

This is not my Beautiful Trades & Fades...

ref?

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April 19th

**Trading Strategies
& Modelling**



Supply: Top Down, Big Issuers matter more!

- Italy – next supply is EOM usual 5s & 10s –on the run 10s look rich to 8yrs
- Germany – 5y and 30y (Tues, Weds) then I'm really focussed on the new 15y May38, which might offer something
- France – 25s, 27s and 30s – that last one (Old CTD) is a rich bond – overly priced imho – it's a sticky short that rolls into old 15y bonds rather than the rest of the curve but sell it to buy 5yr (going off the run)
- Spain 25s, 32s, 48s
- Finland 10y and 30y
- EU and Belgium

Fade: Curve – Post ECB, steepening theme

- After the ECB last Thursday we seem to have dovish comments that coupled with the steepening in the US puts us back on a steepening theme. Here's regression weighted 2s10s Germany



$$100 * ((YIELD[BP980366 Corp] - 1.37 * YIELD[OBL 0 04/05/24 Corp]))$$

- Fade: I think there's a good chance we see the highs in the curve on this basis so am looking to..
- Sell Bullets vs Wings 50/50
- Steepen particularly in Credit Curves vs ESTR (except in the very short end where I think the Euribor/OIS strip will out pace the bond market)
- Steepen 5s / 9s on decent Roll & Carry

Italian 3s 9s regression steepener

- Sell Btps Aug31
- Buy 130% Btps Jul25
- Exit in month end supply in 5s and 10s

Curve set to steepen as a theme and supply in 5y and 10y Btps Aug31 age poorly towards the cheaper IKM2 CTD

Btps Jul25 have been cheapened by the new Btps Aug25 but still roll better into the much richer Btps Feb25 without being tapped



German 52s 48s steepener

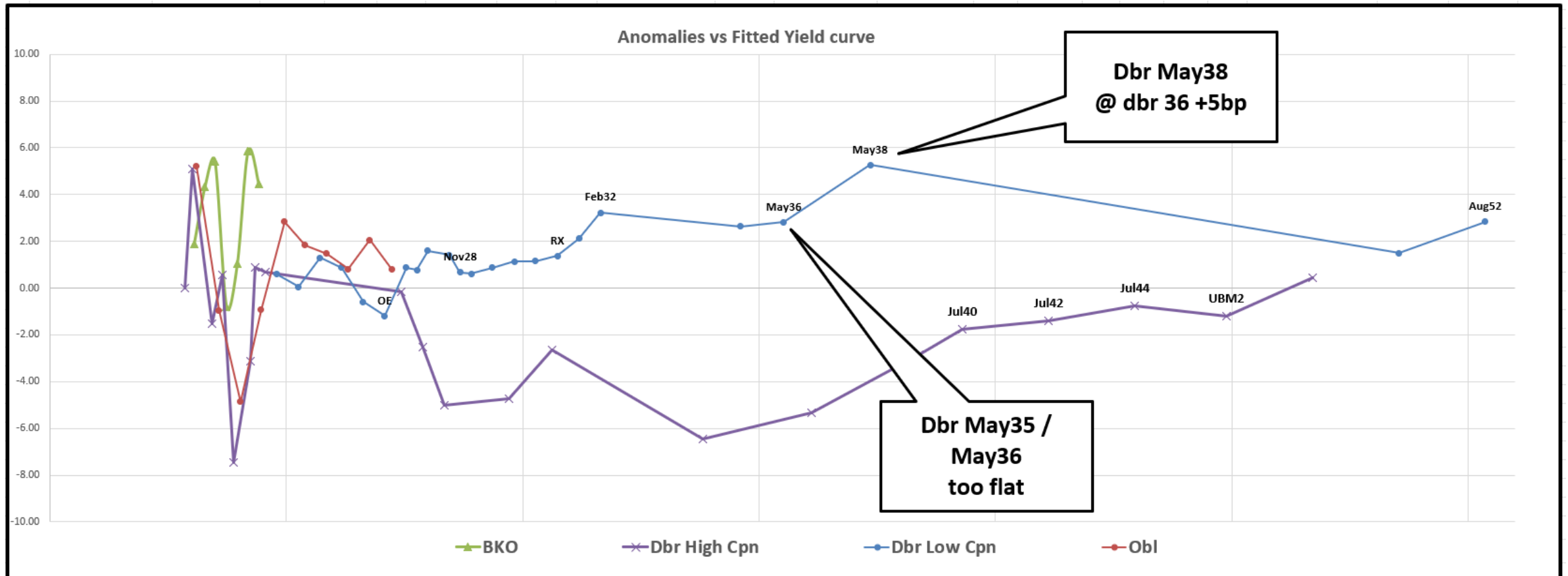
- Sell Dbr 2052 / Buy Dbr 2048 -5.4bp
- Tap in 2046s coming shortly but larger tap in 2052s in May
- Expecting curve steepening and Dbr 48 roll into the basket in September



Wed, 20-Apr-22	Bund	30 Y	R	1,000	15-Aug-46	DE0001102341	2.50%	28-Feb-14	15-Aug-15
Wed, 27-Apr-22	Bund	15 Y	N	2,000	May 2038 ³	DE0001102598		29-Apr-22	May 2023
Wed, 04-May-22	Bund/g	10 Y	R	1,500	15-Aug-31	DE0001030732	0.00%	18-Jun-21	15-Aug-22
Tue, 10-May-22	Bobl	5 Y	R	3,000	16-Apr-27	DE0001141851		20-Jan-22	16-Apr-23
Wed, 11-May-22	Bund	10 Y	R	4,000	15-Feb-32	DE0001102580		07-Jan-22	15-Feb-23
Tue, 17-May-22	Schatz	2 Y	N	6,000	14-Jun-24	DE0001104883		19-May-22	14-Jun-23
Wed, 18-May-22	Bund	30 Y	R	1,500	15-Aug-52	DE0001102572	0.00%	15-Aug-21	15-Aug-22
Wed, 25-May-22	Bund	15 Y	R	2,000	May 2038 ³	DE0001102598		29-Apr-22	May 2023

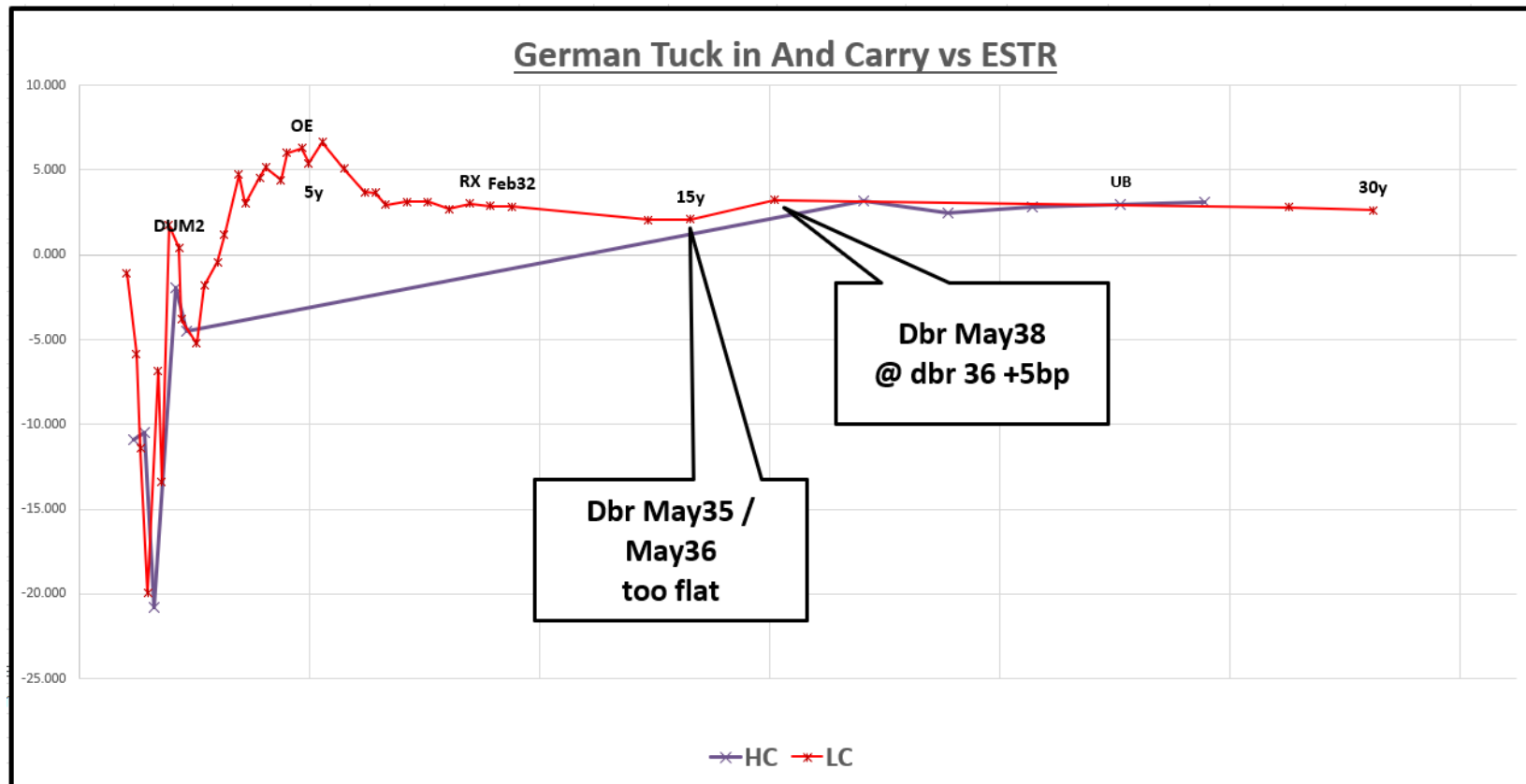
Dbr35/36 steepener

- New issues post QE come cheap – buyer of last resort is RM – leveraged and CB bank portfolios just aren't absorbing supply – witness Btps Aug25 came very cheap on anomaly
- What vexes me is these issues really don't roll very well – so actually it's the outgoing old or even double old bond that has value, as it rolls down the curve
- Dbr 35/36 is +2.4bp for 1y, Hence Dbr 36/38 @+5bp for 2 year gap is not unreasonable



Dbr35/36 steepener: -2.5bp

- Like it at -2.5bp
- Love it at -2bp
- Scale accordingly



France: selling 2yrs (mar25) to buy 18mo and 2.5 yrs

- Mar25 is an old 5y that has done its thing in my view
- We have supply in the nearby Feb25 on April 24
- We move our flatteners from 18mo vs 2ys into 2yr vs 2.5yr, meanwhile extending our Estr hedge – we expect Estr to still out-steepen in very short end
- Nov 25 is an old 10y that's well placed and should richen to the more juvenile curve



$200 * (\text{YIELD}[\text{FRTR 0 03/25/25 Corp}] - 0.5 * \text{YIELD}[\text{FRTR 1.75 11/25/24 Corp}] - 0.5 * \text{YIELD}[\text{FRTR 1 11/25/25 Corp}])$

French Invoice spread

- We go neutral French invoice spreads here
- Regression form

$rv0004p$ 10y blc Curncy-
 $0.92 * eeswe10$ Curncy

(France CMB 10y minus 92% 10y
ESTR swap)

Looking to re-short France on
further richening

It ain't over until someone's been
elected



Spain rich on invoice spread : fade with steepeners 5s7s

- We see Spain as rich on both history and on a our credit curve model based on current rating and outlook vs other European issuers
- RV0008P 10Y BLC Curncy - 1.02
* EESWE10 Curncy
- (Spain CMB minus 102% 10y ESTR swap)

Looking to Steepen 5s – 7s Spain with a little delta

5yr Rolls so nicely and the 7y has richened on RM buying



Spain +jan26 / -oct29 with 3% short ik:

- Buy Spgb % Jan26
- Sell Spgb 0.6% Oct29
- Sell 3% Ik delta hedge
- We like the curve short – particularly in a credit that has scope to weaken
- But the curve has been flattening in a sell off, so for protection we sell 3% IK as a hedge



DreamCatcher:
Results of
running our
trade finder on
EGBs...

Settings

- Max Bond Age 4yrs
- Must be in the top 30 most liquid bonds in each curve
- Yield or Swap Space
- Low Regression relationships discarded

Germany: 8s 30s on the steep

- Sell Dbr Aug30 vs Buy Dbr 50 yield[ZR097974 Corp] - 0.77 * yield[BJ948280 Corp]
- Curve has steepened outside of the range we have been trading on a regression basis
- Nothing special in Swap space but anyone with steepeners could start to take some off here – that said post ECB last Thursday we need to look to forwards for where this might stop



Italy: -ik into old 20y

- We're seeing a reversal of the flattening in Italy from end of March, where it feels like someone swap related did a large flattener in bonds vs Swaps
- Personally I don't see Italy particularly well correlated to swaps – but as they say 'Sometimes maybe good, sometimes maybe...'
- In swap land it's again unconvincing – but if you want to get back on steepeners then otr 10y jun32 really should re-steepen vs old 10s – partic coming into month end supply



France: 1y gap too good to be ignored

- Sell Nov29 and buy Nov30 – it's a narrow gap but we love the theme of extending towards the OATM2 futs contract. R&C still small pick up without the same old 15y anomaly risk of futures CTD
- $\text{yield}[\text{FRTR 0 11/25/30 Govt}] - \text{yield}[\text{FRTR 0 11/25/29 Govt}]$
- If you think Macron is a done deal and too much is priced into the slope of France vs other countries then... this is a decent gap
- NB we're still not quite ready to sell May31 France – double CTD and it's an old 15y – prefer selling the May30, which I was way too early on and still like shorting





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