

Where do we expect iTraxx rolls to trade?

iTraxx Series 21 indices start trading tomorrow

- **S20-21 Roll Estimates: Crossover: +66bp, Main: +9.7bp, Senior Fins: +11bp, Sub. Fins: +15bp.** Figure 1 provides a breakdown of the contribution, to our expected roll spreads, coming from fair value differences (composition changes and maturity extension) as well as skew differences.

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Figure 1. Expected roll spreads

	Fair value change due to		Fair value Roll	Skew Roll	Total Roll
	Composition	Maturity			
Crossover	34	20	54	12	66
Main	0.1	8.0	8.2	1.5	9.7
Senior Fin	2	8	10	1	11
Sub. Fin	2	10	19*	3	22

Source: Citi Research, Markit. Spreads as of COB yesterday. From Series 20 to Series 21. In bp.* 6.5bp extra in SubFin due to the coupon change, from 500 to 100bp.

- **Skew differences** – When indices roll, newly launched indices generally trade with a more positive (or less negative) skew than their predecessors, given that the short risk positions built up in the indices tend to roll first.¹ We expect this to again be the case this time around, especially in Crossover and the Financial indices where the [net positioning of non-dealers](#) is substantially short (risk). If, and when, holders of skew trades in Crossover S20 roll², there will be pressure on the roll to tighten.

Figure 2. Composition changes in iTraxx indices

OUT Main (5)	IN Main (5)	OUT Crossover (5)	IN Crossover (15)
Adecco	Conti	ISS Global	Alstom
Alstom	Gecina	Ono	Abengoa
Deutsche Post	Unibail R.	Renault	Metsa
Svenska Cel.	SABMiller	Polkom	Galp Energia
ING Bank	BBVA	PostNL	Ineos Group H.
			Louis Dreyfus
			Play Finance 1
			UCB
			Astaldi
			Hochtief
			TVN Finance
			Vougeot (VUE)
			Rexel
			Beni Stabili
			Altice Finco

Source: Citi Research, Markit, Bloomberg. From Series 20 to Series 21. Shaded names from Crossover supplementary list.

¹ Over the past few rolls, the average skew difference between the newly launched index and its predecessor on the day of the roll was +10bp for Crossover, +1.5bp for Main, +1bp for Senior Financials and +5bp for Sub.

² Clients selling index and buying single name protection.

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

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Analytics, Past Trade Ideas & Publications

Analytics – Available at Citi Velocity

Options	iTraxx Volatility Report CDX Volatility Report European Cross-Asset Volatility Report Volatility P&L Report – Credit Indices	Tranches	iTraxx Series 9 Tranche Report iTraxx Series 19 Tranche Report
Curves	iTraxx Curve P&L Report	Indices	CDS Indices Positioning Report CDS Indices Trading Volumes Report

Source: Citi Research.

Recent Trade Ideas

Options -	Buy SenFin vs. Sell CDX IG straddles	18 Mar 2014
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Tranches vs. Options -	Sell protection and monetize the positive convexity by selling straddles	20 Feb 2014
Tranches -	Buy 9-100% S9 Jun-18 protection, delta-hedged	20 Feb 2014
Tranches -	Sell 3-6% S9 Jun-18 protection, delta-hedged	20 Feb 2014
Options vs. Curves -	Flatteners vs. OTM payers	13 Feb 2014
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Tranches -	More mezz, less seniors - 3-6% vs. super senior	15 Jan 2014
Options -	SenFin vs. Xover Recs	9 Jan 2014
Options -	Payer spread vs. index long	9 Jan 2014
Options -	Sell 1m Main straddles	9 Jan 2014
Options -	Sell Crossover Receiver	9 Jan 2014
Options -	Sell strangles and go on holidays: Position for spreads to stay in the recent range in mid-January	9 Dec 2013
Tranches -	Sell S9 Jun-18 6-9% protection vs. Xover 5y S20	15 Nov 2013
Tranches -	Sell S9 Jun-18 22-100% protection vs. light delta	15 Nov 2013
Indices -	Long risk Senior Fins. vs. short risk Main	5 Nov 2013
Options -	Crossover receiver ladders	23 Oct 2013
Options -	Long risk CDX IG vs. Main via Receivers	15 Oct 2013
Options -	Buy Senior Financials straddles vs. sell Crossover straddles	9 Oct 2013
Tranches -	Long risk equity vs. short risk 3-6% in S19 Jun-16 (3y)	26 Sep 2013
Tranches -	Long risk S19 Jun-18 (5y) 3-6% vs. 5y S20 Crossover	26 Sep 2013
Tranches -	Long risk iTraxx S9 Jun-18 (10y) super senior vs. short risk CDX IG S9 Dec-17 (10y) super senior	26 Sep 2013
Indices -	Equal Notional 3s5s Flatteners: Adding cautious longs by selling forward protection	5 Sep 2013
Single Names -	Sub/Senior compression trades in European banks	13 Aug 2013
Options -	iTraxx Senior Financials vs. CDX IG via Receivers	7 Aug 2013

Source: Citi Research.

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Other publications

Our preferred carry trades in indices, options and tranches	11 Mar 2014
New 2014 CDS Definitions - What's new? What's changing? Why? When? How?	26 Feb 2014
iTraxx Roll - Potential Changes: Crossover number of constituents will increase to 60 names	10 Feb 2014
2014 European Credit Outlook: Strategy // Positioning and Trades	13 Jan 2014
Global Structured Credit Outlook: A Rockier Ride (R Roy, A Basu, K Malhotra, R Brauchler)	20 Dec 2013
2013 Trading Volumes in European Credit: CDS Indices, Single Name CDS and IG Bonds	5 Dec 2013
Credit Options - What did investors do in 2013?: What will they do in 2014? (2013 European Credit Conference Presentation)	4 Dec 2013
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What bail-in means for CDS	11 Feb 2013

Source: Citi Research.

Appendix A-1

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