3 October 2013 | 44 pages

Western Europe

European Rates Weekly

A tale of shutdowns and mutinies

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- **Bund outlook:** We see little scope to change our medium-term outlook for Bund yields. The subdued inflation outlook in the euro area justifies our view, at least in the near term. We see yield levels deviating by 20bp from our estimate of 1.80% (either way) as strong trading signals for duration.
- **We are neutral on BTPs at current levels:** The recent heightened political turbulence in Italy has been denoted by a period of market resilience rather than one of sustained weakness. Balancing ongoing concerns with the various market supports, we are neutral on BTPs at current levels over the near-term.
- **Gilts - treading water:** Our analysis suggests that much of the sell-off since May can be justified by domestic fundamentals. These drivers are likely to become more stable in the near-term and we expect 10yr gilt yields to form a range. However, international drivers present a risk, most notably the US political deadlock.
- **Euro inflation:** BTPei break-evens have widened recently, despite the fall in BTP yields. We think that the move is overdone and should be faded and recommend selling BTPei18 break-evens vs Boblei18.
- **EUR vol - searching for optimal vanilla bearish option trades:** We take a look at simple upside trades via payer swaptions across the volatility surface to get a flavour of the main traits of such positions (pricing, rolldown and delta).
- **Technical outlook:** The uptrend in Bunds is beginning to weaken, but gilts remain strong in their uptrend. Breach of key levels at 139.80 or 141.20 will define the next trend in Bunds. Gilts are strongly supported at 109.70.
- **French agencies and upcoming ESM supply:** We assess relative value in the French agency sector vs other core sectors given recent performance. Separately, we detail the structure of the ESM given the investor focus on upcoming issuance.
- **EMU 2014 supply projections**: We forecast €864bn of bond issuance from EMU-10 sovereigns in 2014, €14bn higher than 2013. Comparing 2014 supply to 2013 shows that Germany is projected to have the largest decrease in bond issuance next year (-€22bn) and Italy has the largest increase (+€26bn).
- **Relative value trades:** We highlight a number of relative value opportunities in the 2-10yr sector of the UK, Italian, Belgian and Spanish yield curves.
- **Supply:** Within Europe, next week's bond supply comes from the Netherlands (€1.5-2.5bn), Germany (€4bn) and Italy (around €8bn). The UK DMO will issue £1.75bn of the linker '19 next Tuesday.

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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Our duration scorecard for the week ahead is bullish. This is based on momentum from political risks in Europe and the US, expectations on central bank policy and technicals.	Long
Money Market	Assuming that investors rely on "external" information more heavily than in the past when pricing the ECB curve and that we're unlikely to see an outperformance of the Eurozone vs the US in economic terms, we like receiving EUR money market rates (especially vs the US). In the UK, the Short-sterling red pack remains volatile but has richened since the last jobless report. We think there is further to go.	Long EUR 1y1y vs USD Long Short-sterling red pack Hold long ERZ3 1x2 call spread Hold long ECB Mar14 EONIA
Yield Curve	The Fed has driven a bull flattening dynamic in EUR 2s10s and we expect the front-end to be anchored even further. 10s30s in the UK remains directional but we think it has a greater propensity to bear flatten than to bull steepen.	UKT 2s10s steepeners Sell 10yr OATs vs 5yr and 30yr
Cross-market	Over the longer-term, we would still expect Bunds to outperform given diverging economic fundamentals. The gilt-Bund spread continues to be driven by broader market direction (especially Treasuries). We expect it to widen further over the medium-term. Gilt-USTs are likely to remain highly correlated.	Sell EUR 2y cross-ccy basis Long Bunds vs both UST and gilts over the medium-term (add on corrections)
EMU Spreads	Waning political concerns in Italy following the confidence vote in Italy make us neutral on BTPs in the near-term. Separately, we continue to like Belgium vs France and 2yr DSL-RAGB spreads appear too tight and are at attractive levels to initiate wideners	Buy 5yr Belgium vs France Buy 2yr Netherlands vs Austria Prefer 2yr Spain vs Italy
Swap Spreads	10yr and 30yr Bund spreads have widened as expected. We recommend tightening stops given the momentum of the move. We think 10yr Bund spreads (YYS) can widen to -32bp given the current level of front-end basis spreads & peripheral yields. In the UK, 5yr swap spreads look attractive boxed against 10s.	Buy 5yr gilt spreads vs 10yr Hold long 10yr Bunds vs swaps (EONIA) Hold long 30yr Bunds vs swaps (Euribor)
Inflation	With inflation subdued, euro break-evens are likely to remain stuck in the range for the foreseeable future. On a tractical basis, we like selling BTPei break-evens vs Boblei. In the UK, front-end break-evens look a little cheap to the likely path of inflation, especially given the nominal market is pricing higher policy rates in late-2014 and the wedge between RPI and CPI is widening.	Sell BTPei18 vs Boblei18 break-evens Long 5yr UK break-evens Buy Boblei18 break-even vs inflation swap
Volatility	We expect the forward EUR 2s10s curve to move up to spot based on our expectation that bund yields will be stable over the next year and more LTROs will pin the front-end. The current level of EUR 2y2y & 5y5y implied skews are too steep when compared to previous levels of implied volatility for a range of underlying rates. We prefer short EUR collar positions hedged with USD longs, instead of outright shorts.	Long 2yr EUR single look CMS 2s10s ATMF cap EUR 2y 10s30s conditional bear-steepener Short EUR 5y5y 100bp wide collar vs USD 5y5y 100bp wide collar
SSA	French agencies are likley to continue to trade well vs the sovereign. The upcoming key event for the SSA market will be the upcoming issuance from the ESM.	Maintain front-end KfW vs France over the medium term Prefer EU vs other supras in the sub 5yr sectors
For a list of outstanding trade strategies please see the Tradesheet section of this report		

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

Duration Scorecard

Figure 2. Bund Weekly Cheat Sheet: 4th – 10th October

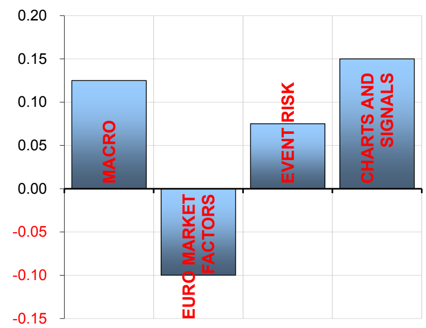
Bund Directional Scorecard (1wk horizon)

RECOMMENDATION	Long	RXZ3 (EOD Thurs) = 140.24	
Conviction level	13%	CTD yield = 1.55%	10day del vol = 3.98%

	SIGNAL STRENGTH (+/-2)		
MACRO	**0.1**		**Weight = 38%**
ECB	1	Monetary policy to be accommodative for as long as needed	7.5%
Fed, BoE and BOJ	1	Fed to taper QE in December 2013 or early 2014	7.5%
Inflation	1	Inflation likely to remain subdued	5.0%
Growth related data	-1	Stronger than expected PMIs support recovery	5.0%
Citi surprise	-1	Citi Economic Surprise Index remains firmly elevated	7.5%
Middle East / Oil	1	Oil prices are stabilising	5.0%
EURO MARKET FACTORS	**-0.1**		**Weight = 25%**
Supply	1	Large cash flows in Germany outweighs core supply (NLD & DEM)	5.0%
Risk appetite	-1	Despite the recent bounce in GRAMI, levels are still historicaly low.	5.0%
Positioning	0	Positioning is cleaner due to US fiscal and EMU political issues	2.5%
Equity	-1	Eurostoxx50 still close to 2 year high	5.0%
Sovereign credit	-1	Peripheral spreads near tightest level in a year	5.0%
FX	0	EUR effective exchange rate stable	2.5%
EVENT RISK	**0.1**		**Weight = 18%**
Politics	1	US fiscal issues continue, but political risks in Italy have reduced	7.5%
3yr LTRO	0	We expect a new 2yr LTRO by early 2014	7.5%
Stability mechanisms	0	Further ESM activation unlikely in the short-term	2.5%
CHARTS AND SIGNALS	**0.2**		**Weight = 20%**
Technicals	0	Uptrend weakening	5.0%
T-Note	1	Bias towards lower Treasury yields	5.0%
CFTC	1	Positioning short and getting squeezed	5.0%
ARTS	1	Long	5.0%

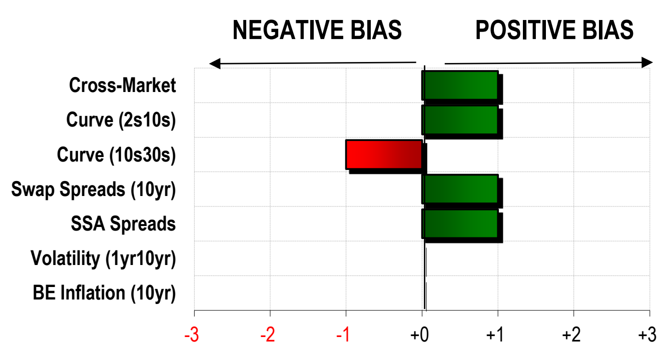
Source: Citi Research

Figure 3. Contribution to Bund Signals



Source: Citi Research

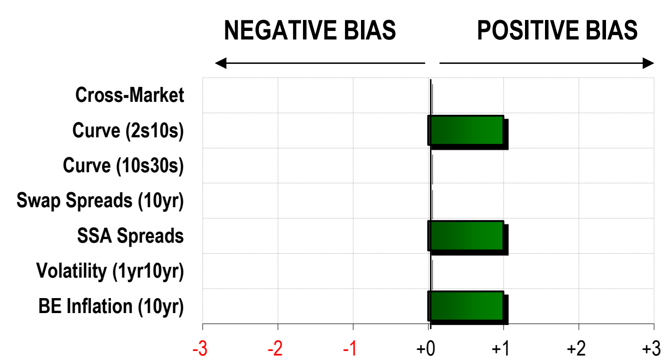
Figure 4. EURO AREA (Near-term Bias)



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

New Trade

Please see page 15 for the details

1. Sell BTPei18 vs Boblei18 on a break-even basis

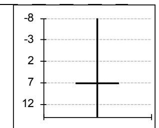
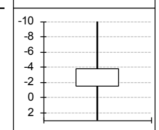
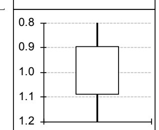
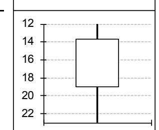
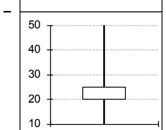
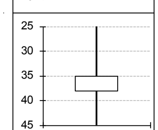
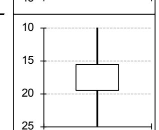
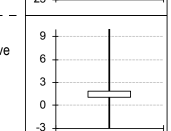
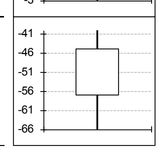
Sell BTPei18 break-even at 111bps

Buy Boblei18 break-even at 104bps

Open 7bp. Current 7bp. Target -8bp. Stop 15bp

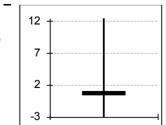
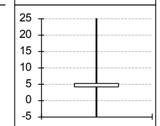
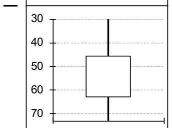
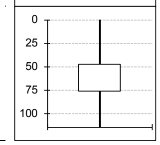
Record of Open Trades

Figure 6. Record of our Open Trades

Region	Trade	Levels		Rationale + Publication Date	
EUR	**Sell BTPei18 break-even vs Boblei18**	Open	7bp		
		Current	7bp	Rich level of BTPei18 breajk-even and upcoming supply profile	
Inflation	Sell BTPei18 break-even at 111bps	**P&L**	**0bp**		
	Buy Boblei18 break-even at 104bps	Target	-8bp		
		Stop	15bp	*European Rates Weekly, 3 October 2013*	
EUR	**Buy 30yr Bund vs swaps (YYS)**	Open	-1.5bp	Technical levels, supply projections and upcoming cash flows	
		Current	-3.8bp		
Swap Spread	Buy Bund 2.5% Jul44 vs swaps (YYS) at -1.5bp	**P&L**	**2.3bp**		
		Target	-10bp	*European Rates Weekly, 19 September 2013*	
		Stop	3bp		
		Revised Stop	-1.5bp	*Revised Stop: The Morning Call, 3 October 2013*	
UK	**Long Short-sterling red-pack**	Open	1.09%	The rate-hike expectations have been brought forward more than warranted, in our view.	
		Current	0.9%		
Futures	Long Short-sterling red-pack at 1.09%	**P&L**	**0.19%**		
		Target	0.8%	*UK Rates Strategy, 11 September 2013*	
		Original Stop	1.2%	*Revised Stop: European Rates Weekly, 26 September 2013*	
		Revised Stop	1.0%		
UK	**Buy IL gilt Mar24 vs Nov22 and Nov27**	Open	19bp		
		Current	14bp	Speed of recent cheapening looks overdone, equivalent nominal fly has turned and no further suppy in 2013	
Inflation	Buy IL gilt 0.125% Mar24 at -0.13%	**P&L**	**5bp**		
	Sell IL gilt 1.875% Nov22 at -0.42%	Target	12bp		
	Sell IL gilt 1.255 Nov27 at -0.03%	Stop	23bp	*UK Inlfation Strategy, 2 September 2013*	
UK	**Sell 30yr gilt swap spreads vs 10yr**	Open	20bp		
		Current	25bp	Fiscal risks, supply pressures and the absence of QE to put steepening pressure on the gilt curve.	
Swap spread	Sell gilt 3.25% Jan44 ASW at 20bp	**P&L**	**5bp**		
	Buy gilt 1.75% Sep22 ASW at 0bp	Target	50bp		
		Stop	10bp	*UK Rates Strategy, 30 July 2013*	
Europe	**Sell OATei24 break-even vs Bundei23**	Open	38bp		
		Current	35bp	Relative outperformance of 10yr OATei break-evens is overdone, especially now that the 25 July coupons have been paid.	
Inlfation	Sell OATei24 break-even at 168bp	**P&L**	**3bp**		
	Buy Bundei23 break-even at 130bp	Target	25bp	*European Rates Weekly, 25 July 2013*	
		Stop	45bp		
Europe	**Buy 5yr Belgium vs France**	Open	19.5bp		
		Current	16bp	Tactical long supported by upcoming cash flows.	
Cross Market	Buy OLO 4% Mar18 at 1.15%	**P&L**	**4bp**		
	Sell OAT 4% Apr18 at 0.95%	Target	10bp		
		Stop	25bp	*Euro Rates Strategy, 24 July 2013*	
Europe	**Buy 2yr Netherlands vs Austria**	Open	1bp		
		Current	2bp	Attractive entry level to move up the credit curve. Relative value is also supportive.	
Cross Market	Buy DSL 0.75% Apr15 at 16bp	**P&L**	**1bp**		
	Sell RAGB 3.5% Jul15 at 17bp	Target	10bp		
		Stop	-3bp	*The Morning Call, 17 July 2013*	
Europe	**Buy Boblei18 break-even vs 5yr HICPxT swap**	Open	-57bp		
		Current	-44.9bp	Euro break-evens should be supported by rally in oil and upcoming coupon payments.	
Inflation	Buy Boblei18 break-even at 98bp	**P&L**	**12bp**		
	Sell 5yr HICPxT swap at 155bp	Target	-40bp		
		Stop	-66bp	*The Morning Call, 16 July 2013*	

Source: Citi Research

Figure 7. Record of our Open Trades (continued)

Region / Type	Trade			Rationale	Chart
Europe *Money Market*	**Buy ERZ3 1x2 call spread** Buy ERZ3 99.750/.875 1x2 call spread at 1c	Open Current **P&L** Target Stop	1c 0.5c **-0.5c** 12.5c -3c	Dec Euribor has cheapened 30/35c since May ECB rate cut. However, a cut to the deposit rate would be required for a signifcant rally. *Euribor, 24 June 2013*	
Europe *Curve*	**Receive EUR 10y2y vs 12y3y** Receive EUR 10y2y at 3.1% Pay EUR 12y3y at 3.14%	Open Current **P&L** Target Stop	4bp 5bp **1bp** 25bp -5bp	Cheapness of the sector due to legacy ASW positions. The trade offers a positive roll-down for relatively low volatility *The Morning Call, 23 January 2013*	
Europe *Volatility*	**Sell EUR 1y3yF ATMF straddle and buy ATMF-25 receiver** Sell EUR 1y3yF ATMF (=1.36%) straddle for 98bp Buy EUR 1y3yF ATMF-25 receiver for 35bp	Open Current **P&L** Target Stop	63bp 45bp **18bp** 30bp 73bp	Fwd levels in front-end EUR swaps are too high when additional policy measures by the ECB are likely to be undertaken *IIRS 9 August 2012*	
UK *Volatility*	**Sell GBP 2y2y ATMF straddle** Sell GBP 2y2y ATMF (1.04%) straddle at 76bps	Open Current **P&L** Target Stop	76bp 47bp **29bp** 0bp 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol *IIRS 12 July 2012*	

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

Bunds: When Does Inflation Matter?

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It's time to update our basic Bund fair value model. Results do not deviate too much from previous analyses, but we think the importance of getting an accurate inflation (expectations) profile is mistakenly underestimated. Therefore, we try to understand the sensitivity of fair value model to HICP projections.

Main scenario is still price stability, but…

Deflation or more generally "price instability" – as the ECB would frame it – is not the main scenario at this stage. Neither the ECB, nor other forecasters have this economic singularity as their baseline scenario[1] and it probably would take more than just a couple of below consensus HICP prints to challenge the concept of price stability and all the positive effects that (apparently) result from it. Mr Draghi has yet again dismissed any risks to price stability at his most recent Q&A.

Figure 8. What if we have a completely different path for inflation?

Bund Fair Value Analysis						
Eurozone	*Live*	2013	2014	2015	2016	2017
GDP (Citi)	*-0.5*	-0.5	0.6	0.9	1.3	1.5
Potential growth (EC)	*0.5*	0.5	0.5	0.5	0.5	0.5
Output gap	*-1.0*	-1.0	0.1	0.4	0.8	1.0
HICP (Citi)	*1.3*	1.5	1.4	1.3	1.4	1.3
ECB target	*2.0*	2.0	2.0	2.0	2.0	2.0
ECB refi (Taylor rule)	*1.2*	1.3	1.8	1.9	2.1	2.2
ECB refi / Bund spread	*1.3*	1.2	1.2	1.2	1.2	1.2
Excess liquidity premium	*-0.4*	-0.4	-0.2	-0.1	0.0	0.0
Bund spread vs EMU	*-0.6*	-0.6	-0.6	-0.6	-0.6	-0.6
Bund 10y (implied)	***1.5***	**1.5**	**2.2**	**2.4**	**2.8**	**2.8**

HICP Scenario Analysis						
Eurozone	*Live*	2013	2014	2015	2016	2017
Deflation		1.5	0.0	-0.5	-1.0	-1.0
Bund 10y (implied)		1.5	1.5	1.5	1.6	1.7
Disinflation		1.5	1.0	0.5	0.5	0.5
Bund 10y (implied)		1.5	2.0	2.0	2.3	2.4
Inflation above target		1.5	2.0	3.0	4.0	4.0
Bund 10y (implied)		1.5	2.5	3.3	4.1	4.2

Source: Citi Research

…what if we get deflation instead? Where would we see Bund yields in that scenario?

Of course, this thinking is reflected in our forecast for Bund yields[2], which is centered around 1.8% until Q3 2014 and slowly rising to 2% by early 2015. But what happens if we have an instantaneous transition of the (expected) inflation path towards a deflation or disinflation scenario? All else equal, in Figure 8 we try to estimate the impact of such two extreme scenarios on the long-term trajectory of Bund yields. Methodology is straightforward: We compute a Taylor Rule and then add very basic measures of term, liquidity and futures premia.

Despite all the shortcomings of static analysis, the results are quite interesting:

- It takes a substantial fall of inflation rates, well into negative territory (-1.0%) in order to compensate for the positive contribution of growth and in this way preventing a substantial rise in nominal yields.

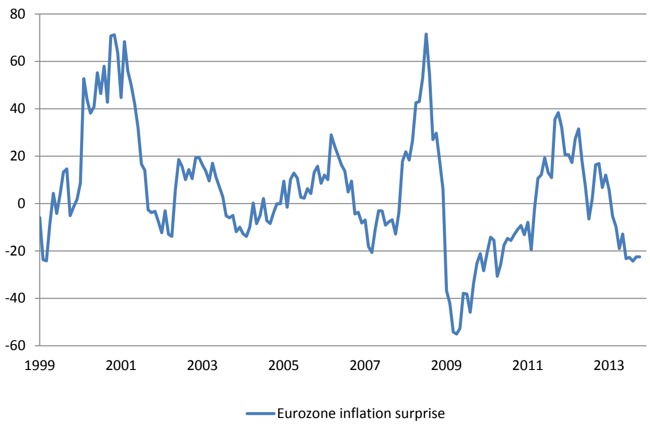
[1] http://www.ecb.europa.eu/pub/pdf/other/ecbstaffprojections201309en.pdf

[2] See latest GEOS (September 2013, p. 12): https://ir.citi.com/MLMwAuMSMPOHH20AO%2F12Tk%2Fw%2Fzzdh%2FWei5jRJ12MLgyvdUhcEVC0Fw%3D%3D

- Of course, such a scenario in which we have deflation at the same time as growth approaches 1.5% in 2017 is not too realistic, but the point is to try to isolate the contribution of HICP to Bunds.

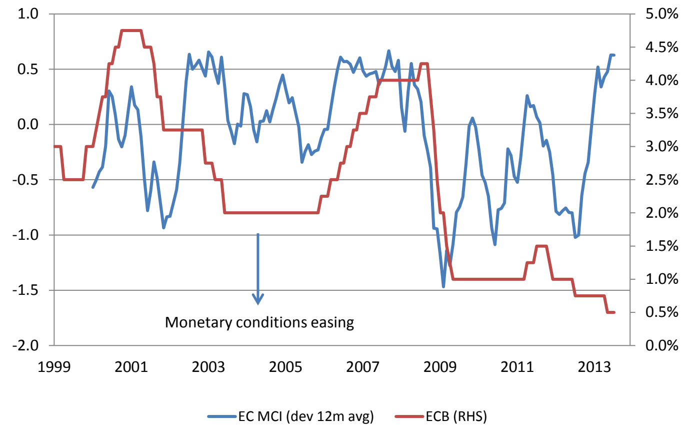
- On the other hand, a jump in inflation rates well above ECB's target – together with the economy growing above potential – would have a disproportionate effect on nominal yields.

Figure 9. Inflation surprises stabilize at very low level…



Source: Citi Research

Figure 10. …While monetary policy seems to be very tight



Source: European Commission, Citi Research

Conclusions

We keep our 1.80% forecast for Bund yields, which is so far also benefiting from FED's decision not to taper

We see little scope to change our medium-term outlook for Bund yields. The currently subdued inflation pressure in the Euro Area and limited future prospects of a significant pick-up in inflation justify our view, at least in the near term. Inflation has been below estimates pretty much since the start of this year (Figure 9) and monetary policy struggles to contribute to growth and to raising inflation expectations, despite all-time low interest rates (Figure 10).

As such, we see yield levels deviating by 20bp from our estimate of 1.80% (either way) as strong trading signals for duration. We have left "exogenous" variables[3] intentionally aside in this analysis, but this approach could bear its fruits in the context of a delay in the FED's decision to slow down the pace of asset purchases.

[3] I.e. US Treasuries

Euro Rates – Periphery resilience

A week is a long time in politics

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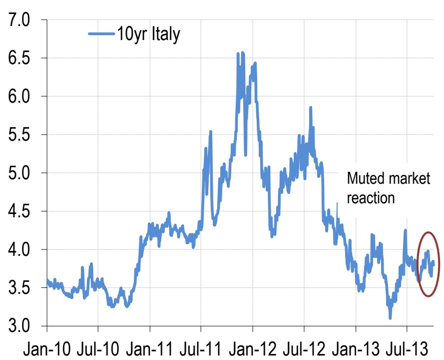
The recent heightened political turbulence in Italy has been denoted by a period of market resilience rather than one of sustained weakness. For reasons detailed here, we are not overly bearish on BTPs given recent events, but rather more neutral - seeing supports from the reliable domestic buyer base as well as ECB policy. The salient point is that on news Berlusconi had ordered PdL government members to resign over the weekend, the market open on Monday was understandably nervous, but not dramatically so. As we detailed in our note (*Where next for BTPs amid ongoing political uncertainty*), an intraday move of 10bp-20bp in BTPs is hardly several standard deviations away from expected daily changes. As highlighted, a period of market relief was likely following a majority decision in favour of the incumbent government.

The disconnect between political uncertainty and market resilience

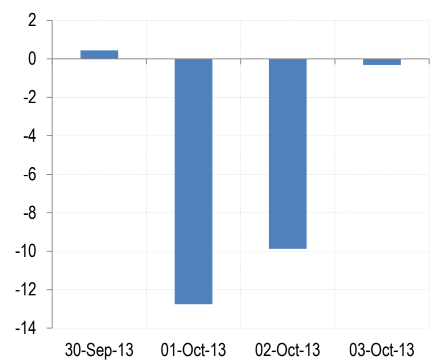
This forms a key pillar as to why we are fairly neutral on BTPs in the near-term. Intra-day volatility aside, it is clear that the market's sensitivity has matured when we think back to the interplay been politics and the market gyrations of 2011 (Figure 11). Furthermore, the inconclusive election result itself in February was certainly not a catalyst for a period of sustained weakness. Optically, looking at simple BTP spreads to Bunds and their changes over the week, it would certainly not be clear that this was the week a former PM tried to break up the government (Figure 12).

Figure 11. Long term history of 10yr Italian yields (%)



Source: Citi Research, Bloomberg

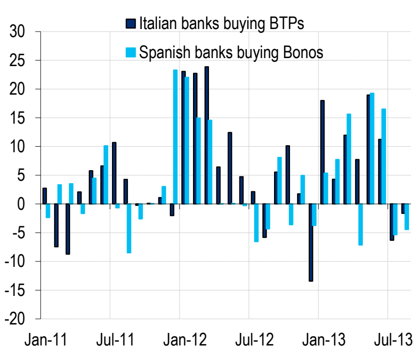
Figure 12. This week's change in 10yr BTP-Bund spreads (bp)



Source: Citi Research

Uncertainties however remain. The next key hurdles for the government are still the decision on Berlusconi's impeachment (the Senate committee is expected to reconvene tomorrow and a plenary vote in the Senate is expected in the next couple of weeks) and the approval of the 2014 budget law (*Euro Area: Sovereign Debt Crisis Update*).

Figure 13. Flows of banks buying domestic government securities (€bn)



Source: Citi Research, ECB

We are neutral on BTPs at current levels

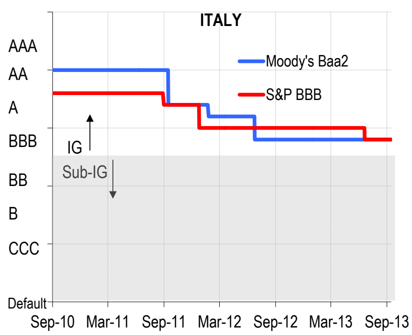
Balancing this near-term political outlook and ongoing fundamental concerns (*Global Economic Outlook and Strategy*), we continue to point to various supports for the BTP market. This includes the reliability of the domestic bid and the prospect for such investors to buy on weakness. The extent of "endoginisation", whereby more and more BTPs (and Bonos) are held by domestic banks, has helped insulate the market to some extent (Figure 13). Furthermore, this dynamic looks set to be reinforced in the event of a further LTRO – which, amongst other things, would help absorb increases in net issuance of periphery bond markets going forward. Further details on this topic are in last week's publication *Moving towards an LTRO* and our 2014 issuance projections are detailed on page 30.

Domestic support and central bank policy continue to provide a degree of insulation…and is there really anything new in coalitional government in Italy…

Secondly, we continue to place weight on the ECB's inactive OMT and its broader effect of rejuvenating confidence within the EMU market over time. Both this and the reliable domestic bid should continue to provide a degree of support, especially to the front-end of curves. Weighing up such drivers, we remain of the view that BTP spreads should trade around the 250bp level to Bunds as detailed in our *Global Economic Outlook and Strategy*. On a relative basis vs Spain, there is probably scope now for the retracement of BTP's underperformance vs Bonos to continue in the near-term.

Moody's comments on the political situation – credit negative

Figure 14. Italy's rating history



Source: Citi Research, Moody's, S&P.

Moody's has since commented on the unfolding events. Unsurprisingly, in their Issuer Comment of 3rd October, this rating agency notes that "*Italy's political instability negative affects the government's ability to proceed with structural and fiscal reforms, thereby jeopardizing the country's fragile economic recovery*". Moody's acknowledges that the vote of confidence in Letta represented the best possible outcome and that, fundamentally, Italy has a primary surplus. The agency also accounts for a degree of fiscal slippage in their Baa2 rating, commenting that "*we expect Italy to miss its target of bringing its fiscal deficit within the EU limit of 3% of GDP in 2013*".

The bottom line here is that the political situation must not undermine efforts of fiscal consolidation or endeavors to inspire growth because such efforts have a meaningful impact on longer-term debt sustainability. So far, there is little evidence that the current degree of political disturbance should materially affect funding levels. However, Moody's "negative outlook" on its rating is clearly an indication that downgrade risks remain.

Periphery market resilience – Portugal and Ireland rally

Resilience has extended to other non-core markets

Away from Italy, market resilience has been a feature of non-core markets more generally. In Spain, yields remain near YTD lows and there was healthy buying at this morning's auction. There has also been interest in Portugal, albeit the PGB market is currently preoccupied with the Troika review and S&P's credit-watch negative stance. In addition, comments by Irish authorities not to issue anything further in 2013 has also encouraged a positive market tone. Such a backdrop is consistent with an environment of relative optimism, helped by the tailwind of the nascent euro area recovery.

Longer-term concerns must be acknowledged however

This positive market tone has also been noted by S&P, which has argued that the euro area crisis is not yet over. We would agree that longer term fundamental concerns remain and the recovery must remain at the heart of European policy making to ensure its durability. As S&P has detailed recently[4], there is "*a risk that the currently favourable market conditions could allow governments to pull back from their fiscal consolidation efforts and growth enhancing structural reforms, thereby jeopardizing further progress on deleveraging and the rekindling of growth*".

Conclusion – market resilience looks here to stay for the time being

For now, the market seems supported

Non-core markets have displayed a notable degree of resilience of late. Going into Q4 – a period of a slowing supply pipeline – we see little reason for the current mood to change fundamentally. Possible signposts influencing the near-term outlook include Italy's political schedule and S&P's credit watch of Portugal, but as recent market behavior has illustrated, much of this is already seemingly acknowledged.

[4] S&P Ratings Direct: "*The Eurozone Crisis Isn't Over Yet*" 1st October

UK Rates – Treading water

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The dramatic re-pricing of gilt yields in the last few months is probably at its end, in our view. We expect gilt yields to become range-bound in the coming months, close to current levels. According to our analysis, the sell-off since May can largely be justified by domestic fundamentals. A significant reversal in yields is, therefore, unlikely. At the same time, any further sell-off is likely to be much less severe. The run of domestic data surprises may be coming to an end. The focus is likely to shift to whether the strong growth implied by the surveys is reflected in the official data.

Domestic drivers point to 10yr gilt yields forming a range, but international factors present a risk

With domestic drivers moderating, the risk is that the volatility in gilts becomes increasingly driven by international factors. Such risks are particularly heightened at the present time, most notably in the US political arena.

Growth has driven yields higher

Domestic data has 'caught up' with the sell-off

10yr gilt yields are almost 110bp higher since early May. The initial stages of the bear market were arguably "unwarranted" (as the MPC put it in early July) by the domestic backdrop. The sell-off was driven by Treasuries and fear of 'tapering' from the Fed. However, domestic data has since 'caught up' with the sell-off.

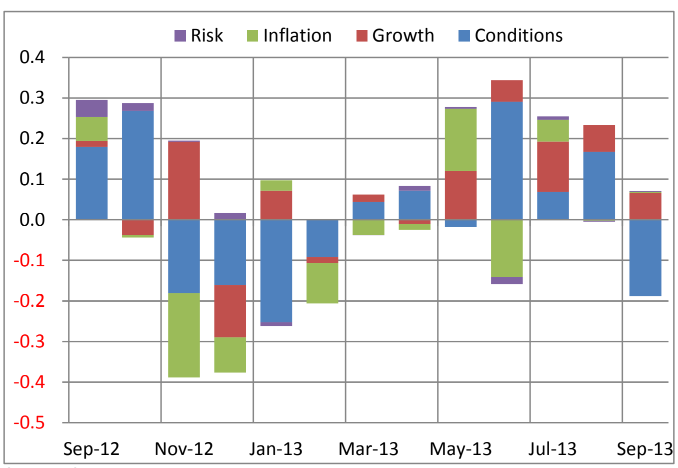
Our 'fair value' model uses variables for growth, inflation, conditions and risks factors

The notion that growth has largely driven the sell-off is captured by our 'fair value' model for gilts. The model uses four independent variables to represent growth, inflation, conditions (including QE, economic surprises and policy rate expectations) and risk factors. Each variable is an index comprised of multiple inputs weighted by market significance. The inputs used are all domestic.

The growth index has been the largest contributor to the rise in 'fair value' yields over recent months

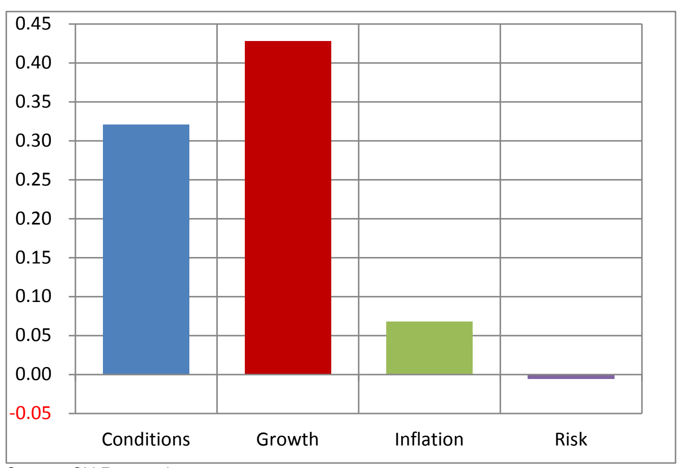
Figure 15 shows the contribution of each of the four variables to the monthly change in the fair value estimate for 10yr gilt yields. The conditions index has been a significant driver behind the rise in yields, but with QE on hold, this largely reflects the re-pricing of policy rate expectations which itself is a function of the growth outlook. This index is also the most volatile and is behind the fall in the fair value yield over the last month. The growth index (which includes inputs for GDP, employment, house prices and consumer confidence) has been a more consistent driver of yield changes. Over the last five months as a whole, the growth index has been the largest contributor to the rise in yields (Figure 16). It is also worth noting that both the inflation and risk variables are relatively muted at the present time.

Figure 15. Contributions to the monthly change in 'fair value' gilt yields



Source: Citi Research

Figure 16. Cumulative contribution over the last five months



Source: Citi Research

75% of the sell-off is justified

The current residual between 10yr gilt yields and our assessment of 'fair value' is 30bp

In total, our fair value model suggests that around 75% of the sell-off since May is justified by domestic fundamentals. The current residual between 10yr gilt yields and our assessment of 'fair value' is 30bp, as shown in Figure 17. However, we are reluctant to call it an 'overshoot'. The rest can probably be attributed to the impressive run of positive survey surprises and to international factors.

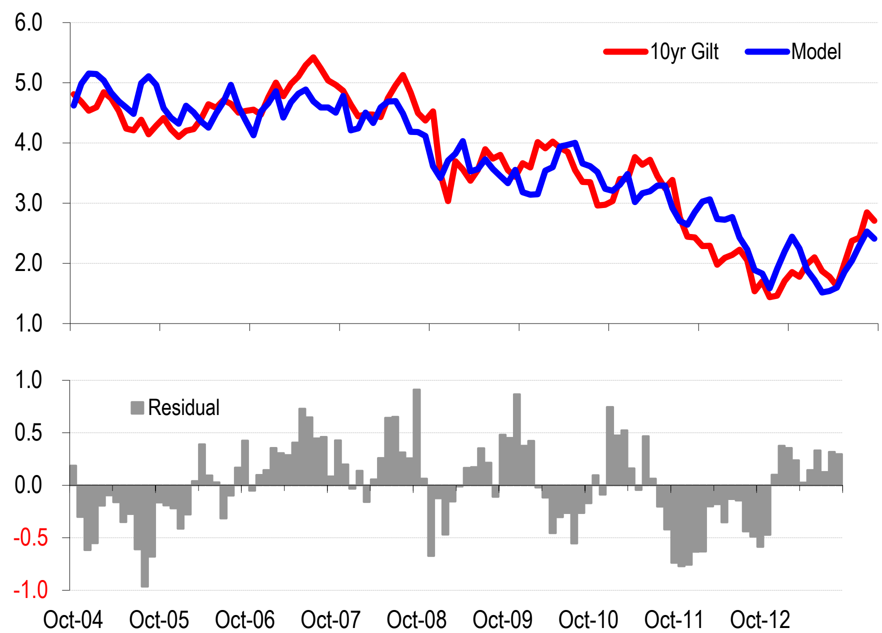
The sustained run of upside data surprises may be over…

On the domestic front, there are some signs that the run of positive data surprises may be over. This week's manufacturing and services PMIs were below consensus expectations for the first time in 6 and 8 months respectively.

…but the surveys are maintaining levels which point to strong growth

However, the PMIs have reached a level which is consistent with strong growth in the region of 1%-1.5% QoQ (see *UK: PMI Highlights Strong Economic Pickup*, 3 October). The influence of domestic drivers of gilts from here will likely depend less on surprises and more on whether the strong growth implied by the surveys is reflected in the official data. This will take time to be established and any domestic-driven sell-off from here is likely to be much slower progress.

Figure 17. Citi 10yr Gilt Fair Value Model



Source: Citi Research

What does the US debt ceiling mean for gilts?

The US political deadlock is likely to drive yields in the near-term

Relative stability in domestic drivers may allow international factors to dictate the near-term direction of gilt yields. Much will depend on developments in the US. Ending the government shutdown is the first hurdle, but attention will then turn fully onto the debt ceiling deadline (17 October) which holds far greater significance for the market. The probability of the debt ceiling not being raised is, hopefully, low. However, uncertainty ahead of the deadline is likely to be accompanied by a 'risk-off' dynamic. As our US colleagues have argued (see *US Rates & MBS Weekly*, 27 September), this could lower Treasury yields in the near-term, somewhat perversely given the risk of default. Gilt yields could fall even more as their relative safe haven status is enhanced as the US political system loses credibility on the international stage.

In the low-probability scenario of a default on US debt, Treasury yields are likely to snap higher. In this event, there will likely be flight-to-quality into the front-end and we would prefer to hold gilt curve steepeners rather than outright duration risk.

View summary - range-bound, but bullish in the near-term

US politics and technicals support a near-term bullish view

Domestic drivers point to 10yr gilt yields forming a range close to current levels, in our view, but international factors present a near-term risk. In particular, the longer the political deadlock in the US goes on, the more it is likely to encourage a risk-off environment. The market has been quite sanguine so far, but we would rather be long gilts than short in the near-term.

Moreover, our technical analysis (see page 22) supports a bullish case for gilts in the very near-term. For the 10yr gilt future (G Z3), we target 112.2 (vs the current level of 110.72).*

On a much more micro level, we have identified a relative value opportunity in the front-end of the gilt curve. The trade is to buy 1.25% Jul18 vs 1% Sep17 and 4.75% Mar20 (for details and chart see the *Relative Value* section on page 24).

*Please note: Futures trading involves a substantial risk of loss.

Inflation: fade the rally in BTPei break-evens

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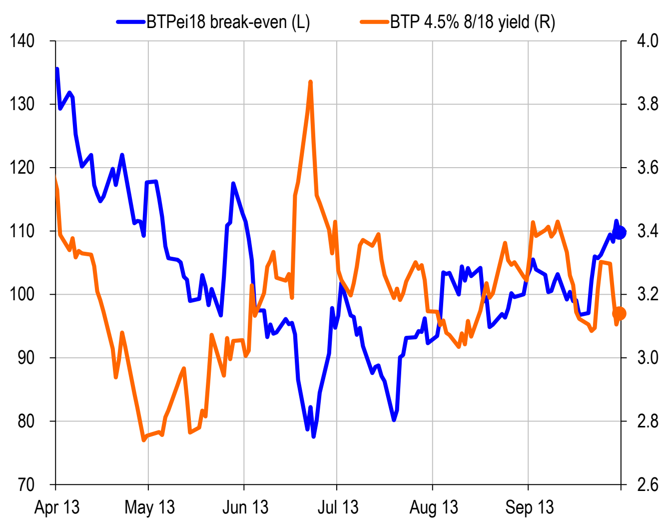
BTPei break-even spreads have performed well recently, despite the rally in nominal yields. We consider the directionality of BTPei break-evens and recommend fading the rally vs Boblei.

The unusual directionality of BTPei break-evens

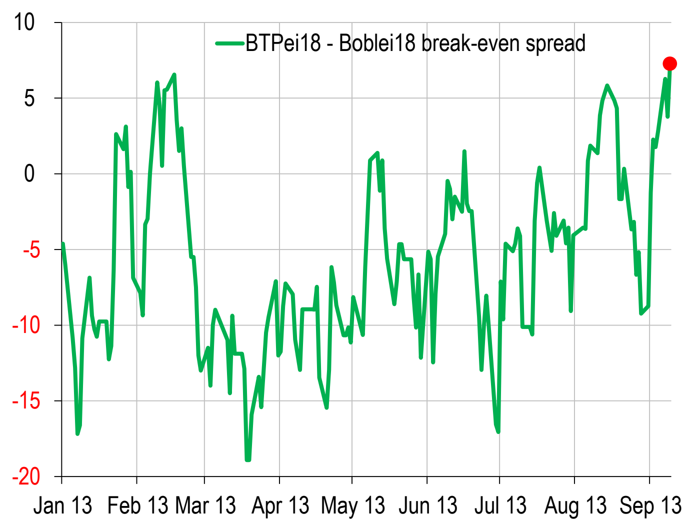
BTPei break-evens have widened during the latest rally in nominal BTP yields. This is not in line with the 'usual' directionality of break-evens. Normally, break-evens are expected to narrow in a rally, and vice versa, reflecting the relative stability of real yields vs nominal yields. However, as Figure 18 shows, 5yr BTPei often do not follow this dynamic. In that sense, the latest de-coupling is unsurprising. Nevertheless, the widening in the last few days has taken BTPei break-evens to their highest level in 6 months, outperforming their German and French counterparts.

Figure 18. BTPei break-evens vs nominal yields



Source: Citi Research, Bloomberg

Figure 19. 5yr BTPei break-evens have outperformed Boblei recently

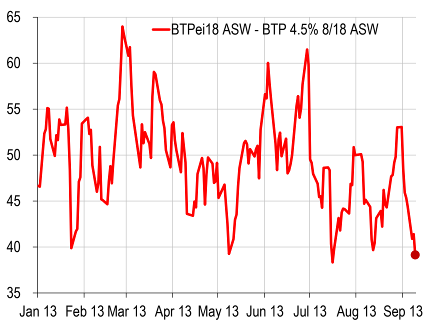


Source: Citi Research, Scooby2

Sell BTPei18 break-evens vs Boblei18

The rally in BTPei break-evens has gone too far, in our view, especially on a cross-market basis. The 5yr sector appears to be the best point on the curve for fading this move. BTPei18 and BTPei19 have led the recent rally and look rich vs the surrounding issues. The historical richness of 5yr BTPei can also be seen from the asset-swap box vs reference BTPs (Figure 20). Furthermore, BTPei18 break-evens are trading at a positive spread vs Boblei18 which historically has always been short-lived. The break-even box has reversed from these levels on three occasions already this year (Figure 19). Apart from this, BTPei18 has accounted for around 60% of the 2013 BTPei issuance so far. If this trend continues, it is unlikely to be long before the issue faces supply pressure again.

Figure 20. BTPei18 ASW vs the reference conventional



Source: Citi Research

Furthermore, Germany has announced earlier this week that Boblei18 will be reopened for €1bn on Tuesday. This will be their penultimate linker supply in 2013and likely the last in Boblei18. The auction was widely anticipated and Boblei18 is therefore unlikely to underperform by much ahead of the auction.

Trade details: sell BTPei18 vs Boblei18 on a break-even basis

Open 7bps. Target -8bps. Stop 15bps.

EUR Vol: Optimal points for bearish trades

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Searching for optimal bearish trades

As of late investors have been looking at bearish trades via options. Despite current subdued inflation, prolonged accommodative policy has prompted interest in hedging the risk of higher yield environment in the medium/long term.

In this note we take a look at simple upside trades via payer swaptions across the volatility surface to get a flavour of the main traits of such positions (pricing, rolldown and delta).

The four table bellows show the D-Ratios[5] for long ATMF payer swaptions, 1 x 1 payer swaption spreads, 1 x 1.5 payer swaption spreads and 1 x 2 payer swaption spreads respectively. In short, D-Ratios shows the value of the entry point with respect to the trading range over a given period (here, from 2010 until now). Figure 21 shows what should be expected: options are cheap for short expiries given the low level of rates; medium expiry options look expensive on intermediate tenors and finally the top right corner trades in lower region of the trading range as a result of the high volume of callable flows. The heatmaps change in the other three figures as the skew is taken into account: for instance, in Figure 23, the D-Ratio of the price of a long position in 5y5y ATMF swaption payer vs shorting 1.5 times 5y5y ATMF + 100bp is 13: the skew has turned the expensive intermediate vega region of Figure 21 in the cheap intermediate region of Figure 23. It is worth highlighting that the extremely high D-Ratios for very long expiries in Figure 22, Figure 23 and Figure 24 can be explained with the relatively low volatility of prices of payer spreads in that region: in turn high D-Ratios reflect a relative tight trading range.

Figure 21. D-Ratio: ATMF Payer Swaption

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	25y	30y
1m	11	18	30	36	35	35	34	33	31	28	24	20	16	13
3m	3	15	25	31	32	33	31	29	25	25	22	17	12	8
6m	11	22	29	34	36	36	34	31	27	26	21	17	12	9
9m	16	27	35	40	40	39	37	33	29	26	20	16	11	8
1y	23	34	40	44	44	42	39	35	30	25	19	15	11	8
2y	46	54	57	57	56	51	45	40	34	33	26	21	16	11
3y	58	66	66	64	59	56	54	53	50	48	40	32	26	17
4y	66	72	73	75	71	71	69	67	65	61	51	43	35	26
5y	78	85	85	85	80	77	75	72	70	68	59	51	43	32
6y	86	88	86	83	77	76	74	72	70	67	61	53	45	34
7y	84	82	82	79	76	74	72	71	69	66	60	53	44	33
8y	82	79	77	75	72	70	68	67	65	64	57	51	43	32
9y	80	74	74	72	71	68	67	65	63	62	55	49	41	31
10y	80	74	72	72	70	68	65	63	62	61	55	48	39	31
15y	64	60	61	60	58	57	55	55	53	50	43	37	30	24
20y	50	50	49	48	47	46	45	43	43	40	33	27	22	17
25y	43	42	42	42	40	38	37	36	35	33	26	21	17	14
30Y	37	39	39	38	37	35	34	32	32	29	23	17	15	12

Source: Citi Research

Figure 22. D-Ratio: ATMF/ATMF+100bp Payer Swaption Spread 1 x 1

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	25y	30y
1m	11	18	31	37	35	35	34	33	31	28	24	20	17	13
3m	3	16	27	33	34	34	32	29	26	26	23	18	13	9
6m	13	25	31	35	36	35	32	29	26	23	21	17	13	10
9m	20	29	34	36	35	33	31	27	24	20	17	15	11	8
1y	25	32	34	34	31	29	27	24	20	16	14	14	11	7
2y	29	28	26	24	20	16	13	9	5	11	11	11	8	6
3y	28	26	19	10	1	6	11	16	19	22	23	23	23	22
4y	15	9	0	3	12	16	20	25	28	31	30	28	28	25
5y	0	1	4	15	21	25	30	34	37	40	36	33	32	28
6y	3	4	15	22	27	30	34	37	40	41	38	36	34	30
7y	6	14	23	28	32	34	37	39	42	43	41	38	36	32
8y	8	22	28	32	35	37	39	41	43	44	43	39	37	34
9y	10	27	32	35	38	39	41	43	44	46	45	41	39	35
10y	14	34	37	39	41	42	43	44	46	48	47	43	40	37
15y	48	57	57	58	58	56	55	53	52	51	52	52	51	48
20y	64	67	67	66	66	64	62	60	59	56	57	57	55	52
25y	69	67	66	66	66	64	63	61	59	56	55	52	50	47
30Y	68	66	63	61	60	58	56	57	55	53	49	47	46	44

Source: Citi Research

[5] Current prices are mapped onto the closed interval [0;100]. If the D-Ratio is zero, the current valuation is at the bottom of the trading range; if is 100, it is at the top. D-Ratios have been computed by looking at the 2010 – To date period.

Figure 23 D-Ratio: ATMF/ATMF+100bp Payer Swaption Spread 1 x 1.5

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	25y	30y
1m	11	18	31	37	35	35	34	33	31	28	24	20	17	13
3m	3	17	28	34	35	34	32	30	26	26	23	19	13	10
6m	15	27	33	36	36	34	31	28	25	21	20	18	14	10
9m	22	31	33	32	30	27	24	21	17	13	13	14	10	7
1y	25	27	22	17	13	13	14	14	14	14	8	11	8	4
2y	20	26	27	26	23	23	23	22	21	18	13	4	5	6
3y	18	19	19	19	17	17	17	17	18	18	18	17	20	34
4y	14	16	17	16	15	15	16	17	17	19	17	14	15	28
5y	11	13	13	13	13	14	15	16	17	18	14	9	14	23
6y	8	10	11	12	13	13	14	15	16	18	11	9	16	24
7y	8	11	10	11	11	11	13	14	15	20	17	14	21	29
8y	7	9	10	11	11	12	12	13	19	26	24	22	26	32
9y	7	9	10	11	10	11	12	19	26	32	31	29	31	36
10y	6	9	9	9	9	9	18	26	31	36	36	34	38	41
15y	45	53	54	55	56	58	58	58	58	60	67	67	67	71
20y	75	78	78	79	79	78	77	77	75	76	85	86	88	89
25y	84	86	86	87	88	87	86	86	84	85	93	90	91	92
30Y	87	87	86	86	87	87	86	85	84	85	95	92	93	94

Source: Citi Research

Figure 24. D–Ratio ATMF/ATMF+100bp Payer Swaption Spread 1 x 2

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	25y	30y
1m	11	18	31	37	36	35	34	33	31	28	24	20	17	13
3m	3	18	30	35	35	35	33	30	27	27	24	19	14	10
6m	16	30	35	36	36	33	29	26	22	18	19	18	14	10
9m	23	28	25	19	18	17	17	17	17	17	8	9	6	5
1y	21	27	30	30	29	29	30	31	32	32	25	13	6	5
2y	29	33	33	33	31	30	30	28	27	30	38	41	46	55
3y	21	22	22	22	21	21	21	21	22	22	36	45	54	68
4y	17	18	19	17	17	17	18	18	18	20	31	38	48	60
5y	13	14	14	13	13	14	14	15	16	21	26	33	41	52
6y	8	10	10	11	12	12	12	13	17	24	26	32	41	50
7y	8	10	9	9	9	9	10	15	21	27	30	34	43	53
8y	6	8	8	9	9	11	17	22	27	31	35	39	46	55
9y	6	10	9	9	9	17	22	27	32	35	39	43	50	59
10y	7	14	14	13	15	20	26	31	35	38	41	46	54	64
15y	42	48	48	49	51	52	52	53	53	56	63	69	78	85
20y	67	68	68	69	69	69	69	69	68	70	79	88	88	90
25y	75	76	76	77	78	78	78	77	77	78	86	91	92	93
30Y	79	77	76	76	77	78	78	78	78	79	87	93	94	95

Source: Citi Research

Observe that even if short expiry payers are historically cheap, their total rolldown on the curve and volatility surfaces is negative: it is therefore highly costly to hedge higher rates with them. The rolldown analysis for swaption payers and swaption payer spreads is shown in the four table bellows: for consistency, given that the upfront premium for selected payer spread structures is negative, we show expected one-year rolldown PnL (in EUR thousands) as opposed to one-year expected rolldown returns. We have assumed 100m notionals. One point to note from the rolldown analysis that payer spread positions significantly improve the rolldown of bearish positions (if compared with simple long swaption payers) on short/medium expiries.

Figure 25. One year rolldown for ATMF Payer Swaption

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	30y
1y	-180	-466	-802	-1,147	-1,449	-1,729	-1,994	-2,252	-2,492	-2,706	-3,581	-4,284	-5,481
2y	-321	-648	-914	-1,143	-1,386	-1,582	-1,761	-1,921	-2,056	-2,190	-2,547	-2,880	-3,459
3y	-325	-588	-801	-989	-1,130	-1,285	-1,425	-1,552	-1,646	-1,737	-1,930	-2,064	-2,390
4y	-263	-448	-598	-743	-885	-1,015	-1,128	-1,205	-1,285	-1,312	-1,380	-1,499	-1,784
5y	-178	-319	-455	-568	-664	-742	-806	-859	-902	-964	-984	-1,068	-1,243
6y	-134	-237	-333	-416	-480	-540	-574	-608	-629	-611	-583	-587	-679
7y	-96	-171	-253	-303	-348	-371	-388	-391	-377	-359	-254	-227	-252
8y	-77	-132	-173	-201	-212	-201	-198	-178	-151	-151	-45	33	-25
9y	-59	-95	-116	-127	-141	-116	-82	-45	-17	4	98	163	230
10y	-43	-56	-54	-57	-38	-23	21	64	72	101	185	238	313
15y	50	105	151	184	220	248	278	297	328	358	440	450	498
20y	34	62	86	114	136	158	176	199	212	228	232	264	319
30y	5	10	14	18	22	28	32	37	43	48	76	95	118

Source: Citi Research

Figure 26. One year rolldown for ATMF/ATMF+100bp Payer Swaption Spread 1 x 1

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	30y
1y	-148	-361	-594	-836	-1,069	-1,292	-1,511	-1,727	-1,937	-2,136	-2,949	-3,642	-4,775
2y	-157	-308	-437	-551	-676	-780	-877	-967	-1,049	-1,124	-1,273	-1,401	-1,734
3y	-130	-238	-327	-401	-462	-520	-572	-618	-650	-677	-721	-768	-953
4y	-88	-155	-208	-253	-293	-332	-366	-385	-403	-408	-357	-332	-337
5y	-63	-112	-154	-184	-208	-231	-242	-248	-249	-248	-172	-125	-69
6y	-40	-71	-99	-121	-138	-143	-141	-135	-125	-105	-36	2	7
7y	-30	-54	-75	-89	-92	-88	-80	-67	-46	-24	47	88	104
8y	-23	-42	-55	-56	-53	-42	-29	-7	16	37	101	146	160
9y	-19	-32	-33	-29	-21	-7	16	39	61	81	141	181	203
10y	-13	-15	-11	-2	12	32	55	78	97	116	172	207	229
15y	18	39	57	72	86	98	109	119	131	142	172	172	188
20y	10	19	26	35	42	50	56	62	66	70	69	73	95
30y	1	2	3	3	3	4	5	7	8	11	24	35	54

Source: Citi Research

Figure 27. One year rolldown for ATMF/ATMF+100bp Payer Swaption Spread 1 x 1.5

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	30y
1y	-132	-308	-490	-681	-880	-1,074	-1,269	-1,465	-1,660	-1,852	-2,633	-3,321	-4,422
2y	-75	-138	-199	-255	-321	-380	-436	-490	-546	-591	-637	-661	-871
3y	-33	-63	-89	-108	-128	-137	-146	-151	-151	-147	-117	-121	-234
4y	-1	-8	-14	-9	4	9	15	24	38	43	154	252	386
5y	-5	-9	-3	8	20	25	40	57	78	110	235	347	518
6y	7	11	18	26	32	56	76	102	128	148	238	296	351
7y	3	5	14	18	36	53	74	95	119	143	197	246	282
8y	5	3	4	16	27	37	56	79	100	131	173	203	252
9y	2	0	9	20	40	48	64	81	100	119	163	191	190
10y	2	6	11	26	36	60	73	85	109	124	166	191	187
15y	2	6	10	15	18	23	25	30	32	34	38	32	33
20y	-2	-2	-3	-5	-5	-5	-4	-7	-6	-10	-13	-23	-18
30y	-1	-2	-3	-4	-6	-8	-8	-8	-9	-8	-2	5	22

Source: Citi Research

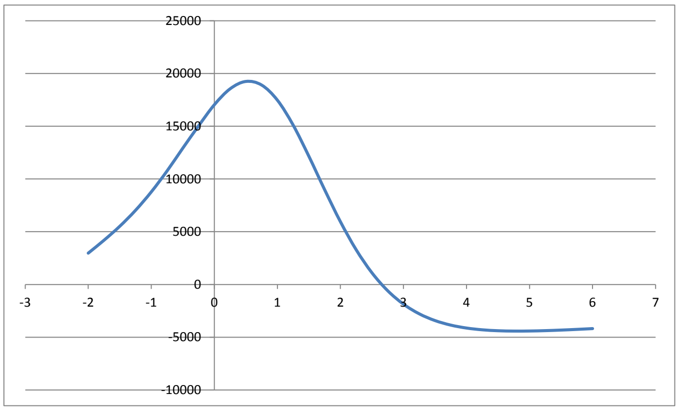
Figure 28. One year rolldown for ATMF/ATMF+100bp Payer Swaption Spread 1 x 2

	1y	2y	3y	4y	5y	6y	7y	8y	9y	10y	15y	20y	30y
1y	-116	-255	-386	-525	-690	-856	-1,028	-1,203	-1,382	-1,567	-2,318	-3,001	-4,070
2y	6	32	39	41	34	21	6	-13	-42	-58	0	79	-8
3y	64	112	148	186	206	245	281	316	347	384	487	527	485
4y	86	139	181	236	300	351	396	434	479	495	666	836	1,110
5y	53	95	148	200	248	280	322	363	405	468	641	818	1,104
6y	54	94	136	174	203	255	293	339	380	401	512	591	694
7y	36	63	103	125	164	194	228	257	285	310	348	404	460
8y	32	48	63	88	106	117	140	164	183	225	246	259	344
9y	22	32	51	68	100	103	113	123	139	157	184	200	177
10y	17	27	33	53	61	87	90	91	122	132	160	175	145
15y	-15	-27	-36	-41	-49	-53	-60	-59	-67	-74	-96	-107	-123
20y	-15	-24	-33	-45	-52	-59	-64	-75	-79	-89	-94	-118	-130
30y	-3	-6	-8	-12	-15	-19	-22	-24	-27	-27	-28	-25	-10

Source: Citi Research

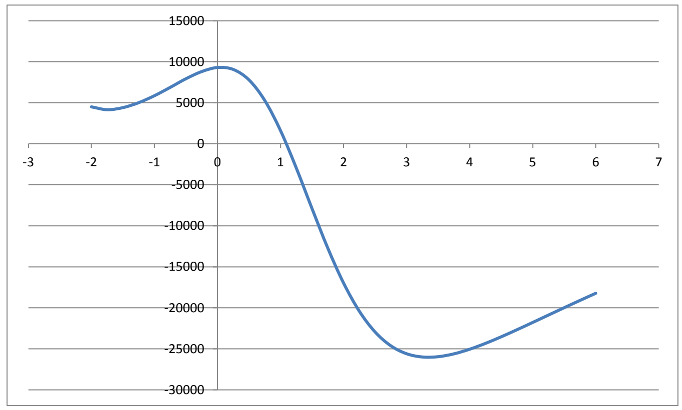
A final measure to look at is the delta dynamics: if on one hand increasing the weight on the short position of the payer spread reduces the upfront premium (and increases the rolldown in certain region of the surfaces), on the other the sensitivity of the position versus the level of rates can change in such a way that the position is no longer an effective bearish trade. Figure 29 and 30 show the delta scenario analysis for a simple 4y10y payer swaption spread and a 1 x 1.5 4y10y payer swaption spread respectively. The first trade shows a mild negative rolldown while the second is positive; however, the delta of the first trade is still positive after 275bp sell-off whereas the second turns negative after around 100bp sell-off.

Figure 29. Delta Scenario Analysis for 4y10y 1 x1 Payer Swaption Spread



Source: Citi Research

Figure 30. Delta Scenario Analysis for 4y10y 1x1.5 Payer Swaption Spread



Source: Citi Research

Conclusion

Options currently offer an attractive way to establish bearish positions. Preferences can matter (e.g. to give up rolldown to reduce upfront costs) and put a constraint on the selection of the optimal trade. More generally, as outlined above investors should take into account a number of metrics that characterize such trades in addition to the rolldown.

SSA Strategy – RV & upcoming ESM supply

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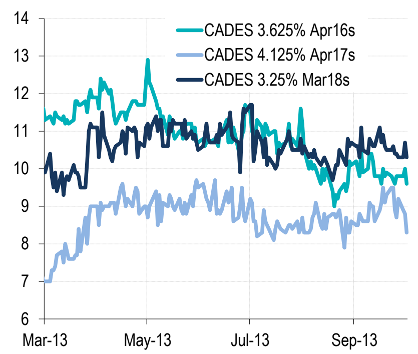
(1) French agencies outperform – all time tights to KfW

Away from Italian politics and the US shutdown, one clear theme in the European SSA sector is the healthy performance of French agencies. Compared with France, CADES and OATs have perhaps one of the most reliably stable spreads in the sector, supported by a strong domestic bid. We see no reason for this to change in the near term, and expect such agency spreads to remain relatively tight at around 10bp to the sovereign (Figure 25).

Figure 25. CADES spreads to France (bp)

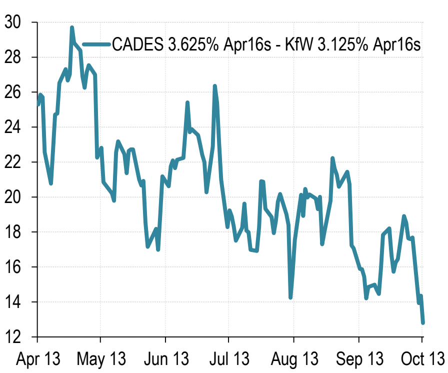


Source: Citi Research, Bloomberg

Good performance of France in general, and the locked OAT-Bund range, has seen CADES rally to all time tights vs German agencies such as KfW. For example, in the 3yr sector, where KfW yields have shown some degree of consolidation, CADES yields have continued to march lower. Spreads between the two core agencies have neared 30bp earlier in the year to now approach a mere 12bp (Figure 26). Given the prospects of KfW euro supply (it has been a frequent issuer in the dollar market recently, $1bn issued earlier this week), we think such spread levels could persist around current levels for the time being.

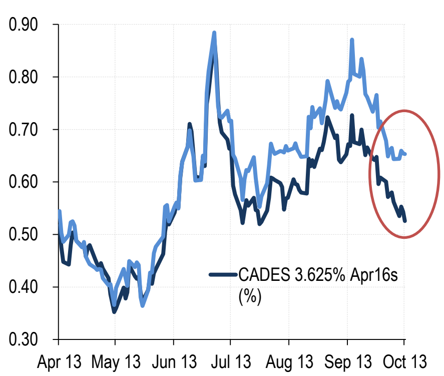
In terms of relative value, this good performance of France has widened spreads to other agency sectors. For one, Dutch agencies have lagged in the move lower in yields. As an example, BNG Jun16s yields have stabilised compared with CADES Apr16s and the spread is near its recent wides at 13bp (Figure 27, Figure 28). Although this particular spread will probably have to widen further before attractive interest, we would certainly monitor the switch in the sessions ahead as a potential strategy to move up in quality (BNG is rated Aaa/AAA by Moody's and S&P).

Figure 26. CADES vs KfW (Yield Spread, bp)



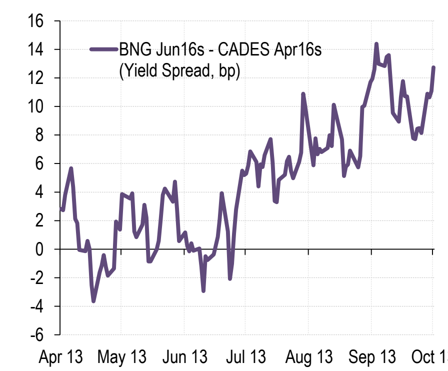
Source: Citi Research

Figure 27. 3yr CADES and 3yr BNG (Yields, %)



Source: Citi Research

Figure 28. 3yr BNG – 3yr CADES (Spread, bp)



Source: Citi Research

(2) ESM issuance likely in coming weeks

ESM issuance is almost here

In a hugely anticipated transaction and arguably the key event the SSA market this year, the ESM has indicated it may issue in October. 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.

See Citi's ESM primer for full details

In total, the ESM has indicated (latest Investor Presentation) a preliminary supply pipeline for its long-term funding programme of €9bn for 2013. Below we re-cap its key characteristics and how it differs from its predecessor, the EFSF. Full details can be found in our primer, *Euro SSA Strategy - The EFSF and ESM in 2013*.

ESM characteristics and distinguishing features

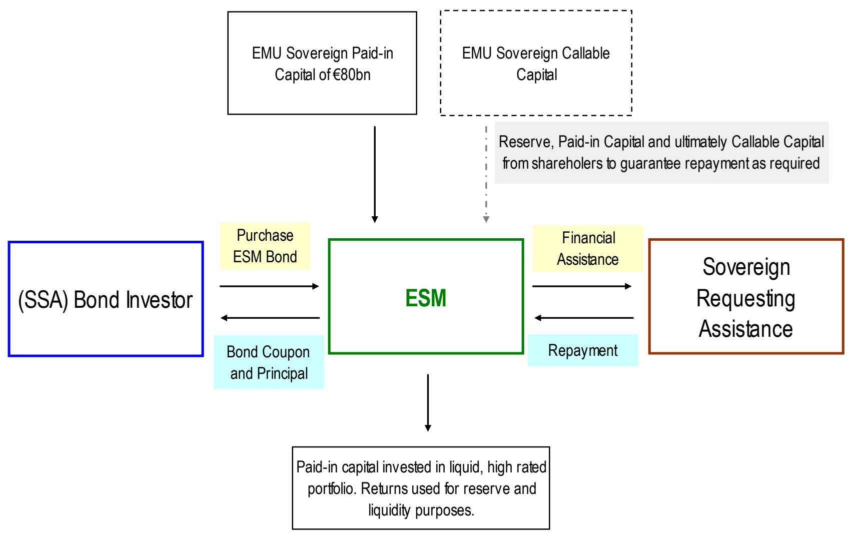
What is the ESM able to do?

ESM tools: The ESM has a capital structure similar to multinational lending institutions, although there are important differences. As an entity, it is an intergovernmental organization established by Treaty with a Board of Governors and Board of Directors. Its purpose is to provide stability support to sovereigns who request (conditional) financial aid. It can provide loans, precautionary credit lines, purchase bonds (both in the primary and secondary market), and finance bank recapitalizations through loans to governments. Like the EFSF, the ESM can raise funds in the capital markets and then manage resources to provide financial aid.

Paid-in capital of €80bn ultimately, €32bn currently

ESM structure: Unlike the EFSF, the ESM will ultimately have paid-in capital totaling €80bn. This is to be invested in high quality assets. Total subscribed capital is €700bn, of which €620bn is callable. The general structure of the ESM is highlighted schematically in Figure 29.

Figure 29. Likely ESM Structure, Schematic



Source: Citi Research, ESM, Moody's ESM Rating.

How does the ESM compare to the EFSF?

Key differences of the ESM vs EFSF

In some ways, the ESM is similar to the EFSF, in that its central policy mandate is to provide conditional financial aid to EMU sovereigns upon request. It also has similar tools, such as purchasing bonds and providing loans. In terms of distinguishing features and enhanced credit supports, we would highlight the following:

- Paid-in capital of €80bn
- Maximum lending capacity of €500bn
- Permanence
- Intergovernmental organization established under international law

Bottom line: enhanced features likely to ensure core market status

We believe that given the ESM's features of paid in capital, preferred creditor status and its shareholders' commitment will enable it become a core market issuer within the European supranational universe. Furthermore, the certainty in establishing the euro area's permanent stability mechanism is clearly a welcome step in the development of the wider crisis management framework.

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 ESM Treaty which forms the legal basis for ESM operations as ratified by the euro area member states[6]:

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*".

[6] Details and quotes are directly from the ESM Treaty text.

Technical update: Bund uptrend weakening

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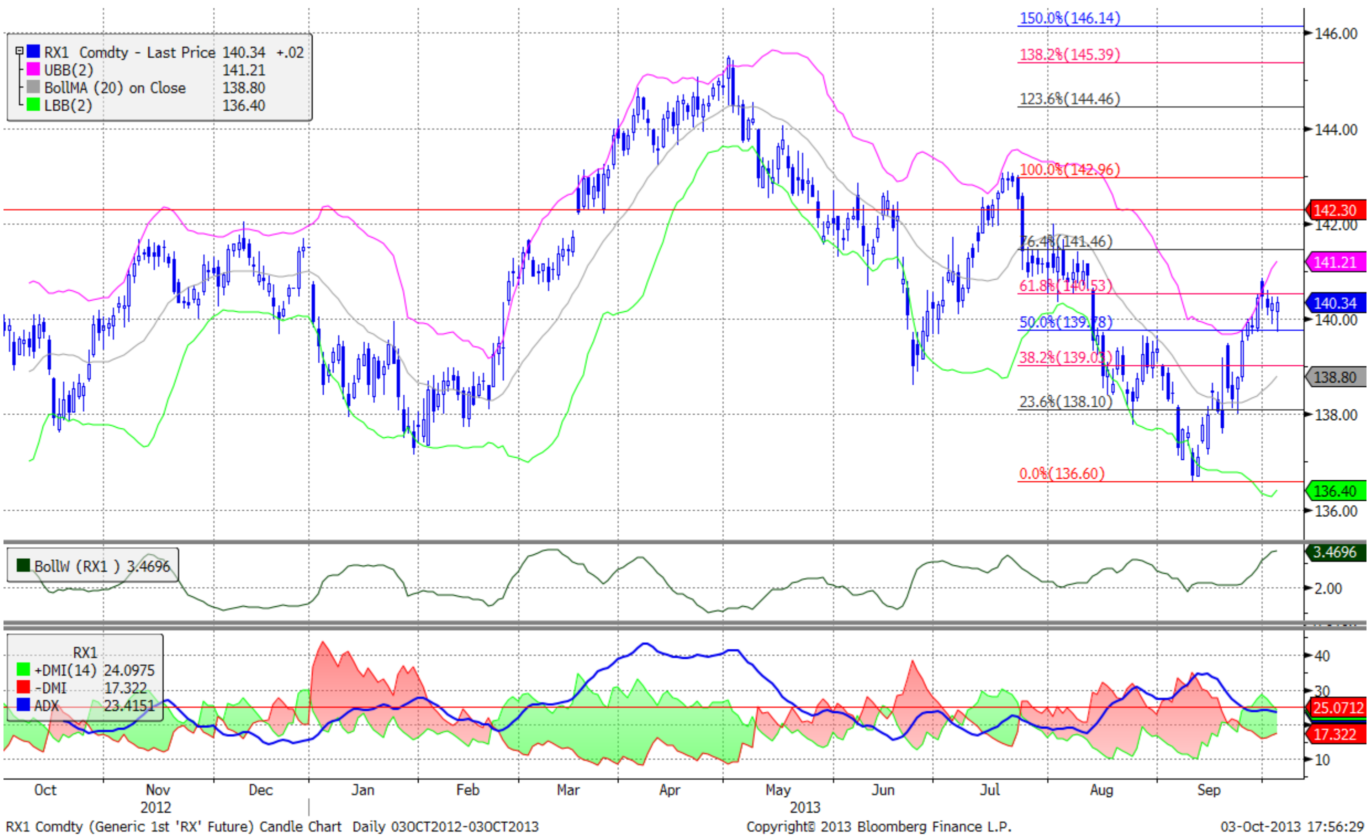
Bunds

Figure 34 shows a daily candlestick chart of continuous 10yr Bund futures. A white candle indicates that the closing level is above the opening level, and a blue candle indicates that the closing level is below the opening level. Wicks (or shadows) on both ends indicate intraday range.

The upward momentum in Bunds seen after the formation of the inverse Head and Shoulders has weakened. 14 day DMIs have stalled on a daily chart and Bollinger Bounce indicates a pause in the upward trend. While RX1 remains supported at 139.80 level, it is likely to face strong resistance at 141.2, given by the downward channel on a weekly chart. A break in any of these levels will mark the beginning of a new trend, but the risks are biased towards downside. A move above 141.5 might be the beginning of a sustained trend in the near-term.

Figure 30. 10yr continuous Bund futures with Fibonacci levels, 14 day ADX and Bollinger Bands



Source: Bloomberg

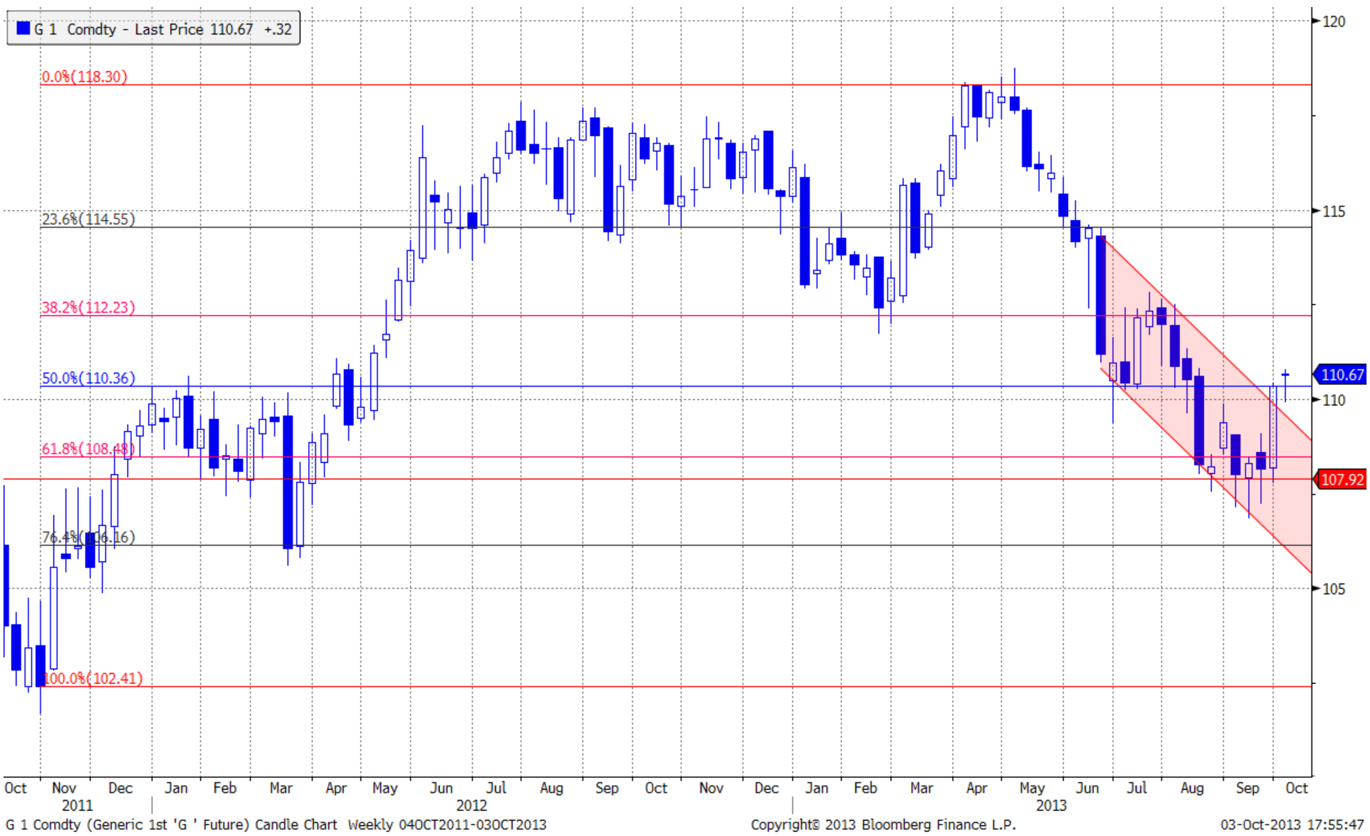
Support: The first support is in the 139.8 area, which is the 50% retracement of the July–September sell-off and remains a major support on the weekly chart. If that is broken, the next support will be in the 138.1 region, which is the 23.6% Fibonacci retracement.

Resistance: The first resistance is in the 141.2 region given by the downward channel on the weekly chart. The next resistance is around 141.5, which is the 76.4% retracement level and has acted as a resistance in the past.

Gilts

Gilts have broken and holding above the strong resistance at 110.36. The upward momentum remains intact and can be seen in the weekly chart where gilts have broken out of the downward channel. This is a much stronger signal than the breach of the downward channel on the daily chart seen earlier.

Figure 31. 10yr continuous gilt futures with Fibonacci levels



Source: Bloomberg

Resistance: The first resistance level is given by the weekly chart around 112.2. The next major resistance is seen in the 112.7 region, which is also the 50% retracement level of the May – August sell-off.

Support: There is a strong weekly support at 109.7, which is the 23.6% retracement level. If this level is broken, the next support is in the 107 region, which is the lowest closing level of the year.

This hypothesis will be invalidated if a sell-off brings gilts back in the downward channel (next week's channel upper is 109.27).

Relative value trades

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We highlight a number of relative value opportunities in the 2-10yr sector of the UK , Italian, Belgian and Spanish yield curves.

UK: take advantage of cheapness of Jul18s

Buy Jul18s vs surrounding issues

- Buy 1.25% Jul18 vs 1% Sep17 and 4.75% Mar20 (3m carry: +1.7bp) - Figure 36

Italy: fade the richness of Aug16s

Sell Aug16s vs surrounding issues

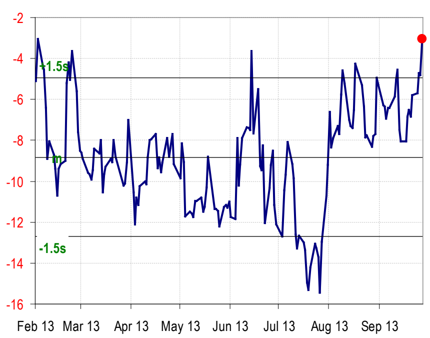
- Sell 3.75% Aug16 vs 3.75% Apr16 and 4.75% Jun17 (3m carry: -0.7bp) - Figure 37

Belgium: fade the richness of Jun18s

Sell Jun18s vs surrounding issues

- Sell 1.25% Jun18 vs 5.5% Sep17 and 4% Mar19 (3m carry: +0.5bp) - Figure 38

Figure 32. UK: 1% Sep17, 1.25% Jul18, 4.75% Mar20 microfly (bp)



Source: Citi Research

Figure 33. Italy: 3.75% Apr16, 3.75% Aug16, 4.75% Jun17 microfly (bp)

Source: Citi Research

Figure 34. Belgium: 5.5% Sep17, 1.25% Jun18, 4% Mar19 microfly (bp)

Source: Citi Research

Spain: fade the richness of Oct20s, cheapness of Oct19s

Sell Oct20s vs surrounding issues

- Sell 4.85% Oct20 vs 4.3% Oct19 and 5.85% Jan22 (3m carry: +1.1bp) - Figure 39

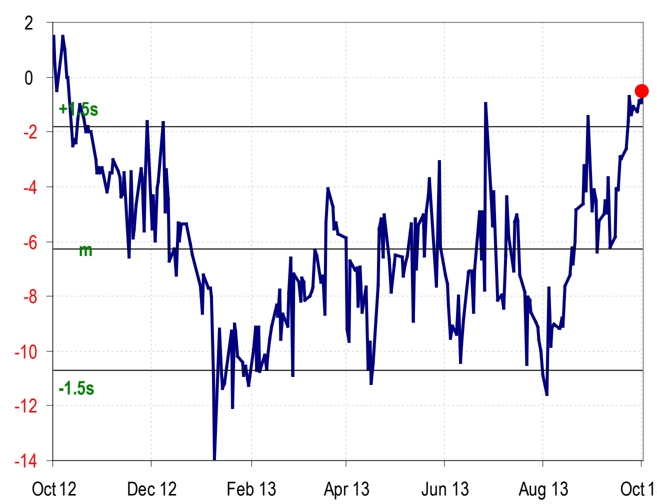
Buy Oct19s vs surrounding issues

- Buy 4.3% Oct19 vs 4.6% Jul19 and 4% Apr20 (3m carry: +0.8bp) - Figure 40

Figure 35. Spain: 4.3% Oct19, 4.85% Oct20, 5.85% Jan22 microfly (bp)

Source: Citi Research

Figure 36. Spain: 4.6% Jul19, 4.3% Oct19, 4% Apr20 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 41 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 37. Yield Spread and CAS to Fitted Relative Value Curve (6m History)

GERMANY

Versus Govt Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	**4.00 Jan18**	-3.91	Nov07	20
	2	**0.50 Oct17**	-3.03	Sep12	16
	3	**3.75 Jan17**	-2.67	Nov06	20
	4	**4.25 Jul18 (OE)**	-2.63	May08	21
	5	**4.25 Jul17**	-2.47	May07	19
	5	**2.50 Jan21**	**0.66**	Nov10	19
	4	**4.25 Jul39 (UB)**	0.74	Jan07	14
	3	**4.75 Jul40**	0.82	Jul08	16
	2	**0.25 Apr18**	1.16	Apr13	17
Cheapest	1	**1.00 Oct18 (5y)**	1.17	Sep13	5

Versus Swap Curve (CAS)

	Rank		ZScore	Issued	Size (€bn)
Richest	1	**4.00 Jan18**	**-1.74**	Nov07	20
	2	**2.25 Sep21**	-1.42	Aug11	16
	3	**1.75 Jul22 (RX)**	-1.42	Apr12	24
	4	**1.50 Sep22**	-1.42	Sep12	18
	5	**3.25 Jul21**	-1.34	Apr11	19
	5	**3.25 Jul42**	0.82	Jul10	15
	4	**4.75 Jul34**	0.91	Jan03	20
	3	**4.00 Jan37**	0.99	Jan05	23
	2	**4.75 Jul40**	1.06	Jul08	16
Cheapest	1	**4.25 Jul39 (UB)**	1.17	Jan07	14

Source: Citi Research

Figure 42 (overleaf) looks at bonds of all maturities. For investors with maturity restrictions we have also provided another set of summary tables (Figure 43 and Figure 45) which looks at bonds shorter than 12 years and longer than 8 years, and uses the same criteria as Figure 42 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 38. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); All bonds on each curve

Versus Govt Curve (CAS)

Country		Rank	Bond	ZScore	Issued	Size (€bn)
GERMANY	Richest	1	4.00 Jan18	-3.91	Nov07	20
		2	0.50 Oct17	-3.03	Sep12	16
		3	3.75 Jan17	-2.67	Nov06	20
		4	4.25 Jul18 (OE)	-2.63	May08	21
		5	4.25 Jul17	-2.47	May07	19
		5	2.50 Jan21	0.66	Nov10	19
		4	4.25 Jul39 (UB)	0.74	Jan07	14
		3	4.75 Jul40	0.82	Jul08	16
		2	0.25 Apr18	1.16	Apr13	17
	Cheapest	1	1.00 Oct18 (5y)	1.17	Sep13	5
FRANCE	Richest	1	2.50 Jul16	-2.16	Jul10	26
		2	5.00 Oct16	-1.97	Oct00	29
		3	3.75 Apr17	-1.66	Apr06	35
		4	3.00 Apr22	-1.62	Feb12	33
		5	2.25 Feb16	-1.51	Feb10	26
		5	1.00 May18	0.75	May12	21
		4	3.50 Apr26	0.92	Apr10	30
		3	3.75 Oct19	1.20	Oct08	32
		2	4.25 Apr19	1.65	Apr03	31
	Cheapest	1	1.00 Nov18 (5y)	1.80	Nov12	12
ITALY	Richest	1	4.50 May23 (10y)	-1.72	Mar13	18
		2	5.00 Sep40	-1.49	Sep09	21
		3	5.00 Aug39	-1.34	Aug07	19
		4	4.75 Aug23	-1.33	Feb08	25
		5	5.00 Mar22	-1.26	Sep11	18
		5	3.50 Dec18 (5y)	1.08	Sep13	7
		4	5.25 Aug17	1.10	Feb02	24
		3	4.25 Feb19	1.31	Feb03	25
		2	4.50 Feb18	1.41	Aug07	25
	Cheapest	1	3.50 Nov17	2.24	Nov12	17
N'LANDS	Richest	1	2.50 Jan17	-1.73	Jun11	16
		2	4.00 Jul16	-1.15	Jul06	13
		3	4.00 Jul19	-1.11	Feb09	14
		4	2.50 Jan33	-1.06	Mar12	10
		5	0.00 Apr16	-0.81	Jan13	13
		5	3.25 Jul21	0.30	Mar11	16
		4	3.75 Jan42 (30y)	0.46	May10	14
		3	4.00 Jan37	0.56	Apr05	13
		2	4.50 Jul17	0.82	Jul07	15
	Cheapest	1	1.25 Jan18	1.03	Jul12	15
SPAIN	Richest	1	4.65 Jul25	-2.01	Feb10	14
		2	3.80 Jan17	-1.54	Oct06	21
		3	5.90 Jul26	-1.44	Mar11	10
		4	4.25 Oct16	-1.26	Sep11	21
		5	3.75 Oct15	-1.21	Sep12	15
		5	4.60 Jul19	1.11	Feb09	18
		4	4.90 Jul40	1.15	Jun07	13
		3	3.75 Oct18 (5y)	1.16	Jul13	9
		2	4.40 Oct23 (10y)	1.27	May13	14
	Cheapest	1	4.30 Oct19	1.47	Jun09	19
BELGIUM	Richest	1	4.25 Mar41	-2.99	Apr10	12
		2	1.25 Jun18 (5y)	-2.31	Feb13	12
		3	2.25 Jun23 (10y)	-1.66	Jan13	12
		4	4.00 Mar32	-0.80	Mar12	8
		5	4.25 Sep21	-0.52	Jan11	15
		5	3.50 Jun17	1.18	Mar11	13
		4	4.00 Mar19	1.45	Jan09	11
		3	4.00 Mar22	1.58	May06	14
		2	5.00 Mar35	1.59	May04	18
	Cheapest	1	3.00 Sep19	1.82	Apr12	9

Versus Swap Curve (CAS)

Country		Rank	Bond	ZScore	Issued	Size (€bn)
GERMANY	Richest	1	4.00 Jan18	-1.74	Nov07	20
		2	2.25 Sep21	-1.42	Aug11	16
		3	1.75 Jul22 (RX)	-1.42	Apr12	24
		4	1.50 Sep22	-1.42	Sep12	18
		5	3.25 Jul21	-1.34	Apr11	19
		5	3.25 Jul42	0.82	Jul10	15
		4	4.75 Jul34	0.91	Jan03	20
		3	4.00 Jan37	0.99	Jan05	23
		2	4.75 Jul40	1.06	Jul08	16
	Cheapest	1	4.25 Jul39 (UB)	1.17	Jan07	14
FRANCE	Richest	1	2.50 Jul16	-1.66	Jul10	26
		2	5.00 Oct16	-1.31	Oct00	29
		3	3.00 Apr22	-1.28	Feb12	33
		4	3.25 Apr16	-1.23	Apr05	29
		5	2.25 Feb16	-1.20	Feb10	26
		5	5.75 Oct32	-0.13	Oct00	25
		4	0.25 Nov15 (2y)	-0.09	Nov12	21
		3	4.00 Oct38	-0.07	Oct05	24
		2	3.25 May45 (30y)	0.01	May12	7
	Cheapest	1	4.50 Apr41	0.03	Apr09	24
ITALY	Richest	1	2.75 Dec15	-1.42	Dec12	16
		2	4.75 Sep44 (30y)	-1.41	Mar13	7
		3	4.75 Aug23	-1.38	Feb08	25
		4	5.00 Sep40	-1.36	Sep09	21
		5	2.25 May16	-1.34	Apr13	15
		5	4.25 Feb19	-0.98	Feb03	25
		4	5.75 Feb33	-0.97	Feb02	15
		3	2.75 Nov16	-0.91	Sep13	5
		2	4.50 Mar24	-0.75	Aug13	11
	Cheapest	1	3.50 Dec18 (5y)	-0.70	Sep13	7
N'LANDS	Richest	1	2.50 Jan33	-0.77	Mar12	10
		2	4.00 Jan37	-0.62	Apr05	13
		3	3.75 Jan42 (30y)	-0.44	May10	14
		4	2.50 Jan17	-0.11	Jun11	16
		5	4.00 Jul16	-0.10	Jul06	13
		5	2.25 Jul22	0.48	Feb12	15
		4	4.50 Jul17	0.54	Jul07	15
		3	3.50 Jul20	0.55	Feb10	15
		2	3.75 Jan23	0.56	Jan06	11
	Cheapest	1	3.25 Jul21	0.57	Mar11	16
SPAIN	Richest	1	3.75 Oct15	-2.04	Sep12	15
		2	3.15 Jan16	-1.93	Sep05	21
		3	3.25 Apr16	-1.91	Nov10	21
		4	3.80 Jan17	-1.82	Oct06	21
		5	5.50 Jul17	-1.76	Mar02	20
		5	4.20 Jan37	-1.44	Jan05	16
		4	4.90 Jul40	-1.31	Jun07	13
		3	4.70 Jul41 (30y)	-1.30	Sep09	12
		2	3.75 Oct18 (5y)	-1.16	Jul13	9
	Cheapest	1	5.15 Oct28	-1.12	Jul13	5
BELGIUM	Richest	1	3.75 Jun45 (30y)	-1.15	Sep13	4
		2	2.25 Jun23 (10y)	-0.36	Jan13	12
		3	1.25 Jun18 (5y)	-0.29	Feb13	12
		4	4.25 Sep22	-0.17	Jan12	15
		5	2.75 Mar16	-0.16	Mar10	10
		5	4.00 Mar19	0.10	Jan09	11
		4	3.00 Sep19	0.12	Apr12	9
		3	4.00 Mar32	0.29	Mar12	8
		2	4.25 Mar41	0.33	Apr10	12
	Cheapest	1	5.00 Mar35	0.46	May04	18

Source: Citi Research

EMU relative value table – max 12yr maturity

Figure 39. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Maximum Maturity of 12yrs

GERMANY

	Versus Govt Curve (CAS) Rank	Bond	ZScore	Issued	Size (€bn)		Versus Swap Curve (CAS) Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Jan18	-3.91	Nov07	20	Richest	1	4.00 Jan18	-1.74	Nov07	20
	2	0.50 Oct17	-3.03	Sep12	16		2	2.25 Sep21	-1.42	Aug11	16
	3	3.75 Jan17	-2.67	Nov06	20		3	1.75 Jul22 (RX)	-1.42	Apr12	24
	4	4.25 Jul18 (OE)	-2.63	May08	21		4	1.50 Sep22	-1.42	Sep12	18
	5	4.25 Jul17	-2.47	May07	19		5	3.25 Jul21	-1.34	Apr11	19
	5	2.00 Feb16	0.38	Jan11	16		5	3.50 Jan16	-0.12	Nov05	23
	4	1.75 Oct15	0.46	Sep10	16		4	0.25 Apr18	-0.04	Apr13	17
	3	2.50 Jan21	0.66	Nov10	19		3	2.75 Apr16	0.18	Apr11	18
	2	0.25 Apr18	1.16	Apr13	17		2	2.00 Feb16	0.34	Jan11	16
Cheapest	1	1.00 Oct18 (5y)	1.17	Sep13	5	Cheapest	1	1.75 Oct15	0.58	Sep10	16

FRANCE

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jul16	-2.16	Jul10	26	Richest	1	2.50 Jul16	-1.66	Jul10	26
	2	5.00 Oct16	-1.97	Oct00	29		2	5.00 Oct16	-1.31	Oct00	29
	3	3.75 Apr17	-1.66	Apr06	35		3	3.00 Apr22	-1.28	Feb12	33
	4	3.00 Apr22	-1.62	Feb12	33		4	3.25 Apr16	-1.23	Apr05	29
	5	2.25 Feb16	-1.51	Feb10	26		5	2.25 Feb16	-1.20	Feb10	26
	5	3.50 Apr20	0.72	Feb10	36		5	4.25 Oct23 (OAT)	-0.52	Oct06	33
	4	1.00 May18	0.75	May12	21		4	3.00 Oct15	-0.50	Oct04	33
	3	3.75 Oct19	1.20	Oct08	32		3	4.25 Apr19	-0.39	Apr03	31
	2	4.25 Apr19	1.65	Apr03	31		2	1.00 Nov18 (5y)	-0.27	Nov12	12
Cheapest	1	1.00 Nov18 (5y)	1.80	Nov12	12	Cheapest	1	0.25 Nov15 (2y)	-0.09	Nov12	21

ITALY

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.50 May23 (10y)	-1.72	Mar13	18	Richest	1	2.75 Dec15	-1.42	Dec12	16
	2	4.75 Aug23	-1.33	Feb08	25		2	4.75 Aug23	-1.38	Feb08	25
	3	5.00 Mar22	-1.26	Sep11	18		3	2.25 May16	-1.34	Apr13	15
	4	2.75 Dec15	-0.93	Dec12	16		4	3.00 Nov15 (2y)	-1.32	Nov10	17
	5	4.00 Feb17	-0.63	Aug06	26		5	4.50 May23 (10y)	-1.32	Mar13	18
	5	3.50 Dec18 (5y)	1.08	Sep13	7		5	3.50 Nov17	-1.03	Nov12	17
	4	5.25 Aug17	1.10	Feb02	24		4	4.25 Feb19	-0.98	Feb03	25
	3	4.25 Feb19	1.31	Feb03	25		3	2.75 Nov16	-0.91	Sep13	5
	2	4.50 Feb18	1.41	Aug07	25		2	4.50 Mar24	-0.75	Aug13	11
Cheapest	1	3.50 Nov17	2.24	Nov12	17	Cheapest	1	3.50 Dec18 (5y)	-0.70	Sep13	7

N'LANDS

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan17	-1.73	Jun11	16	Richest	1	2.50 Jan17	-0.11	Jun11	16
	2	4.00 Jul16	-1.15	Jul06	13		2	4.00 Jul16	-0.10	Jul06	13
	3	4.00 Jul19	-1.11	Feb09	14		3	0.00 Apr16	0.04	Jan13	13
	4	0.00 Apr16	-0.81	Jan13	13		4	4.00 Jul18	0.16	Feb08	15
	5	2.25 Jul22	-0.72	Feb12	15		5	1.25 Jan19 (5y)	0.18	Jun13	6
	5	3.75 Jan23	0.13	Jan06	11		5	2.25 Jul22	0.48	Feb12	15
	4	1.75 Jul23 (10y)	0.30	Mar13	14		4	4.50 Jul17	0.54	Jul07	15
	3	3.25 Jul21	0.30	Mar11	16		3	3.50 Jul20	0.55	Feb10	15
	2	4.50 Jul17	0.82	Jul07	15		2	3.75 Jan23	0.56	Jan06	11
Cheapest	1	1.25 Jan18	1.03	Jul12	15	Cheapest	1	3.25 Jul21	0.57	Mar11	16

SPAIN

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.65 Jul25	-2.01	Feb10	14	Richest	1	3.75 Oct15	-2.04	Sep12	15
	2	3.80 Jan17	-1.53	Oct06	21		2	3.15 Jan16	-1.93	Sep05	21
	3	4.25 Oct16	-1.25	Sep11	21		3	3.25 Apr16	-1.91	Nov10	21
	4	3.75 Oct15	-1.21	Sep12	15		4	3.80 Jan17	-1.82	Oct06	21
	5	3.25 Apr16	-1.18	Nov10	21		5	5.50 Jul17	-1.76	Mar02	20
	5	5.85 Jan22 (FBB)	0.85	Nov11	19		5	4.60 Jul19	-1.62	Feb09	18
	4	4.60 Jul19	1.11	Feb09	18		4	5.85 Jan22 (FBB)	-1.61	Nov11	19
	3	3.75 Oct18 (5y)	1.17	Jul13	9		3	4.30 Oct19	-1.61	Jun09	19
	2	4.40 Oct23 (10y)	1.27	May13	14		2	4.40 Oct23 (10y)	-1.54	May13	14
Cheapest	1	4.30 Oct19	1.48	Jun09	19	Cheapest	1	3.75 Oct18 (5y)	-1.16	Jul13	9

BELGIUM

	Rank	Bond	ZScore	Issued	Size (€bn)		Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.25 Jun18 (5y)	-2.31	Feb13	12	Richest	1	2.25 Jun23 (10y)	-0.36	Jan13	12
	2	2.25 Jun23 (10y)	-1.66	Jan13	12		2	1.25 Jun18 (5y)	-0.29	Feb13	12
	3	4.25 Sep21	-0.52	Jan11	15		3	4.25 Sep22	-0.17	Jan12	15
	4	2.75 Mar16	-0.29	Mar10	10		4	2.75 Mar16	-0.16	Mar10	10
	5	3.25 Sep16	-0.08	Jan06	13		5	4.00 Mar18	-0.15	Jan08	11
	5	5.50 Sep17	1.06	Jun02	8		5	4.00 Mar22	-0.06	May06	14
	4	3.50 Jun17	1.18	Mar11	13		4	3.75 Sep20	0.04	Jan10	18
	3	4.00 Mar19	1.45	Jan09	11		3	5.50 Sep17	0.05	Jun02	8
	2	4.00 Mar22	1.58	May06	14		2	4.00 Mar19	0.10	Jan09	11
Cheapest	1	3.00 Sep19	1.82	Apr12	9	Cheapest	1	3.00 Sep19	0.12	Apr12	9

Source: Citi Research

EMU relative value table – min 8yr maturity

Figure 40. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History); Bonds with a Minimum Maturity of 8yrs

GERMANY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.50 Sep22	-2.17	Sep12	18
	2	1.75 Jul22 (RX)	-2.10	Apr12	24
	3	2.00 Jan22	-1.29	Nov11	20
	4	5.50 Jan31	-1.17	Oct00	17
	5	1.50 Feb23	-1.13	Jan13	18
	5	2.50 Jul44 (30y)	-0.53	Apr12	14
	4	1.50 May23	-0.21	May13	18
	3	3.25 Jul42	0.55	Jul10	15
	2	4.25 Jul39 (UB)	0.74	Jan07	14
Cheapest	1	4.75 Jul40	0.82	Jul08	16

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.75 Jul22 (RX)	-1.42	Apr12	24
	2	1.50 Sep22	-1.42	Sep12	18
	3	2.00 Aug23 (10y)	-1.33	Aug13	10
	4	2.00 Jan22	-1.31	Nov11	20
	5	1.50 Feb23	-1.21	Jan13	18
	5	3.25 Jul42	0.82	Jul10	15
	4	4.75 Jul34	0.91	Jan03	20
	3	4.00 Jan37	0.99	Jan05	23
	2	4.75 Jul40	1.06	Jul08	16
Cheapest	1	4.25 Jul39 (UB)	1.17	Jan07	14

FRANCE

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.00 Apr22	-1.62	Feb12	33
	2	2.25 Oct22	-1.31	Oct11	24
	3	4.75 Apr35	-1.27	Apr03	21
	4	4.00 Oct38	-1.03	Oct05	24
	5	3.25 Oct21	-0.68	Oct10	35
	5	1.75 May23 (10y)	-0.13	May12	20
	4	3.25 May45 (30y)	0.33	May12	7
	3	4.25 Oct23 (OAT)	0.45	Oct06	33
	2	2.75 Oct27	0.67	Oct11	16
Cheapest	1	3.50 Apr26	0.92	Apr10	30

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.00 Apr22	-1.28	Feb12	33
	2	3.25 Oct21	-1.15	Oct10	35
	3	2.25 Oct22	-1.12	Oct11	24
	4	1.75 May23 (10y)	-0.71	May12	20
	5	4.25 Oct23 (OAT)	-0.52	Oct06	33
	5	2.75 Oct27	-0.15	Oct11	16
	4	5.75 Oct32	-0.13	Oct00	25
	3	4.00 Oct38	-0.07	Oct05	24
	2	3.25 May45 (30y)	0.01	May12	7
Cheapest	1	4.50 Apr41	0.03	Apr09	24

ITALY

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.50 May23 (10y)	-1.72	Mar13	18
	2	5.00 Sep40	-1.49	Sep09	21
	3	5.00 Aug39	-1.34	Aug07	19
	4	4.75 Aug23	-1.33	Feb08	25
	5	5.00 Mar22	-1.27	Sep11	18
	5	4.50 Mar24	0.26	Aug13	11
	4	4.75 Sep44 (30y)	0.46	Mar13	7
	3	5.75 Feb33	0.46	Feb02	15
	2	5.00 Mar25	0.48	Mar09	22
Cheapest	1	4.75 Sep28	0.83	Jan13	13

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.75 Sep44 (30y)	-1.41	Mar13	7
	2	4.75 Aug23	-1.38	Feb08	25
	3	5.00 Sep40	-1.36	Sep09	21
	4	5.00 Aug39	-1.33	Aug07	19
	5	4.50 May23 (10y)	-1.32	Mar13	18
	5	5.00 Mar25	-1.17	Mar09	22
	4	5.00 Aug34	-1.12	Aug03	21
	3	4.75 Sep28	-1.12	Jan13	13
	2	5.75 Feb33	-0.97	Feb02	15
Cheapest	1	4.50 Mar24	-0.75	Aug13	11

N'LANDS

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan33	-0.95	Mar12	10
	2	2.25 Jul22	-0.75	Feb12	15
	3	3.75 Jan23	0.09	Jan06	11
	3	1.75 Jul23 (10y)	0.27	Mar13	14
	2	4.00 Jan37	0.60	Apr05	13
Cheapest	1	3.75 Jan42 (30y)	0.62	May10	14

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	2.50 Jan33	-0.78	Mar12	10
	2	4.00 Jan37	-0.64	Apr05	13
	3	3.75 Jan42 (30y)	-0.46	May10	14
	3	1.75 Jul23 (10y)	0.38	Mar13	14
	2	2.25 Jul22	0.47	Feb12	15
Cheapest	1	3.75 Jan23	0.55	Jan06	11

SPAIN

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.65 Jul25	-2.00	Feb10	14
	2	5.90 Jul26	-1.43	Mar11	10
	3	4.80 Jan24	-1.15	Sep08	15
	4	5.75 Jul32	-0.77	Jan01	15
	5	4.20 Jan37	-0.60	Jan05	16
	5	4.70 Jul41 (30y)	0.44	Sep09	12
	4	5.15 Oct28	0.85	Jul13	5
	3	5.85 Jan22 (FBB)	0.85	Nov11	19
	2	4.90 Jul40	1.15	Jun07	13
Cheapest	1	4.40 Oct23 (10y)	1.27	May13	14

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.65 Jul25	-1.75	Feb10	14
	2	5.90 Jul26	-1.74	Mar11	10
	3	4.80 Jan24	-1.70	Sep08	15
	4	5.40 Jan23	-1.68	Jan13	17
	5	5.75 Jul32	-1.63	Jan01	15
	5	4.40 Oct23 (10y)	-1.54	May13	14
	4	4.20 Jan37	-1.44	Jan05	16
	3	4.90 Jul40	-1.31	Jun07	13
	2	4.70 Jul41 (30y)	-1.30	Sep09	12
Cheapest	1	5.15 Oct28	-1.12	Jul13	5

BELGIUM

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Mar41	-3.19	Apr10	12
	2	2.25 Jun23 (10y)	-1.72	Jan13	12
	3	4.00 Mar32	-1.01	Mar12	8
	4	3.75 Jun45 (30y)	-0.41	Sep13	4
	4	4.50 Mar26	0.83	Jun11	8
	3	4.25 Sep22	0.98	Jan12	15
	2	5.00 Mar35	1.57	May04	18
Cheapest	1	4.00 Mar22	1.57	May06	14

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Jun45 (30y)	-1.15	Sep13	4
	2	2.25 Jun23 (10y)	-0.36	Jan13	12
	3	4.25 Sep22	-0.17	Jan12	15
	4	4.50 Mar26	-0.09	Jun11	8
	4	4.00 Mar22	-0.06	May06	14
	3	4.00 Mar32	0.29	Mar12	8
	2	4.25 Mar41	0.33	Apr10	12
Cheapest	1	5.00 Mar35	0.46	May04	18

Source: Citi Research

UK relative value table

Figure 41. Coupon Adjusted Spread to Fitted Curve and Swap Curve by Country (6m History)

ALL

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.00 Sep17	-2.27	Mar12	31
	2	2.25 Mar14	-2.04	Mar09	35
	3	4.25 Dec55	-1.66	May05	23
	4	3.75 Sep21	-1.54	Mar11	28
	5	4.00 Sep16	-1.53	Mar06	35
	5	1.25 Jul18 (5y)	1.13	Feb13	29
	4	3.75 Jul52	1.19	Sep11	20
	3	4.25 Mar36	1.47	Feb03	23
	2	3.75 Sep19	1.61	Jul09	28
Cheapest	1	5.00 Sep14	2.15	Jul02	41

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Sep16	-1.91	Mar06	35
	2	1.00 Sep17	-1.85	Mar12	31
	3	3.75 Sep21	-1.40	Mar11	28
	4	1.75 Jan17	-1.34	Aug11	27
	5	3.75 Sep20	-1.33	Jun10	24
	5	2.75 Jan15	0.34	Nov09	29
	4	2.25 Mar14	0.49	Mar09	35
	3	4.25 Dec27	0.52	Sep06	29
	2	5.00 Mar25 (G)	0.69	Sep01	33
Cheapest	1	5.00 Sep14	1.19	Jul02	41

2yr - 7yr

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	1.00 Sep17	-2.26	Mar12	31
	2	4.00 Sep16	-1.52	Mar06	35
	3	4.75 Mar20	-1.29	Mar05	33
	4	3.75 Sep20	-0.77	Jun10	24
	5	2.00 Jan16	-0.25	Nov10	32
	5	1.75 Jan17	0.42	Aug11	27
	4	5.00 Mar18 (WX)	0.63	May07	34
	3	4.50 Mar19	1.10	Sep08	35
	2	1.25 Jul18 (5y)	1.13	Feb13	29
Cheapest	1	3.75 Sep19	1.61	Jul09	28

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.00 Sep16	-1.91	Mar06	35
	2	1.00 Sep17	-1.85	Mar12	31
	3	1.75 Jan17	-1.34	Aug11	27
	4	3.75 Sep20	-1.33	Jun10	24
	5	4.75 Mar20	-1.30	Mar05	33
	5	5.00 Mar18 (WX)	-1.09	May07	34
	4	1.25 Jul18 (5y)	-0.82	Feb13	29
	3	2.00 Jan16	-0.60	Nov10	32
	2	3.75 Sep19	-0.40	Jul09	28
Cheapest	1	4.50 Mar19	-0.22	Sep08	35

7yr - 15yr

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Sep21	-1.54	Mar11	28
	2	4.00 Mar22	-1.29	Feb09	37
	3	4.25 Dec27	-0.92	Sep06	29
	4				
	5				
	5				
	4				
	3	2.25 Sep23 (10y)	-0.13	Jun13	12
	2	1.75 Sep22	0.22	Jun12	28
Cheapest	1	5.00 Mar25 (G)	0.28	Sep01	33

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.75 Sep21	-1.40	Mar11	28
	2	4.00 Mar22	-1.00	Feb09	37
	3	2.25 Sep23 (10y)	-0.37	Jun13	12
	4				
	5				
	5				
	4				
	3	1.75 Sep22	-0.36	Jun12	28
	2	4.25 Dec27	0.52	Sep06	29
Cheapest	1	5.00 Mar25 (G)	0.69	Sep01	33

>15yr

Versus Govt Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	4.25 Dec55	-1.65	May05	23
	2	4.25 Dec46	-1.46	May06	21
	3	4.25 Dec40	-1.24	Jun10	24
	4	4.25 Dec49	-1.06	Sep08	19
	5	3.50 Jul68	-0.90	Jun13	5
	5	4.00 Jan60	0.04	Oct09	19
	4	4.50 Sep34	0.63	Jun09	26
	3	3.25 Jan44 (30y)	0.93	Oct12	19
	2	3.75 Jul52	1.26	Sep11	20
Cheapest	1	4.25 Mar36	1.49	Feb03	23

Versus Swap Curve (CAS)

	Rank	Bond	ZScore	Issued	Size (€bn)
Richest	1	3.50 Jul68	-0.56	Jun13	5
	2	4.25 Dec40	-0.42	Jun10	24
	3	4.25 Sep39	-0.39	Mar09	19
	4	4.75 Dec38	-0.37	Apr04	25
	5	4.25 Dec55	-0.36	May05	23
	5	4.25 Mar36	-0.05	Feb03	23
	4	4.00 Jan60	0.03	Oct09	19
	3	4.50 Sep34	0.04	Jun09	26
	2	4.25 Jun32	0.13	May00	35
Cheapest	1	4.75 Dec30	0.27	Oct07	29

Source: Citi Research

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Overview of 2014 EMU issuance forecasts

Forecast Summary

- **2014 Gross Issuance:** We forecast €864bn of gross issuance from EMU-10 sovereigns in 2014, just €14bn higher than 2013.
- We estimate a 2014 net cash requirement (NCR = gross supply minus coupons and redemptions) of +€63bn as €864bn of gross supply outweighs €184bn of coupons and €616bn of redemptions.

Figure 42. 2014 & 2013 Gross Issuance, Coupons and Redemptions (€bn)

	A	B	A-B	C	A-B-C
Year	Gross Supply	Coupons	Net Supply	Redemptions	NCR
2014	864	184	679	616	63
2013	850	199	651	567	83
Change	+14	-15	+29	+49	-20

Source: DMOs, Bloomberg, Citi Research

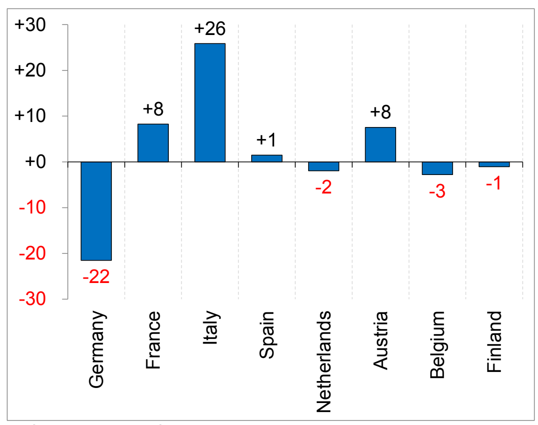
- Figure 47 shows the change in gross issuance from 2013 to 2014. Germany has the largest decrease (-€22bn) and Italy has the largest increase (+€26bn)

Figure 43. Gross supply: 2013 vs 2014 (€bn)

Country	2013	2014	Change
Germany	183	161	-22
France	189	198	+8
Italy	220	245	+26
Spain	119	120	+1
Netherlands	51	49	-2
Austria	22	29	+8
Belgium	42	39	-3
Finland	12	10	-1
Ireland	8	7	-1
Portugal	6	4	-2
Total	850	864	+14

Source: DMOs, Bloomberg, Citi Research

Figure 44. Change in gross supply: 2014 vs 2013 (€bn)



Source: DMOs, Bloomberg, Citi Research

- **2014 NCR:** Figure 49 displays the split of gross supply, coupon and redemptions by country. The NCR is least supportive for Spain and France.

Figure 45. 2014 Issuance forecasts by country

	A	B	A-B	C	A-B-C
Country	Gross Supply	Coupons	Net Supply	Redemptions	NCR
Germany	161	28	133	144	-11
France	198	40	158	106	51
Italy	245	53	193	191	2
Spain	120	26	94	68	26
Netherlands	49	9	40	32	8
Austria	29	7	22	22	0
Belgium	39	12	28	26	2
Finland	10	2	8	7	2
Ireland	7	4	2	7	-4
Portugal	4	4	-0	14	-14
Total	864	184	679	616	63

Source: DMOs, Bloomberg, Citi Research

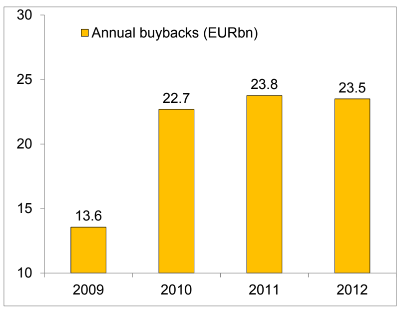
Country Profiles: Gross supply & new bonds

Germany (€161bn)

- **Gross issuance:** We expect Germany to issue around €161bn of bonds in 2014, €22bn less than 2013. This is a result of lower redemptions and Germany returning to a surplus in 2014.

- **New bonds:** We expect Germany to issue 4 x 2yrs, 3 x 5yrs, 3 x 10yr and 1 x 30yr in 2014. A new 10yr Bundei is also likely.

Figure 46. France: Annual buybacks (€bn)



Source: AFT

France (€197.5bn)

- **Gross issuance:** The French Treasury projects €174bn (net of buybacks) of gross issuance in 2014. We envisage around €23.5bn of buybacks in 2014 which will take total bond issuance for 2014 to €197.5bn.

- We expect 2014 bond issuance (€197.5bn) to be split in the following way: 2yr (€37bn), 5yr (€60.5bn), 10yr (€55bn), 15yr (€18bn), 30yr (€10bn) and linkers (€17bn).

- **New bonds:** We expect France to issue 1 x 2yr, 2 x 5yrs, at least 1 x 10yr and 1 x 15yr in 2014.

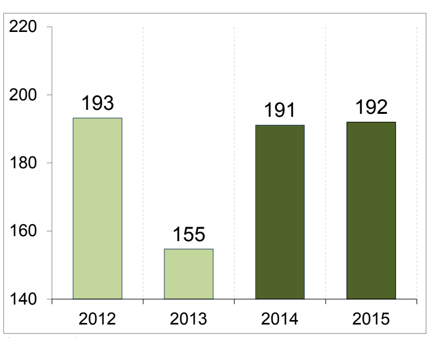
Italy (€245bn)

- **Gross issuance:** Reuters cited some comments from Maria Cannata (Head of Italy's DMO) on 24 September stating that gross issuance in 2014 will be similar to 2013 (i.e. around €470bn of BOT, BTP, CCT, CTZ, BTPei).

- We expect €245bn of gross issuance from BTP, CCT, CTZ and BTPei in 2014. This is higher than our 2013 forecast (€220bn) due to higher redemptions in 2014 offsetting a small decline in the deficit.

- **New BTP 7yr:** The Italian Treasury has stated that there has been interest among investors for a new 7yr BTP and that issuance would take place via either a regular auction or through a syndication. We expect issuance to take place in 2014 for at least €3bn (benchmark size) in the first instance.

Figure 47. Italy bond redemptions (€bn)



Source: Citi Research, Bloomberg

- **Buybacks:** As acknowledged by the Italian Treasury, Italy faces a heavy redemption schedule in 2015 (€192bn of government bonds will be redeeming) vs €155bn in 2013. The Treasury has stated that it would look to conduct debt buybacks or bond swaps in 2014 to ease the Treasury's refinancing risk in 2015. For now, we think the majority of the reduction in 2015 redemptions will come from bond swaps rather than buybacks given the large amount of supply (€245bn of bonds) that will take place.

- In the event that an LTRO is announced by the ECB (Citi expects a 2yr LTRO to be announced by early 2014) we would expect the majority of the reduction in 2015 redemptions to come from buybacks (as opposed to debt swaps).

Spain (€120bn)

- **Gross issuance:** Reuters reported on 30 September that the Spanish Treasury sees gross debt issuance for 2014 as €244bn. We expect Bono issuance to be approximately €120bn (which is virtually the same as our 2013 estimate).

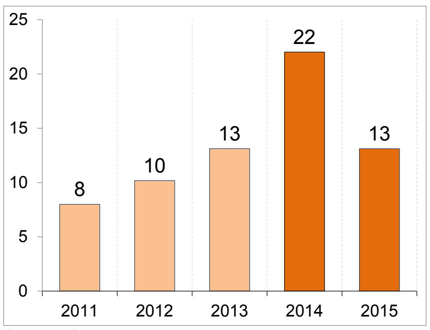
- **New bonds:** Reuters reported on 10 September 2013 that Spain would look to issue a new 30yr Bono in 4Q13 or at the beginning of next year. We think it is more likely that this would occur in early 2014.

Netherlands (€49bn)

- **Gross issuance:** On 20 September the DSTA announced in its quarterly outlook that the 2014 funding requirement for the Netherlands will be €93.7bn. This is around €4bn lower than 2013. We expect gross DSL issuance of around €49bn in 2014, roughly in line with 2013 gross issuance (€51bn).

- **New bonds:** We expect the Netherlands to issue 1 x 2yr, 1 x 5yr, 1 x 10yr and 1 x 30yr in 2014.

Figure 48. Austria: Redemptions (€bn)



Source: Citi Research, Bloomberg

Austria (€29bn)

- **Gross issuance:** We expect Austria to issue around €29bn of bonds in 2014, €7bn higher than 2013 issuance. This is largely due to a €9bn increase in redemptions from 2013 to 2014.

- **New bonds:** Austria will issue 1 x 5yr, 1 x 10yr and 1 x 30yr in 2014, in our view.

Belgium (€39bn)

- **Gross issuance:** We expect €39bn of gross issuance from Belgium in 2014, €3bn lower than 2013 issuance. This is a result of a small decrease in the fiscal deficit from 2013 to 2014.

- **New bonds:** We believe that Belgium will issue 1 x 5yr and 1 x 10yr in 2014. There is a possibility that a new 15yr also comes to the market.

Finland (€10bn)

- **Gross issuance:** We expect Finland to issue around €10bn of bonds in 2014. This is slightly less than our estimate for 2013 issuance (€12bn).

Ireland (€7bn)

- **Gross issuance:** The next time Ireland comes to the market is likely to be in early 2014. We forecast around €7bn of bond issuance from Ireland in 2014. We expect Ireland to conduct a series of bond auctions in 2014 and possibly a syndicated reopening too.

- **OMT eligibility:** Citi expects Ireland will agree to a conditional ESM program to extend post-2013, aiming to fund itself fully but with the backstop of the OMT[7].

Portugal (€4bn)

- **Financial support:** Citi expects Portugal to get a second bailout in 2014, with early restructuring of some public sector liabilities other than marketable central government debt[7].

- **Gross issuance:** We forecast only €4bn of bond issuance from Portugal. This is most likely to occur in 2H14 and via a syndication. For now, we do not expect Portugal to be able to conduct regular bond auctions in 2014.

[7] Global Economic Outlook and Strategy - September 2013

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

Mohit Aggarwal

Nishay Patel

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

Figure 49. 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 TYZ3 (UST)	G Z3 (Gilt)	RXZ3 (Bund)
07 Oct (Mon)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-27k		
08 Oct (Tue)	Netherlands	2.0	DSL 1.25% Jan19 reopening (issue confirmed, size €1.5-2.5bn)				8k
08 Oct (Tue)	UK	1.8	01/8% Index-linked Treasury Gilt 2019 (issue and size confirmed)			12k	
08 Oct (Tue)	US	30.0	3-Year		74k		
08 Oct (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-32k		
09 Oct (Wed)	Germany	4.0	Bobl 167-Oct18 reopening (issue and size confirmed)				17k
09 Oct (Wed)	US	21.0	10-Year (re-opening)		230k		
10 Oct (Thu)	US	13.0	30-year (re-opening)		297k		
10 Oct (Thu)	US	1 - 1.5	Outright TIPS Purchases: 15/1/2018 - 15/2/2043		-23k		
11 Oct (Fri)	Italy	5.5	BTP 3yr, 5yr and 30yr (estimated tenors and size)				32k
11 Oct (Fri)	Italy	2.5	CCTeu (estimated size)				11k
11 Oct (Fri)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-32k		
			Weekly $DV01 of Issuance	**51.9**			
			Total Number of Futures Contracts		**486k**	**12k**	**68k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYZ3 (UST)	G Z3 (Gilt)	RXZ3 (Bund)
15 Oct (Tue)	US	4.75 - 5.75	Outright Treasury Coupon Purchases: 31/7/2018 - 30/6/2019		-31k		
16 Oct (Wed)	Germany	5.0	Schatz 0.25% Sep15 reopening (issue and size confirmed)				9k
16 Oct (Wed)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-32k		
17 Oct (Thu)	Spain	3.0	Obligaciones 2yr, 5yr and 30yr (estimated tenors and size)				22k
17 Oct (Thu)	France	9.0	BTAN, OAT 2yr and 5yr / OATi (estimated tenors and size including the post auction facility)				37k
17 Oct (Thu)	UK	4.8	1¼% Treasury Gilt 2018 (issue confirmed, estimated size)			22k	
17 Oct (Thu)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-27k		
			Weekly $DV01 of Issuance	**6.6**			
			Total Number of Futures Contracts		**-90k**	**22k**	**68k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYZ3 (UST)	G Z3 (Gilt)	RXZ3 (Bund)
21 Oct (Mon)	US	3 - 4	Outright Treasury Coupon Purchases: 31/7/2019 - 30/9/2020		-23k		
22 Oct (Tue)	UK	3.8	Syndicated re-opening of 3½% Treasury Gilt 2068 (second half of October, estimated size)			93k	
22 Oct (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-32k		
23 Oct (Wed)	Germany	2.0	Bund 2.5% Jul44 reopening (issue and size confirmed)				42k
23 Oct (Wed)	US	2.75 - 3.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2023		-27k		
24 Oct (Thu)	US	7.0	30-year TIPS (re-opening)		84k		
24 Oct (Thu)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-32k		
			Weekly $DV01 of Issuance	**19.1**			
			Total Number of Futures Contracts		**-31k**	**93k**	**42k**

Date	Country	Nominal Size (Local Ccy, bn)	Issue Details	DV01 $million/bp	Approx. Number 10yr Futures TYZ3 (UST)	G Z3 (Gilt)	RXZ3 (Bund)
28 Oct (Mon)	Belgium	3.0	OLO 5yr,10yr and 15yr (estimated size and tenors)				27k
28 Oct (Mon)	Italy	4.0	New CTZ Dec15 (estimated issue and size)				7k
28 Oct (Mon)	Italy	0.8	BTPei (estimated size)				6k
28 Oct (Mon)	US	32.0	2-Year		79k		
28 Oct (Mon)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 31/10/2017 - 30/6/2018		-22k		
29 Oct (Tue)	UK	1.5	Minit tender (estimated date and size)		0k	0k	0k
29 Oct (Tue)	US	35.0	5-Year		207k		
29 Oct (Tue)	US	1.25 - 1.75	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2043		-32k		
30 Oct (Wed)	Italy	6.3	BTP 5yr and 10yr (estimated tenor and size)				39k
30 Oct (Wed)	Germany	4.0	Bund 2% Aug23 reopening (issue and size confirmed)				32k
30 Oct (Wed)	US	29.0	7-Year		235k		
31 Oct (Thu)	US	0.75 - 1	Outright Treasury Coupon Purchases : 15/11/2024 - 15/2/2031		-14k		
			Weekly $DV01 of Issuance	**53.9**			
			Total Number of Futures Contracts		**452k**	**0k**	**111k**

The next release of the tentative outright Treasury operation schedule will be at 3 p.m. on October 31, 2013. Therefore we have only provided details of Fed buybacks upto 31 October.

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3 mths)

Figure 50. EMU-10 Redemptions over the next three months (€bn)

	Redemptions = €119bn										
Redemptions	DEU 31	FRA 21	NLD 0	ITA 38	ESP 16	BEL 0	AUT 13	FIN 0	PRT 0	GRC 0	IRL 0
(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							
(Fri) 13-Dec-13	15.0										
(Sun) 15-Dec-13				20.0							

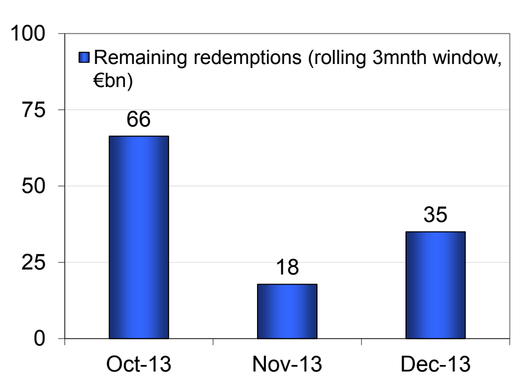
Source: DMOs, Bloomberg, Citi Research

Figure 51. EMU-10 Coupon Payments over the next three months (€bn)

	Coupons = €38bn										
Coupons	DEU 2	FRA 16	NLD 0	ITA 10	ESP 6	BEL 0	AUT 1	FIN 0	PRT 2	GRC 0	IRL 2
(Wed) 09-Oct-13	0.28										
(Thu) 10-Oct-13	0.43										
(Fri) 11-Oct-13	0.6										
(Sat) 12-Oct-13	0.1										
(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		16.3							0.4		
(Thu) 31-Oct-13					5.5						
(Fri) 01-Nov-13				5.5							
(Fri) 15-Nov-13				0.7							
(Fri) 22-Nov-13							0.3				
(Mon) 25-Nov-13		0.2									
(Sun) 01-Dec-13				1.4							
(Fri) 13-Dec-13	0.04										
(Sun) 15-Dec-13				0.9							
(Wed) 01-Jan-14				0.4							

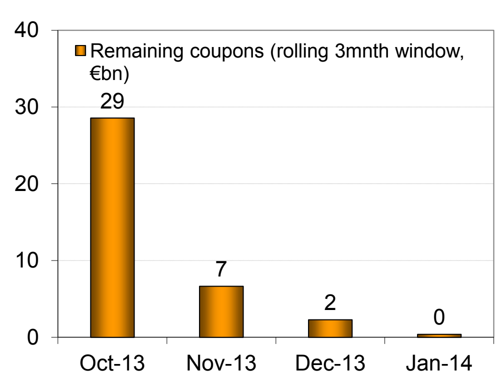
Source: DMOs, Bloomberg, Citi Research

Figure 52. EMU-10 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi Research

Figure 53. 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 54. 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	10 Oct (Thu)	Italy	12 month (14 October 2014; issue confrimed, estimated size)	9
			Total Size in Week 1	**9.0**
Week 2	15 Oct (Tue)	Spain	6month (16 April 2014) and 12month (new) - tenors confirmed, estiamted size	4.4
			Total Size in Week 2	**4.4**
Week 3	22 Oct (Tue)	Spain	3month (24 January 2014) and 9 month (18 July 2014) - tenors confirmed, estimated size	3.6
			Total Size in Week 3	**3.6**
Week 4	29 Oct (Tue)	Italy	6 month (30 April 2014; issue confirmed, estimated size)	9.75
			Total Size in Week 4	**9.75**

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 55. 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	1.1	1.4	3.1	3.0		9	11	-3
Sep	0.8	1.7	2.8	3.8		9	8	1
Oct	1.0	1.4	2.6	3.0		8	8	
Nov	1.0	1.4	2.6	3.0		8	11	-3
Dec	1.0	1.4	2.6	3.0		8	9	-1
Total	**12.8**	**19.8**	**30.3**	**41.4**	**2.5**	**107**	**102**	**4**

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		9.8		8.6		18	18	
Sep		8.6		9.8	3.0	21	20	2
Oct		9.8		9.0		19	17	2
Nov		9.8		8.5		18	16	3
Dec		10.0		8.5		19	25	-7
Total	**3.0**	**114.5**		**101.5**	**8.5**	**227**	**216**	**11**

*3month bills w ill 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 56. Citi Inflation Forecasts

	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
Month	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change	Index Forecast	MoM Change	YoY Change
Aug 13	116.53	0.1	1.2	125.90	0.4	0.7	251.00	0.5	3.3	233.88	0.1	1.5
Sep 13	117.32	0.7	1.2	125.57	-0.3	0.7	252.00	0.4	3.2	234.08	0.1	1.2
Oct 13	117.65	0.3	1.2	125.90	0.3	0.9	252.90	0.4	3.0	233.98	-0.0	1.1
Nov 13	117.60	-0.0	1.4	125.80	-0.1	1.0	253.10	0.1	3.1	233.68	-0.1	1.5
Dec 13	117.99	0.3	1.4	126.24	0.4	1.0	254.20	0.4	3.0	233.28	-0.2	1.6
Jan 14	116.64	-1.1	1.3	126.09	-0.1	1.4	252.70	-0.6	2.8	234.48	0.5	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) 1 Nov	1 Dec	1 Jan	*Ref*	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) ####	1 Dec	1 Jan	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.10*	*0.10*	*0.10*									
TIPS 1/15	-1.10	-9	-9	1	0	-14	*US-2.250-01/31/15*	126	5	5	1	0	-15	21	5
TIPS 4/15	-1.01	-8	-7	2	1	-9	*US-2.500-04/30/15*	123	5	4	1	0	-12	15	-3
TIPS 7/15	-1.31	-8	-8	0	-2	-13	*US-4.250-08/15/15*	159	4	4	-1	-4	-15	22	-2
TIPS 1/16	-1.07	-7	-7	1	0	-7	*US-2.625-02/29/16*	152	5	5	0	-2	-11	21	-4
TIPS 4/16	-0.96	-15	-15	1	1	-5	*US-2.000-04/30/16*	147	14	14	0	-2	-9	21	-13
TIPS 7/16	-1.19	-22	-22	0	0	-7	*US-4.875-08/15/16*	180	19	18	-1	-4	-12	15	-18
TIPS 1/17	-0.93	-3	-3	1	1	-3	*US-3.125-01/31/17*	175	2	2	-1	-3	-9	17	4
TIPS 4/17	-0.77	-4	-4	1	2	-2	*US-0.875-04/30/17*	170	4	3	-1	-2	-8	18	-2
TIPS 7/17	-0.90	-5	-5	1	1	-3	*US-4.750-08/15/17*	189	3	2	-1	-3	-9	19	-1
TIPS 1/18	-0.67	-3	-3	1	2	-1	*US-3.500-02/15/18*	188	2	2	-1	-3	-8	18	3
TIPS 4/18	-0.54	-1	-1	1	2	0	*US-0.625-04/30/18*	184	2	2	-1	-2	-7	19	-2
TIPS 7/18	-0.66	-16	-16	1	2	-1	*US-4.000-08/15/18*	197	15	15	-1	-3	-8	22	-15
TIPS 1/19	-0.42	0	0	1	2	1	*US-2.750-02/15/19*	195	-1	-2	-1	-2	-7	23	4
TIPS 7/19	-0.41	0	0	1	2	1	*US-3.625-08/15/19*	209	-1	-2	-1	-3	-7	21	1
TIPS 1/20	-0.17	0	-0	1	3	1	*US-3.625-02/15/20*	196	-1	-1	-1	-2	-6	32	-0
TIPS 7/20	-0.14	-0	-0	1	2	1	*US-2.625-08/15/20*	211	-0	-1	-1	-2	-6	27	-1
TIPS 1/21	0.08	0	0	2	3	2	*US-3.625-02/15/21*	201	-1	-1	-1	-2	-5	36	3
TIPS 7/21	0.11	1	1	1	3	2	*US-2.125-08/15/21*	216	-1	-2	-1	-2	-5	29	-0
TIPS 1/22	0.30	1	1	2	3	2	*US-2.000-02/15/22*	210	-1	-2	-1	-2	-5	34	2
TIPS 7/22	0.33	-5	-6	1	3	2	*US-1.625-08/15/22*	219	5	5	-1	-2	-5	31	-7
TIPS 1/23	0.45	1	1	1	3	3	*US-2.000-02/15/23*	215	-1	-2	-1	-2	-5	34	2
TIPS 7/23	0.46	1	1	1	3	3	*US-2.500-08/15/23*	219	-1	-1	-1	-2	-5	37	-0
TIPS 1/25	0.61	0	0	1	3	3	*US-7.625-02/15/25*	212	-1	-1	-1	-2	-5	46	2
TIPS 1/26	0.70	2	2	1	3	3	*US-6.000-02/15/26*	220	-3	-3	-1	-2	-5	42	4
TIPS 1/27	0.77	-5	-5	1	3	3	*US-6.625-02/15/27*	221	4	4	-1	-2	-5	44	-3
TIPS 1/28	0.86	0	-0	1	3	3	*US-6.125-11/15/27*	220	-1	-1	-1	-2	-5	48	1
TIPS 4/28	0.83	-0	-1	1	3	3	*US-5.500-08/15/28*	231	-0	-0	-1	-2	-4	35	0
TIPS 1/29	0.90	-0	-0	1	3	3	*US-5.250-02/15/29*	228	-0	-1	-1	-2	-4	41	2
TIPS 4/29	0.89	-0	-0	1	3	3	*US-5.250-02/15/29*	230	-0	-1	-1	-2	-4	39	1
TIPS 4/32	1.01	-2	-3	1	2	3	*US-5.375-02/15/31*	228	2	2	-1	-2	-4	48	-1
TIPS 2/40	1.30	4	4	1	2	2	*US-4.625-02/15/40*	228	-5	-5	-1	-2	-3	52	7
TIPS 2/41	1.32	-2	-2	1	2	2	*US-4.750-02/15/41*	228	1	1	-1	-2	-3	53	1
TIPS 2/42	1.37	0	0	1	2	2	*US-3.125-02/15/42*	232	-1	-1	-1	-2	-3	48	3
TIPS 2/43	1.37	0	0	1	2	2	*US-3.125-02/15/43*	233	-1	-1	-1	-2	-3	47	2

Source: Citi Research, Bloomberg

Figure 58. EUR Inflation-linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp) 1 Nov	1 Dec	1 Jan	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Nov	1 Dec	1 Jan	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.09*	*0.09*	*0.10*									
OATei15	-1.28	-9	-9	0	34	46	*FFRG 4/15*	154	7	7	-1	33	44	11	-11
BUNDei16	-0.77	-5	-6	2	28	38	*BUND 1/16*	94	1	2	1	27	37	20	-3
BTANi16	-1.01	-9	-12	10	-3	3	*FFRG 4/16*	143	5	7	9	-5	0	23	-8
BTPei16	1.30	-7	-9	6	36	51	*BTP 8/16*	91	-3	-2	1	23	31	57	5
OATi17	-0.74	-8	-10	8	-1	4	*FFRG 4/17*	147	4	5	6	-4	-1	25	-6
BTPei17	1.75	-7	-9	6	28	41	*BTP 8/17*	106	-2	-2	0	16	22	46	3
BOBLei18	-0.52	-2	-3	1	16	21	*BUND 1/18*	104	-2	-2	0	14	19	32	-1
OATei18	-0.33	-7	-7	1	15	21	*FFRG 4/18*	133	4	4	0	12	16	28	-6
BTPei18	2.06	-9	-10	5	24	34	*BTP 8/18*	106	-1	-1	0	13	17	50	-1
OATi19	-0.27	-7	-9	6	0	5	*FFRG 4/19*	156	5	6	4	-3	-1	30	-7
BTPei19	2.10	-14	-15	4	20	29	*BTP 9/19*	133	4	4	0	10	13	29	-6
BUNDei20	-0.27	-4	-4	1	12	16	*BUND 1/20*	126	1	1	0	9	12	26	-3
OATei20	0.02	-6	-7	1	12	17	*FFRG 4/20*	153	4	4	0	8	11	17	-5
OATI21	0.22	-6	-7	5	1	5	*FFRG 4/21*	160	4	5	3	-3	-1	39	-5
BTPei21	2.64	-16	-17	4	16	24	*BTP 9/21*	123	5	5	0	8	10	52	-4
OATei22	0.41	-6	-6	1	10	14	*FFRG 4/21*	141	3	3	0	6	8	45	-4
BUNDei23	0.09	-7	-7	1	8	11	*BUND 1/22*	135	3	3	0	6	7	44	-4
OATi23	0.47	-8	-9	4	2	5	*FFRG 10/23*	195	7	7	2	-3	-2	18	-8
BTPei23	2.86	-15	-16	3	14	20	*BTP 8/23*	128	4	3	0	6	8	62	-4
OATei24	0.72	-6	-7	1	8	12	*FFRG 10/23*	170	5	5	-1	4	5	28	-6
BTPei26	3.08	-15	-16	3	12	17	*BTP 3/26*	134	6	6	0	5	6	70	-6
OATei27	0.89	-5	-5	1	7	10	*FFRG 4/26*	189	5	5	-1	3	4	19	-5
OATi29	0.83	-1	-2	3	1	4	*FFRG 4/29*	217	3	3	1	-2	-2	14	-4
OATei32	1.07	-4	-5	1	6	9	*FFRG 10/32*	208	4	4	-1	3	3	7	-4
BTPei35	3.05	-12	-12	2	7	11	*BTP 8/34*	187	5	5	-1	2	2	29	-5
OATei40	1.19	-3	-4	1	4	6	*FFRG 4/41*	222	5	4	-1	1	1	0	-5
BTPei41	3.38	-8	-9	2	7	10	*BTP 9/40*	163	2	2	-1	2	2	60	-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) 1 Nov	1 Dec	1 Jan	Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp) 1 Nov	1 Dec	1 Jan	ZC Swap - BE Spread (bp)	Chg (bp)
Repo (%)				*0.43*	*0.43*	*0.42*									
UKTi Jul16	-2.09	-6	-6	1	3	4	*UKT 9/16*	281	-0	-0	0	1	1	36	-9
UKTi Nov17	-1.68	-2	-3	8	14	19	*UKT 3/18*	299	-1	-1	6	10	13	13	-18
UKTi Nov19	-1.06	3	3	6	11	15	*UKT 9/19*	283	-5	-6	4	6	8	36	1
UKTi Apr20	-0.90	-3	-3	2	4	7	*UKT 3/20*	277	-2	-2	0	0	0	41	3
UKTi Nov22	-0.55	-7	-8	5	9	12	*UKT 3/22*	287	1	1	3	4	5	43	-3
UKTi Mar24	-0.27	-8	-9	4	7	10	*UKT 3/25*	303	2	2	2	3	4	26	-3
UKTi Jul24	-0.28	-7	-8	2	4	6	*UKT 3/25*	305	1	1	0	-1	-1	35	1
UKTi Nov27	-0.13	-10	-10	3	6	8	*UKT 12/27*	314	1	1	1	2	3	35	-1
UKTi Mar29	-0.03	-10	-11	3	5	7	*UKT 12/30*	320	1	1	1	2	2	30	-1
UKTi Jul30	-0.09	-10	-11	1	3	4	*UKT 6/32*	332	1	1	0	-1	-1	26	-7
UKTi Nov32	-0.05	-12	-12	3	5	6	*UKT 6/32*	329	2	2	1	1	1	34	-1
UKTi Mar34	-0.02	-12	-13	2	4	6	*UKT 9/34*	332	3	3	1	1	1	30	-2
UKTi Jan35	-0.01	-11	-11	1	2	3	*UKT 3/36*	335	2	2	0	-1	-1	31	-1
UKTi Nov37	-0.03	-12	-12	2	4	5	*UKT 12/38*	338	3	3	1	1	1	31	-2
UKTi Mar40	-0.01	-11	-12	2	3	5	*UKT 9/39*	340	3	2	0	0	0	29	-0
UKTi Nov42	-0.04	-11	-11	2	3	4	*UKT 12/42*	346	3	2	0	0	0	26	-2
UKTi Mar44	0.01	-11	-11	1	3	4	*UKT 1/44*	348	2	2	0	0	0	23	-2
UKTi Nov47	-0.02	-10	-11	1	3	4	*UKT 12/46*	348	2	2	0	0	0	25	-2
UKTi Mar50	-0.01	-10	-10	1	2	3	*UKT 12/49*	346	2	2	0	0	0	25	-2
UKTi Mar52	0.01	-9	-9	1	2	3	*UKT 7/52*	346	2	2	0	0	0	25	-1
UKTi Nov55	-0.02	-8	-8	1	2	3	*UKT 12/55*	346	2	2	0	0	0	26	-1
UKTi Mar62	-0.02	-7	-8	1	2	3	*UKT 1/60*	346	1	1	0	0	-1	25	-0
UKTI Mar68	-0.02	-7	-7	1	2	2	*UKT 7/68*	349	0	0	0	0	-1	23	1

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
3-Oct-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
2-Oct-13	NOTE	Euro Rates Strategy: EMU 2014 Supply Projections	-	EUR
30-Sep-13	NOTE	European Flow Monitor: More selling of the core	-	EUR
30-Sep-13	NOTE	EMU October Supply: cash flow profile is supportive for bonds	-	EUR
30-Sep-13	NOTE	Euro Rates Strategy: Where next for BTPs amid ongoing political uncertainty	-	EUR
27-Sep-13	NOTE	Euro SSA and Covered Bond Monthly	-	EUR
27-Sep-13	NOTE	European Rates Strategy: The Month-end RV Pack	-	EUR
26-Sep-13	European Weekly	European Rates Strategy Yield Outlook	8	Global
		ECB: Some Thoughts on a New LTRO	9	EUR
		UK Rates – Guidance, what is it good for?	12	UK
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26-Sep-13	NOTE	Weekly Supply Monitor: Euro, UK and US Supply Outlook	-	Global
23-Sep-13	NOTE	UK Rates Strategy: Reexamining the GBP Front-end	-	UK
23-Sep-13	NOTE	European Flow Monitor: Diverging flows within the core	-	EUR
23-Sep-13	NOTE	Euro Rates Strategy: Ireland – The Road Back to Investment Grade?	-	EUR
20-Sep-13	NOTE	European Rates Strategy: The Other Side of Forward Guidance	-	EUR
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		End-September EGBI Projection	22	EUR

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Notes

Appendix A-1

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