



Investment Research

Trade Ideas

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Fixed Income

German Bund vs. Italian BTP (10-year) Spread Trade

Investment Thesis:

ECB's monetary easing lowers real yields and has historically driven peripheral spreads tighter; Germany's cyclical slowdown and France's fiscal challenges are eroding Bunds' safe-haven appeal; and Italy's credit upgrades (S&P to BBB+, potential moves from Fitch and Moody's) are steadily shrinking its risk premium. Together, these forces leave the 10-year BTP-Bund spread at unusually rich levels, offering a compelling relative-value opportunity.

ECB cuts reprice the safe-haven premium:

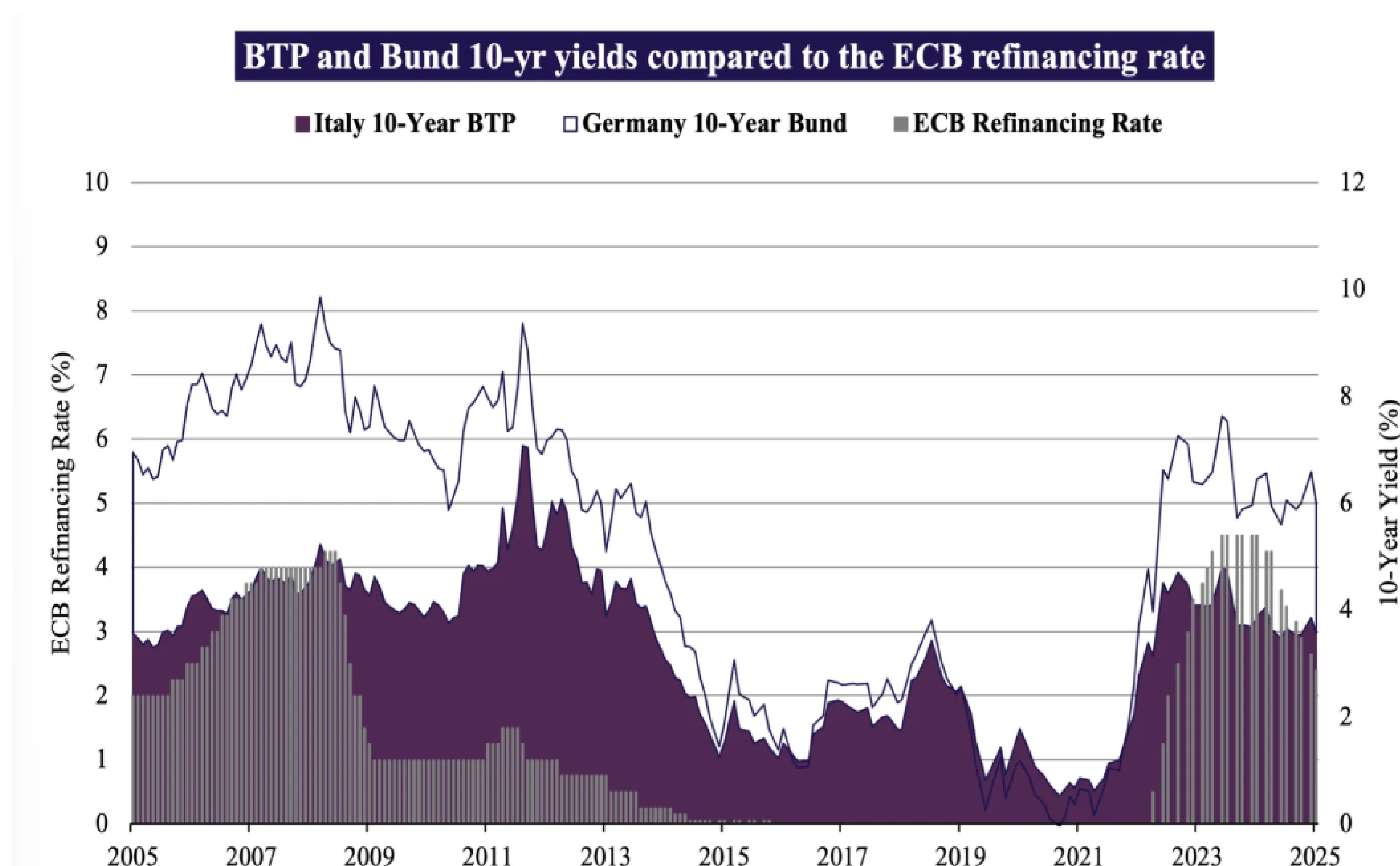
Over the last two fiscal quarters, the ECB has shifted its policy stance towards monetary easing, as slowing inflation and fear of economic slowdown from tariffs are weighing down on the bloc. The most recent deposit rate cut from 2.5% to 2.25% is the seventh rate cut in the last year, with markets pricing 50-75 bps of further cuts to follow by the end of the year. For German Bunds, the easing will help stabilise yields and reintroduce demand from rate-sensitive investors. However, given the Bund already offers limited carry and is trading at a tight spread to swaps, the benefits of the ECB's shift are unlikely to be significant for the German Bund compared to peripheral credit.

Also, periods of falling inflation and monetary easing in the EU have historically seen the spread between Bunds and peripheral debt (Italy, Spain, Portugal) tighten, as investors seek for higher carry during times of economic slowdown. The falling spread during the ECB easing cycles is highlighted in the graph below.

During previous easing cycles, such as 2014-2017 and post-COVID, we can observe a trend of the German Bund losing its "risk-off" premium, as investors shift away from safe-haven Bunds and reallocate towards high-carry peripheral debt, thereby tightening the spread significantly. It can be seen that, as the main ECB refinancing rate (white bars in the chart above) falls, it leads to an instant effect of the spread tightening, especially during the 2013-2015 easing cycle. Notably, the converse holds as well, as hiking cycles have led to a significant widening of the spread as shown most notably during 2005-2008 and 2022-2024.

As mentioned, the German Bund is losing its position as the relative safe-haven asset in the EU, driven by a recent surge in domestic issuances and the industrial sector slump. The trend is also fuelled by recent political tensions taking place in Germany with the rise of AfD ("Alternative für Deutschland") and fiscal tensions within the coalition. The internal struggles in Germany will further advocate for our case on betting on the spread tightening. Indeed, the 10-year Bund yield has gone through a roller coaster in 2025, as the "independent EU" movement followed by President Trump's major world trade policy changes has materialised as huge debt issuances. The announcement of the €500bn infrastructure fund in March sent the Bund yield through the roof with the largest weekly increase since 1990.

However, it is crucial to note that despite Germany's relative struggles, our idea does not rely on the 10-year Bund yield rising, but rather the 10-year BTP on benefitting from ECB's easing cycle more than the Bund, as it has done historically. Thus, a potential surge in Bund yields would be even more beneficial but not required for the idea to function.



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Italy's upgrade unlocks residual spread value:

A month ago, S&P Global upgraded Italy's 10-year BTP rating from BBB to BBB+, marking the country's first credit rating improvement in eight years. Although the eurozone's third-largest economy has posted virtually no growth since mid-2024, Italy's sovereign debt rating has improved through a falling budget deficit, resilient exports and political stability. Next year will be a pivotal one for Italian bonds, as Rome is likely to sell 300 billion to 310 billion euros of medium- and long-term bonds.

Stability under Prime Minister Giorgia Meloni's government has increased investor confidence, making bonds attractive despite high debt levels. The credit rating upgrade connects with the improved fiscal health of the country, as Italy's budget deficit dropped to 3.4% of GDP in 2024 from 7.2% the previous year, surpassing government targets. Furthermore, the yield gap between Italian BTPs and German Bunds has decreased to a three-year low, indicating increased investor confidence in Italian debt. In contrast, with Germany near recession and France facing budgetary challenges, investors (notably Japanese) are reallocating bonds, attracted by higher yields. Foreign holdings of Italian government bonds reached €771.4 billion in November 2024, the highest since the euro's inception.

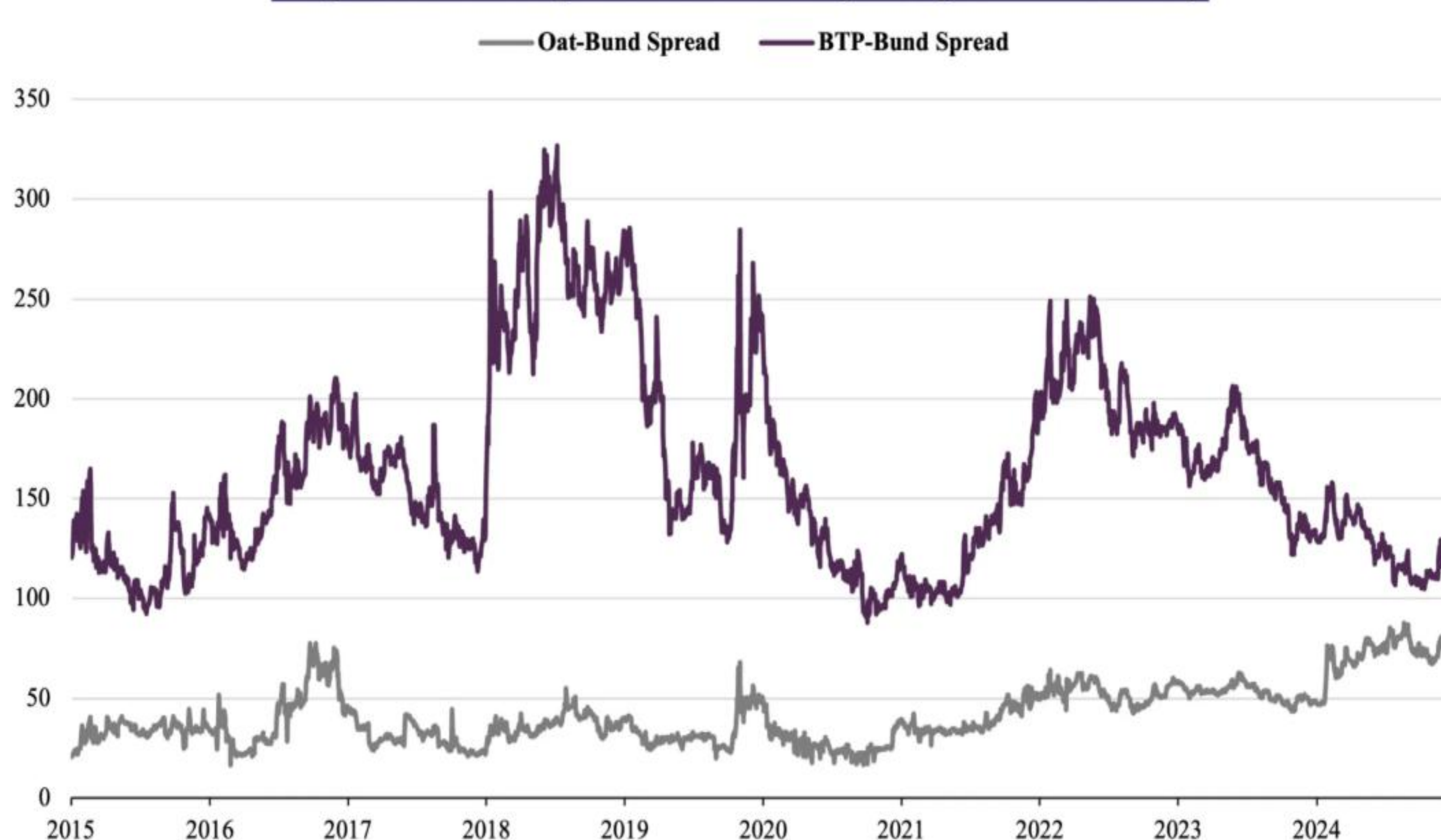
The purple line, depicting the Italy/Germany yield spread, has dropped from 250 basis points in 2022 to around 110 basis points in early 2025, indicating investors now demand less of a premium to hold Italian bonds over German bunds, which are seen as less risky. The consistent decline in the spread reflects growing confidence in Italy's debt over this period. In comparison, France's spread has increased to 80 bps in early 2025, narrowing the gap with Italy and indicating fiscal challenges. The data aligns with broader macro situations: international investors have been reallocating toward Italian debt, drawn by higher yields and political stability. The upgrade of Italy's sovereign debt by S&P Global to BBB+, driven by a reduction in the budget deficit and strong exports, further validates this trend.

Although Italy's rating on bonds has improved, significant factors show challenges. The Italian government cut its 2025 GDP forecast from 1.2% to just 0.6%, signalling headwinds that could weigh on investor confidence and fiscal planning. Another critical factor for Italy's outlook will be its ability to meet the policy "milestones and targets" to receive tens of billions of euros from the EU's post-COVID-19 Recovery Fund.

Trade rationale and implementation:

At roughly 105 bps (BTP 3.57 % versus Bund 2.57 %) the 10-year Italy–Germany spread still sits a full standard deviation above its pre-2018 norm even though Italy's risk premium keeps falling (S&P lifted the sovereign to BBB+ in April, Fitch re-examines with a Positive outlook, and foreign holdings of BTPs have reached a euro-era record of €771 bn). On the other side, as we said, Germany faces its deepest industrial downturn since 2009, a fractious coalition, and a €500 bn defence and infrastructure plan that will add €50-60 bn of gross Bund supply across 2025-26. Those new bonds arrive just as Bunds already trade 28 bps through the EUR-swap curve, historically the 5th-percentile of richness, so being short costs virtually no carry, whereas the BTP still clears about 97 bps above swaps.

Italy and France 10-yr benchmark bond yields spread vs. Germany



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That skew alone delivers roughly 10–12 bps of positive carry each month, enough to absorb a full quarter of realised 5 bps daily spread volatility.

We express the view via Eurex futures, going long the 10-yr BTP contract (FBTP) and short the 10-yr Bund contract (FGBL). We size the legs DV01-neutral, roughly 0.9 BTP notional for every 1 Bund, so that parallel moves in the overall rate curve net to zero, allowing the position to express a pure view on the BTP-Bund spread rather than any directional bet on outright yields. We enter the trade by quoting both legs simultaneously, locking in the 105–110 bps spread in a single fill, while setting a profit target at 90–100 bps, in line with the compression lows reached during the 2014-17 QE cycle, and a hard stop at 135 bps to protect against an Italian fiscal surprise or a sudden flight-to-quality Bund rally. Also an optional convexity protection (a pay-fixed 10-yr swap versus long Bund cash) can be layered on if Bund asset-swap spreads richen past –35 bps.

This structure monetises an ECB-driven repricing that is already visible in custody data, rating momentum and looming Bund supply risk: we are long the peripheral bond that still pays for patience and short the core asset whose haven premium has been squeezed dry. Positive carry cushions mark-to-market swings, the stop limits downside to roughly 15 bps, and the tactical catalyst path (ECB cuts, S&P upgrade, German budget vote) offers a realistic glide toward 20–25 bps of upside, delivering a risk-reward well above 1.5:1 as the easing cycle deepens.

Equities

Long Boliden

Introduction:

Boliden AB is a leading Nordic mining and smelting company strategically positioned to benefit from the global energy transition. With a core focus on copper and zinc—critical metals for electrification and ESG infrastructure—Boliden has enhanced its asset base through the recent \$1.3 billion acquisition of the Neves-Corvo and Zinkgruvan mines from Lundin Mining. These assets are expected to contribute significantly to the company's EBITDA over the next five years, strengthening Boliden's supply capabilities amid rising demand for low-carbon raw materials.

Investment thesis:

We recommend a long position on Boliden with a target price of 335 SEK, driven by its exposure to key transition metals, robust operational footprint in stable jurisdictions, and growing importance in a decarbonizing global economy.

Financially, Boliden has demonstrated strong performance. Investor reports indicate that its Q1 2025 earnings exceeded expectations, with an operating profit surpassing \$300 million. Favourable metal prices and a strong U.S. dollar contributed to this outcome, alongside the company's diversified portfolio of seven mines and five smelters across Sweden, Finland, Norway, Ireland, and Portugal. Although capital expenditures have increased to support long-term growth initiatives—including acquisitions and facility upgrades—Boliden's operating strength remains solid amid market volatility.

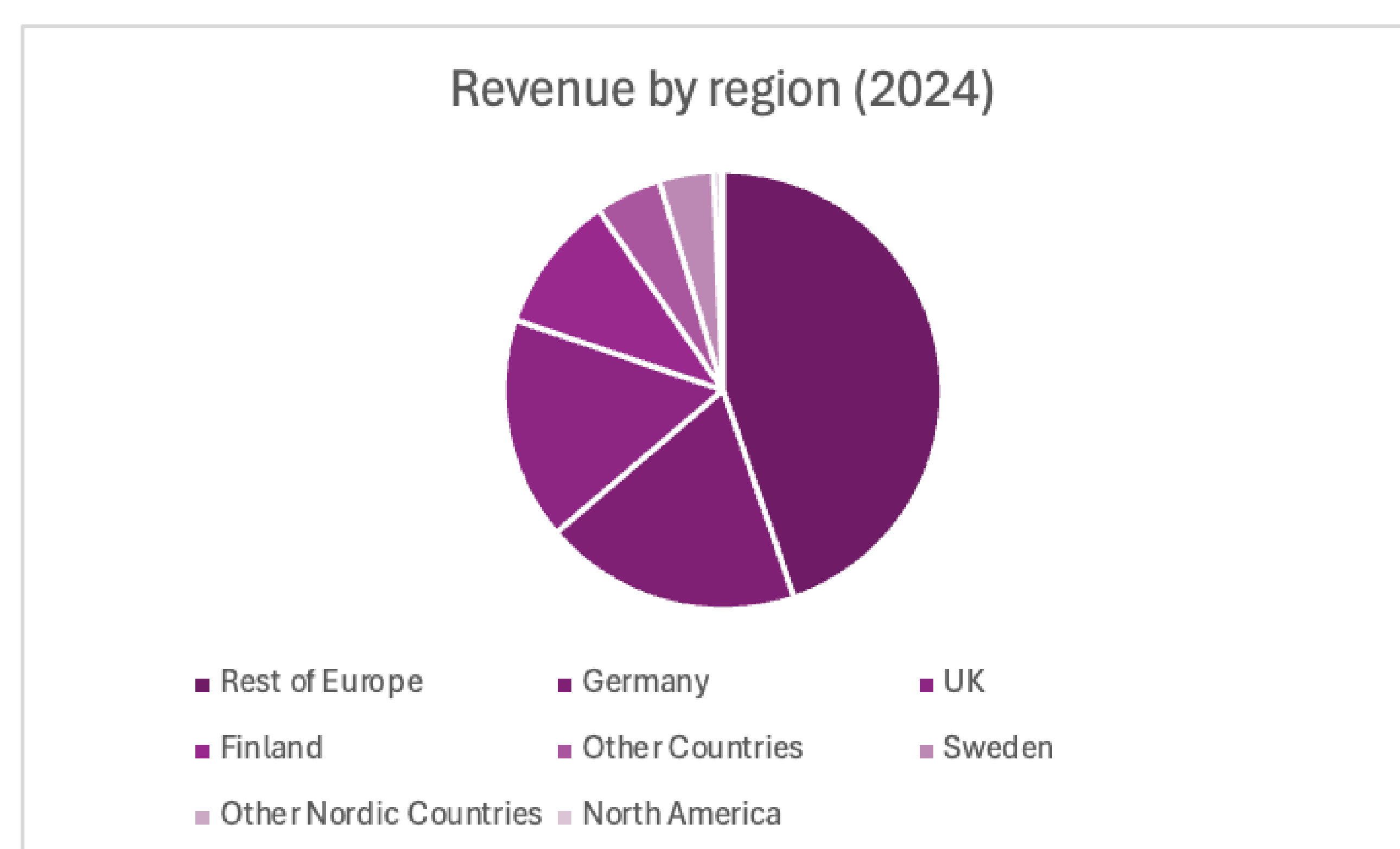
Boliden's sustainability efforts are central to its investment appeal. The company has committed to reducing its Scope 1 & 2 emissions by 42% and Scope 3 emissions by 30% by 2030, supported by its use of fossil-free electricity and advanced recycling capabilities. Facilities like the Rönnskär smelter and the Bergsöe plant demonstrate Boliden's circular economy approach, with the latter recycling over four million car batteries annually. These practices not only reduce environmental impact but also diversify revenue streams and enhance the company's ESG profile—making the stock an attractive investment.

Recent market uncertainty—particularly driven by ongoing tariff discussions in the U.S.—has impacted global markets. However, Boliden is insulated from this volatility, with less than 1% of its revenue derived from the American market. Minimal exposure to U.S. trade significantly reduces the potential impact of protectionist policies on its operations and financial performance. Typical mining sector risks, such as commodity price fluctuations, foreign exchange impacts, and environmental concerns, are comparatively mitigated due to Boliden's strategic alignment with decarbonization trends and a compelling long-term investment strategy.

Catalysts:

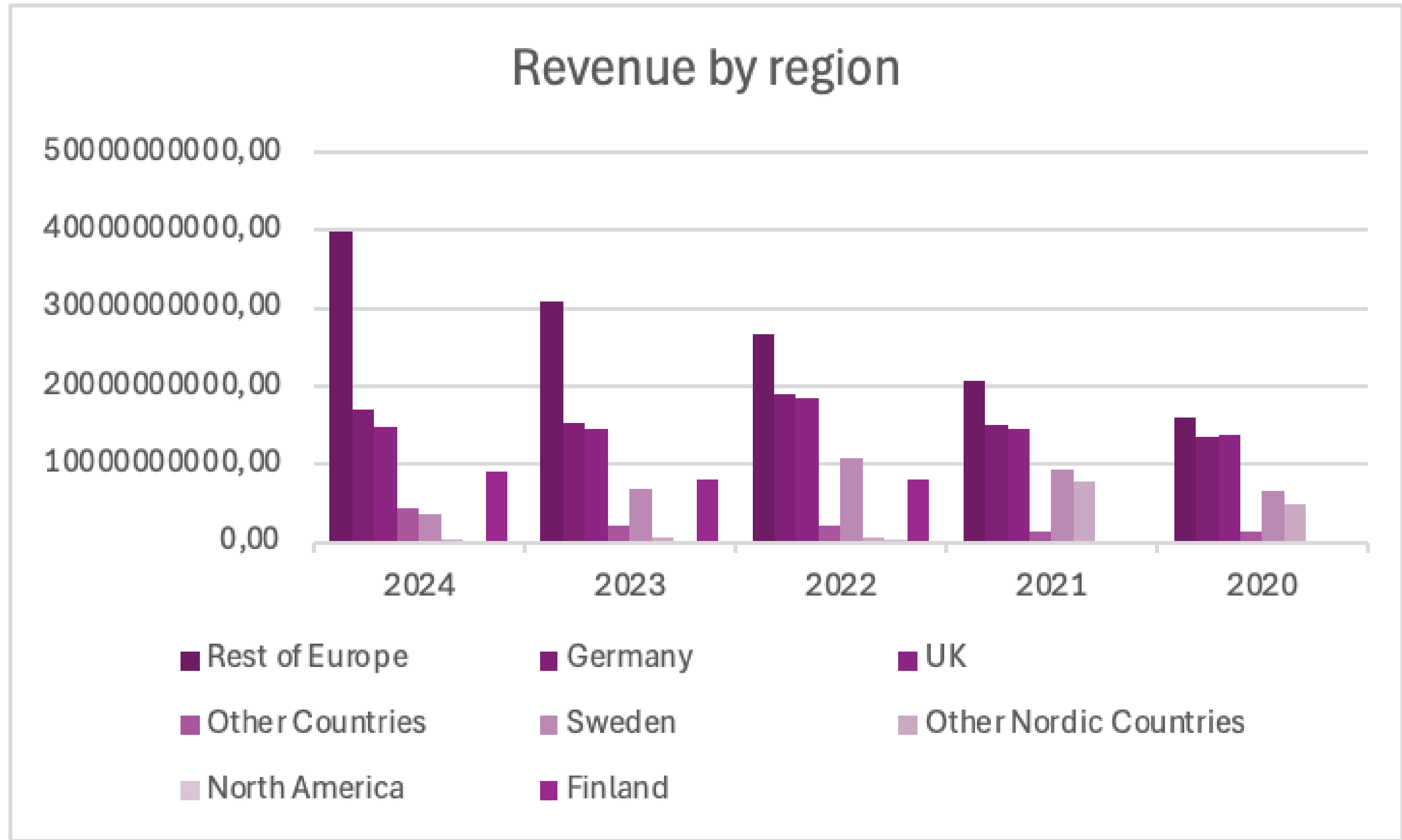
With its entire operational footprint located in Sweden, Finland, Norway, and Ireland, Boliden stands to benefit directly from the EU's Critical Raw Materials Act (CRMA), which took effect in May 2024. The legislation offers targeted subsidies and policy support to boost mining and refining capacity within the EU, aiming to reduce dependence on external suppliers—particularly China—for materials essential to the green and digital transitions.

Boliden's core focus on copper and zinc, both essential for clean energy infrastructure and digital electronics, aligns well with these policy goals. Its low exposure to the U.S. market (less than 0.2% of total revenue from North America) also reduces geopolitical and macroeconomic risk, especially in an environment characterized by U.S. monetary tightening, fiscal uncertainty, and regulatory unpredictability.



Equities

Long Boliden



Another positive driver is the ReArm Europe Initiative, which accelerates EU defense spending. The increased demand for copper, lead, and zinc—used in the manufacture of arms, ammunition casings, and military-grade electronics—could generate additional industrial demand for Boliden’s products. As the EU advances toward strategic autonomy in both energy and defense, Boliden is well-positioned.

A further catalyst in the short term is the current backwardation in zinc and copper futures curves, reflecting tight physical markets and stronger spot premiums. Boliden’s mining revenues are highly sensitive to current market prices, and backwardation is likely to boost margins as the company can sell its metal concentrates at higher spot prices. With the next contango expected in late winter 2025, Boliden has a window to significantly increase its profit margins.

Finally, two recent developments reinforce our thesis. First, the acquisition of the Neves-Corvo and Zinkgruvan mines adds high-quality copper and zinc assets to Boliden’s portfolio, with Neves-Corvo offering near-term growth through the Lombador Phase 2 project. Second, the reopening of the Tara zinc mine in Ireland at the end of 2024 restores one of Europe’s largest zinc producers to full capacity, increasing zinc output.

Valuation:

We selected a comparable company analysis to value Boliden AB. For this purpose, we included Aurubis and KGHM Polska Miedz for Europe, Tongling, CMOC Group, and Korea Zinc for Asia, and Teck Resources for the Americas. While some of these companies are more focused on copper or zinc and less diversified, they are still representative of the broader mining sector. Boliden’s greater diversification further strengthens its positive outlook, particularly given the current backwardation in copper.

When comparing Boliden to its peers, we observed that its valuation multiples are in line with global averages and medians for the mining sector. However, deeper analysis suggests that these sector averages may be understated. For instance, Aurubis has been significantly affected by declining copper smelting margins, while Tongling and CMOC face overcapacity and U.S. tariff pressures.

KGHM Polska Miedz’s valuations highlight a broader undervaluation trend within the European mining sector. Many American and Asian mining firms trade at higher valuation multiples despite possessing fewer growth catalysts and weaker financial outlooks. Additionally, while KGHM is highly concentrated in copper, Boliden benefits from a more balanced revenue mix. Its EV/EBIT and P/E multiples support our view that Boliden is valued at the lower end of the industry spectrum and has room for upside.

Name	Region	EBIT (\$M)	EV/EBIT	EV/EBITDA	P/E
Boliden AB	EU	1.059,7	8,31x	5,13x	7,76
Aurubis	EU/NORTH AMERICA	964,3	3,83x	3,06x	4,89
Tongling Nonferrous Metal Group Co.	ASIA	793,6	10,72x	-	14,27
Korea Zinc Co. Ltd.	ASIA	530,4	24,33x	16,64x	89,38
KGHM Polska Miedz	EU	740,2	6,79x	3,60x	8,80
CMOC Group H	ASIA	4547,5	4,17x	4,57x	7,84
Teck Resources B	NORTH/SOUTH AMERICA	1431,4	12,71x	5,96x	69,81
Average		1.438,2	10,1	6,9	22,2
Median		964,3	8,3	5,1	8,32

Equities

Long Boliden

Our target price, derived from this multiples-based valuation, ranges from 304 to 345 SEK and aligns with analysts' consensus of 322 SEK. We used P/E and EV/EBIT medians and averages to calculate a target price range that reflects the price Boliden could realistically reach under both less volatile, geopolitically stable conditions and the current market environment. The use of the P/E multiple, in particular, helps illustrate Boliden's potential in a sector where valuations are increasingly shaped by trade agreements and tariff uncertainties. However, we must note that this analysis may still be biased by negative geopolitical events that have limited or no impact on Boliden itself.

Risk Assessment:

While Boliden presents a compelling long-term opportunity supported by favorable EU policies and strategic positioning in critical metals, several downside risks could challenge this bullish outlook. The most immediate risk remains commodity price volatility, as Boliden's profitability is heavily dependent on global copper and zinc prices, which are cyclical and influenced by macroeconomic conditions.

Currency fluctuations also pose a structural risk: Boliden earns most of its revenues in USD while its cost base is primarily in SEK and EUR. A strengthening Swedish krona could compress margins by reducing earnings in local currency terms.

Operational and environmental risks are non-negligible. Mining and smelting activities entail significant safety and environmental exposures. Any major incident—such as a smelter fire, environmental spill, or tailings dam failure—could result in production halts, regulatory penalties, and expensive remediation measures.

Although the Critical Raw Materials Act is generally favorable, Boliden remains subject to stringent EU and national permitting procedures. Increasingly strict environmental standards or local community opposition could delay or increase the cost of mines development. Additionally, input cost inflation in the Nordic region could weigh on profitability. Boliden's operations are highly energy-intensive, with energy expenses constituting a substantial portion of total costs.

Recent volatility in Nordic power prices has already led to production cutbacks, including the Tara mine shutdown in 2023.

Contingency plan:

Our investment thesis hinges on supportive EU policies, Boliden's strategic focus on copper and zinc, and a constructive sector outlook. However, we will closely monitor key variables that could affect Boliden's valuation, particularly commodity price trends, energy costs, and EU regulatory developments.

A prolonged decline in copper or zinc prices, or adverse FX developments, would necessitate a reassessment of our position. We have set a stop-loss at 20% below our entry price to account for natural commodity-driven volatility, while avoiding premature exits unless significant deviations from our thesis occur.

Significant operational disruptions—such as environmental incidents or project delays—will trigger a re-evaluation, particularly if they lead to earnings downgrades. If structural pressures emerge that were not present at entry, including regulatory or ESG compliance cost increases, we will consider exiting the position early.

Monitoring quarterly financials and relevant KPIs will be essential for early detection of changes in exposure. We will reassess our position if two consecutive quarters yield negative surprises on core indicators, regardless of share price movements.

Conclusion:

In summary, we recommend a long position in Boliden, with a target price of 335 SEK based on a peer comparison valuation. Boliden's strong positioning in the mining sector, coupled with favorable policy conditions, places it in a highly attractive growth window. While risks are present, we believe the stock is undervalued and that the various catalysts discussed, along with Boliden's fundamental strengths, support its ability to perform well in the current market environment. Its resilience and proven capability to navigate challenges make it a compelling long-term investment.

Currencies

Long EUR/USD

Overview:

We recommend a long EUR/USD position via a 3–6-month forward contract because it capitalizes on macroeconomic developments that have supported the euro's rally and increased downside risks for the US dollar. Monetary policy diverged, trade tensions escalated, also EUR/USD surged greatly from 1.0811 to 1.1325 in April 2025. The ECB did cut the key policy rate by 25bps to 2.25% and it is projected that it will implement further 75bps in rate cuts throughout the year, but the Fed is expected to maintain a cautious stance, thus limiting the potential for any USD recovery. Germany's EUR 1 trillion fiscal spending plan is aimed at infrastructure as well as defense. Because that plan is now in place, safe-haven flows into some European bonds will strengthen the euro's strength.

The euro's prominent rise versus the USD resulted from geopolitical tensions and policy divergences. The ECB's monetary policy now firmly resides within accommodative territory with 150bps of rate cuts since last year and a further 75bps anticipated in 2025. This stance intends for the easing of economic drag that is from escalating tariffs, which will come into effect in July if the US and Europe fail in negotiations for a 20% reciprocal tariff. This quarrel affects USD demand. Additionally, the substantial current account surplus of the euro-zone, which is now at a value over EUR 400bn, continues to attract safe-haven flows into German bunds, and this contributes to EUR strength.

In April, the EUR EER-41 index recorded its largest monthly gain since within the early stages of COVID-19 in 2020 because it rose by 2.9%. EUR/USD gained 5.4% in March and April, marking the biggest two-month gain since the GFC, as the ECB continues APP and PEPP run-offs, which will lower the ECB's balance sheet by EUR 425bn in 2025. The euro is something that has shown a strong performance, yet trade tariff

uncertainty weighs down upon economic growth projections. ECB rate reductions still are a chance then. A 20% tariff upon European goods could be implemented within July. The ECB may respond then with additional easing of policy, potentially cutting rates to 1.50% at the close of the year.

Implementation:

Position: A 3–6-month forward contract: Position long EUR/USD.

Horizon: Q3–Q4 2025, which captures the period that leads up to as well as follows the potential imposition of tariffs in July and the anticipated ECB rate cuts.

Target: EUR/USD target of 1.15 aligns with euro strength that is anticipated because of safe-haven flows, plus further ECB easing, along with US growth concerns..

Risks:

One of the most prominent risks is the possible economic weakness in the Eurozone. European growth experienced a contraction deeper than expected, so this could prompt more aggressive ECB rate cuts, capping EUR strength. Another prominent risk is the strength of US economic data. The USD could stabilize if future US economic data surprises positively, reducing market expectations for Fed rate decreases.

Overall, while the euro's advance has been substantial, the confluence of macroeconomic factors, policy divergence, fiscal expansion in Germany, and global trade tensions, suggests further EUR gains against the USD, positioning EUR/USD at 1.15 in the medium term.

Disclaimer

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