

Gilt Relative Value

(Succeeding the 'Gilt Anomalies' series)

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 www.jdawiseman.com/gilt_RV.html
 Prices c.o.b. Fri 10 Jul 2015
 to c.o.b. Fri 08 Jan 2016

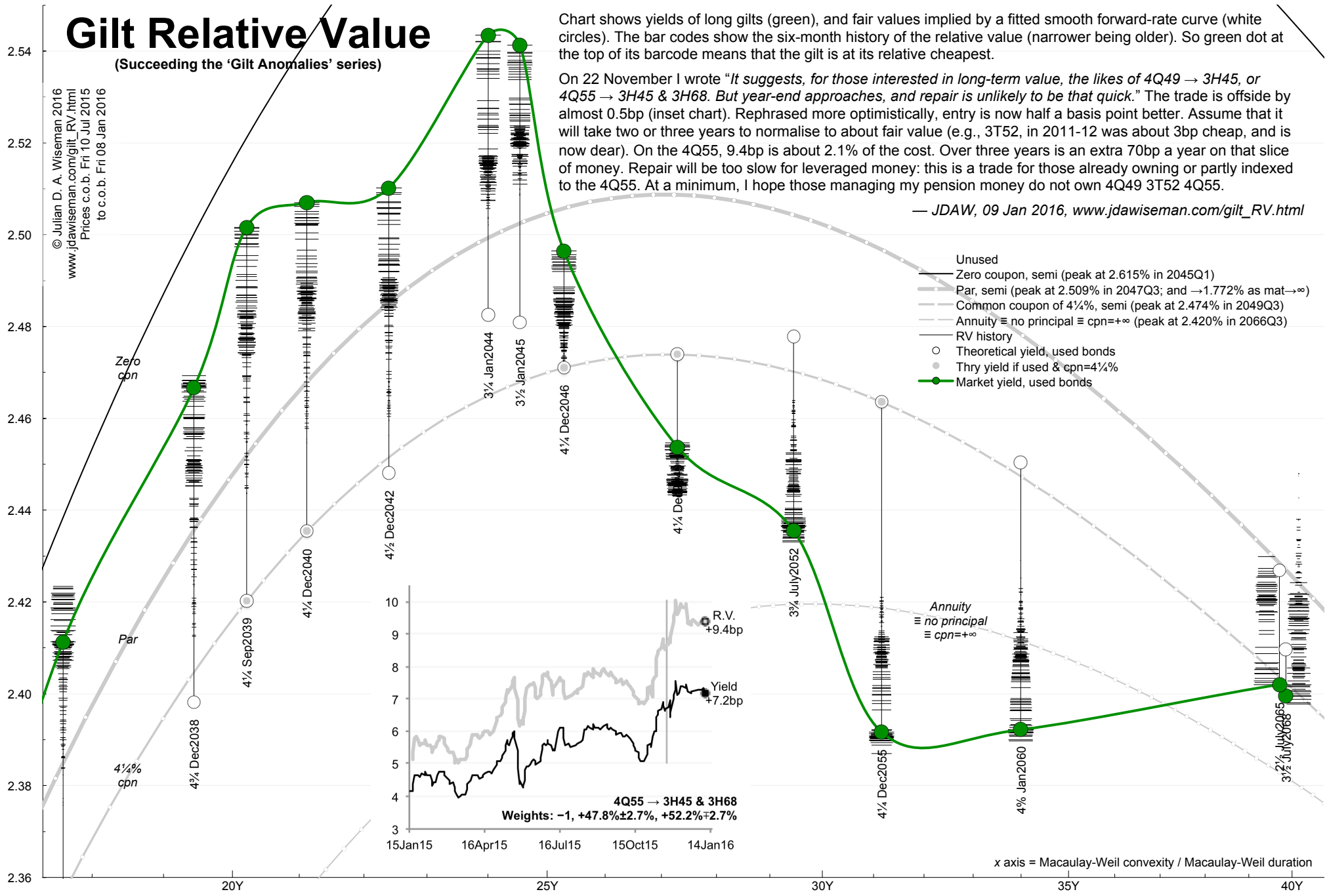


Chart shows yields of long gilts (green), and fair values implied by a fitted smooth forward-rate curve (white circles). The bar codes show the six-month history of the relative value (narrower being older). So green dot at the top of its barcode means that the gilt is at its relative cheapest.

On 22 November I wrote "It suggests, for those interested in long-term value, the likes of 4Q49 → 3H45, or 4Q55 → 3H45 & 3H68. But year-end approaches, and repair is unlikely to be that quick." The trade is offside by almost 0.5bp (inset chart). Rephrased more optimistically, entry is now half a basis point better. Assume that it will take two or three years to normalise to about fair value (e.g., 3T52, in 2011-12 was about 3bp cheap, and is now dear). On the 4Q55, 9.4bp is about 2.1% of the cost. Over three years is an extra 70bp a year on that slice of money. Repair will be too slow for leveraged money: this is a trade for those already owning or partly indexed to the 4Q55. At a minimum, I hope those managing my pension money do not own 4Q49 3T52 4Q55.

— JDAW, 09 Jan 2016, www.jdawiseman.com/gilt_RV.html

- Unused
- Zero coupon, semi (peak at 2.615% in 2045Q1)
- Par, semi (peak at 2.509% in 2047Q3; and →1.772% as mat→∞)
- Common coupon of 4 1/4%, semi (peak at 2.474% in 2049Q3)
- Annuity ≡ no principal ≡ cpn=+∞ (peak at 2.420% in 2066Q3)
- RV history
- Theoretical yield, used bonds
- Thy yield if used & cpn=4 1/4%
- Market yield, used bonds



x axis = Macaulay-Weil convexity / Macaulay-Weil duration