Fixed Income Trading Language Cheat Sheet (Rewritten for Clarity and Flow)

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1 Core Abbreviations and Market Instruments

This section lists the most common instruments and abbreviations used in global fixed income trading. These are essential for reading trader commentary and market colour.

- **UB** = Ultra Bond (long-dated US Treasury future).
- **RX** = Euro Bund future (German 10y government bond).
- **German Bond Futures:**
  - **Bund** = 8.5–10.5y maturity bucket.
  - **Bobl** = 4.5–5.5y maturity bucket.
  - **Schatz** = 1.75–2.25y maturity bucket.
- **UST Classification:**
  - **Bills**: <1y, issued at discount (e.g., `ZBC`).
  - **Notes**: 2y–10y.
  - **Bonds**: >10y.
- **30s50s**: Yield spread between 50-year bond and 30-year bond.

2 Price Movements and Trading Language

Understanding how traders talk about price/yield dynamics is crucial. Bonds move inversely to yields:

- Price $\uparrow \Rightarrow$ Yield $\downarrow$: known as a *rally*.
- Price $\downarrow \Rightarrow$ Yield $\uparrow$: known as a *sell-off*.
- **Cheapening** = Prices fall, yields rise.
- **Richening** = Prices rise, yields fall.
- **Market paid** = Traders are paying fixed (swap yields rise, swap prices fall).

These terms summarise both rate-direction and relative value dynamics.

3 Long vs Short Positions

3.1 Bonds

- **Long bond**: Receive coupons $\Rightarrow$ benefits from **falling rates** (bond prices rise).
- **Short bond**: Pay coupons synthetically $\Rightarrow$ benefits from **rising rates** (bond prices fall).

3.2 Interest Rate Swaps

A swap position mirrors the duration profile of a bond position:

- **Buy a swap** = Pay fixed, receive floating.
  - Duration exposure similar to being **short a bond**.
  - **Positive rate delta**: profits if rates rise.
- **Sell a swap** = Receive fixed, pay floating.
  - Duration exposure similar to being **long a bond**.
  - **Negative rate delta**: profits if rates fall.

Trader shorthand in swaps:

$$\text{“Mine”} = \text{Pay fixed}, \qquad \text{“Yours”} = \text{Receive fixed}.$$

If a tenor is **cheap**, traders typically *receive fixed* (go long duration). If a tenor is **rich**, they *pay fixed* (go short duration).

3.3 Swap Spreads

Swap spreads measure how expensive swap rates are relative to government bond yields of the same maturity:

$$\text{Swap Spread} = \text{Swap Rate} - \text{Government Yield}.$$

- Measures credit/liquidity risk premium of swaps vs true risk-free rates.
- **Widening swap spreads**: swap rates rising relative to govies.
  - Can indicate rising counterparty or liquidity risk.
  - Often associated with **risk-off** flows (bullish for govies).
- **Tightening swap spreads**: swap rates falling relative to govies.
  - Common during QE or central bank balance sheet expansion.
- **Long swap spread**: Receive fixed in swap **and** short the corresponding government bond.
- **Short swap spread**: Pay fixed in swap **and** long the government bond.

4 Execution Slang

These are extremely common phrases used across rates trading desks:

Phrase	Meaning
"Hit my bid" / "I got hit"	I bought (someone sold to me)
"Lift my offer" / "I got lifted"	I sold (someone bought from me)
"Mine"	I buy
"Yours"	I sell
"Take"	I buy
"Give"	I sell

These terms help compress trade negotiation into one or two words.

5 Yield Curve Dynamics and Duration Intuition

Yield curve moves are not just directional—they also imply relative duration risk across maturities. Traders classify moves using four standard scenarios.

Types of Curve Shifts

- **Bull Steepener:**
  - Short-end yields fall more than long-end yields.
  - Typically reflects expectations of central bank easing.
  - Front-end duration benefits the most.
- **Bear Flattener:**
  - Long-end sells off more than short-end.
  - Often driven by inflation or heavy long-end supply.
  - Negative convexity concentrated in long-end duration.
- **Bull Flattener:**
  - Long-end rallies more than short-end.
  - Common in flight-to-quality episodes.
  - Great for long-duration exposure.
- **Bear Steepener:**
  - Short-end sells off more than long-end.
  - Usually driven by hawkish central bank surprises.
  - Front-end duration performs the worst.

Trader Mnemonic

- **S**teepening $\Rightarrow$ **S**horter duration exposure wins.
- **F**lattening $\Rightarrow$ **F**atter (longer) duration exposure wins.