

Rates back-up

Rhetoric on Rates is High

Time to fade with flatteners?

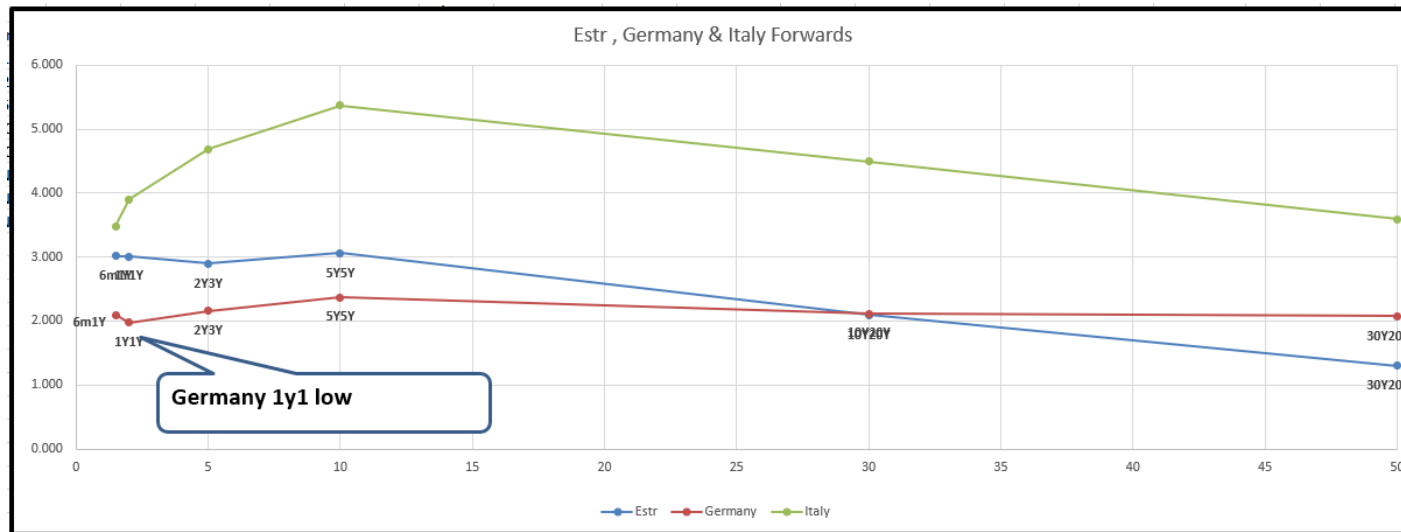
Trades & Fades

James Rice, Astor Ridge

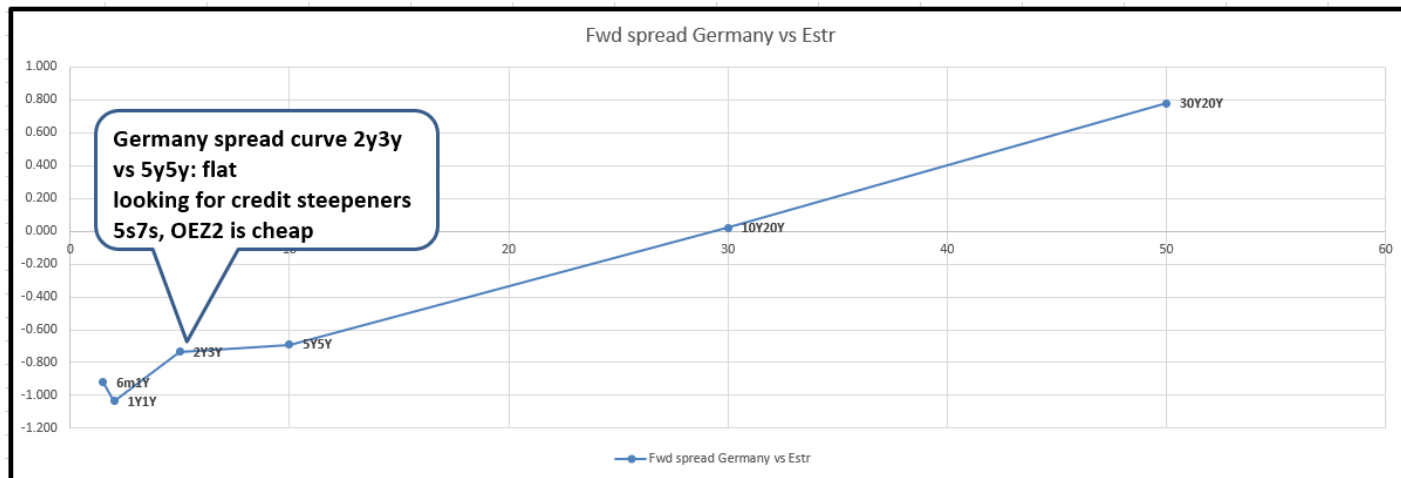
Oct 10th

Trading Strategies
& Modelling

Estr, German & Italian Forwards



Germany vs Swaps Credit Curve: in Forwards



On my Radar

- **New syndicated 30y Germany – scheduled October, expected soon. Basis implies it comes +8 to +12bp vs the current 30y – 1.8% Aug-15-2053**
- **German 10y tap on Wednesday**
- **Monday night Italy announces 3y, 7y and XXX? for Thursday – I'm turning neutral / slightly bearish ik/rx**
- **Portugal 3s & 8s**
- **Finland Tuesday 18th**
- **UK new 5y on Wednesday – new and recent issues trade cheap, redefining how we look at that curve – 30y tap the following week**

Fade Ukt 61 richness by selling 57s get short 1q51 for supply, buy 1f54

- Buy 1f54 vs 1t57
and 1q51
- -1q51 / 1f54 / -
1t57
- .67 / 1 / .33



UKT 46s / 1q51 steepener vs swaps

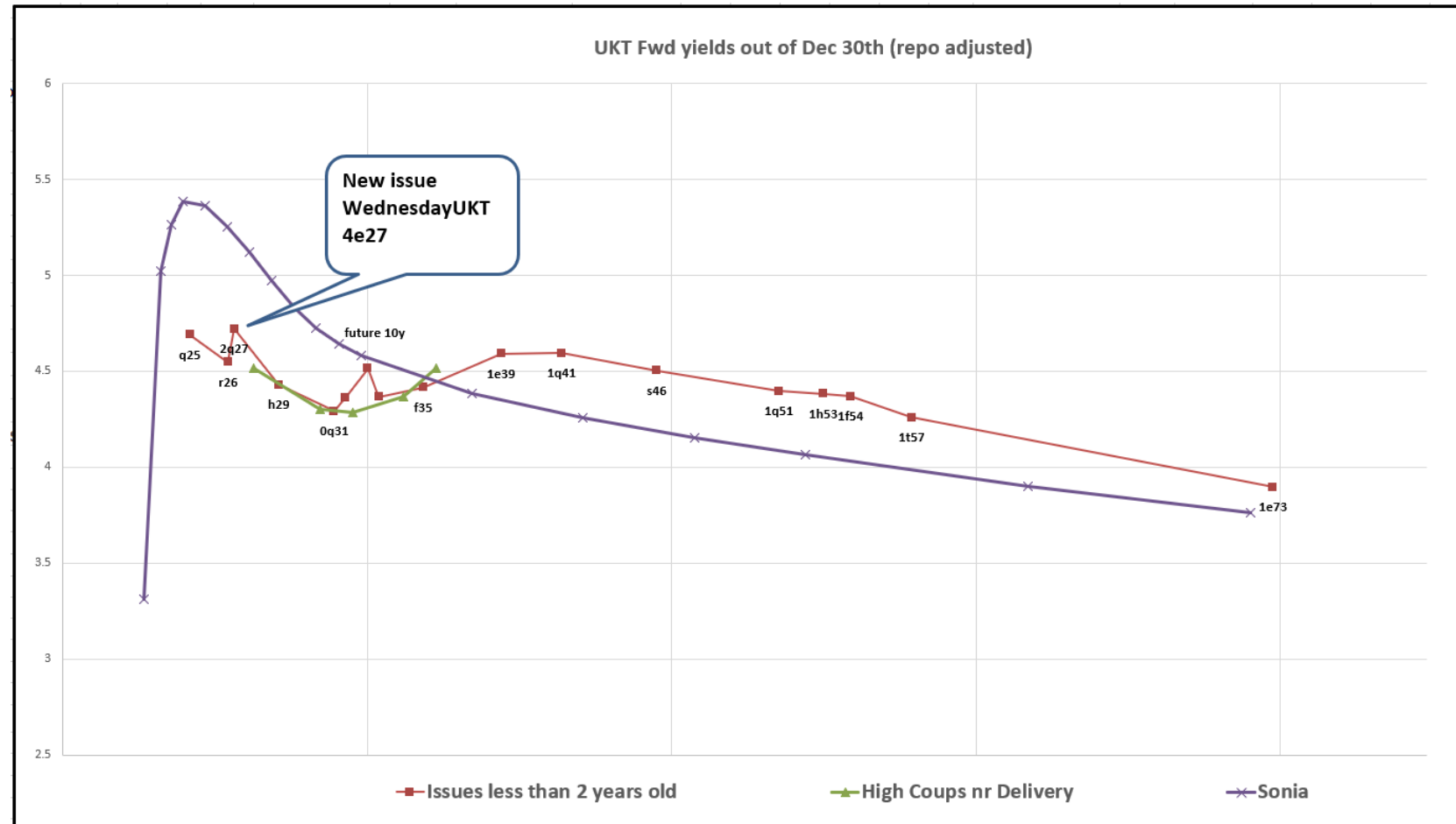
- Credit steepeners for QT
- Swaps still well correlated that segment
- Supply after next week in 1q51
- Clearly buy-backs are not bid for the market unless yields are higher (= steeper) and by implication the credit curve



$(YIELD[UKT 1.25 07/31/51 Corp] - YIELD[BN566051 Corp]) - ((YIELD[UKT 1.25 07/31/51 Corp] - 0.01 * P2509[UKT 1.25 07/31/51 Corp]) - (YIELD[BN566051 Corp] - 0.01 * P2509[BN566051 Corp]))$

New UKT 5y on Wednesday

- Quite a few ways to buy this
- Adjusting for Repo still looks cheap to me
- As a wing could h29 makes sense
- call



Germany : -rx / +10y / -ub

- Take the German 10y on the market dip vs rx and 5% buxl for the 30y syndic
- Scaling – small here, more in 1.25bp
- Trades 1% long

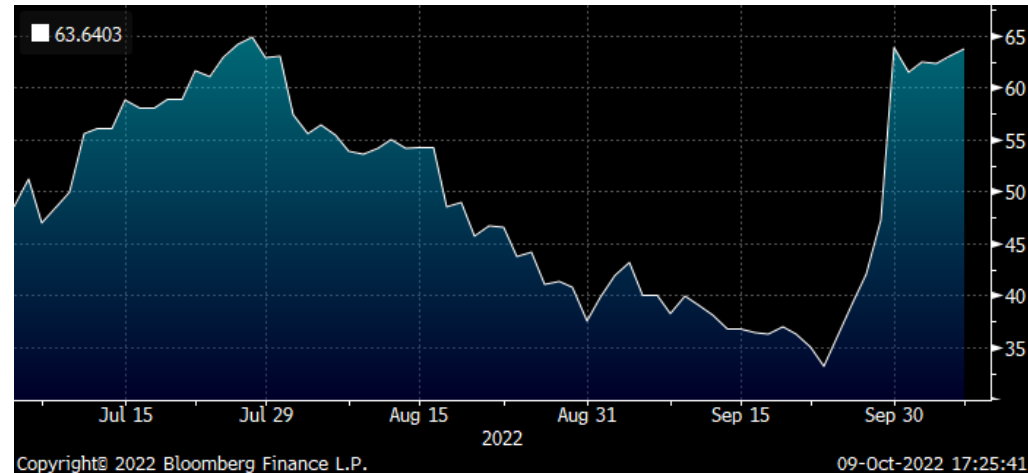


$200 * (\text{YIELD}[\text{DBR 1.7 08/15/32 Corp}] + -0.05 * \text{YIELD}[\text{DBR 1.25 08/15/48 Corp}] + -0.95 * \text{YIELD}[\text{BP980366 Corp}])$

France: -OATZ2 / +frtr 60 / -frtr 72

$200 * (\text{YIELD}[\text{FRTR 4 04/25/60 Corp}] + -0.8 * \text{YIELD}[\text{FRTR 0.5 05/25/72 Corp}] + -0.2 * \text{YIELD}[\text{BBG018M87F71 Corp}])$

- What has more convexity at a given more maturity?
- A high coupon or a low coupon
- And is it that material?



Germany: +dbr35 / -dbr36 / +dbr38

- Usually small gap flys are about the worst use of var vs friction: provably so
- But this one looks wrong – need to check the specials list but the market struggled to absorb the last 38s tap

$200 * (\text{YIELD}[\text{DBR 0 05/15/36 Corp}] - 0.5 * \text{YIELD}[\text{DBR 0 05/15/35 Corp}] - 0.5 * \text{YIELD}[\text{DBR 1 05/15/38 Corp}])$



One to watch: -Ragb feb29 / +dbr may38

- If I PC1 hedge this trade I get:
selling 0.75 / buying 1 – Graph
→
- What's interesting is that the rest of the risk still leaves me with alpha, even if I buy OATZ2 and sell UBZ2
- More details on the fully hedged expression on a call



Unified Hedging Optimiser France 7y rich vs futures / Italy 7y cheap vs futures

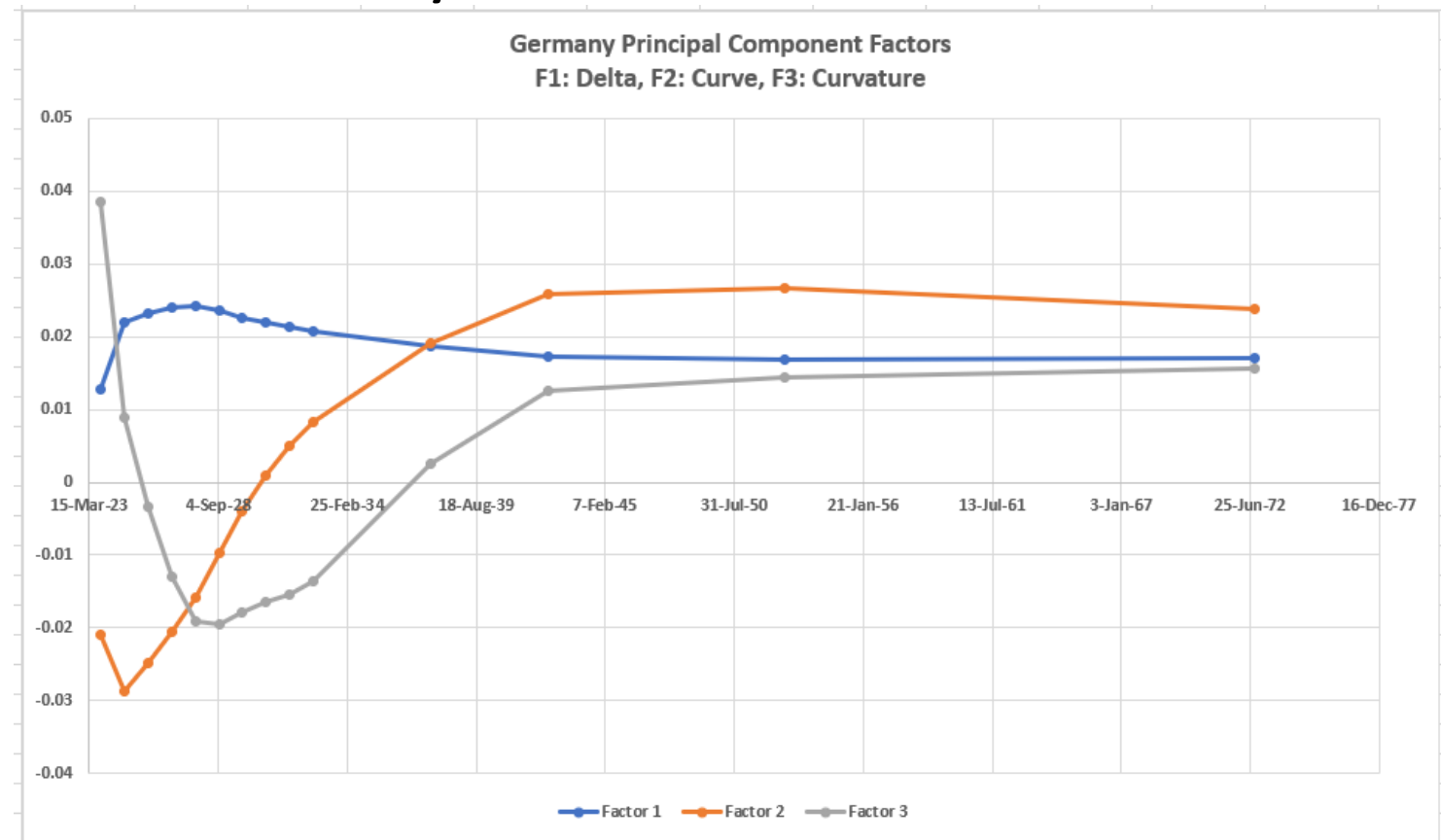
- Pc1 Hedge all pairs
- Remove excess var after Friction using available futures
- Ensure stationarity
- Sell France nov 29 vs Buy Btps Jun29
- Hedge with OATZ2 and IKZ2



$$\begin{aligned} & \text{YIELD}[\text{FRTR 0 11/25/29 Corp}] - 0.812 * \text{YIELD}[\text{BTPTS 2.8} \\ & \text{06/15/29 Corp}] - 0.907 * \text{YIELD}[\text{FRTR 0 05/25/32 Corp}] + 0.703 \\ & * \text{YIELD}[\text{BTPTS 2.5 12/01/32 Corp}] \end{aligned}$$

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