(eur500k payout costing 0.21*500k) now, and the other half when spot 139-140

4. nationwide coco currently 6.42% offered. I suggest scaling in £2mm on an order at 6.5% and £2mm on order at 6.75%

thanks
Nav

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Date: 14/04/2014 18:17

Subje Jeffrey - 4 trades I like - Nav [C]
ct:

Classification: Confidential

Hi Jeffrey,

There hasn't been much I've really liked recently.
Here are four trades - 3 I like right now and 1 for now or soon.

1) BUY 10y BTPS @ 3.16% - This is a 3-6mth 'buy the rumour sell the fact' tactical trade to position for ECB QE (now)

The ECB is preparing both itself and markets for QE - Its senior board members have stepped up public comments over the past 48hrs. This is the clearest sign so far QE could happen and why I am writing to you now.

Ideally ECB wants to buy ABS from small to medium sized European companies but the outstanding available is relatively small so it will likely buy Eurozone Government Bonds. The spread between Italian BTPs and German Bunds has tightened significantly past 18months but old metrics of value make no sense in Europe because they rely on history when there was no QE.

While It's hard to get excited about 10y BTPs yielding 3.16% (164bp over 10Y German Bunds) I'd still have 5-10mm 10y BTPs in my portfolio both for the duration and spread compression potential. I prefer 10y over 5y because the recent nearly parallel spread compression has left 5s10s steep relative to 0-5s..

3 reasons i like this trade:
i) macro investors view ECB QE as a second bite at the cherry. Everyone I talk to wants European risk assets having seen QE in the US.
ii) ECB QE is probably still 3-6mths away which will keep credit bid. This will be a buy the rumour sell the fact trade
iii) Credit has been bulletproof during the recent risk selloff because a) ECB QE expectations, b) G3 rate hikes are being pushed into the future while cash has nowhere else to