

The Week Ahead:

‘The only way out,
is through’

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Trading Strategies
& Modelling

EGB Principal Components: Rich/Cheap

	DBR 0	EU 0	NETHER 0	RFGB 0 1/8	RAGB 0	FRTR 0	BGB 0	IRISH 0	SPGB 0.1	BTPS 0.9	EESWE9
Bond Name:	08/15/31	07/04/31	07/15/31	09/15/31	02/20/31	11/25/31	10/22/31	10/18/31	04/30/31	04/01/31	Curncy
Z-Score:	0.8	2.6	1.5	-1.8	-0.2	0.8	-0.9	-1.0	-1.4	1.7	-0.4

Italian 10y Yields regressed vs German 10y yield

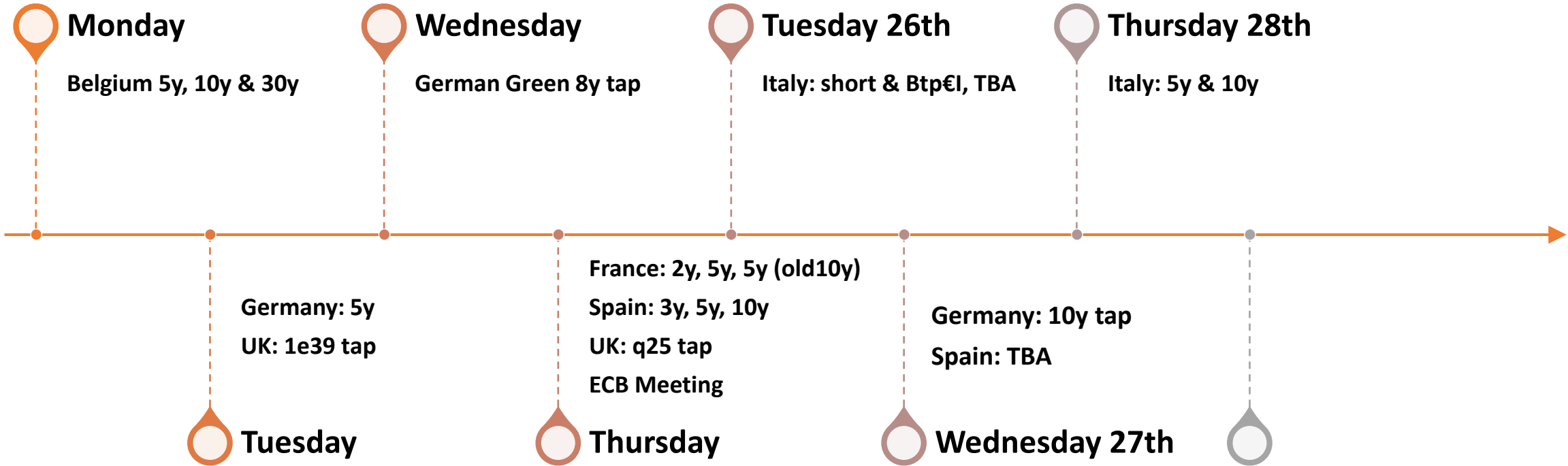


Trades & Fades

- Repo and wide B/O spreads undermine the value of tight spread and fly structures.
- If it isn't nailed down, it will flap in the wind
- Credit spreads at the wides in regular and regression form
- Low coupon / low price longs all rich: strategy

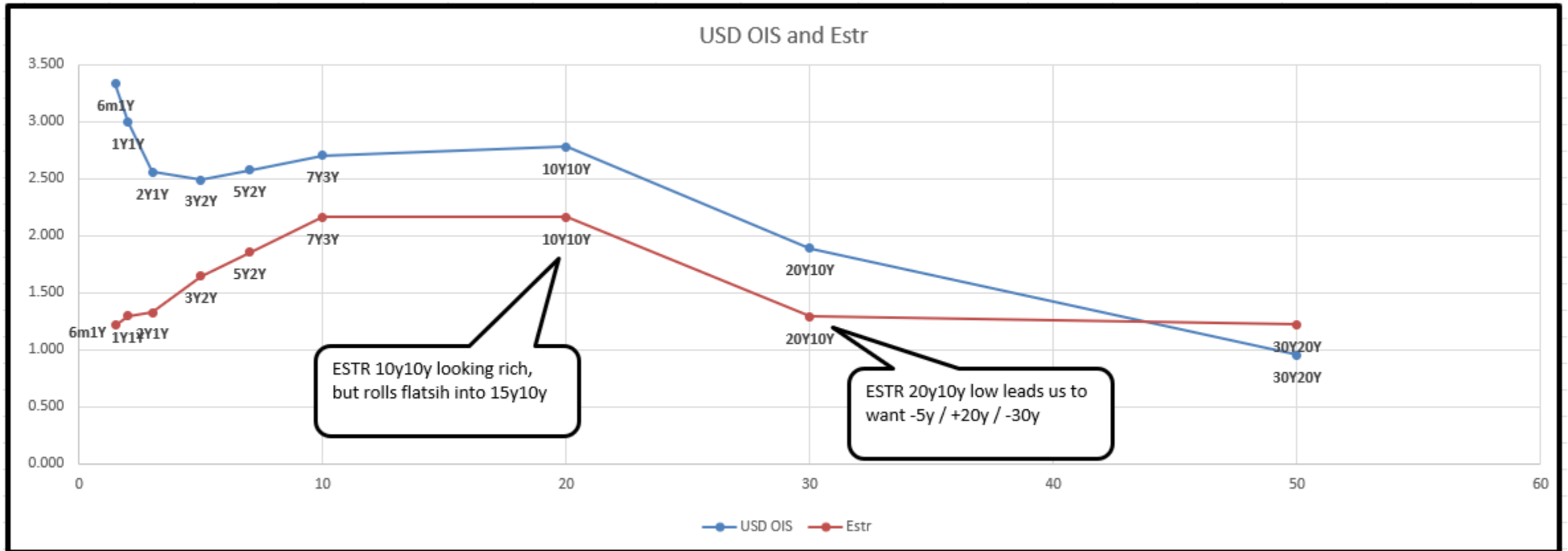


Supply: Week Ahead



PCA & Fwd Curves: ESTR – Receive 20y vs 5y and 30y

Bond Name:	EESWE1 Curncy	EESWE2 Curncy	EESWE3 Curncy	EESWE5 Curncy	EESWE7 Curncy	EESWE10 Curncy	EESWE15 Curncy	EESWE20 Curncy	EESWE25 Curncy	EESWE30 Curncy	EESWE50 Curncy
Z-Score:	1.5	-1.3	-0.6	-0.8	0.3	0.8	1.6	2.1	1.0	-1.1	-2.1



PCA thoughts on EGBs and plan for the week

- Sympathy with buying Italy: the inevitable response to political issues is to talk up with anti-fragmentation program
- Bullish stocks but Bearish FI in the US. The cold that Europe may catch is to cheapen 3y – 7y on the curve into and beyond the ECB meeting
- Supply & supply points are getting seriously cheap, but cheap enough to sustain a leveraged investment

Belgium supply: looking for cheaper given ik/rx

- Factor 1 and 2 hedge Belgium vs France has been relatively stable vs small amounts of IK/RX
- Waiting for the old highs of 2-4bp cheaper before we are interested
- Even rx/oat/Belg .25 / 1 / .75 Is just not that impressive



(YIELD[BE0000352618 Corp] - 1.04 * YIELD[FR0014002WK3 Corp]) - 0.009 * (YIELD[IT0005422891 Corp] - 1.43 * YIELD[DE0001102564 Corp])
Fully hedged: Factor 1 & 2 Belgium vs France / RX / IK

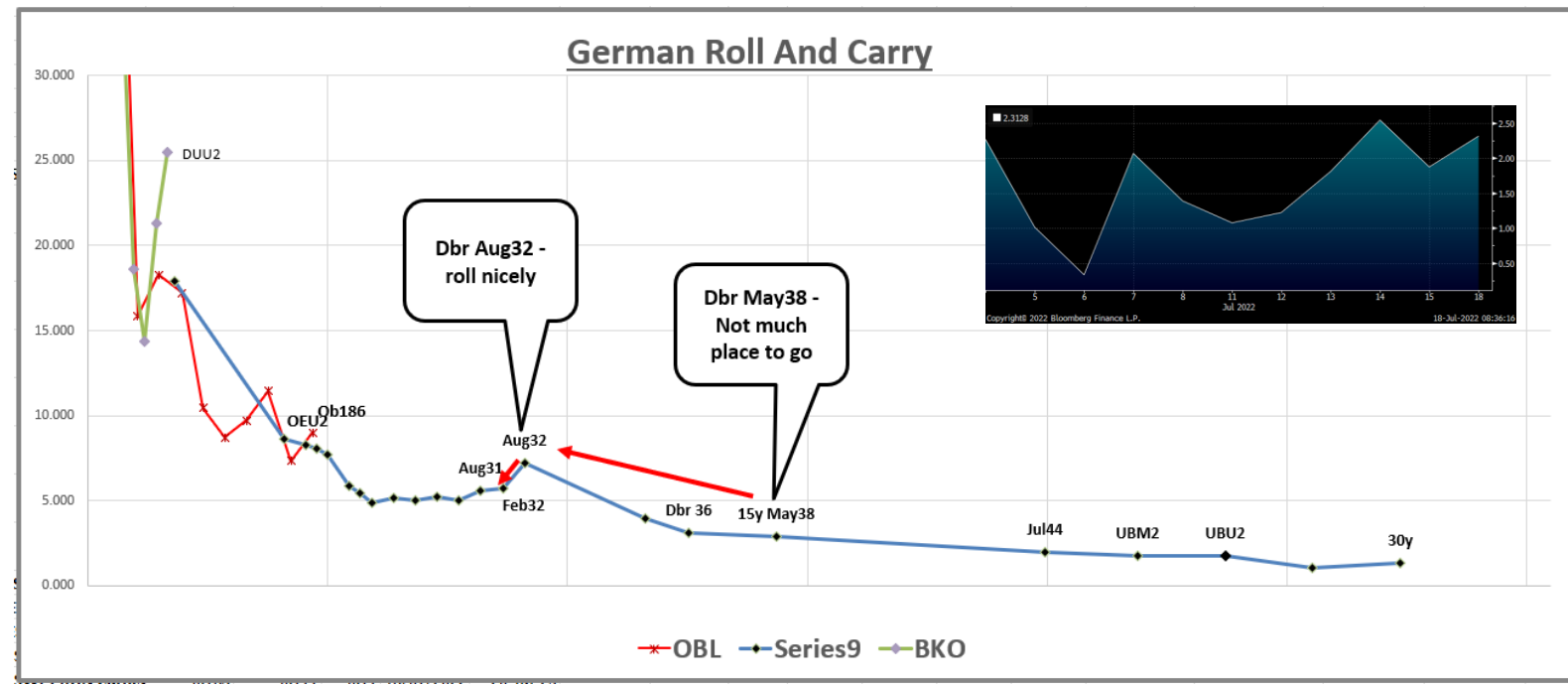


200 * (YIELD[FRTR 0 11/25/31 Corp] + -0.75 * YIELD[BGB 0 10/22/31 Corp] + -0.25 * YIELD[BP980366 Corp])
Belgium vs 75% France and 25% Germany...

German 10y roll priced at full carry curve

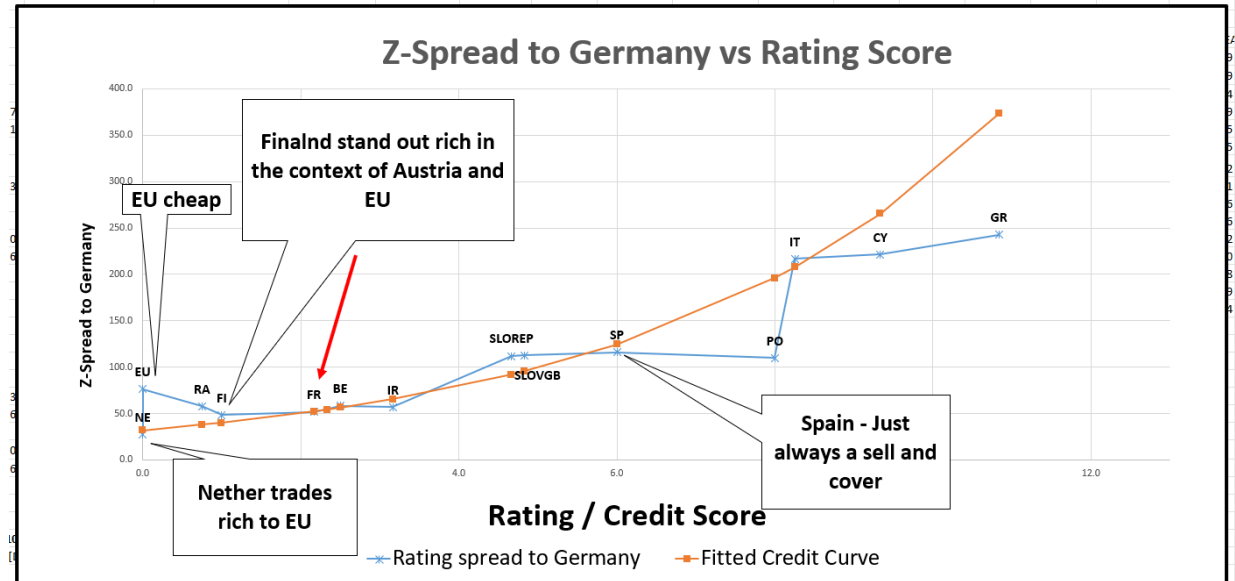
- The German RX contract now prices the aug31 / Aug32 and not far off the spread of the 'full carry curve'
- This is the delivery yield spread using invoice prices: currently that is +11.2bp and the spot bond yield spread is +10.6bp. My sense is that Aug31 have had their apotheosis and now the very reason they were bid is waning. As we go into Summer past the ECB, I'm expecting basis to start to go offered and the theta (time decay) of the RXU2 delivery option to kick in – hence 9s10s could flatten
- Dbr Feb 32 seem unlikely to be CTD so am looking at
 –feb32 / +aug32 / -dbr 38
 on a .8 / 1 / .2 weighting

$$200 * (\text{YIELD}[\text{DBR 1.7 08/15/32 Corp}] - 0.2 * \text{YIELD}[\text{DBR 0 05/15/36 Corp}] - 0.8 * \text{YIELD}[\text{DBR 0 02/15/32 Corp}])$$



Sell Finland / Buy EU : for tactical widening

- In the recent credit widening and the notion of the anti-fragmentation tool EU paper has reached new levels of cheap
- In sympathy with the Italy led credit widening we like selling Finland or Ireland into EU in 9yrs



$$100 * ((YIELD[EU 0 07/04/31 Corp] - 1.0 * YIELD[RFGB 0.125 09/15/31 Corp]))$$

Pay 5 / Rcv 20y / Pay30y: Estr

- Fwds look disconnected here (see slide 4)
- The 20ys IS an area of stress in RV
- We think with reduced vol over Summer it could recover
- Best roll and carry mixed with historical location



$$100 * (\text{EESWE20 Curncy} + -0.85 * \text{EESWE30 Curncy} + -0.21 * \text{EESWE5 Curncy})$$



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