

## The Week Ahead:

‘The object of the game, is to stay in the game’

James Rice, Astor Ridge

July 11<sup>th</sup>

Trading Strategies

& Modelling

## PC1 weighted France vs Germany, 30yrs

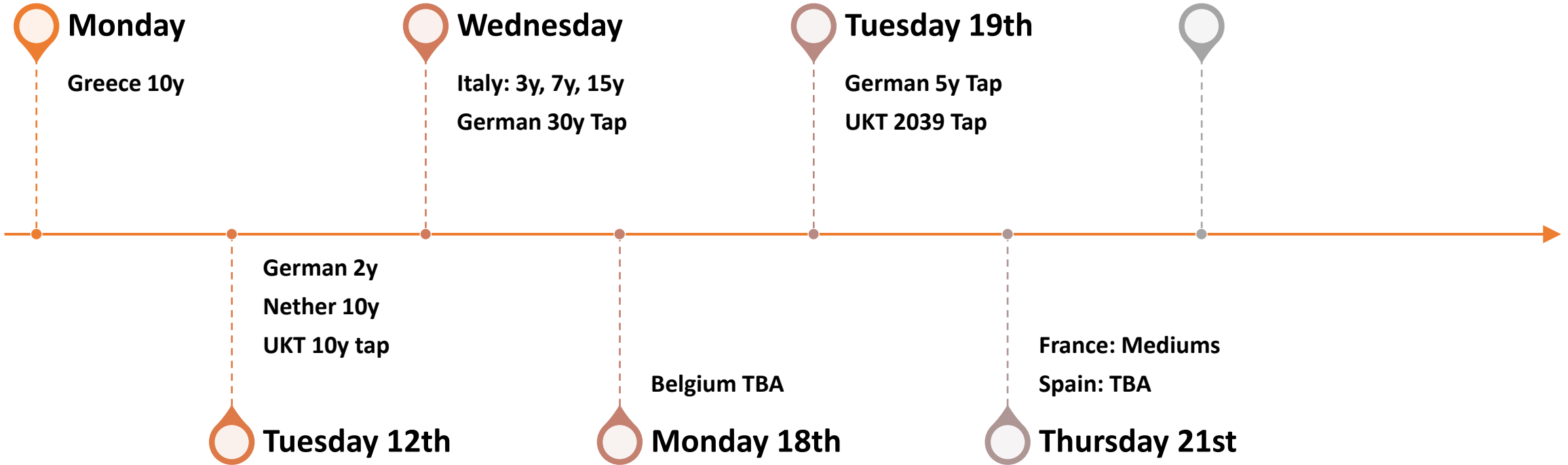


Market is absorbing stresses at more extreme, volatile boundary conditions – Call for PCA Weightings on France / Germany in 30yrs

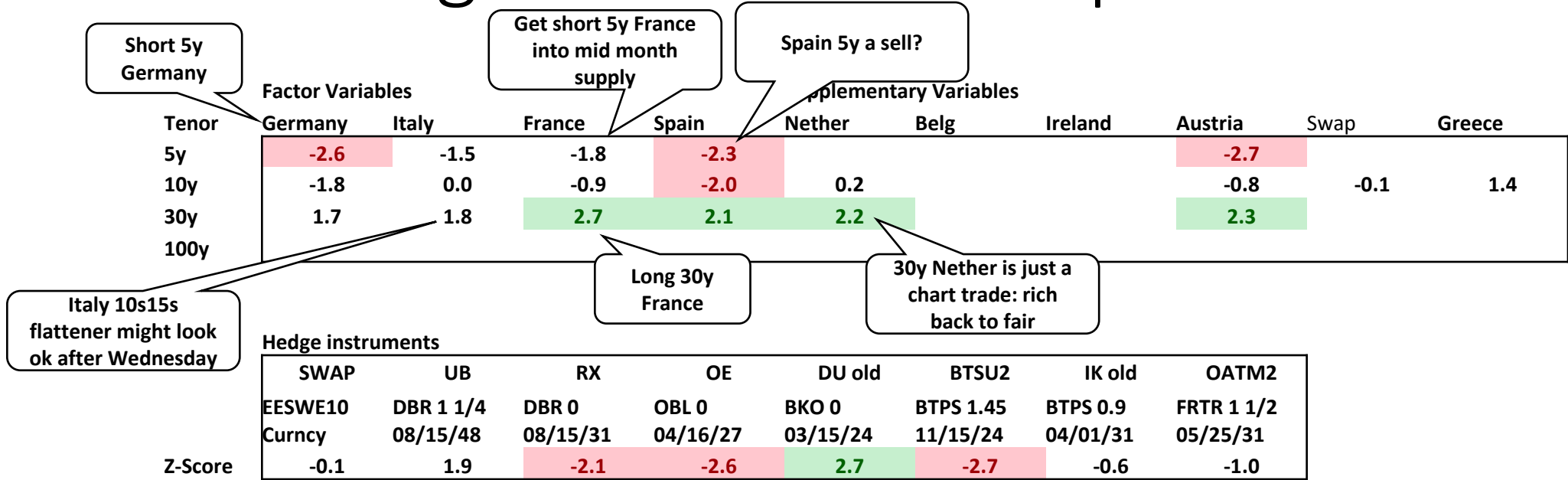
# Trades & Fades

- Basis and RV become stressed – Auctions and other risk events push pricing to more extreme conditions
- The leveraged space is offered positions at more acute valuations
- The above seems true for curves, delta, credit, basis and vol. This is a good environment, but we need to re-scale accordingly to be able absorb the path and the trade the distribution

# Week Ahead



# PCA thoughts on EGBS and plan for the week



- **Bellys Rich:** I see the bellys on the curve as rich, OE and RX: so it's a question of which we prefer. I'm generally going for which ever is closest to my target bond to hedge. Conversely 30ys (after the French Long supply) and with impending German tap, look cheap
- In terms of credit, I was surprised not to see France richen – I like it on the 'FIG' blend (France/Italy/Germany) – but I may mutate that into: -Italy / +Nether / -Germany. This perspective may be a function of consuming both Tenor AND credit data simultaneously. If we were to consider just in credit space, in a single tenor (say 9y), we may see it differently

# Long France 30y vs Dbr 2052

- After last week's supply in French longs and the concomitant non-comp: French 30yrs are still offered
- Duration matched OR PC1 weighted Long French 30y vs the forthcoming tap issue makes sense



$$100 * ((YIELD[FRTR 0.75 05/25/53 Corp] - 1.06 * YIELD[DBR 0 08/15/52 Corp]))$$

PC1 weighted



$$100 * ((YIELD[FRTR 0.75 05/25/53 Corp] - YIELD[DBR 0 08/15/52 Corp]))$$

Duration neutral

# Market Stressed: Greek 10y to soften further

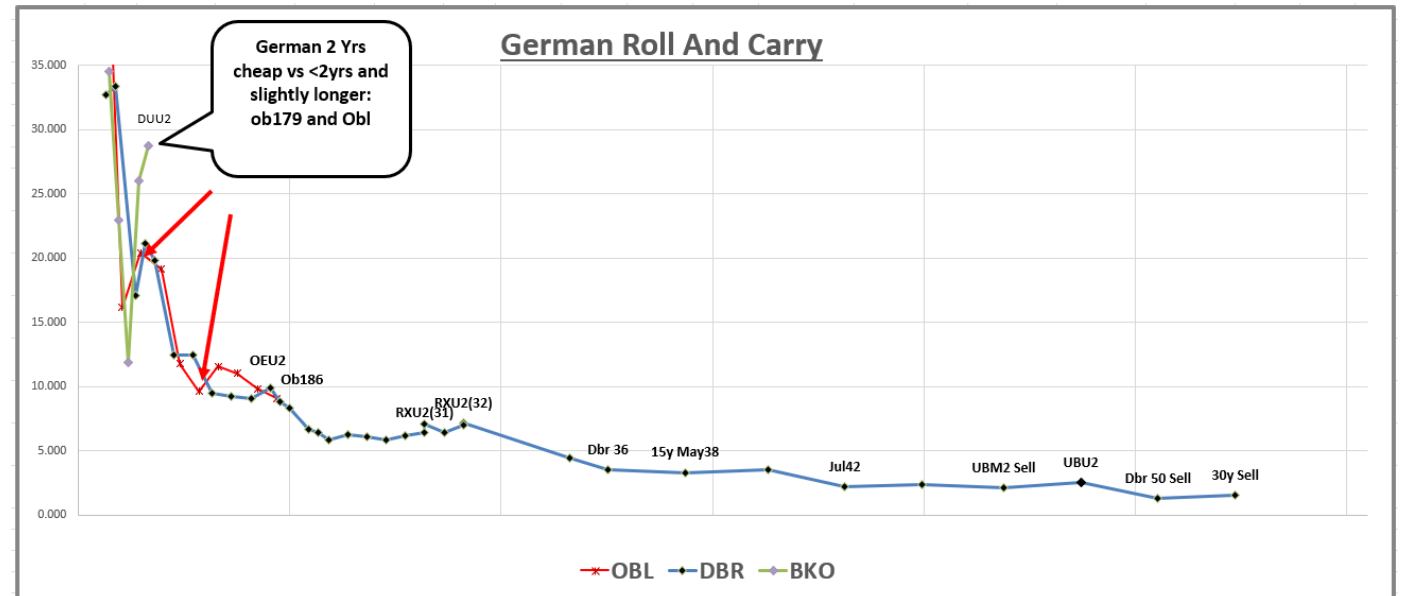
- With all that's going on in EGB RV, I couldn't find much to do with the Greek 10y tap
- It's never been cheap and unless someone rolls out the fragmentation gun by Monday I can only see it cheaper
- In absolute credit terms at a mere 30bp over the btps Dec32 I can only see it cheapening another 20bp
- Pretty volatile so scale accordingly



YIELD[GGB 1.75 06/18/32 Corp] - YIELD[BTPS 2.5 12/32 Corp]

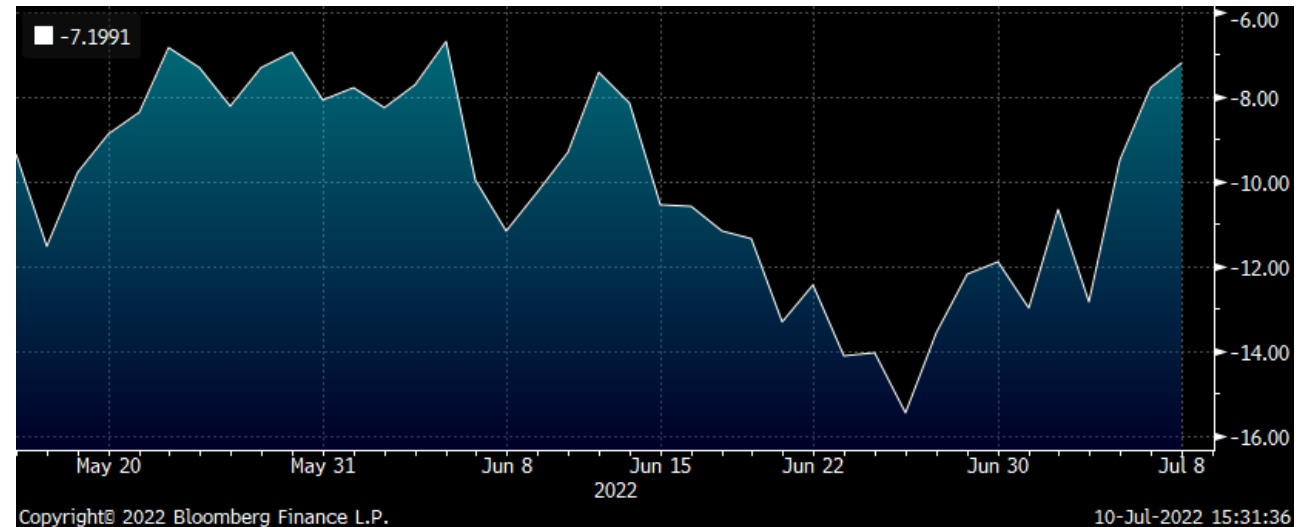
German 2yr tap: bond is cheap to its neighbours, starts to have repo bid

- German on-the-run 2yrs are just plain cheap on a forward, carry and roll cash-flow basis
- CTD to the DUU2 contract, it should augment over the summer period



# German 2y: Belly cheap, compute weighting schema from the German BBG CMB curve

- To weight this trade we look at the long term behaviours of the fitted 2y point vs its neighbours
- Long DUU2 vs short ob179 (40%) and short OB18, Oct25 (60%)
- Despite a resurgence in the 1y1y on the Germany forward curve this trade still have RV value and allows to get back into a 2y bullish structure



$$200 * (\text{YIELD}[\text{BKO } 0.2 \text{ 06/14/24 Corp}] - 0.60 * \text{YIELD}[\text{OBL } 0 \text{ 10/10/25 } 182 \text{ Corp}] - 0.40 * \text{YIELD}[\text{OBL } 0 \text{ 04/05/24 } 179 \text{ Corp}])$$



# Levels to buy Nether 10y vs basket of 3 futures:

- I have watched Semi core, and to that extent Nether, widen as the Donor/Recipient story got traction
- Unless we get some structural ratings changing it strikes me we have hit boundary conditions for how cheap give credit can get
- I want to come out long Nether short RXU2
- But I do want some sort of credit hedge so I need more hedges



$\text{YIELD}[\text{NETHER 0 07/15/31 Corp}] - 1.0 * \text{YIELD}[\text{DE0001102564 Corp}]$   
Nether vs Germany alone

# Trade: +Nether 10y / -RXU2 (105%), plus 4% of -iku2 / +oatu2



I gave the computer the target position of being Factor 1 hedged in -RXU2 vs long Nether



I then asked it to optimise a PC1 neutral, credit hedge to control any further widening – it offered me 4% of -iku2 / +RXU2



I like taking down Nether 10y this way and the on the run looks to have decent R&C – I used the old 9y for history



$$\text{YIELD}[\text{NETHER } 0 \text{ 07/15/31 Corp}] - 1.05 * \text{YIELD}[\text{DE0001102564 Corp}] - 0.04 * \text{YIELD}[\text{IT0005422891 Corp}] + 0.04 * \text{YIELD}[\text{FRTR } 1.5 \text{ 05/25/31 Corp}]$$

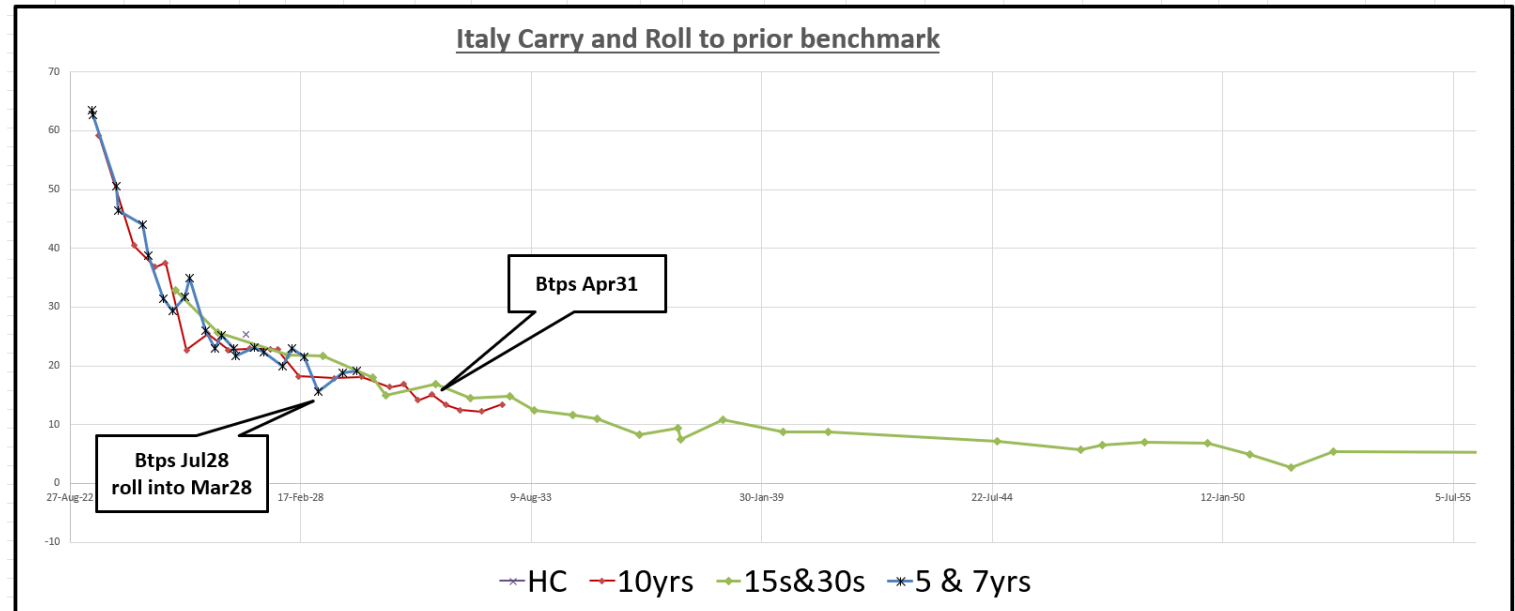
# Italian flattener -7y / + ik

- With 7y supply this week, I still like this one. Supply is struggling to clear at decent levels
- Btps jul28 have horrendous carry
- I see btps 7y3y as to high so I like that flattening theme



$100 * ((\text{yield}[\text{BTPS } 0.9 \text{ 04/01/31 Govt}] - 1.07 * \text{yield}[\text{BTPS } 0.5 \text{ 07/15/28 Govt}]))$

Italian  
Flattener –  
jul28 / +ik



- This stradfe is just a nice tactical one, where supply is not clearing easily

## German 30y: curve steep but need more vs swaps box

- I considered the swap box: -rxu2 / + dbr 52
- The regression suggests just a 50% short in 10y spreads
- $((\text{SP210}[\text{DBR 0 08/15/52 Corp}] - 0.5 * \text{SP210}[\text{BP980366 Corp}] ) )$
- Need another 2.5bp : on hold
- Alternatively I like the flattener
- -RXU2 / +UBU2, but we may need to see the swap curve move first for this to take effect



$100 * ((\text{yield}[\text{DBR 1.25 08/15/48 Govt}] - 0.89 * \text{yield}[\text{DBR 0 08/15/31 Govt}]) )$

# Consuming Belgium supply: vs OAUT2 plus some ik

- No frills – does what it says on the tin
- We buy Belgium and sell mostly France with a bit of Italy

-0.9 / 1 / -0.1

- Just want this up towards +5bp – pretty distressed level but isn't everything?



$200 * (\text{YIELD}[\text{BGB 0 10/22/31 Corp}] + -0.1 * \text{YIELD}[\text{BTFS 0.9 04/01/31 Corp}] + -0.9 * \text{YIELD}[\text{FRTR 1.5 05/25/31 Corp}])$

# More to follow on supply

- If this output is of help and you wish to see it regularly please reach and let's start a dialogue
- [james.rice@astorridge.com](mailto:james.rice@astorridge.com)
- Trade Update from last week
- Italy 6s9s flattener: still waiting
- -Dbr feb32 / +Dbr Aug32: touch wider @+5.2bp like that
- 30y nether vs Swaps and Germany – looking super cheap, chart trade
- Invoice Delivery yields look cheap vs non CTD – this works fabulously as we come into UKT 10y supply on Tuesday. When they cheapen a contract you have to look at how crazy the delivery yields are as it's easy to talk yourself into thinking the CTD changes without actually thinking objectively about its value



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