

EMERGING EUROPEAN CORPORATE EUROBOND MARKET

An Asset Class Comes of Age

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- WILL THE BOND MARKET GAIN RELEVANCE FOR EMERGING EUROPEAN CORPORATES AS WELL AS INVESTORS?

Emerging European corporate credits are among the top-performing asset classes

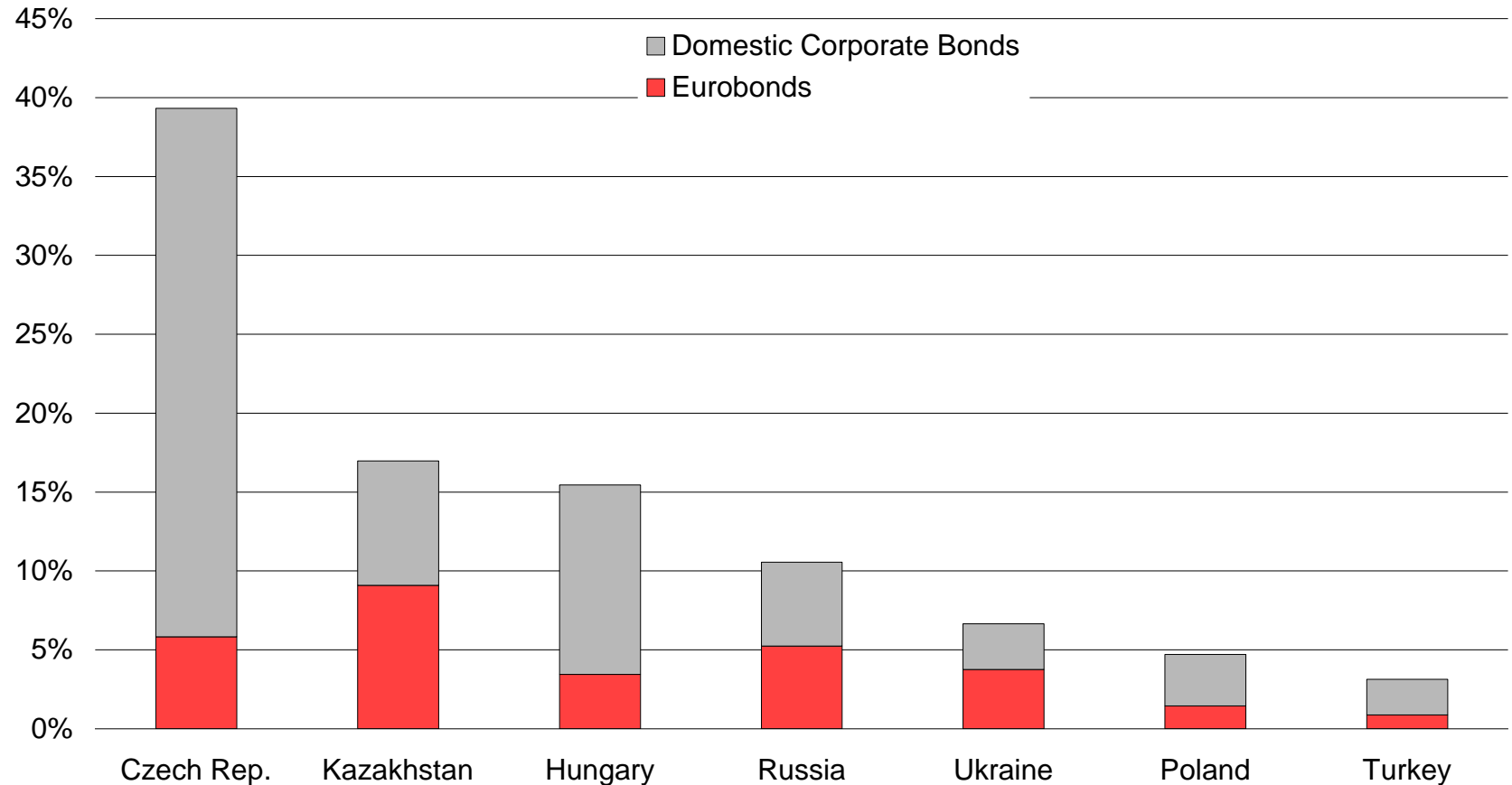
Selected asset-class performance

Year	iBoxx Overall	Stoxx 600	DJ UBS	S&P500	TOPIX	MSCI EM	CSI 300	Brent Crude	Gold	Euro	iBoxx Germany	iBoxx France	iBoxx Italy	iBoxx Non-Fin	iBoxx Fin-Sen	iBoxx HY	JPM EMBI	JPM CEMBI CEEMEA
2000		-2.2%	29.3%	-7.2%	-24.8%	-33.4%		-0.4%	-4.6%	-7.6%							18.9%	
2001		-17.2%	-16.5%	-8.8%	-20.8%	-3.4%		-13.6%	3.5%	-5.1%							34.7%	
2002		-32.0%	27.4%	-23.0%	-14.9%	-9.2%		43.6%	24.9%	16.2%							22.3%	11.1%
2003		14.8%	21.3%	29.4%	24.3%	51.5%		0.0%	19.4%	20.0%						25.3%	21.4%	23.2%
2004	7.5%	9.5%	9.2%	10.9%	11.3%	22.4%		34.1%	5.5%	7.6%	7.4%	7.5%	8.3%	7.5%	7.2%	14.6%	10.1%	14.5%
2005	4.9%	23.5%	21.4%	4.9%	45.2%	30.3%		45.8%	17.9%	-12.9%	5.3%	5.4%	5.8%	3.5%	4.2%	7.4%	10.0%	11.0%
2006	-0.2%	17.8%	2.1%	15.8%	3.0%	29.2%	125.2%	3.2%	23.2%	11.9%	-0.4%	-0.4%	-0.6%	0.5%	0.4%	9.1%	5.6%	7.3%
2007	1.5%	-0.2%	16.2%	5.5%	-11.1%	36.5%	163.3%	54.2%	31.0%	10.5%	2.0%	1.8%	1.7%	0.7%	0.1%	-0.7%	7.8%	0.3%
2008	6.2%	-45.6%	-35.6%	-37.0%	-40.6%	-54.5%	-65.6%	-51.4%	5.8%	-4.2%	12.2%	11.6%	5.6%	0.9%	-0.3%	-33.6%	-15.8%	-30.7%
2009	6.9%	28.0%	18.9%	26.5%	7.6%	74.5%	98.6%	70.9%	24.4%	2.5%	1.9%	3.0%	8.1%	16.2%	13.5%	64.1%	37.6%	68.9%
2010	2.1%	8.6%	16.8%	15.1%	1.0%	16.4%	-11.6%	21.6%	29.5%	-6.5%	6.3%	5.3%	-0.8%	5.1%	3.8%	12.8%	11.5%	15.2%
2011	3.1%	-10.4%	-13.3%	2.1%	-17.0%	-20.3%	-24.0%	13.3%	10.2%	-3.4%	9.3%	4.1%	-5.0%	3.8%	2.2%	-2.0%	1.5%	2.4%
2007-11 (ann.)	4.0%	-7.5%	-2.1%	-0.2%	-13.8%	0.1%	3.8%	12.0%	19.7%	-0.4%	6.3%	5.1%	1.8%	5.2%	3.7%	3.6%	7.2%	6.7%
Std. dev.	3.6%	24.8%	21.5%	26.6%	26.3%	26.8%	31.6%	38.2%	22.0%	11.9%	4.9%	5.0%	7.3%	3.4%	3.3%	6.5%	9.0%	10.9%
Sharpe	1.11	-0.30	-0.10	-0.01	-0.52	0.00	0.12	0.31	0.90	-0.03	1.27	1.02	0.25	1.53	1.12	0.56	0.80	0.62
Max. drawdown (current)	0.0%	34.0%	38.1%	1.1%	53.2%	27.2%	58.3%	21.3%	12.1%	21.4%	1.3%	0.0%	2.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Max. drawdown (worst)	4.8%	61.0%	56.9%	55.3%	60.1%	66.1%	72.0%	72.9%	29.0%	30.1%	6.8%	6.8%	16.1%	6.0%	9.2%	37.5%	31.5%	47.6%
Calmar ratio	83.0%	-12.3%	-3.6%	-0.5%	-22.9%	0.1%	5.3%	16.5%	68.1%	-1.3%	92.8%	74.6%	11.4%	86.3%	40.5%	9.6%	22.7%	14.1%
YTD	6.9%	10.4%	1.8%	14.4%	6.4%	5.9%	0.5%	5.9%	3.2%	-4.6%	3.3%	8.5%	9.5%	7.6%	9.5%	14.3%	13.8%	12.5%
week 34 (wtd Thu)	0.47%	-0.81%	1.94%	-0.18%	2.39%	-0.53%	-4.01%	1.82%	3.11%	2.24%	0.10%	0.13%	1.35%	0.29%	0.22%	0.36%	0.82%	0.61%

Arms-length financing plays rather minor role in Emerging Europe

Corporates in commodity-intensive CIS economies depend more on Eurobond market than CEE corporates

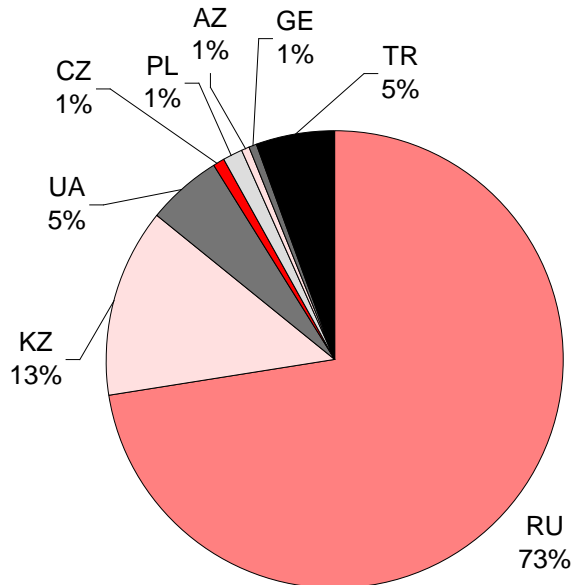
Corporate bonds outstanding relative to GDP



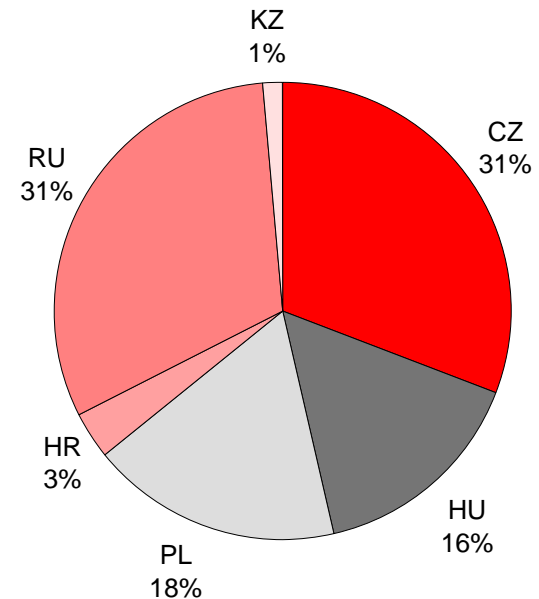
Source: Bloomberg, UniCredit Research

CIS issuers dominate the USD market, CEE issuers the EUR market

Country distribution of Emerging European USD Eurobonds



Country distribution of Emerging European EUR Eurobonds

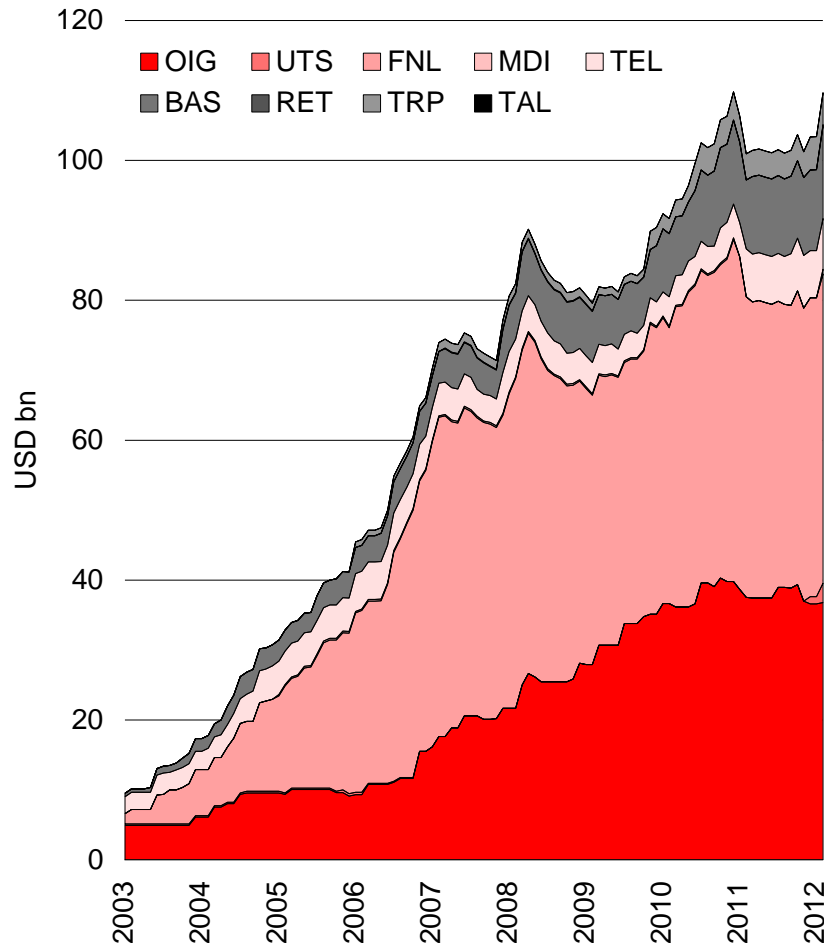


- Corporates from Oil & Gas and Basic Resources have a "natural hedge" against USD liabilities
- Eurozone export revenues and potential future eurozone membership offer CEE issuers "natural hedge" against EUR liabilities

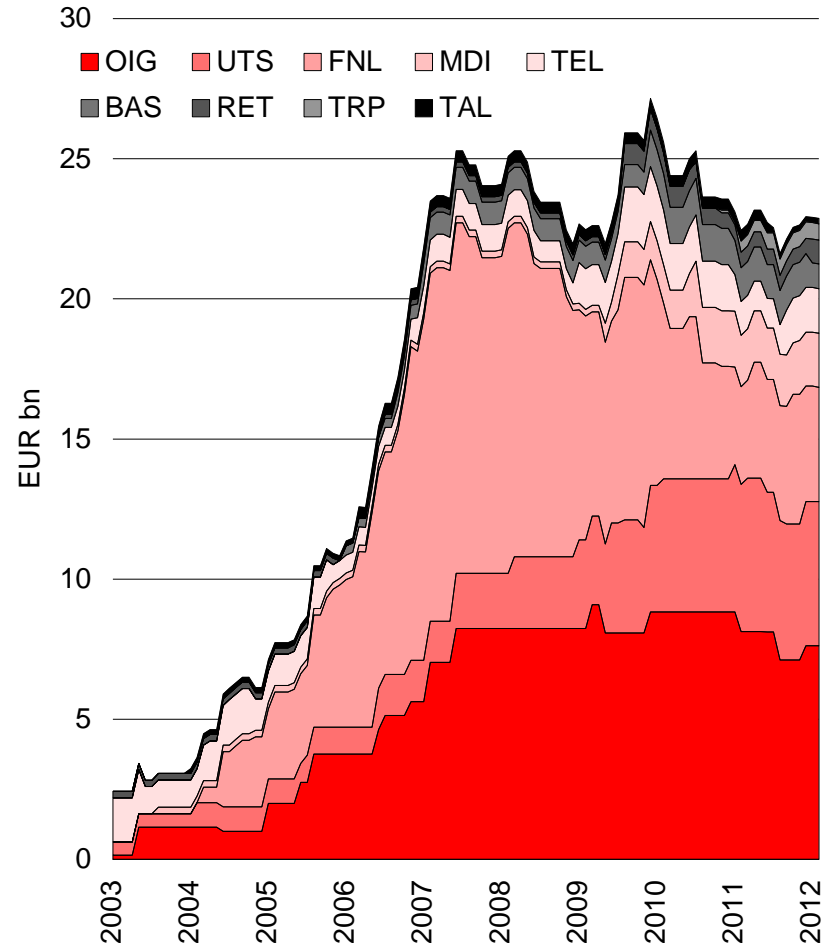
Sector-wise, Oil & Gas and Financials are the regional heavyweights

Capital intensive sectors, e.g. Oil & Gas, Utilities and Basic Resources, require high-volume, long-term funding, which is unavailable in local markets

Size of Emerging European USD Eurobond market



Size of Emerging European EUR Eurobond market

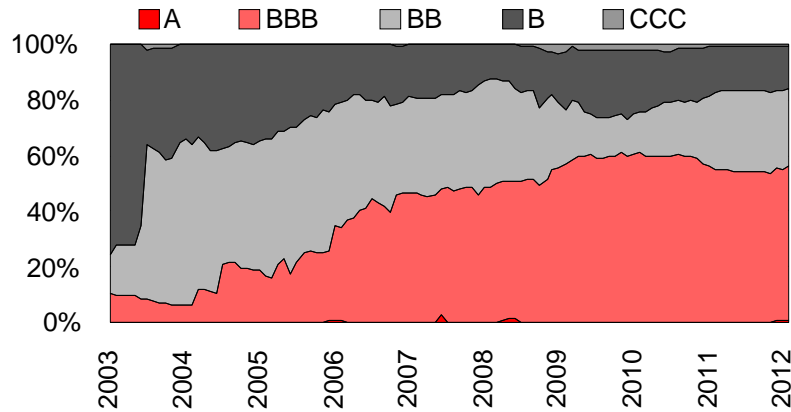


Source: Bloomberg, UniCredit Research

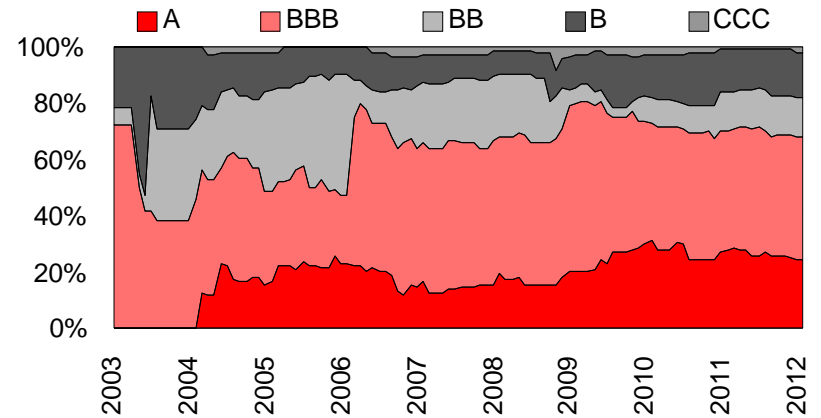
Credit quality has improved substantially – majority of issues are HG

However, on an issuer basis, a mere fifth of USD issuers is in HG area

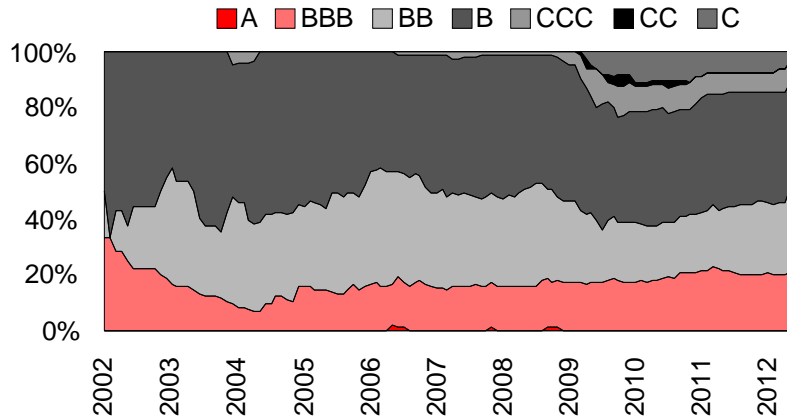
Rating quality distribution on an issue basis (USD)



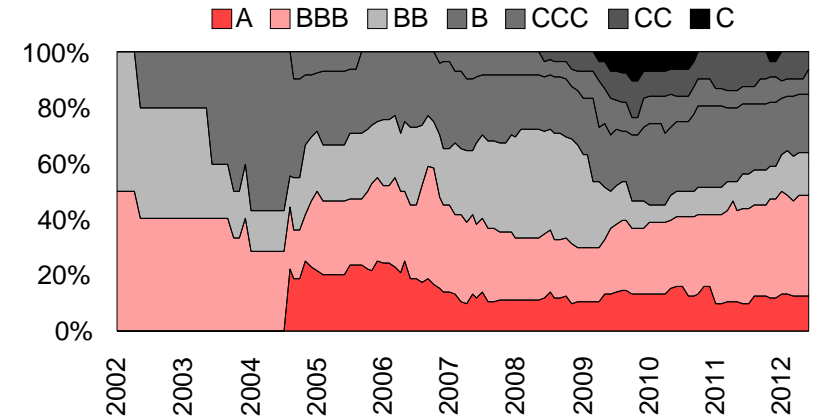
Rating quality distribution on an issue basis (EUR)



Rating quality distribution on an issuer basis (USD)

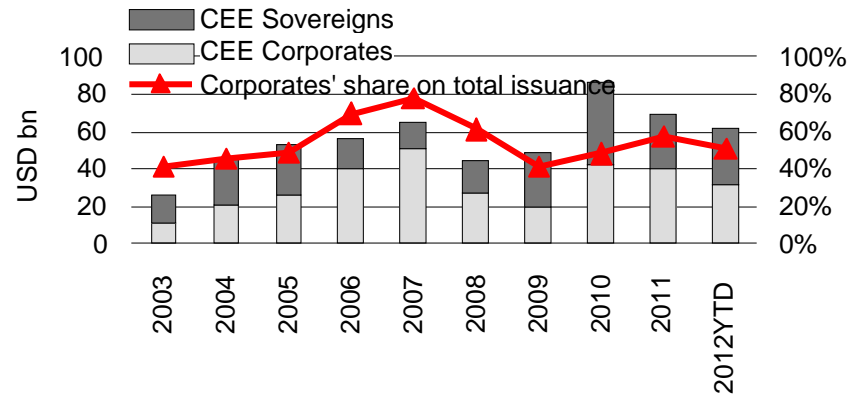


Rating quality distribution on an issuer basis (EUR)

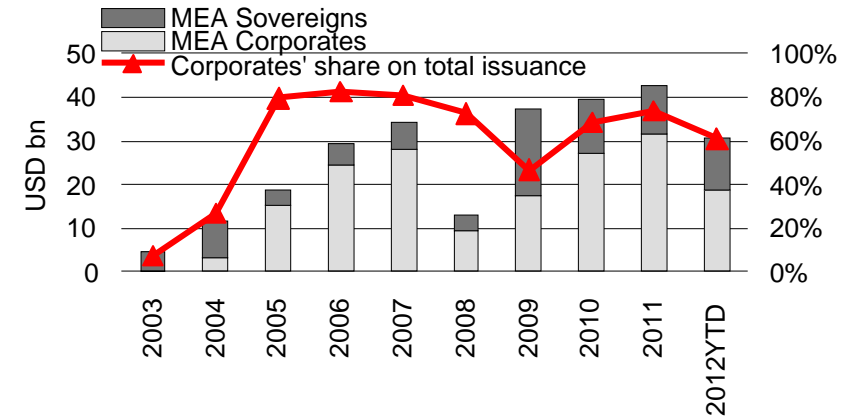


Almost even primary Eurobond market activity from CEE Sovereigns and Corporates

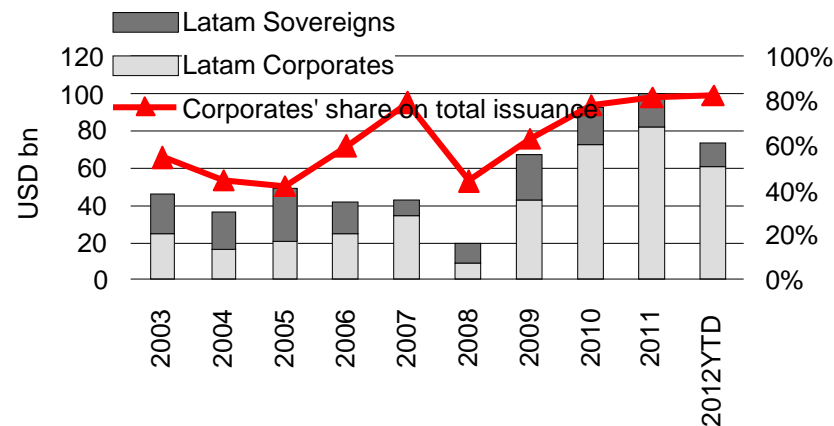
Emerging European corporates vs. sovereign issuance



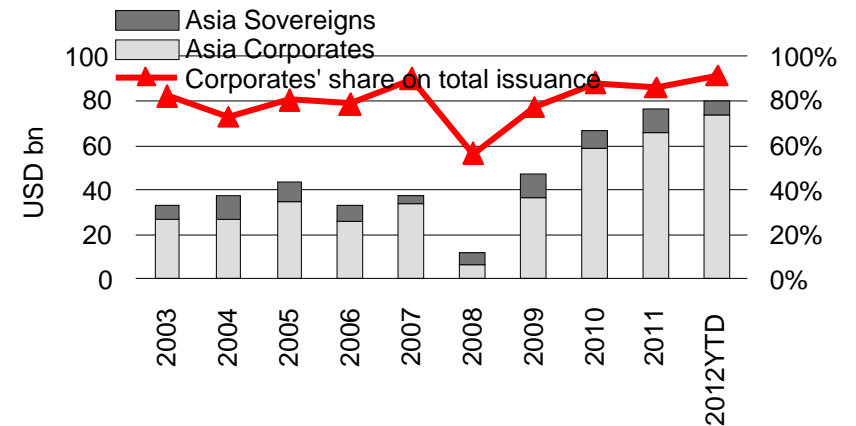
Middle East&Africa corporates vs. sovereign issuance



Latam corporates vs. sovereign issuance



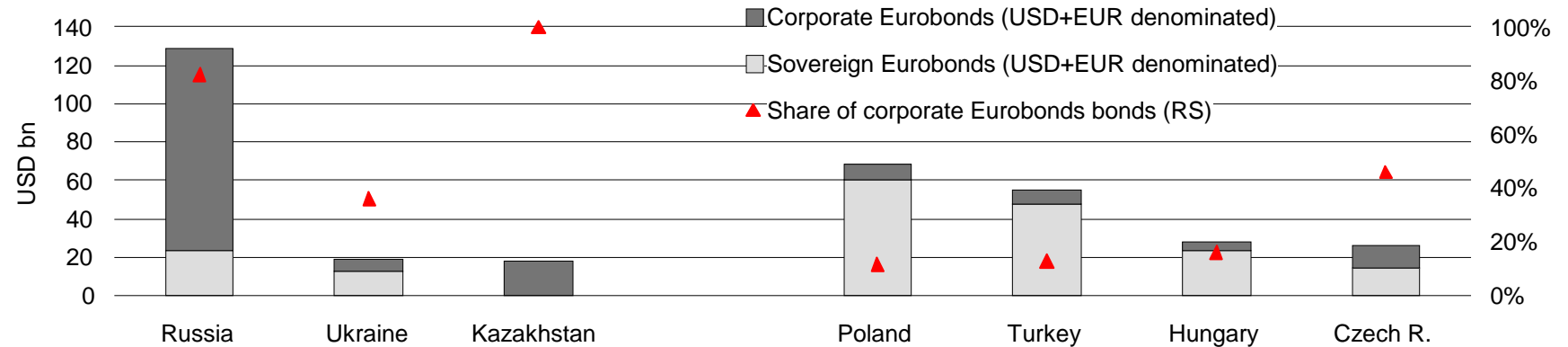
Asian corporates vs. sovereign issuance



Relative size of corporate bond markets varies

On balance, however, government bond markets dominate

Sovereign vs. corporate Eurobonds



Domestic government vs. corporate bonds

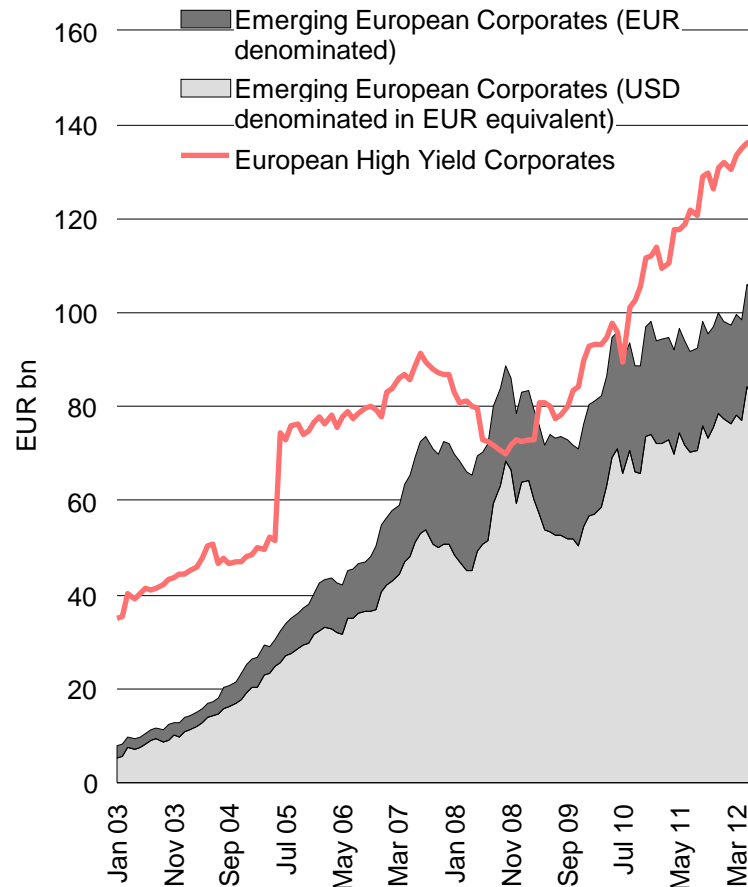


Source: Bloomberg, UniCredit Research

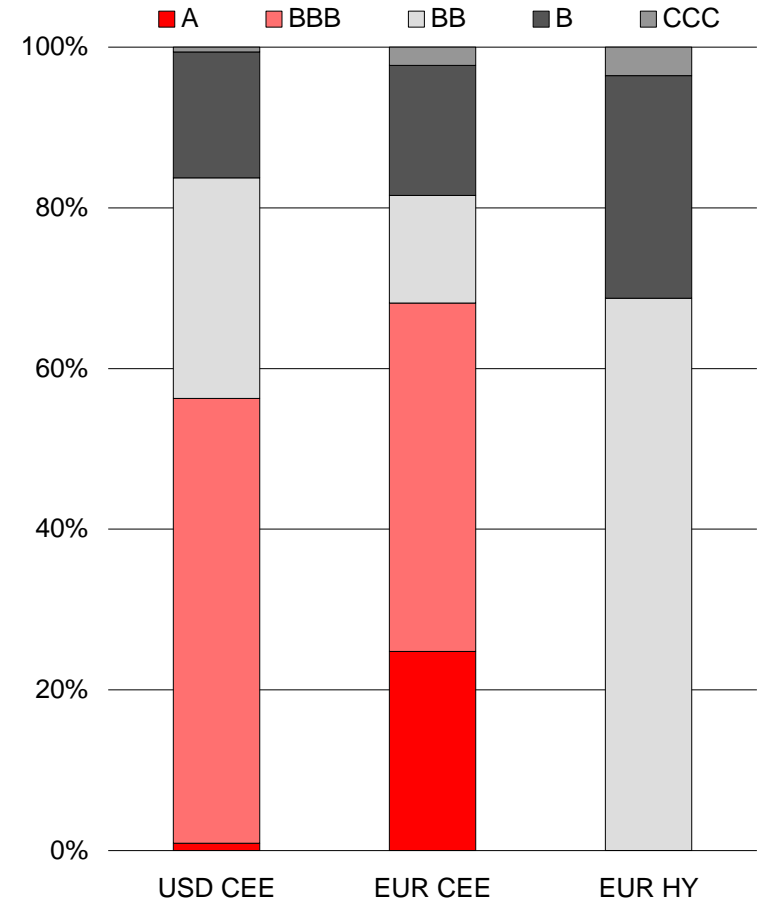
The size of the Emerging European corporate market approaches European HY market

But credit rating quality structure is much better in the Emerging European corporate market

Outstanding volumes of Emerging European and European HY bond market



Rating distribution in Emerging European and HY corporate markets

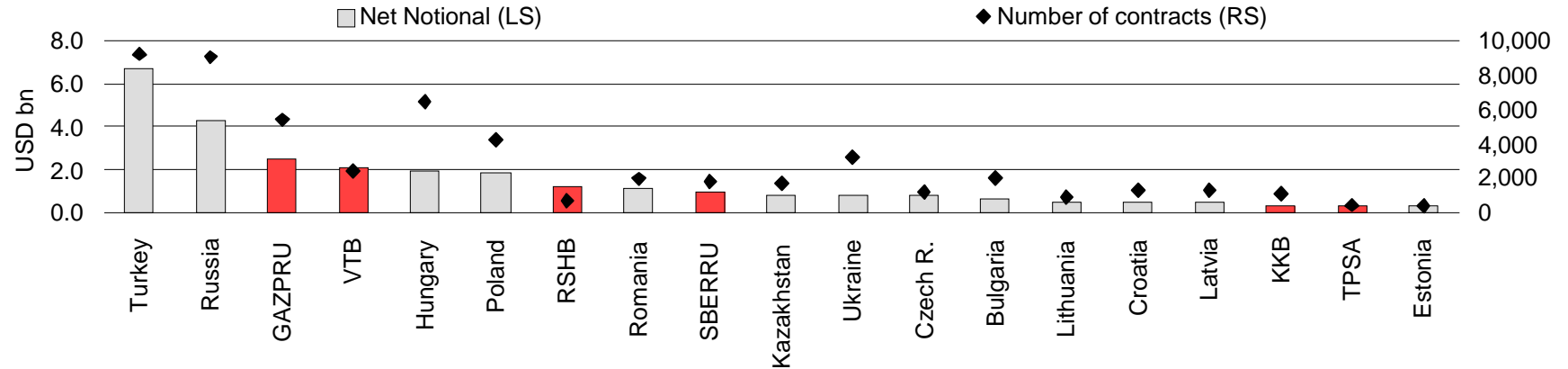


Source: iBoxx, Bloomberg, UniCredit Research

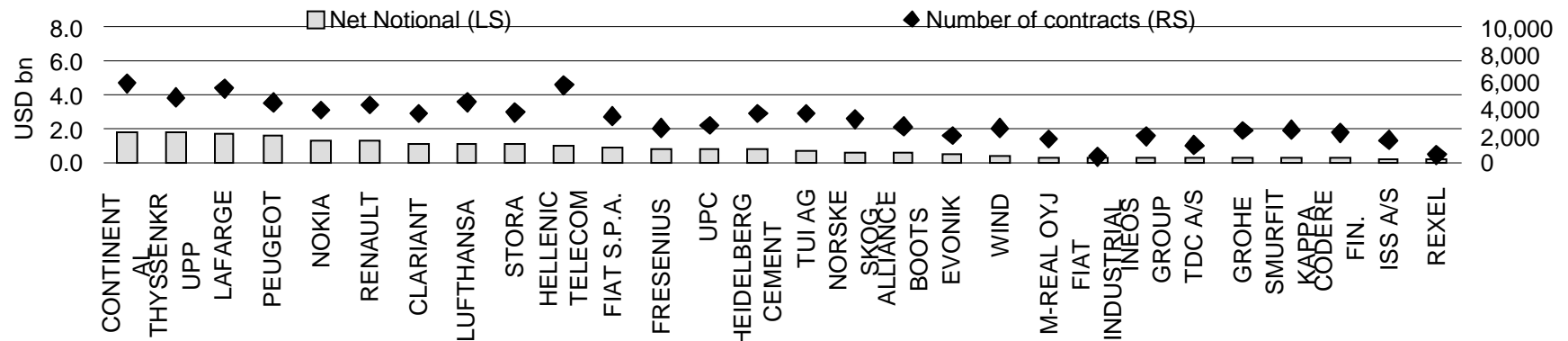
However, credit derivative market is still little developed in CEE

There are few corporate CDS contracts. Most of them are not very liquid, offering limited possibilities for hedging credit risk.

Net notional CDS volumes vs. number of outstanding contracts in Emerging Europe



Net notional CDS volumes vs. number of outstanding contracts of European HY corporates

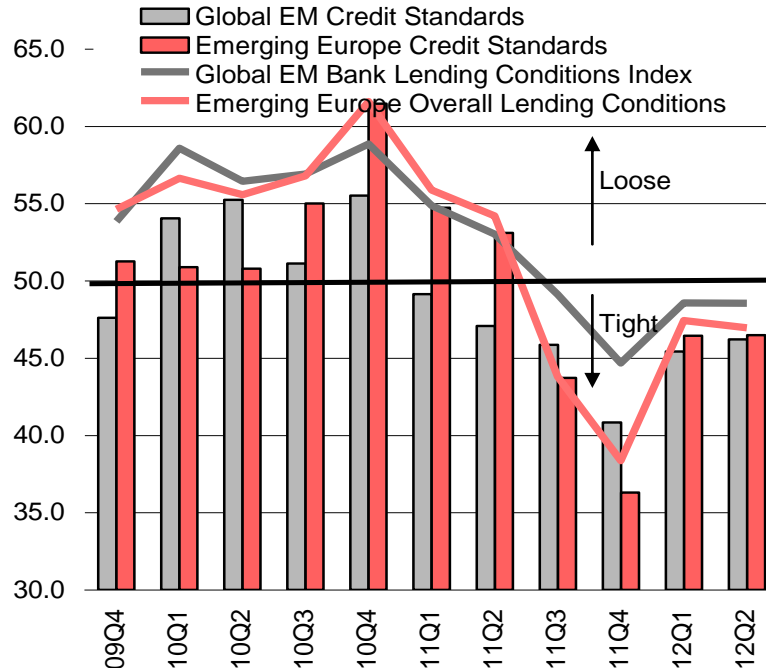


Source: DTCC, UniCredit Research

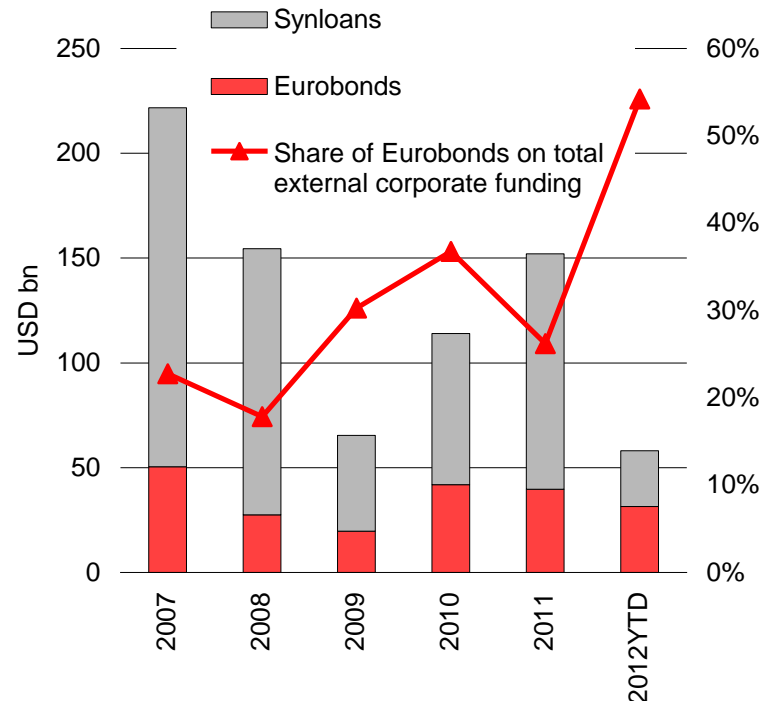
Corporate bonds may gain in terms of importance as funding source

Banks tighten lending standards as a result of regulatory overhaul

EM vs. Emerging European lending conditions



Emerging European new corporate bonds vs. syndicated loans*



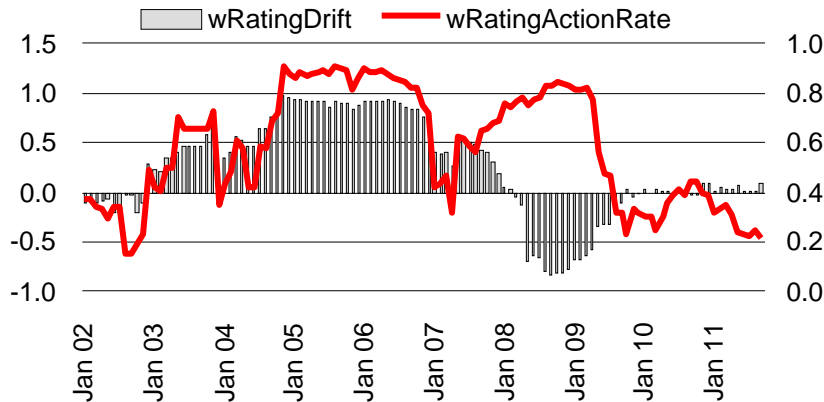
- The synchronized slowdown in the global economy has reduced activity in Emerging European primary capital markets. However, the decline in syndicated loan activity has been much stronger than in the Eurobond market.
- Besides weaker economic growth outlook, which is prompting more corporates to adopt cash preservation policies, the decline in syndicated loan borrowing also reflects tighter lending conditions, as banks try to reduce risk-weighted assets in order to comply with more restrictive Basel III capital requirements.

Source: Bond Radar, Dealogic, UniCredit Research

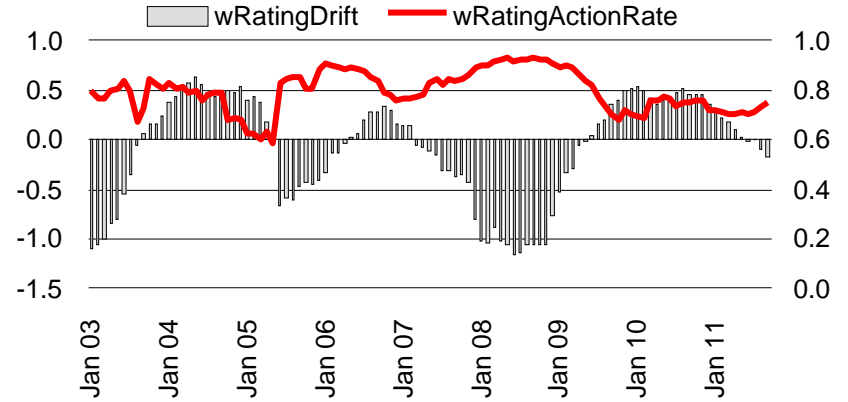
* Emerging Europe refers to the Czech Republic, Hungary, Poland, Slovakia, the Baltic states, Croatia, Bosnia-Herzegovina, Bulgaria, Romania, Serbia, Turkey, Russia, Ukraine, Kazakhstan, Georgia and Azerbaijan.

Credit rating quality momentum is still positive, in contrast to European high yield

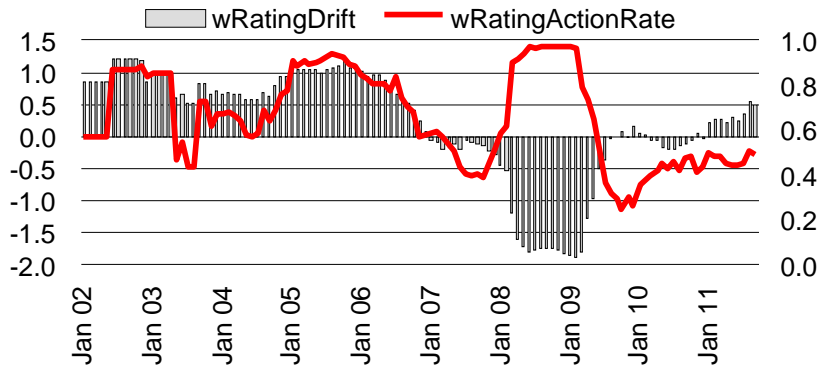
Rating drift* in Emerging European non-financials



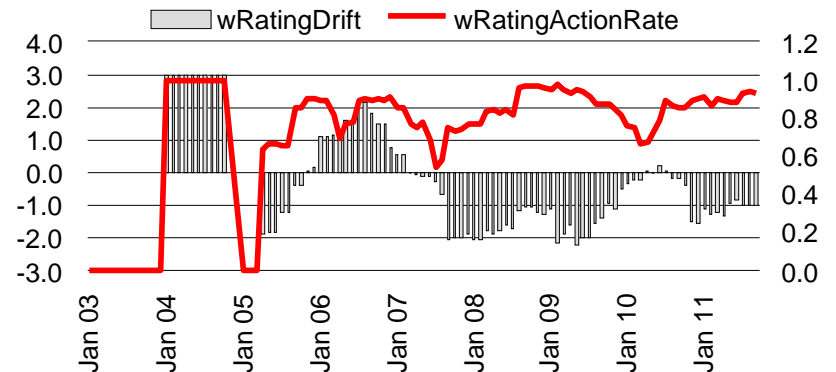
Rating drift in European high-yield non-financials



Rating drift in Emerging European financials



Rating drift in European high-yield financials



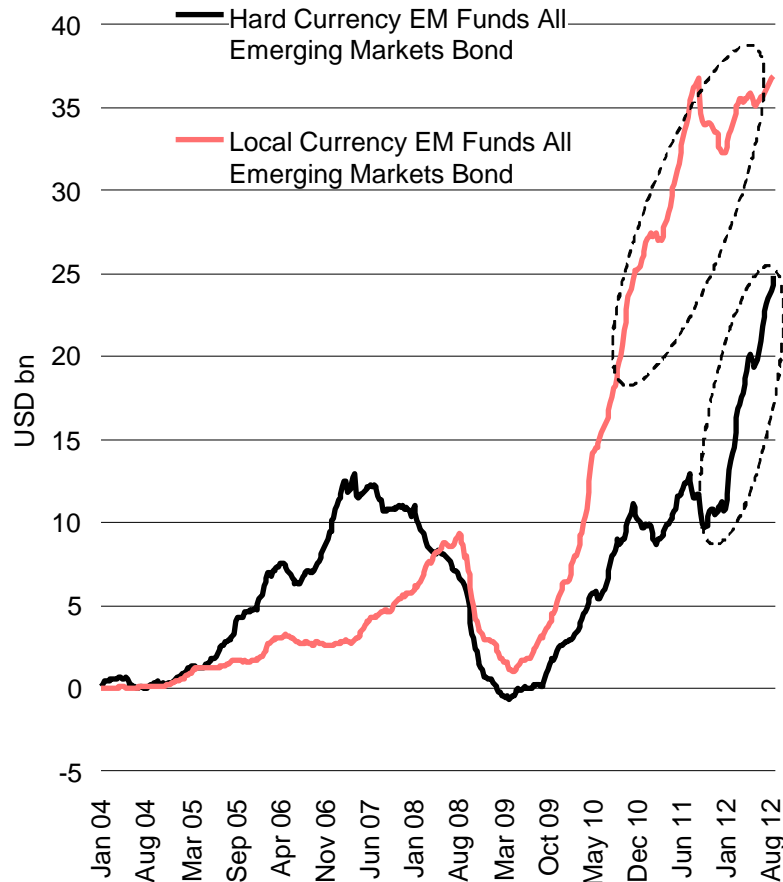
*Rating drift = (# of upgrades - # of downgrades) / (# of rating actions)

Source: Bloomberg, UniCredit Research

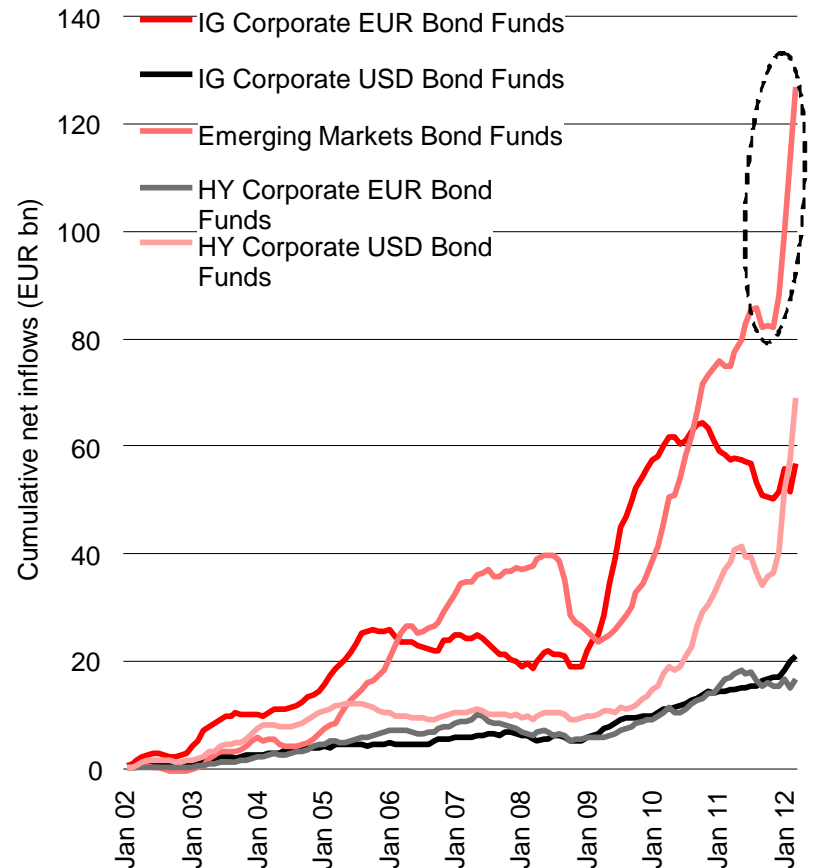
EM are gaining in importance for investors

Lack of appealing investment alternatives in DM, on balance solid credit metrics, low default rates attract inflows

Cumulated EM Bond Funds Flows



Cumulated European EM , IG and HY Bond Fund Flows



Source: EPFR, Lipper, UniCredit Research

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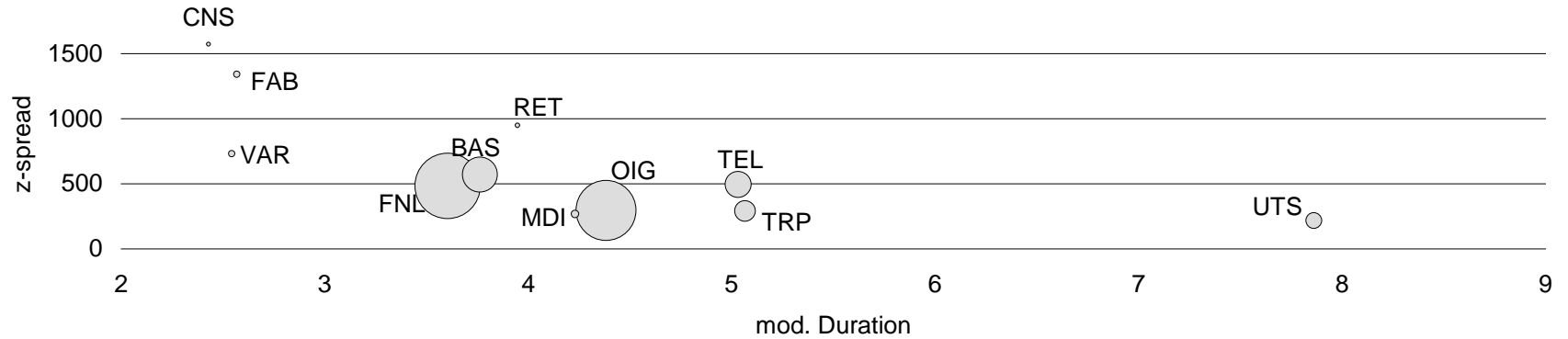
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