

# **Euro Convergence Trade. Buy Spain, Italy and Portugal, Sell France and Germany**

Why would German bund yields fall to zero? Why would they not? ECB QE is a rescue operation. In a rescue operation, you don't buy the healthiest, you buy the weakest. Greece is not part of the rescue operation by the way, since it is probably too weak to save and on a battlefield you save the ones who have a realistic chance of survival. Why waste the morphine...

So with a bit of explicit risk sharing, some (12+8)%, and complete implicit risk sharing through TARGET 2, I would expect convergence of yields between peripheral Europe and core Europe. The trade to be done, and the trigger point was the SNB's decision to scrap the Euro cap, was to go long Italy, Spain and Portugal and short Germany and France. You could do it at the 10year or at the 30 years, if you were sufficiently inebriated, even 50 years in the case of Spain, but the buying protection on France and Germany would have cushioned the blow, and on the German leg, actually made some money, in the current sell off.

Anyhow it is time to double up on the convergence trade, writing protection on Italy, Spain and Portugal and buying protection on Germany and France. To do one leg without the other is not a good idea. The trade is not about the weight of QE money buying, its about the risk sharing which should tighten the spreads between the wides and the tights.