Global Rates Strategy
The Global Rates Landscape

Interest Rates

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Global: What we think about our rates calls now
In general, we remain positive about risk markets globally, particularly in Europe, although the risks to global growth – particularly those from China - have increased. Some of our views have been challenged in this environment – especially that of higher Bund yields – but we are not yet backing away from them entirely. Others have played out in ways which match our expectations more closely. At the same time, the more specific calls which derive from our macro views have broadly held up well. We update the outlook for them here.

US: How to play the curve in the short term
Over the next 1-2 months, the recent and rapid bear flattening is prone to at least a partial reversal. We look to receivers' swaptions to enter steepening and carry trades at no cost while protecting from adverse outcomes. We suggest a 3m forward 4s10s bull steepener or a 1x2 6m5y receiver spread.

Euro: A disjointing of the inflation curve
Despite some carry-related repricing at the front end, inflation expectations remain supressed along the whole curve beyond that point. In addition, the relationship between front-end expectations and those further out seems to have broken down. Hopes for higher 5y, 5y forward rates rest on higher official year-on-year inflation data, other things (particularly risk markets) being equal.

Euro/UK: Impact of Brexit on rates markets
We summarise our main views on how both EUR and UK rates markets might react immediately after the UK's referendum on EU membership on the 23rd June, and in the longer term. We consider the implications arising from both possible outcomes.

UK: A clear loss of economic momentum as the EU referendum nears
A spate of recent economic data indicators has missed expectations to the downside, taking our growth surprise index to record lows and leading 10y yields lower, and the curve ever flatter. The Bank of England downgraded its growth forecasts in a cautious Quarterly Inflation Report, though still projects a material overshoot of its 2.0% CPI target at the 3y forecast horizon if rates were to follow the extraordinarily benign path still implied by interest rate markets.

Swiss: 10yr yields unfazed by improving fundamentals
Recent data releases highlight a number of positive developments in the Swiss economy. However, the reaction in 10y Swiss yields to an improving set of indicators has been muted, even while short-end yields have risen. We believe the drag on 10y Swiss yields has largely been a result of the fall in 10y German yields which we expect to reverse over the medium-term. We remain bearish on 10y Swiss yields.

ANZAC: Who will take down the record supply of Aussie bonds?
Unless overseas investor demand for ACGBs increases, domestic investors look set to absorb the largest amount of net issuance on record in 2016-17. This risks weighing on swap spreads in the year ahead. Receiving Aussie spreads vs. paying US spreads also appears attractive.

ANZAC: Receive front-end Kiwi rates ahead of the RBNZ
Market pricing implies less than 40% probability that the RBNZ will cut rates in June. We consider this too low, and recommend receiving NZD IRS 1y1y over the next month.

Contents

Summary of views

	MONETARY POLICY	DURATION	CURVE
US	- FOMC to hike in September followed by another move in December	- Neutral. 10y at 2% by end-2016 - Short-term bullish bias to risks in the belly of the curve	- Near-term steepening between the 3-5y and 10y sectors -Foreign demand to keep the long-end bid
Eurozone	- No further easing expected - A low take-up in TLTRO II (net drain on liquidity)	- Underweight the 10y+ part of core curves as yields should rise throughout 2016. - We see good value in buying 10yr US Treasuries vs Bunds given the differential in curve pricing. Sell 10yr Italy (or Spain) vs US Treasuries - Peripheral spreads to tighten vs Germany over the medium-term as the economic recovery continues	- Bear steepening in 2016. - EUR 10s30s forward steepeners (2yF and 4yF) - Belly of EUR 2s5s10s 1yF to richen further 10s30s flatteners in France vs Germany (or long 25yr France vs Germany)
UK	- Deliberately neutral and benign stance being adopted by the MPC ahead of the referendum on EU membership - Likely to become more hawkish in H2 if momentum reaccelerates as expected	- We expect 10y yields to rise towards 1.80% by year end, but do not expect much movement this side of the referendum	- Directional. With front end yields relatively pinned and static, the curve will bear steepen as and when longer yields start to push higher.
Switzerland	- SNB to remain accommodative and sensitive to any changes in EUR/CHF - No rate rises until 2017	- Neutral on the 2yr sector - 10yr yields to rise over the medium-term - Pay 10yr CHF vs JPY (swaps)	- Bear steepening in 2016 - Receive the belly of CHF 2s5s10s 1yF
Australia	- Expect RBA to cut rates to 1.50% in Aug-16 and thereafter stay on hold (but risks remain to the downside)	- Target 2.30% 10y ACGB yields at end-16 - Australia to outperform the US (2016 10y spread target: 30bp)	- Look for steeper 3s10s in anticipation of more easing from the RBA - Neutral long-end amid uncertain outlook for curve extension
New Zealand	- RBNZ likely to cut rates in Jun-16, taking the Official Cash Rate to 2.00%	- 10y NZGBs to remain in sub-50bp territory over ACGBs - Should the RBNZ cut in June, expect 10y NZ-AU spread to tighten to at least 25bp	- Receive 1y1y NZD IRS

UBS Global Research

Justin Knight

Global: What we think about our rates calls now

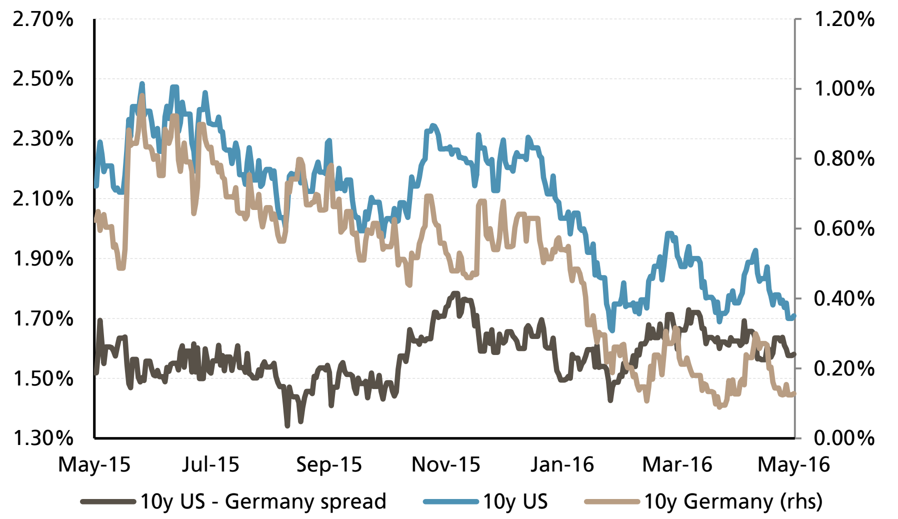
- From about the middle of April, risk assets outside of the US suffered as the dollar weakened, causing risk indicators to reach near-crisis levels. While the dollar and risk markets have recovered some of their ground, our rates markets calls have been affected in different ways.

- In general, we remain positive about risk markets globally, particularly in Europe, although the risks to global growth – particularly those from China - have increased. Some of our views have been challenged in this environment – especially that of higher Bund yields, but we are not yet backing away from them entirely. Others have played out in ways which match our expectations more closely. At the same time, the more specific calls which derive from our macro views have broadly held up well. We update the outlook for them here.

Buy 10y US, sell 10y Germany

Our call for a tightening of the spread between the US and Germany at the 10y point has not yet played out. But neither has it materially moved against us since we recommended it last autumn.

Figure 1: 10y US-Germany benchmark spread, 10y US yields and 10y Germany yields; past year



Source: Bloomberg, UBS

The central attraction of this trade – where we expect the spread to tighten to 90bp by the end of this year - has been that it should work in both our baseline scenario and our primary risk scenario.

In our baseline scenario, we have expected Bund yields to move closer to those of the US as the market prices in a higher growth and inflation outlook in the euro area. This has singularly failed to happen as strong (but - we think – temporary) flow effects in European bonds have followed a variety of fears weighing on risk markets globally.

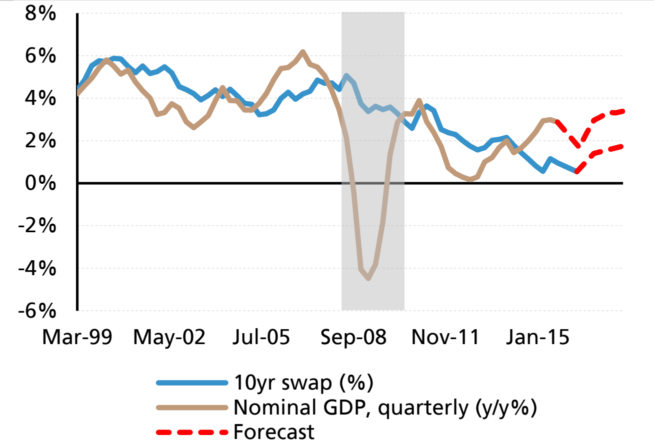
Our central risk scenario has been one of a possible sharp slow-down in China. In our view, this would constitute a global threat to growth and inflation such that the pricing of those developed markets which are not implying such a slow-down

should converge with those that are. This would be particularly true of longer maturities in the US versus those of Europe.

In a way and to some extent, our risk has played out as fears of such an outcome have weighed on all markets so far this year. The risk of a Chinese slowdown remains a primary concern to us and without a significant rally in the US dollar against the majors (which we do not expect) it has become a little more likely that the spread between the US and Germany converges mainly from the US side rather than from Bund yields rising. A meaningful rise in US yields would have to accompany a similar rise in risk assets, regardless of the near-term Fed action, in our view.

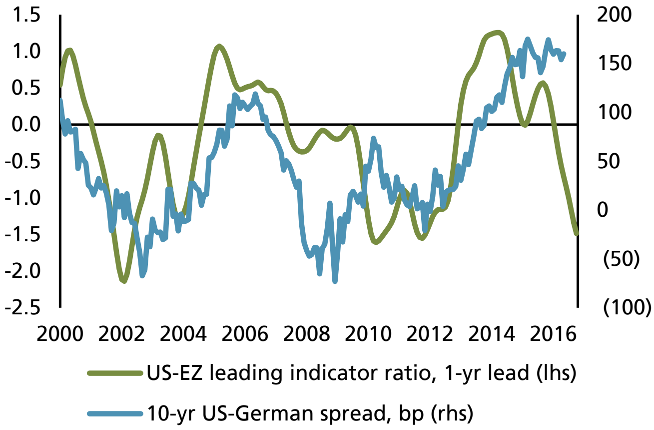
Much of the rationale for this call has rested on the depressed market pricing of the outlook for growth and inflation in Europe. We believe that headline inflation will be running at about 1% by year-end and growth at about 1.6%. If we are right about that, a nominal growth of 2.6% is incompatible with current (or forward) Bund yields.

Figure 2: Euro area nominal growth and 10-year euro swaps, 1999 to date



Source: Bloomberg, UBS

Figure 3: OECD US-Germany Composite Leading Indicator ratio and 10-year US-Germany spread



Source: OECD, Bloomberg, UBS

Later in this document we look at how inflation expectations have risen a little at the front end of the curve but have hardly budged on the 5y, 5y forward measure. It may be that we need to see headline inflation rising towards the recent levels of core inflation (0.8-1.0%) before the market can believe the story. Were yields not to rise as nominal growth picks up, and external risks not to materialise, we might need to re-assess our broader call for significantly higher Bund yields this year.

Buy 10y US, sell 10y Italy (or Spain)

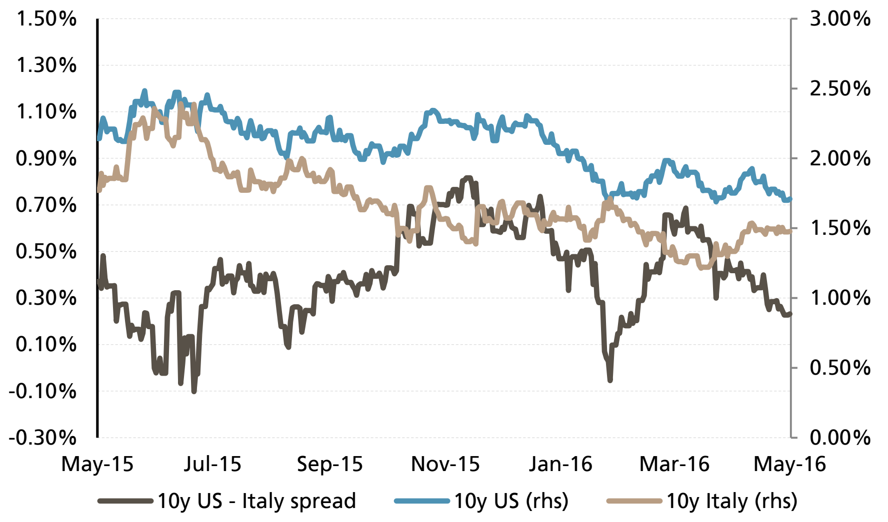
Of course, China is not the only risk to our Bund call. Downward pressure on yields could also come from within Europe. A number of idiosyncratic risks have emerged in Europe which could widen peripheral spreads and further depress core yields. It might seem prudent - to investors worried that some might - to overlay a hedge on to the US-Germany trade by expressing it this way instead.

The thinking here is that these risks (EU referendum, Spanish politics, a possible limitation on bank holdings of sovereign bonds, a further escalation of the Italian banking crisis, rising discontent as a result of the refugee crisis etc. – see later in this document) all have the potential to widen peripheral spreads to Germany. Thus, if one or more were to materialise the investor would be protected by being

underweight the periphery. If the impact was large enough, the trade might even work from both sides as US yields should fall in that environment as well.

That might also be the case if the Chinese risk we fear materialises (see above). Indeed, since we recommended this trade on 20 April (our article is reproduced below), the 10bp convergence of the spread has taken place almost entirely from the US side. This was driven more by falling risk assets globally in the face of a weaker US dollar (itself the result of a soft patch of US data) than it was by any China concerns. However, it demonstrates how the trade might perform in the case that fears increase over the prospect of a global slowdown.

Figure 4: 10y US-Italy benchmark spread, 10y US yields and 10y Italy yields; past year



Source: Bloomberg, UBS

At the same time, if these risks are avoided and our baseline scenario plays out, we would expect the US-Italy spread to narrow as Italian yields would rise despite a narrowing of yield spread to Germany. We forecast a 90bp Italy-Germany spread and a 1.10% Bund yield for year-end, meaning that Italy would be flat to the 2% that we forecast for US yields at that point.

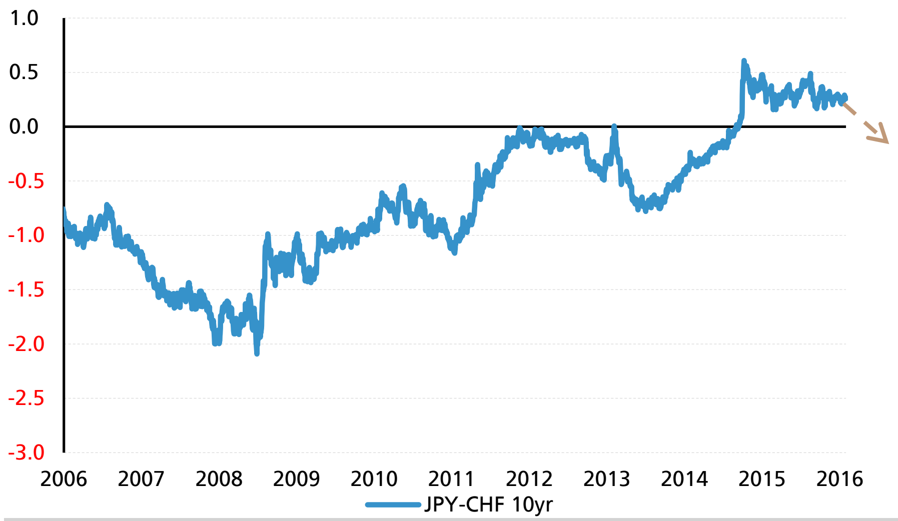
Pay CHF 10y, receive JPY 10y

On 4 March we recommended that investors paid 10y Swiss franc swaps versus receiving 10y Japanese yen swaps. This spread has not moved much since then, with a potential for 35bp of tightening remaining in the coming months.

As we discuss later in this document, 10y Swiss yields should rise and we view the disconnect between these and economic fundamentals as temporary. This move should be driven to a large extent by higher Bund yields (see above).

On the Japanese side, we also expect yields to rise, but by less. In addition, since we made this call, developments further support the view of a relatively muted move in our view. In the aftermath of a surprising lack of easing by the BoJ, we have revised our 2016 year-end USDJPY forecast lower to 112. The strong link between the yen and Japanese inflation expectations means that limited weakness to the currency should equate to limited upside in longer-term yields.

Figure 5: 10y CHF vs. 10y JPY swaps, past 10 years

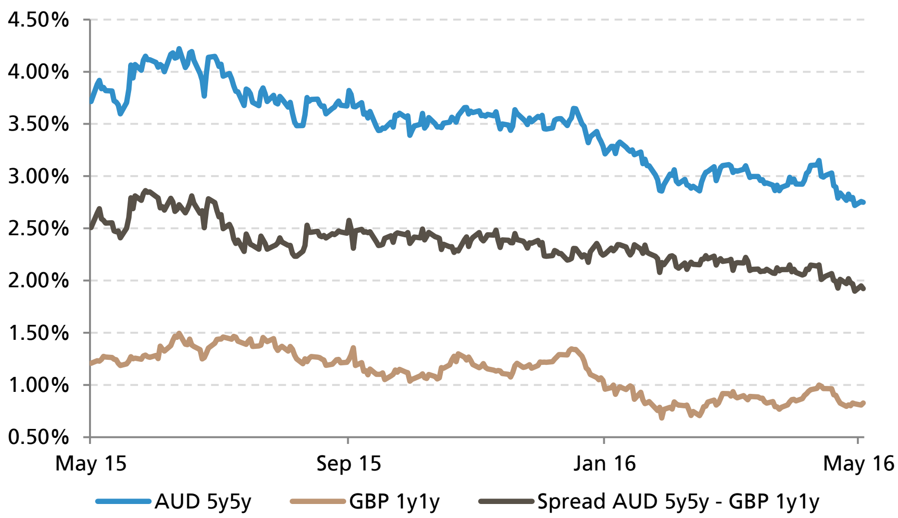


Source: Bloomberg, UBS

Receive AUD 5y, 5y forward; pay GBP 1y, 1y forward

Since we recommended this strategy in the autumn, this spread has ground tighter, largely driven by the Australian leg of the trade. The RBA has cut rates, and will do so again, we think. This should support our neutral stance on the AUD leg of this trade, or at least prevent yields from rising much further across the curve.

Figure 6: AUD 5y, 5y forward, GBP 1y, 1y forward and spread between them, past year



Source: Bloomberg

But we still think that the spread will continue to tighten towards our target of 150bp or so. In our baseline scenario, the sterling market should this year bring forward from August 2019 the pricing of the first rate rise – and to some considerably earlier point. In addition, we also think that the market will price a moderately faster pace of rate rises than it is currently. As a result, we expect the sterling leg of this trade to drive the spread tighter from here.

On the other hand – and again, with one eye on the China risks - should downside risks to the global economic outlook intensify, we would anticipate slightly lower short dated forward rates in the UK. But in this case, we would expect medium term AUD rates to continue their recent slide, compressing the spread further. Put another way, the limited room for short forwards to fall further in the UK means that the main risk to this trade lies with a rise in medium dated AUD swaps.

Global: Long 10y UST v Italy (or Spain)

Nishay Patel

Justin Knight

This note was first published on 20 April. Market pricing is current at the time of writing.

- We expect peripheral yield spreads to tighten to Germany in the next 12 months (10y BTP-Bund to 90bp). However, over the near term we perceive rising event risk and therefore view entering new spread tightening positions as unattractive. Instead, we suggest buying 10y US Treasuries vs Italy (or Spain) (open: +45bp, current: +40bp). In our baseline scenario, we expect the US to outperform Italy by 35-40bp by year-end. If one or more of these event risks were to materialise, we would expect the move to be greater still.

What are the near-term risks to peripheral bonds?

None of the following feature in our baseline scenario for the rest of this year, but all are possible: UK exit from the EU, the formation of a leftist government in Spain, an escalation of the Italian banking crisis or another worsening of the situation in Greece.

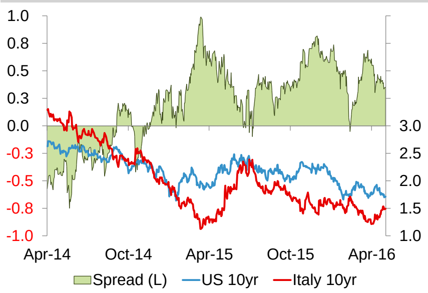
Why not long Bunds or gilts vs peripherals?

We think that the market pricing of future growth and inflation is far too low, making 10y Bunds very expensive already. UK gilts are less attractive than US Treasuries, in our view, as we believe the outcome of the UK referendum could cause market moves in either direction, 10y peripheral spreads to gilts are close to flat and there is a good chance that UK yields are pulled up by rising Bund yields if our forecast is correct.

Base case: tighter 10y UST-BTP spreads in a rising yield environment

We look for US Treasury yields to rise to 2% by end-2016 (+15bp from the current level). Despite forecasting two Fed hikes this year, we do not anticipate a meaningful rise in US Treasury yields. The terminal rate is probably much lower in the current cycle and perceived changes in the Fed pace should result in far forward rates compensating changes in short-term spot rates [LINK]. In addition, demand for US Treasuries is likely to remain strong from overseas investors (such as Japan). A risk to our view would be if Bund yields do not rise by end-2016 as we expect.

Figure 7: 10yr UST & BTP yields

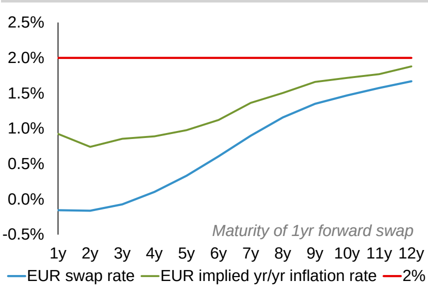


Source: UBS, Bloomberg

Figure 8: 10yr Italy-Germany spread

Source: UBS, Bloomberg

Figure 9: 1y EUR inflation & interest rate swaps on 16-May-16



Source: UBS, Bloomberg

US: How to play the curve in the short term

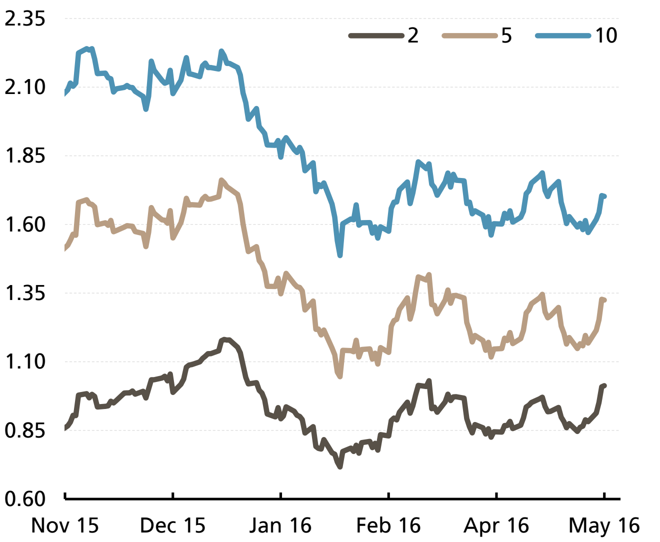
Matthias Rusinski

- After the sharp bear flattening in reaction to hawkish Fed rhetoric and the April FOMC minutes, the US rates market should see steadier trading as it awaits the next step by the Fed. We think that implicit barriers to an imminent hike remain high, and see a move before September as unlikely. Over the next 1-2 months, the recent and rapid bear flattening is prone to at least a partial reversal. Some appetite for carry should re-emerge while the risk is that developments in China or weakness in risk markets exerts downward pressure on yields.

- With this in mind we look to receiver swaptions to enter steepening and carry trades at no cost while protecting from adverse outcomes. We suggest a 3m forward 4s10s bull steepener or a 1x2 6m5y receiver spread.

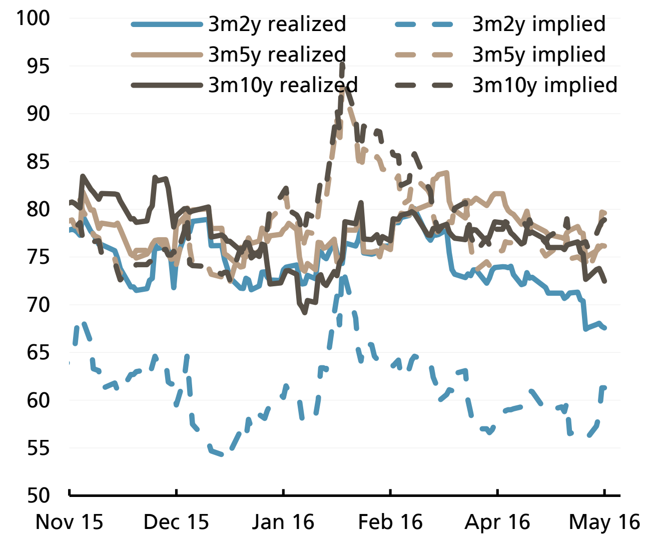
The market's hawkish reading of the April FOMC minutes along with assertive comments from Fed officials have resulted in a strong bear flattening, which has lifted rates close to the top of their 3-month ranges. Short to intermediates rates are now at the levels of those prior to the April FOMC meeting (Figure 10). While some complacency was shaken off and volatilities have risen, realized 3m volatilities remain subdued compared to earlier this year (Figure 11).

Figure 10: 2y, 5y and 10y US swap rates, 6m history, 19-May-2016



Source: Bloomberg, UBS

Figure 11: 3m 2y, 5y and 10y realized and implied normal volatility, 19-May-2016



Source: Bloomberg, UBS

We still view September as the most probable point for the next Fed move, even though the odds of a hike in June have probably moved higher. Over the next one to two months, we think the market is likely to establish a new range, and revert to the low volatility it exhibited until recently.

We think that underlying global conditions, a lower neutral rate relative to history, and the weak response in equities, imply more resistance to a follow-on hike; despite the Fed's more assertive stance.

How to position for the next several weeks

Carry should return to favour in the near term. Investors should look into trades that maximize it without undue duration risk.

Market expectations of tightening are again more closely aligned with to those of the FOMC, effectively giving the Fed more time to act. If we are right about the Fed being on hold in June, the curve should steepen. However, given the recent demand at the long-end, investors should be cautious and selective on steepeners. We think that the rich intermediate-long sector such as the 10y is a better candidate to short instead of the long-end. Investors should look to carry-rich short-intermediate maturities in the 3-5y sector for the long leg of the trade

In terms of duration, we do not expect rates to move substantially over the next couple of months. However, given the sharp jump last week, we believe that in the very near term – barring a sudden and glaring improvement in data – risks should start to skew to lower yields from oversold levels, especially in the belly of the curve. China is our primary concern, but foreign demand and continuation of carry positioning should also help US rates.

We suggest that investors take advantage of receiver options to tailor exposure to range-bound rates markets with a bullish bias. Although short-expiry volatilities have risen in the recent move, they are still cheap to their March levels. Volatilities on tails out to the 4y (upper left section of the volatility surface) remain low compared to those on longer tails, while option skew is rich. This situation provides us with an opportunity to enter swaption trades either at no cost or with a premium take-out; while providing protection from rates market sell-off.

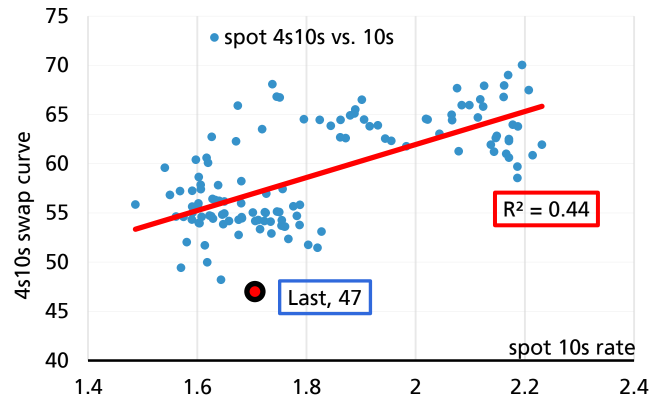
Conditional 3m into 4s10s bull steepener

The 4s10s swap curve, at 47bp, has extended its flattening to its lowest spread since 2008 (Figure 12). Further significant cheapening of the 4y (which carries attractively) to the 10y (the richest point on the curve) seems unlikely.

Figure 12: 4s10s vs the 10y swap rate, 2010 to 19-May-2016

Source: Bloomberg, UBS

Figure 13: 4s10s vs 10y, 6-month history, 19-May-2016



Source: Bloomberg, UBS

The differential in implied volatilities gives an investor a net premium takeout for a 3-month receiver option structure. Thus an investor gets free protection in the event rates rise from current forwards. A sample trade is shown in Figure 14. It pays 3cts to enter a duration neutral structure, which also has no decay (i.e. 0 net theta).

Figure 14: 3m 4s10s conditional bull steepener, indicative structure, 19-May-2016

Indicative Terms		Notional ($ MM)	Spot	Strike	*Money ness*	Prem (%)	DV01 ($K)	Underl DV01 ($K)	Gamma ($K)	Vega ($K)	Vol (bp/yr)	Theta ($K/d)
BUY	Recvr 3m4y	100	1.24	1.30	ATM	(0.59)	20	39	0.4	8	76	(4)
SELL	Recvr 3m10y	(42)	1.71	1.75	ATM	1.49	(20)	(39)	(0.4)	(8)	79	4
					(%)→	**0.03**	(0)	**0**	0.0	0		0

Source: Bloomberg, UBS

If rates and curves do not change over the 3-month horizon, the carry means that the trade should still pay about 10cts to an investor (Figure 15). We judge that over the next 3 months the curve has potential to steepen by 10 to 15bp, which would translate to an overall gain of about 40-50cts.

Figure 15: Estimated P&L scenarios at expiry for the 3m 4s10s steepener, 19-May-2016

10y→ 4y↓	**-40**	**-30**	**-20**	**-10**	**0**	**+10**	**+20**	**+30**	**+40**	**+50**
-40	10	49	88	127	167	183	183	183	183	183
-30	-30	10	49	88	127	144	144	144	144	144
-20	-69	-30	10	49	88	105	105	105	105	105
-10	-108	-69	-30	10	49	66	66	66	66	66
0	-147	-108	-69	-30	**10**	27	27	27	27	27
+10	-171	-132	-92	-53	-14	3	3	3	3	3
+20	-171	-132	-92	-53	-14	3	3	3	3	3
+30	-171	-132	-92	-53	-14	3	3	3	3	3
+40	-171	-132	-92	-53	-14	3	3	3	3	3

Source: Bloomberg, UBS

The risk to this is a sudden hawkish turn from the Fed while long-end rates remain subdued. However, this is less likely to take place without a strong pickup in data in the very near term, particularly in inflation, which should cheapen the 10-year point anyway.

Receiver spread with a net premium takeout

Another attractive way to position for a near-term range-bound market is via a 1x2 (buying at-the-money and selling out-of-the-money twice) receiver spread on intermediate maturities for a premium take-out. It would carry positive even if rates sold off while the gain would be even higher if they rallied further. The position would start showing a loss if rates rallied very far over a short period of time (Figure 17).

In Figure 16, we present a sample 1x2 receiver spread in 6m5y, struck at-the-money and -25bp out-of-the-money. We choose the 5y rate because it carries well, but has also lagged longer tenors in May so should have more potential to richen.

Figure 16: 6m5y 1x2 receiver spread ATM/-25, indicative structure, 19-May-2016

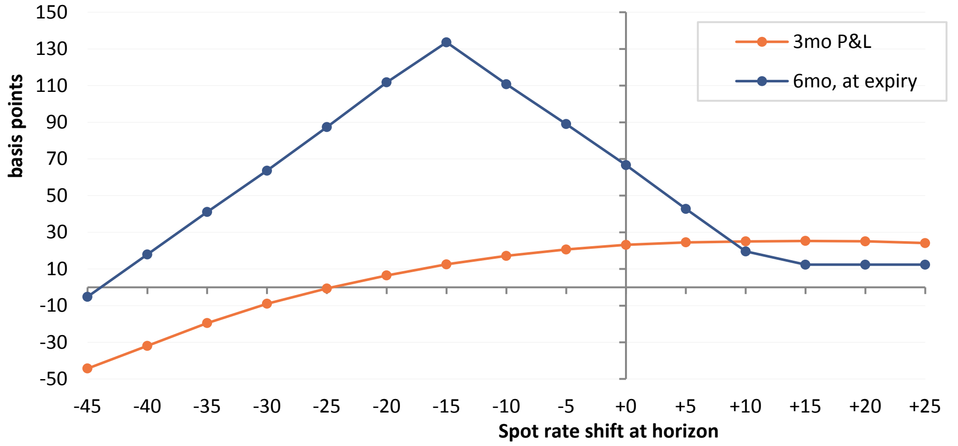
Indicative Terms		Notional ($ MM)	Spot	Strike	*Money ness*	Prem (%)	DV01 ($K)	Underl DV01 ($K)	Gamma ($K)	Vega ($K)	Vol (bp/yr)	Theta ($K/d)
BUY	Recvr 6m5y	100	1.33	1.44	ATM	(1.11)	25	49	0.4	14	81	(3)
SELL	Recvr 6m5y	(200)	1.33	1.19	ATM -25	0.62	(17)	(49)	(0.3)	(13)	81	3
					(%)→	**0.12**	8	**(0)**	0.0	1		(0)

Source: Bloomberg, UBS

The receiver spread pays out about 12cts up on entry. We suggest a horizon of about 3 months. The expected gain is more than 23cts if rates stay level or even if

they sell off somewhat (Figure 17). Over 3 months, the breakeven point is a rally in the 5y of about 33bp, which appears extreme.

Figure 17: Estimated P&L at 3mo and expiry for 6m5y 1x2 receiver spread, 19-May-2016



Source: Bloomberg, UBS

The risk over the near-term would be a dramatic rally in intermediate rates. We think this unlikely given the generally stable data and the market that now seems less likely to ignore the Fed's projections.

EUR: A disjointing of the inflation curve

Justin Knight

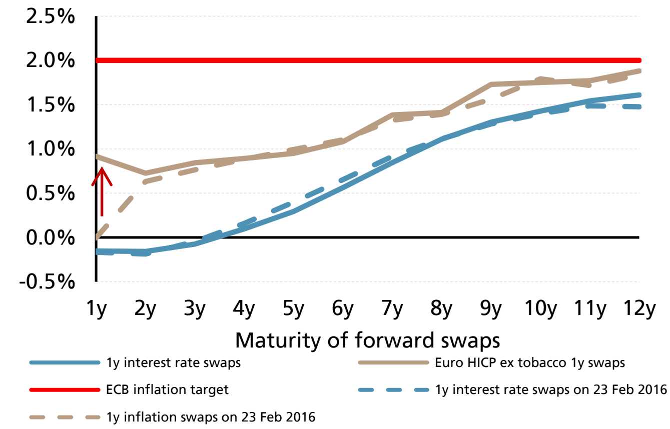
- Despite some carry-related re-pricing at the front end, inflation expectations remain supressed along the whole curve beyond that point. In addition, the relationship between front-end expectations and those further out seems to have broken down. Hopes for higher 5-year, 5-year forward rates rest on higher official year-on-year inflation data, other things (particularly risk markets) being equal.

What more does the inflation curve need?

Much of the rationale for our call for higher longer-term core yields has rested on the depressed market pricing of the outlook for growth and inflation in Europe. We believe that headline inflation will be running at about 1% by year-end and growth at about 1.6%. If we are right about that, a nominal growth of 2.6% is incompatible with current (or forward) Bund yields. We have pointed at depressed market pricing for future year-on-year inflation. This implies that inflation will not rise to the ECB's target of just below 2% until 9 years from now.

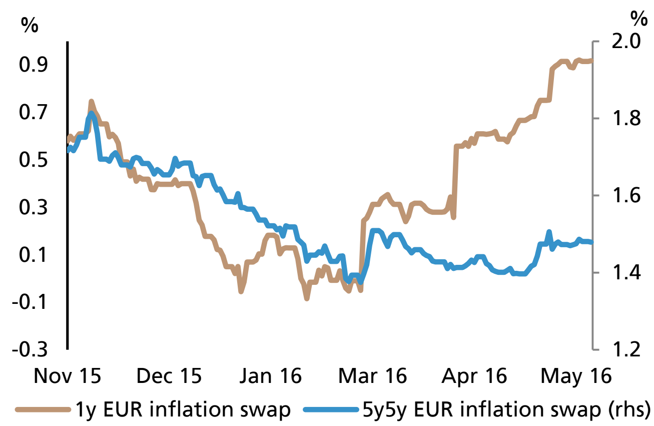
Until very recently, the market was also pricing that headline inflation would not converge with current levels of core inflation for several years. In February, the inflation market started pricing in a stronger headline inflation in one and two years' time (Figure 18). Much of that was likely a one-off carry effect. But there has been very little movement elsewhere in the forward curves for either inflation or real rates, and thus no uplift in longer-term nominal rates.

Figure 18: 1y euro area inflation and interest rate swaps as at 16 May 2016 and 23 February 2016



Source: UBS, Bloomberg

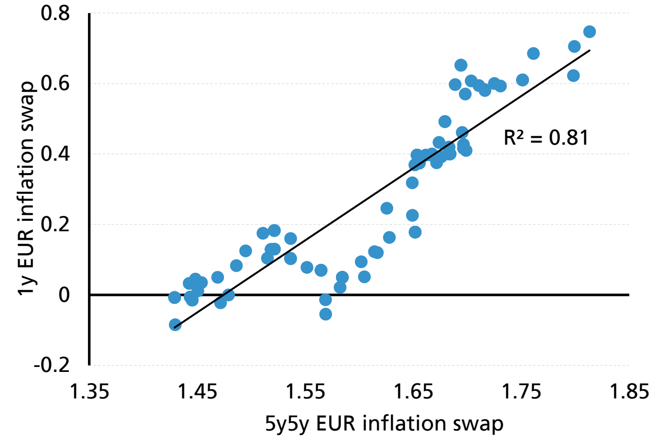
Figure 19: Spot 1y and 5y, 5y forward euro area inflation swaps, past 6 months



Source: Bloomberg, UBS

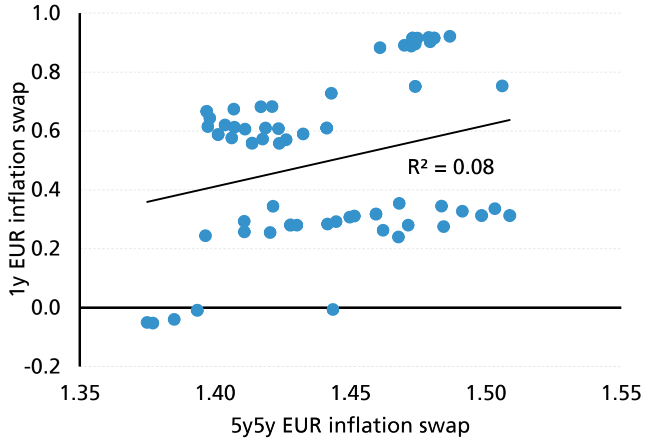
It is difficult to attribute this divergence entirely to one-off carry effects. Since February, it seems that there has been some kind of break between short-dated inflation swaps and the forwards further out. Looking at the 5-year, 5-year forward swap against the 1-year swap in Figure 19, it looks as though the relationship between them has broken down for now. This is confirmed by regression analysis in Figure 20 and Figure 21 which point to the strong link between the two swaps prior to 23 February having now disappeared.

Figure 20: Spot 1y vs. 5y, 5y forward euro area inflation swaps, 3 months to 23 February 2016



Source: Bloomberg

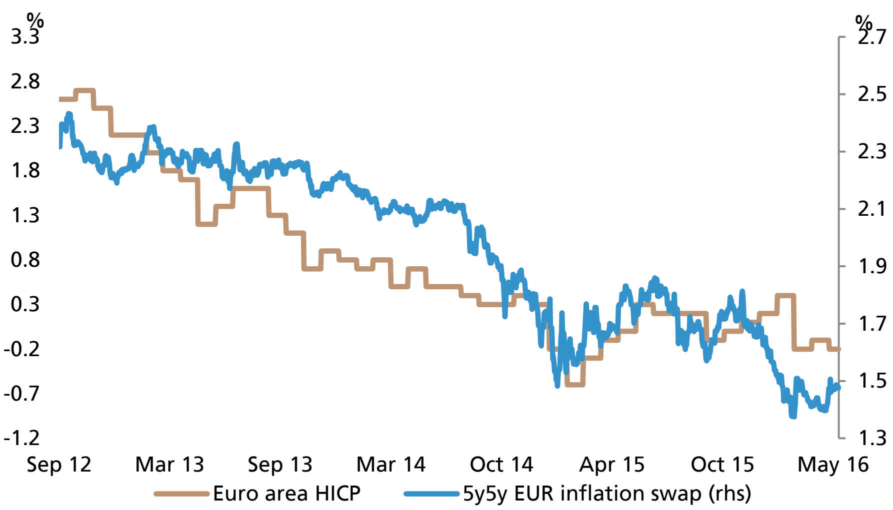
Figure 21: Spot 1y and 5y, 5y forward euro area inflation swaps, since 23 February 2016



Source: Bloomberg

But it is worth remembering that the current level of 1y inflation swaps represents an expectation (which is more than justified in our view) that inflation will reach 0.8% or so in a year's time. It does not reflect the current level of inflation, running at -0.2%. It seems like there is a good chance then that if headline inflation rises as we expect, so can longer-term market expectations in the form of the 5y5y inflation swap. Certainly over time the relationship has been strong – the last time that euro area HICP was at 1%, the 5y5y swap was more than 50bp higher (Figure 22).

Figure 22: Euro area year-on-year HICP and 5y, 5y forward inflation swaps, since September 2012



Source: Bloomberg, UBS

Conversely, if Bund yields fail to rise with year-on-year inflation (and without any new developments to keep yields supressed); we may need to re-assess our call for significantly higher core yields in Europe.

Euro area: ECB QE purchases of Portugal & Ireland

- The fall in purchases of Portuguese debt in Apr-16 did not mean that the ECB was unable to meet the monthly target of €80bn. PSPP programme gives the national banks certain degree of flexibility in implementation. Should the issuer limit be reached, it could prompt an increase in substitute purchases of debt issued by the supra-national institutions.

Nishay Patel

Justin Knight

Don't read too much in to the PSPP data on Portugal and Ireland

Eurosystem purchases of Portuguese and Irish debt in Apr-16 totalled an amount less than that implied by the ECB's capital key. This has prompted a number of market participants to question whether the ECB reduced purchases in April because it might be worried that it is nearing holding limits in these issuers. As a reminder, the pace of purchases can be influenced by market conditions and the national central banks have a degree of necessary flexibility if they cannot meet their monthly target amounts.

Portuguese debt purchases in April were less than the capital key share

Apr-16 purchases of Portuguese debt were only 81% of the implied share according to the ECB's capital key (Figure 23). The fall in purchases of Portuguese debt in Apr-16 did not mean that the ECB was unable to meet the monthly target of €80bn – the ECB has met the monthly target of asset purchases since the programme began in Mar-15.

…but total purchases of Portuguese debt are still above target

It is worth noting that, prior to Apr-16, the Eurosystem had been buying a larger amount of Portuguese debt than (that which) the capital key indicated. Between Mar-15 and Mar-16 the Eurosystem purchased 4% more Portuguese debt than the capital key share. Since Apr-16 this has come down to only 1.7% above target (Figure 24).

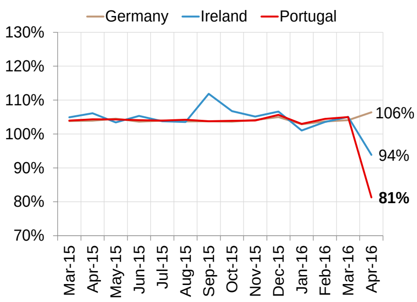
What will happen if/when the issuer limit is reached?

As a reminder, the ECB has repeatedly stated that the QE programme is flexible and the ECB's legal act enables national central banks to carry out, "substitute purchases of marketable debt securities issued by international organisations and multilateral development banks if the envisaged amounts to be purchased in marketable debt securities issued by central government and recognized agencies cannot be attained". Should the issuer limit be reached (which for Portugal could be before the end of this year), it could prompt an increase in substitute purchases by the national central bank as the universe of agency and corporate (non-bank) debt for Portugal is small.

Ireland: purchases still above target since QE began despite the fall in Apr-16

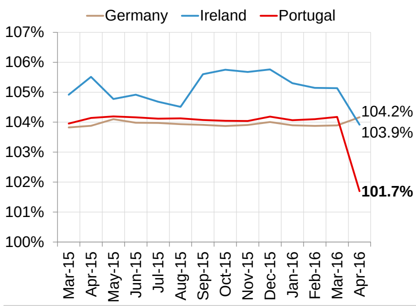
Since the programme started, purchases of Irish debt are 4% above the capital-key share despite the purchases in Apr-16 being below the target amount for the month.

Figure 23: Deviations from the capital key per month (the Eurosystem bought 81% of Portugal's capital key share for Apr-16)



Source: UBS, Bloomberg, ECB

Figure 24: Rebased cumulative monthly purchases vs capital key share (100 = Mar-15). Purchases of Portugal have been 1.7% more than implied by the capital key



Source: UBS, Bloomberg, ECB

EUR/UK: Implications of "Brexit" on rates markets

Nishay Patel

John Wraith

The euro area section of this article is an excerpt from a note that was originally published on 14 April 2016 (Macro-Strategy Key Issue: Brexit – Impact on the EU).

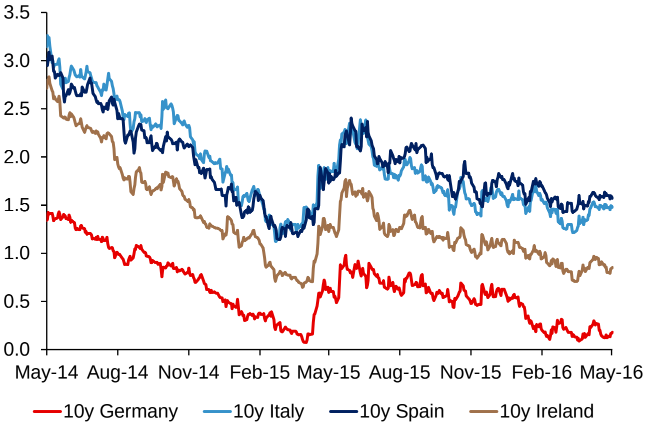
- If the UK votes to leave the EU we would expect markets to react in two phases: In the short term, right after the referendum, we would expect markets to price in confrontational negotiations between the EU and the UK; sterling would be most vulnerable and peripheral spreads to Germany would widen, particularly in Ireland and Spain. We would expect 10yr Italy-Germany spreads to widen to above 175bp, Ireland-Germany to over 90bp and Spain to underperform Italy. If the UK votes to stay, we would expect peripheral spreads to tighten vs Germany & sterling to appreciate over the remainder of the year.
- Over the longer term, the market reaction would depend more on signals as to whether the EU will move towards closer integration or disintegration. Closer EU integration would result in higher German yields and tighter peripheral spreads to Germany. In contrast, signs of EU disintegration would trigger sharply higher peripheral yields.

EUR market reaction following 23 June EU referendum

The degree to which financial markets price Brexit risk prior to the referendum on 23 June is likely to be governed by how UK opinion polls trend in the lead-up to the vote.

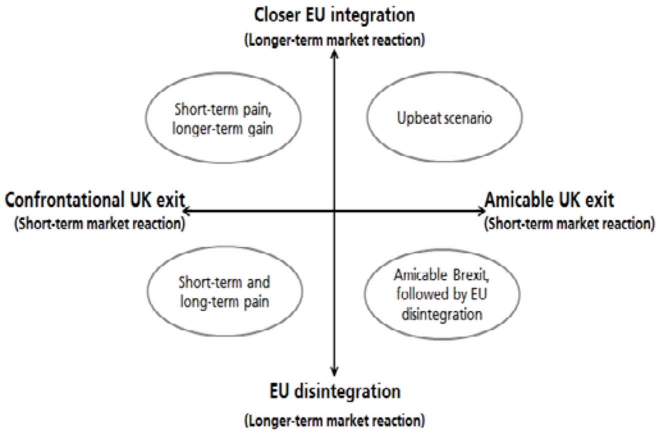
Polls continue to show that the outcome of the referendum is likely to be close. The response in currency markets since Q4-15 has been for a weaker sterling[1], in line with our expectations[2]. However, other assets such as peripheral Eurozone bond markets have not displayed any meaningful concerns so far, perhaps as a result of accommodative ECB policy rather than Brexit being seen by market participants as having a negligible impact on the periphery (Figure 25). Should a vote for Brexit come unexpected, we would anticipate a broadening of the pressure on markets.

Figure 25: Peripheral yields have trended lower in the past 12 months



Source: UBS Research, Bloomberg.

Figure 26: Brexit impact on the EU: two "axes of uncertainty" and four scenarios



Source: UBS Research.

[1] Global Macro Strategy: The pounding of the pound, 21 January 2016

[2] Global Macro Strategy: A "Brexit" Map for Sterling, 28 February 2016

If the UK votes to leave the EU, we would split the likely subsequent moves into two distinct phases:

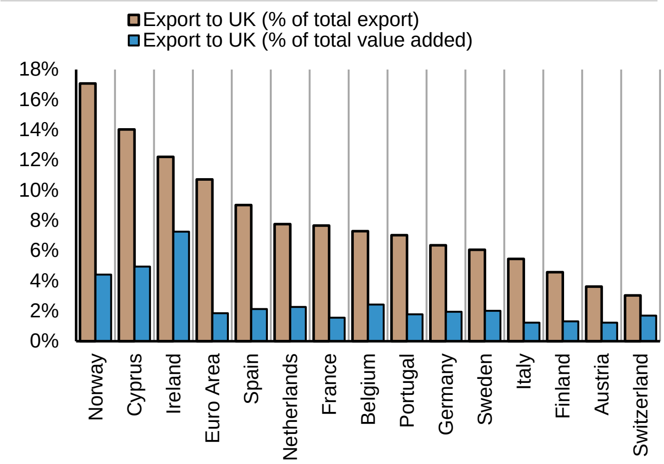
- **Phase 1:** A near-term market impact where investors become concerned about the economic implications for remaining EU members. In this stage, the market reaction might depend crucially on whether the Brexit negotiations are expected to proceed in an amicable or in a confrontational fashion and whether the UK is expected to maintain a high degree of integration with the EU or not (i.e. movements along the horizontal axis of our 4-quadrant scheme - Figure 26).
- **Phase 2:** A longer-term market reaction based on expectations as to whether Brexit is followed by closer EU integration or EU disintegration over time (i.e. movements along the vertical axis of our 4-quadrant scheme - Figure 26).

Phase 1: Near-term market impact (horizontal axis)

The sterling exchange rate has been the main source of vulnerability in anticipation of the referendum vote, and we would expect it to remain a central part of the Brexit adjustment. We forecast EUR/GBP rising to 0.84 by 23 June – with a 'Leave' vote potentially pushing the cross towards parity. The UK economy appears to be significantly imbalanced, reflected most clearly in its current account deficits, and Brexit would likely force a rapid adjustment[3]. Brexit might also trigger a kneejerk drop in EUR/USD, but we would not expect material euro weakness. Episodes of rising Eurozone political risks have continually failed to weaken the EUR. Similarly, risk-aversion might put pressure on the CHF, but we would expect the SNB to move against currency strength.

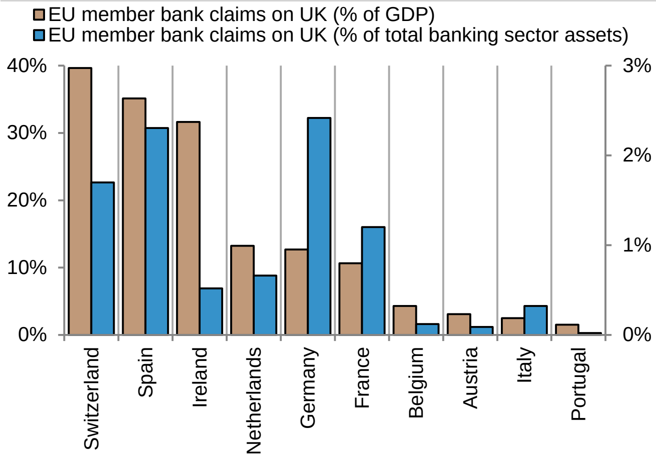
If the UK votes to leave the EU, heightened risk-aversion is likely to result in wider peripheral spreads to Germany (from current levels). The largest impact within Eurozone bond markets is likely to be on member states that have the largest fundamental exposure to the UK, such as Ireland and Spain. Within core markets, the Netherlands is the most exposed.

Figure 27: Trade exposures to the UK



Source: UBS, OECD

Figure 28: Banking sector exposures to the UK



Source: UBS, Haver Analytics, BIS

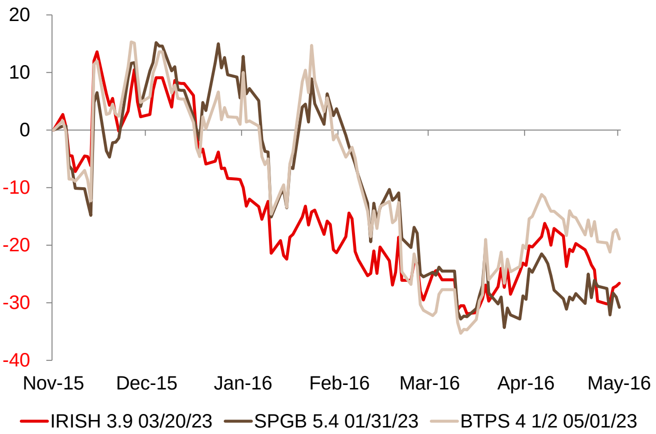
[3] Please see Could Brexit be a catalyst for GBP to par the EUR?, Themos Fiotakis, 13 April 2016, for more details.

If Brexit occurs, we anticipate the 10-year Italy-Germany yield spread to initially widen above 175bp, Spain to underperform Italy, 10-year Ireland-Germany spreads to widen above 90bp, and Netherlands to underperform Germany.

The impact on 10-year German yields is likely to be asymmetric. On the one hand, a rise in peripheral yields is likely to put downward pressure on 10-year German yields due to safe-haven flows. However, 10-year German yields are already low (0.15%) and valuations are too pessimistic given fundamentals, in our view[4].

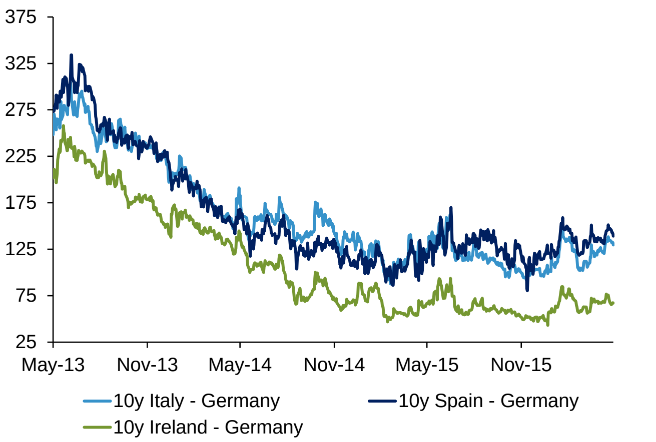
Overall, we believe the market would expect difficult negotiations between the UK and the EU in the event of a 'Leave' vote, although it might not have a strong view, at that juncture, about the future integration or disintegration of the EU. In terms of the spirit in which Brexit negotiations might be conducted, public remarks by senior EU politicians in the aftermath of 23 June will likely be important. For example, should the European Council indicate a strong sense of goodwill and determination to finish negotiations quickly and in a cooperative fashion, and with the aim of maintaining a high degree of integration with the UK, market concerns might dissipate relatively quickly – although this would have to be confirmed once negotiations actually get underway.

Figure 29: Normalised yield changes



Source: UBS Research, Bloomberg.

Figure 30: 10-year yields spreads to Germany (bp)



Source: UBS Research, Bloomberg.

Phase 2: Longer-term impact (vertical axis)

Following the initial move described in "Phase 1", the longer-term impact on FX and rates markets is difficult to assess, as it is likely to play out over a longer period. It would take significant evidence to show that disintegration would materialise before peripheral spreads are deemed to widen well above the levels that we anticipate in the immediate aftermath of a UK vote to leave the EU. Indeed, initial risk-aversion and market moves may overshoot and reverse.

While clarity about the future degree of EU (dis)integration would likely emerge only slowly, expectations about the EU's longer-term path could stabilise more quickly if the European Commission or the European Council were to present a comprehensive "Plan B" and outline its plans for future integration.

[4] Global Rates Strategy: Euro Area – Bund blues, 24 March 2016

- **Integration:** This would be supportive for higher German yields and tighter peripheral spreads to Germany.

- **Disintegration:** This scenario would have the biggest risk for peripheral Eurozone markets, as the probability of a Eurozone break-up might arguably rise, triggering a substantial rise in peripheral yields.

A vote to remain in the EU

The pound has weakened since Q4 15, and we would expect a 'Remain' vote to reverse the recent course of EUR/GBP and push it towards 0.73.

Greater clarity about the outlook for the EU should also result in tighter 10-year Italy-Germany spreads, which we expect to narrow to 90bp by end-2016, from currently 117bp. However, when considering current valuations in 10-year Italian government bonds, the risk-reward on taking new (long) positions versus Germany seems unattractive to us.

UK market reaction following 23 June EU referendum

While there has been a reasonable recovery in sterling over the past month, it remains almost -7% lower in trade weighted terms than its level of six months ago, and we believe further nervousness ahead of the vote is likely to undermine it further over the next five weeks. Sentiment in markets appears to have become surer that the UK will vote to stay in the EU, and that by maintaining the status quo the economy will then be in a good position to regain lost momentum in the first and second quarter of the year. This would likely see the interest rate market bring the implied timing of the first rise in Bank Rate significantly earlier than the current two and a half years away, and we would expect sterling to make up more of the lost ground of the past six months.

However, there are two important caveats which lead us to recommend a cautious stance at this juncture. The first is that the outcome looks much less certain than markets are beginning to anticipate – with online polls continuing to consistently point to a very even balance between those intending to vote to remain, and those intending to vote to leave, and also repeatedly finding that anything up to 30% of respondents remain undecided, and thus unpredictable (both in terms of whether they will vote, and how they will vote if they do).

The second is the risk that the loss of economic momentum that is increasingly clearly underway (the PMIs, for example, all significantly undershot expectations for April, and the composite reading has fallen rapidly from above 56.0 to below 52.0 in just the past three months) becomes so pronounced that the anticipated bounceback in the second half fails to materialise. With inflation still not far above zero, some members of the MPC are likely to want to consider the need for easier policy even in the event of a vote to remain if activity does not swiftly return to a more robust path. Gertjan Vlieghe made exactly this point in a speech this week, saying that "if convincing evidence of an improvement in the economic outlook is not apparent soon, this will reduce my confidence that inflation is likely to return to the target within an acceptable time horizon without additional monetary stimulus". Any post-referendum sterling strength and higher front end yields therefore become contingent on a clear upswing in the main economic data indicators, and may therefore be gradual and protracted if indeed it materialises at all.

UK – losing momentum as the referendum nears

John Wraith

- Economic momentum seems to be slowing in the UK more emphatically than anticipated ahead of the forthcoming referendum on EU membership. Investment decisions are being delayed until the outcome is clear, with anxieties magnified by ongoing uncertainty over the outlook for global growth. The Bank of England reflected these concerns in the recent Quarterly Inflation Report, while maintaining an above-target forecast for CPI at its forecast horizon – a reminder that if momentum is regained in the second half of the year, the current implied timing of the first rise in Bank Rate will need to move significantly earlier.
- Meanwhile, the DMO is making good progress in its deliberate efforts to get well ahead of schedule with its issuance programme ahead of a break in issuance of almost four full weeks over the period of the referendum.

Mounting signs of a slowing economy in recent data releases

It always seemed likely that the event risk emanating from the UK's referendum on EU membership would start to sap momentum from the pace of economic activity in the run-up to the vote on 23rd June. The extent to which that would occur was unclear, but it is looking increasingly evident that a relatively material change in trajectory is underway. The greater the loss of momentum ahead of the vote, the greater the risk that any subsequent reacceleration once the uncertainty over the outcome is resolved proves insufficient to keep the overall recovery on track to eliminate spare capacity and gradually increase the possibility of tighter monetary policy.

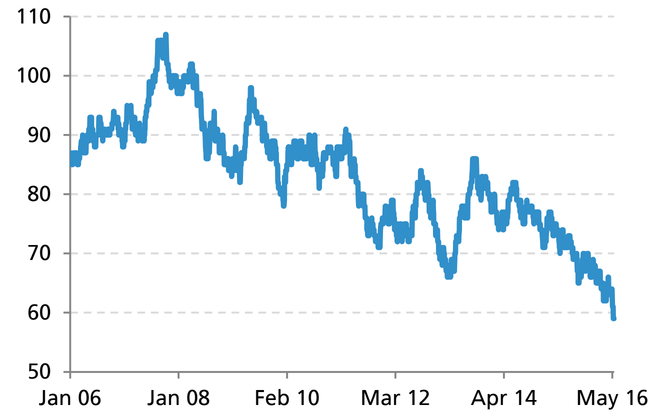
Over the past month, important indicators that have both deteriorated, and done so more rapidly than consensus expectations anticipated, include all the major PMI indices, several key labour market indicators, consumer confidence and retail sales (Figure 31). These downside disappointments have combined to send our growth surprise index to record lows, and the lower nominal growth expectations and stronger safe haven demand they generate have helped drive 10y yields to within a few basis points of their lowest levels on record too (Figure 32, Figure 33).

Figure 31: Selected major UK data disappointments in April and May 2016

	PREVIOUS	MEDIAN FORECAST	ACTUAL
MANUFACTURING PMI	51.0	51.2	**49.2**
CONSTRUCTION PMI	54.2	54.0	**52.0**
SERVICES PMI	53.7	53.5	**52.3**
COMPOSITE PMI	53.6	53.2	**51.9**
JOBLESS CLAIMS CHANGE	-18.0k	-10.0k	**+6.7k**
AVERAGE WEEKLY EARNINGS (3m / y/y)	2.1	2.3	**1.8**
EMPLOYMENT CHANGE (3m / 3m)	116k	60k	**20k**
GfK CONSUMER CONFIDENCE	0	-1	**-3**
HEADLINE RETAIL SALES (y/y)	3.8%	4.4%	**2.7%**

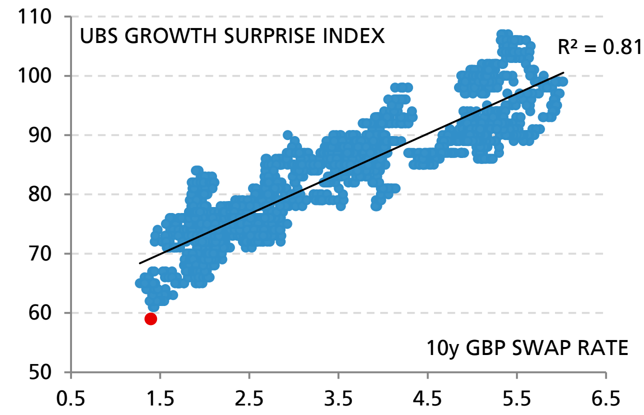
Source: Markit / CIPS, ONS, GfK, UBS Global Research

Figure 32: UK Growth Surprise Index, Jan 2006-May 2016



Source: UBS

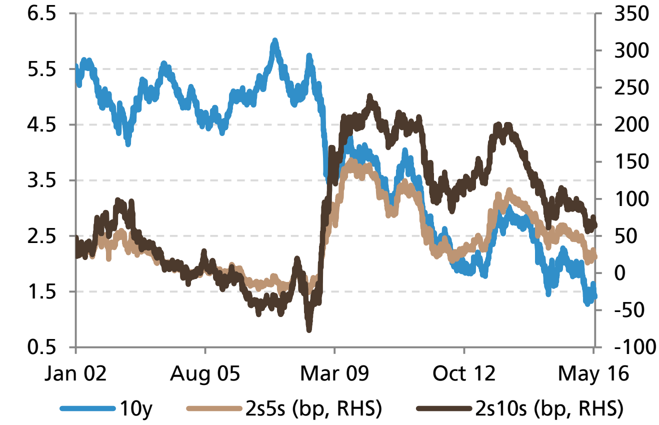
Figure 33: Correlation between UK Growth Surprise Index and 10y swap rate, Jan 2006-May 2016



Source: Bloomberg, UBS

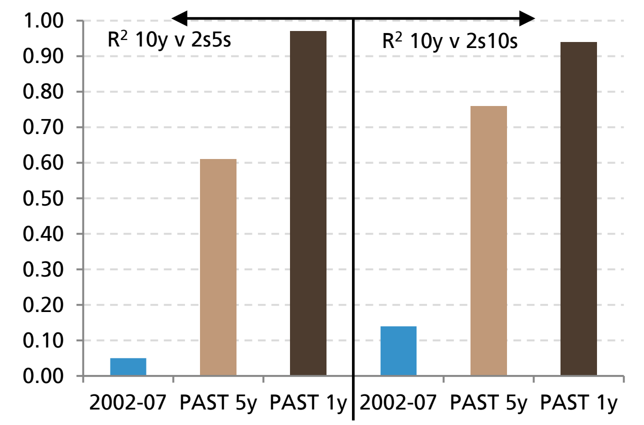
This data-driven compression of 10y rates towards historic lows is also leading the curve towards ever-flatter levels. With front end yields pricing in so little change in super-low policy rates for the next several years, the relationship between 10y yields and the shape of the curve (2s5s, 2s10s) has been very strong and intensifying over recent years, in marked contrast to the looser relationship between medium yields and the curve that characterised earlier periods (Figure 34, Figure 35), and with little prospect of a material repricing of rate expectations at the front end any time soon, this powerfully directional behaviour of the yield curve is likely to persist for a significant time to come.

Figure 34: 10y GBP swap rate, 2s5s, and 2s10s – 2002-2016



Source: Bloomberg

Figure 35: R^2 between medium term GBP swap rates and selected curve sectors over recent years



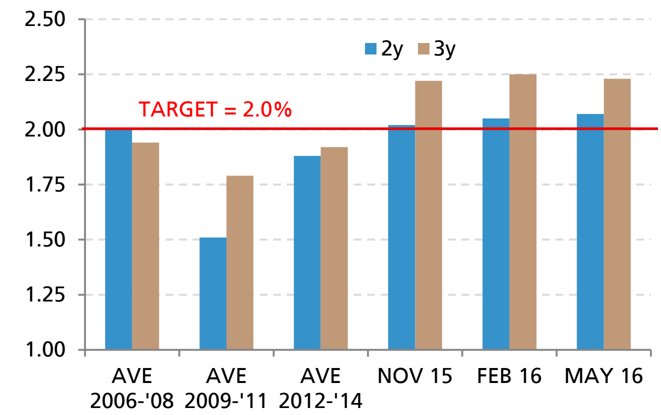
Source: Bloomberg, UBS Global Research

Bank of England shares growth concerns, but still sees CPI above target

In the May Quarterly Inflation Report, published on the 12th May, the Bank of England pared back its GDP forecast for 2016 from 2.2% to 2.0%, and for 2017 from 2.4% to 2.3%. These growth projections are conditioned on continued UK membership of the EU beyond the referendum, and on the path for monetary policy implied by market rates. On one hand, this reflects a shared concern that the slowing of activity growth in Q1 2016 – and the further deceleration anticipated in Q2 – will be followed by a recovery later in the year, but only to rates a little below the historic average.

On the other hand, the Bank continued to communicate the expectation expressed in both the November 2015 and February 2016 Quarterly Inflation Report forecasts, that market rate expectations – while appropriate for the time being – remain lower than is consistent with the MPC's intention to return CPI to the 2.0% target over the next two years, and then to keep it at that level thereafter – as Figure 36 illustrates, the Bank's median forecasts for CPI based on market rates remained just above the 2.0% target at the 2y horizon, and more markedly so at the 3y horizon. The looming referendum and slowing data indicators mean the front end will not come under any near-term pressure to reprice to a more hawkish projected rate path, but if momentum improves during the second half of the year, it is likely to be swiftly followed by a more optimistic tone in MPC communications and an attempt to nudge front end yields gradually higher, and the timing of the first expected rate hike gradually earlier than its current distance of more than three years hence (Figure 37).

Figure 36: Median Bank of England QIR CPI forecasts based on market rates at 2y and 3y horizon (%)



Source: Bank of England

Figure 37: Market-implied number of months until first 25bp hike fully priced in (overnight index swaps)

Source: Bloomberg, UBS Global Research

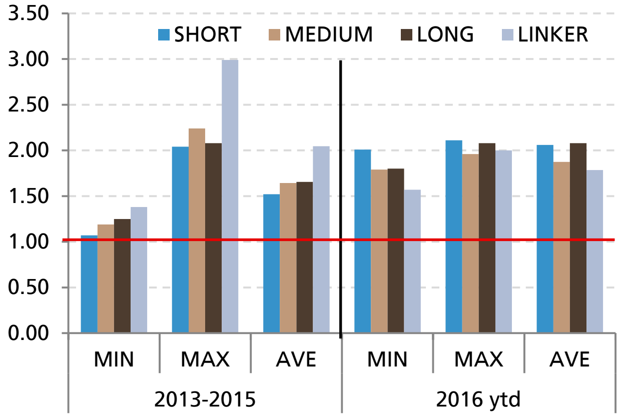
Success of new initiatives helping DMO get well ahead of schedule

Alongside the publication of the fiscal 2016 Gilt supply remit, the DMO announced several new initiatives aimed at helping stimulate participation in supply events. These included reducing the size of auctions (particularly of short and medium conventionals), retaining a larger share of overall issuance in unallocated form (allowing greater flexibility to target evolving demand patterns), and increasing both the GEMMs' non-competitive bid allowance and the Post Auction Option Facility (PAOF) rate from 10% to 15%.

Seven weeks into the programme, the early signs are encouraging, with generally higher and more stable bid-to-cover ratios, and shorter yield tails, than at auctions in the past three fiscal years (Figure 38, Figure 39). This has been achieved even as the DMO has conducted sales well in excess of the average pace that would be required to fulfil the full year's borrowing needs – so far, over £24bn has been raised compared to a pro rata target of about £17.5bn. The need for the DMO to get the year off to a fast start has been created by the decision to leave the period either side of the referendum clear of any issuance to ensure any market volatility or temporary lull in demand does not impact on the supply programme; there will be a 26 day pause in Gilt issuance between the 9th June and the 5th July, matching the longest supply-free period since August-September 2007. If supply was spread evenly throughout the year, the DMO would be looking to issue almost £10bn

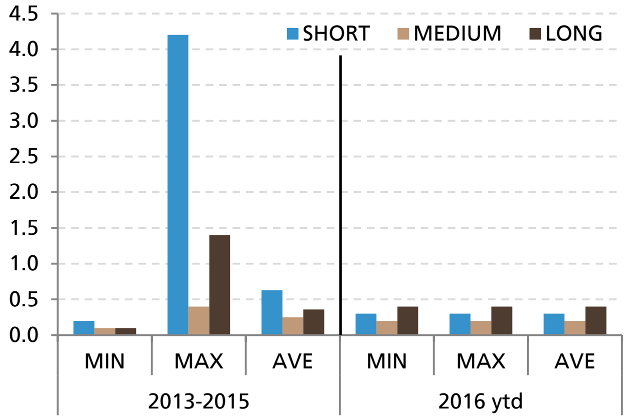
during the referendum-related break, and with its fast start to the year is ensuring that even when the hiatus ends in early July, year-to-date issuance will be almost exactly in line with the pro rata target at that point in time.

Figure 38: Gilt auction bid-to cover ratios, 2013-2015 and 2016 year to date (times covered)



Source: DMO, UBS Global Research

Figure 39: Gilt auction yield tails, 2013-2015 and 2016 year to date (bp)



Source: DMO, UBS Global Research

Swiss 10yr yields unfazed by improving fundamentals

Nishay Patel

Felix Huefner

- The latest set of data releases highlight a number of positive developments related to the Swiss economy (a weaker CHF, better than expected Eurozone real GDP, stronger business confidence, higher Swiss CPI and consumption). However, the reaction in 10yr Swiss yields to an improving set of indicators has been muted, even while short-end Swiss yields have risen.

- We feel the drag on 10yr Swiss yields has largely been a result of the fall in 10yr German yields which we expect to reverse over the medium-term. Therefore we remain bearish on 10yr Swiss yields.

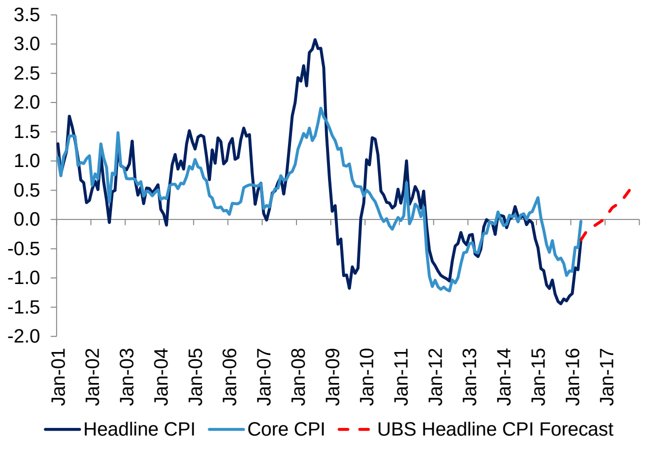
Factors that have been supporting and reflect an improvement in fundamentals in Switzerland

- **Swiss CPI:** Headline inflation has increased recently from -1.3% in January to -0.4% in April, driven primarily by a substantial rise in core inflation and somewhat less drag from energy prices. We have increased our forecast and now expect inflation to average -0.3%y/y this year (up from -0.7% before) and 0.4% in 2017 (up from 0.2%). This implies that inflation should gradually increase going forward, helped by the projected rise in energy prices and a weaker CHF, and turn positive at the turn of the year. In 2017q4, headline inflation is projected to be 0.6%.

- **Eurozone real GDP:** Preliminary Q1 GDP data for the Eurozone was surprisingly strong (0.5% q/q, 1.5% y/y) and prompted our economics team to increase their 2016 growth projection. We expect the Eurozone recovery to continue, with GDP growth rates of 1.6% in 2016 and 1.7% in 2017, after 1.5% in 2015[5].

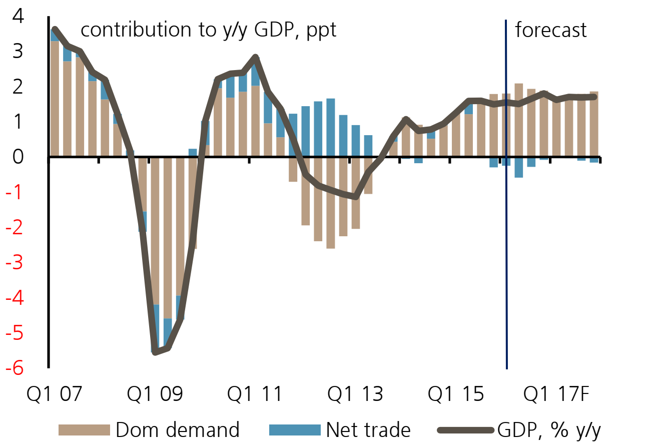
- A further improvement in euro area fundamentals can be expected to be supportive for the Swiss economy. We look for Swiss GDP growth of 0.8% YoY in 1Q-16 (and 1% for the whole of 2016). Business confidence has risen markedly this year so far, with the Manufacturing PMI standing at a two-year high of 54.7 in April.

Figure 40: Swiss inflation: core and headline (YoY change)



Source: Haver, UBS

Figure 41: Eurozone GDP



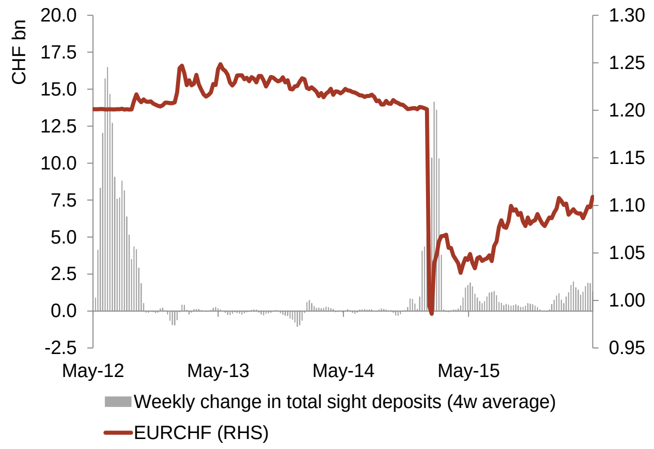
Source: Haver, UBS

[5] Global Macro Strategy: Switzerland looking up, 4 March 2016

- **EURCHF:** We view the two factors highlighted above as the main drivers behind the recent move higher in EURCHF. The depreciation of the Swiss franc over the last a few weeks has resulted in smaller increases in weekly sight deposits (a proxy for FX interventions) than in the previous three weeks.

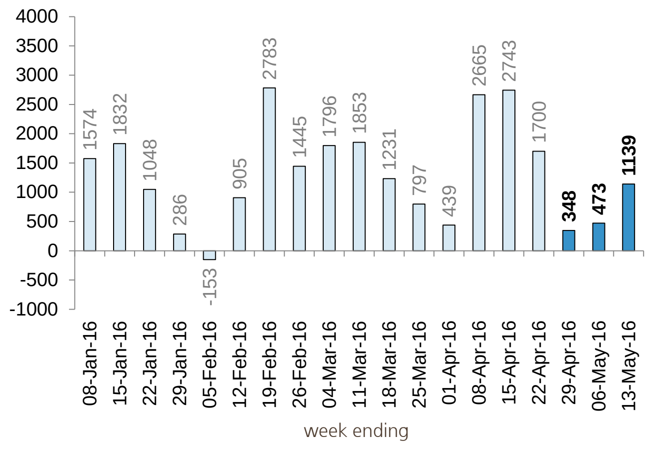
- We look for the CHF to depreciate further against the EUR and (target 1.15 by end-2016) as a result of further strength in the two factors mentioned above.

Figure 42: EURCHF vs weekly change in sight deposits (4wk rolling average)



Source: UBS, Bloomberg, SNB

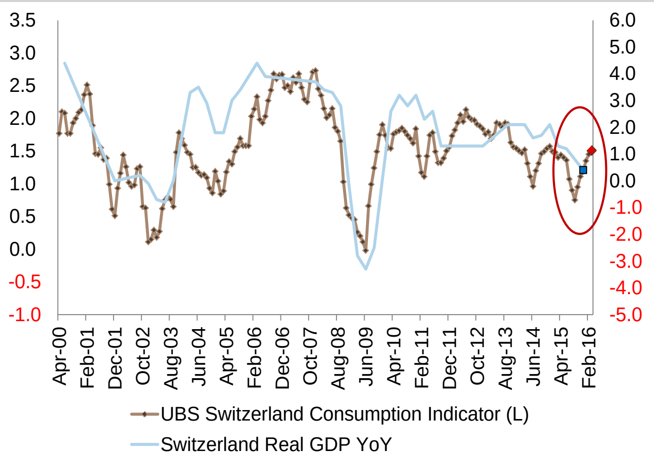
Figure 43: Weekly change in sight deposits at the SNB (week ending)



Source: UBS, Bloomberg, SNB

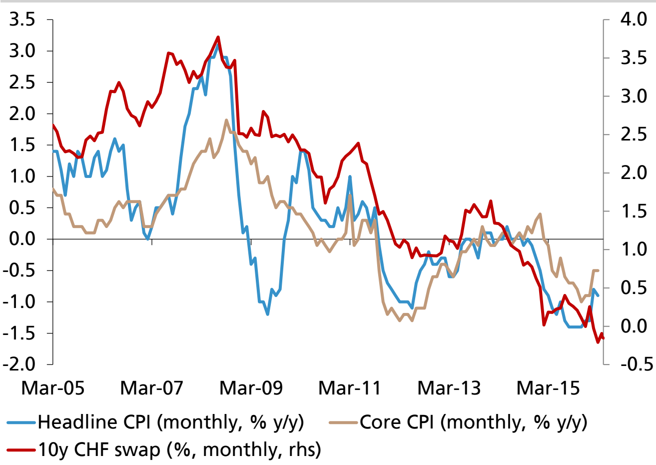
- **UBS Consumption indicator:** The UBS consumption indicator (a signal for private consumption trends in Switzerland) has increased in each of the last six months. Given the importance of private consumption in real GDP this can be seen as indication that Swiss GDP is likely to recover gradually. We project GDP growth of 1% in 2016 and 1.5% in 2017 (Global Macro Strategy: Switzerland looking up, 4 March 2016)

Figure 44: UBS Switzerland Consumption Indicator vs Switzerland Real GDP YoY



Source: UBS, Bloomberg

Figure 45: 10yr CHF swap yields have decoupled with Swiss CPI in the last few months



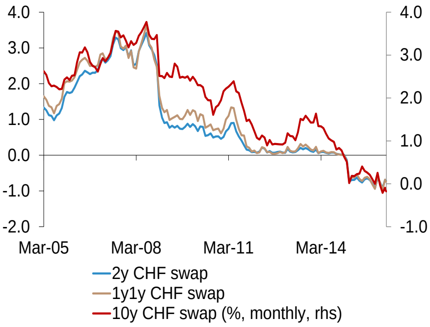
Source: UBS, Bloomberg

What can be expected in the medium-term

10yr Swiss yields have exhibited a reasonable relationship with the level of CPI and a much higher correlation with short-end yields (as one would expect). However, the price action in 10yr Swiss yields over the last few weeks has not mirrored the

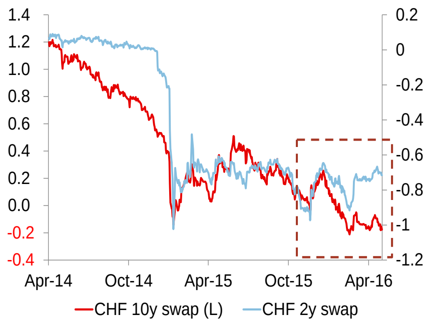
improvement in CPI (both core and headline) and the rise in short-end yields. We feel that this has largely been due to the low level of 10yr German yields.

Figure 46: Swiss interest rate swap yields: 10yr yields have largely been directional with short-end yields (long-term history)…



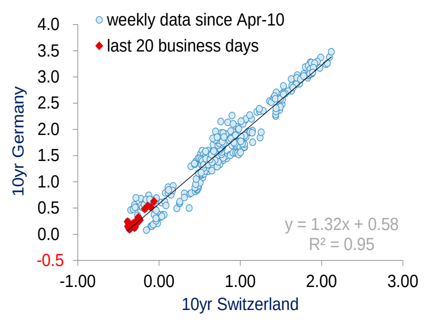
Source: UBS, Bloomberg

Figure 47: …of late (short-term history in history below) the rise in 2yr yields has not fed



Source: UBS, Bloomberg

Figure 48: 10yr Swiss yields continue to remain highly correlated with German yields (which we expect to rise) – weekly data since 2010

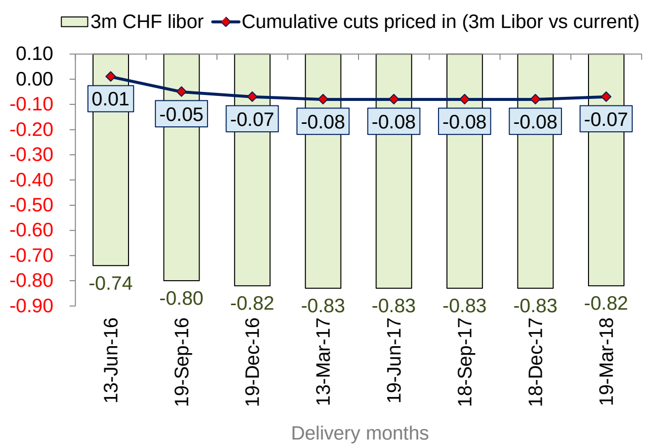


Source: UBS, Bloomberg

We expect a further improvement in Euro Area fundamentals to result in higher 10yr German yields as the gap between nominal GDP and 10yr yields is reduced. Therefore, we continue to favour bearish positions in 10yr Switzerland especially in the context of higher CPI (supported by a weaker CHF and higher oil prices) and what has been resilient Euro Area growth in a subdued external environment.

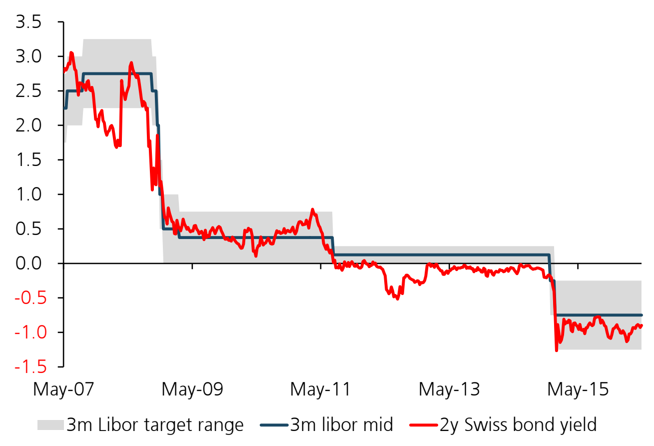
As for the short-end of the Swiss curve, we look for a reduction in the probability of rate cuts over the coming months. This is largely a result of our expectation of EURCHF moving higher and resulting in upward pressure on Swiss CPI.

Figure 49: Cumulative cuts policy rate cuts priced in



Source: UBS Research, Bloomberg

Figure 50: SNB libor target range and 2yr yields



Source: UBS Research, Bloomberg

<u>Risks:</u> A resurfacing of the Eurozone crisis or a Brexit "Leave" vote might provide a challenge to the SNB's defence (and we would expect the SNB to step up FX interventions in such a scenario), although we do note that EUR/CHF was relatively stable around the July 2015 Greek bailout referendum.

Further rate cuts by the SNB would follow, we believe, if EURCHF falls back to 1.05-1.07 or below. Should these risks materialise, the trajectory for higher yields is likely to be more gradual than we envisage in our base line scenario.

Australia: Who will take down the record supply of Aussie bonds?

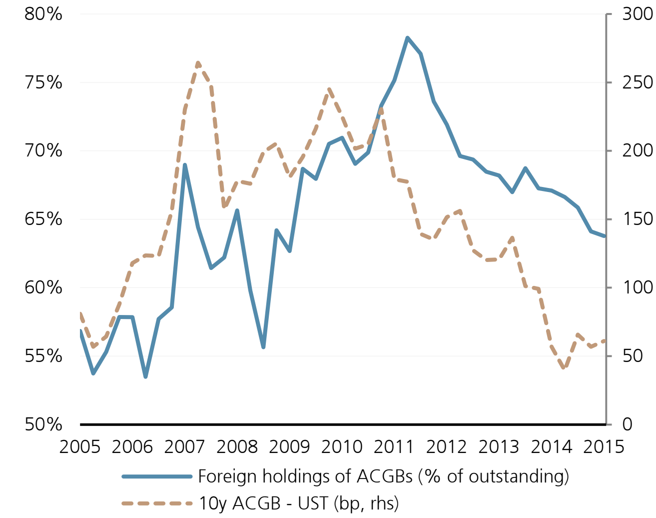
Joakim Tiberg

- Unless overseas investor demand for ACGBs increases, domestic investors look set to absorb the largest amount of net issuance on record in 2016-17. This risks weighing on swap spreads in the year ahead. Receiving Aussie spreads vs. paying US spreads also appears attractive.

Increased reliance on the domestic investor base points to tighter swap spreads

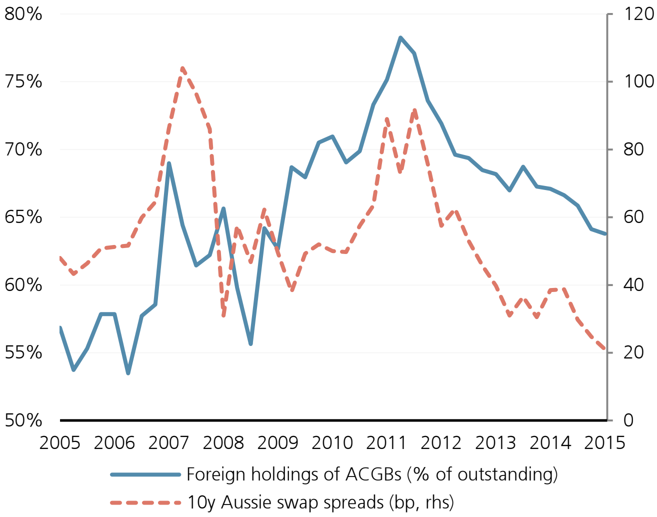
The composition of demand for Aussie bonds has historically been important for market developments. With a record amount of supply set to hit the market in the 2016-17 fiscal year (starting in July), we expect the demand composition to be particularly important for swap spreads.

Figure 51: The cause? Foreign investors have historically increased their ACGB market share during times of wide 10-year yield spreads vs. US Treasuries



Source: ABS, AOFM, Bloomberg, UBS

Figure 52: The effect? Swap spreads tend to widen (i.e., bonds tend to richen vs. swaps) when overseas investors up their share of the Australian government bond market



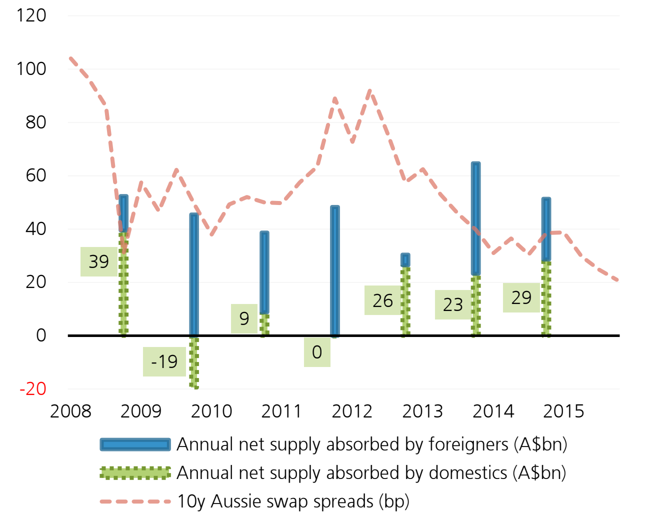
Source: ABS, AOFM, Bloomberg, UBS

Overseas investors have tended to show a greater appetite for Aussie bonds during times of wide yields spreads to US Treasuries. This is characterised by Figure 51, showing how the 10y ACGB – UST spread has led foreign investors' share of the ACGB market. While clearly not the sole driver of swap spreads, periods in which overseas demand has been strong have tended to see bonds richen, and vice versa (Figure 52).

The decline in the market share held by overseas investors seen since the peak in 2012 has not been associated with net selling of bonds from this investor category – just a slower pace of net buying. But as net buying slowed, the domestic investor base took down substantially more net supply in fiscal years 2013, 2014 and 2015 than in the preceding three years (Figure 53).

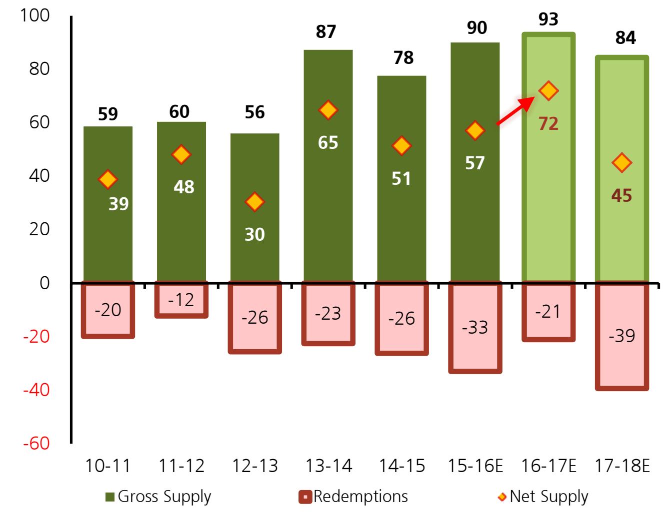
Going forward, even if foreign investors were to add ~A$46bn to their ACGB holdings in 2016-17 – the approximate amount required to maintain their 64% share of the ACGB market and vs. ~A$21bn of net purchases in calendar year 2015 – it would still leave A$26bn of net supply to be absorbed domestically. Given where cross-market yield spreads are, we would not be surprised if the domestic investor base would have to take down a considerably larger amount.

Figure 53: Periods in which domestic investors have taken down large amounts of issuance (sizeable green columns) have coincided with tighter swap spreads…



Source: ABS, AOFM, Bloomberg, UBS calculations. Net supply per fiscal year

Figure 54: … with (gross and) net supply on track to be the heaviest on record in 2016-17, domestic investors might again have to be relied upon (A$bn)

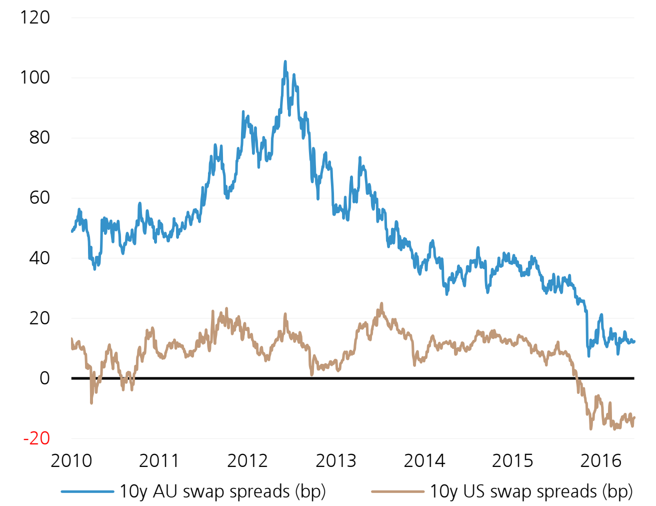


Source: Commonwealth Treasury, AOFM, Bloomberg, UBS (incl. forecasts)

While there are factors that could limit the impact of the supply story (discussed below), on balance we see it as sufficiently significant to put tightening pressure on swap spreads. We would not rule out revisiting the ~5bp level from Nov-15 over the coming 12 months, and possibly break through it.

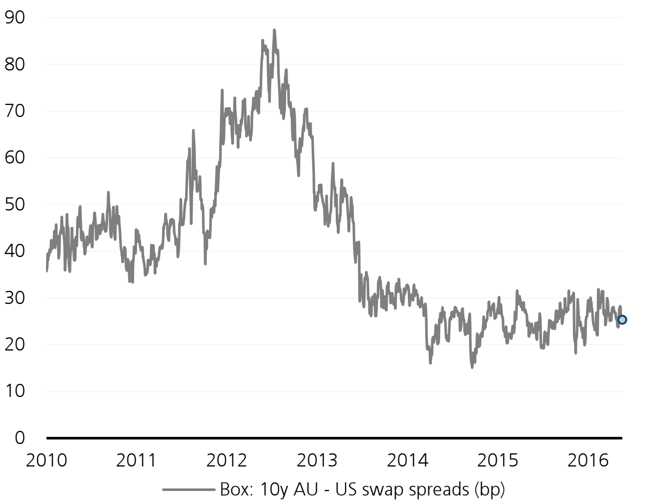
Aussie spreads are also relatively wide vs. US spreads (Figure 56). The box trade could be additionally supported by US Treasuries disproportionally benefitting from global demand in light of negative interest rate policies (see the article 'What Japanese Investors Are Buying' herein).

Figure 55: 10y Aussie swap spreads trade at historically tight levels, but we do not discount further tightening



Source: Bloomberg, UBS

Figure 56: Aussie spreads trade towards the wider end vs. US spreads since 2014

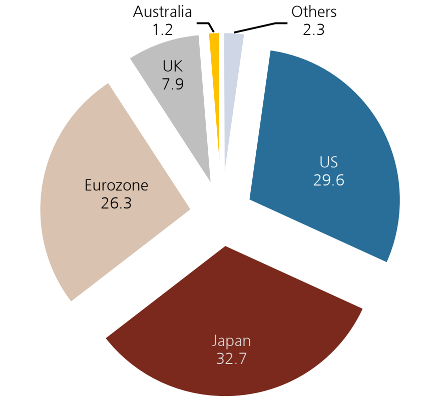


Source: Bloomberg, UBS

Australia's share of global bond indices to increase – but little evidence this mechanically triggers demand

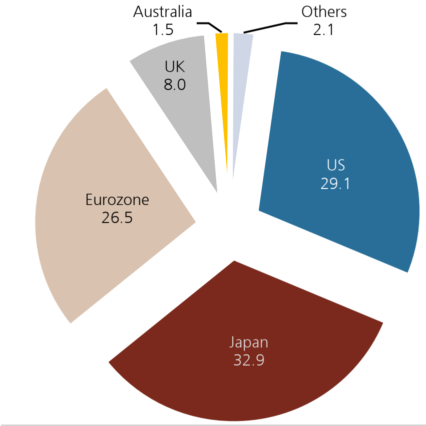
One argument in support of increased foreign investor demand for Aussie bonds is that Australia's weight in global bond indices is likely to increase in the years ahead, which could lead to passively benchmarked investors mechanically buying into the uptick in supply. However, the relationship between past index changes and foreign ownership of Aussie bonds is weak.

Figure 57: Current market weights in our proxy for a global bond index



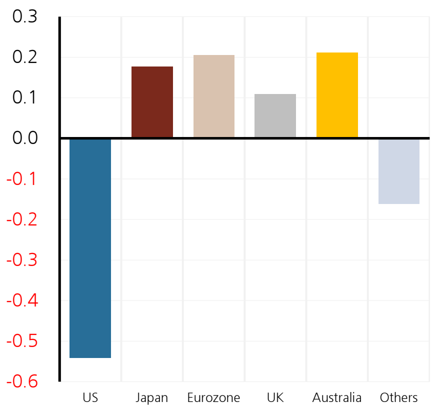
Source: Bloomberg, UBS (incl. forecasts)

Figure 58: Forecast June 2018 bond market weights in our proxy index



Source: Bloomberg, UBS (incl. forecasts)

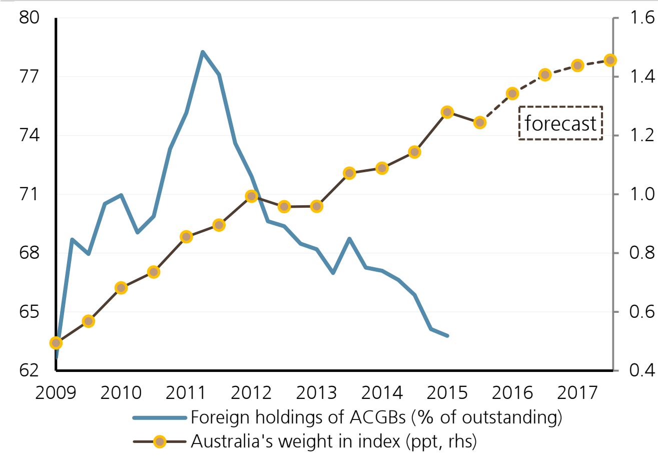
Figure 59: Forecast changes per bond market: Jun-18 – current (ppt)



Source: Bloomberg, UBS (incl. forecasts)

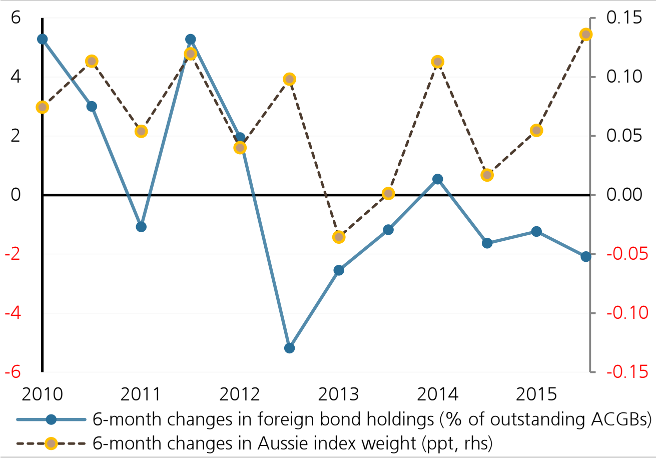
We construct an index based on the Bloomberg Global Developed Sovereign Bond Index (1y+ fixed rate government bonds), and use estimates of net supply for the next 24 months to forecast changes in index weights (Figure 57, Figure 58). Australia is one of the markets where the net supply outlook effectively means that its index weight is expected to increase the most (on par with the Eurozone, Figure 59).

Figure 60: Overseas investors' share of the ACGB market vs. Australia's weight in our proxy global bond index



Source: ABS, AOFM, Bloomberg, UBS (incl. forecasts)

Figure 61: The relationship between Australia's index weight and foreigners' share of the ACGB market is weak

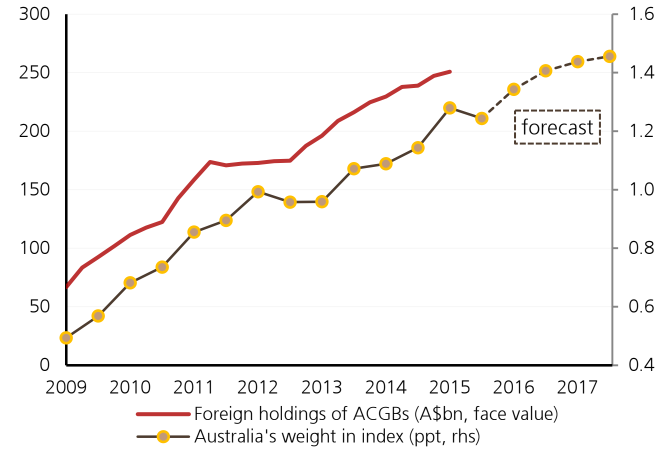


Source: ABS, AOFM, Bloomberg, UBS

Figure 60 and Figure 61 show how the relationship between Australia's index weight and overseas investors' share of the ACGB market historically has been weak. In Figure 62 and Figure 63 we run the same exercise, replacing foreigners' market share with the absolute amount (face value) of Aussie bonds held by foreign investors. This relationship appears somewhat stronger (albeit still far from

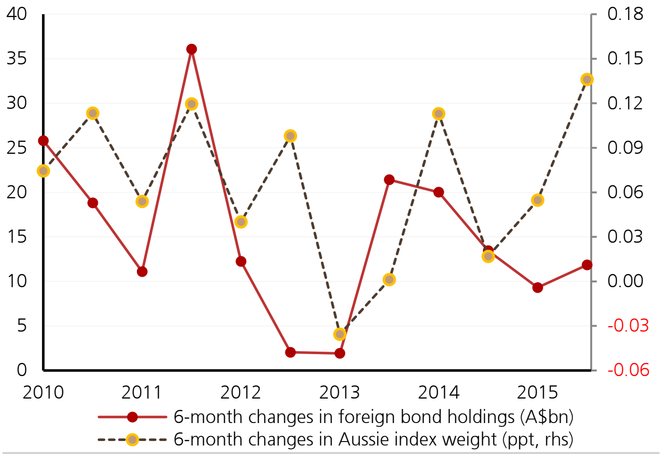
strong), implying that at the margin, an increased index weight could support some incremental demand from overseas investors.

Figure 62: Overseas investors' ACGB cash holdings vs. Australia's weight in our proxy global bond index



Source: ABS, AOFM, Bloomberg, UBS (incl. forecasts)

Figure 63: The relationship between Australia's index weight and changes in overseas' cash holdings is stronger



Source: ABS, AOFM, Bloomberg, UBS

Risks: US spreads, a significant uptick in domestic bank demand, and a bullish duration outlook

A widening of US swap spreads would likely spill over on Aussie spreads given the medium-term correlation between the two (Figure 55). Still, everything else equal we would expect Aussie spreads to widen by less than US spreads under such a scenario.

Anecdotal evidence suggests that some domestic banks hold disproportional amounts of semi government bonds in their High Quality Liquid Asset 1 holdings used for Liquidity Coverage Ratio purposes. If representative for the sector, it could imply that ACGBs to some extent will be favoured going forward. However, our banking analysts do not expect overall liquidity buffers to increase materially over the next 12 months.

Finally, with the RBA arguably holding one of the strongest easing biases among developed market central banks and Aussie yields still relatively high, overseas investors might see a strong case for upping their holdings of ACGBs. History (Figure 51), however, does not support this.

New Zealand: Receive front-end rates ahead of the RBNZ

Joakim Tiberg

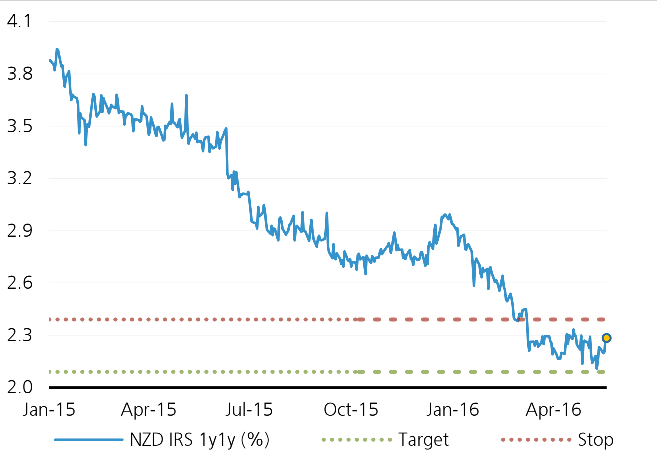
- Risk-reward for longs in front-end kiwi rates appears attractive ahead of the RBNZ meeting on 9 June. We recommend receiving NZD IRS 1y1y at 2.27%, targeting 2.09% over the next month. We place a stop at 2.38%, a level last seen in early March 2016 (Figure 64). In FX, we like expressing this view via positions favouring NZD/CAD downside.

Short-term trade idea: Receive NZD IRS 1y1y at 2.27%; one-month target 2.09%

Levels in this article are as of 19 May, when the note was initially published.

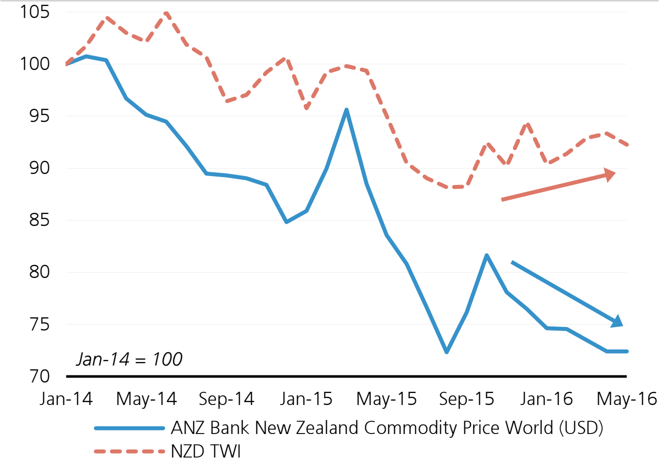
Kiwi rates have drifted higher over the last week, reducing the implied probability of a June RBNZ cut from >80% (21bp) just ten days ago to <40% (8.5bp) now. To some extent this can be attributed to domestic developments (a less dovish than expected message coming out of the Financial Stability Review, strengthening PMIs, reaccelerating house prices, and a bounce in milk prices), but exogenous factors, such as the RBA and FOMC Minutes, have also been important drivers.

Figure 64: NZD 1y1y: entry level, target and stop



Source: Bloomberg, UBS

Figure 65: The NZ dollar has failed to track soft commodity prices lower over the last nine months

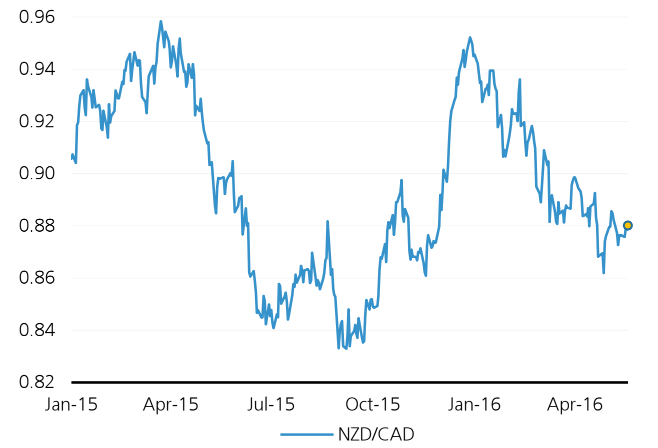


Source: Bloomberg, UBS

However, the overall story for the RBNZ has not changed. The economy is doing well, but inflation is not. With New Zealand's main trading partner holding an explicit easing bias – which the record low Australian Q1 wage data should be considered a reminder of – and the NZ dollar too strong for comfort (Figure 65), we find it unlikely that the RBNZ wants to take any chances. UBS Economics expects a cut from the RBNZ in June.

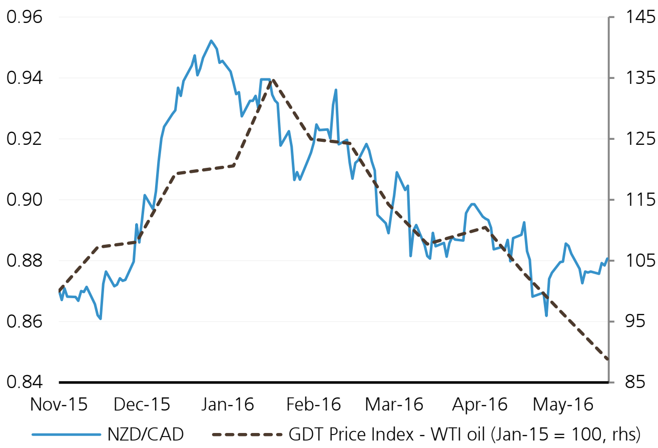
In FX, short NZD/CAD is our preferred way to express this view. With a policy mix shifting towards the fiscal side, the Canadian dollar is our preferred commodity currency. Short positions in NZD/CAD appear technically attractive (Figure 66), and the pair looks rich against relative developments in oil and dairy prices (Figure 67).

Figure 66: Short NZD/CAD is at optically attractive levels…



Source: Bloomberg, UBS

Figure 67: … and the pair looks rich compared to relative developments in dairy prices and oil

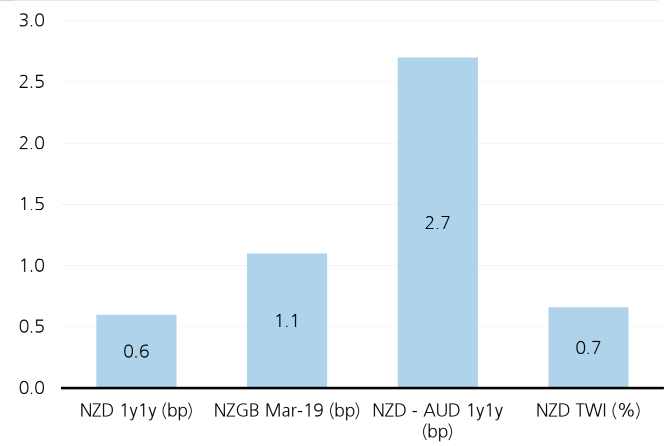


Source: DairyPriceIndex, Bloomberg, UBS

The market reaction to the RBNZ's April on-hold decision signals attractive risk-reward

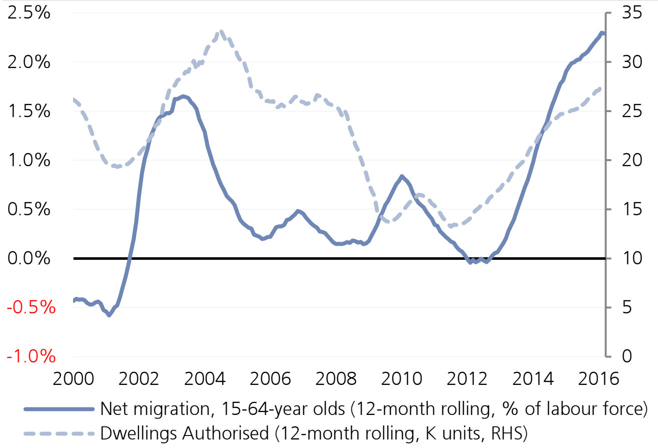
An interesting case study comes from the market reaction to the RBNZ's 28 April meeting (Figure 68). Ahead of the meeting the market was pricing in roughly the same probability of a cut (~9bp) as is currently the case (ahead of the June meeting). When the RBNZ kept rates steady, 1y1y kiwi rates widened ~3bp to AUD rates, and the NZ dollar strengthened 0.7% on a trade weighted basis. If the RBNZ against our expectations stands pat in June, but still successfully can convince the market of its intention to ease further down the line, it might limit the extent to which rates move higher.

Figure 68: Market reaction (change on day) to the RBNZ's on-hold 28 April decision



Source: Bloomberg, UBS

Figure 69: While net migration is having a positive impact on NZ growth, it risks weighing on near-term inflation



Source: Haver, UBS

Risks: Higher global front-end rates and significant NZ fiscal stimulus

We consider the main risk to this trade a continued sell-off in front-end rates globally, potentially driven by eurodollar. If the New Zealand Budget, due on 26 May, includes significant fiscal stimulatory plans, it could also push short rates in New Zealand higher.

Global: What Japanese Investors are buying

Joakim Tiberg

Nishay Patel

- Since the BoJ launched its negative interest rate policy, Japanese investors have been significant net buyers of foreign assets, mainly DM government bonds. In March their appetite for US Treasuries was its biggest since 2005. With a JPY4.8trn bought, US Treasuries accounted for 87% of overall net flow.
- Net buying of France, Japan's preferred euro market historically; fell to JPY219bn, from JPY613bn in February. Investment plans by life insurers and asset managers point to continued strong demand for foreign bonds, often at the expense of JGBs. FX-hedged yield pickup vs JGBs, such as offered by USTs and OATs, should outperform in this environment.

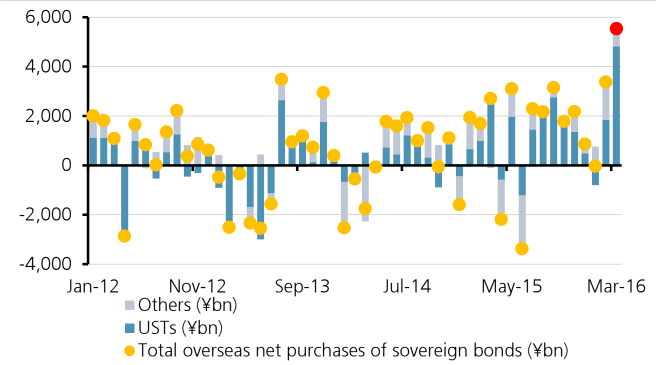
Record appetite for US Treasuries in March; dwarfed other markets

Treasuries normally make up most of Japanese investors' foreign bond purchases. This was certainly true in March, with the ¥4.8tn of net purchases of USTs (largest since at least 2005) accounting for 87% of the overall net flow. France, Japan's historically preferred euro market, saw modest net purchases of ¥219bn, down from ¥613bn in Feb-16. Still, we expect Japanese demand to remain relatively supportive for French bonds. Elsewhere, Italy saw notable net purchases in March (¥182bn; largest since May-15). Australia saw net selling of ¥189bn, reversing the net purchases in February.

Investment plans point to continued strong demand; should weigh on yields

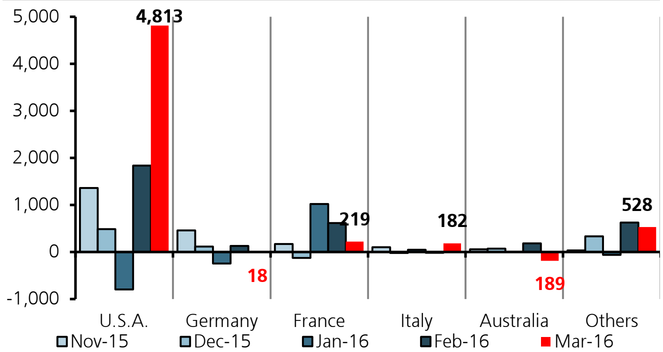
Our take on Japanese life insurers' and asset managers' investment plans for FY16-17 is that a vast majority plans to boost their foreign bond holdings further, often at the expense of JGBs. While most still seem to favour FX-hedging overseas bonds, some look to also up unhedged purchases. However, others appear sceptical of the prospects for a yen turnaround, and will only consider altering hedging ratios if they grow more confident that the JPY will weaken. We remain of the view that liquid and highly rated markets offering an attractive FX-hedged yield pickup vs. JGBs, like USTs and OATs, should be key beneficiaries.

Figure 70: Japanese investors' monthly net purchases of sovereign bonds: UST vs. others



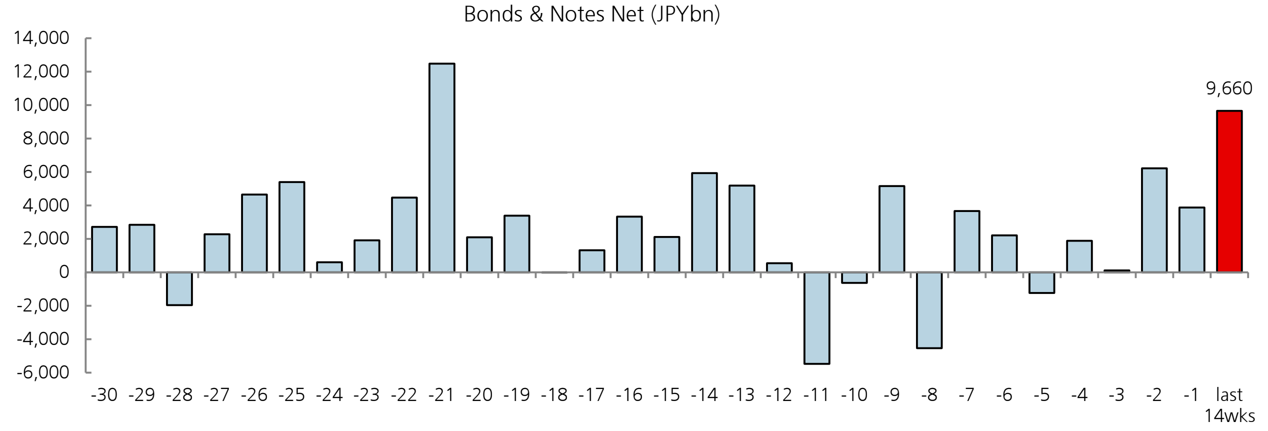
Source: MoF Japan, UBS

Figure 71: Japanese investors' net purchases of DM sovereign bonds per month for selected markets (¥bn)



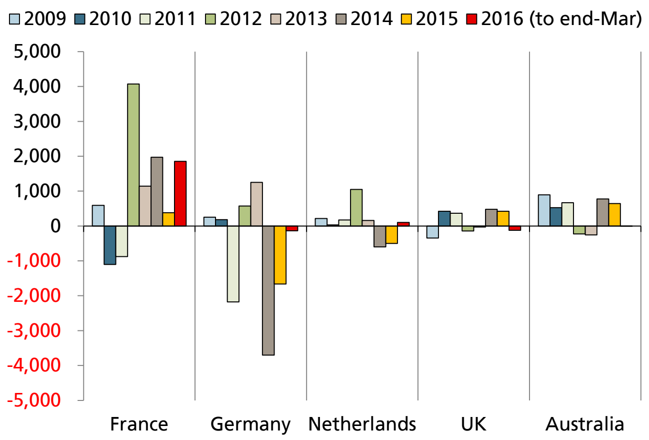
Source: MoF Japan, UBS

Figure 72: Net purchases of foreign bonds by Japanese investors in 14-week periods. Red bar = the last 14 weeks (since the start of Feb-16, when negative rates became effective); -1 = the 14 weeks prior, etc.



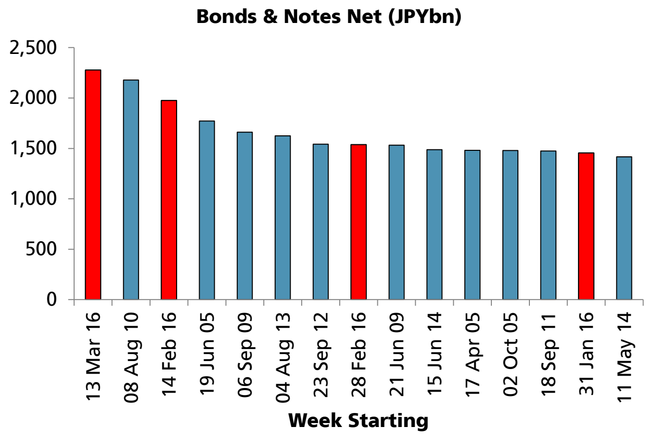
Source: MoF Japan, UBS *The MoF data is based on reports from designated major investors*

Figure 73: Japanese investors' net purchases of DM sovereign bonds for selected countries per calendar year (2016 to March, ¥bn)



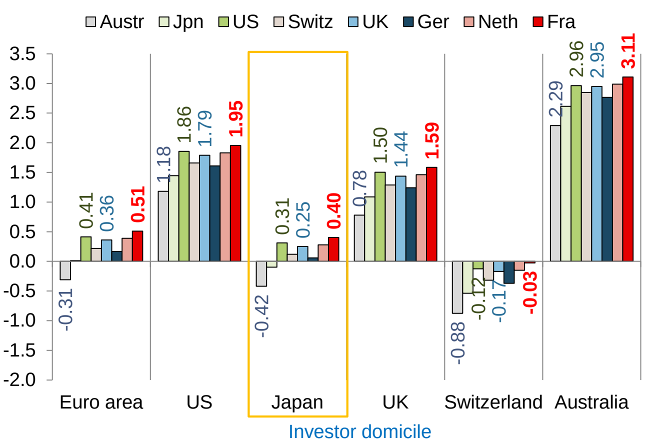
Source: MoF Japan, UBS

Figure 74: Net purchases of foreign bonds by Japanese residents (¥bn), ranked by the fifteen largest weeks (since the start of the data in 2005). Red bars = weeks in 2016



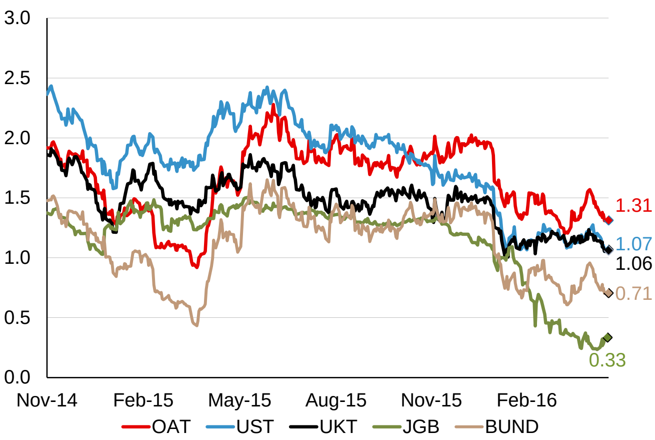
Source: MoF Japan, UBS

Figure 75: 10yr FX-hedged yields* for investors in various domiciles (%): French & US bonds are attractive



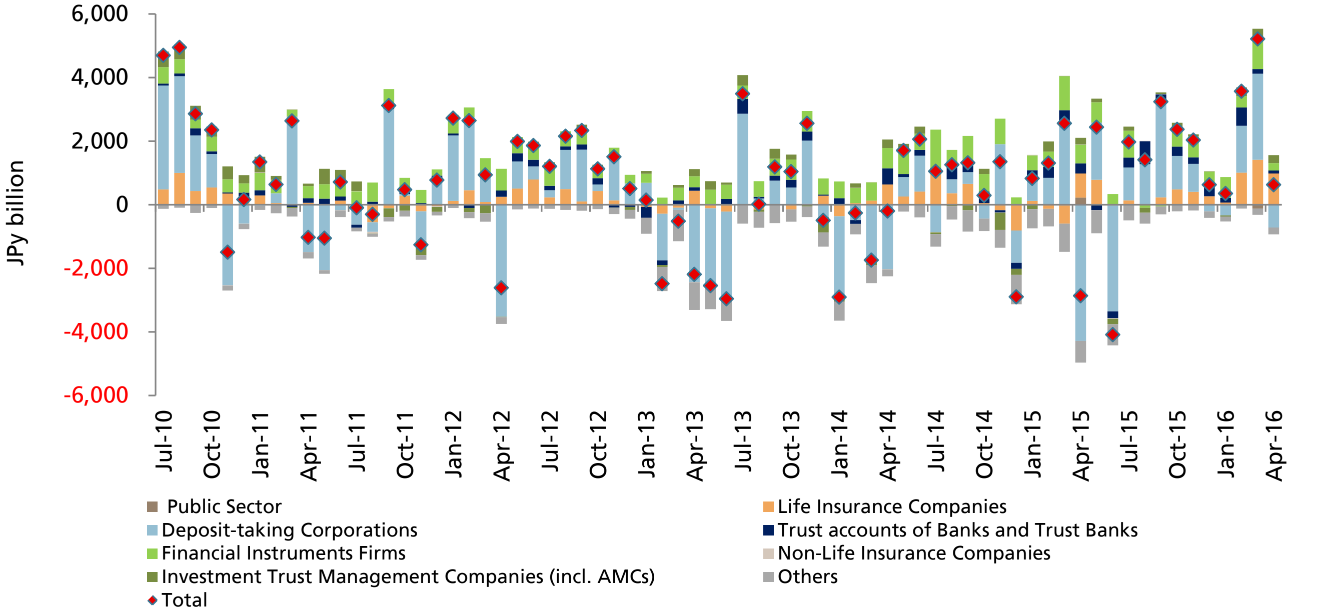
Source: UBS, Bloomberg * Using 1-year FX-forwards

Figure 76: 30-year FX-hedged yields* for Japanese investors (%): overseas bonds are much more attractive



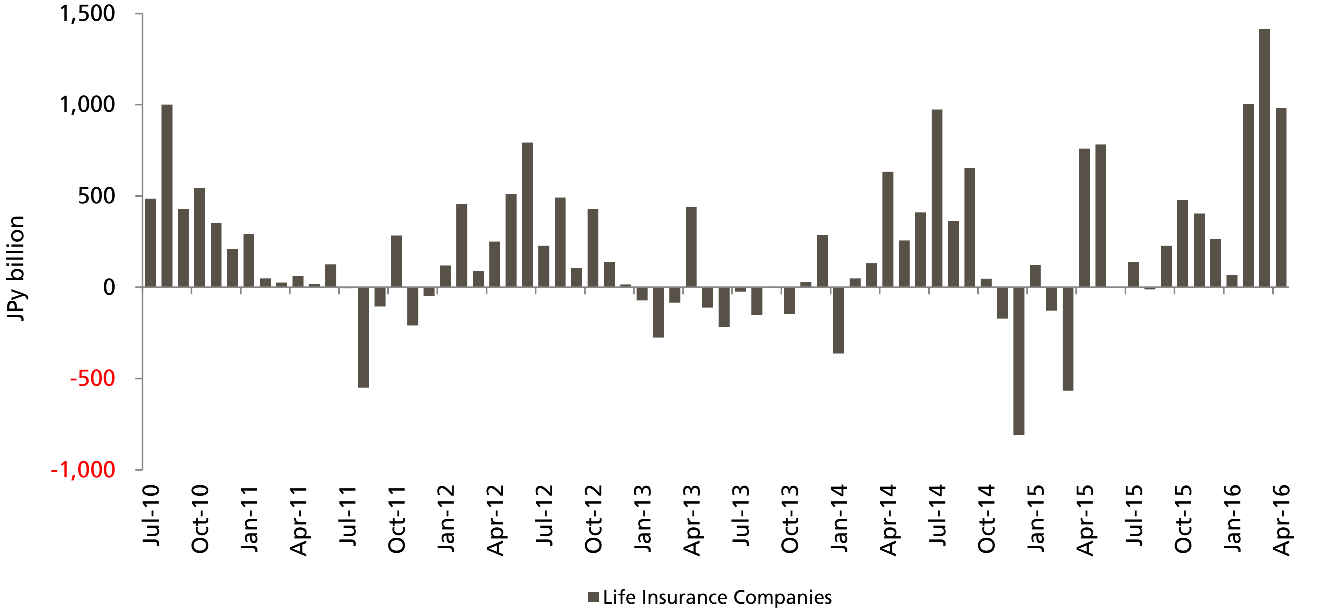
Source: UBS, Bloomberg * Using 1-year FX-forwards

Figure 77: Japanese residents' net purchases of foreign long-term debt securities by investor type (¥bn). Net Purchases in Apr-16 of ¥620bn were modest relative to that in Mar-16 (¥5.2tn, largest since 2005)



Source: MoF Japan, UBS

Figure 78: Japanese life Insurance companies' net purchases of foreign long-term debt securities; subset of Figure 10 (¥bn). Lifers were once again the strong purchasers in Apr-16 (¥982bn)



Source: MoF Japan, UBS

Global Index Extensions for end-May

Nishay Patel

Joakim Tiberg

Matthias Rusinski

- We expect the US Treasury index duration to extend by 0.13 years at the end of this month, higher than historical averages, but in line with the 3y end-of-May average index extension (0.12). Within US Treasury sub-indices, we forecast the highest duration extension in the 5-7yr sector (0.14yr).
- We forecast the duration of the iBoxx Eurozone Sovereign index to extend by 0.084y at end-April, in line with its 6 month average. Belgium is likely to post a very large duration lengthening relative to its weight in the index.
- Bloomberg AusBond Composite 0+yr index is likely to post a hefty extension, the largest since at least January 2000, driven by ACGB Jun-16 leaving the index and the addition of new ACGB 28s at month-end. Bloomberg NZBond Govt 0+yr index is likely to lengthen nearly in line with its 12 month average.
- iBoxx Japan sovereign index is expected to extend in line with its 3y average end-May extension but less than its 3-6-12 month average extensions. We forecast the duration of the iBoxx Gilt index to contract at end-May though less than its 3y end-May average.

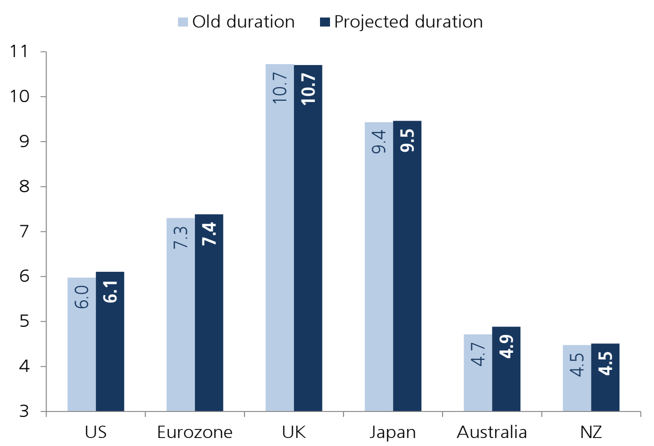
Figure 79: Global end-March index extensions summary

Index	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
US (Barclays US Treasury Index*)	5.976	6.107	0.131	0.120	0.103	0.105	0.109	0.090	0.090	0.130
Eurozone (iBoxx € Sovereign Index)	7.300	7.383	0.084	0.027	0.113	0.083	0.067	0.139	0.070	0.129
UK (iBoxx GBP Gilt Index)	10.722	10.705	-0.017	-0.033	0.008	0.052	0.053	0.081	-0.032	-0.024
Japan (iBoxx Sovereign local currency Index)	9.431	9.462	0.031	0.033	0.130	0.112	0.095	0.050	0.260	0.080
Australia (Bloomberg AusBond Composite 0+Yr)	4.715	4.887	0.171	0.047	0.070	0.062	0.052	0.050	0.090	0.070
New Zealand (Bloomberg NZBond Govt 0+Yr)	4.476	4.512	0.035	0.040	0.027	0.015	0.036	0.060	0.020	0.000

*Jun 2016 - UBS projections, past values - approximate changes of index duration, source: Bloomberg

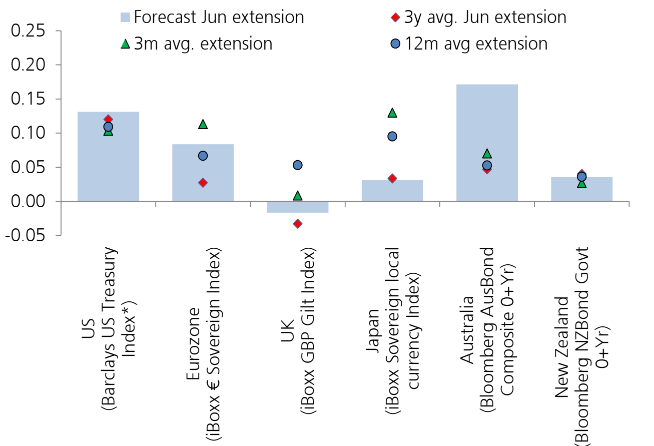
Source: Markit, Bloomberg, SWISS SIX, UBS

Figure 80: Global bond indices: projected end-May duration



Source: Markit, Bloomberg, UBS

Figure 81: Global: projected end-May extensions vs historical averages



Source: Markit, Bloomberg, UBS

UK end-May Index Extensions by sector

Nishay Patel

Joakim Tiberg

- We forecast the duration of the overall iBoxx Gilt index, the 5y+ sub-index and the 15y+ sub-index to contract at end-May though less than their respective 3y end-May averages. The 1-5y sub-index is likely to extend slightly.

Figure 82: UK: iBoxx GBP gilt index end-May extension forecast

iBoxx GBP Gilt Index	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
Overall Index	10.722	10.705	-0.017	-0.033	0.008	0.052	0.053	0.081	-0.032	-0.024
1-5y	2.822	2.835	0.013	-0.006	0.007	0.044	0.062	0.010	0.017	-0.005
5y+	13.649	13.633	-0.015	-0.062	0.014	0.033	0.058	0.092	-0.014	-0.035
15y+	18.277	18.258	-0.019	-0.048	0.017	0.118	0.064	0.112	-0.024	-0.038

Source: Markit, Bloomberg, UBS, UK DMO

US end-May Index Projections

Matthias Rusinski

- **We expect US Treasury index duration to extend by 0.131 years at end-May.** After relatively modest extensions in March and April, the May estimate stands higher than 3m and 6m historical averages (0.103yr and 0.105yr respectively) but in line with the typical end-May index extension (3y average of 0.120yr).

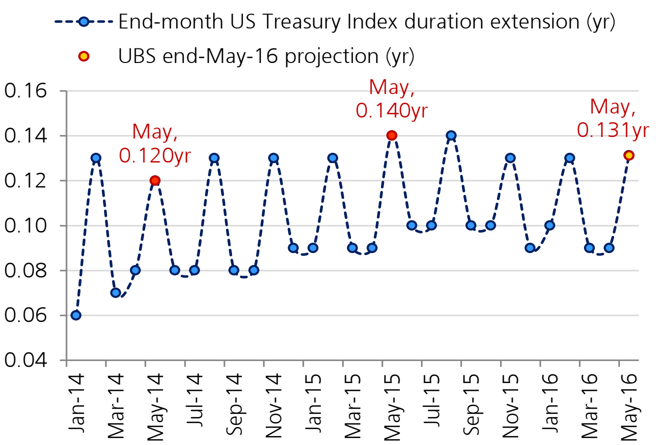
Figure 83: US Treasury projected end-May duration and index extension

Sub-index	1-3 Year	3-5 Year	3-7 Yr	5-7 Year	7-10 Year	10-20 Year	20+ Year	All Maturities
Old duration	1.815	3.794	4.434	5.514	7.596	10.224	18.174	5.976
Projected duration	1.918	3.890	4.549	5.653	7.715	10.230	18.214	6.107
End-May Index Extension	0.103	0.097	0.115	0.138	0.119	0.007	0.040	0.131

Source: UBS, Bloomberg

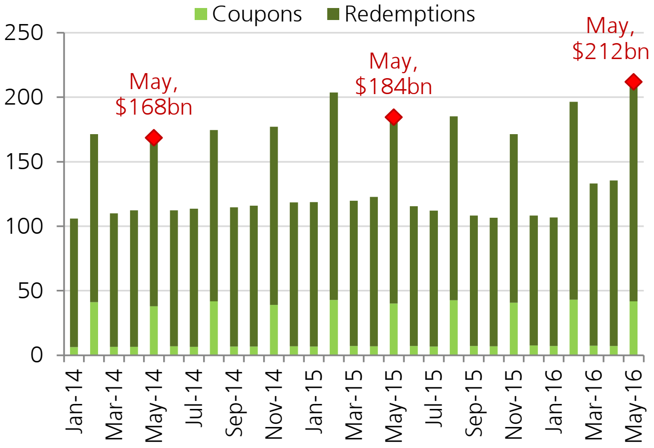
- Large projected duration extension stems from the fact that **May is a refunding month with considerable bond redemptions** and coupon payments (Figure 84 and Figure 85). The month-end index extension may benefit the new 7y note auction taking place on 26 May.

Figure 84: Historical US Treasury Index duration extensions



Source: UBS, Bloomberg

Figure 85: US Treasuries: redemption and coupon flows



Source: UBS, Bloomberg, US Treasury

- **The rebalanced June index is expected to have higher (0.10) duration vs May** as the share of short term notes (1-3y, 7-10yr) fell in favour of 20+yr maturity bucket (Figure 87).

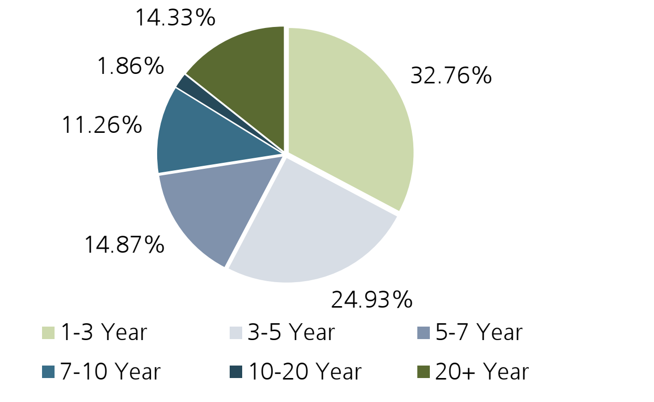
Figure 86: Projected end-May duration contribution

Duration Contribution	
A. Duration at the beginning of month	6.01
B. Market Value changes (month-to-date)*	0.00
C. Ageing of bonds*	-0.04
D. New issuance	0.14
E. Bonds dropped out	0.01
F. Portfolio rebalancing***	-0.01
G. New duration (A+B+C+D+E+F)	6.11
H. Duration at the end of month	5.98
I. Index extension (G-H)	0.13

* includes changes in bond prices and SOMA holdings, which result in the change of market value of bonds available for purchase ** masured as the change in modified duration *** rebalancing of weights resulting from factors other than the change in market value

Source: UBS, Bloomberg

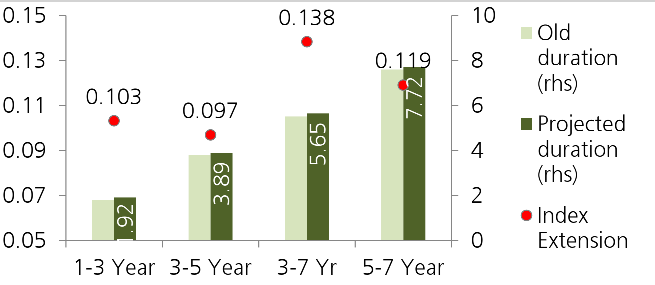
Figure 87: Projected June composition of US Treasury Index



Source: UBS, Bloomberg

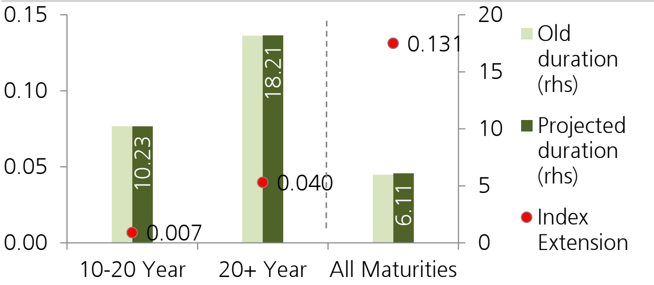
- **US Treasury sub-indices:** we forecast the highest duration extension in the 5-7yr sector (0.138yr), followed by the 7-10yr maturity bucket (0.119yr). On the long end of the Treasury curve, we expect modest changes as there are no index drop-outs.

Figure 88: US Treasury intermediate sub-indices: projected end-May duration and index extension



Source: UBS, Bloomberg

Figure 89: US Treasury long-term sub-indices: projected end-May duration and index extension



Source: UBS, Bloomberg

Eurozone end-May Index Extensions

Nishay Patel

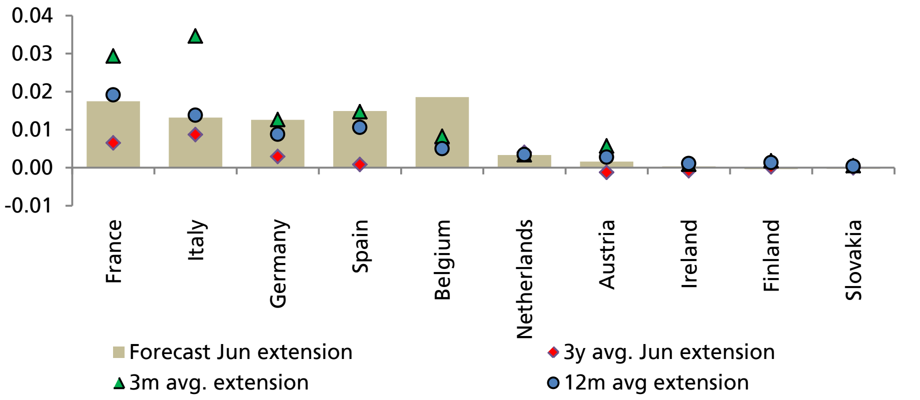
- **Average Eurozone index extensions at end-May:** We forecast the duration of the iBoxx Eurozone Sovereign index to extend by 0.084y at end-April, in line with its 6 month average. As per the current index rules, nearly €67bn of bonds will join the index while almost €50bn will drop out of the index at end-May. Nearly 60% of the new bond additions fall in the 7y+ sector.

- **Contributors (Belgium stands out):** Belgium (0.019y, 23% contribution, largest since at least Jan-11) is likely to post a very large duration lengthening relative to its weight in the index. This is driven by the issuance of the 50y bond OLO Jun-66 in May.

- Both Spain and Germany are likely to contribute in line with their respective 3m averages (both second largest since Oct-15) while slightly exceeding their other historical averages (6-12 month, 3y June average). Slovenia is likely to post a notable contribution vis-a-vis its small weight in the index.

- **France and Italy likely to fall short**: We expect both France and Italy to contribute less than their respective 3-6-12 month averages.

Figure 90: Eurozone: Markit iBoxx Eurozone Sovereign Index, duration* and extension, history and UBS forecast



Source: Markit, DMOs, Bloomberg, UBS *Defined as Modified Duration

Figure 91: Markit iBoxx Eurozone Sovereign Index, duration* and extension, history and UBS forecast

Eurozone (iBoxx Sovereign Index)	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
France	1.877	1.895	0.017	0.007	0.029	0.023	0.019	0.052	0.010	0.026
Italy	1.649	1.662	0.013	0.009	0.035	0.022	0.014	0.040	0.007	0.057
Germany	1.367	1.380	0.013	0.003	0.013	0.009	0.009	0.016	0.011	0.011
Spain	0.812	0.827	0.015	0.001	0.015	0.013	0.011	0.014	0.018	0.013
Belgium	0.536	0.555	0.019	0.006	0.008	0.006	0.005	0.009	0.010	0.006
Netherlands	0.461	0.465	0.003	0.004	0.003	0.002	0.003	0.004	0.007	-0.001
Austria	0.301	0.303	0.002	-0.001	0.006	0.004	0.003	0.004	-0.001	0.014
Ireland	0.122	0.123	0.000	-0.001	0.001	0.001	0.001	0.001	-0.001	0.003
Finland	0.106	0.105			0.002	0.002	0.001	-0.001	0.006	
Slovakia	0.038	0.038	0.000	0.000	0.001	0.001	0.000	0.000	0.000	0.001
Slovenia	0.019	0.021	0.002		0.001	0.001			0.003	
Total#	7.300	7.383	0.084	0.027	0.113	0.083	0.067	0.139	0.070	0.129

Source: Markit, DMOs, UBS *Defined as Modified duration. We use Markit iBoxx Eurozone Sovereign Index as a proxy for other euro area sovereign bond indices # in addition to the countries listed above, Luxembourg, Latvia and Lithuania are also included in the total

Eurozone Sub-indices

- **10y+ sub-index is likely to extend significantly for the third consecutive month**: (0.121y expected at end-May-16, 0.227y in Apr-16 and 0.169y in Mar-16) as Eurozone countries issue more long-term debt: Belgium, Italy and Germany are the main contributors while France and Spain are likely to contract in the sub-index.

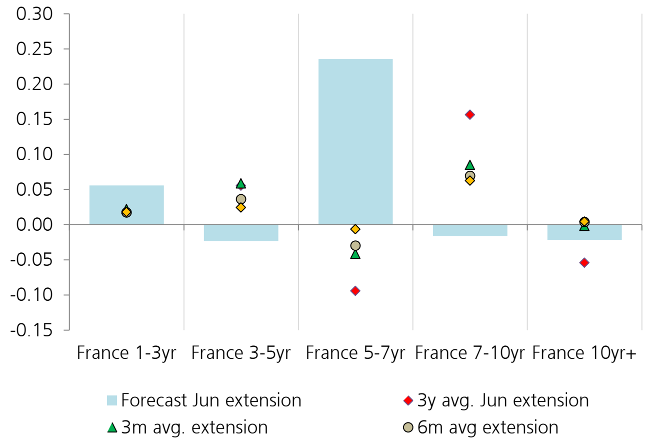
- **7-10 sub-index is forecast to lengthen by 0.145y (largest since Jul-12):** Spain (0.166y) is likely to lengthen more than the entire sub-index as SPGB Apr-26 joins the sub-index from 10y+ sub-index followed by Ireland (0.046y) and Belgium (0.032y). Italy (smallest since Nov-15), Germany (smallest since Jul-15) and France are likely to contract in the sub-index.

- **5-7y sub-index is anticipated to extend by 0.164y (largest since Jul-13):** France (0.236y, largest since at least Jan-11) is expected to post a hefty lengthening along with Germany (0.124y, second largest in a year) as OAT May-23 and Bund May-23 join the sub-index from 7-10y sub-index. Apart

from these and Italy, the rest of the countries are likely to contract in the sub-index.

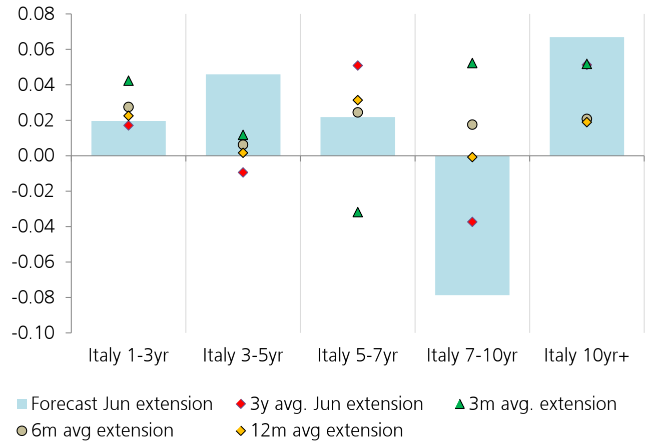
- **3-5y sub-index is expected to lengthen by 0.102y, nearly in line with end-April-16 extension** and the largest since Oct-15. Spain, Italy (0.046y, second largest in 6 months) and Germany (0.025y, largest since Sep-15) are likely to be the main contributors while France (-0.023y, smallest since Sep-15) is forecast to contract on the sub-index.
- **1-3y sub-index is likely to extend by 0.105y (third largest in a year):** France (0.056y, third largest in a year), Spain and Italy are expected to be the contributors while the rest are likely to contract slightly in the sub-index.

Figure 92: France: Markit iBoxx Sovereign Index, duration* and extension, history and UBS forecast



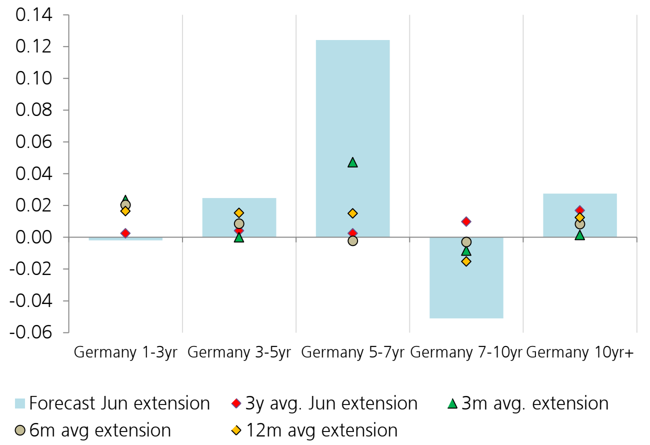
Source: Markit, DMOs, UBS *Defined as Modified Duration

Figure 93: Italy: Markit iBoxx Sovereign Index, duration* and extension, history and UBS forecast



Source: Markit, DMOs, UBS *Defined as Modified Duration

Figure 94: Germany: Markit iBoxx Sovereign Index, duration* and extension, history and UBS forecast



Source: Markit, DMOs, Bloomberg, UBS *Defined as Modified Duration

Annex: Projections by country – Sub indices

Figure 95: Markit iBoxx Eurozone Sovereign 10y+ Sub-Index, duration* and extension, history and UBS forecast

Eurozone (iBoxx Sovereign10y+ Sub-Index)	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
France	3.645	3.624	-0.021	-0.054	-0.002	0.004	0.005	-0.050	0.076	-0.031
Italy	3.116	3.183	0.067	0.051	0.052	0.021	0.019	0.121	-0.065	0.100
Germany	2.731	2.759	0.027	0.017	0.001	0.008	0.012	0.041	0.055	-0.092
Spain	1.376	1.362	-0.014							
Belgium	1.216	1.277	0.062							
Netherlands	0.992	1.012	0.020							
Austria	0.577	0.588	0.011							
Ireland	0.165	0.139	-0.027							
Finland	0.141	0.142	0.000							
Slovakia	0.066	0.057	-0.009							
Slovenia	0.020	0.024	0.004							
Total#	14.053	14.174	0.121	0.045	0.134	0.086	0.067	0.227	0.169	0.005

Source: Markit, DMOs, UBS *Defined as Modified duration. # in addition to the countries listed above, Luxembourg, Latvia and Lithuania are included in the total

Figure 96: Markit iBoxx Eurozone Sovereign 7-10y Sub-Index, duration* and extension, history and UBS forecast

Eurozone (iBoxx Sovereign 7-10y Sub-Index)	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
France	2.088	2.071	-0.016	0.156	0.085	0.069	0.063	0.228	-0.083	0.109
Italy	1.590	1.511	-0.079	-0.037	0.052	0.018	-0.001	-0.048	0.126	0.079
Germany	1.269	1.218	-0.051	0.010	-0.008	-0.003	-0.015	-0.004	-0.026	0.005
Spain	1.050	1.216	0.166							
Belgium	0.441	0.473	0.032							
Netherlands	0.346	0.356	0.010							
Austria	0.317	0.325	0.009							
Ireland	0.167	0.213	0.046							
Finland	0.161	0.166	0.005							
Slovakia	0.053	0.068	0.016							
Slovenia	0.036	0.043	0.007							
Total#	7.538	7.683	0.145	0.087	0.060	0.058	0.066	0.025	0.052	0.102

Source: Markit, DMOs, UBS *Defined as Modified duration. # in addition to the countries listed above, Luxembourg, Latvia and Lithuania are also included in the total

Figure 97: Markit iBoxx Eurozone Sovereign 5-7y Sub-Index, duration* and extension, history and UBS forecast

Eurozone (iBoxx Sovereign 5-7y Sub-Index)	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
France	1.065	1.300	0.236	-0.094	-0.041	-0.030	-0.006	-0.063	0.027	-0.088
Italy	1.519	1.541	0.022	0.051	-0.032	0.024	0.031	0.098	-0.101	-0.092
Germany	0.924	1.049	0.124	0.002	0.047	-0.002	0.015	-0.026	0.032	0.136
Spain	0.556	0.387	-0.168							
Belgium	0.401	0.384	-0.017							
Netherlands	0.378	0.362	-0.016							
Austria	0.287	0.275	-0.012							
Ireland	0.089	0.091	0.002							
Finland	0.088	0.085	-0.004							
Slovakia	0.028	0.027	-0.001							
Slovenia	0.008	0.007	0.000							
Total#	5.351	5.516	0.164	0.045	0.062	0.049	0.060	0.073	0.043	0.071

Source: Markit, DMOs, UBS *Defined as Modified duration. # in addition to the countries listed above, Luxembourg, Latvia and Lithuania are also included in the total

Figure 98: Markit iBoxx Eurozone Sovereign 3-5y Sub-Index, duration* and extension, history and UBS forecast

Eurozone (iBoxx Sovereign 3-5y Sub-Index)	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
France	1.030	1.006	-0.023	0.056	0.059	0.036	0.024	0.088	0.041	0.047
Italy	0.758	0.804	0.046	-0.010	0.012	0.006	0.002	-0.011	0.072	-0.026
Germany	0.684	0.709	0.025	0.004		0.008	0.015	0.006	0.010	-0.015
Spain	0.508	0.561	0.053							
Belgium	0.135	0.137	0.001							
Netherlands	0.167	0.169	0.001							
Austria	0.106	0.107	0.001							
Ireland	0.134	0.136	0.001							
Finland	0.099	0.099	0.001							
Slovakia	0.022	0.018	-0.004							
Slovenia	0.019	0.019	0.000							
Total#	3.675	3.777	0.102	0.072	0.076	0.062	0.066	0.101	0.072	0.054

Source: Markit, DMOs, UBS *Defined as Modified duration. # in addition to the countries listed above, Luxembourg, Latvia and Lithuania are also included in the total

Figure 99: Markit iBoxx Eurozone Sovereign 1-3y Sub-Index, duration* and extension, history and UBS forecast

Eurozone (iBoxx Sovereign 1-3y Sub-Index)	Old duration	Projected duration	Forecast Jun extension	3y avg. Jun extension	3m avg. extension	6m avg extension	12m avg extension	May-16 extension	Apr-16 extension	Mar-16 extension
France	0.423	0.479	0.056	0.019	0.022	0.017	0.018	0.062	-0.013	0.018
Italy	0.471	0.491	0.020	0.017	0.042	0.027	0.022	0.014	0.057	0.056
Germany	0.400	0.398	-0.002	0.003	0.023	0.020	0.016	0.037	-0.018	0.052
Spain	0.211	0.249	0.038							
Belgium	0.097	0.094	-0.003							
Netherlands	0.124	0.121	-0.003							
Austria	0.073	0.071	-0.002							
Ireland	0.029	0.028	-0.001							
Finland	0.017	0.017	0.000							
Slovakia	0.008	0.010	0.003							
Slovenia	0.006	0.006	0.000							
Total#	1.860	1.965	0.105	0.049	0.101	0.082	0.077	0.100	0.065	0.138

Source: Markit, DMOs, UBS *Defined as Modified duration. # in addition to the countries listed above, Luxembourg, Latvia and Lithuania are also included in the total

Global supply forecasts

Figure 100: Global supply monitor* (as of 20 May 2016, local currency bn, except Japan, tn)

		A			B		A - B		C		A - B - C
	Region	**Supply**			**Redemptions****		**Net Issuance#**		**Coupons****		**Net**
		2016E	Remaining	% done	**2016E**	Remaining	**2016E**	Remaining	**2016E**	Remaining	Remaining
Global	**US**	**2057**	1291	37%	**1863**	1284	**194**	7	**242**	134	-127
	Eurozone	**850**	456	46%	**606**	341	**198**	76	**187**	102	-26
	UK*	**132**	107	19%	**57**	57	**74**	50	**25**	25	25
	Japan*	**122**	105	14%	**65**	62	**57**	43	**7**	7	36
	Australia*	**90**	3	96%	**33**	16	**57**	-13	**18**	1	-14
	New Zealand*	**8**	1	90%	**1**	0	**7**	1	**3**	0	0
	Switzerland	**6**	4	32%	**10**	3	**-4**	1	**2**	1	0.3

Source: *on a fiscal year basis: UK & Japan (Apr16/17) and Australia & NZ (Jul15/16) #Eurozone net issuance includes buybacks ** coupons and redemptions: for UK ex. BoE and DMO holdings , for Japan ex. BoJ holdings, for NZ ex. RBNZ/EQC/SRESL

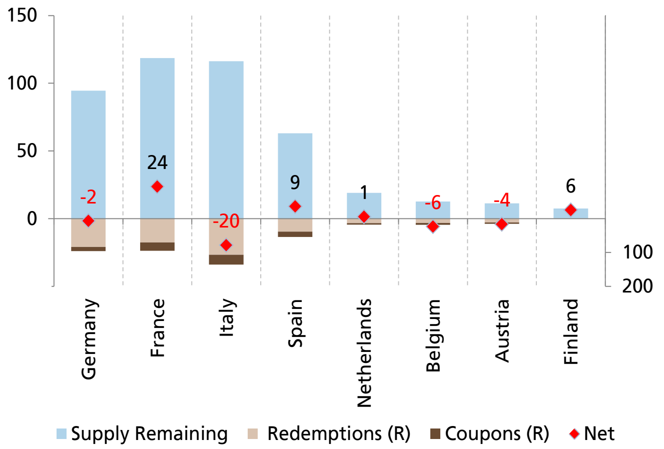
Euro Area supply forecasts

Figure 101: Euro area supply monitor* (as of 20 May 2016, €bn)

		A			B		A - B		C		A - B - C
	Country	**Supply**			**Redemptions**		**Net Issuance**		**Coupons**		Net
		2016E	Remaining	% done	**2016E**	Remaining	**2016E**	Remaining	**2016E**	Remaining	Remaining
Euro Area	**Germany**	**164**	95	42%	**171**	84	**-7**	11	**25**	13	-2
	France	**223**	119	47%	**127**	70	**96**	48	**42**	25	24
	Italy	**216**	116	46%	**149**	107	**67**	9	**53**	29	-20
	Spain	**120**	63	47%	**80**	38	**40**	25	**29**	16	9
	Netherlands	**30**	19	36%	**25**	13	**5**	6	**8**	4	1
	Belgium	**34**	13	62%	**22**	13	**12**	0	**11**	6	-6
	Austria	**22**	11	49%	**12**	12	**10**	0	**7**	4	-4
	Finland	**13.0**	7.5	42%	**6.5**	0.0	**6.5**	7.5	**2.0**	1.1	6
	Ireland	**10.0**	4.5	55%	**8.1**	0.0	**1.9**	4.5	**4.3**	1.9	2.6
	Portugal	**18.0**	8.8	51%	**6.2**	4.1	**11.8**	4.6	**4.7**	2.8	1.8
	Greece	**0**	0		**0.0**	0.0	**0.0**	0.0	**0.9**	0.1	-0.1
	Total	**850**	**456**	**46%**	**606**	**341**	**243**	**115**	**187**	**102**	**14**

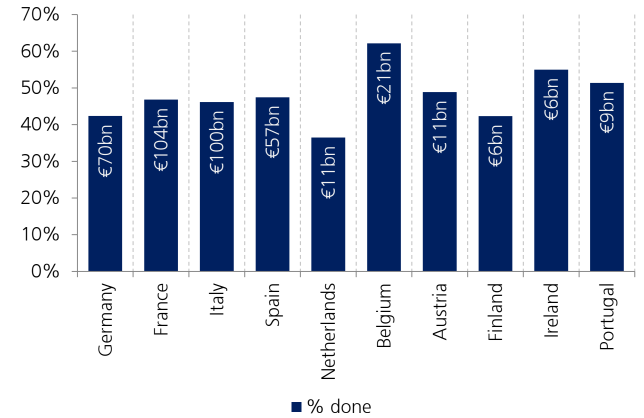
Source: National Treasuries, DMOs, Bloomberg, UBS

Figure 102: Remaining: Euro Area supply, coupons, redemptions (€bn)



Source: National Treasuries, DMOs, Bloomberg, UBS

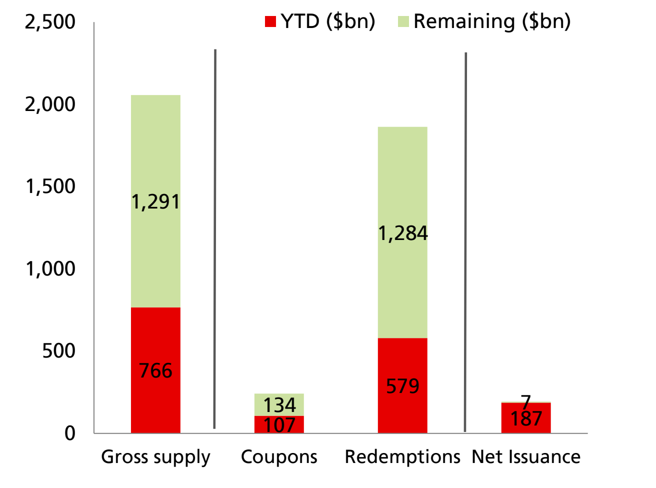
Figure 103: Euro Area issuance completed (as of 20 May 16)



Source: National Treasuries, DMOs, Bloomberg, UBS

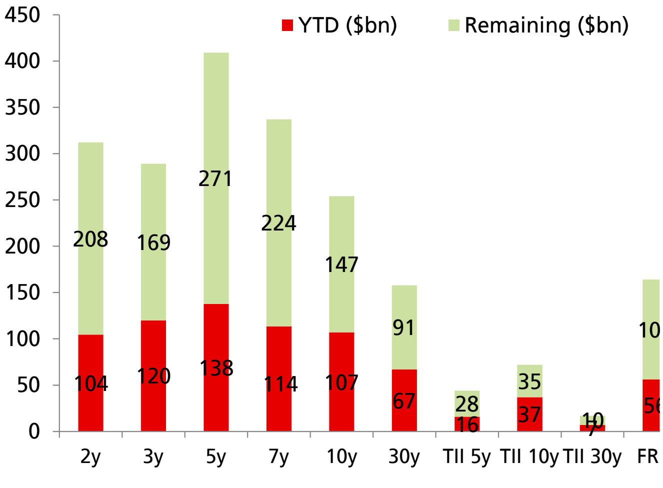
US Supply forecasts: Issuance progress: nominal supply, TIPS and FRN

Figure 104: Gross YTD and 2016 estimated remaining issuance in nominal, TIPS, and FRNs



Source: US Treasury, Bloomberg, UBS

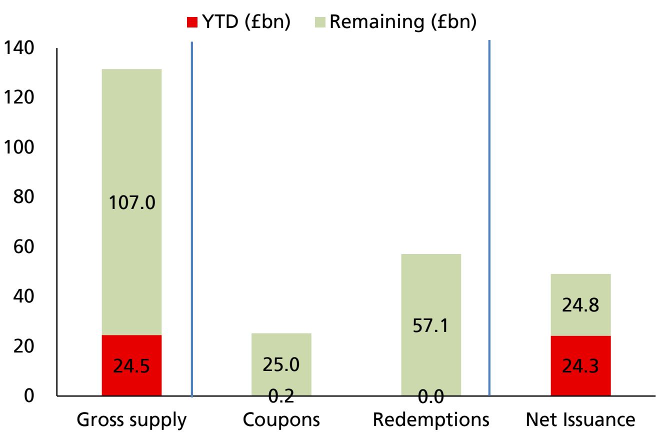
Figure 105: Gross YTD and 2016 estimated remaining issuance in nominal, TIPS, and FRN issues



Source: US Treasury, Bloomberg, UBS

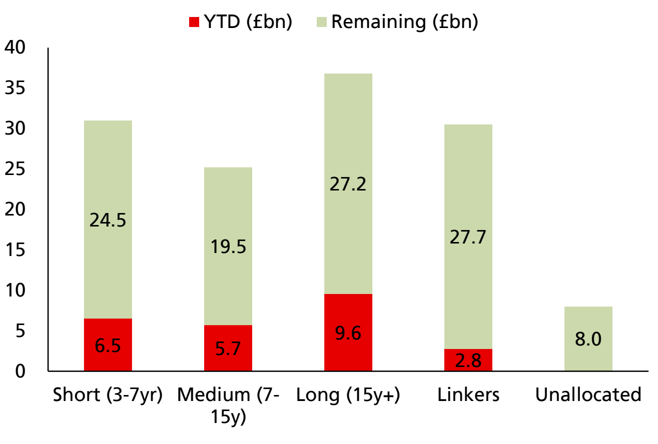
UK issuance forecast

Figure 106: Gross supply, coupons and redemptions# for the fiscal year* 2016-17



Source: UK DMO, Bloomberg, UBS *fiscal year = 01 Apr – 31 Mar # coupons and redemptions are ex. BoE and UK DMO holdings

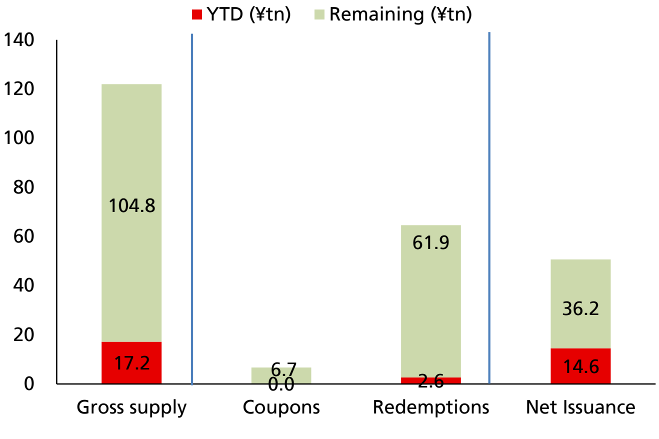
Figure 107: Gross supply by tenor (linkers cumulative) for the fiscal year* 2016-17



Source: UK DMO, Bloomberg, UBS *fiscal year = 01 Apr – 31 Mar

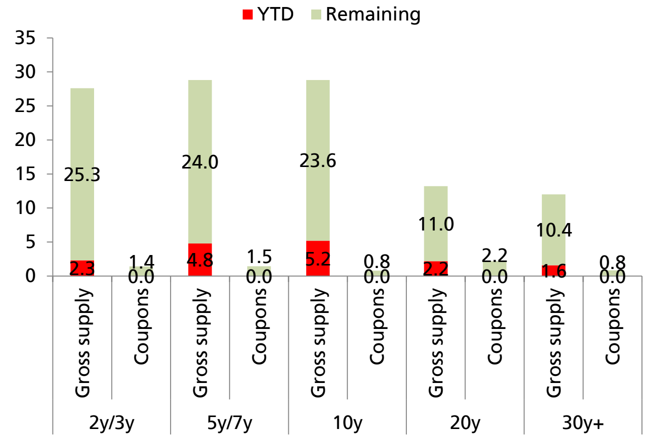
Japan issuance forecast

Figure 108: Gross supply, coupons and redemptions* for the fiscal year 2016-17**



Source: MoF, Bloomberg, UBS * Coupons and redemptions are ex. BoJ holdings
**fiscal year = 01 Apr – 31 Mar

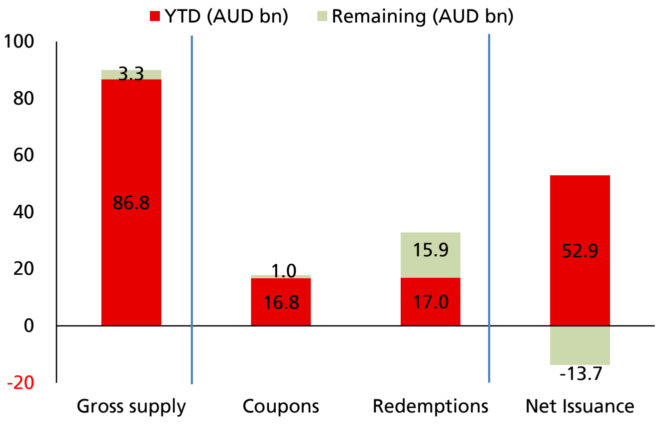
Figure 109: Gross supply and coupons by tenor (issuance numbers excl. auctions for enhanced liquidity) for the fiscal year** 2016-17**



Source: MoF, Bloomberg, UBS * Coupons are ex. BoJ holdings
**fiscal year = 01 Apr – 31 Mar

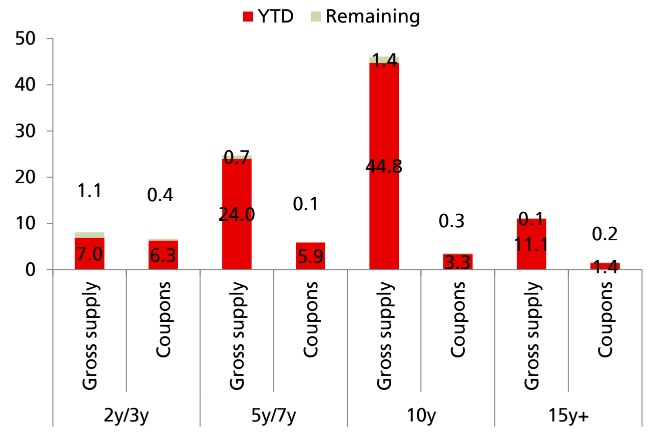
Australia issuance progress

Figure 110: YTD and remaining (fiscal year*): gross supply, coupons and redemptions (issuance numbers are based on forecasts)



Source: AOFM, Bloomberg, UBS *fiscal year = 01 Jul – 30 Jun

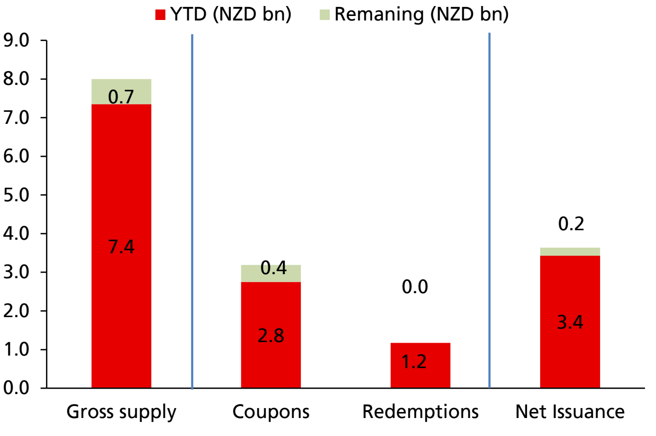
Figure 111: YTD and remaining (fiscal year*): gross supply and coupons by tenor (issuance numbers are based on forecasts)



Source: AOFM, Bloomberg, UBS *fiscal year = 01 Jul – 30 Jun

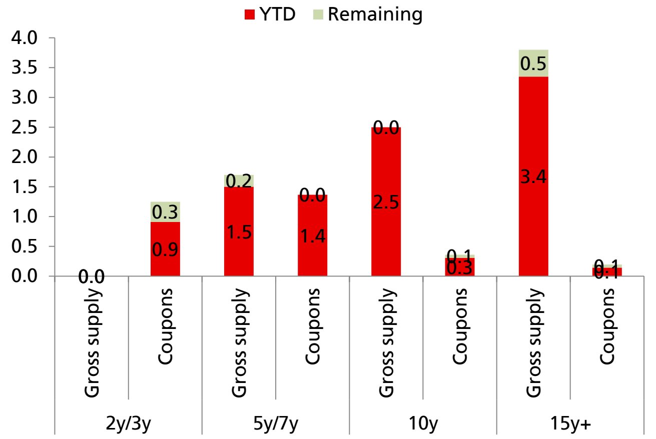
New Zealand issuance progress

Figure 112: YTD and remaining (fiscal year*): gross supply, coupons and redemptions# (issuance numbers are based on forecasts)



Source: NZDMO, Bloomberg, UBS *fiscal year = 01 Jul – 30 Jun #coupons and redemptions are ex. RBNZ/EQC/SRESL

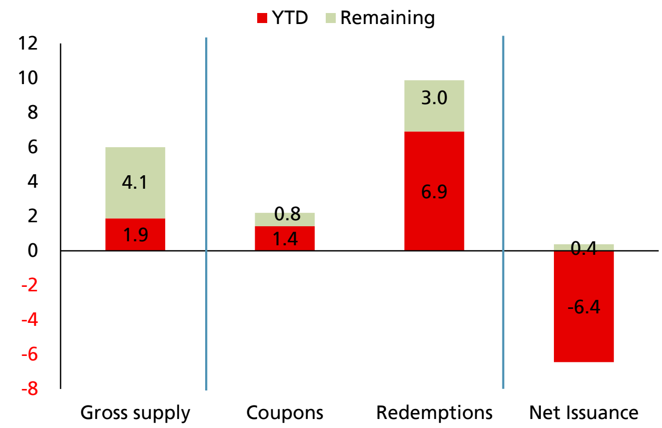
Figure 113: YTD and remaining (fiscal year*): gross supply and coupons# by tenor (issuance numbers are based on forecasts)



Source: NZDMO, Bloomberg, UBS *fiscal year = 01 Jul – 30 Jun #coupons are ex. RBNZ/EQC/SRESL

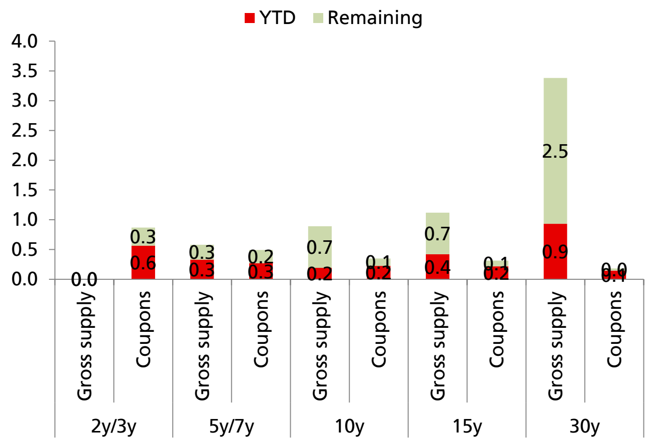
Switzerland issuance progress

Figure 114: YTD and remaining (calendar year): gross supply, coupons and redemptions (issuance numbers are based on forecasts)



Source: SNB, UBS, Bloomberg

Figure 115: YTD and remaining (calendar year): gross supply and coupons by tenor (issuance numbers are based on forecasts)



Source: SNB, UBS, Bloomberg

Global supply calendar

Figure 116: Global supply calendar

	Date	Europe (incl. Switzerland)	UK	US	Japan, Australia and New Zealand
This week	Mon 23-May-16				
	Tue 24-May-16		Syndication of **UKTI** 0.125% Mar-46 in the week commencing 23 May 2016 (subject to market conditions, further details will be announced in due course)	**US** 2y Note May-18 ($26bn)	**JGB** Auction for Enhanced-liquidity, Issue No. 315-341 (10y), Issue No. 51-131 (20y) and Issue No. 1-5 (30y), (¥0.5tn) **ACGBi** 3% Sep-25, (A$0.15bn)
	Wed 25-May-16	**Germany** Bund 2.5% Jul-44, €1bn		**US** 5y Note May-21 ($34bn) **US** 2y FRN Apr-18 ($13bn)	**ACGB** 2.75% Nov-27, (A$0.9bn)
	Thu 26-May-16	**Italy** BTPei Auction (forecast €1bn) and CTZ Auction (forecast €1.5bn) - announcement on Mon 23 May		**US** 7y Note May-23 ($28bn)	**JGB** 40yr Mar-56, (¥0.4tn)
	Fri 27-May-16				**ACGB** 2.75% Oct-19, (A$1bn) **NZGB** 3.5% Apr 33 (N$0.15bn)
Next week	Mon 30-May-16	**Italy** BTP auction (forecast €6bn,€2.5bn in 5y and €3.5bn in 10y) - announcement on Wed 25 May			
	Tue 31-May-16				**JGB** 2y ,forecast(¥2.3tn)
	Wed 01-Jun-16	**Germany** Bobl Apr-21, €4bn	**UKT** 1.5% Jan-21 (forecast £2.75bn) - announcement on Tue 24 May		Expect **ACGB**
	Thu 02-Jun-16	**France** Long term auction (forecast€9bn, €5bn in 10y, €2bn in 15y and €2bn in 30y+) - anouncement on Fri 27 May **Spain** BONO/SPGB Auction (forecast €2.5bn, €0.75 bn in 2y/3y, €0.75 bn in 5y/7y and €1bn in 10y) and Linker auction (forecast €1bn) - announcement on Fri 27 May			**JGB** 10y ,forecast(¥2.4tn)
	Fri 03-Jun-16				Expect **ACGB**
Week 3	Mon 06-Jun-16				
	Tue 07-Jun-16	**Netherlands** new DSL Jan-22 (€4-6bn) - further details will be announced on Fri 3 Jun **Austria** RAGB auction (forecast €1.2bn, €0.55bn in 5y/7y and €0.65bn in 10y) - announcement on Tue 31 May **Germany** linker auction (forecast €1bn) - expect announcement on Thu 2 Jun	**UKT** 4.25% Dec-46 (forecast £1.5bn) - announcement on Tue 31 May	**US** 3y NOTE (forecast of $24bn) - announcement on Thu 2 Jun	**JGB** 30y ,forecast(¥0.8tn)
	Wed 08-Jun-16	**Germany** Schatz Jun-18 (€5bn) **Switzerland** auction - announcement on Tue 7 Jun		**US** 10y NOTE (forecast of $20bn) - announcement on Thu 2 Jun	
	Thu 09-Jun-16		**UKTI** 0.125% Nov-36 (forecast £1bn) - announcement on Tue 31 May	**US** 30y BOND (forecast of $12bn) - announcement on Thu 2 Jun	**JGB** 5y ,forecast(¥2.4tn)
	Fri 10-Jun-16				**NZGBi** 2.5% Sep-35 (N$0.1bn)
Week 4	Mon 13-Jun-16	**Italy** BTP auction (forecast €7.5bn, €2.5bn in 2y/3y, €3.5bn in 5y/7y, €0.75bn in 15y and €0.75bn in 30y+) - announcement on Wed 08 Jun			
	Tue 14-Jun-16				Expect **ACGBi**
	Wed 15-Jun-16	**Germany** Bund 0.5% Feb-26 (€4bn)			
	Thu 16-Jun-16	**France** Medium term auction (forecast €6.5bn in 5y/7y) and Linker Auction (Forecast €1.5bn) - anouncement on Fri 10 Jun **Spain** BONO/SPGB Auction (forecast €2.5bn, €1 bn in 10y, €0.75 bn in 15y and €0.75bn in 30y+) - announcement on Fri 10 Jun			**NZGB** 3% Apr-20 (N$0.15bn)
	Fri 17-Jun-16				**JGB** Auction for Enhanced-liquidity (10y, 20y, 30y issues) ,forecast(¥0.5tn)

Source: National Treasuries, DMOs, UBS

Key events calendars

Figure 117: US

Date	Region	Time	Event
23-May	US	5:30	Fed's Bullard Speaks in Beijing
24-May	US	10:00	New Home Sales (Apr)
26-May	US	5:15	Fed's Bullard Speaks in Singapore
26-May	US	8:30	Durable Goods Orders (Apr, Preliminary)
27-May	US	8:30	GDP (1Q, Second)
27-May	US	8:30	Core PCE (1Q, Second)
27-May	US	13:15	Fed's Yellen to Speak at Harvard's Radcliffe Day
29-May	US	20:20	Fed's Bullard Speaks in Seoul
31-May	US	8:30	PCE (Apr)
31-May	US	8:30	Personal Income (Apr)
1-Jun	US	9:45	Markit US Manufacturing PMI (May, Final)
1-Jun	US	10:00	ISM Manufactoring (May)
2-Jun	US	8:15	ADP Employment Change (May)
3-Jun	US	8:30	Change in Nonfarm Payrolls (May)
3-Jun	US	8:30	Unemployment Rate (May)
3-Jun	US	8:30	Average Hourly Earnings (May)
3-Jun	US	9:45	Markit US Services/Composite PMI (May, Final)
3-Jun	US	10:00	ISM Non-Manufacturing Composite (May)
3-Jun	US	10:00	Durable Goods Orders (May, Final)
6-Jun	US	12:30	Fed Chair Yellen to Speak in Philadelphia
14-Jun	US	8:30	Retail Sales (May)
15-Jun	US	8:30	PPI (May)
15-Jun	US	9:15	Industrial Production (May)
15-Jun	US	14:00	FOMC Rate Decision
16-Jun	US	8:30	CPI (May)
23-Jun	US	10:00	New Home Sales (May)
28-Jun	US	8:30	GDP (1Q, Third)
28-Jun	US	8:30	Core PCE (1Q, Third)
29-Jun	US	8:30	Personal Income (May)
29-Jun	US	8:30	PCE (May)
30-Jun	US	13:30	Fed's Bullard Speaks in London

Source: Bloomberg, UBS

Figure 118: Eurozone

Date	Region	Time	Event
23-May	EZ	10:00	Markit Eurozone PMI (May, Preliminary)
23-May	EZ	16:00	Consumer Confidence (May, Advance)
24-May	EZ	15:00	Euro-Area Finance Ministers Meet in Brussels
24-May	EZ		EU General Affairs Ministers Hold Meeting in Brussels
24-May	EZ		ECB's Nouy, BOE's Gracie Speak at IIF Conference in Madrid
25-May	EZ	9:00	EU Finance Ministers Meet in Brussels
31-May	EZ	10:00	M3 Money Supply (Apr)
31-May	EZ	11:00	Unemployment Rate (Apr)
31-May	EZ	11:00	CPI (May)
1-Jun	EZ	10:00	Markit Eurozone Maufacturing PMI (May, Final)
2-Jun	EZ	11:00	PPI (Apr)
2-Jun	EZ	13:45	ECB Main Refinancing Rate
2-Jun	EZ	13:45	ECB Deposit Facility Rate
2-Jun	EZ	13:45	ECB Marginal Lending Facility
3-Jun	EZ	10:00	Markit Eurozone Services/Composite PMI (May, Final)
3-Jun	EZ	11:00	Retail Sales (Apr)
3-Jun	EZ		ESM Sovereign Debt to Be Rated by Moody's
6-Jun	EZ	10:10	Markit Eurozone Retail PMI (May)
7-Jun	EZ	11:00	GDP (1Q, Final)
9-Jun	EZ	9:00	ECB's Draghi Speaks at Economic Forum in Brussels
9-Jun	EZ	10:15	EU's Dombrovskis Speaks at Economic Forum in Brussels
9-Jun	EZ	10:30	ECB's Villeroy, ESM's Regling on Panel at Brussels Forum
9-Jun	EZ	13:30	EU's Moscovici Speaks at Brussels Economic Forum in Brussels
9-Jun	EZ	13:30	Greece's Tsakalotos on Panel at Economic Forum in Brussels
9-Jun	EZ	15:00	Cyprus's Georgiades on Panel at Economic Forum in Brussels
10-Jun	EZ		EFSF Sovereign Debt to Be Rated by Moody's
10-Jun	EZ		ESM Sovereign Debt to Be Rated by Fitch
10-Jun	EZ		EFSF Sovereign Debt to Be Rated by Fitch
14-Jun	EZ	11:00	Industrial Production (Apr)
15-Jun	EZ	11:00	Trade Balance (Apr)
16-Jun	EZ	10:00	ECB Publishes Economic Bulletin
16-Jun	EZ	11:00	CPI (May)
16-Jun	EZ	15:00	Euro-Area Finance Ministers Meet in Luxembourg
17-Jun	EZ	9:00	EU Finance Ministers Hold Meeting in Luxembourg
17-Jun	EZ	10:00	ECB Current Account (Apr)
17-Jun	EZ		EU Debt to Be Rated by DBRS
20-Jun	EZ		EU Foreign Ministers Hold Meeting in Luxembourg
21-Jun	EZ		German Constitutional Court Verdict on ECB's OMT Program
21-Jun	EZ		EU General Affairs Ministers Hold Meeting in Luxembourg
22-Jun	EZ	16:00	Consumer Confidence (Jun, Advanced)
23-Jun	EZ	10:00	Markit Eurozone PMI (June, Preliminary)
27-Jun	EZ	10:00	M3 Money Supply (May)
29-Jun	EZ	11:00	Economic Confidence (Jun)
30-Jun	EZ	11:00	CPI (Jun)
30-Jun	EZ	13:30	ECB account of the monetary policy meeting

Source: Bloomberg, UBS

Figure 119: European sovereign ratings calendar

Sovereign Ratings Calendar													
Date	Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Finland	Greece	Ireland	Portugal	UK	Switzerland
27-May-16 (Fri)												Moody's	
03-Jun-16 (Fri)								Moody's		S&P			
10-Jun-16 (Fri)		Fitch	Moody's						DBRS			Fitch	
17-Jun-16 (Fri)				Moody's								DBRS	
24-Jun-16 (Fri)	Moody's					Moody's	Moody's		Moody's				
01-Jul-16 (Fri)						Fitch							
08-Jul-16 (Fri)	S&P				Moody's								Moody's
15-Jul-16 (Fri)						S&P				Fitch			
22-Jul-16 (Fri)									S&P				
29-Jul-16 (Fri)	DBRS			Fitch									
05-Aug-16 (Fri)							Fitch						
12-Aug-16 (Fri)													
19-Aug-16 (Fri)					DBRS						Fitch		
26-Aug-16 (Fri)													
02-Sep-16 (Fri)						DBRS		Fitch	Fitch	DBRS	Moody's		
09-Sep-16 (Fri)								DBRS					
16-Sep-16 (Fri)		Moody's	DBRS				S&P	S&P		Moody's	S&P		
23-Sep-16 (Fri)	Fitch											Moody's	
30-Sep-16 (Fri)				S&P									
Current ratings													
S&P	AAA (Stable)	AA (Neg)	BBB- (Stable)	BBB+ (Stable)	AAA (Stable)	AA (Stable)	AA+ (Stable)	AA+ (Neg)	B- (Stable)	A+ (Stable)	BB+ (Stable)	AAA (Neg)	AAA (Stable)
Moody's	Aaa (Stable)	Aa2 (Stable)	Baa2 (Stable)	Baa2 (Stable)	Aaa (Stable)	Aa3 (Stable)	Aaa (Negative)	Aaa (Neg)	Caa3 (Stable)	A3 (Pos)	Ba1 (Stable)	Aaa (Stable)	Aaa (Stable)
Fitch	AAA (Stable)	AA (Stable)	BBB+ (Stable)	BBB+ (Stable)	AAA (Stable)	AA (Neg)	AA+ (Stable)	AA+ (Stable)	CCC	A (Stable)	BB+ (Stable)	AA+ (Stable)	AAA (Stable)
DBRS	AAA (Stable)	AAA (Stable)	A low (Stable)	A low (Stable)	AAA (Stable)	AA high (Stable)	AAA (Stable)	AAA (Neg)	CCC high (Stable)	A (high) (Stable)	BBB low (Stable)	AAA (Stable)	AAA (Stable)

Source: S&P, Moody's, Fitch, DBRS, Reuters, UBS

Figure 120: Eurozone core: current ratings

	Rating scale				Germany				Austria				Finland				Netherlands				France				Belgium			
	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS
Investment grade	Aaa	AAA	AAA	AAA	Stable	Stable	Stable	Stable	Negative			Stable	Negative			Negative	Stable	Stable	Stable	Stable				Stable				
	Aa1	AA+	AA+	AA (high)						Stable	Stable			Negative	Stable													Stable
	Aa2	AA	AA	AA																	Stable	Negative	Stable			Stable	Negative	
	Aa3	AA-	AA-	AA (low)																					Stable			
	A1	A+	A+	A (high)																								
	A2	A	A	A																								
	A3	A-	A-	A (low)																								
	Baa1	BBB+	BBB+	BBB (high)																								
	Baa2	BBB	BBB	BBB																								
	Baa3	BBB-	BBB-	BBB (low)																								
Non-Investment grade	Ba1	BB+	BB+	BB (high)																								
	Ba2	BB	BB	BB																								
	Ba3	BB-	BB-	BB (low)																								
	B1	B+	B+	BH																								
	B2	B	B	B																								
	B3	B-	B-	B (low)																								
	Caa1	CCC+	CCC+	CCC (high)																								
	Caa2	CCC	CCC	CCC																								
	Caa3	CCC-	CCC-	CCC (low)																								
	Ca	CC	CC	CC																								
	C	C	C	C																								
	-	D	D	D																								

Source: Reuters, UBS

Figure 121: Eurozone periphery: current ratings

	Rating scale				Ireland				Spain				Italy				Portugal			
	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS	MOODY'S	S&P	FITCH	DBRS
Investment grade	Aaa	AAA	AAA	AAA																
	Aa1	AA+	AA+	AA (high)																
	Aa2	AA	AA	AA																
	Aa3	AA-	AA-	AA (low)																
	A1	A+	A+	A (high)		Stable		Stable												
	A2	A	A	A			Stable													
	A3	A-	A-	A (low)	Positive							Stable				Stable				
	Baa1	BBB+	BBB+	BBB (high)						Stable	Stable				Stable					
	Baa2	BBB	BBB	BBB					Stable				Stable							
	Baa3	BBB-	BBB-	BBB (low)										Stable						Stable
Non-Investment grade	Ba1	BB+	BB+	BB (high)													Stable	Stable	Stable	
	Ba2	BB	BB	BB																
	Ba3	BB-	BB-	BB (low)																
	B1	B+	B+	BH																
	B2	B	B	B																
	B3	B-	B-	B (low)																
	Caa1	CCC+	CCC+	CCC (high)																
	Caa2	CCC	CCC	CCC																
	Caa3	CCC-	CCC-	CCC (low)																
	Ca	CC	CC	CC																
	C	C	C	C																
	-	D	D	D																

Source: Reuters, UBS

Figure 122: UK

Date	Region	Time	Event
24-May	UK	9:30	Public Finances (PSNCR) (Apr)
24-May	UK	9:30	Public Sector Net Borrowing (Apr)
26-May	UK	9:30	GDP (1Q, Preliminary)
26-May	UK	9:30	Government Spending (1Q, Preliminary)
26-May	UK	9:30	Exports (1Q, Preliminary)
26-May	UK	9:30	Imports (1Q, Preliminary)
26-May	UK	9:30	Total Business Investment (1Q, Preliminary)
1-Jun	UK	9:30	Money Supply M4 (Apr)
3-Jun	UK	9:30	Official Reserves Changes (May)
8-Jun	UK	9:30	Industrial Production (Apr)
8-Jun	UK	9:30	Manufacturing Production(Apr)
9-Jun	UK	9:30	Trade Balance (Apr)
10-Jun	UK	9:30	BoE/TNS Inflation Next 12 Mths
10-Jun	UK		United Kingdom Sovereign Debt to Be Rated by Fitch
14-Jun	UK	9:30	CPI (May)
14-Jun	UK	9:30	Retail Price Index (May)
14-Jun	UK	9:30	PPI (May)
15-Jun	UK	9:30	ILO Unemployment Rate 3Mths
16-Jun	UK	12:00	Bank of England Bank Rate
16-Jun	UK	12:00	BOE Asset Purchase Target
21-Jun	UK	9:30	Public Finances (PSNCR) (May)
21-Jun	UK	9:30	Central Government NCR (May)
21-Jun	UK	9:30	Public Sector Net Borrowing (May)
29-Jun	UK	9:30	Money Supply M4 (May)
30-Jun	UK	9:30	GDP (1Q, Final)
30-Jun	UK	9:30	Current Account Balance (1Q)
30-Jun	UK	9:30	Total Business Investment (1Q, Final)

Source: Bloomberg, UBS

Figure 123: Switzerland

Date	Region	Time	Event
20-May	SZ		Switzerland Sovereign Debt to Be Rated by S&P
23-May	SZ	9:00	Money Supply M3 (Apr)
23-May	SZ	9:00	Sight Deposits
24-May	SZ	8:00	Trade Balance (Apr)
26-May	SZ	9:15	Industrial Output (1Q)
30-May	SZ	9:00	Sight Deposits
1-Jun	SZ	7:45	GDP (1Q)
1-Jun	SZ	9:30	PMI Manufacturing (May)
6-Jun	SZ	9:00	Sight Deposits
7-Jun	SZ	9:00	Foreign Currency Reserves (May)
8-Jun	SZ	9:15	CPI (May)
9-Jun	SZ	7:45	Unemployment Rate (May)
13-Jun	SZ	9:00	Sight Deposits
16-Jun	SZ	9:30	SNB 3-Month Libor Target Range
16-Jun	SZ	9:30	SNB Sight Deposit Interest Rate
20-Jun	SZ	9:00	Sight Deposits
20/Jun-30/Jun	SZ		Money Supply M3 (May)
21-Jun	SZ	8:00	Trade Balance (May)
22-Jun	SZ	11:00	Credit Suisse ZEW Survey Expectations (Jun)
27-Jun	SZ	9:00	Sight Deposits

Source: Bloomberg, UBS

Figure 124: Japan

Date	Region	Time	Event
23-May	JN	8:50	Trade Balance (Apr)
24-May	JN	11:00	Nikkei Japan PMI Mfg (May, Preliminary)
26-May	JN	8:50	Japan Buying Foreign Securities
26-May	JN	8:50	Foreign Buying Japan Securities
27-May	JN	8:30	National CPI (Apr)
30-May	JN	8:50	Retail Sales (Apr)
31-May	JN	8:30	Jobless Rate
31-May	JN	8:50	Industrial Production (Apr, Preliminary)
1-Jun	JN	11:00	Nikkei Japan PMI Mfg (May, Final)
1/Jun-7/Jun	JN		Official Reserve Assets
2-Jun	JN	8:50	Japan Buying Foreign Securities
2-Jun	JN	8:50	Foreign Buying Japan Securities
2-Jun	JN	14:00	Consumer Confidence Index
3-Jun	JN	11:00	Nikkei Japan PMI Services/Composite (May)
8-Jun	JN	8:50	BoP Current Account Balance (Apr)
8-Jun	JN	8:50	GDP (1q, Final)
9-Jun	JN	8:50	Japan Buying Foreign Securities
9-Jun	JN	8:50	Foreign Buying Japan Securities
10-Jun	JN	8:50	PPI (May)
14-Jun	JN	13:30	Industrial Production (Apr, Final)
16-Jun	JN	8:50	Japan Buying Foreign Securities
16-Jun	JN	8:50	Foreign Buying Japan Securities
16-Jun	JN		BOJ Annual Rise in Monetary Base
16-Jun	JN		BOJ Monetary Policy Statement
16-Jun	JN		BOJ Policy Rate
20-Jun	JN	8:50	Trade Balance
23-Jun	JN	8:50	Japan Buying Foreign Securities
23-Jun	JN	8:50	Foreign Buying Japan Securities
23-Jun	JN	11:00	Nikkei Japan PMI Mfg
29-Jun	JN	8:50	Retail Sales (May)
30-Jun	JN	8:50	Industrial Production (May, Perliminary)
30-Jun	JN	8:50	Japan Buying Foreign Securities
30-Jun	JN	8:50	Foreign Buying Japan Securities

Source: Bloomberg, UBS

Figure 125: Australia

Date	Region	Time	Event
24-May	AU	13:05	RBA's Stevens Speech in Sydney
31-May	AU	11:30	Net Exports of GDP (1Q)
1-Jun	AU	11:30	GDP (1Q)
2-Jun	AU	11:30	Retail Sales MoM (Apr)
6-Jun	AU	11:00	Melbourne Institute Inflation (May)
7-Jun	AU	14:30	RBA Cash Rate Target
7-Jun	AU	16:30	Foreign Reserves (May)
15-Jun	AU	10:30	Westpac Consumer Confidence Index (Jun)
16-Jun	AU	11:30	Unemployment Rate (May)
16-Jun	AU	11:30	RBA FX Transactions (May)
21-Jun	AU	11:30	RBA June Meeting Minutes
21-Jun	AU	11:30	House Price Index (1Q)
21-Jun	AU	11:30	RBA June Meeting Minutes

Source: Bloomberg, UBS

Figure 126: New Zealand

Date	Region	Time	Event
25-May	NZ	10:45	Trade Balance (Apr)
26-May	NZ	14:00	New Zealand Budget
31-May	NZ	13:00	ANZ Business Confidence (May)
3-Jun	NZ	10:00	N.Z. Government 10-Month Financial Statements
7-Jun	NZ	14:00	Treasury Publishes Monthly Economic Indicators
8-Jun	NZ	10:45	Mfg Activity (1Q)
9-Jun	NZ	9:00	RBNZ Official Cash Rate
15-Jun	NZ	10:45	BoP Current Account Balance (1Q)
15-Jun	NZ	15:00	Non Resident Bond Holdings (May)
16-Jun	NZ	10:45	GDP (1Q)
17-Jun	NZ	10:30	BusinessNZ Manufacturing PMI (May)
27-Jun	NZ	10:45	Trade Balance (May)

Source: Bloomberg, UBS

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