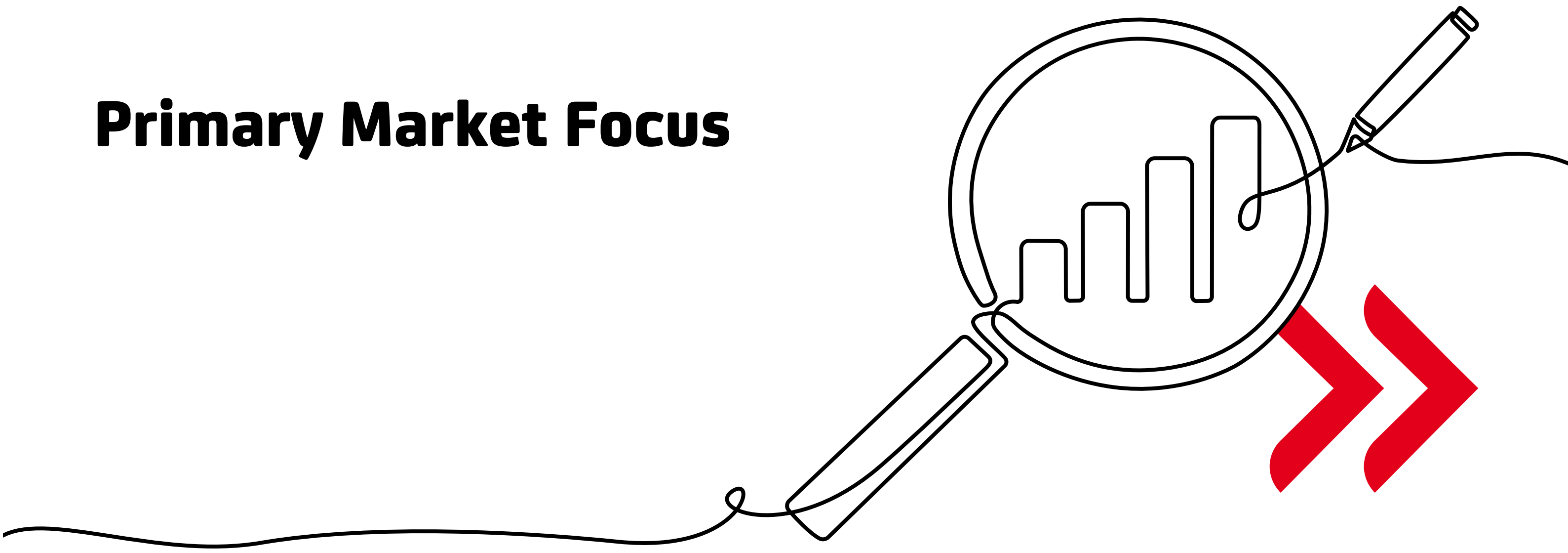
Primary Market Focus



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

Italy taps 3Y, 7Y and 50Y BTPs at appealing yields for investors

9 September 2026

Bonds at auction

BTP 3% Sep29 for EUR 3-3.5bn

BTP 3.35% Sep33 for EUR 3-3.5bn

BTP 2.15% Mar72 for EUR 0.5-0.75bn

General moves in the market

Despite renewed upward pressure on EGB yields, with Bund yields reaching levels last observed in 2011, BTP performance has been resilient, with the 10Y BTP-Bund spread remaining in the 80bp area.

Trade recommendations

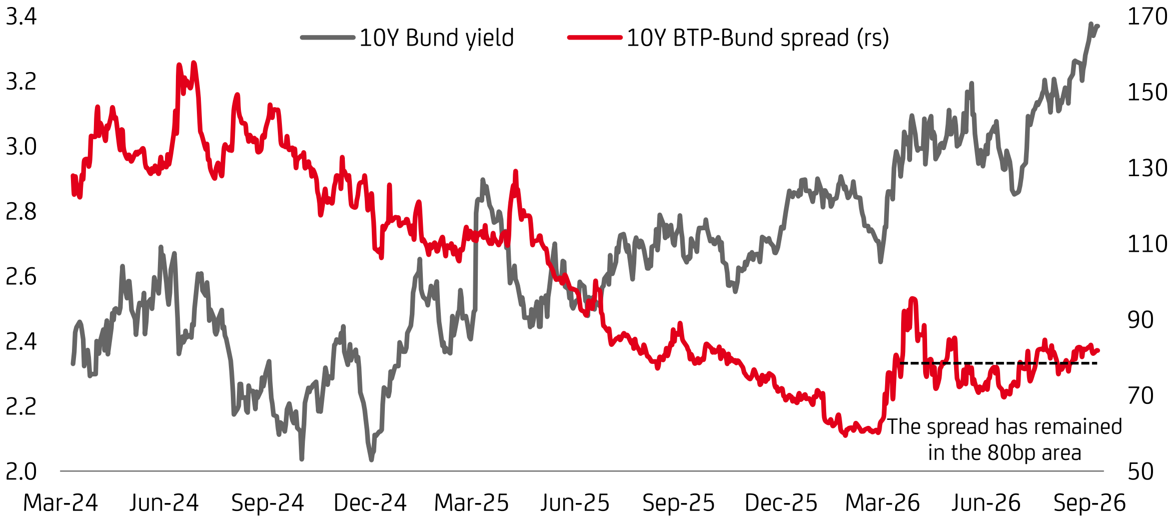
We like BTP Sep29 in absolute terms, BTP Sep33 is cheap on the curve, while, at current valuations, BTP Mar72 is only appealing for hedging purposes.

On Thursday, Italy will reopen BTP 3% Sep29 for EUR 3-3.5bn, BTP 3.35% Sep33 for EUR 3-3.5bn and BTP 2.15% Mar72 for EUR 0.5-0.75bn, for a total of EUR 6.5-7.75bn. Reopenings for specialists will amount to EUR 700mn for the 3Y and 7Y benchmarks and EUR 150mn for the 50Y bond. The decision to tap BTP Mar72 comes as a surprise since the bond is trading well below par, with a price of around EUR 55, but leaves the door open for the launch of a future deal in more conventional areas of the curve – such as the 20Y or 30Y bucket. The auction will be supported by EUR 16bn of redemptions (BTP 3.85% Sep26, issued as 3Y benchmark).

Considering the sale of retail securities and buybacks, the Italian Treasury has sold EUR 260bn of medium/long-term bonds so far this year, out of a yearly target of EUR 350-365bn. We expect Italy to launch a third retail transaction and a syndicated deal by the end of the year.

The last mid-month BTP auction was held in July as the mid-August auction was cancelled in line with the last few years. Since then, EGB yields have risen significantly with the 10Y Bund yield rising by 30bp, reaching levels last seen in 2011. The headwinds that have pushed EGB yields higher in the past few months – the energy shock due to the war in the Middle East, a hawkish tone by central banks, which aim to counter a reacceleration in inflationary pressure, still-solid economic figures, an increase in fiscal spending, sustained private investment (especially in AI) and higher macroeconomic and geopolitical uncertainty – will probably continue to weigh on EGBs in the coming months, keeping their yields elevated. We expect to see a relief for EGBs from a longer-term perspective, although the 10Y Bund is unlikely to significantly decline below the 3% threshold. Against this backdrop, Italian govies have moved in synch with their peers, leaving the 10Y BTP-Bund spread in the 80bp area (Chart 1), where we expect it to remain in the foreseeable future. While BTP performance has been convincing in the past few months, especially considering the external challenges, the higher macroeconomic uncertainty, the Italian economy's sensitivity to energy prices and next year's general election are currently making a tightening towards or below 70bp less likely at the moment.

CHART 1: 10Y BTP-BUND SPREAD LITTLE AFFECTED BY BOND REPRICING

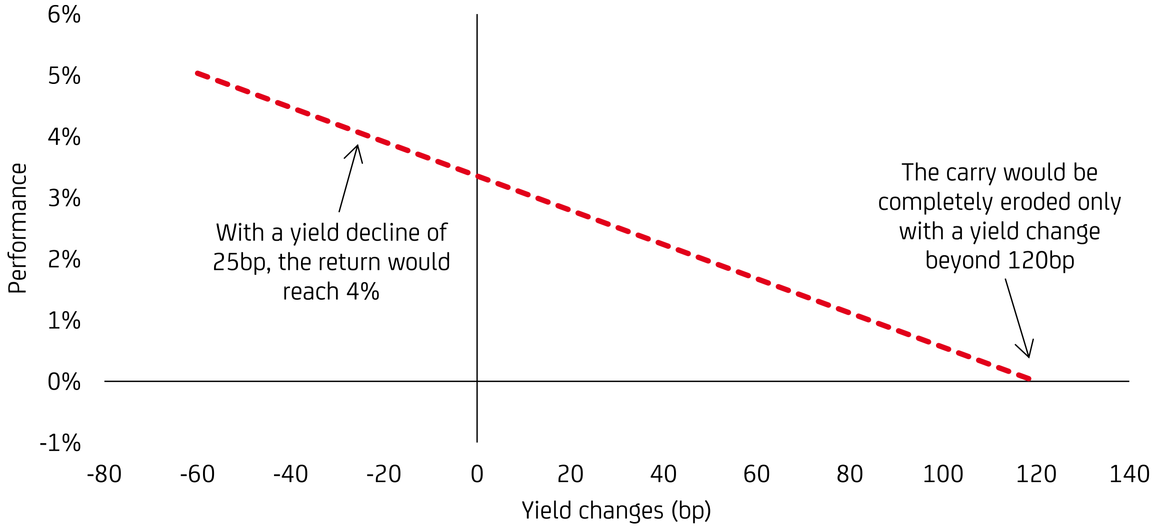


Source: Bloomberg, The Investment Institute by UniCredit

BTP 3% Sep29 (EUR 3-3.5bn)

The 3Y benchmark is trading roughly 20bp higher than a month ago, as market expectations regarding the depo trajectory have moved higher. OIS forward rates are currently pricing in a peak above 3%, while we expect the ECB to hike twice, up to 2.75%. In light of less hawkish expectations, BTP Sep29 is appealing in absolute terms. With a 25bp yield decline, the return from this bond would be 4% (Chart 2). In the negative scenario of further pressure on govies, thanks to the contained duration, a 120bp would be needed for the performance to become negative. Despite future supply pressure beyond the upcoming tap, BTP 3% Sep29 is fairly priced on the curve. In terms of curve shape, the 2/3Y BTP spread has remained around 15bp in the past month.

CHART 2: BTP SEP29 IS APPEALING FROM A RISK/RETURN PERSPECTIVE

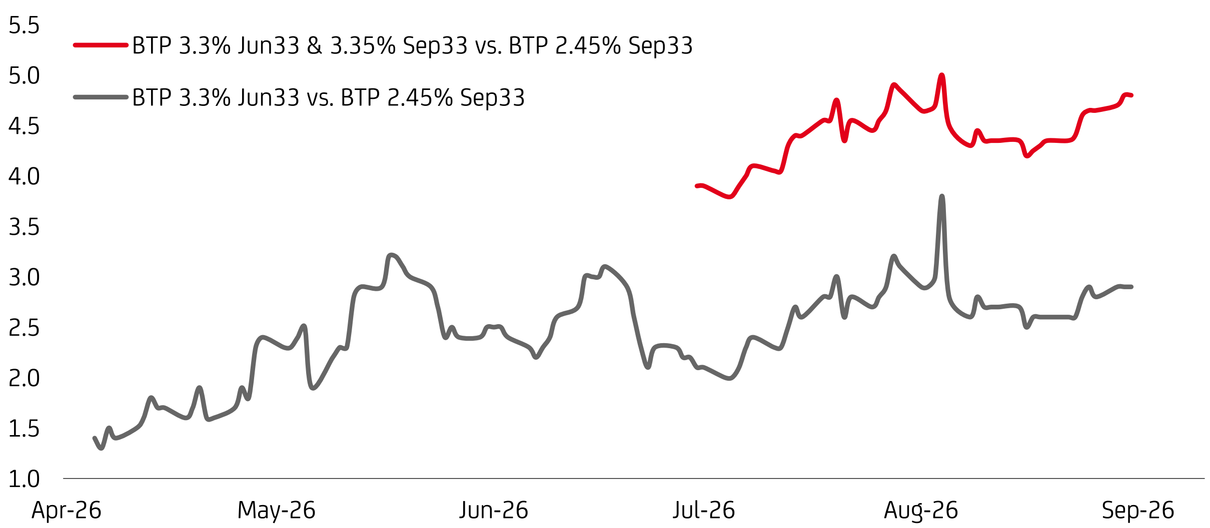


Source: Bloomberg, The Investment Institute by UniCredit
Performance is given by current yield and the impact of the yield change, computed with the modified duration of the bond.

BTP 3.35% Sep33 (EUR 3-3.5bn)

This will be the first tap of this bond, which is trading relatively cheap on the curve, as it offers a 7bp pickup relative to BTP 2.45% Sep33. The previous 7Y benchmark, BTP 3.3% Jun33 is also attractive in relative terms (Chart 3). Going long BTP 3.3% Jun33 and BTP 3.35% Sep33 vs. BTP 2.45% Sep33 gives a 5bp pickup. The 5/7Y spread has remained stable at 25bp, still showing little sensitivity to yield moves. Along with the 5Y sector, we still like the 7Y area, given its limited duration risk and appealing roll-down.

CHART 3: THE NEW BTP SEP33 IN THE 7Y AREA OF THE CURVE

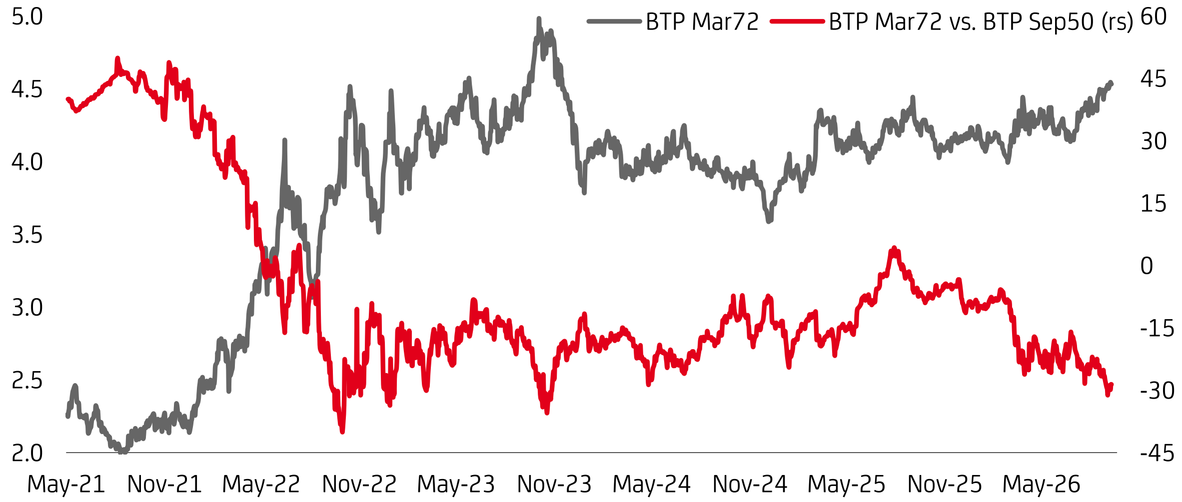


Source: Bloomberg, The Investment Institute by UniCredit

BTP 2.15% Mar72 (EUR 0.5-0.75bn)

For the extra-long end of the curve, the Italian Treasury opted for the 50Y benchmark, which was last reopened in November 2025. Its current price, around EUR 55, is not the lowest ever as it reached EUR 50 in September 2023. The 30/50Y BTP spread inverted in May 2022, during the period of yield repricing in the eurozone, and has declined further, with the spread between BTP Mar72 and BTP Sep50 currently trading at around -30bp (Chart 4). At current valuations, BTP Mar72 is appealing to increase convexity portfolio or if one expects a further yield increase – not our baseline scenario – that would lead to a more inverted 30/50Y BTP spread.

CHART 4: 30/50Y BTP SPREAD IS DEEPLY INVERTED



Source: Bloomberg, The Investment Institute by UniCredit

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