

# GLOBAL OUTLOOK FOR PUBLIC & PRIVATE SECTOR BOND ISSUANCE

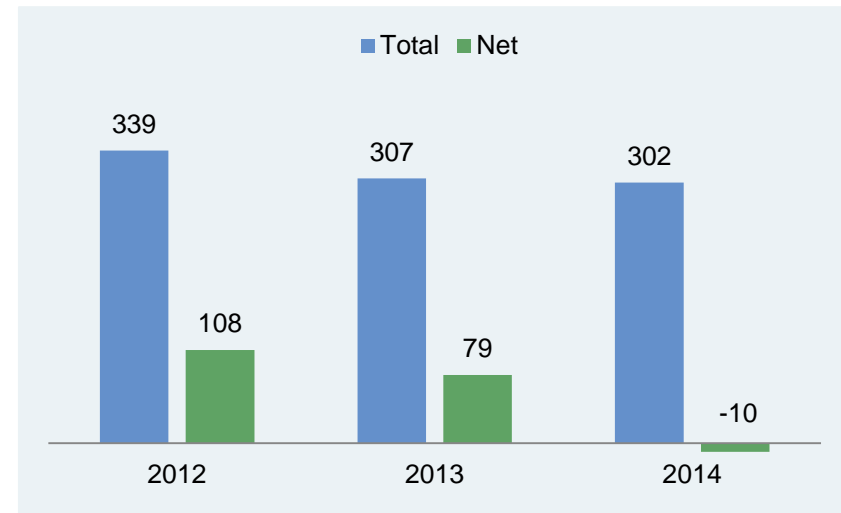
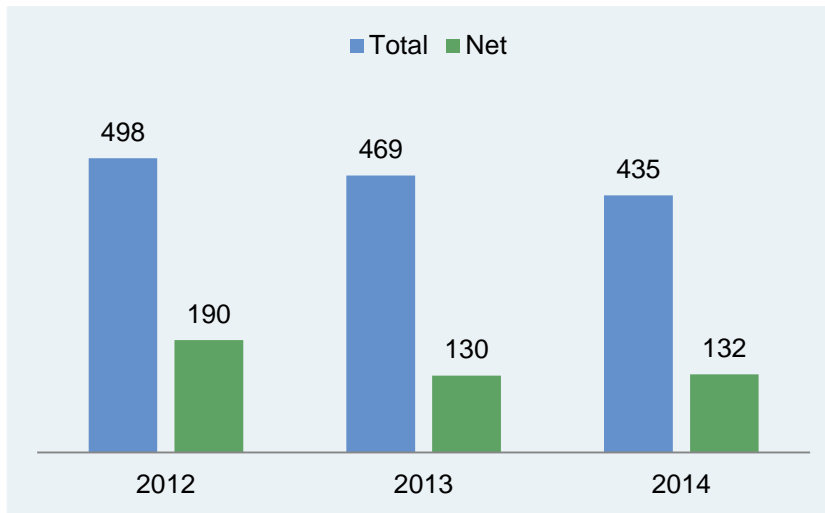
Adrian Averre, BNP Paribas  
Carl J Norrey, JP Morgan

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

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# Eurozone Sovereign funding

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



## AAA/AA, €bn

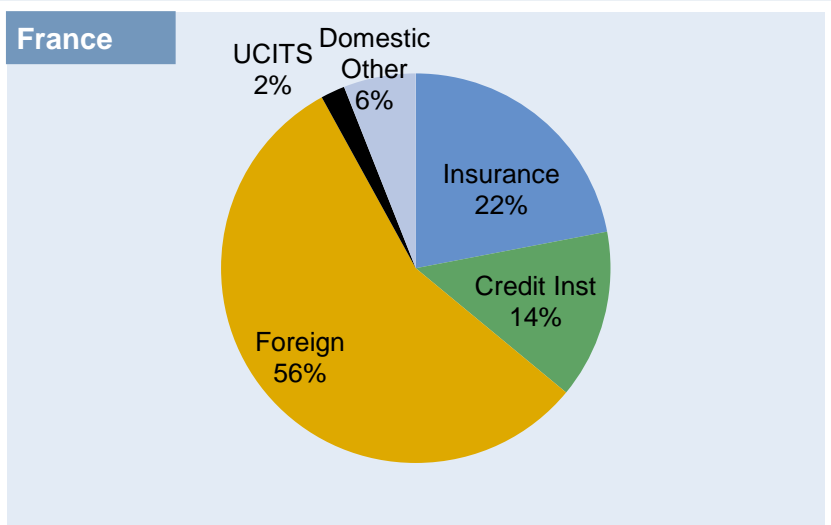
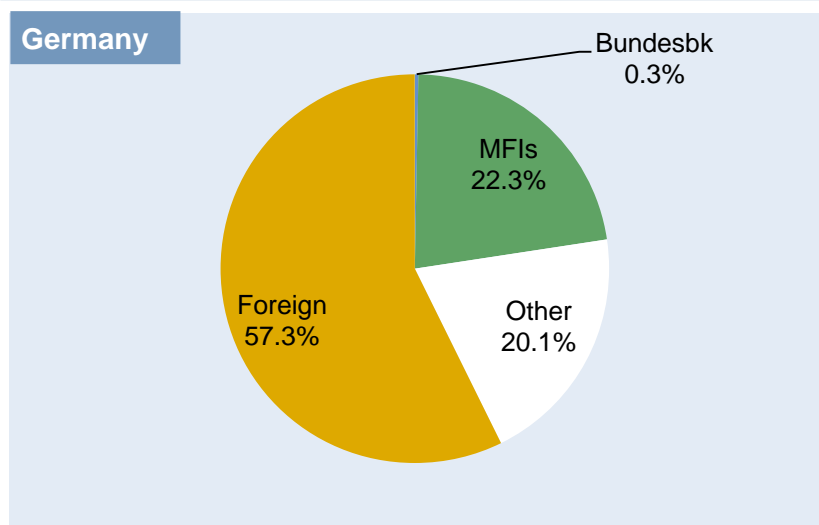
- Net supply down by 32%
- ESM likely buyer, investing paid-in capital
- Asian CB buying expected to continue
- Regulations proposing banks post IM against OTC derivatives

## <AA, €bn

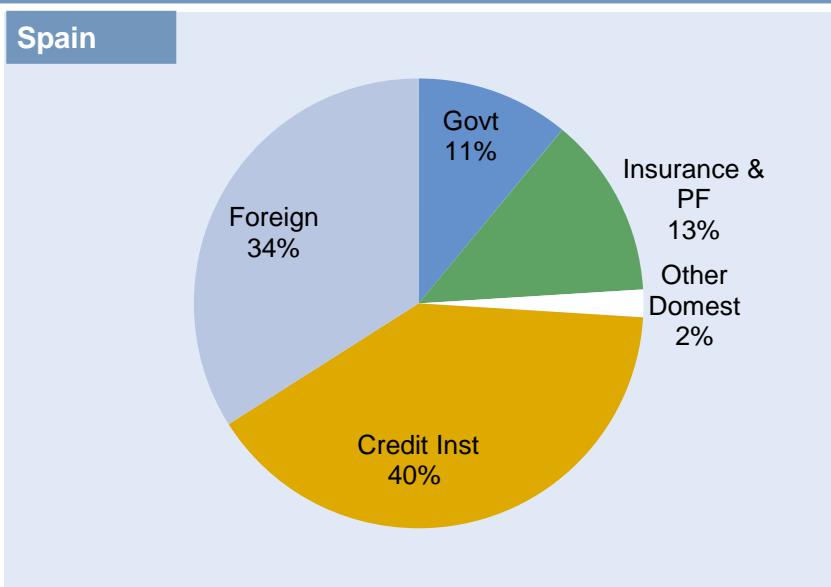
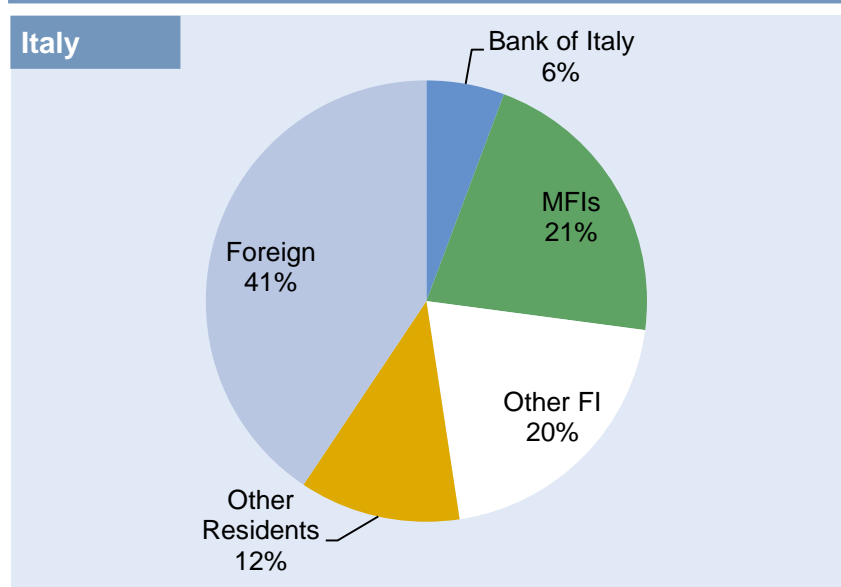
- Net supply down 27%
- OMT program provides a back stop
- Non resident flows positive
- Non traditional investors (credit funds etc) buying due to attractive spreads

# Sources of demand – Holdings of debt

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

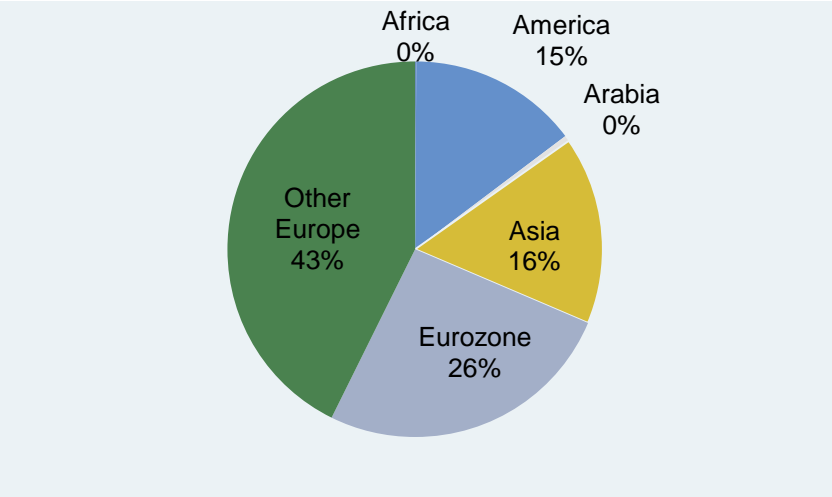


## Italy and Spain account for 90% of the <AA issuance

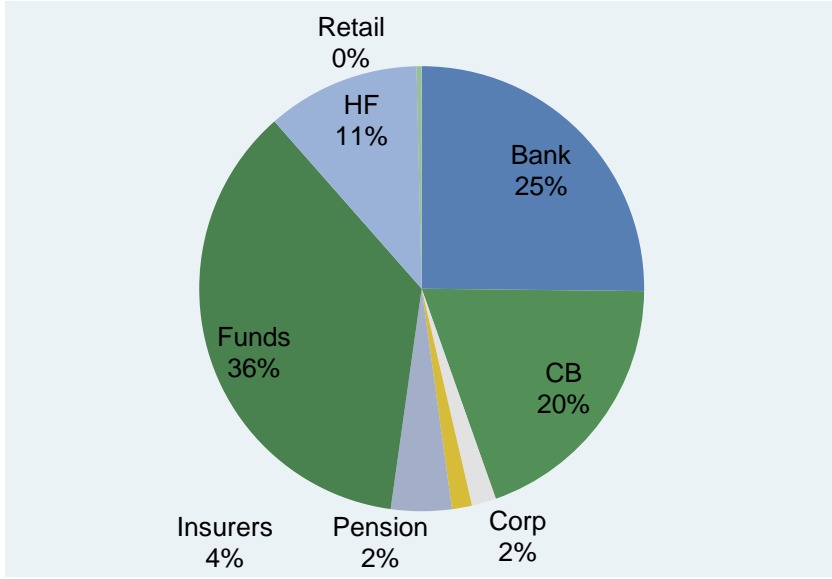
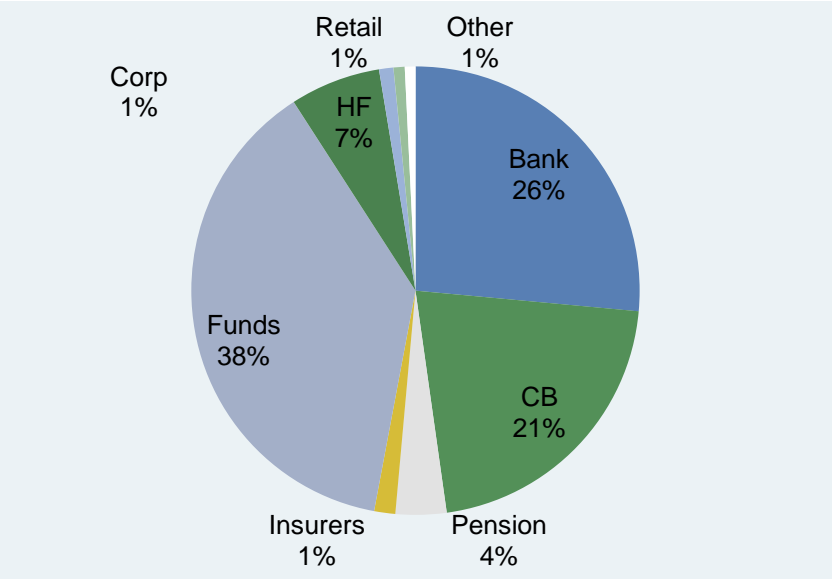
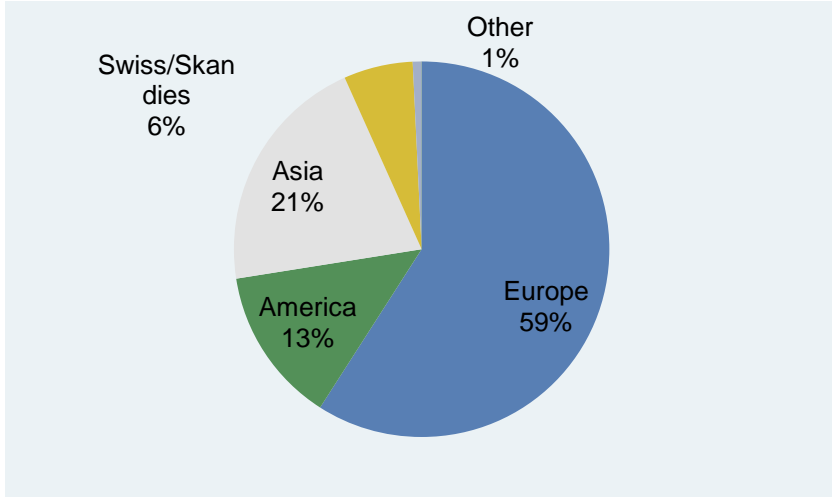


# Sources of demand – Secondary market activity

Germany



France



# Risks

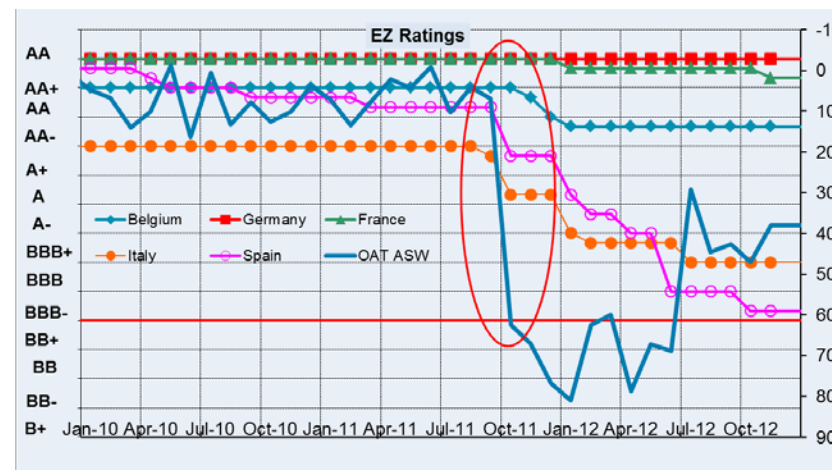
- **Political**
  - Italian election
  - German election
  - Social tension in Greece / Spain due to protracted recession
  
- **Rating downgrades**
  - Spain 2 notches from junk
  - Greece/Portugal still far from being on a sustainable trajectory
  - Potential further action on AAA/AA countries
  
-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

# Euro Government Debt and ratings agencies

## Eurozone country ratings: Change since Jan 2010

Country	Jan-10			Jan-13			Av Rating cut since 2010
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	
Ger/Fin/Nether	AAA	AAA	AAA	AAA	AAA	AAA	0 notches
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**



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Bank Funding – Issuance trends and outlook

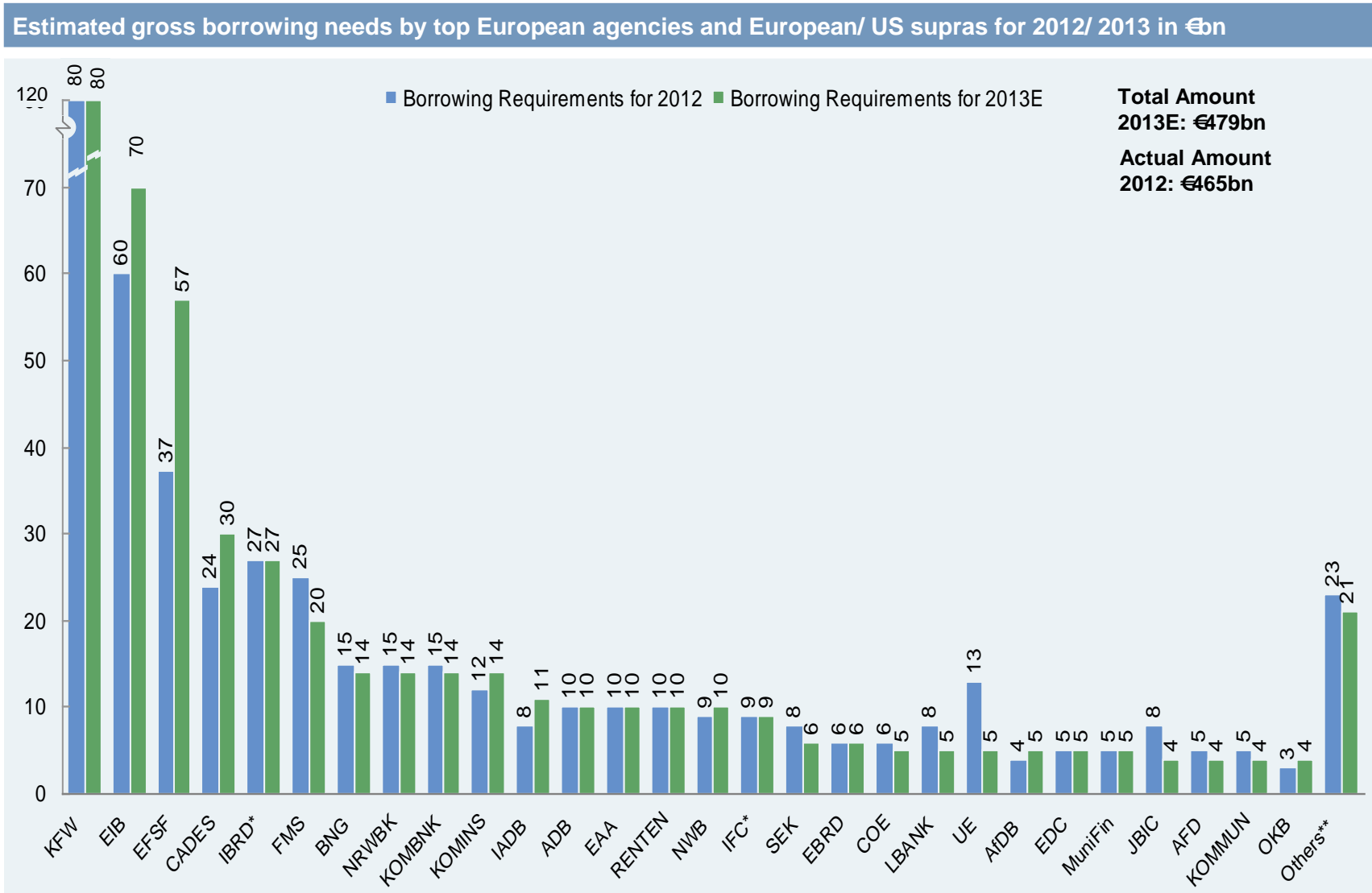
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# In the Supra/ Agency space, most issuers will stay consistent in their borrowing needs for 2013 compared to 2012

SUPRANATIONAL, SOVEREIGN AND AGENCIES - 2013 ISSUANCE ESTIMATES

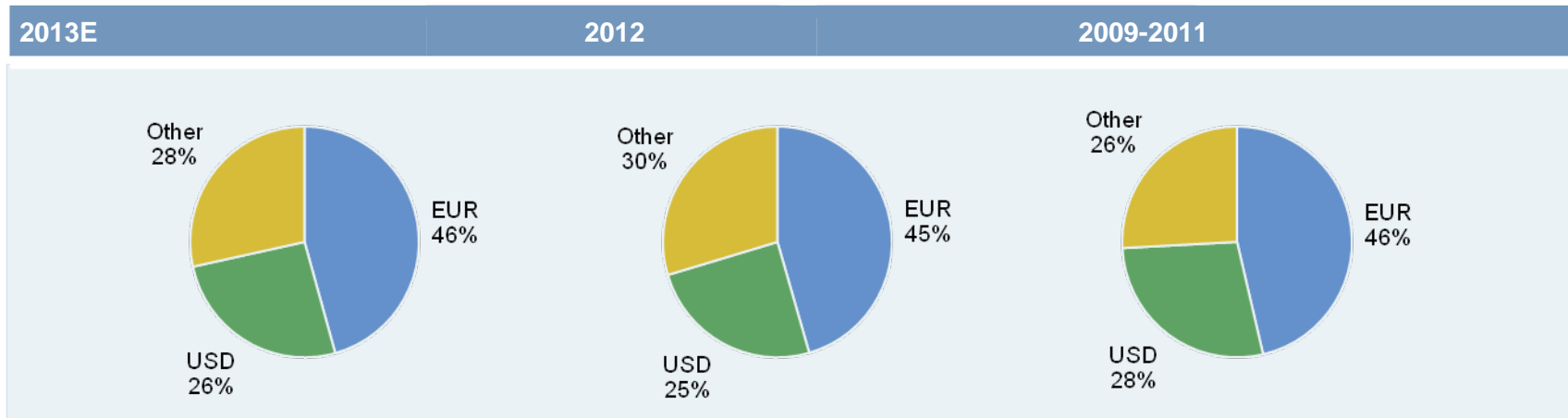


Source: J.P. Morgan estimates

Note: \*Fiscal year ends 30<sup>th</sup> 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 10<sup>th</sup> 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

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**Bank Funding – Issuance trends and outlook**

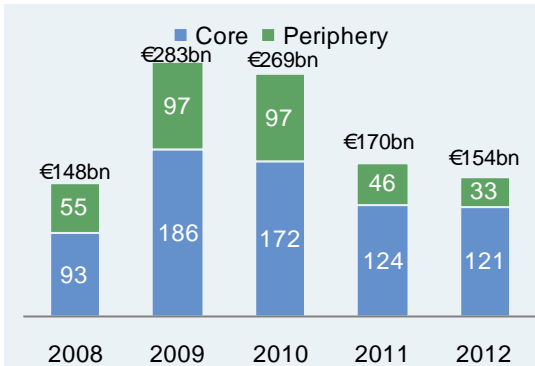
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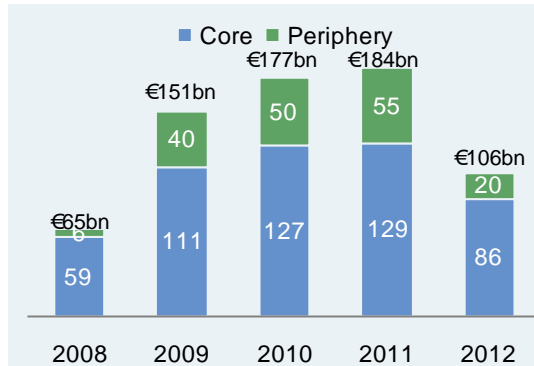
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# Bank Funding–Recent issuance trends

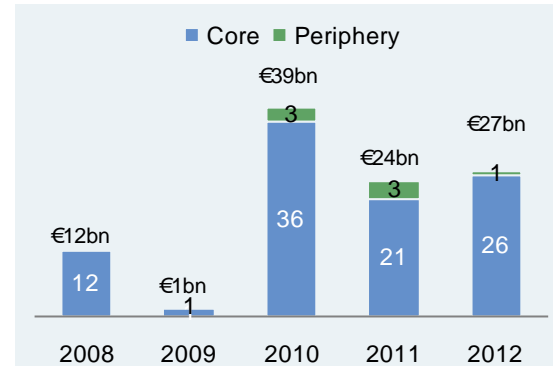
**Distributed senior unsecured, €bn**



**Distributed covered bonds, €bn**

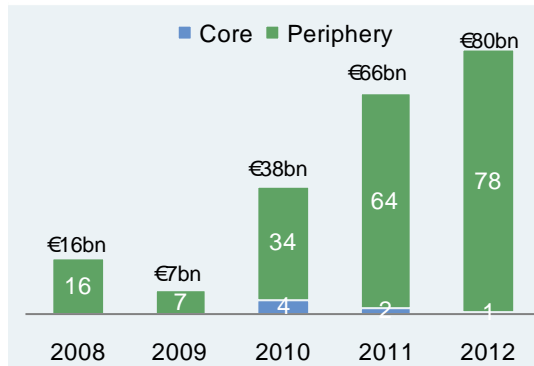


**Distributed securitisation, €bn**

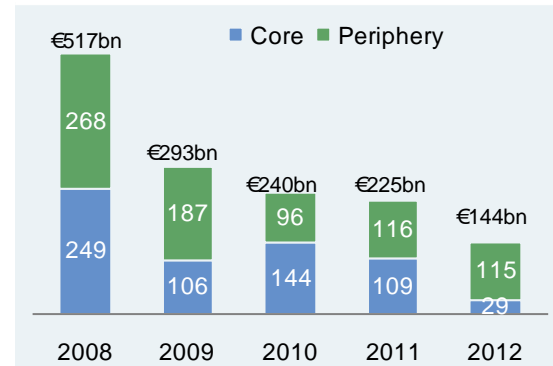


- **Senior:** Issuance declined due to deleveraging, market access precluded by uneconomic spreads (vis-a-vis CB or official sector alternatives)
  - Durations have shortened:
    - Core: 5.52yr ('07) to 5.06yr ('12)
    - Periphery 4.19yr ('07) to 3.29yr ('12)
- **Covered:** Distributed issuance declined 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.

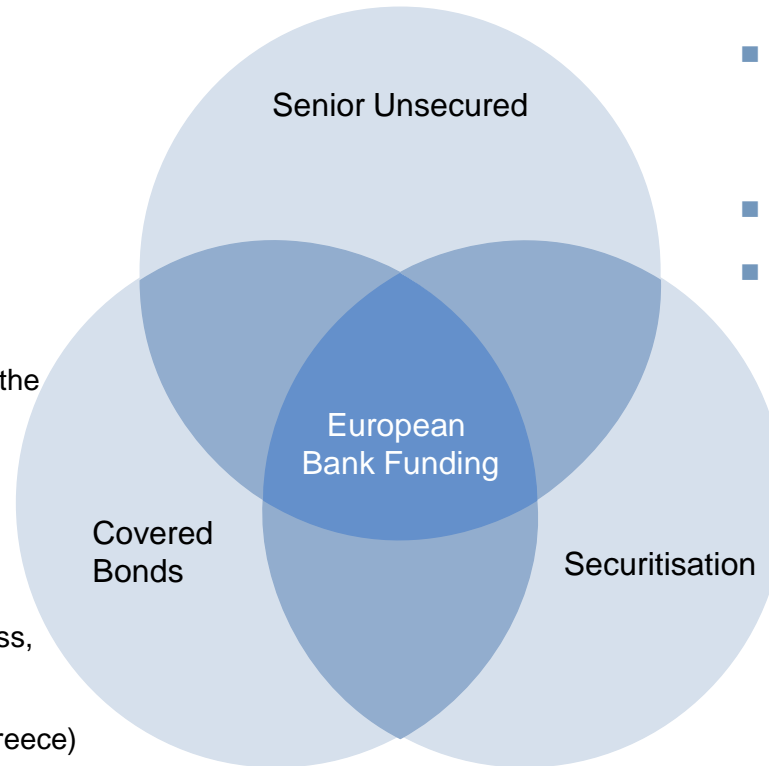
**Sources:**

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.

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## 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