Recent key financial market developments

Operations Managers Group
Frankfurt, 18 October 2012
Major developments and announcements

26 July 2012

ECB President commits to do what is necessary to preserve the euro and remove unjustified euro break up premia in sovereign yields.

6 September 2012

ECB announces operational details of the Outright Monetary Transactions to repair monetary policy transmission mechanism under strict conditionality:

- Residual maturity of 3-years;
- EFSF/ESM ECCL in cooperation with IMF pre-condition;
- No ex-ante limits on the OMT purchases
- No seniority
- Eligibility of USD, JPY and GBP denominated securities issued and held in the euro area for Eurosystem Credit Operations

13 September 2012

Fed announces:

- open ended QE3
- Possible additional measures if the situation does not improve
- guidance for short-term interest rates near zero until mid of 2015

28 September 2012

Release of stress tests on Spanish bank capital needs
Selected government bond yield developments

2-year Government Bond yield – recent changes

10-yr Gvt Bond yields – recent changes

Source: Bloomberg
Government CDS developments

Selected government CDS developments

Source: Bloomberg
10-year gov’t bond yields and CDS premia

**Government bond yields**

**CDS premia**

*Source: Bloomberg*
Euro effective exchange rate and Net Speculative positions

Source: CFTC, Bloomberg
Equity market developments and bank risk

Source: Bloomberg
FX market – major currencies vs. USD

Source: Bloomberg
Inflation expectations and Inflation swap

Source: Bloomberg
Excess liquidity developments

Source: ECB
Summary

• Decrease in general tensions in relation to the euro area sovereign debt crisis and euro redenomination risk. OMT seen as a effective backstop facility that removes systemic risk and prevents the risk of a bad equilibrium.

• Areas of focus/concern: economic growth, bank-sovereign link.