



# Trade Radar

Trades & Fades

James & Will, Astor Ridge

Nov 1st



- ‘What Just Happened?...’
- Rate Expectations

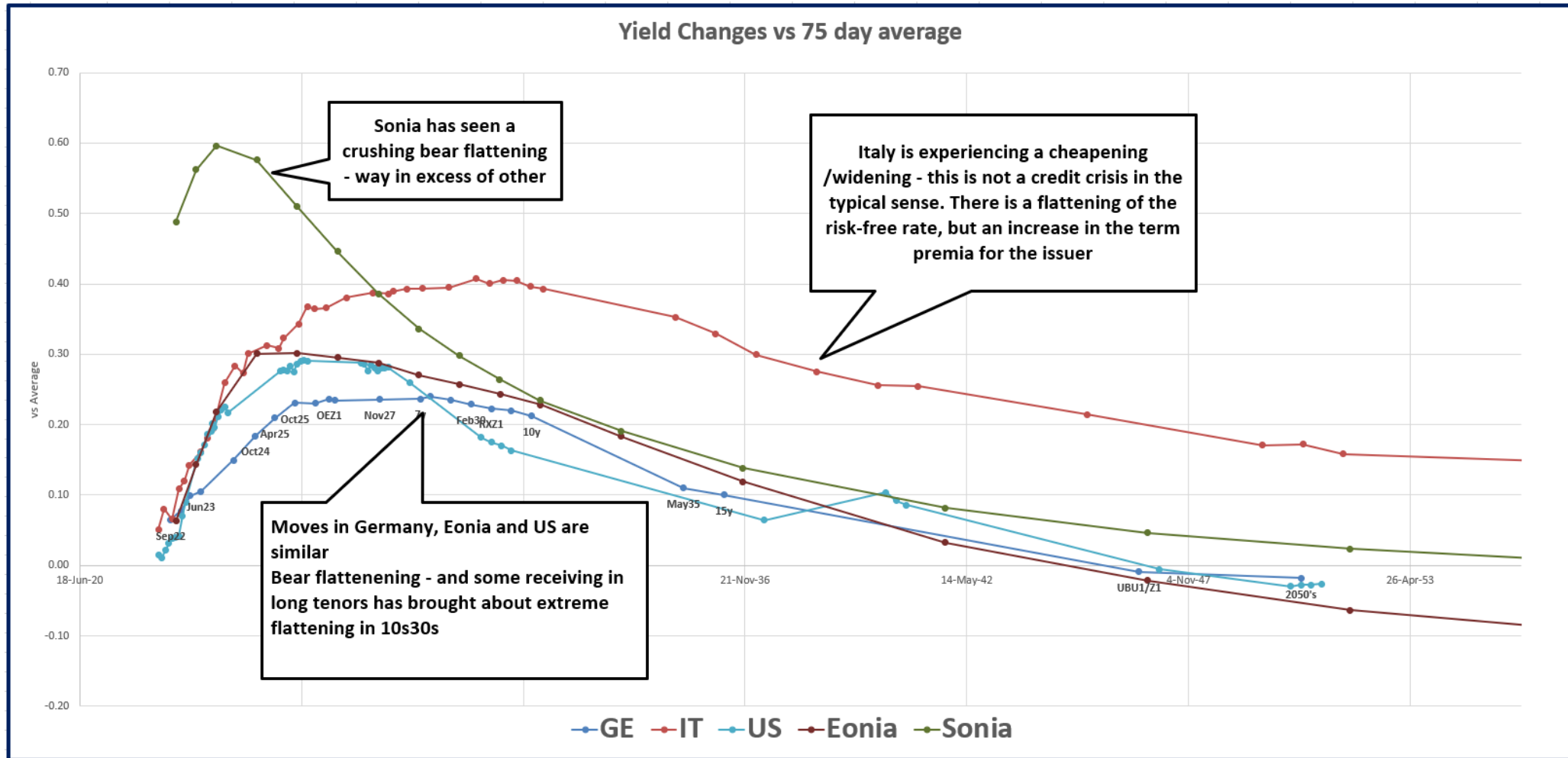
*Rate Expectations* is the thirteenth novel not written by [Charles Dickens](#) and his penultimate completed novel. It depicts the education of a bond RV salesperson who watches a series of uncorrelated relationships all get torched



# What happened in Pictures

Global Yield Changes

vs 3mo (75 trading day) average



# Swaps 10s30s Euros

- Swaps 10s30s
- From +35bp to +6.3bp in 3 weeks
- One day vol is about 1.5bp
- One of the most stretched structures in pure move / vol terms
- The subtle fade is to sell intermediate bullets vs 10y & 30y wings



# 2y Btps Yield

- Btps 2y Futures contract cheaper by almost 25bp in 3 weeks
- One day vol : 2bp
- Sold off almost as much as Swaps – only in the last few days did the invoice spread rebound



# France / Germany 10s30s Credit fears amplify

- France 10s30s had been trading firmly around 1.6 times as steep as Germany
- As credit fears ballooned this has impacted longer tenors much more
- Index of France CTD vs 2048 bonds divided by Germany

$100 * (\text{YIELD}[\text{FRTR 2 05/25/48 Corp}] - \text{YIELD}[\text{FRTR 2.5 05/25/30 Corp}] - 1.6 * (\text{YIELD}[\text{DBR 1.25 48 Corp}] - \text{YIELD}[\text{BJ948280 Corp}])))$



# IK/RX widens 15bp

- IK/RX
- Widens 15bp
- The credit 'event' is a wholesale lack of confidence in longer tenors
- Yet to react are High /Low coupon switches or High coupons in Germany



# Supply

## This week's nominals

- Austria 15y
- UK 3y, 50y tap, 7y
- German 5y
- France 10y, green 20y, 30y
- Spain 7y, 10y, old 25y

## Week of the 8<sup>th</sup> Nov

- Nether 15y tap
- German 2y
- German 10y
- Italy & Ireland TBA





# Austria 15y: Ragb 34 for history / Ragb 36 tap

- Two ways I can skin this cat...
- 1. Buy on box vs Germany – German 15y has done extremely well in the flattening
- 2. Credit spread vs Germany and France – to keep rolling with the anti-France theme

Older Bonds for history – Austria 9s10s flattener vs Germany 9s14s

But as per our intro – credit risk is blowing out in longer tenors – so I'd only buy this where it was too steep to its peer group which for the 2036 bonds would be about +4bp cheaper

Nothing to see here except it should pressure the 20y Oct40 if it does cheapen further. Again that; give 5bp -40s into 36s – need it more like -4bp vs MMS

$100 * ((\text{yield}[\text{RAGB 2.4 05/23/34 Govt}] - \text{yield}[\text{RAGB 0 02/20/30 Govt}]) + -1 * (\text{yield}[\text{DBR 0 05/15/35 Govt}] - \text{yield}[\text{BJ948280 Corp}])))$



# Austria 15y: Ragb 36s

- Vs OATZ1 and UBZ1
- Weighting -1.35 / 2 / -0.65

Example using the Austria 2034 for more History

$$(+2.0 * \text{YIELD}[\text{RAGB 2.4 05/23/34 Corp}] - 0.65 * \text{YIELD}[\text{DBR 2.5 08/15/46 Corp}] - 1.35 * \text{YIELD}[\text{FRTR 1.5 05/25/31 Corp}]) * 100$$

Clean hedge, nice and liquid

Hedges out curve and credit

Keeps with the idea of short France

Based on curve and credit value I need this up at +24bp to start being interested

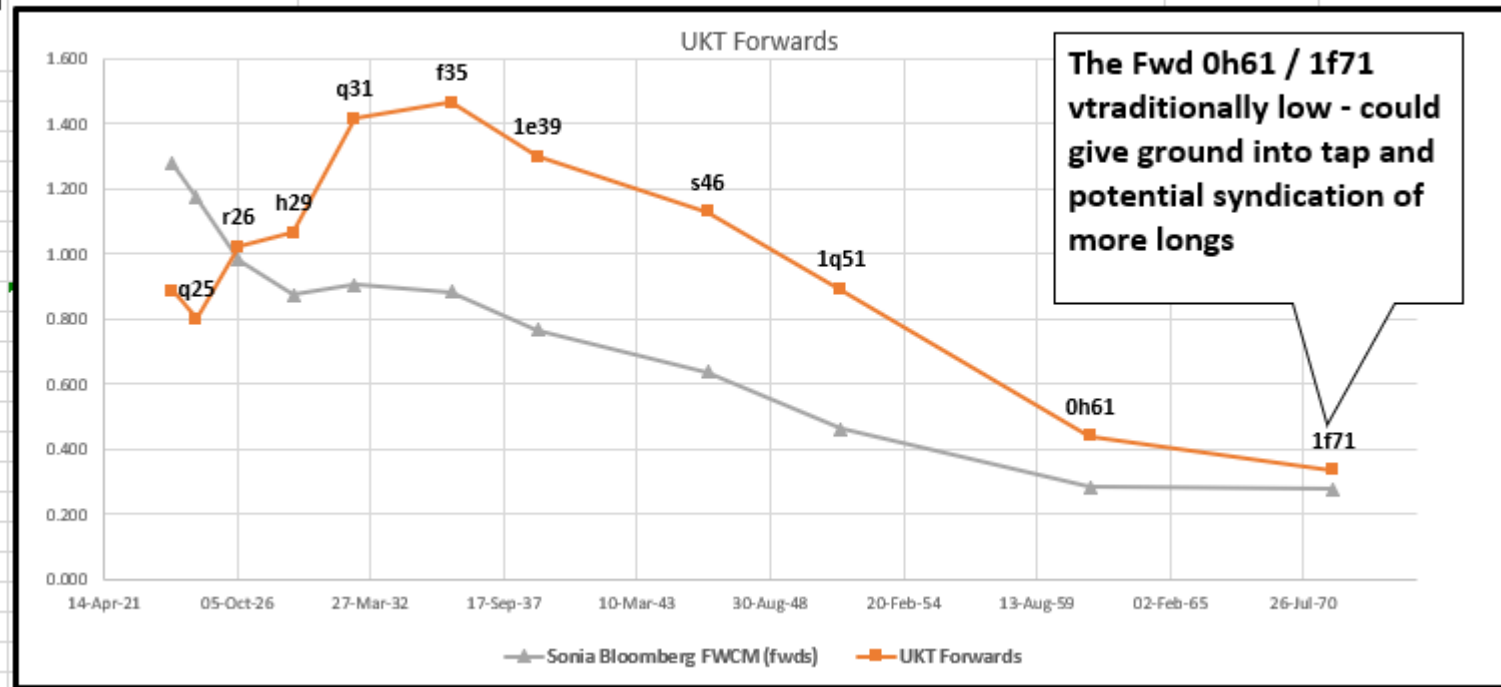


# UKT 71 tap

- Just +1.5bp to 2.5bp cheaper in the 71 pushes the 40y10y to be an equal swap spread to the 30y10y – defying the trend of narrower swaps spreads for longer forwards
- But the flatter curve of late could be detrimental to higher coupons (vs lower coupon 61s and any lower coupon syndic
- The absolute boundary condition for this bond would be about +3.5bp cheaper from here

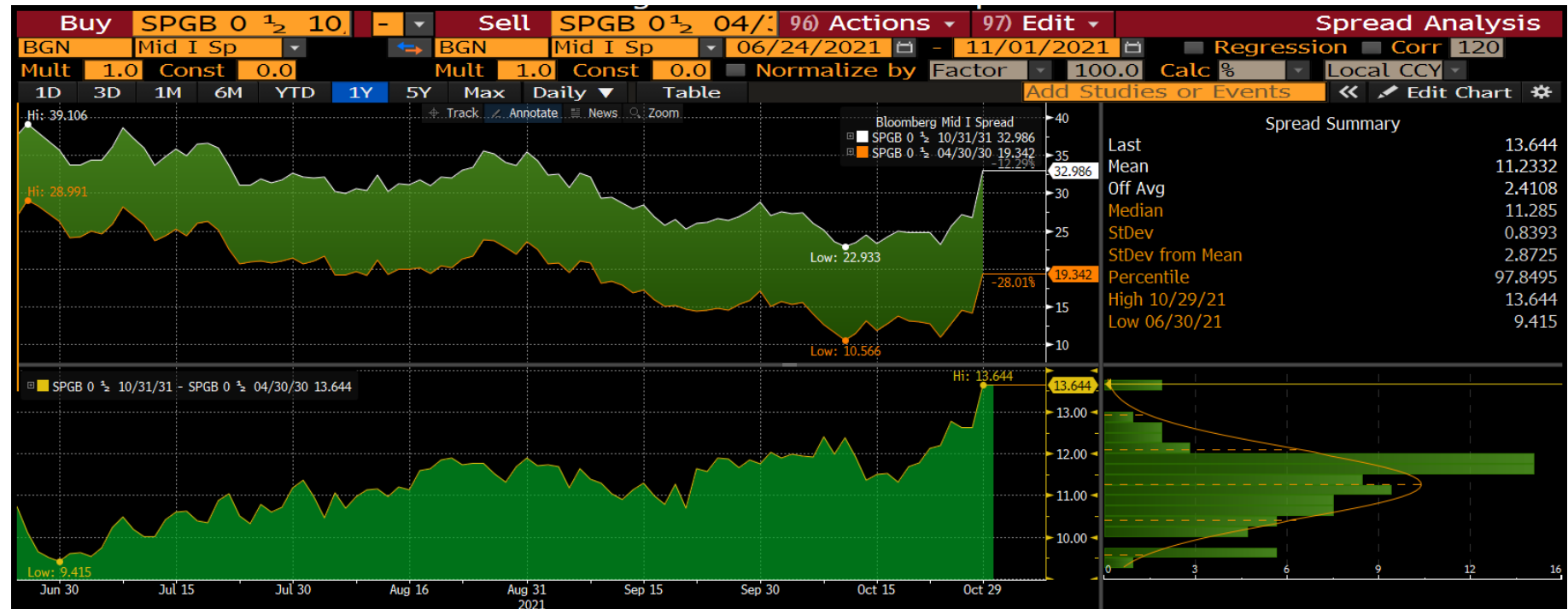
UKT Forwards

Bond benchmarks	Yield	shift (bp)	used yield	Fwd vs Prior Bond	Sonia Bloomberg FWCM (fws)	spread fwd bond - Sonia
UKT 0.125 01/31/23	0.553	0	0.553			
UKT 0.125 01/31/24	0.701	0	0.701	0.886	1.276	-0.390
UKT 0.25 01/31/25	0.731	0	0.731	0.799	1.171	-0.373
UKT 0.375 10/22/26	0.830	0	0.830	1.020	0.982	0.038
UKT 0.5 01/31/29	0.902	0	0.902	1.063	0.874	0.188
UKT 0.25 07/31/31	1.032	0	1.032	1.414	0.904	0.510
UKT 0.625 07/31/35	1.154	0	1.154	1.465	0.884	0.582
UKT 1.125 01/31/39	1.181	0	1.181	1.298	0.767	0.531
UKT 0.875 01/31/46	1.167	0	1.167	1.129	0.637	0.491
UKT 1.25 07/31/51	1.123	0	1.123	0.890	0.460	0.430
UKT 0.5 10/22/61	0.961	0	0.961	0.438	0.281	0.157
UKT 1.625 10/22/71	0.868	0	0.868	0.334	0.276	0.059
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A
#N/A	#N/A	0	#N/A	#N/A	#N/A	#N/A



# Spain 10y:

- Currently +13.6bp to Spgb Apr30 on MMS
- Target entry +15bp



# France Supply : sell Frtr May30 vs IK & RX



- The flavour of the last few months has been a desire to be short France ahead of elections
- France typically trades on a ratio or 'blend' vs IK and RX
- We like Short the OLD Frtr May30 (Ctd into OATU1) vs long IKZ1 and RXZ1
- Weighting -2 / +0.35 / +1.65
- With a watershed on Wednesday as dealers position and the market gets short



# 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)
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