Gilt Relative Value

(Succeeding the 'Gilt Anomalies' series)

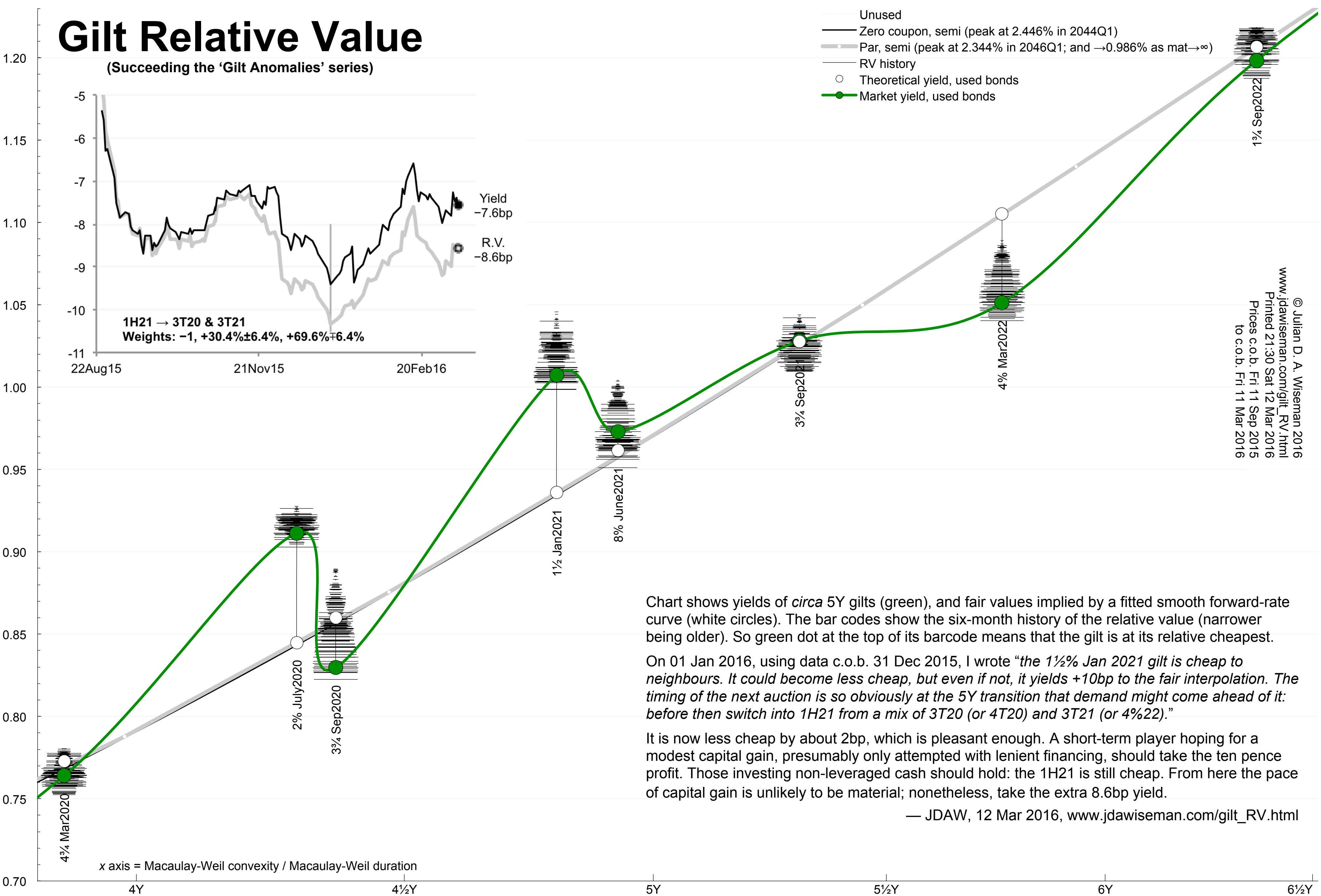

Chart shows yields of *circa* 5Y gilts (green), and fair values implied by a fitted smooth forward-rate curve (white circles). The bar codes show the six-month history of the relative value (narrower being older). So green dot at the top of its barcode means that the gilt is at its relative cheapest.

On 01 Jan 2016, using data c.o.b. 31 Dec 2015, I wrote "*the 1½% Jan 2021 gilt is cheap to neighbours. It could become less cheap, but even if not, it yields +10bp to the fair interpolation. The timing of the next auction is so obviously at the 5Y transition that demand might come ahead of it: before then switch into 1H21 from a mix of 3T20 (or 4T20) and 3T21 (or 4%22).*"

It is now less cheap by about 2bp, which is pleasant enough. A short-term player hoping for a modest capital gain, presumably only attempted with lenient financing, should take the ten pence profit. Those investing non-leveraged cash should hold: the 1H21 is still cheap. From here the pace of capital gain is unlikely to be material; nonetheless, take the extra 8.6bp yield.

— JDAW, 12 Mar 2016, www.jdawiseman.com/gilt_RV.html