

## European Rates Weekly

### Why we like the Netherlands here

- **Yield outlook:** Citi no longer expects additional ECB rate cuts, but we still see scope for further outperformance of Bunds vs Treasuries over the medium term. In the periphery, political concerns in Italy are likely to weigh on spreads in coming quarters in our view. In the UK, we expect gilts to outperform Treasuries and see prospects for the 2s10s steepening to continue.
- **Netherlands: risks vs rewards:** The discussion about a presumed change in the risk profile of investing in Dutch government bonds has recently gained speed, not least fuelled by last week's rather negative comments by Moody's on top of this year's poor -3.1% bond market performance (EMU index +0.4%, Germany -2.5%). However, we see little evidence of a change in delivered volatility.
- **DSL strategies:** We see value in the 5yr sector of the Guilder curve relative to its peers here. Defensive investors should also consider 10s30s flatteners in Guilders vs Bunds in our view.
- **EUREX calendar rolls:** We provide a summary of our views on the upcoming U3/Z3 calendar rolls. We are bullish on the Bobl, Bund, OAT and Buxl rolls and bearish on Schatz and BTP rolls.
- **A new species of bond – ESM supply:** In a widely anticipated SSA event, the ESM has indicated it will be selling bonds later this year. A total of €9bn is estimated to be issued across 2H 2013. We detail the key points regarding this entity whose enhanced credit features are likely to ensure it becomes a core market issuer.
- **Covered bonds:** The association of German pfandbrief banks recently published a note proving that property prices continued to increase. At the same time, they also provided fundamental justifications for this. We agree with this assessment and compare the results with developments seen in other European countries.
- **Month-end EGBI projections:** Projected index changes should be most supportive for Germany and least supportive for France at the end of August. On individual curves, we expect index changes to be supportive for the 10yr sector of Italy. The changes should also put flattening pressure on 2s10s part of the BTP curve.
- **Relative value trades:** We highlight a number of relative value opportunities in the 2yr-10yr sector of the French, Austrian, Dutch, Finnish, Spanish and Belgian curves.
- **Supply:** Within Europe, next week's bond supply comes from Belgium (around €3.5bn) and Italy (around €9bn). The US Treasury is expected to issue around \$98bn across the 2yr, 5yr and 7yr sectors next week. There is no UK gilt issuance until 3 September 2013.

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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
<b>Direction</b>	Our duration scorecard for the week ahead is slightly bearish but with very low conviction.	Buy the dips in Bunds based on the lower-for-long outlook
<b>Money Market</b>	With EUR excess liquidity fairly high and weekly LTRO repayments remaining low, we do not expect a significant repricing of EONIA rates in the medium-term. Furthermore, we are unlikely to breach the EUR100bn excess liquidity level before LTRO expiry. Receiving ECB Mar14 EONIA still looks attractive. In the UK, we would confine fresh longs in the front-end to the 1-2yr sector. We particularly like the short-sterling red pack.	Hold long ERZ3 1x2 call spread Receiving ECB Mar14 EONIA Long Short-sterling red pack
<b>Yield Curve</b>	10yr Bunds remains high beta on the German curve. In as far as, 10yr yields remain under pressure, we do not rule out further 2s10s steepening in Bunds. In the UK, the path of least resistance is for a steeper 2s10s curve.	UKT 2s10s steepeners Sell 10yr OATs vs 5yr and 30yr
<b>Cross-market</b>	Better than expected data (seen recently in the PMIs) and the FOMC Minutes continue to encourage upward pressure on core yields. However, relative fundamentals and "Forward guidance" from the ECB and the MPC vs likely "tapering" from the US supports the views that Bund/gilt yields will outperform vs UST yields over the medium-term.	Receive 5yr GBP vs USD Look to re-enter 10yr gilts vs UST Long Bunds vs UST trades over the medium-term (add on corrections)
<b>EMU Spreads</b>	We continue to see any spread widening between Belgium and the soft core as a buying opportunity (remain long 5yr OLOs vs OATs ). Periphery politics remains the main such of headline risk, especially in Italy. Separately, 2yr DSL-RAGB spreads are too tight and are attractive levels to initiate wideners	Buy 5yr Belgium vs France Buy 2yr Netherlands vs Austria Prefer 2yr Spain vs Italy
<b>Swap Spreads</b>	Schatz ASW spreads are still cheap both outright and vs Bobl spreads. Schatz ASW widening positions looks attractive in the current environment given EM concerns & political pressures in EMU markets. Buying Schatz ASW vs Bobl ASW is working, we still think this has further to go. The end of QE in the UK coupled with fiscal and supply risks is likely to put steepening pressure on 10s30s gilts vs swaps	Remain long Schatz in ASW vs Bobl ASW Sell 30yr GBP swap spreads vs 10yrs
<b>Inflation</b>	Euro break-evens continue to perform well as nominal yields rise. We continue to hold our long position in Boblei18 break-evens vs 5yr HICPxT. We also hold Bunde23 vs OATe24 on a break-even basis. In the UK, 5yr gilt real yields should eventually benefit from forward guidance.	Sell OATe24 vs Bunde23 break-even inflation box Buy Boblei18 break-even vs inflation swap Sell 5yr, 5yr euro HICPxT as a long-term fundamental trade Long 5yr UK real yields
<b>Volatility</b>	Interest in EUR payers has increased following the back up in swap rates. This has resulted in payer skew moving much higher than receiver skew. Risk-reversals are looking attractive for account looking to protect short delta positions and for those looking to fade the back up in swap rates.	Buy EUR 6m5y ATMF-25 receiver vs EUR 6m5y ATMF+35 payer (zero cost)
<b>SSA</b>	Spreads continue to grind in and at -10bp in 10yr KfW ASW, we would much rather look at relative, rather an absolute value in the near-term. We expect yields to compress further given the constructive tone	Maintain front-end KfW vs France over the medium term Prefer EU vs EIB in the sub 5yr sectors

For a list of outstanding trade strategies please see the Tradesheet section of this report

# Duration Scorecard

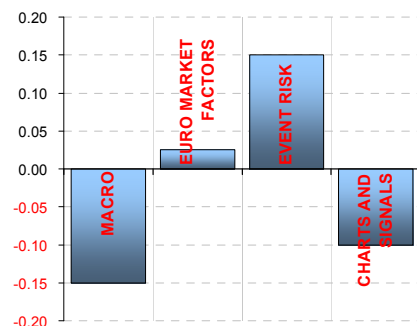
Figure 2. Bund Weekly Cheat Sheet: 23rd-29th August

## Bund Directional Scorecard (1wk horizon)

RECOMMENDATION		Short	RXU3 (EOD Thurs) = 139.79	
Conviction level		4%	CTD yield = 1.49%      10day del vol = 6.77%	
SIGNAL STRENGTH (+/-2)				
MACRO		-0.2	Weight = 35%	
ECB	1	Rates to remain low for an extended period of time		7.5%
Fed, BoE and BOJ	-1	QE tapering with enhanced forward guidance likely in September		7.5%
Inflation	0	Inflation outlook benign over the medium term		5.0%
Growth related data	-1	Data continues to surprise on the upside		7.5%
Citi surprise	-1	Citi Economic Surprise Index remains elevated		5.0%
Middle East / Oil	-1	Brent near 6 month highs		2.5%
EURO MARKET FACTORS		0.0	Weight = 28%	
Supply	1	No core supply. Cash flows from Germany and Italy		5.0%
Risk appetite	0	Risk appetite relatively sound; price action more a function of Fed policy		7.5%
Positioning	1	Position squaring in core; evidence of appetite for soft core and periphery		5.0%
Equity	0	Equities showing signs of consolidation but still relative high		2.5%
Sovereign credit	-1	Peripheral spreads at low end of 12m range		5.0%
FX	-1	EUR effective exchange rate up 0.5% in a week		2.5%
EVENT RISK		0.2	Weight = 18%	
Politics	1	Political tensions in Italy have potential to escalate further		10.0%
3yr LTRO	1	Excess liquidity remains high at €256bn with repayments slowing		5.0%
Stability mechanisms	0	ESM activation unlikely in the short-term		2.5%
CHARTS AND SIGNALS		-0.1	Weight = 15%	
Technicals	-1	Bollinger squeeze and ADX indicate downtrend		2.5%
T-Note	-1	Treasury yields above 2.9% post FOMC minutes		7.5%
CFTC	0	Positioning largely neutral		5.0%

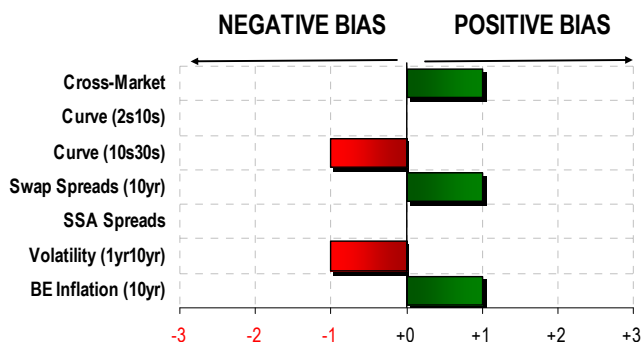
Source: Citi Research

Figure 3. Contribution to Bund Signals



Source: Citi Research

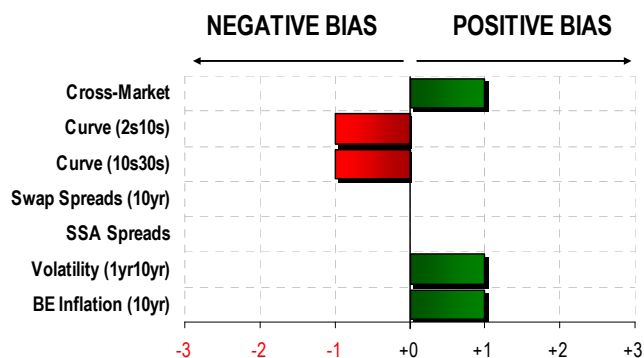
Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

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

Figure 5. UK (Near-term Bias)



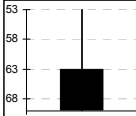
Source: Citi Research

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

# Tradesheet

## Record of Closed Trades

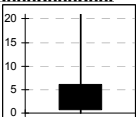
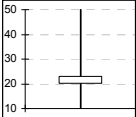
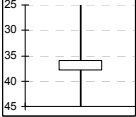
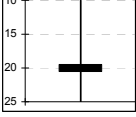
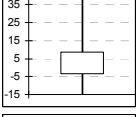
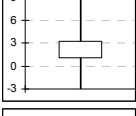
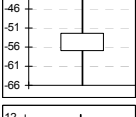
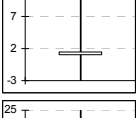
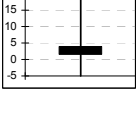
Figure 6. Record of Closed Trades

Region	Trade	Levels	Rationale	
<b>Europe</b>	Long EIB 2.5% Oct18s vs EIB 3.5% Apr16s	Open 63bp Current 70bp	Hi Stop 15 August 2013.	
<i>Curve</i>	Buy EIB 2.5% Oct18s at 1.11% Sell EIB 3.5% Apr16s at 0.48%	<b>P&amp;L -7bp</b> Target 53bp Stop 70bp	European Rates Weekly, 8 August 2013	

Source: Citi Research

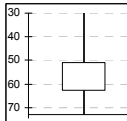
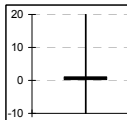
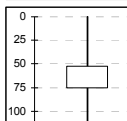
## Record of Open Trades

Figure 7. Record of Open Trades

Region	Trade	Levels	Rationale + Publication Date	
<b>Europe</b>	Buy EUR 1m30y ATMf receiver	Open 6bp Current 1bp	Attractive entry level, strong seasonal support and low entry cost.	
<i>Volatility</i>	Buy EUR 1m30y ATMf(2.55%) receiver at 6bp	<b>P&amp;L -5bp</b> Target 21bp Stop 0bp	The Morning Call, 8 August 2013	
<b>UK</b>	Sell 30yr gilt swap spreads vs 10yr	Open 20bp Current 23bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve.	
<i>Swap spread</i>	Sell gilt 3.25% Jan44 ASW at 20bp Buy gilt 1.75% Sep22 ASW at 0bp	<b>P&amp;L 3bp</b> Target 50bp Stop 10bp	UK Rates Strategy, 30 July 2013	
<b>Europe</b>	Sell OATei24 break-even vs Bunde23	Open 38bp Current 36bp	Relative outperformance of 10yr OATei break-evens is overdone, especially now that the 25 July coupons have been paid.	
<i>Inflation</i>	Sell OATei24 break-even at 168bp Buy Bunde23 break-even at 130bp	<b>P&amp;L 2bp</b> Target 25bp Stop 45bp	European Rates Weekly, 25 July 2013	
<b>Europe</b>	Buy 5yr Belgium vs France	Open 19.5bp Current 21bp	Tactical long supported by upcoming cash flows.	
<i>Cross Market</i>	Buy OLO 4% Mar18 at 1.15% Sell OAT 4% Apr18 at 0.95%	<b>P&amp;L -1bp</b> Target 10bp Stop 25bp	Euro Rates Strategy, 24 July 2013	
<b>Europe</b>	Sell OAT 5s10s30s	Open -4bp Current 8bp	Impact of France's removal from ECB AAA curve on the long-end is overestimated, in our view. Trade offers positive roll on ASW curve.	
<i>Curve</i>	Buy OAT Nov18 at 1.10% Sell OAT May23 at 2.19% Buy OAT May45 at 3.32%	<b>P&amp;L 12bp</b> Target 40bp Stop -15bp	European Interest Rate Strategy, 22 July 2013	
<b>Europe</b>	Buy 2yr Netherlands vs Austria	Open 1bp Current 3bp	Attractive entry level to move up the credit curve. Relative value is also supportive.	
<i>Cross Market</i>	Buy DSL 0.75% Apr15 at 16bp Sell RAGB 3.5% Jul15 at 17bp	<b>P&amp;L 2bp</b> Target 10bp Stop -3bp	The Morning Call, 17 July 2013	
<b>Europe</b>	Buy Boblei18 break-even vs 5yr HICPxT swap	Open -57bp Current -52.3bp	Euro break-evens should be supported by rally in oil and upcoming coupon payments.	
<i>Inflation</i>	Buy Boblei18 break-even at 98bp Sell 5yr HICPxT swap at 155bp	<b>P&amp;L 5bp</b> Target -40bp Stop -66bp	The Morning Call, 16 July 2013	
<b>Europe</b>	Buy ERZ3 1x2 call spread	Open 1c Current 1.5c	Dec Euribor has cheapened 30/35c since May ECB rate cut. However, a cut to the deposit rate would be required for a significant rally.	
<i>Money Market</i>	Buy ERZ3 99.750/875 1x2 call spread at 1c	<b>P&amp;L 0.5c</b> Target 12.5c Stop -3c	Euribor, 24 June 2013	
<b>Europe</b>	Receive EUR 10y2y vs 12y3y	Open 4bp Current 1bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility	
<i>Curve</i>	Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%	<b>P&amp;L -3bp</b> Target 25bp Stop -5bp	The Morning Call, 23 January 2013	

Source: Citi Research

Figure 8. Record of Open Trades (continued)

<b>Europe</b>	<b>Sell EUR 1y3yF ATM straddle and buy ATM-25 receiver</b>		Open	63bp	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	
<i>Volatility</i>	Sell EUR 1y3yF ATM (=1.36%) straddle for 98bp Buy EUR 1y3yF ATM-25 receiver for 35bp	Current	51bp			
		<b>P&amp;L 12bp</b>				
		Target	30bp			
		Stop	73bp			
<b>Europe</b>	<b>Long KfW 1.375% Feb17s vs OAT 5% Oct16s</b>		Open	1bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify  IIRS 2 August 2012	
<i>Cross Market</i>	Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%	Current	0bp			
		<b>P&amp;L -1bp</b>				
		Target	20bp			
		Stop	-10bp			
<b>UK</b>	<b>Sell GBP 2y2y ATM straddle</b>		Open	76bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol  IIRS 12 July 2012	
<i>Volatility</i>	Sell GBP 2y2y ATM (1.04%) straddle at 76bps	Current	52bp			
		<b>P&amp;L 24bp</b>				
		Target	0bp			
		Stop	114bp			

Source: Citi Research

# European Rates Strategy Yield Outlook

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Full details can be found in the latest [Global Economic Outlook and Strategy](#).

## EMU – we no longer expect the ECB to cut in 2013

**Core rates:** Citi no longer expects a further ECB rate cut later this year and in general growth forecasts have been revised upwards for countries including Germany, Spain and Italy. However, growth is only one component in computing yield forecasts. Our key message is that given accommodative ECB policy and a weak inflationary backdrop, we continue to see core rates largely range bound, albeit we have nudged higher slightly the mean of the expected range to 1.7% from 1.5% for the remainder of the year. This also takes into account the affect of the unexpectedly fast UST sell off. On a cross market basis, we maintain the medium-term de-coupling view between USTs and Bunds based on diverging fundamentals.

**EMU spread outlook:** In terms of the EMU spread outlook, we believe OAT spreads are at the tight end of a range, averaging 70bp in the quarters ahead. Spain and Italy spreads to Germany are converging and it's plausible that Bonos might trade through BTPs given the growing political uncertainty in Italy. We expect wider BTP spreads in an environment which puts the integrity of the current Italian coalition into question. Our economists expect elections some time over the coming quarters and, as such, we expect this to be reflected in spreads, forecasting 10yr spreads to Germany to average 300bp in Q4 2013 and Q1 2014.

## UK – gilts to underperform Bunds and prospects for 2s10s steepeners

The introduction of forward guidance by the MPC has done little to cap short-end rates so far. However, based on Citi's expectation that the first rate hike will be in 2017, we expect the 2yr gilt to be anchored around current levels and the 2s10s yield spread to bear-steepen over the coming months. On a cross-market basis, we expect 10yr gilts to underperform Bunds.

Figure 9. Interest Rate and Bond Market Forecasts as of 21 August 2013

		Quarterly Average					
	Current	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15
Euro Area							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Overnight Rate (EONIA)	0.08	0.10	0.15	0.20	0.20	0.25	0.40
3-Month (EURIBOR)	0.15	0.25	0.25	0.30	0.30	0.35	0.35
2 Year Schatz Yield	0.24	0.15	0.15	0.15	0.20	0.20	0.30
5 Year Bobl Yield	0.79	0.65	0.80	0.80	0.80	0.80	0.90
10 Year Bund Yield	1.84	1.70	1.80	1.80	1.80	1.90	2.00
30 Year Bund Yield	2.64	2.50	2.50	2.50	2.50	2.60	2.70
2-10 Year Bund Curve	160	155	165	165	160	170	170
10 Year BTP-Bund Spread	246	300	300	275	250	250	250
10 Year Bono-Bund Spread	262	300	300	275	250	250	250
2 Year BTP-Schatz Spread	164	170	170	150	125	125	125
2 Year Bono Schatz Spread	156	170	170	150	125	125	125
10 Year OAT-Bund Spread	56	70	70	80	80	80	80
10 Year Swap Spread (Swap Less Govt.), bp	30	35	35	30	30	25	25
10 Year Breakeven Inflation	166	165	170	170	170	180	190
UK							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-Month Libor	0.51	0.51	0.51	0.51	0.51	0.51	0.51
2 Year Treasury Yield	0.40	0.35	0.35	0.40	0.40	0.40	0.40
5 Year Treasury Yield	1.63	1.60	1.70	1.70	1.75	1.80	1.85
10 Year Treasury Yield	2.69	2.70	2.80	2.85	2.90	3.00	3.15
30 Year Treasury Yield	3.68	3.70	3.75	3.80	3.85	3.90	4.00
2-10 Year Treasury Curve	229	235	245	245	250	260	275
10 Year Swap Spread (Swap Less Govt.), bp	2	5	5	5	0	0	0
10 Year Breakeven Inflation	284	290	295	295	300	310	320

Source: Citi Research



# Netherlands: Risks vs Rewards

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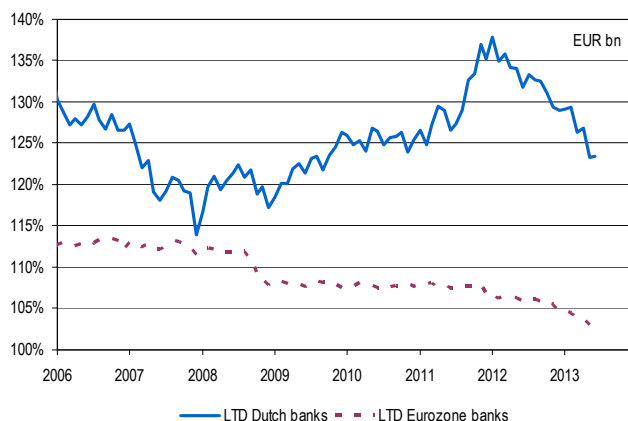
The discussion about a presumed change in the risk profile of investing into Dutch government bonds has recently gained speed, not least fuelled by last week's rather negative comments by Moody's on top of this year's poor -3.1% bond market performance (EMU index +0.4%, Germany -2.5%). Has the risk profile of Guilders really changed?

## Financial Stability Risk Demystified

**Main risk factors: Housing and banks**

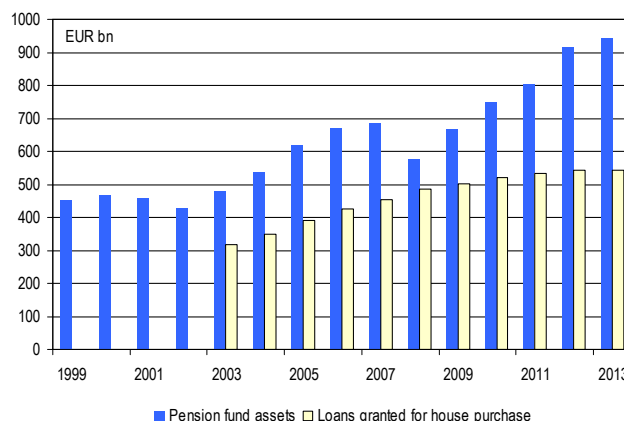
IMF's Article IV Consultation<sup>1</sup> on the Netherlands explicitly mentions the pre-crisis accumulation of mortgage debt with very high loan-to-value ratios by Dutch households as a source of leveraged risk to the broader economy and to the financial sector in particular. So far, this is not worrying in the context of a 5% yearly decline of prices for existing houses<sup>2</sup> (-14.6% vs the 2010 reference year), but could become an issue in case of more violent swings in real estate valuations. According to IMF's calculations, even an adverse shock defined as a 20% house price correction with unemployment drifting above 7% and mortgage rates jumping to 6% would not be enough to significantly reduce Basel2 capital adequacy and T1 ratios for Dutch banks. DNB statistics show that Dutch MFIs are exposed to housing market swings with EUR 543bn of loans for house purchase accounting for 40% of total loans granted by Dutch banks to Euro Area residents (of which 81% are private sector loans) and for 90% of GDP. Around 25% of outstanding mortgage loans are underwater, but continue to be serviced due to stringent full recourse laws.

Figure 10. Relatively high LTD ratio



Source: DNB, ECB, Citi Research

Figure 11. Growing pension fund assets



Source: DNB, Citi Research

## Pension funds, savings and bank deposits

To complicate matters, Dutch banks show a significant funding-deposit gap, i.e. a relatively high loan-to-deposit ratio (Figure 10), resulting not only from their large exposure to the real estate sector, but also from the huge size of Dutch pension funds who act as a reservoir of household savings (assets at EUR 944bn or 160% of GDP). A core European, highly developed pension system can be seen as a superior financial alternative to bank deposits, hence forcing banks to resort more frequently and in larger size to the wholesale funding market. This may become a source of financial instability in the event of liquidity shocks as in 2008.

<sup>1</sup> <http://www.imf.org/external/pubs/ft/scr/2013/cr13115.pdf>

<sup>2</sup> <http://www.cbs.nl/en-GB/menu/themas/dossiers/conjunctuur/publicaties/conjunctuurbericht/inhoud/maand/2013-08-19-m11.htm>

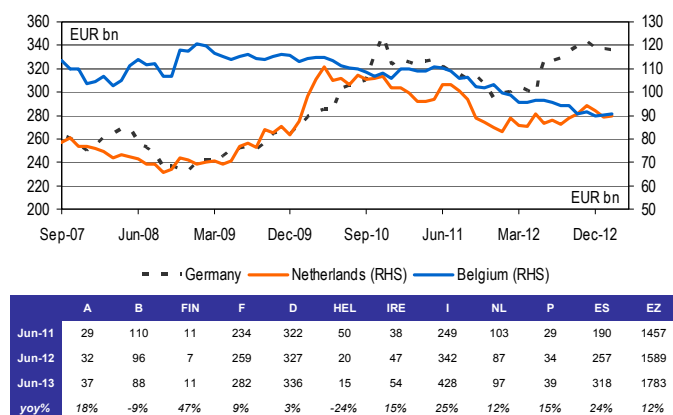
## Deleveraging has started, Holland is not Spain

However, we think the picture is not as bleak as presented above and is not necessarily comparable to the Spanish situation at the onset of the financial/sovereign crisis, i.e. highly leveraged system with declining house prices and weakening fundamentals. One reason has to do with the deleveraging that can be observed in the Dutch banking sector (12% drop in LTD ratios), resulting from a EUR 20bn decrease in loans as well as an EUR 80bn increase in total deposits. By this metric LTD ratios are still some 20% above the average for euro area MFIs, but the trend seems to favour further re-balancing of banking sector risks. More importantly, we've not yet witnessed the process of substitution of private lending to public lending – via domestic bonds financed at ECB LTROs – that's hampering the transmission mechanism in countries like Italy and Spain (Figure 12). Holdings of EGB by Dutch banks stand at around 16% of GDP compared to 30% for Italian banks and a whopping 65% for Spanish banks.

## Pension funds are a stabilising force

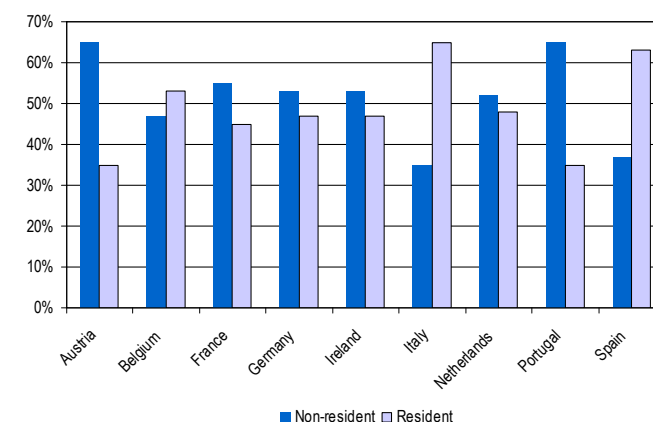
Another reason is related to the potential of the pension system<sup>3</sup>. Dutch officials do not need to invent a new market stabilisation vehicle and they don't need to offer unconditional guarantees to their banks in case of an unanticipated drop in mortgage valuations. Dutch pension funds are large enough (Figure 11), specialised enough and internationally diversified enough to be able to substitute international risk with domestic risk, therefore providing some degree of financial sector stability that was not present in Ireland or in Spain before 2008.

Figure 12. Holdings of EGB by MFI



Source: ECB, Citi Research

Figure 13. Resident vs non-resident holdings of EGBs



Source: Eurostat, Citi Research

## Macro-prudential regulation

Finally, from a macro-prudential standpoint, limits to origination of high LTV mortgages as well as a change in the legislation allowing for full mortgage-interest-deductibility are measures that should reduce the level of household leverage and potential financial sector instability in the future.

## There are risks, but financial stability is still high

Overall, we agree with Fitch (AAA negative outlook affirmed on Tuesday 20 August) that the high level of leverage in the household sector is one of Holland's main structural weaknesses and that the banking sector is exposed to real estate valuation risk and is strongly reliant on wholesale funding. However, the drop in

<sup>3</sup> The Van Dijkhuizen Committee has worked out a housing market and banking sector de-risking plan involving Dutch pension funds (<http://www.rijksoverheid.nl/bestanden/documenten-en-publicaties/rapporten/2013/03/11/voortgangsbericht-verkenning-rol-van-institutionele-beleggers-bij-hypotheaire-woningfinanciering/voortgangsbericht-verkenning-rol-van-institutionele-beleggers-bij-hypotheaire-woningfinanciering.pdf>)

house prices has not (not yet) been accompanied by a significant deterioration in asset quality and more importantly we think that the potential stabilising role of Dutch pension funds is somewhat underestimated.

## Demand for Guilders

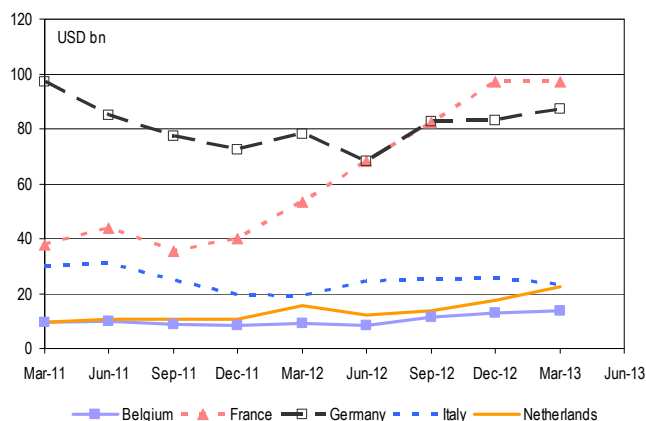
### International demand in line with peers

Dutch government bonds show similar patterns to their AAA/AA peers in terms of international distribution (Figure 13). According to Eurostat figures, the share of non-resident holders of Guilders is 52%, which compares to a AAA/AA average of roughly 54%. Single country data suggest this ratio may have improved over the past 18-24 months as official international investors have rotated out of complete EMU benchmarks into customized benchmarks including core/semi-core only.

### One step down on the liquidity scale

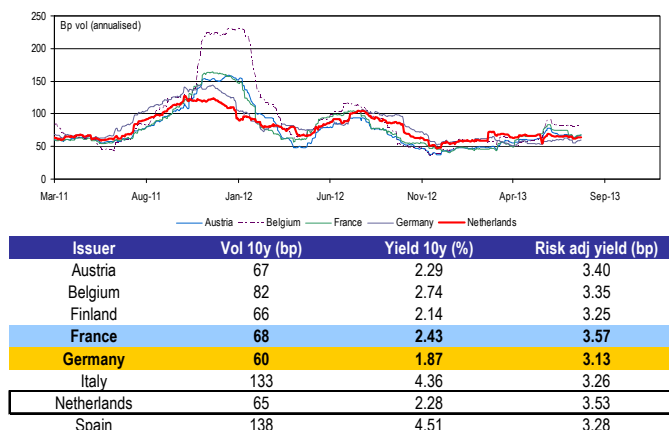
Furthermore, the huge demand for highly liquid, quasi-AAA rated French paper (coming especially from the central bank community and from Japanese banks in particular, see Figure 14) may have generated a spill-over demand into other AAA-paper with decreasing liquidity features. In that sense, Guilders should be seen as potential lower-liquidity substitutes for OATs. According to BIS data, Japanese banks have increased their exposure to the Dutch public sector by approximately USD 5bn in Q1 2013 (Figure 14), while holdings of French public debt have remained stable at around 97bn. This statistic is particularly relevant given that Japanese resident accounts have been net sellers of international notes/bonds in Q1 to the tune of USD 97bn (vs net purchases of USD 1trn during calendar year 2012).

Figure 14. Claims of Japanese banks to EMU public sector debt



Source: BIS, Citi Research

Figure 15. Realized volatility of the 10y bond



Source: Citi Research

## Risk / Reward Analysis

### Are markets worried? Not really.

Looking at delivered bond yield volatility (Figure 15), we don't find any evidence of markets pricing in a loss of implied-AAA status for Guilders. In fact, 10y Dutch government yields deliver 65bp of volatility, the second lowest in the AAA/AA spectrum after Bunds (60bp). In risk-adjusted terms, Guilders are comparable to OATs with a 3.5bp yield per bp of delivered vol. Note how this compares favourably to BTPs and Bonos, showing a lower risk-adjusted yield despite nominal yields in excess of 200bp above Guilders. This ties in with the demand analysis above and suggests that Guilders have the potential to become the perfect substitute for OATs in those international portfolios where the name-specific VaR for France has been exhausted.

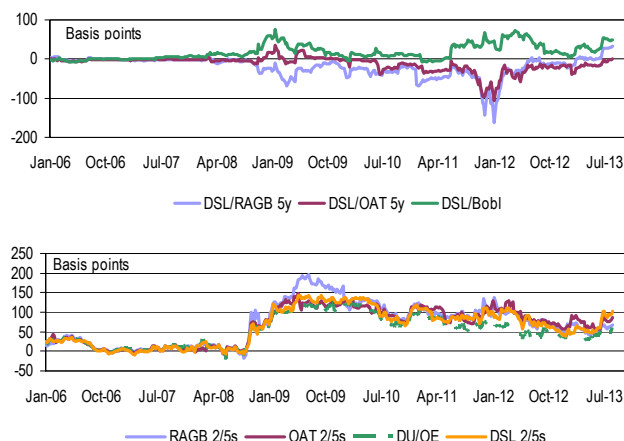
## Bear steepening in Q2

In terms of strategy, we find that the 5y point on the Guilder curve offers value within the AAA/AA spectrum (Figure 16). At current valuations, 2/5s Guilder is roughly in line with the slope of the RAGB and OAT curves, i.e. around 85-90bp. However, the Dutch curve has bear steepened more aggressively than others in Q2, despite DSLs outperforming their peers on a total return basis<sup>4</sup>.

## Valuation in the 5y point has improved on a relative basis

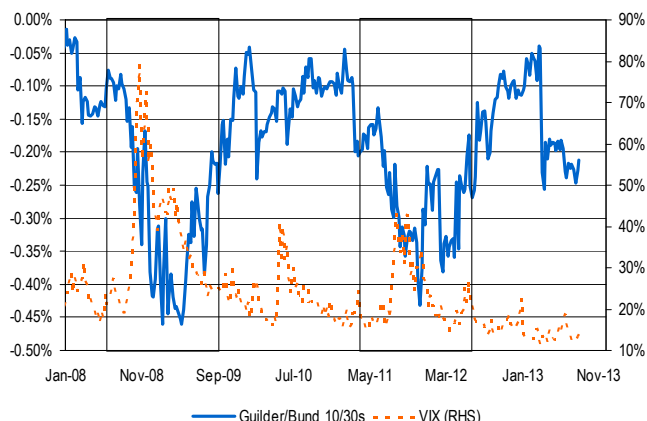
On a spread basis, DSL Jul-18 (yld/yld -14.5) picks up 35bp vs Bund Jul-18, wider by about 5bp on the week and trading in a 25-45bp range during the course 2013. Spreads to OATs have been rather stable since April with DSL Jul-18 in a 10/15bp give-up range vs OAT Oct-18 (currently 13bp). On the chart this looks like an opportunity against the background of OAT's strong performance in 2012 (almost 100bp of spread tightening vs the Netherlands), the credit rating differential and the limited liquidity concession. Given stable yield volatility and liquidity parameters, and increased pick-up (reduced give-up), Dutch government bonds look more interesting relative to their AAA/AA peers than at the start of this year.

Figure 16. Value in the 5y point on the Guilder curve



Source: Citi Research

Figure 17. Defensive Guilder/Bund 10/30s box



Source: Citi Research

## Dutch 10/30s flatteners is a position for risk-off markets

Investors concerned with further underperformance of Guilders should consider the very long-end of the curve and its relative behavior to Germany during periods of increased risk aversion (Figure 17). Looking back at Q4 2008 and Q4 2011, we note how Dutch 10/30s outflattens Bunds by 30/35bp. In our view, this is a result of DSL/Bund spread widening in the 10y sector as well as the relative stability of the Dutch 30y sector due to increased pension fund demand as funding ratios drop in relation to a sell-off in global equity and credit.

<sup>4</sup> Based on EGBI, Dutch government bonds have returned -1.4% in Q2, outperforming Austria (-1.5%), Belgium (-2%), Finland (-1.6%) and Germany (-1.9%). Only France has managed to do better with a Q2 total return of -1.2%.

## EUREX Calendar Rolls (U3/Z3)

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This section is a summary of our latest views on the upcoming EUREX calendar rolls. For a full write up see [EUREX Calendar Rolls \(U3/Z3\): A First Look](#)

### Bund Roll (bullish)

- We think that the majority of speculative investors are short Bunds and we expect the repo of the CTD to tighten into the delivery. We suggest rolling shorts early and longs late.

### Bobl Roll (bullish)

- We think the majority of investors are slightly short Bobls and we expect the repo level of Jul18s to tighten further into delivery. On balance, we are bullish on the roll and therefore suggest rolling shorts early and longs late.

### Schatz Roll (bearish)

- We are bearish on the calendar roll from a positioning, duration and technical perspective. Therefore we suggest rolling longs early and shorts late.

### OAT Calendar Roll (slightly bullish)

- We are neutral on the calendar roll from a repo, positioning and duration perspective. From a technical perspective we are slightly bullish on the roll. On balance, we suggest rolling shorts early and longs late.

### BTP Calendar Roll (bearish)

- Positioning and the behaviour of previous rolls points to having a bearish stance on the roll. We recommend longs roll early and shorts roll late.

### BUXL Calendar Roll (slightly bullish)

- With the CTD of both the front and back contracts trading close to GC, rolling shorts early and longs late looks attractive.

Figure 18. View Summary

	RX	OE	DU	OAT	IK	BUXL
Market Level (at the time of writing)	195	174	13	139	139	97
Fair Value for roll (using mid-mkt repo)	190	167	17	141	139	97
View	Bullish	Bullish	Bearish	Slightly bullish	Bearish	Slightly bullish
Action	Roll shorts early/ roll longs late	Roll shorts early/ roll longs late	Roll shorts late/ roll longs early	Roll shorts early/ roll longs late	Roll shorts late/ roll longs early	Roll shorts early/ roll longs late
Main driver(s)	Positioning and repo	Positioning and repo	Positioning and technicals	Technicals	Positioning and technicals	Repo
Probability of CTD switch in either contract	very low	very low	very low	easily achievable in front	easily achievable in both contracts	easily achievable in both contracts
Hedge ratio (U3 to Z3): 1000 vs	1009	1004	880	911	1002	999
Fwd ASW of front CTD	-32	-48	-36	23	239	-2

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

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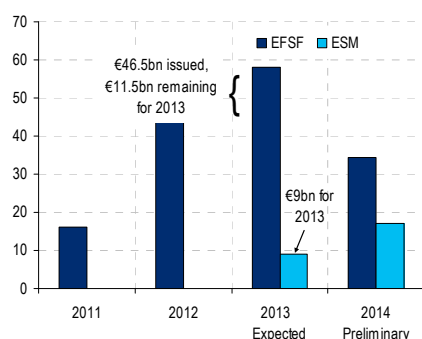
## SSA Strategy – The prospect of ESM supply

In this one page overview, we update and summarise the key points regarding the funding programme of the European Stability Mechanism (ESM). For full details on the issuer's structure, comparisons with the EFSF and views regarding the market impact, please see our primer [Euro SSA Strategy - The EFSF and ESM in 2013](#).

### A new entrant to the SSA universe

**European Stability Mechanism:** The ESM is now the permanent stability mechanism for the euro area. The EFSF is no longer active in new programmes but will continue to fund its existing commitments to Greece, Portugal and Ireland and to refi and manage existing debt until all loans have been repaid ([EFSF in June 2013: Au revoir, not adieu](#)). The ESM has commitments to Spain (up to €100bn) and Cyprus (€9bn) as detailed below.

Figure 19. EFSF and ESM Supply (€bn)



Source: Citi Research, EFSF, ESM

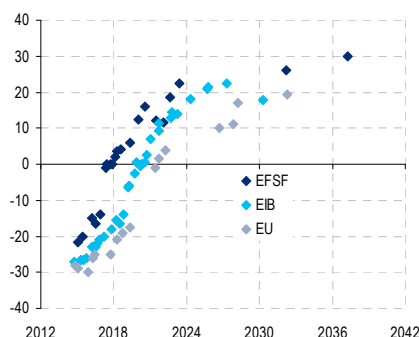
Figure 20. EFSF and ESM Commitment History

Date	Sovereign	EFSF/ESM Commitments	EFSF/ESM	Details
Nov-10	Ireland	17.7	EFSF	EFSF commitments to the total €85bn Troika programme
May-11	Portugal	26	EFSF	EFSF commitments to the total €78bn Troika programme
Mar-12	Greece PSI	35.5		PSI bonds
	2nd Greek Bailout	48		Bank recaps
		24.4		Funds carried over from 1st Greek bailout
		36.7		2nd Greek bailout funds
		144.6	EFSF	
Dec-12	Spain	100	Now ESM	Up to €100bn available for Spanish bank recap package Originally EFSF but later transferred to ESM
Mar-13	Cyprus	9	ESM	ESM commitments of €9bn, IMF contributions of €1bn
Total Agreed Commitments EFSF		192		Portugal, Ireland, Greece, Includes €3.7bn cash buffer
Total Agreed Commitments ESM		109		Spain and Cyprus, remaining lending capacity €391bn

Source: Citi Research, EFSF, ESM;

**Supply outlook:** The ESM has indicated (August Investor Presentation) a preliminary supply pipeline for its long-term funding programme of €9bn for 2013 (and €17bn for 2014, Figure 19). Bonds may range in 1yr-30yr maturities, are likely to come in benchmark size and will be traded on the secondary market. However, note that ESM "issuance" has already occurred. The ESM has issued and provided €41.3bn of its capacity to the FROB in cashless securities to be used for the Spanish bank recapitalization package. It has also been issuing bills for much of the year (having taken over this responsibility from the EFSF) and such funds have already been used to provide Cyprus with €3bn in bailout resources.

Figure 21. EFSF, EU and EIB ASW curves (bp)



Source: Citi Research, Bloomberg

**Peer comparisons:** The ESM is a supranational, being an intergovernmental organization incorporated by Treaty under international law. Within the core European market, we have detailed that peers are likely to include the EFSF, EIB and EU and their ASW curves are shown in Figure 21. The ESM benefits from paid-in capital (ultimately €80bn), permanence and a complete lending capacity of €500bn. Further details on peer comparisons and how the structure differs from the EFSF is provided in our [Euro SSA Strategy - The EFSF and ESM in 2013](#).

### Conclusions – enhanced credit features likely to ensure core status

In short, we see the establishment of the ESM as an important step in the evolution of the euro area debt crisis management framework. The EFSF has seen considerable investor support, being able to syndicate in large size and across several maturities. 10yr EFSF spreads at 22bp also signify healthy performance. The ESM benefits from various credit enhancements which will likely to ensure it becomes a core market issuer within the European SSA universe.



## Appendix on the ESM Treaty

### The ESM Treaty – a quick guide for SSA markets

We highlight further key features of the ESM below in a quick “ESM Treaty guide” for SSA markets. This is an abbreviated version of the original ESM Treaty (from our [Euro SSA Strategy - An Introduction to Core European SSA Issuers](#)) which forms the legal basis for ESM operations as ratified by the euro area member states<sup>5</sup>:

**To safeguard financial stability by raising funds and entering into financial arrangements**

**Article 3 – Purpose:** *“The purpose of the ESM shall be to mobilise funding and provide stability support under strict conditionality, appropriate to the financial assistance instrument chosen, to the benefit of ESM Members which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States. For this purpose, the ESM shall be entitled to raise funds by issuing financial instruments or by entering into financial or other agreements or arrangements with ESM Members, financial institutions or other third parties”.*

**Guarantees are irrevocable and unconditional**

**Article 8(4) – Explicit Guarantee:** *“ESM Members hereby irrevocably and unconditionally undertake to provide their contribution to the authorised capital stock, in accordance with their contribution key in Annex I. They shall meet all capital calls on a timely basis in accordance with the terms set out in this Treaty.”*

**Article 9(1) – Capital Calls:** *“The Board of Governors may call in authorised unpaid capital at any time and set an appropriate period of time for its payment by the ESM Members.”*

**ESM aid is conditional**

**Article 12(1) – Conditionality:** *“If indispensable to safeguard the financial stability of the euro area as a whole and of its Member States, the ESM may provide stability support to an ESM Member subject to strict conditionality, appropriate to the financial assistance instrument chosen. Such conditionality may range from a macro-economic adjustment programme to continuous respect of pre-established eligibility conditions”.*

**Article 14(1) – Precautionary Programmes:** *“The Board of Governors may decide to grant precautionary financial assistance in the form of a precautionary conditioned credit line or in the form of an enhanced conditions credit line in accordance with Article 12(1).”*

**ESM can buy bonds in the primary and secondary markets**

**Article 17(1) – Primary Market Purchases:** *“The Board of Governors may decide to arrange for the purchase of bonds of an ESM Member on the primary market, in accordance with Article 12 and with the objective of maximising the cost efficiency of the financial assistance.”*

**Article 18(1) – Secondary Market Purchases:** *“The Board of Governors may decide to arrange for operations on the secondary market in relation to the bonds of an ESM Member in accordance with Article 12(1).”*

**Article 21(1) – Borrowing:** *“The ESM shall be empowered to borrow on the capital markets from banks, financial institutions or other persons or institutions for the performance of its purpose.”*

**Article 25(1) – Loss Charges:** *“Losses arising in the ESM operations shall be charged: (a) firstly, against the reserve fund; (b) secondly, against the paid-in capital; and (c) lastly, against an appropriate amount of the authorised unpaid capital, which shall be called in accordance with Article 9”*

<sup>5</sup> Details and quotes are directly from the ESM Treaty text. Recent details of the ESM's involvement in the banking resolution regime are detailed in the [Euro Economics Weekly](#), 28<sup>th</sup> June 2013

## Covered Bond Strategy

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The association of German pfandbrief banks recently published a note proving that property prices continued to increase. At the same time, they also provided fundamental justifications for this. We agree with this assessment and compare the results with developments seen in other European countries.

## Groundhog Day in Germany

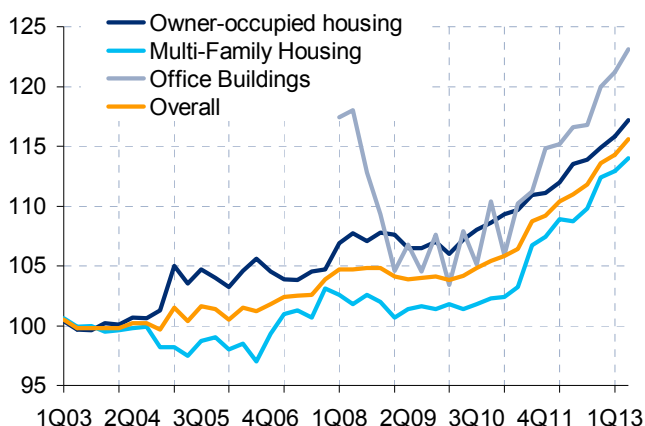
Prices have developed one-way for three years now

"Prices for owner occupied housing in Germany rise further" – the message of the quarterly published study of the German Association of pfandbrief banks (vdp) on the state of Germany's property market hasn't changed – since 2Q10. Moreover, according to the vdp, the surge in house prices can be derived from fundamental factors. This has also been repeated for the 12<sup>th</sup> time in a row. But is this still valid?

No severe price exaggerations in Germany

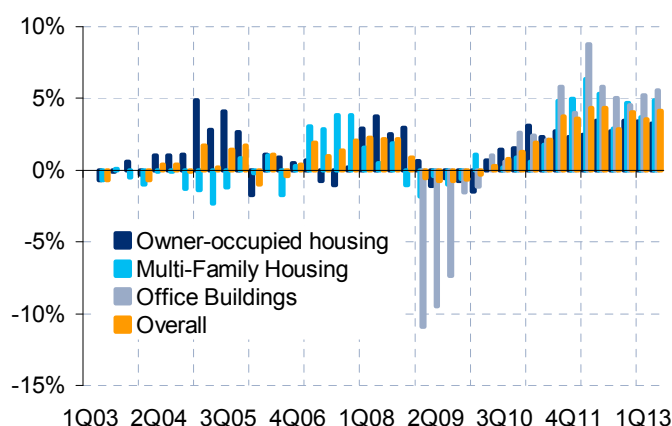
We opine that although the trend within the German property market has been positive over the last three years, we think that these price developments can be explained fundamentally. Compared to other European countries it still seems as if the German property market does not show severe price exaggerations but has potential to catch up. Given the economic outlook for Germany, further price increases can be expected. But against the background of our interest rate outlook (see [Global Economic Outlook and Strategy](#)) we also think that affordability continues to be given. Therefore, we expect the quality of the German mortgage cover pools to remain constant.

Figure 22. House price developments, 2003=100



Source: vdp, Citi Research

Figure 23. Change in house price developments, yoy



Source: vdp, Citi Research

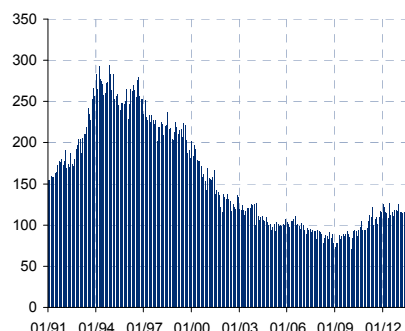
Biggest price increases for condominiums

In 2Q13, the overall index for housing rose by 4.1%. This index is a composition of the indices for rented and owner occupied residential properties. All other markets developed similar. The index for multi-family houses rose by 4.9% yoy. This was mainly driven by a surge in demand for rental contracts (+4.6% yoy). The index for owner-occupied housing rose by 3.3% which was mainly driven by the market for condominiums recording an increase by 6% yoy. For single-family and semi-detached houses the surge in prices was less severe, with a 2.3% increase. Prices for office property increased by 5.6% yoy.

Although news of the rising German property market has become repetitious over the last twelve quarters it still doesn't make a bubble. The development of the German property market over the last three years is a break of the long-term trend. Before that, property prices have developed extremely stable (or even negative) since 1970. Therefore, we don't think that the current price development already points to an overall price distortion.



Figure 24. Housing construction in Germany, 2005=100



Source: Destatis, Citi Research

That said, the severe price surges that are mainly concentrated to certain districts of specific (university) cities are probably first exaggerations that can be recorded. One main reason why the general trend is ticking upwards is that the demand is concentrating on cities while building permits have been very low area-wide over the last decade. This changed over the last two years and first investments have been made. Housing construction has been developing positively since 2010 after a 15 year lasting decline. This is a main difference to other European cities whose property markets were characterized by severe price exaggerations. While Netherlands might be a special case given their tax system (for more information, please page 9), Ireland and Spain still suffer the repercussions of such exaggerations. In France and UK, the positive trend on house prices has also been more significant than at current stage in Germany.

The comparison of the price surges during the respective housing booms show that the upward trend in Germany is much less severe than in other countries during the last decade.

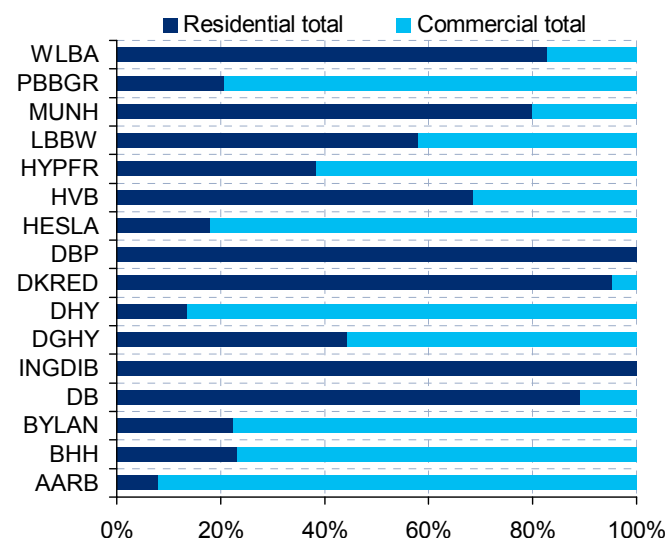
Figure 25. Nominal house price changes, yoy, %

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Ireland	20.4	21.2	4.5	13.3	13.6	8.8	9.3	11.8	-6.9	-8.8
Spain	9.6	7.7	11.1	17.3	18.5	17.2	12.8	9.1	4.8	-3.2
UK	11.5	14.3	8.4	17.0	15.7	11.8	5.5	6.3	10.9	-0.9
France	7.5	7.9	8.1	9.0	11.5	17.6	14.7	9.9	5.7	-2.9
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Germany	-1.0	0.6	3.6	0.3	-0.3	4.3	-1.3	0.7	2.0	2.7

Source: EMF, vdp, Citi Research

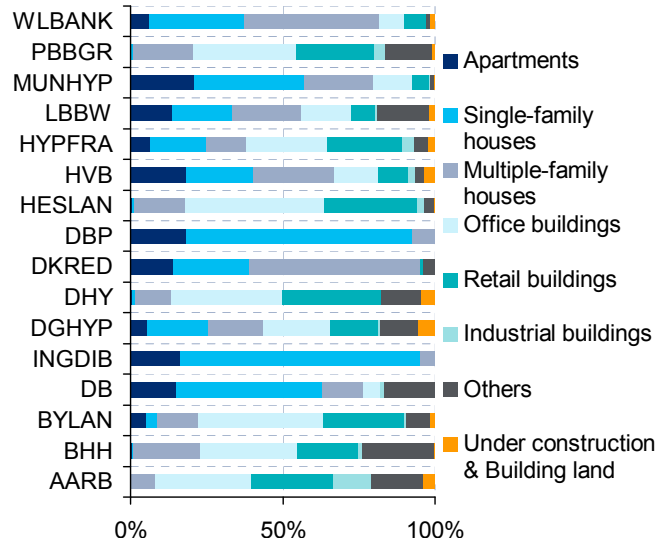
Below we added the cover pools of German mortgage pfandbriefe, differentiating between the spectrum of residential and commercial assets backing the outstanding covered bonds.

Figure 26. Mortgage pfandbriefe: cover pool composition I, %



Source: vdp, Citi Research

Figure 27. Mortgage pfandbriefe: cover pool composition II, %



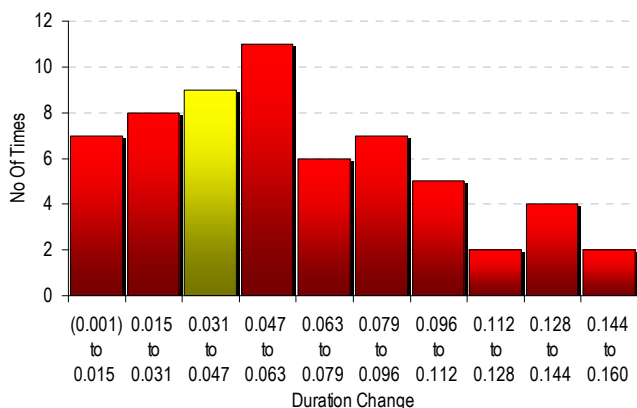
Source: vdp, Citi Research

## EGBI changes supportive for Bunds

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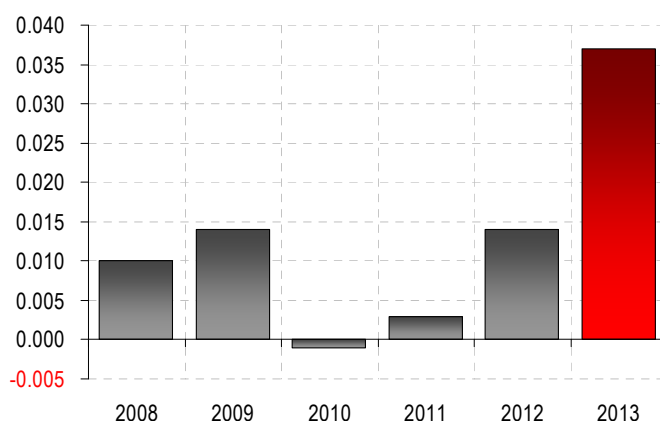
We project the effective duration of the EGBI to increase by 0.037 at the end of August<sup>6</sup>. This change will be the largest August change in the last 6 years (Figure 29).

Figure 28. Five-year distribution of month-end EGBI changes



Source: Citi Research

Figure 29. Month-end change in context with end-August EGBI changes



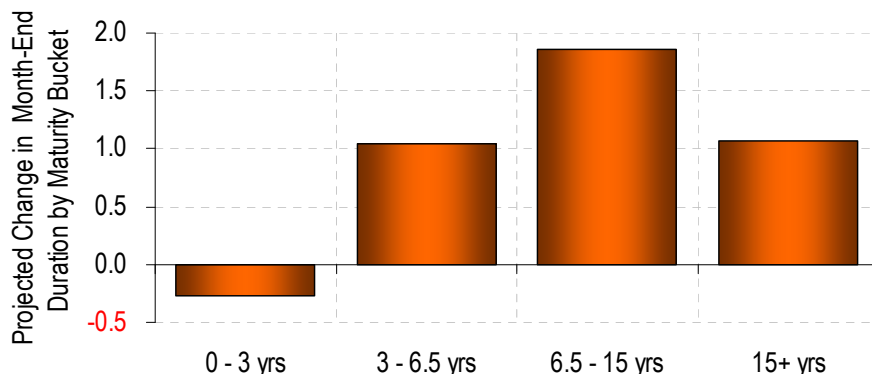
Source: Citi Research

## Curve breakdown of projected August EGBI changes

### Support for the 10yr sector

The curve breakdown of the projected weighted duration changes points to support for the 10yr sector. The changes should put flattening pressure on 2s10s (Figure 30).

Figure 30. End-August Projected Index Changes by Curve Sector (Weighted Duration)



Source: Citi Research

## Bonds dropping out of the EGBI at the end of August

€27bn of the BTP 4.25% Aug14 drop out of the EGBI at the end of August

Issuance over the fixing period, 26 July to 26 August, will be eligible for inclusion in the index at the end of August. On the other hand, bonds that fall below 1 year of residual maturity on the last calendar day of the month are excluded from the index. The only bond dropping out of the EGBI this month is BTP 4.25% Aug14 (€27.25bn).

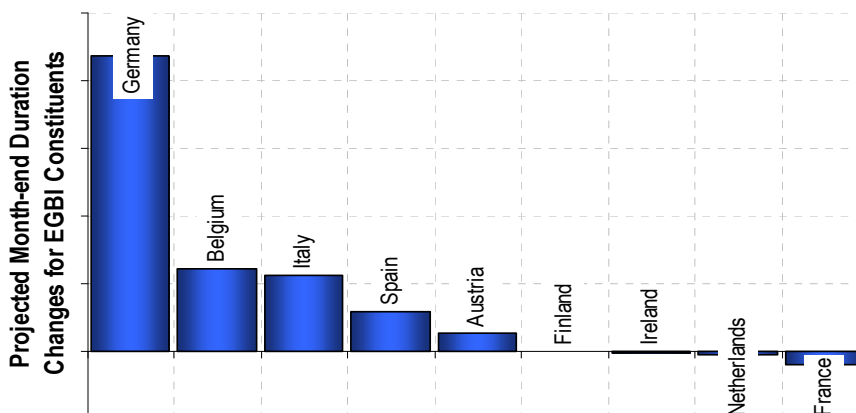
<sup>6</sup> Based on Citi supply estimates. Supply is the main driver of duration projections, but other factors, e.g., yield level and curve shape, also affect the calculations and are subject to change.

**Projected changes very supportive for Germany**

## Projected changes very supportive for Germany

Figure 31 shows that at a country level, Germany is in line to benefit the most from the projected index extensions. This is largely because Germany was the biggest issuer this month, even after adjusting for market-cap. Weighted-duration changes should be marginally negative for France.

Figure 31. Germany likely to benefit the most from end-August changes (weighted duration)



Source: Citi Research

**Significant duration extension projected in Italy GBI**

## Detailed analysis of the changes

Figure 32 shows detailed analysis of end-August EGBI changes. Among the individual country indices that make up the EGBI, we expect the Italian index to extend by its second largest amount in a year. To the extent that domestic Italian investors move to match this benchmark this should provide some support for BTPs at the margin.

For EGBI portfolios, it is the weighted duration change that is most relevant<sup>7</sup>. On this metric, Germany is projected to extend the most.

Figure 32. Breakdown of end-August EGBI projections

22-Aug-13	Aug Index		Sep Index*		Projected Change			Duration change range over last year (unweighted)				
	% weight in EGBI	Duration	% weight in Index	Duration	Weighted Dur Change X 100	Weight Change	Duration Change	-ve	+ve	Average Absolute Change	Duration 5yr Z-Score	Weighted Dur 5yr Z-Score
Germany	20.6	6.70	20.9	6.71	2.18	0.30	0.01	(0.05)	0.13	0.06	(0.93)	0.83
Italy	23.1	6.06	22.7	6.20	0.57	(0.43)	0.14	0.00	0.17	0.07	1.01	(0.63)
France	23.9	6.69	23.9	6.69	(0.10)	(0.01)	0.00	(0.04)	0.17	0.07	(0.80)	(0.97)
Spain	12.0	5.48	12.0	5.47	0.30	0.08	(0.01)	(0.06)	0.17	0.07	(0.61)	(0.85)
Belgium	6.5	6.65	6.5	6.67	0.61	0.06	0.03	(0.04)	0.36	0.07	(0.32)	0.36
Netherlands	6.4	6.79	6.4	6.79	(0.03)	(0.00)	0.00	(0.10)	0.36	0.08	(0.45)	(0.76)
Ireland	1.9	5.28	1.9	5.28	(0.01)	(0.00)	0.00	(0.03)	0.35	0.05	(0.18)	(0.39)
Austria	4.1	6.90	4.1	6.91	0.13	0.01	0.01	(0.04)	0.62	0.13	(0.37)	(0.20)
Finland	1.6	6.11	1.6	6.11	(0.01)	(0.00)	0.00	(0.03)	0.55	0.10	(0.53)	(0.46)

Source: Citi Research

\*Projected

<sup>7</sup> Weighted duration of a country is calculated as (market value of that country) \* (effective duration) / (total market value of the EGBI). This is very significant for an EGBI portfolio manager as he will try to keep it unchanged through rebalancing at the month-end (within the bounds of his mandate).

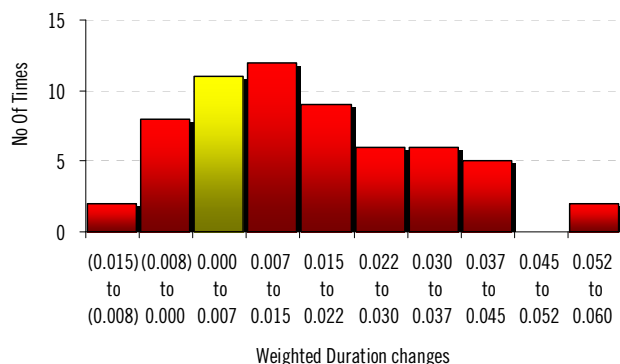
## Putting projected country changes in perspective

### Support for 10yr Italy

Below we show the distributions of weighted duration changes and the curve splits of the projected changes. As the 5yr distributions show (charts on the left below), projected changes at the end of August are generally close to median.

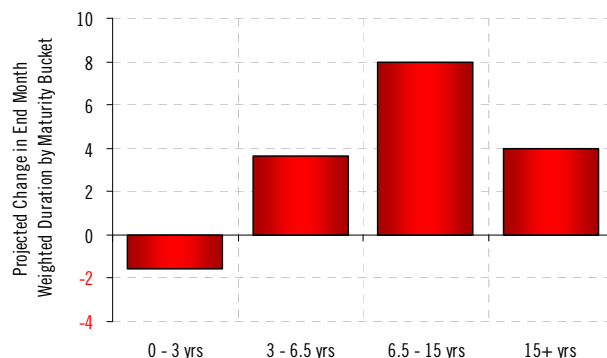
Looking at the curve split (charts on the right) we expect index changes to be supportive for 10yr Italy. The changes should also put flattening pressure on 2s10s Italy.

**Figure 33. Italy: Distribution of month-end duration changes over the last five years (weighted duration)**



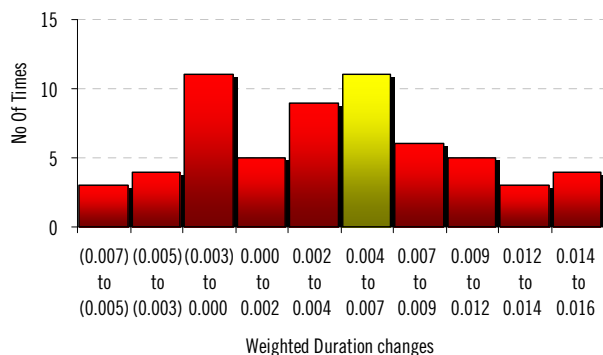
Source: Citi Research

**Figure 34. Italy: Maturity split of projected index changes (weighted duration)**



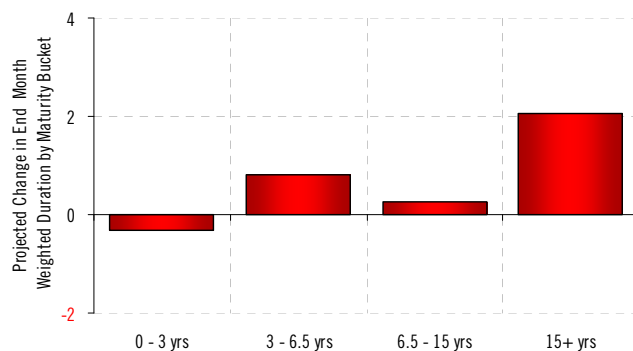
Source: Citi Research

**Figure 35. Belgium: Distribution of month-end duration changes over the last five years (weighted duration)**



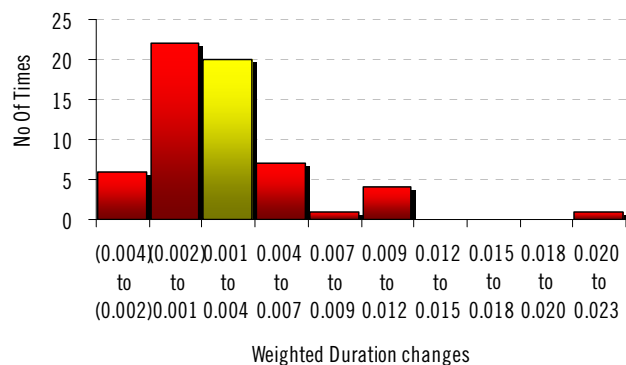
Source: Citi Research

**Figure 36. Belgium: Maturity split of projected index changes (weighted duration)**



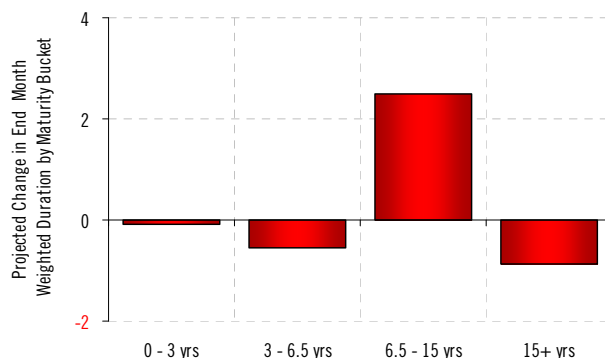
Source: Citi Research

**Figure 37. Austria: Distribution of month-end duration changes over the last five years (weighted duration)**



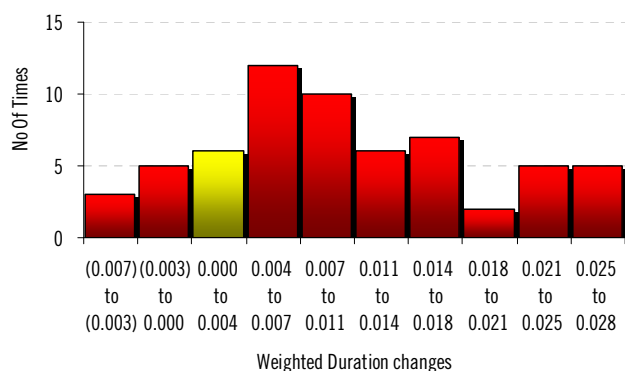
Source: Citi Research

**Figure 38. Austria: Maturity split of projected index changes (weighted duration)**



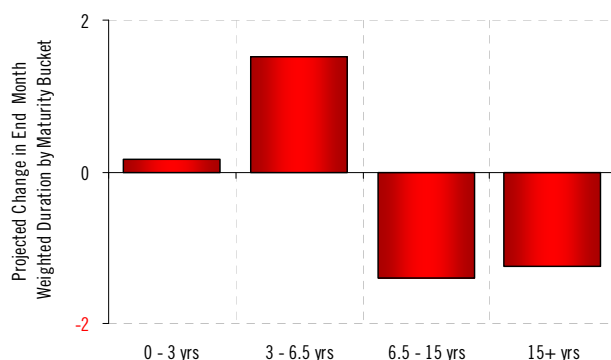
Source: Citi Research

**Figure 39. Spain: Distribution of month-end duration changes over the last five years (weighted duration)**



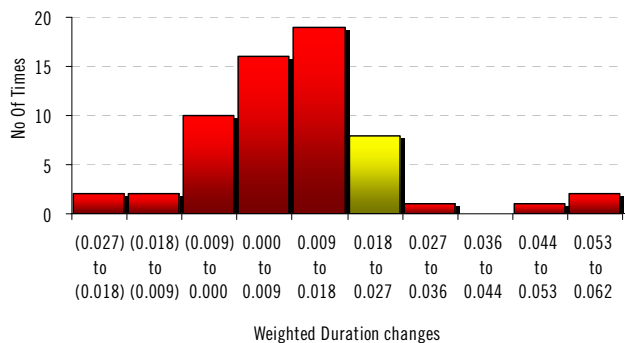
Source: Citi Research

**Figure 40. Spain: Maturity split of projected index changes (weighted duration)**



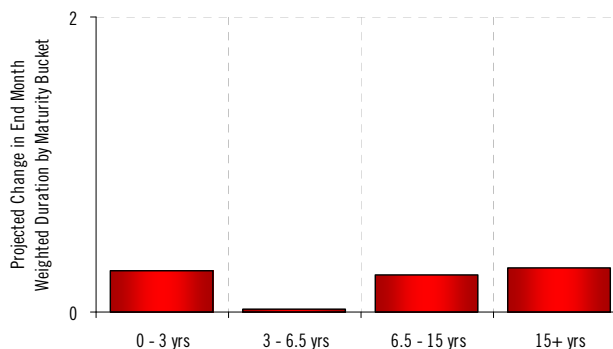
Source: Citi Research

**Figure 41. Germany: Distribution of month-end duration changes over the last five years (weighted duration)**



Source: Citi Research

**Figure 42. Germany: Maturity split of projected index changes (weighted duration)**



Source: Citi Research

## Relative value trades

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We highlight a number of relative value opportunities in the 2-10yr sector of the French, Austrian, Dutch, Finnish, Spanish and Belgian yield curves.

### France: buy Oct17s on a microfly

*Buy Oct17s vs surrounding issues*

■ Buy 4.25% Oct17 vs 2.25% Feb16 and 3.75% Oct19 (3m carry: 1.3bp) - Figure 43

### Austria: buy Sep17s on a microfly, 6s8s flattener

*Buy Sep17s vs surrounding issues*

■ Buy 4.3% Sep17 vs 4% Sep16 and 1.95% Jun19 (3m carry: 2.5bp) - Figure 44

*Switch into Sep21s*

■ Switch from 4.35% Mar19 to 3.5% Sep21 for 58bp (3m carry: -1.1bp) - Figure 45

Figure 43. France: 2.25% Feb16, 4.25% Oct17, 3.75% Oct19 fly (bp)



Source: Citi Research

Figure 44. Austria: 4% Sep16, 4.3% Sep17, 1.95% Jun19 fly (bp)



Source: Citi Research

Figure 45. Austria: 3.5% Sep21 - 4.35% Mar19 yield spread (bp)



Source: Citi Research

### Netherlands: 3s5s & 5s7s flatteners, buy Jul17s on a microfly

*Switch into Jan18s*

■ Switch from 4% Jul16 to 1.25% Jan18 for 49bp (3m carry: 1.3bp)

*Switch into Jul20s*

■ Switch from 4% Jul18 to 3.5% Jul20 for 48bp (3m carry: -0.8bp)

*Buy Jul17s vs surrounding issues*

■ Buy 4.5% Jul17 vs 0% Apr16 and 4% Jul19 (3m carry: 2.3bp)

Figure 46. Netherlands: 1.25% Jan18 - 4% Jul16 yield spread (bp)



Source: Citi Research

Figure 47. Netherlands: 3.5% Jul20 - 4% Jul18 yield spread (bp)



Source: Citi Research

Figure 48. Netherlands: 0% Apr16, 4.5% Jul17, 4% Jul19 fly (bp)



Source: Citi Research

### Finland: 6s8s flattener

*Switch into Apr21s*

■ Switch from 4.375% Jul19 to 3.5% Apr21 for 43bp (3m carry: 0.1bp)

### Spain: sell Jul17s on a microfly

*Sell Jul17s vs surrounding issues*

■ Sell 5.5% Jul17 vs 3.15% Jan16 and 4.6% Jul19 (3m carry: -1.9bp) - Figure 48

Figure 49. Finland: 3.5% Apr21 – 4.375% Jul19 yield spread (bp)



Source: Citi Research

Figure 50. Spain: 3.15% Jan16, 5.5% Jul17, 4.6% Jul19 fly (bp)



Source: Citi Research

### Belgium: switch into the 4yr sector, sell Sep16s on a microfly

*Switch into Sep17s*

■ Switch from 3.5% Jun17 to 5.5% Sep17 for 6.5bp (3m carry: -0.6bp) – Figure 46

*Sell Sep16s vs surrounding issues*

■ Sell 3.25% Sep16 vs 2.75% Mar16 and 5.5% Sep17 (3m carry: -1bp)

Figure 51. Belgium: 5.5% Sep17 – 3.5% Jun17 yield spread (bp)



Source: Citi Research

Figure 52. Belgium: 2.75% Mar16, 3.25% Sep16, 5.5% Sep17 fly (bp)



Source: Citi Research

## Relative value tables

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

For example, Figure 53 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 53. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Source: Citi Research

Figure 54 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 55 and Figure 57) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 54 to highlight the richest and cheapest bonds in these narrower maturity spectrums.

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



# EMU relative value table – all maturities

Figure 54. Coupon Adjusted Spread 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	0.50 Apr17	-2.54	Apr12	18	Richest	1	1.50 Sep22	-0.44	Sep12	18
		2	3.50 Jan16	-2.47	Nov05	23		2	1.75 Jul22 (RX)	-0.37	Apr12	24
		3	2.00 Feb16	-2.23	Jan11	16		3	2.00 Jan22	-0.25	Nov11	20
		4	4.00 Jul16	-2.18	May06	23		4	1.50 Feb23	-0.22	Jan13	18
		5	2.75 Apr16	-2.16	Apr11	18		5	3.25 Jul21	-0.21	Apr11	19
	Cheapest	5	0.25 Apr18 (5y)	1.59	Apr13	17	5	4.00 Jan37	0.78	Jan05	23	
		4	5.50 Jan31	1.63	Oct00	17	4	4.25 Jul39 (UB)	0.87	Jan07	14	
		3	2.50 Jul44 (30y)	1.91	Apr12	14	3	3.25 Jul42	0.94	Jul10	15	
		2	3.75 Jan19	1.98	Nov08	24	2	4.75 Jul40	0.95	Jul08	16	
		1	3.50 Jul19	2.12	May09	24	1	2.50 Jul44 (30y)	0.99	Apr12	14	
FRANCE	Richest	1	2.25 Feb16	-2.43	Feb10	24	Richest	1	3.50 Apr26	-1.09	Apr10	30
		2	5.00 Oct16	-2.13	Oct00	29		2	4.00 Oct38	-1.08	Oct05	24
		3	2.50 Jul16	-1.53	Jul10	26		3	2.75 Oct27	-1.07	Oct11	16
		4	0.25 Nov15 (2y)	-1.16	Nov12	18		4	4.75 Apr35	-0.95	Apr03	21
		5	1.75 Feb17	-1.06	Feb11	20		5	4.50 Apr41 (30y)	-0.93	Apr09	24
	Cheapest	5	4.25 Oct17	1.56	Oct06	28	5	3.25 Apr16	-0.30	Apr05	29	
		4	2.25 Oct22	1.61	Oct11	24	4	4.00 Apr60	-0.29	Apr09	9	
		3	4.00 Apr18 (BTA)	1.65	Apr07	26	3	4.25 Oct17	-0.28	Oct06	28	
		2	4.25 Oct18	1.72	Oct07	28	2	0.25 Nov15 (2y)	-0.08	Nov12	18	
		1	4.25 Oct23	2.08	Oct06	33	1	1.00 Nov18 (5y)	-0.06	Nov12	8	
ITALY	Richest	1	5.00 Aug39	-2.21	Aug07	19	Richest	1	4.75 Sep44 (30y)	-1.71	Mar13	7
		2	3.00 Nov15 (BTS)	-1.87	Nov10	17		2	5.00 Aug39	-1.63	Aug07	19
		3	5.00 Sep40	-1.85	Sep09	21		3	5.00 Sep40	-1.62	Sep09	21
		4	4.50 Feb20	-1.32	Feb04	23		4	4.00 Feb37	-1.58	Aug05	25
		5	4.50 May23 (10y)	-1.29	Mar13	18		5	3.75 Aug21	-1.53	Feb06	28
	Cheapest	5	3.50 Nov17	1.04	Nov12	17	5	2.75 Dec15	-0.94	Dec12	16	
		4	5.25 Aug17	1.09	Feb02	24	4	3.75 Apr16	-0.88	Apr11	16	
		3	4.75 Jun17	1.21	Jun12	15	3	4.75 Sep16	-0.88	Sep11	16	
		2	4.50 Mar24	1.81	Aug13	5	2	2.25 May16	-0.70	Apr13	15	
		1	4.75 Sep44 (30y)	2.03	Mar13	7	1	4.50 Mar24	-0.23	Aug13	5	
N'LANDS	Richest	1	0.00 Apr16	-2.57	Jan13	10	Richest	1	2.50 Jan33	-0.50	Mar12	10
		2	3.75 Jan23	-1.43	Jan06	11		2	0.00 Apr16	-0.50	Jan13	10
		3	3.50 Jul20	-1.31	Feb10	15		3	4.00 Jan37	-0.23	Apr05	13
		4	2.50 Jan33	-1.10	Mar12	10		4	4.00 Jul16	-0.11	Jul06	13
		5	3.25 Jul21	-0.96	Mar11	16		5	4.00 Jul18	0.03	Feb08	15
	Cheapest	5	3.75 Jan42 (30y)	0.27	May10	14	5	3.25 Jul21	0.31	Mar11	16	
		4	1.75 Jul23 (10y)	0.54	Mar13	11	4	2.50 Jan17	0.36	Jun11	15	
		3	4.00 Jan37	0.92	Apr05	13	3	2.25 Jul22	0.53	Feb12	17	
		2	2.50 Jan17	1.71	Jun11	15	2	4.50 Jul17	0.71	Jul07	15	
		1	4.50 Jul17	2.48	Jul07	15	1	1.75 Jul23 (10y)	0.79	Mar13	11	
SPAIN	Richest	1	4.25 Oct16	-2.11	Sep11	21	Richest	1	4.40 Oct23 (10y)	-1.91	May13	11
		2	5.50 Apr21	-1.80	Jan11	24		2	5.75 Jul32	-1.76	Jan01	15
		3	3.30 Jul16	-1.18	Apr13	14		3	4.20 Jan37	-1.75	Jan05	16
		4	4.40 Oct23 (10y)	-0.43	May13	11		4	4.65 Jul25	-1.70	Feb10	14
		5	5.85 Jan22 (FBB)	-0.32	Nov11	19		5	5.90 Jul26	-1.70	Mar11	10
	Cheapest	5	3.15 Jan16	0.88	Sep05	21	5	3.25 Apr16	-1.46	Nov10	21	
		4	5.90 Jul26	0.93	Mar11	10	4	3.15 Jan16	-1.39	Sep05	21	
		3	4.50 Jan18	1.17	Nov12	18	3	3.75 Oct15	-1.39	Sep12	15	
		2	4.30 Oct19	1.37	Jun09	19	2	5.15 Oct28	-1.27	Jul13	4	
		1	4.60 Jul19	1.47	Feb09	18	1	3.75 Oct18 (5y)	-1.15	Jul13	7	
BELGIUM	Richest	1	2.75 Mar16	-2.65	Mar10	10	Richest	1	2.75 Mar16	0.12	Mar10	10
		2	3.75 Sep20	-1.46	Jan10	18		2	3.75 Sep15	0.26	Mar05	11
		3	4.25 Sep21	-1.46	Jan11	15		3	4.50 Mar26	0.54	Jun11	8
		4	5.00 Mar35	-0.62	May04	18		4	3.25 Sep16	0.59	Jan06	13
		5	4.25 Mar41 (30y)	-0.49	Apr10	12		5	4.25 Mar41 (30y)	0.60	Apr10	12
	Cheapest	5	4.00 Mar18	1.09	Jan08	11	5	3.75 Sep20	1.02	Jan10	18	
		4	4.25 Sep22	1.68	Jan12	15	4	4.00 Mar18	1.05	Jan08	11	
		3	4.00 Mar22	1.96	May06	14	3	5.50 Sep17	1.18	Jun02	8	
		2	5.50 Sep17	2.25	Jun02	8	2	3.00 Sep19	1.20	Apr12	9	
		1	4.00 Mar19	2.84	Jan09	11	1	4.00 Mar19	1.31	Jan09	11	

Source: Citi Research

# EMU relative value table – max 12yr maturity

Figure 55. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

Versus Govt Curve (CAS)						Versus Swap Curve (CAS)					
	Rank	Coupon	ZScore	Issued	Size (€bn)		Rank	Coupon	ZScore	Issued	Size (€bn)
GERMANY											
	1	0.50 Apr17	-2.54	Apr12	18		1	1.50 Sep22	-0.44	Sep12	18
	2	3.50 Jan16	-2.47	Nov05	23		2	1.75 Jul22 (RX)	-0.37	Apr12	24
	3	2.00 Feb16	-2.23	Jan11	16		3	2.00 Jan22	-0.25	Nov11	20
	4	4.00 Jul16	-2.18	May06	23		4	1.50 Feb23	-0.22	Jan13	18
	5	2.75 Apr16	-2.16	Apr11	18		5	3.25 Jul21	-0.21	Apr11	19
	5	1.50 May23 (10y)	1.53	May13	18		5	0.50 Feb18	0.63	Jan13	17
	4	0.50 Feb18	1.53	Jan13	17		4	1.75 Oct15	0.69	Sep10	16
	3	0.25 Apr18 (5y)	1.59	Apr13	17		3	3.75 Jan19	0.71	Nov08	24
	2	3.75 Jan19	1.98	Nov08	24		2	0.25 Apr18 (5y)	0.74	Apr13	17
	1	3.50 Jul19	2.12	May09	24		1	3.50 Jul19	0.76	May09	24
FRANCE											
	1	2.25 Feb16	-2.43	Feb10	24		1	3.25 Oct21	-0.81	Oct10	33
	2	5.00 Oct16	-2.13	Oct00	29		2	3.00 Apr22 (OAT)	-0.81	Feb12	33
	3	2.50 Jul16	-1.53	Jul10	26		3	2.25 Feb16	-0.80	Feb10	24
	4	0.25 Nov15 (2y)	-1.16	Nov12	18		4	2.25 Oct22	-0.75	Oct11	24
	5	1.75 Feb17	-1.06	Feb11	20		5	3.75 Apr21	-0.73	Apr05	34
	5	4.25 Oct17	1.56	Oct06	28		5	4.25 Apr19	-0.30	Apr03	31
	4	2.25 Oct22	1.61	Oct11	24		4	3.25 Apr16	-0.30	Apr05	29
	3	4.00 Apr18 (BTA)	1.65	Apr07	26		3	4.25 Oct17	-0.28	Oct06	28
	2	4.25 Oct18	1.72	Oct07	28		2	0.25 Nov15 (2y)	-0.08	Nov12	18
	1	4.25 Oct23	2.08	Oct06	33		1	1.00 Nov18 (5y)	-0.06	Nov12	8
ITALY											
	1	3.00 Nov15 (BTS)	-1.87	Nov10	17		1	3.75 Aug21	-1.53	Feb06	28
	2	4.50 Feb20	-1.33	Feb04	23		2	3.75 Mar21	-1.50	Sep10	24
	3	4.50 May23 (10y)	-1.30	Mar13	18		3	4.00 Sep20	-1.43	Mar10	25
	4	4.75 Aug23	-1.24	Feb08	25		4	4.75 Aug23	-1.43	Feb08	25
	5	4.25 Sep19	-1.09	Mar09	25		5	5.00 Mar25	-1.40	Mar09	22
	5	4.75 May17	1.03	Feb12	14		5	2.75 Dec15	-0.94	Dec12	16
	4	3.50 Nov17	1.04	Nov12	17		4	3.75 Apr16	-0.88	Apr11	16
	3	5.25 Aug17	1.09	Feb02	24		3	4.75 Sep16	-0.88	Sep11	16
	2	4.75 Jun17	1.21	Jun12	15		2	2.25 May16	-0.70	Apr13	15
	1	4.50 Mar24	1.81	Aug13	5		1	4.50 Mar24	-0.23	Aug13	5
N'LANDS											
	1	0.00 Apr16	-2.57	Jan13	10		1	0.00 Apr16	-0.50	Jan13	10
	2	3.75 Jan23	-1.43	Jan06	11		2	4.00 Jul16	-0.11	Jul06	13
	3	3.50 Jul20	-1.31	Feb10	15		3	4.00 Jul18	0.03	Feb08	15
	4	3.25 Jul21	-0.96	Mar11	16		4	3.75 Jan23	0.05	Jan06	11
	5	4.00 Jul16	-0.57	Jul06	13		5	1.25 Jan18	0.08	Jul12	15
	5	4.00 Jul19	0.18	Feb09	14		5	3.25 Jul21	0.31	Mar11	16
	4	1.25 Jan19 (5y)	0.15	Jun13	6		4	2.50 Jan17	0.36	Jun11	15
	3	1.75 Jul23 (10y)	0.54	Mar13	11		3	2.25 Jul22	0.53	Feb12	17
	2	2.50 Jan17	1.71	Jun11	15		2	4.50 Jul17	0.71	Jul07	15
	1	4.50 Jul17	2.48	Jul07	15		1	1.75 Jul23 (10y)	0.79	Mar13	11
SPAIN											
	1	4.25 Oct16	-2.11	Sep11	21		1	4.40 Oct23 (10y)	-1.91	May13	11
	2	5.50 Apr21	-1.80	Jan11	24		2	4.65 Jul25	-1.70	Feb10	14
	3	3.30 Jul16	-1.18	Apr13	14		3	4.80 Jan24	-1.69	Sep08	15
	4	4.40 Oct23 (10y)	-0.43	May13	11		4	4.25 Oct16	-1.67	Sep11	21
	5	5.85 Jan22 (FBB)	-0.32	Nov11	19		5	5.40 Jan23	-1.66	Jan13	17
	5	4.85 Oct20	0.81	Jul10	18		5	4.50 Jan18	-1.54	Nov12	18
	4	3.15 Jan16	0.88	Sep05	21		4	3.25 Apr16	-1.46	Nov10	21
	3	4.50 Jan18	1.17	Nov12	18		3	3.15 Jan16	-1.39	Sep05	21
	2	4.30 Oct19	1.37	Jun09	19		2	3.75 Oct15	-1.39	Sep12	15
	1	4.60 Jul19	1.47	Feb09	18		1	3.75 Oct18 (5y)	-1.15	Jul13	7
BELGIUM											
	1	2.75 Mar16	-2.65	Mar10	10		1	2.75 Mar16	0.12	Mar10	10
	2	3.75 Sep20	-1.46	Jan10	18		2	3.75 Sep15	0.26	Mar05	11
	3	4.25 Sep21	-1.46	Jan11	15		3	3.25 Sep16	0.59	Jan06	13
	4	1.25 Jun18 (5y)	-0.41	Feb13	11		4	2.25 Jun23 (10y)	0.62	Jan13	11
	5	2.25 Jun23 (10y)	-0.17	Jan13	11		5	4.00 Mar17	0.74	Jan07	11
	5	4.00 Mar18	1.09	Jan08	11		5	3.75 Sep20	1.02	Jan10	18
	4	4.25 Sep22	1.68	Jan12	15		4	4.00 Mar18	1.05	Jan08	11
	3	4.00 Mar22	1.96	May06	14		3	5.50 Sep17	1.18	Jun02	8
	2	5.50 Sep17	2.25	Jun02	8		2	3.00 Sep19	1.20	Apr12	9
	1	4.00 Mar19	2.84	Jan09	11		1	4.00 Mar19	1.31	Jan09	11

Source: Citi Research

# EMU relative value table – min 8yr maturity

Figure 56. Coupon Adjusted Spread 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)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
GERMANY	Richest	1	3.25 Jul42	-2.07	Jul10	15	1	1.50 Sep22	-0.44	Sep12	18
		2	1.75 Jul22 (RX)	-1.42	Apr12	24	2	1.75 Jul22 (RX)	-0.37	Apr12	24
		3	1.50 Sep22	-1.34	Sep12	18	3	2.00 Jan22	-0.25	Nov11	20
		4	4.25 Jul39 (UB)	-1.24	Jan07	14	4	1.50 Feb23	-0.22	Jan13	18
		5	2.25 Sep21	-1.06	Aug11	16	5	2.25 Sep21	-0.20	Aug11	16
	Cheapest	5	1.50 Feb23	1.17	Jan13	18	5	4.00 Jan37	0.78	Jan05	23
		4	6.25 Jan30	1.47	Jan00	9	4	4.25 Jul39 (UB)	0.87	Jan07	14
		3	1.50 May23 (10y)	1.53	May13	18	3	3.25 Jul42	0.94	Jul10	15
		2	5.50 Jan31	1.63	Oct00	17	2	4.75 Jul40	0.95	Jul08	16
		1	2.50 Jul44 (30y)	1.91	Apr12	14	1	2.50 Jul44 (30y)	0.99	Apr12	14
FRANCE	Richest	1	3.25 May45	-0.89	May12	5	1	3.50 Apr26	-1.09	Apr10	30
		2	3.50 Apr26	-0.75	Apr10	30	2	4.00 Oct38	-1.08	Oct05	24
		3	4.00 Oct38	-0.55	Oct05	24	3	2.75 Oct27	-1.07	Oct11	16
		4	3.25 Oct21	-0.25	Oct10	33	4	4.75 Apr35	-0.95	Apr03	21
		5	1.75 May23 (10y)	0.04	May12	14	5	4.50 Apr41 (30y)	-0.93	Apr09	24
	Cheapest	5	4.00 Apr55	1.15	Apr04	15	5	3.25 May45	-0.68	May12	5
		4	5.75 Oct32	1.32	Oct00	25	4	1.75 May23 (10y)	-0.64	May12	14
		3	4.00 Apr60	1.42	Apr09	9	3	4.25 Oct23	-0.60	Oct06	33
		2	2.25 Oct22	1.61	Oct11	24	2	4.00 Apr55	-0.32	Apr04	15
		1	4.25 Oct23	2.09	Oct06	33	1	4.00 Apr60	-0.29	Apr09	9
ITALY	Richest	1	5.00 Aug39	-2.21	Aug07	19	1	4.75 Sep44 (30y)	-1.71	Mar13	7
		2	5.00 Sep40	-1.85	Sep09	21	2	5.00 Aug39	-1.63	Aug07	19
		3	4.50 May23 (10y)	-1.30	Mar13	18	3	5.00 Sep40	-1.62	Sep09	21
		4	4.75 Aug23	-1.25	Feb08	25	4	4.00 Feb37	-1.58	Aug05	25
		5	4.00 Feb37	-1.00	Aug05	25	5	4.75 Sep28	-1.50	Jan13	11
	Cheapest	5	5.00 Aug34	0.27	Aug03	21	5	4.75 Sep21	-1.36	Mar11	25
		4	5.50 Nov22 (IK)	0.29	May12	21	4	5.00 Mar22	-1.32	Sep11	18
		3	5.50 Sep22	0.47	Mar12	20	3	5.50 Sep22	-1.25	Mar12	20
		2	4.50 Mar24	1.81	Aug13	5	2	5.50 Nov22 (IK)	-1.24	May12	21
		1	4.75 Sep44 (30y)	2.01	Mar13	7	1	4.50 Mar24	-0.23	Aug13	5
N'LANDS	Richest	1	3.75 Jan23	-1.36	Jan06	11	1	2.50 Jan33	-0.51	Mar12	10
		2	2.50 Jan33	-0.83	Mar12	10	2	4.00 Jan37	-0.25	Apr05	13
		3	2.25 Jul22	-0.23	Feb12	17	3	3.75 Jan23	0.06	Jan06	11
	Cheapest	3	3.75 Jan42 (30y)	0.59	May10	14	3	3.75 Jan42 (30y)	0.12	May10	14
		2	1.75 Jul23 (10y)	0.73	Mar13	11	2	2.25 Jul22	0.53	Feb12	17
SPAIN	Richest	1	4.40 Oct23 (10y)	-0.44	May13	11	1	4.40 Oct23 (10y)	-1.91	May13	11
		2	5.85 Jan22 (FBB)	-0.32	Nov11	19	2	5.75 Jul32	-1.76	Jan01	15
		3	4.90 Jul40	-0.18	Jun07	13	3	4.20 Jan37	-1.75	Jan05	16
		4	4.70 Jul41 (30y)	-0.05	Sep09	12	4	4.65 Jul25	-1.70	Feb10	14
		5	4.20 Jan37	-0.01	Jan05	16	5	5.90 Jul26	-1.70	Mar11	10
	Cheapest	5	4.65 Jul25	0.46	Feb10	14	5	4.80 Jan24	-1.69	Sep08	15
		4	5.40 Jan23	0.50	Jan13	17	4	4.90 Jul40	-1.67	Jun07	13
		3	4.80 Jan24	0.58	Sep08	15	3	5.40 Jan23	-1.66	Jan13	17
		2	5.15 Oct28	0.64	Jul13	4	2	5.85 Jan22 (FBB)	-1.58	Nov11	19
		1	5.90 Jul26	0.93	Mar11	10	1	5.15 Oct28	-1.27	Jul13	4
BELGIUM	Richest	1	4.25 Sep21	-1.42	Jan11	15	1	4.50 Mar26	0.53	Jun11	8
		2	5.00 Mar35	-0.57	May04	18	2	4.25 Mar41 (30y)	0.60	Apr10	12
		3	4.50 Mar26	-0.22	Jun11	8	3	2.25 Jun23 (10y)	0.63	Jan13	11
		4	2.25 Jun23 (10y)	0.13	Jan13	11	4	5.00 Mar35	0.66	May04	18
	Cheapest	4	4.00 Mar32	0.39	Mar12	7	4	4.00 Mar32	0.66	Mar12	7
		3	4.25 Mar41 (30y)	0.49	Apr10	12	3	4.25 Sep22	0.82	Jan12	15
		2	4.25 Sep22	1.77	Jan12	15	2	4.25 Sep21	0.83	Jan11	15
		1	4.00 Mar22	2.12	May06	14	1	4.00 Mar22	0.93	May06	14

Source: Citi Research

## UK relative value table

Figure 57. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

		Versus Govt Curve (CAS)					Versus Swap Curve (CAS)				
		Rank		ZScore	Issued	Size (€bn)	Rank		ZScore	Issued	Size (€bn)
ALL	Richest	1	3.50 Jul68	-6.05	Jun13	5	1	4.00 Sep16	-1.16	Mar06	35
		2	4.75 Dec30	-3.25	Oct07	29	2	4.75 Sep15 (WB)	-0.83	Sep03	38
		3	4.00 Sep16	-2.94	Mar06	35	3	3.75 Sep21	-0.78	Mar11	28
		4	3.75 Sep21	-2.92	Mar11	28	4	4.25 Sep39	-0.71	Mar09	19
		5	2.00 Jan16	-2.86	Nov10	32	5	3.75 Sep20	-0.58	Jun10	24
	Cheapest	5	5.00 Sep14	1.71	Jul02	41	5	2.75 Jan15 (2y)	0.48	Nov09	29
		4	1.25 Jul18 (5y)	1.71	Feb13	24	4	5.00 Sep14	0.50	Jul02	41
		3	2.75 Jan15 (2y)	1.90	Nov09	29	3	2.25 Mar14	1.06	Mar09	35
		2	5.00 Mar18 (WX)	1.96	May07	34	2	4.25 Dec27	1.23	Sep06	29
		1	3.25 Jan44 (30y)	2.18	Oct12	16	1	5.00 Mar25 (G)	1.88	Sep01	33
2yr - 7yr	Richest	1	4.00 Sep16	-2.89	Mar06	35	1	4.00 Sep16	-1.14	Mar06	35
		2	2.00 Jan16	-2.70	Nov10	32	2	4.75 Sep15 (WB)	-0.81	Sep03	38
		3	4.75 Sep15 (WB)	-1.19	Sep03	38	3	1.00 Sep17	-0.47	Mar12	31
		4	1.00 Sep17	-0.71	Mar12	31	4	3.75 Sep19	-0.15	Jul09	28
		5	1.75 Jan17	-0.20	Aug11	27	5	1.25 Jul18 (5y)	-0.14	Feb13	24
	Cheapest	5	4.50 Mar19	1.36	Sep08	35	5	1.75 Jan17	-0.14	Aug11	27
		4	4.75 Mar20	1.53	Mar05	33	4	4.75 Mar20	-0.13	Mar05	33
		3	3.75 Sep19	1.62	Jul09	28	3	2.00 Jan16	-0.10	Nov10	32
		2	1.25 Jul18 (5y)	1.86	Feb13	24	2	5.00 Mar18 (WX)	0.06	May07	34
		1	5.00 Mar18 (WX)	2.06	May07	34	1	4.50 Mar19	0.10	Sep08	35
7yr - 15yr	Richest	1	3.75 Sep21	-2.85	Mar11	28	1	3.75 Sep21	-0.77	Mar11	28
		2	3.75 Sep20	-1.31	Jun10	24	2	3.75 Sep20	-0.57	Jun10	24
		3	4.00 Mar22	-1.26	Feb09	37	3	4.00 Mar22	-0.42	Feb09	37
		4					4				
		5					5				
	Cheapest	4	2.25 Sep23	-0.26	Jun13	8	4	2.25 Sep23	0.18	Jun13	8
		2	1.75 Sep22 (10y)	0.14	Jun12	28	2	4.25 Dec27	1.24	Sep06	29
		1	5.00 Mar25 (G)	1.63	Sep01	33	1	5.00 Mar25 (G)	1.89	Sep01	33
>15yr	Richest	1	4.75 Dec30	-3.11	Oct07	29	1	4.25 Sep39	-0.67	Mar09	19
		2	4.25 Dec46	-2.42	May06	21	2	4.25 Mar36	-0.49	Feb03	23
		3	4.25 Dec40	-1.99	Jun10	24	3	4.75 Dec38	-0.47	Apr04	25
		4	4.25 Dec49	-1.81	Sep08	19	4	4.25 Dec40	-0.45	Jun10	24
		5	4.50 Dec42	-1.81	Jun07	26	5	4.25 Dec49	-0.41	Sep08	19
	Cheapest	5	4.00 Jan60	0.37	Oct09	19	5	4.50 Sep34	0.11	Jun09	26
		4	4.50 Sep34	1.56	Jun09	26	4	4.75 Dec30	0.21	Oct07	29
		3	4.25 Dec55	1.78	May05	23	3	4.25 Jun32	0.21	May00	35
		2	3.25 Jan44 (30y)	2.49	Oct12	16	2	3.25 Jan44 (30y)	0.24	Oct12	16
		1	3.50 Jul68	4.76	Jun13	5	1	4.00 Jan60	0.38	Oct09	19

Source: Citi Research

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

Mohit Aggarwal

This is an excerpt from our latest [Weekly Supply Monitor](#) published today. For further details (upcoming coupon payments, redemptions and longer term supply forecasts) please see the original note.

Nishay Patel

Figure 58. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
26 Aug (Mon)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-33k		
27 Aug (Tue)	Belgium	3.5	OLO 1.25% Jun18, 2.25% Jun23, 4% Mar32 (issue confirmed, estimated size)				33k
27 Aug (Tue)	Italy	2.5	CTZ (estimated size)				4k
27 Aug (Tue)	Italy	1.0	BTPei (estimated size)				8k
27 Aug (Tue)	US	34.0	2-Year		90k		
27 Aug (Tue)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 31/8/2017 - 15/5/2018		-24k		
28 Aug (Wed)	US	35.0	5-Year		222k		
28 Aug (Wed)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-31k		
29 Aug (Thu)	Italy	5.5	BTP 5yr and 10yr (estimated tenor and size)				33k
29 Aug (Thu)	US	29.0	7-Year		253k		
29 Aug (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases : 15/2/2036 - 15/8/2043		-33k		

Weekly \$DV01 of Issuance

45.6

Total Number of Futures Contracts

443k

0k

79k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
03 Sep (Tue)	Austria	1.3	RAGB 5yr and 10yr (estimated size and tenors)				8k
03 Sep (Tue)	UK	1.5	01/8% Index-linked Treasury Gilt 2024 (issue confirmed, estimated size)			16k	
04 Sep (Wed)	Germany	5.0	New Bobl-167 Oct18 (issue and size confirmed)				21k
05 Sep (Thu)	Spain	3.0	Bono 2yr and 5yr (estimated tenors and size)				10k
05 Sep (Thu)	France	7.5	OAT 5yr, 10yr and 30yr (estimated tenors and size)				72k

Weekly \$DV01 of Issuance

19.5

Total Number of Futures Contracts

0k

16k

111k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
10 Sep (Tue)	Netherlands	2.5	DSL Jul23 re-opening (issue confirmed, size €2-3bn)				20k
10 Sep (Tue)	UK	2.6	3¼% Treasury Gilt 2044 (issue confirmed, estimated size)			48k	
10 Sep (Tue)	US	31.0	3-Year		82k		
11 Sep (Wed)	Germany	5.0	New Bund Aug23 (issue and size confirmed)				40k
11 Sep (Wed)	US	21.0	10-Year (re-opening)		247k		
12 Sep (Thu)	Italy	5.0	BTP New Nov16 (issue confirmed) and 15yr (estimated tenor and size)				28k
12 Sep (Thu)	Italy	1.3	CCTeu (estimated size)				5k
12 Sep (Thu)	UK	3.6	2¼% Treasury Gilt 2023 (issue confirmed, estimated size)			35k	
12 Sep (Thu)	US	13.0	30-year (re-opening)		320k		

Weekly \$DV01 of Issuance

76.2

Total Number of Futures Contracts

648k

83k

93k

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures		
					TYU3 (UST)	G U3 (Gilt)	RXU3 (Bund)
17 Sep (Tue)	UK	4.2	Syndication of a long dated index-linked gilt (second half of September, estimated size)			61k	
18 Sep (Wed)	Germany	5.0	Schatz 0.25% Sep15 reopening (issue and size confirmed)				9k
19 Sep (Thu)	Spain	3.0	Obligaciones 5yr and 10yr (estimated tenors and size)				19k
19 Sep (Thu)	France	9.0	BTAN, OAT 2yr and 5yr / OATi (estimated tenors and size)				36k
19 Sep (Thu)	UK	4.7	1¼% Treasury Gilt 2018 (issue confirmed, estimated size)			24k	
19 Sep (Thu)	US	13.0	10-Year TIPS (re-opening)		168k		

Weekly \$DV01 of Issuance

35.7

Total Number of Futures Contracts

168k

85k

64k

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on August 30, 2013. Therefore we have only provided details of Fed buybacks upto 30 August. Additional issues expected in September: Belgium 30yr (€4bn), Finland 5yr (€4bn), Ireland 5yr and 10yr (€1.2bn). These are not included in the cash flow tables and gross supply charts of this report as the timing of these supply events have not been announced.

Source: DMOs, Citi estimates

## EUR: Coupons & Redemptions (next 3 mths)

Figure 59. EMU-10 Redemptions over the next three months (€bn)

Redemptions = €142bn											
Redemptions	DEU 33	FRA 32	NLD 0	ITA 28	ESP 16	BEL 14	AUT 13	FIN 0	PRT 6	GRC 0	IRL 0
(Fri) 13-Sep-13	17.0										
(Mon) 23-Sep-13									5.8		
(Wed) 25-Sep-13		10.7									
(Sat) 28-Sep-13						13.5					
(Mon) 30-Sep-13				10.6							
(Fri) 11-Oct-13	16.0										
(Sun) 20-Oct-13							13.1				
(Fri) 25-Oct-13		21.1									
(Thu) 31-Oct-13					16.2						
(Fri) 01-Nov-13				17.8							

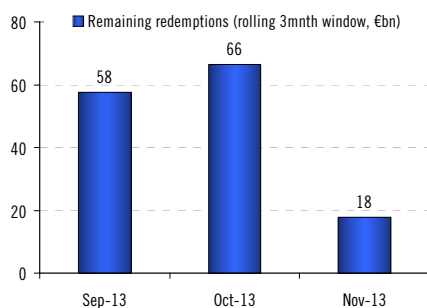
Source: DMOs, Bloomberg, Citi Research

Figure 60. EMU-10 Coupon Payments over the next three months (€bn)

Coupons = €51bn											
Coupons	DEU 3	FRA 17	NLD 0	ITA 15	ESP 5	BEL 5	AUT 2	FIN 1	PRT 2	GRC 0	IRL 2
(Sun) 01-Sep-13				6.5							
(Wed) 04-Sep-13	0.99										
(Fri) 13-Sep-13	0.13										
(Sun) 15-Sep-13				1.9			1.3	0.5			
(Fri) 20-Sep-13	0.0										0.02
(Mon) 23-Sep-13									0.3		
(Wed) 25-Sep-13		0.3									
(Sat) 28-Sep-13						4.6					
(Tue) 01-Oct-13				0.2							
(Wed) 09-Oct-13	0.3										
(Thu) 10-Oct-13	0.4										
(Fri) 11-Oct-13	0.6										
(Sun) 13-Oct-13	0.1										
(Mon) 14-Oct-13	0.2										
(Tue) 15-Oct-13				0.8					1.0		
(Wed) 16-Oct-13									0.4		
(Fri) 18-Oct-13											1.6
(Sun) 20-Oct-13							1.0				
(Fri) 25-Oct-13		16.2							0.4		
(Thu) 31-Oct-13					5.1						
(Fri) 01-Nov-13				5.5							
(Fri) 15-Nov-13				0.6							

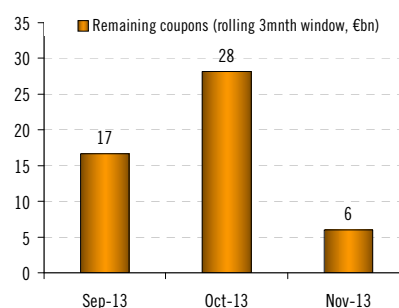
Source: DMOs, Bloomberg, Citi Research

Figure 61. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 62. EMU-10 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research



## ESP and ITA Bill Issuance Projections

This page contains our projections for Spanish and Italian bill supply in 2013.

### Auction calendar for the next four weeks

Figure 63. Provisional Bill Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (EUR Million/bp)

Week	Date	Country	Issue Details	Total Size (€bn)
Week 1	27 Aug (Tue)	Spain	3month (22 November 2013), 9month (16 May 2014) - tenors confirmed, estimated size	3.6
	28 Aug (Wed)	Italy	6 month (28 February 2014; issue confirmed, estimated size)	9
Total Size in Week 1				12.6
Week 3	11 Sep (Wed)	Italy	12 month (12 September 2014; issue confirmed, estimated size)	7
Total Size in Week 3				7.0
Week 4	17 Sep (Tue)	Spain	6month (14 March 2014), 12 month (new bill) - tenors confirmed, estimated size	4.25
Total Size in Week 4				4.25

Italy announces issue size 3 business days before the auction

Spain announces issue details 1 business day before the auction

Source: DMOs, Citi Research

### 2013 projections for bill supply

Figure 64. 2013 Italy and Spain Bill Supply – Citi Forecast (Euro Billion)

SPAIN	3m	6m	9m	12m	18m	Gross Supply	Redemptions	NCR
Jan	1.3	1.8		3.2	2.5	9	5	3
Feb	1.0	2.9	3.7	3.6		11	9	2
Mar	1.8	2.3	2.6	4.0		11	12	-2
Apr	0.9	1.3	2.2	4.6		9	8	1
May	0.9	1.2	2.6	3.3		8	6	2
Jun	1.1	1.1	2.6	4.0		9	10	-1
Jul	0.9	1.9	3.0	2.9		9	5	3
Aug	1.0	1.3	2.6	2.8		8	11	-4
Sep	1.0	1.3	2.6	3.0		8	8	
Oct	1.0	1.3	2.6	3.0		8	8	
Nov	1.0	1.3	2.6	3.0		8	11	-3
Dec	1.0	1.3	2.6	3.0		8	9	-1
Total	12.9	18.8	29.6	40.5	2.5	104	103	2

ITALY	3m*	6m	9m	12m	Flexible BOT	Gross Supply	Redemptions	NCR
Jan		9.8		9.8		20	21	-2
Feb		10.1		9.7		20	19	
Mar		9.4		7.8		17	19	-2
Apr	3.0	9.2		8.9		21	18	3
May		9.2		7.0	3.0	19	16	4
Jun		9.2		7.0		16	16	
Jul		9.8		7.0	2.5	19	11	9
Aug		9.0		8.6		18	18	-1
Sep	3.0	9.0		7.0		19	20	-1
Oct		9.0		7.0		16	17	-1
Nov		9.0		7.5		17	16	1
Dec		10.0		7.5		18	25	-8
Total	6.0	112.6		94.7	5.5	219	216	2

\*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 estimates

## Inflation Forecasts, Carry & Weekly Changes

Figure 65. Citi Inflation Forecasts

Month	EUR HICP <sub>XT</sub>			France CPI <sub>XT</sub>			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
Jul 13	116.39	-0.6	1.5	125.35	-0.3	0.9	249.70	0.0	3.1	233.60	0.0	2.0
Aug 13	116.53	0.1	1.2	126.03	0.5	0.8	250.80	0.4	3.2	234.10	0.2	1.6
Sep 13	117.35	0.7	1.2	125.68	-0.3	0.8	251.80	0.4	3.1	234.30	0.1	1.3
Oct 13	117.69	0.3	1.3	126.00	0.3	1.0	252.70	0.4	2.9	234.20	-0.0	1.2
Nov 13	117.64	-0.0	1.4	125.89	-0.1	1.0	252.90	0.1	3.0	233.90	-0.1	1.6
Dec 13	118.02	0.3	1.4	126.33	0.3	1.0	254.00	0.4	2.9	233.50	-0.2	1.7

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 66. 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 Oct	1 Nov	1 Dec					1 Oct	1 Nov	1 Dec		
Repo (%)				0.11	0.11	0.11									
TIPS 1/15	-0.96	13	13	0	10	11	US-2.250-01/31/15	122	-13	-10	-2	8	7	3	-1
TIPS 4/15	-0.86	11	11	0	10	11	US-2.500-04/30/15	118	-9	-7	-1	7	6	0	-5
TIPS 7/15	-1.15	13	13	-1	5	4	US-4.250-08/15/15	154	-9	-8	-3	2	-1	4	-4
TIPS 1/16	-0.80	14	14	1	7	8	US-2.625-02/29/16	138	-8	-7	-2	3	2	17	-4
TIPS 4/16	-0.69	16	16	1	7	8	US-2.000-04/30/16	135	-9	-8	-1	3	2	16	-2
TIPS 7/16	-0.88	5	5	0	5	6	US-4.875-08/15/16	167	4	4	-3	0	-2	10	-15
TIPS 1/17	-0.58	21	21	1	6	7	US-3.125-01/31/17	159	-11	-11	-2	1	-1	16	1
TIPS 4/17	-0.43	17	17	1	6	8	US-0.875-04/30/17	158	-6	-5	-2	1	-1	15	-4
TIPS 7/17	-0.54	11	11	1	6	7	US-4.750-08/15/17	177	1	1	-2	0	-2	14	-10
TIPS 1/18	-0.29	26	26	2	6	8	US-3.500-02/15/18	175	-12	-12	-2	0	-2	16	4
TIPS 4/18	-0.17	21	21	2	6	8	US-0.625-04/30/18	176	-7	-6	-2	0	-2	14	-1
TIPS 7/18	-0.26	12	12	2	6	7	US-4.000-08/15/18	188	2	3	-2	-1	-3	18	-10
TIPS 1/19	0.00	22	22	2	6	8	US-2.750-02/15/19	184	-6	-6	-2	-1	-2	21	-2
TIPS 7/19	0.01	27	27	2	6	7	US-3.625-08/15/19	197	-11	-11	-2	-1	-3	19	3
TIPS 1/20	0.25	22	22	2	6	8	US-3.625-02/15/20	186	-6	-6	-2	-1	-2	30	-1
TIPS 7/20	0.28	23	23	2	6	7	US-2.625-08/15/20	201	-7	-7	-2	-1	-3	24	0
TIPS 1/21	0.46	22	22	2	6	7	US-3.625-02/15/21	194	-6	-6	-2	-1	-2	30	-1
TIPS 7/21	0.49	22	22	2	5	7	US-2.125-08/15/21	209	-5	-5	-2	-1	-3	23	-2
TIPS 1/22	0.65	22	22	2	5	7	US-2.000-02/15/22	205	-4	-4	-2	-1	-2	27	-2
TIPS 7/22	0.67	22	22	2	5	7	US-1.625-08/15/22	214	-5	-5	-2	-1	-3	25	-2
TIPS 1/23	0.78	21	21	2	5	7	US-2.000-02/15/23	210	-4	-4	-2	-1	-3	27	-2
TIPS 7/23	0.78	20	20	2	5	6	US-2.500-08/15/23	212	-5	-5	-2	-1	-3	32	-1
TIPS 1/25	0.94	17	17	2	5	6	US-7.625-02/15/25	207	-2	-2	-2	-2	-3	41	-4
TIPS 1/26	1.00	18	18	2	5	6	US-6.000-02/15/26	217	-5	-5	-2	-2	-3	35	-1
TIPS 1/27	1.07	14	14	2	4	6	US-6.625-02/15/27	219	-0	-0	-2	-2	-3	35	-6
TIPS 1/28	1.16	16	16	2	4	6	US-6.125-11/15/27	219	-3	-3	-2	-2	-3	38	-3
TIPS 4/28	1.12	17	17	2	4	6	US-5.500-08/15/28	230	-3	-3	-1	-1	-3	26	-3
TIPS 1/29	1.19	16	16	2	4	6	US-5.250-02/15/29	228	-3	-3	-1	-2	-3	32	-3
TIPS 4/29	1.18	16	16	2	4	6	US-5.250-02/15/29	229	-3	-3	-1	-1	-3	30	-3
TIPS 4/32	1.30	17	17	2	4	5	US-5.375-02/15/31	225	-4	-4	-1	-2	-3	41	-2
TIPS 2/40	1.55	15	15	1	3	4	US-4.625-02/15/40	228	-3	-3	-1	-2	-2	46	-1
TIPS 2/41	1.57	14	14	1	3	4	US-4.750-02/15/41	227	-1	-1	-1	-2	-2	46	-2
TIPS 2/42	1.62	14	14	1	2	3	US-3.125-02/15/42	231	-1	-1	-1	-2	-3	43	-2
TIPS 2/43	1.63	14	14	1	2	3	US-3.125-02/15/43	231	-1	-1	-1	-2	-3	43	-2

Source: Citi Research, Bloomberg



Figure 67. 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 Oct	1 Nov	1 Dec					1 Oct	1 Nov	1 Dec		
Repo (%)				0.10	0.10	0.10									
BTPei14	0.54	17	17	-55	-43	47	BTP 8/14	60	-10	-9	-68	-68	6	43	3
OATei15	-0.82	8	8	-36	-35	1	FFRG 4/15	114	-7	-8	-37	-38	-4	22	2
BUNDei16	-0.49	6	6	-25	-23	4	BUND 1/16	76	-5	-5	-26	-24	2	21	1
BTANi16	-0.66	9	9	-14	3	-9	FFRG 4/16	123	-4	-4	-16	0	-15	34	2
BTPei16	1.56	15	15	-15	-7	24	BTP 8/16	79	-7	-7	-23	-22	0	54	3
OATi17	-0.42	9	9	-10	4	-5	FFRG 4/17	131	-3	-3	-12	-1	-12	32	1
BTPei17	1.91	17	17	-11	-3	20	BTP 8/17	102	-8	-8	-18	-18	-2	41	5
BOBLei18	-0.33	4	4	-14	-12	3	BUND 1/18	104	-2	-2	-15	-15	-1	25	0
OATei18	-0.11	11	11	-12	-10	4	FFRG 4/18	128	-5	-5	-15	-15	-3	29	3
BTPei18	2.20	13	13	-8	-1	18	BTP 8/18	99	-5	-5	-15	-15	-2	51	3
OATi19	-0.02	9	9	-6	4	-1	FFRG 4/19	146	-2	-2	-8	-1	-9	37	1
BTPei19	2.23	10	10	-7	-1	15	BTP 9/19	124	-3	-3	-13	-13	-2	34	1
BUNDei20	-0.09	5	5	-9	-8	3	BUND 1/20	128	-1	-1	-11	-11	-2	23	0
OATei20	0.22	8	8	-9	-7	5	FFRG 4/20	149	-3	-3	-11	-12	-3	22	2
OATi21	0.39	7	7	-4	4	0	FFRG 4/21	157	-2	-2	-6	-2	-7	43	2
BTPei21	2.74	8	8	-4	0	13	BTP 9/21	120	1	0	-10	-10	-2	54	-1
OATei22	0.55	8	8	-6	-4	4	FFRG 4/21	141	-2	-2	-9	-10	-3	45	2
BUNDei23	0.25	4	4	-6	-4	3	BUND 1/22	138	-2	-2	-8	-8	-2	40	1
OATi23	0.61	5	5	-3	4	1	FFRG 10/23	192	-0	-0	-6	-2	-7	21	1
BTPei23	3.02	9	9	-3	1	12	BTP 8/23	123	-1	-2	-8	-9	-2	66	1
OATei24	0.80	7	7	-5	-3	4	FFRG 10/23	173	-2	-2	-8	-8	-4	25	1
BTPei26	3.17	8	8	-3	1	10	BTP 3/26	132	-3	-3	-7	-8	-2	72	3
OATei27	0.95	5	5	-4	-2	4	FFRG 4/26	188	-2	-2	-7	-7	-3	21	2
OATi29	0.88	3	3	-2	3	1	FFRG 4/29	217	0	0	-4	-2	-6	14	-1
OATei32	1.08	5	5	-3	-2	3	FFRG 10/32	211	-2	-2	-6	-6	-3	6	2
BTPei35	3.12	6	6	-2	1	6	BTP 8/34	183	-1	-1	-5	-6	-4	36	1
OATei40	1.18	4	4	-2	-1	3	FFRG 4/41	222	-1	-2	-4	-5	-3	4	1
BTPei41	3.40	8	8	-1	1	6	BTP 9/40	163	-4	-5	-5	-5	-3	64	4

Source: Citi Research

Figure 68. 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 Oct	1 Nov	1 Dec					1 Oct	1 Nov	1 Dec		
Repo (%)				0.42	0.42	0.41									
UKTi Jul16	-1.94	3	2	2	4	6	UKT 9/16	271	-5	-5	1	2	2	36	3
UKTi Nov17	-1.45	2	4	-6	1	7	UKT 3/18	287	-2	-4	-8	-4	0	21	-0
UKTi Nov19	-0.91	-	-	-3	2	7	UKT 9/19	282	-	-	-6	-3	-1	37	-
UKTi Apr20	-0.79	11	10	3	6	8	UKT 3/20	284	-6	-6	0	0	0	32	3
UKTi Nov22	-0.33	9	9	-1	3	7	UKT 3/22	287	-4	-5	-4	-3	-1	47	0
UKTi Mar24	-0.03	10	10	-1	3	7	UKT 3/25	303	-4	-5	-4	-3	-1	30	0
UKTi Jul24	-0.13	11	10	3	5	7	UKT 3/25	313	-5	-5	0	-1	-1	28	1
UKTi Nov27	0.06	5	5	-1	3	5	UKT 12/27	319	-3	-4	-3	-2	-2	35	-1
UKTi Mar29	0.12	1	2	0	2	5	UKT 12/30	324	-4	-4	-3	-2	-2	30	-0
UKTi Jul30	0.02	3	2	2	4	5	UKT 6/32	340	-6	-6	0	-1	-1	22	2
UKTi Nov32	0.09	1	1	0	2	4	UKT 6/32	333	-4	-4	-3	-2	-2	33	0
UKTi Mar34	0.13	-0	-0	0	2	4	UKT 9/34	336	-4	-4	-3	-2	-2	30	0
UKTi Jan35	0.08	0	-0	2	3	4	UKT 3/36	342	-5	-5	-1	-1	-2	27	1
UKTi Nov37	0.10	-0	0	0	2	3	UKT 12/38	343	-5	-5	-2	-2	-2	30	2
UKTi Mar40	0.12	0	0	0	1	3	UKT 9/39	344	-4	-5	-2	-2	-2	28	1
UKTi Nov42	0.08	-0	-0	0	1	3	UKT 12/42	350	-5	-6	-2	-2	-2	26	2
UKTi Mar44	0.12	-0	-0	0	1	2	UKT 1/44	352	-6	-6	-2	-2	-2	23	-5
UKTi Nov47	0.08	-1	-1	0	1	2	UKT 12/46	352	-5	-6	-2	-2	-2	24	2
UKTi Mar50	0.08	-0	-0	0	1	2	UKT 12/49	351	-6	-7	-2	-2	-2	23	3
UKTi Mar52	0.09	-1	-1	0	1	2	UKT 7/52	351	-6	-7	-2	-2	-2	23	3
UKTi Nov55	0.04	-0	-0	0	1	2	UKT 12/55	354	-6	-6	-2	-2	-2	22	2
UKTi Mar62	0.03	0	0	0	1	2	UKT 1/60	355	-6	-7	-2	-2	-2	20	3

Source: Citi Research

## Summary of Recent Publications

Date	Publication	Topic	Page	Region
21-Aug-13	NOTE	<a href="#">EUREX Calendar Rolls (U3/Z3): A First Look</a>	-	EUR
21-Aug-13	NOTE	<a href="#">Euro SSA Strategy: ESM Bond Supply Is Nearly Here</a>	-	EUR
21-Aug-13	NOTE	<a href="#">Netherlands (Aaa/AAA/AAA, neg. outlook): Risks vs Rewards</a>	-	EUR
19-Aug-13	NOTE	<a href="#">European Flow Monitor: Waning appetite for the core</a>	-	EUR
15-Aug-13	European Weekly	<a href="#">Euro Rates – Spain's rating and EMU spreads</a>	8	EUR
		<a href="#">UK Rates – MPC minutes fail to reassure</a>	13	UK
		<a href="#">Gilt Calendar Roll: G U3-G Z3</a>	15	UK
		<a href="#">Euro SSA Strategy</a>	17	EUR
		<a href="#">Covered Bond Strategy</a>	20	EUR
15-Aug-13	NOTE	<a href="#">Weekly Supply Monitor: Euro, UK and US Supply Outlook</a>	-	Global
14-Aug-13	NOTE	<a href="#">Euro Rates Strategy: Spanish rating concerns and the current market rally</a>	-	EUR
08-Aug-13	European Weekly	<a href="#">Money market outlook and ECB policy</a>	8	EUR
		<a href="#">UK Rates – Guidance underwhelms, for now</a>	11	UK
		<a href="#">Bund seasonals and performance in August</a>	14	EUR
		<a href="#">Buy EUR 1m30y ATMF receiver</a>	15	EUR
		<a href="#">SSA Summer Switches</a>	16	EUR
		<a href="#">Covered Bond Strategy</a>	17	EUR
08-Aug-13	NOTE	<a href="#">Weekly Supply Monitor: Euro, UK and US Supply Outlook</a>	-	EUR
07-Aug-13	NOTE	<a href="#">Euro SSA Strategy: Summer Switches</a>	-	EUR
05-Aug-13	NOTE	<a href="#">ECB: Higher Excess, Fixings Normalize</a>	-	EUR
05-Aug-13	NOTE	<a href="#">European Flow Monitor: Demand for the Core Extends Further, Led by 2-5yrs</a>	-	EUR
01-Aug-13	European Weekly	<a href="#">A balancing act from the ECB</a>	8	EUR
		<a href="#">UK Rates: Scenarios for 'guidance day'</a>	10	UK
		<a href="#">With QE less likely, who will buy all the gilts?</a>	12	UK
		<a href="#">SSA Strategy: The sterling SSA market</a>	20	UK
		<a href="#">Covered Bond Strategy</a>	21	EUR
		<a href="#">EMU-10: August Supply Outlook</a>	23	EUR
01-Aug-13	NOTE	<a href="#">Weekly Supply Monitor: Euro, UK and US Supply Outlook</a>	-	Global
30-Jul-13	NOTE	<a href="#">European Rates Strategy: The Month-end RV Pack</a>	-	EUR
30-Jul-13	NOTE	<a href="#">UK Rates Strategy: With QE less likely, who will buy all the gilts?</a>	-	UK
29-Jul-13	NOTE	<a href="#">Flow Monitor: Demand for core markets has held up, unlike for the non-core</a>	-	EUR

## Notes

## Notes

## Appendix A-1

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