

Euro Rates Watch

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Final long dated Dutch supply?

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- The DSTA will sell the DSL 2047 for an amount between EUR 0.75 – 1.25bn tomorrow
- We judge that tomorrow's sale will most likely finalise the Dutch long dated issuance programme for this year, although the Dutch State could return in Q4
- Assuming EUR 1bn of issuance, we calculate that year to date bond supply will increase to 67% of our forecast and to 64% of the midpoint of the official target range
- In the recent bond rout, curves steepened while 10s30s remained very resilient
- We see good value in the DSL 2047 compared to Bunds, especially in a box with the 10y or 20y part of the curve

Final Dutch long dated off the run bond supply?

Tomorrow, the Dutch State Treasury Agency (DSTA) will hold an auction of a long dated bond for the third time this year. It will be the second time, the DSTA will sell the DSL 2047. Tomorrow's auction is part of its issuance programme which is ring-fenced for long dated off the run supply. In its official outlook, the DSTA said that it would reopen longer dated bonds for an amount between EUR 3 – 5.5bn this year, while the total bond issuance range will be between EUR 30 – 35bn.

Up to now, the DSTA issued a total of EUR 2bn of long dated off the run bonds. For tomorrow's transaction, the deal size is set between EUR 0.75-1.25bn. We expect an issuance size of around EUR 1bn, which would mean that after the sale the DSTA would have issued the EUR 3bn minimum. Although the DSTA could decide to hold another long dated auction in Q4 of this year, we think that the likelihood of this is low. This means that tomorrow's auction could be the last long dated bond sale for the year. Another key reason why we think it would be the last long dated bond issuance is that the DSTA has already lowered its borrowing requirement on three occasions (see [here](#)). We therefore expect that the DSTA will aim for a bond issuance at the lower end of the annual target range (EUR 31bn). The high likelihood of being the final long dated sale, the recent increase in yields and the relative small size of the auction will be supportive of tomorrow's transaction.

Dutch bond auction details

Auction Date	Tuesday 11 July
Timing	10:00 AM CET
Target Amount	EUR 0.75 – 1.25bn
Settlement	13 July 2017

Source: DSTA

Bond characteristics	
Coupon	2.75%
Maturity	15 January 2047
Outstanding	EUR 12.139bn
ISIN	NL0010721999

Source: DSTA

Dutch year-to-date bond funding will increase to 67% of our EUR 31bn forecast

Year-to-date, the DSTA has issued a nominal bond amount of EUR 19.8bn. This amount is equal to 64% of our EUR 31bn target estimate and to 61% of the midpoint of the official bond target range of EUR 30-35bn. Assuming a EUR 1bn issuance amount for tomorrow's sale, the year-to-date bond funding will increase to 67% of our forecast and to 64% of the midpoint.

For the remainder of the year, there is around EUR 10bn left of bond issuance. The inaugural sale of a new 7y benchmark bond will take the lion share. The DSTA indicated that it will sell between EUR 5 – 7.5bn of this bond after the summer. Furthermore, the DSTA will reopen its 10 year benchmark on two occasions. Finally, as mentioned before, the DSTA could exercise its option to sell another long dated bond auction in Q4.

Long end resilience as speculation of tighter ECB monetary policy grows

To put it gently, it has been a rather violent and volatile period lately in government bond space. For example, the 10y yield of German government bonds shot through the technically and symbolically important 0.50% threshold last week. The bond rout started when ECB President Draghi surprised the market by downplaying current subdued inflationary pressures and hinted to a slow exit of the ECB's QE programme at the central bankers forum in Sintra two weeks ago. Since then, the government bond curve steepened aggressively, most notably 5s10s and 5s30s. However, the 10s30s part of the curve has been rather resilient (see graph below). This is not a surprise to us, as we have noticed the tight relationship of the long end part with 10y before, especially in periods of high volatility. Indeed, our forecasts for the end of the year indicate more steepening in 2s5s and 5s10s (60bps and 90bps respectively), while 10s30s is expected to remain stable around current levels. This means that compared to the 10y part of the sector, the 30y part looks to be a relatively safe spot on the curve.

DSL 2047 is interesting in a box compared to Bunds

In the past few weeks, the DSL 2047 – DSL July 2026 has become more attractive compared to the equivalent German spread (DBR 2046 – DBR Feb 2026, see graph). These spreads can also be put together in a box trade, which is interesting for a short trade horizon. Another box trade, which offers even better value is to combine the DSL 2047 in a spread versus the DSL 2033 (and with the DBR 2046 and DBR 2034, see graph).

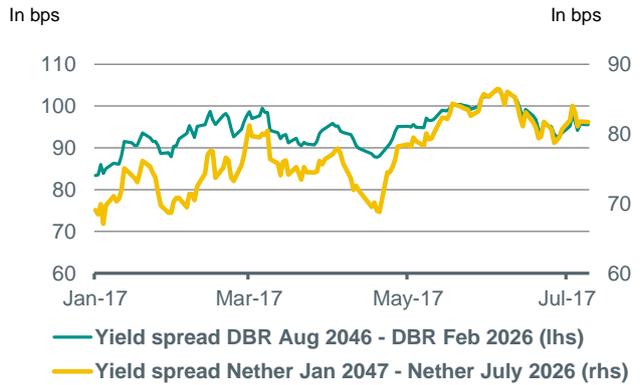
In contrast, the yield spread of the DSL 2047 vs DBR Aug 2046 is not so interesting (see graph). Finally, from a cross country perspective, the DSL 2047 does not look overly attractive compared to the RFGB April 2047 and RAGB February 2046 as the DSL 2047 is close to the middle of the recent trading range. Furthermore, the Belgium and French long end remains expensive compared to the DSL 2047 and can be interesting to switch out of.

10s30s remained flat during recent sell off



Source: ABN AMRO Group Economics, Bloomberg

NL 10s30s became more interesting vs DE



Source: ABN AMRO Group Economics, Bloomberg

DSL 2047 also looks attractive vs DSL 2033



Source: ABN AMRO Group Economics, Bloomberg

In a pure credit spread, DSL 2047 is not so interesting



Source: ABN AMRO Group Economics, Bloomberg

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