

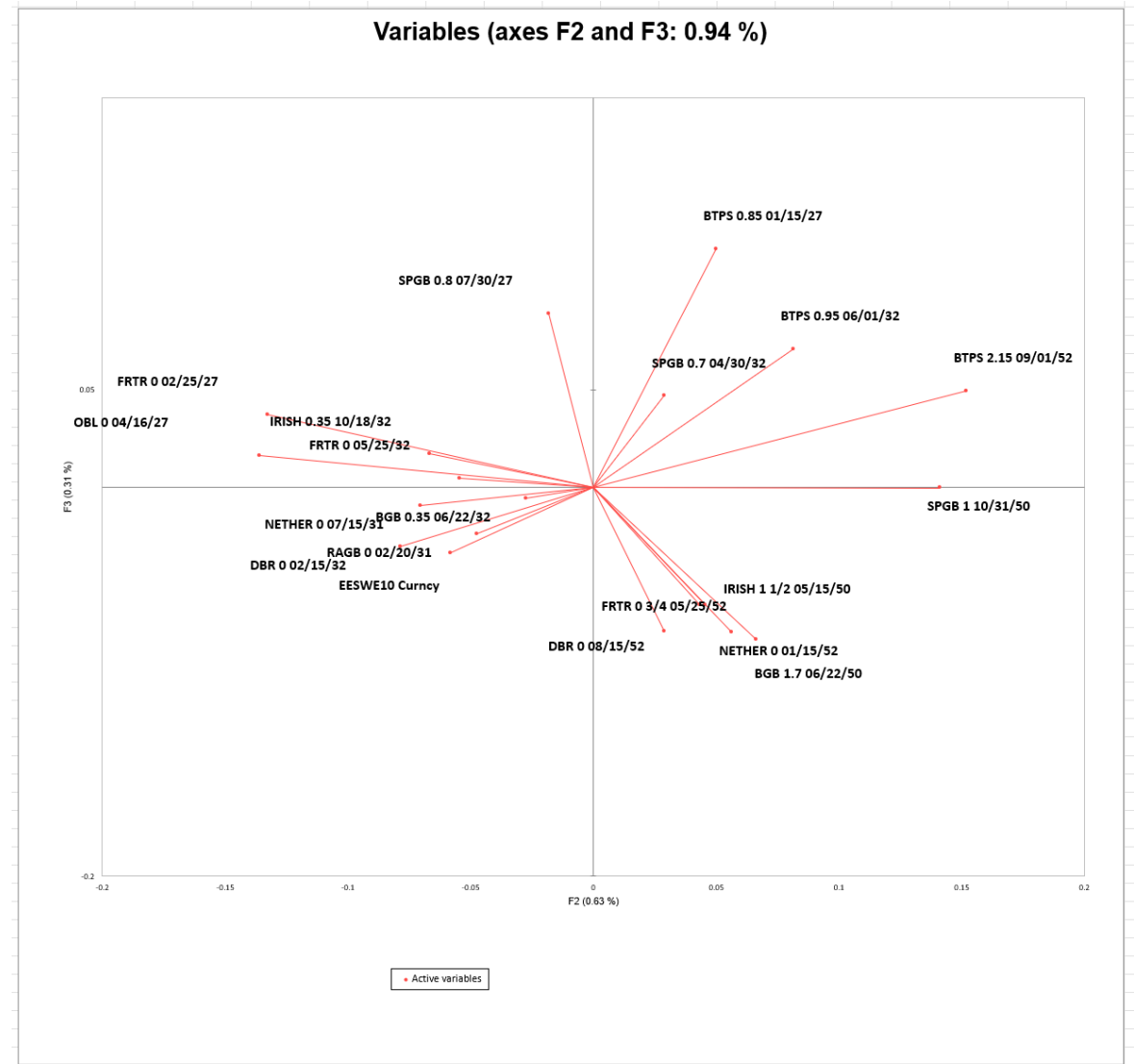
The Week Ahead Trades for the week starting 20th June

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June 20th

Trading Strategies
& Modelling

Sensitivity of EGB Bond Yields to Factors 2 & 3 Factor 1 (Delta) removed



Week Ahead:

Germany: 15y tap & 5y eom

Italy: Shorts and Btp€1, prepping for eom 5s & 10s

UK: Ultra 73s tap

EU: TBA

Belgium: 7y, 10y, 30y

PCA on EGB Credits: semi core catch up

	OBL 0 04/16/27	DBR 0 02/15/32	DBR 0 08/15/52	BTPS 0.85 01/15/27	BTPS 0.95 06/01/32	BTPS 2.15 09/01/52	FRTR 0 02/25/27	FRTR 0 05/25/32	FRTR 0 3/4 05/25/52	SPGB 0.8 07/30/27	SPGB 0.7 04/30/32	SPGB 1 10/31/50	NETHER 0 07/15/31	NETHER 0 01/15/52	BGB 0.35 06/22/32	BGB 1.7 06/22/50	IRISH 0.35 10/18/32	IRISH 1 1/2 05/15/50	RAGB 0 02/20/31
Z-Score	-0.5	-0.9	1.7	-1.8	-3.3	-3.0	-0.2	-1.9	1.6	-1.0	-2.3	1.4	-2.2	2.0	-0.1	1.9	0.1	3.2	0.0
Average	0.5	0.7	0.9	1.6	2.5	3.0	0.7	1.2	1.7	1.1	1.8	2.3	0.9	1.1	1.3	1.8	1.4	1.7	1.1
Std Dev	0.5	0.4	0.4	0.6	0.6	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.4	0.4	0.5

- Btps narrowed radically vs Dbr and Semi Core
- Spain and Italy look rich but would only sell these as the wing of a credit fly
- Nether and Irish Longs have been left behind
- French 10y looks a sell

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- We like mopping up 'better credits' vs blend of Germany and France/Italy

Sell Holland 10y: vs synthetic blend of France 5y and Irish 30y

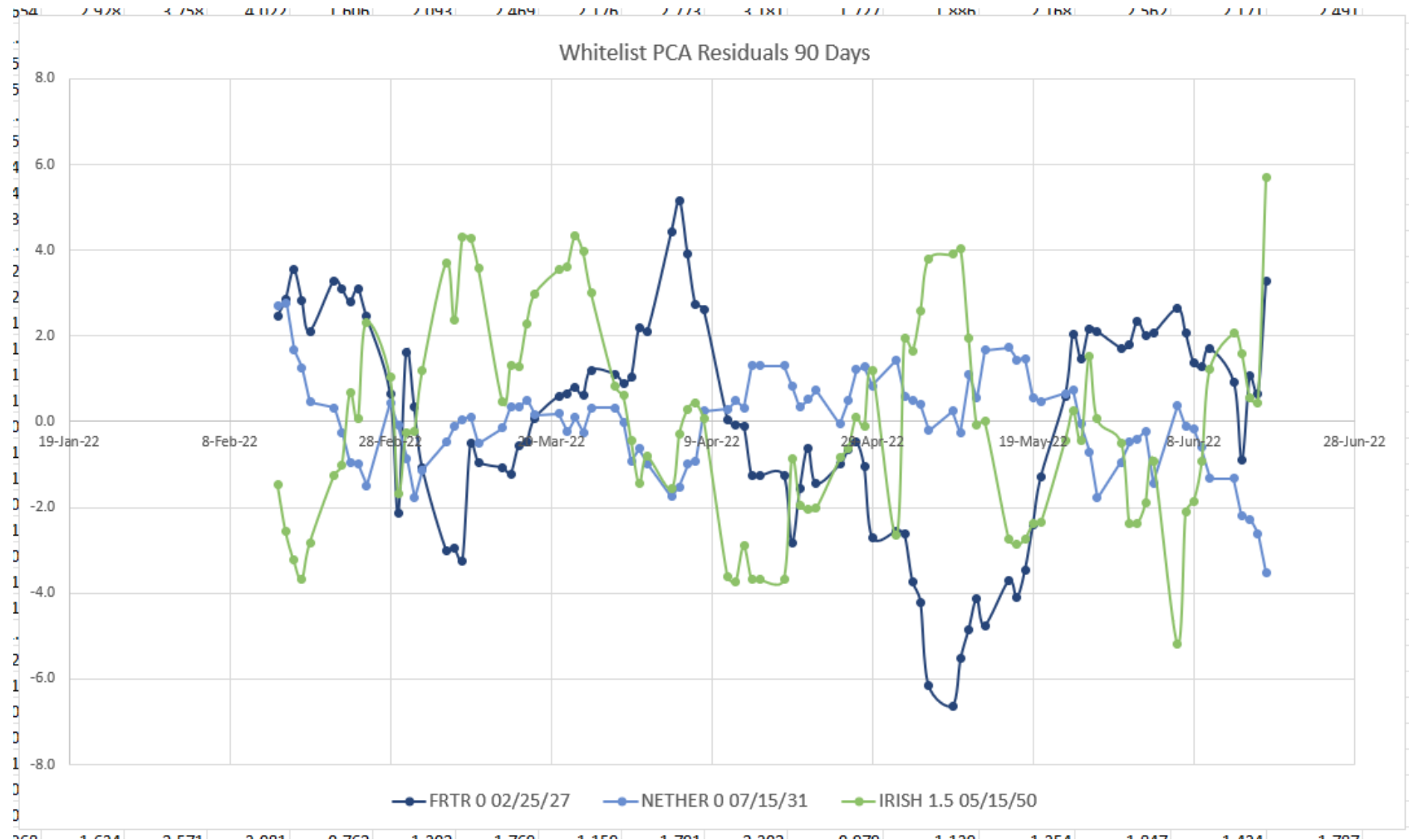
- Much like Brad Pitt in Money Ball we try and re-create Nether Jul31 in the aggregate!!!
- Sell Nether 10y
- Buy 61% 5y France
- Buy 59% Irish 30y
- Sell 5% Btps 10y



$\text{YIELD}[\text{NETHER } 0 \text{ 07/15/31 Corp}] - (+0.61 * \text{YIELD}[\text{FRTR } 0 \text{ 02/25/27 Corp}] - 0.05 * \text{YIELD}[\text{BTPS } 0.95 \text{ 06/01/32 Corp}] + 0.49 * \text{YIELD}[\text{IRISH } 1.5 \text{ 05/15/50 Corp}])$

Nether 9y (more history than 10y): PCA residuals vs major hedge bonds

- Nether jul31 have done well in the credit compression
- Old France 5y (auction in the on the run last Thursday) & Irish 30y have not kept up



Germany 15y: Sell VS OATA

Credit to continue to perform

- Wednesday 22nd Jun brings a €1,5bln tap of the Dbr 1% May38. To be tapped again August 3rd
- The prior 15y has poor roll and carry vs the peer group
- Not a lot to do locally and the B/O can be egregious relative to the VAR
- I like buying OAT CTD MAY31 vs selling the old 15y Dbr May, factor weighted
- After Thursday night am expecting semi-core credit to catch up to Italy
- The roll on the Frtr CTD is pretty strong. It's an old 15y. It rolls into May30, which vanished post crop out of the OAT contract



$$100*(\text{yield}[\text{FRTR 1.5 05/25/31 Corp}]-0.94*\text{yield}[\text{DBR 0 05/15/36 Corp}])$$

Long Frtr 5/31 (or OATU2, we see little chance of a different CTD)

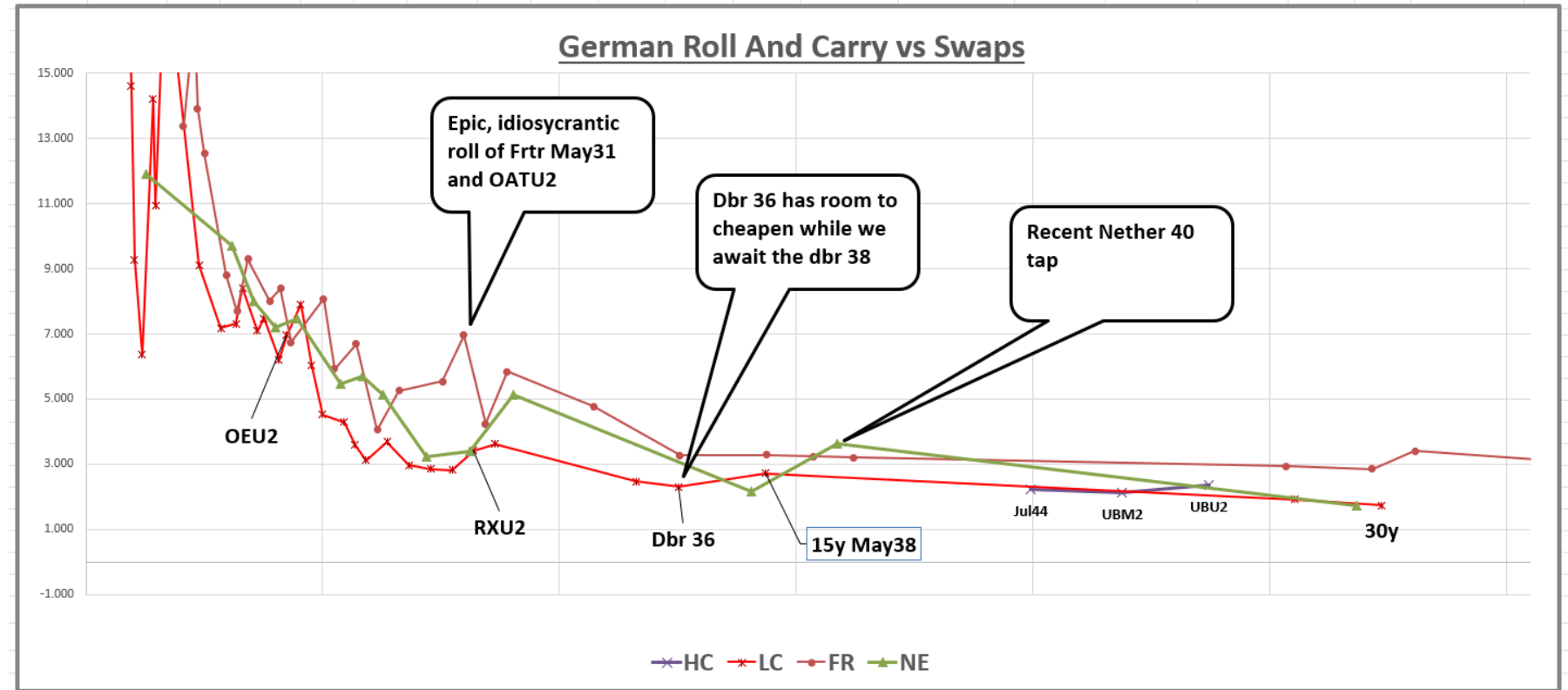
Short Dbr 36, PC1 facto weighted

1: 0.94

Germany 15y: Sell VS OATA

Credit to continue to perform

- Thursday brought the announcement of potential packages to support weaker credit issuers
- This has a knock on effect on narrowing all credit spreads in EGB's including France/Germany
- The Oat contract now has fantastic roll and may be the last contract where the drop is into a well bid, illiquid segment (Old 15yrs)



Long Frtr 5/31 (or OATU2, we see little chance of a different CTD)

Short Dbr 36, PC1 factor weighted

1: 0.94

German 5y Supply: 5y2y rich on the curve, Sell old7y vs OEU2 and RXU2 Ctd

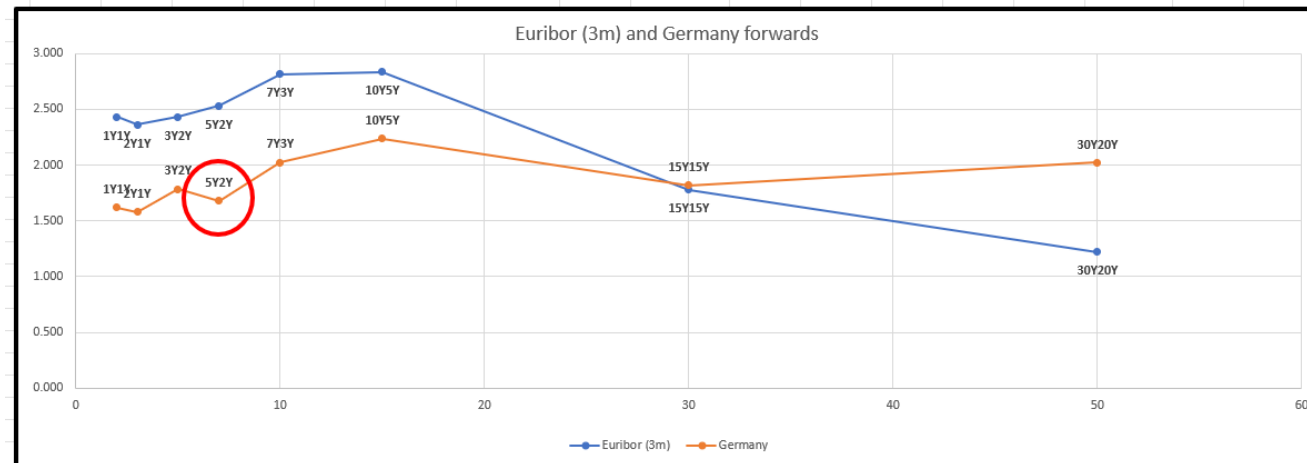
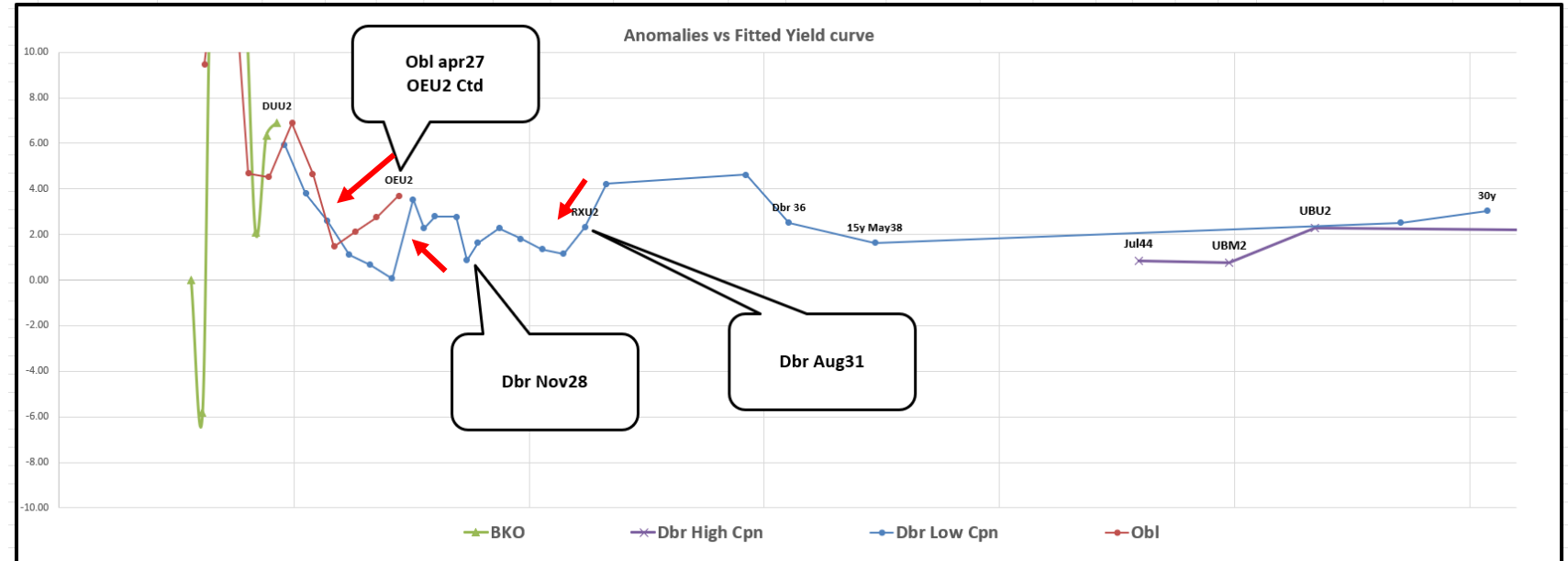
- Buy RXU2 and OEU2
- Sell Dbr Nov28
- 1/2/1
- Trades with short the market (emanating from curve), which we hedge with 1% delta long
- Also we delta adjust our RXU2 position down by 3% as the contract trades with a longer duration (expecting a 1.75% Tied CTD)
- Call for hedge numbers to keep these trade stationary / stable



$200 * (\text{YIELD}[\text{DBR } 0 \text{ 11/15/28 Corp}] + -0.5 * \text{YIELD}[\text{DE0001102564 Corp}] + -0.5 * \text{YIELD}[\text{OBL } 0 \text{ 04/16/27 Corp}] - 0.01 * \text{YIELD}[\text{DE0001102564 Corp}])$

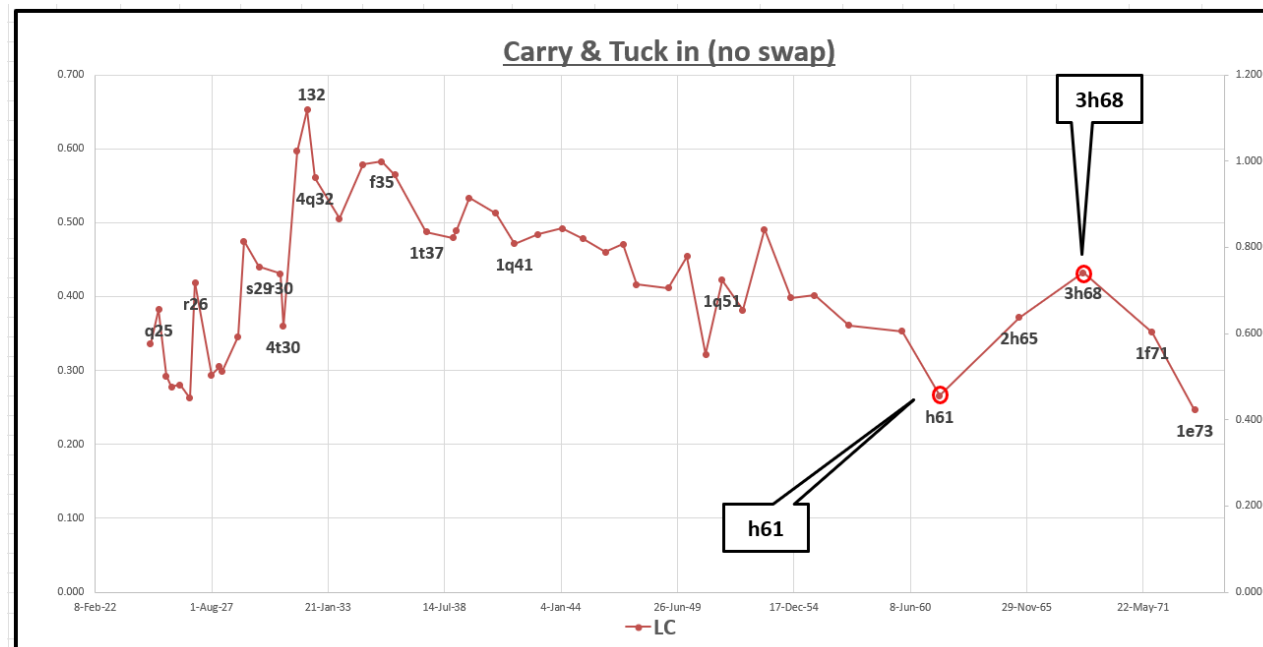
German 5y Supply: 5y2y rich on the curve, Sell old7y vs OEU2 and RXU2 Ctd

- New Obl oct-27 coming end of month
- Current CTD goes of the run and should start to roll
- Dbr nov28 is the last 7y issues: not as illiquid as old 10yrs
- If 5yrs go rich on the curve before supply, we will release the 5y long and buy 2s and 10s)
- 7y fundamentally rich



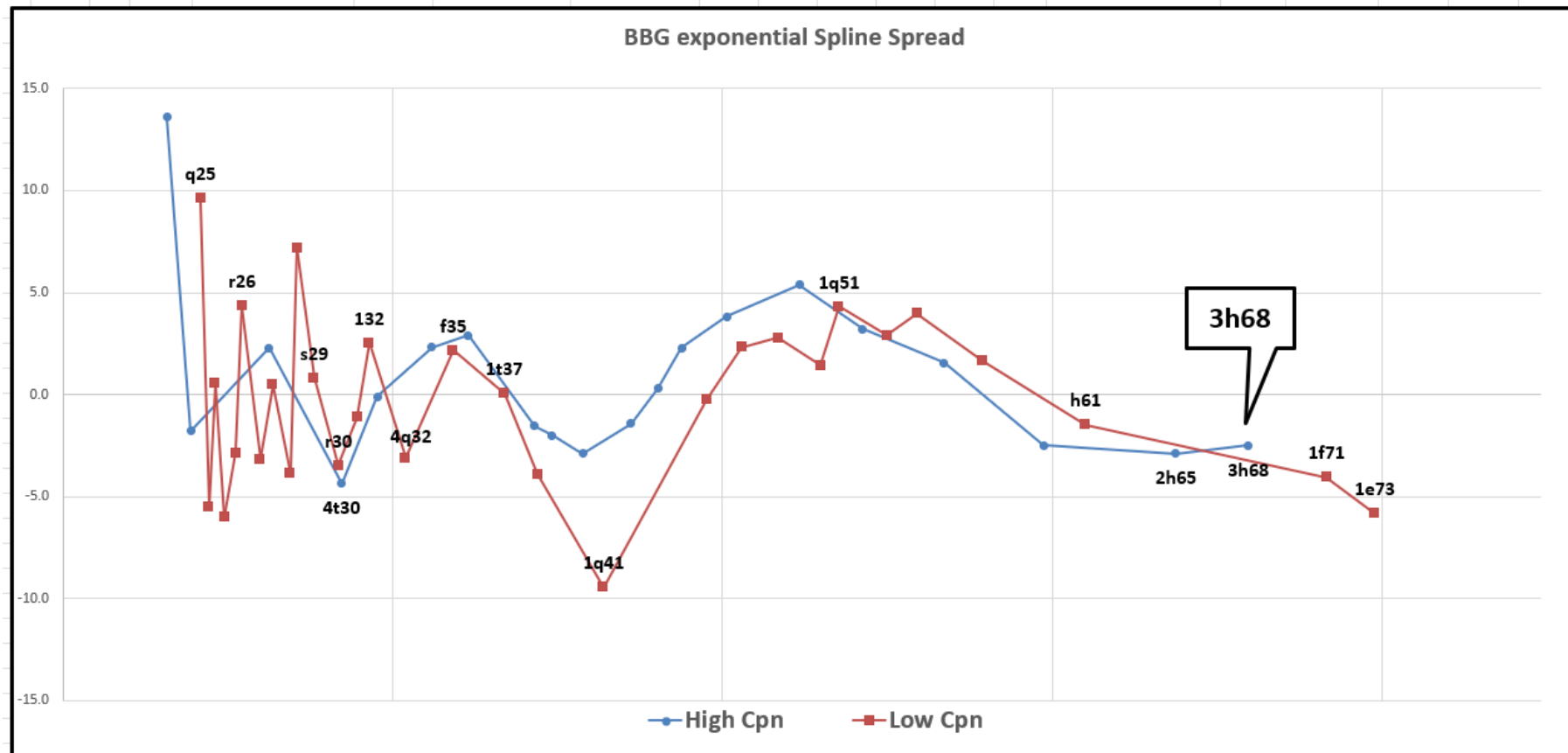
Ukt 73s tap: cheap Roll and carry h61 / 3h68

- Tuesday brings a tap in 1f73
- **Sell h61 / Buy 3h68**
- Whether there are RM buyers or not, the bond is rich
- It doesn't even have much extra convexity on a duration matched switch (only cash/cash)
- It has caused the 40s50s segment to steepen
- In all these curves is we can pickup R&C to extend that is exceptional in the context of the rest of the curve



$$100 * (\text{YIELD}[\text{UKT 3.5 07/22/68 Corp}] - 1.00 * \text{YIELD}[\text{UKT 0.5 10/22/61 Corp}])$$

UKT Anomaly Value: Bloomberg Exponential Yield Curve model





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From last week: My calls were

- Buy Italy on Swap Spread: worked
- Italy 7s8s steepener: worked
- Sell Ob179 vs Ob181: unch



From last week: continued

- Buy Spain 5y vs France 10y: worked



Full details from last week...

- On next few pages are excerpts from last week's analysis

Italy cheap on Swap Spread vs market Delta

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



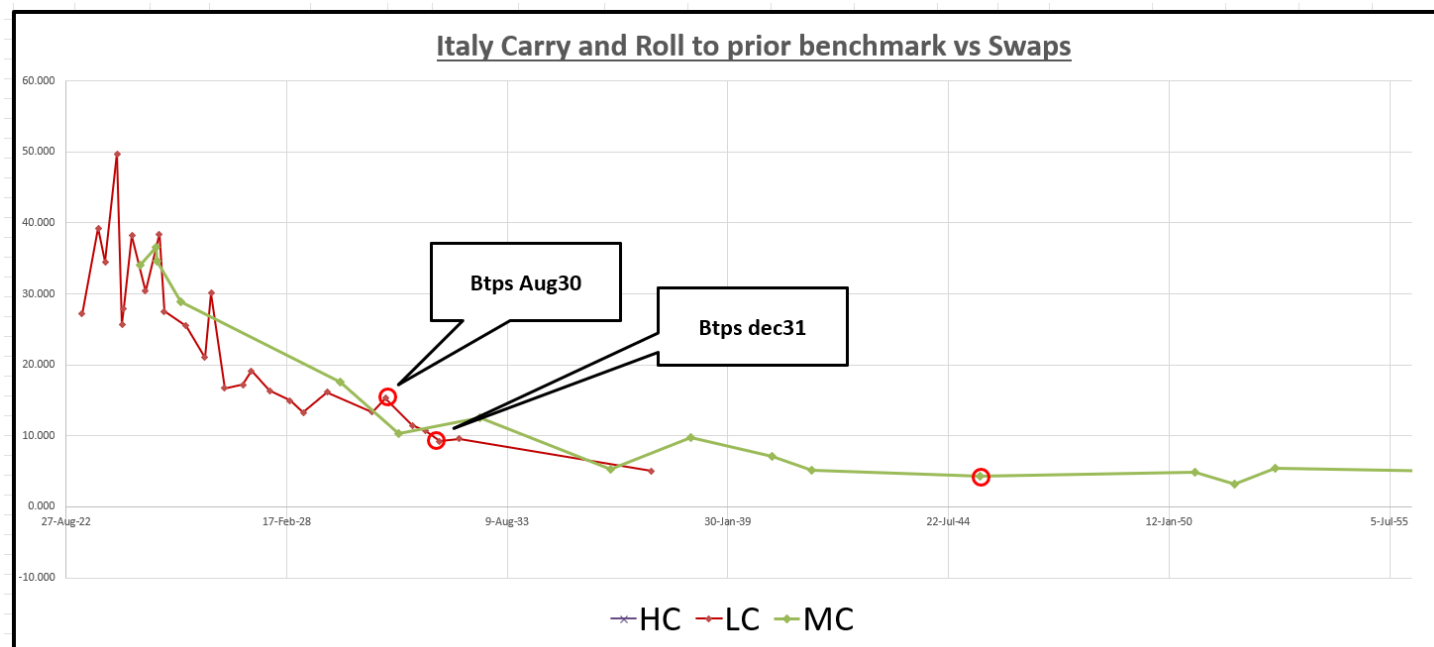
The end of QE, the advent of higher rates and forthcoming supply have pushed Italy to its cheapest. Represented here by a market level adjusted Invoice Spread (25% delta)

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



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)

