



# Trade Radar

Thoughts

Trades & Fades

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March 14th

Bespoke Trading Strategies  
& Modelling



# Fades

- Short Delta – only where forwards are too low, generally neutral
- Rate Hikes expectations back on the table plus issuance means credit curve steepeners
- Invoice spreads re-trace a little – neg carry still in the short end
- Single names: Still under pressure as European credit curves re-align themselves to a post QE, high issuance narrative
- Best r2 remains same curve trading
- The narrative of long term recession can lead to inverted, forward rate term structures – although I disagree with that, I am only going to argue with extreme representations

# Supply

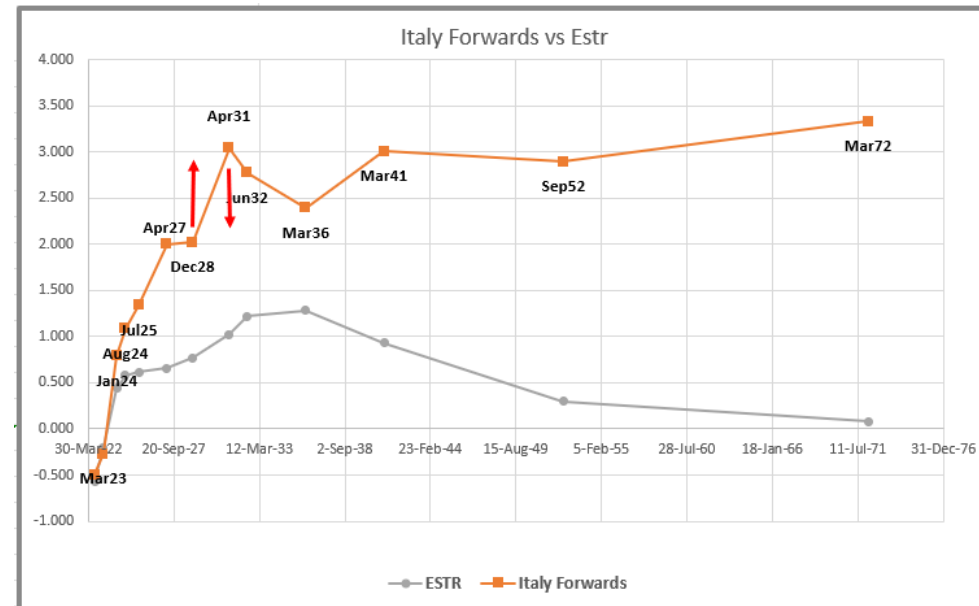
- German 2y
- Finland 10y
- German 10y
- Spain 2y, 10y & 7y
- France 4y, 5y & 7y
- Following Week Belgium, France, Germany, Holland & Italy

Trade: Italy flattener -6y +ik: With Italy this cheap the curve has to flatten to reflect lower fwd rates

- Italy sold off in the last few days
- There was very good buying in the back end – 25y to 30y (also possibly 50y)
- The ‘knee’ or top of the Italian fwd curve is 6y3y = short 6s / Long ik



100 \* ((BTPS 0.9 04/01/31 Corp - 1.12 \* BTPS 2.8 12/01/28 Corp))



# Trade Structure

- Sell Btps dec28, buy Btps apr31 (IKM2 CTD)
- Ratio: 1.12 : 1
- Enter small here, add 3bp better
- Upside 3-5 bp
- Exit strat: 5yr supply at Friday March 25<sup>th</sup> – Always wanna be short longer bonds than the tap maturity (hence picking on 6y) as they roll poorly into the tap zone

# Trade: Italy credit curve steepener -11y / +ik

- WE love the theme of the credit curve steepeners for the foreseeable future – and the over bidding for 30yrs on Friday has caused 11s 9s to flatten too much
- We've picked on shorting old sep33 as they still trade above par – we don't want to run into any low coupon buying
- For liquidity again we're buying CTD into the IKM2 contract, or indeed the contract itself
- And we're doing swaps against it – I have some empathy with the curve in swaps the 11y -13y point got heavily paid a week ago and looks a receive just in isolation



Give 2.6bp vs ESTR on the chart – will spot a better mid on Monday morning when we firm it up  
Looks compelling on regression (1 : 0.9) too - below

Looks compelling on regression (1:0.9) too  
→



# Keeping core short in OAT Invoice Spreads vs Dbr

- We switched our core short from German to French Invoice Spreads – with uncertainty still at the forefront and supply across the credit spectrum, we think France as semi-core name can suffer more
- Other single names continue to be offered and we look to be moving back to cheap credit value as the supply event as so much risk-taking has been withdrawn from X-credits in EGBs

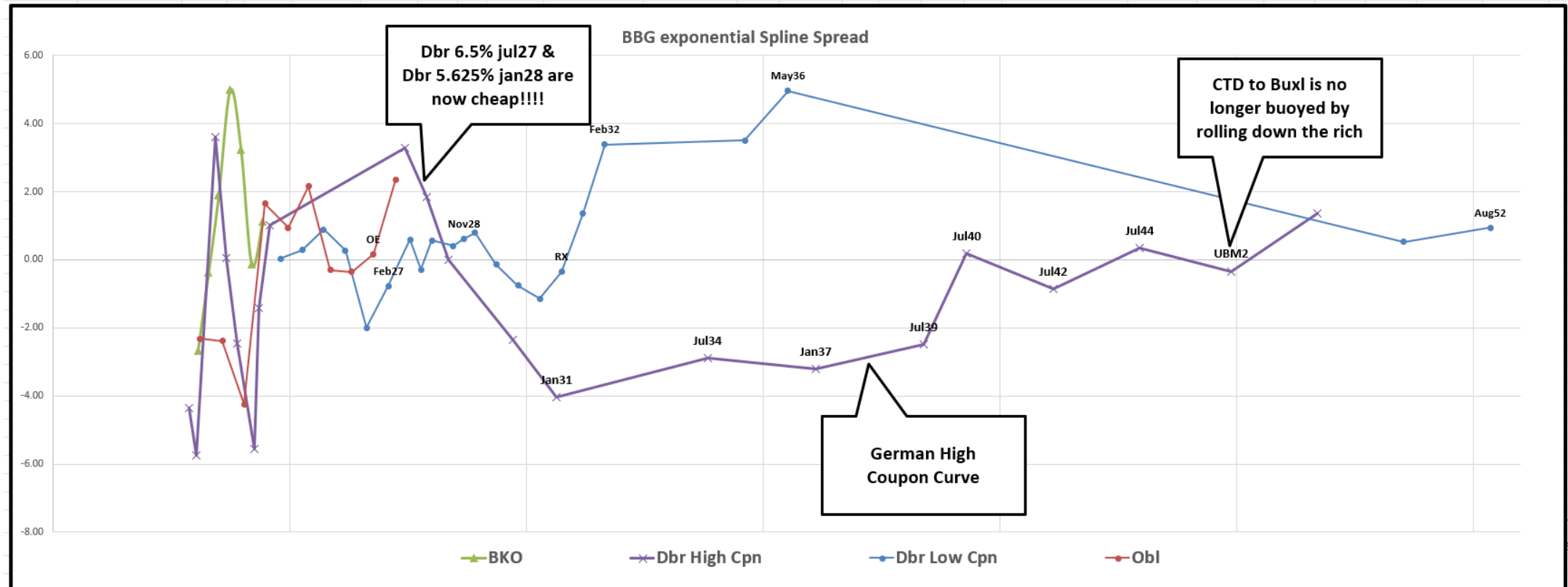
((SP210[FRTR 1.5 05/25/31 Corp] - 0.7 \* SP210[DBR 0 02/15/31 Corp]))



Regression weighted France vs Germany Swap Spreads (low means France richer)

# Reduction in QE could reprice the Buxl : get short to not get caught

- Consider the following graph of Bloomberg Spline to Exponential Spreads for Germany
- This spread is popularised on the GOVY page and represents the true anomaly value of any Bond if we PV its cashflows versus a fitted Zero Curve
- What's astonishing is that the High Coupon, older bonds, traditionally market lore believes them to be in the QE p/f, are rapidly losing their richness

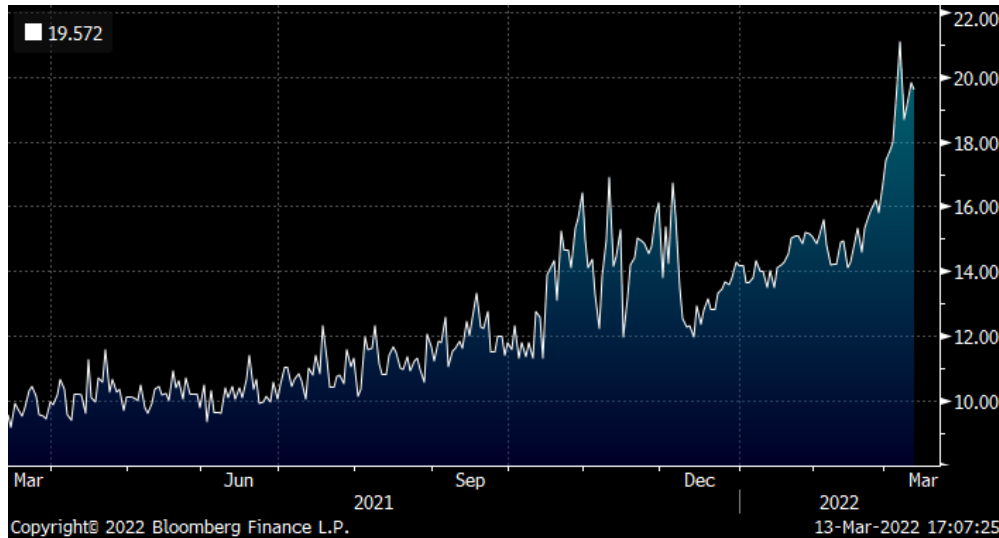




# What's the deal? With UBM2

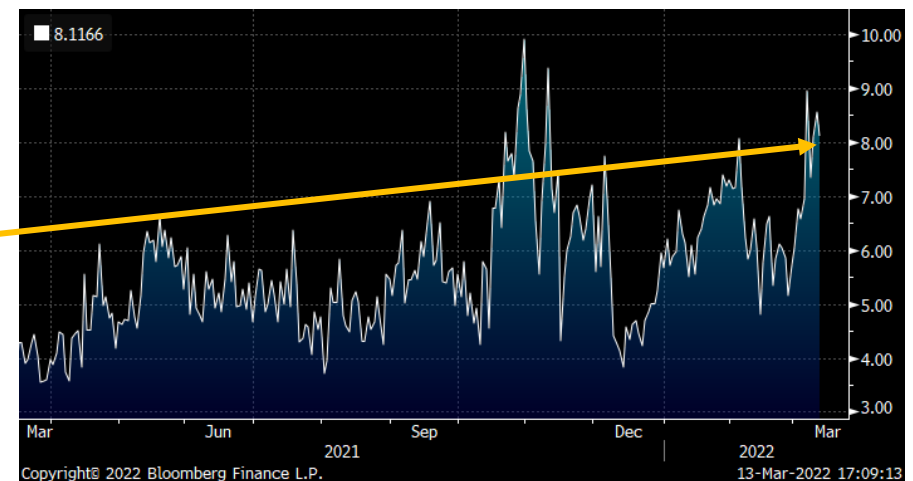
- It seems that it wasn't the fact they High Coupons locked up that kept them rich, *it was the ongoing buying* that sustained them at lofty levels – there's a subtle difference. And when the music stops....
- That buying is set to drop
- The buxl ctd (Aug 46) no longer rolls out into a richer segment after June delivery – I believe that after the June contract ends it will be unloved. I suspect that the buying in it has been reduced for fear of limiting the UB liquidity in the roll so after June you can't deliver it and there's less QE
- On the drop out, I want to be short. Conversely the 48s, 50s and 52s have value
- Structurally we wanna run short buxl and long longer bonds

# Sell UB CTD / buy Dbr 50 or 52 vs MMS / ESTR



- Vs swaps on graph..

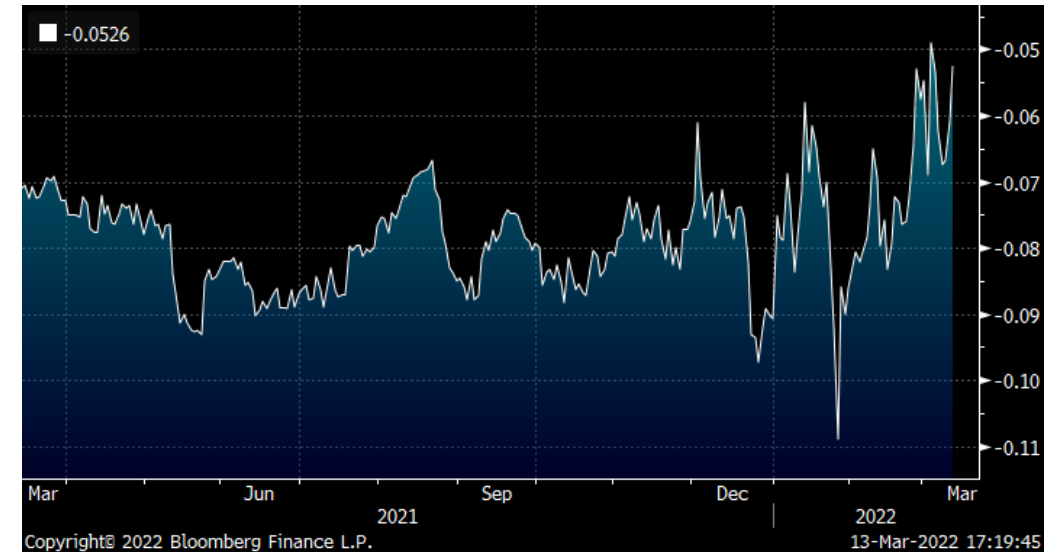
- Vs swaps on regression, trades short swap spreads by 18% so would have a widener as an overlay and trade that on the extremes and view



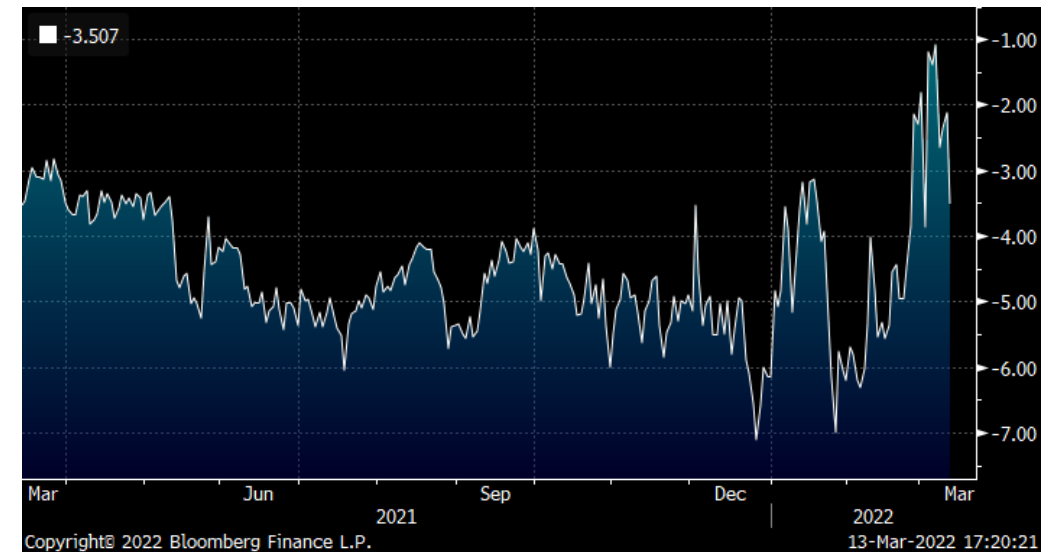
# Spain: old 7y looks cheap

- Re-opening of Jul28 should steepen +Jul27 / -Jan28
- Trade: +spgb 7/28 / -spgb Jan28
- Mar 17 supply in older Jul28 and others should steepen Jul27 / Jan28
- We like credit steepeners however small the gap!

Vs Yield

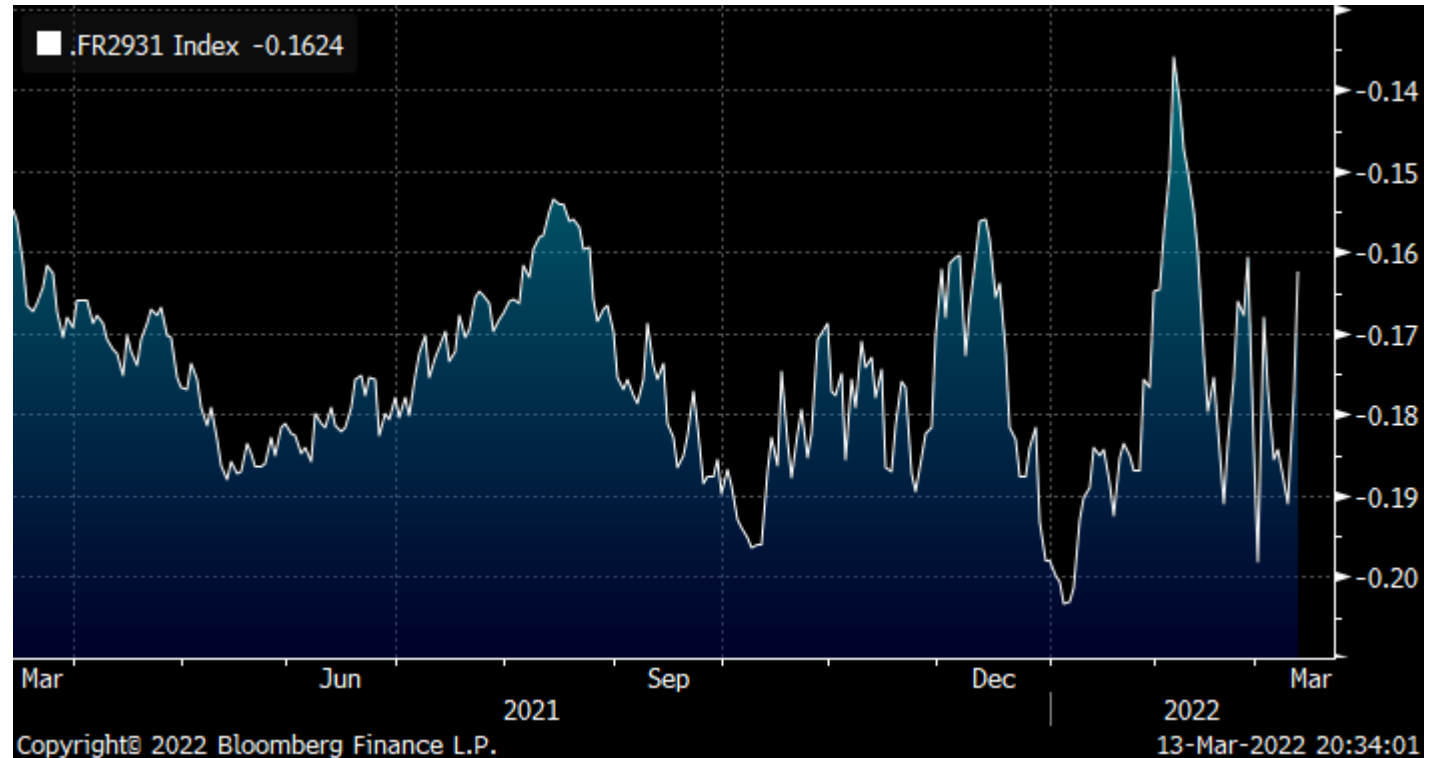


Vs Swap



# Frtr May29 vs OATM2 credit curve steepener

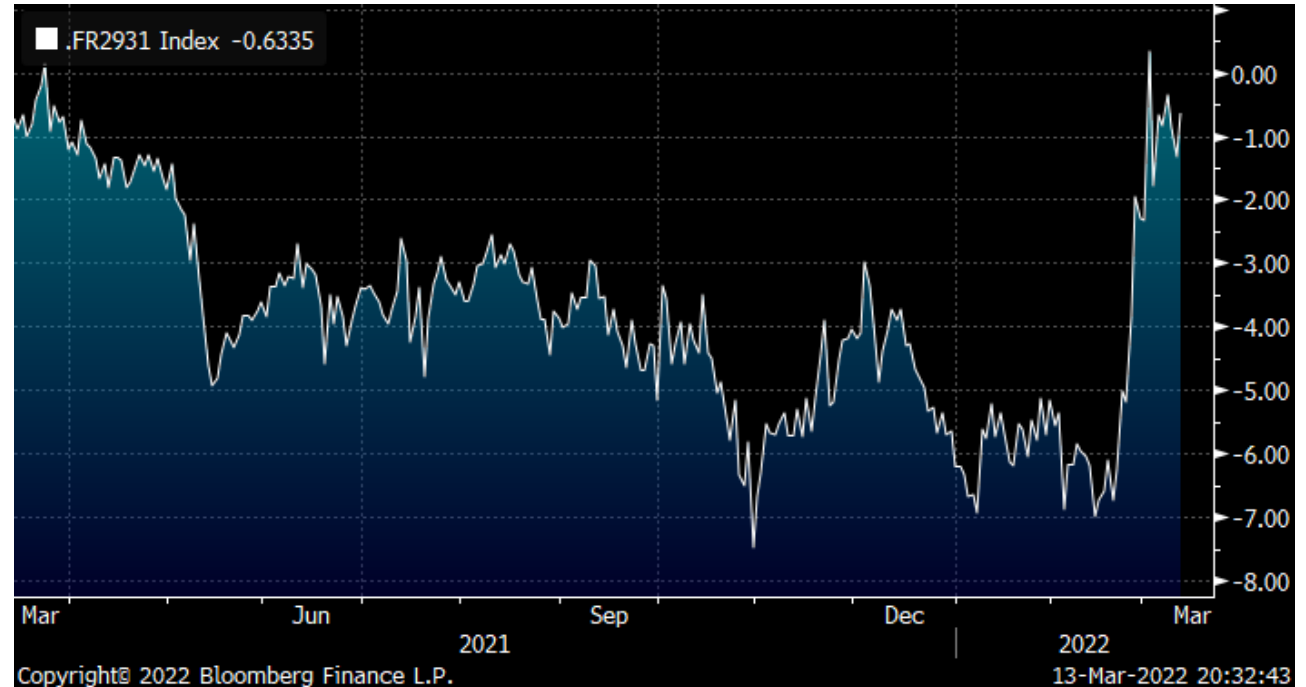
- Tap Frtr May29 Next Thursday
- Buy it vs OTAM2
- Regression is approx duration matched
- Less concern about OATM2 unlike prior CTDs as it doesn't have such a high coupon, which seems to be the true determinant of value in the dropout



((YIELD[FRTR 0.5 05/25/29 Corp] - YIELD[FRTR 1.5 05/25/31 Corp]))  
Looking for the older highs around -15bp in yld space

# Frtr May29 vs OATM2 credit curve steepener

- And vs Swap we like it too..
- With an extra 14% short in invoice spreads – so as a 1:1 steepener vs ESTR or MMS makes sense if you want to cover some OAT inv spreads here



((SP210[FRTR 0.5 05/25/29 Corp] - 1.14 \* SP210[FRTR 1.5 05/25/31 Corp]))

# Update

- -7y +ik: last week with 10% delta started to work
- ESTR -10y +15y -20y – fly stopped cheapening – sticking with that
- France: +OATM2 / -Frtr May40 / +Frtr May50, turning
- -frtr May40 / +BGB HC 41, turning
- Ireland 31 vs RX & Spgb 31 (1/2/1), got a lot cheaper but turned.  
Consider rebalancing to short more Spain



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