

# The Week Ahead

## Trades for the week starting 4<sup>th</sup> July

James Rice, Astor Ridge

July 4<sup>th</sup>

Trading Strategies  
& Modelling

### PCA analysis on EGC and the Hedging Futures

| Tenor | Factor Variables |       |        |       | Supplementary Variables |      |         |         |      |
|-------|------------------|-------|--------|-------|-------------------------|------|---------|---------|------|
|       | Germany          | Italy | France | Spain | Nether                  | Belg | Ireland | Austria | Swap |
| 5y    | -1.6             | 1.7   | 1.8    | -0.7  |                         |      |         | -0.2    |      |
| 10y   | -1.1             | -0.6  | 1.0    | -2.4  | 0.9                     |      |         | -1.3    | -0.3 |
| 30y   | 0.6              | 0.2   | 2.8    | 0.1   | 0.6                     |      |         | -0.7    |      |
| 100y  |                  |       |        |       |                         |      |         | -1.8    |      |

| SWAP     | UB        | RX       | OE       | DU old   | BTSU2     | IK old   | OATM2      |
|----------|-----------|----------|----------|----------|-----------|----------|------------|
| EESWE10  | DBR 1 1/4 | DBR 0    | OBL 0    | BKO 0    | BTPS 1.45 | BTPS 0.9 | FRTR 1 1/2 |
| Currency | 08/15/48  | 08/15/31 | 04/16/27 | 03/15/24 | 11/15/24  | 04/01/31 | 05/25/31   |
| -0.3     | 1.5       | -1.1     | -1.6     | 0.7      | -0.1      | -0.6     | 1.4        |
| 1.0      | -0.7      | -0.1     | -0.3     | -0.7     | -0.2      | 0.4      | 0.1        |
| 4.5      | 2.2       | 1.8      | 1.5      | 3.3      | 1.9       | 3.5      | 1.8        |

30y France cheap going into supply on Thursday  
 Spanish Ten years continue to hold into Core while Italy widens  
 We like selling oe vs wings (5s amd 10s)  
 Germany10s30s best flattener for us

# Week(s) Ahead:

Germany: New 10y,  
Dbr Aug32

France: New 10y, Plus 44s, 48s & 30y

Nether: TBA July 12

Spain : 2026, 2032, 2052, Thursday

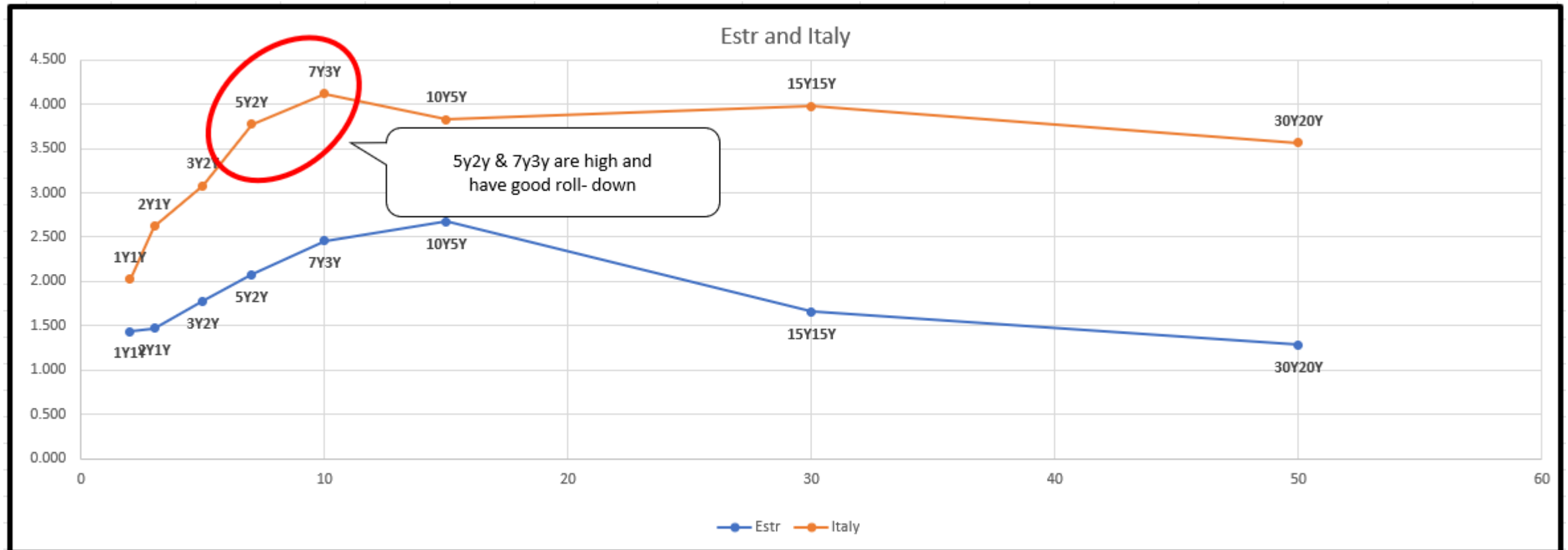
Austria: 6y & 10y, Tuesday

# Quick thoughts for fades

- Does the issuer carry a Donor Card
- Summer Hols / Reversion
- Contract squeezes: The indeterminate nature of CTDs for Dec has ramifications for all Sep/Dec futures rolls
- Semi-core credits cheapened – I still want to be short ahead of this week's French 10s and longer tenors
- Gilt Basis!!!! – The final frontier

# Italy 6s 9s flattener

- With credit and rates markets bid, we look to Flatten 5s 7s in Italy to reduce the fwd rates, but also have exposure to a credit sell-off, unique to peripherals

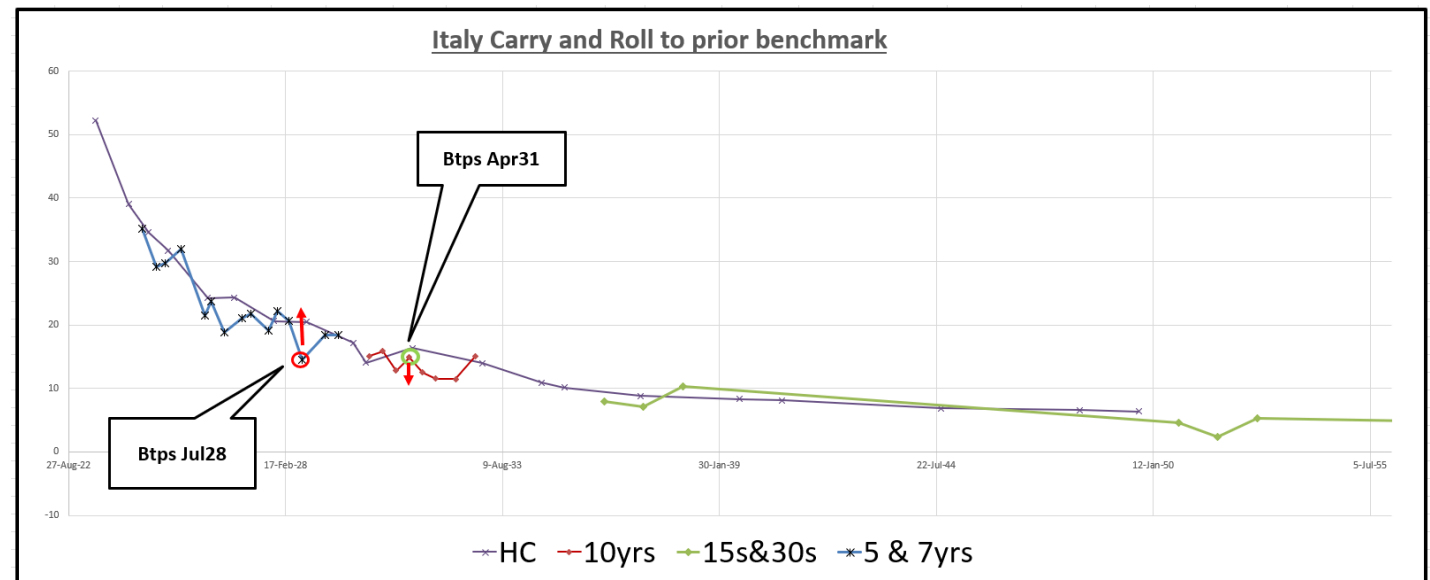


# Italy 6s 9s flattener: Crunch time will be September

- Sell btps jul28 to buy Btps Apr31 (CTD), regression weighted
- With all this mucking around with multiple CTDs – Sep roll time will be crunch time
- When it comes to expiry and you want the nets back cheap, the market is actually going to look at what a bond is worth



$$100 * (\text{YIELD}[\text{BTPS 0.9 04/01/31 Corp}] - 1.028 * \text{YIELD}[\text{BTPS 0.5 07/15/28 Corp}])$$

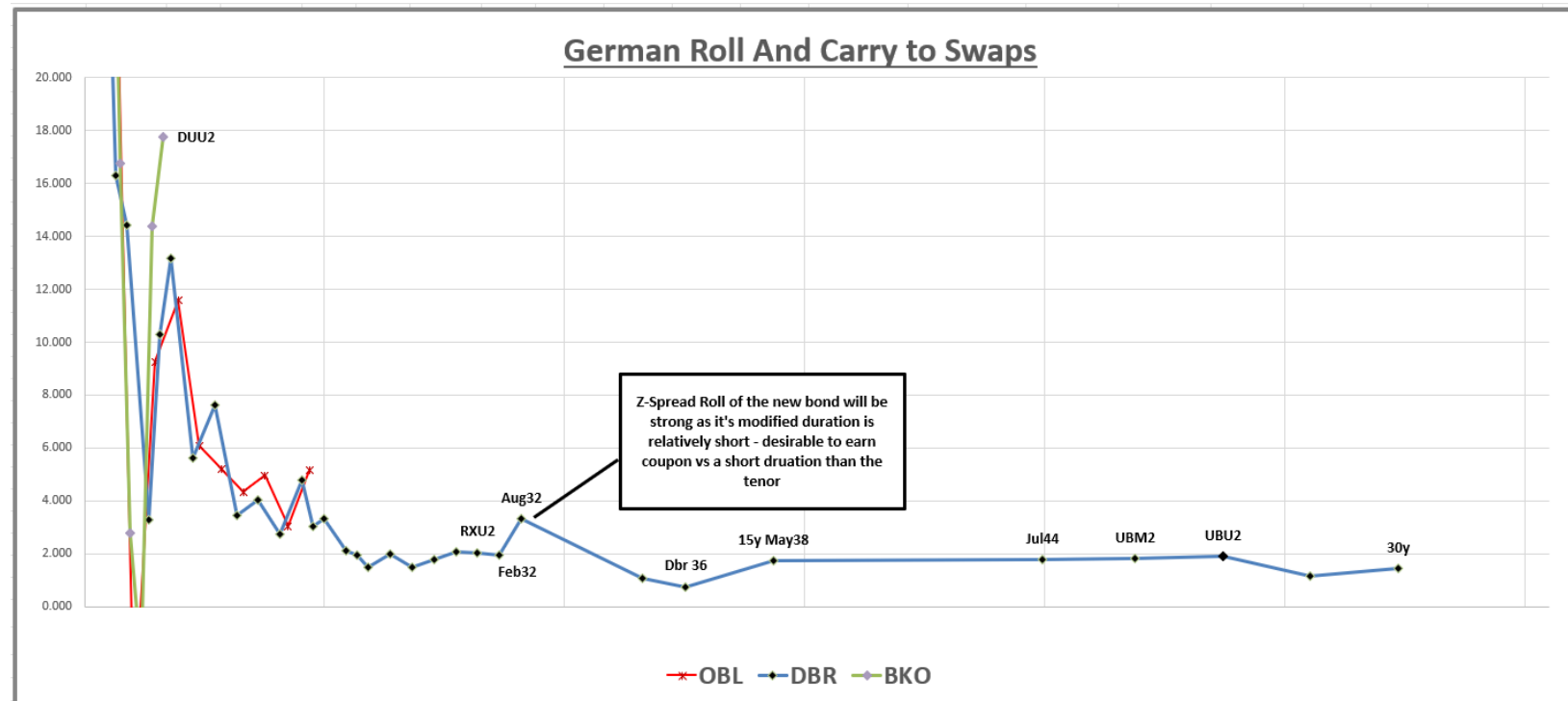


# German 10y: Bullets are bid, Coupons have value not expressed in Yield: sell Dbr Feb32 / +Dbr Aug32

New Bund Roll estimated @ ~ 5.5bp

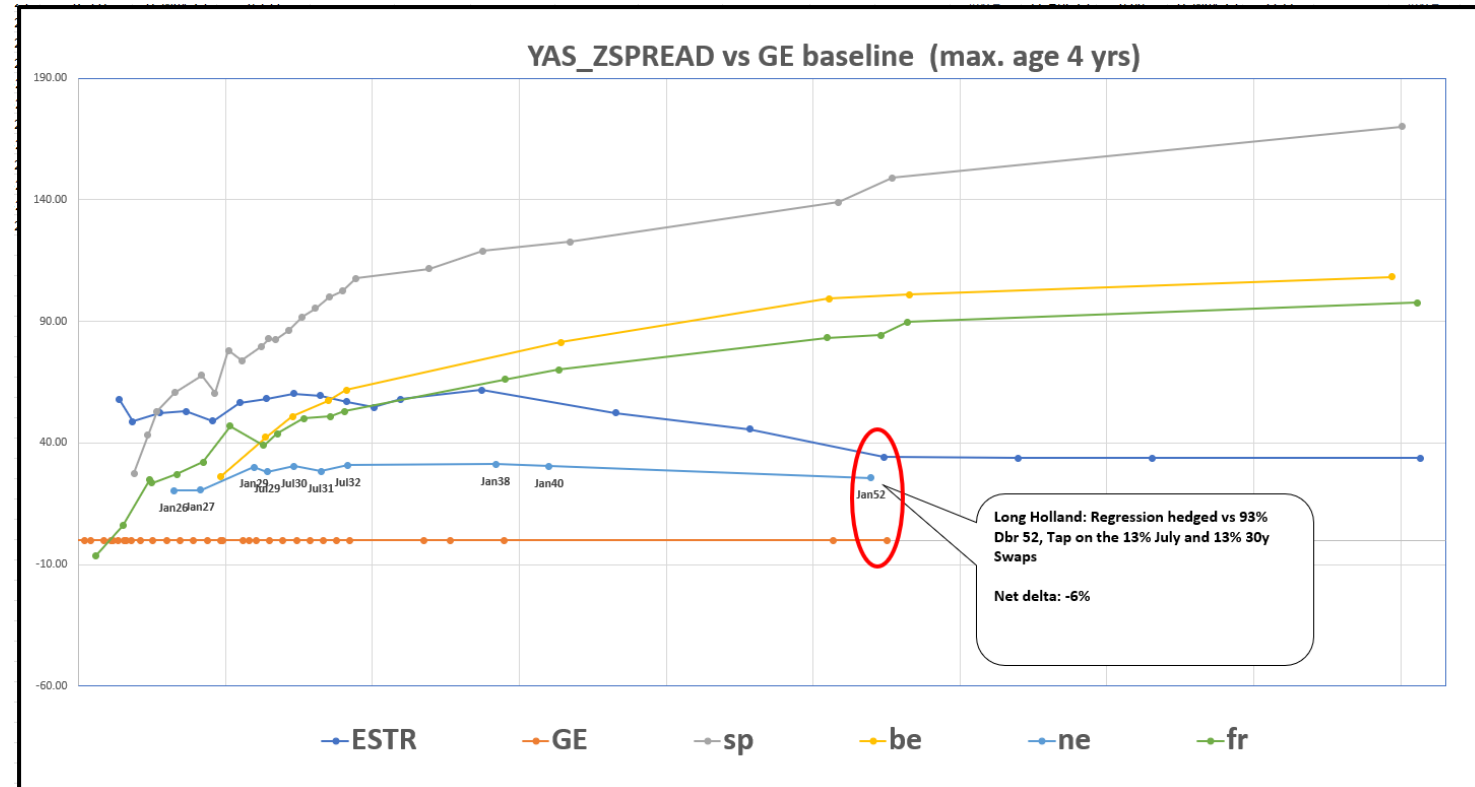
Old roll: +4.5bp

- We fixate on yield (internal rate of return). In reality it's such an inadequate metric, full of assumptions....
- The new regime of higher rates and higher coupon new issues has not yet revealed that these forthcoming bonds will have excellent Z-Spread and carry characteristics, much better than their dullard predecessors



# Struggling with Long Holland: Pay 30y Swaps and Long Germany

- Holland has supply on the horizon but the recent tap to the Nether 40 showed us that sometimes the old adage 'it always traded there' just doesn't work anymore
- Namely Long Holland always traded a premium: always pretty flat Germany and never as cheap as say Austria and Finland which look to be heading as steep as France
- But we can't rely on the great er fool theory : long holland cheapening was just a chart trade and now we have to manage that risk
- Looking at the picture of Spreads to Germany I actually see 30y swaps as pretty rich here
- I think Nether Can be bounded between swaps and Germany as a credit – and on that basis 30y Holland looks cheap



# Long Nether 52 vs Dbr52 and Swaps



- $200 * (\text{YIELD}[\text{NETHER 0 01/15/52 Corp}] + -0.13 * \text{YIELD}[\text{EESWE30 Curncy}] + -0.93 * \text{YIELD}[\text{DBR 0 08/15/52 Corp}])$



# Spread narrower: -5y Germany / +5yr France

- We don't miss taking 5y France back vs Germany here
- We had it in Frtr May27 vs the current OE Ctd – apr27
- The whole Donor / Recipient story seems extreme in its impact in 5 yrs



$$100 * ((YIELD[FRTR 1 05/25/27 Corp] - 1. * YIELD[OBL 0 04/16/27 Corp]))$$

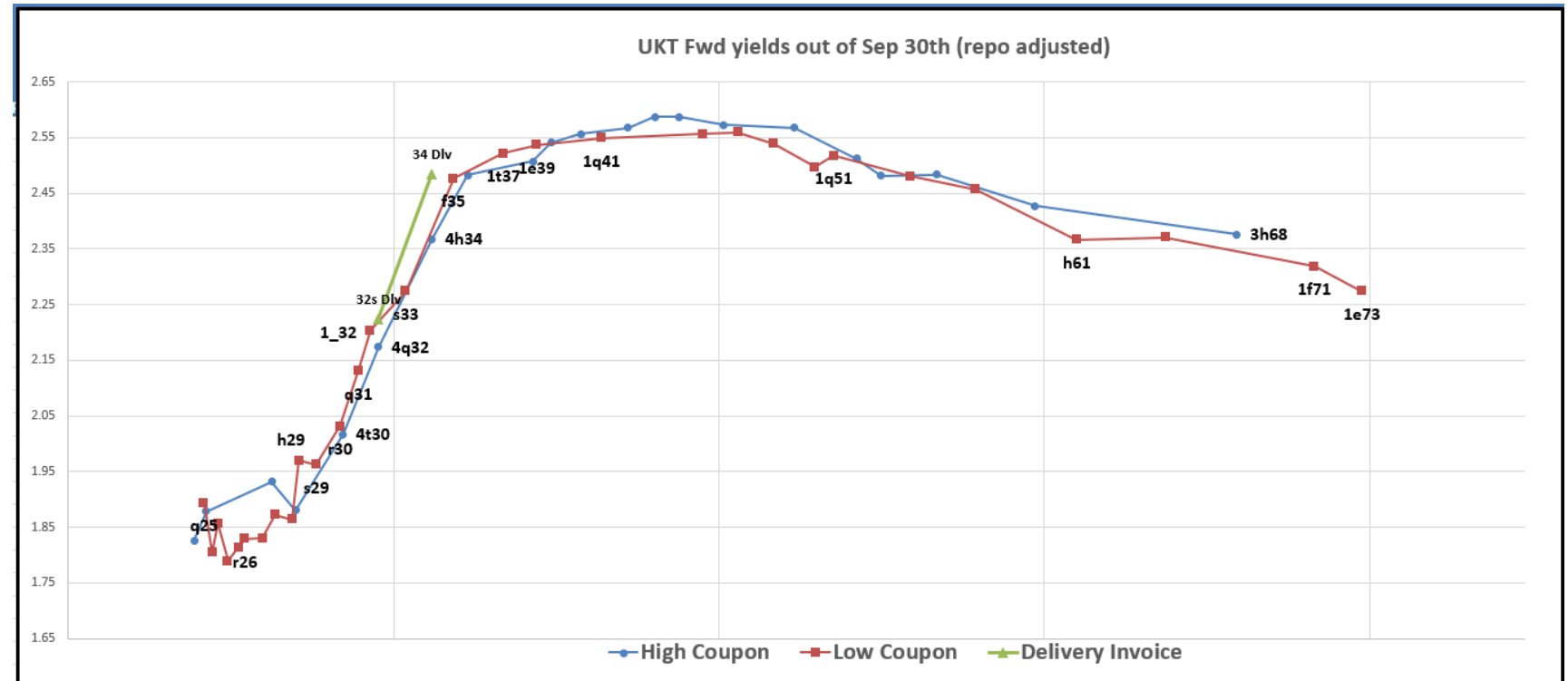


Sell Spain 10y:  
Suggested from  
PCA, Blend  
Trade

- We're watching Spain perform
- Clearly there's buying: witness Spain vs OATU2 and IKU2 (1.4 / 2 / 0.6) above
- Another 4-5 basis points seems a decent level to sell. Supply on Thursday

# Gilt Basis: Invoice Delivery yields look cheap vs non CTD

- We look at the Gilt curve forward 86 Days to the 30<sup>th</sup> Sep delivery date
- We have a set of forward yields Repo adjusted – so we can see real rich cheap
- We also know the Gilt invoice delivery yields: It's simply futures price \* conversion Factor
- Neglecting the potential change in CTD (which I see as small) we can now see where we would want to buy futures contracts, receive delivery of either of the first two CTDS and sell other cash bonds *fully taking into account their specialness*



## Conclusions

- – If futures cheapen more, We want to receive the green points (buy futures, and sell the bonds that are nearest with the least repo bid and a supply event on the horizon)
- The difference better the Green dot for delivery yield for the 4q32s ('32s dlv') and the point in blue 4q32 = the nett basis in yield spread terms
- From this perspective the chances of being delivered the 34s at a much higher yield seem remote unless we get a wholesale continued steepening of the curve



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