

Operations Managers Group

Recent key financial market developments

Frankfurt, 6 March 2013

Major developments since October

Euro area bond markets

Further stabilisation in euro area bond market. Release of third bail-out tranche to Greece after successful debt buy-back, swap of promissory notes with Irish Government bonds and OMT supported risky assets despite weak economic fundamentals. Yields differentials stabilised but still somewhat elevated. Italian elections however reminded how fragile the situation still is.

FX market

Removal of euro tail risk, further monetary policy easing in US and Japan and initial LTRO repayment led to a strong appreciation of the euro. This partially reversed on gloomy economic data, commitment to continued accommodative monetary policy in the euro area, lower than expected repayment on second LTRO and inconclusive outcome of Italian elections.

Euro area money market

Eonia forward curve volatile on changing expectations for short-term money market rates future trajectory. LTRO repayment led to increase in Eonia volumes. Repo volumes in certain markets also reported higher.

Bank bond issuance market

Primary market issuance from euro area financials had a successful start into the new year but fundamentals remain fragile.

Selected government bond yield and CDS developments

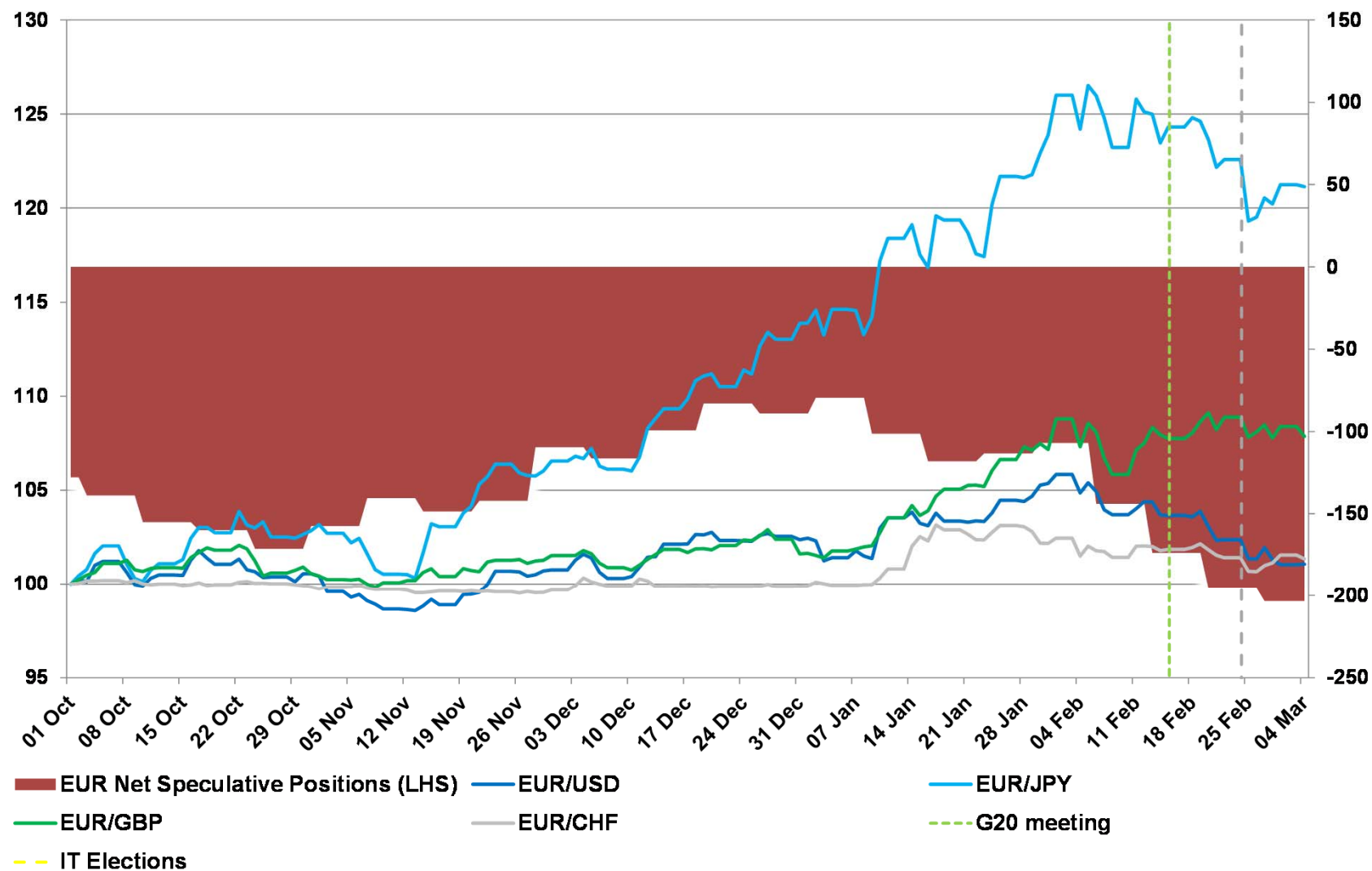
		25-Jul-12	15-Oct-12	22-Feb-13	01-Mar-13	Overall period delta
2Y	Italy	4.908	2.115	1.658	1.923	-2.99%
	Spain	6.421	3.199	2.534	2.487	-3.93%
	Portugal	7.479	3.904	3.192	3.122	-4.36%
	Ireland	3.977	1.456	1.206	1.13	-2.85%
10 Y	Italy	6.419	4.971	4.441	4.784	-1.64%
	Spain	7.376	5.817	5.145	5.096	-2.28%
	Portugal	11.219	7.963	6.22	6.298	-4.92%
	Ireland (8yr)	6.331	4.552	3.743	3.776	-2.56%
CDS	Italy	556.438	292.472	249.536	285.853	-271 bp
	Spain	624.504	345.398	260.718	272.091	-352 bp
	Portugal	883.44	450.013	383.238	394.063	-489 bp
	Ireland	572.394	243.056	173.098	172.126	-400 bp

Selected government bond yield and CDS developments (2)

		25-Jul-12	15-Oct-12	22-Feb-13	01-Mar-13	Overall period delta
2Y	Germany	-0.061	0.053	0.127	0.03	0.09%
	France	0.365	0.152	0.218	0.142	-0.22%
	Netherlands	0.061	0.068	0.217	0.147	0.09%
	Finland	0.012	0.074	0.101	0.023	0.01%
10 Y	Germany	1.262	1.472	1.568	1.41	0.15%
	France	2.281	2.147	2.228	2.113	-0.17%
	Netherlands	1.756	1.721	1.8	1.683	-0.07%
	Finland	1.493	1.734	1.757	1.599	0.11%
CDS	Germany	82.601	44.371	41.583	39.657	-43 bp
	France	183.269	94.67	83.422	80.348	-103 bp
	Netherlands	96.629	56.784	51.155	51.825	-45 bp
	Finland	61.611	36.558	29.575	29.663	-32 bp

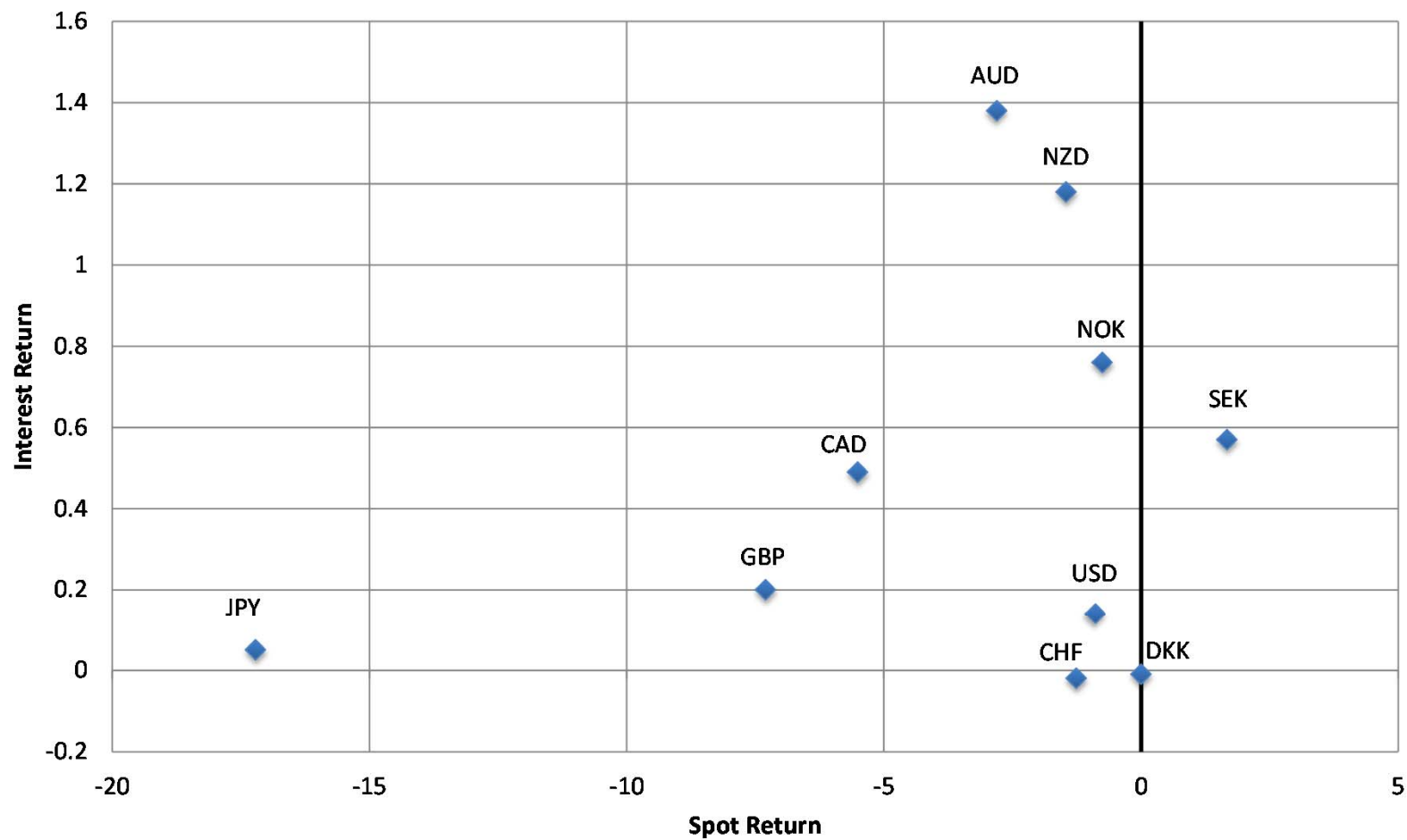


Euro FX rate and euro speculative positions



Source: CFTC, Bloomberg

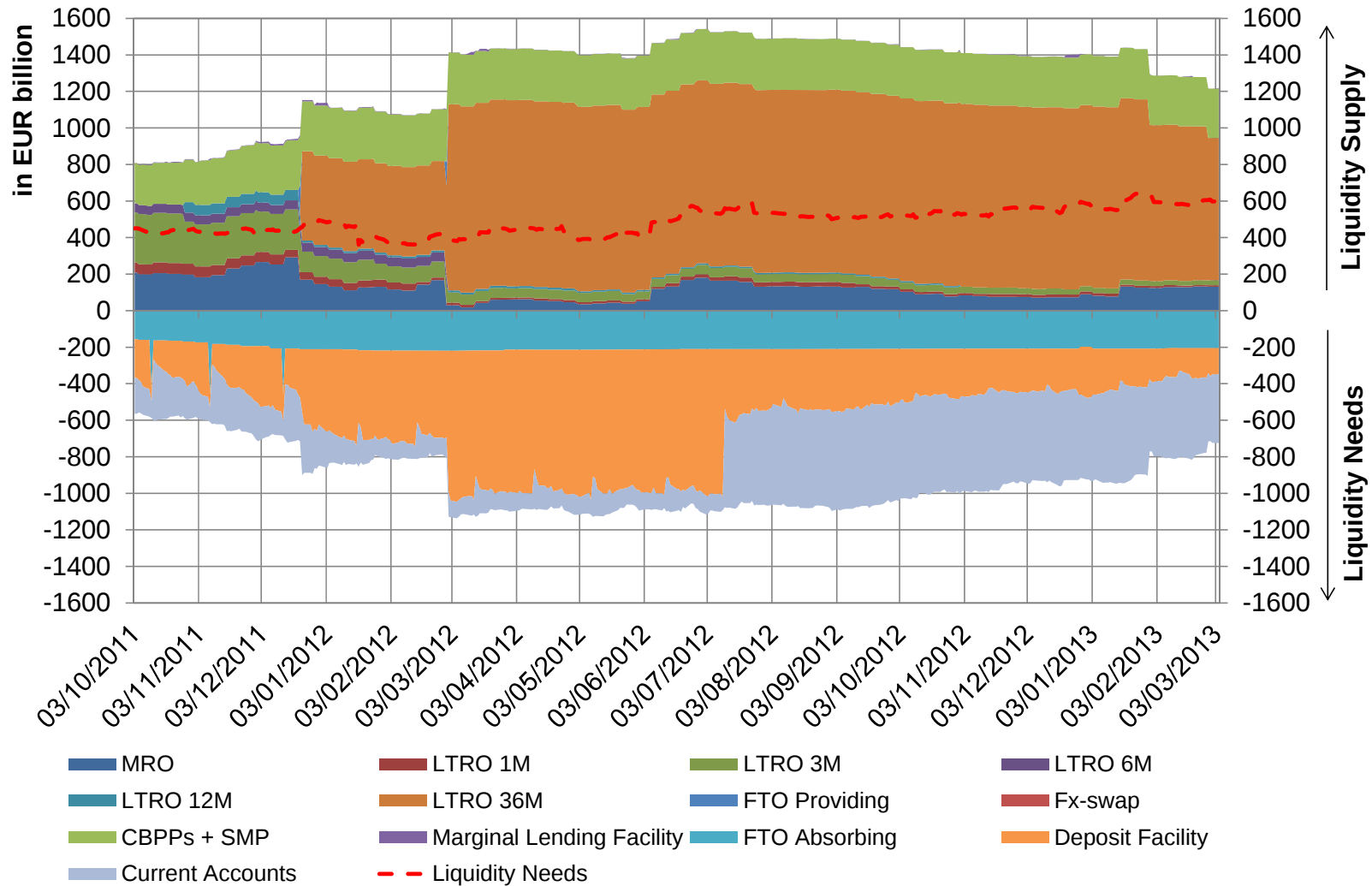
FX market – major currencies vs. EUR



Source: Bloomberg

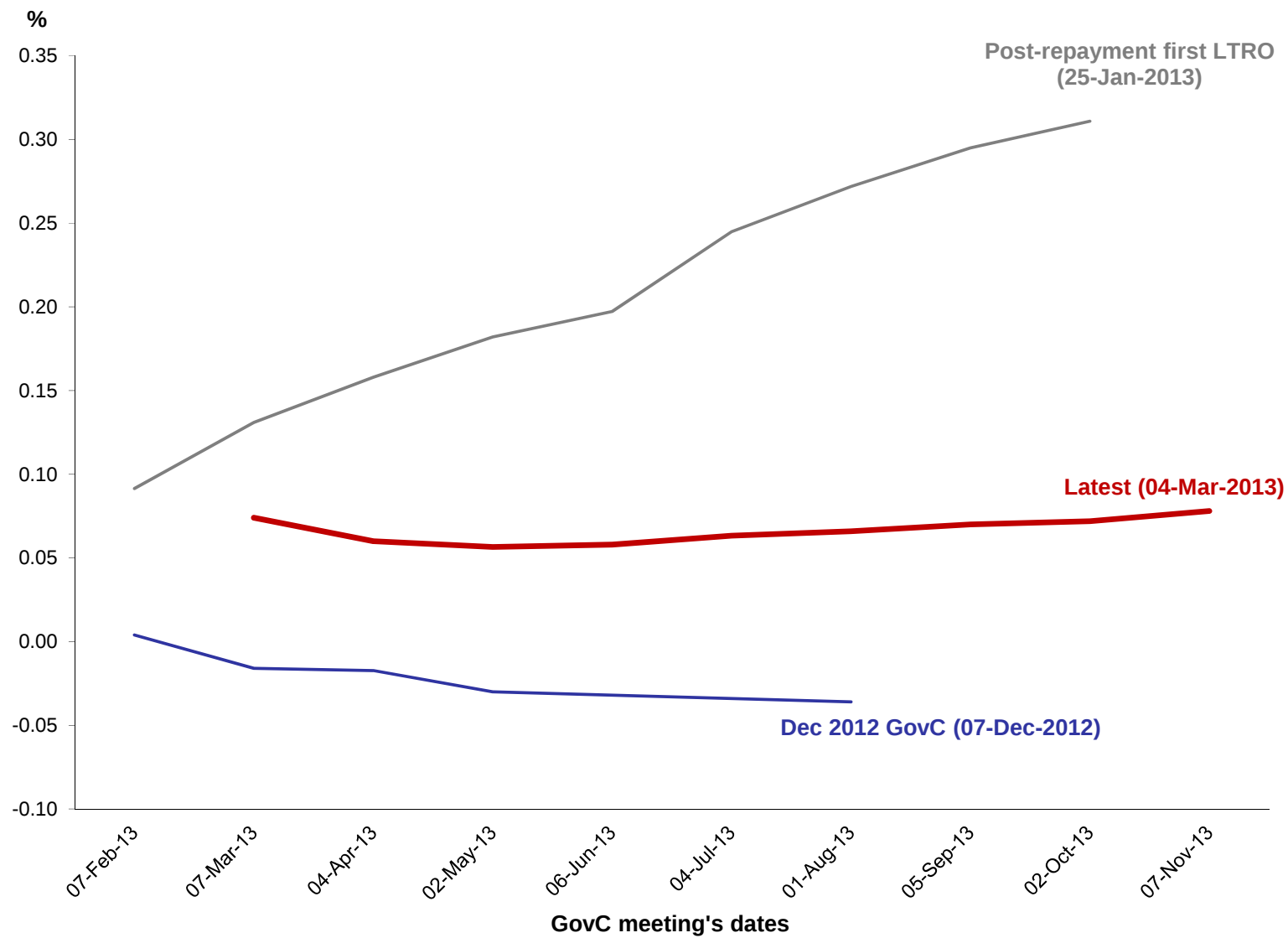


Excess liquidity developments

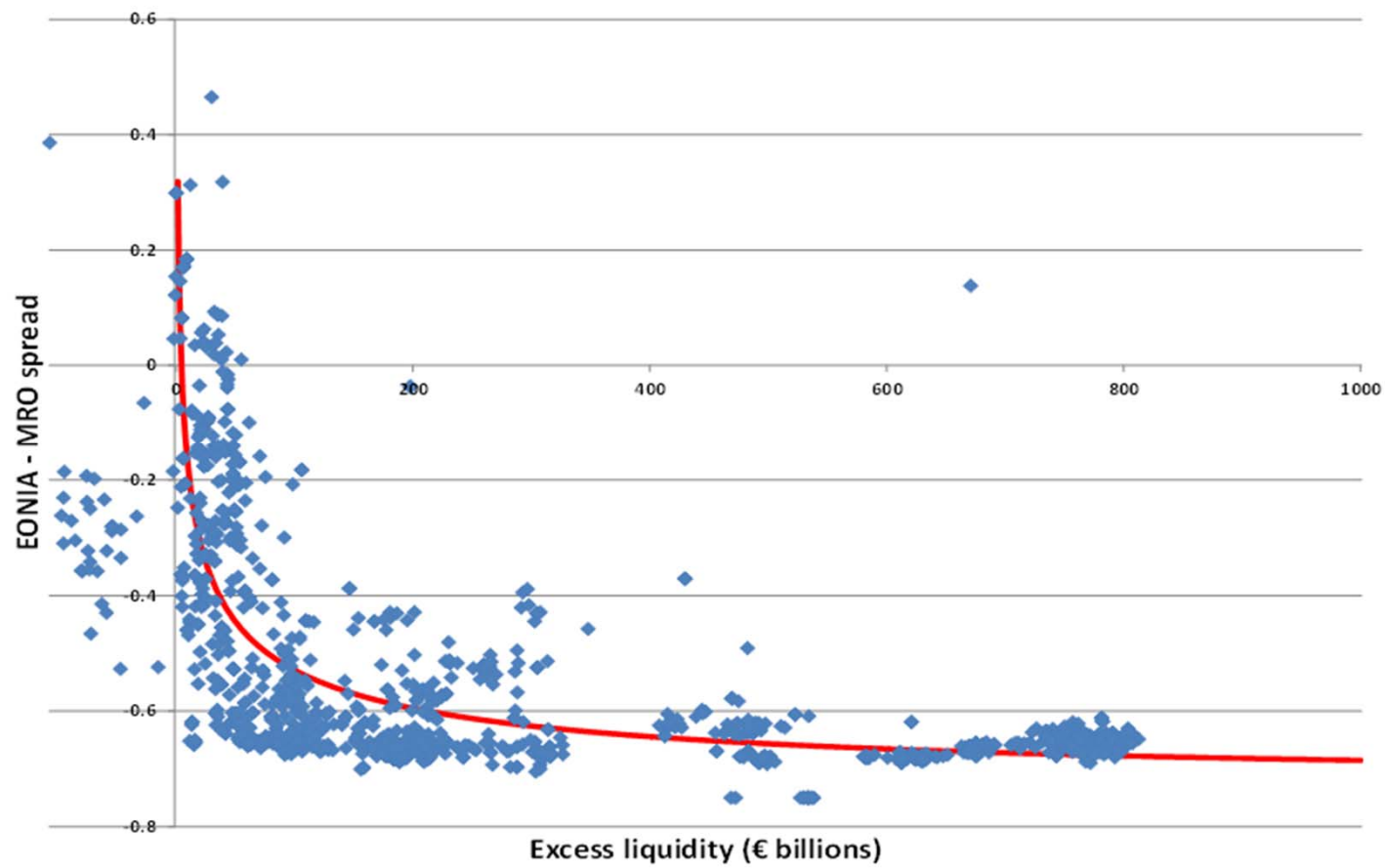


Source: ECB

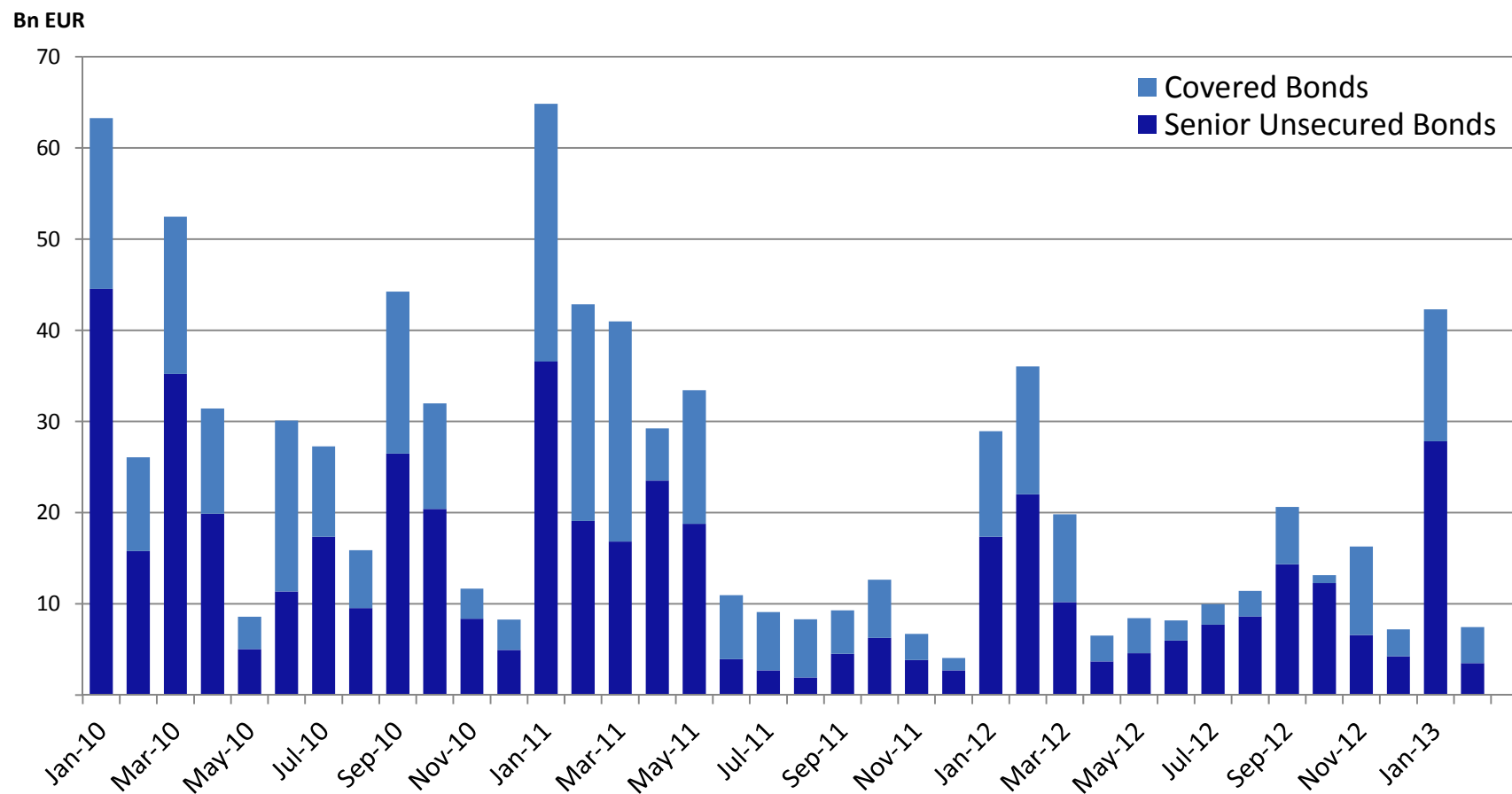
EONIA Forward



EONIA developments



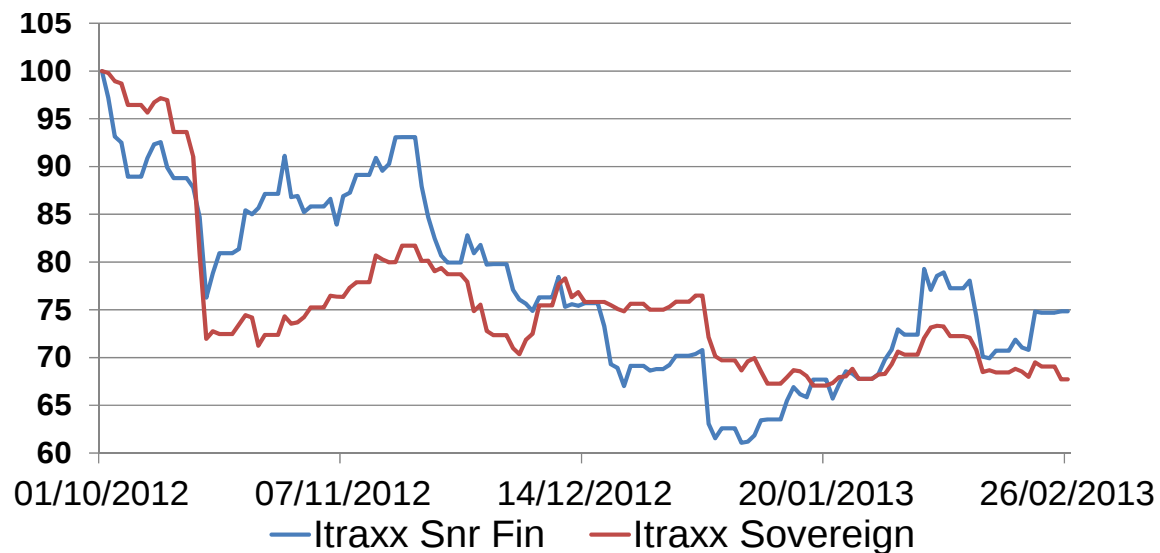
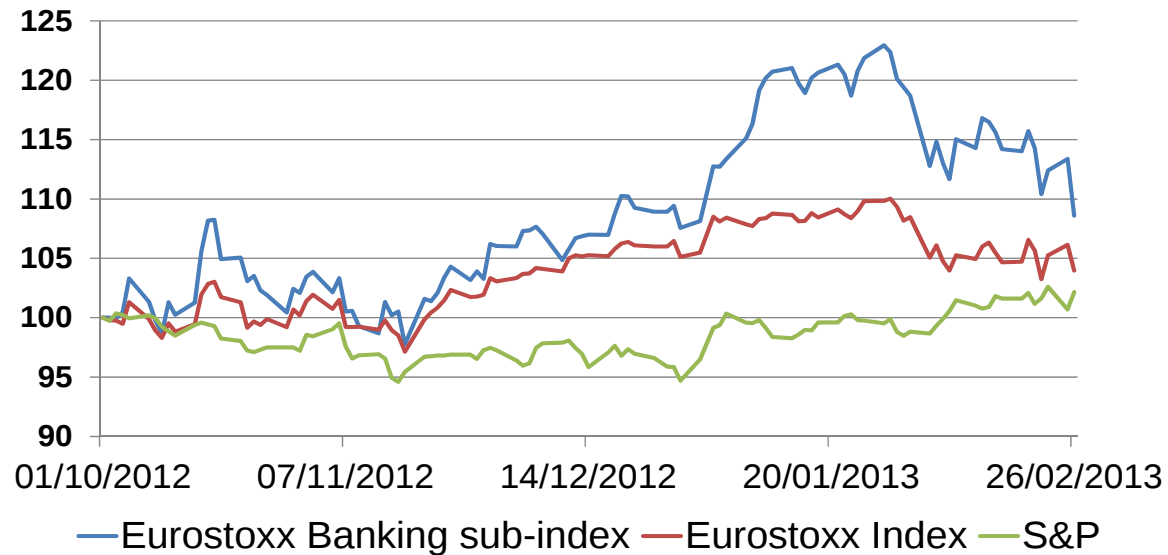
Euro area financial issuances



Note: all issuances with issuance volumes > EUR 100 million, Source: Dealogic



Equity market developments and bank risk



Source: Bloomberg

Summary

- Decrease in general tensions in relation to the euro area sovereign debt crisis and euro redenomination risk. OMT seen as an effective backstop facility that removes systemic risk and prevents the risk of a bad equilibrium, limiting volatility also in relation to potentially destabilising events such as the inconclusive outcome of Italian elections.
- Areas of focus/concern: economic growth, bank-sovereign link, fragile equilibrium in a few countries with unclear commitment to fiscal consolidation and structural reforms, remaining market segmentation/fragmentation.