

# European bonds: Italian BTPs offer a leveraged bet on Bunds as investors remain unfazed about 'Grexit'

Published 24 June 2015

Languid reaction to repeated faltering Greek negotiations suggests that the notion of 'Grexit' has long been taken into account. It is German Bunds, not Greece, which remains at the epicentre of souring sentiment in Eurozone bonds. Heightened bond market volatility amidst a resilient euro reflects improving economic conditions in the Eurozone, defying fears of contagion risk from Greece. High sensitivity of Italian 10Y BTPs to German 10Y Bunds offer investors a leveraged play on the European bond market. Bearish positioning in Eurozone fixed income may be warranted. Leveraged short ETPs tracking German Bunds and Italian BTPs are efficient investments to play the theme. The languid reaction to the Greek debt crisis not only suggests that 'Grexit' has long been priced in, but also reinforces the notion that the bond volatility in European fixed income markets earlier this month was driven primarily by 'irrational' low yields in German Bunds ([see last week's macro alert for more detail](#)).

## 'Eurozone bond yields sensitive to Bunds, insensitive to Greece'

Since the end of the financial crisis, the sentiment in Europe's bond markets has increasingly been led by the strength of the German Bund and less by the weakness of Greek sovereigns. Following ECB's QE, this has become more apparent given the diverging paths of bond yields between Greece and the rest of the Eurozone. This is not to say that on a short term basis sentiment in Greek sovereigns will not affect bond yields elsewhere in the Eurozone, particular in light of the repeated on-off debt negotiations between Greece and the Troika driving sentiment and provoking opportunistic positioning. But while correlations can be high, it is the sensitivity between bonds, in terms of their mutual impact on yields that really matters to investors, especially since while bond yields can be highly correlated, one can be insensitive to the other. As indicated in the chart, Italian 10Y BTPs have displayed a much greater sensitivity to German 10Y Bunds, with a beta coefficient of 2.3, than their Greek counterparts, which has a beta coefficient of 0.169. The insensitivity of yields between Italian 10Y bonds and Greek 10Y bond adds to the picture that Greece's debt woes simply have not reverberated onto the peripheral Eurozone bond market.

## Leveraged positioning on the Bund is how to efficiently play Eurozone's bond markets

A disconnect between the 'Grexit' talk and the sentiment in the bond markets is also evident in the resilience of the euro, which has rallied to a monthly high against the U.S. dollar while European equities finished the week marginally higher. With negotiations between the anti-austerity Greek government and the Troika having dragged on for months, investors have had plenty of time to weigh up what a 'Grexit' means for the rest of the Eurozone. With Eurozone's economy on sounder footing, any outcome is now unlikely

to materially undercut it, given the extraordinary stimulus measures the ECB has put in place. Markets continue to shrug off the faltering talks between Greece and its creditors.

This presents an opportunity for investors to play Europe's bond markets with a view on the German Bund and its irrational valuation, which suggests too much fear and crisis-like conditions being priced-in. Bond markets have experienced a sharp correction since April to date[1], with the 10Y German Bund rolling futures index down by 4.5%. Being highly sensitive to the German Bund, the 10Y BTP rolling futures index has seen an even steeper decline by falling 7.4% in the same period. 3BUS or 3BTS, which are 3x Short ETPs tracking the futures of 10Y Bunds and BTPs, respectively, have over the same period returned 13.8% and 24.4%, respectively. 3BUS and 3BTS offer investors a leveraged bet on the European bond market and an efficient means to tactically position bearishly amidst the heightened volatility in bond markets.

Investors sharing this sentiment may consider the following short ETPs:

- [Boost BTP 10Y 3x Short Daily ETP \(3BTS\)](#)
- [Boost Bund 10Y 3x Short Daily ETP \(3BUS\)](#)

*All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.*

## Important Risks Related to this Article

### Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.