

Trends in EM and CEE Debt Capital Markets



International Business Congress – Law, Banking and Finance

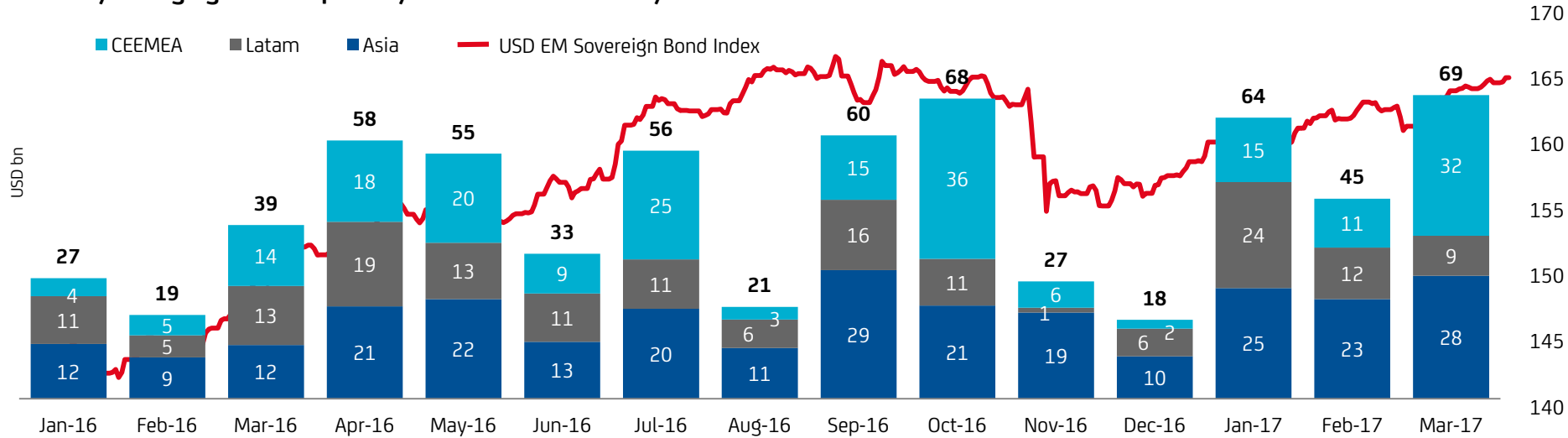
CEEMEA Debt Capital Markets

Venice, 21 April 2017



A series of big events shaped Emerging market primary markets in 2016 and 2017YTD

Monthly Emerging markets primary issuance since January 2016



Volatile start in 2016

- Shaky start in 2016 with heightened China growth concerns
- Aftermath of the December Fed rate hike
- Low commodity prices

Improving market backdrop

- EM issuance enjoyed a turnaround as oil prices began to stabilise in late February
- The FOMC meeting at the end of March suggesting the Fed would remain “cautious” towards future rate hikes was viewed as a dovish signal

Brexit volatility

- Heightened volatility before and after the Brexit referendum
- EM primary markets volume fell significantly in June

Brexit-induced EM rally

- EM markets demonstrated a swift rebound after the Brexit vote driven by dovish central bank policies

Post-FOMC issuance rush

- The FOMC meeting mid-September opened the door for a very active end to the month and October

Trump election victory

- A sharp rise in global bond yields since Donald Trump’s surprising election victory spurred an underperformance of EM debt
- The December rate hike also increased volatility

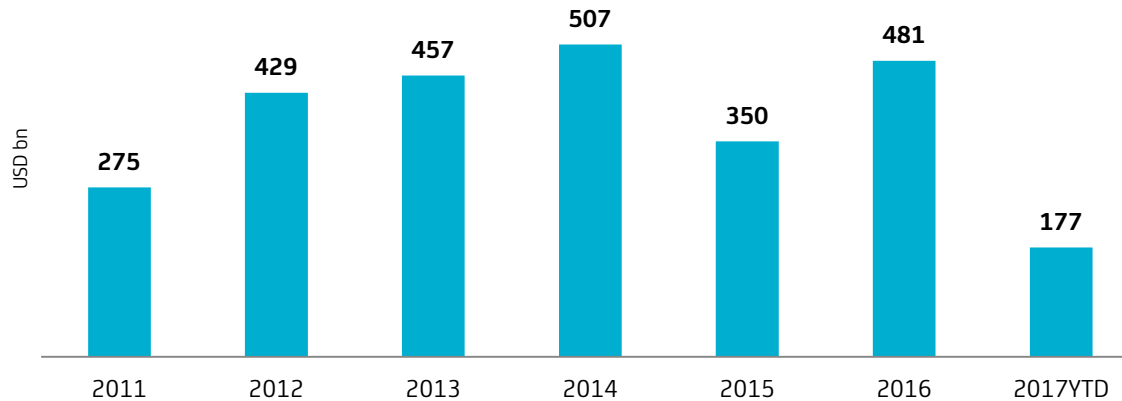
Strong start in 2017

- Despite ongoing uncertainty regarding the policies of the new US administration, primary markets picked up in the first months of 2017
- Issuance driven by LatAm and Asian borrowers
- The run-up to the March rate hike led to some volatility at the end of February

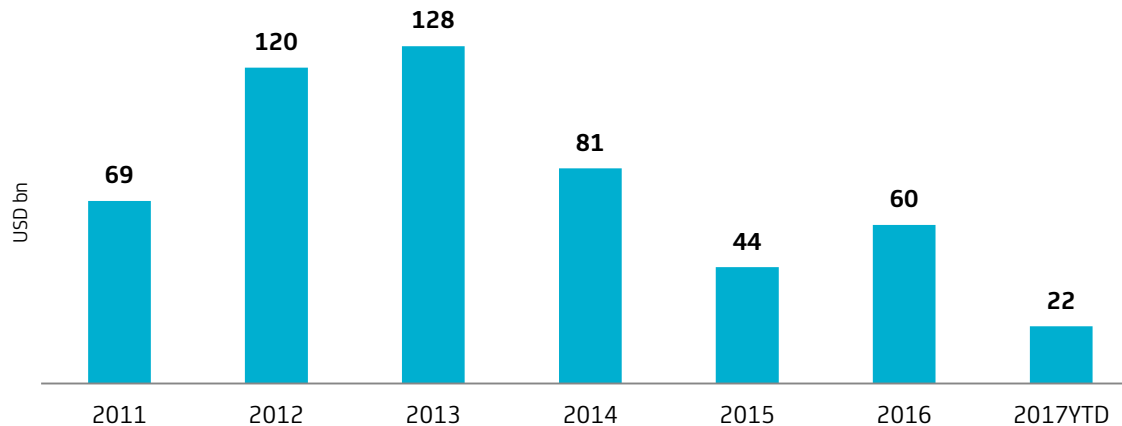


Second highest annual issuance volume on record in 2016 despite repeated bouts of financial markets' volatility

Emerging markets bond issuance in previous years



CEE bond issuance in 2016 compared to previous years

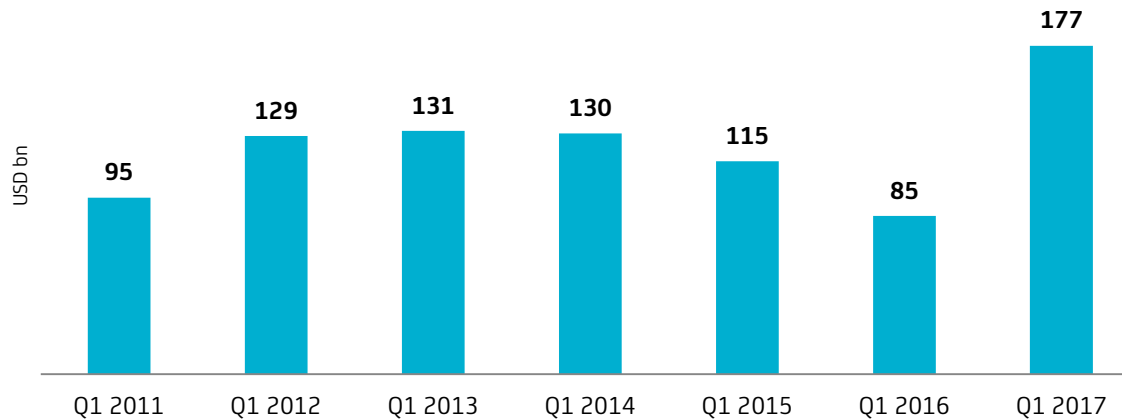


- 2016 was a year of surprises, stunning political upsets, and repeated bouts of financial markets' volatility. Despite these shocks and after a dismal start, financial markets demonstrated a remarkable resilience, essentially shrugging off concerns about the impact of the Brexit vote and resulting in a long run of risk-on sentiment that pushed portfolio flows to EM to a record high during the summer and early fall
- In 2016, EM produced its second highest annual issuance volume on record at USD 481bn, following only 2014's USD 507bn
 - Issuance varied throughout the year with different regions seeing periods of record supply as well as extended dry spells
 - Primary markets slowed abruptly after Donald Trump's unexpected USD election victory
 - The more self-sufficient Asian region was the only source of consistent issuance in the final two months of the year

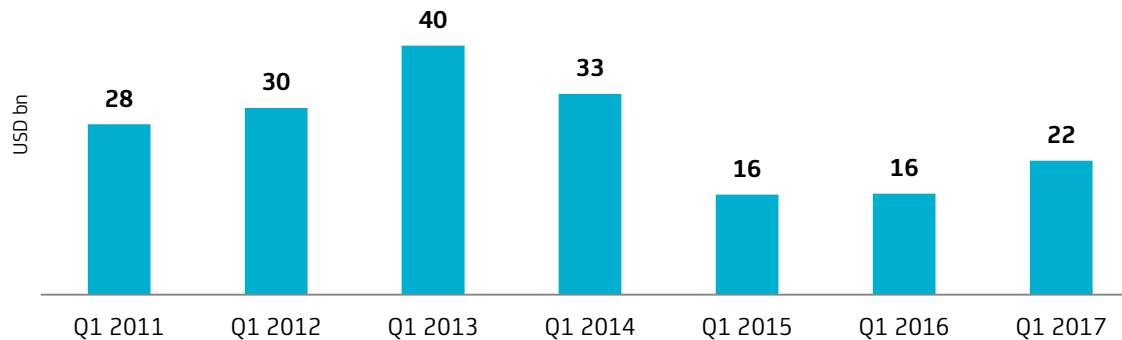


Record-breaking issuance start to 2017YTD

Emerging markets bond issuance in Q1 2017 compared to previous years



CEE bond issuance in Q1 2017 compared to previous years

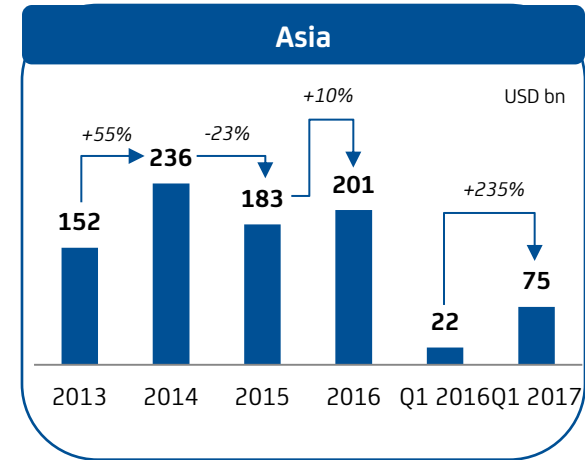
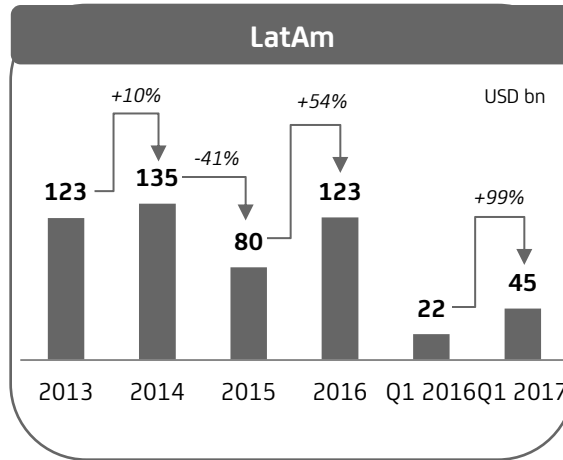
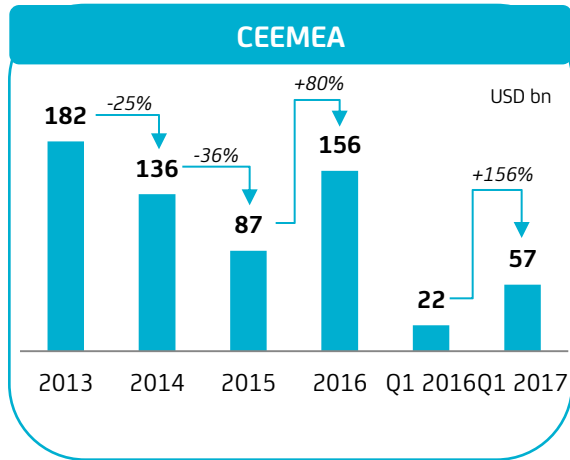


- Emerging market issuance was very strong in the first three months of 2017, with USD 177bn of Eurobonds placed by corporate and sovereign issuers.
 - This was twice the issuance in 1Q 2016, with corporate issuers based in China placing three times as much so far in 2017 compared to last year. Chinese financial and corporate issuers with USD 36bn of bonds issued dwarfed any other single country
- Issuance in CEE was also strong, but its relative importance has diminished in the last few years, partly as a result of lower government financing needs and a substitution of external debt for debt denominated in local currencies.
- Outside of CEE, sovereign issuance was very strong with Argentina issuing USD 10bn and Middle Eastern issuers also very active with first-time issuer Kuwait placing USD 8bn in March

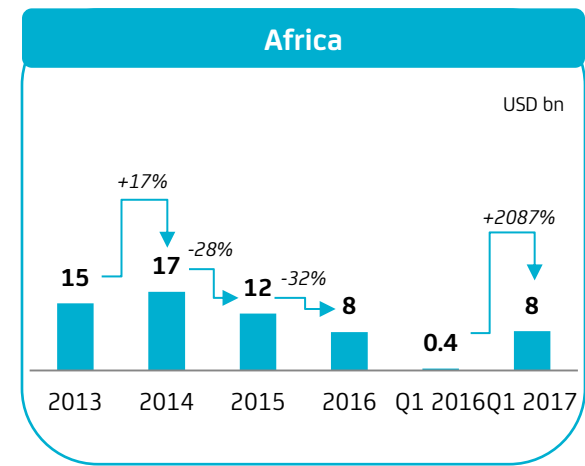
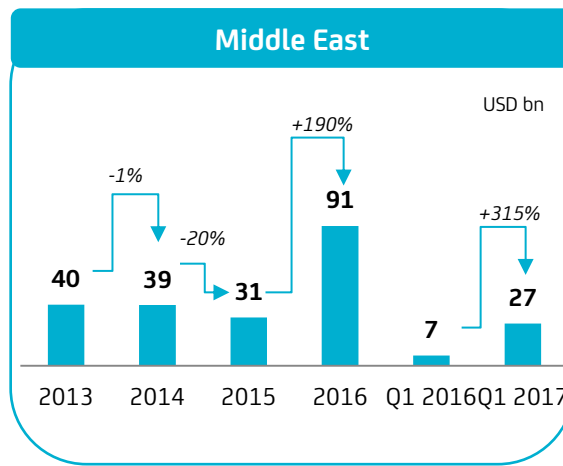
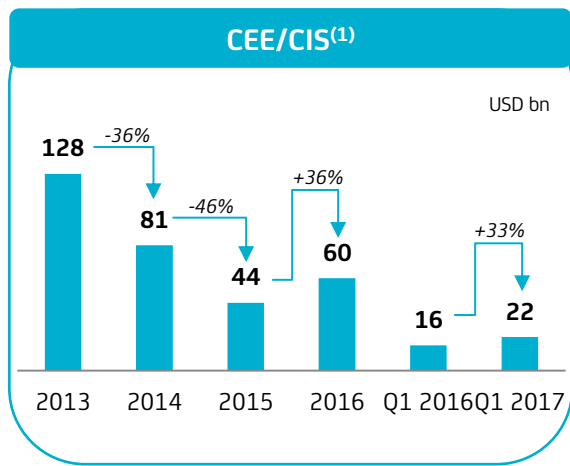


What regions were driving EM issuance growth ?

CEE issuance is lagging behind other EM regions



Growth drivers in the CEEMEA region



Source: Bondradar as of 9 April 2017

(1) Including Turkey

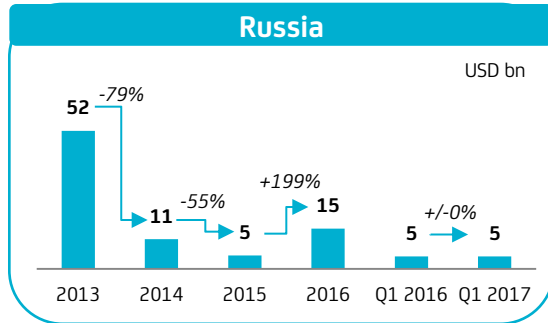


Primary issuance of selected EM countries

Russian issuance picked up again in 2016 but is still subdued compared to 2013

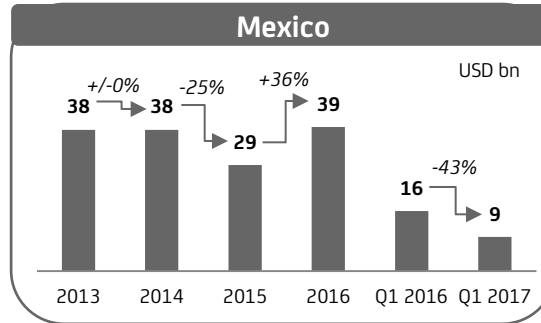
CEEMEA

Russia



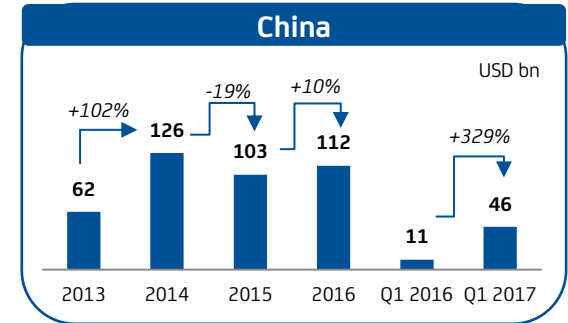
LatAm

Mexico

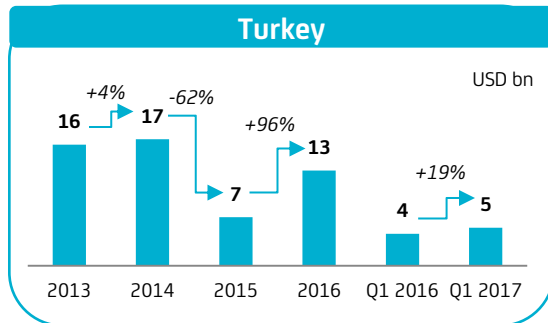


Asia

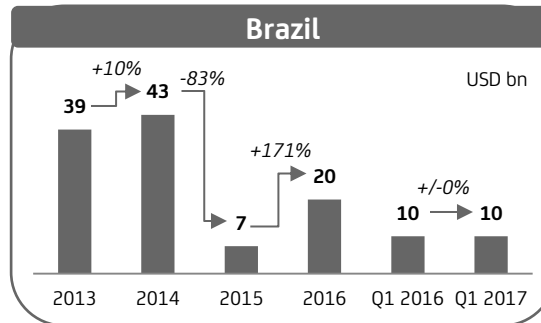
China



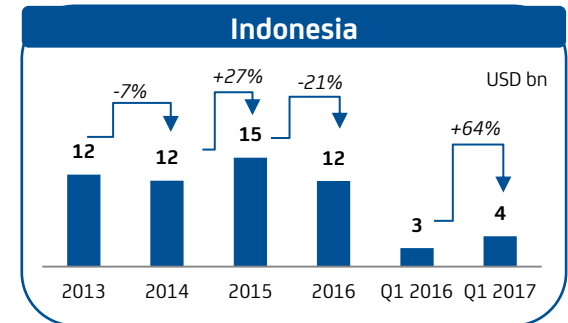
Turkey



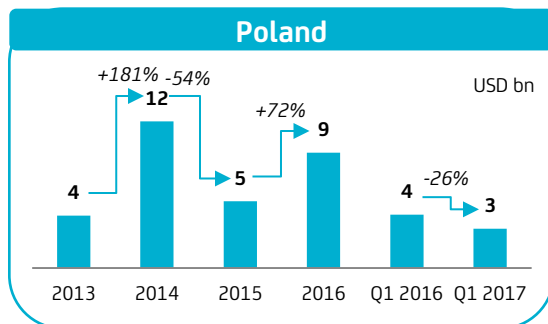
Brazil



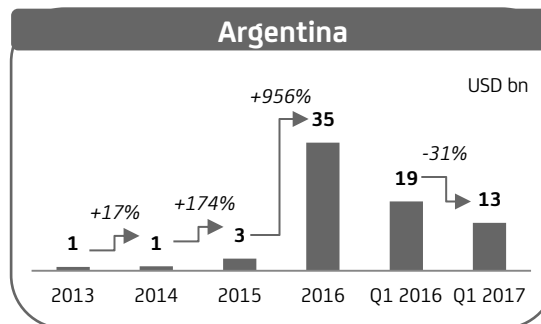
Indonesia



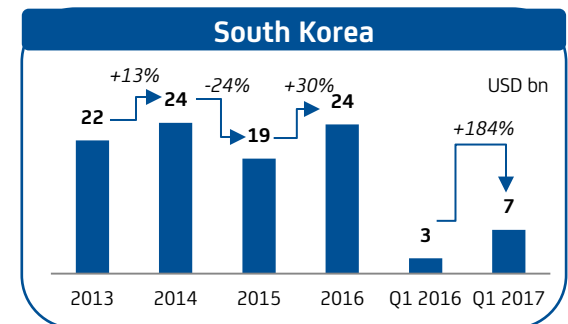
Poland



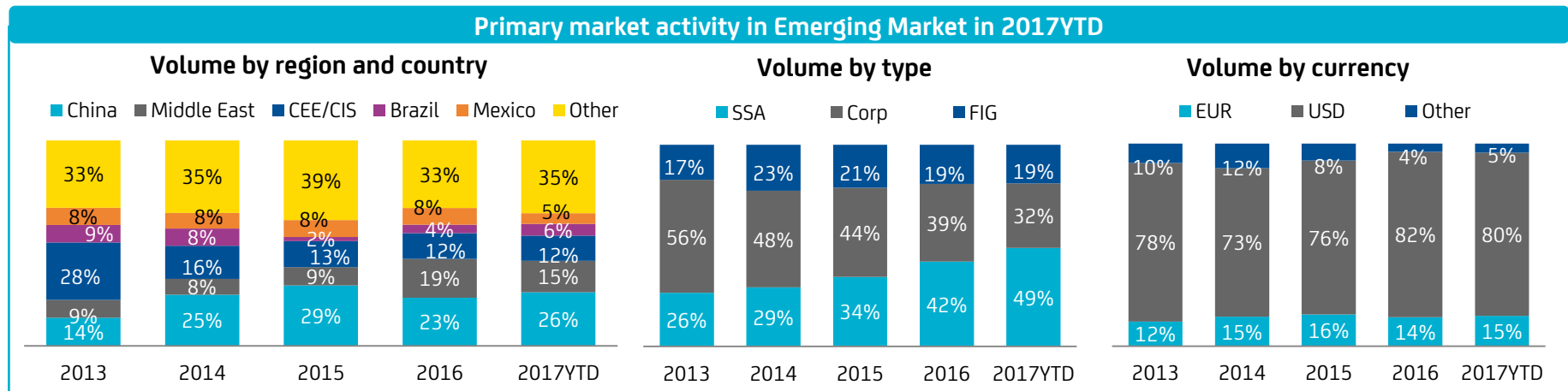
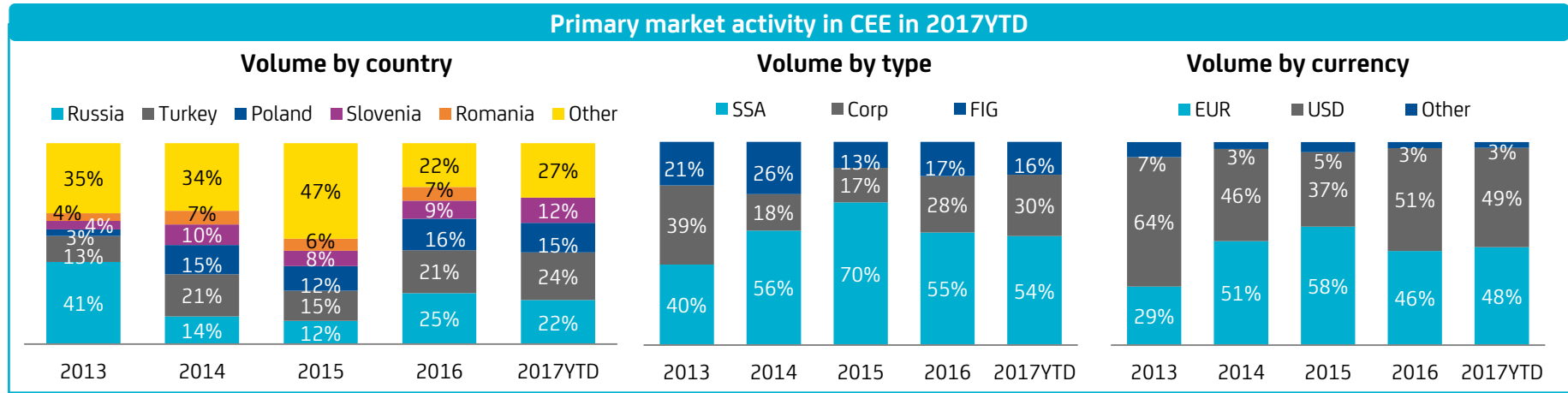
Argentina



South Korea



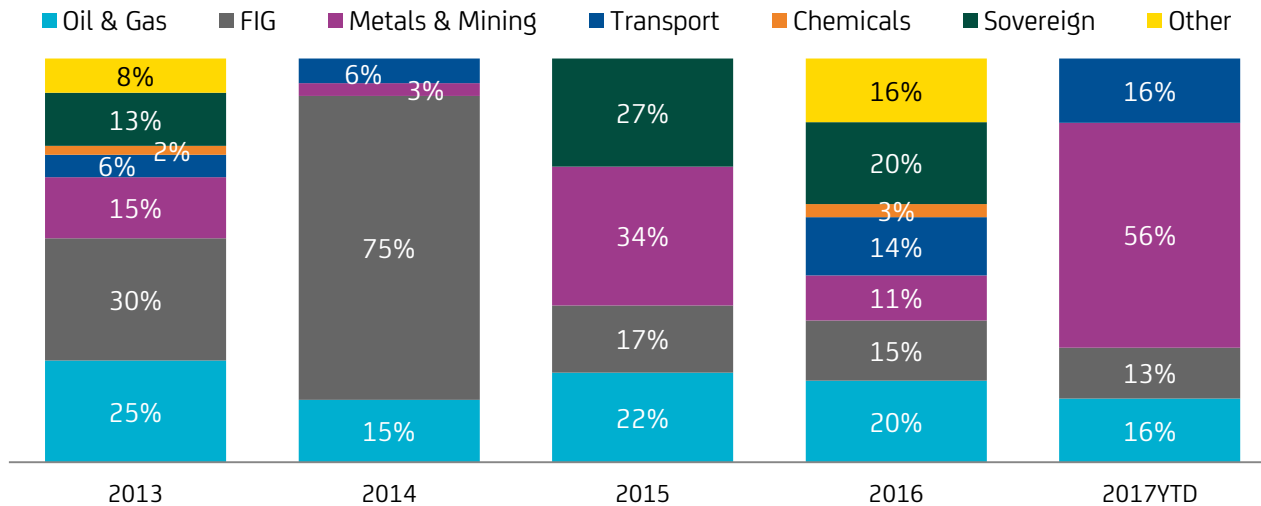
CEE primary market characteristics versus Emerging markets



A closer look at the Russian primary market

- The strong performance of Russian credits over the last two years coupled with the scarcity of supply (compared to 2013) led to a spike in demand for recent Russian issues, especially for blue chip corporate companies
- Demand is further enhanced by domestic investors (unlike other EM markets such as Turkey)
- **Recent Russian issuers therefore managed to reprice their secondary curve and price bond transactions flat or with a negative new issue premium (e.g. Gazprom, Nornickel, Severstal, etc.)**

Russian issuance volumes by industry



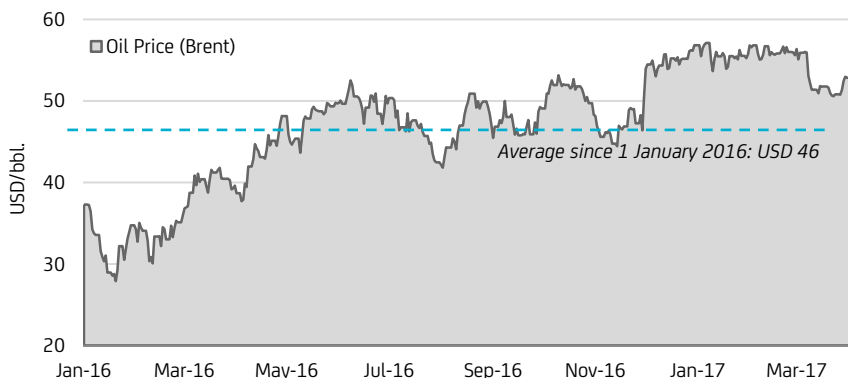
- Russian primary issuance dominated by Metals & Mining and Oil & Gas credits
- FIG issuance is still subdued compared to 2013



Key Emerging market indicators rebounded in 2017YTD

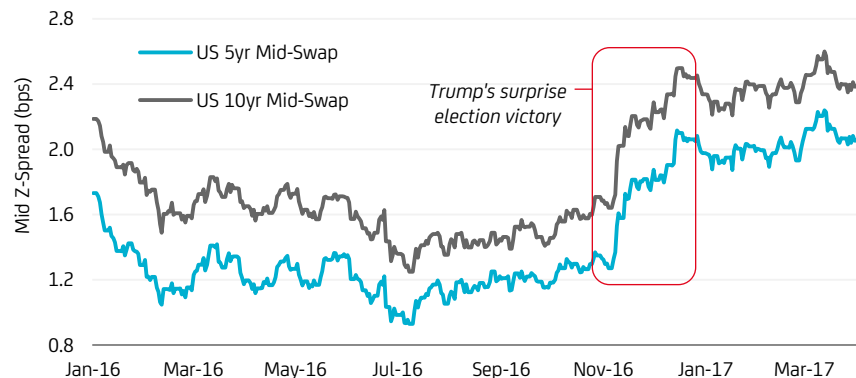
- After the rollercoaster ride of 2016, with its many political shocks, reversals of risk appetite and soaring volatility, financial markets have rebounded this year
- Volatility has ebbed to a 15-year low and EM assets rebounded strongly
- Much of the recent bout of market optimism may be overdone as it is rooted in expectations of a major boost to US growth but there is also a more fundamental basis for the recent rebound in market optimism: the global economy has never looked so good since 2011
 - The growth outlook has brightened across the globe, and growth in EMs is gathering speed thanks to rising commodity prices, improved policies, and recovering global trade

Steady oil price recovery since Q2 2016



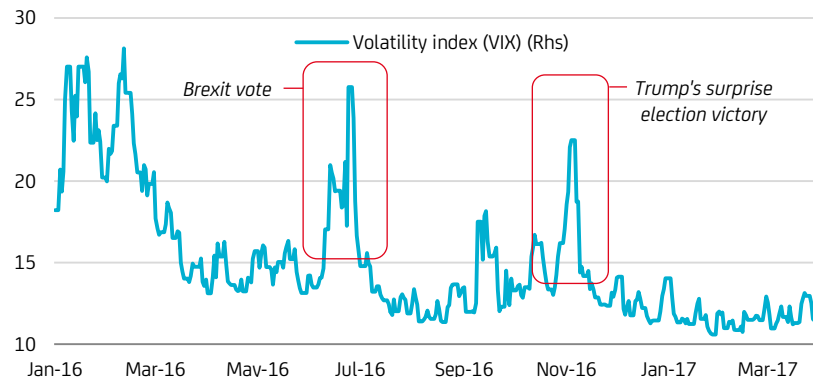
Following a severe decline at the end of 2015 and into 2016, oil (and other commodity) prices have posted a steady recovery since Q2 2016

USD mid-swap rates spiked after Trump's election victory



Trump's election victory led to a spike of mid-swap rates in 2016 with rates trading stable in 2017YTD

Global volatility indicator



Volatility at a low after volatility hikes following the Brexit vote and Trump's unexpected election victory

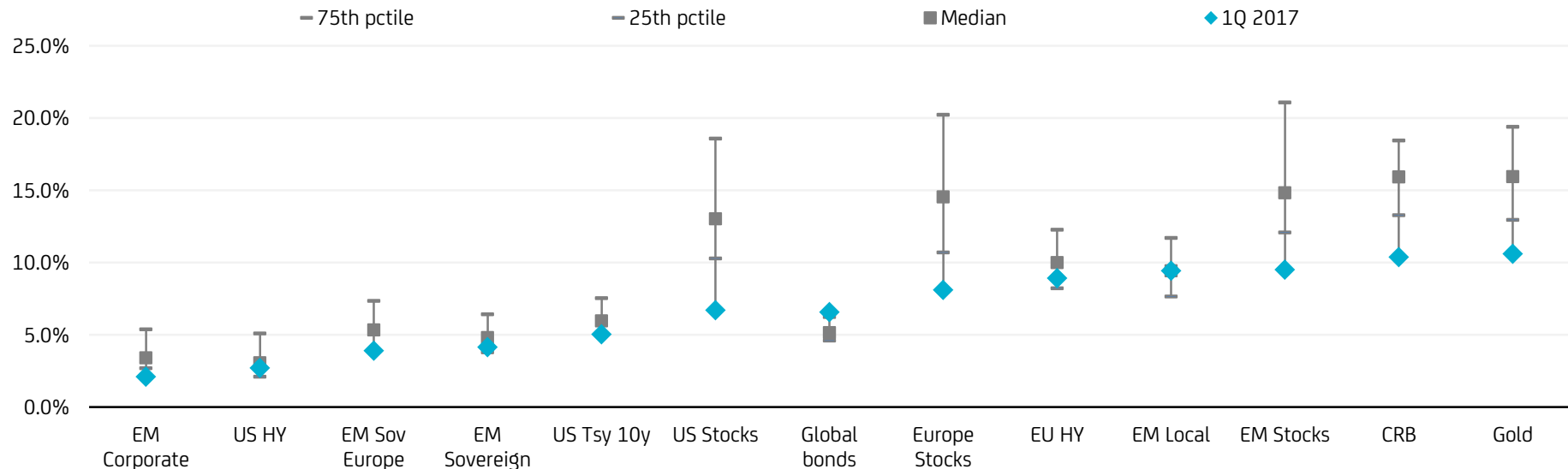


Emerging market volatility at a historic low

The global investment environment in 2017 has delivered average returns for most asset classes but below average volatility

- The global investment environment during the first three months of 2017 has been very favorable across asset classes and in particular to emerging markets stocks and bonds which have performed better than the typical first quarter
- The most salient feature across assets is that volatility is below the levels for comparable periods in previous years but also lower than the average quarterly volatility since 2002
- For some asset classes such as EM corporates, the volatility of returns reached record lows, while returns were in line with the average
- UniCredit believes that the global environment for emerging markets is favorable, but we also think that this pattern of record low volatility across asset classes will be difficult to continue going forward as there are several triggers for instability that have been lightly discounted by the market

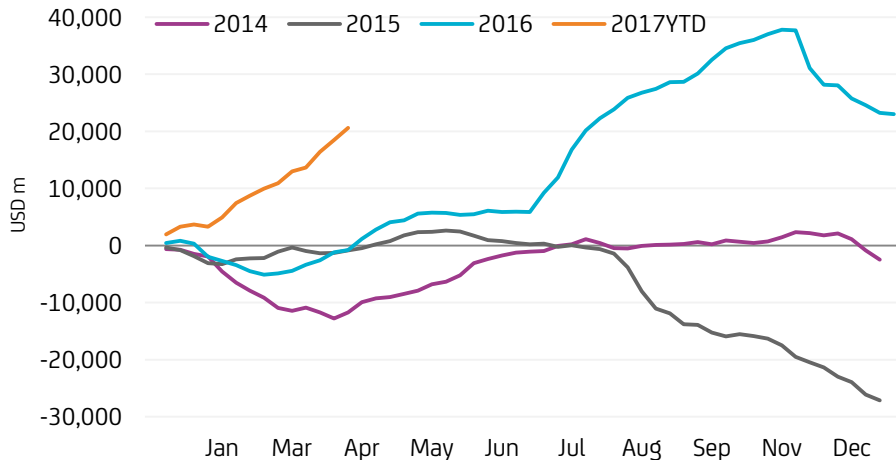
Volatility across asset classes (calculated from 1Q 2002)



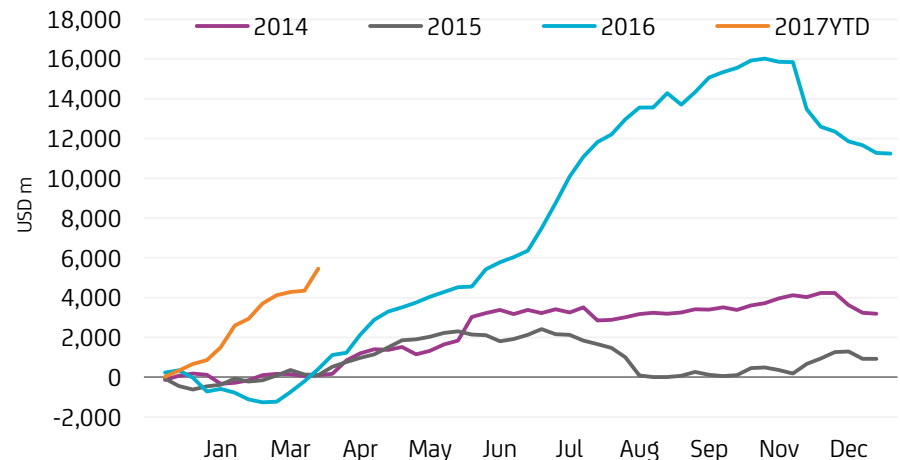
Allocations to EM fixed-income funds have reached historic highs in 2017YTD

- **2017YTD inflows are in excess of USD 20bn during the first three months of the year, a record exceeding that for 2013**
 - Appetite for **local-currency bond funds has increased over the past five weeks** as investors become more constructive on EM inflation and currency valuations.
 - **ETFs are raising their presence higher, representing one third of total fund allocations so far**
- The stellar performance in EM allocations is partly explained by a reversal of the outflows following the risk-off period in the month after the US presidential election.
 - **The level of EM-dedicated AUM now exceeds that prior to the election date and the more than USD 20bn of inflows in 2017 reversed the around USD 15bn of post-election outflows**
- UniCredit remains optimistic about the asset class. Balance of payments portfolio flows data for the first months of the year indicate that net flows into EM stocks and bonds are gathering speed, particularly in March, leading us to conclude that the flow story was not just a matter of an adjustment to the asset class mix in favor of EM fixed income but an overall increase in allocations.

Cumulative flows into EM bond funds

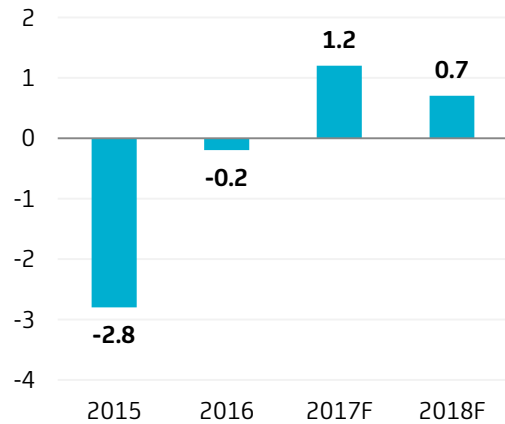


Cumulative flows to EM fixed income ETFs

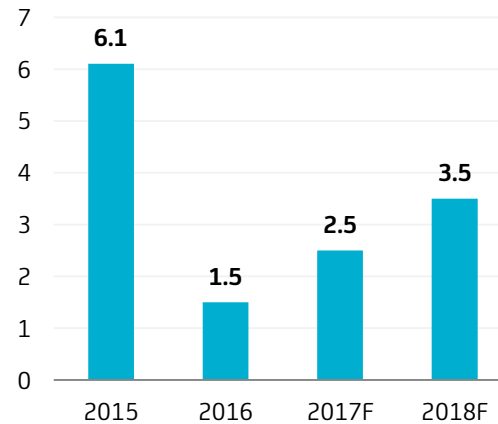


Growth prospects will improve in 2017 and 2018 across the CEE region

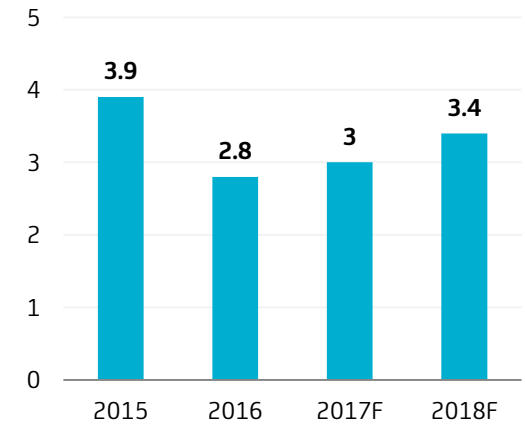
Russia – Real GDP (%) change



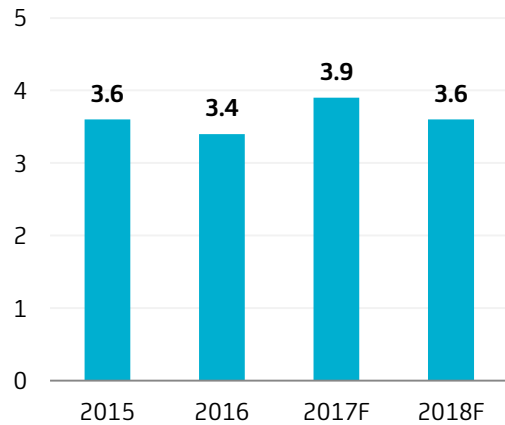
Turkey – Real GDP (%) change



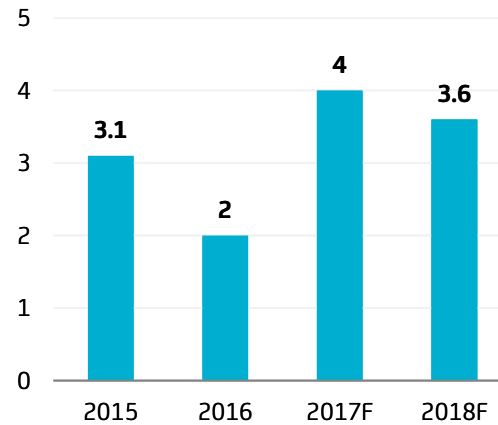
Poland – Real GDP (%) change



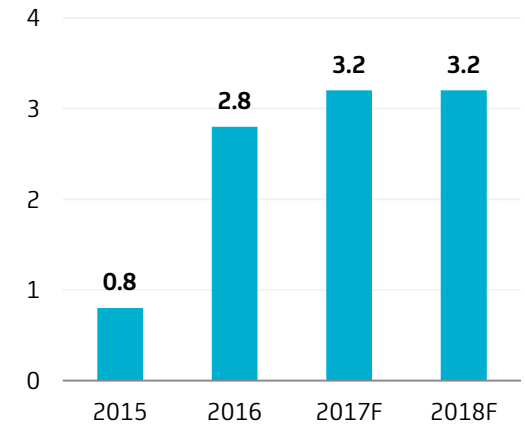
Bulgaria – Real GDP (%) change



Hungary – Real GDP (%) change



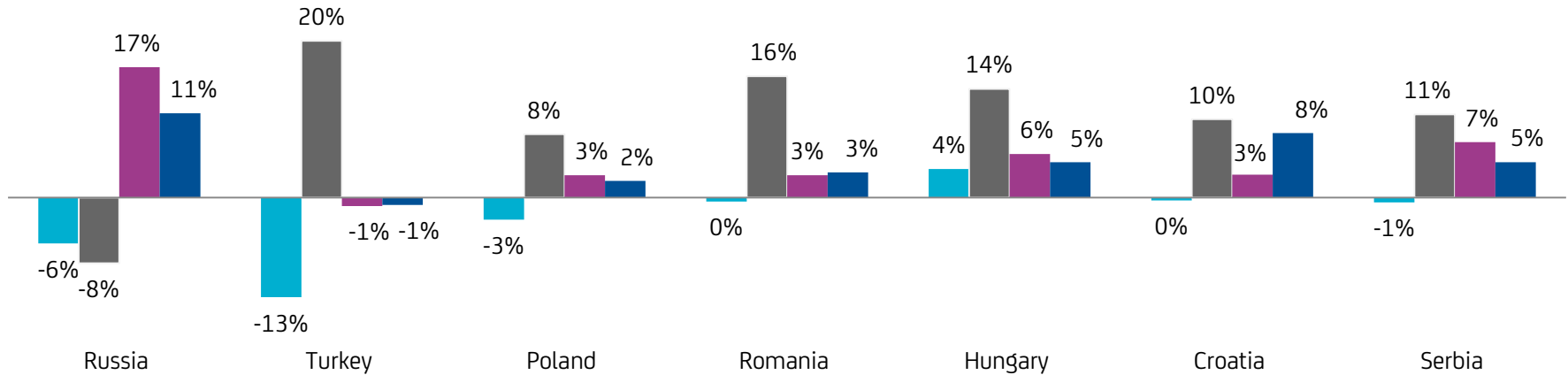
Serbia – Real GDP (%) change



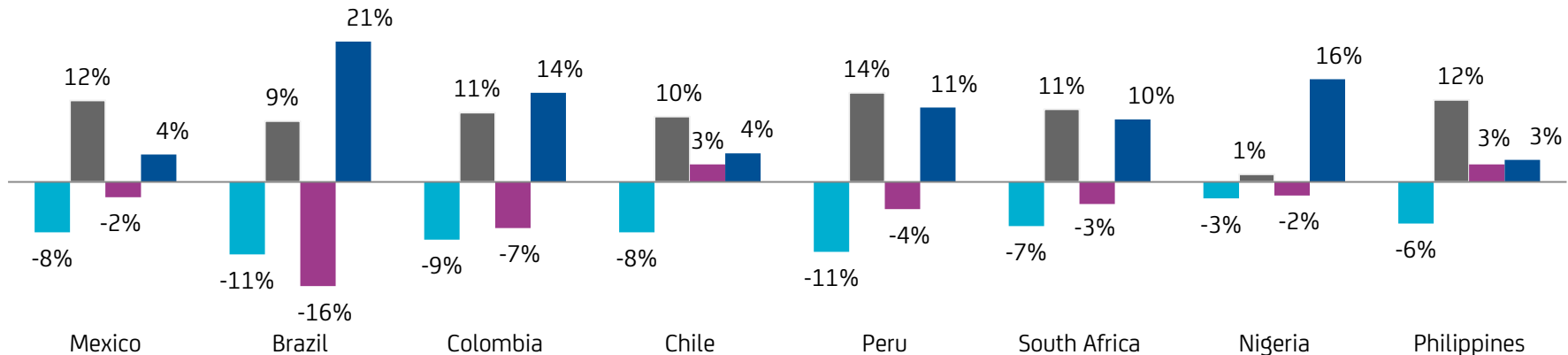
Performance of Emerging market debt in previous years

Russian credits significantly outperformed other EM peers over the last two years

Wider CEE USD debt performance of selected countries in 2013, 2014, 2015 and 2016 (Bloomberg USD Emerging Market Indices)



EM USD debt performance of selected countries in 2013, 2014, 2015 and 2016 (Bloomberg USD Emerging Market Indices)



■ 2013
 ■ 2014
 ■ 2015
 ■ 2016

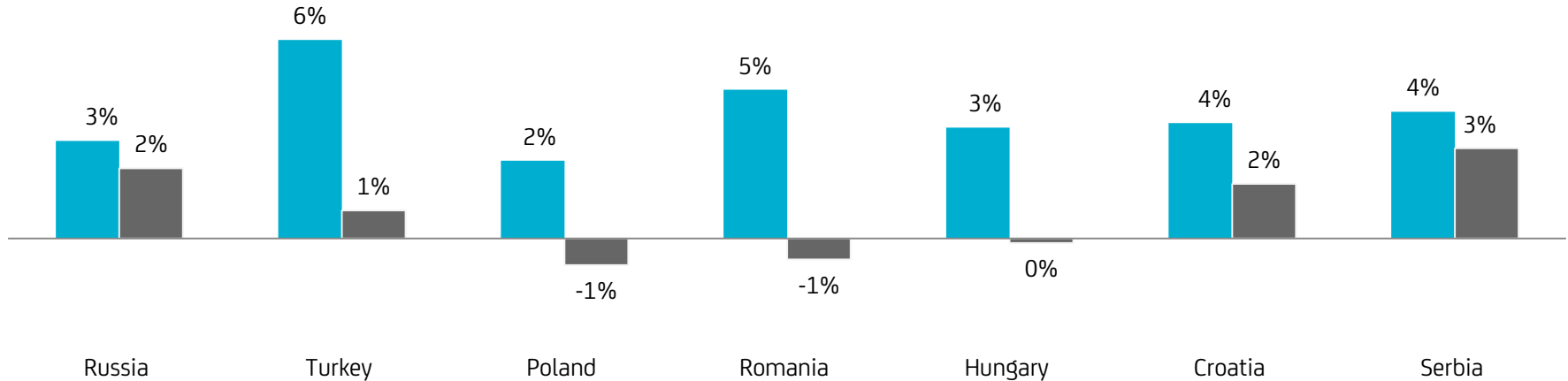
Source: Bloomberg as of 10 April 2017

The Bloomberg USD Emerging Market Sovereign Bond Indices are engineered to measure the market of USD-denominated fixed-rate securities of sovereign issuers. Indices are rules-based and market-value weighted.

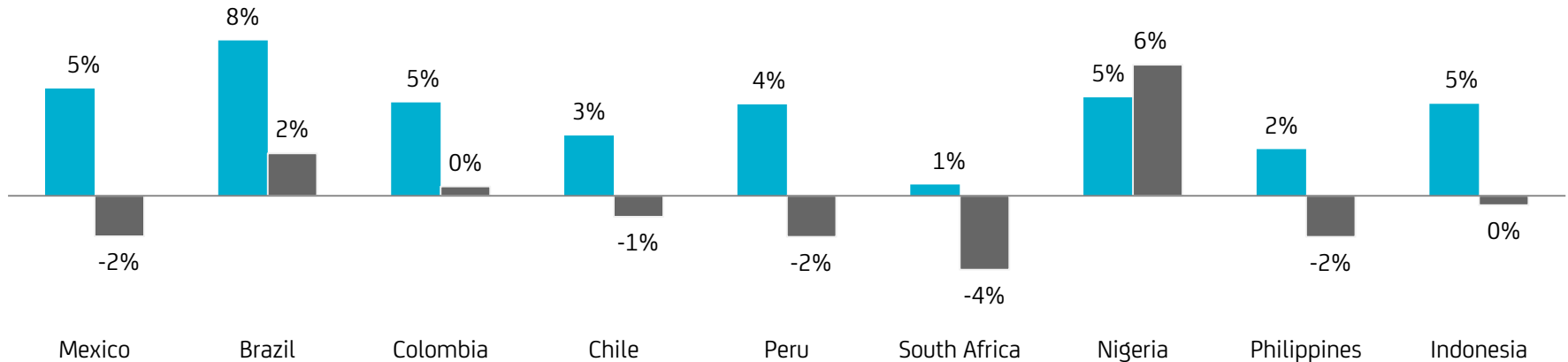


Strong recovery of Emerging market debt in 2017YTD

Wider CEE USD debt performance of selected countries 2017YTD and since US elections (Bloomberg USD Emerging Market Indices)



EM USD debt performance of selected countries 2017YTD and since US elections (Bloomberg USD Emerging Market Indices)



■ Performance in 2017YTD ■ Performance since Donald Trump's election victory

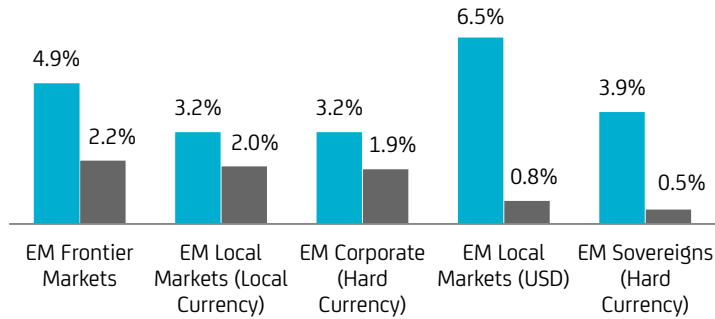
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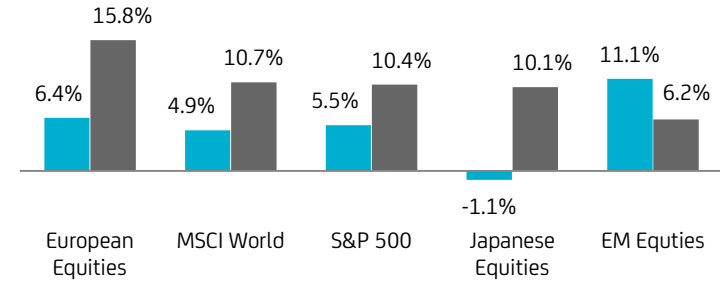


Performance of Emerging market debt versus other asset classes in 2017YTD

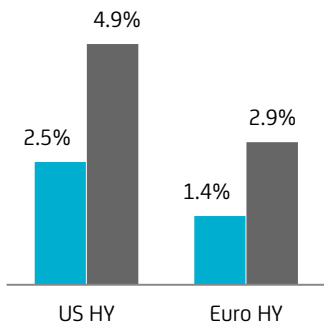
Emerging market debt



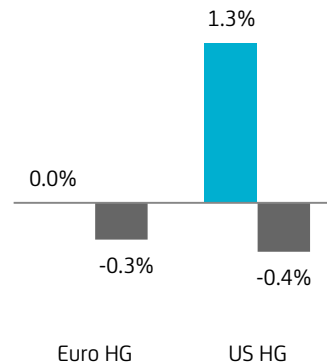
Equities



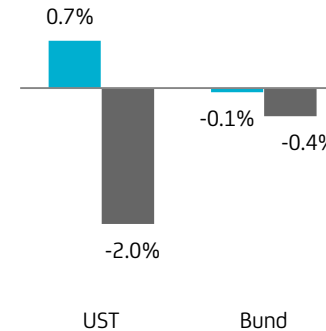
High yield



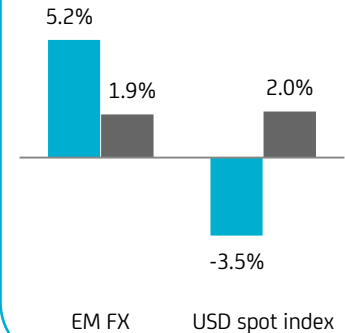
High grade



UST and Bund



FX



■ Performance in 2017YTD

■ Performance since Donald Trump's election victory



Positive and negative determinants influencing Emerging markets



Positive

- Lower USD volatility
- More stable commodity markets
- Improving EM growth and fundamentals and constructive global environment
- Strong inflows post-US elections: The more than USD 20bn of inflows in 2017 reversed the c. USD 15bn of outflows after the US elections
- EM trading volumes are up
- Tighter hard currency spreads, appetite for local-currency bond funds has increased over the past weeks
- Fed is less likely to surprise Emerging markets
- Recovery in EM surpassed the selloff post-Trump
- EM sovereign and corporate spreads back to 2014 levels
- EM trading tighter than high yield and returns better than investment grade bonds
- Robust demand from international and local investors



Negative

- Higher G3 bond yields
- Potential increasing protectionism
- Geopolitical and political risks
- Spreads near lows
























Trends in CEE and Emerging markets in 2017YTD

- **EM primary issuance at record highs driven**
- **Wide variety of fixed income instruments issued in EM primary markets and successful introduction of new products in EM opening up a completely new market and investor base for the region:**
 - Mortgage covered bonds
 - Green bonds
 - Schuldscheindarlehen
 - Local currency Eurobonds (e.g. Russian Ruble Eurobonds)
 - Tier 2 FIG transactions
 - Liability management transactions
- **Russian borrowers are repricing their secondary curves in recent transactions (primary pricing tighter than secondary levels)**
- **Changes in the investor space:**
 - US investors less engaged in recent transactions (especially out of Russia), while demand from European investors is stickier and less price sensitive
- **Remarkable resilience of EM assets despite major global and internal challenges**



UniCredit's Eurobond transactions in the CEE & CIS region

Selected Issues from CEE and CIS region

<p>Nornickel</p>  <p>USD 1,000m 4.100% Senior Notes due 2023 Joint Lead Manager and Joint Bookrunner Apr 2017</p>	<p>Credit Bank of Moscow</p>  <p>USD 600m 7.500% Tier 2 Notes due 2027 Joint Bookrunner Mar 2017</p>	<p>Southern Gas Corridor</p>  <p>USD 1bn 6.875% Senior Notes Tap due 2026 Joint Lead Manager Mar 2017</p>	<p>Yapı Kredi</p>  <p>USD 600m 5.750% Senior Unsecured Notes due 2022 Joint Lead Manager Feb 2017</p>	<p>Rusal</p>  <p>USD 600m 5.125% Senior Notes due 2022 Joint Lead Manager Jan 2017</p>	<p>Gazprom</p>  <p>EUR 1bn 3.125% Senior Notes due 2023 Joint Lead Manager/ Joint Bookrunner Nov 2016</p>	<p>Otkritie FC Bank</p>  <p>USD 400m 4.500% Senior Notes due 2019 Joint Lead Manager Oct 2016</p>
<p>RCS & RDS</p>  <p>EUR 350m 5.000% Senior Notes due 2023 Joint Lead Manager Oct 2016</p>	<p>Global Ports</p>  <p>USD 350m 6.500% Senior Notes due 2023 Joint Lead Manager Sep 2016</p>	<p>Tengizchevroil</p>  <p>USD 1bn 4.000% Senior Notes due 2026 Joint Lead Manager Jul 2016</p>	<p>Halkbank</p>  <p>USD 500m 5.000% Senior Unsecured Notes due 2021 Joint Global Coordinator Jun 2016</p>	<p>PKN Orlen</p>  <p>EUR 750m 2.500% Senior Unsecured Notes due 2023 Joint Lead Managers Jun 2016</p>	<p>TSKB</p>  <p>USD 300m 4.875% Green Notes due 2021 Joint Bookrunner May 2016</p>	<p>MOL</p>  <p>EUR 750m 2.625% Senior Notes due 2023 Joint Bookrunner Apr 2016</p>
<p>Vakif Bank</p>  <p>EUR 500m 2.375% Mortgage Covered Bond Structuring Bank and Joint Bookrunner Apr 2016</p>	<p>Global Ports</p>  <p>USD 350m 6.872% Senior Notes due 2022 Joint Lead Manager Apr 2016</p>	<p>Yapı Kredi</p>  <p>USD 500m 8.5% Tier 2 Capital Notes due 2025 Joint Bookrunner Mar 2016</p>	<p>Southern Gas Corridor</p>  <p>USD 1bn 6.875% Senior Notes due 2026 Joint Lead Manager March 2016</p>	<p>Evraz</p>  <p>USD 750m 8.250% Senior Notes due 2021 Joint Bookrunner Dec 2015</p>	<p>Norilsk Nickel</p>  <p>USD 1,000m 6.625% Senior Notes due 2022 Joint Bookrunner Oct 2015</p>	<p>Gazprom</p>  <p>EUR 1bn 4.625% Senior Notes due 2018 Joint Lead Manager/ Joint Bookrunner Oct 2015</p>



Your UniCredit contacts

CEEMEA Debt Capital Markets

Müge Eksi

Managing Director
Head of CEEMEA Debt Capital Markets
Tel. +44 20 7826 1125
Mobile +44 741 870 0649
Muge.Eksi@unicredit.eu

CEE CIB Business Research and Communication

Adel Ayari

Head of CEE CIB Business Research and
Communication
Tel. +43 505 05-51728
Mobile +43 664 88341493
Adel.Ayari@unicredit.eu

Imprint:

UniCredit Bank AG
Moor House, 120 London Wall
London EC2Y 5ET
United Kingdom

Imprint:

UniCredit S.p.A. Zweigniederlassung Wien
Julius Tandler Platz 3
1090 Vienna
Austria



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Corporate & Investment Banking
UniCredit Bank AG, London Branch
Moor House
120 London Wall
London EC2Y 5ET

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Corporate & Investment Banking

UniCredit Bank AG, London Branch
as of April 12, 2017

