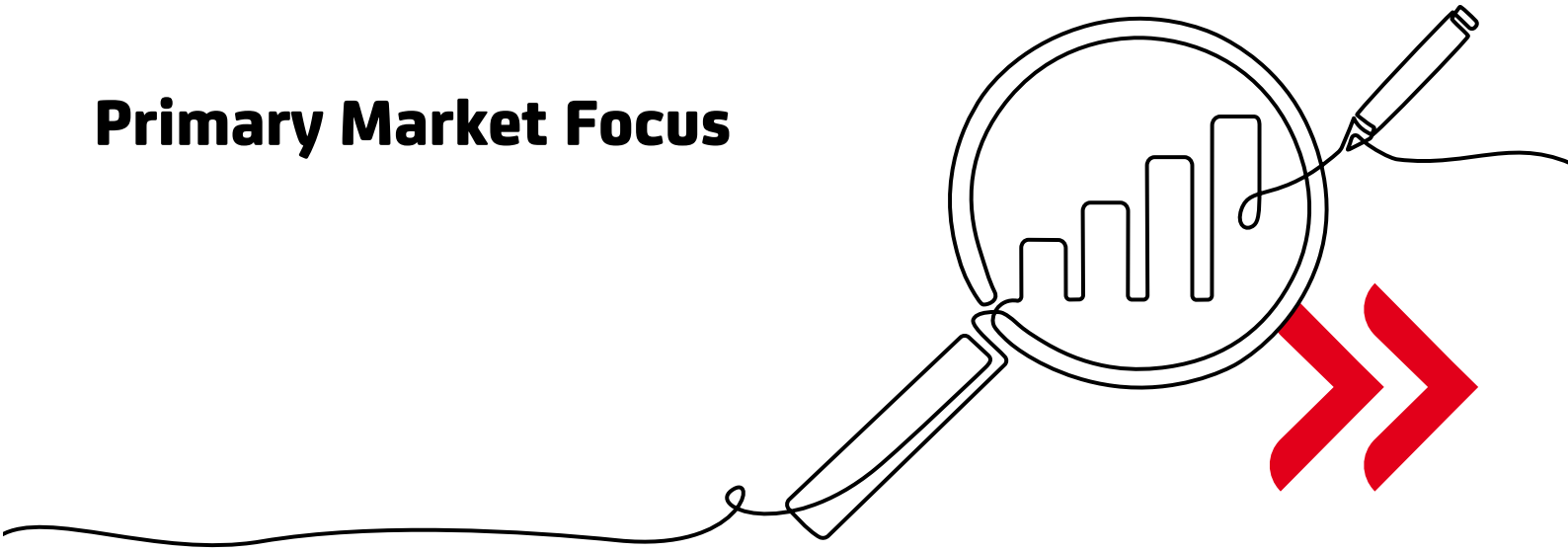
Primary Market Focus



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

Another BTP auction with historically high yields

27 October 2026

Bonds at auction

BTP 3.95% Feb32

BTP 3.5% Feb31

BTP 4% Oct36

CCTeu Apr36

General moves in the market

The BTP-Bund spread has widened since mid-September, although the move has resulted mainly from lower Bund yields. Spread widening in part reflected lower Bund yields and in part the pressure seen in OATs. BTP yields have overshot the increase in implied rates volatility, which is a signal that the sell-off is overdone.

Trade recommendations

The 5Y area remans attractive relative to the 2Y and 10Y wings. The BTP 3.95% Feb32 offers an 8bp pick-up over the previous benchmark. It is also attractive relative to BTP 3.50% Mar30 (30bp pick-up for two years of maturity extension). Yields in the 10Y area are at the upper end of their range over last five years. The BTP 4% Oct36 is attractive relative to BTP 4% Mar37 and BTP 4.05% Oct37.

End-of-September BTP auction details

On Thursday, Italy will auction EUR 1.25-1.75bn of the BTP 3.95% Feb32, EUR 0.75-1.25bn of the BTP 3.5% Feb31, EUR 3-3.5bn of the BTP 4% Oct36 and EUR 1.0-1.25bn of the CCTeu Apr36. Total issuance will amount to EUR 6-7.75bn, with a further amount of up to EUR 1.48bn available through the non-competitive auction. Supply in the five-year area will be around EUR 3bn, but the Treasury has opted for a dual tranche offering to keep supply pressure subdued after the recent sale of retail bonds. On the other hand, issuance in the ten-year area is rather robust. The redemption of an old 30Y bond will return EUR 12.5bn to investors, creating reinvestment needs.

Following the auction, Italy will have issued approximately EUR 320bn of medium- and long-term debt, equivalent to almost 90% of its annual funding programme.

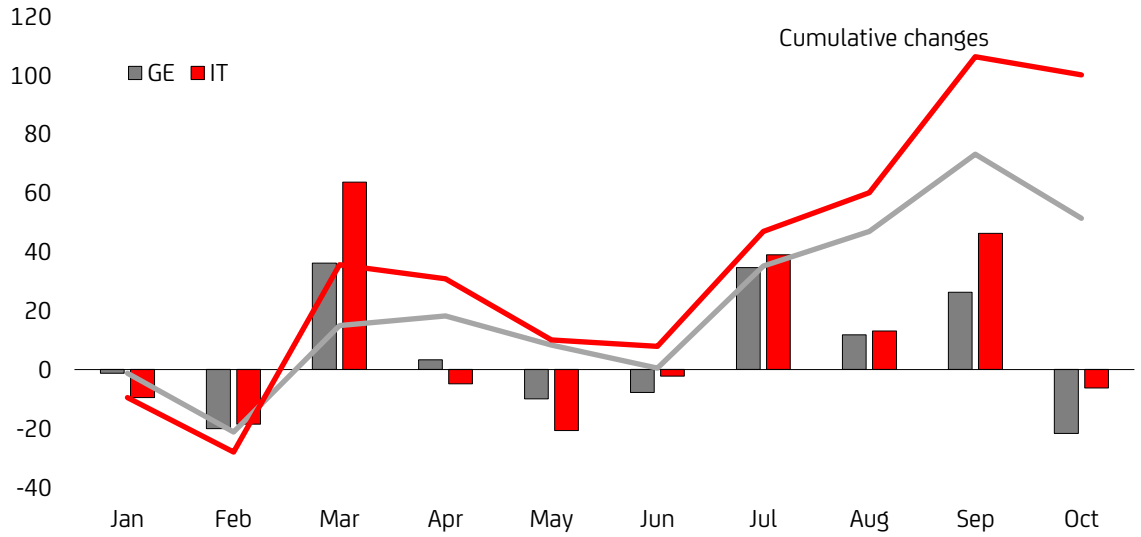
BTP spread widening has been mostly driven by lower Bund yields

The rates backdrop has been mixed over the past month. In the US, the 10Y Treasury yield fell by almost 30bp to around 5%, while the 10Y Bund declined by around 30bp to 3.35%. On the other hand, yields in some euro area countries have come under pressure. Indeed, since the end-of-September auction, sovereign spreads have been under pressure, led by OAT spreads, which widened to 175bp before narrowing somewhat. BTP spreads have also widened, although to a lesser extent than OATs. Spread tensions, along with growing nervousness surrounding the outlook for AI-related equities have provided support to Bunds, whose 10Y yield declined by almost 30bp in October. On the contrary, BTP yields are almost unchanged relative to a month ago. As a result, BTPs have posted a positive performance in October.

Curve dynamics were notable. The Italian curve flattened since mid-October, with the 2/10Y spread dropping from 120bp to around 100bp. In contrast, the German curve flattened modestly, as 10Y Bunds outperformed the front end, leaving the 2/10Y spread around 15bp flatter over the month.

CHART 1: BTP SPREAD WIDENING IS MOSTLY DUE TO LOWER BUND YIELDS

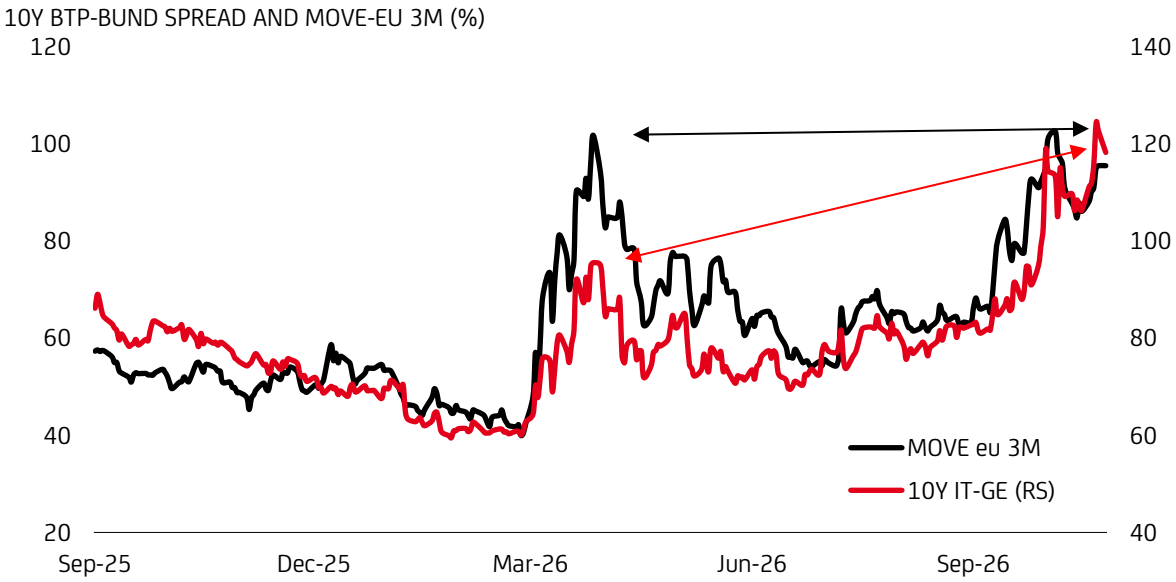
10Y BUND AND BTP YIELD, MONTHLY CHANGE AND CUMULATIVE CHANGE (BP)



Source: Bloomberg, The Investment Institute by UniCredit

BTP spreads have widened, reflecting greater uncertainty and higher volatility. As Chart 2 shows, implied yield volatility, as measured by the three-month MOVE-eu is at levels comparable to those seen in March, at the onset of the Iran conflict. On the other hand, at around 110bp, the BTP-Bund spread is more than 20bp wider than in March. This is a signal of BTP cheapness, although a recovery is likely to require a material improvement in Europe's political picture, especially in France, which we see as unlikely in the short term.

CHART 2: BTP-BUND SPREAD HAS OVERREACTED TO HIGHER YIELD VOLATILITY



Source: Bloomberg, The Investment Institute by UniCredit

BTP 3.95% Feb32 (EUR 1.25-1.75bn) and BTP 3.5% Feb31 (0.75-1.25bn)

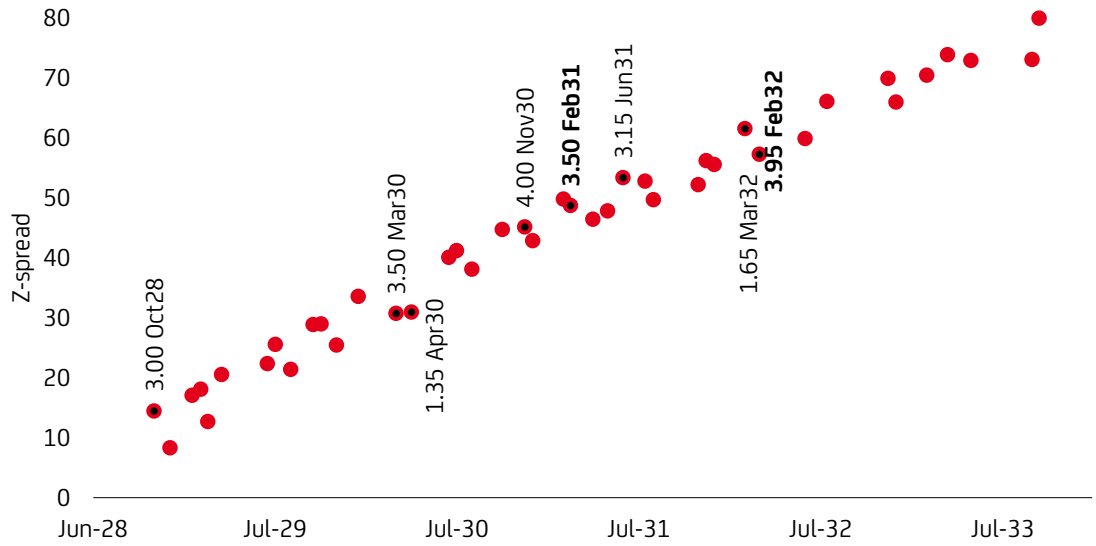
BTP 3.95% Feb32 was launched at the end of September auction at a yield of 4.08% and now trades at a slightly lower yield. As we discussed earlier, most of the spread widening has occurred due to lower Bund yields. The BTP 3.5% Feb31 is an old seven-year bond with a residual life of around five years.

The five-year area has cheapened considerably relative to the 2Y and 10Y wings since early September. The 2/5/10-year barbell, calculated using Bloomberg generics, stands at its highest level since late 2022.

The BTP 3.95% Feb32 offers an 8bp pick-up over the previous five-year benchmark, about in line with last month. Furthermore, the five-year sector shows a fairly strong dispersion of bonds relative to a local linear interpolation. The BTP 1.35% Apr30 and BTP 3.50% Mar30 are two bonds that qualify as rich in the area. BTP 4% Oct31 is also somewhat expensive. The two BTPs on auction are both somewhat cheap.

CHART 3: BTPS IN THE FIVE-YEAR AREA

Z-SPREAD (BP)



Source: Bloomberg, The Investment Institute by UniCredit

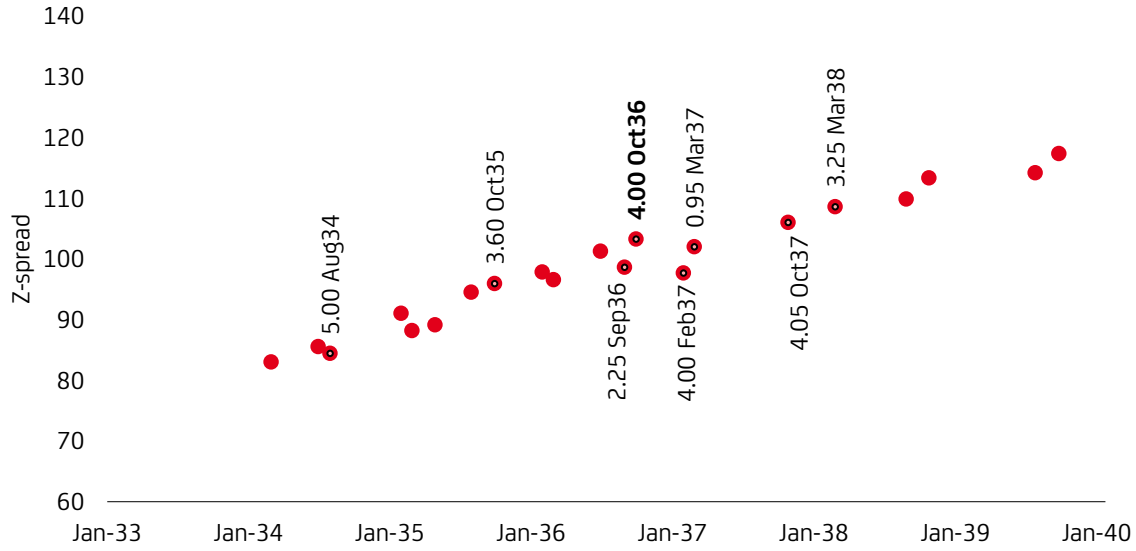
BTP 4% Oct36 (EUR 3-3.5bn)

At around 4.50%, 10Y BTP yields are at the upper end of their range over the last five years and offer a good opportunity for investors with a medium-term investment horizon.

The BTP 4% Oct36 was tapped at the end of September at a yield of 4.58% and now trades at around 4.50%. The BTP credit curve is pretty flat in the ten-year area, with roughly 10bp between BTP Oct35 and BTP Mar38. There are two possible switches in the area. First, the BTP 4% Feb37 looks expensive. It has the same coupon as today's 10Y benchmark but matures four months later and yields 5bp less. Second, the green BTP 4.05% Oct37 has a coupon only 5bp higher than the 10Y BTP at auction but matures a full year later and yields only 4bp more. "Greeniums" are lower than in the past, so this reflects a genuine expensiveness of this BTP.

CHART 4: BTPS IN THE 10-YEAR AREA

Z-SPREAD (BP)



Source: Bloomberg, The Investment Institute by UniCredit

CCTeu Apr36 (EUR 1.0-1.25bn)

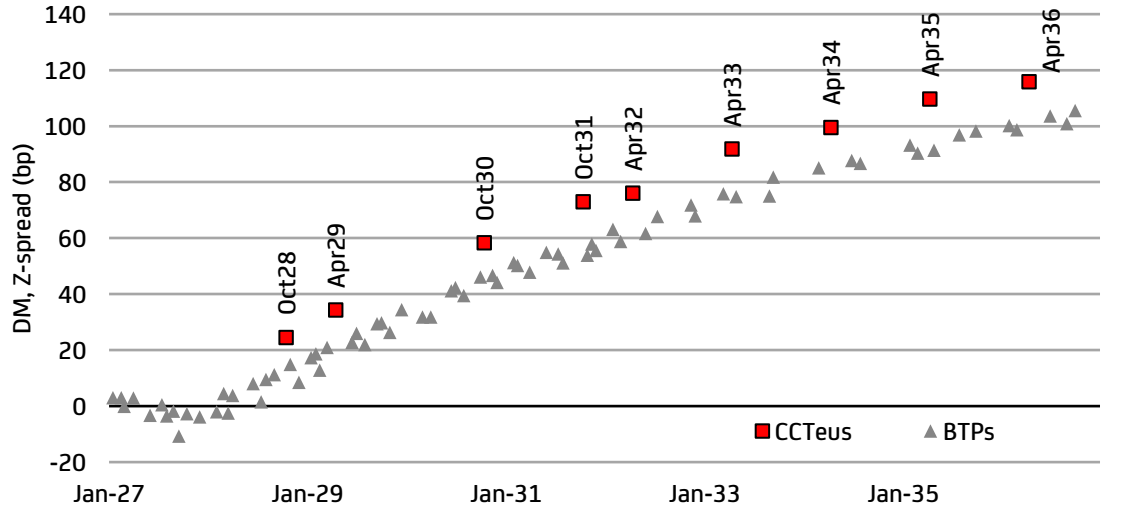
The Treasury will tap the CCTeu Apr36 again this month. After the auction, the bond will have an outstanding of roughly 14bn. It will probably be tapped at the end of November and a new line may be issued early in 2027.

The CCTeu Apr36 has around a 15bp credit spread pick-up over BTPs (discount margin relative to ASW), slightly higher than a month ago.

Among existing CCTeus, the Oct31 offers the best pick-up relative to the BTP curve. The shorter-dated Oct28 and Apr29 look relatively expensive. Investors could switch from these bonds into the CCTeu at this week's auction.

CHART 5: CCT-EUS 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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