

European Rates Alpha

Closing trade: sell 3m Sonia vs. 3m Euribor futures using Dec 2024 contracts

Back to start for our sell SFIZ4 vs. ERZ4 futures spread

On 27 October, we recommended a short 3m Sonia vs. 3m. Euribor futures trade using Dec 2024 contracts. We entered the trade at 1.53%, targeting 2.00% with a stop of 1.25% (see the report, [Sell 3m Sonia vs. 3m. Euribor futures using December 2024 contracts, 27 October 2023](#)). This trade idea represented our view that UK front-end curve steepening since late September did not appear to be fully warranted by economic developments and was in contrast to our BoE rate call for 2024-2025. Since the end of October, both 3m Sonia and 3m Euribor futures have rallied substantially, with Sonia outperforming Euribor futures for a while because of weaker UK data. The front-end rally in Europe since the start of the week finally pushed the trade back above entry. We close the trade at the current level of 1.54%.

Sticking with our sell SFIZ4 vs. ERZ5 futures trade

At this juncture, 83bp of Bank rate cuts still seem substantially more than our base-case Bank rate scenario of no cuts in 2024, with risks skewed to an earlier cut but unlikely in 1H 2024 (see our report, [Autumn statement review: inflation risks, 22 November 2023](#)). But 100bp of cuts priced in for ECB in 2024 appears much more balanced, in our view. Our preferred UK vs. EUR expression is therefore to fade BoE Bank rate cuts priced in 2024 vs. position for more ECB rate cuts to be priced in 2025. We entered this trade at 181bp in our Year Ahead report (see [2024: Cloudy with a chance of landing, 19 November 2023](#)), targeting 280bp with a stop of 120bp. The current level is 198.5bp. The risk to the trade is a more hawkish ECB than BoE.

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For a list of our open rates trades and those closed over the past 12 months, see the [Global Rates Weekly](#) (19 November 2023).

BoE: Bank of England

ECB: European Central Bank

m: month

vs.: versus

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