



Trade Radar

Trades & Fades II – Btps delivery
Fly

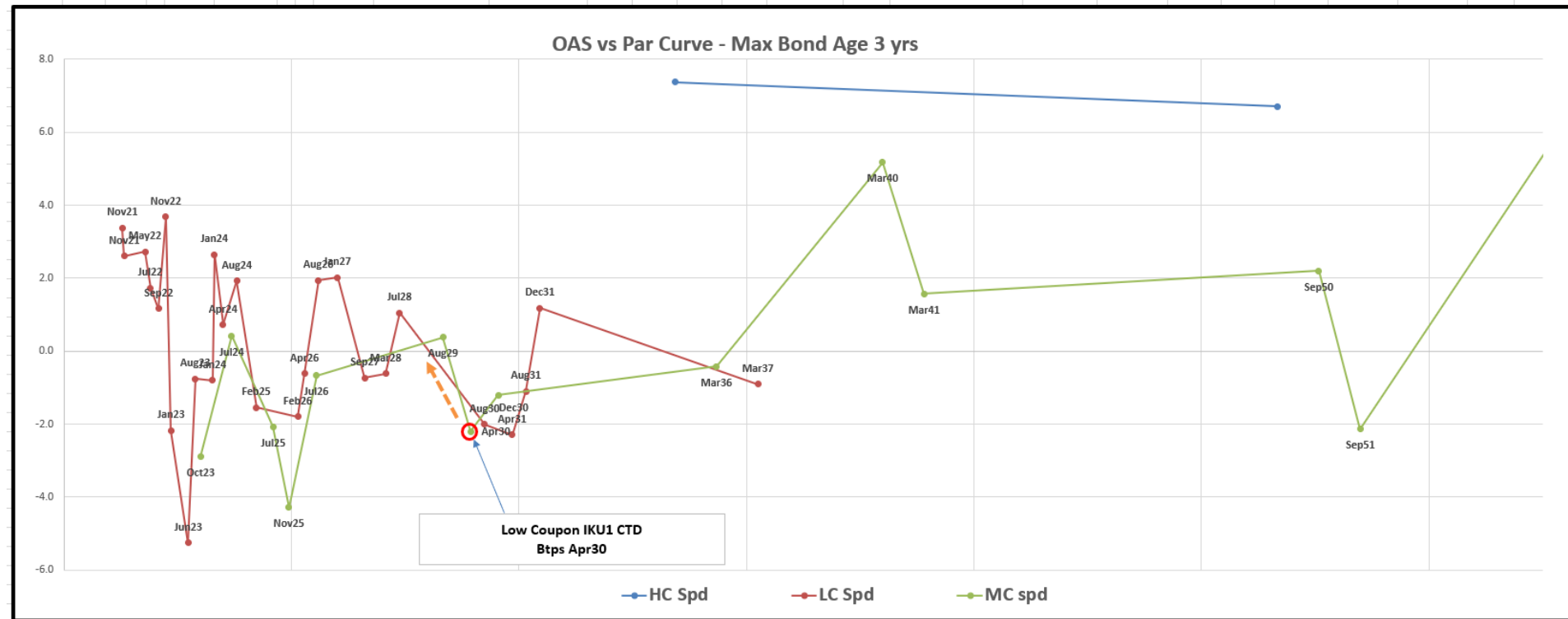
James & Will, Astor Ridge

31st August



Using a theoretical, Smooth Zero curve we get a better view of Rich/Cheap

Under this more complete framework the IKU1 is rich – its low coupon gives it poor long-term carry prospects and as an off-the-run we feel it can cheapen further



Trade: +jul28 / -iku1 / +dec31 (btps)

Graphed from the perspective of long the belly

- Weightings 0.5 / 2 / 1.5
- $(+2.0 * \text{YIELD}[\text{BTPS } 1.35 \text{ 04/01/30 Corp}] - 0.5 * \text{YIELD}[\text{BTPS } 0.5 \text{ 07/15/28 Corp}] - 1.5 * \text{YIELD}[\text{BTPS } 0.95 \text{ 12/01/31 Corp}]) * 100$



Rationale

- IKU1 CTD Apr30 roll out of the basket in Sep
- Generally bonds cheapen out of the basket towards the 7y
- Apr30 commanded a premium as additionally liquid and sought after on repo, which they should lose
- The market at first glance uses yield as a metric of value – using anomaly vs smooth zero curve we see them as truly rich
- Add levels and cover levels are set at distorted and fair forward rates – coupon adjusted

Trade Stats

Enter: -24bp (33% risk)

Current: -23.8bp

Add: -29bp (67% risk)

Target: -19bp

Annualised vol: 0.7bp

Carry: -0.3bp /3mo @-5bp repo spread (need to check delivery period repo)



James Rice

- UK: 14-16 Dowgate Hill, London ec4r 2su
- US: 60 Rumson rd, rumson, nj 07760
- Office: +44 (0) 203 -143 - 4178
- Mobile: +44 (0) 7540-117705
- Email: james.rice@astorridge.com
- Website: www.astorridge.com
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