

MMCG SEPTEMBER 2016
MARKET REVIEW
27TH SEPTEMBER 2016

CORPORATE & INSTITUTIONAL
BANKING
GLOBAL MARKETS



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WHAT HAPPENED SINCE LAST MMCG

All Sources: BNP Paribas, Bloomberg

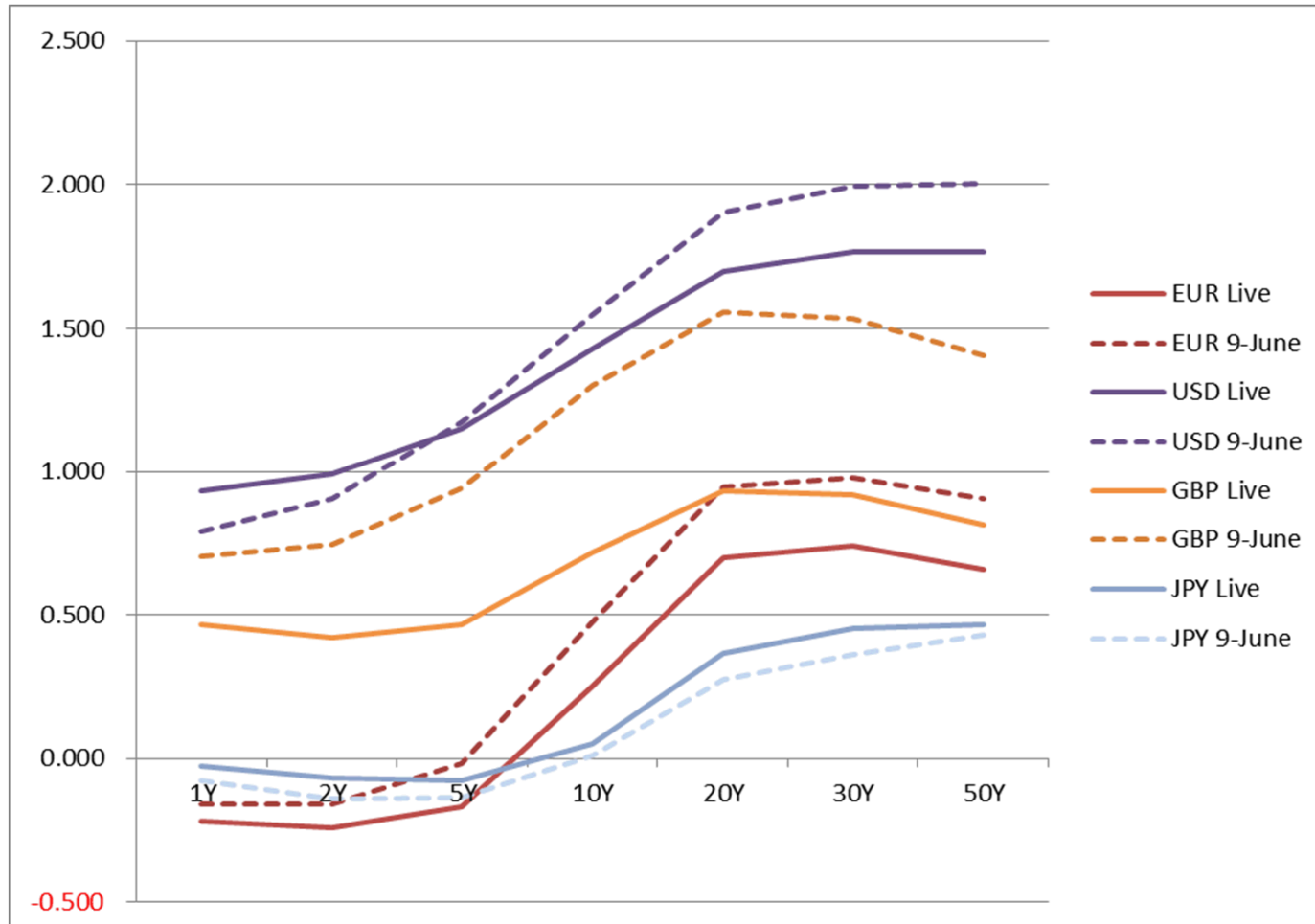


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SWAP CURVE : RATES LOWER AND CURVES FLATTER



All Sources: BNP Paribas, Bloomberg

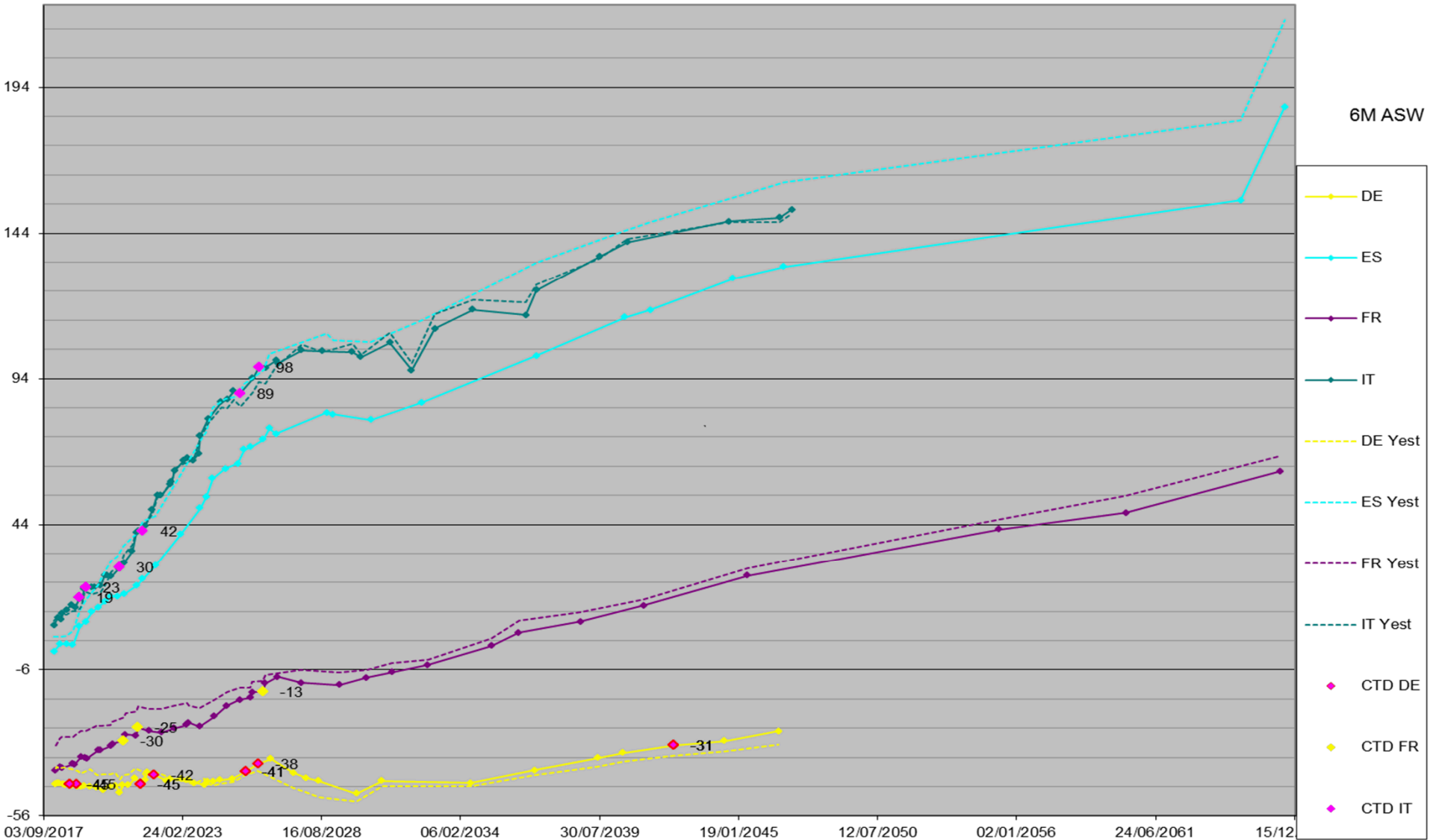


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EUR ASW CURVE MOVES: DE, FR, IT, ES (YEST = 9TH OF JUNE)



All Sources: BNP Paribas, Bloomberg



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EUR ASW CURVE MOVES: PORTUGAL STILL UNDER PRESSURE

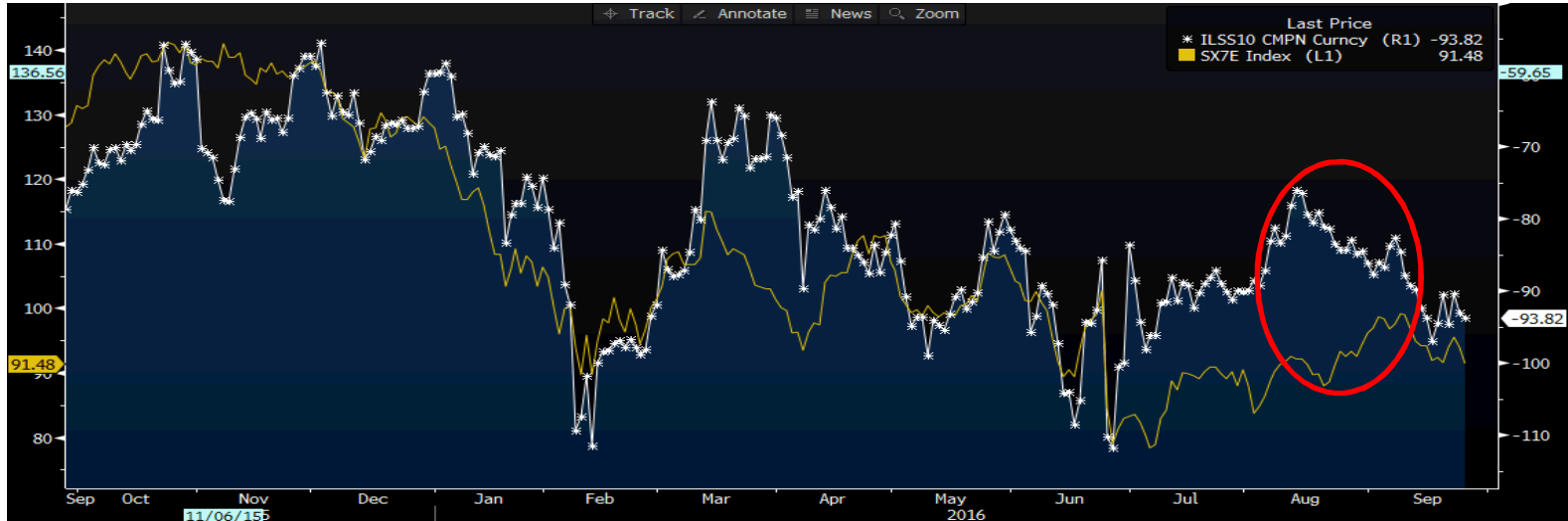


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ASSET SWAP 10Y ITALY / EUROPEAN BANK INDEX

1y horizon



5y horizon



Source: Bloomberg



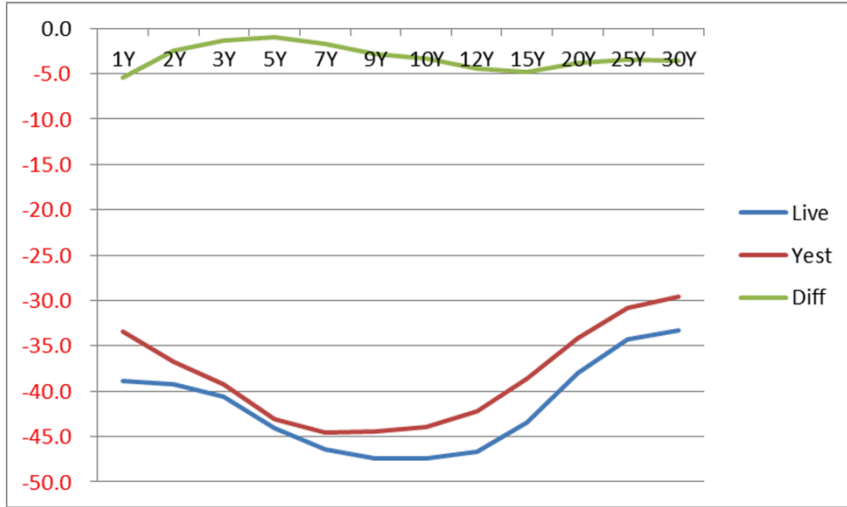
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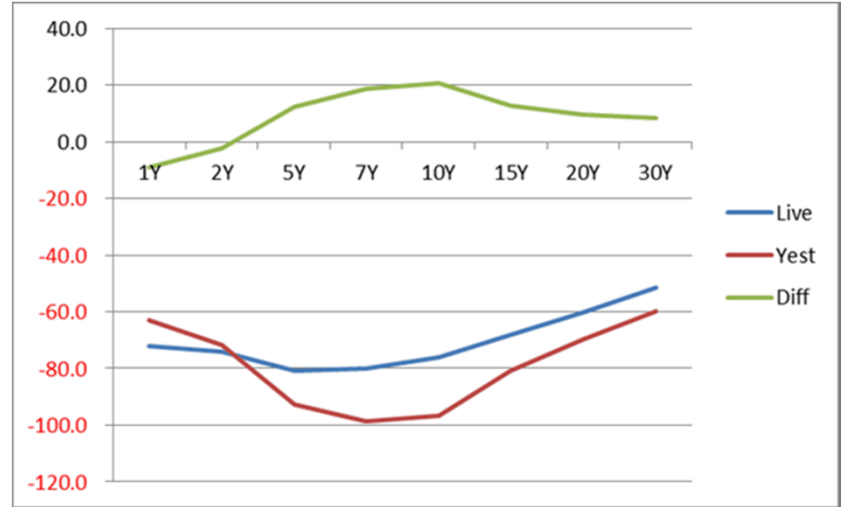
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BASIS MOVES

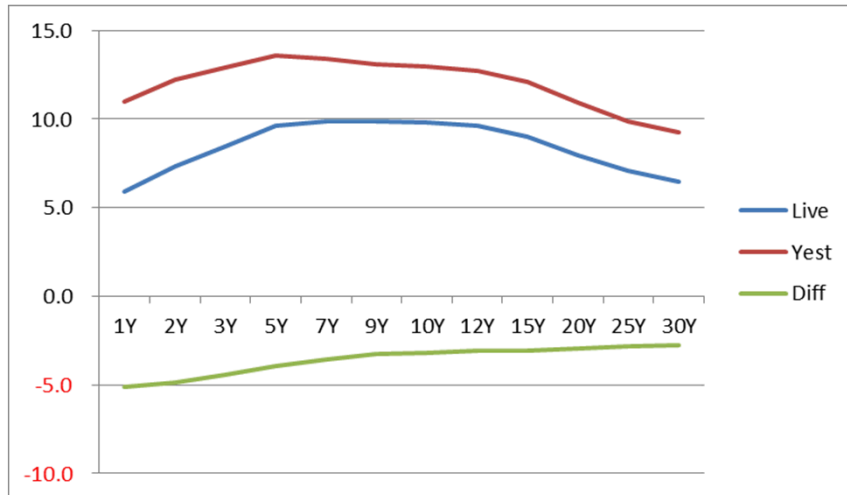
EUR XCCY



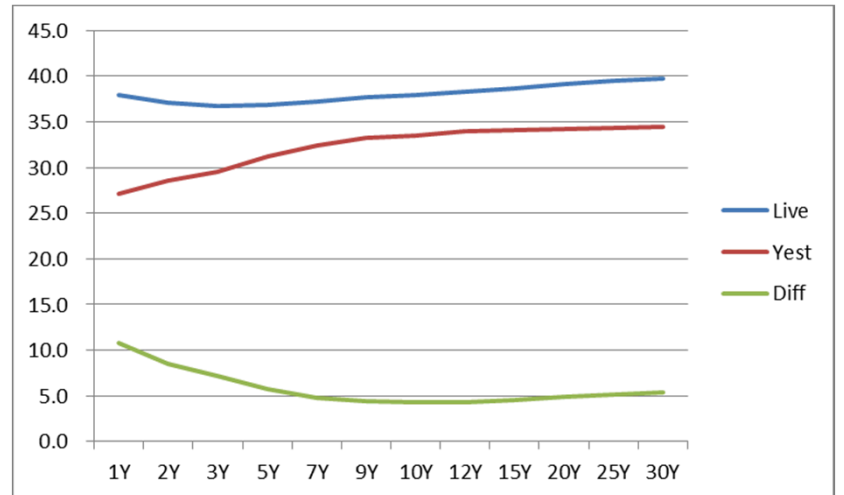
JPY XCCY



EUR OIS



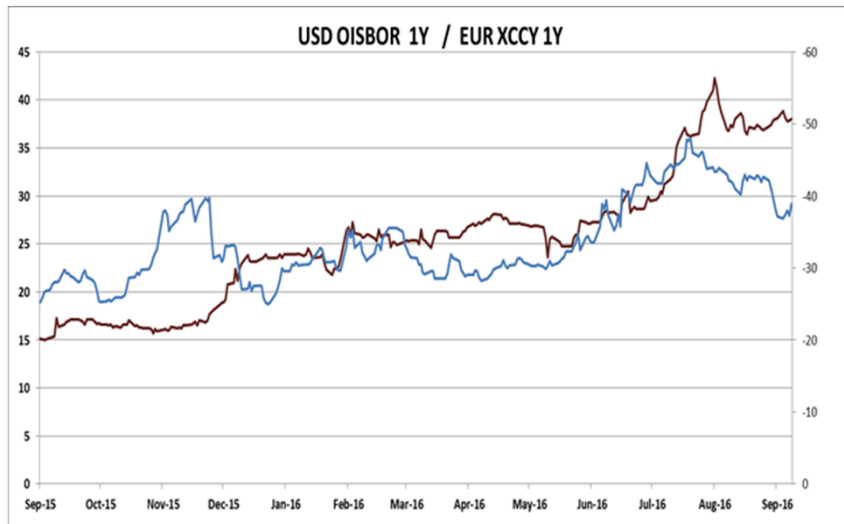
USD OIS



All Sources: BNP Paribas, Bloomberg

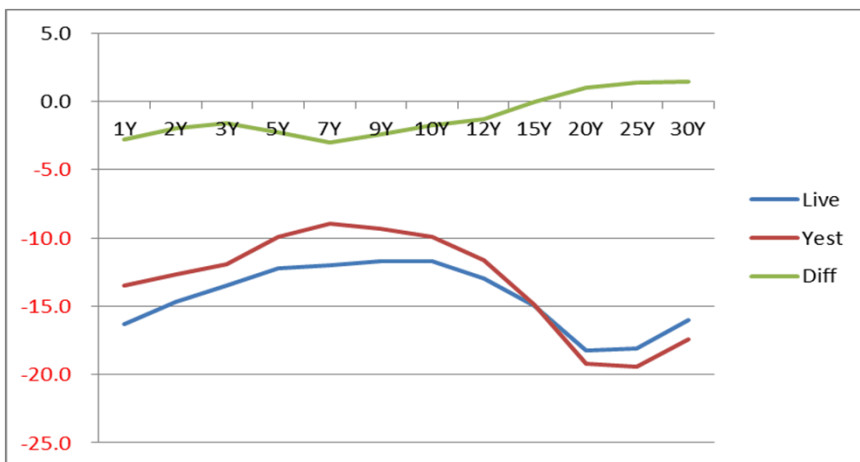


OTHER BASIS

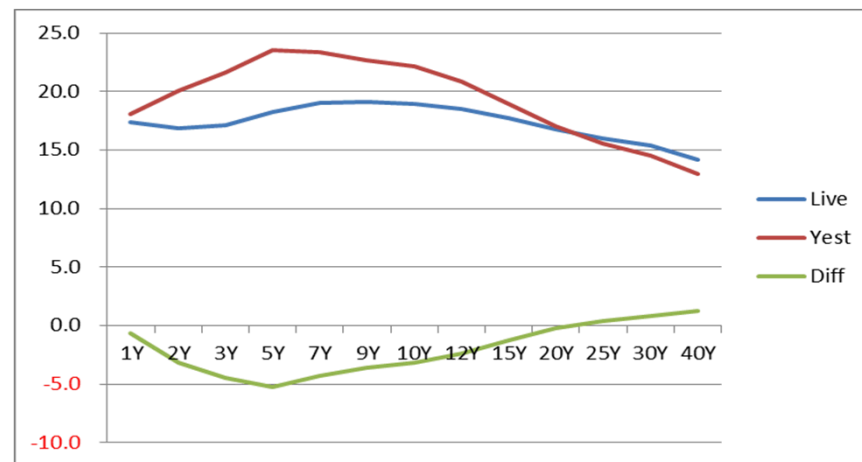


- JPY XCCY completely de-correlated from EUR one
- OISBOR USD impact limited to 1y XCCY
- GBP XCCY didn't move much
- OIS/BOR GBP retraced part of pre-brexit vote move

GBP XCCY



OIS BOR GBP



All Sources: BNP Paribas, Bloomberg



REPO

Contract	Delivery	Repo		
		Ramp	Implied	Carry Y (bps)
DE 2Y	Z16	-0.52%	-0.69%	-17
DE 5Y	Z16	-0.54%	-1.03%	-49
DE 10Y	Z16	-0.93%	-1.31%	-37
DE 30Y	Z16	-0.52%	-1.11%	-59
FR 10Y	Z16	-0.50%	-0.65%	-15
IT 10Y	Z16	-0.39%	-0.65%	-27

- DE benchmarks squeezing (and 2023 area)
- No significant move in EUR GC

GCs Curve Name	Level (bps)									Variation (bps)						
	O/N	T/N	1W	1M	3M	6M	9M	1Y	O/N	T/N	1W	1M	3M	6M	9M	1Y
USD AGENCY MBS GC REPO	19	19	20	21	23	26	28	29	7	7	7	5	4	6	4	2
USD AGENCY GC REPO	18	18	18	20	21	24	26	26	8	8	8	5	4	5	3	1
EUR IEPGC	9	9	9	9	8	9	9	11	2	2	2	1	0	0	0	0
GBP GBP_GOVGC	5	5	5	8	13	18	21	23	-1	-2	-2	0	1	2	1	1
EUR ESPGC	-4	-4	-4	-4	-4	-2	-1	1	-3	-3	-3	-3	-3	-3	-2	-2
EUR ITLGC	-4	-4	-4	-4	-4	-2	-1	1	-3	-2	-3	-1	-1	1	-1	-1
EUR EURGC	-1	-1	-1	-1	-1	0	1	2	2	2	2	1	1	-0	-0	0
JPY JGBGC	-10	-10	-10	-14	-16	-16	-17	-18	-7	-7	-5	-11	-13	-11	-10	-11
EUR BEFGC	-7	-7	-7	-8	-8	-7	-7	-6	1	1	1	-0	-1	-1	-1	-0
EUR ATSGC	-15	-15	-15	-15	-15	-15	-15	-15	-5	-5	-5	-5	-5	-5	-5	-5
EUR FRFGC	-15	-15	-15	-15	-15	-15	-15	-15	-4	-4	-4	-4	-4	-4	-4	-4
EUR NLGGC	-11	-11	-11	-12	-13	-13	-13	-12	1	1	1	1	0	0	0	1
EUR DEMGC	-16	-16	-16	-16	-17	-17	-17	-16	-2	-2	-2	-2	-3	-3	-3	-2

All Sources: BNP Paribas, Bloomberg



TRYING TO GET A BROADER PICTURE

All Sources: BNP Paribas, Bloomberg



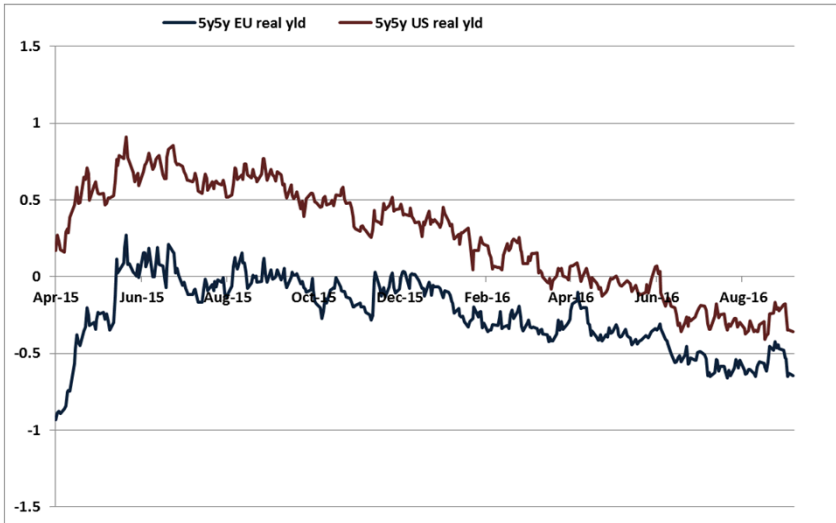
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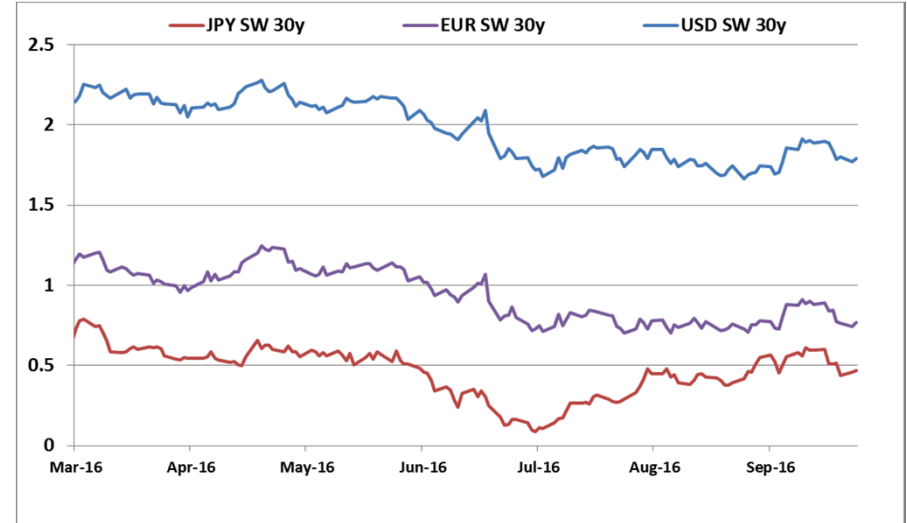
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REAL RATES AND LONG TERM RATES

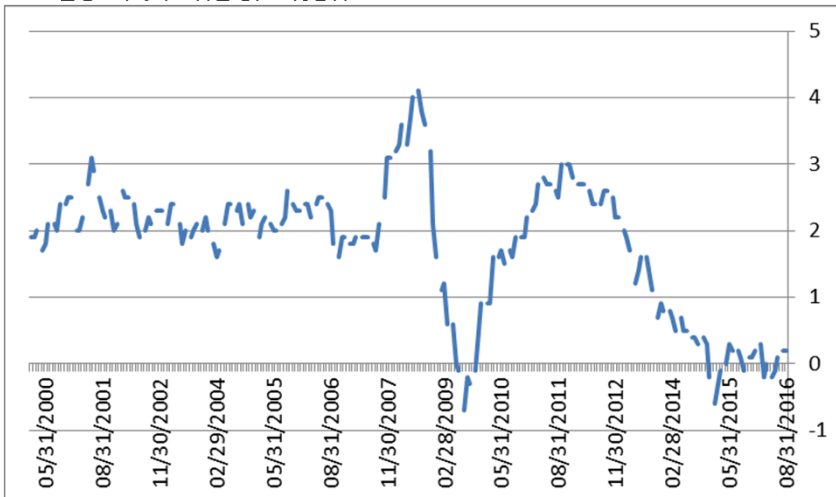
Real rates 5y5y



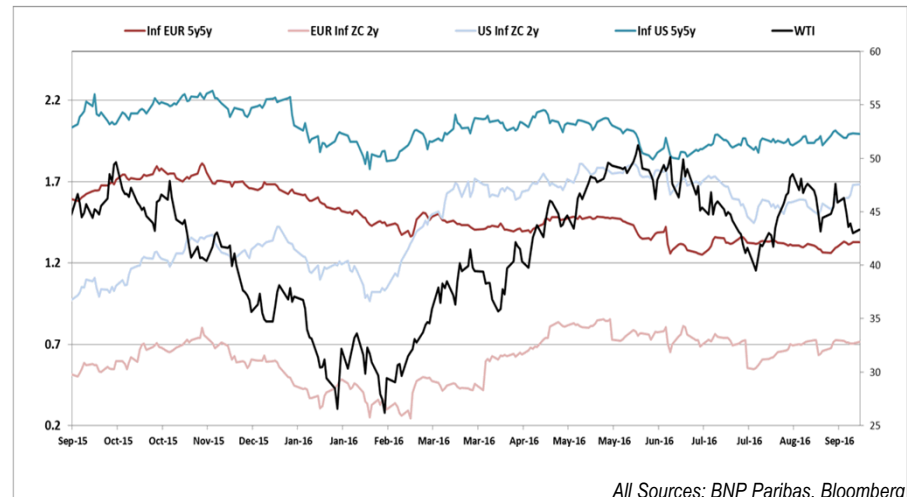
IR Swap rates



EU YOY HICP NSA



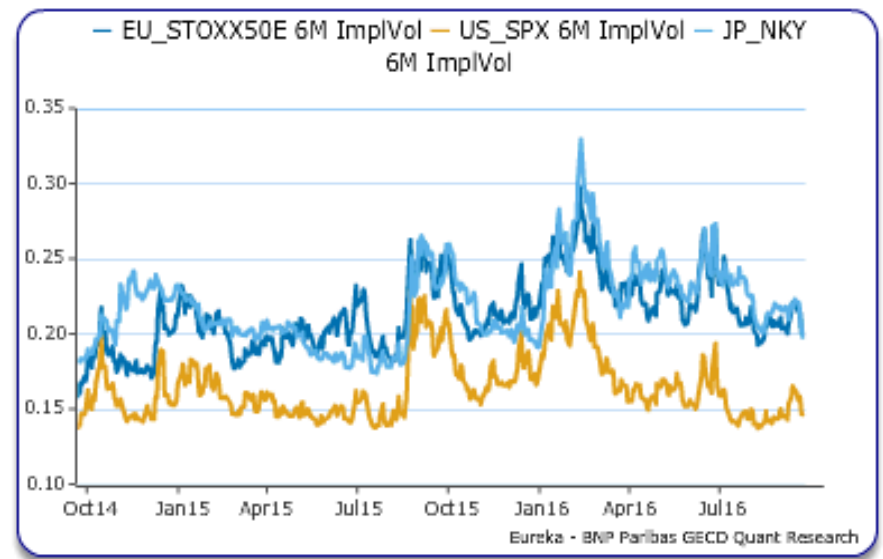
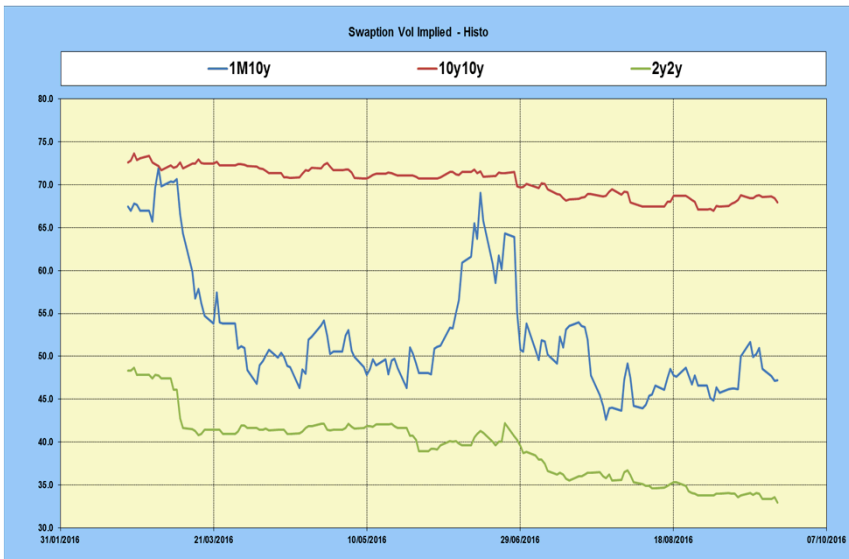
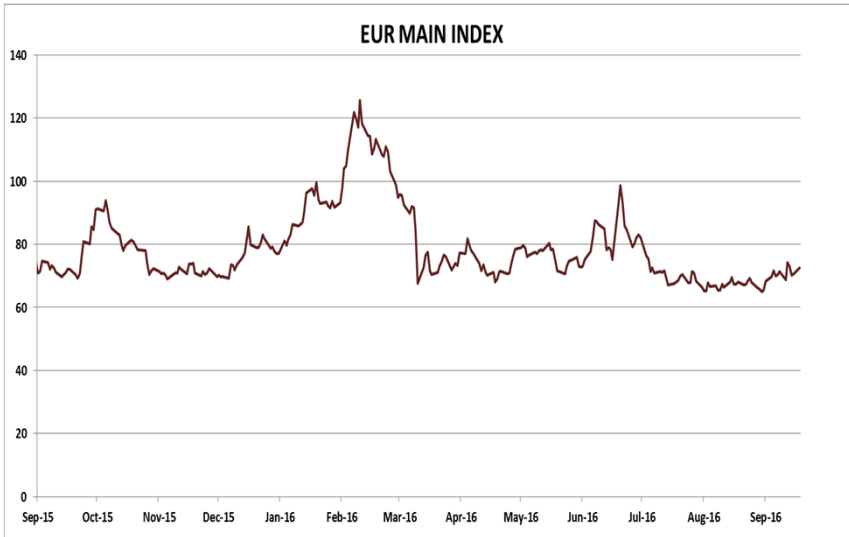
Inflation ZC rates



All Sources: BNP Paribas, Bloomberg



VOLATILITY AND RISK APPETITE



VOLATILITY AND RISK APPETITE

EUR implied volatility (bp per day)

ATM vol (bp)	6m	1y	2y	3y	4y	5y	7y	10y	15y	20y	30y
1M	0.7	0.8	1.0	1.2	1.4	1.7	2.1	2.8	3.1	3.4	3.7
3M	0.7	0.9	1.0	1.3	1.6	1.9	2.4	3.0	3.5	3.7	3.9
6M	1.1	1.0	1.2	1.4	1.7	2.0	2.6	3.2	3.6	3.8	4.0
1y	1.2	1.2	1.5	1.7	2.0	2.3	2.8	3.4	3.8	3.9	4.0
2y	1.8	1.8	2.0	2.2	2.4	2.7	3.1	3.7	3.9	3.9	4.0
3y	2.5	2.4	2.6	2.8	3.0	3.1	3.4	3.9	3.9	4.0	4.0
5y	3.6	3.4	3.5	3.6	3.7	3.8	3.9	4.2	4.0	4.0	3.9
7y	4.2	3.9	4.0	4.0	4.0	4.1	4.1	4.2	4.0	3.9	3.8
10y	4.4	4.1	4.2	4.2	4.2	4.2	4.2	4.2	3.9	3.7	3.5
20y	4.0	3.8	3.9	3.8	3.8	3.8	3.8	3.7	3.3	3.1	2.9
30y	3.5	3.4	3.4	3.4	3.3	3.3	3.2	3.1	2.8	2.6	2.5

JPY implied volatility

ATM vol (bp)	6m	1y	2y	3y	4y	5y	7y	10y	15y	20y	30y
1M	1.9	1.7	1.8	1.6	1.4	1.3	1.3	1.3	2.1	2.7	3.0
3M	1.9	1.6	1.6	1.4	1.3	1.2	1.2	1.3	1.9	2.4	2.7
6M	1.8	1.5	1.5	1.4	1.3	1.2	1.1	1.2	1.8	2.2	2.5
1y	1.8	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.8	2.1	2.3
2y	1.8	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.9	2.2	2.3
3y	2.2	1.6	1.6	1.6	1.6	1.5	1.6	1.5	1.9	2.2	2.3
5y	2.5	1.7	1.7	1.7	1.7	1.7	1.7	1.7	2.0	2.1	2.2
7y	2.6	1.8	1.8	1.9	1.9	1.9	1.9	1.9	2.1	2.1	2.2
10y	2.7	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1
20y	3.0	2.2	2.3	2.2	2.1	2.1	2.1	2.0	2.1	2.1	2.1
30y	6.4	6.2	4.7	3.6	2.7	2.1	2.1	2.0	2.0	2.0	2.0

All Sources: BNP Paribas, Bloomberg



3 SLIDES FROM BNPP ECONOMISTS ON INFLATION

All Sources: BNP Paribas, Bloomberg

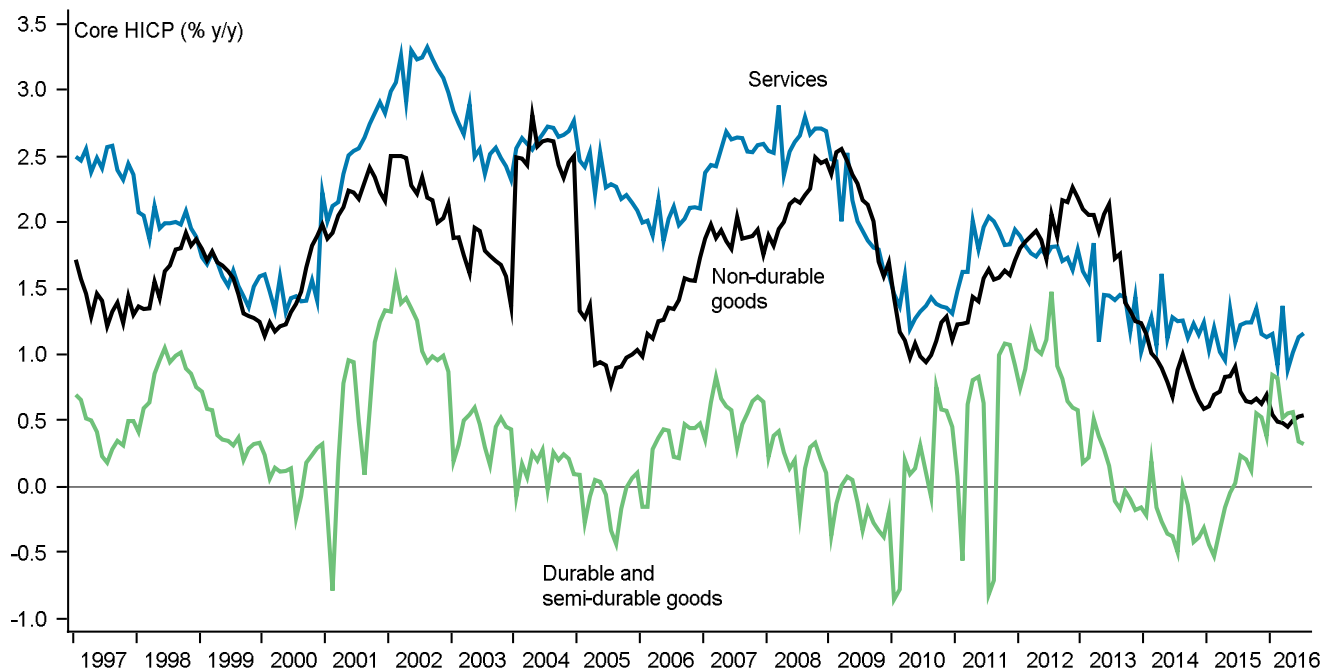


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EUROZONE INFLATION: A TEMPORARY RISE IN DURABLE-GOODS PRICES



Source: Macrobond, Eurostat, BNP Paribas

- The uptick in eurozone core inflation last year was mainly due to a rise in durable-goods prices ...
- ... which, in turn, was down to the impact of EUR depreciation on consumer prices
- Services inflation remains on a downward trend



A temporary uptick in core inflation



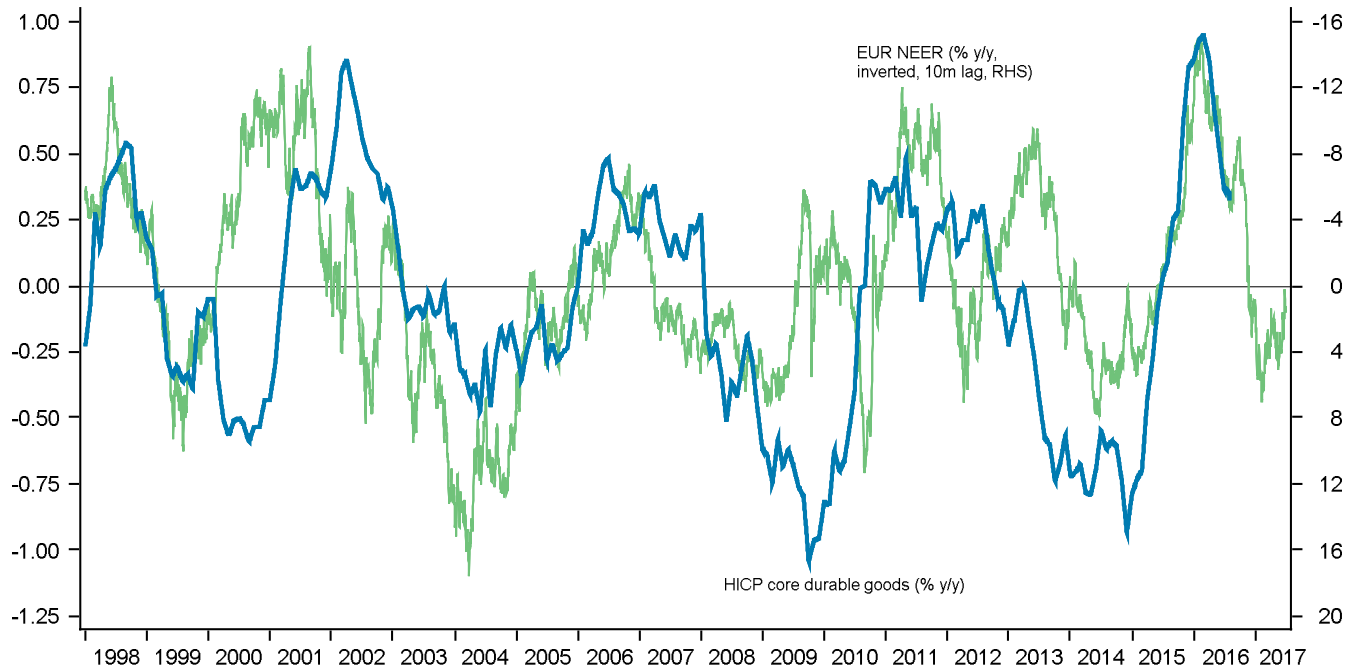
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EUROZONE INFLATION: IMPACT OF THE EXCHANGE RATE



Source: Macrobond, Eurostat, ECB, BNP Paribas

- Core durable-goods price inflation has peaked; past appreciation of the EUR effective exchange rate is now weighing on prices



Past EUR strength now weighing on prices



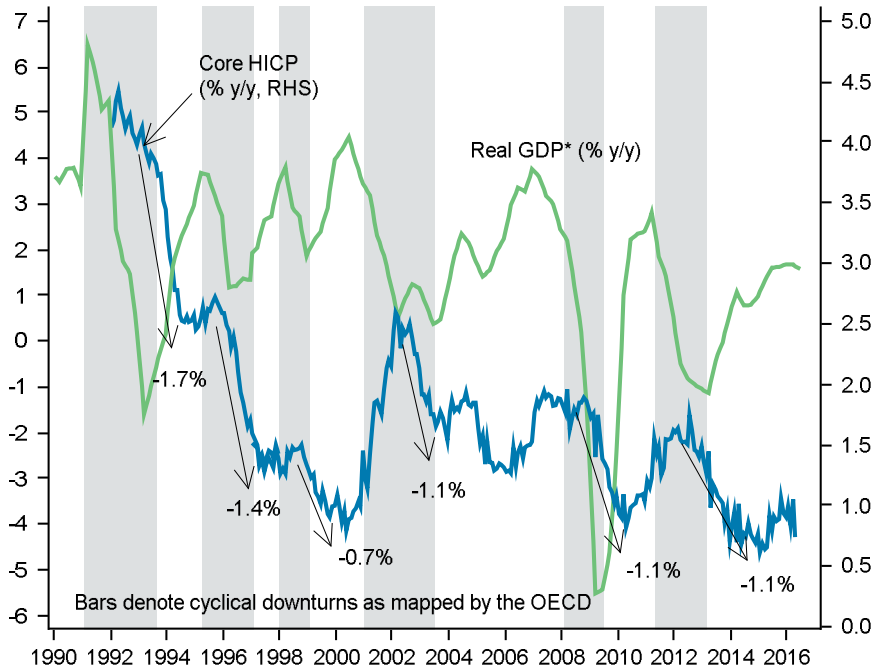
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EUROZONE INFLATION: IMPACT OF GROWTH DOWNTURNS



*PPP-weighted average for Germany, France, Italy, Spain and the Netherlands prior to 1997

Cyclical downswings	Real GDP (% y/y)*		Core HICP (% y/y)**		
	Peak	Trough	Peak	Trough	Δ (pp)
Q1 91 - Q3 93	6.5	-1.6	4.1	2.4	-1.7
Q2 95 - Q1 97	3.7	1.2	2.7	1.3	-1.4
Q1 98 - Q1 99	3.7	1.9	1.5	0.8	-0.7
Q1 01 - Q2 03	4.5	0.3	2.6	1.5	-1.1
Q1 08 - Q2 09	3.8	-5.6	1.9	0.8	-1.1
Q2 11 - Q1 13	2.8	-1.1	1.7	0.6	-1.1
Average	-	-	-	-	-1.2

* Prior to 1997, measured as a weighted average for Germany, France, Italy, Spain and the Netherlands;

** Core inflation peaks lag GDP growth peaks by around one year

Source: Macrobond, Eurostat, BNP Paribas

- The core inflation rate has tended to fall by more than 1pp, on average, when the economy has seen a marked slowdown
- A severe downturn now could push core inflation to zero in the cycle



Limited cushion



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