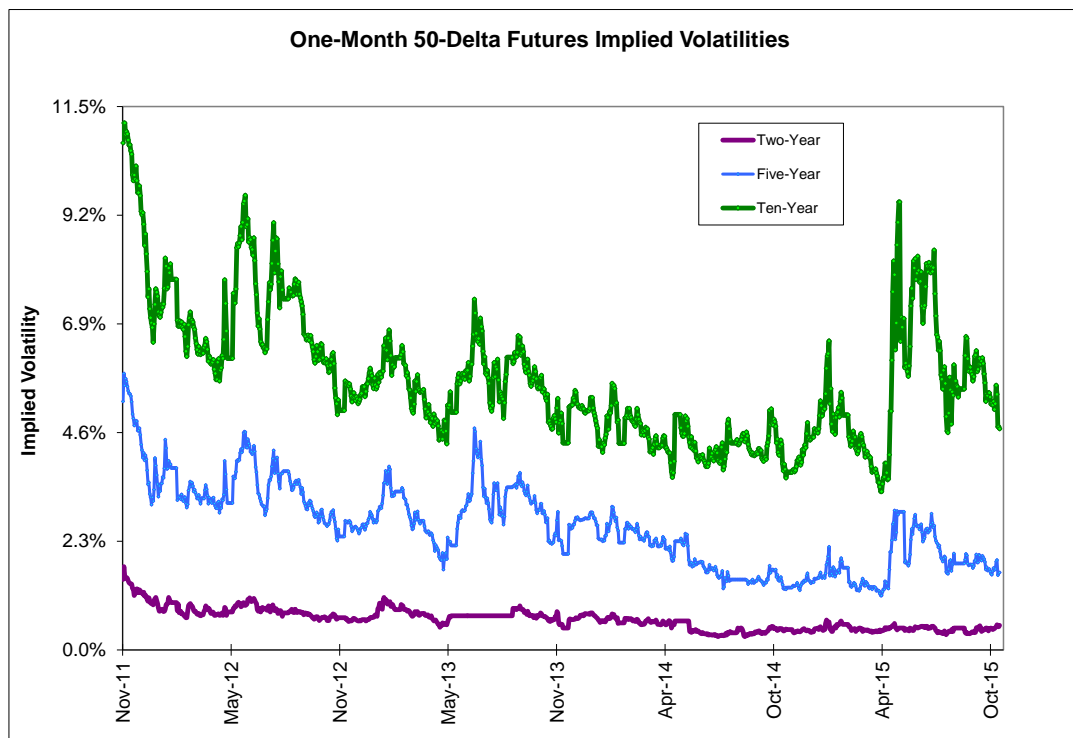


Bund Futures' Implied Volatility, Yield Levels And Prospective Returns

One-month 50-delta implied volatilities for futures on the Schatz, Bobl and Bund contracts are exhibiting a strong maturity dependency. Bund volatilities have declined as the long end of the yield curve has declined slowly while Schatz volatilities have increased as two-year yields have moved sharply to new lows.

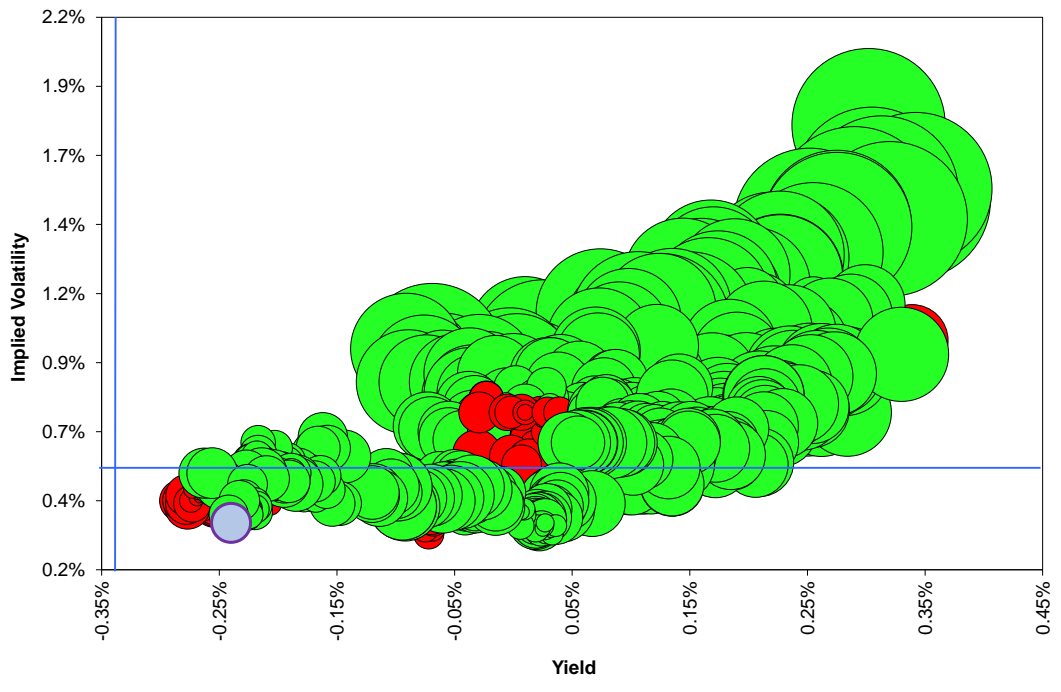
What do these ordinal volatility and starting yield levels imply for the prospective returns on 1-3, 3-5 and 7-10 year benchmark Eurozone notes?



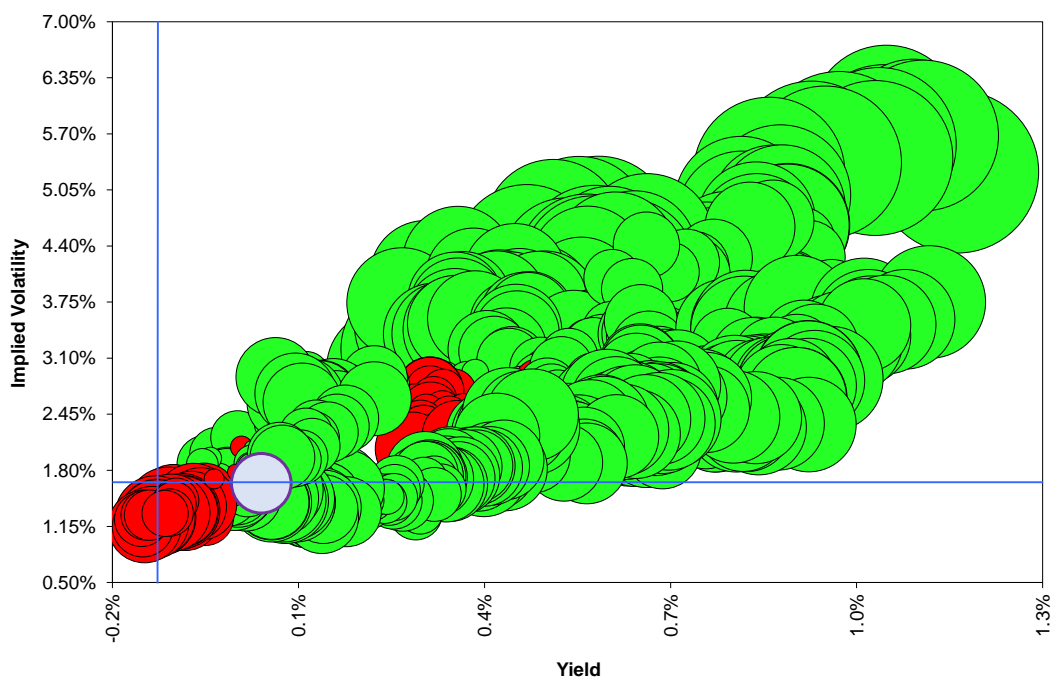
Three month-ahead returns are mapped as a function of these two state variables. Positive returns are depicted with green bubbles, negative returns with red bubbles; the diameter of the bubble corresponds to the absolute magnitude of the return. The last datum used, from July 30, 2015, is highlighted; the current combination of conditions is highlighted with a blue bombsight.

Prospective returns for 1-3 notes are in a negative zone after the northwestward environmental shift following the European Central Bank's hint at expanded QE. Prospective returns for both 3-5 year and 7-10 year notes are in negative zones following their westward environmental shift.

Three Month-Ahead Returns As Function Of Yield And Implied Volatility
One-Three Year Notes



Three Month-Ahead Returns As Function Of Yield And Implied Volatility
Three-Five Year Notes



Three Month-Ahead Returns As Function Of Yield And Implied Volatility
Seven-Ten Year Notes

