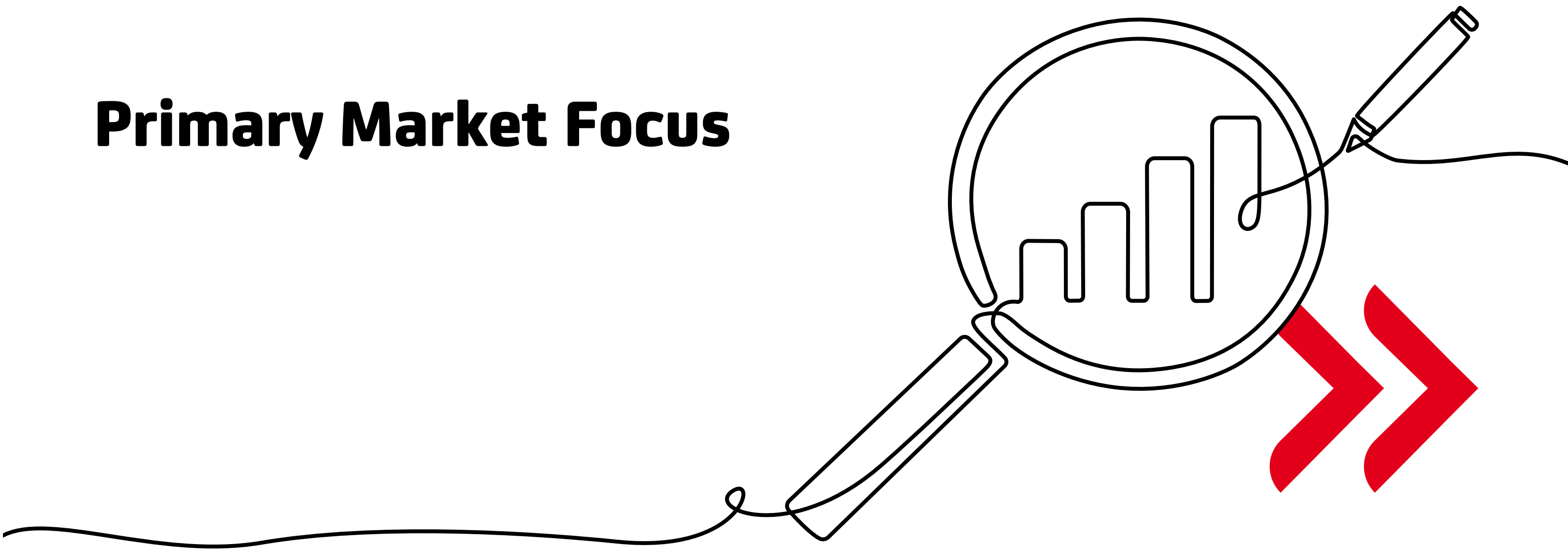
# Primary Market Focus



Our *Primary Market Focus* is a deep dive into bond issuance activity, highlighting trading opportunities for new and existing bonds.

## Italy issues new 10Y benchmark with 4% coupon

**26 August 2026**

**Bonds at auction**

BTP 3.15% Jun31

BTP 4% Oct36

CCTeu Apr34

CCTeu Apr35

**General moves in the market**

EGB yields have remained under pressure throughout the summer. The 10Y real Bund yields is at around 1%, its highest level since late 2009. The scope for a significant rise in real yields appears limited. In the near term, the main factor that could push real Bund yields higher would be a broad repricing of global yields. The BTP-Bund spread remains stable at around 80bp, and despite is somewhat wide versus our fair value model, we see limited scope for tightening given geopolitical, rate and political risks. Carry rather than price gains remains the main return driver.

**Trade recommendations**

The new 10Y will feature a 4% coupon, which should support demand, particularly from long-term investors. The BTP curve is pretty flat in the 10Y area, which will limit the yield roll of the new bond relative to the previous benchmark. The new BTP 4% Oct36 is most attractive for outright purchases or as an extension trade from the 5Y sector. That said, we continue to favour the 5Y tenor as the optimal balance between yield enhancement and duration risk.

## End-of-August BTP auction details

On Friday, Italy will auction EUR 2.25-2.5bn of the BTP 3.15% Jun31, EUR 3.5-4bn of the new BTP 4% Oct36, EUR 0.75-1bn of the CCTeu Apr34 and EUR 0.75-1bn of the CCTeu Apr35. Total issuance will amount to EUR 7.25-8.5bn, plus up to EUR 2bn through the non-competitive auction. There will be no BTP redemptions supporting the auction.

In line with the 3Q funding guidelines, the Treasury will issue a new 10Y benchmark. Supply on floaters has been split on two off-the-run bonds, both with a relatively long maturity. The Treasury will tap the 5Y benchmark, BTP 3.15% Jun31, which will reach an amount of around EUR 18bn after the auction. This should be the last tap of this bond, with a new benchmark, BTP Feb32, to be issued next month. The average maturity of the offering will be just over 8 years, around 0.2 years longer than at the end-July auction.

Following this auction, Italy will have issued approximately EUR 256bn of medium-and-long-term debt, just over 70% of its annual funding programme.

## Summer has been a challenging period for EGBs

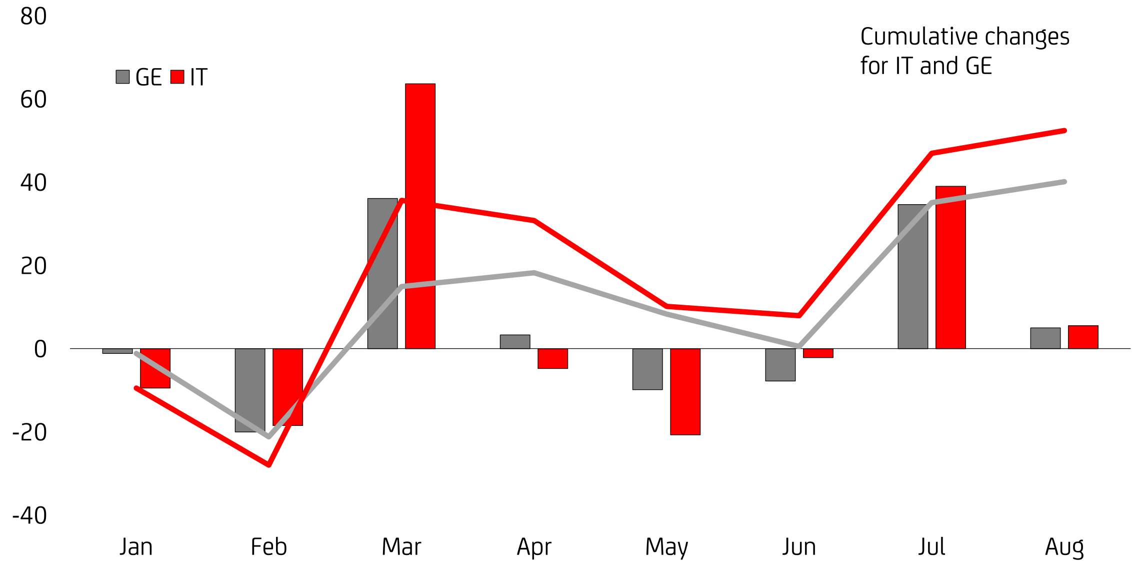
EGB yields have remained under pressure throughout the summer. July was particularly challenging, with yields rising by around 40bp. In August, yields have moved higher still, albeit at a more moderate pace, and have even recovered in the last days following positive developments in oil prices. The move has been broadly parallel across tenors, with the BTP curve shape remaining relatively stable.

As discussed in late July, 10Y real Bund yields had already reached the 1% area, their highest level since late 2009. This level reflects expectations of stronger euro-area growth, supported by a higher r* and a higher term premium associated with increased public spending. Against this backdrop, the scope for a further significant rise in real yields appears limited. In the near term, the main factor that could push real Bund yields higher would be a broad repricing of global yields. Indeed, real yields have increased further in August, but only marginally. We continue to believe that downside risks to growth remain underpriced by the market.

The 10Y BTP yield has moved above the 4% threshold in August and is currently close to this level. While this level has historically attracted investor demand, in the current environment of persistent pressure on government bonds, investors may prefer to wait for greater clarity before re-entering the market.

**CHART 1: BTP AND BUND YIELD MONTHLY CHANGES IN 2026**

10Y YIELD MONTHLY AND CUMULATIVE CHANGES (BP)




Source: Bloomberg, The Investment Institute by UniCredit

## BTP-Bund spread is around 15bp wider relative to our fair value model

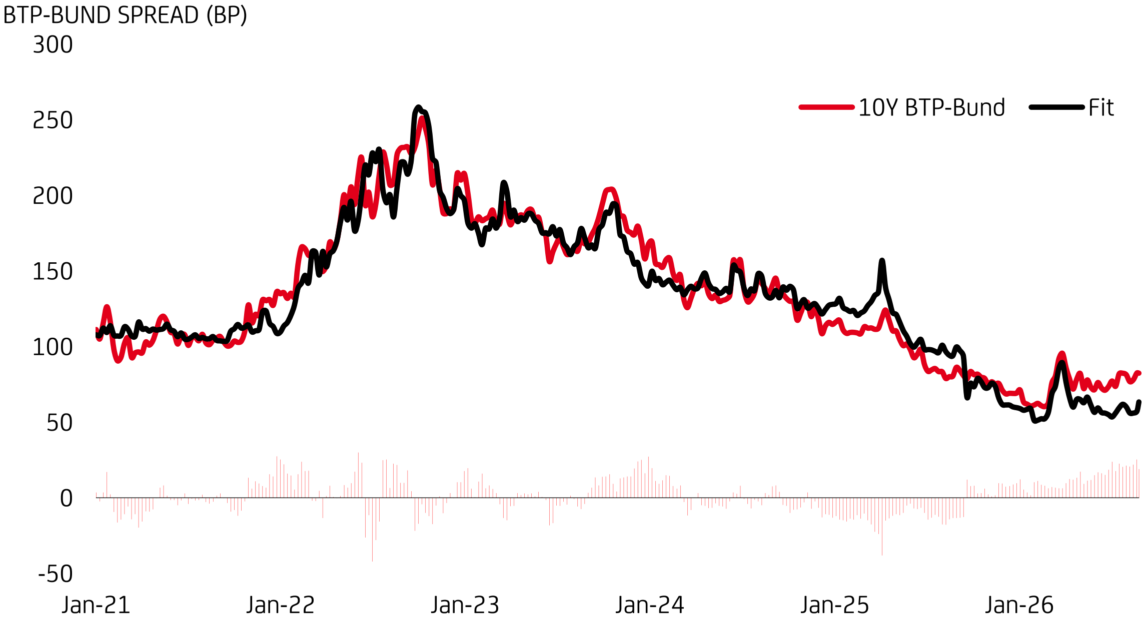
The BTP-Bund spread has remained broadly stable in the 80bp area during July and August. The renewed rise in energy prices in summer has had only a limited impact on spread dynamics.

Our fair-value model suggests that the 10Y BTP-Bund spread is currently around 15bp wider than justified by fundamentals. As a reminder, the model is based on weekly data and includes three explanatory variables: ECB rate expectations, the iTraxx index as a proxy for credit risk appetite and Italy's sovereign rating. The model is estimated using data up to the end of February, while the period since the outbreak of the US-Iran conflict is treated as an out-of-sample test. Including the post-conflict period in the estimation would raise the fair value by around 7bp, but would leave the overall directional signal unchanged.

Despite the valuation signal from the model, we remain somewhat more cautious and continue to project the spread at around 70bp by year-end. There are three main reasons for this view. First, the geopolitical backdrop remains uncertain, limiting investor appetite for carry trades. Second, euro-area yields are higher than at the beginning of 2026, creating a less-supportive environment for highly indebted sovereign issuers. Third, investors appear to be placing greater weight on domestic political developments. Political risk is not explicitly captured by the model and therefore shows up in the residual component. A higher political risk premium would be reflected in a persistently positive residual.

In conclusion, BTPs continue to offer attractive carry, but we do not expect further spread compression to make a meaningful contribution to total returns.

**CHART 2: FAIR-VALUE MODEL FOR BTP-BUND SPREAD**



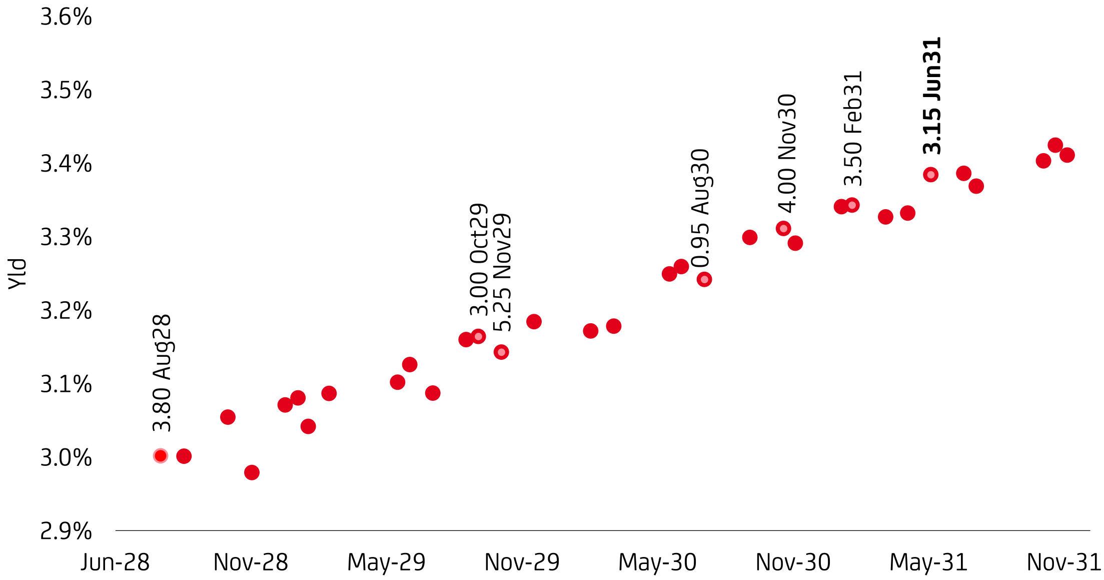

Source: Bloomberg, The Investment Institute by UniCredit

## BTP 3.15% Jun31 (EUR 2.25-2.5bn)

This bond was issued at the end of July at a yield of 3.39% and currently trades at about the same yield. The yield pick-up relative to BTP 0.5% Jul28 is ca. 44bp, around 5bp steeper than at the end of July, reflecting a modest steepening of the 2/5Y spread. The yield roll versus the previous 5Y benchmark, BTP 2.85% Feb31, is around 4bp, about in line with a month ago. This is likely to be the last tap of this bond. The Treasury has announced a new benchmark for 3Q (BTP Feb32); we expect it to be issued at the end of September, although settlement would be in 4Q. Given its relatively small size, this benchmark remains a candidate for future taps.

**CHART 3: BTP JUN31 RELATIVE TO ITS NEIGHBOURS**

YIELD (%)




Source: Bloomberg, The Investment Institute by UniCredit

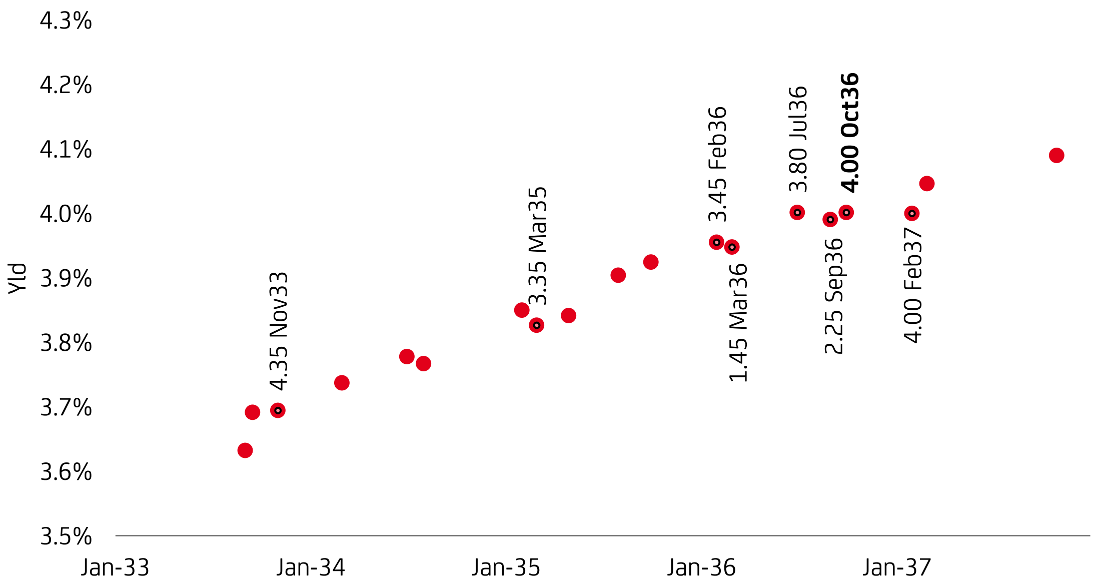
## New BTP 4% Oct36 (EUR 3.5-4bn)

This will be the inaugural issue of the new benchmark. It will also be the first 10Y BTP with a 4% coupon since the launch of the BTP 4.20% Mar-34 in September 2023. The higher coupon should support demand, particularly from long-term investors.

The BTP curve is pretty flat in the 10Y area, which will limit the roll the new bond can offer relative to the previous benchmark, BTP 3.8% Jul36. As a result, the bond appears most attractive for outright purchases or as an extension trade from the 5Y sector, offering a yield pick-up of around 60bp. That said, we continue to favour the 5Y tenor as the optimal balance between yield enhancement and duration risk.

**CHART 4: NEW 10Y BTP 4% OCT36**

YIELD (%)




Source: Bloomberg, The Investment Institute by UniCredit

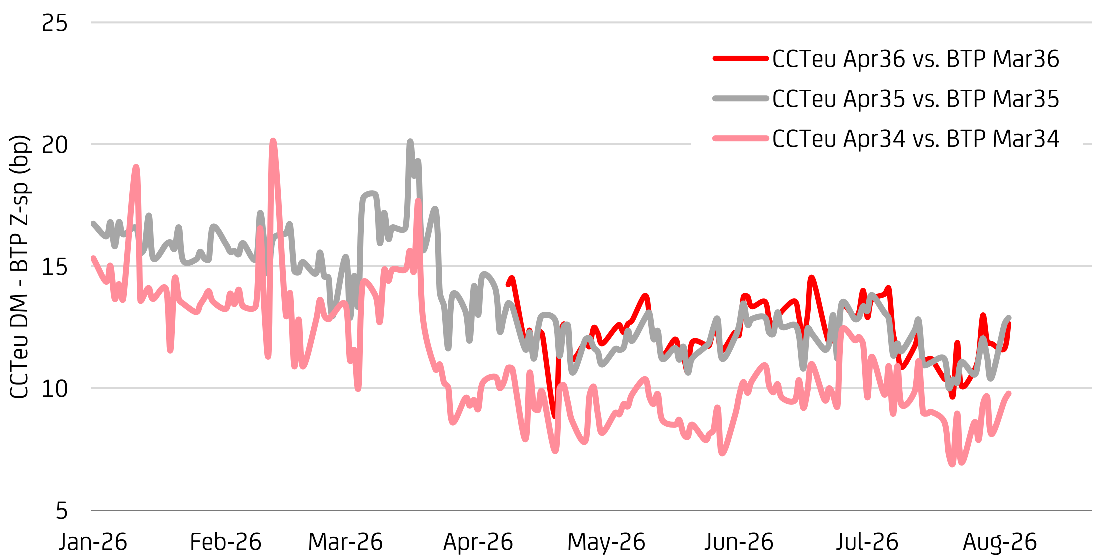
## CCTeu Apr34 and Apr35 (EUR 0.75-1bn each)

The Treasury opted for a dual tap of two off-the-run CCTeus, following several reopenings of the benchmark CCTeu Apr-36. The CCTeu Apr-35 offers a similar spread pick-up versus the BTP curve as the longer-dated Apr-36, while the CCTeu Apr-34 trades somewhat tighter.

CCTeus remain an attractive option for parking liquidity, offering a yield advantage over money market instruments. However, with markets already pricing in two additional ECB rate cuts, the rationale for favouring floaters over fixed-rate bonds is becoming less compelling.

**CHART 5: CCTEUS STILL OFFER GOOD PICK-UP TO BTPS**

CCTEU DISCOUNT MARGIN VS. BTP Z-SPREAD (BP)




Source: Bloomberg, The Investment Institute by UniCredit

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