



Etienne Port

Key financial market developments

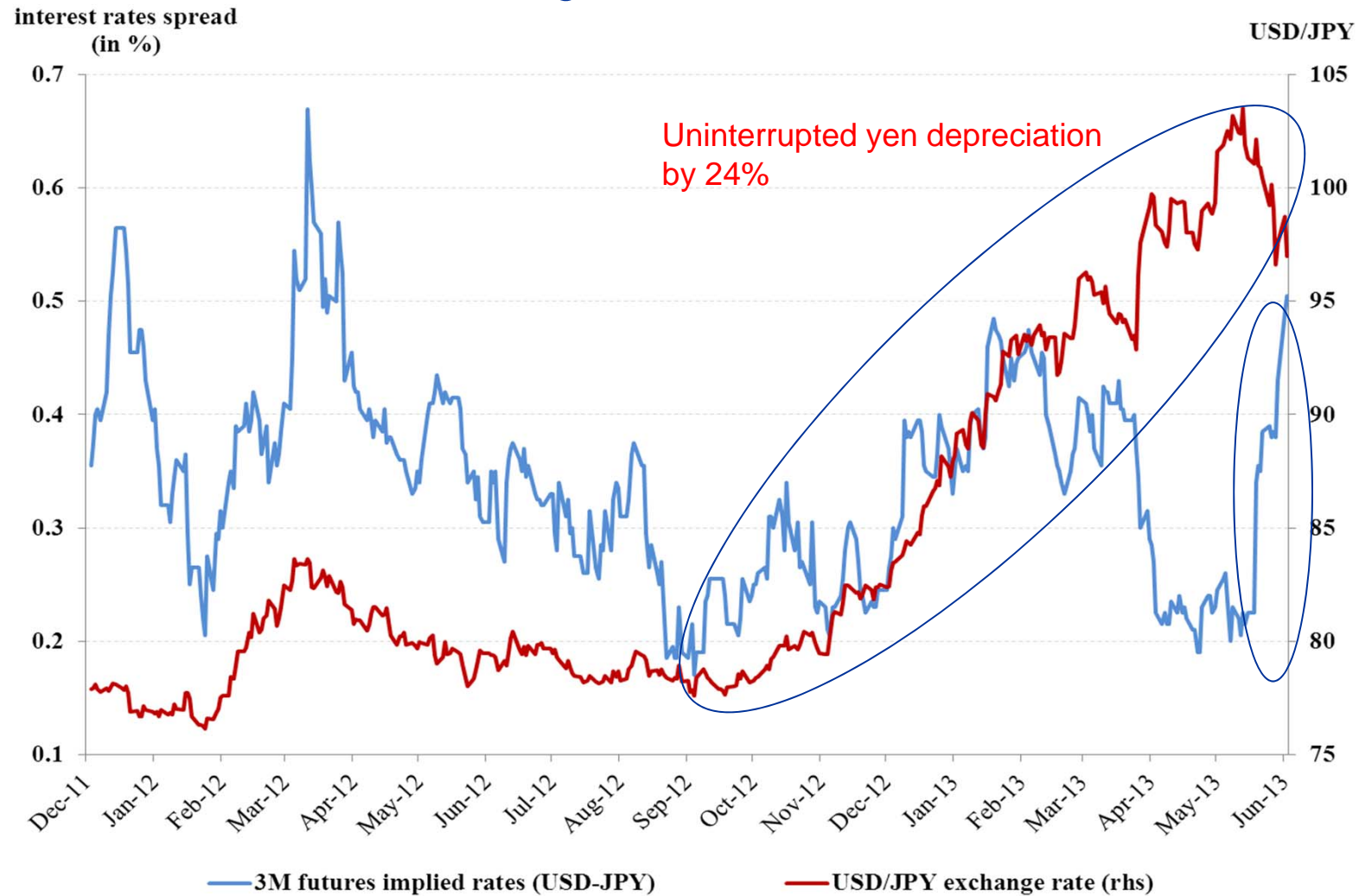
Frankfurt am Main, 12 June 2013

Operations Managers Contact Group
Meeting

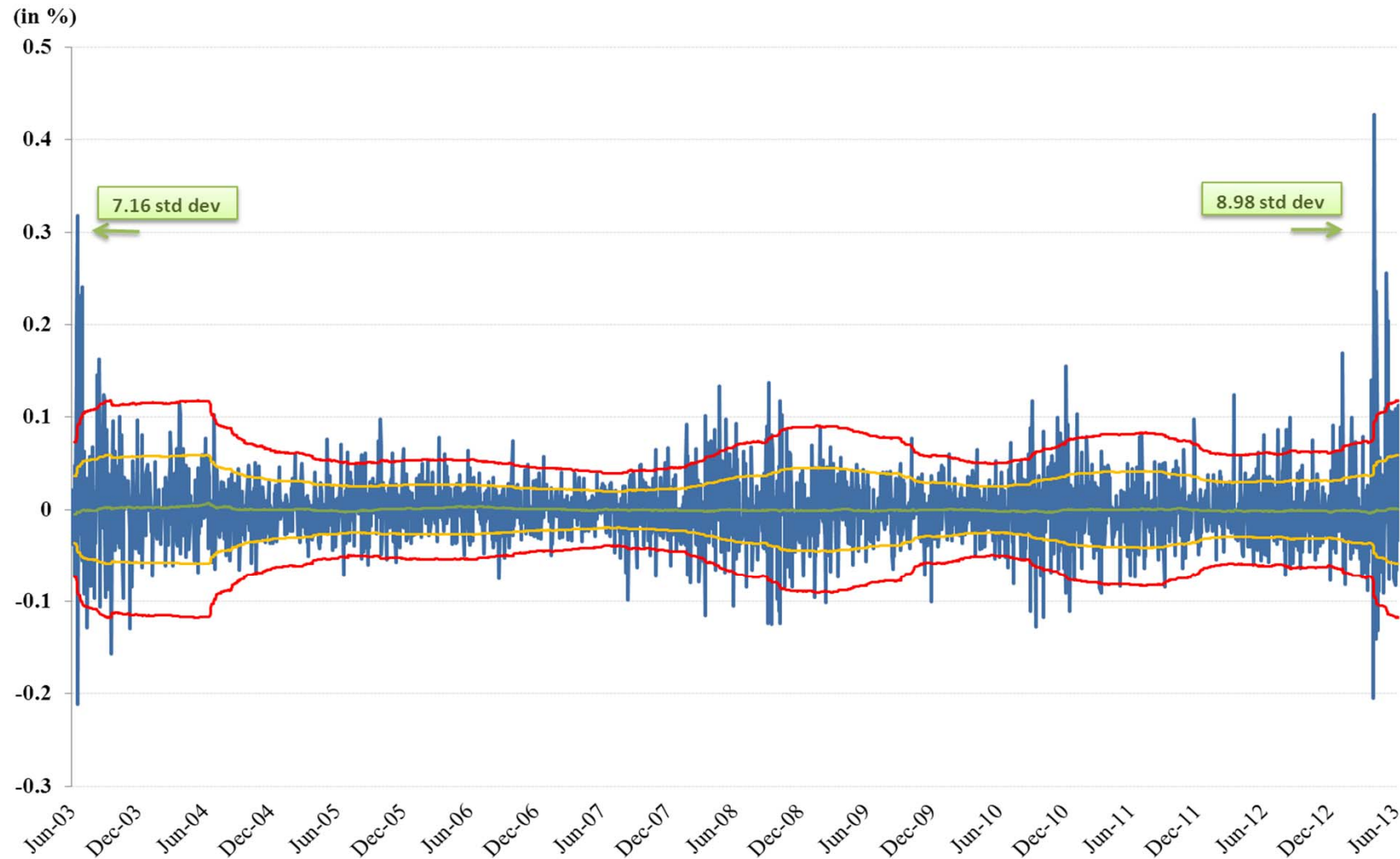
Financial markets - Global environment

- Possible diverging path of monetary policy in Japan (more QE) and the US (reducing pace of QE)
- Increase in **market volatility** across various asset classes
- Broad-based US dollar appreciation and Japanese yen depreciation but no capital outflows from Japanese investors yet
- In Japan the volatility in equity and bond markets is particularly affected. The anchoring of short term yield to policy rates may be at risk
- In the US long-term yields are creeping up as talks of reducing the pace of asset purchases by the Fed gain momentum
- Market expectations about the first rate hike by the FED pulled 6 months earlier
- Crowded positions in emerging markets based on consensus view seem starting to unwind.

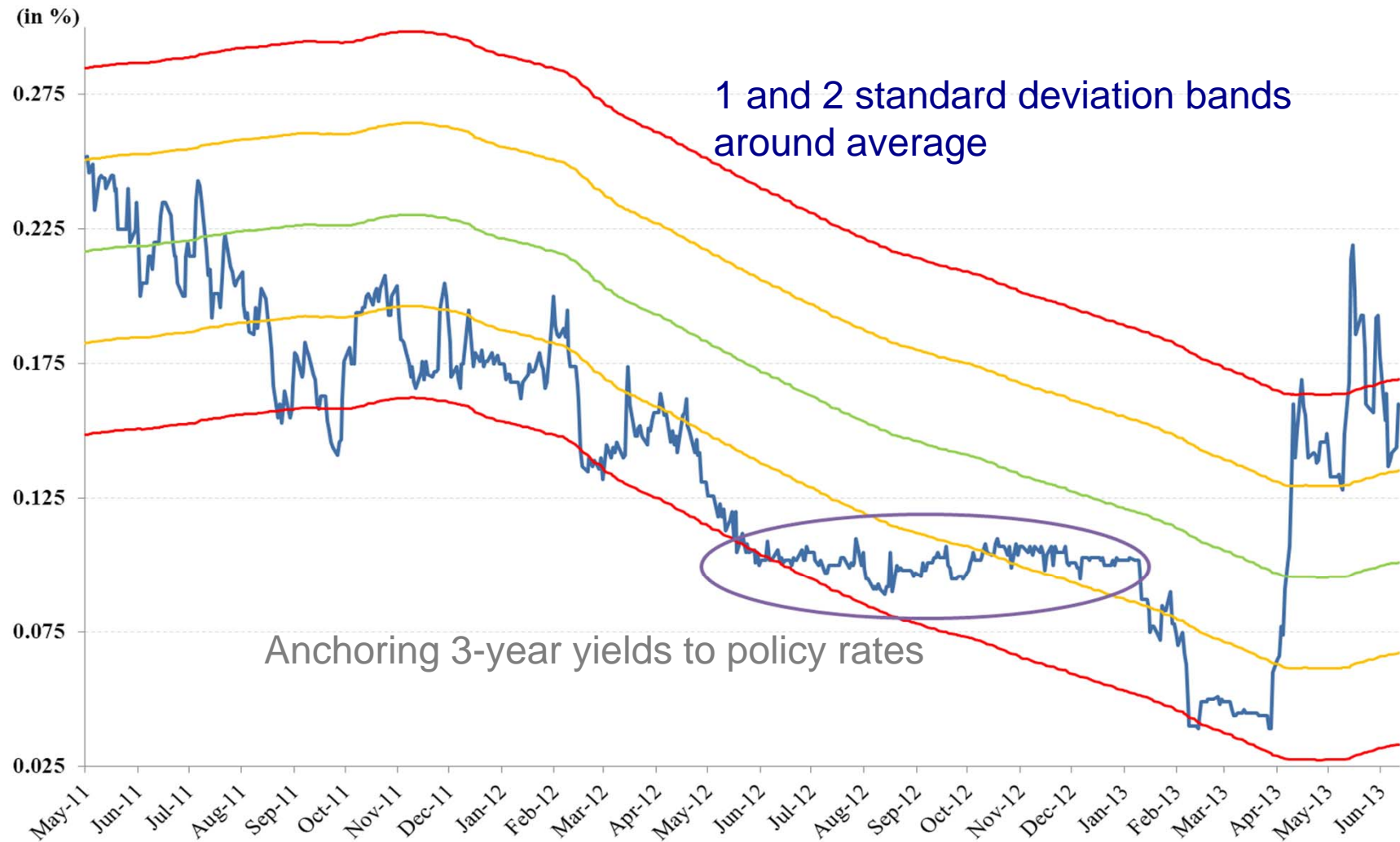
USD/JPY Exchange rate and 3-month forward rates differential in 2 years time



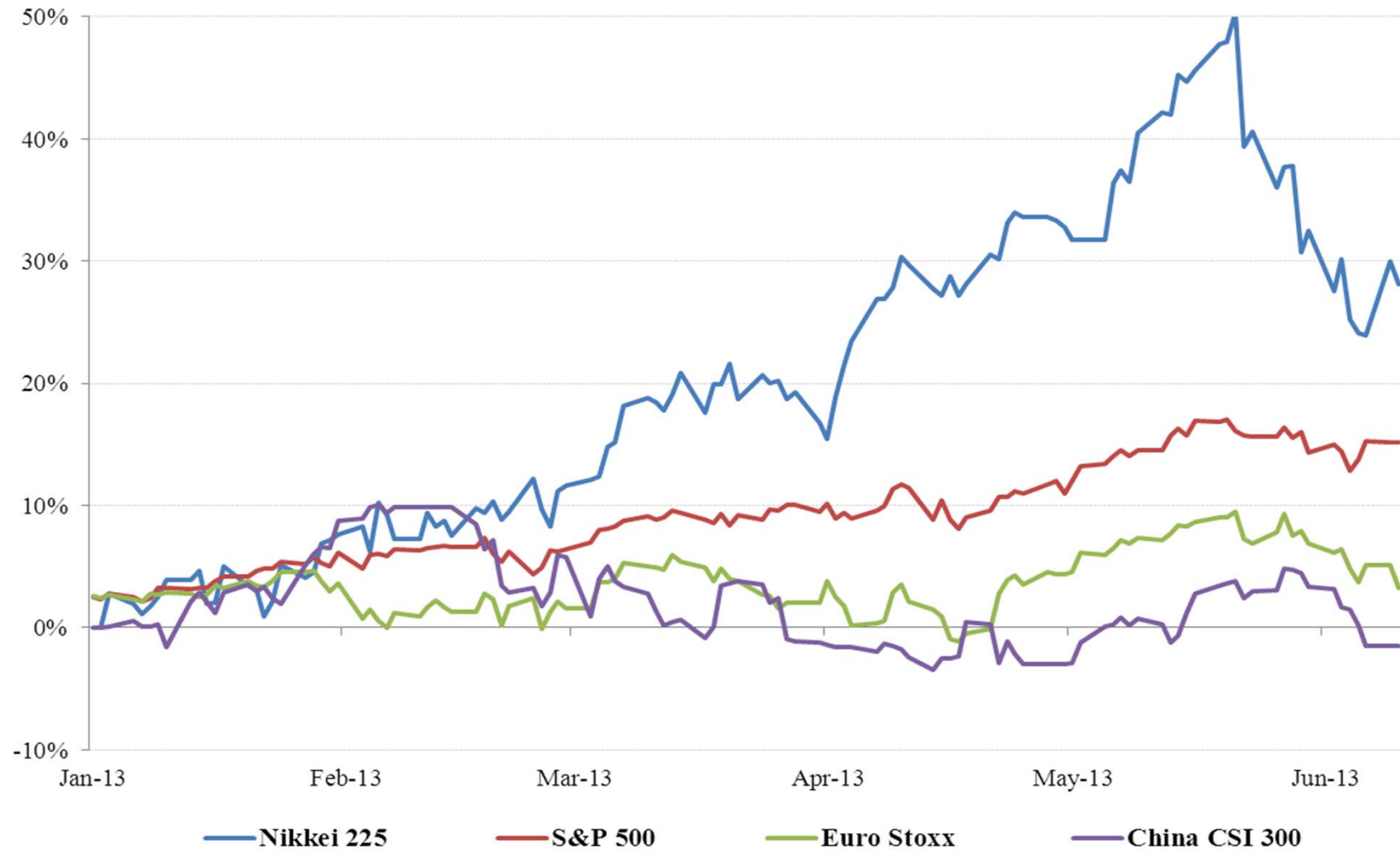
Daily volatility in the Japanese 7-year JGB yield over last 10 years



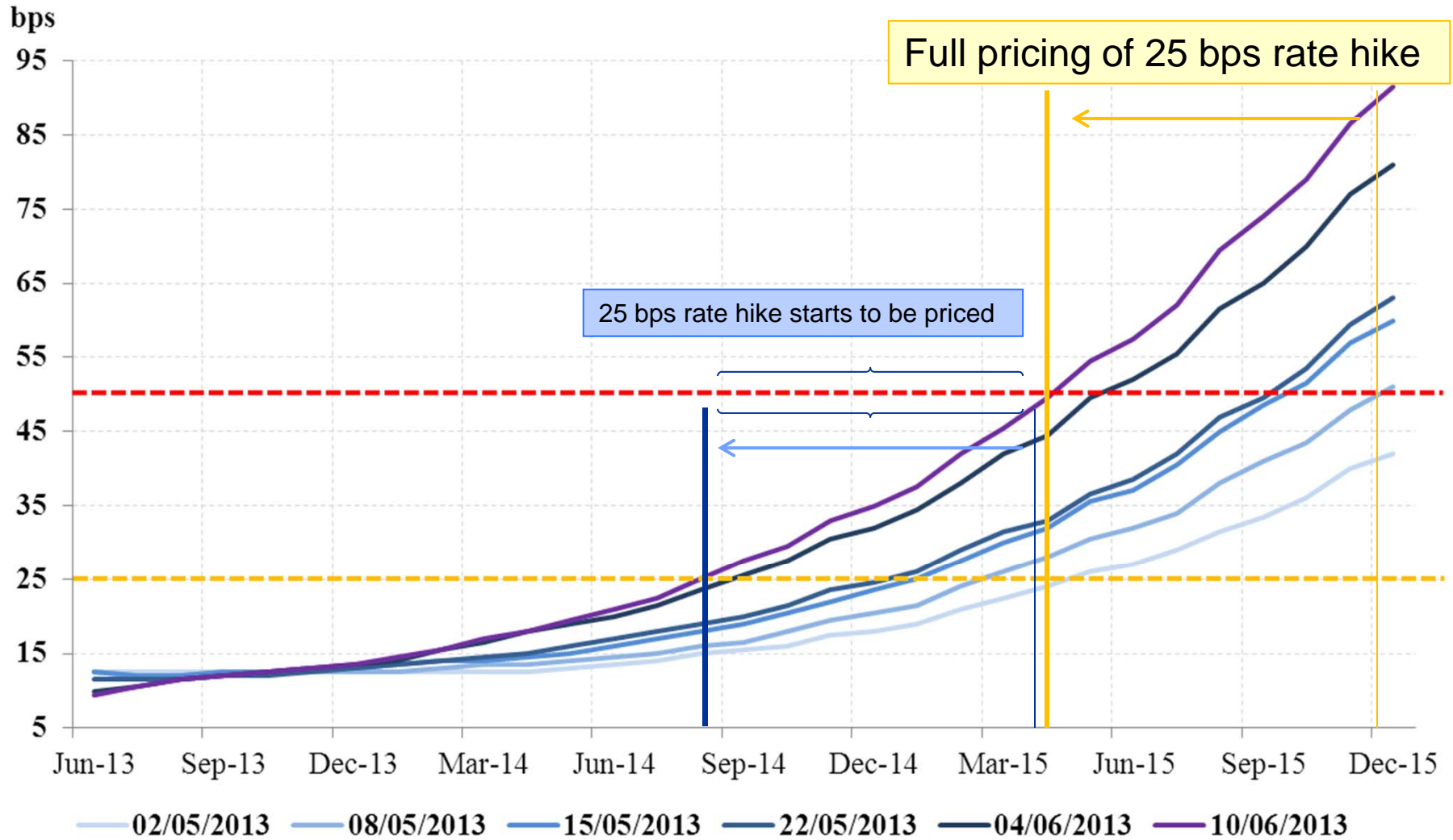
3-year JGB yield and volatility bands since May 2011



Equity comparison since the beginning of the year



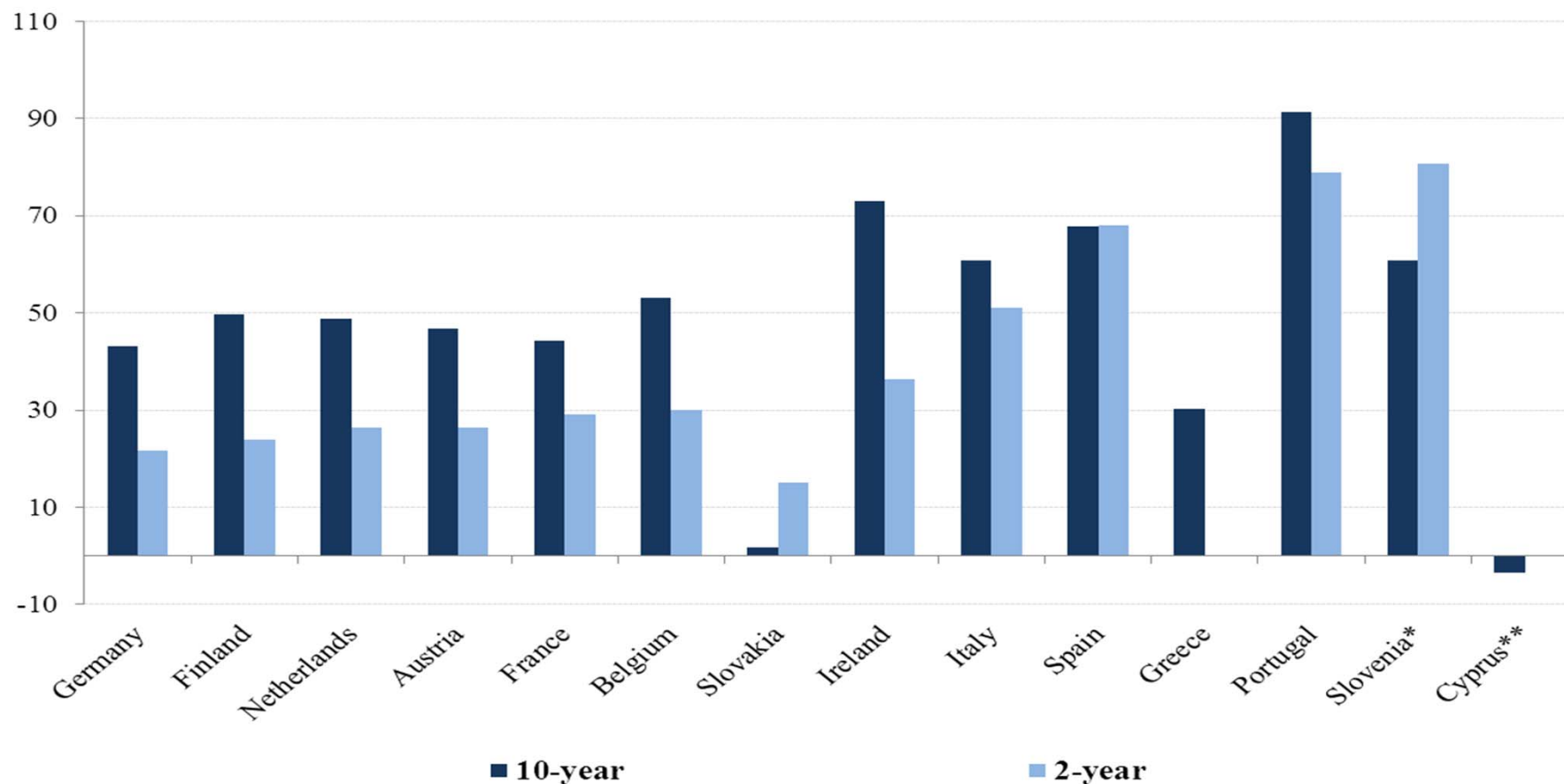
FED FUNDS profile of expectations through 2015



Financial markets – euro area bond markets

- 10-year government bond yields have also generally risen in sympathy with global yields
- Spreads had not widened significantly until very recently
- Surprise about the apparent coupling between bond yield developments in the euro area and the US
- Recent rise in government bond yields may undermine over time the effects of the latest ECB policy actions
- Favourable sentiment towards some non-core markets provided opportunities for several governments to come with new syndicated long-end issuances

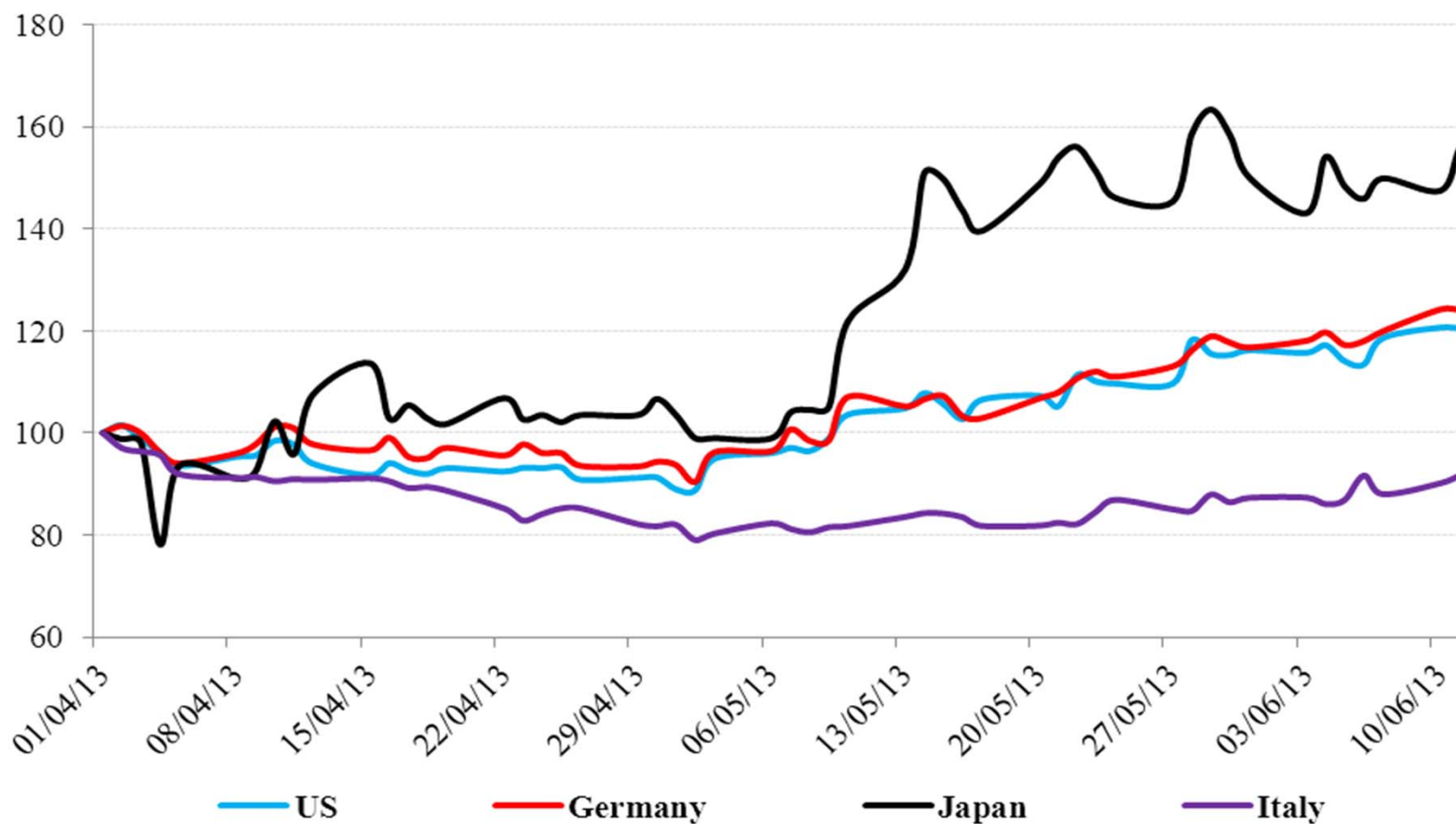
Changes in euro area 2- and 10-year sovereign bond yields since 2 May 2013



*11-year government bond, ** 7-year government bond

Source: Bloomberg. Last observation 11 June 2013

Normalised changes in selected 10-year global sovereign bond yields since beginning of May (1 April 2013 = 100)

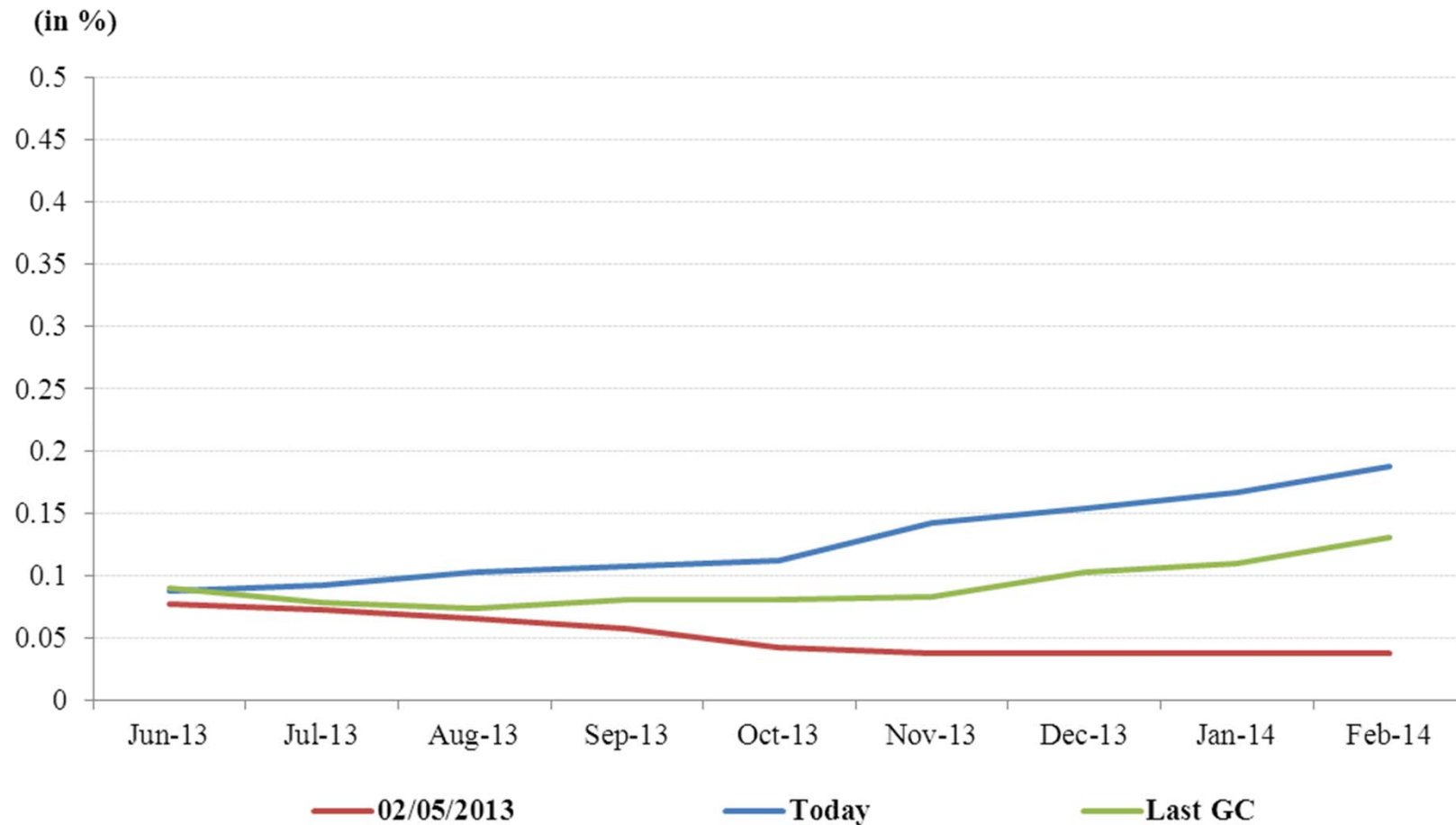


Source: Bloomberg

Financial markets – euro area money markets

- Recent monetary policy expectations have fluctuated between MRO rate cuts and possible negative deposit rates.
- EONIA forward curve was inverted in the first 3 weeks of May
- Medium term interest rate expectations depending on the level of excess liquidity
- Though declining, excess liquidity has not impacted EONIA so far
- Roughly a third of the 3-year LTROs have been repaid

Forward EONIAS at ECB meeting dates



Negative deposit facility rates or MRO rate cut anticipations are priced out hence a flat curve for Eonia forwards at ECB dates until November and a steeper curve beyond

EURIBOR profile of expectations through 2015

