

June 19th, 2024

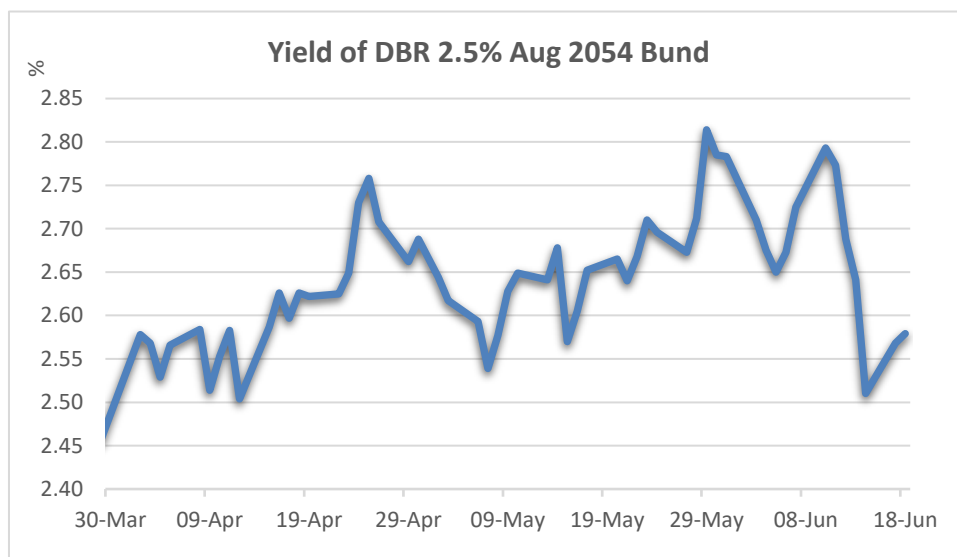
German Auction:

On Wednesday, at 10:30 BST, Germany will auction the **30y 2.50% Aug54 Bund** for €2.0bn (RX 38k).

Views: The DBR30y Aug 54s was launched back in Jan 24 via syndication, and more recently tapped in May with a b/c of 3.07. Post auction outstanding nominal we be ~Eur15.5bn. The usual multi ISIN auction offering, turns into a stand-alone supply of the 30y Benchmark for the full target volume of Eur2bn. With the DBR 2.5 54s being the CTD in the Buxl contract by some margin, the DFA focus appears to be on maintaining liquidity and an orderly repo market. Demand for German debt has been recently heightened on the back of the French political tensions. Gross issuance from Germany is expected to be around €276bn this year of which ~54% will be completed this week.

Turbulent times across the EGB spectrum, with German debt being the main benefactor from the current French political situation. The fall out from the European elections and Macrons decision to call a snap election has created a sovereign FTQ within EGBs, stretching valuations of outright yields and moving the dial on German bond metrics, such as ASW and Z spread valuations. We examine the moves in the charts below.

The chart below highlights the yield journey of the Aug 54s. The stand out being the shift down in yield over the past week, bunds benefitting from inflows out of semi-core and periphery debt. Le Pen offered assurances at the weekend that she will not be seeking Macron's resignation, this appears to have stopped the bond rout on FRTRs, at least for now.

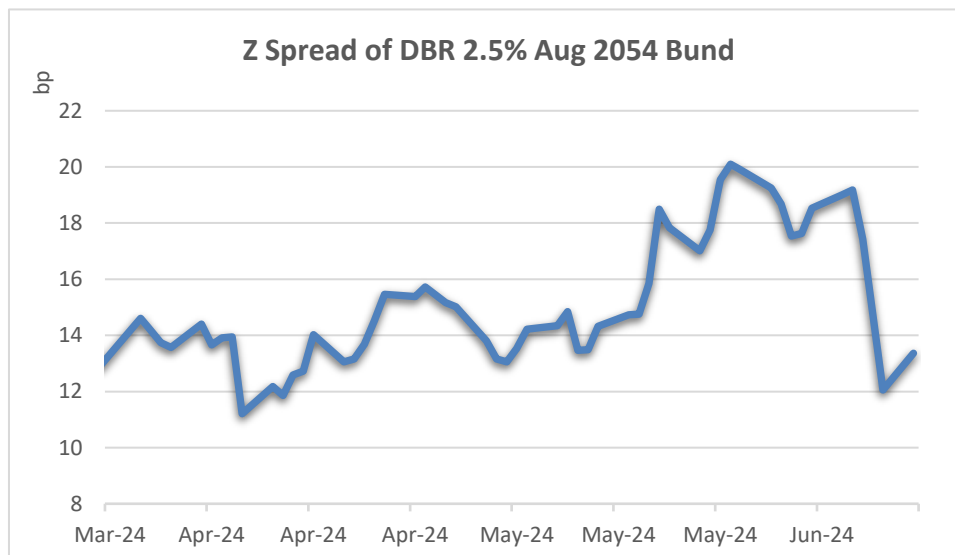
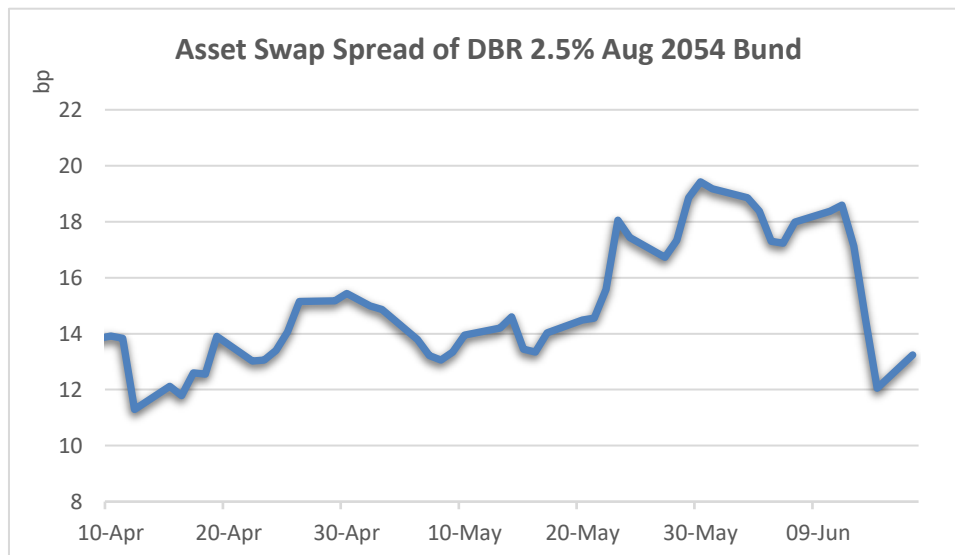


The ASW and Z spread valuations somewhat mimic that of the outright yield movements in the DBR 30Y, highlighting strong correlation at present. A difficult auction to assess as political tensions and French voting



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patterns/polls remain dynamic and markets stay on high alert for any potential French political updates. This auction will be a liquidity event used by market participants to maintain balance sheets given the recent volatility.



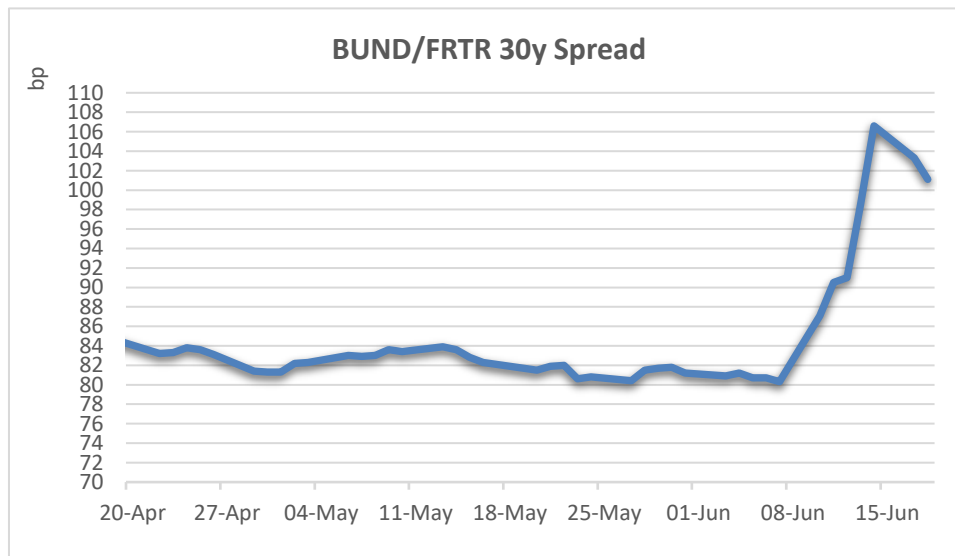
Finally we take a quick look (chart below) at the GER/FRTR 30y spread. The European election results and Macron's subsequent snap poll decision created a rush out the door from FRTRs, the spread vs GER30Y straight lining ~26bps over the past week. Currently we are seeing a fade trade as Le Pen comments calms the waters a little. However, analysts warn against using this as a 'get long FRTRs' opportunity just yet,

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seeing more problems along a 'bumpy' election timeline.



German near-term cash flow (next four weeks) is negative at -€13.51bn, as the expected issuance of €19.5bn will offset €5.99bn of C&Rs being paid.

History:

30y Bund: The last 30y Bund was tapped May 15 with a cover ratio of 3.07x (vs. the average of 3.34x seen in the previous 4 auctions), real demand of 2.6x (vs. the average of 2.77x seen in the previous 4 auctions), tail of 2cts (vs. the average of 2cts seen in the previous 4 auctions) and overbidding of 6.8cts (vs. the average of 11.45ct seen in the previous 4 auctions)

Previous auction stats:

30y Bund

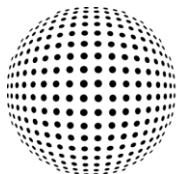
Auction Date	Bond	Coupon	Maturity	B/C	Issuance Total	Avg Yield	Real B/C	Overbidding	Tail	BBK%	%Allocation of Non-Comps
14-Feb-24	30y Bund	2.50%	15-Aug-54	3.64	1.00	2.53%	3.10	20.60	0.00	14.79%	28.00%
17-Apr-24	30y Bund	2.50%	15-Aug-54	3.17	1.00	2.62%	2.55	9.90	3.00	19.74%	28.00%
15-May-24	29y Bund	1.80%	15-Aug-53	3.45	1.00	2.62%	2.83	8.50	3.00	18.12%	38.00%
15-May-24	30y Bund	2.50%	15-Aug-54	3.07	1.00	2.62%	2.60	6.80	2.00	15.49%	29.00%

Average	3.34	1.00	2.60%	2.77	11.45	2.00	17.00%	30.80%
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Auction

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