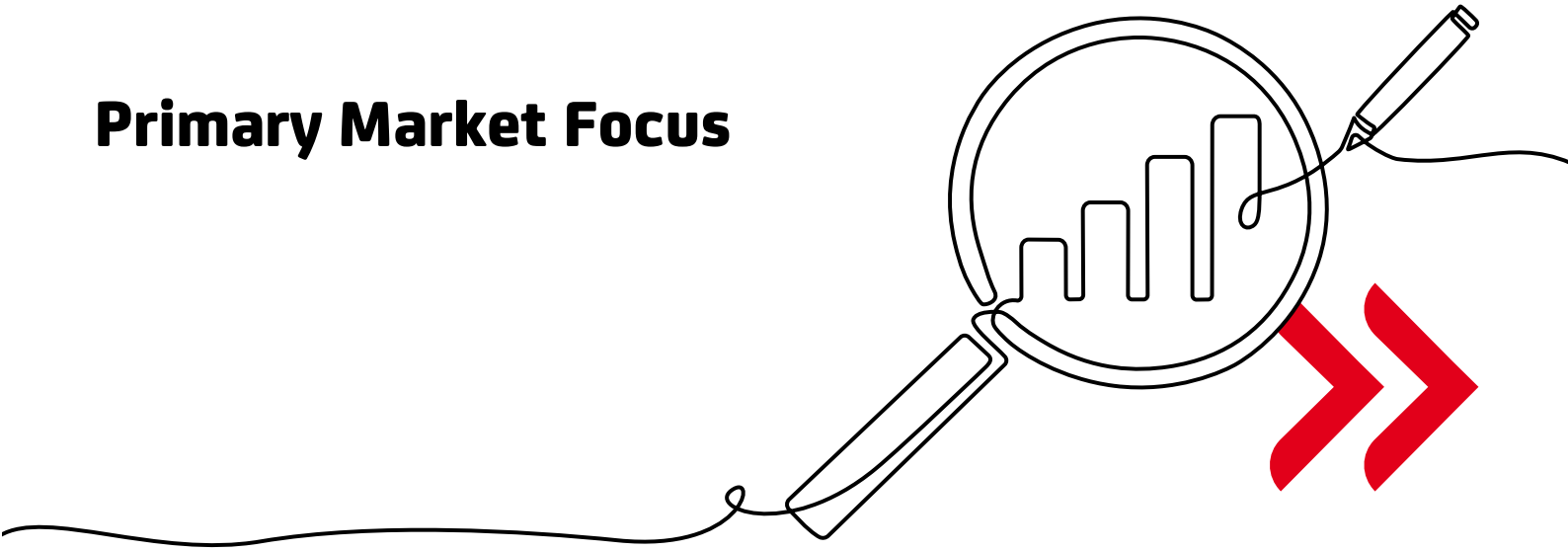
Primary Market Focus



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

Italy holds small BTP Short Term/BTPei auction amid elevated market volatility

23 October 2026

Bonds at auction

BTP Short Term 3% Oct28 for EUR 1.5-2bn

BTPei 1.25% Sep32 for EUR 0.5-0.75bn

BTPei 2.35% Sep35 for EUR 0.5-0.75bn

General moves in the market

The 2Y BTP yield is little changed compared to a month ago, while short-dated Italian paper has underperformed core govies over this period. Market-based inflation expectations in the eurozone have remained stable despite the recent increase in energy prices.

Trade recommendations

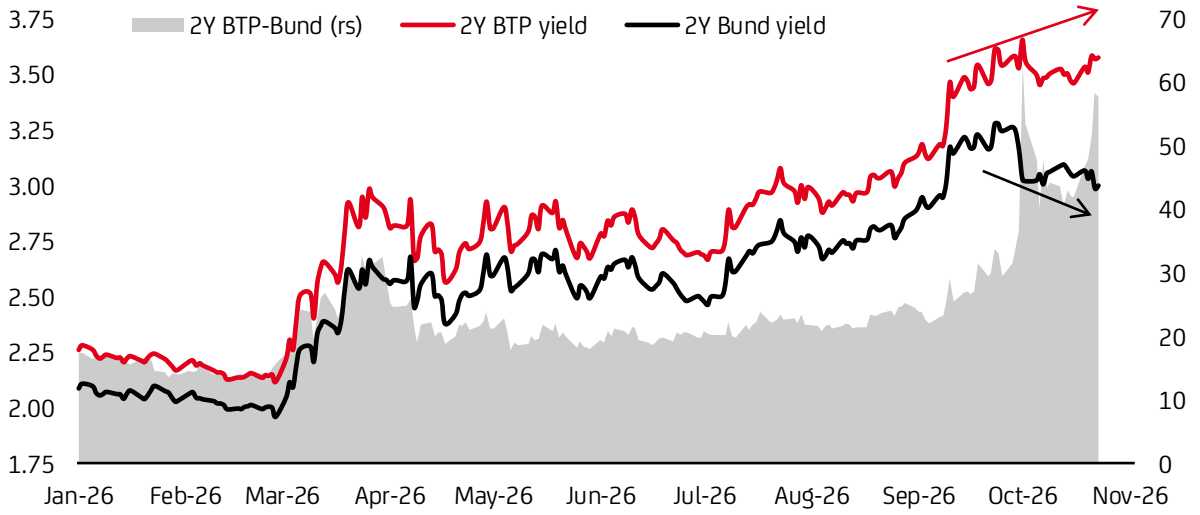
BTP Oct28 looks appealing in absolute terms and relative to shorter-dated BTPs and Bunds, although it remains exposed to near-term risks. BTPeis on auction are expensive. Current benchmarks, such as BTPei 1.1% Aug31 and BTPei 2% Feb37, are more appealing in real yield and breakeven terms. Longer-dated linkers, including BTPei May39, are attractive in iota terms.

On Tuesday, the Italian Treasury will reopen BTP Short Term 3% Oct28 for EUR 1.5-2bn, BTPei 1.25% Sep32 for EUR 0.5-0.75bn and BTPei 2.35% Sep35 for EUR 0.5-0.75bn. The size of the auction is small (EUR 2.5-3.5bn), reflecting debt agency's already advanced funding position and a cautious stance following the recent BTP underperformance. Reopenings for specialists will amount to EUR 400mn for the 2Y benchmark and EUR 112.5mn each for the linkers. BTP 7.25% Nov26 (EUR 12bn) will redeem at the beginning of November, supporting next week's Italian auctions.

BTP Short Term 3% Oct28 (EUR 1.5-2bn)

Core rates have edged slightly lower in the past few months, reflecting investor demand for less risky assets worldwide. For reference, the 2Y OIS rate has declined by around 20bp to 3%. Next week, the ECB is widely expected to remain on hold, probably signalling further hikes if inflation does not decelerate meaningfully. We still pencil in a final hike for December. Although the central bank will highly likely remain on hold and will not publish new economic forecasts, the meeting will draw investor attention because of possible comments regarding the recent widening of EGB spreads. French govies have remained under pressure in the past few weeks, raising investor concerns about other govies including BTPs. In the past few months, the 2Y BTP yield has moved in the opposite direction compared to Bunds, resulting in a 30bp widening of the 2Y BTP-Bund spread, currently at 60bp (Chart 1).

CHART 1: DIVERGING BTP AND BUND YIELDS



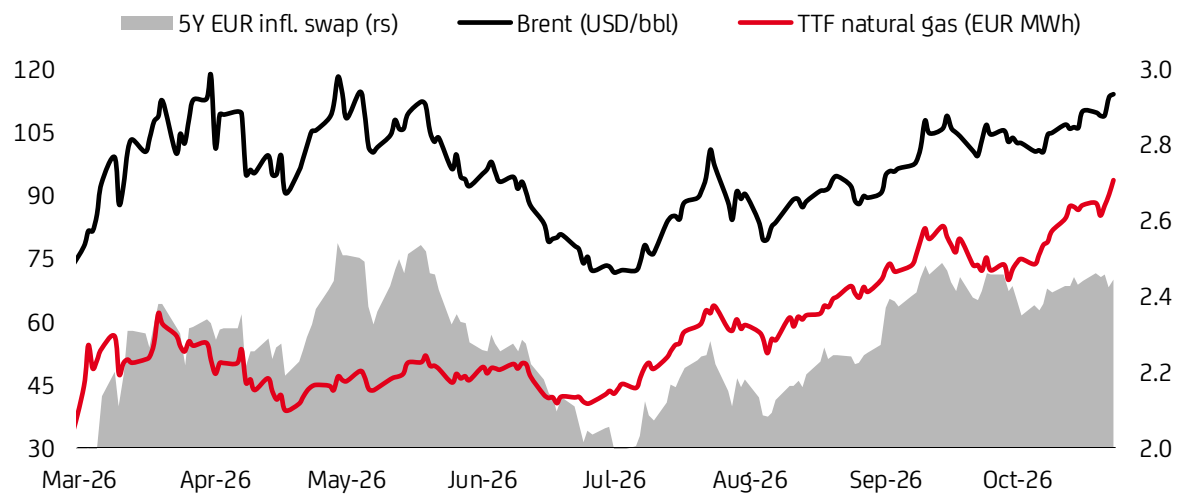
Source: Bloomberg, The Investment Institute by UniCredit

Despite recent volatility, the short end of the curve shows no particular misalignments and even BTP Short Term is offering a negligible pickup to its neighbours. Low-coupon BTPs, including BTP 2.8% Dec28, are the only exception as they trade richer than peers. 2Y BTPs have cheapened not only relative to Bunds, but also vs. 1Y BTPs, as the 1/2Y spread has steepened again and now stands at 40bp. BTP Short Term Oct28 is currently trading at 3.63%, in line with its auction yield a month ago. The 2Y benchmark has become cheap in both absolute and relative terms. We consider it appealing from a long-term perspective, while volatility will probably remain high in the near term.

BTPei 1.25% Sep32 (EUR 0.5-0.75bn) & 2.35% Sep35 (EUR 0.5-0.75bn)

Renewed tensions in the Middle East, with Houthis launching attacks on Saudi infrastructure, have led to an increase in energy prices with Brent rising 10% to USD 114/bbl and TTF natural gas by 30% to EUR 94/MWh (Chart 2). Despite the latest energy repricing, market-based inflation expectations in the eurozone have moved broadly sideways, with the 5Y inflation swap rate remaining below 2.5%. By contrast, risk-free real rates have declined in the past few weeks, with the 5Y rate (computed on swaps) currently at around 1%, 20bp lower than a month ago. 1-10Y BTPeis have slightly underperformed nominal govies of similar tenor in the past month.

CHART 2: INFLATION SWAP RATES HAVE NOT RISEN DESPITE THE INCREASE IN ENERGY PRICES

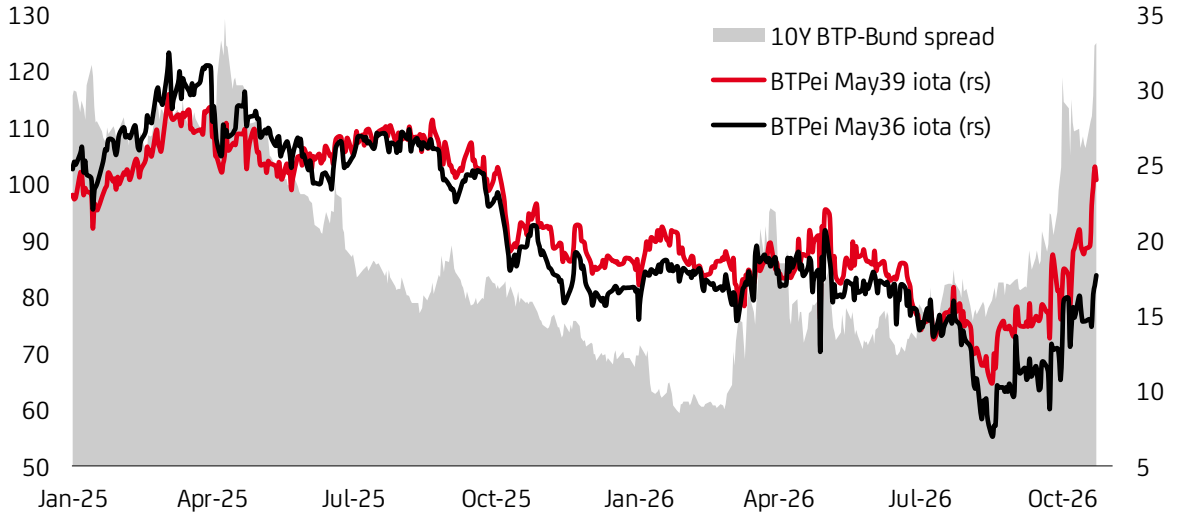


Source: Bloomberg, The Investment Institute by UniCredit

BTPei 1.25% Sep32 was last tapped in May 2025, BTPei 2.35% Sep35 in January 2009. The former was launched in October 2015, the latter, launched in October 2004, was the third BTPei ever offered by the Italian Treasury. Considering their real yields and breakeven rates, BTPeis on auction are relatively expensive on the curve and have a very high inflation balloon, which will result in auction prices well above par. They currently stand at EUR 129 and EUR 162, respectively. For reference, BTPei 1.1% Aug31 and BTPei 2% Feb37, current 5Y and 10Y benchmarks, are more appealing, partly reflecting future supply pressure.

Longer-dated BTPeis, including BTPei 2.4% May39, have cheapened in iota terms, confirming the positive relationship with the 10Y BTP-Bund spread. This cheapening is less evident for shorter-dated linkers, such as BTPei May36.

CHART 3: BTPEIS HAVE GENERALLY CHEAPENED IN IOTA TERMS



Source: Bloomberg, The Investment Institute by UniCredit

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