

CEE Corporates

Caught between divergent G2 policies and growth uncertainties

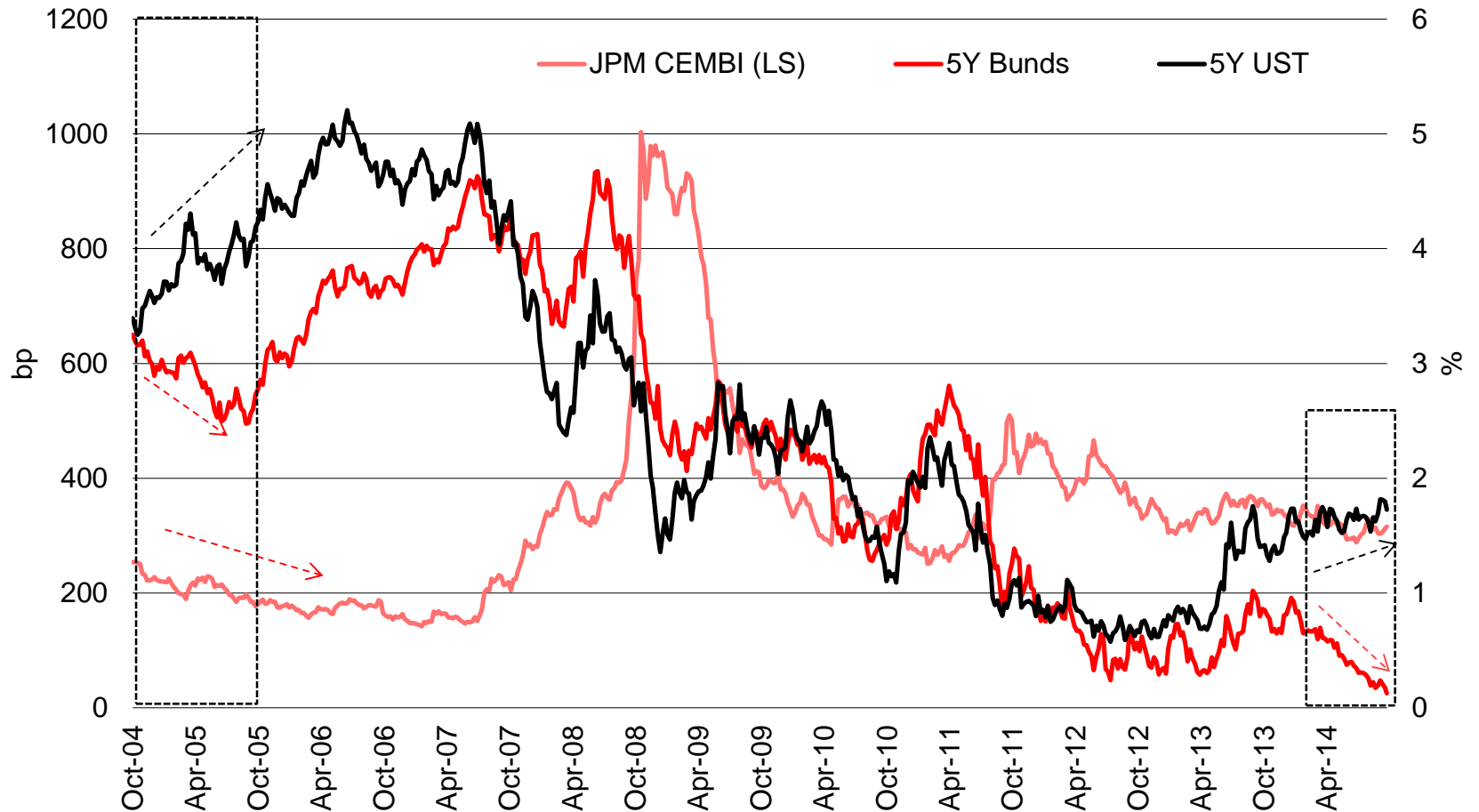
Stefan Kolek, CEE Corporate Strategy

October 2014

Key driver in Emerging European credits: Divergent G2 monetary policies...

In 2004-05, EM credit spreads tightened despite the Fed's policy tightening (ECB on hold), but the global growth backdrop was much stronger at the time, and geopolitical risks were lower than they are now.

UST, Bunds and EM Corporate credit spreads



Source: JPM, Bloomberg, UniCredit

...with the Fed expected to start tightening in 2Q15, ECB to stay dovish...

UniCredit interest rate forecasts

		end-4Q14		end-1Q15		end-2Q15		end-3Q15	
	current	UniCredit	Forward*	UniCredit	Forward*	UniCredit	Forward*	UniCredit	Forward*
Euro area									
Refi Rate	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
3M Euribor	0.08	0.05	0.09	0.05	0.08	0.05	0.09	0.05	0.09
10Y Bunds	0.84	1.10	0.88	1.30	0.92	1.50	0.96	1.75	1.01
US									
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.50	0.40	0.75	0.65
3M USD Libor	0.23	0.35	0.24	0.40	0.28	0.75	0.41	1.00	0.57
10Y Treasuries	2.22	2.70	2.31	3.10	2.38	3.30	2.45	3.60	2.52
Poland									
Reference Rate	2.00	1.75	2.00	1.75	1.90	1.75	1.90	1.75	1.95
3M Money Market Rate	1.94	2.20		2.22		2.24		2.28	
Czech Republic									
Reference Rate	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
3M Money Market Rate	0.04	0.35		0.35		0.35		0.35	
Hungary									
Reference Rate	2.10	2.10	2.85	2.10	2.85	2.10	2.85	2.10	3.00
3M Money Market Rate	2.10	2.15		2.22		2.32		2.40	

Source: Bloomberg, UniCredit

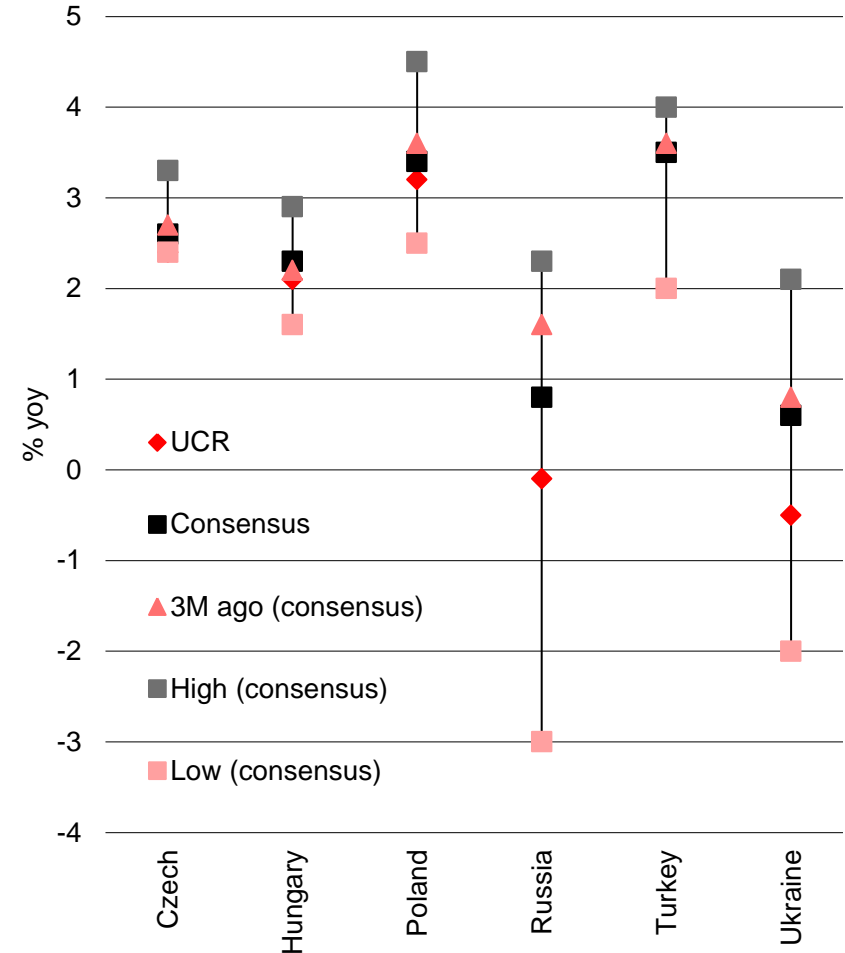
...and economic growth uncertainties

Moderate economic growth scenario across CEE. Broad dispersion in Russian growth forecasts points towards uncertainty going forward.

Selected UniCredit GDP forecasts

	2013	2014	2015
Industrialized countries			
US	2.2	2.1	2.7
Euro area	-0.4	0.8	1.2
Germany	0.2	1.5	1.6
France	0.4	0.4	0.8
Italy	-1.8	-0.2	0.7
Spain	-1.2	1.2	1.6
Austria	0.3	0.6	1.6
UK	1.7	3.2	2.3
Switzerland	1.9	1.7	1.8
Japan	1.5	1.0	1.5
Developing countries			
Central & Eastern Europe			
Russia	1.3	-0.4	-0.1
Poland	1.6	3.2	3.2
Czech Republic	-0.7	2.4	2.4
Hungary	1.1	3.1	2.1
Turkey	4.0	2.9	2.0
Emerging Asia			
China	7.7	7.1	6.9

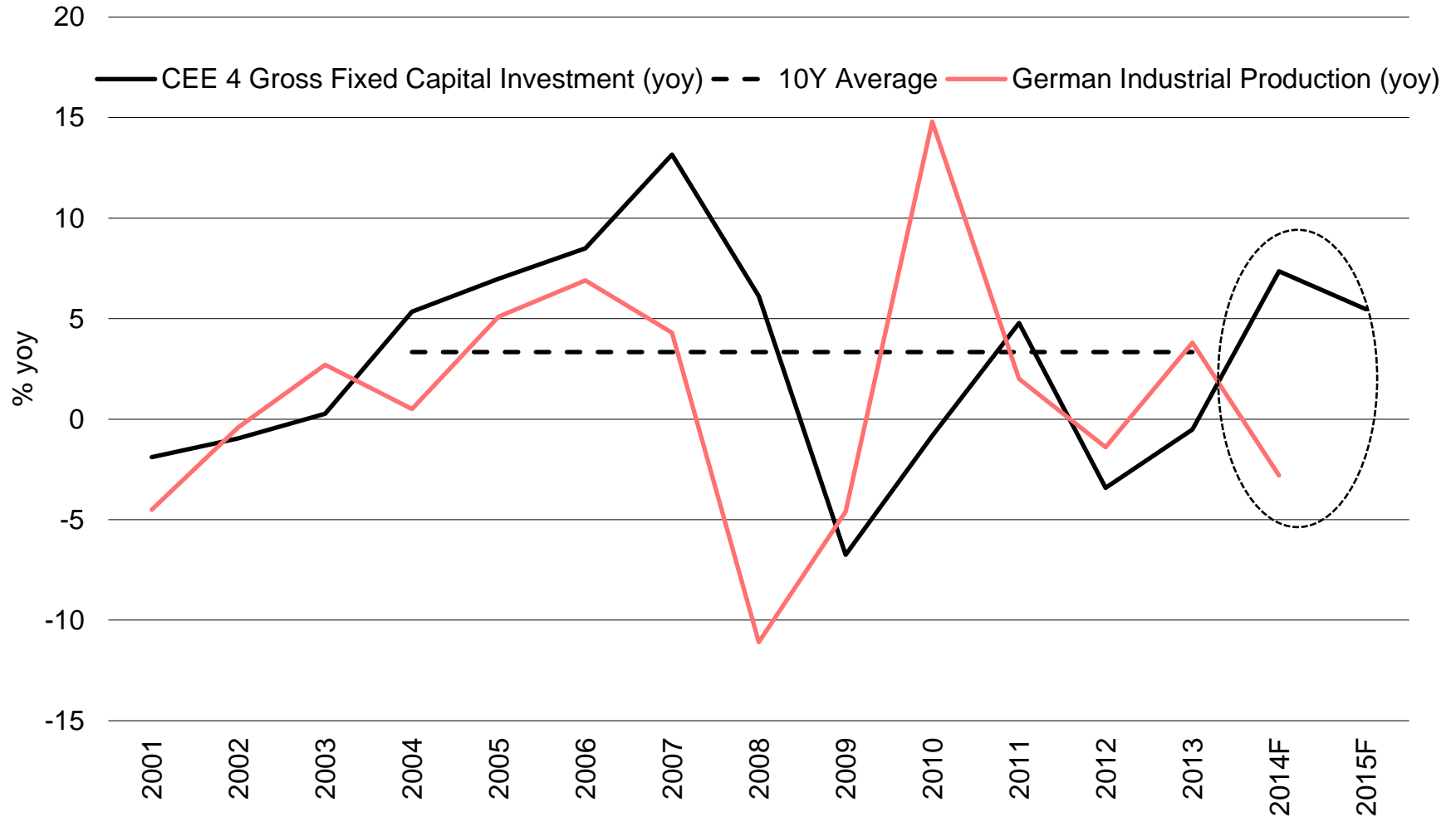
CEE GDP 2015 forecasts vs. consensus



Investment demand to pick up, but German economic outlook is key

Investment – together with consumption – is expected to be the main GDP driver in CEE. A major risk factor for CEE investment is German industrial production slowdown.

CEE 4 investment demand vs. German industrial production

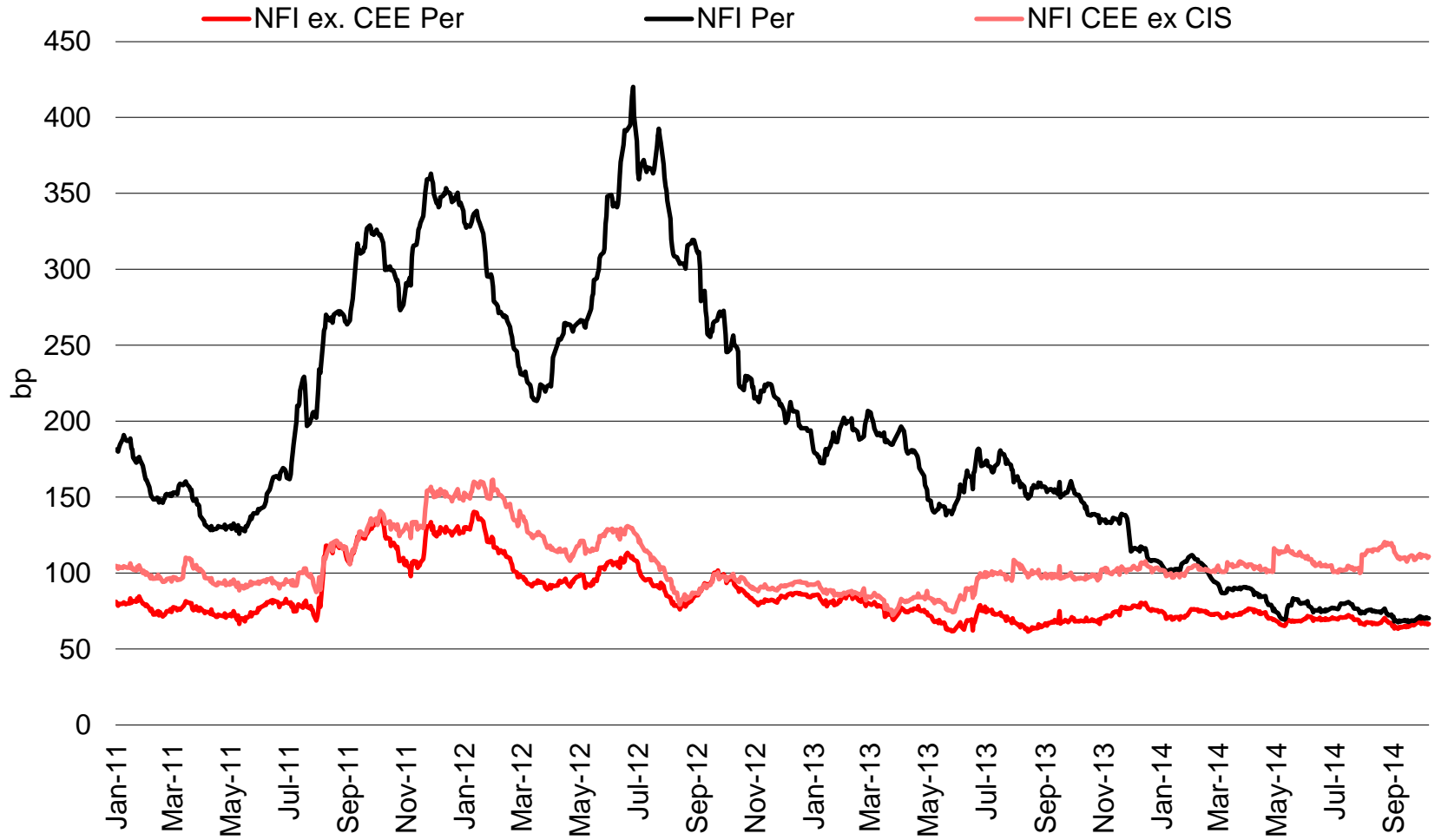


Source: Bloomberg, UniCredit

iBoxx components still offer juicy pick-up for iBoxx investors

CEE 4 iBoxx components' outstanding has increased 18% yoy. New issuance from CEE borrowers coming mainly on the back of loans-for-bonds switches is a technical factor, leaving credit metrics unaffected.

iBoxx High-Grade credit risk premia – (implied) CEE component vs. core and periphery components*

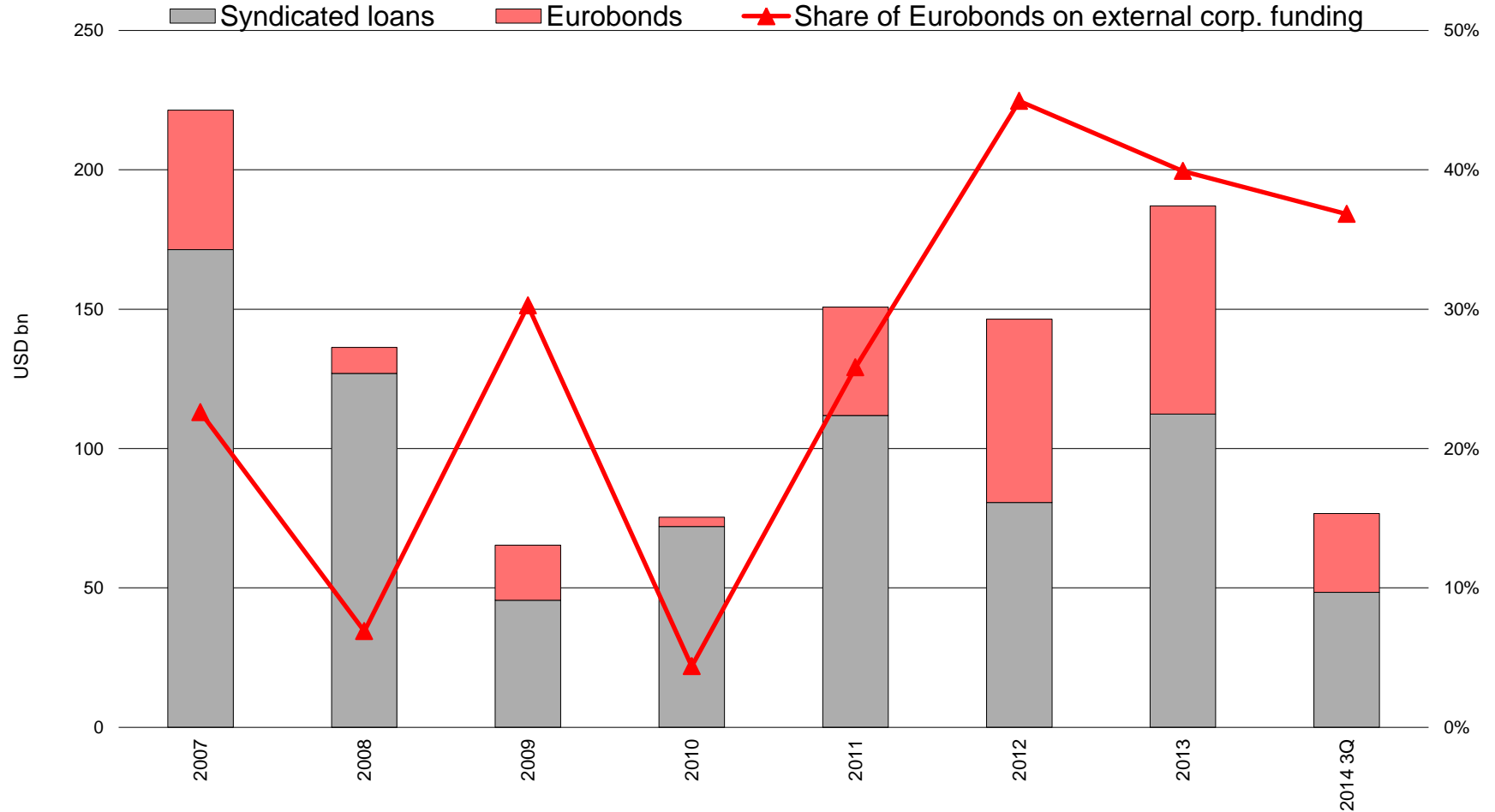


Source: iBoxx, UniCredit
 *CEE component is ex-CIS credits

Banks' deleveraging mode weighs on lending, and...

The regulatory overhaul of the global banking sector has prompted firms to tap the bond market instead of the loan market

Emerging European corporate Eurobonds vs. syndicated loans

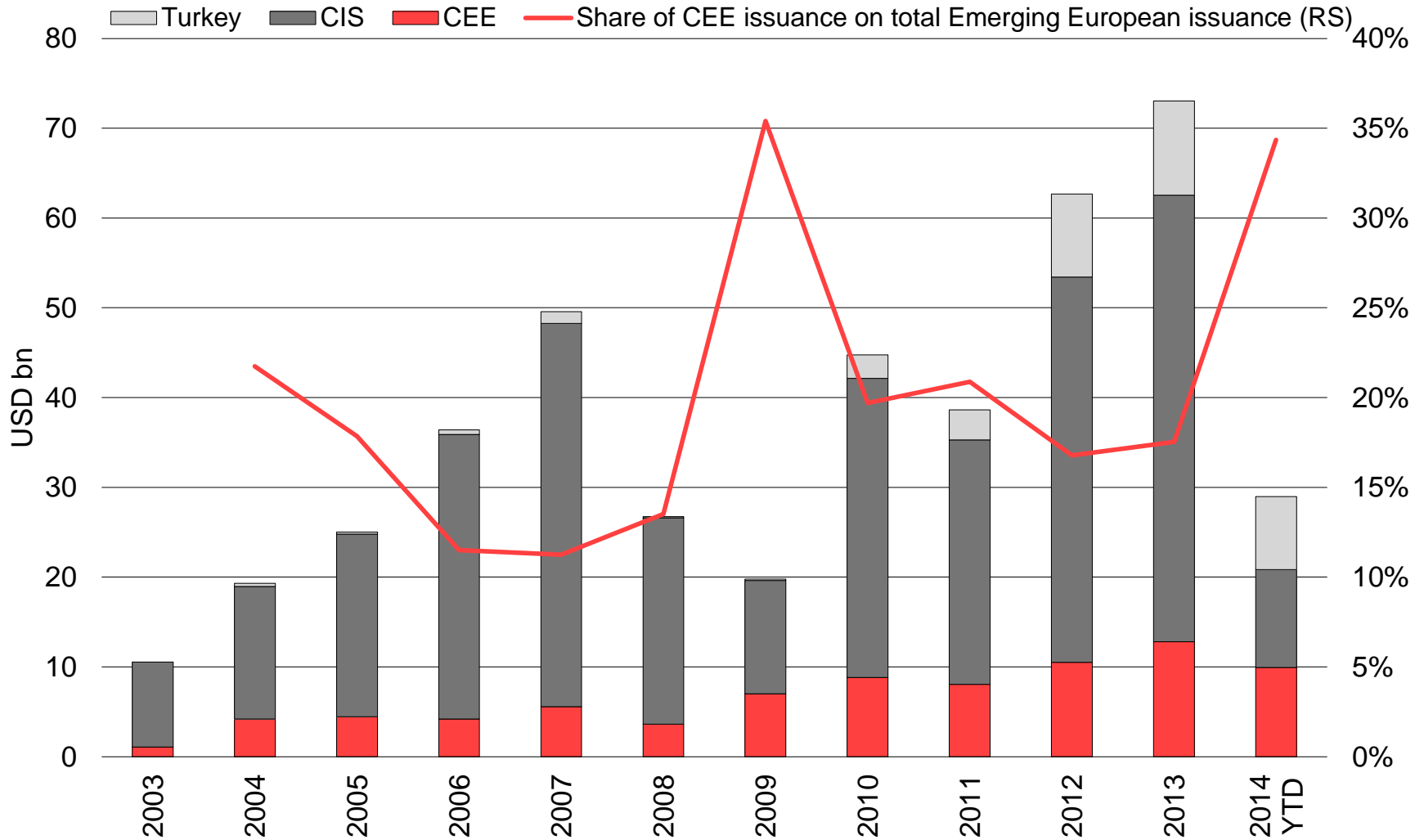


Source: BondRadar.com, Dealogic, UniCredit

... the Eurobond market's role as a funding source has increased

CIS corporates issuance down by 74% yoy; Turkish corporates issuance down by 10% yoy, while CEE corporates issuance is up 87% yoy.

Emerging European corporates Eurobond issuance



Source: Bondradar.com, UniCredit

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