



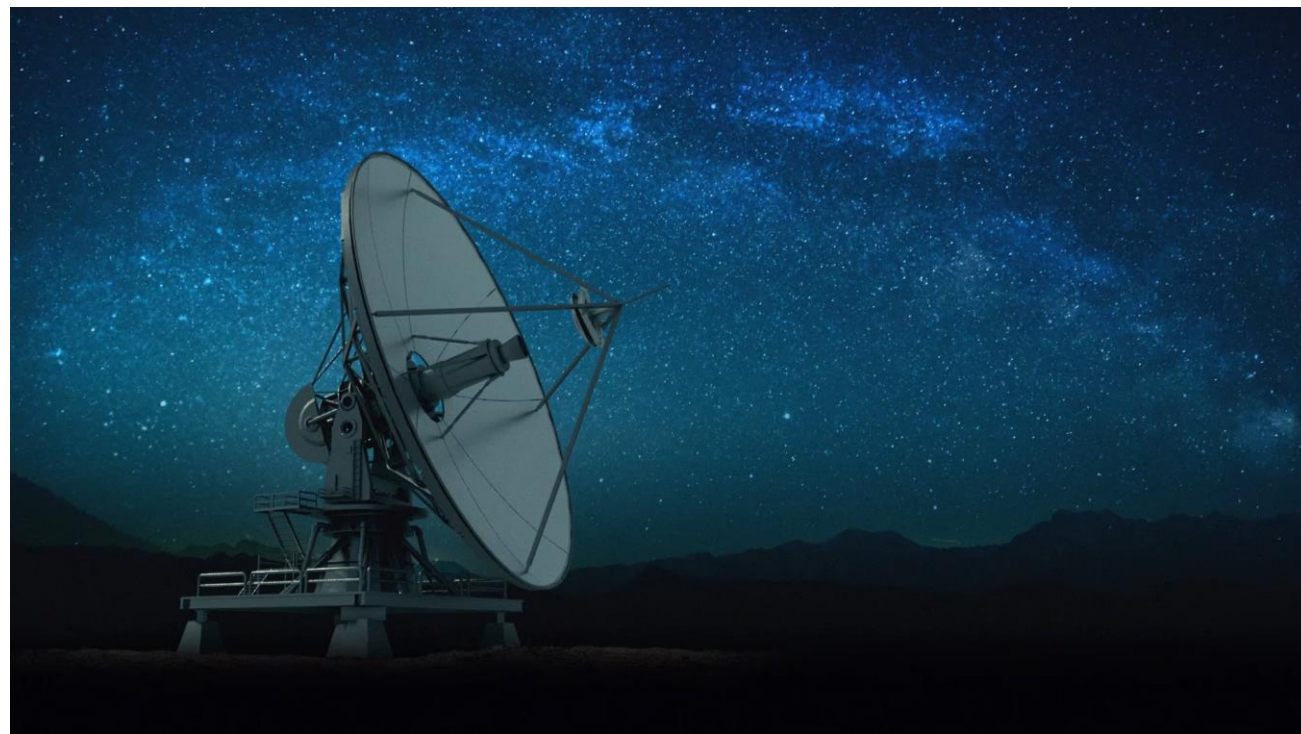
Trade Radar

Trades & Fades

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March 28th

Bespoke Trading Strategies
& Modelling



Fades

- Credit spreads look tight – Spain and Italy richened to France and Germany – getting close to opposing that. France is tight to Germany
- Long Italy has performed well – high coupon back end bonds – this seems at odds to some other high coupons – end of QE seems to have differing impacts
- 5y Germany has been impacted by rate change expectations / curve moves in the US
- We like selling Spain and Italy into 5y France – but also we like – Selling OATM2 into 8yr Germany

Supply

- EU 2028 Tap
- Italy 27s & 32s
- Belgium –TBA
- Following week
- Austria, Spain and France

Germany 25s 30s swap spreads: take off

- Having seen a flattening in swaps 25s x 30s
- We're finally getting the catch up in the German curve
- High coupon 20y -25y have underperformed, partly on a cessation of QE and partly from a delayed reaction in the bond curve
- We'll take off here – but don't be surprised if the high coupons are now quite resilient when the new German 15yr – may38s comes at the end of the April

Long Dbr 52 vs short regression Dbr 44s has come to its end game



$\text{YIELD}[\text{DBR } 0 \text{ 08/15/52 Corp}] - 0.94 * \text{YIELD}[\text{DBR } 2.5 \text{ 07/04/44 Corp}]$

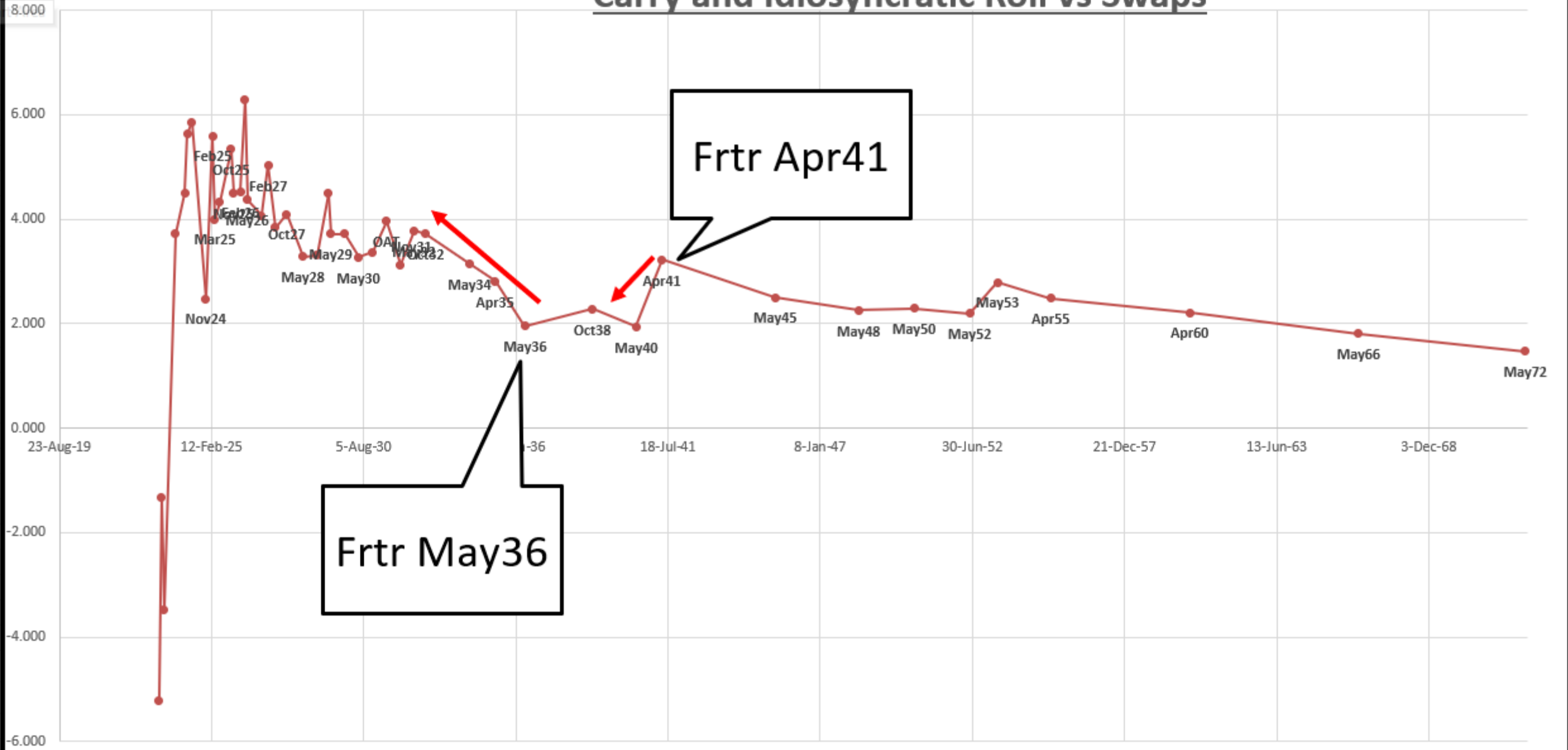
France 15s20s switch vs ESTR: anti QE gone mad!

- Whereas we always knew that high coupon German Longs were a ricket, there's gold in them there French high coupons
- The apr41s are a cheap bond that even on a cash flow basis (discounting all payments vs smooth zero curve) they are decent value and these roll towards HC, rich Frtr Oct38
- Similarly the Frtr 36s roll inexorably to the cheaper 10y Segment
- Hedge the curve up with swaps – I see that as +1.25bp of Carry and Tuck-in (roll to similar bond type) vs Swaps
- See carry and roll next page



P2509[FRTR 4.5 04/25/41 Corp] - P2509[FRTR 1.25 05/25/36 Corp]
France May36 into Apr41 vs Swaps

Carry and Idiosyncratic Roll vs Swaps



Frtr May36

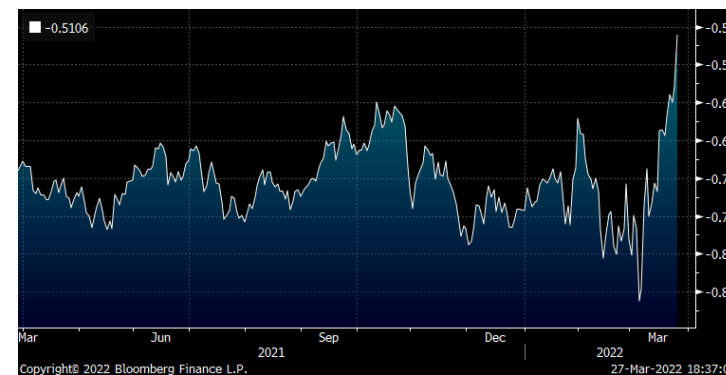
Frtr Apr41

5y Italian supply and a credit short

Sell Btps Dec26 to Buy OEM2

- The war is by no means over yet the prevailing sentiment is that rate hikes and inflation trump credit fears and then some
- You gotta respect this pricing, but I can't see how the street will absorb the 5y Italy coming into quarter end
- The old Btps dec26 is rich, liquid enough and rolls like the dog it is
- Conversely OEM2 with implied around -1.15% carries well and don't forget it's not a rich bond – when it drops out is becomes like Dbr Aug26!!

YIELD[DBR 0.25 02/15/27 Corp] - YIELD[BTPS 1.25 12/01/26 Corp]



On regression: YIELD[DBR 0.25 02/15/27 Corp] – 0.73* YIELD[BTPS 1.25 12/01/26 Corp]

Love steepening 10s15s Italy in yield but also like skipping futures and buying Aug30 for roll: we're close

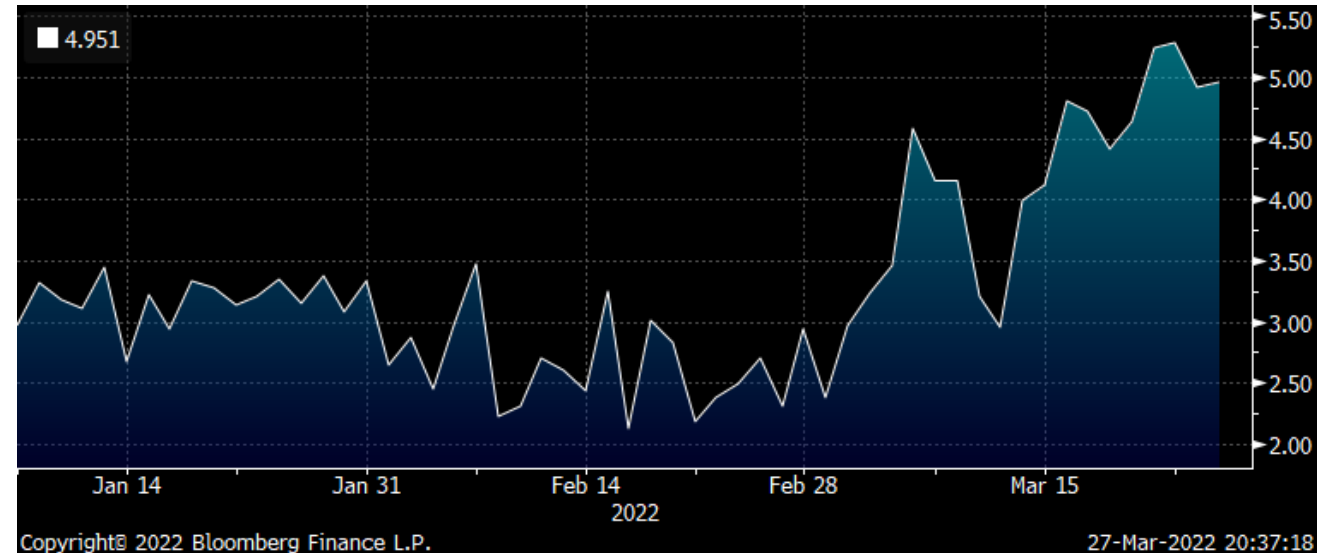
- Selling some of the smorgasbord is 12y – 14y issues in Italy can be a bit of a minefield – so my fave sale is old 15y Mar36 – rolls terribly, poor carry
- I love buying bonds that have dropped out of the IK basket as they roll nicely – Aug30 roll into the rich Apr30
- Sell Mar36 into Aug30 – quite simply has value that one but may need to wait for a teeny bit more
- Trades short btps so I have weighted it a bit long 11%



YIELD[BTPS 1.45 03/01/36 Corp] - 0.89 * YIELD[BTPS 0.95 08/01/30 Corp]

Italy sell Rich low coupon Btps 51s: tap play

- Btps 51s have become rich – as one of the lowest coupon bonds they attract RM, default averse buying where you max your modified duration – bang for your buck per unit price
- Short of re-running a credit default model we can model this crudely by comparing investing the same amount in cash in Btps 51 vs Btps 52 and removing the risk-free rate with swaps – on this basis the comparison strips out the high low price issues...
- (p2509[BTPS 2.15 09/01/52 Govt]-1.02*p2509[BTPS 1.7 09/01/51 Govt])



- Using this filter it still looks like Btps 51s are over priced vs their immediate peer group

Italy sell Rich low coupon Btps 51s: tap play vs buying HC Btps 44

- The recent flattening of the Btps curve looks extreme given market level
- Buying Btps 44s vs Btps 51s trades long – so we've added an extra 8% short
- I'd have to see the repo go 100 bp special just to erode the carry alone not including the better roll of the short bond



yield[BTPS 4.75 09/01/44 Govt] - 1.08 * yield[BTPS 1.7 09/01/51 Govt]

Honourable Mentions..

- Sell Spgb 50 / Buy Spgb 37: -20bp
- Sell Dbr May24 / Buy obl179: +3.7bp
- Cover shorts on Dbr Jan31 vs RXM2: -8.25bp
- It's quarter end and high coup Italy is bid: Sell Btps Aug34 to buy Btps Mar35 +9.8bp – should be more like 7bp
- UKT –G M2 / +Green 33s – if you like Green it has to be seen. Personally I think the implied future 2033 maturity 10yr nominals will be so cheap that the Green bond won't look so good – but it has its fans...
- Nether supply in 2040s means that we're starting to like sell nether 52 and buy Nether 47 – trades long so we need to be extra 4% short (or under-buy by 4%)

$\text{YIELD}[\text{NETHER } 0 \text{ 01/15/52 Corp}] - 0.96 * \text{YIELD}[\text{NETHER } 2.75 \text{ 01/15/47 Corp}]$



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