	-4	-1	-2	-3	18	1
UKTi Mar68	-0.10	-3	-3	0	0	0	UKT 7/68	343	-3	-3	-1	-2	-3	17	1

Source: Citi Research

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10-Jul-14	NOTE	EUR Rates Research: Historically High Rolldown for Spread Options	-	EUR
09-Jul-14	NOTE	Green bonds and revised supply - KfW remains pivotal for SSAs	-	EUR
07-Jul-14	NOTE	European Flow Monitor: Very strong demand for the core, led by France	-	EUR
04-Jul-14	NOTE	Euro Inflation Strategy: Boblei18 auction & prospects for a new German linker	-	EUR
03-Jul-14	European Weekly	ECB: Free Money Policy Confirmed	9	EUR
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24-Jun-14	NOTE	Covered Bond Strategy: LCR: Where do we stand, where will we go?	-	EUR
23-Jun-14	NOTE	Covered Bond Strategy - S&P Ups 14 Multi-Cedulas On Collateral Improvement	-	EUR
23-Jun-14	NOTE	Technical flash: Bunds resuming upward momentum?	-	EUR
23-Jun-14	NOTE	European Flow Monitor: The Netherlands only core market with positive demand	-	EUR

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Notes

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