



# **Greek Fixed Income Monitor: Changes in Financials Bond Market due to the Bank Recapitalization Scheme**

Economic Analysis & Investment Strategy  
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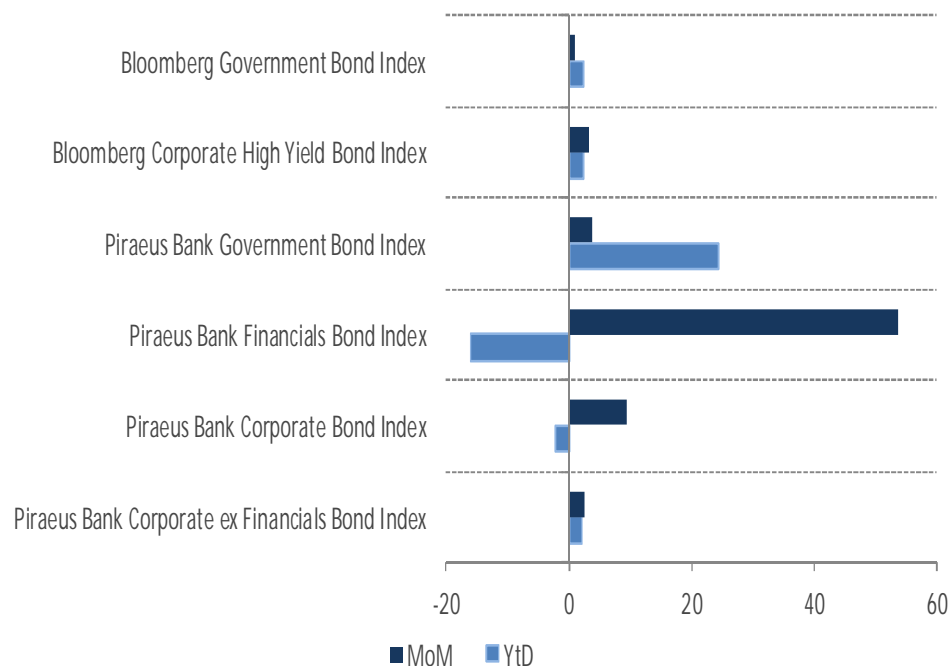
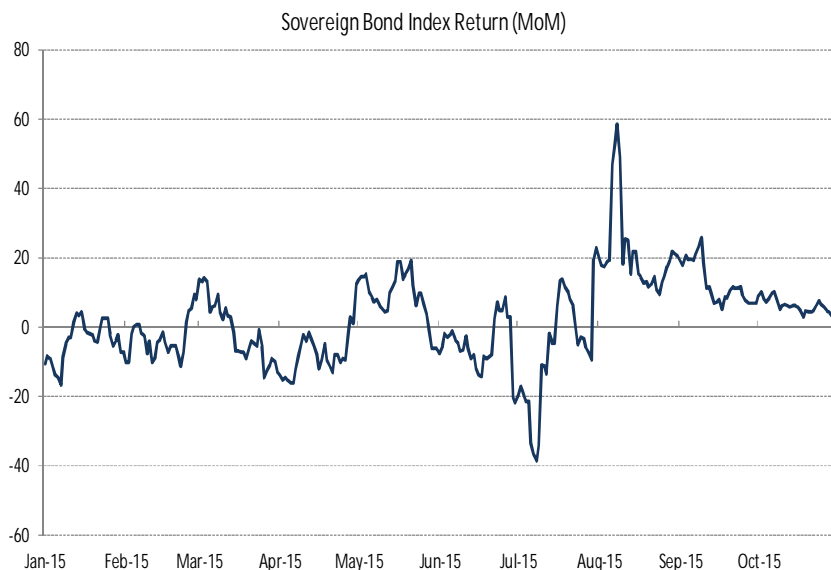
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## Historical high levels for the Greek Government Bond Index.....

- ▶ In October, the Greek Government Bond Index recorded an annual high while also coming very close to reaching its September 2014 level. Specifically, the index was 3.78 percentage points higher in October than in the previous month. The major source of this improvement originated from the short and medium-term part of the yield curve (4–10 Year maturities). Nevertheless, the relatively high positive returns of the past 3 months have moderated slightly, since the news about the new economic agreement with the creditors is fully priced in by the market.
- ▶ Improvement was also evident in the Corporate Bond Index, which increased by 2.56% in October relative to the previous month. On a Year-to-date (YtD) basis the index recorded a 2.35% gain. These developments were primarily due to the upward trend in corporate bonds since July 2015 which is related to the improvement in the expectations of the market with respect to the withdrawal of capital controls.





## ...influence the major corporate bond issues.

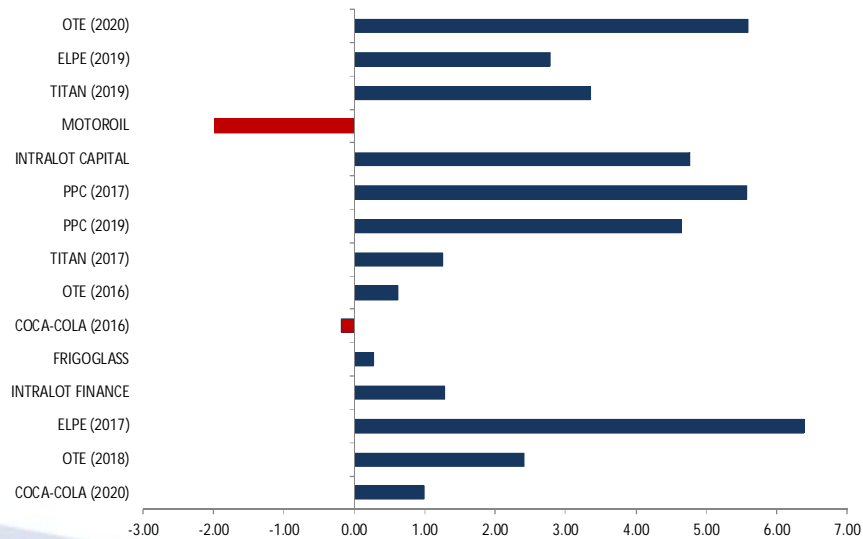
- ▶ Improvement for the majority of the bonds that are tracked in our index.
- ▶ The 3 best monthly performances were recorded for the following bond issues:

OTE (5.59%) maturing in 2020  
 PPC (5.58%) and  
 ELPE (6.38%) with maturity in 2017

- ▶ Losses were recorded for the bonds of:

Motoroil (-1.99%)  
 Coca-Cola maturing in 2016; (marginal negative return very close to zero)

Corporate Bond's Monthly Returns





## Financial Bond Issues and Recapitalization

- ▶ According to the results of the Comprehensive Assessment of the 4 systemic Greek banks conducted by the ECB, the total capital requirements stand at €14.4bn with the basic scenario amounting to €4.4bn. The capital requirements are expected to be covered by bond repurchases both with cash or equity redemption and by the accelerated book building procedure. The participation of senior bondholders in this bond exchange scheme is conditional on the participation of the HFSF in the capital requirements.
- ▶ In mid-October, with the aim of covering the full amount of capital requirements from private investors, the majority of the 4 systemic banks announced bond repurchase offers that are expected to be completed by mid-November. The Financials Bond Index recorded substantial gains during October, reaching 75.63 points from 49.17 points at the end of the previous month. We should note though that this abrupt increase is mainly due to arbitrage trading related to the terms of the bond repurchase program.
- ▶ As a result of the bond repurchase offers, we have opted to remove the Financials Bond Index as well as the Corporate Bond including Financials Index. With reference to the index base date, its highest price was recorded in June 2014 while its historical low was recorded during July 2015.

Financials Bond Index

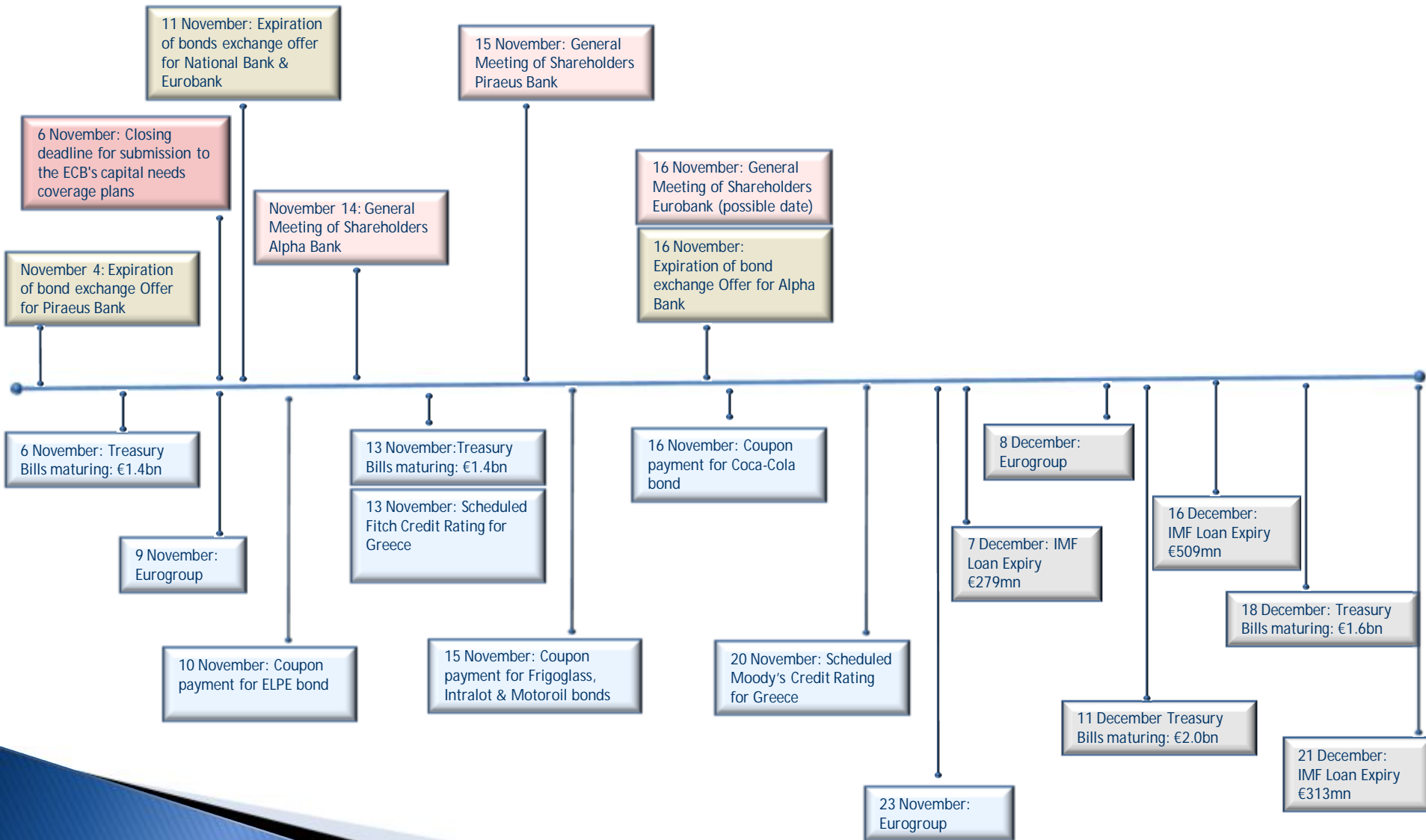


Financials Bond Index Yield





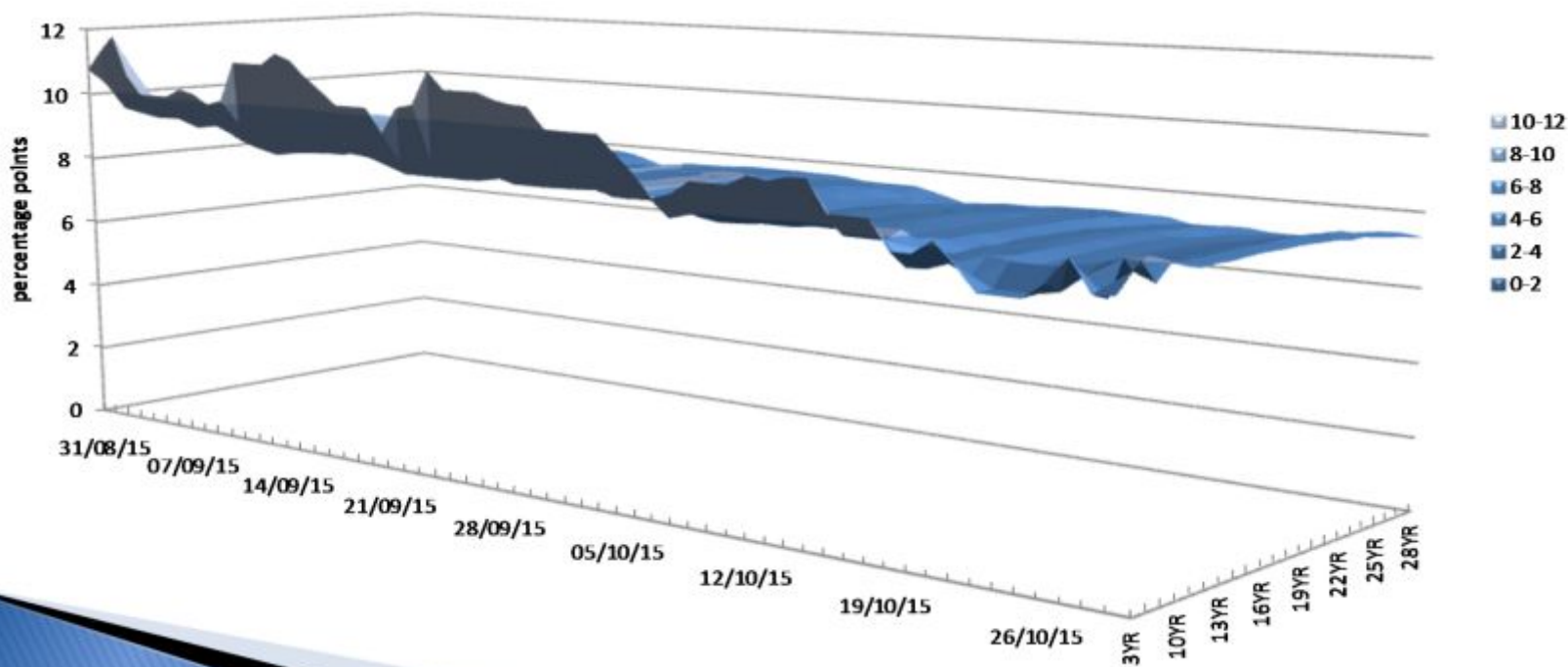
# Important Events for Greek Bond Market until the end of 2015





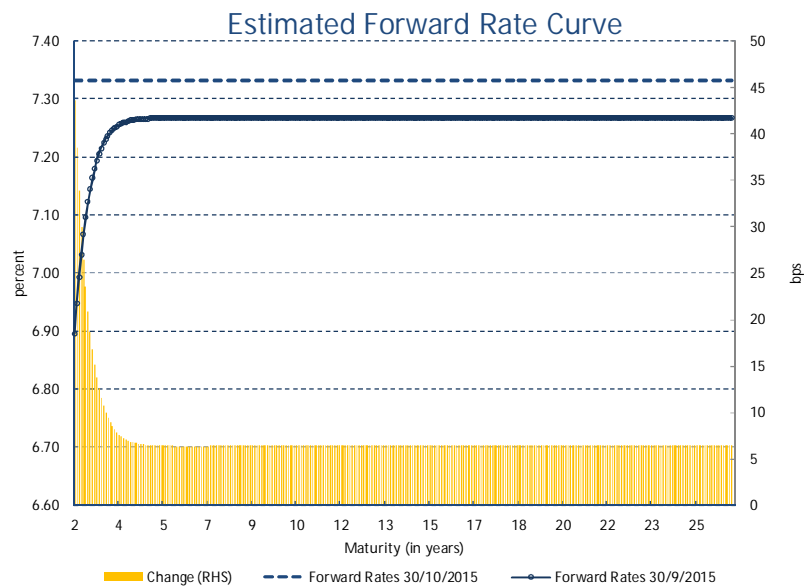
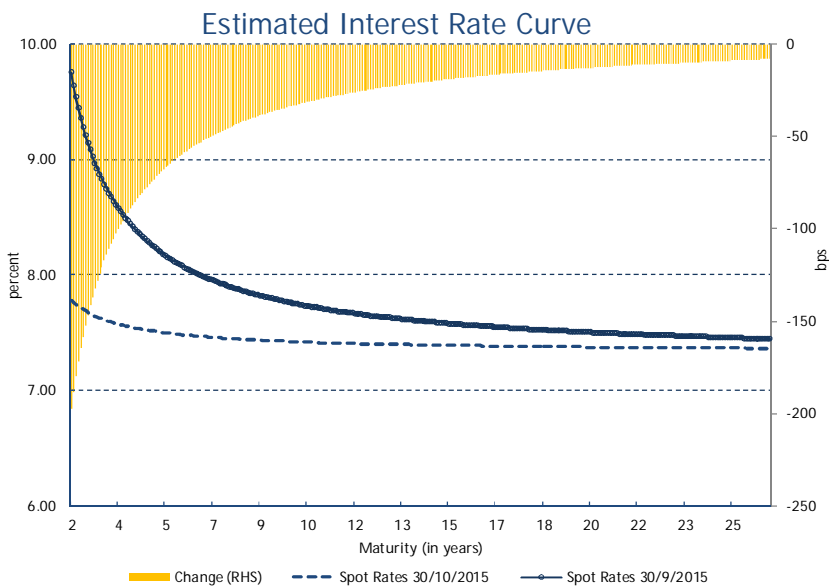
## The consecutive advances in government bonds over the last 3 months...

- ▶ October was the 3rd month in a row during which we observed a significant improvement in short-term and medium-term maturities. In particular, the Yield to Maturity (YtM) for the 2-Year bond decreased by 184 basis points (bp), while at the same time gains for the 10-Year bond reached 46 bp. For government issues with maturities longer than 10 years there was a small gain in the range of 10 to 20 bp.
- ▶ One important consequence of the volatility in the short-term part of the yield curve was the partial reversal in the term structure slope, which became marginally positive in October after one year at negative levels. According to the yield curve at the end of October, we are now in a flat curve state where short-term rates equal long-term rates. Such a shape in the term structure reflects the high uncertainty in market expectations about the economic climate in the country. Yet, it also signals an important improvement relative to previous months.





## ...led to a flattening in the interest rate curve...

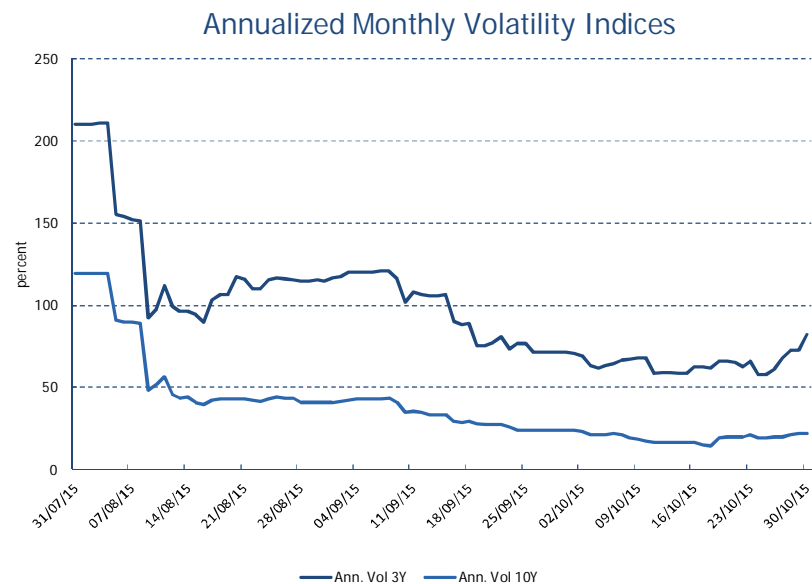
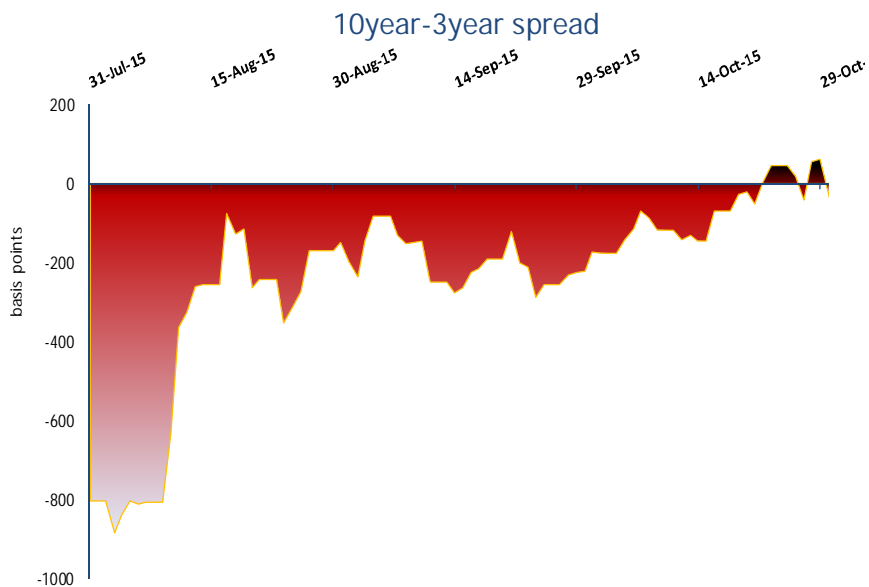


- ▶ We emphasize that the offsetting of the negative slope in the interest rate curve emanated primarily from the erratic behaviour of short-term rates. However, since long-term rates remained at the same levels as in the previous month the expectations for macroeconomic prospects have not changed dramatically. Specifically, the rates for short-term maturities (2/3 year) decreased substantially by almost 190 bp to the range of 7.5-7.7%. Similarly, medium-term maturities (5/10 years) recorded a drop of about 30-70 bp, whereas a marginal decrease of 20 bp was noted for the long end of the curve.
- ▶ Conventionally, the short-term part of the interest rate curve is viewed as being influenced mostly by monetary policy and the liquidity prospects in the economy. Bank recapitalization in conjunction with the settlement of Non-Performing Loans (NPL) and the completion of the first evaluation for the economic programme are expected to further improve the short end of the curve and possibly provide sustainable momentum in growth expectations. Consistent with this is the idea that the forward rate curve does not imply any changes in the interest rate curve for the next month.
  - ▶ In summary, the successful recapitalization of the 4 systemic banks, a sustainable solution for NPLs and the completion of the evaluation of the structural reforms are expected to signal the transition to another state for the interest rate curve and the market's expectations.





# ...driven by an increase in the market's short-term uncertainty.

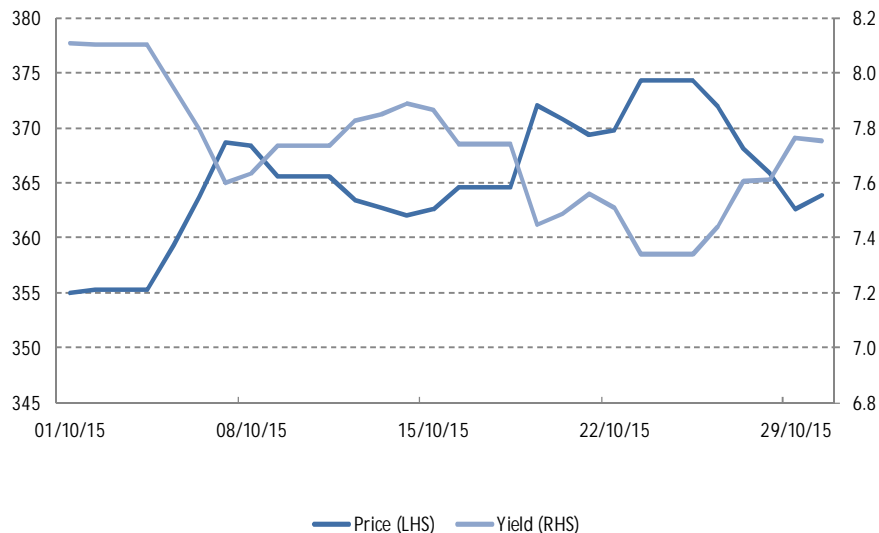


- ▶ As has been mentioned already, there was a reversal in the yield curve's slope in October such that the 10/3 year term spread ranged between -176 to 64 bp. Still, the probability of the interest rate curve's slope returning to negative levels is significant as the political risk and the difficulties in the implementation of the third economic programme persist.
- ▶ The flatness of the interest rate curve is driven by the volatility in short-term bonds. The annualized volatility index for the 3-Year bond trended upwards for the second half of October, whereas the volatility index for the 10-Year bond remained at the same levels as in the previous month. In detail, the index for the 3-Year bond increased to 82 percentage points at the end of October, 11 percentage points higher than its level in the previous month. Conversely, the volatility index for the 10-Year bond decreased by almost 1.6 percentage points from its September level to 23.75 points.

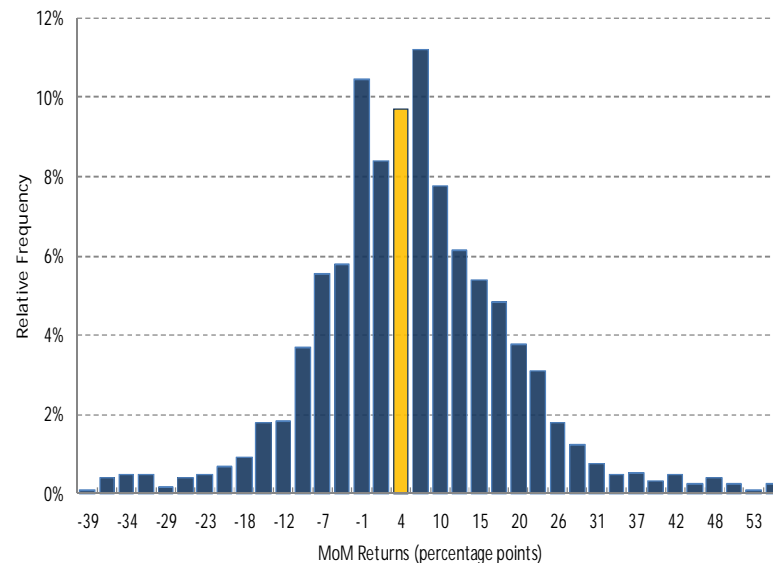


## Piraeus Bank Greek Government Bond Index

Index Evolution October 2015 (Base Date: 9/3/12=100)



MoM Returns Histogram



- ▶ The lowest price in October for the index was 354.94, while the highest price was 374.29.
- ▶ The value of the Greek Government Bond Index on October 30 was 3.78% higher than in the previous month. The index's average (MoM) return in the same month was 6.34%.
- ▶ 43 months of historical data show that the index MoM return at the end of October was higher than 50% of realized past returns. Returns, larger or equal to the level of 3.78% were observed on average only 18 days during a month.

\*(Returns with low frequency of occurrence have a smaller probability of being realized in the near future).

30-Oct	
Members	22
Market Capitalisation (EUR bn.)	35.70
Weighted Average Yield	7.75
Weighted Average Coupon	3.22
Weighted Average Maturity	14.09
Weighted Average Duration	9.45



## Piraeus Bank Greek Government Bond Index

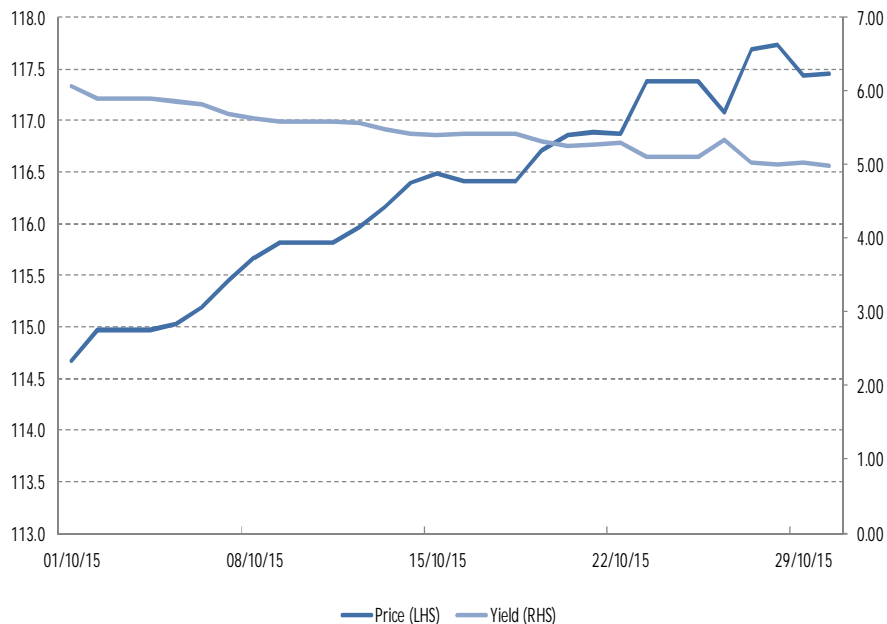
### Index Composition– October 2015

Name	Issuance	Amount	Currency	Coupon	Coupon Type	Coupon	Next Coupon	Issuance Date	Maturity	Credit Rating	Last Price - 30	Yield - 30
	Amount (€ bn)	Outstanding (€ bn)				Frequency	Payment			(Standard & Poor's)	October	October
Hellenic Republic Government Bond	2.97	1.79	€	3.000	Stepped	Annual	24/2/2016	24/02/2012	24/02/2023	CCC+	74.8	8.1
Hellenic Republic Government Bond	2.97	1.77	€	3.000	Stepped	Annual	24/2/2016	25/02/2012	24/02/2024	CCC+	73.5	7.9
Hellenic Republic Government Bond	2.97	1.74	€	3.000	Stepped	Annual	24/2/2016	26/02/2012	24/02/2025	CCC+	72.7	7.7
Hellenic Republic Government Bond	2.97	1.50	€	3.000	Stepped	Annual	24/2/2016	27/02/2012	24/02/2026	CCC+	71.0	7.8
Hellenic Republic Government Bond	2.97	1.47	€	3.000	Stepped	Annual	24/2/2016	28/02/2012	24/02/2027	CCC+	69.4	7.8
Hellenic Republic Government Bond	3.17	1.53	€	3.000	Stepped	Annual	24/2/2016	29/02/2012	24/02/2028	CCC+	67.7	7.8
Hellenic Republic Government Bond	3.17	1.50	€	3.000	Stepped	Annual	24/2/2016	01/03/2012	24/02/2029	CCC+	66.6	7.8
Hellenic Republic Government Bond	3.17	1.44	€	3.000	Stepped	Annual	24/2/2016	02/03/2012	24/02/2030	CCC+	65.2	7.8
Hellenic Republic Government Bond	3.17	1.37	€	3.000	Stepped	Annual	24/2/2016	03/03/2012	24/02/2031	CCC+	64.1	7.8
Hellenic Republic Government Bond	3.17	1.37	€	3.000	Stepped	Annual	24/2/2016	04/03/2012	24/02/2032	CCC+	63.1	7.8
Hellenic Republic Government Bond	3.17	1.45	€	3.000	Stepped	Annual	24/2/2016	05/03/2012	24/02/2033	CCC+	62.4	7.8
Hellenic Republic Government Bond	3.17	1.41	€	3.000	Stepped	Annual	24/2/2016	06/03/2012	24/02/2034	CCC+	61.5	7.8
Hellenic Republic Government Bond	3.17	1.44	€	3.000	Stepped	Annual	24/2/2016	07/03/2012	24/02/2035	CCC+	60.8	7.8
Hellenic Republic Government Bond	3.17	1.51	€	3.000	Stepped	Annual	24/2/2016	08/03/2012	24/02/2036	CCC+	60.4	7.7
Hellenic Republic Government Bond	3.17	1.40	€	3.000	Stepped	Annual	24/2/2016	09/03/2012	24/02/2037	CCC+	59.6	7.7
Hellenic Republic Government Bond	3.17	1.38	€	3.000	Stepped	Annual	24/2/2016	10/03/2012	24/02/2038	CCC+	59.5	7.7
Hellenic Republic Government Bond	3.17	1.34	€	3.000	Stepped	Annual	24/2/2016	11/03/2012	24/02/2039	CCC+	59.5	7.6
Hellenic Republic Government Bond	3.17	1.37	€	3.000	Stepped	Annual	24/2/2016	12/03/2012	24/02/2040	CCC+	59.3	7.5
Hellenic Republic Government Bond	3.17	1.36	€	3.000	Stepped	Annual	24/2/2016	13/03/2012	24/02/2041	CCC+	59.4	7.5
Hellenic Republic Government Bond	3.17	1.43	€	3.000	Stepped	Annual	24/2/2016	14/03/2012	24/02/2042	CCC+	59.6	7.4
Hellenic Republic Government Bond	4.03	4.03	€	4.750	Fixed	Annual	17/04/2016	10/04/2014	17/04/2019	CCC+	91.6	7.6
Hellenic Republic Government Bond	2.09	2.09	€	3.375	Fixed	Annual	17/07/2016	10/07/2014	17/07/2017	CCC+	92.6	8.2

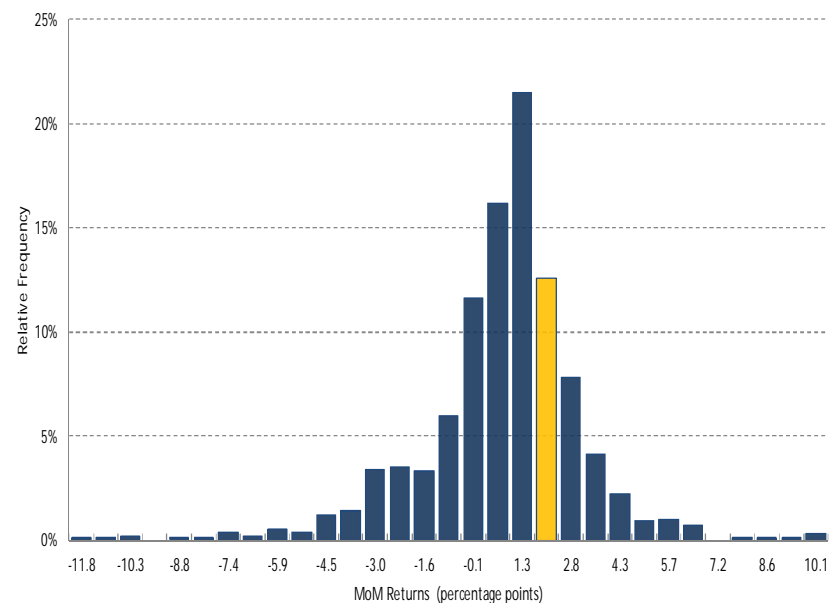


# Piraeus Bank Greek Corporate Bond Index

Index Evolution–October 2015 (Base Date: 2/1/13=100)



MoM Returns Histogram



- ▶ The lowest price in October for the index was 114.68 while the highest price was 117.74.
- ▶ The value of the Greek Corporate Bond Index on October 30 had increased by 2.56 % compared to the previous month. Moreover, the index's average (MoM) return in the same month was 2.83%.
- ▶ 33 months of historical data show that the index MoM return at the end of October was higher than 89% of realized past returns. Returns, larger or equal to the level of 2.56% were observed on average 5 days during a month.

\*( Returns with low frequency of occurrence have a smaller probability of being realized in the near future).

	30-Oct
Members	15
Market Capitalisation (EUR bn)	6.55
Weighted Average Yield	5.03
Weighted Average Coupon	5.44
Weighted Average Maturity	2.86
Weighted Average Duration	2.57



## Piraeus Bank Greek Corporate Bond Index

### Index Composition– October 2015

Name	Issuance	Amount	Currency	Coupon	Coupon Type	Coupon	Next Coupon	Issuance Date	Maturity	Credit Rating (Standard & Poor's)	Last Price - 30	Yield - 30
	Amount (€ mn)	Outstanding (€ mn)				Frequency	Payment				October	October
COCA-COLA HBC FINANCE BV	800.00	800.00	€	2.375	Fixed	Annual	18/06/16	06/10/2013	06/18/2020	BBB	105.90	0.99
OTE PLC	700.00	700.00	€	7.875	Fixed	Semi-Annual	07/02/16	01/29/2013	02/07/2018	B+	107.79	4.22
HELLENIC PETROLEUM FINAN	500.00	500.00	€	8.000	Fixed	Semi-Annual	10/11/15	04/29/2013	05/10/2017		99.57	8.30
INTRALOT FINANCE LUXEMBU	325.00	275.60	€	9.750	Fixed	Semi-Annual	15/02/16	08/01/2013	08/15/2018	B	106.40	5.90
FRIGOGLOSS FINANCE BV	250.00	250.00	€	8.250	Fixed	Semi-Annual	15/11/15	05/13/2013	05/15/2018	B+	99.58	8.44
COCA-COLA HBC FINANCE BV	600.00	600.00	€	4.250	Fixed	Annual	16/11/15	11/09/2009	11/16/2016	BBB	104.01	0.36
OTE PLC	900.00	629.45	€	4.625	Fixed	Annual	20/05/16	11/14/2006	05/20/2016	B+	100.93	2.83
TITAN GLOBAL FINANCE PLC	200.00	200.00	€	8.750	Fixed	Semi-Annual	19/01/16	12/17/2012	01/19/2017	BB	105.94	3.68
PPC FINANCE PLC*	500.00	500.00	€	5.500	Fixed	Semi-Annual	01/05/16	04/30/2014	05/01/2019	CCC-	86.01	10.37
PPC FINANCE PLC*	200.00	200.00	€	4.750	Fixed	Semi-Annual	01/05/16	04/30/2014	05/01/2017	CCC-	92.11	10.59
INTRALOT CAPITAL LUX*	250.00	217.90	€	6.000	Fixed	Semi-Annual	15/11/15	04/30/2014	05/15/2021	B	93.17	7.53
MOTOR OIL FINANCE PLC*	350.00	350.00	€	5.125	Fixed	Semi-Annual	15/11/15	05/15/2014	05/15/2019		94.40	6.94
TITAN GLOBAL FINANCE PLC*	300.00	297.50	€	4.250	Fixed	Semi-Annual	10/01/16	07/03/2014	07/10/2019	BB	97.53	4.99
HELLENIC PETROLEUM FINANCE*	325.00	325.00	€	5.250	Fixed	Semi-Annual	04/01/16	06/25/2014	07/04/2019		91.00	8.13
OTE PLC*	700.00	700.00	€	3.500	Fixed	Annual	09/07/16	07/07/2014	07/09/2020	B+	96.49	4.34

\* 2014 Issues



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