

European Rates Alpha

Long 15y15y USDi versus EURi trade stopped

Flow trumps “value”

In the [24 February Global Rates Weekly](#), we recommended being long 15y15y US inflation versus Euro inflation at a spread of -32bp (US less Euro), targeting +10bp, with a stop-loss at -52bp. We saw the main risks to the trade being demand for Euro inflation protection in combination with extreme scarcity of supply.

The spot 15y15y USDi/EURi spread is currently -53bp, but adjusting for the roll since inception gives a current spread from the February start date of -52bp – our stop level. We close the trade here.

There has been a small directional element to move in the inflation spread – with Euro 15y15y nominal rates rising by 14bp more than their US equivalent over the period. But the main drivers have been the realisation of the risks we flagged for the trade. Positive real yields on France’s long-dated linkers (although not evident in inflation swaps) appear to have attracted a consistent investor bid.

We choose to close, rather than revise trade terms, because we are now approaching July, which will deliver the usual large index extension next month (as OATe 2024s exits), and this seasonal bid has tended to be supportive longer Euro breakevens.

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For a list of open trades and trades closed in the last 12 months, see the latest [Global Rates Weekly](#).

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