

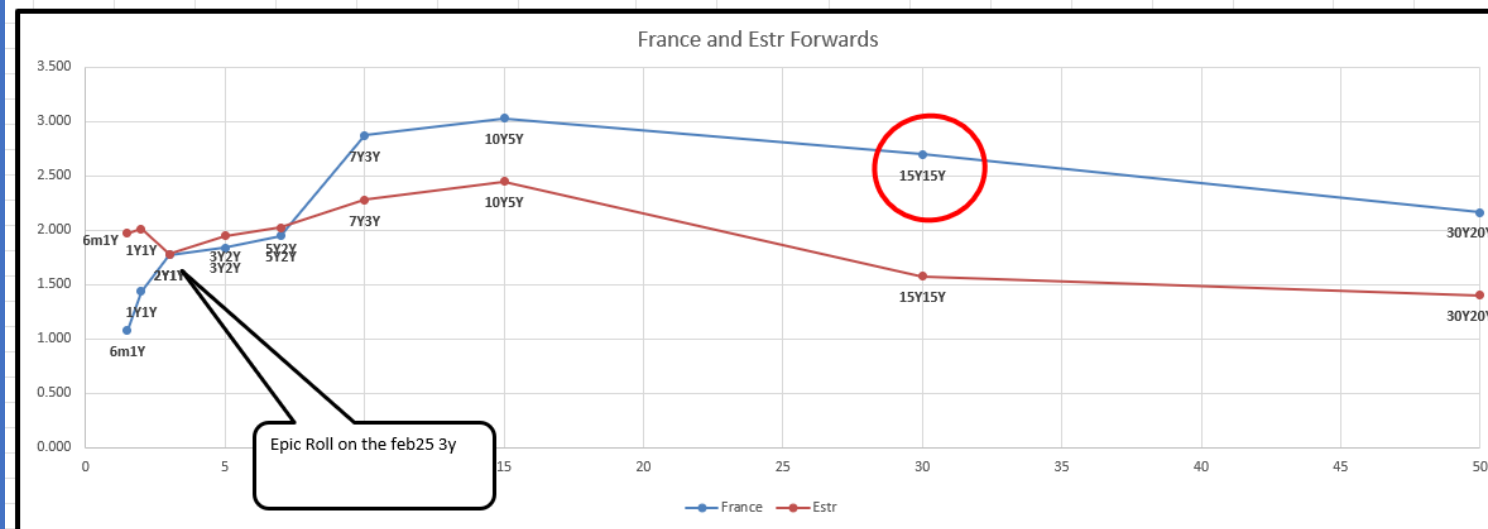
French long fwds cheap – buy vs buxl

Trades & Fades:

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Trading Strategies
& Modelling



France & Estr Forward Rates (source Bloomberg)

EU 3y Tap

- EU trades like a total Dog
- The 9y point on spread vs France – requires an additional – France/Germany widener just to control the credit risk
- So it trades almost like a ‘worse’ credit than France
- In fact I find it difficult to control the Var in this issuer unless it’s vs say France and Spain or France and Italy – which theoretically makes little sense given its weighting
- The empirical interpretation is that EU is actually a credit slight worse than Spain

EU 9y vs 90% Spain and 10% Btps

$200 * (\text{YIELD}[\text{EU 0 07/04/31 Corp}] + -0.10 * \text{YIELD}[\text{BTPS 0.6 08/01/31 Corp}] + -0.90 * \text{YIELD}[\text{SPGB 0.5 10/31/31 Corp}])$



EU 3y tap

- Although I am ambivalent about credit vs Core here, I see Spain as a sell relative to other credits
- So at the margin I don't mind taking EU (at a decent discount vs Spain ahead of Thursday supply - but I would like some sort of hedge for the credit risk – question is... which way is that risk right?)
- The truth is that adding any small percentage of credit hedge to +EU3y / -Spain 3y makes almost no difference
- As these bonds age the credit roll seems to kick in a little quicker in EU as it is a better credit
- Mixed with supply in the Spanish bond – seems ok for modest DV01

$100 * ((\text{YIELD}[\text{EU 0.8 07/04/25 Corp}] - \text{YIELD}[\text{SPGB 0 05/31/25 Corp}]))$



Trade

BY EU Jul25 vs Spain May25

@+4 bp (33% total)

@+7.5 bp (67% total)

Gone for small in this – other than liquidity events it's not worth other than dabbling in this I like the story with Spanish supply on Thursday other than that it seems a lot effort

Italy 5s and 10s

- Neutral IK/RX – slightly better buyer of ik/rx, gun to ma' head!!!
- I love credit steepeners in EGBs – soft credits I expect deteriorate (steepen) vs core. Unfortunately the 5y spread is narrow (rich) on regression vs the 10y – See graph old 5y vs OEU2 vs 98% of ik/rx puts the 5y historically rich...
- I'll take the other side if I can optimise some real roll and carry with issue selection
- In micro terms I really like this flattener in Italy vs steepeners in core. In fact we don't need much to hedge it
- Am going for **Long Dec32 / Short Dec30** plus 7% swap date hedge OR...
- +Dec32/-Dec30 with extra 1.5% short..



Italy 5y vs Germany 5y hedged with 98% ik/rx



$100 * ((\text{yield}[\text{BTPS 2.5 12/01/32 Govt}] - 1.015 * \text{yield}[\text{BTPS 1.65 12/01/30 Govt}]))$
 Trade2 : Long Dec32 vs short Dec30 plus 1.5% extra delta short

Alternatively for more var...

5s10s flattener in Italy vs Swaps

- If we look at 5s10s in Italy we see 5s as rich historically coming into supply
- The Italian flattener has a slope of 75% vs swaps
- Italy 5s/10 flattener vs 75% 5s10s in swaps...
- The complex CIX is just a swap to regress the bond spread vs the exact dates in the swaps



Using old 5y and old 10y...

$(YIELD[BTPS\ 0.95\ 06/01/32\ Corp] - YIELD[BTPS\ 1.1\ 04/01/27\ Corp]) - 0.75 * ((YIELD[BTPS\ 0.95\ 06/01/32\ Corp] - 0.01 * P2509[BTPS\ 0.95\ 06/01/32\ Corp]) - (YIELD[BTPS\ 1.1\ 04/01/27\ Corp] - 0.01 * P2509[BTPS\ 1.1\ 04/01/27\ Corp]))$

French supply: French credit buy on the dip

- Not much I can say about the French credit vs the 'blend' of ik and rx
- To a degree it hasn't suffered the same idiosyncratic cheapening that Italy has
- Right here there; no long end supply so on a dip into supply I don't mind buying Frtr 53 on regression vs Buxl



- +Frtr 53 / Short Buxl
- Weighted 1 : 1.08
- $100 * ((\text{YIELD}[\text{FRTR } 0.75 \text{ 05/25/53 Corp}] - 1.08 * \text{YIELD}[\text{DBR } 1.25 \text{ 08/15/48 Corp}])))$
- Target >89bp on that index for 33% of size
- Another 66% @ +94bp



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