



The Pause That Never Came

Two weeks after “A French Spread Playbook to the Election: Sell into the Pause, Buy after the Panic”, France–Germany is thirty-six basis points wider, neither trade has triggered, and a crowded carry trade has broken. What the front end says about it, and what changes in the rules.

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IN ONE PAGE

What happened. On 18 September France–Germany closed at 104. By Friday it was 140 — thirty-six basis points in ten sessions, thirty-three of them in the last five — a weekly move exceeded only in 2011 and March 2020. Neither trade triggered: the short’s pullback never came, and the long’s trigger on Italy was not reached because Italy followed France.

What broke. Thursday looked like a European crisis — Italy repeating the French move while the Bund rallied. The front end says otherwise: two-year spreads did more than ten-year, OAT futures traded three times their average, and on Friday Italy’s front end retraced while France’s kept widening. A crowded carry trade was being closed. The Italian part was positioning; the French part is still France.

What changes. The long waits for the forced selling to stop, goes on at half size, and needs three sessions, not one, to be invalidated. The short adds a starter on a shallow pullback and runs to late November, when the budget deadlines fall.

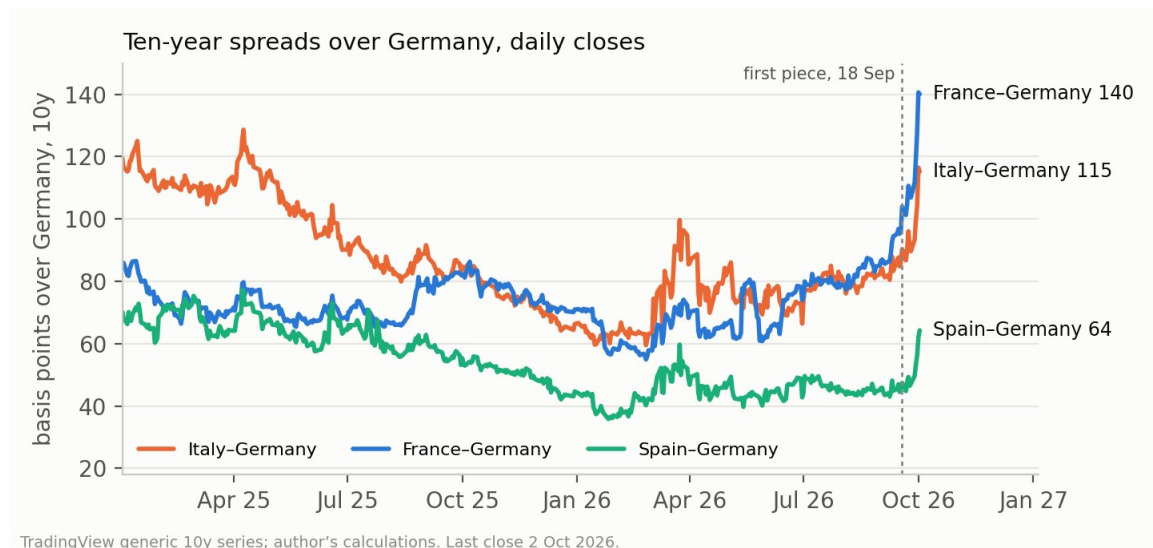
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I Two weeks on

Two weeks on — ten-year closes, basis points:

	Fri 18 Sep	Fri 2 Oct	Change
France 10y yield (%)	4.555	4.862	+30.7
Germany 10y yield (%)	3.515	3.461	-5.4
France–Germany	103.9	140.0	+36.1
Italy–Germany	90.3	115.2	+24.9
Spain–Germany	47.4	64.2	+16.9
France–Italy	13.6	24.8	+11.2
France–Spain	56.6	75.8	+19.2

The Bund rallied while France sold off: the whole move was French. France closed 24.8 over Italy, the widest in the twenty-year series, and 19.2 wider against Spain — two and a half times what the short was targeting. The short never got on: its rule, read on closing levels, waited for a pullback of eight to eleven basis points, and the deepest close-to-close was 3.7. Intraday was another matter. On Friday France–Germany started the day in the mid-140s, traded up to 159 around midday on hourly prints and was back at 139 by mid-afternoon — a nineteen-point round trip inside one session — before closing at 140. A rule read on the screen would have been filled and stopped out the same afternoon; read on closes, it never saw it. The first piece's own record warned of this — pullbacks under eight were followed by a new high nine times out of nine. The long never got on either: France–Germany went through the ≈ 130 it was given, but France–Italy, where the trigger is read, stopped at 24.8, because Italy took two thirds of each French move instead of the third the translation assumed. Reading the level on Italy kept the long out of a market that was still being forcibly sold.



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II Thursday: a carry trade breaks

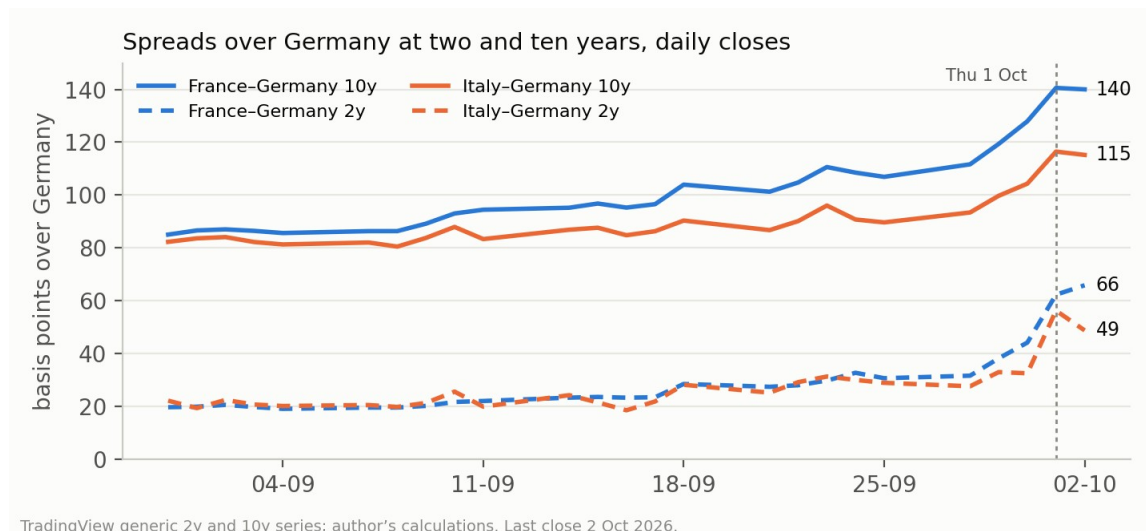
The ten sessions since the first piece, daily changes in basis points:

	Bund yield	France–Germany	Italy–Germany	Spain–Germany
Mon 21 Sep	−5.4	−2.7	−3.6	−2.6
Tue 22 Sep	−1.7	+3.5	+3.4	+2.8
Wed 23 Sep	+12.7	+5.8	+5.9	+1.7
Thu 24 Sep	+2.9	−2.1	−5.3	−2.8
Fri 25 Sep	+0.6	−1.6	−1.1	+0.7
Mon 28 Sep	+2.3	+4.8	+3.8	+2.5
Tue 29 Sep	−1.6	+7.7	+6.3	+3.6
Wed 30 Sep	−3.2	+8.6	+4.6	+2.9
Thu 1 Oct	−5.2	+12.6	+12.1	+5.8
Fri 2 Oct	−6.8	−0.5	−1.2	+2.2
Total	−5.4	+36.1	+24.9	+16.9

Thursday is the largest one-day widening of France–Germany outside 2010–12 and March 2020. Italy repeated 96% of it while the Bund rallied 5.2 — on the first piece’s terms, the European signature that invalidates the long. It did not continue on Friday. The front end says why:

Where the selling was — two-year spreads over Germany and Euro-OAT futures volume:

	Mon 28 Sep	Wed 30 Sep	Thu 1 Oct	Fri 2 Oct
France–Germany 2y, bp	31.6	44.1	62.3	65.8
Italy–Germany 2y, bp	27.6	32.5	56.2	48.7
France–Germany 10y, bp	111.6	127.9	140.6	140.0
Euro-OAT futures, contracts	411,032	560,022	951,935	804,776
... as a multiple of the 70-session average to 30 Sep (313,724)	1.3×	1.8×	3.0×	2.6×



A fiscal premium builds at the long end; a forced seller of short-dated paper shows up at the front. France–Germany at two years doubled in a week, from 31.6 to 65.8, more than the ten-year moved. Italy’s two-year spread jumped 23.7 on Thursday — more than France’s — and gave back 7.5 on Friday while France’s added 3.5. Market reports describe leveraged funds forced out of positions that owned French bonds against paying swaps, with stops also triggered on outright longs in France; the Bank of England’s Financial Policy Committee had warned on 30 September, of gilts, that leverage remained elevated and a sharp adjustment remained a risk.

Two conclusions. Thursday’s Italian move was the unwind passing through every peripheral carry position at once, not yet evidence that France is priced as a European problem — Friday’s split says the French part is French. And the long France against Germany is the same family of trade that has just been stopped out: paid to wait, for the same reason the funds were. That does not make it wrong. It makes the entry a question of when the forced seller has finished.

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III The budget moves the date, not the trajectory

The 2027 bills target a 5.0% deficit on forty-three billion euros of new measures, mostly revenue, with debt at 121.7% of GDP and still rising. The Haut Conseil des finances publiques judged the 1% growth assumption optimistic and a 3% deficit by 2029 very unlikely. None of it touches the trajectory premium. What matters is the procedure. The prime minister has promised neither 49.3 nor ordinances, if there is no obstruction; the fallback that is not 49.3 is an Article 47 ordinance, never used under the Fifth Republic. Filed on 6 October, the bills reach their deadlines on 25 November (social security) and 15 December (state). On that route there is no censure vote to turn on and possibly no political signal at all: the turn comes when the deadline passes without a motion carried — late November rather than late October.

Three years of tax rises have bought nothing on the deficit. New measures have added €36.7 billion, 1.2 points of GDP, since 2023, and the deficit is where it was, about 5.4%. Half went on interest, as the charge rose from 1.9% to 2.5% of GDP; it is on course for close to 4% by 2030, a record since 1945. The 2027 budget does the same thing again, and each new euro of tax goes increasingly to bondholders. The spread feeds the loop: on the government’s own sensitivity — three billion euros in the first year for a one-point rise in rates, thirty-three by the ninth — the 31 basis points France’s ten-year yield has added since 18 September cost about €1 billion next year and over €10 billion a year by the end of the decade, if they stay.

Three years of tax rises, and where they went:

	Points of GDP	€bn
New tax and contribution measures, 2024–26	+1.2	+36.7
... absorbed by higher interest (1.9% – 2.5% of GDP)	≈ 0.6	
... absorbed by weaker underlying revenue	≈ 0.3	
... absorbed by spending and lower non-tax revenue	≈ 0.3	
Deficit, 2023 and 2026	≈ 5.4 both	
Cost of +31bp on the ten-year, first year (ninth year)		≈ 1 (≈ 10.2)

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IV Is France still French?

Is a French move still French? Daily betas to France–Germany, ten years:

Window	Sessions	Italy–Germany	Spain–Germany	France–Germany on Bund yield
2011 euro crisis (Apr–Nov)	168	1.57	1.36	–0.38
2012, to the OMT (Jun–Sep)	84	1.93	2.17	–0.49
2017 election (Jan–May)	88	0.98	0.86	–0.38
2024 dissolution (10 Jun–8 Jul)	21	1.07	0.71	–0.41
2024 Barnier censure (Oct–Dec)	62	0.83	0.62	–0.03
2025 Bayrou to Lecornu (Aug–Oct)	49	0.62	0.43	+0.08
2026, calm (mid-Jun–Aug)	55	1.06	0.69	+0.13
September 2026	22	0.87	0.48	+0.20
Since the first piece (21 Sep–2 Oct)	10	0.97	0.44	+0.01

Italy's beta to France is back to 0.97, the level of the dissolution and the 2017 election; Spain's is 0.44, barely above its 2025 low. The Bund column, positive all year, is at zero over the leg. In 2011 both peripherals moved more than France; this is Italy alone re-attaching, and Part II says it was repeating the unwind, not the French story. The dials are flashing for a reason that should fade — so the warning only counts if it outlasts the forced selling.

France–Germany, ten years: 20-day realised volatility of daily changes, bp a day:

Episode	Peak	Date of peak
2011 euro crisis	13.4	6 Dec 2011
Covid	10.5	1 Apr 2020
2012, to the OMT	9.1	5 Jun 2012
2017 presidential election	5.7	27 Apr 2017
2024 dissolution	4.8	3 Jul 2024
Now	4.1	2 Oct 2026
2022 ECB turn and TPI	3.4	20 Oct 2022
2024 Barnier censure	2.9	9 Dec 2024
2025 Bayrou to Lecornu	2.4	11 Sep 2025
One-year average	2.2	Oct 2025–Oct 2026
Median since 2007	1.7	

Volatility says the same thing louder. At 4.1 basis points a day, France–Germany’s 20-day realised volatility is in the 91st percentile since 2007, above every French political episode except the dissolution and the 2017 election — about 65 basis points a year of normal volatility, against 35 on the one-year average.

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V The trades, revised

What each position earns or costs over three months, bp of spread:

	Long France / short Germany	Short France / long Spain
Carry, financing at 2.50% on both legs	+4.7	–2.6
Roll-down, seven- to ten-year	+2.0	–0.4
Carry and roll-down	+6.7	–3.1
Repo on the short leg at 15bp special	–0.5	–0.5
CRD, base repo	+6.3	–3.6
Repo on the short leg at 50bp special, instead	–1.5	–1.6
CRD, squeezed repo	+5.2	–4.7
Quarterly sigma at 20-day vol (one-year vol)	32.3 (17.5)	21.6 (13.7)
CRD as a share of a quarterly sigma, now	0.16–0.20	0.17–0.22

Friday’s curves, financing at 2.50% on both legs, roll-down from seven to ten years, and a monitored repo assumption on the short leg — 15 basis points special, 50 if it squeezes into year-end. The long still pays to wait, six and a third a quarter, but that is a fifth of a quarterly sigma now against over a third on the volatility the first piece used. This week showed what that ratio means: positive carry, levered and crowded, unwound in a session.

The long's triggers, read on France–Italy, translated to the France–Germany screen:

If Italy repeats...	First half, France–Italy 30	Second half, France–Italy 45
a third of each French move (the first piece)	≈ 148	≈ 170
two thirds of it (the leg since 18 September)	≈ 157	≈ 205
all of it (the 2011 reflex)	never	never

The long keeps its triggers on France–Italy, with four changes. It goes on only once the forced selling has stopped — the two-year spread ten basis points off its high (about 56) while the ten-year holds, and futures volume back under one and a half times average. Size is about half of planned risk while 20-day volatility is above 2.5 a day. The political signal for the second half becomes the social security deadline passing without a censure carried. And the invalidation counts only if it holds for three sessions after volume has normalised.

The short keeps its rules, read on closing levels — Friday showed what intraday levels do in this market — adds a starter — a third at a pullback of five to eight from the high, the bucket that has always led to a new high — and runs to the late-November deadline. With France a fifth of a basis point from the buy zone on Italy, it is a tactical trade held for the prior high, not a position.

The two trades, revised:

	Short France / long Spain, 10y	Long France / short Germany, 10y
Entry	A third on a France–Germany pullback of 5–8bp from the high (≈ 133–136 from 140.6); the rest at 8–11 (≈ 130–133)	First half at France–Italy 30 (≈ 148–157 on screen), once the front end has turned; second at 45 (≈ 170–205) or on the signal above 25
Size	Unchanged	About half of planned risk while 20-day vol is above 2.5bp a day
Window	To the social security deadline, ≈ 25 November, on the ordinance route; to the censure vote on the 49.3 route	Any time after the flush
Target	The prior high	Post-resolution drift, 12–26bp
Invalidation	Pullback past 12bp (≈ 129)	Italy repeating whole French moves while the Bund rallies, for three sessions after futures volume has normalised
CRD, 3 months	–3.6 (–4.7 with an OAT squeeze)	+6.3 (+5.2 with a Bund squeeze)

What would make this wrong: Italy still repeating whole French moves after the unwind is over. That would mean the market now prices France as a European problem, the long's trigger will not come, and the first piece's central finding no longer holds. On Thursday it looked that way. On Friday the front end said it was a crowd leaving a trade, not a market changing its mind. That is the dial to read every day until the deadlines.

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Sources referred to in the text: Constitution of 4 October 1958, Articles 47, 47-1 and 49; organic law on finance laws (LOLF), Article 39; Government of France, 2027 finance and social security bills as presented to the Council of Ministers on 1 October 2026; Haut Conseil des finances publiques, opinion on the 2027 finance and social security bills (1 October 2026); Cour des comptes, Rapport sur la situation et les perspectives des finances publiques (June 2026), as compiled in Rexecode, Bilan des prélèvements obligatoires 2026, document de travail n° 105 (September 2026); Prime Minister's statement of 17 September 2026; Assemblée nationale budget calendar for the autumn 2026 session; Bank of England, Record of the Financial Policy Committee meeting of 25 September 2026 (published 30 September 2026); Eurex, Euro-OAT futures daily volume. Market data:

TradingView generic two-, seven- and ten-year benchmark series for France, Germany, Italy and Spain, daily from 2007; benchmark rolls identified against the Euro-OAT futures contract and removed with bad prints before computing changes. All calculations are the author's.

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