

European Rates Weekly

Central banks on hold...for now

- **ECB on hold:** The ECB kept rates unchanged at the November meeting and provided no new information regarding non-standard measures in what was largely an uneventful press conference. A rate cut in December now seems less likely, but our economists continue to expect the refi rate to be cut to 0.25% over 2013.
- **Euro money markets:** The evolution of excess liquidity around the repayment of the first 12m LTRO and repercussion on Eonia fixings are making investors unjustifiably nervous in our view about the repayment of the first 3yr LTRO. We do not think that the repayment option embedded into the 3yr LTRO program poses a significant risk for higher Eonia fixings in February.
- **Impact of CACs on 2013 EMU issuance:** The introduction of CACs in new bonds issued from 1 January 2013 is likely to pass fairly uneventfully, in our view. Spain will need to issue more new bonds than this year, but this looks achievable. There is unlikely to be a pricing differential between bonds with and without CACs.
- **OAT performance:** France has been one of the best performing core EMU sovereigns in 2012. We take recent reforms on competitiveness as fundamentally positive and believe the stability in OAT yields can continue in the near-term.
- **MPC on hold:** The MPC voted for no change in QE, as widely expected, and attention will now shift to next week's *Inflation Report*. Our economics team argues that QE could be restarted soon. Gilts should outperform as QE is priced back in and also stand to benefit in the near-term from coupons and seasonals.
- **Trade ideas for next week's gilt auction:** The UK will issue €2bn of the gilt 3.75% 2052 on Thursday 15 November. We highlight three trade ideas.
- **Algorithmic Trading Signals:** Move to a mild long duration position, as the risk / reward improves in long term relative to short term models.
- **Upcoming supply:** Within Europe, an estimated €22bn of issuance comes from the Netherlands, Germany, Italy and France next week. There will be no UST issuance during the week. The only gilt supply will be a £2bn reopening of Gilt 3.75% 2052.

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

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Figure 1. Strategy Summary Table

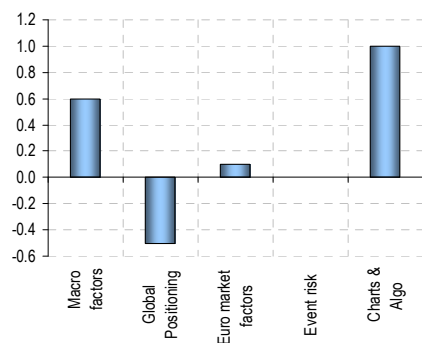
Europe	View	Strategies
Direction	We continue to hold a bullish view in the very near-term based on our duration scorecard.	Long Bunds for the week ahead.
Money Market	The market is pricing out the probability of ECB rate cuts. While excess liquidity conditions bias our perception of the probability of changes in the refinancing rate, a negative discount rate seem highly unlikely until next year. Positioning and anticipation of a potential large exercise of the January 2013 early repayment option are currently driving Euribor.	Receive EUR 1y3yF
Yield Curve	With the front-end well anchored, the Bund curve is likely to continue to bear steepen / bull flatten into year end. In the UK, tactical 10s30s flatteners have worked well, but the curve is likely to become more directional from here (bear flatten/bull steepen).	10s30s steepeners in Germany as a long-term trade (or boxed with Gilts). Use POs (over cash) for 5s30s flatteners in OAT or OLOs if you have a long-end flattening view
Cross-market	The 10yr Bund-Treasuries spread is approaching 6mth highs, but we see scope for further Bund outperformance over the longer-term. Seasonals support gilts over Bunds in November, but the end of QE continues to weigh on the former for now. November seasonals also point to Bunds underperforming Treasuries.	Buy 10yr gilts vs Bunds to capture November seasonals. Long 2x5 ATMF/+100 payer spread in USD versus EUR Long 30yr gilts vs USTs Receive EUR 2y2y vs USD 2y2y
EMU Spreads	The last couple of days has seen peripheral yields come under pressure as the market awaits a Spanish request for aid and auction demand has disappointed. We expect the market to lose patience in the coming months and force Spain into a bailout via higher yields.	Sell 5yr Austria vs Germany. Retain flatteners in BTPs Bono 2/10s curve to outperform the BTP 2/10s given likley OMT for Spain
Swap Spreads	Bund spreads have tightened significantly in the last two months. We suggest selling Schatz vs EONIA as a way to express a deposit rate cut into negative territory.	Sell Schatz vs EONIA Long 30yr Bund swap spreads
Inflation	In euro inflation markets, French inflation is looking historically rich vs euro. In the UK, we like 10s30s real yield flatteners ahead of the November index changes.	Sell 10yr CPI ZC swaps vs 10yr HICPxT ZC swaps Buy UKTI 2022 vs OATei22 break-even Sell OATei22 vs Bunde23 real yield spread
Volatility	EUR calendar spreads are too high. We suggest selling vega vs gamma. EUR front-end fwds are considerably elevated vs spot and do not reflect further ECB action. GBP 2y2y vol is too rich vs fundamentals, we continue to suggest selling straddles on a rolling basis.	Buy EUR Gamma vs Vega Sell EUR 3y1y ATMF straddles and buy EUR 3y1y ATMF-25 receivers. Sell GBP 2y2y ATMF straddles
SSA	We continue to expect a largely range-bound market in Q4 with yields remaining relatively low. Waning supply pressure going into year-end is also broadly supportive. However on some relative value metrics, core supra yields now appear rich to core EMU sovereigns such as France.	Long 4yr KfW vs France (medium term, strategic spread widener)

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet – Week 12th– 16th November

Weekly Citi Bund Cheat Sheet: Week 5th November - 9th November				
Category	Variable	Score	Weight	Comments
Macro factors		0.6	10.0%	
	ECB	0	2.0%	Refi rate cut now unlikely in Dec
	FED	0	2.0%	QE3 supportive for risk on
	Inflation	1	2.0%	Peak in HICP reached
	Growth related data	1	2.0%	Still weak activity indicators in EMU
	Global risk appetite	1	2.0%	Risk-off momentum to prevail
Global Positioning		-0.5	22.5%	
	CFTC	-2	7.5%	+400k lots in 6 months, top of the range
	T-Note	0	7.5%	Very close to Aug and Sep highs
	Citi surprise	0.5	7.5%	US surprises have rallied hard since July
Euro market factors		0.1	25.0%	
	Supply	-1	5.0%	Heavy core supply
	Positioning	-1	5.0%	Overweights in core markets
	Equity	1.5	5.0%	Softening of QE support + fiscal cliff concerns
	Sovereign credit	1	5.0%	Periphery under pressure + Greek vote
	FX	0	5.0%	--
Event risk		0.0	20.0%	
	Elections	0	5.0%	Support from Obama victory to fade
	EU & G20 Summits	0	5.0%	EU Summit 22 Nov
	Stability mechanisms	0	5.0%	Spain unlikely to request help next week
	Middle East / Oil	0	5.0%	Oil still trending lower
Charts & Algo		1.0	22.5%	
	Technicals	0	11.3%	Bund mid-range
	ARTS	2	11.3%	WARTS long exposure still increasing
Recommendation				
	Actual RX22	142.85		(Thursday close)
	Actual CTD yield	1.13%		
	10d del. volatility	3.7%		
	Conviction level	20%		
Trade		Buy		

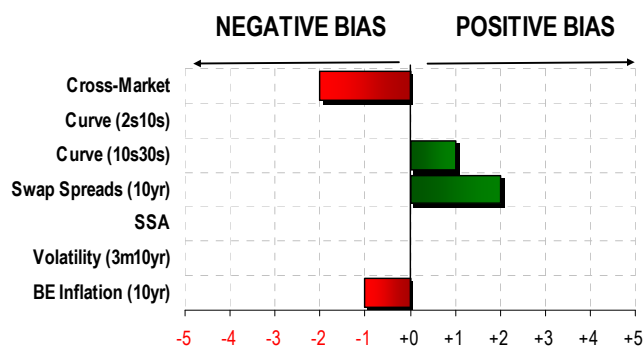
Figure 3. Contribution to Bund Signals



Source: Citi Research

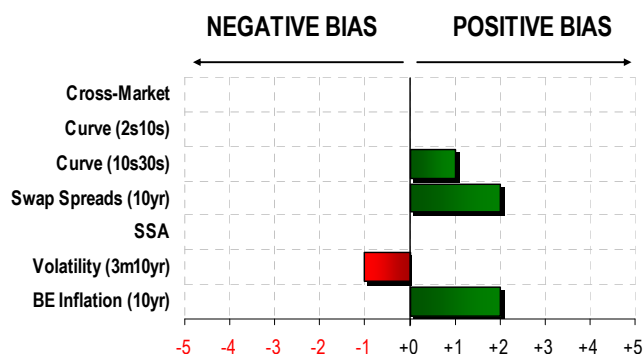
Source: Citi Research

Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

Figure 5. UK (Near-term Bias)



Source: Citi Research

Tradesheet

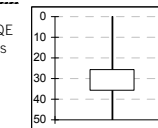
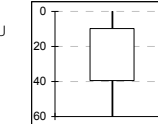
Record of Our Open Trades

Figure 6. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
Europe / US	Sell 10yr US CPI ZC swap vs EUR HICPXT ZC swap	Open 71bp Current 75bp	The Fed's inflationary stance looks well priced and some reversal of recent trends is likely in the near-term. The US-euro inflation swap differential is at appealing historical levels Global Inflation Strategy 9 October 2012	
	Inflation Sell 10yr US CPI ZC swap at 2.79% Buy 10yr EUR HICPXT ZC swap at 2.08%	P&L -4bp Target 50bp Stop 80bp		
Europe	Receive EUR 30s50s	Open 18bp Current 15bp	Long-end of EUR swap curve is pricing in more than required de-hedging by Dutch pension funds. CVA activity should support the trade. European Rates Weekly 11 October 2012	
Curve	Receive EUR 30s50s at 18bp	P&L 3bp Target 5bp Stop 22bp		
Europe	Receive EUR 1y3yF	Open 136bp Current 109bp	ECB rate cut and very high carry should be supportive for this trade IIRS 13 September 2012	
Duration	Receive EUR 1y3yF at 1.36%	P&L 27bp Target 50bp Stop 150bp		
Europe	Sell 5yr Austria vs 5yr Germany	Open 24bp Current 26bp	Risk of delay to the ECB's OMT programme and attractive entry levels IIRS 13 September 2012	
EMU Spreads	Sell RAGB 4% Sep16 at 0.59% Buy Bobl 1.25% Oct16 at 0.35%	P&L 2bp Target 40bp Stop 16bp		
Europe	Italy 2s10s flattener	Open 280bp Current 280bp	We expect this strategy to work in both a risk-on environment (duration extension across front-end BTPs) & risk-off environment (increase in credit risk would bear-flatten the curve) Assessing the Impact of a Theoretical OMT... 12 September 2012	
Curve	Sell BTP 4.25% Jul14 at 2.20% Buy BTP 5.5% Sep22 at 5.00%	P&L 0bp Target 250bp Stop 290bp		
Europe	France 2s5s Steepener	Open 70bp Current 66bp	Proxy for shorting France vs Germany IIRS 16 August 2012	
Curve	Buy BTAN 3% Jul14 at 0.14% Sell OAT 3.75% Apr17 at 0.86%	P&L -4bp Target 100bp Stop 60bp		
Europe	Sell EUR 1y3yF ATM straddle and buy ATM-25 receiver	Open 63bp Current 48bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken IIRS 9 August 2012	
Volatility	Sell EUR 1y3yF ATM (-1.36%) straddle for 98bp Buy EUR 1y3yF ATM-25 receiver for 35bp	P&L 15bp Target 30bp Stop 73bp		
Europe	Long KfW 1.375% Feb17s vs OAT 5% Oct16s	Open 1bp Current 6bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify IIRS 2 August 2012	
Cross Market	Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%	P&L 5bp Target 20bp Stop -10bp		
UK	Sell GBP 2y2y ATM straddle	Open 76bp Current 63bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol IIRS 12 July 2012	
Volatility	Sell GBP 2y2y ATM (1.04%) straddle at 76bps	P&L 13bp Target 0bp Stop 114bp		
Europe / US	Buy USD Payer Spread vs EUR (delta-weighted and fx-adjusted)	Open 5bp Current 4bp	Range-bound short rates with short term cash-flow support for Europe IIRS 12 July 2012	
Duration	Buy 108 units USD 2yr5yr ATM payer at 2.1% Sell 108 units USD 2yr5yr ATM+100 payer at 0.8% Sell 100 units EUR 2yr5yr ATM payer at 1.9% Buy 100 units EUR 2yr5yr ATM+100 payer at 0.64%	P&L -1bp Target 25bp Stop -5bp		
US / Europe	Long 10yr Bund vs UST	Open 14bp Current 26bp	The recent weakness in equities, the upcoming NCR profile & our ARTS weekly trading signal suggests buying 10yr Bunds vs USTs Interest Rate Strategy Update 25 June 2012	
Cross Market	Sell UST 1.75% May22 at 1.62% Buy Bund 1.75% Jul22 at 1.48%	P&L 12bp Target 35bp Stop 4bp		

Source: Citi Research

Figure 7. Record of our Open Trades (continued)

US / UK		Long 30yr Gilt vs UST		<div><div>Open36bp</div><div>Current26bp</div><div>P&L10bp</div><div>Target0bp</div><div>Stop50bp</div></div>	<div>With Operation Twist extension largely priced in, QE resumption should help gilts outperform treasuries</div> <div>UK Rates Strategy 20 June 2012</div>	
<i>Cross Market</i>	Buy UKT 4.5% Dec42 at 3.09% Sell UST 3% May42 at 2.74%					
US / Europe		Pay USD 2y 2y fwd vs EUR		<div><div>Open40bp</div><div>Current10bp</div><div>P&L30bp</div><div>Target0bp</div><div>Stop60bp</div></div>	<div>We expect divergence between UST and core EMU yields</div> <div>IIRS 23 February 2012</div>	
<i>Cross Market</i>	Pay USD 2y 2y fwd at 1.27% Receive EUR 2y 2y fwd at 1.67%					

Source: Citi Research

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ECB Meeting

Monetary policy unchanged ... for now

The ECB kept rates unchanged at today's meeting. There was a fairly muted reaction immediately after the press conference in term rates as expected.

As such the refi rate remains at 0.75%, the marginal lending rate at 1.5% and the deposit facility rate at 0%. However, going forward, ECB policy should continue to support core markets although the chances of a cut in December have now receded. There was no new information regarding non-standard measures and Draghi reiterated the ECB's readiness to act by way of the OMT once certain conditions had been met by governments.

Relatively uneventful...but that's no bad thing

At the ECB press conference, President Draghi confirmed that inflation expectations remain anchored (with the wording largely unchanged from the last meeting) and that economic activity is expected to remain weak. Specifically, the President stated that he expected "weak growth momentum". Recent and continued softness in PMIs and falls in German orders certainly support this view and help support the view that a rate cut remains on the near-term agenda. However, there was some evidence that the market took the meeting as less dovish than previously expected. This can be seen by the (small) adjustment in Euribor strips (notably the whites) but in general the front end of the curve remains supported. The fact that Draghi stated that monetary policy remains accommodative was also taken as a less dovish signal.

The meeting was also uneventful regarding non-standard measures. President Draghi reiterated that it was "essential" that governments act and inspire confidence. There were also the usual affirmations about the ECB's readiness to act but that ultimately, the ball remains firmly in the court of governments. Although risks remain to the downside, the President did point to signs of improving market conditions (largely due to the OMT).

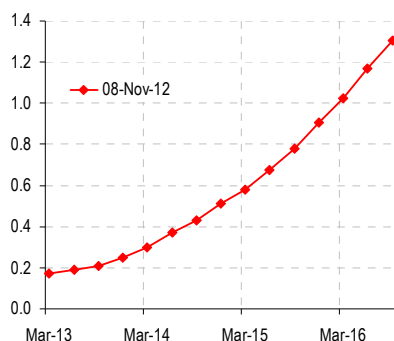
We would agree that the market tone has certainly improved and that Spanish (and Italian) yields remain highly influenced by the credible backstop of potentially unlimited ECB purchases, possible only once ESM conditionality is enforced. Primary markets have thawed and appetite at auctions has generally increased and in the near-term, we remain constructive on the broad EMU outlook.

Rate cuts still likely, but perhaps less likely in December

Given the tone of the press statement and the improvement in market conditions, our economists indicate that a rate cut in December – while still possible – is now less likely ([ECB - Unchanged Rates and No Door Opener For A December Refi Cut](#)). However, importantly, we continue to expect several cuts in 2013, ultimately taking the refi rate to 0.25%.

With this in mind, ECB monetary policy will continue to be supportive for core market duration and the front end of money market curves in our view. Attention will now likely move away from the immediate directionality of policy rates and onto non-standard measures of monetary policy, notably the repayment option of the 3yr LTROs – the first of which occurs in January 2013. In general, we do not expect that this will constitute a significant reduction in "excess liquidity" and full details can be found in the following article.

Figure 8. Euribor Strip Term Structure



Source: Citi Research, Bloomberg.

LTRO: The Early Repayment Option

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The terms of the Bermudan option

Speculative demand vs structural demand for liquidity

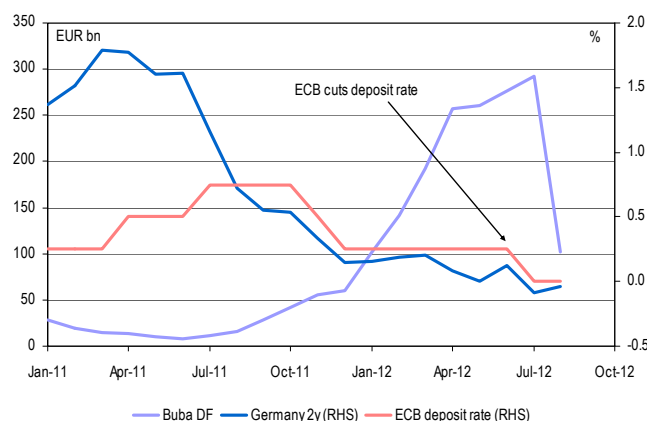
Markets often trade with an eye in the rear mirror. The evolution of excess liquidity around the repayment of the first 12m LTRO and repercussion on Eonia fixings are making investors unjustifiably nervous in our view about the repayment of the 1st 3y LTRO.

MFIs took a total of EUR 1018bn at the two 3y LTROs (EUR 489bn at the Dec-11 tender), with the number of bidders rising from 523 to 800 at the Mar-12 tender. These liquidity providing operations have embedded repayment options with 1st exercise date being 30 Jan-13 and 27 Feb-13, respectively. The options can be exercised on “any part of the amounts they are allotted in the operations, on any day that coincides with the settlement day of a main refinancing operation”. The fact that these are Bermudan options reduces the risk of large one-off repayments.

When differentiating between structural and speculative demand for ECB liquidity we need to take into account the following:

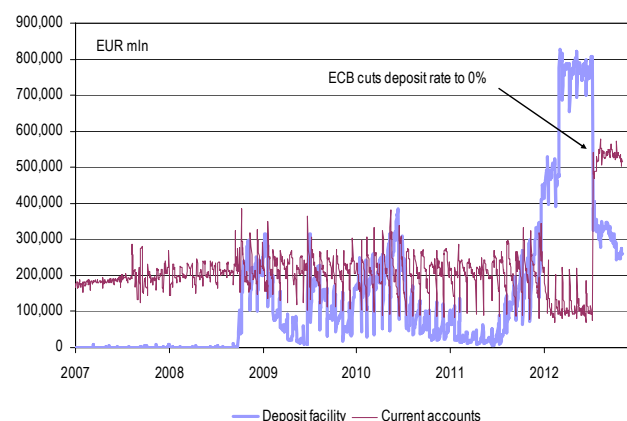
- Usage of Buba's deposit facility has dropped from EUR 292bn in Jul-12 to EUR 102bn in Aug-12. This result from ECB's deposit rate cut to zero and German MFIs reducing their “arbitrage lending” to the ECB (Figure 9). At Eurosystem level, the shift from the DF to current accounts is worth some EUR 524bn (Figure 10), but assigning all of this liquidity to a “speculative” motive wouldn't be precise as we also need to take into account the indifference between non-remunerated current accounts and the now non-remunerated deposit facility.
- Rolled demand at the first 3y tender amounted to EUR 278bn, i.e. the sum of MRO (122bn), 3m (110bn) and 12m tenders (46bn). In our view, this is a gross measure of structural liquidity demand. Part of the difference between rolled liquidity and total allotted amount (EUR 211bn) could represent speculative demand for cash. Structural demand was even lower at the second 3y tender, where the MRO and the 1m rolls around the 3y tender accounted for a mere EUR 161bn in structural liquidity (excess liquidity jumped by EUR 323bn).

Figure 9. Usage of Buba's deposit facility



Source: Buba, Citi Research

Figure 10. ECB deposit facility and current accounts



Source: ECB, Citi Research

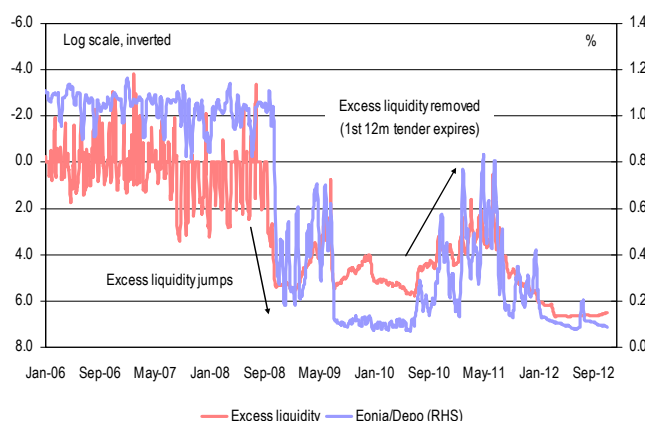
Does the volatility in speculative ECB liquidity result exclusively from German banks? The analysis above would suggest that a part of the 210bn decline in Buba's deposit facility in August can be associated to the difference between rolled liquidity and allotted amounts at the two 3y tender, i.e. with variations in speculative liquidity needs. In addition, usage of BdF's deposit facility dropped by about EUR 47bn between Jun/Jul-12 and August. Similar evidence can be found for Bank of Finland (EUR 25bn decline in the deposit facility).

Overall, it appears that speculative demand for ECB's long-term liquidity accounted for 50-55% of the total increase in excess liquidity in the system. In absolute terms, we're probably looking at a liquidity volume of EUR 200-300bn.

Strategy

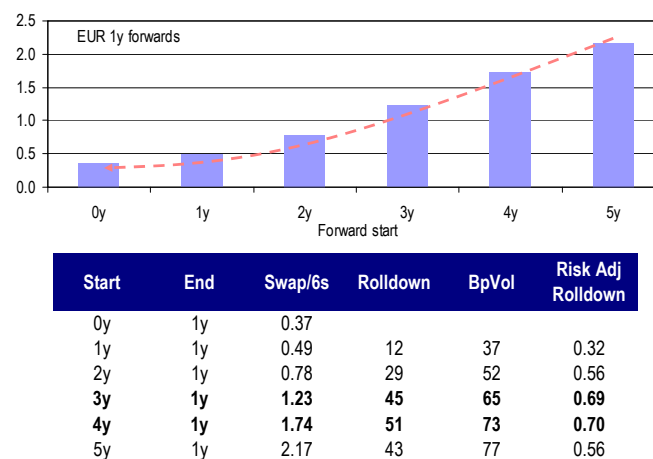
Currently, excess liquidity in the Eurosystem is hovering about EUR 670bn, resulting from EUR 261bn at the deposit facility, EUR 515bn in current accounts and a EUR 106bn reserve requirement. Even assuming that MFI repay all of their speculative excess at the first 3y repayment date, we're still talking "only" about roughly EUR 100-150bn of reduction in excess liquidity. An additional EUR 100-150bn could be drained at the second repayment date (27 Feb-13), but even the Eurosystem would still be left with EUR 370-470bn in excess.

Figure 11. Eonia fixing as a function of excess liquidity



Source: ECB, Citi Research

Figure 12. Rolldown trades in EUR-fwd space



Source: Citi Research

First, it is unlikely that all of the excess will be paid back at the first exercise date. Second, an average excess of EUR 420bn is still enough to prevent Eonia from fixing away from the deposit rate (Figure 11). Under these circumstances, we do not think that the repayment option embedded into the 3y LTRO program poses a significant risk for higher Eonia fixings in February.

We continue to believe that the "lower for longer" mantra is an accurate description of the future path of ECB and EUR money market rates. As such, we like to exploit both the delta and the theta characteristics of the front-end of the EUR forward space (Figure 12). We maintain our recommendation to receive EUR 3y1y (currently around 1.23% vs 2y1y @ 0.78% and 1y1y @ 0.49%). The position remains one of the most crowded in EUR rates, but not without a sound reason. Periods of liquidation – like for example during the second half of October – should be used to reload on risk in our view.

Impact of CACs on 2013 EMU issuance

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CACs help to smooth out the legal and economic process of debt restructuring

A number of our clients have been inquiring about the likely impact of collective action clauses (CACs) on the euro sovereign debt market in 2013, particularly with regard to issuance. Interest has been further peaked by Spain's decision to issue a new 5yr this week in regard to whether this could have any implications for issuance in 2013. As a reminder, all new euro government bonds issued from 1 January 2013 will have to include a CAC. In this note, we provide a brief description of CACs and discuss how it may affect issuance patterns in 2013. The greatest challenge is likely to be faced by Spain given the need for a much greater contribution to funding from newly issued bonds. Issuance patterns in other countries are unlikely to be materially impacted. Finally, we argue that there is unlikely to be a material pricing differential between bonds with and without a CAC.

What is a CAC?

A CAC is a mechanism by which the majority of bondholders can impose changes regarding bond documentation and structure on the remaining minority. They are used to facilitate solutions between creditors and debtors with an aim to smooth out the legal and economic process of debt restructuring. There are many types of CACs embedded into bond docs and each one specifies what constitutes a "majority" and under what circumstances they can be invoked. Once enacted, whatever decision is reached is binding on all bondholders. From a credit perspective, the existence or insertion of such a clause does not constitute a Credit Event as defined by ISDA. However, the enforcement of majority decisions on all bond holders by way of CAC activation *does* constitute a technical default and hence a CDS trigger event (as was the case with Greece).

CACs are currently much more common in international bonds rather than European domestic bonds. As was the case in the last Greek debt restructuring, around 90% of Greek debt was issued under domestic law and hence did not contain CACs (although these were later "retroactively" installed into domestic bonds and subsequently enacted).

The European "model CAC"

The installation of CACs into future EMU sovereign debt was formally signed in the ESM Treaty. Section 3 or Article 12 states "*Collective action clauses shall be included, as of 1st January 2013, in all new euro area government securities, with a maturity above one year, in a way which ensures that their legal impact is identical*". The mandatory euro area CAC was designed by the EU's Economic and Financial Committee which stylized the CAC to be used in the euro area as of January 2013. This "euro area" CAC is often referred to as the "model CAC".

CACs will feature in euro area government debt from 1st Jan 2013

Further details on the implementation of the model CAC are due to be published by the EFC Sub-Committee before January

In general, the way the European model CAC will work is as follows¹. For modification of a significant aspect of a bond's characteristic (such as its maturity, principal or interest payments which are often termed reserved matters), two key steps occur:

- A meeting is called representing >75% of the aggregate principal amount of outstanding bonds under discussion.
- The "quorum" of votes to enact the CAC must be >66.66% of those attending the meeting.

As a result, modification of such a reserved matter will attain at least a majority of all bond holders of the amount of the affected bonds (>75% of >66.66% is > 50%).

¹ Further details can be found in the EFC Sub-Committee on EU Sovereign Debt Markets, CAC Supplemental Explanatory Note, 26 March 2012.

Will CACs change issuance patterns?

New issues with CACs should account for 55% of funding for each issuer in 2013

Not only will CACs be included in all new issues from January, it was also agreed that bonds with CACs should account for 55% of issuance for each country in 2013 (see full schedule below). There is some room for leniency around this target in “urgent cases” and the schedule will also be reviewed in 2015, but there is no reason to suspect that the targets won’t be respected. This begs the question, will CACs impact issuance patterns? We find that most issuers won’t need to alter the profile of issuance materially from this year. The clear exception is Spain.

Moving towards a fully CAC’d market

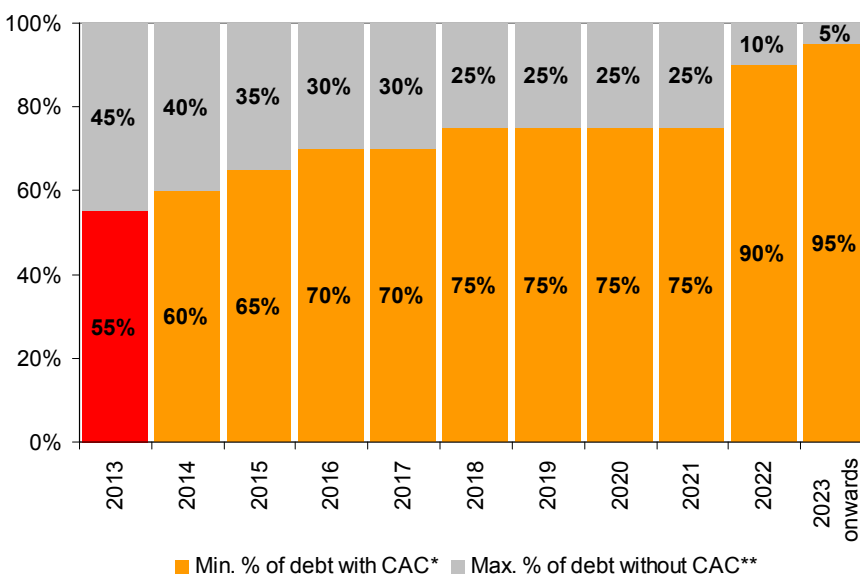
While all new bonds issued from 1 January 2013 onwards will contain CACs, existing issues can still be re-opened in order to preserve market liquidity. The reopening of these bonds will still not contain a model CAC after the tap.

“At its summit held on 24-25 March 2011, the European Council concluded that euro area Member States should be allowed under agreed conditions to reopen (“tap”) debt issuances outstanding on the date of the CAC’s mandatory introduction, in order to preserve market liquidity. Neither the tapped issuance nor (to preserve fungibility) the debt securities issued as part of the reopening of that issuance will contain the model CAC”²

Issuance of bonds without CACs will be phased out over the coming years

Figure 13 shows the limit or threshold of maximum non-CAC’d debt that can be issued in 2013 and onwards as a percentage of a euro area state’s annual gross supply in each year. For example, if Spain were to issue a total of €100bn of debt in 2013, at least 55% of this has to be confined to bonds that were issued in 2013 (i.e. new debt containing a model CAC). The remainder (max €45bn) can be allocated to debt that was issued prior to 2013 (i.e. existing debt without a model CAC).

Figure 13. Thresholds for debt that can be issued with and without CACs



*Minimum % of debt that must be new debt (with model CAC)

**Maximum % that must be taps of existing issues (without model CAC)

Source: Citi Research, EFC Sub-Committee.

² http://europa.eu/efc/sub_committee/pdf/supplemental_explanatory_note_on_the_model_cac_-_26_march_2012.pdf

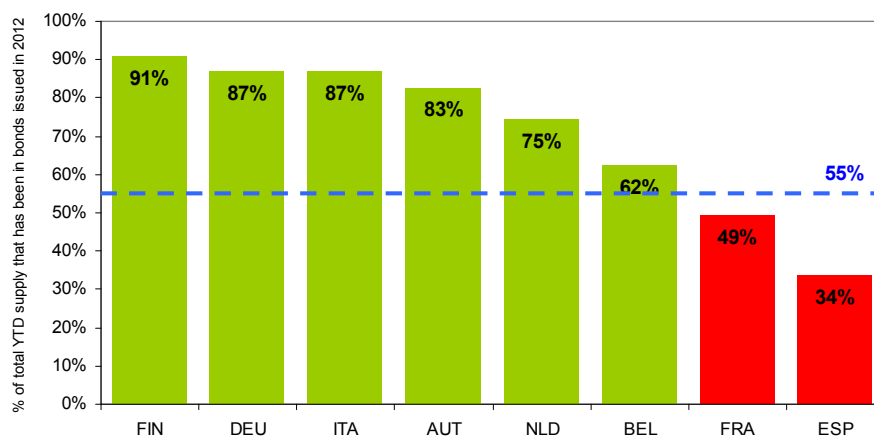
How will this affect issuance in 2013?

A useful starting point is to examine a breakdown of total issuance so far in 2012. The aim is to identify issuers which have not issued at least 55% of total YTD debt via bonds that were first issued in 2012.

Most countries won't need to alter their current issuance pattern. Spain is the main exception.

As shown in Figure 14 below, all active euro issuers with the exception of France and Spain have issued more than 55% of total YTD debt in securities that were first issued in 2012.

Figure 14. % of total YTD supply that has been in bonds issued in 2012



Source: Citi Research, DMOs, EFC Sub-Committee

This raises two questions:

1. Will France be able to issue more than 55% of debt in 2013 via securities that are first issued in 2013?
2. What will be the issuance strategy for Spain?

France - a minor tweak

France is only 6ppt below the 55% threshold that would be in place in 2013, according to our estimates (Figure 14). Given that France is a well established core issuer with a history of issuing in a range of instruments, we do not see any reason why France would not be able to tweak the profile of its funding programme and issue at least 55% of total debt in new securities in 2013.

Spain - more new issues required, including a 10yr

For Spain the shortfall is much more pronounced than in France: only 34% of debt issued YTD has come via bonds that were first issued in 2012 (Figure 14)³. In order to meet the 55% issuance target for bonds with CACs in 2013, Spain will need to issue more new issues, particularly in 3yr+ bonds.

Spanish bond issuance during the course of 2012 has predominantly been focused on the short-end (Figure 15) resulting in a decline in the weighted average maturity of Spanish debt (Figure 16). In the 3yr sector, 64% of total debt has been in securities that were first issued in 2012.

³ Spain has issued three new bonds in 2012: 4% Jul15 in January 2012, 3.75% Oct15 in September 2012 and this week's 4.5% Jan18.

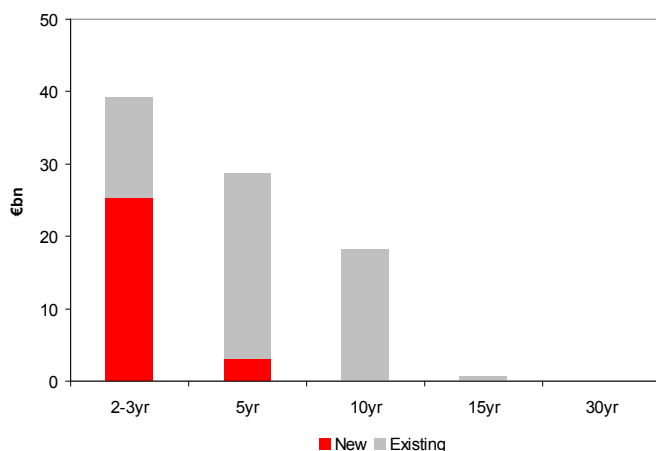
In 2012 so far, the only new issue beyond the 3yr sector is the new 5yr issued earlier today (8 November). This new issue will need to be re-opened in 2013 and in doing so will take up some of the 45% allowance for non-CAC issuance. Moreover, the new 3yr first issued in September (3.75% Oct15) will also need to be re-opened to bring it up towards full size (currently around €6bn). As such, new 3yrs and possibly a new 5yr are only likely later in 2013 when the existing benchmarks have been built up.

A new 10yr from Spain is likely to be high on the agenda in early 2013

Spain will, therefore, face a challenge to issue enough new debt in 2013 (with CACs) to meet the 55% target. By our estimates, the target can be achieved if Spain issues two new 3yrs during the year and, if market conditions allow, a new 10yr as early as possible in the year (this would be the first new 10yr since November 2011). The task will be made even easier if a new 5yr is issued late in 2013. New issuance beyond the 10yr point seems unlikely for now. This week's re-opening of the 2032s is the first issuance in the 15yr+ sector since July 2011.

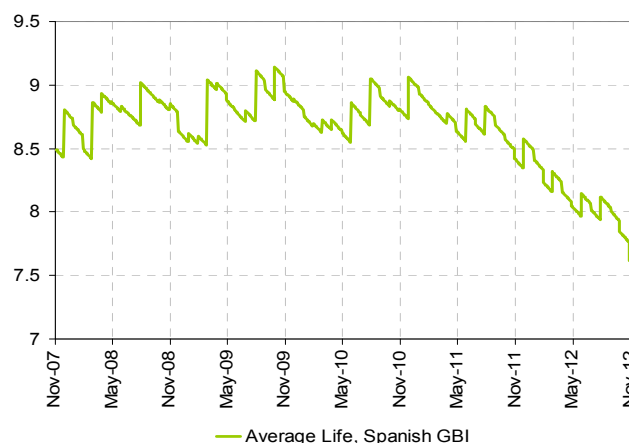
One side effect is that the 55% CAC target makes issuance decisions slightly less flexible. However, we still expect the Spanish Treasury to remain opportunistic when reopening existing long-end bonds (namely by taping bonds that are trading special in repo). More broadly, it will be important to maintain liquidity in all the existing issues.

Figure 15. Breakdown of Spanish debt by maturity (new debt vs reopenings of debt issued prior to 2012)



Source: Citi Research, Spanish Treasury

Figure 16. Weighted average maturity of Spanish debt that is eligible for Citi's WGBI index (years)



Source: Citi Research

What if market conditions deteriorate?

In the last couple of months, market conditions have been reasonably conducive for non-core issuance. The ECB has inspired confidence, at least in the near-term, and yield volatility has fallen. By issuing a 20yr this week Spain is tentatively showing that issuance can be pushed further out the curve. This bodes well for the issuance challenge facing Spain, and the other issuers in 2013, but what if market conditions deteriorate?

Spain appears to be in no rush to ask for official assistance, but we assume this will quickly change if yields spike higher. If/when Spain has requested aid from the ESM, this opens up the prospect of secondary market support from OMT buying in the front-end (which should support bonds with and without CACs alike) and primary market support from the ESM (see note below). The latter, in our view, is likely to be focused in the 5-10yr area and should make the task of meeting the 55% target for CAC issuance easier.

Note on ESM: As stated in the ESM Guidelines on primary market support⁴ the ESM can purchase debt securities issued by ESM members in the primary market. For both auctions and syndications the amount purchased by the ESM is limited to a maximum of 50% of the final issued amount. This proportion can be increased if market bids at acceptable prices are insufficient (for auctions) or if the order book is insufficient (for syndications). The ESM would raise capital (by issuing bonds in the market) and use the proceeds to purchase securities in the secondary market.

Will CACs create a two-tier market?

Figure 17. Foreign Law Debt % Total

	Foreign Law Debt (€bn)	% Total Debt
Finland	10.5	12%
Austria	11.5	6%
Portugal	3.2	3%
Italy	15.6	1%
Spain	2.5	0%
Ireland	0.1	0%
Belgium	0.1	0%
Germany	0.0	0%
Netherlands	0.0	0%
France	0.0	0%

Source: Citi Research, Bloomberg.

The precedent of Greece has highlighted the value of foreign law bonds over domestic law bonds in the event of restructuring. As the 'model CACs' will be introduced to "all domestic and international bonds, irrespective of their governing law"⁵, the relative attractiveness of foreign law over domestic law will be maintained. This is unlikely to be the main concern of the market, however. The vast majority of euro government bond markets are domestic law bonds. On average, foreign law bonds account for just 2.2% of total debt for euro issuers (see Figure 17). The most pertinent question for bond markets concerns domestic law debt. Specifically, will the introduction of CACs lead to a pricing differential between the existing debt without CACs and the new debt with CACs? This is unlikely to be the case, in our view.

It can be argued that bonds with CACs are least attractive to investors as the risk of the bond being restructured is greater. Consequently, new bonds with CACs should carry a risk premium over existing debt. However, in reality, the risk premium is likely to be negligible. Holding a domestic law bond without a CAC does not make it immune from restructuring. For example, as the Greek PSI showed, the law can be changed and it may be possible for CACs to be inserted into existing bonds ahead of restructuring. More broadly, all restructurings inevitably involve complex legal proceedings which are unique and hard to predict. As such, pricing differentials between domestic law issues are likely to be very small. The greater concern for investors in euro government bonds is the risk of restructuring actually taking place.

The attractiveness of CACs is that it makes the restructuring process more orderly. This has benefits to both bondholders and issuers alike and improves transparency over the process and potentially makes it less costly. But from a valuation perspective, we doubt there will be any meaningful pricing differential between domestic law bonds with and without CACs. This is particularly true in the current market environment in which restructuring fears are relatively subdued. The assumption may be tested in a scenario when the probability of restructuring is perceived to be high and the debt becomes distressed, but much will depend on the exact legal considerations of the country in question. For healthy sovereigns, the issue of CACs is unlikely to have a major impact on valuations.

The bottom line

The introduction of CACs in new issues from 1 January 2013 is likely to pass fairly uneventfully, in our view. Spain will need to issue more new bonds than this year, but this looks achievable. There is unlikely to be a pricing differential between bonds with and without CACs, especially for healthy sovereigns.

4

<http://www.esm.europa.eu/pdf/ESM%20Guideline%20on%20the%20primary%20market%20support%20facility.pdf>

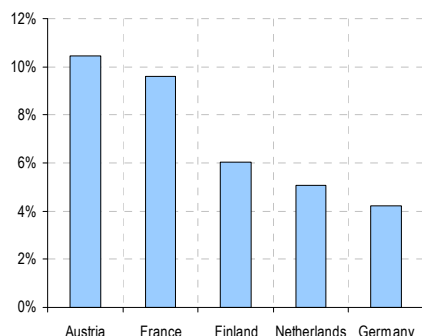
⁵ EFC Sub-Committee on EU Sovereign Debt Markets, CAC Explanatory Note, 26 July 2011.

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France: a contrarian performer in 2012

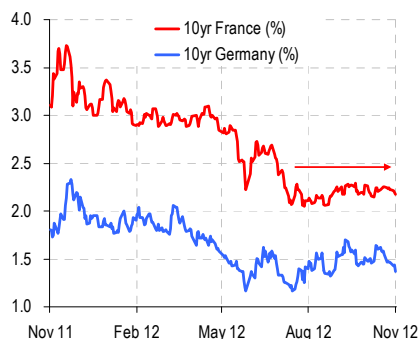
Year-to-date, France is up over 9.4% on a total return basis making it one of the best performing EMU issuers in 2012 (Figure 18). This certainly wasn't obvious 12 months ago when risks mounted amid an intensification of the EMU debt crisis. We believe positioning and portfolio rotation can help, in part, explain the good performance of France over recent quarters. We analyse such drivers and how they might change over time, especially in the context of wider fundamental challenges many EMU sovereigns continue to face.

Figure 18. Total Returns in 2012 on EMU Government Bond Indices (%)



Source: Citi Research

Figure 19. 10yr France and Germany (%)



Source: Citi Research

Near-term supports, longer-term fundamentals likely to re-assert themselves

Near term supports...

With relatively attractive spreads to Germany, it's likely much of the flow driving French yields over the course of 2012 came from portfolio rotation and changes in asset allocation in Q1. Furthermore, with many benchmarks likely being customized to insulate against the wider EMU crisis (important for example for central banks and reserve managers), the need for high quality assets increased which benefited sovereigns such as France. Spreads to Germany have settled in a range of 60bp-80bp and French yields have exhibited a healthy degree of stability over the last couple of months. Much of the spread has therefore been governed by the gyrations in Bunds (Figure 19). We believe the OAT-Bund spread will probably be largely range bound in the near term and that the "buying on dips" strategy should prevail.

More broadly, positioning is now different compared with a year ago, with many accounts likely overweight. Indeed, it was precisely the effect of shorts being squeezed that helped drive yields lower throughout the summer. In terms of broader flows, while international interest is unlikely to be reversed, it is perhaps unlikely to be as strong as seen in 2012 going forward. The ultimate success of ECB OMT policy in containing further episodes of sovereign risk is likely to be a key variable for international demand for OATs in 2013. Eventually, we think that domestic investors will also play a key role in the event of rising sovereign risk premia, given banks' capacity to contribute to the overall demand for French government bonds ([The demand for French government bonds](#), 27th Sept).

...but concerns remain

For France specifically, fundamental concerns remain. As the IMF Article IV analysis on France indicated (5th November): *"The growth outlook for France remains fragile reflecting weak conditions in Europe generally, but the ability of the French economy to rebound is also undermined by a competitiveness problem"*. Such focus on economic policy is likely to be one factor taken seriously by rating agencies. Note that France is not on negative watch by Moody's (it is rated Aaa with a negative outlook) but on 23rd July, Moody's *"announced that it is assessing the implications for France's creditworthiness stemming from the rising uncertainty regarding the outcome of the euro area debt crisis and the increasing likelihood that greater collective support for other euro area sovereigns will be required. Moody's now expects to conclude its assessment in the course of October, pending the release of France's draft 2013 budget at the end of September"*. We expect further clarity regarding Moody's credit opinion in the coming days and weeks.

In the near-term, we see France's recently unveiled competitive package as a fundamental positive. Reforms ranged from cutting corporate taxes (rebates of €10bn in 2013 funded in part by VAT hikes) and savings of around €12.5n in government spending and health insurance. The wider market assessment of how such reforms can impact France's growth and competitive prospects will likely be a key determinant in governing OAT yields in 2013. For now though, we see the stability in French yields as a positive and one we think can continue in the near term. Although on some metrics, France may appear rich, we still think spreads to Germany can present opportunities to "buy on dips". Secondly, the relative value versus some core SSA names could also prompt interest and help sustain the stability of OATs in the weeks and months ahead.

MPC on hold

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Attention shifts to the Inflation Report

The MPC voted to leave rates and QE unchanged at the November meeting. This was largely priced in by the market, although the recent run of poor data had added to the uncertainty. In the 10yr sector, gilts underperformed Bunds by around 3-4bp in the immediate aftermath of the MPC decision while 10s30s observed the usual directionality and bear flattened by around 2-3bp. Both have been popular trades as the market prepared for the end of QE, but, as we discussed in detail in last week's [European Rates Weekly](#), we are not convinced that either trades have legs.

QE is probably not over

Precedent suggests that QE could be restarted quickly

The main reason for our relatively bullish stance on gilts is that we believe that QE could be restarted reasonably quickly if the data continues to deteriorate. As our economist, Michael Saunders, argues:

"The Q3 surge in GDP largely reflected the rebound from the Queen's Jubilee plus side-effects of the Olympics. Surveys suggest that the underlying path of the economy remains weak and indeed probably is worsening again. The MPC already has stopped QE twice, in early 2010 and again early this year. Both times they forecast that the economy had enough momentum to ensure a solid recovery even without further QE, and both times renewed weakness in activity indicated that further QE was needed. This MPC's turnaround took a while in 2010-11, but came quite quickly early this year: the MPC decided to stop QE in May and restarted it in July. We expect that the MPC again will resume QE quite soon, prompted (as before) by disappointing economic data."

The Inflation Report on 14 November is the next major focus

Next week's quarterly *Inflation Report* (published 14 November) will be closely scrutinized for any clues to the MPC's bias for further stimulus. Any hint that QE is on hold, rather than over, could be the trigger for gilt outperformance. Regardless, if the data continues to worsen (beyond expectations) in the coming weeks and months, the market is likely to start to price QE back into spreads.

Don't forget the seasonals

The 7 December coupons could support gilts in the coming weeks

A secondary factor which could influence the gilt-Bund spread over the coming weeks is the seasonals. As we have highlighted in recent weeks, 10yr gilts have a historical tendency to outperform Bunds over the month of November. This is probably related to anticipation of re-investment flows from the 7 December gilt coupon payments. The coupons are worth £6.9bn (£12.4mn/bp) in total, although this falls to £2.8bn (£5.5mn/bp) when gilts held by the BoE and DMO are stripped out.

Gilts tend to outperform Bunds in November

So far in November the spread is, somewhat surprisingly, broadly unchanged. This owes much to the sharp underperformance of gilts vs Bunds at the end of October following the stronger-than-expected Q3 GDP release (25 October). Much will depend on next week's *Inflation Report* and the market's reaction to an increase in net issuance pressures from the end of QE, but the November seasonals could still hold in 2012.

3 trade ideas for next Thursday's gilt auction

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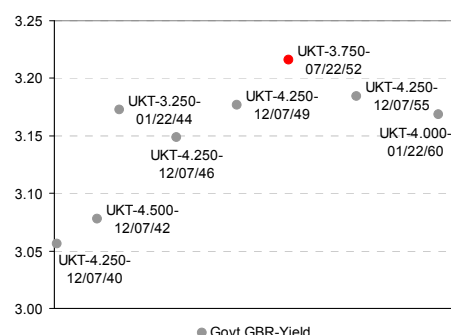
The UK will issue €2bn of the gilt 3.75% 2052 on Thursday 15 November. This will be the last long-end gilt auction for 2012.

The auction bond continues to have the highest YTM on the gilt curve and so provides an attractive yield pick-up versus surrounding issues (Figure 20).

Trade Idea 1

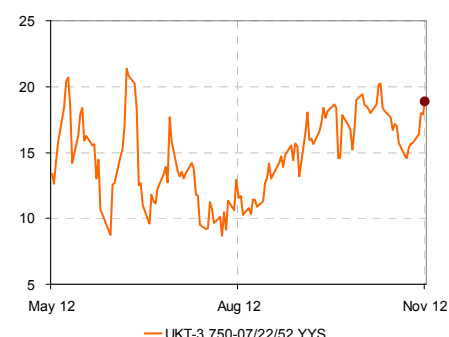
In recent sessions, 3T_52s have underperformed swaps taking the matched maturity swap spread to attractive levels (Figure 21). Taking into account fairly large coupon payments on 7 December (which should be supportive for long-end gilts) and the prospect of the BoE restarting QE in the next few months⁶ we suggest buying the auction bond vs swaps at +17bp or better.

Figure 20. 3T_52 has the highest yield to maturity on the gilt curve



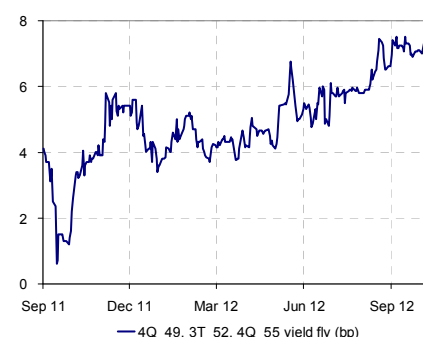
Source: Citi Research

Figure 21. 3T_52 s are cheap vs swaps



Source: Citi Research

Figure 22. 3T_52 is historically cheap to surrounding issues



Source: Citi Research

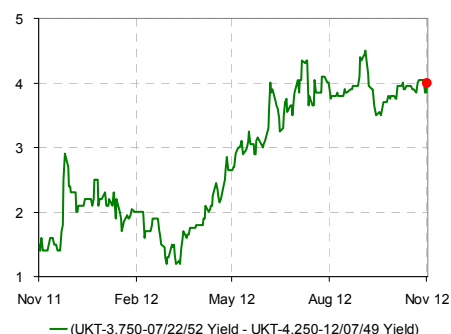
Trade Idea 2

On a more micro level, the auction bond is close to its cheapest levels versus surrounding issues such as 4Q_49 and 4Q_55 (Figure 22). Moreover, both switches offer a historically attractive yield pick up (4bps for 49-52s and 3bps for 52-55s) - Figure 23 & Figure 24.

Trade Idea 3

As shown in Figure 25 below, the historically elevated forward rate implied by 4Q_49 vs 3T_52 provides a good opportunity for investors to use next Thursday's auction to express bullish positions in long-end forwards.

Figure 23. Switching out of 4Q_49 and into 3T_52 provides a yield pick up of around 4bp



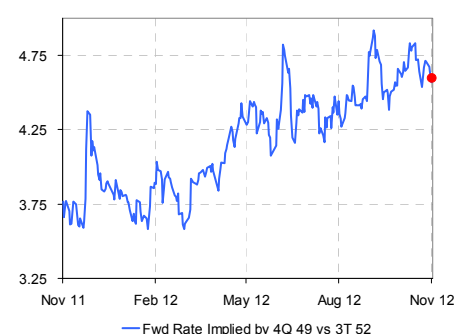
Source: Citi Research

Figure 24. Switching out of 4Q_55 and into 3T_52 offers a yield pick up of 3bps



Source: Citi Research

Figure 25. Fwd yields look elevated



Source: Citi Research

⁶ UK - MPC Stop QE – But Probably Only Temporarily

Current ARTS Trading Signals

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Short and long term signals have increased duration exposure ...

... due to momentum increasing in strength and fundamentals weakening ...

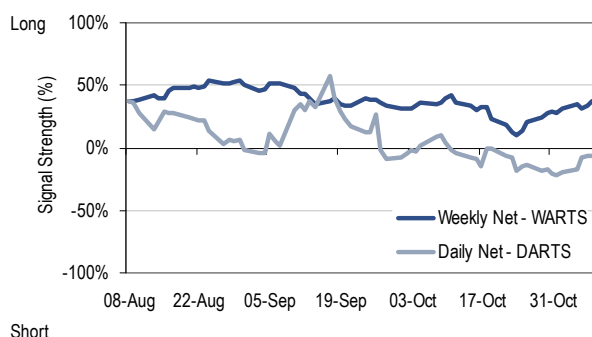
... resulting in a light long duration position.

Long term risk reward has improved, particularly in Bunds, resulting in the ARTS models moving to a mild long duration positions.

This week the daily and weekly algorithmic rates trading signals⁷ have been increase duration exposure. The long term models (WARTS) have increased longs to 37% while the short term models (DARTS) have reduced shorts exposure to 7% (Figure 26). This shift to mildly longer duration position is occurring due to similar signals dynamics playing out across both DARTS and WARTS models. Currently momentum has broadly strength as yields rally. Meanwhile risk aversion has weakened as risk asset sell off (a form of mean reversion). Finally there is broad agreement that fundamentals are weakening in both the short and long terms (which is supportive of long duration) as positive macro data surprised is running out of steam.

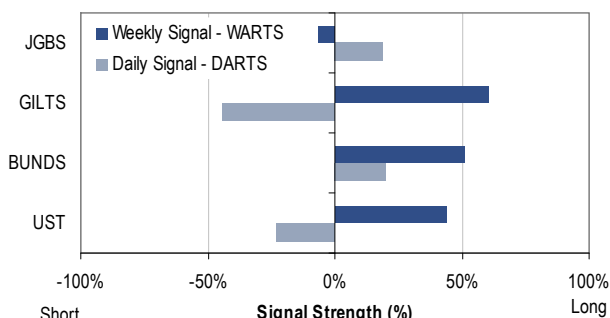
At an asset level positioning continue to be diverse between DARTS WARTS (Figure 27). As a result the signals maintain fairly neutral position with the strongest signals being a mild long in Bunds.

Figure 26. Evolution history of the daily / weekly 10y net signal



Source: Citi Research

Figure 27. Breakdown of current daily and weekly net signals

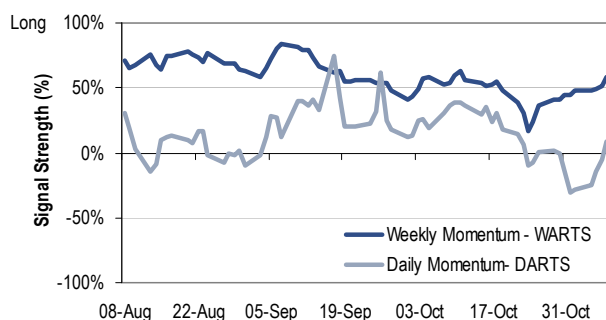


Source: Citi Research

Momentum signal is being driven by trend as yield move lower ...

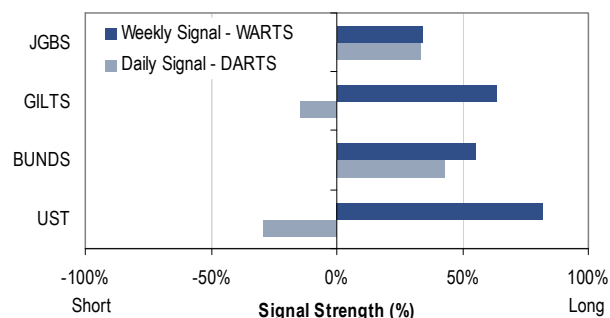
The momentum signal has been increasing duration exposure in DARTS and WARTS (Figure 28). This is being driven by stronger trend which has been established given the sharp move lower in yields. However the signals are much weaker in DARTS given more volatile price action in the short term. At an asset levels signals Bund remain attractive but there is less certainty in Gilt and UST (Figure 29).

Figure 28. Evolution history of the daily / weekly 10y momentum signal



Source: Citi Research, Bloomberg

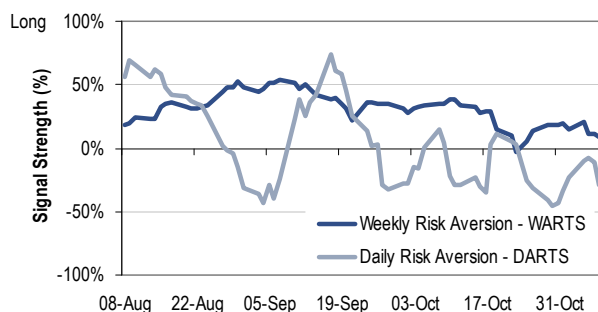
Figure 29. Breakdown of current daily and weekly momentum signals



Source: Citi Research, Bloomberg

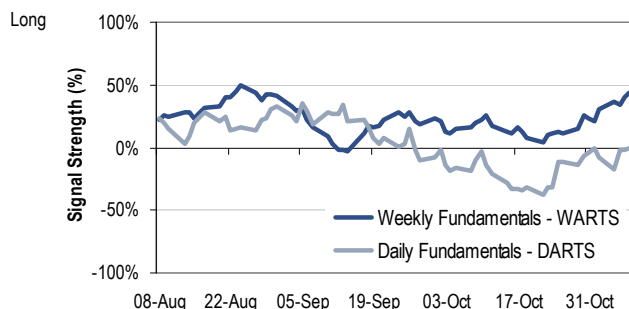
⁷ The current signals are calibrated as of market close 7th November 2012.

Figure 30. Evolution history of the daily / weekly 10y risk aversion signal



Short
Source: Citi Research

Figure 32. Evolution history of the daily / weekly 10y fundamental signal



Short

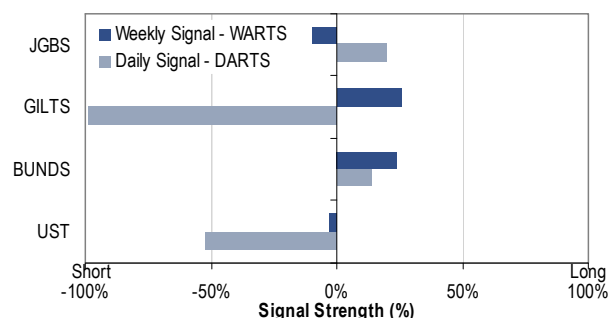
Source: Citi Research, Bloomberg

... Meanwhile risk aversion has fallen in the short term and long term as mean reversion dynamics dominate.

... However fundamentals have broadly weakened across all signals suggesting the momentum of upward surprises in economic data is weakening.

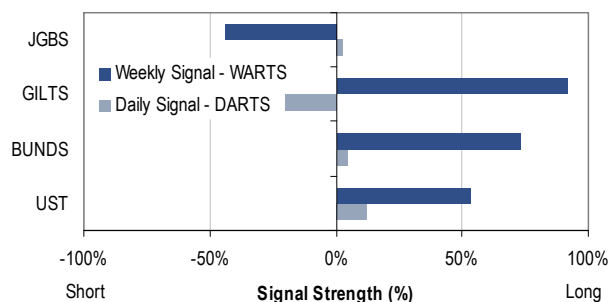
The signals suggest an increase in duration exposure to 25% with an overweight bias in Bunds.

Figure 31. Breakdown of current daily and weekly risk aversion signals



Source: Citi Research, Bloomberg

Figure 33. Breakdown of current daily and weekly fundamental signals



Source: Citi Research, Bloomberg

Meanwhile, the risk aversion signal has further weakened this week in DARTS and WARTS (Figure 30). This has occurred as a result of the model selecting a larger component of mean reversion dynamic (i.e. as risk asset sell off there is an increased probability that they will correct higher and hence bond sell off). However at the asset level the signals are diversified with broad agreement of "risk on" in UST and Gilts (in the short term) but raised risk aversion in Bunds (Figure 31).

Finally, fundamentals continue to weaken in the long term but are currently fair-value in the short term (Figure 32). This has occurred during a period of falling yields and suggests that despite highs in the economic surprise index (ESI) further weakness continues (i.e. it is the momentum of economic variable that the models use – currently it appears the momentum of upward surprise in economic data is weakening). At the asset level the outlook a weak long term fundamentals outlook is present in UST, Bund and Gilts (see Figure 33).

In summary, the signals find globally that trends are weak in the short term. However in the longer term trends are increasing as momentum strengthens and fundamentals weaken. Hence the combined models have increased the overall duration positions to 25%, however this is not evenly distributed. Bund are currently overweight in the model due to relatively raised risk aversion and weaker fundamentals compared to other assets.

European Relative Value Tables

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

For example, Figure 34 shows the five cheapest and richest bonds in Germany relative to a fitted yield curve (shown on the left half of the page) and to the euro swap curve (right half of page). The table identifies benchmarks and CTDs and also gives the amount outstanding and initial issue date.

Figure 34. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued
<div><div>Richest</div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div>Cheapest</div></div>	1	4.25 Jul17 (OE)	-2.63	May07		1	1.50 Sep22 (10y)	-1.63	Sep12
	2	0.50 Apr17	-1.99	Apr12		2	4.75 Jul40	-0.73	Jul08
	3	1.25 Oct16	-1.98	Sep11		3	4.25 Jul39	-0.68	Jan07
	4	3.75 Jan17	-1.59	Nov06		4	5.50 Jan31	-0.65	Oct00
	5	0.75 Feb17	-1.42	Jan12		5	3.25 Jul42	-0.63	Jul10
	5	3.25 Jan20	1.64	Nov09		5	1.75 Oct15	0.90	Sep10
	4	3.00 Jul20	1.76	Apr10		4	2.25 Apr15	0.91	Apr10
	3	3.75 Jan19	2.03	Nov08		3	3.75 Jan15	0.94	Nov04
	2	1.75 Oct15	2.12	Sep10		2	2.50 Feb15	0.94	Jan10
	1	3.25 Jul15	2.22	May05		1	3.25 Jul15	0.96	May05

Source: Citi Research

Figure 35 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 36 and Figure 37) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 35 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

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

Relative Value Tables – All Maturities

Figure 35. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); All bonds on each curve

		Versus Fitted Yield Curve				Versus Swap Curve (CAS)			
		Rank	Maturity	ZScore	Issued	Rank	Maturity	ZScore	Issued
GERMANY	Richest	1	4.25 Jul17 (OE)	-2.63	May07	1	1.50 Sep22 (10y)	-1.63	Sep12
		2	0.50 Apr17	-1.99	Apr12	2	4.75 Jul40	-0.73	Jul08
		3	1.25 Oct16	-1.98	Sep11	3	4.25 Jul39	-0.68	Jan07
		4	3.75 Jan17	-1.59	Nov06	4	5.50 Jan31	-0.65	Oct00
		5	0.75 Feb17	-1.42	Jan12	5	3.25 Jul42	-0.63	Jul10
	Cheapest	5	3.25 Jan20	1.64	Nov09	5	1.75 Oct15	0.90	Sep10
		4	3.00 Jul20	1.76	Apr10	4	2.25 Apr15	0.91	Apr10
		3	3.75 Jan19	2.03	Nov08	3	3.75 Jan15	0.94	Nov04
		2	1.75 Oct15	2.12	Sep10	2	2.50 Feb15	0.94	Jan10
		1	3.25 Jul15	2.22	May05	1	3.25 Jul15	0.96	May05
FRANCE	Richest	1	2.25 Feb16	-1.78	Feb10	1	4.00 Oct38	-0.69	Oct05
		2	3.00 Oct15	-1.50	Oct04	2	5.75 Oct32	-0.69	Oct00
		3	3.75 Apr21	-1.13	Apr05	3	4.75 Apr35	-0.67	Apr03
		4	3.25 Apr16	-0.98	Apr05	4	4.50 Apr41 (30y)	-0.66	Apr09
		5	2.00 Jul15	-0.84	Jun10	5	3.75 Apr21	-0.65	Apr05
	Cheapest	5	4.00 Apr18	1.35	Apr07	5	5.00 Oct16	-0.29	Oct00
		4	2.50 Jan15	1.38	Jan10	4	3.50 Apr15	-0.08	Apr04
		3	4.25 Oct17	1.40	Oct06	3	2.50 Jan15	0.02	Jan10
		2	3.75 Apr17	1.74	Apr06	2	2.75 Oct27	0.09	Oct11
		1	5.00 Oct16	2.03	Oct00	1	1.00 Jul17 (5y)	0.60	Jul11
ITALY	Richest	1	4.50 Feb20	-2.68	Feb04	1	5.00 Aug34	-1.38	Aug03
		2	4.25 Mar20	-2.63	Sep09	2	4.50 Mar26	-1.36	Sep10
		3	4.00 Sep20	-2.36	Mar10	3	4.00 Sep20	-1.36	Mar10
		4	4.25 Sep19	-1.76	Mar09	4	4.25 Mar20	-1.34	Sep09
		5	4.50 Mar19	-1.62	Sep08	5	5.00 Mar25	-1.32	Mar09
	Cheapest	5	4.00 Feb37	1.44	Aug05	5	4.25 Feb15 (BTS)	-1.14	Aug04
		4	4.75 Aug23	1.51	Feb08	4	3.00 Jun15	-1.14	Jun10
		3	4.00 Feb17	1.60	Aug06	3	4.50 Jul15	-0.83	Jul12
		2	5.50 Sep22	1.68	Mar12	2	5.50 Nov22 (10y-IK)	-0.31	May12
		1	5.50 Nov22 (10y-IK)	2.01	May12	1	3.50 Nov17 (5y)	0.55	Nov12
N'LANDS	Richest	1	4.50 Jul17 (5y)	-1.31	Jul07	1	3.75 Jan42 (30y)	-1.12	May10
		2	3.75 Jan42 (30y)	-0.70	May10	2	4.00 Jan37	-1.10	Apr05
		3	2.50 Jan17	-0.63	Jun11	3	2.50 Jan33	-1.08	Mar12
		4	1.25 Jan18	-0.53	Jul12	4	3.75 Jan23	-0.40	Jan06
		5	3.25 Jul15	-0.35	Jun05	5	2.25 Jul22 (10y)	-0.34	Feb12
	Cheapest	5	3.25 Jul21	0.54	Mar11	5	1.25 Jan18	0.02	Jul12
		4	2.75 Jan15	0.58	Jul09	4	4.00 Jul16	0.34	Jul06
		3	0.75 Apr15	0.82	Jan12	3	3.25 Jul15	0.55	Jun05
		2	4.00 Jan37	0.85	Apr05	2	2.75 Jan15	0.76	Jul09
		1	4.00 Jul16	0.87	Jul06	1	0.75 Apr15	0.83	Jan12
SPAIN	Richest	1	4.30 Oct19	-2.21	Jun09	1	3.15 Jan16	-1.06	Sep05
		2	4.60 Jul19	-2.14	Feb09	2	4.25 Oct16	-1.05	Sep11
		3	3.15 Jan16	-2.04	Sep05	3	4.60 Jul19	-1.05	Feb09
		4	5.75 Jul32	-1.66	Jan01	4	3.25 Apr16	-1.05	Nov10
		5	4.00 Jul15	-1.21	Jan12	5	5.50 Jul17 (5y)	-1.04	Mar02
	Cheapest	5	4.65 Jul25	1.55	Feb10	5	5.75 Jul32	-0.84	Jan01
		4	5.90 Jul26	1.78	Mar11	4	4.20 Jan37	-0.78	Jan05
		3	3.80 Jan17	1.78	Oct06	3	4.70 Jul41 (30y)	-0.75	Sep09
		2	4.90 Jul40	2.08	Jun07	2	4.90 Jul40	-0.74	Jun07
		1	5.50 Jul17 (5y)	2.36	Mar02	1	3.75 Oct15	0.25	Sep12
BELGIUM	Richest	1	5.50 Sep17	-1.82	Jun02	1	3.75 Sep15	-1.17	Mar05
		2	4.25 Sep21	-1.13	Jan11	2	3.50 Mar15	-1.16	Mar09
		3	4.00 Mar32	-0.71	Mar12	3	4.00 Mar32	-1.15	Mar12
		4	3.50 Mar15	-0.68	Mar09	4	5.00 Mar35	-1.12	May04
		5	4.00 Mar18	-0.19	Jan08	5	4.50 Mar26	-1.11	Jun11
	Cheapest	5	5.00 Mar35	0.91	May04	5	5.50 Sep17	-0.95	Jun02
		4	3.75 Sep20	0.93	Jan10	4	3.50 Jun17 (5y)	-0.93	Mar11
		3	4.00 Mar19	1.27	Jan09	3	4.00 Mar18	-0.92	Jan08
		2	3.25 Sep16	1.29	Jan06	2	3.25 Sep16	-0.92	Jan06
		1	4.00 Mar17	1.50	Jan07	1	4.00 Mar17	-0.89	Jan07

Source: Citi Research

Relative Value Tables – Max 12Yr Maturity

Figure 36. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

	Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued	
GERMANY	Richest	1	4.25 Jul17 (OE)	-2.63	May07	Richest	1	1.50 Sep22 (10y)	-1.63	Sep12
		2	0.50 Apr17	-1.99	Apr12		2	4.25 Jul17 (OE)	0.49	May07
		3	1.25 Oct16	-1.98	Sep11		3	2.25 Sep21	0.50	Aug11
		4	3.75 Jan17	-1.59	Nov06		4	0.50 Apr17	0.52	Apr12
		5	0.75 Feb17	-1.42	Jan12		5	1.75 Jul22	0.54	Apr12
	Cheapest	5	3.25 Jan20	1.64	Nov09		5	1.75 Oct15	0.90	Sep10
		4	3.00 Jul20	1.76	Apr10		4	2.25 Apr15	0.91	Apr10
		3	3.75 Jan19	2.03	Nov08		3	3.75 Jan15	0.94	Nov04
		2	1.75 Oct15	2.12	Sep10		2	2.50 Feb15	0.94	Jan10
		1	3.25 Jul15	2.22	May05		1	3.25 Jul15	0.96	May05
FRANCE	Richest	1	2.25 Feb16	-1.78	Feb10	Richest	1	3.75 Apr21	-0.65	Apr05
		2	3.00 Oct15	-1.50	Oct04		2	2.50 Oct20	-0.63	Oct09
		3	3.75 Apr21	-1.13	Apr05		3	3.50 Apr20	-0.62	Feb10
		4	3.25 Apr16	-0.98	Apr05		4	3.75 Oct19	-0.62	Oct08
		5	2.00 Jul15	-0.84	Jun10		5	4.25 Apr19	-0.61	Apr03
	Cheapest	5	4.00 Apr18	1.35	Apr07		5	2.00 Jul15	-0.35	Jun10
		4	2.50 Jan15	1.38	Jan10		4	5.00 Oct16	-0.29	Oct00
		3	4.25 Oct17	1.40	Oct06		3	3.50 Apr15	-0.08	Apr04
		2	3.75 Apr17	1.74	Apr06		2	2.50 Jan15	0.02	Jan10
		1	5.00 Oct16	2.03	Oct00		1	1.00 Jul17 (5y)	0.60	Jul11
ITALY	Richest	1	4.50 Feb20	-2.68	Feb04	Richest	1	4.00 Sep20	-1.36	Mar10
		2	4.25 Mar20	-2.63	Sep09		2	4.25 Mar20	-1.34	Sep09
		3	4.00 Sep20	-2.36	Mar10		3	3.75 Aug21	-1.32	Feb06
		4	4.25 Sep19	-1.76	Mar09		4	4.50 Feb20	-1.31	Feb04
		5	4.50 Mar19	-1.62	Sep08		5	3.75 Mar21	-1.31	Sep10
	Cheapest	5	4.50 Feb18 (MFB)	1.20	Aug07		5	4.25 Feb15 (BTS)	-1.14	Aug04
		4	4.75 Aug23	1.51	Feb08		4	3.00 Jun15	-1.14	Jun10
		3	4.00 Feb17	1.60	Aug06		3	4.50 Jul15	-0.83	Jul12
		2	5.50 Sep22	1.68	Mar12		2	5.50 Nov22 (10y-IK)	-0.31	May12
		1	5.50 Nov22 (10y-IK)	2.01	May12		1	3.50 Nov17 (5y)	0.55	Nov12
N'LANDS	Richest	1	4.50 Jul17 (5y)	-1.31	Jul07	Richest	1	3.75 Jan23	-0.40	Jan06
		2	2.50 Jan17	-0.63	Jun11		2	2.25 Jul22 (10y)	-0.34	Feb12
		3	1.25 Jan18	-0.53	Jul12		3	4.50 Jul17 (5y)	-0.30	Jul07
		4	3.25 Jul15	-0.35	Jun05		4	4.00 Jul19	-0.25	Feb09
		5	3.75 Jan23	-0.25	Jan06		5	4.00 Jul18	-0.24	Feb08
	Cheapest	5	3.50 Jul20	0.48	Feb10		5	1.25 Jan18	0.02	Jul12
		4	3.25 Jul21	0.54	Mar11		4	4.00 Jul16	0.34	Jul06
		3	2.75 Jan15	0.58	Jul09		3	3.25 Jul15	0.55	Jun05
		2	0.75 Apr15	0.82	Jan12		2	2.75 Jan15	0.76	Jul09
		1	4.00 Jul16	0.87	Jul06		1	0.75 Apr15	0.83	Jan12
SPAIN	Richest	1	4.30 Oct19	-2.21	Jun09	Richest	1	3.15 Jan16	-1.06	Sep05
		2	4.60 Jul19	-2.14	Feb09		2	4.25 Oct16	-1.05	Sep11
		3	3.15 Jan16	-2.04	Sep05		3	4.60 Jul19	-1.05	Feb09
		4	4.00 Jul15	-1.21	Jan12		4	3.25 Apr16	-1.05	Nov10
		5	3.75 Oct15	-0.96	Sep12		5	5.50 Jul17 (5y)	-1.04	Mar02
	Cheapest	5	4.80 Jan24	0.49	Sep08		5	4.40 Jan15	-0.94	Jun04
		4	4.40 Jan15	1.23	Jun04		4	5.50 Apr21	-0.93	Jan11
		3	4.25 Oct16	1.30	Sep11		3	4.80 Jan24	-0.92	Sep08
		2	3.80 Jan17	1.78	Oct06		2	5.85 Jan22 (10y-FBB)	-0.87	Nov11
		1	5.50 Jul17 (5y)	2.36	Mar02		1	3.75 Oct15	0.25	Sep12
BELGIUM	Richest	1	5.50 Sep17	-1.82	Jun02	Richest	1	3.75 Sep15	-1.17	Mar05
		2	4.25 Sep21	-1.13	Jan11		2	3.50 Mar15	-1.16	Mar09
		3	3.50 Mar15	-0.68	Mar09		3	2.75 Mar16	-1.06	Mar10
		4	4.00 Mar18	-0.19	Jan08		4	4.25 Sep21	-1.03	Jan11
		5	3.50 Jun17 (5y)	-0.08	Mar11		5	4.00 Mar22	-1.02	May06
	Cheapest	5	2.75 Mar16	0.59	Mar10		5	5.50 Sep17	-0.95	Jun02
		4	3.75 Sep20	0.93	Jan10		4	3.50 Jun17 (5y)	-0.93	Mar11
		3	4.00 Mar19	1.27	Jan09		3	4.00 Mar18	-0.92	Jan08
		2	3.25 Sep16	1.29	Jan06		2	3.25 Sep16	-0.92	Jan06
		1	4.00 Mar17	1.50	Jan07		1	4.00 Mar17	-0.89	Jan07

Source: Citi Research

Relative Value Tables – Min 8yr Maturity

Figure 37. Yield Spread and CAS to Fitted Relative Value Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

	Versus Fitted Yield Curve					Versus Swap Curve (CAS)				
	Rank		ZScore	Issued		Rank		ZScore	Issued	
GERMANY	Richest	1	2.50 Jul44 (30y)	-1.00	Apr12	Richest	1	1.50 Sep22 (10y)	-1.63	Sep12
		2	2.25 Sep21	-0.87	Aug11		2	4.75 Jul40	-0.73	Jul08
		3	6.25 Jan30	-0.65	Jan00		3	4.25 Jul39	-0.68	Jan07
		4	3.25 Jul42	-0.41	Jul10		4	5.50 Jan31	-0.65	Oct00
		5	5.50 Jan31	-0.09	Oct00		5	3.25 Jul42	-0.63	Jul10
	Cheapest	5	4.25 Jul39	0.81	Jan07	5	2.25 Sep21	0.50	Aug11	
		4	2.50 Jan21	0.86	Nov10	4	1.75 Jul22	0.54	Apr12	
		3	4.75 Jul34	1.07	Jan03	3	3.25 Jul21 (RX)	0.56	Apr11	
		2	1.50 Sep22 (10y)	1.30	Sep12	2	2.50 Jan21	0.56	Nov10	
		1	4.00 Jan37 (UB)	1.36	Jan05	1	2.00 Jan22	0.57	Nov11	
FRANCE	Richest	1	3.75 Apr21	-1.13	Apr05	Richest	1	4.00 Oct38	-0.69	Oct05
		2	5.75 Oct32	-0.52	Oct00		2	5.75 Oct32	-0.69	Oct00
		3	3.00 Apr22	-0.10	Feb12		3	4.75 Apr35	-0.67	Apr03
		4	3.25 Oct21 (OAT)	0.09	Oct10		4	4.50 Apr41 (30y)	-0.66	Apr09
		5	4.00 Oct38	0.22	Oct05		5	3.75 Apr21	-0.65	Apr05
	Cheapest	5	4.00 Apr55	0.47	Apr04	5	4.00 Apr55	-0.58	Apr04	
		4	4.00 Apr60	0.47	Apr09	4	3.00 Apr22	-0.57	Feb12	
		3	2.75 Oct27	0.56	Oct11	3	4.00 Apr60	-0.57	Apr09	
		2	4.25 Oct23	0.96	Oct06	2	4.25 Oct23	-0.52	Oct06	
		1	3.50 Apr26	1.28	Apr10	1	2.75 Oct27	0.09	Oct11	
ITALY	Richest	1	5.00 Aug34	-1.50	Aug03	Richest	1	5.00 Aug34	-1.38	Aug03
		2	5.00 Aug39	-1.15	Aug07		2	4.50 Mar26	-1.36	Sep10
		3	5.75 Feb33	-0.40	Feb02		3	5.00 Mar25	-1.32	Mar09
		4	5.00 Sep40 (30y)	-0.31	Sep09		4	5.00 Sep40 (30y)	-1.32	Sep09
		5	4.75 Sep21	-0.04	Mar11		5	3.75 Aug21	-1.32	Feb06
	Cheapest	5	5.00 Mar25	1.23	Mar09	5	5.00 Mar22	-1.29	Sep11	
		4	4.00 Feb37	1.44	Aug05	4	5.75 Feb33	-1.28	Feb02	
		3	4.75 Aug23	1.51	Feb08	3	5.50 Sep22	-1.26	Mar12	
		2	5.50 Sep22	1.68	Mar12	2	4.00 Feb37	-1.21	Aug05	
		1	5.50 Nov22 (10y-IK)	2.01	May12	1	5.50 Nov22 (10y-IK)	-0.31	May12	
N'LANDS	Richest	1	3.75 Jan42 (30y)	-0.70	May10	Richest	1	3.75 Jan42 (30y)	-1.12	May10
		2	2.50 Jan33	-0.29	Mar12		2	4.00 Jan37	-1.10	Apr05
		3	3.75 Jan23	-0.25	Jan06		3	2.50 Jan33	-1.08	Mar12
	Cheapest	3	2.25 Jul22 (10y)	0.31	Feb12		3	3.75 Jan23	-0.40	Jan06
		2	3.25 Jul21	0.54	Mar11		2	2.25 Jul22 (10y)	-0.34	Feb12
		1	4.00 Jan37	0.85	Apr05		1	3.25 Jul21	-0.24	Mar11
SPAIN	Richest	1	5.75 Jul32	-1.66	Jan01	Richest	1	5.50 Apr21	-0.93	Jan11
		2	4.20 Jan37	-0.63	Jan05		2	4.80 Jan24	-0.92	Sep08
		3	5.50 Apr21	-0.30	Jan11		3	5.90 Jul26	-0.88	Mar11
		4	5.85 Jan22 (10y-FBB)	0.38	Nov11		4	5.85 Jan22 (10y-FBB)	-0.87	Nov11
		5					5			
	Cheapest	4	4.70 Jul41 (30y)	1.03	Sep09	4	5.75 Jul32	-0.84	Jan01	
		3	4.65 Jul25	1.55	Feb10	3	4.20 Jan37	-0.78	Jan05	
		2	5.90 Jul26	1.78	Mar11	2	4.70 Jul41 (30y)	-0.75	Sep09	
		1	4.90 Jul40	2.08	Jun07	1	4.90 Jul40	-0.74	Jun07	
BELGIUM	Richest	1	4.25 Sep21	-1.13	Jan11	Richest	1	4.00 Mar32	-1.15	Mar12
		2	4.00 Mar32	-0.71	Mar12		2	5.00 Mar35	-1.12	May04
		3	4.00 Mar22	0.20	May06		3	4.50 Mar26	-1.11	Jun11
	Cheapest	3	4.25 Mar41 (30y)	0.70	Apr10		3	4.00 Mar22	-1.02	May06
		2	4.50 Mar26	0.72	Jun11		2	4.25 Mar41 (30y)	-1.00	Apr10
		1	5.00 Mar35	0.91	May04		1	4.25 Sep22 (10y)	-0.99	Jan12

Source: Citi Research

Supply Analysis and Forecasts

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

This publication includes 3 main areas:

Analysis of supply in the coming week and month

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

Profile of cash flows

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

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

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

Detailed supply forecasts

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

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

Analysis of upcoming supply

Coupons...

Redemptions...

Net cash requirements...

Supply forecasts

Click [here](#) for link...

Provisional auction calendar for the next four weeks

Figure 38. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RXZ2 (Bund)
13 Nov (Tue)	Netherlands	2.5	DSL Jul22 reopening (issue confirmed, size €2-3bn)		21k
13 Nov (Tue)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 15/11/2018 - 15/8/2020		-48k
14 Nov (Wed)	Germany	5.0	New Schatz Dec14 (issue and size confirmed)		9k
14 Nov (Wed)	Italy	5.8	BTP 3yr, 5yr and 10yr (estimated tenors and size)		19k
14 Nov (Wed)	US	7 - 8	Outright Treasury Coupon Sales: 15/5/2015 - 30/6/2015		25k
15 Nov (Thu)	France	8.5	BTAN/Index-linked OAT (estimated size)		37k
15 Nov (Thu)	UK	2.0	3¾% Treasury Gilt 2052 (issue and size confirmed)		52k
15 Nov (Thu)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/11/2042		-54k
16 Nov (Fri)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 15/2/2021 - 15/11/2022		-49k

Weekly \$DV01 of Issuance

9.5

Total Number of Futures Contracts

-125k

52k

86k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RXZ2 (Bund)
19 Nov (Mon)	US	7 - 8	Outright Treasury Coupon Sales: 31/7/2015 - 15/11/2015		25k
20 Nov (Tue)	UK	3.7	Syndicated re-opening of 0¼% Index-linked Gilt 2044 (week commencing 19		115k
20 Nov (Tue)	UK	4.4	1% Treasury Gilt 2017 (issue confirmed, estimated size)		22k
20 Nov (Tue)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/11/2042		-54k
21 Nov (Wed)	Germany	4.0	Bund 1.5% Sep22 reopening (issue and size confirmed)		33k
21 Nov (Wed)	US	13.0	10-Year TIPS (re-opening)		156k
21 Nov (Wed)	US	7 - 8	Outright Treasury Coupon Sales : 30/11/2015 - 31/1/2016		25k
22 Nov (Thu)	Spain	3.5	Obligaciones 2yr, 5yr and 10yr (estimated tenors and size)		16k

Weekly \$DV01 of Issuance

39.7

Total Number of Futures Contracts

153k

138k

49k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RXZ2 (Bund)
26 Nov (Mon)	Belgium	3.0	OLO 5yr, 10yr and 15yr (estimated tenors and size)		26k
26 Nov (Mon)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/11/2042		-54k
27 Nov (Tue)	Netherlands	2.5	DSL Apr15 reopening (issue confirmed, size €2-3bn)		5k
27 Nov (Tue)	Italy	3.0	CTZ (estimated size)		5k
27 Nov (Tue)	US	35.0	2-Year		85k
27 Nov (Tue)	US	1.5 - 2	Outright Treasury Coupon Purchases: 15/2/2023 - 15/2/2031		-34k
28 Nov (Wed)	Germany	3.0	Bobl-164 0.5% Oct17 reopening (issue and size confirmed)		13k
28 Nov (Wed)	US	35.0	5-Year		205k
28 Nov (Wed)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/11/2042		-54k
28 Nov (Wed)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 30/11/2018 - 15/11/2020		-48k
29 Nov (Thu)	Italy	7.0	BTP 5yr and 10yr (estimated tenors and size)		44k
29 Nov (Thu)	Italy	2.0	CCTeu (estimated size)		4k
29 Nov (Thu)	US	29.0	7-Year		234k
29 Nov (Thu)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 15/2/2021 - 15/11/2022		-49k
30 Nov (Fri)	US	1.75 - 2.25	Outright Treasury Coupon Purchases : 15/2/2036 - 15/11/2042		-54k

Weekly \$DV01 of Issuance

32.7

Total Number of Futures Contracts

233k

0k

97k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TY22 (UST) G Z2 (Gilt) RXZ2 (Bund)
05 Dec (Wed)	Germany	4.0	Schatz Dec14 reopening (issue and size confirmed)		7k
05 Dec (Wed)	Spain	3.0	Bono 2yr, 5yr, obligaciones 10yr (estimated tenors and size)		13k
06 Dec (Thu)	France	5.1	OAT 5yr, 10yr and 15yr (estimated tenors and size)		51k

Weekly \$DV01 of Issuance

9.9

Total Number of Futures Contracts

0k

0k

71k

The next release of the approximate purchase and sale amounts and tentative Outright operation schedule will be at 1400 (NY Time) on 30 November 2012

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3 mths)

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

Redemptions = €158bn											
Redemptions	DEU 41	FRA 30	NLD 16	ITA 51	ESP 14	BEL 6	AUT 0	FIN 0	PRT 0	GRC 0	IRL 0
(Fri) 14-Dec-12	17.0										
(Sat) 15-Dec-12				18.7							
(Mon) 24-Dec-12						5.9					
(Wed) 26-Dec-12		5.5									
(Mon) 31-Dec-12				11.5							
(Fri) 04-Jan-13	24.0										
(Sat) 12-Jan-13		24.7									
(Tue) 15-Jan-13			15.5								
(Thu) 31-Jan-13					14.3						
(Fri) 01-Feb-13				21.0							

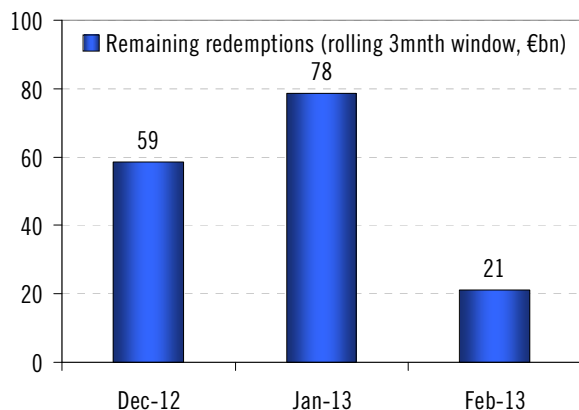
Source: DMOs, Bloomberg, Citi Research

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

Coupons = €40bn											
Coupons	DEU 12	FRA 3	NLD 4	ITA 13	ESP 7	BEL 0	AUT 1	FIN 0	PRT 0	GRC 0	IRL 0
(Thu) 15-Nov-12				0.4							
(Thu) 22-Nov-12							0.2				
(Sat) 01-Dec-12				1.0							
(Thu) 13-Dec-12	0.04										
(Fri) 14-Dec-12	0.2										
(Sat) 15-Dec-12				1.0							
(Sat) 22-Dec-12				0.1							
(Mon) 24-Dec-12						0.5					
(Wed) 26-Dec-12		0.5									
(Tue) 01-Jan-13				0.8							
(Fri) 04-Jan-13	11.7										
(Sat) 12-Jan-13		1.7									
(Tue) 15-Jan-13		0.6	3.9	0.3			0.6				0.3
(Sun) 20-Jan-13											0.02
(Sat) 26-Jan-13							0.1				
(Thu) 31-Jan-13					7.2						
(Fri) 01-Feb-13				9.4							

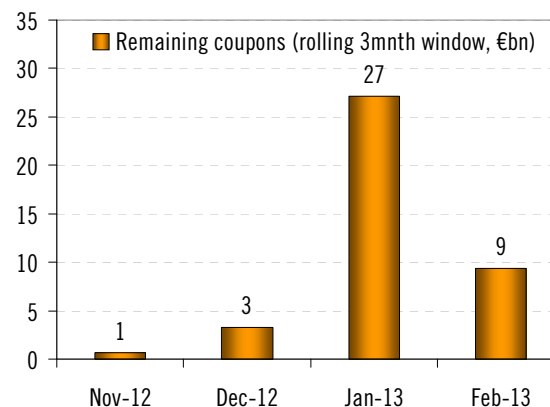
Source: DMOs, Bloomberg, Citi Research

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



Source: DMOs, Bloomberg, Citi Research

Figure 42. EMU-11 remaining coupons over the next three months (€bn)



Source: DMOs, Bloomberg, Citi Research

Inflation Forecasts, Carry & Weekly Changes

Figure 43. Citi Inflation Forecasts

Month	EUR HICP _{XT}			France CPI _{XT}			UK RPI			US CPURNSA		
	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change
Sep 12	115.97	0.8	2.6	124.74	-0.3	1.8	244.20	0.5	2.6	231.41	0.4	2.0
Oct 12	116.39	0.4	2.6	124.70	-0.0	1.6	244.50	0.1	2.7	231.41	0.0	2.2
Nov 12	116.55	0.1	2.7	124.97	0.2	1.6	244.80	0.1	2.6	231.51	0.0	2.3
Dec 12	116.95	0.3	2.7	125.46	0.4	1.6	246.00	0.5	2.8	231.31	-0.1	2.5
Jan 13	115.87	-0.9	2.6	124.85	-0.5	1.5	244.50	-0.6	2.7	232.21	0.4	2.4
Feb 13	116.15	0.2	2.3	125.21	0.3	1.3	245.50	0.4	2.3	232.61	0.2	2.2

Shaded = Already released

Source: Citi Research, Bloomberg

Figure 44. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Dec	1 Jan	1 Feb					1 Dec	1 Jan	1 Feb		
Repo (%)				0.15	0.15	0.15									
TIPS 1/14	-1.00	11	11	23	16	11	US-4.000-02/15/14	122	-14	-7	23	15	10	12	0
TIPS 4/14	-1.01	6	6	19	12	9	US-1.875-04/30/14	125	-8	-3	18	11	7	3	-3
TIPS 7/14	-1.39	7	7	15	7	1	US-2.625-07/31/14	165	-8	-4	14	6	-1	11	-1
TIPS 1/15	-1.22	6	6	12	6	3	US-2.250-01/31/15	151	-8	-5	11	5	1	18	2
TIPS 4/15	-1.27	3	3	10	5	2	US-2.500-04/30/15	158	-5	-2	10	4	0	10	-1
TIPS 7/15	-1.46	1	1	9	4	0	US-4.250-08/15/15	181	-4	-2	8	3	-2	19	-1
TIPS 1/16	-1.43	0	0	8	3	0	US-2.625-02/29/16	183	-4	-2	7	2	-2	16	-1
TIPS 4/16	-1.41	1	1	7	3	0	US-2.000-04/30/16	183	-5	-3	6	2	-2	14	0
TIPS 7/16	-1.52	-1	-1	6	3	0	US-4.875-08/15/16	199	-3	-1	6	1	-3	20	-1
TIPS 1/17	-1.47	-1	-1	6	2	0	US-3.125-01/31/17	202	-4	-2	5	1	-2	17	0
TIPS 4/17	-1.48	-3	-3	5	2	0	US-0.875-04/30/17	207	-2	-1	5	1	-3	11	-1
TIPS 7/17	-1.53	-4	-4	5	2	0	US-4.750-08/15/17	216	-1	0	4	0	-3	19	-2
TIPS 1/18	-1.45	-2	-2	5	2	0	US-3.500-02/15/18	218	-4	-3	4	0	-3	16	1
TIPS 7/18	-1.47	-2	-2	4	2	0	US-4.000-08/15/18	225	-5	-4	3	0	-3	21	2
TIPS 1/19	-1.32	-3	-3	4	2	1	US-2.750-02/15/19	224	-4	-3	3	0	-3	21	0
TIPS 7/19	-1.31	-1	-1	4	2	1	US-3.625-08/15/19	231	-7	-6	3	0	-3	25	3
TIPS 1/20	-1.21	-2	-2	4	2	1	US-3.625-02/15/20	232	-6	-5	3	0	-3	24	1
TIPS 7/20	-1.16	-4	-4	3	2	1	US-2.625-08/15/20	239	-4	-4	2	0	-3	25	-0
TIPS 1/21	-1.03	-2	-2	3	2	1	US-3.625-02/15/21	234	-5	-5	2	0	-2	29	1
TIPS 7/21	-0.98	-4	-4	3	2	1	US-2.125-08/15/21	242	-4	-3	2	0	-2	28	-1
TIPS 1/22	-0.88	-4	-4	3	2	2	US-2.000-02/15/22	242	-3	-3	2	0	-2	27	-2
TIPS 7/22	-0.84	-4	-4	3	2	2	US-1.625-08/15/22	248	-3	-3	2	0	-2	27	-2
TIPS 1/25	-0.55	-3	-3	3	2	2	US-7.625-02/15/25	241	-5	-4	1	-1	-2	38	-1
TIPS 1/26	-0.43	-3	-3	2	2	2	US-6.000-02/15/26	244	-4	-4	1	-1	-2	37	-1
TIPS 1/27	-0.37	-4	-4	2	2	2	US-6.625-02/15/27	246	-4	-3	1	-1	-2	37	-2
TIPS 1/28	-0.28	-4	-4	2	2	2	US-6.125-11/15/27	244	-4	-3	1	-1	-2	40	-1
TIPS 4/28	-0.25	-5	-5	2	2	2	US-5.500-08/15/28	248	-2	-2	1	-1	-2	35	-3
TIPS 1/29	-0.22	-5	-5	2	2	2	US-5.250-02/15/29	249	-3	-3	1	-1	-2	36	-2
TIPS 4/29	-0.21	-4	-4	2	2	2	US-5.250-02/15/29	248	-3	-3	1	-1	-2	36	-2
TIPS 4/32	-0.09	-4	-4	2	2	2	US-5.375-02/15/31	244	-3	-2	1	-1	-2	42	-2
TIPS 2/40	0.25	-5	-5	2	2	2	US-4.625-02/15/40	245	-1	-1	1	-1	-2	44	-2
TIPS 2/41	0.26	-5	-5	1	2	2	US-4.750-02/15/41	246	-1	-1	1	-1	-2	43	-1
TIPS 2/42	0.32	-4	-4	1	1	2	US-3.125-02/15/42	249	-1	-1	0	-1	-2	40	-1

Source: Citi Research

Figure 45. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Dec	1 Jan	1 Feb					1 Dec	1 Jan	1 Feb		
Repo(%)				0.09	0.08	0.08									
BTPei14	0.91	20	19	28	56	73	BTP 8/14	126	-31	-23	22	38	41	40	19
OATei15	-1.29	7	7	15	25	26	FFRG 4/15	146	-17	-12	14	24	26	36	13
BUNDei16	-1.03	6	6	12	20	23	BUND 1/16	108	-13	-9	12	21	23	40	4
BTANi16	-1.06	-6	-6	-6	-10	-6	FFRG 4/16	147	-3	-5	-6	-11	-9	55	10
BTPei16	2.33	23	23	16	32	43	BTP 8/16	89	-20	-16	11	19	21	82	12
OATi17	-0.83	0	0	-4	-7	-4	FFRG 4/17	156	-10	-12	-5	-9	-8	52	13
BTPei17	2.66	20	20	13	27	36	BTP 8/17	106	-17	-13	9	14	15	69	8
BOBLei18	-0.79	1	1	8	13	15	BUND 1/18	121	-12	-9	7	12	13	42	4
OATei18	-0.47	0	0	8	13	15	FFRG 4/18	149	-10	-8	7	11	11	35	5
OATi19	-0.37	-1	-1	-3	-4	-1	FFRG 4/19	168	-9	-10	-4	-7	-6	50	10
BTPei19	3.07	20	20	10	20	27	BTP 9/19	110	-16	-14	6	10	11	71	9
BUNDei20	-0.63	-4	-4	6	10	12	BUND 1/20	148	-7	-5	5	9	9	27	-1
OATei20	-0.11	-1	-1	6	11	13	FFRG 4/20	170	-6	-5	5	8	8	22	1
OATi21	0.01	-0	-0	-2	-2	0	FFRG 4/21	180	-6	-8	-3	-6	-5	51	7
BTPei21	3.41	13	13	8	16	22	BTP 9/20	94	-7	-6	5	7	7	100	30
OATi22	0.20	2	2	5	9	11	FFRG 4/21	162	-8	-7	4	6	5	40	3
BUNDei23	-0.37	-5	-5	4	7	8	BUND 1/22	162	-4	-3	3	5	5	33	-3
OATi23	0.21	-2	-2	-2	-2	1	FFRG 10/23	205	-5	-6	-3	-5	-5	33	4
BTPei23	3.69	18	17	7	14	20	BTP 8/23	119	-14	-12	4	7	7	85	7
BTPei26	3.91	15	15	6	12	17	BTP 3/26	124	-10	-9	3	5	5	91	4
OATei27	0.58	-0	-0	4	7	8	FRTR 4/26	196	-7	-6	3	4	3	22	2
OATi29	0.54	-2	-2	-1	-1	1	FFRG 4/29	219	-5	-6	-2	-4	-4	20	2
OATei32	0.69	-4	-4	3	6	7	FFRG 10/32	217	-2	-2	2	3	2	7	-3
BTPei35	3.81	13	13	4	8	11	BTP 8/34	172	-10	-10	2	2	1	53	4
OATei40	0.75	-0	-0	2	4	5	FFRG 10/38	228	-6	-5	1	2	1	5	1
BTPei41	3.85	11	11	3	7	10	BTP 9/40	173	-9	-9	2	2	1	61	4

Source: Citi Research

Figure 46. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Dec	1 Jan	1 Feb					1 Dec	1 Jan	1 Feb		
Repo(%)				0.43	0.42	0.41									
UKTi Jul16	-1.77	-1	-1	1	3	5	UKT 9/16	221	-7	-7	1	3	5	40	6
UKTi Nov17	-1.50	-1	-3	5	4	3	UKT 3/18	231	-8	-6	5	3	1	30	10
UKTi Apr20	-1.04	-4	-4	1	3	5	UKT 3/20	226	-6	-6	1	1	2	38	4
UKTi Nov22	-0.73	-4	-5	3	3	4	UKT 3/22	234	-5	-4	2	1	0	46	6
UKTi Mar24	-0.43	-4	-4	3	3	4	UKT 3/25	242	-4	-4	2	1	0	37	5
UKTi Jul24	-0.43	-4	-4	1	3	5	UKT 3/25	242	-4	-4	0	1	1	44	2
UKTi Nov27	-0.17	-4	-5	2	3	3	UKT 12/27	248	-3	-3	1	0	0	43	2
UKTi Mar29	-0.01	-6	-6	2	3	3	UKT 12/30	254	-2	-2	1	0	-1	38	0
UKTi Jul30	-0.06	-5	-5	1	3	4	UKT 6/32	273	-2	-2	0	0	0	26	1
UKTi Nov32	0.06	-5	-5	2	2	3	UKT 6/32	261	-3	-3	1	0	-1	42	1
UKTi Mar34	0.15	-4	-5	2	2	3	UKT 9/34	266	-3	-2	1	0	-1	36	1
UKTi Jan35	0.15	-4	-4	1	2	3	UKT 3/36	275	-2	-2	0	0	0	29	-1
UKTi Nov37	0.21	-3	-4	2	2	3	UKT 12/38	276	-2	-2	1	0	-1	32	0
UKTi Mar40	0.25	-3	-3	1	2	2	UKT 9/39	277	-3	-3	0	0	-1	34	1
UKTi Nov42	0.25	-2	-3	1	2	2	UKT 12/42	283	-3	-3	0	0	-1	34	1
UKTi Mar44	0.32	-2	-2	1	2	2	UKT 1/44	286	-3	-3	0	0	-1	30	-8
UKTi Nov47	0.29	-2	-3	1	2	2	UKT 12/46	286	-3	-3	0	-1	-1	34	1
UKTi Mar50	0.32	-2	-2	1	1	2	UKT 12/49	286	-3	-3	0	-1	-1	32	1
UKTi Mar52	0.35	-2	-2	1	1	2	UKT 7/52	287	-3	-3	0	-1	-1	32	1
UKTi Nov55	0.30	-3	-3	1	1	2	UKT 12/55	288	-2	-2	0	0	-1	33	0
UKTi Mar62	0.29	-3	-3	1	1	1	UKT 1/60	288	-2	-2	0	-1	-1	35	-0

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
01-Nov-12	European Weekly	Keep an Eye on the ESI	8	Global
		Sterling Rates Strategy	10	UK
		The ESM as an Investor	12	EUR
		EMU-11: Profile for the rest of 2012	16	EUR
01-Nov-12	NOTE	Weekly Supply Monitor: Euro, US and UK supply outlook	-	Global
01-Nov-12	NOTE	EMU-11: Profile of Supply to end-2012	-	EUR
29-Oct-12	NOTE	European Flow Analysis: Divergence between core and peripheral appetite	-	EUR
29-Oct-12	NOTE	UK Rates Strategy: Seasonality in November	-	UK
25-Oct-12	European Weekly	Sovereign Ratings Outlook and Key Expected Ratings Issues	12	Global
		November Seasonality in Bunds and Gilts	14	EUR
		Euro Inflation Strategy: November issuance could be light	17	EUR
25-Oct-12	NOTE	Weekly Supply Monitor: Euro, US and UK Supply Outlook	-	EUR
25-Oct-12	NOTE	European Thematic Research: Rates market implications of a severe growth shock	-	EUR
22-Oct-12	NOTE	European Flow Analysis in Pictures: Short-Term Confidence Returning	-	EUR
19-Oct-12	NOTE	European Inflation-Linked Index Projection	-	EUR
18-Oct-12	European Weekly	Bund: A Framework for Direction	8	EUR
		Moody's keeps Spain at Baa3...what next?	11	EUR
		Flows before and after Spain's downgrade	12	EUR
		Sterling Rates Strategy: Tactical 10s30s flatteners and 2s5s7s RV flies	14	UK
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		Month-end EGBI projection highlights	22	EUR
18-Oct-12	NOTE	Weekly Supply Monitor: Euro and US Supply Outlook	-	EUR
18-Oct-12	NOTE	European Month-end Index Projections: Support for France and Germany	-	EUR
17-Oct-12	NOTE	Euro Rates Strategy: Spain confirmed at Baa3...what next for yields?	-	EUR
16-Oct-12	NOTE	European Flow Update in Pictures	-	EUR
11-Oct-12	European Weekly	Spain and the implications of its downgrade	8	EUR
		Postscript: Understanding S&P's downgrade of Spain	11	EUR
		EUR Swap Curve: Pension Fund Regulation & the Long End	12	EUR
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Notes

Notes

Appendix A-1

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