

European Rates Weekly

Where next for European curves?

- **Long-end of the EUR curve:** The steepening at the long end of the EUR curve observed in the 2nd half of 2012 could be associated with a change in the hedging/trading behavior of key players in that segment of the swap market. We do not find enough evidence from the data to support this hypothesis, however.
- **Opportunities in EMU curves:** 10yr Spain looks cheap vs 5s and 30s and is close to its 5-year highs. Selling 10yr France vs Germany is a liquid way to express a bearish view on peripheral yields, but boxing it with the 30yr spread is an appealing alternative in our view.
- **Near-term dynamics for BTPs:** We detail recent supply and demand dynamics of BTPs, especially given the successful re-opening in the 30yr sector this week. Political uncertainty could keep BTP yields under pressure in the near-term.
- **Gilts:** Yields have surged higher following the Inflation Report, led by the 10yr sector. The poor price action has to be respected, but we would expect buyers to emerge around current levels. On a tactical basis, we prefer buying 10yr gilts vs swaps or Treasuries rather than taking outright duration risk.
- **Covered bonds:** Comebacks and wind-downs mean it is an eventful period for the two biggest issuers of Obligations Foncières (CFFL and CIF).
- **EUREX calendar rolls:** We preview the upcoming H3-M3 calendar rolls. We are neutral on the Bund roll, bullish on the Bobl roll, bearish on Schatz and OAT rolls.
- **Relative value trades:** Investors can take advantage of the cheapness of Mar15s in Belgium. Jun20s in Austria and Oct19s in France look relatively rich. In the UK, Mar18s look cheap vs surrounding issues.

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

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Contents

Contents	3
Duration Scorecard	5
Tradesheet	6
Update on the Long End of the EUR Curve	8
EMU curve	12
BTPs: near-term dynamics	14
UK Rates Strategy	15
Covered Bond Strategy	17
EUREX Calendar Rolls H3/M3	21
Relative Value Trades	22
Relative Value Tables	23
EMU Relative Value Table – All Maturities	24
EMU Relative Value Table – Max 12Y Maturity	25
EMU Relative Value Table – Min 8yr Maturity	26
UK Relative Value Table	27
Supply Analysis and Forecasts	28
EUR: Coupons & Redemptions (next 3mths)	30
Inflation Forecasts, Carry & Weekly Changes	31
Summary of Recent Publications	33
Appendix A-1	37

Figure 1. Strategy Summary Table

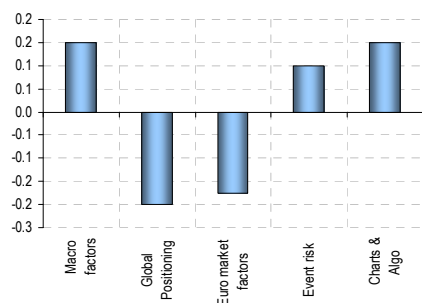
Europe	View	Strategies
Direction	Near-term event risks - including the 2nd 3yr LTRO repayment and elections in Italy - suggest a bullish bias in the near-term.	Long Bunds in the near-term targeting 1.55%. But we prefer cross-market risk to outright directional risk.
Money Market	The front-end has started to rally back following the positioning washout and the ECB press conference failed to disappoint. Market perceives ECB's policy is too tight.	Receive short-dated forwards.
Yield Curve	We expect the steepening in the euro curve to continue as the front end rallies. The macro environment (further ECB cuts and weak economic outlook for the euro area) continues to support EUR steepeners. In gilts, the 5s10s gilt curve looks particularly steep. The 5s10s gilt-Bund box has started to reverse following the recent de-coupling between these curves.	5s10s Bund steepeners vs 5s10s gilt flatteners EUR 5s20s 1yf steepener EUR 30s50s flatteners Buy 10yr Spain vs 5s and 30s
Cross-market	The recent underperformance of the front-end of the EUR curve vs the GBP curve is beginning to reverse but has much further to go. 10yr gilts look attractive vs Treasuries on a tactical basis.	Pay 5yr GBP vs EUR Receive EUR 5yr5yr vs pay USD 5yr5yr
EMU Spreads	We are unconvinced by this week's peripheral spread rally. The economic outlook and the upcoming supply profile in the Netherlands supports underweight DSL positions	Sell 10yr DSLs vs RAGB Short term switch out of Italy into Spain Sell 10yr OATs vs Bunds as proxy for short peripherals DSL 10s30s flatteners vs 10s30s steepeners in Bunds
Swap Spreads	With 5yr DEM spreads rich vs 2yr and 10yr spreads the 10yr sector would be our preferred maturity for expressing widenings. Bund 30y ASWs are at the bottom of the range and so is the DEM 2s5s10s ASW fly - we recommend fading this. Selling Schatz vs EONIA is our preferred way to express an eventual deposit rate cut into negative territory but we suggest waiting for better levels.	Sell 30yr Bunds vs swaps Sell 5yr Germany ASW vs 2yr and 10yr ASW
Inflation	Euro break-evens continue to perform well, but the rally now looks vulnerable given falling core yields and the approach of negative carry and the February round of supply. The IL gilt market continues to perform strongly, but we doubt the rally in 5yr break-evens can last.	UK 5s10s real yield flatteners Take some profits on long Bunde123 break-even Overweight Germany vs France and Italy Sell 5yr, 5yr forward French CPIxT vs euro HICPxT.
Volatility	Buy ATM receivers involving the 5yr point. Conditional bull-steepeners involving longs in the 5yr point are working and we suggest holding onto these. EUR calendar spreads in the 10yr tenor have begun to normalise and we believe they have further to go. Sell GBP 2y2y bpvol	Maintain long EUR 2y10y bpv vs 5y10y bpv Hold onto EUR 12m 5s20s bull-steepeners Buy EUR 3y2y ATMf receivers (provided the BE level is above 1.05%) Sell GBP 2y2y bpvol using straddles
SSA	Spreads in the European SSA market remain firm. We expect further convergence between periphery agency/regional debt to sovereigns although the pace of the rally is likely to slow from here.	Long front-end KfW vs France Long front-end EU vs other supranationals with larger supply pipelines

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet – Week 18th – 22nd February

Weekly Citi Bund Cheat Sheet: 1-week horizon				
Category	Variable	Score	Weight	Comments
Macro factors		0.6	25.0%	
	ECB	2	5.0%	More rate cuts likely in 2013
	FED	0	5.0%	QE3 supportive for risk on
	Inflation	1	5.0%	Peak in HICP reached
	Growth related data	1	5.0%	Growth decoupling between US and Europe
	Global risk appetite	-1	5.0%	Risk-on still prevailing
Global Positioning		-1.0	20.0%	
	CFTC	-1	6.7%	Duration increase over 2012
	T-Note	-2	6.7%	2% resistance level
	Citi surprise	0	6.7%	Surprise index already at high level
Euro market factors		-0.4	30.0%	
	Supply	-1	5.0%	Germany, France and Spain next week
	Positioning	0	2.5%	Market arguably more balanced
	Equity	-1	2.5%	New local highs on S&P
	Sovereign credit	-1	15.0%	Peripheral yields have fallen from recent highs
	FX	1	5.0%	EURUSD around 1.334
Event risk		1.0	10.0%	
	Elections	2	2.5%	Italy (elections Feb-24-45)
	LTRO	1	2.5%	G20 15th February
	Stability mechanisms	1	2.5%	Spain likely to request help in 2013
	Middle East / Oil	0	2.5%	No risk
Charts & Algo		1.0	15.0%	
	Technical	1	10.0%	Bund yields still at high end of range
	ARTS	1	5.0%	Long near-term core duration signals
Recommendation				
	Actual RXH3	142.57		(EOD Thursday)
	Actual CTD yield	1.35%		
	10d del. volatility	4.7%		
	Conviction level	8%		
Trade		Buy		

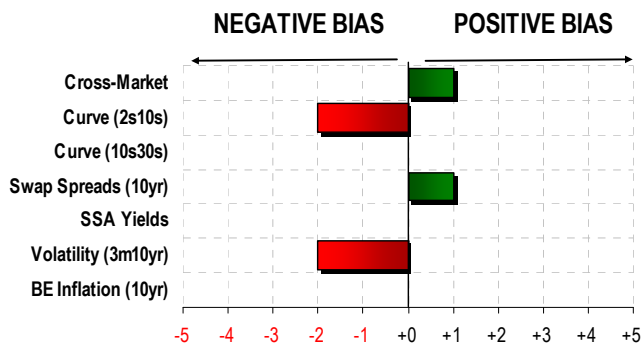
Figure 3. Contribution to Bund Signals



Source: Citi Research

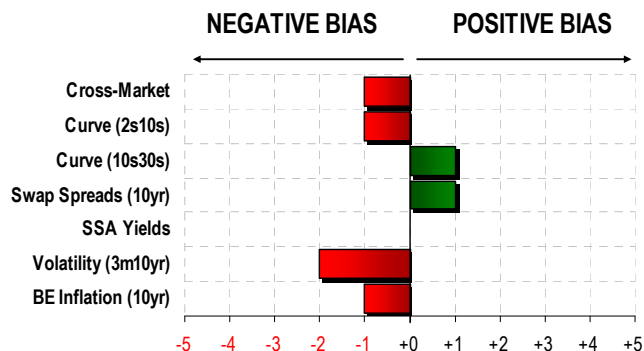
Source: Citi Research

Figure 4. EURO AREA (Near-term Bias)



Source: Citi Research

Figure 5. UK (Near-term Bias)

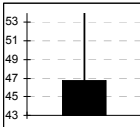


Source: Citi Research

Tradesheet

Record of Our Closed Trades

Figure 6. Record of our Closed Trades

Region	Trade	Levels	Rationale	
UK	Gilt 20s30s steepener	Open 46.8bp Current 43bp P&L -4bp Target 54bp Stop 43bp	Hit Stop 14 February 2013 The Morning Call, 8 January 2013	
Curve	Buy Gilt 4.75% Dec30 at 2.82% Sell Gilt 4.5% Dec42 at 3.28%			

Source: Citi Research

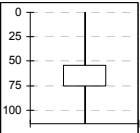
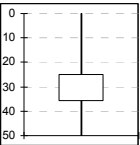
Record of Our Open Trades

Figure 7. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
UK	5s10s Gilt YYS flattener	Open 19bp Current 20bp P&L -1bp Target 12bp Stop 22.5bp	The 5yr sector looks rich ahead of supply IIRS 7 February 2013	
Curve	Sell Gilt 1% Sep17 YYS at -14bp Buy Gilt 1.75% Sep22 YYS at 5bp			
Europe	Sell DSL 2.25% Jul22 vs RAGB 3.4% Nov22	Open 12bp Current 11bp P&L 1bp Target -5bp Stop 20bp	The economic outlook and the upcoming supply profile is non-supportive for DSLs IIRS 7 February 2013	
Cross Market	Sell DSL 2.25% Jul22 at 1.82% Buy RAGB 3.4% Nov22 at 1.94%			
Europe	Receive EUR 10y2y vs 12y3y	Open 4bp Current 5bp P&L 1bp Target 25bp Stop -5bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility The Morning Call, 23 January 2013	
Curve	Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%			
Europe	Buy NWB 3.5% Jan21s vs BNG 2.625% Sep20s	Open 8bp Current 5bp P&L 3bp Target 3bp Stop 11bp	Yield compression trade for fundamentally similar Dutch agencies European Rates Weekly 15 November 2012	
Curve	Buy NWB 3.5% Jan21 at 1.71% Sell BNG 2.625% Sep20 at 1.63%			
Europe / US	Sell 10yr US CPI ZC swap vs EUR HICPXT ZC swap	Open 71bp Current 77bp P&L -6bp Target 50bp Stop 80bp	The Fed's inflationary stance looks well priced and some reversal of recent trends is likely in the near-term. The US-euro inflation swap differential is at appealing historical levels Global Inflation Strategy 9 October 2012	
Inflation	Sell 10yr US CPI ZC swap at 2.79% Buy 10yr EUR HICPXT ZC swap at 2.08%			
Europe	Receive EUR 30s50s	Open 18bp Current 12bp P&L 6bp Target 5bp Stop 22bp	Long-end of EUR swap curve is pricing in more than required de-hedging by Dutch pension funds. CVA activity should support the trade. European Rates Weekly 11 October 2012	
Curve	Receive EUR 30s50s at 18bp			
Europe	Receive EUR 1y3yF	Open 136bp Current 127bp P&L 9bp Target 50bp Stop 150bp	ECB rate cut and very high carry should be supportive for this trade IIRS 13 September 2012	
Duration	Receive EUR 1y3yF at 1.36%			
Europe	Sell EUR 1y3yF ATMf straddle and buy ATMf-25 receiver	Open 63bp Current 51bp P&L 12bp Target 30bp Stop 73bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken IIRS 9 August 2012	
Volatility	Sell EUR 1y3yF ATMf (=1.36%) straddle for 98bp Buy EUR 1y3yF ATMf-25 receiver for 35bp			
Europe	Long KfW 1.375% Feb17s vs OAT 5% Oct16s	Open 1bp Current 1bp P&L 0bp Target 20bp Stop -10bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify IIRS 2 August 2012	
Cross Market	Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%			

Source: Citi Research

Figure 8. Record of our Open Trades (continued)

UK	Sell GBP 2y2y ATMF straddle		Open	76bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol	
	Volatility		Current	54bp		
	Sell GBP 2y2y ATMF (1.04%) straddle at 76bps		P&L 22bp		IIRS 12 July 2012	
			Target	0bp		
			Stop	114bp		
US / UK	Long 30yr Gilt vs UST		Open	36bp	With Operation Twist extension largely priced in, QE resumption should help gilts outperform treasuries	
	Cross Market		Current	25bp		
	Buy UKT 4.5% Dec42 at 3.09%		P&L 11bp		UK Rates Strategy 20 June 2012	
	Sell UST 3% May42 at 2.74%		Target	0bp		
			Stop	50bp		

Source: Citi Research

Update on the Long End of the EUR Curve

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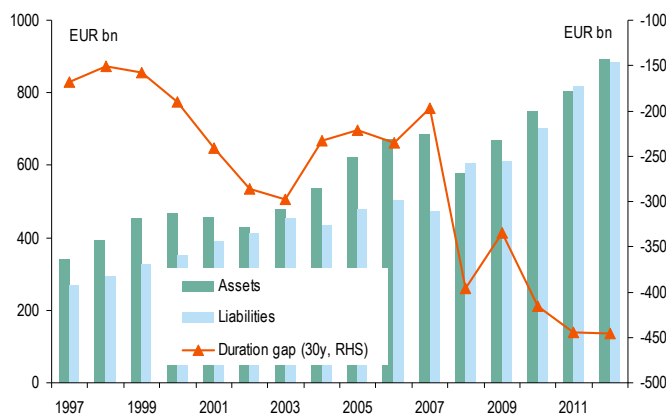
Better environment for liability managers...

The steepening at the long end of the EUR curve observed in the 2nd half of 2012 could be associated with a change in the hedging/trading behavior of key players in that segment of the swap market. We do not find enough evidence from the data to support this hypothesis, however.

Changing Behavior? No

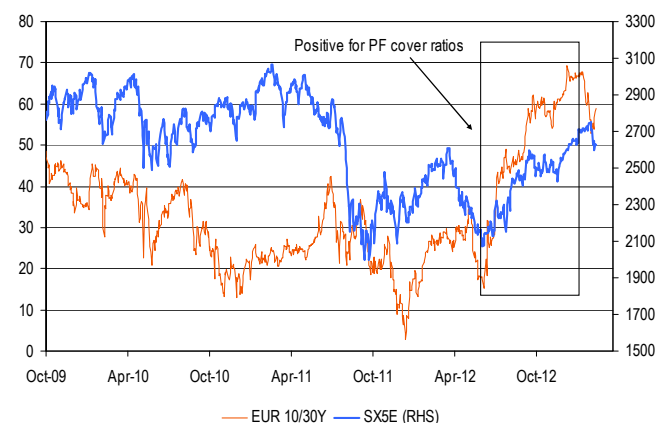
According to data published by the DNB, the aggregate funding ratio¹ for Dutch occupational pension funds has improved to 101% at the end of Q3 2012 from 98% at the end of 2011. Furthermore, the number of pension funds with a funding ratio below the 105% threshold has declined from 260 in Q2 to 187 in Q3 2012, reflecting a general improvement in market parameters for regulated asset-liability managers. Given an unchanged yield curve, weaker commodities and slightly stronger stock markets, we estimate the live funding ratio to have stabilized around Q3 levels.

Figure 9. Duration gap stabilizing at the end of 2012...



Source: DNB, Citi Research

Figure 10. ...as market conditions prove favorable for pension funds



Source: Citi Research

...has not translated into a significantly improved risk profile

Looking at the funding ratio does not provide us with the full picture, though. A more precise measure of risk is the so called “duration gap”, i.e. the funding gap expressed in duration-dollar terms. As we can see in Figure 9 and Figure 10, the aggregate duration gap for Dutch occupational pension funds has stabilized around 2011 levels as the bond market duration balances out a steeper yield curve. With the Eurostoxx back to 2010 levels, the stock market’s impact on the PV of pension fund assets is also subdued.

Any change in derivatives exposure?

Monitoring and estimating the duration gap provides us with some information about the duration hedging behavior of Dutch pension funds. Again, looking at official DNB data, we notice that pension funds’ exposure to interest rate derivatives (a proxy for linear and non-linear duration overlay programs) has been rather stable in 2012, following a marked increase between 2010 and 2011. Note how the derivatives exposure tends to follow the duration gap, i.e. suggesting that pension funds tend to receive duration as the duration gap widens and vice versa (Figure 11).

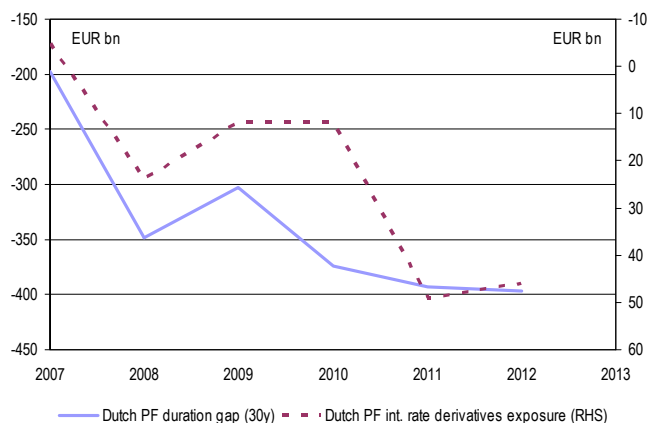
No evidence of a change in either core or overlay strategies

So, has the hedging behavior of Dutch pension funds changed as a result of the transition to a UFR curve? Quarterly data do not suggest that this is the case: Exposure through interest rate derivatives has been in a EUR 40-50bn range since Q3 2011 and the last reading shows 46bn (Q3 2012). Moreover, the allocation to fixed income assets in core portfolios has been stable around 50% during the past

¹ Defined as ratio between liquid assets and estimated technical provision at funds’ risk.

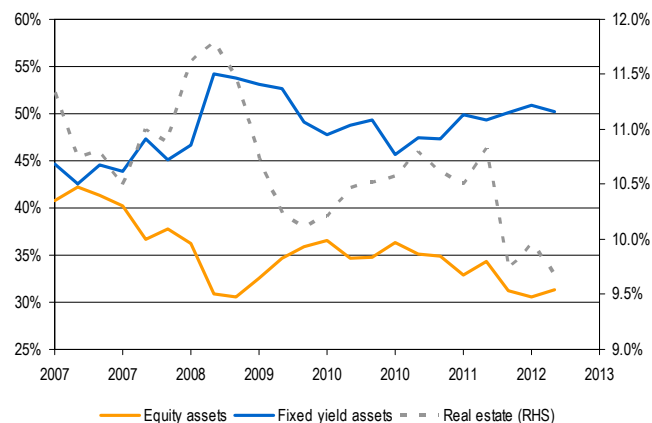
12 months (Figure 12). Note also that the trend towards fixed asset allocations that favor fixed income and other assets at the expense of equity can be observed at a global level as investors reconsider the concept of equity-risk premium².

Figure 11. Hedging the duration gap through the crisis



Source: DNB, Citi Research

Figure 12. Asset allocation of Dutch PFs

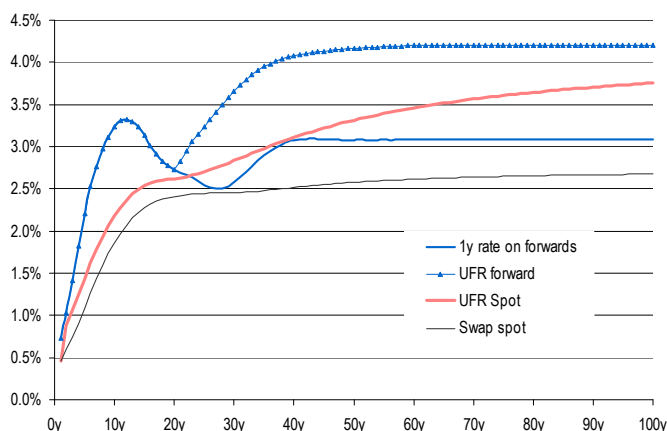


Source: DNB, Citi Research

Adopting UFR does improve the funding ratio, but...

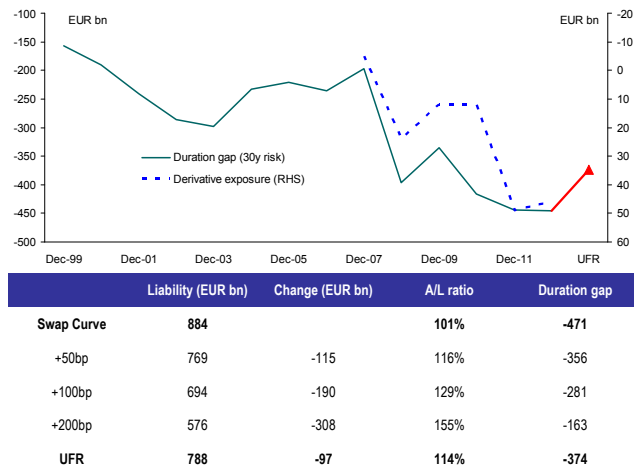
Can we quantify the impact of UFR? At current levels, using a UFR-methodology (Figure 13) improves the funding ratio of Dutch occupational pension funds relative to a discounting curve based purely on EUR swaps. Figure 14 shows how the funding ratio increases from 101% to 114% as we discount a theoretical liability-stream with a spot UFR curve. Roughly this compares to a 50bp parallel shifts of the swap curve. When we last wrote about UFR, the improvement in funding ratio was worth approximately 10%. The difference to current valuations (+4%) is due purely to a re-steepening of the forwards space.

Figure 13. New discounting curve...



Source: Citi Research

Figure 14. ...but does it really matter?



Source: DNB, Citi Research

² <http://www.towerswatson.com/assets/pdf/8991/Global-Pensions-Asset-Study-2013-Towers-Watson.pdf>

...but the duration risk remains very large

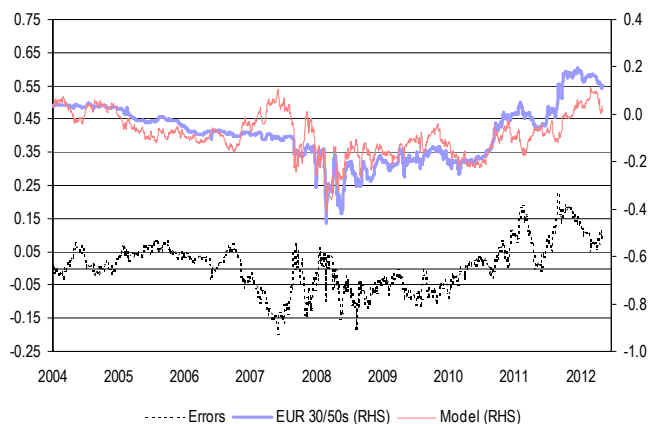
In absolute levels, a transition to UFR implies a decrease in the PV of liabilities of around EUR 100bn, i.e. the duration gap tightens to -374bn. This level of A/L-risk is consistent with the post-Lehman environment of 2009. However, it does not represent in our view a “new world” that would allow pension funds to change their duration hedging behavior.

Trading Recommendations

EUR 30/50s flatteners as a proxy for vega exposure

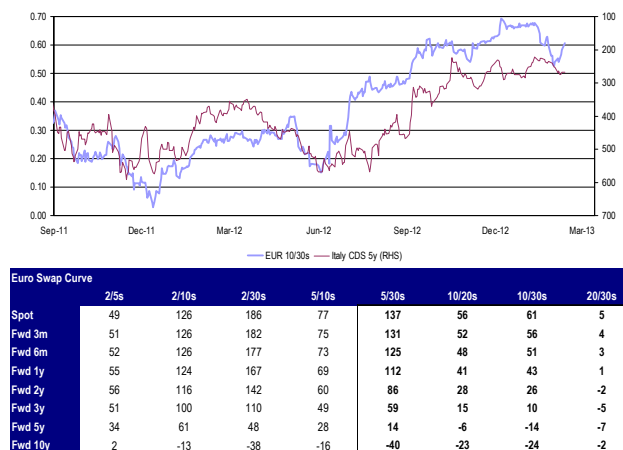
We still like receiving EUR 30/50s at current levels (12.5bp, local low at 10.5bp) as a way to get exposure to vega-type volatility through swaps. Since mid-October 2012, the curve has corrected approximately 50% of its de-coupling from model values (Figure 15). The recent liquidation of front-end carry trades and its repercussions on the long end of the curve (e.g. EUR 10/30s forward steepeners) has added to an already established flattening trend in 30/50s. According to our investor intelligence, flatteners in the 30/50s sector of the EUR curve are not crowded trades.

Figure 15. Vega exposure through 30/50s



Source: Citi Research

Figure 16. Forward steepeners?



Source: Citi Research

Confidence in long-end carry trades is back (we like EUR 1y-5/20s)

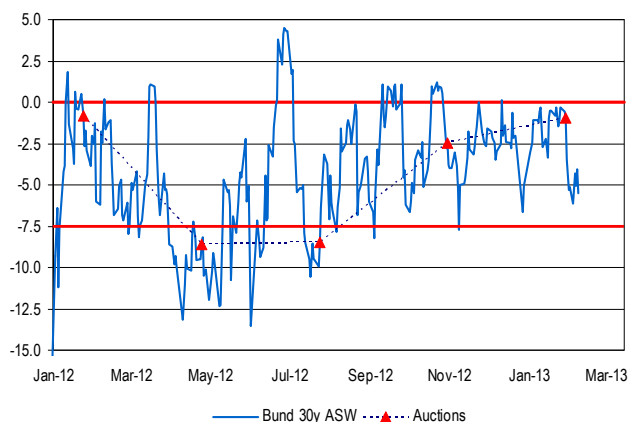
Similarly, the stabilization of the front end following the February ECB meeting may have convinced investors about re-entering carry-trades at the long end of the curve. We have looked into the details of **forward-steepener** structures like EUR 1y-5/20s, both through swaps and swaptions. From a risk perspective, long-end steepeners have performed extremely well in the 2nd half of 2012, reflecting a combination of better sovereign risk environment (Figure 16) as well as speculative positions betting on a change in Dutch PFFs' hedging behavior. In our view, market positioning is still skewed towards steepeners, despite the modest if not intangible impact of the UFR transition³. This is a source of risk for this strategy.

Range trading in Bund 30y ASW

On the cash side, Bunds don't seem to be at all disturbed by all that talk about UFR and carry-rich steepeners. In fact, 30y swap spreads have been trading in a well defined 0/-8bp range during the past 12 months (Figure 17). The dip to -12bp in Q2 2012 is probably related to the sharp rise in risk aversion and currency redenomination fear. Price action in the aftermath of the successful recent Bund 30y auction confirms the local validity of this range trading strategy.

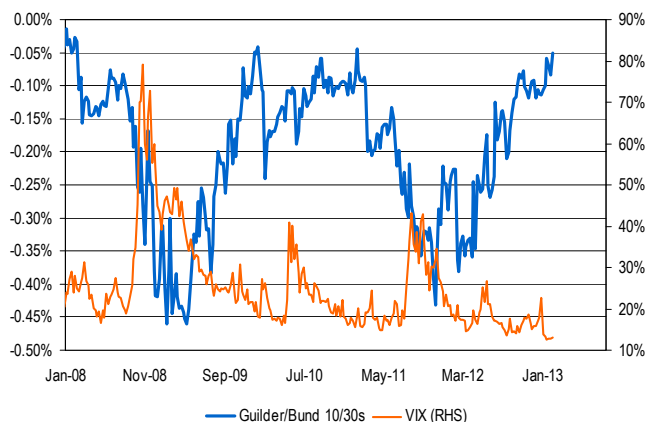
³ Also, the original UFR proposal got diluted into a less aggressive version, to the extent that EUR 20/30s keeps trading around 5bp (i.e. the long-term average excluding the 2008 negative convexity incident), after an initial 15bp of steepening between May and July.

Figure 17. Range trading in Bund 30y ASW



Source: Citi Research

Figure 18. Guilder/Bund 10/30s box...risk-off trade



Source: Citi Research

Flatteners in Holland 10/30s vs Germany as a way to buy cheap volatility

Another trade we like in the long-end of the AAA space is the Guilder/Bund 10/30s box (Figure 18). The first reason for this strategy is current location, i.e. the Guilder curve very close to 2009/2010 levels vs the Bund curve (Guilder 22/42 @73bp vs Bund 22/42 @84bp). Another reason is the relative performance of Guilder 10/30s during periods of risk-aversion. The impression we get from looking at charts is that the Dutch curve flattens relative to the Bund curve at times of increased market volatility. In other words, having the Guilder 10/30s flattener on is a proxy for buying the VIX. The rationale for this may have to do with liquidity differentials between the 10y and the 30y point of the Dutch curve, i.e. the floating amount in 30y is constrained by the demand of buy-and-hold domestic liability managers. On the supply side, we expect this trade to benefit from any concession in the leadup to the launch of a new 10y Guilder on 19 March 2013 (size approximately EUR 5bn, i.e. around 10% of total issuance in 2013). In terms of risk, we do not expect the Guilder curve to steepen like OAT 10/30s in the aftermath of a credit downgrade, as the OAT is an international product while the Guilder 30y is predominantly held in resident accounts.

EMU curve

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Spain: 10yrs looks cheap vs 5s and 30s

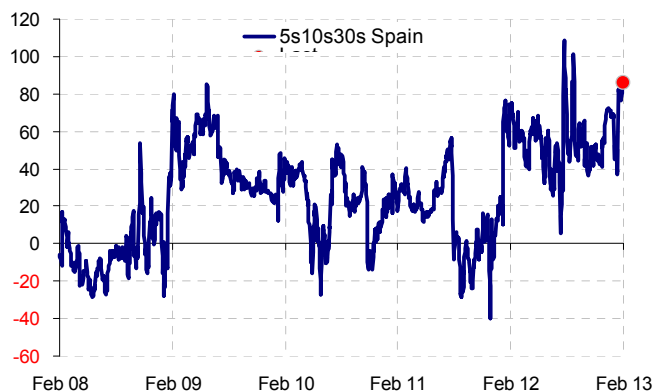
In Spain, 5s10s has steepened and 10s30s has flattened this month (Figure 19). This has driven the, already elevated, 5s10s30s fly towards its 5-year highs (Figure 20).

Figure 19. Recent underperformance of 10s...



Source: Citi Research

Figure 20. Has helped push 5s10s30s fly up towards its five year highs



Source: Citi Research

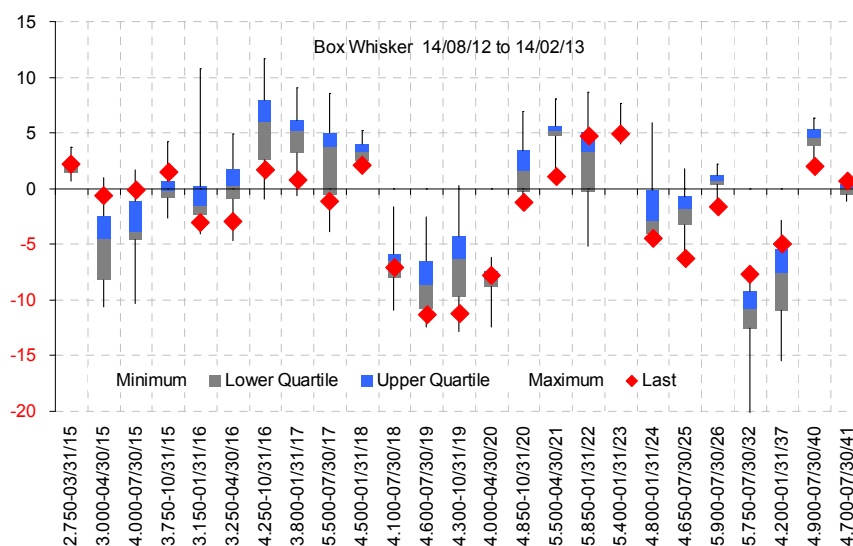
Supply initially neutral, but then turns supportive

Supply is initially neutral but then supportive with the next Bono issuance on 21 February across 2s, 5s and 10s, but followed by 2s, 5s and 15s on 07 March.

Relative value differences on the curve mean bond choice is important

Deviations from the fitted curve point towards 22s and 23s rather than 20s and 21s, or 24s and 25s for the 10yr long. On the same basis, 19s and 40s look rich.

Figure 21. Deviations from fitted curve point to richness of 22s and 23s and relative cheapness of 19s and 40s (+ve = 'cheap', -ve = 'rich')



Source: Citi Research

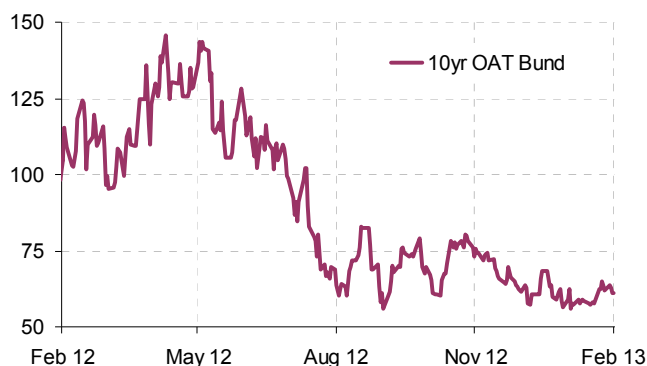
Switching into 10s from 5s and 30s is at attractive levels, the roll is positive and carry flat (unlike the 5s10s flattener)

Look at switching into 10s from 5s and 30s, but be aware of the differences between individual bonds when implementing the view. Roll is positive and carry flat (assuming 100bp repo spread between the belly and the wings). If not tempted by current levels/liquidity, it's still a switch worth putting on the radar (see Figure 20).

Using France/Germany to express a view on peripherals

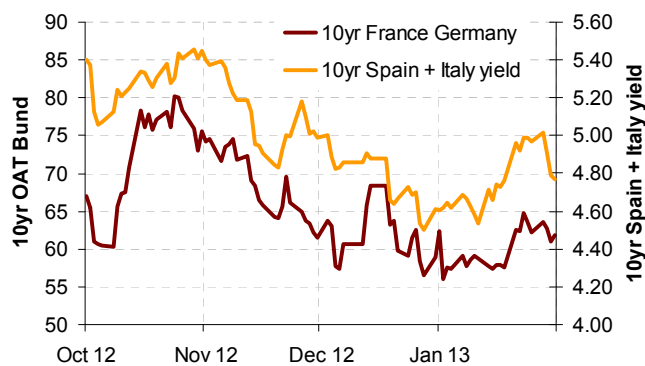
10yr France/Germany is within 5bps of its tightest levels and the bottom of its recent range (Figure 22). The Net Cash Requirement is strongly in favour of German outperformance this year, with estimated supply outweighing coupons and redemptions by 41bn in France, but coupons and redemptions outweighing supply by 5bn in Germany: see [14 February Weekly Supply Monitor](#). In recent months, France/Germany has clearly been another risk-on/off trade, with the spread moving with the level of Spanish and Italian yields (Figure 23).

Figure 22. 10yr OAT Bund is close to its tightest levels again



Source: Citi Research

Figure 23. OAT Bund has been moving with peripheral yields



Source: Citi Research

Selling 10yr France vs Germany is a liquid way to express a bearish view on peripherals.

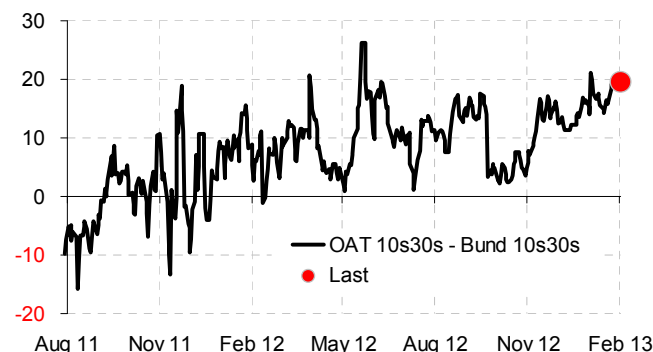
If you are sceptical about the durability of the latest peripheral rally – as we are – selling 10yr France vs Germany is a liquid way to express this view indirectly. However, given recent moves in the relative curves instead of the 10yr spread, you may prefer 10s30s flatteners in France vs steepeners in Germany. The recent steepening of the 10s30s OAT curve, relative to 1030s in Bunds (Figure 24) has pushed the 10s30s box out to around 20bps (Figure 25). Previously the French curve has struggled to steepen beyond this level vs Germany (Figure 25).

Figure 24. 10s30s in France and Germany move in tandem



Source: Citi Research

Figure 25. The extent of the curve slope deviation is close to its highs



Source: Citi Research

Alternative trade: 10s30s flatteners in France vs steepeners in Germany is close to the top of its range.

Although the 10s30s box has widened in the most recent sell-off (movements in the French curve have consistently been larger than moves in the Bund curve) it has not been related to the general level of rates (or the 2yr spread, or the level of short rates). The next relevant supply is a 10yr Bund reopening on 20 Feb (and after that it is not until 07 March that we expect 10 and 30yr OAT supply) but we expect the peripheral yield driver to dominate. The 3m carry is -0.25bps and carry is -1bp.

BTPs: near-term dynamics

The Demand for BTPs – Where Do We Stand?

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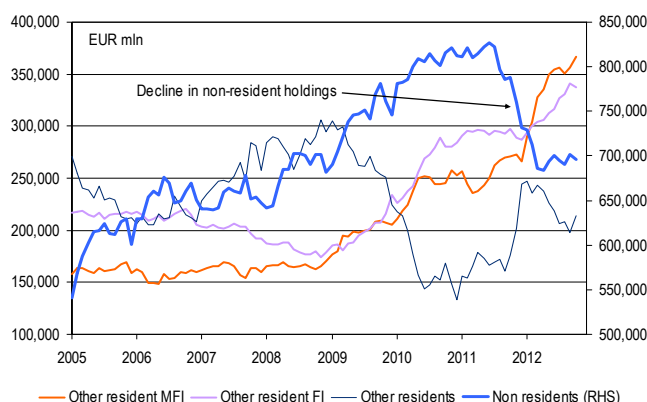
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Demand for Italian sovereign debt stabilized during the second half of 2012 (Figure 26), targeting resident investors with the 3y LTRO program and non-resident investors with the OMT. We have discussed this crucial issue for the demand vs supply equilibrium in non-core EGB markets in a previous [Weekly](#).

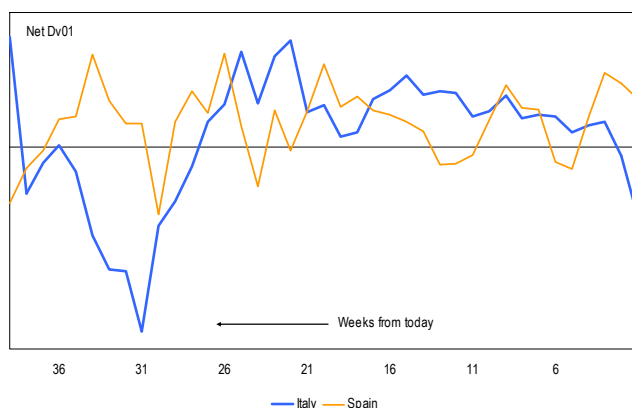
Restoration of the demand/supply equilibrium has translated into a protracted period of net demand for BTPs and Bonos. Only recently have we recorded net sellers of BTPs in our weekly [European Flow Monitor](#) (Figure 27). Investor intelligence suggests that the origin of this flow is most likely to be found in the fast money community, probably anticipating a period of political risks. The sharp reversal-rally observed during the past 3 sessions (2 figures on the BTP future) confirms the involvement of “non-structural” investors in the BTP market.

Figure 26. Non-resident holdings picking up relative to residents



Source: Citi Research

Figure 27. Net sellers of BTPs for the first time since this summer



Source: Bank of Italy, Citi Research

Duration extension and yield hunting

On the other hand, successful 15y and 30y auctions hint at increased demand for duration by resident as well as international buy-and-hold accounts. This makes sense in the aftermath of a very strong performance of Italian sovereign instruments in the 1-3y sector of the curve (CCT, CTZ, BOT). In particular, Wednesday's tap of BTP 2040 is a significant signal to market participants that Italy has now market access on all maturities and all instruments, i.e. we can consider the process of restoring international demand for BTPs to be successfully terminated.

Figure 28. 10yr Italy (%)



Source: Citi Research

Politics Back On Markets' Agenda

We believe the upcoming Italian election is highly significant for the near-term and potentially longer-term outlook for BTPs. In general, we anticipate some near term volatility in the run-up to the election which should ultimately subside in the event of a Bersani-Monti victory. However, any political brinkmanship that is required to forge an agreement between Bersani and Monti in the Senate could also present near-term political uncertainty. One immediate and key test of market sentiment will be the CTZ/BTPei auction on Monday 25th February, followed by the medium/long auction on the 27th (announcement on Friday before the elections...). Even if BTPs find some immediate support, after the electoral outcome, the long-term trajectory of BTP yields will still depend in part on the (perceived) strength of the executive's political commitment to Italy's reform agenda, all else equal. In our view however, it would take more than a short-period of volatility to bring domestic and international demand for BTPs out of equilibrium again.

UK Rates Strategy

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Gilt yields have surged higher following the Inflation Report. The poor price action has to be respected, but we would expect buyers to emerge around current levels. On a tactical basis, we prefer buying 10yr gilts vs swaps or Treasuries rather than taking outright duration risk.

Gilt yields breaking higher, but buyers may now emerge

Having been sticky around 2.10% for 12 trading days, 10yr gilt yields broke higher yesterday into the 2.2%-2.25% area. The trigger was the Bank of England's quarterly Inflation Report (QIR). The central projection in the QIR showed inflation will remain above target until 2016. The scale of the sell-off was somewhat surprising given the inflation overshoot had been well flagged in last week's MPC statement. However, fuel was added by Governor King's press conference as he stressed the limits of monetary policy. Moreover, there was little to encourage expectations of further QE (the end of QE has been a chief driver of gilt underperformance in recent months, in our view, more so than fiscal risks).

Buyers of gilts are likely to emerge around current levels, in our view

The poor performance of gilts is understandable given the change of tack from the MPC to tolerate above target inflation for longer (putting the MPC on the same page as Carney in terms of using the full 'flexibility' of the remit). However, inflation risks now look well priced to us. The 5yr break-even inflation rate has widened to 3.18% which puts it in line with our economists' RPI inflation profile. The poor price action has to be respected, but we would expect buyers to emerge around current levels.

The Sep22s auction will provide a timely test of appetite

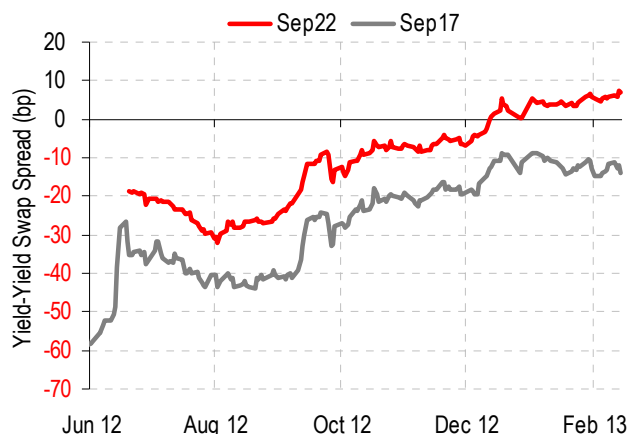
The Sep22s looks rich from a micro RV perspective

Next week's £2.25bn auction (21 February) of the 1.75% Sep22 gilt will provide a timely test of appetite. The rise in outright gilt yields, if sustained into next week, should support the auction. However, the bond doesn't offer much relative value on the curve. In particular, it has richened vs the 4% Mar22s, although this can partly be explained by the Sep22s nearing the end of its tapping cycle (this may be the last re-opening for a while).

10yr gilts are historically cheap vs both swaps and Treasuries

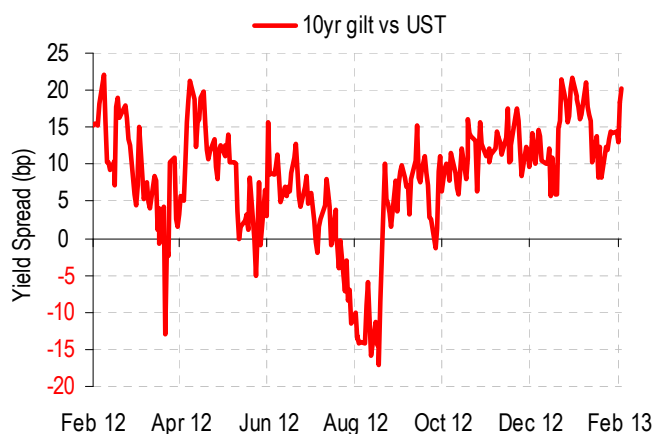
For those looking to fade the recent cheapening of 10yr gilts, but reluctant to do so outright, the auction could provide interesting levels to buy gilts vs both swaps and Treasuries. As Figure 29 shows, 10yr swap spreads are at historically cheap levels and have underperformed vs 5yr swap spreads. On a cross-market basis, Figure 30 shows that 10yr gilts look interesting vs 10yr Treasuries on a tactical basis.

Figure 29. 10yr gilt swap spreads look historically attractive



Source: Citi Research

Figure 30. Buying 10yr gilts vs Treasuries looks interesting



Source: Citi Research, Bloomberg.

The very long-end looks historically cheap

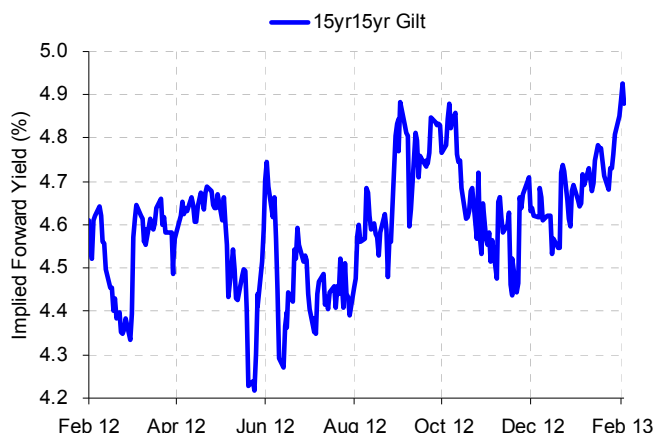
10s30s flatteners look appealing in the very near-term (days not weeks)

The 30yr area of the gilt curve looks attractive on a number of metrics. Perhaps most strikingly, the 15yr, 15yr forward gilt yield is at the one-year highs (Figure 31). The 10s30s gilt curve also looks too steep (around 4.5bp) relative to the level of yields (Figure 31). The steepness of the curve was driven by the independent rise in 30yr yield earlier this week, probably the result of a combination of flow and offside positioning in long-dated forwards. This began to correct yesterday, thanks to the sharp sell-off in 10s, but this also took 30yr gilt yields to the one-year highs (3.46%). Buying interest is likely to emerge around these levels which should help the curve flatten back in the coming days.

10s30s is likely to face renewed pressure in the weeks ahead from supply and relative cash-flows

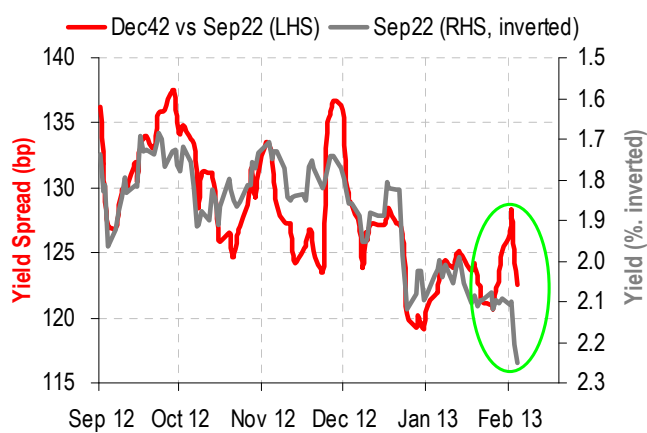
However, while flatteners look appealing in the very near-term, we wouldn't hold on for too long given a heavy supply schedule for the long-end before the fiscal year-end (namely, the IL gilt 2052 syndication in the week beginning 25 February and auctions of the gilt 2052s and the linker 2044s on 13 March and 21 March respectively). Upcoming cash-flows are also more supportive for Shorts and Mediums (see below).

Figure 31. Long-dated gilt forwards are at one-year highs



Source: Citi Research, Bloomberg.

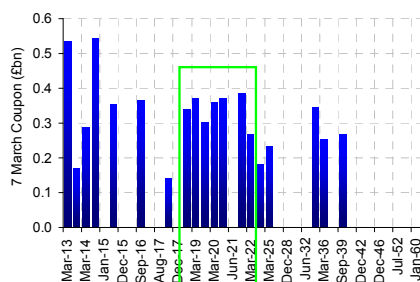
Figure 32. 10s30s still looks too steep, even after the latest flattening



Source: Citi Research, Bloomberg.

Upcoming cash-flows and index changes

Figure 33. 7 March coupon payments



Source: Citi Research, Bloomberg, DMO.

The 7 March cash-flows and index changes are fast approaching. This should help to support Shorts and Mediums in the coming weeks. The redemption of 4.5% Mar13 is worth £24bn (excluding BoE/DMO holdings). The BoE have also announced that their APF holdings – worth £6.6bn – will be re-invested back into gilts. How the money will be re-invested will only be announced on 7 March, but we think it is most likely that it goes back into Shorts. The coupon payments are worth around £6bn (excluding BoE/DMO holdings). The coupons are across the curve, but the greatest concentration of payments is in the 5-10yr part of the curve (Figure 33). The redemption and coupons will also trigger a 0.39yr extension in the gilt all stocks index. In addition, the bucket change for the Mar18s means that the total extension for the 0-5yr and 5-15yr indices will be 0.50yr and 0.39yr respectively.

While we see scope for 10s30s to flatten in the coming days, the upcoming cash-flows and index events suggest the front-end of the gilt curve will remain well anchored in the coming weeks and the curve will face a steepening bias. Don't hold flatteners for long.

Covered Bond Strategy

CFFL and CIF: Similar names, different stories

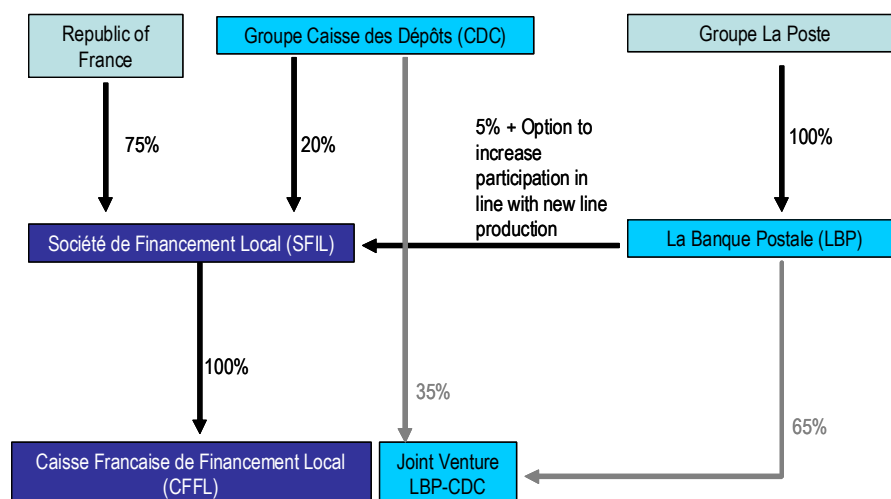
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CFFL (Caisse Française de Financement Local, Bloomberg ticker: CAFFIL) is the official successor of the former Dexia Municipal Agency and plans to return to the covered bond market in the second quarter of this year. CIFEUR is going to turn into a wind-down scenario.

CFFL: The successor of Dexia Municipal Agency (DexMA)

More than one year ago, Dexia Group agreed on several restructuring measures after the group was exposed to serious financial stress. Due to the high importance for the funding of local authorities it became clear that Dexia Municipal Agency (DexMA), as one of the most important institutions within this segment, would not be part of any wind-down scenario or sale. Instead, the state-owned CDC (Caisse des Dépôts et Consignations) and La Banque Postale (LBP) should play an important role by giving support to the issuer of Obligations Foncières (OF). At the end of last month, the transfer of the recently built CFFL – the official successor of DexMA – to their new holding company Société de Financement Local (SFIL) was finished after the European Commission approved this at the beginning of the year. Due to the high importance of local public sector funding, the French state is going to act as reference shareholder.

Figure 34. CFFL: New ownership structure

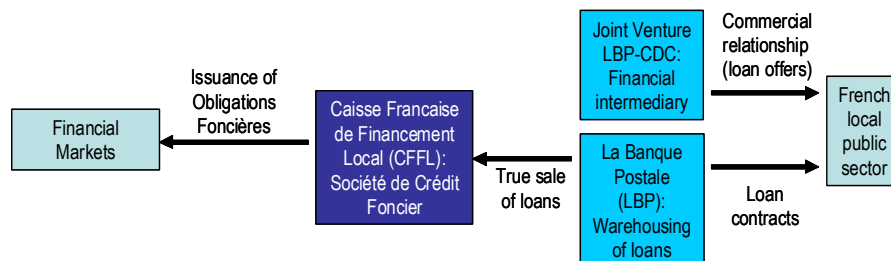


Source: CFFL, Citi Research

CFFL will be the new Société de Crédit Foncier with its aim to refinance loans to the French public sector by issuing Obligations Foncières. SFIL is the 100% shareholder of CFFL. As Groupe Caisse des Dépôts (CDC) as well as La Banque Postale (LBP) are state-owned, SFIL is 100% owned by public shareholders. SFIL's goal is not only to refinance loans that are originated by LBP via the issuance of Obligations Foncières by its subsidiary CFFL. It also provides a range of services to LBP, CFFL and the joint venture between LBP and CDC (e.g. back office, risk management, ALM, controlling and execution of the issuance program). Moreover, it provides liquidity (overcollateralization) to CFFL as well as to derivative counterparties (cash collateral). Currently, this liquidity is made available mainly by CDC as key liquidity provider. However, for new activities LBP is mainly responsible for liquidity (65%) and CDC steps back (35%, capped at €12.5bn). If required, the Republic of France could also step in and make liquidity available. The joint venture acts as a pure financial intermediary. It is in charge of the commercial relationship which includes loan offers. These loans are financed only by LBP. Therefore,

collateral for the issuance of new covered bonds will be originated by LBP. Additionally, it will warehouse the loans before they are transferred to CFFL via true sale. All loans need a credit approval by LBP and CFFL.

Figure 35. The new transactions structure



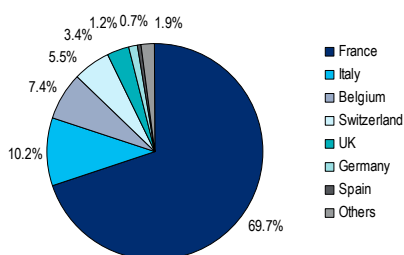
Source: CFFL, Citi Research

According to CFFL, €3bn-€5bn of benchmark covered bonds is planned for 2013. The first deal should be coming within the second quarter of 2013. For the following years, we think that new issuance volume should be around €5bn. Currently, as CFFL took over the balance sheet of DexMA, the new issuer will have outstanding liabilities of €58.1bn which were backed by €72.1bn as of 3Q12.

Due to the close link to the French state, SFIL (Aa2/AA+/AA+) is rated similar to the sovereign (Aa1/AA+/AAA). However, the OF regained AAA ratings of all three agencies after DexMA was partially downgraded over the last year. That said S&P and Fitch have a negative outlook/watch on the covered bonds. Moreover, for all three agencies the outlook for France and SFIL is negative as well.

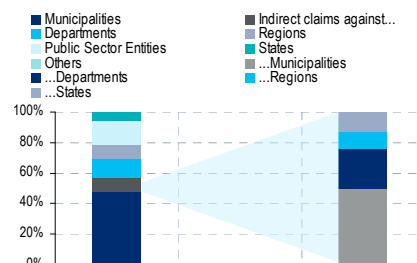
The following graphs show the cover pool composition as of 3Q12. According to CFFL, 4Q12 cover pool composition should be very similar. Still, the pool is comprised by loans to the public sector or guaranteed by these entities. Over the course of time, we think that the share of French assets is going to increase as the new lending business will be limited to the French local public sector.

Figure 36. CFFL: Regional Distribution



Source: Citi Research

Figure 37. CFFL: Borrower distribution, %



Source: Citi Research

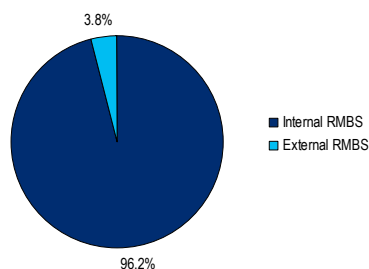
CIF Euromortgage: The run-off scenario is initiated

Last May, CIFEUR, one of France's biggest OF issuers, had its outstanding OF suspended from trading. This was the consequence of the issuer not having been able to filing its accounts in time as Moody's and Fitch reviewed the parent company's rating (four notch downgrade would have been possible) and the potential state aid for the institution. Both agencies criticized the group's exclusive reliance on wholesale funding. After having completed the review, a potential state

support was assumed. Over recent months, the group tried to find a potential buyer for CIFEUR. However, this has not been successful. Instead, in August 2012 the French state had to step in and guarantee the issuer's debt after 3CIF (mother company) and CIFEUR were downgraded by Moody's as the agency feared that the issuer could not repay its upcoming maturing bonds on its own. In January 2013, the French Parliament voted for a temporary state guarantee of six months for CIF Group. It is planned that this will be superseded by a permanent guarantee subject to approval by the European Commission. If the latter is approved – which is highly probable – this would lead to a run-off of CIFEUR, according to the issuer.

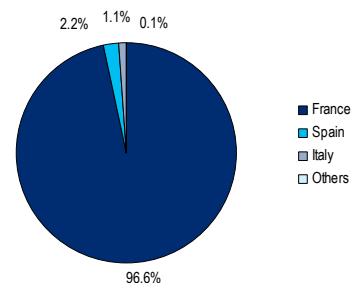
The state support enacted in the “2013 Finance law” has two parts. Firstly, the state covers intra-group payments up to an aggregate amount of €12bn which supports the covered bond program as all qualifying substitute assets (deposit certificates and short-term loan) are guaranteed. Promissory notes are not going to benefit from the guarantee, according to Moody's. Secondly, new senior unsecured issuance is guaranteed by an amount of €16bn. With these guaranteed senior bonds, potential refinancing gaps at the covered bond program should be diminished.

Figure 38. CIFEUR: Asset distribution, %



Source: CIFEUR, as of 30.06.2012

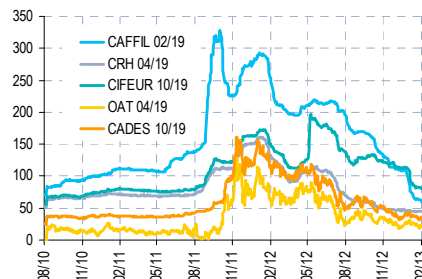
Figure 39. CIFEUR: Geographical diversification, %



Source: CIFEUR, as of 30.06.2012

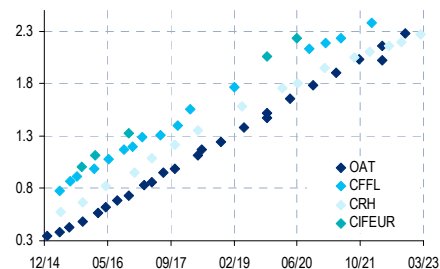
French Covered Bonds: Secondary Market

Figure 40. CFFL back on track, ASW-Spread, bp



Source: Citi Research

Figure 41. CIFEUR and CFFL, yield, %



Source: Citi Research

The French covered bond market saw spread convergence over the last months. Within the French covered bond universe, CRH represents the yield bottom, partly trading flat to OAT and through CADES (especially on the long end of the curve). Obligations à l'Habitat (not displayed within the graphs) trade in between CRH and OF. The latter stood out as the one of the three French covered bond segments with

highest spread diversification on an issuer level. This was mainly due to uncertainty concerning the future of the big OF issuers DexMA and CIFEUR. Currently, CFFL covered bonds trade 14bp wider than CRH after having clearly outperformed the French covered bond market last year. We think that due to the new ownership structure of CFFL, it should continue to tighten and could arrive at levels flat or below CRH.

Conclusion

In France, the covered bond market continues to play an important role for its domestic banking system. The state support that has been granted to CIFEUR and the new ownership structure of CFFL give a clear sign that the French covered bond market is supported by the sovereign to maintain an important funding channel for French banks. Current funding levels have not been lower since 2Q2010 for many French issuers. Therefore, we think that they will return to the primary market in 2013 and increase the French share on primary market deals from current low 11%. On the secondary market we opine that French covered bonds continue to trade sideways. CFFL has the potential to reach levels of CRH and so could CIFEUR when the state guarantee is approved by the European Commission.

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EUREX Calendar Rolls H3/M3

Below is a summary of our latest thoughts on the upcoming EUREX calendar rolls. A more detailed write up can be found in [European Rates Strategy - EUREX Calendar Rolls H3/M3](#)

- **Bund Calendar Roll:** We are neutral on the roll due to valuation, positioning and current repo levels.
- **Bobl Calendar Roll:** With both contracts sharing the same CTD, and positioning largely neutral, we expect the repo level to be the main driver of the roll. It is highly likely that Jan18s repo tightens further into delivery, and so we recommend rolling longs late and shorts early.
- **Schatz Calendar Roll:** With positioning slightly long 2yr Germany and the risk-reward favouring flatteners in Germany we have a small bias towards rolling longs early and shorts late.
- **OAT Calendar Roll:** We expect relative value to be the main driver of the OAT roll and recommend rolling longs early to take advantage of the historically attractive yield spread between the CTD to March and CTD to June.

Figure 42. View summary table

	RX	OE	DU	OAT
Current	182	175	13	82
Fair Value for roll (using mid-mkt repo)	181	167	16	79
View	Neutral	Bullish	Bearish	Bearish
Action	-	roll longs late / roll shorts early	roll longs early / roll shorts late	roll longs early / roll shorts late
Main driver	-	Repo of the CTD	Germany 2s5s curve	RV between CTD to March & CTD
Probability of CTD switch in either	low	low	low	low
Hedge ratio: 1000 vs	1008	1004	880	952
Fwd ASW of front CTD	-26	-46	-36	34

Source: Citi Research

Click [here](#) for a detailed write up of the upcoming futures rolls

Relative Value Trades

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Investors can take advantage of the cheapness of Mar15s in Belgium and Mar18s in the UK. Jun20s in Austria and Oct19s in France look relatively rich.

Belgium: Taking advantage of cheapness of OLO Mar15s

Microfly

■ Buy OLO 3.5% Mar15 vs 4.25% Sep14 and 3.25% Sep16 (3m carry: 3.5bp) – Figure 45

Austria: Fade the richness of RAGB Jul20s on the curve

Microfly

■ Sell RAGB 3.9% Jul20 vs 4.35% Mar19 and 3.5% Sep21 (3m carry: -0.7bp) – Figure 46

Figure 43. Belgium: OLO 4.25% Sep14, 3.5% Mar15, 3.25% Sep16 microfly (bp)



Source: Citi Research

Figure 44. Austria: RAGB 4.35% Mar19, 3.9% Jul20, 3.5% Sep21 microfly (bp)



Source: Citi Research

France: Switches out of rich OAT Oct19s

6s7s flattener

■ Switch from OAT 3.75% Oct19 to 2.5% Oct20 (3m carry: -0.8bp) – Figure 47.

6s8s flattener

Or, Switch from OAT 3.75% Oct19 to 3.75% Apr21 (3m carry: -1bp) – Figure 48

UK: Taking advantage of cheapness of Gilt Mar18s

Microfly

■ Buy gilt 4.5% Mar19 vs 5% Mar18 and 3.75% Sep20 (3m carry: 2.3bp)– Figure 49.

Figure 45. France: OAT 2.5% Oct20 - 3.75% Oct19 yield spread (bp)



Source: Citi Research

Figure 46. France: OAT 3.75% Apr21 - 3.75% Oct19 yield spread (bp)



Source: Citi Research

Figure 47. UK: Gilt 5% Mar18, 4.5% Mar19, 3.75% Sep20 microfly (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 50 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 48. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Richest

Cheapest

Versus Govt Curve (CAS)

Rank		ZScore	Issued
1	3.50 Jul19	-3.29	May09
2	3.25 Jan20	-2.83	Nov09
3	3.75 Jan19	-2.27	Nov08
4	4.25 Jul39 (UB)	-2.20	Jan07
5	2.25 Sep20	-1.97	Aug10
5	2.25 Sep21	1.57	Aug11
4	2.50 Jul44 (30y)	1.68	Apr12
3	3.25 Jul21	3.04	Apr11
2	1.75 Jul22	3.24	Apr12
1	2.00 Jan22 (RX)	3.37	Nov11

Versus Swap Curve (CAS)

Rank		ZScore	Issued
1	4.25 Jul39 (UB)	-2.13	Jan07
2	4.75 Jul40	-2.05	Jul08
3	4.00 Jan37	-2.02	Jan05
4	2.50 Jul44 (30y)	-2.00	Apr12
5	3.25 Jul42	-1.87	Jul10
5	3.50 Jan16	0.05	Nov05
4	1.75 Jul22	0.05	Apr12
3	3.25 Jul15	0.08	May05
2	2.25 Apr15	0.14	Apr10
1	2.50 Feb15	0.39	Jan10

Source: Citi Research

Figure 51 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 52 and Figure 54) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 51 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 49. 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		Rank		ZScore	Issued	
GERMANY		Richest				Richest				
	1	3.50 Jul19	-3.29	May09		1	4.25 Jul39 (UB)	-2.13	Jan07	
	2	3.25 Jan20	-2.83	Nov09		2	4.75 Jul40	-2.05	Jul08	
	3	3.75 Jan19	-2.27	Nov08		3	4.00 Jan37	-2.02	Jan05	
	4	4.25 Jul39 (UB)	-2.20	Jan07		4	2.50 Jul44 (30y)	-2.00	Apr12	
	5	2.25 Sep20	-1.97	Aug10		5	3.25 Jul42	-1.87	Jul10	
	5	2.25 Sep21	1.57	Aug11		5	3.50 Jan16	0.05	Nov05	
	4	2.50 Jul44 (30y)	1.68	Apr12		4	1.75 Jul22	0.05	Apr12	
	3	3.25 Jul21	3.04	Apr11		3	3.25 Jul15	0.08	May05	
	2	1.75 Jul22	3.24	Apr12		2	2.25 Apr15	0.14	Apr10	
	1	2.00 Jan22 (RX)	3.37	Nov11	Cheapest	1	2.50 Feb15	0.39	Jan10	
FRANCE		Richest				Richest				
	1	4.00 Apr18	-1.85	Apr07		1	4.25 Oct18	-1.34	Oct07	
	2	4.25 Oct17	-1.49	Oct06		2	4.00 Apr18	-1.30	Apr07	
	3	4.25 Oct18	-1.36	Oct07		3	3.75 Oct19	-1.27	Oct08	
	4	3.75 Oct19	-1.07	Oct08		4	4.25 Apr19	-1.23	Apr03	
	5	3.50 Apr20	-1.02	Feb10		5	3.50 Apr20	-1.21	Feb10	
	5	1.75 Feb17	1.08	Feb11		5	3.25 Apr16	0.11	Apr05	
	4	2.50 Jul16	1.28	Jul10		4	2.25 Feb16	0.14	Feb10	
	3	3.00 Oct15	1.36	Oct04		3	2.00 Jul15	0.39	Jun10	
	2	3.25 Apr16	1.38	Apr05		2	3.00 Oct15	0.40	Oct04	
	1	2.25 Feb16	1.44	Feb10	Cheapest	1	3.50 Apr15	0.53	Apr04	
ITALY		Richest				Richest				
	1	3.75 Mar21	-2.69	Sep10		1	4.00 Feb37	-1.41	Aug05	
	2	3.75 Aug21	-2.32	Feb06		2	5.75 Feb33	-1.35	Feb02	
	3	3.75 Aug16	-2.01	Feb06		3	4.50 Mar26	-1.34	Sep10	
	4	4.75 Sep28	-1.62	Jan13		4	5.00 Aug34	-1.33	Aug03	
	5	4.50 Feb20	-1.29	Feb04		5	3.75 Aug21	-1.33	Feb06	
	5	3.00 Jun15	1.96	Jun10		5	4.50 Jul15	-1.04	Jul12	
	4	4.75 Aug23	2.02	Feb08		4	3.00 Nov15	-1.01	Nov10	
	3	3.00 Nov15	2.24	Nov10		3	4.75 Sep28	-0.77	Jan13	
	2	3.75 Aug15	2.35	Feb05		2	3.50 Nov17 (5y)	-0.70	Nov12	
	1	4.50 Jul15	2.60	Jul12	Cheapest	1	2.75 Dec15	0.46	Dec12	
N'LANDS		Richest				Richest				
	1	4.00 Jul19	-1.83	Feb09		1	4.00 Jul19	-1.35	Feb09	
	2	1.25 Jan18 (5y)	-0.85	Jul12		2	4.00 Jul18	-1.11	Feb08	
	3	3.75 Jan23	-0.58	Jan06		3	4.00 Jan37	-1.09	Apr05	
	4	4.00 Jul16	-0.43	Jul06		4	1.25 Jan18 (5y)	-1.07	Jul12	
	5	0.75 Apr15 (2y)	-0.41	Jan12		5	3.75 Jan42 (30y)	-1.07	May10	
	5	4.50 Jul17	0.35	Jul07		5	0.75 Apr15 (2y)	-0.36	Jan12	
	4	3.25 Jul15	0.40	Jun05		4	3.25 Jul15	-0.17	Jun05	
	3	2.50 Jan17	0.75	Jun11		3	3.25 Jul21	-0.16	Mar11	
	2	2.25 Jul22 (10y)	0.81	Feb12		2	3.75 Jan23	0.40	Jan06	
	1	4.00 Jan37	1.30	Apr05	Cheapest	1	2.25 Jul22 (10y)	0.49	Feb12	
SPAIN		Richest				Richest				
	1	5.90 Jul26	-2.83	Mar11		1	5.50 Apr21	-1.53	Jan11	
	2	5.50 Apr21	-2.53	Jan11		2	4.30 Oct19	-1.52	Jun09	
	3	4.65 Jul25	-2.50	Feb10		3	4.65 Jul25	-1.51	Feb10	
	4	3.25 Apr16	-2.09	Nov10		4	5.90 Jul26	-1.51	Mar11	
	5	4.90 Jul40	-1.85	Jun07		5	4.90 Jul40	-1.51	Jun07	
	5	4.70 Jul41 (30y)	1.10	Sep09		5	3.15 Jan16	-1.44	Sep05	
	4	4.20 Jan37	1.21	Jan05		4	4.00 Jul15	-1.44	Jan12	
	3	4.00 Jul15	1.41	Jan12		3	4.50 Jan18 (5y)	-1.16	Nov12	
	2	3.00 Apr15	1.54	Mar10		2	5.40 Jan23 (10y)	-0.50	Jan13	
	1	5.75 Jul32	1.72	Jan01	Cheapest	1	2.75 Mar15 (2y)	-0.11	Jan13	
BELGIUM		Richest				Richest				
	1	5.50 Sep17	-2.39	Jun02		1	3.00 Sep19	-1.33	Apr12	
	2	3.00 Sep19	-2.09	Apr12		2	5.00 Mar35	-1.33	May04	
	3	4.00 Mar32	-1.41	Mar12		3	4.25 Mar41 (30y)	-1.27	Apr10	
	4	3.50 Jun17	-0.35	Mar11		4	4.00 Mar19	-1.27	Jan09	
	5	2.25 Jun23 (10y)	-0.02	Jan13		5	3.75 Sep20	-1.25	Jan10	
	5	4.00 Mar17	1.10	Jan07		5	3.25 Sep16	-0.80	Jan06	
	4	4.50 Mar26	1.33	Jun11		4	2.75 Mar16	-0.58	Mar10	
	3	4.25 Sep22	2.00	Jan12		3	2.25 Jun23 (10y)	-0.40	Jan13	
	2	4.25 Sep21	2.39	Jan11		2	3.75 Sep15	-0.30	Mar05	
	1	4.00 Mar22	3.29	May06	Cheapest	1	3.50 Mar15 (2y)	-0.14	Mar09	

Source: Citi Research

EMU Relative Value Table – Max 12Y Maturity

Figure 50. 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		ZScore	Issued		Rank		ZScore	Issued	
GERMANY		Richest					Richest			
	1	3.50 Jul19	-3.29	May09		1	0.50 Oct17	-1.53	Sep12	
	2	3.25 Jan20	-2.83	Nov09		2	3.50 Jul19	-1.44	May09	
	3	3.75 Jan19	-2.27	Nov08		3	1.50 Feb23 (10y)	-1.41	Jan13	
	4	2.25 Sep20	-1.97	Aug10		4	3.75 Jan19	-1.40	Nov08	
	5	3.00 Jul20	-1.80	Apr10		5	3.25 Jan20	-1.31	Nov09	
	5	3.50 Jan16	1.53	Nov05		5	3.50 Jan16	0.05	Nov05	
	4	2.25 Sep21	1.57	Aug11		4	1.75 Jul22	0.05	Apr12	
	3	3.25 Jul21	3.04	Apr11		3	3.25 Jul15	0.08	May05	
	2	1.75 Jul22	3.24	Apr12		2	2.25 Apr15	0.14	Apr10	
	1	2.00 Jan22 (RX)	3.37	Nov11		1	2.50 Feb15	0.39	Jan10	
FRANCE		Richest					Richest			
	1	4.00 Apr18	-1.82	Apr07		1	4.25 Oct18	-1.34	Oct07	
	2	4.25 Oct17	-1.47	Oct06		2	4.00 Apr18	-1.30	Apr07	
	3	4.25 Oct18	-1.34	Oct07		3	3.75 Oct19	-1.27	Oct08	
	4	3.75 Oct19	-1.06	Oct08		4	4.25 Apr19	-1.23	Apr03	
	5	3.50 Apr20	-1.00	Feb10		5	3.50 Apr20	-1.21	Feb10	
	5	1.75 Feb17	1.10	Feb11		5	3.25 Apr16	0.11	Apr05	
	4	2.50 Jul16	1.29	Jul10		4	2.25 Feb16	0.14	Feb10	
	3	3.00 Oct15	1.36	Oct04		3	2.00 Jul15	0.39	Jun10	
	2	3.25 Apr16	1.39	Apr05		2	3.00 Oct15	0.40	Oct04	
	1	2.25 Feb16	1.45	Feb10		1	3.50 Apr15	0.53	Apr04	
ITALY		Richest					Richest			
	1	3.75 Mar21	-2.68	Sep10		1	3.75 Aug21	-1.33	Feb06	
	2	3.75 Aug21	-2.32	Feb06		2	3.75 Mar21	-1.27	Sep10	
	3	3.75 Aug16	-2.01	Feb06		3	5.00 Mar22	-1.20	Sep11	
	4	4.50 Feb20	-1.28	Feb04		4	4.50 Feb20	-1.19	Feb04	
	5	4.75 Sep21	-0.98	Mar11		5	4.75 Sep21	-1.19	Mar11	
	5	3.00 Jun15	1.96	Jun10		5	4.75 Sep16	-1.05	Sep11	
	4	4.75 Aug23	2.03	Feb08		4	4.50 Jul15	-1.04	Jul12	
	3	3.00 Nov15	2.23	Nov10		3	3.00 Nov15	-1.02	Nov10	
	2	3.75 Aug15	2.36	Feb05		2	3.50 Nov17 (5y)	-0.70	Nov12	
	1	4.50 Jul15	2.61	Jul12		1	2.75 Dec15	0.46	Dec12	
N'LANDS		Richest					Richest			
	1	4.00 Jul19	-1.81	Feb09		1	4.00 Jul19	-1.35	Feb09	
	2	1.25 Jan18 (5y)	-0.93	Jul12		2	4.00 Jul18	-1.11	Feb08	
	3	3.75 Jan23	-0.52	Jan06		3	1.25 Jan18 (5y)	-1.08	Jul12	
	4	4.00 Jul16	-0.43	Jul06		4	4.50 Jul17	-0.81	Jul07	
	5	0.75 Apr15 (2y)	-0.41	Jan12		5	3.50 Jul20	-0.74	Feb10	
	5	3.50 Jul20	0.23	Feb10		5	0.75 Apr15 (2y)	-0.36	Jan12	
	4	4.50 Jul17	0.35	Jul07		4	3.25 Jul15	-0.17	Jun05	
	3	3.25 Jul15	0.40	Jun05		3	3.25 Jul21	-0.16	Mar11	
	2	2.50 Jan17	0.75	Jun11		2	3.75 Jan23	0.42	Jan06	
	1	2.25 Jul22 (10y)	0.97	Feb12		1	2.25 Jul22 (10y)	0.51	Feb12	
SPAIN		Richest					Richest			
	1	5.50 Apr21	-2.53	Jan11		1	5.50 Apr21	-1.53	Jan11	
	2	3.25 Apr16	-2.09	Nov10		2	4.30 Oct19	-1.52	Jun09	
	3	4.30 Oct19	-1.56	Jun09		3	3.00 Apr15	-1.51	Mar10	
	4	4.25 Oct16	-1.44	Sep11		4	4.85 Oct20	-1.50	Jul10	
	5	4.85 Oct20	-1.41	Jul10		5	4.60 Jul19	-1.50	Feb09	
	5	5.85 Jan22 (FBB)	0.73	Nov11		5	3.15 Jan16	-1.44	Sep05	
	4	3.75 Oct15	0.89	Sep12		4	4.00 Jul15	-1.44	Jan12	
	3	2.75 Mar15 (2y)	1.09	Jan13		3	4.50 Jan18 (5y)	-1.16	Nov12	
	2	4.00 Jul15	1.41	Jan12		2	5.40 Jan23 (10y)	-0.50	Jan13	
	1	3.00 Apr15	1.54	Mar10		1	2.75 Mar15 (2y)	-0.11	Jan13	
BELGIUM		Richest					Richest			
	1	5.50 Sep17	-2.34	Jun02		1	3.00 Sep19	-1.33	Apr12	
	2	3.00 Sep19	-2.07	Apr12		2	4.00 Mar19	-1.26	Jan09	
	3	3.50 Jun17	-0.33	Mar11		3	3.75 Sep20	-1.25	Jan10	
	4	2.25 Jun23 (10y)	0.00	Jan13		4	4.00 Mar18 (5y)	-1.23	Jan08	
	5	2.75 Mar16	0.12	Mar10		5	5.50 Sep17	-1.19	Jun02	
	5	4.00 Mar18 (5y)	1.10	Jan08		5	3.25 Sep16	-0.79	Jan06	
	4	4.00 Mar17	1.11	Jan07		4	2.75 Mar16	-0.57	Mar10	
	3	4.25 Sep22	2.04	Jan12		3	2.25 Jun23 (10y)	-0.39	Jan13	
	2	4.25 Sep21	2.41	Jan11		2	3.75 Sep15	-0.30	Mar05	
	1	4.00 Mar22	3.31	May06		1	3.50 Mar15 (2y)	-0.14	Mar09	

Source: Citi Research

EMU Relative Value Table – Min 8yr Maturity

















Figure 51. 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		Rank		ZScore	Issued	
GERMANY		Richest					Richest			
	1	4.25 Jul39 (UB)	-2.20	Jan07		1	4.25 Jul39 (UB)	-2.13	Jan07	
	2	4.75 Jul40	-1.83	Jul08		2	4.75 Jul40	-2.05	Jul08	
	3	4.00 Jan37	-1.68	Jan05		3	4.00 Jan37	-2.02	Jan05	
	4	6.25 Jan30	-1.61	Jan00		4	2.50 Jul44 (30y)	-2.00	Apr12	
	5	5.50 Jan31	-1.51	Oct00		5	3.25 Jul42	-1.87	Jul10	
	5	2.25 Sep21	1.57	Aug11		5	1.50 Sep22	-0.40	Sep12	
	4	2.50 Jul44 (30y)	1.68	Apr12		4	2.25 Sep21	-0.34	Aug11	
	3	3.25 Jul21	3.04	Apr11		3	3.25 Jul21	-0.19	Apr11	
	2	1.75 Jul22	3.24	Apr12		2	2.00 Jan22 (RX)	0.03	Nov11	
	1	2.00 Jan22 (RX)	3.37	Nov11		1	1.75 Jul22	0.05	Apr12	
FRANCE		Richest					Richest			
	1	3.75 Apr21	-0.66	Apr05		1	3.75 Apr21	-1.05	Apr05	
	2	4.75 Apr35	-0.50	Apr03		2	4.75 Apr35	-0.92	Apr03	
	3	5.75 Oct32	-0.40	Oct00		3	3.25 Oct21 (OAT)	-0.81	Oct10	
	4	4.00 Apr60	-0.12	Apr09		4	5.75 Oct32	-0.75	Oct00	
	5	2.25 Oct22 (10y)	0.01	Oct11		5	4.00 Oct38	-0.72	Oct05	
	5	3.00 Apr22	0.25	Feb12		5	4.25 Oct23	-0.28	Oct06	
	4	3.25 Oct21 (OAT)	0.25	Oct10		4	4.00 Apr55	-0.23	Apr04	
	3	4.25 Oct23	0.52	Oct06		3	4.00 Apr60	-0.22	Apr09	
	2	4.50 Apr41 (30y)	0.57	Apr09		2	2.75 Oct27	-0.14	Oct11	
ITALY		Richest					Richest			
	1	3.75 Mar21	-2.68	Sep10		1	4.00 Feb37	-1.41	Aug05	
	2	3.75 Aug21	-2.32	Feb06		2	5.75 Feb33	-1.35	Feb02	
	3	4.75 Sep28	-1.61	Jan13		3	4.50 Mar26	-1.34	Sep10	
	4	4.75 Sep21	-0.98	Mar11		4	5.00 Aug34	-1.33	Aug03	
	5	5.00 Aug39	-0.77	Aug07		5	3.75 Aug21	-1.33	Feb06	
	5	5.00 Aug34	1.02	Aug03		5	4.75 Sep21	-1.19	Mar11	
	4	4.00 Feb37	1.14	Aug05		4	5.50 Sep22	-1.15	Mar12	
	3	5.50 Sep22	1.72	Mar12		3	5.50 Nov22 (10y-IK)	-1.13	May12	
	2	5.50 Nov22 (10y-IK)	1.75	May12		2	4.75 Aug23	-1.13	Feb08	
N'LANDS		Richest					Richest			
	1	3.75 Jan23	-0.52	Jan06		1	4.00 Jan37	-1.08	Apr05	
	2	3.25 Jul21	0.03	Mar11		2	3.75 Jan42 (30y)	-1.05	May10	
	3	3.75 Jan42 (30y)	0.18	May10		3	2.50 Jan33	-0.78	Mar12	
	3	2.50 Jan33	0.38	Mar12		3	3.25 Jul21	-0.16	Mar11	
	2	2.25 Jul22 (10y)	0.97	Feb12		2	3.75 Jan23	0.42	Jan06	
	1	4.00 Jan37	1.44	Apr05		1	2.25 Jul22 (10y)	0.51	Feb12	
		Cheapest					Cheapest			
	1	5.90 Jul26	-2.86	Mar11		1	5.50 Apr21	-1.53	Jan11	
	2	5.50 Apr21	-2.55	Jan11		2	4.65 Jul25	-1.51	Feb10	
SPAIN		Richest					Richest			
	3	4.65 Jul25	-2.51	Feb10		3	5.90 Jul26	-1.51	Mar11	
	4	4.90 Jul40	-1.85	Jun07		4	4.90 Jul40	-1.51	Jun07	
	5	4.80 Jan24	-0.90	Sep08		5	5.85 Jan22 (FBB)	-1.49	Nov11	
	5	5.40 Jan23 (10y)	0.27	Jan13		5	4.20 Jan37	-1.49	Jan05	
	4	5.85 Jan22 (FBB)	0.72	Nov11		4	4.70 Jul41 (30y)	-1.46	Sep09	
	3	4.70 Jul41 (30y)	1.09	Sep09		3	4.80 Jan24	-1.45	Sep08	
	2	4.20 Jan37	1.21	Jan05		2	5.75 Jul32	-1.45	Jan01	
	1	5.75 Jul32	1.72	Jan01		1	5.40 Jan23 (10y)	-0.50	Jan13	
		Cheapest					Cheapest			
BELGIUM		Richest					Richest			
	1	4.00 Mar32	-0.84	Mar12		1	5.00 Mar35	-1.33	May04	
	2	2.25 Jun23 (10y)	0.02	Jan13		2	4.25 Mar41 (30y)	-1.27	Apr10	
	3	5.00 Mar35	0.33	May04		3	4.00 Mar32	-1.20	Mar12	
	4	4.25 Mar41 (30y)	1.41	Apr10		4	4.25 Sep21	-1.18	Jan11	
	4	4.50 Mar26	1.47	Jun11		4	4.25 Sep22	-1.17	Jan12	
	3	4.25 Sep22	2.09	Jan12		3	4.50 Mar26	-1.02	Jun11	
	2	4.25 Sep21	2.41	Jan11		2	4.00 Mar22	-1.01	May06	
	1	4.00 Mar22	3.33	May06		1	2.25 Jun23 (10y)	-0.38	Jan13	
		Cheapest					Cheapest			

Source: Citi Research

UK Relative Value Table

Figure 52. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

ALL	Versus Govt Curve (CAS)				Versus Swap Curve (CAS)							
		Rank		ZScore	Issued		Rank		ZScore	Issued		
	Richest 	1	4.75 Mar20		-2.06	Mar05	Richest 	1	3.25 Jan44		0.28	Oct12
		2	3.75 Sep20		-1.83	Jun10		2	4.25 Dec49		0.73	Sep08
		3	4.50 Mar13		-1.33	Mar08		3	3.75 Jul52		0.76	Sep11
		4	4.25 Dec49		-1.28	Sep08		4	4.50 Dec42 (30y)		0.83	Jun07
		5	4.50 Dec42 (30y)		-1.21	Jun07		5	4.25 Dec55		0.84	May05
	Cheapest 	5	5.00 Sep14 (2y-WB)		1.36	Jul02	Cheapest 	5	3.75 Sep19		1.53	Jul09
		4	4.25 Sep39		1.47	Mar09		4	3.75 Sep20		1.54	Jun10
		3	4.50 Mar19		1.47	Sep08		3	4.75 Dec30		1.55	Oct07
2		5.00 Mar18 (WX)		1.54	May07	2		3.75 Sep21		1.62	Mar11	
1		4.75 Dec30		1.58	Oct07	1		4.00 Mar22 (G)		1.65	Feb09	
2yr - 7yr	Versus Govt Curve (CAS)				Versus Swap Curve (CAS)							
		Rank		ZScore	Issued		Rank		ZScore	Issued		
	Richest 	1	3.75 Sep19		-0.95	Jul09	Richest 	1	4.75 Sep15		1.13	Sep03
		2	2.00 Jan16		-0.90	Nov10		2	2.00 Jan16		1.24	Nov10
		3	4.00 Sep16		-0.54	Mar06		3	4.00 Sep16		1.31	Mar06
		4	1.00 Sep17 (5y)		-0.42	Mar12		4	1.75 Jan17		1.38	Aug11
		5						5				
	Cheapest 	5					Cheapest 	5				
		4	4.75 Sep15		0.01	Sep03		4	1.00 Sep17 (5y)		1.38	Mar12
		3	1.75 Jan17		0.25	Aug11		3	5.00 Mar18 (WX)		1.44	May07
2		4.50 Mar19		1.47	Sep08	2		4.50 Mar19		1.50	Sep08	
1		5.00 Mar18 (WX)		1.54	May07	1		3.75 Sep19		1.53	Jul09	
7yr - 15yr	Versus Govt Curve (CAS)				Versus Swap Curve (CAS)							
		Rank		ZScore	Issued		Rank		ZScore	Issued		
	Richest 	1	4.75 Mar20		-2.06	Mar05	Richest 	1	4.25 Dec27		1.50	Sep06
		2	3.75 Sep20		-1.83	Jun10		2	4.75 Mar20		1.50	Mar05
		3	4.25 Dec27		-1.12	Sep06		3	5.00 Mar25		1.52	Sep01
		4						4				
		5						5				
	Cheapest 	5					Cheapest 	5				
		4						4				
		3	5.00 Mar25		-0.32	Sep01		3	3.75 Sep20		1.54	Jun10
2		3.75 Sep21		0.99	Mar11	2		3.75 Sep21		1.62	Mar11	
1		4.00 Mar22 (G)		1.16	Feb09	1		4.00 Mar22 (G)		1.65	Feb09	
>15yr	Versus Govt Curve (CAS)				Versus Swap Curve (CAS)							
		Rank		ZScore	Issued		Rank		ZScore	Issued		
	Richest 	1	4.25 Dec49		-1.28	Sep08	Richest 	1	3.25 Jan44		0.28	Oct12
		2	4.50 Dec42 (30y)		-1.21	Jun07		2	4.25 Dec49		0.73	Sep08
		3	4.25 Jun32		-0.93	May00		3	3.75 Jul52		0.76	Sep11
		4	4.50 Sep34		-0.92	Jun09		4	4.50 Dec42 (30y)		0.83	Jun07
		5	4.25 Dec40		-0.78	Jun10		5	4.25 Dec55		0.84	May05
	Cheapest 	5	3.75 Jul52		0.69	Sep11	Cheapest 	5	4.75 Dec38		1.11	Apr04
		4	4.25 Dec55		0.70	May05		4	4.25 Mar36		1.20	Feb03
		3	4.25 Dec46		0.93	May06		3	4.50 Sep34		1.26	Jun09
2		4.25 Sep39		1.47	Mar09	2		4.25 Jun32		1.38	May00	
1		4.75 Dec30		1.58	Oct07	1		4.75 Dec30		1.55	Oct07	

Source: Citi Research

Supply Analysis and Forecasts

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

This publication includes 3 main areas:

Analysis of supply in the coming week and month

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

Profile of cash flows

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

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

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

Detailed supply forecasts

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

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Analysis of upcoming supply

Coupons...

Redemptions...

Net cash requirements...

Supply forecasts

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

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

Provisional auction calendar for the next four weeks

Figure 53. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Size (Local Ccy)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures TYH3 (UST) G H3 (Gilt) RXH3 (Bund)
19 Feb (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2043		-37k
20 Feb (Wed)	Germany	5.0	Bund Feb23 re-opening (issue and size confirmed)		39k
20 Feb (Wed)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/5/2020 - 15/2/2023		-31k
21 Feb (Thu)	France	9.5	BTAN/OAT 2yr and 5yr and index-linked OAT (estimated size and tenors)		38k
21 Feb (Thu)	Spain	4.0	Bono 2yr, 5yr and 10yr (estimated tenors and size)		16k
21 Feb (Thu)	UK	2.2	1¾% Treasury Gilt 2022 (issue confirmed, estimated size)		18k
21 Feb (Thu)	US	9.0	30-Year TIPS	110k	
21 Feb (Thu)	US	3 - 3.75	Outright Treasury Coupon Purchases: 30/11/2018 - 15/2/2020	-23k	
22 Feb (Fri)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2043	-37k	

Weekly \$DV01 of Issuance

16.0

Total Number of Futures Contracts

-19k

18k

94k

Date	Country	Size (Local Ccy)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures TYH3 (UST) G H3 (Gilt) RXH3 (Bund)
25 Feb (Mon)	Belgium	4.5	OLO 5yr, 10yr and 30yr (estimated size and tenors)		54k
25 Feb (Mon)	Italy	2.8	CTZ (estimated size)		5k
25 Feb (Mon)	Italy	1.0	BTPei (estimated size)		8k
25 Feb (Mon)	US	35.0	2-Year	87k	
25 Feb (Mon)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/5/2020 - 15/2/2023	-31k	
26 Feb (Tue)	UK	3.8	Syndication of linker 2052 (issue confirmed, week commencing 25 Feb)		130k
26 Feb (Tue)	US	35.0	5-Year	209k	
26 Feb (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2043	-37k	
27 Feb (Wed)	Italy	6.0	BTP 5yr and 10yr (estimated tenor and size)		41k
27 Feb (Wed)	US	29.0	7-Year	238k	
27 Feb (Wed)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 28/2/2017 - 15/11/2017	-21k	
28 Feb (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/2/2043	-37k	

Weekly \$DV01 of Issuance

71.4

Total Number of Futures Contracts

408k

130k

107k

Date	Country	Size (Local Ccy)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures TYH3 (UST) G H3 (Gilt) RXH3 (Bund)
05 Mar (Tue)	Austria	1.5	RAGB 5yr and 10yr (estimated size and tenors)		9k
05 Mar (Tue)	UK	1.0	Mini Tender (estimated date and size)		20k
05 Mar (Tue)	UK	4.1	Re-opening of 22 Jul 2018 (issue confirmed, estimated size)		19k
06 Mar (Wed)	Germany	4.0	Bobl Feb18 re-opening (issue and size confirmed)		17k
07 Mar (Thu)	Spain	4.5	Bono 2yr, 5yr and 15yr (estimated tenors and size)		19k
07 Mar (Thu)	France	7.5	OAT 5yr, 10yr and 30yr (estimated tenors and size)		73k

Weekly \$DV01 of Issuance

24.6

Total Number of Futures Contracts

0k

39k

117k

Date	Country	Size (Local Ccy)	Issue Details	DV01 \$million/bp	Approx. Number 10yr Futures TYH3 (UST) G H3 (Gilt) RXH3 (Bund)
12 Mar (Tue)	Netherlands	3.0	DSL Apr16 (issue confirmed, size € 2.5-3.5bn)		5k
12 Mar (Tue)	US	32.0	3-Year	80k	
13 Mar (Wed)	Germany	5.0	Schatz Mar15 re-opening (issue and size confirmed)		9k
13 Mar (Wed)	Italy	4.8	BTP 2yr and 15yr (estimated tenor and size)		18k
13 Mar (Wed)	Italy	1.5	CCTeu (estimated size)		6k
13 Mar (Wed)	UK	1.4	3¾% Treasury Gilt 2052 (issue confirmed, estimated size)		29k
13 Mar (Wed)	US	21.0	10-Year (re-opening)	232k	
14 Mar (Thu)	US	13.0	30-year (re-opening)	301k	

Weekly \$DV01 of Issuance

60.1

Total Number of Futures Contracts

612k

29k

38k

The next release of the tentative outright Treasury operation schedule will be at 2 p.m. on February 28, 2013.

Additional issues expected in February: Finland 10yr syndication (€4bn). This is not included in cash flow tables and gross supply charts.

Additional issues expected in March: Ireland new 10yr (€2.5bn). Bunde (€1bn). These are not included in cash flow tables and gross supply charts.

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3mths)

Figure 54. EMU-10 Redemptions over the next three months (€bn)

Redemptions = €130bn											
Redemptions	DEU 46	FRA 22	NLD 0	ITA 29	ESP 15	BEL 13	AUT 0	FIN 0	PRT 0	GRC 0	IRL 5
(Fri) 15-Mar-13	18.0										
(Thu) 28-Mar-13						12.7					
(Fri) 12-Apr-13	17.0										
(Mon) 15-Apr-13	11.0			16.7							
(Thu) 18-Apr-13											5.1
(Thu) 25-Apr-13		21.6									
(Tue) 30-Apr-13				12.4	14.9						

Source: DMOs, Bloomberg, Citi estimates

Figure 55. EMU-10 Coupon Payments over the next three months (€bn)

Coupons = €53bn											
Coupons	DEU 4	FRA 18	NLD 0	ITA 14	ESP 4	BEL 7	AUT 2	FIN 1	PRT 1	GRC 0	IRL 2
(Fri) 15-Feb-13	0.1								0.2		
(Mon) 18-Feb-13											0.164
(Wed) 20-Feb-13							0.3				
(Sat) 23-Feb-13	0.0										
(Sun) 24-Feb-13	0.1										
(Mon) 25-Feb-13		0.9									
(Tue) 26-Feb-13	0.3										
(Wed) 27-Feb-13	0.4										
(Fri) 01-Mar-13				6.3							
(Wed) 13-Mar-13											0.6
(Thu) 14-Mar-13	0.0										
(Fri) 15-Mar-13	0.3			1.8			1.4				
(Wed) 20-Mar-13											0.0
(Tue) 26-Mar-13				0.1							
(Thu) 28-Mar-13						6.8					
(Sun) 31-Mar-13					0.1						
(Mon) 01-Apr-13				0.2							
(Sun) 07-Apr-13	0.1										
(Mon) 08-Apr-13	0.5										
(Wed) 10-Apr-13	0.4										
(Thu) 11-Apr-13	0.4										
(Fri) 12-Apr-13	0.6										
(Mon) 15-Apr-13	0.9		0.1	1.1				0.6	0.6		
(Thu) 18-Apr-13											1.3
(Sat) 20-Apr-13							0.3				
(Thu) 25-Apr-13		16.9									
(Tue) 30-Apr-13					4.2						
(Wed) 01-May-13				4.8							

Source: DMOs, Bloomberg, Citi estimates

Inflation Forecasts, Carry & Weekly Changes

Figure 56. Citi Inflation Forecasts

Month	EUR HICP _{XT}			France CPI _{XT}			UK RPI			US CPURNSA		
	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY
	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change
Dec 12	116.39	0.4	2.2	125.02	0.3	1.2	246.80	0.5	3.1	229.60	-0.3	1.7
Jan 13	115.38	-0.9	2.1	124.45	-0.5	1.1	245.80	-0.4	3.3	230.50	0.4	1.7
Feb 13	115.72	0.3	1.9	124.80	0.3	1.0	247.20	0.6	3.0	230.90	0.2	1.4
Mar 13	116.64	0.8	1.4	125.66	0.7	0.8	247.90	0.3	2.9	232.20	0.6	1.2
Apr 13	117.14	0.4	1.4	125.63	-0.0	0.7	249.71	0.7	3.0	233.00	0.3	1.3
May 13	117.35	0.2	1.7	125.80	0.1	0.9	250.51	0.3	3.3	234.00	0.4	1.8

Source: Citi Research, Bloomberg

Shaded = Already released

Figure 57. 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 Mar	1 Apr	1 May					1 Mar	1 Apr	1 May		
Repo (%)				0.12	0.14	0.14									
TIPS 4/14	-1.92	-13	-13	-19	0	0	US-1.875-04/30/14	211	14	5	-19	-1	-1	6	-6
TIPS 7/14	-2.33	-13	-13	-17	-4	-7	US-2.625-07/31/14	256	14	6	-17	-5	-9	6	-9
TIPS 1/15	-1.97	-5	-5	-12	0	-1	US-2.250-01/31/15	224	7	1	-12	-1	-2	11	-6
TIPS 4/15	-1.88	-2	-2	-10	0	1	US-2.500-04/30/15	219	4	-1	-10	-1	-1	6	-4
TIPS 7/15	-2.14	-5	-5	-9	-1	-2	US-4.250-08/15/15	250	8	3	-10	-2	-4	3	-7
TIPS 1/16	-1.88	-3	-3	-8	0	0	US-2.625-02/29/16	232	7	3	-8	-1	-2	12	-7
TIPS 4/16	-1.77	-0	-0	-7	1	1	US-2.000-04/30/16	224	4	1	-7	-1	-1	14	-4
TIPS 7/16	-1.94	-3	-3	-7	0	0	US-4.875-08/15/16	247	7	4	-7	-2	-3	12	-7
TIPS 1/17	-1.73	1	1	-6	1	1	US-3.125-01/31/17	237	4	1	-6	-1	-2	16	-3
TIPS 4/17	-1.63	2	2	-5	1	2	US-0.875-04/30/17	233	3	0	-5	-1	-1	16	-2
TIPS 7/17	-1.78	-4	-4	-5	0	1	US-4.750-08/15/17	253	9	6	-6	-2	-2	13	-8
TIPS 1/18	-1.61	-4	-4	-4	1	1	US-3.500-02/15/18	248	10	8	-5	-1	-2	14	-8
TIPS 7/18	-1.62	-3	-3	-4	1	1	US-4.000-08/15/18	260	9	6	-5	-1	-2	12	-7
TIPS 1/19	-1.39	-1	-1	-3	1	2	US-2.750-02/15/19	251	8	6	-4	-1	-2	17	-6
TIPS 7/19	-1.38	1	1	-3	1	2	US-3.625-08/15/19	261	5	3	-4	-1	-2	16	-2
TIPS 1/20	-1.18	2	2	-3	1	2	US-3.625-02/15/20	254	4	2	-4	-1	-2	22	-1
TIPS 7/20	-1.13	1	1	-3	1	2	US-2.625-08/15/20	263	4	3	-3	-1	-2	20	-2
TIPS 1/21	-0.95	1	1	-2	2	3	US-3.625-02/15/21	254	5	3	-3	-1	-2	27	-1
TIPS 7/21	-0.90	1	1	-2	2	3	US-2.125-08/15/21	264	5	3	-3	-1	-2	23	-1
TIPS 1/22	-0.75	2	2	-2	2	3	US-2.000-02/15/22	259	3	2	-3	-1	-2	25	-0
TIPS 7/22	-0.70	1	1	-2	2	3	US-1.625-08/15/22	266	4	2	-3	-1	-2	24	-0
TIPS 1/23	-0.57	2	2	-2	2	3	US-1.625-11/15/22	257	4	2	-2	-1	-1	30	-0
TIPS 1/25	-0.35	3	3	-1	2	3	US-7.625-02/15/25	254	2	1	-2	-1	-2	37	1
TIPS 1/26	-0.21	3	3	-1	2	3	US-6.000-02/15/26	258	2	1	-2	-1	-2	35	-0
TIPS 1/27	-0.12	4	4	-1	2	3	US-6.625-02/15/27	258	1	0	-2	-1	-2	37	1
TIPS 1/28	-0.01	6	6	-1	2	3	US-6.125-11/15/27	256	-0	-1	-2	-1	-2	39	2
TIPS 4/28	-0.02	4	4	-1	2	3	US-5.500-08/15/28	264	2	1	-2	-1	-1	30	-0
TIPS 1/29	0.04	4	4	-1	2	3	US-5.250-02/15/29	263	2	1	-2	-1	-2	34	0
TIPS 4/29	0.04	4	4	-1	2	3	US-5.250-02/15/29	262	1	0	-2	-1	-1	33	0
TIPS 4/32	0.19	4	4	-1	2	3	US-5.375-02/15/31	256	1	0	-2	-1	-1	41	-0
TIPS 2/40	0.48	3	3	-1	1	2	US-4.625-02/15/40	257	1	0	-1	-1	-1	43	-0
TIPS 2/41	0.50	4	4	-1	1	2	US-4.750-02/15/41	257	1	0	-1	-1	-1	43	-0
TIPS 2/42	0.56	3	3	0	1	2	US-3.125-02/15/42	261	1	1	-1	-1	-1	40	-1

Source: Citi Research

Figure 58. 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 Mar	1 Apr	1 May					1 Mar	1 Apr	1 May		
Repo (%)				0.07	0.09	0.10									
BTPei14	0.19	-4	-4	9	-51	-32	BTP 8/14	127	-8	-4	6	-63	-54	38	2
OATei15	-1.19	1	1	4	-38	-31	FFRG 4/15	156	0	3	4	-40	-34	25	-5
BUNDei16	-0.93	4	4	3	-29	-22	BUND 1/16	119	-4	-2	3	-29	-24	22	0
BTANi16	-1.06	0	0	3	-14	-9	FFRG 4/16	165	0	2	2	-16	-12	33	-5
BTPei16	1.43	-10	-10	5	-18	-6	BTP 8/16	112	1	3	3	-27	-22	58	-5
OATi17	-0.93	2	2	2	-11	-6	FFRG 4/17	176	-0	1	2	-13	-10	28	-4
BTPei17	1.75	-9	-9	4	-13	-3	BTP 8/17	131	-1	0	2	-22	-19	45	-2
BOBLei18	-0.78	3	3	2	-17	-13	BUND 1/18	138	-1	0	2	-18	-15	25	-2
OATei18	-0.56	1	1	2	-15	-11	FFRG 4/18	164	-0	1	1	-18	-15	23	-3
BTPei18	2.07	-10	-10	4	-10	-1	BTP 8/18	129	1	2	2	-18	-15	52	-4
OATi19	-0.52	0	0	2	-7	-3	FFRG 4/19	188	1	2	1	-9	-8	30	-4
BTPei19	2.17	-17	-17	3	-9	-1	BTP 9/19	143	8	9	1	-16	-13	44	-11
BUNDei20	-0.59	4	4	2	-12	-9	BUND 1/20	160	-2	-1	1	-14	-12	18	-0
OATei20	-0.18	2	2	2	-11	-7	FFRG 4/20	181	-2	-1	1	-14	-12	17	-1
FFRG21	-0.06	4	4	1	-4	-1	FFRG 4/21	194	-3	-3	1	-7	-6	38	1
BTPei21	2.60	-17	-17	3	-6	0	BTP 9/20	119	5	6	1	-13	-11	81	16
OATei22	0.18	3	3	1	-8	-5	FFRG 4/21	170	-2	-2	1	-11	-10	39	-0
BUNDei23	-0.27	5	5	1	-8	-5	BUND 1/22	173	-2	-2	1	-10	-9	27	-0
OATi23	0.18	3	3	1	-4	0	FFRG 10/23	221	-2	-2	1	-7	-6	22	-0
BTPei23	2.82	-20	-20	2	-5	1	BTP 8/23	159	3	3	1	-11	-10	52	-5
BTPei26	2.94	-19	-19	2	-4	1	BTP 3/26	162	7	7	1	-9	-8	58	-9
OATei27	0.58	2	2	1	-5	-3	FRTR 4/26	212	-1	-0	0	-8	-8	12	-1
OATi29	0.49	5	5	1	-2	0	FFRG 4/29	239	-3	-3	0	-5	-5	12	2
OATei32	0.75	4	4	1	-4	-2	FFRG 10/32	224	-2	-2	0	-7	-6	6	0
BTPei35	3.08	-14	-14	1	-2	1	BTP 8/34	192	3	3	0	-7	-7	41	-5
OATei40	0.84	4	4	1	-3	-1	FFRG 10/38	237	-1	-1	0	-5	-5	6	0
BTPei41	3.26	-9	-9	1	-2	1	BTP 9/40	181	1	1	0	-6	-6	62	-2

Source: Citi Research

Figure 59. 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 Apr	1 May	1 Jun					1 Apr	1 May	1 Jun		
Repo (%)				0.42	0.41	0.41									
UKTi Jul16	-2.49	-21	-21	0	0	0	UKT 9/16	309	20	20	-1	-1	-1	42	-6
UKTi Nov17	-2.09	1	-0	-10	-3	-1	UKT 3/18	316	2	3	-12	-6	-5	26	2
UKTi Apr20	-1.53	-7	-7	2	3	5	UKT 3/20	313	14	14	-1	-1	-1	24	-10
UKTi Nov22	-1.05	5	4	-4	1	3	UKT 3/22	310	5	5	-6	-3	-3	38	-0
UKTi Mar24	-0.75	5	4	-3	2	3	UKT 3/25	319	5	5	-5	-3	-3	28	-0
UKTi Jul24	-0.81	-0	-0	2	4	5	UKT 3/25	325	10	10	-1	-1	-1	29	-6
UKTi Nov27	-0.49	6	5	-2	2	3	UKT 12/27	326	6	7	-5	-3	-3	35	-2
UKTi Mar29	-0.33	3	3	-2	2	3	UKT 12/30	333	8	8	-4	-3	-3	27	-4
UKTi Jul30	-0.40	0	0	2	3	5	UKT 6/32	351	11	11	-1	-1	-1	17	-7
UKTi Nov32	-0.25	5	5	-1	2	3	UKT 6/32	336	6	6	-4	-3	-3	35	-2
UKTi Mar34	-0.16	5	4	-1	1	3	UKT 9/34	338	6	6	-4	-3	-3	31	-2
UKTi Jan35	-0.21	2	1	2	3	4	UKT 3/36	349	8	8	-1	-1	-2	23	-3
UKTi Nov37	-0.11	5	5	-1	1	2	UKT 12/38	344	4	4	-3	-2	-3	30	-1
UKTi Mar40	-0.04	5	4	-1	1	2	UKT 9/39	343	4	4	-3	-2	-3	32	-1
UKTi Nov42	-0.05	5	5	-1	1	2	UKT 12/42	348	4	4	-3	-2	-3	31	-1
UKTi Mar44	0.02	5	5	-1	1	2	UKT 1/44	350	3	3	-3	-2	-3	28	-10
UKTi Nov47	0.01	5	5	-1	1	2	UKT 12/46	349	4	4	-3	-2	-3	32	-1
UKTi Mar50	0.03	5	5	-1	1	2	UKT 12/49	349	4	4	-3	-2	-3	31	-1
UKTi Mar52	0.06	5	5	-1	1	2	UKT 7/52	350	4	4	-2	-2	-3	32	-1
UKTi Nov55	0.02	5	4	-1	1	2	UKT 12/55	352	4	4	-2	-2	-3	33	-2
UKTi Mar62	0.01	5	5	0	1	1	UKT 1/60	351	4	4	-2	-2	-3	34	-1

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
12-Feb-13	NOTE	Euro Rates Strategy: Update on the Long End of the EUR Curve	-	EUR
11-Feb-13	NOTE	Euro Inflation Strategy: Revised outlook for break-evens and tomorrow's supply	-	EUR
11-Feb-13	NOTE	European Flow Monitor: Fear is alive and well in Europe	-	EUR
07-Feb-13	European Weekly	Draghi and peripheral price action	8	EUR
		UK Rates Strategy	10	UK
		A bearish outlook for the Netherlands	13	EUR
		Covered Bond Strategy	16	EUR
07-Feb-13	NOTE	Weekly Supply Monitor: Euro, UK and US supply outlook	-	EUR
04-Feb-13	NOTE	Global Flow Monitor: Cracks starting to appear in Europe	-	EUR
01-Feb-13	NOTE	LTRO repayments and short end prospects	-	EUR
31-Jan-13	European Weekly	LTROs and prospects for the front end	7	EUR
		Bunds and positive economic surprises	10	EUR
		UK Rates Strategy	11	UK
		SSA Strategy: Sentiment, Spreads & Asymmetries	14	EUR
		Covered Bond Strategy	15	EUR
		EMU-10: February Supply Outlook	24	EUR
31-Jan-13	NOTE	Weekly Supply Monitor: Euro, UK and US supply outlook	-	EUR
30-Jan-13	NOTE	The Economic Surprise Index and Bunds	-	EUR
28-Jan-13	NOTE	Global Flow Monitor: Appetite For Peripherals Continues Apace	-	EUR
25-Jan-13	European Weekly	The EGB Market & The ECB	10	EUR
		Peripheral Spreads: The risk/reward of buying Spain vs Italy	12	EUR
		EUR Swaps & Swaptions: Fwd Steepeners	17	EUR
		Euro Inflation Strategy: Euro break-evens offer near-term value	20	EUR
		European SSA Strategy: Supply surge – markets continue to thaw	24	EUR
		Deutsche Bank cleans up its cover pool	25	EUR
		Projected EGBI Changes	27	EUR
24-Jan-13	NOTE	Weekly Supply Monitor: Euro, UK and US supply outlook	-	EUR
23-Jan-13	NOTE	European Month-end Index Projections	-	EUR
23-Jan-13	NOTE	Euro Inflation-Linked Index Projection	-	EUR
22-Jan-13	NOTE	Global Flow Monitor: Falling demand for Europe, but peripherals bucking the trend	-	EUR
17-Jan-13	European Weekly	The lows for Bono yields. Are we there yet?	7	EUR
		Spain: 2013 Issuance Projections	14	EUR
		Spanish SSA: regions and agencies	17	EUR
		Spanish Cédulas	19	EUR
		UK Rates Strategy: Focus on 10yr gilts ahead of Mar22s auction	21	UK

Notes

Notes

Notes

Appendix A-1

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