



FIXED INCOME

Euro Swap Spreads

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The Euro swaps market is among the largest financial markets in the world, as of the date of this publication. In Europe, the swap curve is arguably the benchmark. Euro swap-government spreads are highly liquid trading vehicles even as they have become increasingly stable in the past three years.

Drivers of the most actively traded spread, between the 10-year euro swap and German government bond (Bund), are not expected financing spreads (LIBOR–repo spreads) but rather the state of public finances and the yield curve shape.

This article also describes simple fair value models and forecasting models for swap-Bund spreads and briefly reviews relative swap spreads across maturities and across euroland issuers.

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