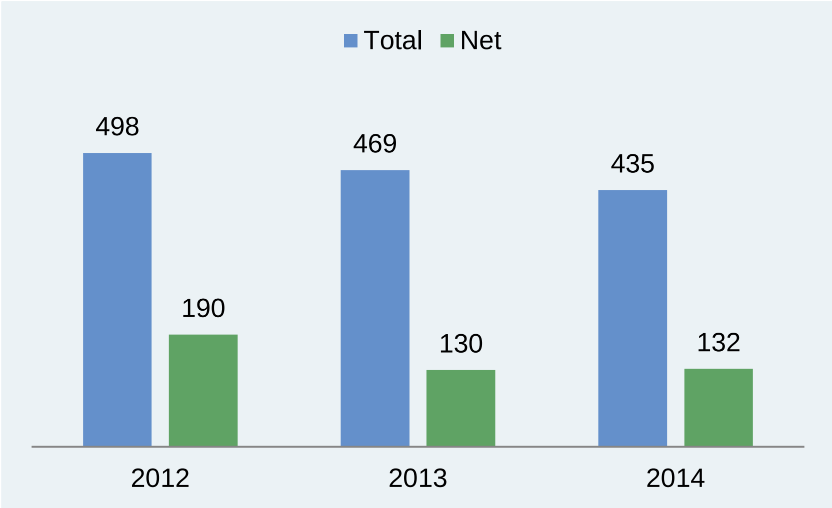
GLOBAL OUTLOOK FOR PUBLIC & PRIVATE SECTOR BOND ISSUANCE

Adrian Averre, BNP Paribas
Carl J Norrey, JP Morgan

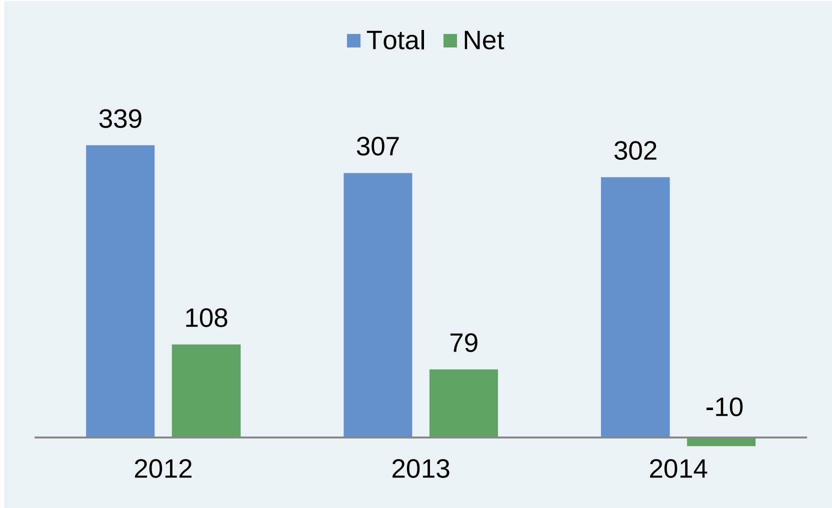
ECB's BOND MARKET CONTACT GROUP
Frankfurt am Main, 22 January 2013

Eurozone Sovereign funding

Issuance is expected to be smoothly absorbed by the market due to supportive factors across the credit spectrum.



AAA/AA, €bn



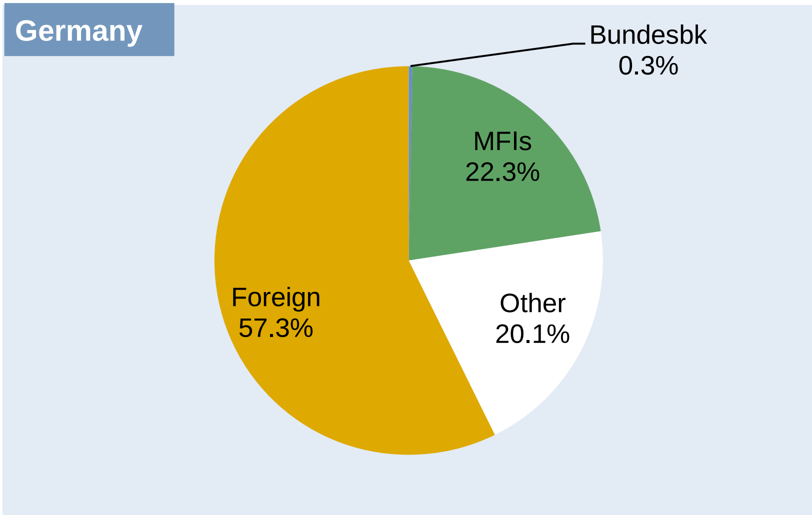
<AA, €bn

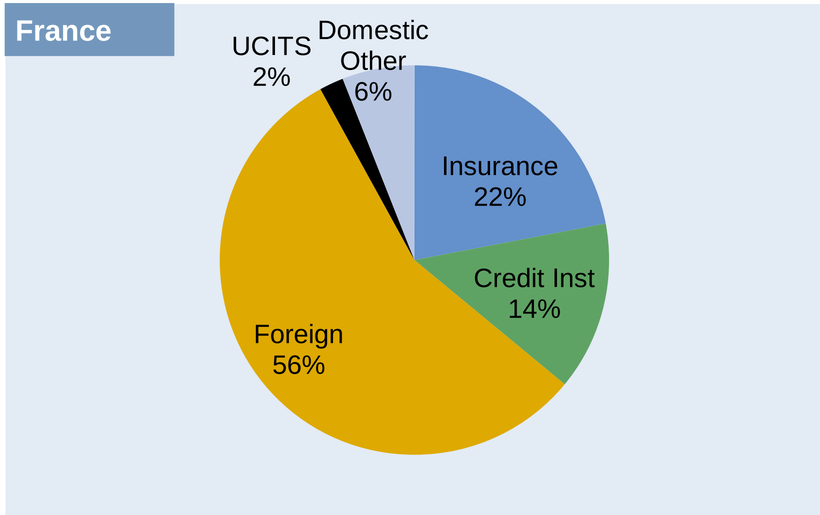
- Net supply down by 32%
- ESM likely buyer, investing paid-in capital
- Asian CB buying expected to continue
- Regulations proposing banks post IM against OTC derivatives

- Net supply down 27%
- OMT program provides a back stop
- Non resident flows positive
- Non traditional investors (credit funds etc) buying due to attractive spreads

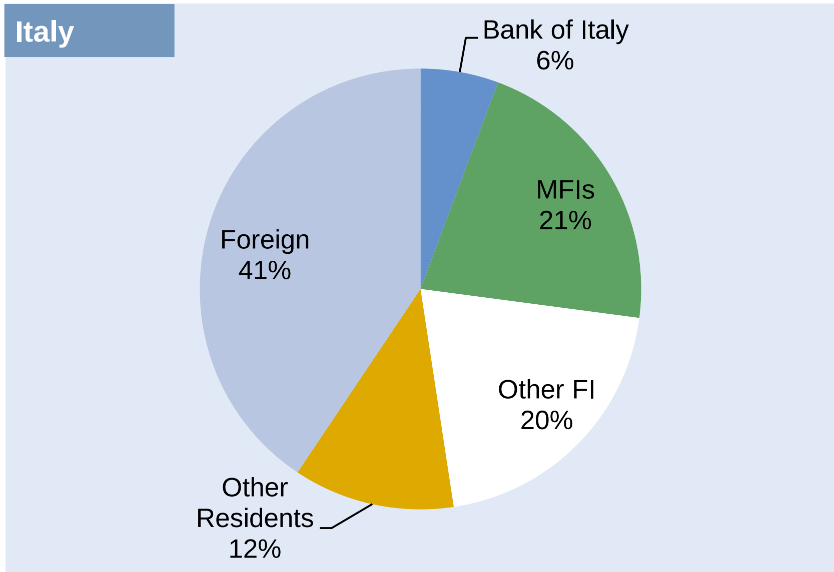
Sources of demand – Holdings of debt

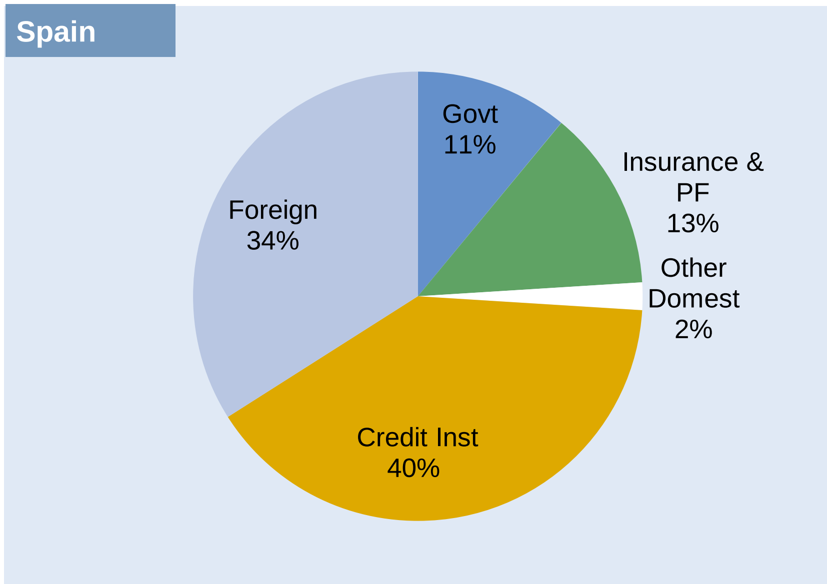
France and Germany account for 75% of the AAA/AA issuance





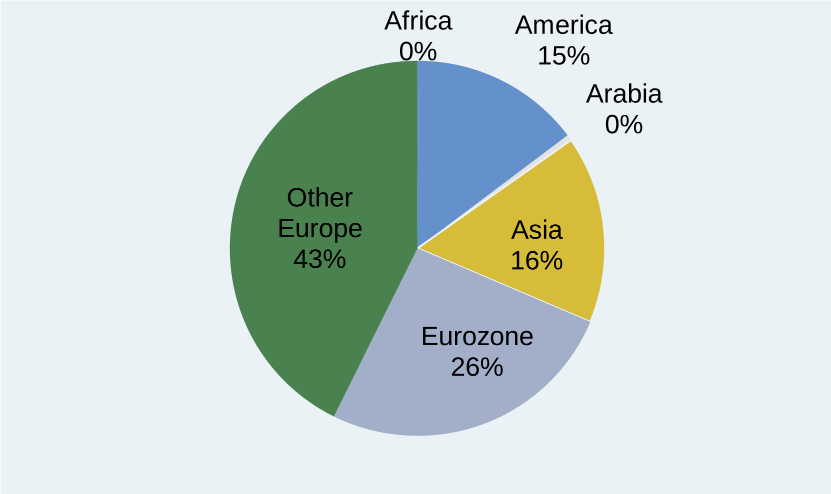
Italy and Spain account for 90% of the <AA issuance

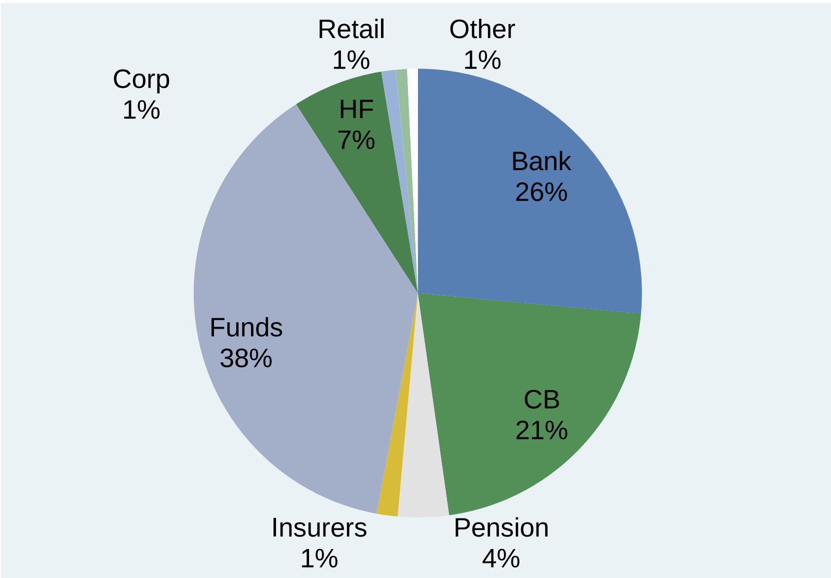




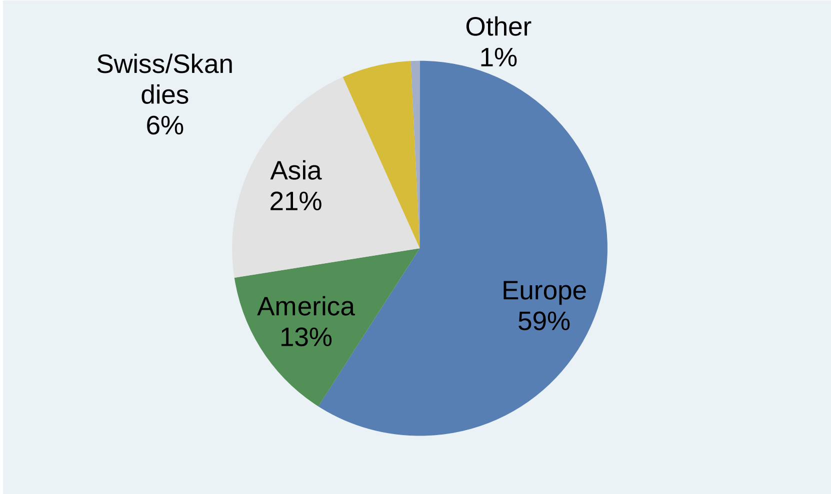
Sources of demand – Secondary market activity

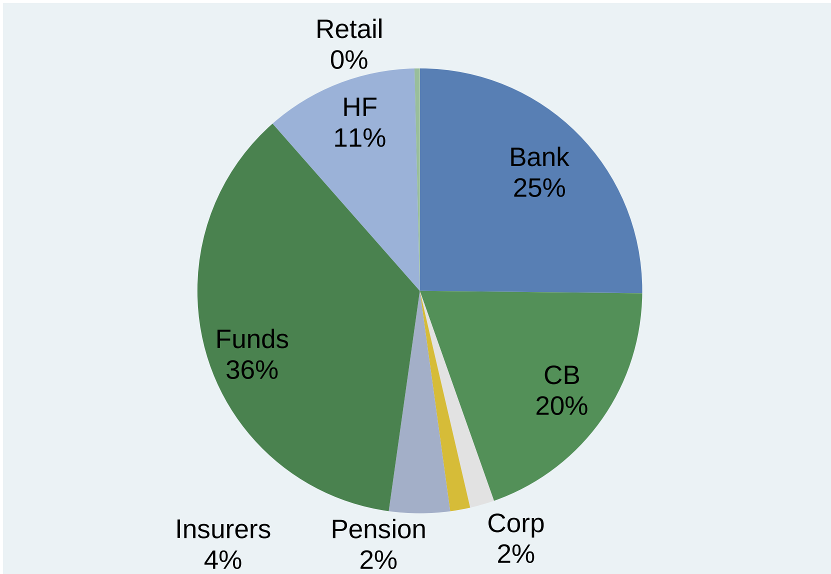
Germany





France





Risks

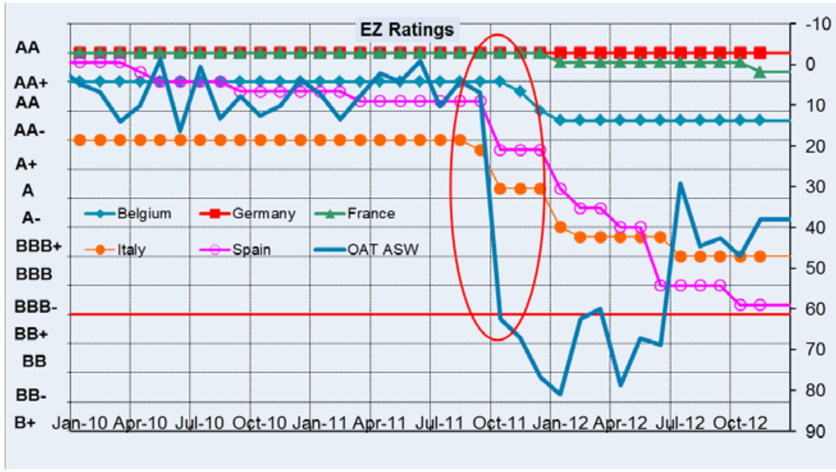
- **Political**
  - Italian election
  - German election
  - Social tension in Greece / Spain due to protracted recession
- **Rating downgrades**
  - Spain 2 notches from junk
  - Greece/Portugal still far from being on a sustainable trajectory
  - Potential further action on AAA/AA countries
- **Further round of OSI / PSI**
- **Economic outlook worsens**

Euro Government Debt and ratings agencies

Eurozone country ratings: Change since Jan 2010

Country	Jan-10 Moody's	Jan-10 S&P	Jan-10 Fitch	Jan-13 Moody's	Jan-13 S&P	Jan-13 Fitch	Av Rating cut since 2010
Ger/Fin/Nether	AAA	AAA	AAA	AAA	AAA	AAA	0 notche
Austria	AAA	AAA	AAA	AAA	AA+	AAA	0.33 notches
France	AAA	AAA	AAA	AA+	AA+	AAA	0.66 notches
Belgium	AA+	AA+	AA+	AA-	AA	AA	1.33 notches
Spain	AAA	AA+	AAA	BBB-	BBB-	BBB	8.3 notches
Italy	AA	A+	AA-	BBB	BBB+	A-	4 notches
Portugal	AA	A+	AA	BB	BB+	BB	8 notches
Ireland	AA+	AA	AA-	BB+	BBB+	BBB+	6 notches
Slovenia	AA	AA	AA	BBB	A	A-	4 notches

Ratings & OAT ASW: Non-core impacts AAA/AA sentiment



- With the exception of Germany, Finland and the Netherlands, all eurozone sovereign debt has faced rating downgrades since the start of the Greek crisis three years ago.
- France, like Austria, saw a one-notch downgrade from one rating agency only (S&P on 13 January) and the former faced another one notch downgrade from Moody's in November 2012.
- Contagion risk is real. In October 2011 the series of downgrades for Italy and Spain triggered selling in France and the OAT asset swap widened by 70bp.

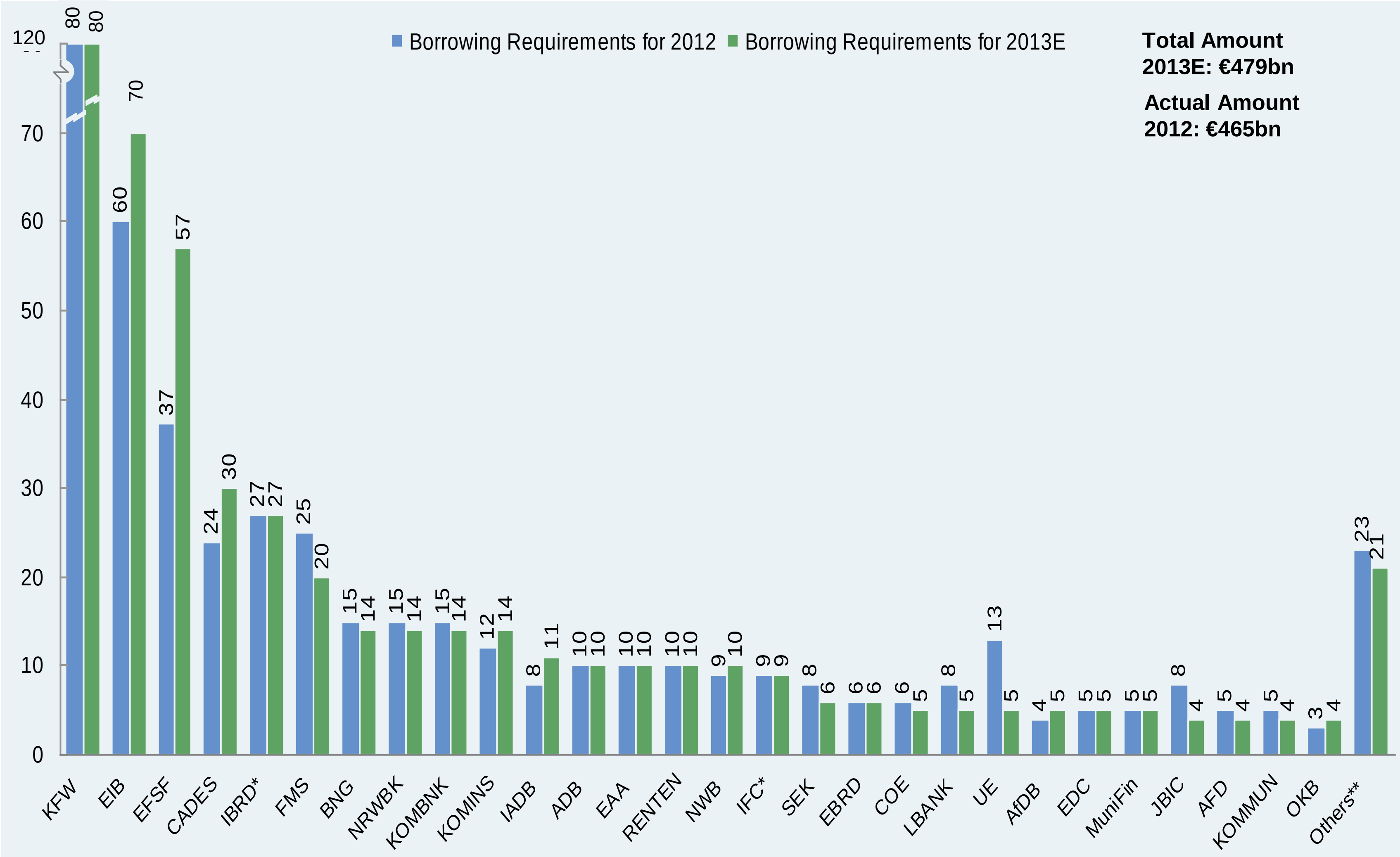
Liquidity

- **Divergence since crisis has increased balance sheet needs of dealers**
- **Dealers forced to shrink balance sheet limiting ability to carry inventory**
- **Basel 2.5 Incremental Risk Capital (IRC) punitive for lower rated debt held in trading books**
- **Behaviour of investors highly correlated often resulting in one-way markets**

Agenda

In the Supra/ Agency space, most issuers will stay consistent in their borrowing needs for 2013 compared to 2012

Estimated gross borrowing needs by top European agencies and European/ US supras for 2012/ 2013 in €bn

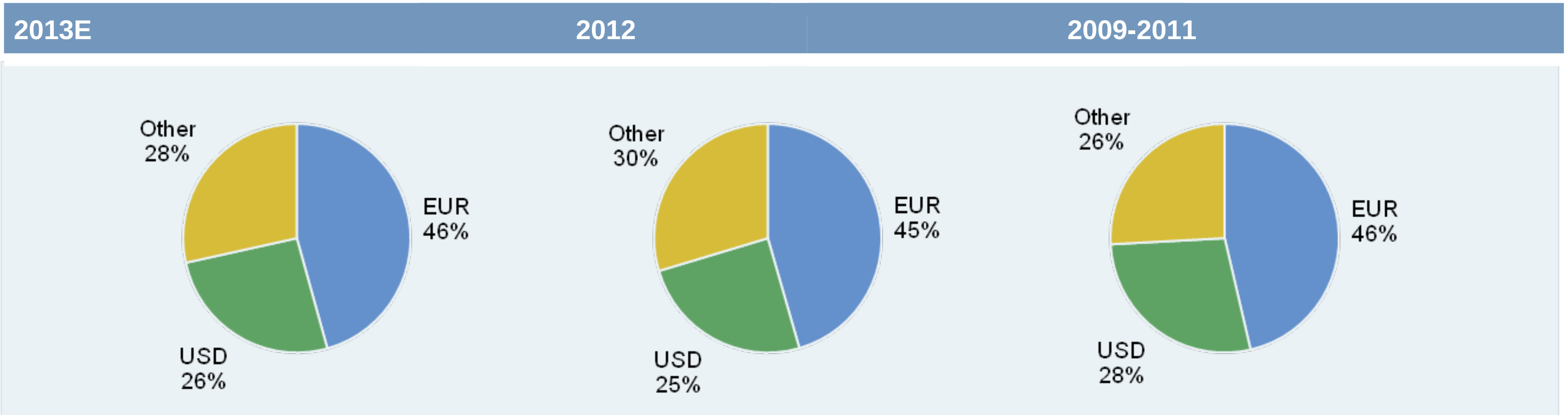


Source: J.P. Morgan estimates

Note: *Fiscal year ends 30th June 2012

**Others includes Asfinag, BoE, CDC, DBJ, Eurofima, FMO, JFM, NIB, OEBB, RATP, Resfer, SNCF

Evolution of SSA issuances' currency mix over the years



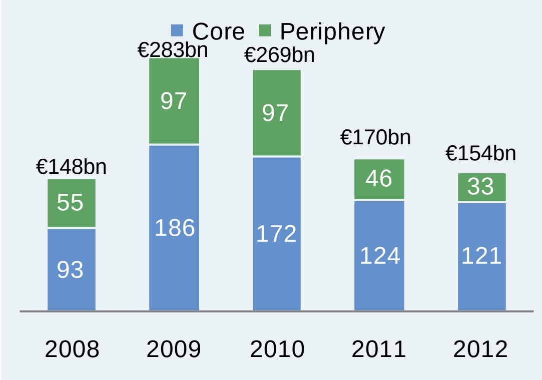
Source: J.P. Morgan & Dealogic as of 10th January 2013

- Funding risks are reduced by continued access to global capital markets, offering diversification and reduced single market dependencies
- Beneficiaries of flight to quality and regulatory changes (LCR)
- Key product for global Central Banks
- Fixed Income bear market could reduce attractiveness of SSA market compared to core Eurozone govies

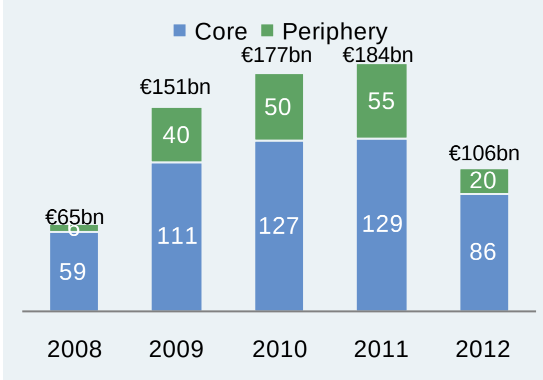
Agenda

Bank Funding–Recent issuance trends

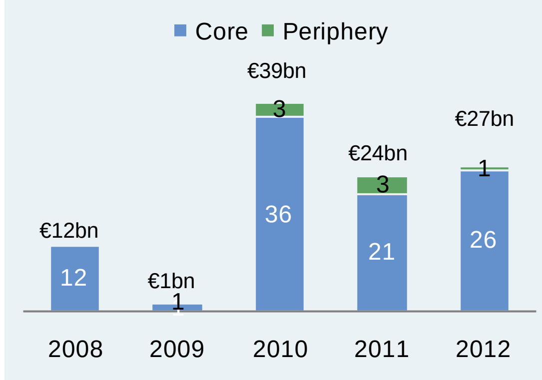
Distributed senior unsecured, €bn



Distributed covered bonds, €bn

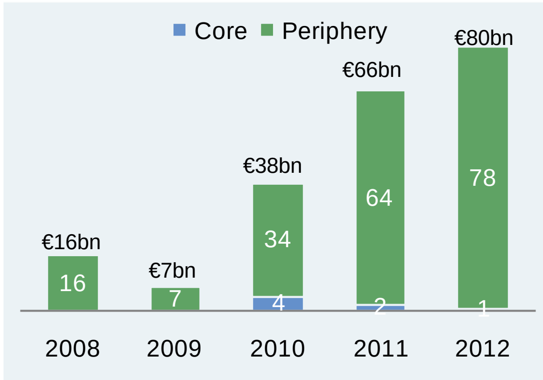


Distributed securitisation, €bn

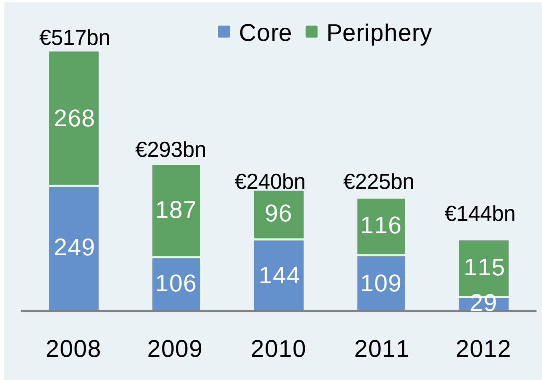


- **Senior**: Issuance declined due to deleveraging, market access precluded by uneconomic spreads (vis-a-vis CB or official sector alternatives)
  - Durations have shortened:
    - Core: 5.52yr (‘07) to 5.06yr (‘12)
    - Periphery 4.19yr (‘07) to 3.29yr (‘12)
- **Covered**: Distributed issuance declined due to LTRO, and peripheral exclusion from the market. Earlier stresses during the banking crisis
  - Durations have shortened:
    - Core: 11.09yr (‘07) to 7.14yr (‘12)
    - Periphery 12.56yr (‘07) to 4.90yr (‘12)
- **Securitisation**: Distributed issuance driven by Dutch RMBS. Earlier periods saw significant retained collateral creation across both geographic groupings.

Retained covered bonds, €bn



Retained securitisation, €bn



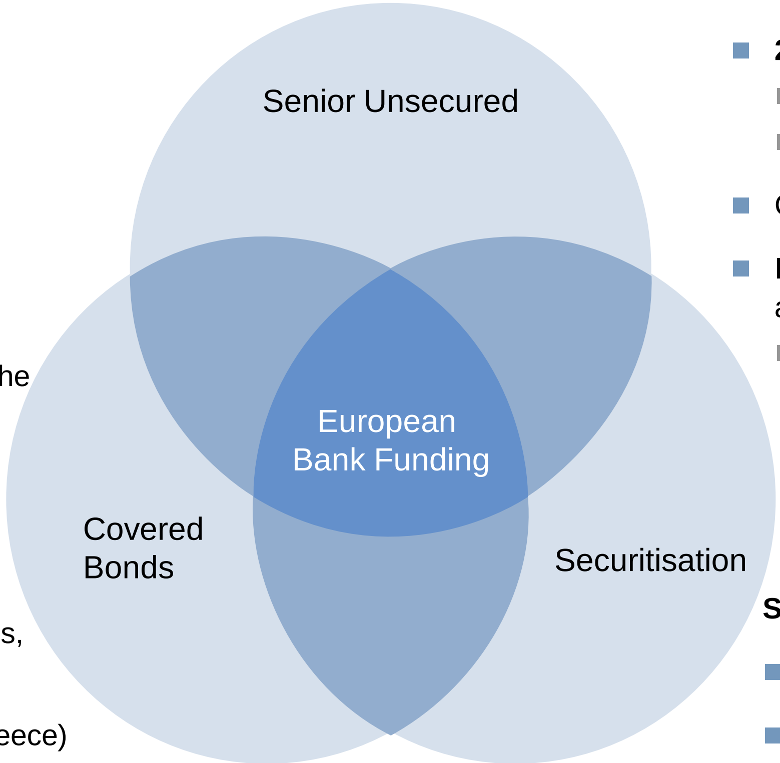
Notes:
Core defined as ‘Eurozone, non-periphery’. Periphery defined as Greece, Ireland, Italy, Portugal and Spain.

Sources:
Senior Unsecured data sourced from Dealogic.
Covered Bond data sourced from Dealogic. Issuance defined as benchmark transactions (€>500mm) only
Securitisation data sourced from J.P. Morgan

Bank Funding−2013 Outlook for issuance

Covered Bonds

- More normalised year for issuance
- Lower diversion to collateral to the official sector
  - Stabilisation in the peripheral markets
  - Lower single name stresses in the Core
- **2013 Forecast**: €150bn (€106bn)
  - Core €110bn (€86bn)
  - Periphery €40bn (€20bn)
- French names to have better access, helping Core
- Issuance from all Periphery (ex. Greece)



Senior Unsecured

- Lower utilisation of LTRO as peripheral issuers regain market access
- **2013 Forecast**: €170bn (€154bn)
  - Core €120bn (€121bn)
  - Periphery €50bn (€33bn)
- Core issuance stable
- Increase largely driven by additional peripheral access
  - Not representative of balance sheet growth but rather ECB usage replaced with distributed issuance

Securitisation

- No significant change in issuance patterns
- 'More of the same': same assets, same jurisdictions, same issuers
  - Italy to return to primary, but in small notionals
  - ALM mismatch in Spain to preclude most issuance
- **2013 Forecast**: €35bn (€27bn)
  - Core €30bn (€26bn)
  - Periphery <€5bn (€1bn)

Source: J.P. Morgan European ABS & CB Research.

Agenda

Discussion items

- Can Spain make it alone
- Italian election
- US Fiscal Cliff
- Need for further OSI/PSI and how to resolve Cyprus
- How can Peripheral Banks meaningfully reduce their dependency on Official funding