

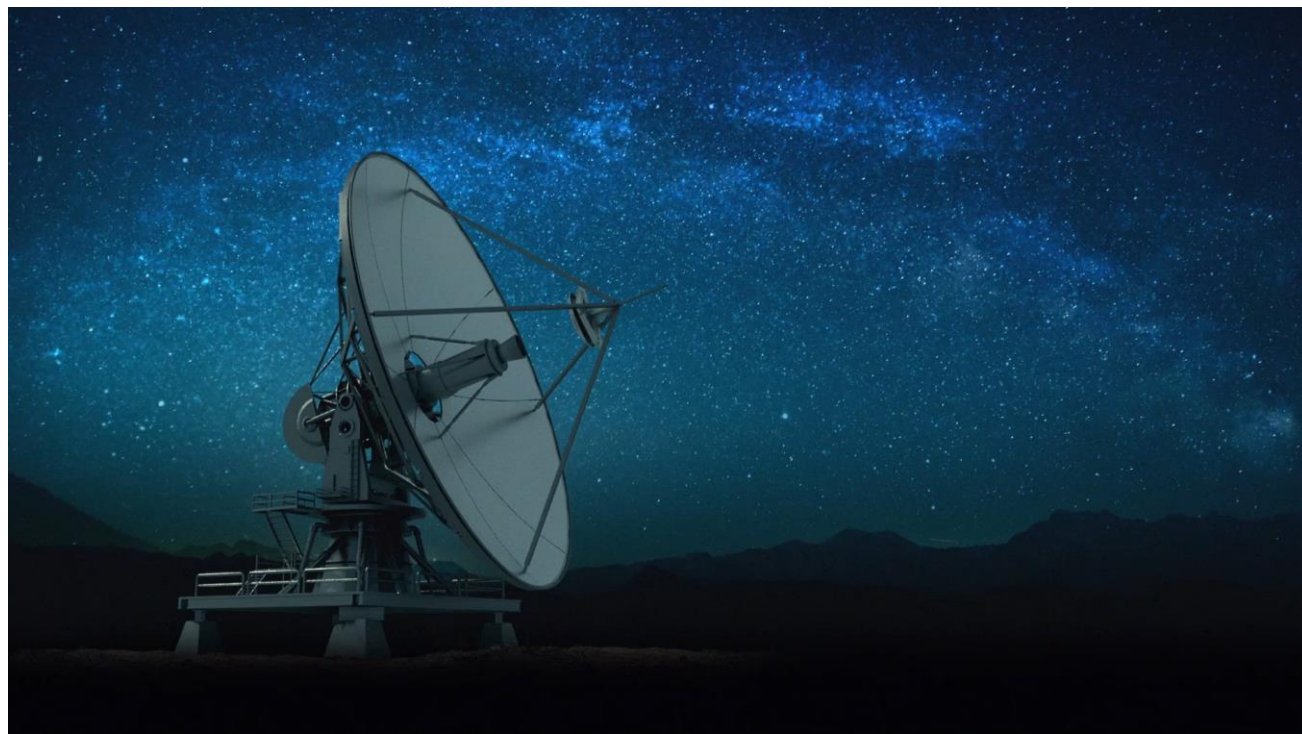


# Trade Radar- Week of 27<sup>th</sup> Sep

Trades & Fades

James & Will, Astor Ridge

27th September



# Main Fades plus Movers and Shakers

Spain Rich vs other issuers

PCA Factor 1 – yields high – looking for a long bias – Germany, France & UK

Covering shorts in High Coupon Long Germany

Sell Spain into France in longer tenors

Btps 67s were locally cheap, have richened

3y Germany rich vs 2s and 5s

Regression Steepeners in UKT

Italy 10s30s getting too flat

Italy 2s5s flatteners

15y Germany starting to offer value

Covering shorts in 7y JGB vs 2y and 10y

5s10s flatteners in Core

# Supply

---

Belgium 10y, 15y & 30y

---

EU – 5y tap

---

Netherlands – new 7y

---

Italy 5y & 10y – tba Friday 24<sup>th</sup>

---

UKT 2051s - 30y tap

---

*Following Week..*

---

Austria Oct 5<sup>th</sup> TBA

---

Germany 5y

---

Spain and France (Longs)

---

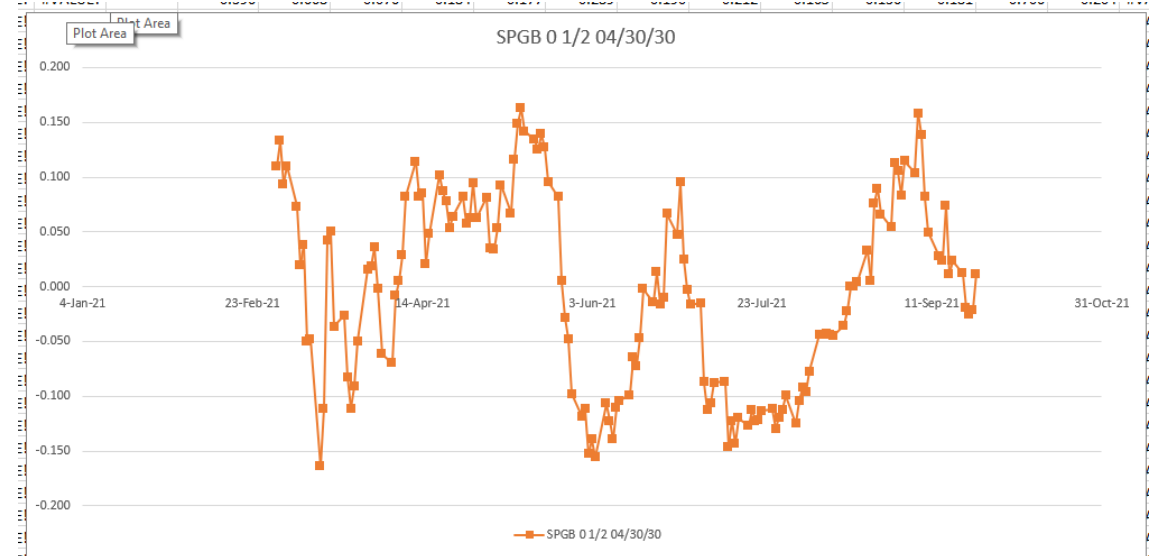
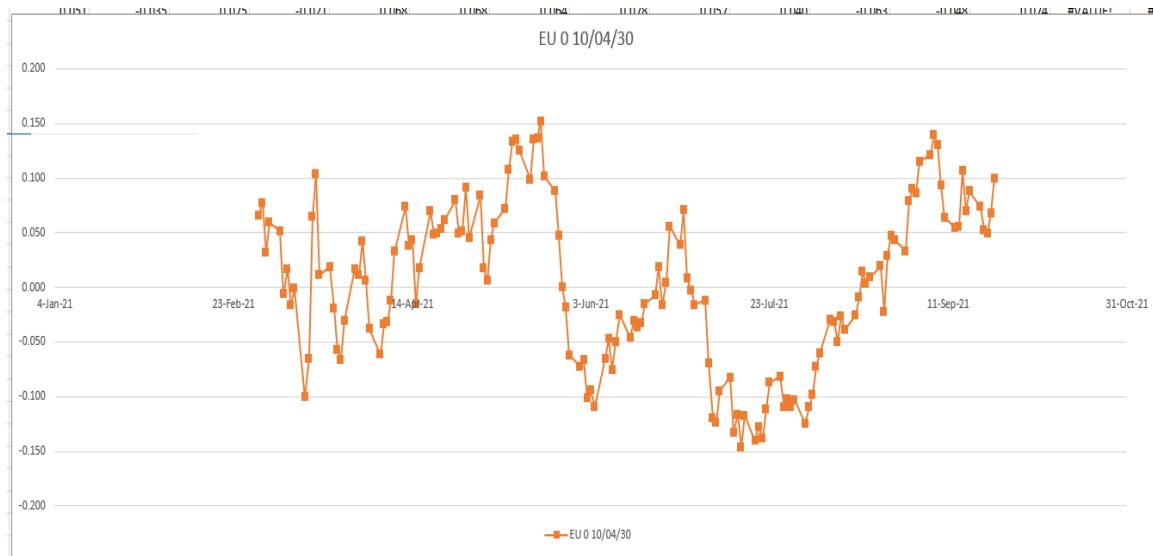
UKT 0q25 (3y) & 1e39 (20y) taps

# PCA – Euro issuers, 9yr Rich / Cheap

DBR 0 08/15/30	BTPS 1.65 12/01/30	FRTR 1 1/2 05/25/31	SPGB 0 1/2 04/30/30	EU 0 10/04/30	NETHER 0 07/15/30	RFGB 0 09/15/30	RAGB 0 02/20/30	BGB 0.1 06/22/30	IRISH 2.4 05/15/30	PGB 0.475 10/18/30	GGB 1 1/2 06/18/30	EFSF 0.05 10/17/29
1.1	0.4	1.3	0.2	1.3	1.3	1.2	1.3	1.1	1.0	-0.1	0.1	1.5

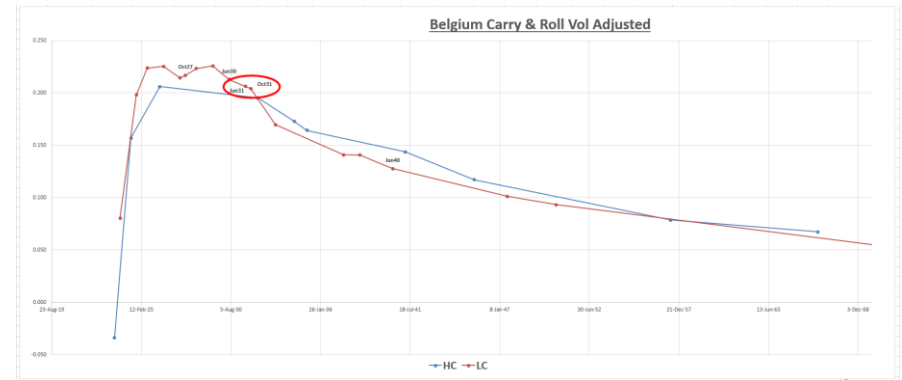
Spain has richened recently as a credit & we see France, Belgium and EU as Semi-core type credits that are under pressure

Although France is cheap we may want to avoid the election risk and buy Belgium or EU



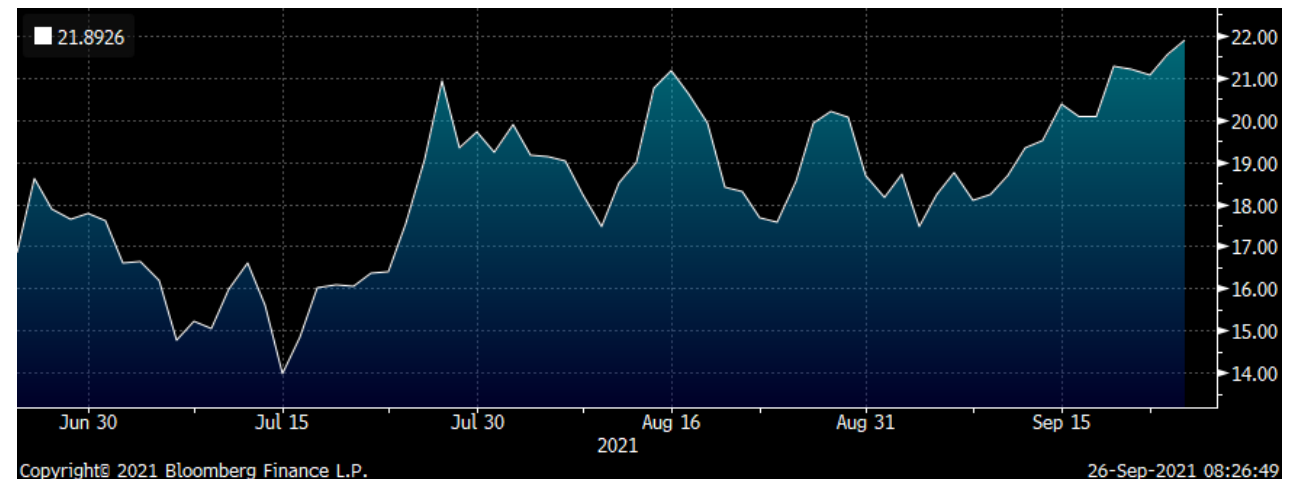
# Belgium supply

- Best Carry and Roll of the supply bonds is the 10y – in anomaly terms it's cheap to the old 15y Bgb June31
- Short positions in the old bonds can be a bit of a trap – or put another way, we can go to extremes of value.
- For the same C&R vol adjusted. We need jun31/oct31, +1.5bp cheaper – currently +6.8bp – target flattener +8.3bp – recent high is +7.75bp – if it doesn't get there, I just don't care...



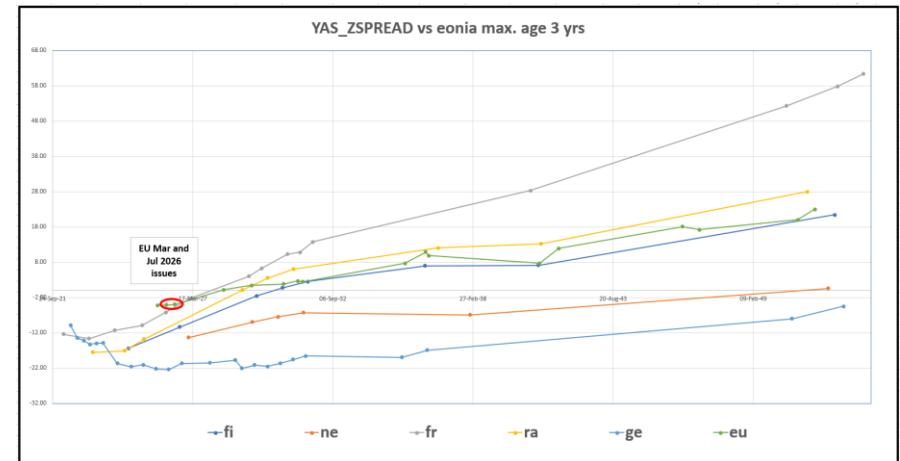
# Belgium as a credit vs Spain and RXZ1

- AS per our PCA work on credits – we like selling Spain but we need some credit balance – on a weighted credit fly we're buying Belgium vs selling Spain Oct31 and RXZ1...
- Call for the details
- Target north of +23bp, (90 day Sharpe > +0.75)



# EU supply

- EU is a cheap credit – partic sub 8yrs where is has always traded cheap to France
- We want to get out of 2bp trades and into the bigger picture – let's take a look as a credit fly, using the fact the semi-core block has cheapened
- Nicely mean reverting -OEZ1 / +EU Jul 26 / - Spgb jan26
- Greedy on this one as vol is quite high
- Call for weightings



# Holland to bring a new 7y

- Credit is historically cheap
- 5y – 10y has best carry and Roll vol adjusted
- My preference would be to take this vs 3y and 20y – but that trade has done extremely well already and location doesn't look great
- The Difference in in Carry and roll in the German and Ditch curves makes want to box the 7y up vs 3y and the German futures
- Here's the Box
- Nether -3y / +Old 2029
- vs 60% of schatze/Rxz1 – need another 2bp but like that trade. June23 schatze for more history
- Seems the only way to get away from low var / high friction anomalies is to box vs futures?



$100 * ((\text{YIELD}[\text{NETHER } 0.25 \text{ 07/15/29 Corp}] - \text{YIELD}[\text{NETHER } 0 \text{ 01/15/24 Corp}]) + -0.6 * (\text{YIELD}[\text{BJ948280 Corp}] - \text{YIELD}[\text{BKO } 0 \text{ 06/16/23 Corp}]))$



## Holland 7y made simple, but still rich

- In Risk / Return terms, Holland sits in between swaps and bonds for me
- If I hedge old 2029 Nether with 50% swaps and 50% RXZ1 I get this graph
- Looks like this one could cheapen some more and I'll sit on invoice spread narrowers for the mo?

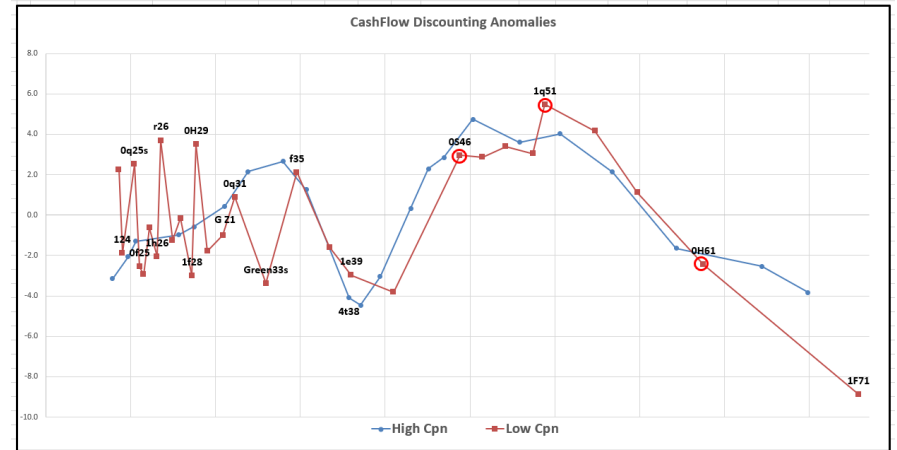


$$100 * 0.5 * (\text{YIELD}[\text{NETHER 0.25 07/15/29 Corp}] - \text{YIELD}[\text{BJ948280 Corp}]) + 0.5 * \text{SP210}[\text{NETHER 0.25 07/15/29 Corp}]$$

=half vs swaps half vs RX

# Ukt 51s tap – cheap bond, add to longs vs 46s & 61s

- Ult 51s are a touch cheap – partic vs UKT 50s – but 50s are an older bond and it's clear there are three curves in the UK – HC, LCold, LCnew and we need to avoid the minefield of selling a rich bond that's about to get richer
- Ultimately – our strategy is to catch the roll of new bonds towards the end of their cycle as they gain traction and seem to have less float and trade richer
- Trade: -0s46 / +1q51 / -0h61
- Mis-weighted: -1.5 / 2 / 0.5
- Cix: ( +2.0 \* YIELD[UKT 1.25 07/31/51 Corp] - 1.5 \* YIELD[BN566051 Corp] - 0.5 \* YIELD[UKT 0.5 10/22/61 Corp]) \* 100





PC1 – delta is cheap, but where is cheapest?

- PC1 in EGB Principal Component Analysis generally represents delta
- Over the last 3months: Spain, Germany and France have move mostly with Factor 1 and not much of the other, orthogonal components
- Contingent on remaining under this regime – we can trade them against each other allows us to extract alpha vs the market moves without excessive exposure to other components
- What it leaves is continuing to like –Spgb 37 into France HC apr41  
Either 1:1 or, on a regression of changes -0.95:1 weighting
- -31.8bp at the moment – Like this at > -31.5bp
- -0.5bp C&R @ Same repo (estimate the SP GC / FR GC is 8bp apart)



## Covering shorts in High Coupon Long Germany

- Graph: Dbr 39s on Fly vs RX and UB
- We continue to cover our short in Dbr 39s
- German high coupons were the only HC bonds in Europe that were genuinely rich when we discount cash-flows using a zero curve for each issuer – the rest were too neg carry in both the short and the long term
- $200 * (\text{YIELD}[\text{DBR 4.25 07/04/39 Corp}] + -0.5 * \text{YIELD}[\text{DBR 2.5 08/15/46 Corp}] + -0.5 * \text{YIELD}[\text{BJ948280 Corp}])$

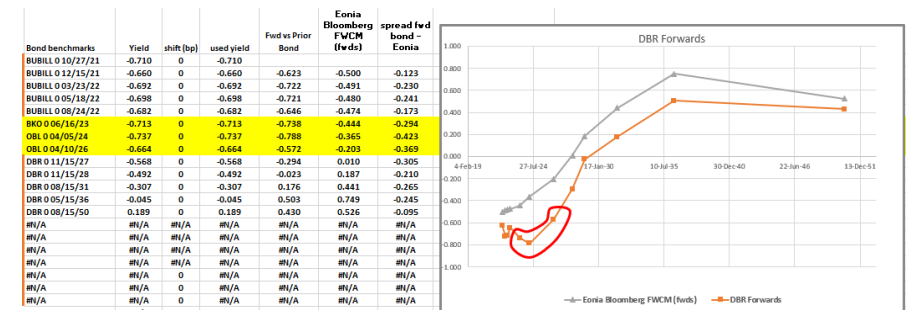
# Btps 67s were locally cheap, have richened back up

- We looked at Btps 67s getting over sold – essentially the current 50y Btps 72 was around par and starting to see buying flows from discount bond buyers making 67s 72s too flat
- But the 67s were still cheap – it’s just the fear of being short a low coupon bond that gets in the way
- To get around this we looked at it from a pseudo, RM **cash for cash** perspective..
- By Selling 72s vs 67s **on an even cash amount (clean)** hedged vs swaps (OIS) - Btps 67s were locally cheap:
- $(P2509[BTPS 2.15 03/01/72 Corp] - 0.9 * P2509[BTPS 2.8 03/01/67 Corp])$
- P2509 = OIS spread
- This had a nice reversal for us and we’re close to recommending taking that off



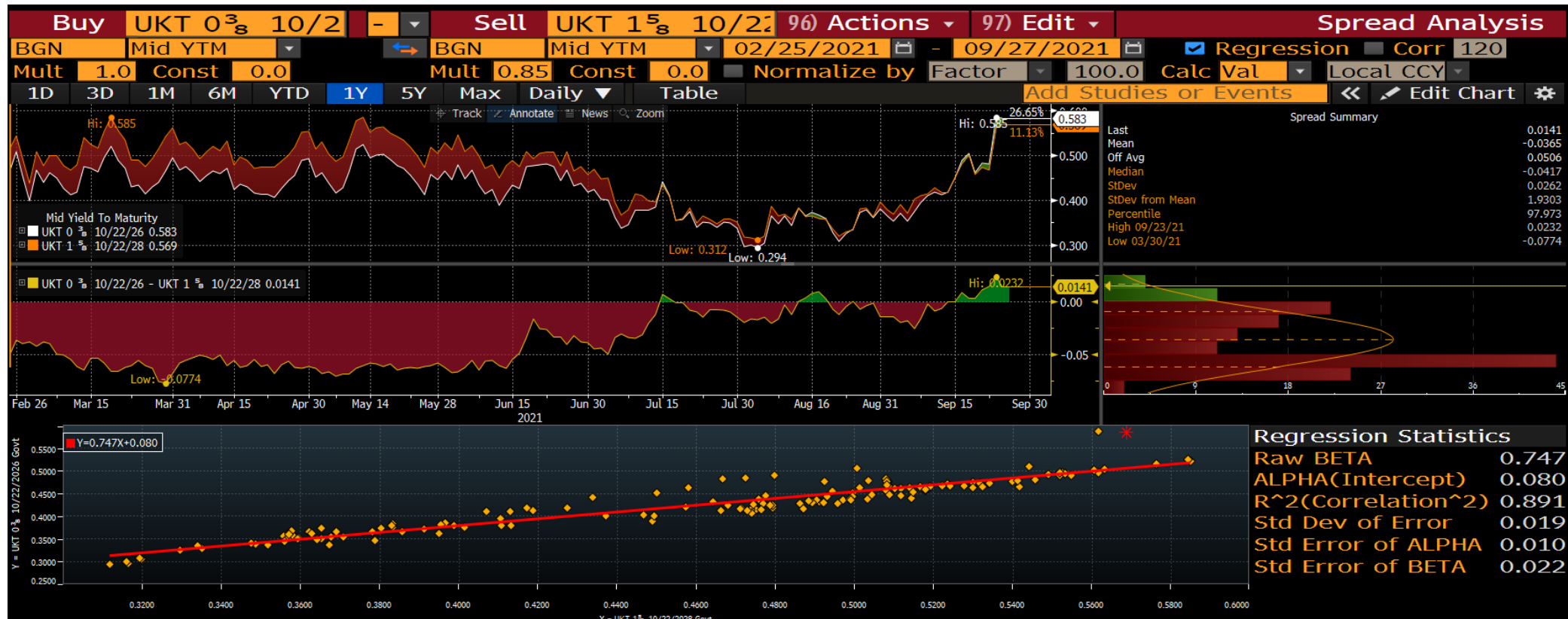
# 3y Germany rich vs 2s and 5s

- Back on our radar is the 3y segment of Germany – 2s3s too flat
- +old2y / -old3y / +old5y : for history
- Current: -12.2bp
- Entry: -13bp
- Simple: give us a shout – I like that one



# Regression Steepeners in UKT

- Ukt curve sold off in the last few days
- Generally the short end is less volatile than the longer tenors – and the difference is noticeable from 5y (r26) to 7y (1fe28)
- Meaning if we wish to take risk chips off the table we can take advantage of recent higher yields and buy more of the shorter bonds for the same amount of risk that one would have had in 7yrs
- We like regression weighted shorting from Ukt 1fe28 int Ukt r26
- 0.85 : 1 weighting



# Covering shorts in 7y JGB vs 2y and 10y

- We've had this from when the 7y JGB future led the rally and 2s7s in Yen got to flat – we sold 7y vs 2y and 10y
- On Sharpe Ratio vs rolling 90day average it's back to fair – so taking this one off
- It has some market delta too: nett long of 15%
- $200 * (RV0003P\ 7Y\ BLC\ Curncy + -0.9 * RV0003P\ 10Y\ BLC\ Curncy + -0.25 * RV0003P\ 2Y\ BLC\ Curncy)$







# 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](mailto:james.rice@astorridge.com)
- Website: [www.astorridge.com](http://www.astorridge.com)
- This marketing was prepared by James Rice, a consultant with Astor Ridge. It is not appropriate to characterize this e-mail as independent investment research as referred to in MiFID and that it should be treated as a marketing communication even if it contains a trade recommendation. A history of marketing materials and research reports can be provided upon request in compliance with the European Commission's Market Abuse Regulation. Astor Ridge takes no proprietary trading risk, has no market making facilities, and has no position in any security we discuss in this e-mail. The views in this e-mail are those of the author(s) and are subject to change, and Astor Ridge has no obligation to update its opinions or the information in this publication. If this e-mail contains opinions or recommendations, those opinions or recommendations reflect solely and exclusively those of the author, and such opinions were prepared independently of any other interests, including those of Astor Ridge and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the those who receive it. The securities discussed herein may not be suitable for all investors. Astor Ridge recommends that investors independently evaluate each issuer, security or instrument discussed herein, and consult any independent advisors they believe necessary. The value of, and income from, any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.
- You should not use or disclose to any other person the contents of this e-mail or its attachments (if any), nor take copies. This e-mail is not a representation or warranty and is not intended nor should it be taken to create any legal relations, contractual or otherwise. This e-mail and any files transmitted with it are confidential, may be legally privileged, and are for the sole use of the intended recipient. Copyright in this e-mail and any accompanying document created by Astor Ridge LLP is owned by Astor Ridge LLP.
- Astor Ridge LLP is regulated by the Financial Conduct Authority (FCA): Registration Number 579287
- Astor Ridge LLP is Registered in England and Wales with Companies House: Registration Number OC372185
- Astor Ridge NA LLP is a member of FINRA/SIPC: CRD Number 282626
- Astor Ridge NA LLP is a member of the National Futures Association (NFA): Firm ID Number 0499303
- Astor Ridge NA LLP is Registered in England and Wales with Companies House: Registration Number OC401796