



Bond market outlook, issuance and other topics

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A look back, a look forward

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The story of 2015

Main levels, quarterly history for 2015

	CQ1 2015	CQ2 2015	CQ3 2015	CQ4 2015	Current [†]
ECB Deposit Facility Rate	-0.20%	-0.20%	-0.20%	-0.30%	-0.30%
ECB Main Refinancing Rate	0.05%	0.05%	0.05%	0.05%	0.05%
ECB Marginal Rate	0.30%	0.30%	0.30%	0.30%	0.30%
ECB Balance Sheet	€2,251bn	€2,540bn	€2,621bn	€2,768bn	€2,781bn
ECB Excess Liquidity	€273bn	€396bn	€503bn	€661bn	€661bn
3m Euribor	0.019%	-0.014%	-0.040%	-0.131%	-0.143%
3m Euribor-EONIA spread	11.5bp	10.6bp	10.4bp	10.7bp	11.3bp
Repo Funds Rate Germany	-0.159%	-0.237%	-0.240%	-0.443%	-0.368%
Repo Funds Rate Italy	-0.049%	-0.109%	-0.181%	-0.280%	-0.284%
2y Germany*	-0.25%	-0.23%	-0.25%	-0.35%	-0.39%
5y Germany*	-0.10%	0.07%	-0.01%	-0.05%	-0.15%
10y Germany*	0.18%	0.76%	0.59%	0.63%	0.55%
10y France-Germany spread*	29.4bp	42.9bp	39.8bp	35.8bp	32.4bp
10y Italy-Germany spread*	105.9bp	156.8bp	113.7bp	96.4bp	99.9bp
10y Spain-Germany spread*	102.7bp	153.5bp	130.3bp	113.8bp	120.9bp
Italy 5y CDS (USD)	115.7bp	110.9bp	119.8bp	98.8bp	102.9bp
Spain 5y CDS (USD)	94.4bp	89.9bp	107.7bp	91.5bp	95.8bp
Euro STOXX 50	3731.35	3625.97	3079.99	3284.47	2999.47
EUR-USD	1.0924	1.1167	1.1186	1.0963	1.0917

Source: HSBC, Bloomberg

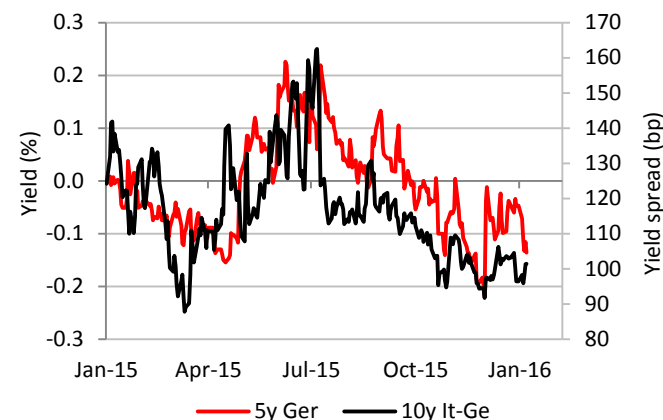
*Note: Bloomberg generic benchmark yields used

†Note: As of 14 January 2016

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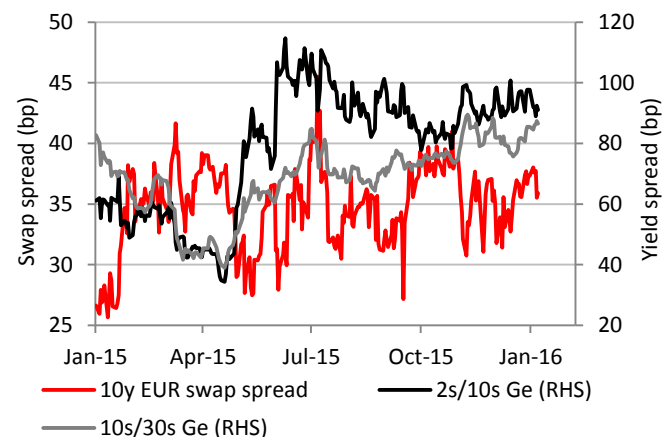
5y German* yield and 10y Italy-Germany* spread



Source: HSBC, Bloomberg

Data as of 14-Jan-16

EUR swap spread and German* curve spreads



Source: HSBC, Bloomberg

Data as of 14-Jan-16

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HSBC Economics forecasts

Growth to remain subdued over forecast horizon, inflation to rebound in 2016 due to base effects

% (Year)	GDP			Inflation		
	2015 (f)	2016 (f)	2017 (f)	2015 (f)	2016 (f)	2017 (f)
World	2.6	2.7	3.0	3.0	3.2	3.4
Developed	1.9	2.0	1.8	0.3	1.2	1.8
Emerging	3.5	3.6	4.4	4.8	4.5	4.3
US	2.5	2.3	2.2	0.1	1.5	2.1
UK	2.2	2.4	2.3	0.0	1.0	1.7
Eurozone	1.5	1.5	1.5	0.0	0.5	1.3
Japan	0.6	1.3	0.4	0.9	0.9	2.4
Brazil	-3.6	-2.8	1.0	8.9	7.0	5.5
Russia	-4.0	-0.9	1.0	15.6	8.0	6.1
India	7.3	7.5	7.5	5.0	5.5	5.0
China	7.0	6.7	6.7	1.4	1.0	0.9

Source: HSBC Economics and Fixed Income Research estimates (see 'The Great Escape', HSBC Global Economics, Q1 2016)

- Fed has finally achieved lift-off, but how long will the tightening cycle be?
- The dichotomy between a relatively healthy US economy versus concerns elsewhere remains the key discussion point
- Euro-zone is likely to benefit from loose monetary policy and be an assist to global growth
- Lack of inflation remains the most significant drag...
- ...global deflationary forces could yet force the Fed to make the 'great reversal'

Rate and bond yield forecasts highlight diverging monetary paths, yet contained rises in yields

% Year	3-month money			10-year bond yield		
	2015	2016(f)	2017(f)	2015	2016(f)	2017(f)
US	0.5	1.0	1.5	2.3	1.5	2.0
Germany	-0.3	-0.4	-0.4	0.6	0.2	0.4
France	-0.3	-0.4	-0.4	1.0	0.4	0.6
Italy	-0.3	-0.4	-0.4	1.6	0.9	1.1
Spain	-0.3	-0.4	-0.4	1.8	0.9	1.1

Source: HSBC Economics and Fixed Income Research estimates (see 'The Great Escape', HSBC Global Economics, Q1 2016)

Note: *Fiscal year; ** Period end

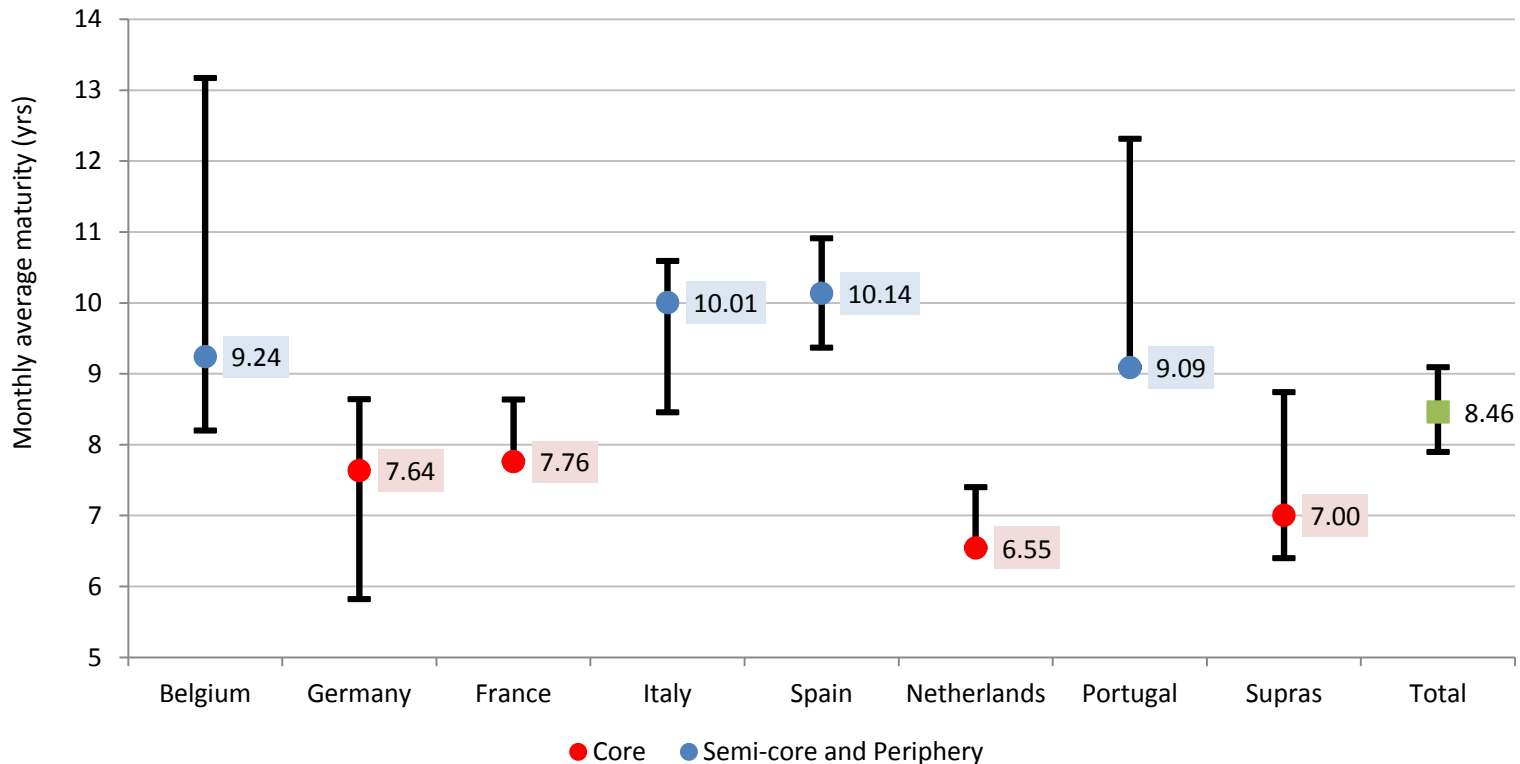
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Historical range of average PSPP purchase maturities

Ranges for monthly average maturities of ECB and NCB QE purchases



Source: HSBC calculations, ECB website

Data as of 14-Jan-16

Note: March and April 2015 are averaged. A 1m drift is assumed each month

• Differentiated approach to the average maturity of PSPP purchases

- Tiering effect with higher levels for semi and peripherals versus core...
- ...comparing to average life of Bloomberg/EFFAS indices, purchases in Italy and Spain have been substantially above, whereas for Netherlands it has been below

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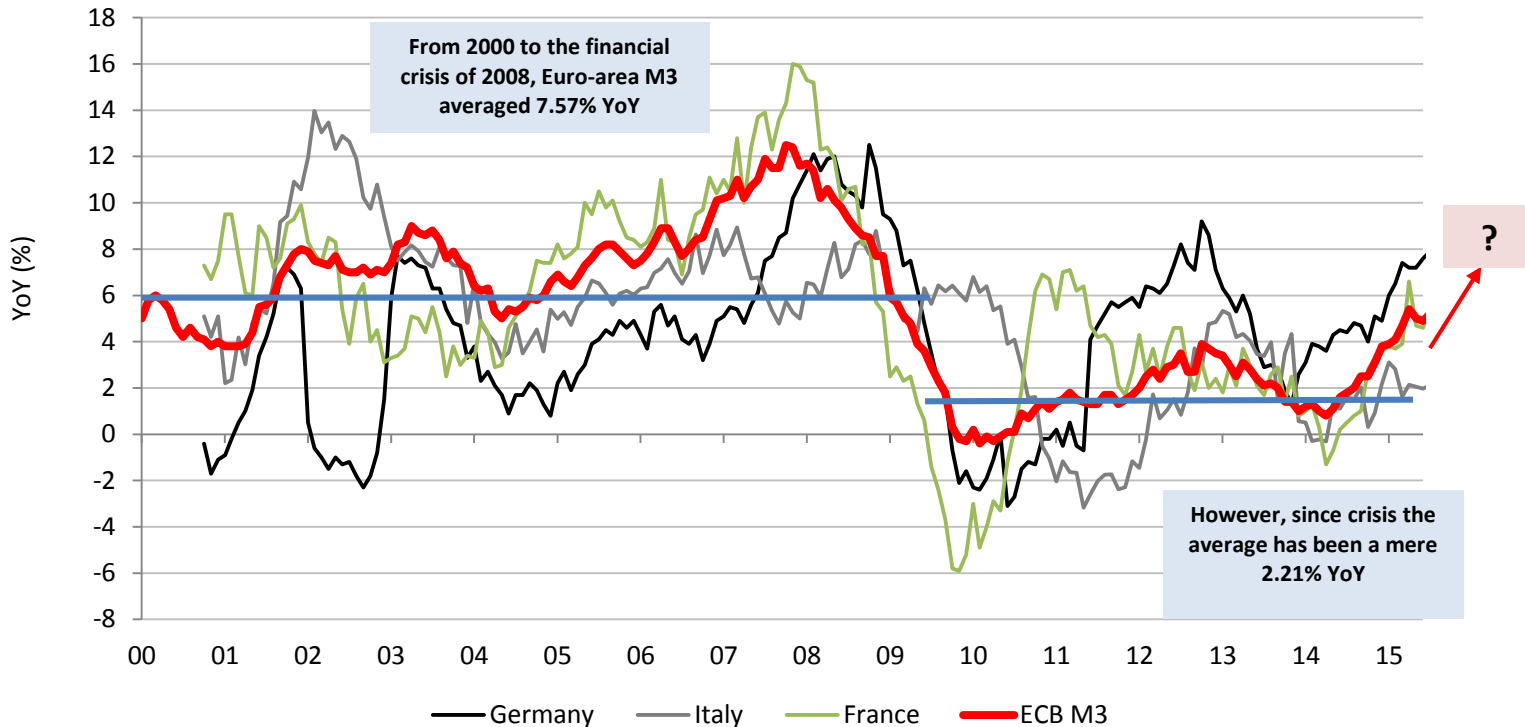
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Building block for ECB QE achievement...M3 growth increasing

M3 growth has rebounded following introduction of ECB QE



Source: HSBC, Bloomberg

Data as of 14-Jan-16

- **Growth in monetary aggregates highlights flow through into real economy**
 - EU M3 year-on-year growth is back to around 5%, the highest since the financial crisis
 - Pre-crisis average around 7.5% YoY...will it be possible to re-capture those kind of levels?
 - Implication would be that core inflation may have upside traction

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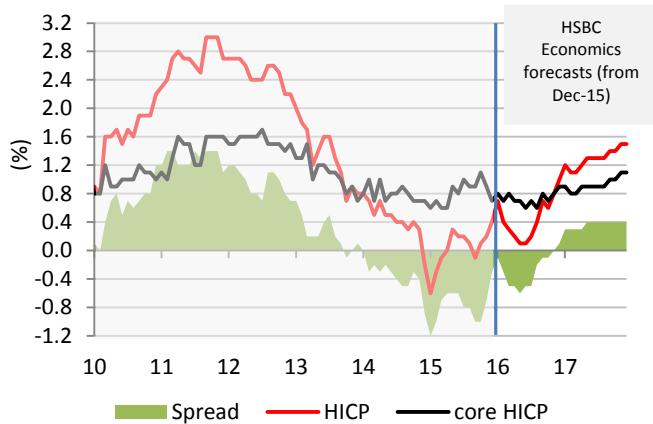
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HSBC 

Lack of inflation in the Eurozone

EU HICP headline, core and difference



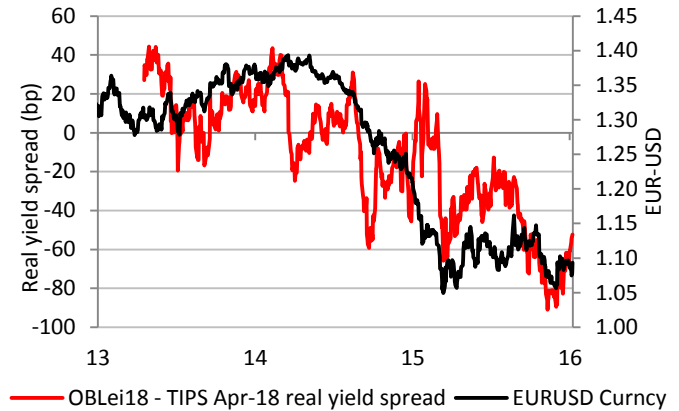
Source: HSBC, Bloomberg, HSBC Economics estimates (see 'Eurozone inflation briefing note', HSBC Global Economics, 16 December 2015)

Data as of 14-Jan-16

• When will Eurozone inflation rebound?

- Persistence of weaker inflationary outturns is an on-going issue for Eurozone and the ECB
- A weakening currency is a positive factor for the European economy, including providing the potential for upward impetus to inflation
- Additionally, headline HICP is below core due to base effects; however this is forecast to recede over coming months. Could this be a catalyst for stabilisation and some upward momentum for EU HICP?
- EU-US real rate differentials are affected by a weaker euro

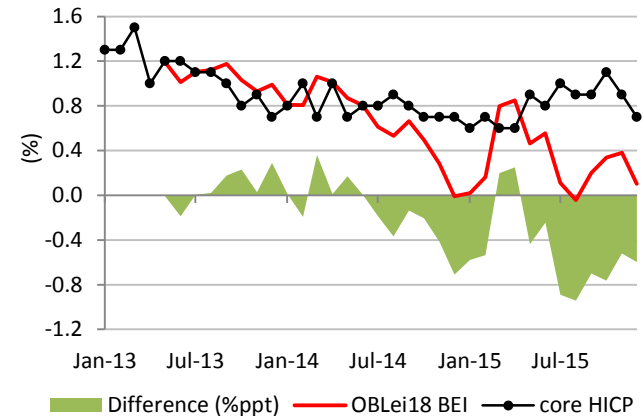
EU-US real rate difference and EUR-USD currency



Source: HSBC, Bloomberg

Data as of 14-Jan-16

OBLeI18 BEI, core HICP YoY and monthly spread



Source: HSBC, Bloomberg

Data as of 14-Jan-16

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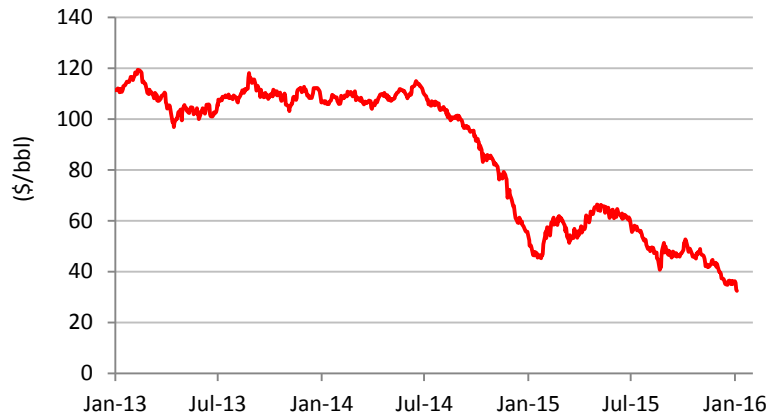
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Oil price decline, but also increased volatility

The 2015 oil price rebound has given way to further downside

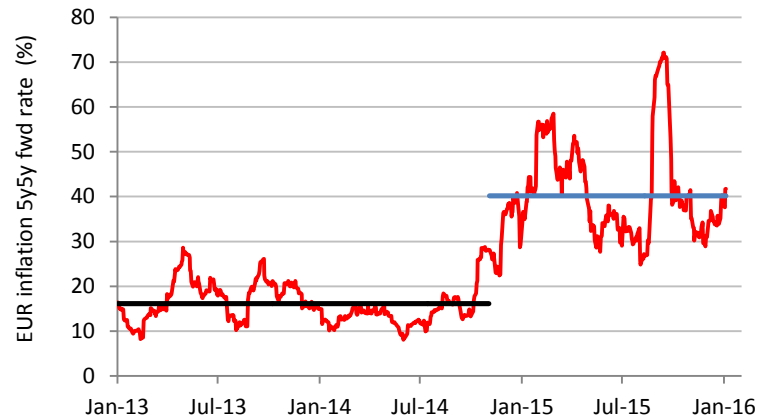


— Bloomberg European Dated Brent Forties Oseberg Ekofisk (BFOE) Price

Source: HSBC, Bloomberg

Data as of 14-Jan-16

Oil price volatility has risen 2.5-times, since early 2015, relative to the period since the start of 2013



— Dated Brent volatility (ann; %) — Average = 40.2 — Average = 16.1

Source: HSBC, Bloomberg

Data as of 14-Jan-16

• Oil renewed its slide

- Elevated geo-political tensions have failed to draw any upside response from the oil price
- Over supply versus demand is still the key driver
- Significant increase in oil price volatility in 2015 versus 2014

• What next?

- US exporting crude...when will Iran come back on-stream?
- ...will global growth turn the corner and create demand?

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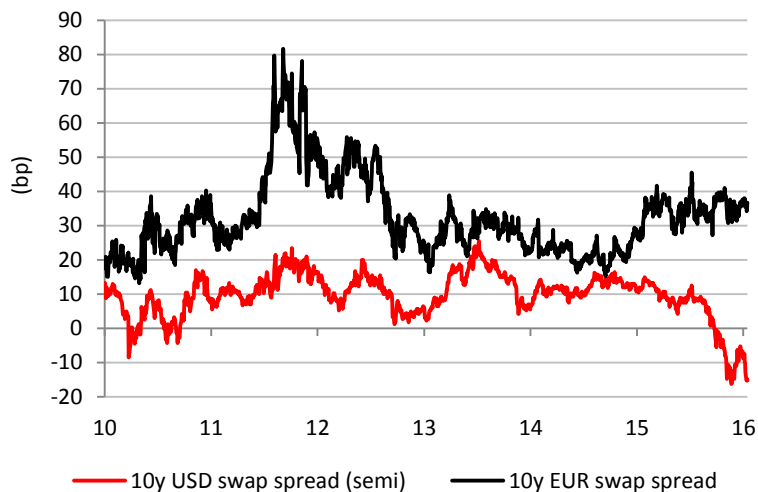
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HSBC 

Asynchronous global swap spread moves

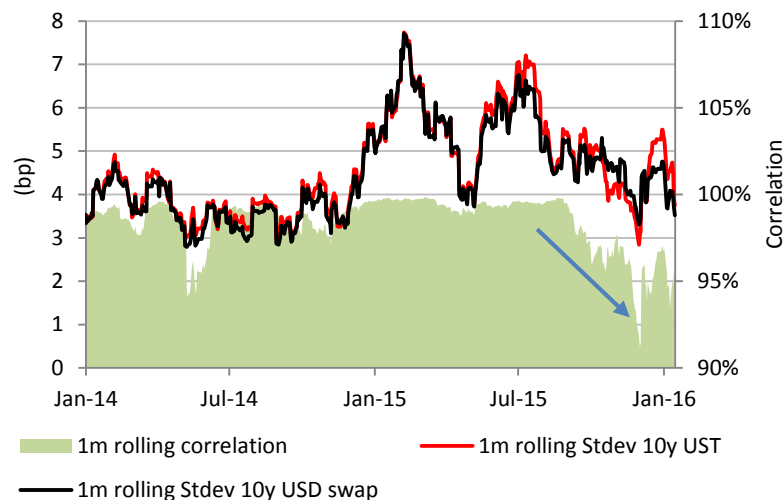
US and Euro-zone swap spreads diverged through the course of 2015



Source: HSBC, Bloomberg

Data as of 14-Jan-16

In the US, the volatility of daily changes of 10y UST and USD swap rates have seen lower correlation recently



Source: HSBC, Bloomberg

Data as of 14-Jan-16

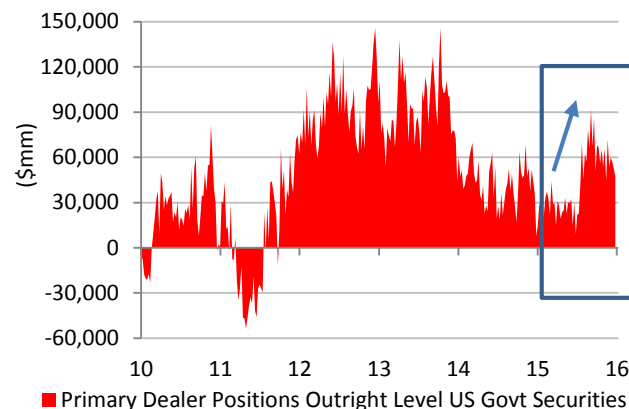
- **US swap spread tightening**

- Balance sheet constraint for the dealer community
- However, growth in dealer position through second half of 2015
- Strong issuance flow
- Shift in perception of swap 'credit' over recent years, given central clearing

- **Euro-zone spreads widening**

- Long-dated swap paying pressure

Primary dealer positioning



Source: HSBC, Bloomberg

Data as of 14-Jan-16

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Euro-zone gross issuance outlook

Gross Euro-zone issuance for 2016

Country/Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
IT	24.0	23.0	20.0	25.0	19.0	19.0	19.0	9.0	19.0	20.0	15.0	8.0	220.0
FR	21.0	20.0	20.0	20.0	20.0	20.0	20.0	7.0	20.0	20.0	18.0	7.0	213.0
DE	12.0	17.0	18.0	10.0	15.0	15.0	16.0	18.0	15.0	10.0	15.0	3.0	164.0
ES	15.0	12.0	13.0	10.0	10.0	10.0	10.0	8.0	10.0	10.0	9.0	8.0	125.0
NL	1.5	0.0	6.0	3.0	2.0	8.0	1.5	0.0	2.5	3.0	2.5	0.0	30.0
BE	5.0	3.0	3.0	4.0	3.0	3.0	3.0	0.0	4.0	3.0	2.5	0.0	33.5
AT	5.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	4.0	1.2	1.2	1.2	21.0
PT	4.0	2.0	1.0	3.0	1.0	1.0	1.0	0.0	1.0	3.0	1.0	0.0	18.0
IE	3.0	2.0	0.0	3.0	0.0	0.0	1.0	0.0	1.0	0.0	0.0	0.0	10.0
FI	0.0	4.0	0.0	2.0	0.0	0.0	3.0	0.0	2.0	0.0	2.0	0.0	13.0
GR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SK	1.2	0.2	0.2	0.2	0.9	0.2	0.0	0.0	1.2	0.2	0.2	0.0	4.5
SI	0.0	1.0	0.0	0.0	1.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	3.0
LT	0.2	0.1	0.0	0.2	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.0	1.0
LV	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.3
MT	0.0	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.4
LX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CY	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EZ	91.9	85.8	82.4	81.6	73.3	77.5	75.8	43.2	81.0	70.5	66.5	27.2	856.7

Source: HSBC Strategy estimates (see SSA Monitor, 8 January 2016), Official debt agencies

- **Lower gross issuance forecast**

- A decrease of over €60bn in gross issuance...
- ...especially for Italy, Spain and Netherlands

Euro-zone net issuance outlook

Net of redemptions Euro-zone issuance for 2016

Country/Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
IT	24.0	23.0	12.7	-3.6	5.3	17.3	5.6	-30.8	-6.8	2.0	2.6	-7.6	43.7
FR	21.0	-5.3	20.0	-10.3	20.0	20.0	-13.2	7.0	20.0	-6.5	6.3	7.0	86.0
DE	-11.0	1.0	5.0	-25.4	15.0	-1.8	-7.0	18.0	1.3	-6.0	15.0	-11.0	-6.9
ES	15.0	-8.6	13.0	-11.2	10.0	10.0	-7.1	8.0	10.0	-11.2	9.0	8.0	44.9
NL	1.5	0.0	6.0	-10.7	2.0	8.0	-12.9	0.0	2.5	3.0	2.5	0.0	2.0
BE	5.0	0.0	-4.6	4.0	3.0	3.0	3.0	0.0	-7.3	3.0	2.5	0.0	11.6
AT	5.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	-7.6	1.2	1.2	1.2	9.4
PT	4.0	-0.1	1.0	3.0	1.0	1.0	1.0	0.0	1.0	-1.4	1.0	0.0	11.4
IE	3.0	2.0	0.0	-5.1	0.0	0.0	1.0	0.0	1.0	0.0	0.0	0.0	1.9
FI	0.0	4.0	0.0	-4.5	0.0	0.0	3.0	0.0	2.0	0.0	2.0	0.0	6.5
GR	0.0	0.0	0.0	0.0	0.0	0.0	-2.3	0.0	0.0	0.0	0.0	0.0	-2.3
SK	1.2	-2.8	0.2	0.2	0.9	0.2	0.0	0.0	1.2	0.2	-1.3	0.0	0.0
SI	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	2.0
LT	0.1	0.0	0.0	0.2	-0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.5
LV	-0.2	0.1	0.0	0.0	0.1	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
MT	0.0	0.2	-0.1	0.0	0.1	0.0	0.0	-0.2	0.1	0.0	-0.2	0.0	0.0
LX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CY	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	-0.1	0.0	0.0	-0.7
EZ	68.5	14.6	54.5	-62.2	59.5	59.0	-28.1	3.3	18.6	-15.8	40.7	-2.4	210.1

Source: HSBC Strategy estimates (see SSA Monitor, 8 January 2016), Official debt agencies

Euro-zone net issuance outlook, adjusting for coupons and PSPP

Net of redemptions Euro-zone issuance for 2016 less projected coupons and ECB PSPP*

Country/Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
IT	16.8	15.8	5.5	-10.8	-1.9	10.1	-1.6	-36.9	-13.9	-5.2	-4.6	-13.7	-40.2
FR	12.7	-13.6	11.7	-18.5	11.7	11.7	-21.5	-0.1	11.7	-14.8	-1.9	-0.1	-10.7
DE	-21.5	-9.5	-5.5	-35.9	4.5	-12.2	-17.5	9.1	-9.2	-16.5	4.5	-19.9	-129.6
ES	9.9	-13.8	7.9	-16.4	4.9	4.9	-12.3	3.6	4.9	-16.3	3.9	3.6	-15.4
NL	-0.8	-2.3	3.7	-13.0	-0.3	5.7	-15.2	-2.0	0.2	0.7	0.2	-2.0	-25.3
BE	3.6	-1.4	-6.0	2.6	1.6	1.6	1.6	-1.2	-8.8	1.6	1.1	-1.2	-5.3
AT	3.9	0.1	0.1	0.1	0.1	0.1	0.1	0.2	-8.7	0.1	0.1	0.2	-4.0
IE	3.3	-0.8	0.3	2.3	0.3	0.3	0.3	-0.6	0.3	-2.1	0.3	-0.6	3.5
PT	2.0	1.0	-1.0	-6.1	-1.0	-1.0	0.0	-0.9	0.0	-1.0	-1.0	-0.9	-10.0
FI	-0.7	3.3	-0.7	-5.2	-0.7	-0.7	2.3	-0.6	1.3	-0.7	1.3	-0.6	-2.1
SK	0.8	-3.2	-0.2	-0.2	0.5	-0.2	-0.4	-0.4	0.8	-0.2	-1.7	-0.4	-5.3
SI	-0.2	-0.2	-0.2	-0.2	0.8	-0.2	-0.2	-0.2	0.8	-0.2	-0.2	-0.2	-0.3
Sub Total	29.6	-24.7	15.5	-101.5	20.3	19.9	-64.4	-29.9	-20.7	-54.8	1.8	-35.7	-244.7
EZ Total	27.5	-26.4	13.5	-103.2	18.5	18.0	-69.1	-31.7	-22.4	-56.8	-0.3	-37.4	-269.9

Source: HSBC Strategy estimates (see SSA Monitor, 8 January 2016), Official debt agencies

• Impact of ECB PSPP

- Effect of the ECB QE programme remains the dominant theme for the coming year.
- Impact is not smooth; for example, April has the largest negative net cash flow requirement, while June has the most positive

• Country differentials

- In absolute terms, Germany has the largest negative cash flow requirement position at over €150bn
- Italy has €93bn; however, that needs to be balanced with the absolute size of the bond market

*Note: Assuming an average monthly PSPP of €50bn

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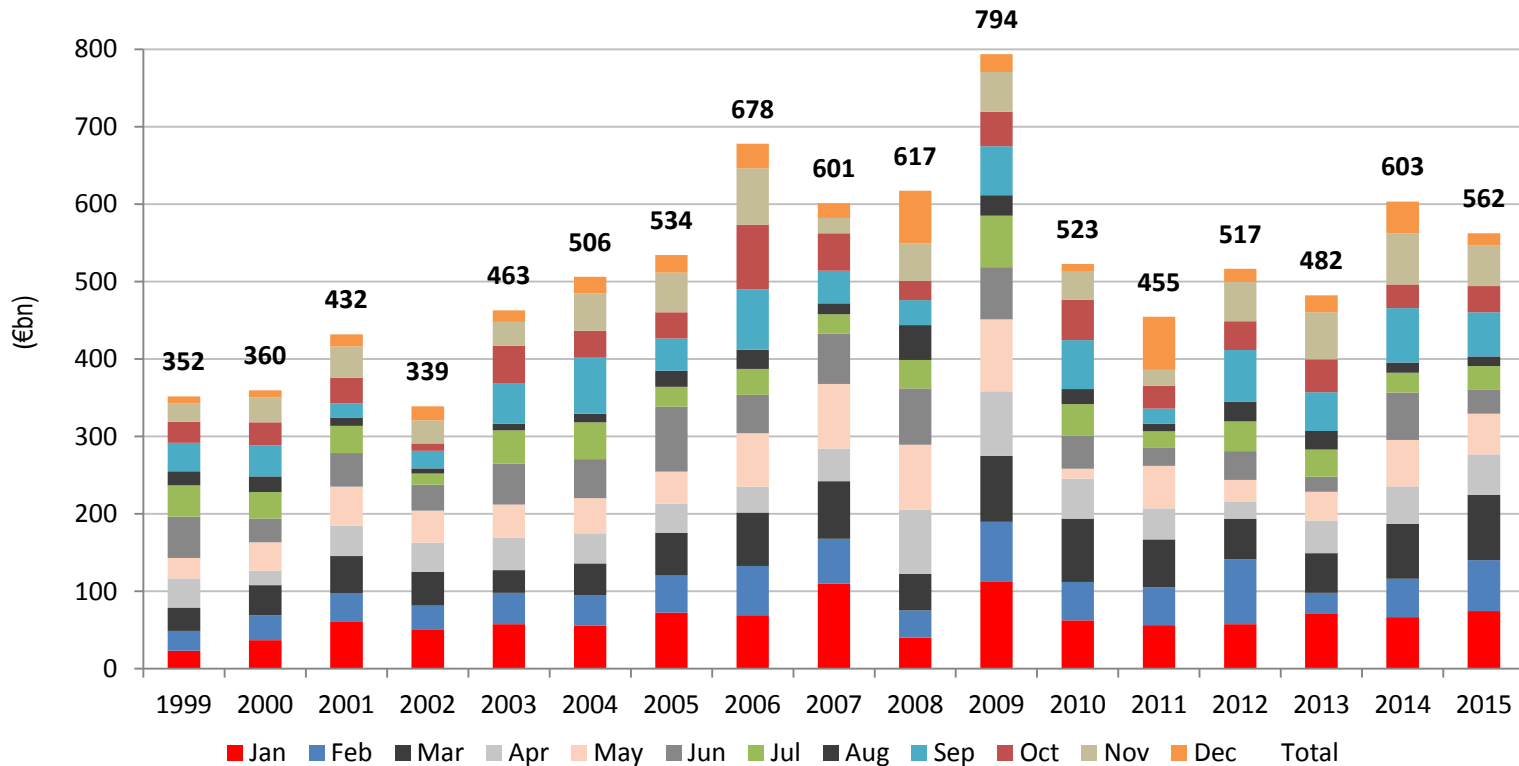
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EUR non-sovereign issuance

EUR corporate supply (Financials, Non-Financials, IG and HY)



Source: HSBC calculations, Dealogic

Data as of 14-Jan-16

- **Issuance in EUR from financials, non-financials, IG and HY softened in 2015**

- Outlook for 2016 is for similar softening. HSBC Global Research forecast is for EUR IG non-financial (fixed coupon) corporate gross issuance of €210-230bn, Meanwhile, European banks issuance expected to be €240-280bn for senior, €30-40bn for LT2 and €30-40bn for AT1.

Source: HSBC Global Research (see 'European Credit Outlook 2016: Hang in there for one more year', November 2015)

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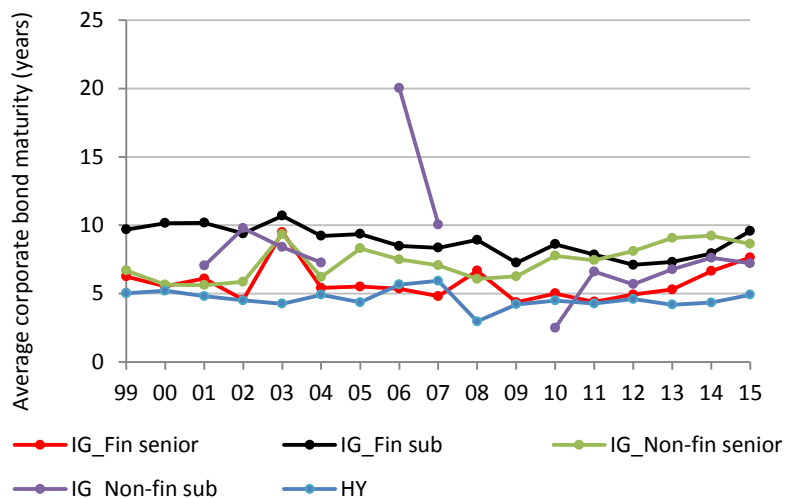
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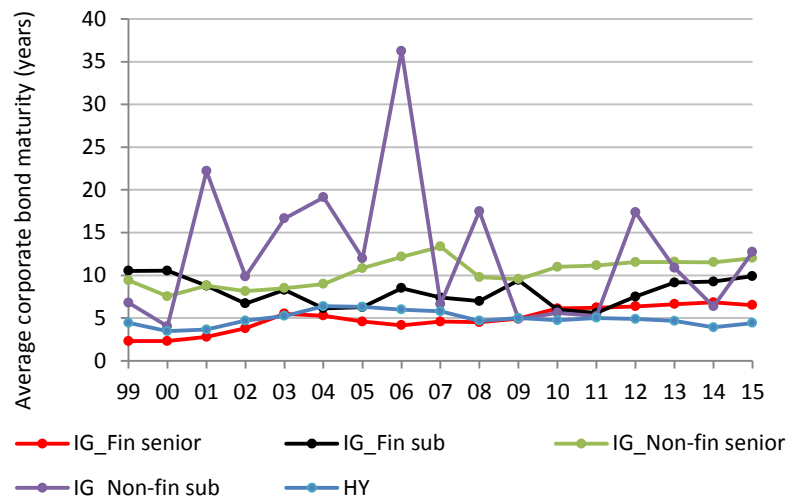


Average maturities for various corporate bond sectors

Average corporate bond maturity - EUR



Average corporate bond maturity - USD



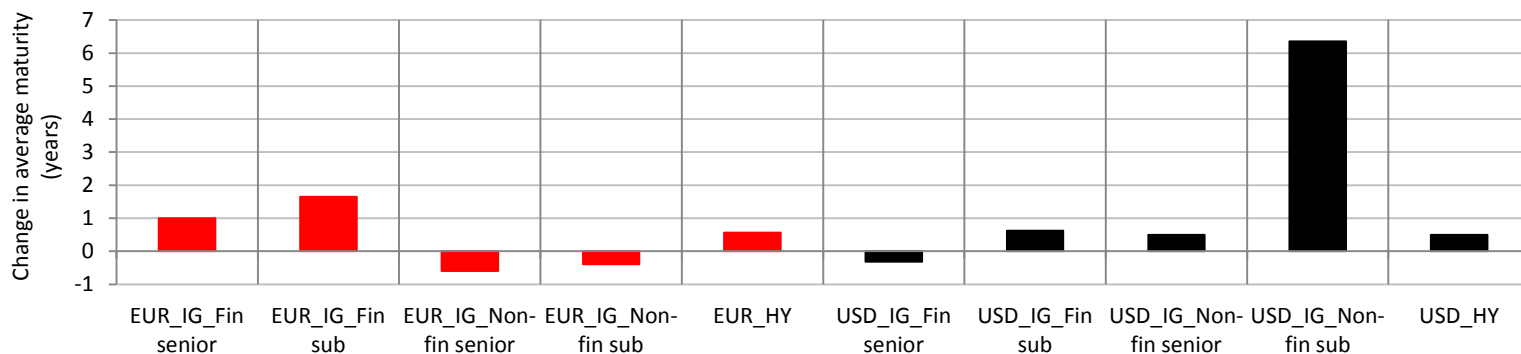
Source: HSBC calculations, Dealogic

Data as of 14-Jan-16

Source: HSBC calculations, Dealogic

Data as of 14-Jan-16

Change in average maturity for 2015



Source: HSBC calculations, Dealogic

Data as of 14-Jan-16

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Conclusion

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The path ahead

- **Macro key issues**

- China: can the situation be contained
- Oil: will there be stabilisation in the price level; will the supply-demand equilibrium be brought back into balance
- Regulation: finality of landscape for banking sector; dynamic environment for other investors

- **Directionality**

- Macro evolution is key, and a clarification of the deflation versus reflation conundrum will define the overall direction of yields
- Yield levels are low; however on-going ECB QE purchases means a net negative supply environment in EGBs, so yields could fall further
- Divergent monetary policy will drive EU-US yield differential

- **Curve**

- ECB tool selection is important...
- ...depo rate moves act at front-end, implying bull steepening/bear flattening...
- ...while QE acts out on the curve creating a bull flattening/bear steepening dynamic

- **Swap spreads**

- Banking sector balance sheet reduction has created a constraint
- International reserve assets have declined by around \$1trillion* since August 2014, suggestive of government bond holding reduction
- Broadening of central clearing may have altered credit perception of swaps
- Long-term liability investors and evolution of regulation (NSFR, Solvency II, FRTB)

*Source: Bloomberg

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