

Market Pulse EUR

Bullish EUR 1y2y seagull

Strategy:

1. Bought receiver spread...
2. ... funded by a sold OTMF payer

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Summary

- The ECB December meeting minutes were interpreted as hawkish, although they contained little new information
- Already at the October meeting, board members **Cœuré** and Weidmann recommended tying the overall level of monetary stimulus -- rather than just asset purchases -- to the outlook for prices ([a BBG story](#))
- The 0-5y EUR curve has bear steepened in reaction to the minutes...
- ... translating into better carry&roll opportunities for receiving positions via forward starting swaps
- For example, 1y rolls for 2y1y and 1y2y are at four year highs
- To buy some of the downside potential in short rates and obtain a larger buffer against rising rates, we take a look at a seagull strategy

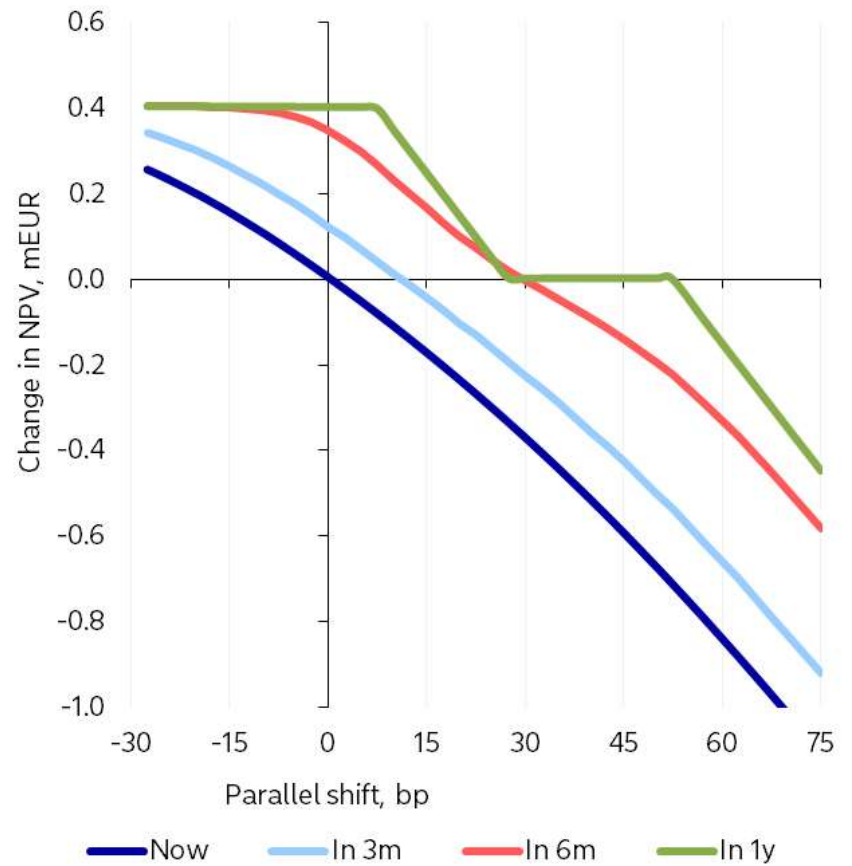


- **Buy a 1y2y -0.05/0.15% receiver spread - funded by a sold 0.40% payer swaption**
 - Zero cost (based on market levels at 14 CET Friday 12 January)
 - A maximum profit if rates rise a maximum of 7 bp by the expiry date
 - Breakeven buffers against rising rates: 30 bp in 6m, 52 bp in 1y
 - The 2-year swap rate has fixed below 0.40% when the ECB has been running its negative interest rate policy

Payoff and the Greeks

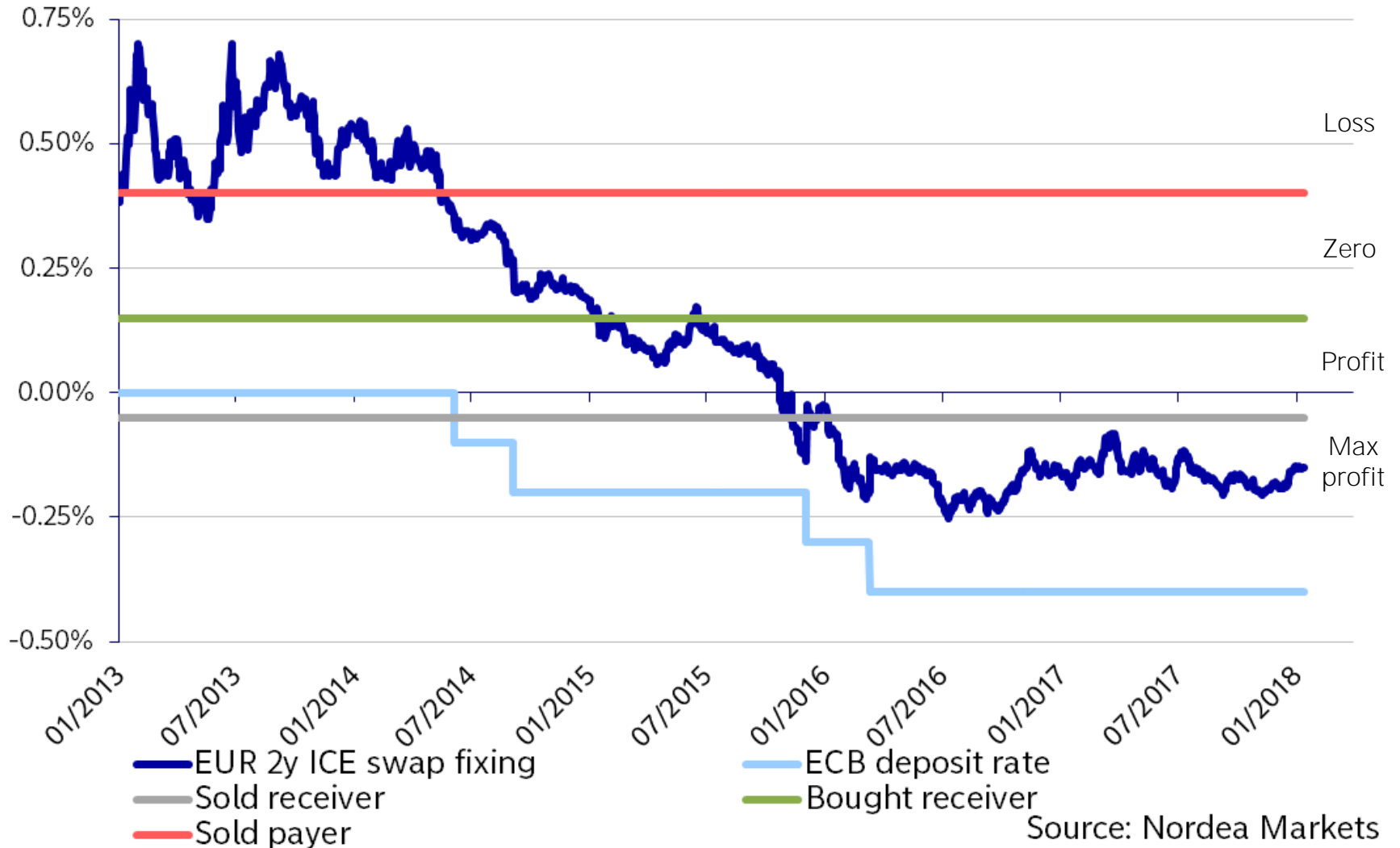
- Sell 1y2y -0.05% receiver
- Buy 1y2y 0.15% receiver
- Sell 1y2y 0.40% payer
- Notionals 100 mEUR each
- Zero cost
- BPV 11k / bp
- 3m theta incl. rates and vol rolls +122k
- Vega -4k / normal vol

Scenario analysis for parallel shifts



Source: Nordea Markets

2y swap fixings, the ECB deposit rate and strikes



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