

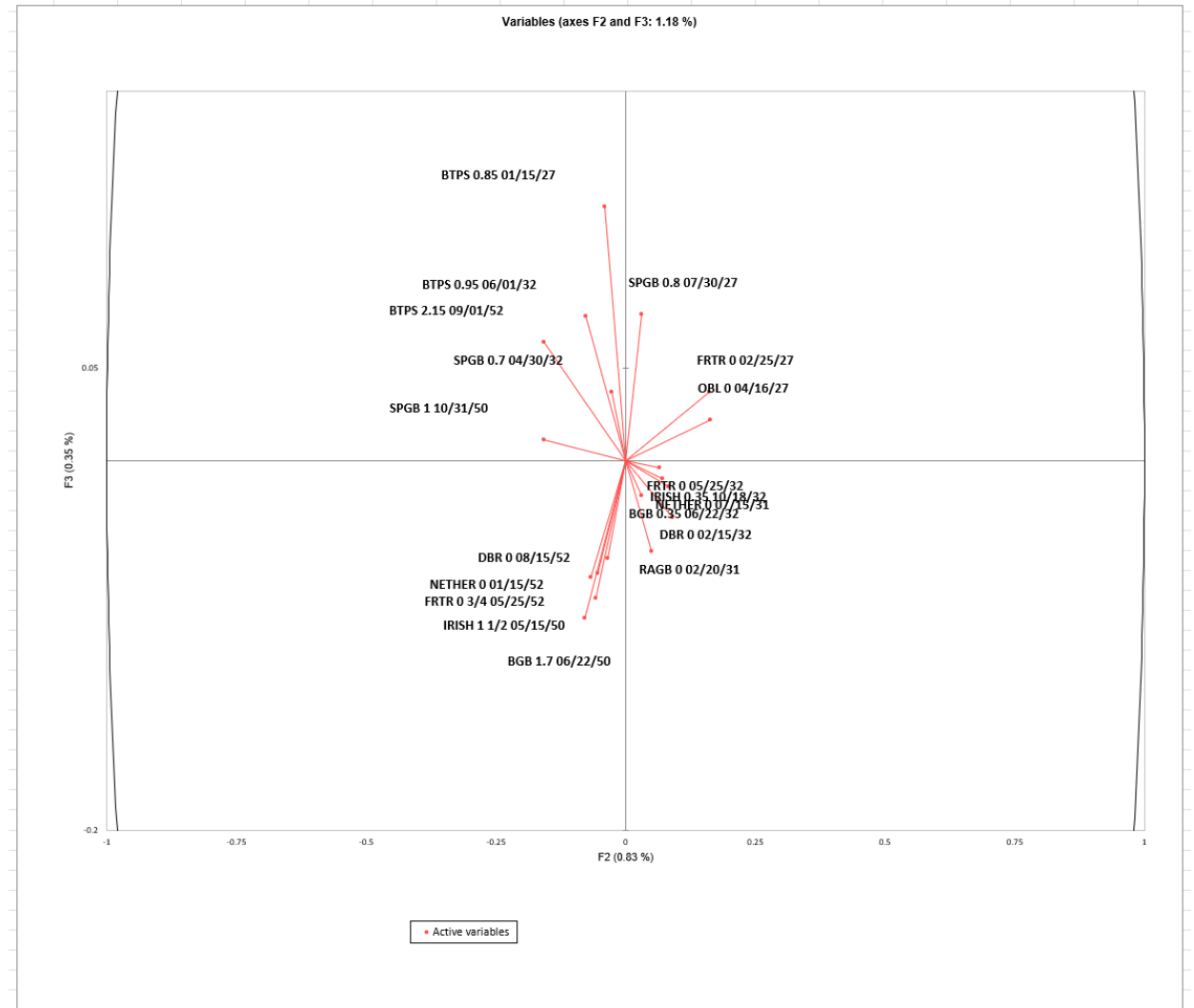
Trades and Fades The Future(s) ain't what it used to be

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June 6th 30th

Trading Strategies
& Modelling

Sensitivity of EGB Bond Yields to Principal components Factor 1 (Delta) removed



Factor 2 ~ Curve, Factor 3 ~ Credit

Week Ahead:

- Germany: 2y Bko Jun24 - Tuesday
- Italy: 3y 7y 30y and Old 30y – Tuesday
- Nether: Green 20y tap - Tuesday
- Spain: jan27, jul30, Jul37 – Thursday
- France: 2y, 5y, nov28, may29 - Thursday
- Finland: Bonds, Wednesday TBA: <https://www.treasuryfinland.fi/auctions/#serial-bond-auctions>

Italy cheap on Swap Spread vs market Delta

- Market neutral Swap Spread for 10y Italy
- CMB 10y Italy regressed vs Swaps
- $100 * ((rv0005p\ 10y\ blc\ Curncy - 1.25 * eeswe10\ Curncy))$



The end of QE, the advent of higher rates and forthcoming supply have pushed Italy to its cheapest. Represented here by a market level adjusted Invoice Spread (25% delta)

Fade: Buy Italy in Short End: Long BTSU2 / Short Btps Aug26 regression hedged

- Italy hit harder than most in the short end
- Carry up to good levels to steepen
- Buy BTSU2 – Sell Btps Feb26 plus extra delta
- 3yr supply on Tuesday (Aug25), then 5y end of month – we still see the 5y has room to cheapen. Btps Aug26 is recent issue with poor roll



PCA analysis on EGB swap Spreads

Fade cheap Credit and flat Curve: Buy Spain 5y vs France 10y

- There have already been comments about support for weaker issuers should credit conditions require it
- We run PCA on 90 days of EGB Yields
- After removing Factors 1 (~delta) We regress all the issues and tenors
- Credit curves have been hit hard and offer strong carry vs core
- We like the buying Spanish 4y to selling France 10y
- Regression Hedged: Call for details, Var and Sharpe ratio
- We like the curve in Periphery and the credit narrowing too – supply in Spain on Thursday. Timing based on Italy supply
- French supply on Thursday and again beginning of July

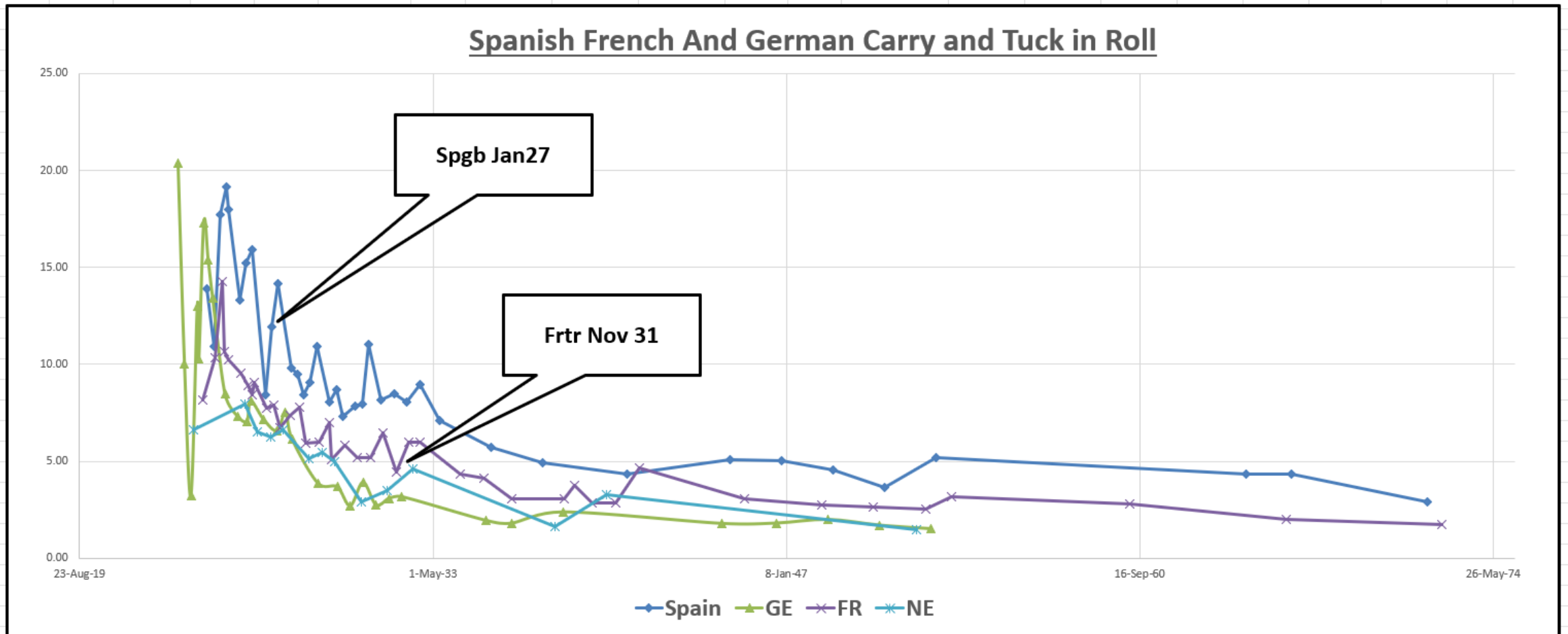
Tenor	Factor Variables				Supplementary Variables			
	Germany	Italy	France	Spain	Nether	Belg	Ireland	Austria
5y	0.8	2.5	1.9	3.6	-3.6			
10y	-3.3	0.7	-2.1	2.6	-1.5	-1.7	-0.6	
30y	-2.1	1.2	-2.6	1.0	-1.7	-2.3	-1.2	-1.5

- Z-Score PCA Rich Cheap – 90 Trading Day history



- Regression Sell Frtr Nov31 to buy Spgb Jan71
- -1 : +0.91

French & Spanish Carry and Roll (vs Swaps)

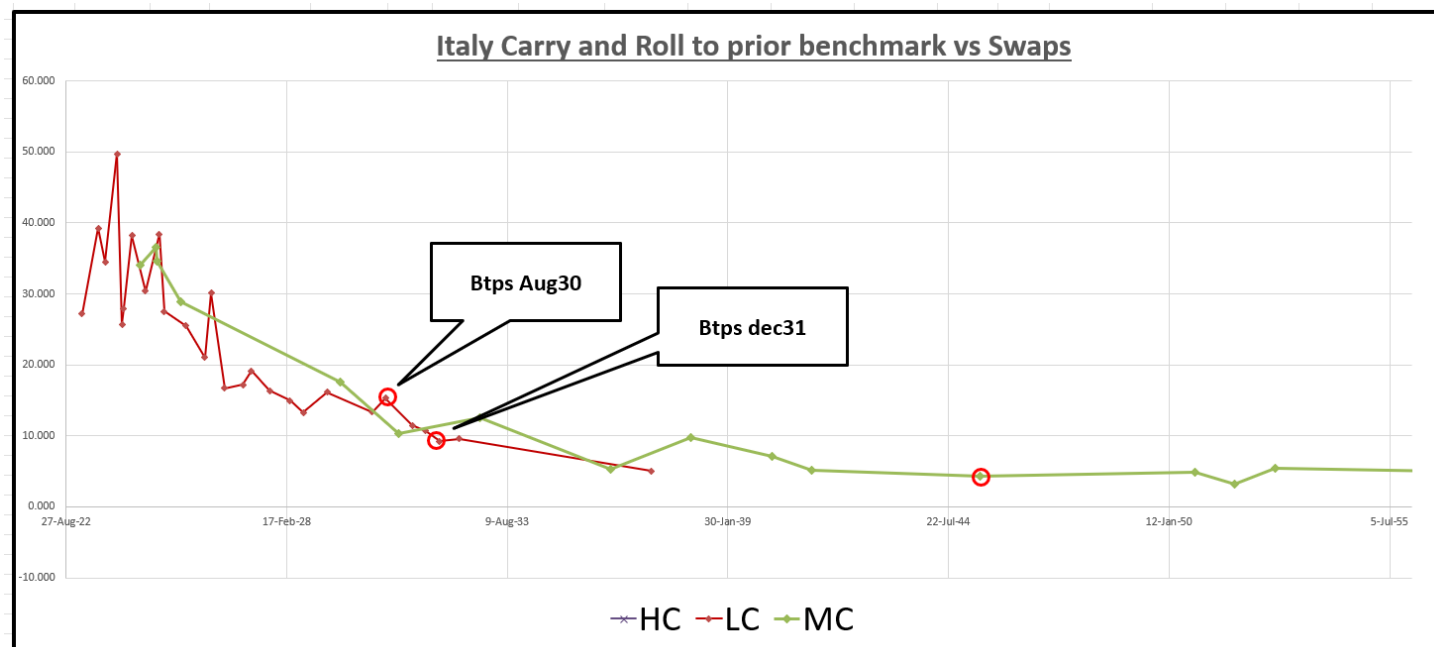


Italy 7s / 8s steepener

- Sell Dec31 – they have reduced opportunity to ever be a clear CTD and are rich
- Buy Btps Au30 – Similar low coupon
- Pick up C&R as the older Aug30 disappears into the expensive jul28 to Aug30 void
- PC1 (Factor 1) suggests a duration hedge



$$100 * (\text{YIELD}[\text{BTPS } 0.95 \text{ 12/01/31 Corp}] - 1.00 * \text{YIELD}[\text{BTPS } 0.95 \text{ 08/01/30 Corp}])$$



Obl 179 looking rich

Sell on Swap Spread to buy Obl 181 or Bko Jun tap

- AS the DUM2 roll ends we see the fallacy of thinking the outgoing deliverables do anything but roll into the fair curve
- With the sell off in 2yrs this has caused a cheapening in the 2y + tenors
- BKO Jun1014 doesn't have much history but consider – on179 into that OR Obl181 vs swaps

P2509[OBL 0 04/11/25 181 Corp] - 1 * P2509[OBL 0 04/05/24 179 Corp]
With next weeks tap of Bko jun2024 we like the basis trade
Sell obl179 + DUU2 Vs the strip





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