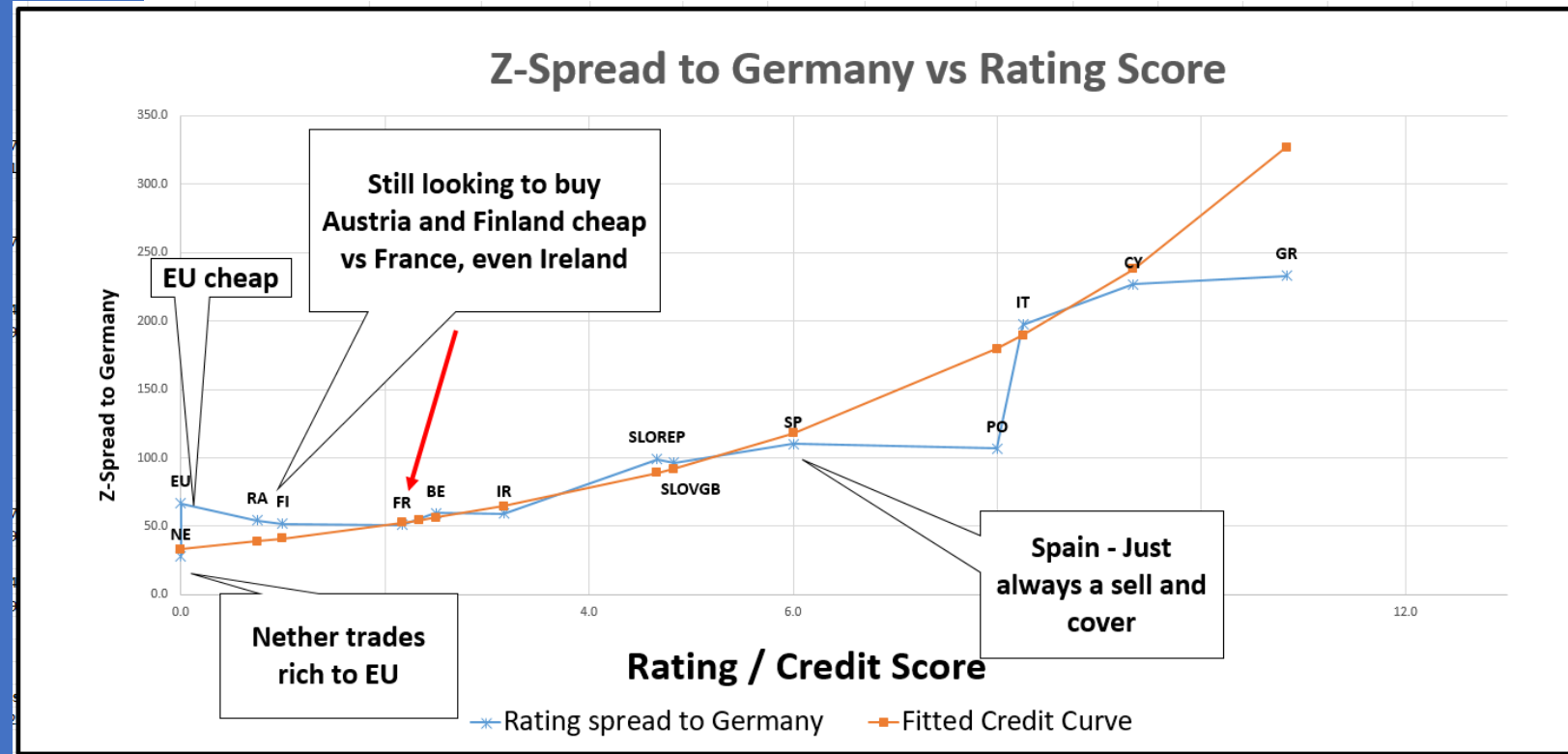


# The Week Ahead Trades for the week starting 27<sup>th</sup> June

James Rice, Astor Ridge  
June 20<sup>th</sup>

Trading Strategies  
& Modelling

## EGB Z-Spreads over Germany Vs Credit Rating



X-axis = Credit Score (3 Agency Ratings plus outlook)

# Week(s) Ahead:

Germany: New 5y, unlikely OEU2 CTD. Close but not quite CTD into OEZ2?

Italy: 5y & 10y on Thursday. TBA Monday pm

UK: 30y Tap, July 5th

Spain & France: Much awaited French longs. New 10y?

Austria: TBA July 5h

# Quick thoughts for fades

- I see 10s 30s as relatively steep
- I see IK inv spreads rich and Germany as Fair – have sympathy with ik/rx wideners into Italian supply
- Quarter end coming feels like there are some bargains around in terms of positions being cleared
- The indeterminate nature of CTDs for Dec has ramifications for all sep/dec rolls
- Semi-core credits on balance are rich – I want to be short ahead of next month's French 10s and longer

# Trade: Sell Austria 10y / Buy UBU2 Hedged with 2s10s steepener du/rx

- With Austrian supply on the horizon, I've Factor 1 weighted selling 9y Austria (more history) and buying the UBU2 CTD
- -0.93 / +1
- We see the curve as too steep despite the recent rally and these semi core names have been dragged up by France with impending supply
- That leaves us using liquid contracts DUU2 (I've used the CTD for DUM2 for more history) and short the RXU2 with no factor 1 impact but an attempt to control curve risk (Factor2)
- -rx / + du
- -0.17 / +0.17



- $\text{YIELD}[\text{DBR 1.25 08/15/48 Corp}] - 0.93 * \text{YIELD}[\text{RAGB 0 02/20/31 Corp}] - 0.18 * \text{YIELD}[\text{DE0001102564 Corp}] + 0.18 * \text{YIELD}[\text{BKO 0 03/15/24 Corp}]$

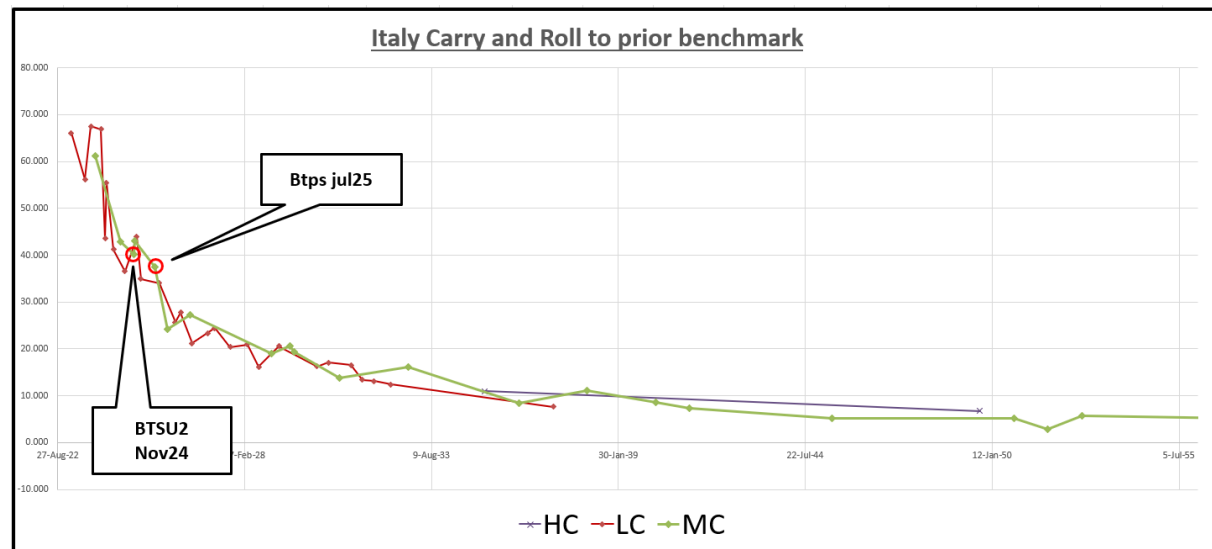
# Italy: 2s3s flattener, hedged with IKU2

## Sell BTSU2 / Buy Btps jul25 / sell IKU2

- We've watched as 5yrs have cheapened in the recent re-steepening.
- The best carry and tuck-in (idiosyncratic roll) is selling BTS to buy Btps jul25 – treads cheap due to the 3y Aug25 but rolls much better
- Do -BTSU2 / Jul25 plus 20% +BTS / -ik steepener



$$200 * (\text{YIELD}[\text{BTPS 1.85 07/01/25 Corp}] - 0.2 * \text{YIELD}[\text{BTPS 0.9 04/01/31 Corp}] - 0.8 * \text{YIELD}[\text{BTPS 1.45 11/15/24 Corp}])$$



# Italy: 2s3s, why that segment?

- Are bellys (sic) cheap vs wings?
- Regression weighted 5y Italy vs 2s & 10s->
- We chose to buy 3y Italy vs wings rather than 5y because although the 5y has cheapened –it's tough ahead of Thursday's supply to actually find decent roll int eh 5y itself

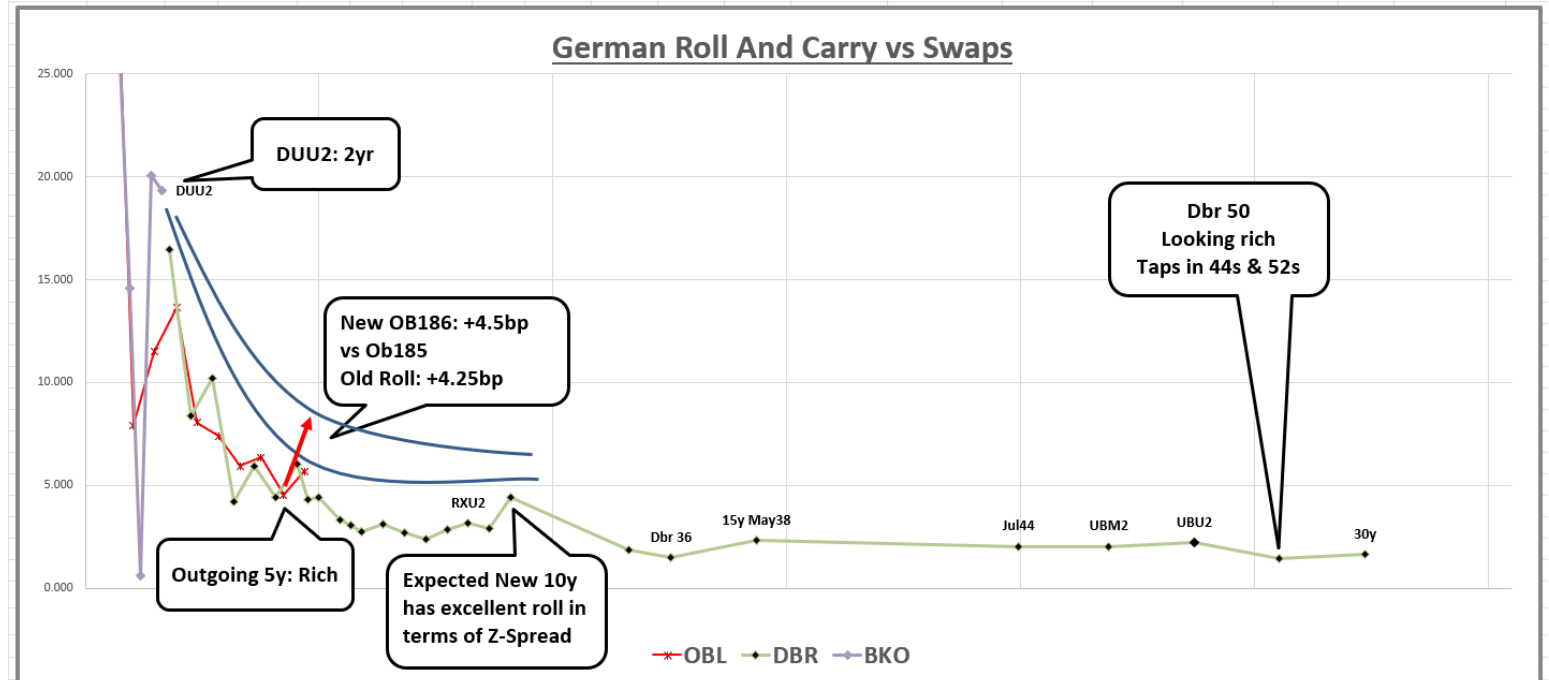


Regression weighted 5y vs 2s and 10s

$$100 * (2 * \text{YIELD}[\text{BTPS } 0.85 \text{ 01/15/27 Corp}] + -0.95 * \text{YIELD}[\text{BTPS } 0.95 \text{ 06/01/32 Corp}] - 1.11 * \text{YIELD}[\text{BTPS } 1.45 \text{ 11/15/24 Corp}])$$

# Sell German outgoing 5y vs DU and RX Prep for Auction

- Looking at the Roll and Carry the 5y looks rich



- Location:  
5yrs regressed vs 2s  
and 10s



# Alternate expression: Sell Dbr Feb26 vs Du and RX in prep for 5y

- Sell dbr Feb26
  - Buy DUU2 & RXU2
  - Bko Mar24 (Ctd to Dum2 shown for more history)
  - Net Delta short 7%
  - Into 5y supply mutate into
  - +2y / -4y / +5y
- By buying back 5y vs 2s and 10s, or hold this value position

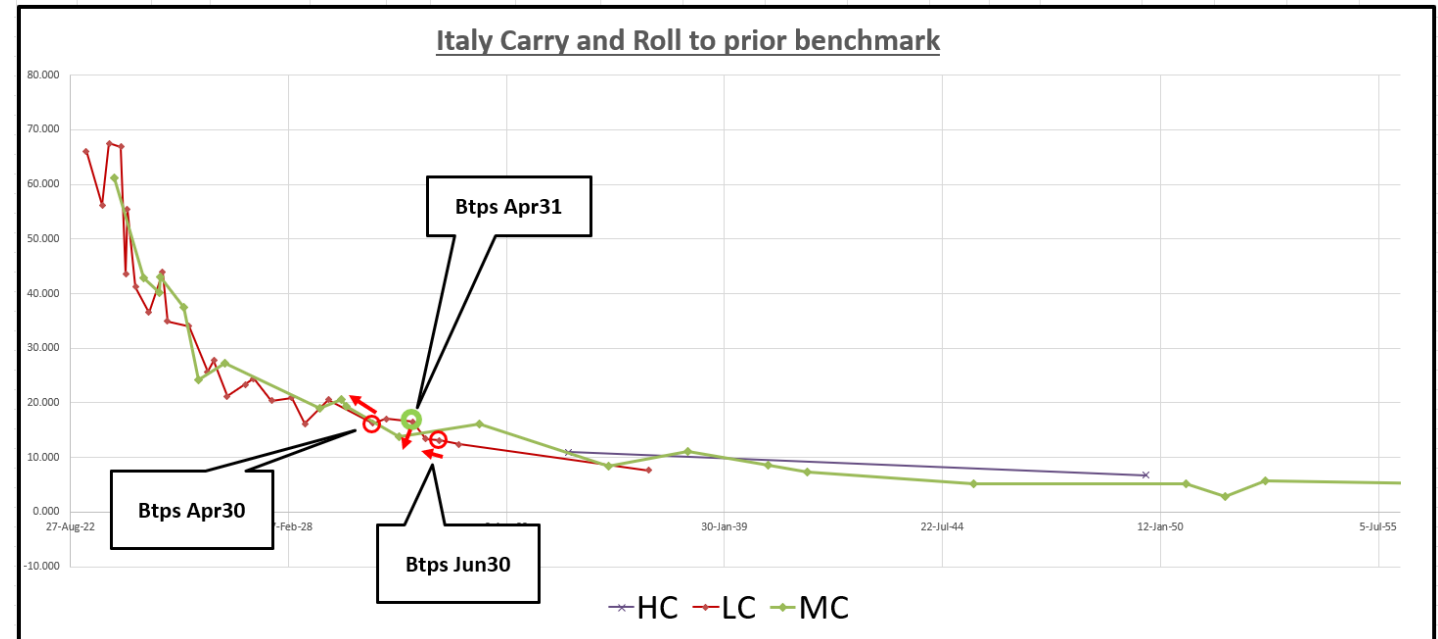


$$200 * (\text{YIELD}[\text{DBR 0.5 02/15/26 Corp}] + -0.33 * \text{YIELD}[\text{DE0001102564 Corp}] + -0.74 * \text{YIELD}[\text{BKO 0 03/15/24 Corp}])$$



# Buy IKU2 CTD apr31 vs low coupon Neighbours

- It never ceases to amaze me this notion that a 'CTD' should also be in some way cheap. Mechanically, the property of deliverability is additive in price terms only
- As we enter a paradigm of tied or double CTDs, it certainly takes the shine off specific issues. It doesn't mean they should trade cheap
- In fact the indeterminacy of the back month CTD means that front months could squeeze way beyond what we have seen before
- We like buying any Sep CTD on a value basis. We want to accumulate CTD's when they are cheap vs neighbours
- If and when these bonds get to low net basis it could well be in a rich context vs other bonds



$$200 * (\text{YIELD}[\text{BTPS } 0.9 \text{ 04/01/31 Corp}] - 0.5 * \text{YIELD}[\text{BTPS } 0.95 \text{ 06/01/32 Corp}] - 0.5 * \text{YIELD}[\text{BTPS } 1.35 \text{ 04/01/30 Corp}])$$

# French 10y May 31 & Nov 31 Basis a sell: chances of CTD change to Sep seem slim

OATU2 Comdty		Export		Settings		Cheapest-to-Deliver			
Euro-OAT Future Sep22		Price	138.34	Trade	06/26/22	Delivery	09/12/22		
Sort By		<input checked="" type="checkbox"/> Private Bonds		Settle	06/29/22	Cheapest IRP	-0.585		
Net Basis		Increasing		Days 75		Act /	360		
Cash Security	Price	Chg	Conven Yield	Conver Factor	Gross Basis	Implied Repo%	Actual Repo%	Net Basis	
Adjust Value		Yld							
1) FRTR 1 1/2 05/25/31	97.5000	BGN	1.8063	0.701697	0.427	-0.585	-0.600	-0.003	
2) .FRTR 3 11/25/32	108.8891	+2.030	2.0400	0.775426	1.617	-4.225	-0.600	0.858	
3) .FRTR 2 3/4 11/25/32	106.5686	+2.030	2.0400	0.756794	1.874	-5.663	-0.600	1.170	
4) .FRTR 2 1/2 11/25/32	104.2481	+2.030	2.0400	0.738161	2.131	-7.173	-0.600	1.482	
5) .FRTR 2 1/4 11/25/32	101.9276	+2.030	2.0400	0.719529	2.388	-8.761	-0.600	1.794	
6) FRTR 0 11/25/31	83.8105	BGN	1.8949	0.584947	2.889	-16.546	-0.600	2.784	
7) FRTR 0 05/25/32	82.4430	BGN	1.9684	0.568287	3.826	-22.277	-0.600	3.723	

- At current yields: new issue priced @2.04%, +7bp vs May32
- At current yields, it looks highly unlikely that any current or higher coupon (low modified duration) would be CTD
- But what about in a higher yield environment?

- France has Long End supply on events scheduled for 7<sup>th</sup> July, 4<sup>th</sup> August, 1<sup>st</sup> September
- It's uncertain if a NEW ISSUE will come or how the maturity and coupon will impact the September CTD status of Frtr May31
- What dominates CTD status is *Modified Duration*. With futures above par, all things being equal, the bond with the lowest modified duration is CTD
- As we have climbed into a new paradigm of higher coupon new issues, although their maturities are longer than the current CTDs, their modified durations are low. Coupled with new issue discounts, that creates the economics for new issues to vie for CTD status: witness IKU2 and the Forthcoming 1.7% Dbr into RXU2
- We estimate the Tresor *could* issue a new Frtr Nov32 Maturity before the window for the Eurex OAT basket closes
- With a variety of coupons we estimated how they might fit into the delivery basket...

# Yields almost 100bp higher: *CTD could be close but only just*

OATU2 Comdty		Export		Settings		Cheapest-to-Deliver			
Euro-OAT Future Sep22		Price	127.80	-10.54	Trade	06/26/22	Delivery	09/12/22	
Sort By		<input checked="" type="checkbox"/> Private Bonds		Settle	06/29/22	Cheapest IRP	-0.738		
Net Basis		Increasing		Days		75	Act /	360	
Cash Security	Price	Chg	Conven Yield	Conver Factor	Gross Basis	Implied Repo%	Actual Repo%	Net Basis	
Adjust Value		Yld							
1) FRTR 1 ½ 05/25/31	90.1239	+0.960	2.7663	0.701697	0.447	-0.738	-0.600	0.026	
2) .FRTR 3 11/25/32	99.9535	+2.990	3.0000	0.775426	0.854	-1.089	-0.600	0.107	
3) .FRTR 2 ¾ 11/25/32	97.7504	+2.990	3.0000	0.756794	1.032	-2.196	-0.600	0.339	
4) .FRTR 2 ½ 11/25/32	95.5474	+2.990	3.0000	0.738161	1.210	-3.361	-0.600	0.572	
5) .FRTR 2 ¼ 11/25/32	93.2595	+3.000	3.0100	0.719529	1.304	-4.171	-0.600	0.720	
6) FRTR 0 11/25/31	76.7332	+0.960	2.8549	0.584947	1.977	-12.367	-0.600	1.881	
7) FRTR 0 05/25/32	75.1360	+0.960	2.9284	0.568287	2.509	-16.028	-0.600	2.415	

France has long supply on events scheduled for 7<sup>th</sup> July, 4<sup>th</sup> August, 1<sup>st</sup> September

The Aft has a history of being ameliorative to the delivery Term Structure. It skipped the M<sub>AY</sub>31 end date as an on the run 10y maturity and went straight to issuing nov31s. Making Nov 31 are a larger issue

Rather than pollute delivery process, they could continue to tap Frtr May32 in July and August

It is our estimation that a new issue in September would not be considered deliverable into the Sep Contract

- With yields @ 3% in the new issue, *and that being the current coupon* (minimising the feasible modified duration), we still don't see the new issue as being CTD. It is closer, approx 8 cents away
- We think the optionality of a change in CTD in the OAT is very and is crudely represented by out the money puts struck around 3%. They would need to generate a 27 tick profit for a 6 points fall in futures ~4.5% hedge ratio on the cash Nominal (not futures)

- Under these scenarios then Ctd remains Frtr May31
- If they set a new 10y issue now or at least specify it's coupon (as did the Finanzagentur early ahead of the new July 6<sup>th</sup> Dbr) then it would also have a low coupon and longer modified duration and not be CTD
- Either way we see the chance for CTD status away from May31 to be low

# Sell Frtr Nov31 basis: spread steepener plus net basis gain

- The odd consequence of the changes in CTD's is now a clear lack of clarity for CTD in OATZ2 (dec)
- This means that the wealth of sellers of Nov31 (prior, clear CTDS into Dec will disappear)
- The bond (nov31) has richened but I think that is a misinterpretation of the mechanics here. A lck of clear CTD status should diminish a bond's value.
- As we head towards Sep delivery the situation for Ctd becomes clear yet December remains clouded
- I think we could see futures roll squeezes the like of which we have not witnessed before as no one takes on the long in back months – at the margin this can only be detrimental/not beneficial to Frtr Nov31 and any future issuance



$$100 * (\text{YIELD}[\text{FRTR 0 11/25/31 Corp}] - \text{YIELD}[\text{FRTR 1.5 05/25/31 Corp}])$$

- The trick in this trade is the roll
- Simple RV analysis misses the point that the current CTD is an old 15y – these bonds have a habit of disappearing after a season in the sun as CTD – witness Frtr May30
- Naively the Nov31 look cheap, but if we consider they roll into Nov30 (the prior 10y) they look decidedly overvalued. Coupled with mixed CTD status to Dec and the potential now for the September contract (Frtr May31) to augment coming into roll time with no strong boundary condition for back month basis... I just want to be short this issue

# Italy 2s 5s flattener: fade the recent credit move into 5y supply. Sell BTSU2 buy Btps Aug27

- Much like out 2s3s trade. This weeks supply makes the 5y look cheap
- I like the Aug27 as they aren't a tap issue and the bond to which they roll (Btps Jun27) is well bedded into the curve
- Trades Long so need a 5% short
- Rationale – all the jawboning about supporting the credit has caused Italy to steepen. Am prepared to fade that with modest conviction tempered with the recent steepening in risk free issuers. Trade still looks ok vs Swaps



$$\text{yield}[\text{BTPS 2.05 08/01/27 Govt}] - 1.05 * \text{yield}[\text{BTPS 1.45 11/15/24 Govt}]$$

# Update on Trades from last week

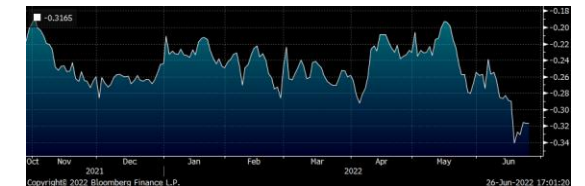
- Long Oat short 15 Germany mis-weighted: Made 8bp

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



- Sell Holland 10y: vs synthetic blend of France 5y and Irish 30y: Made 1.5bp

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



- Sell old7y vs OEU2 and RXU2 Ctd: Offside 1bp, like this trade or mutate and sell 5y vs wings

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

- UKT 40s50s flattener, h61 / 3h68: offside 0.5bp. Add to this positive carry structure to have long end (-40y +50y) flatteners as 50y is done and 30y is next. High coupons are undervalued in current curve construct



From the sublime to the ridiculous:  
Italy -2y / +50y,  
regression flattener

- This was thrown out purely by the statistical model
- It's interesting, as if you have steepeners in Italy this could be a way to monetise them as a small amount of this switch has a lot of PnL var
- Certainly the structure appears reasonably stationary: mean reverting with stable var
- $-BTSU2 / + 0.71 * Btps\ mar67$
- I have to say I was surprised by the Stationarity of this relationship
- Let me know what you think







# James Rice

- UK: 14-16 Dowgate Hill, London ec4r 2su
- US: 60 Rumson rd, rumson, nj 07760
- Office: +44 (0) 203 -143 - 4178
- Mobile: +44 (0) 7540-117705
- Email: [james.rice@astorridge.com](mailto:james.rice@astorridge.com)
- Website: [www.astorridge.com](http://www.astorridge.com)
- This marketing was prepared by James Rice, a consultant with Astor Ridge. It is not appropriate to characterize this e-mail as independent investment research as referred to in MiFID and that it should be treated as a marketing communication even if it contains a trade recommendation. A history of marketing materials and research reports can be provided upon request in compliance with the European Commission's Market Abuse Regulation. Astor Ridge takes no proprietary trading risk, has no market making facilities, and has no position in any security we discuss in this e-mail. The views in this e-mail are those of the author(s) and are subject to change, and Astor Ridge has no obligation to update its opinions or the information in this publication. If this e-mail contains opinions or recommendations, those opinions or recommendations reflect solely and exclusively those of the author, and such opinions were prepared independently of any other interests, including those of Astor Ridge and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the those who receive it. The securities discussed herein may not be suitable for all investors. Astor Ridge recommends that investors independently evaluate each issuer, security or instrument discussed herein, and consult any independent advisors they believe necessary. The value of, and income from, any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.
- You should not use or disclose to any other person the contents of this e-mail or its attachments (if any), nor take copies. This e-mail is not a representation or warranty and is not intended nor should it be taken to create any legal relations, contractual or otherwise. This e-mail and any files transmitted with it are confidential, may be legally privileged, and are for the sole use of the intended recipient. Copyright in this e-mail and any accompanying document created by Astor Ridge LLP is owned by Astor Ridge LLP.
- Astor Ridge LLP is regulated by the Financial Conduct Authority (FCA): Registration Number 579287
- Astor Ridge LLP is Registered in England and Wales with Companies House: Registration Number OC372185
- Astor Ridge NA LLP is a member of FINRA/SIPC: CRD Number 282626
- Astor Ridge NA LLP is a member of the National Futures Association (NFA): Firm ID Number 0499303
- Astor Ridge NA LLP is Registered in England and Wales with Companies House: Registration Number OC401796