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A French Spread Playbook to the Election: Sell into the Pause, Buy after the Panic

France yields more than Italy and is still not cheap. Twenty years of daily data on where to sell France, where to buy it back, and what ends it.

Sébastien Gianfermi · 19 September 2026

In one page. France trades wide of Italy at ten years because the market prices where each country is going, not where it stands. On the official forecasts France is going the wrong way faster — a deficit above 5% and widening on unchanged policy (Italy's holds below 3%), spending at 57% of GDP, taxes already the highest in the euro area, interest the fastest-growing line — and the one lever left, social spending, is the one no government since 2024 has been able to pull: four prime ministers, eight uses of 49.3, one reform passed and then suspended past the election. The 2027 budget reaches parliament on 30 September with the first-reading vote on 17 November, and the presidential election follows on 18 April and 2 May between a front-runner who would reverse that reform and a field split between consolidation and cancelling part of the debt.

Two windows. Now, into the budget: valid while the catalysts are ahead, best entered before the 20 October revenue vote, too late after the 17 November first-reading vote if the text clears without a censure. And again from January, into the election: the same sequence on the same rules, with the presidential premium building from three months before the 18 April first round. January is a second call for scrutiny, not a signal; the entries inside it are level-based.

Two trades. Short France against Spain at ten years: enter on a pullback of eight to eleven basis points in France–Germany from its high — about 93 to 96 on the screen from Friday's 104 — and cut if the pullback runs past twelve. Long France against Germany at ten years, in two halves: the first when France yields 30

basis points more than Italy, the second at 45 or on the political signal that the budget will pass once France is above 25 over Italy, whichever comes first — about 130 and 150 on France–Germany at Friday’s levels.

Why Spain and not Italy. The market spent 2024 pricing a French shock as a euro-area one — Italy widened as much as France on the dissolution — and spent 2025–26 learning to decorrelate Italy from French trouble. Spain captures the French move in both regimes; Italy only in the second, and over whole legs it has paid about half of what Spain paid while losing on every day the trigger was not French. Italy is the gauge for the buy level, not the vehicle for the short.

Why the signal and not the vote. Italy’s three widening episodes were ended by the ECB’s balance sheet once and by political resolution twice, never by a budget measure — no consolidation package, deficit target, tax rise or spending cut announced by a government turned any of them — and in both political cases the spread turned on the politicians’ signal about a month before the formal agreement. Neither sovereign backstop has ever been used, and France and Italy sit in the same place under the excessive deficit procedure.

What carry does. On the three-month horizon every trade here is held for, the long of France against Germany at 130 earns about six and a half basis points of spread in carry and roll-down, a little over seven at 150 — if nothing happens, it pays you to wait. The short against Spain costs about two and a half a quarter for the full French move; an Italian pairing would cost one for about half of it.

France has yielded more than Italy at ten years on and off for a year, and on Friday it closed further above it than it ever has — a country with a lighter debt burden than Italy paying the most it has ever paid over Italy to borrow, and the market right to charge it. That is the sentence this piece has to earn, because most of what is written about the French spread starts from the opposite premise — that a balance sheet twenty-one points of GDP better than Italy’s must eventually be recognised, and that the widening is a mispricing to be faded. It is not. It is the pricing of a direction, and the direction is in the official forecasts. The trade is not to argue with it. The trade is to know when it pauses, which vehicle carries it, and how far it has to go before a French problem is repriced as a European one — because that is the point at which the pairings change places.

I France through the Italian lens

The market is pricing the direction, not the level

Set the two countries side by side on the same forecast. The European Commission’s spring 2026 round, published 21 May, has Italy’s deficit at 2.9% of GDP this year and next and its debt rising two points over two years. It had France’s deficit at 5.1% this year, widening to 5.7% in 2027 on the Commission’s unchanged-policy convention — revenue measures legislated for 2026 expire, and interest costs rise towards 2.8% of GDP — with debt rising almost five points from a lower base. The government’s own path points the other way, to 4.8 or 5.0% in 2027: it assumes fifty-four billion euros of consolidation measures, and the gap to the Commission’s number alone is about twenty-five billion, to be found by a parliament which has yet to pass a budget without Article 49.3. Put the two sets of numbers together and the picture is not a contradiction; it is two different questions with two different answers. Asked where each stands, the answer favours France by twenty-one points of

debt. Asked where each is heading, it favours Italy: on the Commission's spring numbers Italy's debt ratio rises two points between the 2025 outturn and 2027, from 137 to 139, and France's almost five, from 116 to 120 — more than twice the pace — and since that forecast was made the government has revised France's 2026 deficit to 5.4, against the 5.1 the Commission assumed, on 17 September, so the first year of that path is already worse than the Commission assumed. A market pricing where each country is going, rather than where it is, produces exactly the spread we have.

The credibility side needs no adjectives because it can be counted. Since the dissolution of June 2024 France has had four prime ministers across five governments. Article 49.3 has been used eight times, every one on a budget text. More than twenty censure motions have been tabled and one carried, against Barnier over the social security budget in December 2024 — the second successful censure of the Fifth Republic, sixty-two years after the first. Two consecutive years began without a finance law. And the 2026 budget's own deficit target moved twice inside its own year: 4.7% as planned, 5.0% in the law finally adopted on 19 February, 5.4% as conceded by the government on 17 September, which is what produced Friday's move.

The single cleanest illustration is the pension reform. It passed in March 2023 by 49.3, surviving censure by nine votes. It was suspended on 14 October 2025 to buy Socialist abstention on censure, with the pause running to January 2028 — past the presidential election — and financed by under-indexing pensions half a point below inflation from 2027 to 2030. The cost falls in this presidency; the payment falls in the next. The same declaration renounced 49.3, which was then used three times in January 2026 to pass the budget. The concession outlived the commitment it was traded for. That is what limited capacity to reform looks like when it is written down rather than asserted.

Why the direction cannot change without reform

Start with spending, because that is where France is different. France spends 57% of GDP against Italy's 51 and the euro area's 50 — interest included, and interest is the smaller part of the gap. Social benefits are 45% of that spending, indexed to past inflation, and the Cour des comptes puts their growth at 2.2% a year in volume on a population INSEE now projects to age faster than the last set of numbers assumed: sixty-five-and-overs per hundred working-age adults go from forty today to forty-nine in 2040 and fifty-five in 2050. The pensions council's June report has the system's deficit widening from a fifth of a point of GDP to nearly one point by 2045 and nearly two and a half by 2070, and its oversight committee calls that "worrying to 2045 and alarming beyond".

Interest is the one thing in France's favour, and it is worth being precise about how it is going. It is the part of the deficit no parliament can vote down, and it is the part growing fastest. France paid 1.4% of GDP in 2021 and 2.2% in 2025; the Commission has 2.8% in 2027 and the Cour des comptes about 3%, a hundred billion euros, by 2029. The mechanism is the roll: the stock is financed at an apparent rate near 1.9%, new ten-year debt is issued above 4%, the average maturity is eight and a half years, so roughly an eighth of the debt reprices upward every year. The government's own sensitivity says a one-point rise in rates costs three billion in the first year and thirty-three by the ninth. The comparison with Italy's 4.6% interest burden in 2011 flatters France today and will flatter it less every year.

Which leaves taxes, and they are already the highest in the euro area and second in the Union behind Denmark.

Taxes and social contributions, % GDP	France	Italy	Germany	Spain	Euro area
Eurostat, 2024	45.3	42.6	40.7	37.1	40.9

The Cour des comptes says a further rise "of several tens of billions" would damage competitiveness, that the 2025 improvement came "exclusively" from tax increases while spending savings "were once again postponed", and that stabilising the debt needs about three points of GDP — against a 2.2% interest bill, essentially a balanced primary budget. Remove the levers one at a time on the official numbers and what remains is the one none of the last five governments could pull: structural reform of social spending. The Commission's Debt Sustainability Monitor of February rates both countries high risk over the medium term, as it always has Italy; on the long-term measure, which is where ageing sits, France is rated medium with a sustainability gap of three points of GDP and Italy low with a gap below zero. On the Commission's own long-term arithmetic the lighter balance sheet is the one that needs the larger adjustment, and the market has read the same tables.

What Italy actually teaches

Italy has been through three widening episodes large enough to learn from, and none of them ended the way the commentary assumes. In 2011–12 the spread was wider six weeks into Monti's government than on the day it was sworn in; what broke it was not the technocrats but the ECB's two three-year LTROs — unconditional loans to banks, which used the money to buy their own sovereigns. The spread went from over 500 basis points at the end of December, after the first allotment, to below 300 by mid-March, after the second; then, in the summer, Draghi's words in London and the OMT's terms in September finished it. In 2018 the peak came in November and the turn came a week later when Salvini and Di Maio signalled the deficit target could come down — three weeks before the formal deal with Brussels. In 2022 the Transmission Protection Instrument — the ECB's anti-fragmentation tool, which lets it buy a country's bonds when spreads widen beyond what fundamentals warrant — was announced on 21 July alongside the first hike of the cycle, on the morning Draghi resigned. The spread closed wider that day on the fall of the government and went on to peak two months later, sixteen basis points higher, the morning after the election; it then fell seventy basis points into December as the new government's fiscal intentions became visible. Its defenders say the instrument deterred by never being used, which cannot be tested; what can be said is that its announcement did not stop the widening and that the election result did. No budget measure ended any of the three: Berlusconi's August 2011 package and Monti's Salva Italia decree of 4 December left the spread at or near its highs, the 2018 number that closed the dispute was agreed three weeks after the spread had already turned, and 2022 had no package at all. The ECB's balance sheet ended the first; political resolution ended the second and third — and in both, the spread turned on the day the politicians signalled they would fold, three weeks to two months before the formal agreement that ratified it: 26 November against 19 December in 2018, the election result against the Commission's December opinion in 2022. The signal, not the document, is what the market trades.

Two further facts cut against the comfortable analogue. Italy had a primary surplus in both 2011 and 2018 — it covered everything but interest from revenue and could say so; France runs a primary deficit near three points of GDP and has to close it before it can even make the argument Italy made from a standing start. And the backstop that the too-big-to-fail argument relies on — "France is too big for the spread to lose control" — exists on paper only: neither the OMT of 2012 nor the TPI of 2022 has been activated for any country. The TPI's first eligibility test is compliance with the fiscal framework, and here France and Italy stand in exactly the same place: both procedures were opened by the Council on 26 July 2024, and on 3 June this year the Commission found that both had taken effective action "at this stage" and held both in abeyance, while flagging France as at risk of missing its 2026 expenditure ceiling "by a small margin". So eligibility does not separate them. What separates them is that the instrument is discretionary and no one at the ECB has ever said on the record that it would be used for France.

So Italy is the right comparison, and it supplies three things the rest of this piece is built on: the episode ends on a political signal, about a month before the paperwork; the level at which it ends cannot be read off the Italian episodes themselves but can be read off the ratings; and the day a French problem becomes a European one is the day Italy stops being a useful leg. Timing first, then the trades — the short, which is where the first position will be, and then the long, which is where the piece departs from what everyone is currently looking to do.

II The trades

II.a The timing

Two windows

The trade has a calendar, and the calendar runs twice. The sequence is the same both times: sell France into the catalyst on a pullback of the spread, buy it back on the level or on the political signal. Throughout, selling and buying refer to the French bond, never to the spread: to sell France is to be short the OAT and long the other leg, which pays when the spread widens. What differs is what supplies the catalyst — the budget this autumn, the election next spring.

The first window is the budget, now to mid-November. The short is valid while the catalysts are ahead: the presentation of the PLF 2027 on 30 September, the revenue vote on 20 October, Moody's on the 23rd, the first-reading vote on 17 November, S&P on the 27th. It is best entered before the 20 October vote. It is too late after 17 November if the text clears first reading without a censure — on the Italian template the spread turns on the political signal about a month before the formal outcome, so this cycle's peak is likelier in late October than in December. The only thing that reopens the window after that is a December sequence of Article 47, censure and a third special law that fails.

The second window opens in January. The sequence runs again for the election. What the calendar supplies is the reason to come back, not the entry: after every resolution drift since 2024 the spread has made no new high inside sixty sessions, so a spread that has merely come in after the budget is not a reason to sell France again, and the January window is a second call for scrutiny rather than a

signal. Inside it the rules are the ones set out in II.b and II.c, applied to whatever high the premium has made.

The presidential premium starts to build from January, three months before the 18 April first round, with the candidate list fixed in late March and the Le Pen cassation ruling due by early April; in 2024 it arrived in a week with the dissolution, and in 2022 it was worth about ten basis points on and off around the first round, the larger widening that spring belonging to the ECB's turn and Ukraine.

The three frontrunners

The first round is on 18 April and the second on 2 May. Three candidates take about two thirds of the first-round vote in every configuration tested, and the market question is not who wins but which two reach the run-off — because one of the three pairings would be priced as a French problem and one as a European one.

First round, by Socialist candidate tested	if Hollande	if Royal	if Glucksmann
Marine Le Pen (RN)	32%	33%	34%
Jean-Luc Mélenchon (LFI)	16%	17%	17%
Édouard Philippe (Horizons)	16%	16%	15%
The Socialist candidate himself	7%	3%	9%
Gabriel Attal (Renaissance)	8%	—	—
Bruno Retailleau (LR)	7%	—	—

Second round, same poll	Le Pen	opponent
Le Pen against Philippe	55%	45%
Le Pen against Mélenchon	67%	33%

OpinionWay for CNews and Europe 1, fielded 9 and 10 September 2026, 935 registered voters from 1,001 respondents, online. The poll puts the same first-round question six times: three Socialist candidates — François Hollande, Ségolène Royal or Raphaël Glucksmann — each with the centre split, as shown, and with a single centre candidate. The Socialist's score comes largely out of the same pool as Mélenchon's and Philippe's, which is what decides the race for second place. The Attal and Retailleau figures were published for the Hollande scenario only. Le Pen leads the first round in all three scenarios; Mélenchon and Philippe are level for second place, with Mélenchon reaching the run-off in four of the six configurations tested.

Marine Le Pen is eligible. The criminal court barred her for five years with immediate effect in March 2025; on her appeal, the Paris appeal court on 7 July confirmed a conviction but cut the ban to fifteen months already served, and she declared that evening. That ruling is before the Cour de cassation at her own request — the prosecution chose not to appeal, so the court can uphold or quash the conviction but cannot lengthen the ban — with a decision due by early April, after the Conseil constitutionnel closes the list in late March. She is on the ballot in every scenario; what remains open is whether she runs as a convicted candidate or a cleared one.

What the three propose, on the fiscal questions that reach the spread:

	Le Pen (RN)	Philippe (Horizons)	Mélenchon (LFI)
The 2023 pension reform	Reverse: 62, or 60 with 40–42 years of contributions	Keep a legal retirement age	Abrogate: 60 with 40 years
Taxes	VAT to 5.5% on energy and fuels — about €12bn a year	Lower the burden on the middle classes; no figure published	Higher taxation of capital and the largest estates
Spending	€125bn of savings announced 27 August; the plan has not been published	"Balance the accounts"; no costing published	Increased public spending, financed by the above
The debt	No proposal on the stock	Refuses "any cancellation of debt"	Cancel the Eurosystem-held share, or convert it to perpetuals
EU fiscal rules	Renegotiate	Comply	"Plan A to renegotiate, Plan B to disobey"
Deficit and debt in 2030 on the citizen costing site francebudget.fr	7.3% and 133%	not costed	8.4% and 137%

Programme positions as stated publicly by the candidates and their parties to 19 September 2026; francebudget.fr is a public costing tool rather than an institute, and no Institut Montaigne or Rexecode costing of either programme was retrievable. Neither the RN's €125bn plan nor a Philippe programme document has been published, so both columns will need revisiting when they are.

Read the table rather than the personalities and the asymmetry is plain. The leading candidate proposes to reverse the one structural reform that passed and to cut a tax; the centre candidate proposes the consolidation nobody has delivered and has not costed it; the third proposes to confront the ECB. None of the three has published a path to primary balance. Whatever the outcome, the premium for the trajectory set out in Part I survives the election — which is why the buy level in II.c does not come down on a result.

One proposal deserves precision because it will be misreported. La France insoumise does not propose a freeze on repayment or a default on bondholders. It proposes cancelling the share of French debt held by the Eurosystem — about eighteen percent, 469 billion of 2,613 at the end of May — or, failing that, converting it into perpetual paper never to be resold; its deputies tabled it as an amendment to the 2026 budget in October 2025, and its candidate said at a press conference in June, in words AFP reported in August, that it would suffice to "go and take them and throw them in the fire", then defended the cancellation again at Lille on 5 September while specifying that the debt "to other, private lenders" was not concerned. Article 123 of the Treaty is read by the ECB and by every mainstream legal opinion as prohibiting exactly that, so it is a confrontation with the central bank rather than an accounting entry. And it touches none of the four fifths of the debt the market holds while removing the one buyer whose reinvestment the market relies on.

On the polls, Mélenchon reaches the second round more often than not — level with Philippe in the headline scenario and ahead of him in four of the six configurations tested — and loses it 67–33 to Le Pen. But the tail needs only the first step: better than one time in two, for the fortnight between the two rounds, the cancellation of ECB-held debt is a live proposal from a candidate on the ballot. That is the one French event the market would not price as French: a confrontation with the ECB is a euro-area question, and it would bring back the June 2024 reflex described in II.b, in which Italy widens at least as much as France. In that fortnight a short of France against Italy loses, and a long of France against Germany put on earlier finds the Bund rallying against it. It is not a remote tail, and it is why the Italian pairing is not the vehicle and why, in II.c, the second half of the long waits for 45 over Italy.

II.b The short

Choosing the pairing

The natural way to be short France without the Bund’s flight-to-quality leg is to pair it against a peripheral, and the choice between Spain and Italy is the finding this section turns on. Whether a pairing carries the French signal is an empirical question — regress its daily change on the change in France–Germany and see how much of a French move shows up — and the answer depends entirely on the window. Over all days, France against Italy fails: when France widens against Germany, Italy widens more, because the periphery sells off in sympathy and the BTP has the higher beta to risk-off. On French-event days only, it passes. Over whole legs, which mix both kinds of day, you get what you would actually have collected. All three are below.

The French-event days were labelled from the political calendar before the numbers were looked at — fifteen sessions, eight in the first regime and seven in the second:

2024 — the reflex regime		2025–26 — the French regime	
10, 11, 13, 14 Jun	the dissolution week	9 Sep 2025	after the Bayrou confidence vote
1 Jul	after the first round	15 Sep 2025	after the Fitch downgrade
8 Jul	after the second round	6 Oct 2025	Lecornu resigns
2 Dec	Barnier’s 49.3	14 Oct 2025	Lecornu’s declaration of general policy
5 Dec	after the censure	20 Oct 2025	after the S&P downgrade
		17, 18 Sep 2026	the 5.4% concession and its reaction

Capture is the sum of the pairing's move on the days France–Germany widened, divided by the France–Germany move on those days, on a series corrected for benchmark rolls — 9 September 2025 looks like a five basis point French day on the screen and is a roll. The two pairings, side by side on every criterion that matters:

Short France, ten years — the pairing	FR–DE move	against Spain	against Italy
French-event days 2024 — 8 days, 5 widening (reflex intact)	+39.3	+17.7 (45%)	+1.7 (4%)
French-event days 2025–26 — 7 days, 5 widening	+14.9	+11.0 (74%)	+9.3 (62%)
Whole leg from the 4 August low	+26.6	+22.9 (86%)	+12.4 (47%)
Whole leg since the 29 May low	+43.1	+35.9 (83%)	+22.2 (52%)
Iran risk-off, March 2026 — non-French trigger	+6	+2 (33%)	–9 (–150%)
Carry + roll-down, three months, bp of spread		–2.6	–1.0
If the crisis turns European		keeps working	loses on the day the thesis is most right
Role in this piece		the vehicle	the gauge for the buy level

The 2024 row is the 2011 reflex — a French shock repriced as a euro-area one, the periphery widening more than France. In 2011 it was both peripherals: from April to the November peak France widened 126 basis points against Germany, Spain 269 and Italy 378, on weekly closes. In June 2024 it was intact for Italy and only partial for Spain: on the four widening days of the dissolution week France went eight and a half, six, eight and ten wider against Germany, Italy went nine, five, ten and ten, Spain five, two, four and nine — thirty-two basis points of French widening moved France–Italy by two, the wrong way, and France–Spain by thirteen. Spain had half-decorrelated from French trouble by 2024; Italy had not. By the autumn of 2025 the reflex had gone: on the Lecornu resignation France widened four and Italy one and a half; on Friday France widened seven and Italy four. The market has learned to price a French shock as French, which is what a France-specific trade needs — and it is the one thing the Italian pairing depends on.

Italy's carry and roll-down is cheap because, on every day the trigger is not French, the Italian leg offsets the French one: the exposure is small, so the cost of holding it is small, and so is the payoff. A point and a half a quarter of saving against half the move and a loss in the European tail is not a trade; it is a smaller trade with a worse tail. Spain is the pairing. Italy keeps the more important job: the buy level in II.c is defined on France–Italy, so that spread is the gauge of when the short is over, not the vehicle for it. Ten years is the tenor throughout — nothing in the table is large enough to leave the maturity that has cash and futures in France, Italy and Germany.

Wait for a retracement to initiate

The levels are read on France–Germany because that is the benchmark with the twenty-year daily history; the position is then put on against Spain, which closed on Friday at 57 against France’s 104 over Germany. Since the dissolution the spread has made twenty-one pullbacks from a swing high, and they sort by depth with almost nothing in between:

Pullbacks from a swing high since June 2024	n	sessions from the high to the low (median)	rise from the low over the next 60 sessions, bp (median / min / max)	new high within 60 sessions
under 8bp	9	6	13.9 / 7.0 / 26.6	9 of 9
8 to 12bp	7	11	14.8 / 5.5 / 18.2	5 of 7
12 to 15bp	2	8	12.4 / 11.1 / 13.6	1 of 2
15bp and over	3	26	16.2 / 15.3 / 19.1	0 of 3

Five-basis-point reversal filter, so the populations are disjoint; France–Germany ten-year, corrected series, 7 June 2024 to 18 September 2026. A pullback is the fall from a swing high to the next swing low.

Fourteen of the sixteen pullbacks shallower than twelve were followed by a new high; one of the five at twelve or deeper, and that one measured 12.2, right on the line. The four deeper ones — after the July 2024 election, after the Barnier censure, from January 2025 into February, and from Lecornu’s deal with the Socialists into February this year — were each the start of a drift of one to four months following a resolution event. The instinct to wait for a larger retracement to get a better level runs the wrong way, and the last column says why: waiting does not buy a bigger move. The largest rise in the sample, twenty-seven basis points, followed a pullback of five; the deep ones led to nothing at all. The completed legs bound the target from the other side: twenty since 2024, median ten basis points and maximum sixteen, against a current leg of twenty-seven still open and already the largest since the dissolution. Plan the next one around ten to fifteen, not a repeat.

The rule. Sell France when the benchmark spread has retraced eight to eleven basis points from its high — roughly 93 to 96 on the screen from Friday’s 104. On the record that size of pullback has taken two to three weeks to complete, so it is not to be chased. Target the benchmark’s prior high — eight to eleven from the pullback low by construction; the median completed leg since 2024 is ten, so a run through the high is the stretch, not the plan — and the ratings arithmetic in the next section caps the road at 11 to 31 of French widening before the buy zone begins, which is the other reason to sell France on the pause rather than at the level. On the last year’s French events the Spanish pairing has captured about three quarters of a benchmark move, and over whole legs more, so a ten-point target on France–Germany is roughly seven to eight on France–Spain. Invalidate if the benchmark pullback runs past twelve — not a forecast but the depth at which the record above separates a pause from a resolution. Five deep pullbacks are a pattern, not a law, and the line is one observation from being blurred; it is the best single cut the data draw and no more than that.

II.c The long

The Italian analogy

The obvious way to put a level on France is to scale the Italian episodes onto it, and the table shows why that fails. Italy's three episodes are measured from base to peak on Italy–Germany; France's base before the dissolution was about 50 on France–Germany. There are two ways to transfer an episode. Multiply France's base by Italy's multiple — a crisis multiplies the spread — or add Italy's move in basis points to France's base — a crisis adds basis points.

Italian episode	IT–DE base → peak	Move	Multiple	France if multiplied (50 × multiple)	France if added (50 + move)
2022, Draghi to Meloni	138 → 262	+124	1.9×	95	174
2018, budget standoff	116 → 323	+207	2.8×	139	257
2011–12, euro crisis	127 → 558	+431	4.4×	220	481

Same three episodes, and the added answer is about double the multiplied one every time, because France started from a base a third of Italy's: a proportional scaling shrinks the Italian move by that ratio and an absolute one does not. Nothing in the data says which convention describes how a spread crisis spreads — whether fear compounds on the level or arrives in fixed increments — so it is a choice made before looking, and a choice made before looking that moves the answer by a factor of two is the answer. The analogue gives no level, and the level has to come from somewhere else.

The ratings methodology

A better route is the ratings, because three sovereigns and three agencies give a price per notch. Spain and Italy differ by about two and a third notches on the average scale and by 43 basis points of spread — roughly 19 basis points a notch. France is better rated than Italy by more than three and a half notches and yields fourteen basis points more. On that arithmetic France is priced some 80 basis points cheap to the ratings it has today. The market is not paying for the ratings that have been delivered; it is paying for the ones it expects.

Two or three further notches of relative movement — French downgrades, Italian upgrades, or both, which is the direction every agency is travelling on each, after four cuts to France in seventeen months and three upgrades for Italy including Moody's first since 2002 — are worth roughly 35 to 55 at the same price per notch. What is left, 25 to 45 basis points, is the premium for the trajectory described above, and it is real. So the 80 is fully accounted for: at 104 France is not cheap, it is priced for a bad story that happens to be true.

The ratings arithmetic, ten years	Notches	Spread, bp	Reading
Spain against Italy, Friday's close	2.33 better	43 tighter	≈ 19bp a notch
France against Italy, at current ratings	3.67 better	14 wider	fair on the scale ≈ 68 tighter; actual 14 wider; ≈ 80 cheap
Expected relative rating change	2 to 3 fewer		explains ≈ 35 to 55 of the 80
Residual		25 to 45	the trajectory premium

Average of S&P, Moody's and Fitch on a 21-step scale; spreads are the 18 September closes. The notch count in the third row is not a forecast of any one agency's action but the amount of relative movement — French downgrades, Italian upgrades or a mix — the market appears to be pricing.

That arithmetic says when France becomes a buy. Italy is 90 over Germany. Full convergence — France priced exactly as Italy, every expected notch delivered — is 90; add the trajectory premium and the most the story justifies is Italy plus 25 to 45. Stated on the pairing, and it has to be stated there because Italy moves too, the rule is: buy France when it yields 25 to 45 basis points more than Italy, whatever Italy is over Germany at the time. Below that, the level is explainable and buying France is catching a trend. Above it, the market is pricing something worse than France becoming Italy with a premium on top.

The same arithmetic measures the short's remaining road: from Friday's 14 over Italy, 11 to 31 basis points of French widening before the buy zone opens.

The carry profile pays you to wait

The long is the one position in this piece that is paid to wait. On the same units and horizon as the short, its carry and roll-down rise with the spread, because the yield differential does:

Long France / short Germany, ten years	carry, 3m	roll-down, 3m	carry + roll, 3m	per year
At 104 (Friday)	+3.5	+2.2	+5.7	+23
At 130 (first entry)	+4.4	+2.2	+6.6	+26
At 150 (second entry)	+5.1	+2.2	+7.3	+29

Same construction as the short: 18 September curves, French ten-year shifted by the spread change, financing at 2.50% on both legs, roll linear between the seven- and ten-year nodes. Daily sigma of the pairing 1.8bp, quarterly 12 to 15.

So the long survives roughly six basis points of widening a quarter at Friday's level and about half a quarterly sigma at 130. A 30 basis point election premium — the size of the 2024 dissolution move —

is five quarters of carry and roll-down, not one: it is why the long can be held through a slow resolution, not a reason to put it on early.

Long France against Germany, ten years, in two pieces. Not a level trade at ordinary levels: as the pullback record above shows, fading a swing high has failed fifteen times in twenty-one since 2024, and the long has paid only after a resolution event, when the drift was twelve to twenty-six basis points over one to four months. So the entries are where the level itself is the event, and they are read on France–Italy. First entry at 30 over Italy, half size — a notch and a half below Italy on the ratings scale, inside the range the convergence arithmetic supports — about 130 on the benchmark if Italy keeps following France as it has this past year, taking roughly a third of each French move on French-event days. Second entry at 45 over Italy — nearly two and a half notches, about 150 on the benchmark — for the other half; or on the political capitulation signal at anything above 25 over Italy — a Rassemblement National commitment not to censure, the government accepting a materially harder number — whichever comes first. The position is held against Germany because it pays to wait, as the table above shows. Its failure mode is the June 2024 reflex described in II.b, when the Bund rallies against the long. That regime, not the budget, is what took France to 190 over Germany in November 2011, and it is why the second half waits for 45 over Italy rather than averaging in earlier.

III Summary and thesis invalidation

The two trades

Short France against Spain, ten years, timed on the France–Germany benchmark. Enter on a pullback of eight to eleven from the benchmark’s high, roughly 93 to 96 on the screen with France–Spain at 57; valid while the budget catalysts are ahead and best before 20 October; target the prior high, eight to eleven from the low, about seven to eight on France–Spain; cut if the pullback runs past twelve. Costs two and a half basis points a quarter to hold. Runs again from January on the same rules.

Long France against Germany, ten years, in two pieces. Half at 30 over Italy, half at 45 over Italy or on the political capitulation signal above 25, whichever comes first — about 130 and 150 on the benchmark at the current beta, higher if Italy follows less, never if the crisis has turned European. Earns six and a half to seven and a third basis points a quarter in carry and roll-down while it waits. Not held in full size together with the short: both lose in the reflex.

	Entry	Window	Target	Invalidation	Carry + roll, 3m
Short FR / long ES, 10y	FR–DE 8–11bp off its high; ~93–96 on screen (FR–ES 57 on Fri)	Now to 17 Nov, best before 20 Oct; again from Jan	FR–DE prior high, +8–11 from the low; ≈ 7–8 on FR–ES	FR–DE pullback past 12bp (~92)	–2.6
Long FR / short DE, 10y, first half	FR–IT 30 (≈130 on screen at current beta)	Any time	Post-resolution drift, 12–26bp	The reflex: Italy widening more than France	+6.6 at 130
Long FR / short DE, second half	FR–IT 45 (≈150), or capitulation signal above FR–IT 25	Whichever first	Same	Same	+7.3 at 150

Entry, target and invalidation for the short are read on the France–Germany benchmark spread and the position is put on against Spain. The long’s entries are read on France–Italy and put on against Germany. Screen levels are the TradingView generic ten-year series, France–Germany 103.9 on Friday 18 September, quoted as 104; France–Spain 56.6, France–Italy 13.6. Distances are from the swing high on the corrected series. Spain has no liquid futures contract, so the short is cash; the long can be done in cash or futures.

What would make this wrong

A credible primary-balance path — not a target, a path with the measures attached and a parliament that passes them — would remove the trajectory premium and take the buy level down towards a hundred. There is no sign of one, and the calendar between now and February is where it would have to appear. Short of that, the thing to fear on the short side is not a rally but a repricing of the question: the day the market stops asking what France will do and starts asking what Europe will do about France. That is when Italy widens more, the Spanish pairing keeps working, an Italian one would not, and the long at 30 over Italy never triggers because France–Italy is falling — which is the one thing the rule gets right in that regime, and the reason the long is read on Italy rather than on the screen. The data say the market has spent a year learning to price France as French. The trades above are built to pay if it keeps doing so, and to survive the day it forgets.

Sources referred to in the text: European Commission Spring 2026 Economic Forecast (21 May 2026), spring package communication COM(2026) 200 and country recommendations COM(2026) 210 and 212 (3 June 2026), Debt Sustainability Monitor 2025 (12 February 2026); Eurostat government deficit and debt notification (22 April 2026), taxes and social contributions (31 October 2025), COFOG; INSEE Première 2106 and 2108 (May and June 2026); Cour des comptes, Situation des finances publiques (February and June 2026); COR annual report and CSR opinion (June–July 2026); Senate finance committee reports on PLF 2026; AFT monthly bulletin (July 2026); ECB press releases on the Transmission Protection Instrument (21 July 2022), Outright Monetary Transactions (6 September 2012) and the three-year LTROs (8 December 2011); Légifrance, loi n° 2023-270 and loi n° 2025-1403 art. 105; Assemblée nationale registers and amendment I-1047 (21 October 2025); Paris appeal court ruling of 7 July 2026 as reported; OpinionWay for CNews (9–10 September 2026); AFP (24 August 2026); rating actions as reported by the agencies and press. Market data: TradingView generic benchmark series,

daily from 2006, with the 2024–26 pullback statistics computed on a series corrected for benchmark rolls as described in the working paper. All calculations are the author's.

Written in a personal capacity. The author is not regulated by the FCA or any other authority and does not hold, and has no intention of taking, positions in the instruments discussed. Spread levels are TradingView generic ten-year closes of Friday 18 September 2026; every calculation is the author's and the working file is available on request. This is analysis for a professional audience, not an offer or a personalised recommendation, and anyone acting on it does so on their own judgement and against their own mandate.