What do I believe?

1) Rates stay higher for longer – the market doesn't price the Fed's or the ECB's reaction function fully

2) In a deficit, funding environment, I 'crave' credit steepeners

3) As a conclusion, EGB Term Rates and spreads should
continue to be under pressure

4) The UK's problems are not ameliorated by buybacks – like holding a beach ball underwater – term yields should must rise…

Trades & Fades

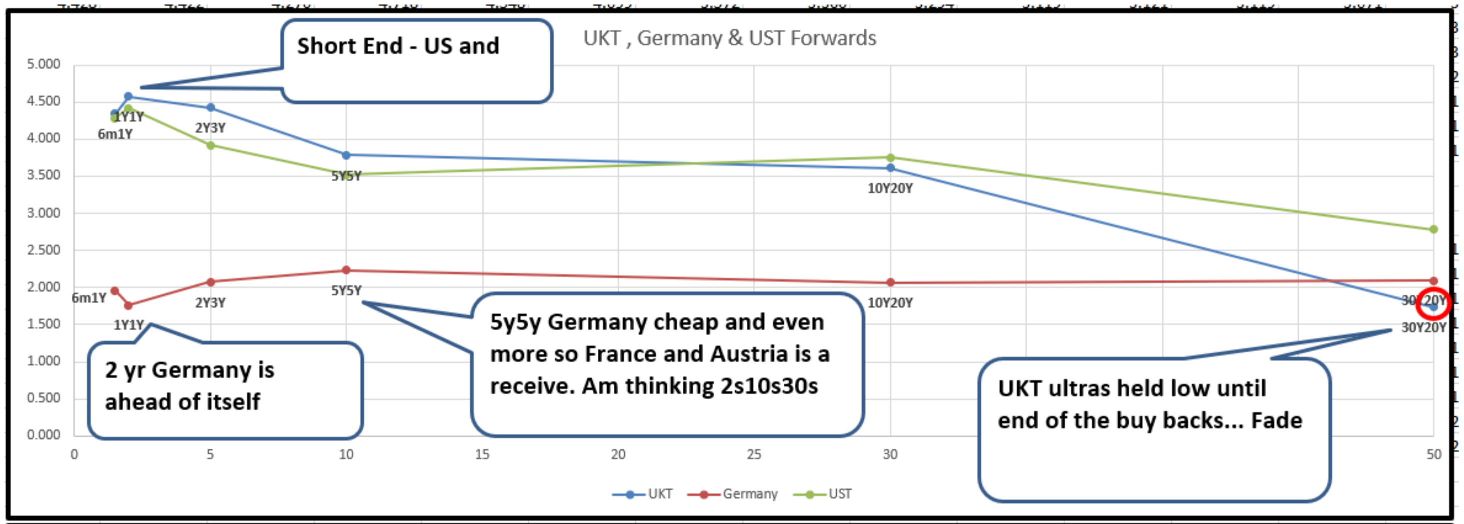
James Rice, Astor Ridge

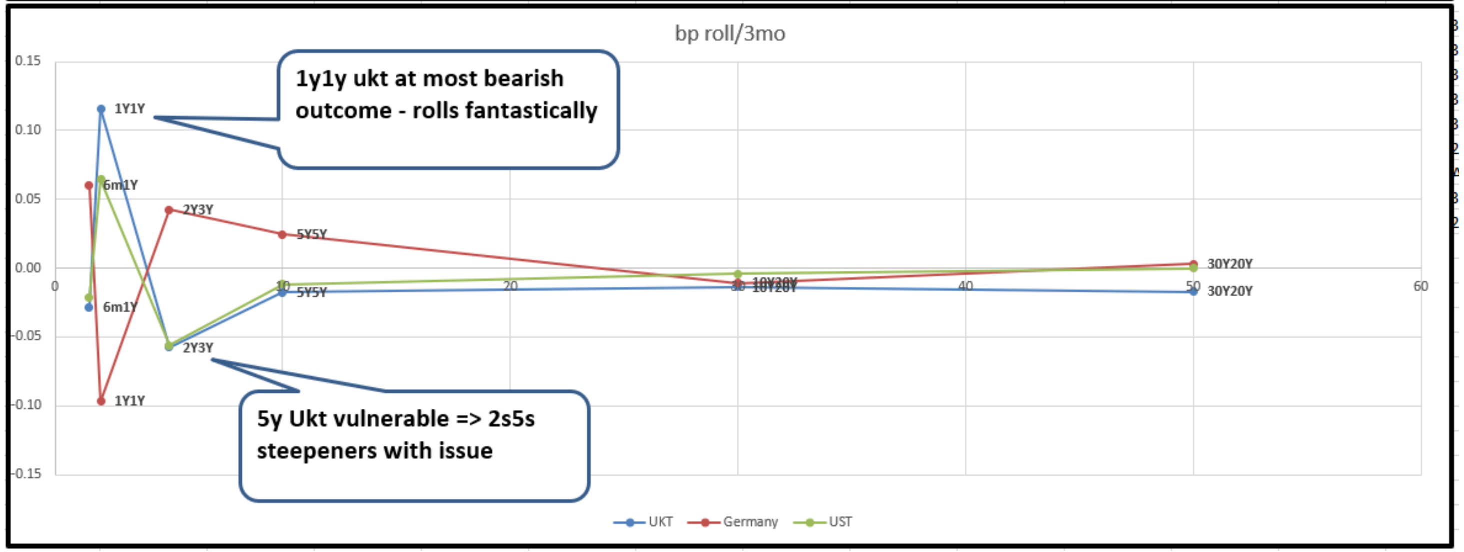
Oct 3rd

Trading Strategies

& Modelling

UKT, German & US Forwards





On my Radar

- **New 7y Germany coming mid October – updated schedule from the Finanzagentur**
- **Austrian 10y & 30y tap**
- **German 15y**
- **French 10s, 30s and 40y taps**
- **German 2y and 10y taps next week**
- **UK 40y, 10y and new 5y – relentless supply in the 10y**

2s5s looks too steep fundamentally: Back once again with the OEZ2, buy vs 3y

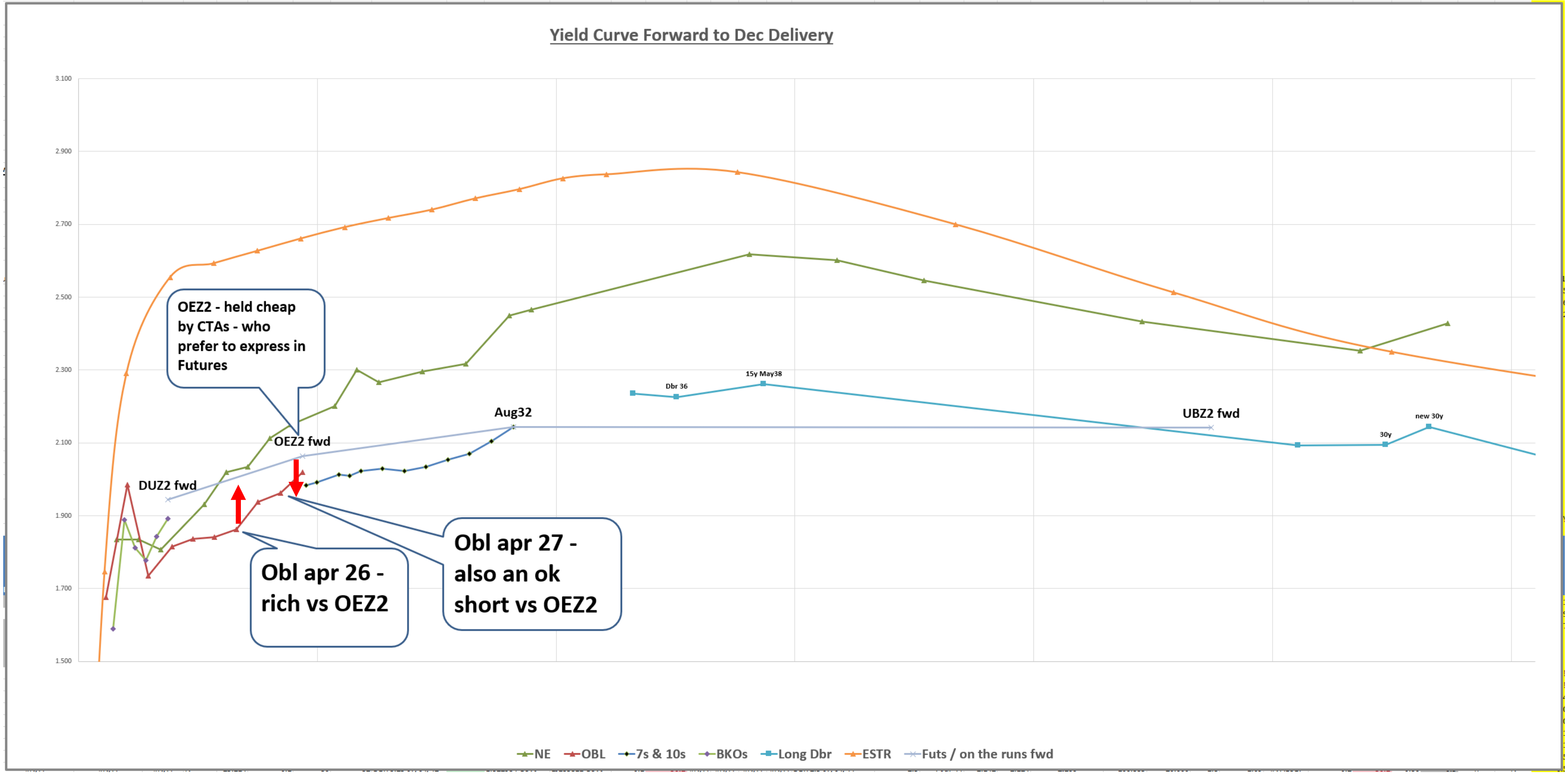
- Trade
- Buy OEZ2
- Sell obl apr26 or oct26 (obl183 & obl184)
- Sizing: Modest here (20%m we just cant afford to miss it)
- But in 2bps time we get involved more serisouly

100 * ((YIELD[DE0001141869 Corp] - YIELD[OBL 0 04/10/26 Corp]))

Duration Form

Regression from generates a signal @ > +20bp for apr26 vs OE (currently +18bp)

Germany yield curve to Dec, repo adjusted



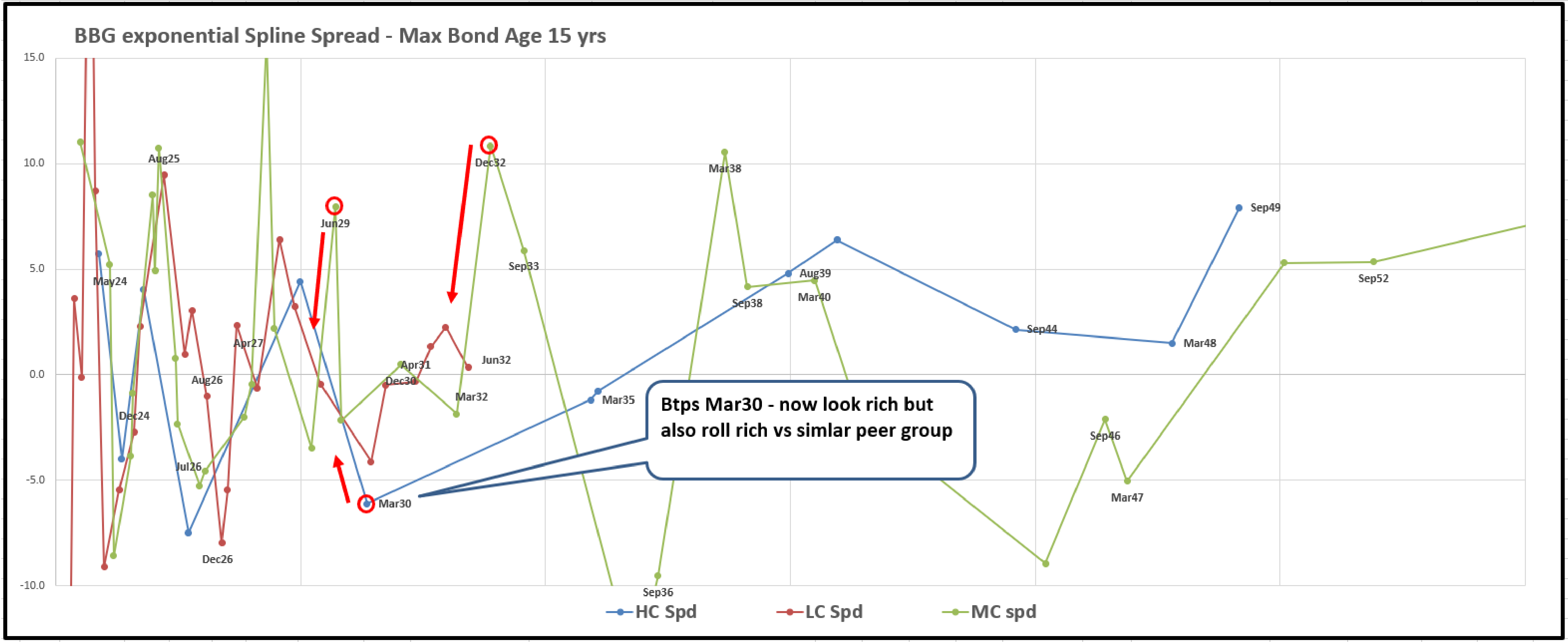
Italy : hate high coups and curve doesn't have enough curvature

- Old 15y and 30y Btps that are now < 10y maturity are rich. To grab an opportunity you have to consider how they roll vs their same original Maturity peer group
- To see their 'value' you have to look at them with all cashflows discounted vs an appropriate Italian discount curve
- To see how the market trades them we run a regression
- All these metrics look good – let me know if you want to see the results

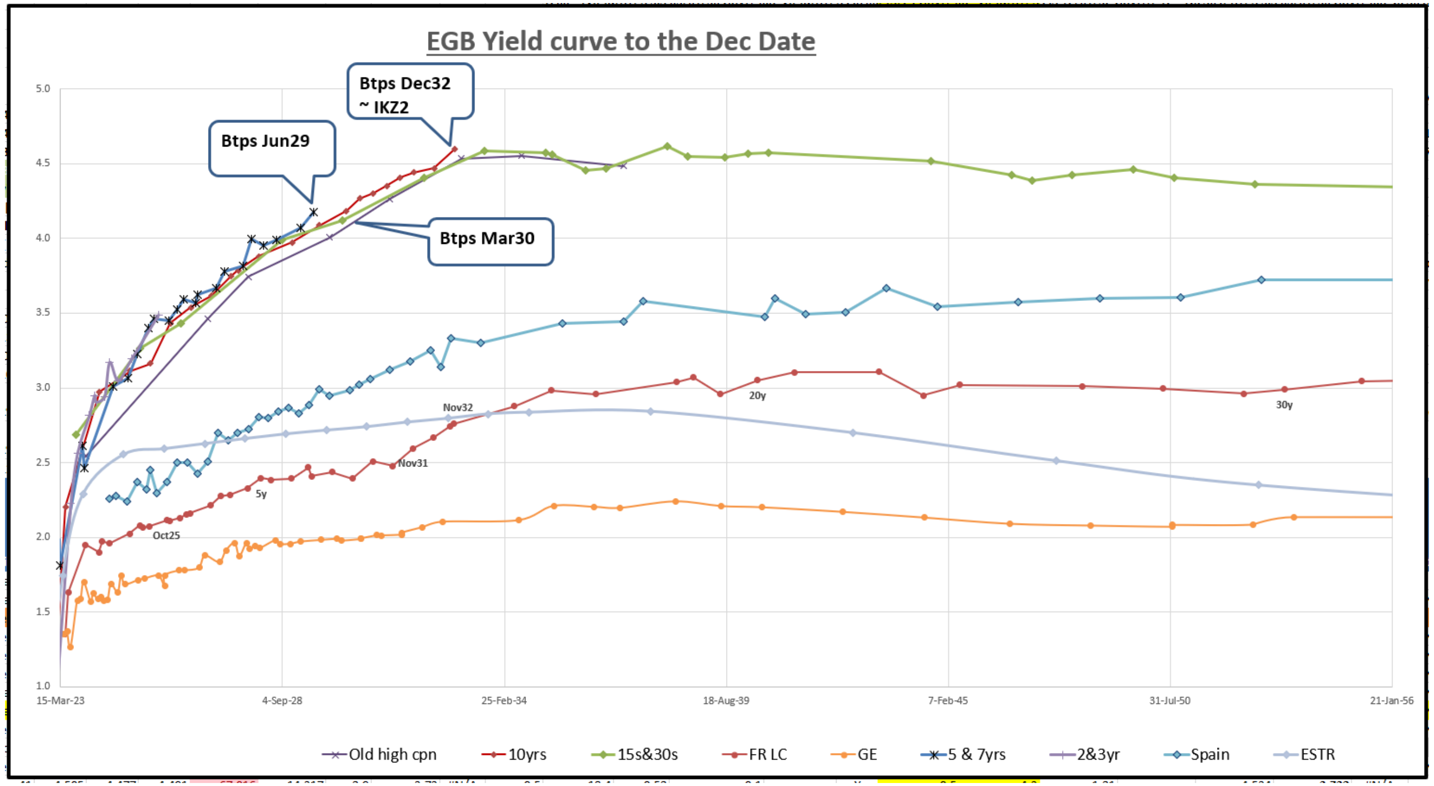
- Sell Btps mar30 vs buy 7y and 10y (IK):
- .8 / 1 / .2

200 * (YIELD[BTPS 3.5 03/01/30 Corp] - 0.8 * YIELD[BTPS 2.8 06/15/29 Corp] - 0.2 * YIELD[BTPS 2.5 12/01/32 Corp])

Btps Anomaly vs discounted cashflows (rather than simply looking at yield / IRR)



Btps and EGB yields rolled to the Dec Date



German 7y to continue to cheapen vs OEZ2 and RXZ2

- Two at this - yield fly and z-fly
- Although in both metrics the 7y has cheapened vs oe and rx – it is by no means 'cheap' in either cash-flow and Carry and Roll terms – even after repo adjustment
- My guess is that some of the systemic richness of 7ys in German will abate
- Much like Italy – when there is issuance in that sector it can trade cheap
- My strategy is to have a tiny short here – I just can't miss further cheapening but I'm on hold for more. Given I think that the curve is directional I'll prob try trading -7y / +rx on regression in small

Yield Fly: OE / 7y / RX

Z-Fly: OE / 7y / RX

Germany: 7y short vs RXZ2 on regression

- A little here and more on the highs if we get there

100 * ((YIELD[BP980366 Corp] - 0.977 * YIELD[DBR 0 02/15/30 Corp]))

Italy: credit steepener and default trade

- The problem with default trades: selling high coupon to buy low coupon is they have the appearance of being negative carry
- I would argue this is only when they are hedged in duration space
- Consider selling and buying the same, clean proceeds of bonds and offsetting the duration with swaps – that should leave us able to sell low coupons without having the same exposure default risk as our nett cash balance (excluding accrued) is the same

Sell 1 unit duration of Btps mar36 vs ESTR – buy 0.8 units of Btps sep33 vs Estr

Approx Clean proceeds Cash Flat – net short 20k Italian swap spreads

(P2509[BTPS 1.45 03/01/36 Corp] - 0.8 * P2509[BTPS 2.45 09/01/33 Corp])

Austria gaps cheaper on credit fly: supply on Tuesday

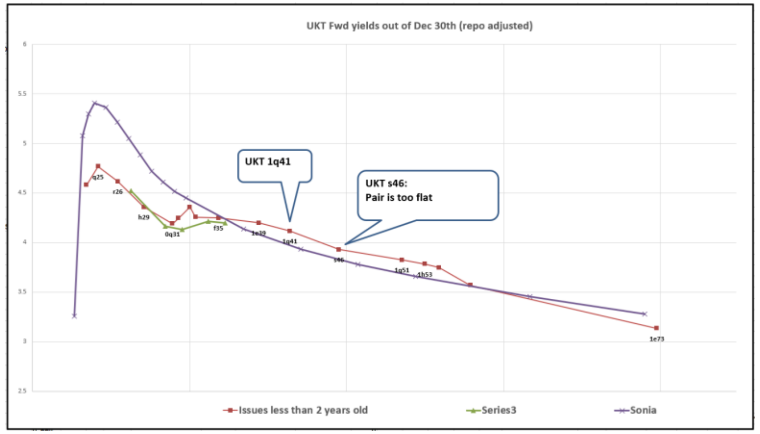
- Containment risk in Austria has been tough of late
- This month end and what will be the 13th scheduled supply event of 15 this yr has left he street struggling to absorb paper
- It's the credit that is the issue – fundamentally see it as a better credit than France despite trading cheaper but maybe we need to be short a similar rated EGB issuer such as Nether

- Ragb Feb32 vs oatZ2 and Nether jul32 – on a 50/50 weighting is a straight bet that recent moves have been the market's refusal to absorb issuance in the short term
- Weightings 50/50 although regression might suggest slightly more Holland. We have supply in France on Thursday – the Nether leg is simply a desire to and a core anchor to the trade in case spreads come screaming in. Much like RV in UKT vol has risen sharply and we're sizing accordingly

200 * (YIELD[RAGB 0.9 02/20/32 Corp] + -0.5 * YIELD[FRTR 2 11/25/32 Corp] + -0.5 * YIELD[NETHER 0.5 07/15/32 Corp])

UKT spread curve steepener: +1q41 / -s46 whole host of reasons I like this

- whole host of reasons I like this
- Lean in, modest during buy backs
- Bonds steepener
- Swap flattener: 75% the risk
- (yield[UKT 0.875 01/31/46 Govt] - yield[ZP446696 Corp])- 0.74*((yield[UKT 0.875 01/31/46 Govt] -0.01* p2509[UKT 0.875 01/31/46 Govt]) - (yield[ZP446696 Corp] -0.01* p2509[ZP446696 Corp]))
- ***Ten yr point is the expected jan33 – not yet issued**



On my Radar post 7y Germany from the AI trade finder

- German 7y vs Dbr feb32 Second CTD
- Hedged with 60% oe/rx
- One to watch

100 * ((DBR 0 02/15/32 Corp - DBR 0 08/15/29 Corp) + -0.6 * (BP980366 Corp - DBR 0.5 08/15/27 Corp))

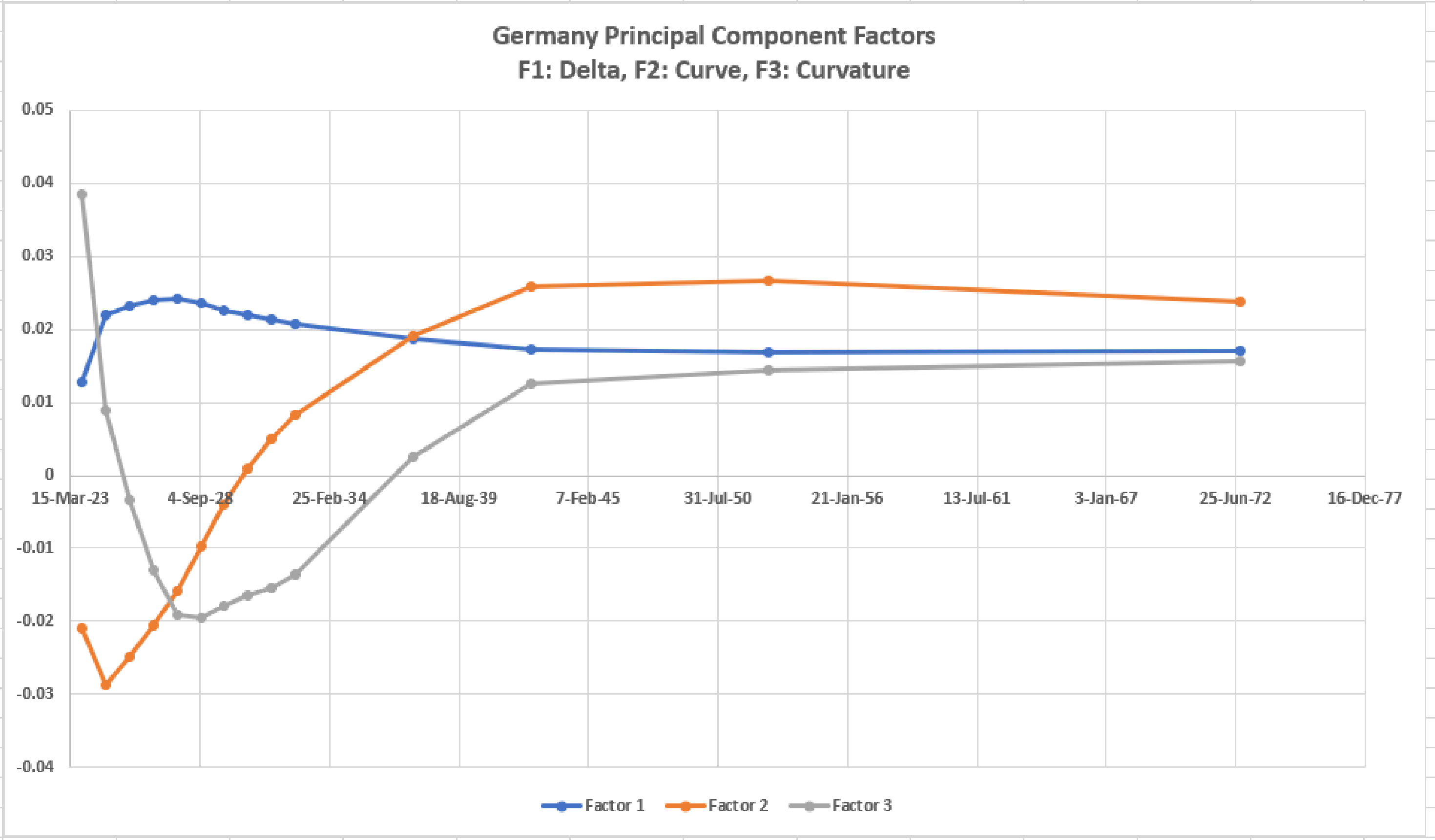
Also on my Radar from Trade finder

- Ragb 10y vs France 15y Hedged with 60% oe/rx

100 * ((YIELD[FRTR 1.25 05/25/38 Corp] - YIELD[RAGB 0.9 02/20/32 Corp]) + -0.60 * (YIELD[DBR 1.25 08/15/48 Corp] - YIELD[AO223542 Corp]))

Services: PCA / Default / Regression / Optimisation / Efficiency

- I offer a suite of analytical services on request – modelling and hedging Fixed Income Portfolios
- My objective is to help you control the Var of your RV expressions while maximising the return
- I use those same principles to scan the market for new trades and set take off levels for current positions



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