



Rates Model Portfolio Update

Global Rates, FX & Commodities Strategy

18 September 2018

▶ EUROZONE

▶ RATES

▶ GLOBAL MARKETS

Position	Entry Level	Target Level	Stop-Loss	Trade Size	Expected Horizon
EUR 2y Swap Spread Wideners	40bp	50bp	35bp	€25K	2 months

▶ For open and closed trades, please see the Global Rates Weekly

EUR 2y Swap Spread Wideners

Trade

Short-end Bund ASWs have drifted to the cheapest level seen since 2016. With the ECB still anchoring the front-end, we think that the recent reaction to the short-end seems rather overdone. We tactically enter **EUR 2y swap spread wideners**, with the move being the most extreme in this tenor.

Fundamentals

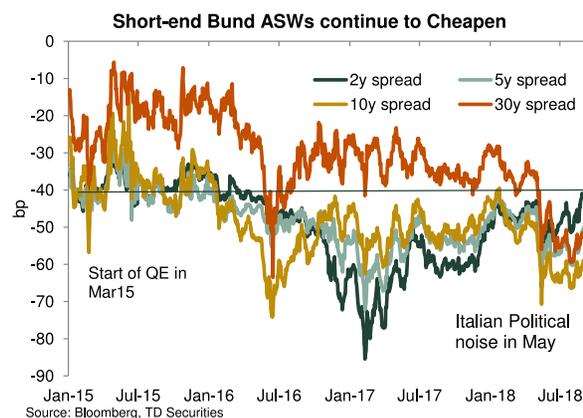
- **Forward rate Guidance:** ECB continues to keep short-end anchored by keeping rates on hold "at least through summer of 2019".
- **Italian Risks:** Short-end Bund ASWs still hold the "Italian risk" premium. While the noise from

Italian politics have abated, we could still see some resurgence of risks into the submission of the budget to the EC by mid-Oct. This should support wider swap spreads led by the short-end curve.

- **PSPP Reinvestments:** German paper continues to benefit from the ECB's PSPP reinvestments in September and October.
- **Global risks:** German paper continues to benefit from "safe haven" premium amid global risks like trade wars, US-China tariffs, and EM risks.

Risks

- ECB turns more hawkish in near term, which seems less likely amid weaker growth data.



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Recent Publications

Global Rates, FX & Commodities Strategy

Global Macro		
Region	Publication	Date
Weekly	Upcoming Week - The Big Three (17 Sep)	14 Sep
Commentary	The ECB Looks Through the Downside Risks	13 Sep
	Don't Fade the Fed after Weak CPI	13 Sep
	Bank of England: See You After Brexit	13 Sep
	Trading the ECB	13 Sep
Europe	Norges Bank Preview: Time for Action	14 Sep
	Is the UK Economy Heading for a Second-Half Slowdown?	13 Sep
	Brexit Round-up: UK Politics are the Key Risk to a Smooth Brexit	12 Sep
Asia-Pacific	Australian trade: it's not just China	6 Sep
Rates		
Weekly	Will It Be Different This Time?	14 Sep
US	Systematic Value Strategy for SSA Bonds	13 Sep
	Global Net Supply: Up, Up, and Away	12 Sep
Canada	Systematic Value Strategy for SSA Bonds	13 Sep
Europe	Systematic Value Strategy for SSA Bonds	13 Sep
	UK Rates: Repricing the Gilt Curve	13 Sep
	Global Net Supply: Up, Up, and Away	12 Sep
Asia-Pacific	Systematic Value Strategy for SSA Bonds	13 Sep
Trades	Closing +Sep/-Dec'18 Aust bill futures spread	12 Sep
	Trade Idea: Receive 10y US vs EU Swaps	5 Sep
	Closing our BAU8/M9 Flattener	5 Sep
FX		
Weekly	Week of September 17 - The Movie Keeps Rolling	17 Sep
Analysis	US-China Tariffs - The Third Wave	18 Sep
	India Tries To Prop Up The Rupee	17 Sep
	India - Arresting The Slide In The Rupee	12 Sep
	Two charts to ponder in USDCAD	6 Sep
EM		
Weekly	Week of September 17 - The Movie Keeps Rolling	17 Sep
Analysis	US-China Tariffs - The Third Wave	18 Sep
	India Tries To Prop Up The Rupee	17 Sep
	Systematic Value Strategy for SSA Bonds	13 Sep
	India - Arresting The Slide In The Rupee	12 Sep
Commodities		
Weekly	Less Robust Greenback and US Oil Inventory Declines Lift Commodities	17 Sep



Global Strategy

Global Rates, FX & Commodities Strategy

Global Strategy

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