French 5s7s Analysis
Playing a French steepening

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France 5s7s vs Swaps - Conclusion

These trades represent a play on a French steepening vs the Swap Curve – which could be more likely in an environment where the market perceives a breakdown of the Euro into default or redenomination – and this infects the French curve as it has done the Italian bond curve

The trades range by 3bp to 8bp (+/- 1.5 to 4bp)

Current levels are about 3bp (10%) away from being as flat as the swap curve – possible boundary condition

The best issues in absolute terms don't have much history and represent the middle of the range as a trade location

After a repo spread of 10bp the Roll and carry total of -0.6bp is 8% to 20% of the trade range

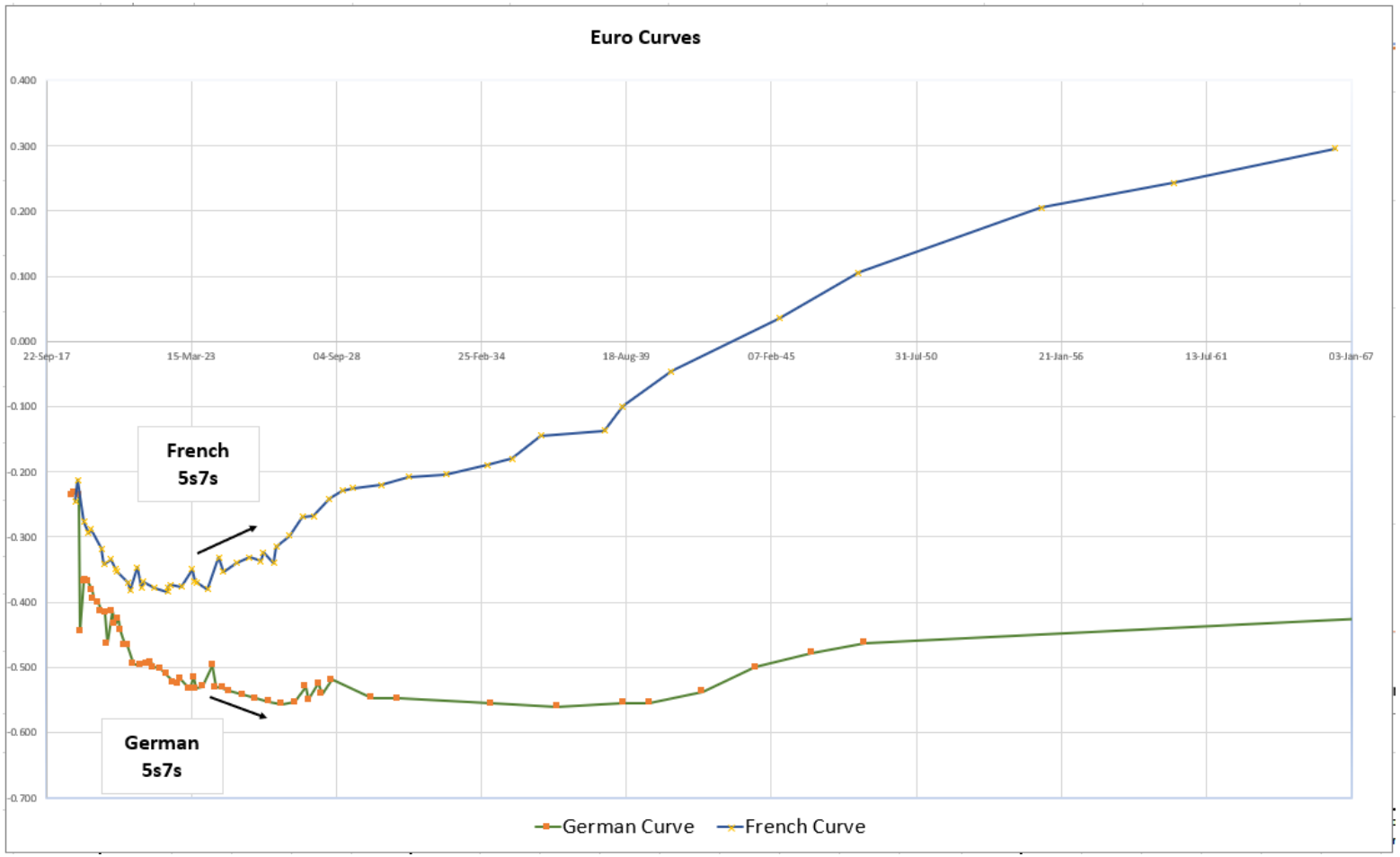
French & German Yield Curves vs Swap – Graph, Euro Curves vs Swaps

Request – to look at possible steepeners in France vs lower risk curves – Swaps and possibly Germany

The basic tenet being that no additional gradient to the French curve would approximate to a zero-cost default option

Observations:

At the moment there is a 10% difference in curve gradient between French and Swap curve (the zero/y axis represents the swap curve)



French Yield Curve vs Swap – History

On average the French curve is 20% steeper than the Euro swap curve across all tenors (calc'd by performing an XY scatter between the two yield data sets on current yields)

In the graph we look at the *ratio* between the French govt 5s7s curve and the Libor 5s7s curve

Observations:
so France 5s7s versus swaps is generically on its lowest ratio over the last yr – we could argue that it is unlikely that France can be flatter than swaps (when the ratio would be less than 1)

BBG CIX expression

(Generic 7y France – Generic 5y France) divided by (5s7s swaps) =

(RV0004P 7Y BLC Curncy - RV0004P 5Y BLC Curncy) / (EUSA7 Curncy - EUSA5 Curncy)

French Yield Curve vs Swap – Long Term History

Just to check to see how this fares over the long haul – here is the long term history of the relative gradients of the French Bond and swap curve

Observations: So this confirms that this structure is

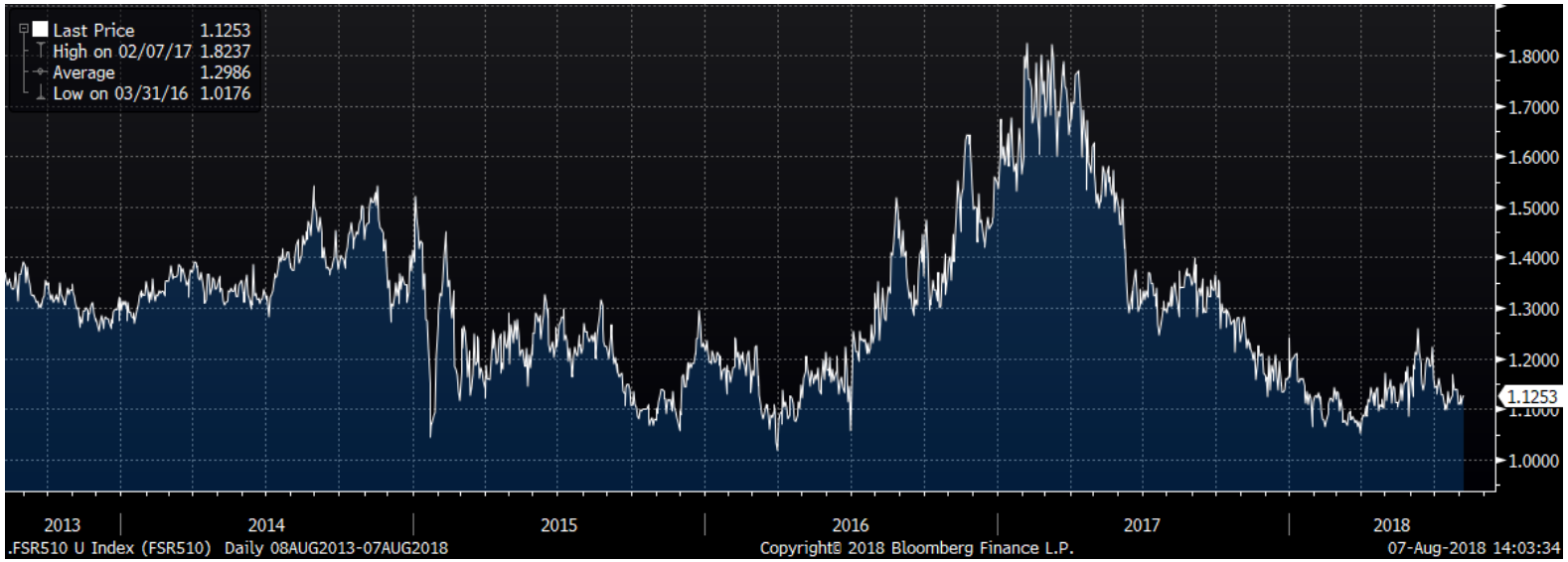
1) good terms historically over the medium and long term

2) Has a possible downside of just 10% vs swaps (the point at which the French curve would be as flat as the swap curve

BBG CIX expression

(Generic 7y France – Generic 5y France) divided by (5s7s swaps) =

(RV0004P 7Y BLC Curncy - RV0004P 5Y BLC Curncy) / (EUSA7 Curncy - EUSA5 Curncy)



French Yield Curve – Issue Selection – France 5s7s curve segment

If we now hone in on the French Govt bond curve 5s to 7s we can issue select the appropriate issues

BBG GOVY fitted Relative Value Model – Spline Cubic fit – 3m data for history

Richest Bond in Spread – Frtr 0.5% May 25

Cheapest Bond in Spread – Frtr 0% Mar 24

Highlighted in Red and Green below

Security	Dur	Price	Yield	Yld Chg	Spread	Spr Chg	Z-Score	Low	Range	High	Pctl	CUSIP
FRTR 4 ¼ 10/25/23	4.7	122.492	-0.058	0.9	-1.9	0.2	-1.07	-2.1		-0.5	17	EG395336 Corp
FRTR 2 ¼ 05/25/24	5.5	112.66	0.06	0.9	0	0.1	-0.71	-0.3		1.2	40	EJ913944 Corp
FRTR 0 ½ 05/25/25	6.7	101.829	0.228	0.8	0.2	-0.1	-0.52	-0.4		1.1	24	EK728902 Corp
FRTR 1 ¾ 11/25/24	6	110.063	0.143	0.8	0.4	0	-0.74	0.1		1.4	34	EK307413 Corp
FRTR 0 03/25/24	5.6	99.579	0.076	0.8	2.3	-0.1	-1.16	1.8		4.1	9	AT122915 Corp

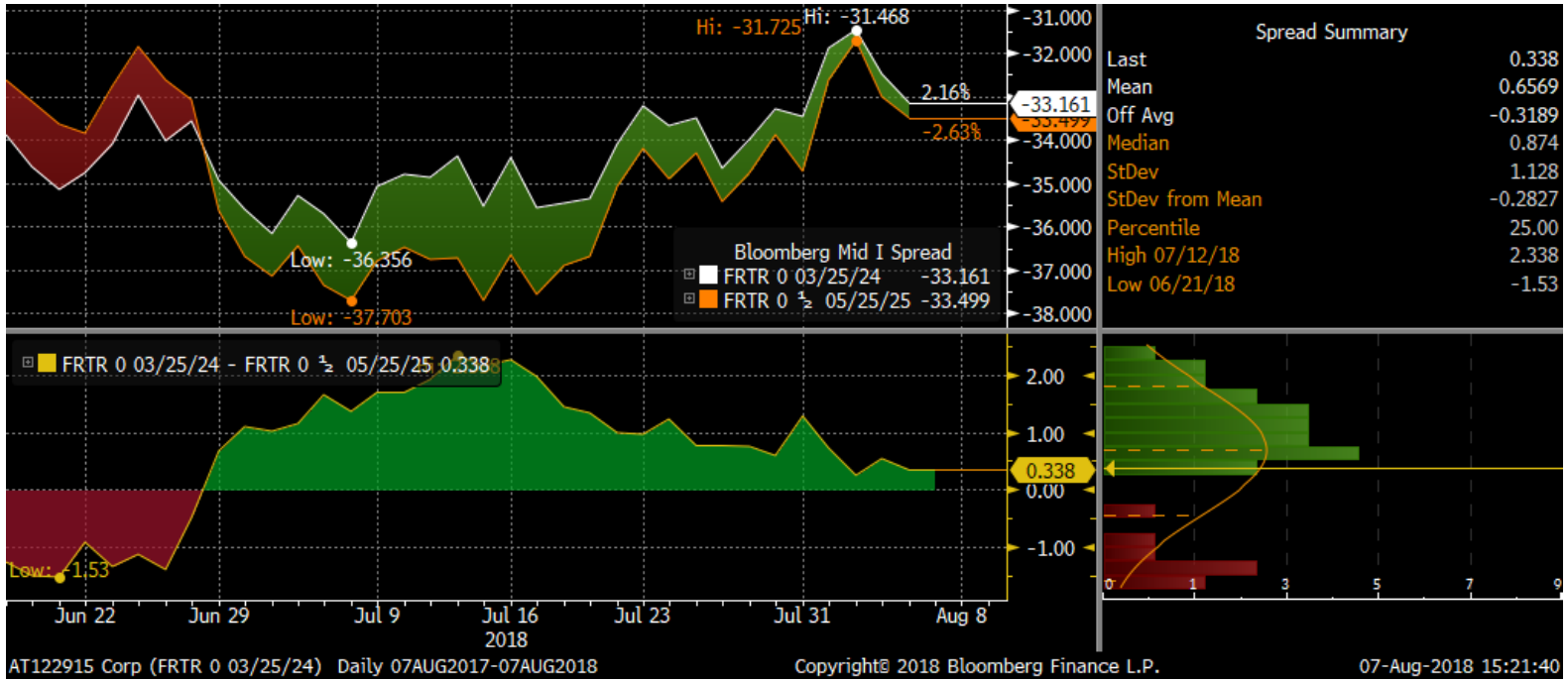
French Yield Curve – History of Relative Swap Spreads

We can now look at how that trade has behaved historically

Frtr – 0% Mar 24 vs Frtr 0.5% May 25 YY swap Spread

We can now look at how that trade has behaved historically

The trade has range from +2.3bp to -1.5 bp and is currently middle of the range



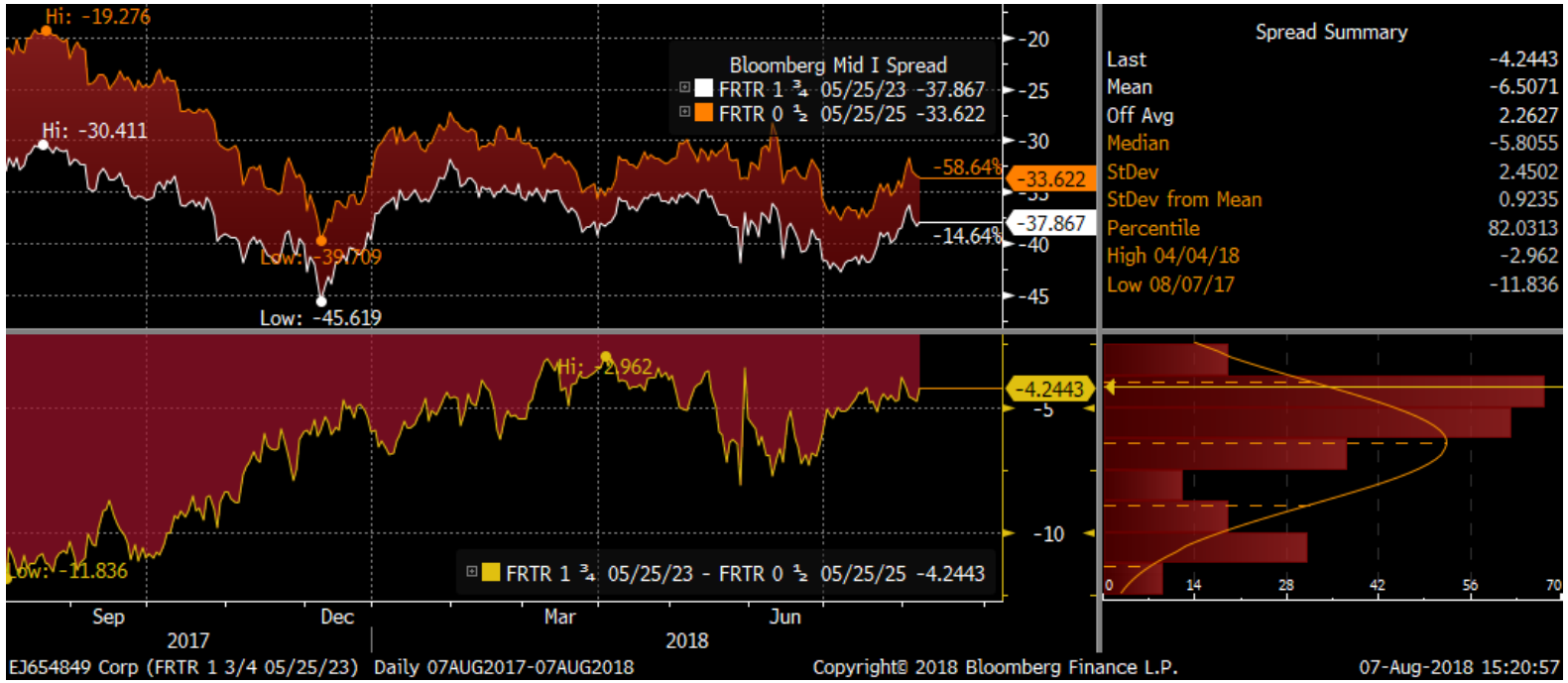
French Yield Curve – History of Relative Swap Spreads

We now focus on changing the shorter issue to get a longer history

5s 7s on issues with more history

Observations: the current 5y (mar 24) French bond trades much cheaper as a supply point

The trade has ranged from -3bp to -11.8bp and is currently towards top end of the range



French Yield Curve – Roll & Carry, 3mo

How does the Trade Roll and Carry?

Swap Leg R&C: -0.3bp /3mo

Bond Leg R&C: -0.3bp /3mo (using 10bp spread)

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