

# CEE credits in times of yield normalization

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It's not only about the Fed's policy

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**Stefan Kolek**, Senior EEMEA Credit Strategist (UniCredit Bank)

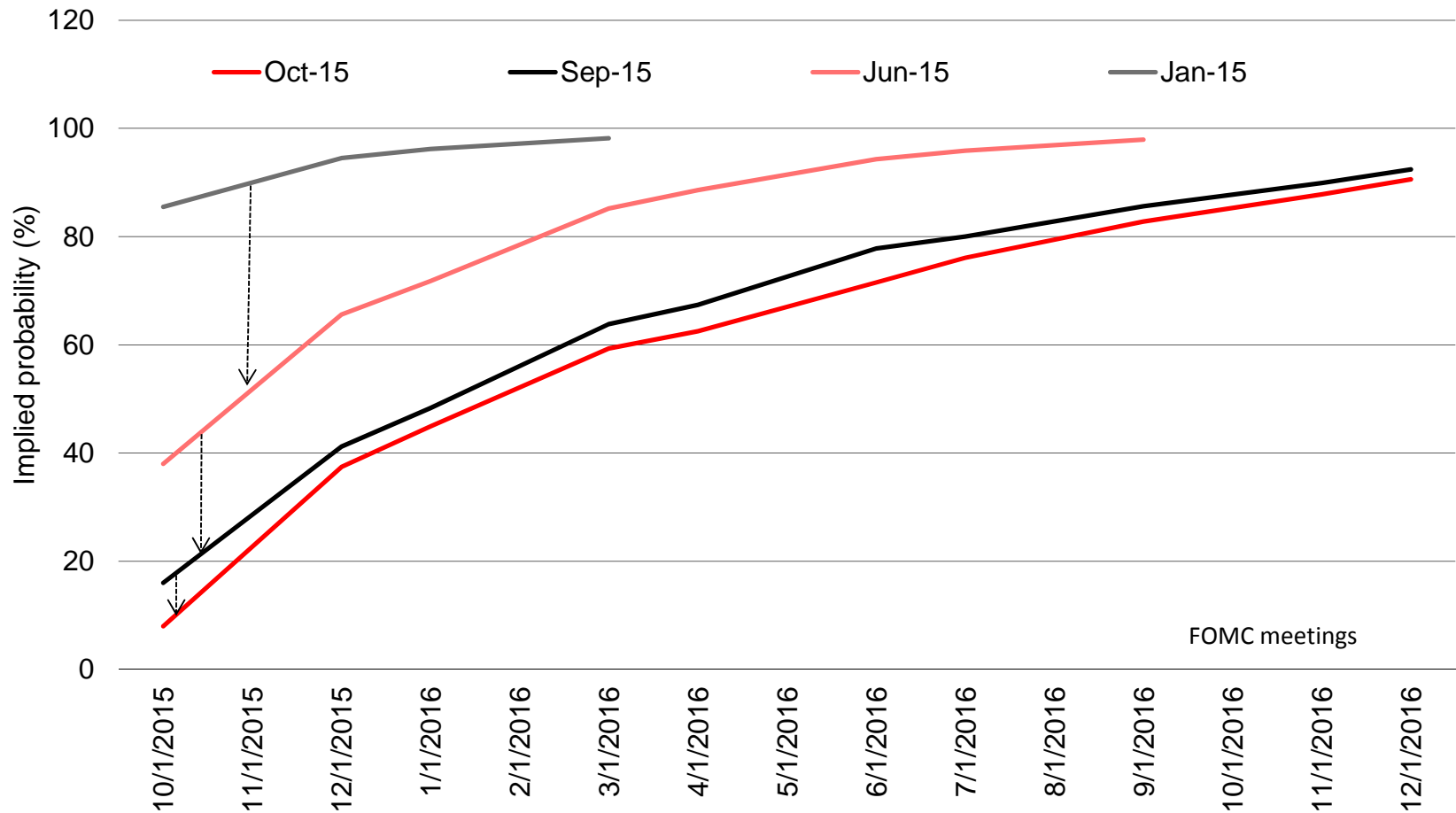
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Warsaw, October 2015

# Declining expectations of a first rate hike by the Fed

We look for the first tightening in December, while the market is not discounting the first step until March 2016

Fed fund futures' implied probability of the first rate hike by the Fed

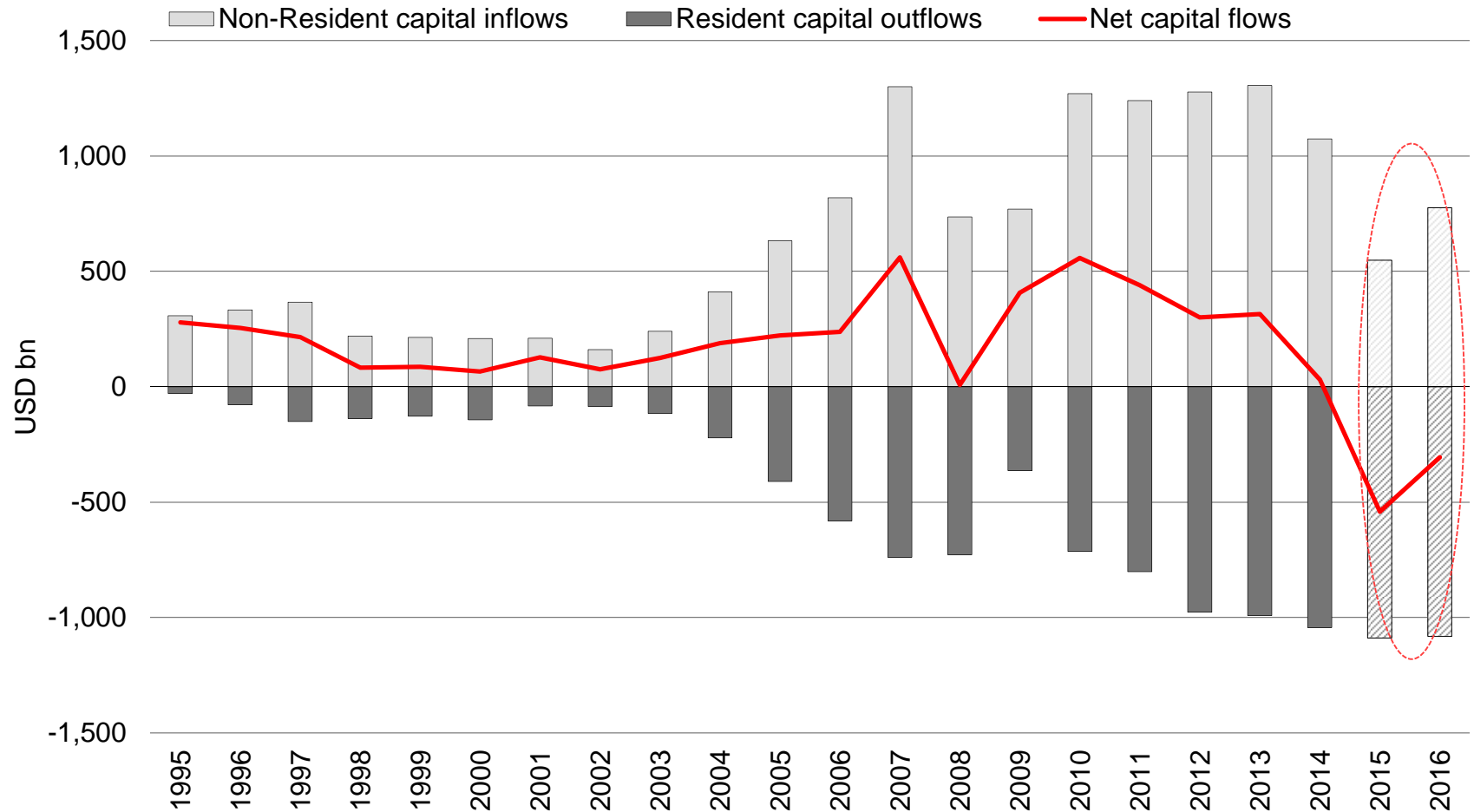


Source: Bloomberg, UniCredit Research

## However, massive outflows from emerging markets continue...

Higher UST risk, economic growth and structural issues in a number of EM are triggering historically high capital outflows

### Emerging markets' capital flows

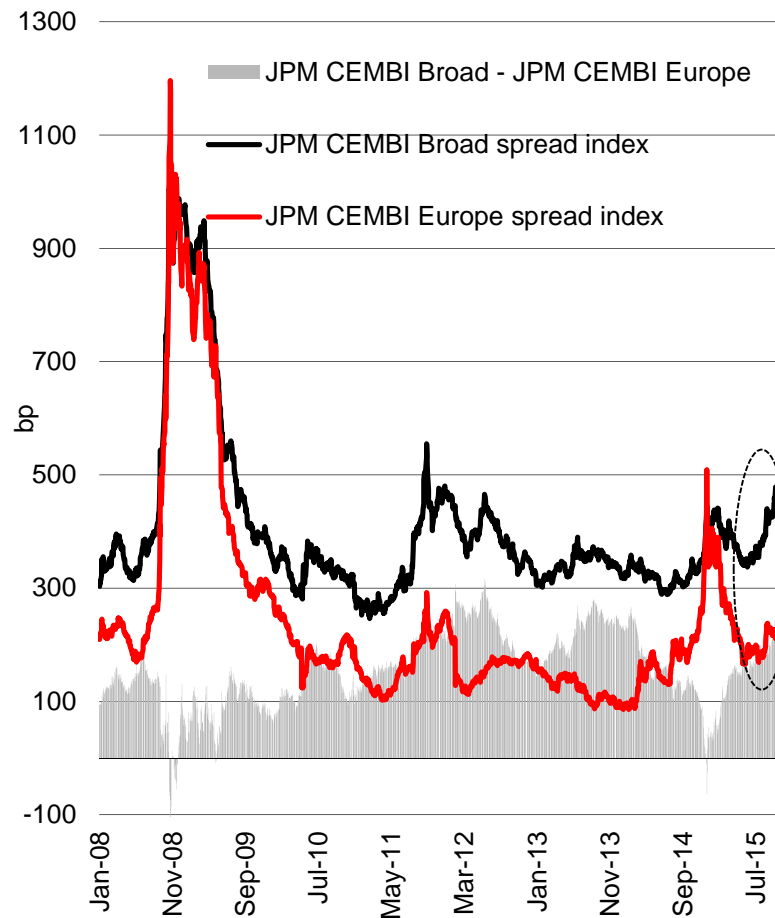


Source: IIF, UniCredit Research

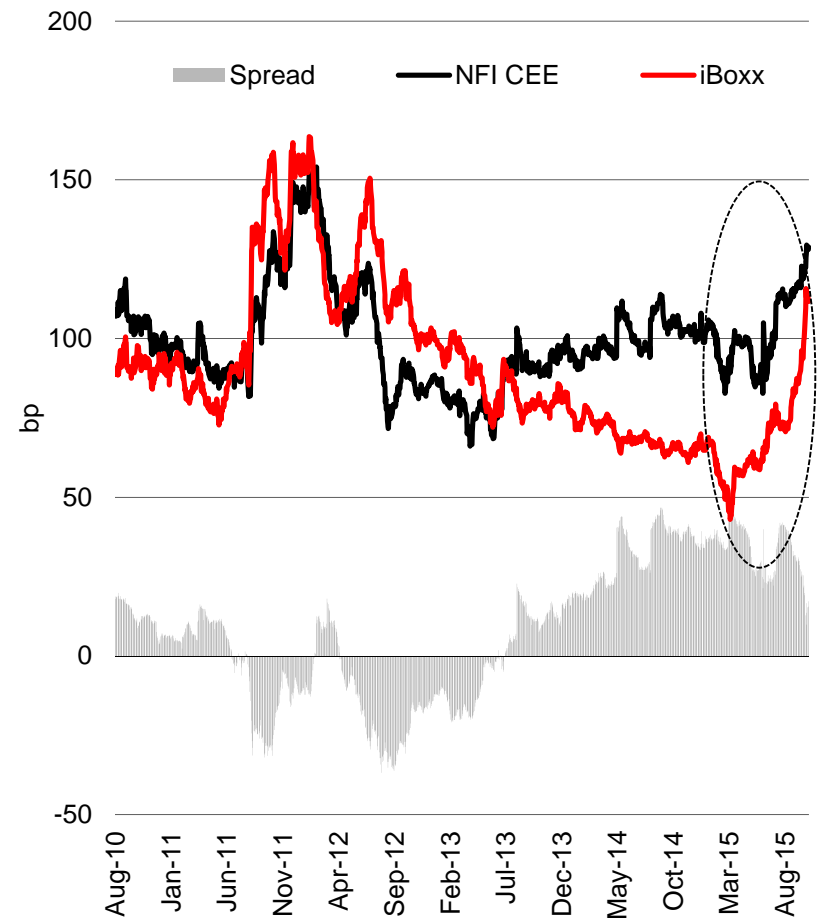
## ...and are pushing credit spreads to new highs

However, current spread levels are far from a crisis scenario; Emerging European spreads have decoupled mainly on the back of Russian spread normalization; CEE credits have failed to benefit from the ECB's QE

### Emerging markets' corporate spreads



### iBoxx vs. iBoxx CEE Non-Financials spreads

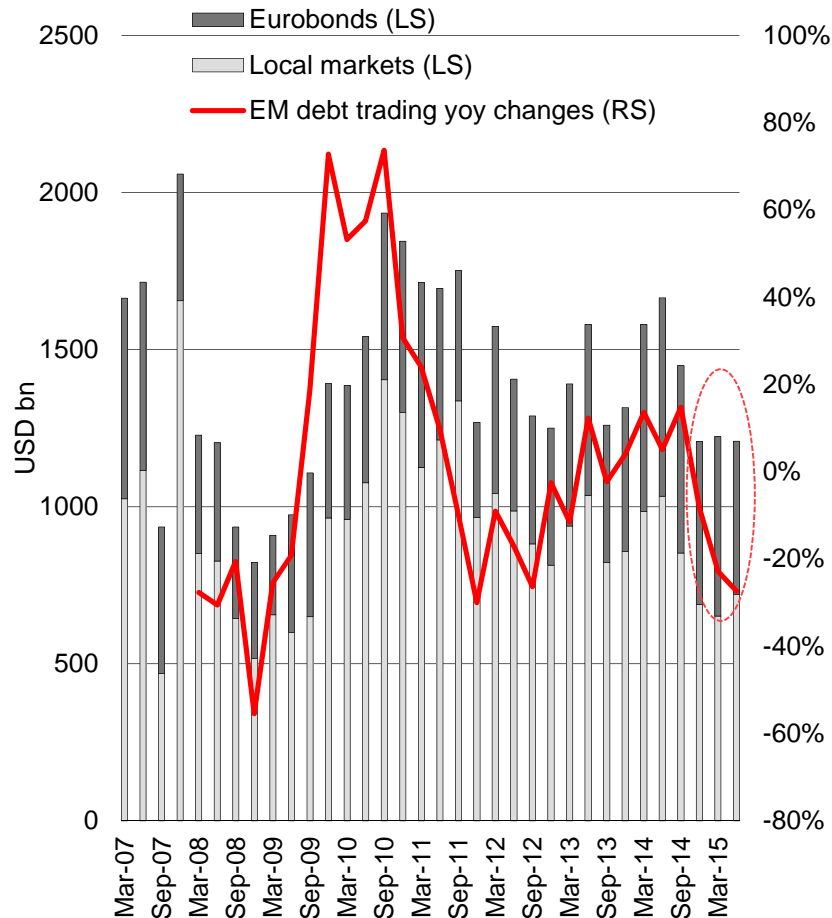


Source: JPM, Bloomberg, iBoxx, UniCredit Research

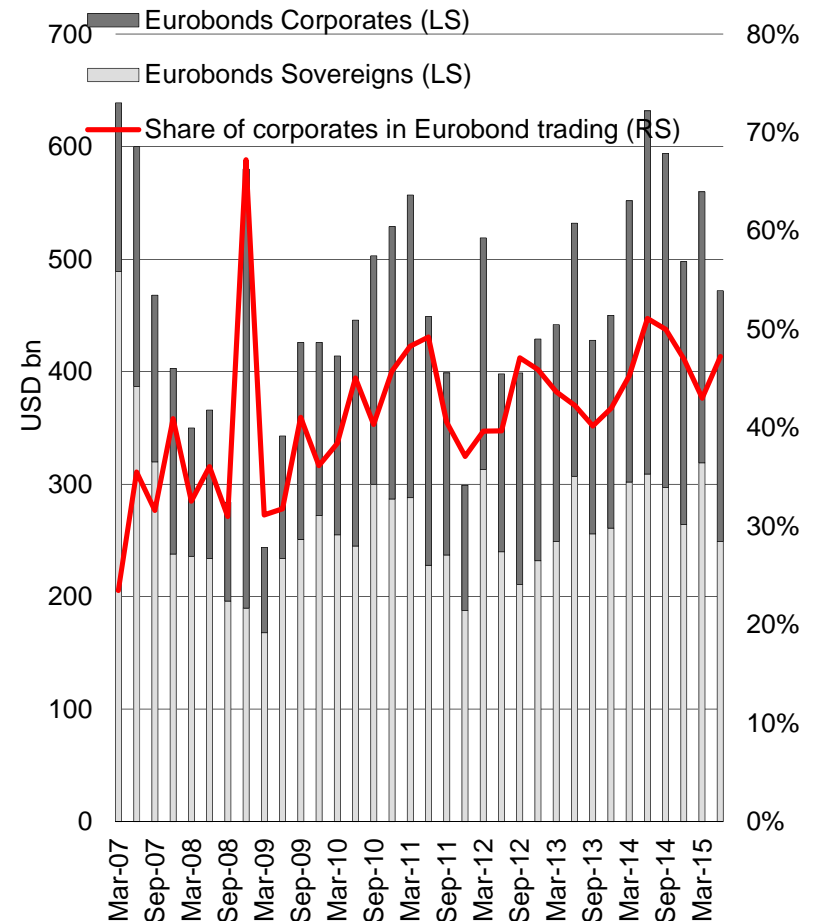
# Technical factors creating vicious circle risk

EM bond trading is experiencing the sharpest contraction since the 2008-09 crisis, as market liquidity has deteriorated to a large part due to regulatory issues

Trading volumes: EM bonds and...



...EM Eurobonds

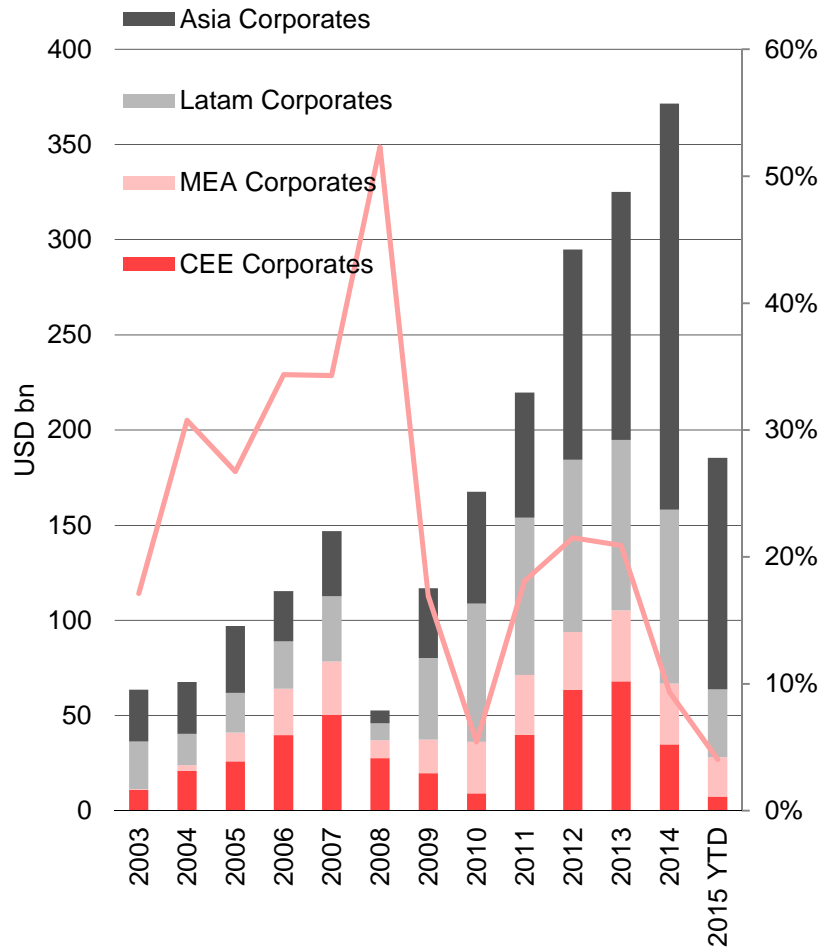


Source: EMTA, UniCredit Research

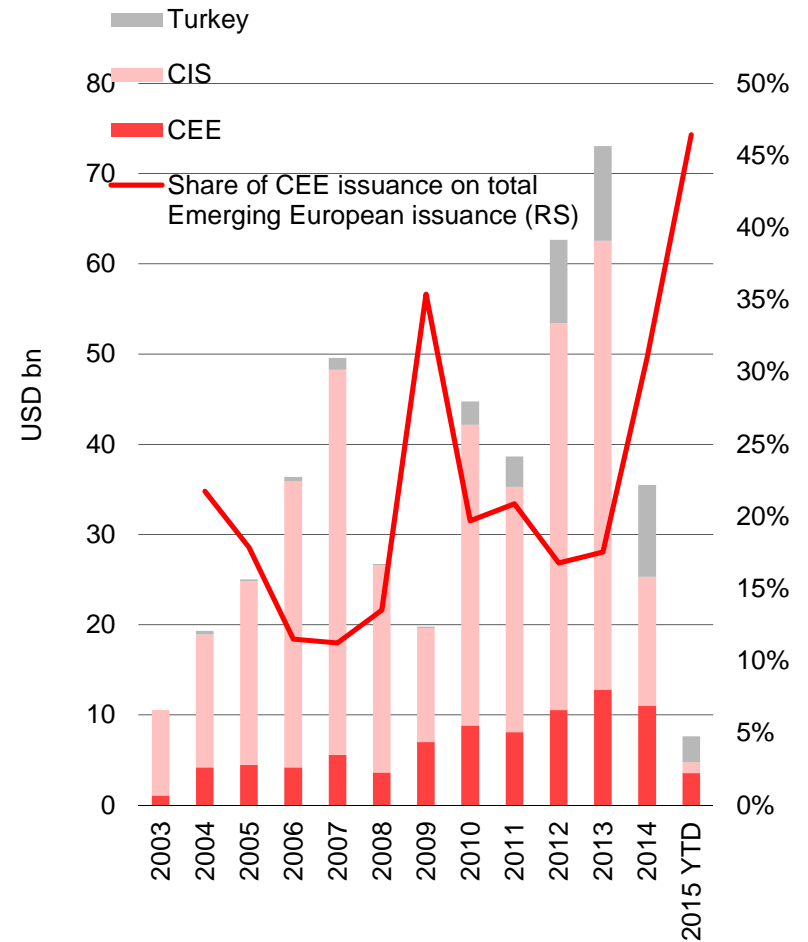
# Historically low issuance exacerbating liquidity problems

Economic sanctions against Russia, low capex plans, and M&A activity are leading to low borrowing requirements

## Corporate bond issuance: EM and...



## ...Emerging Europe

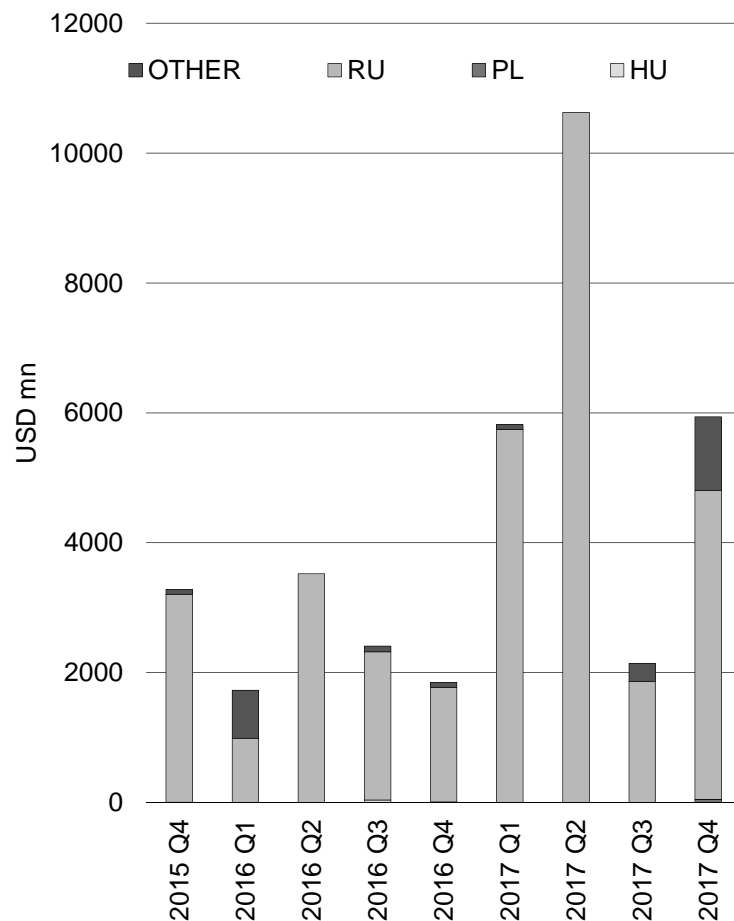


Source: BondRadar, UniCredit Research

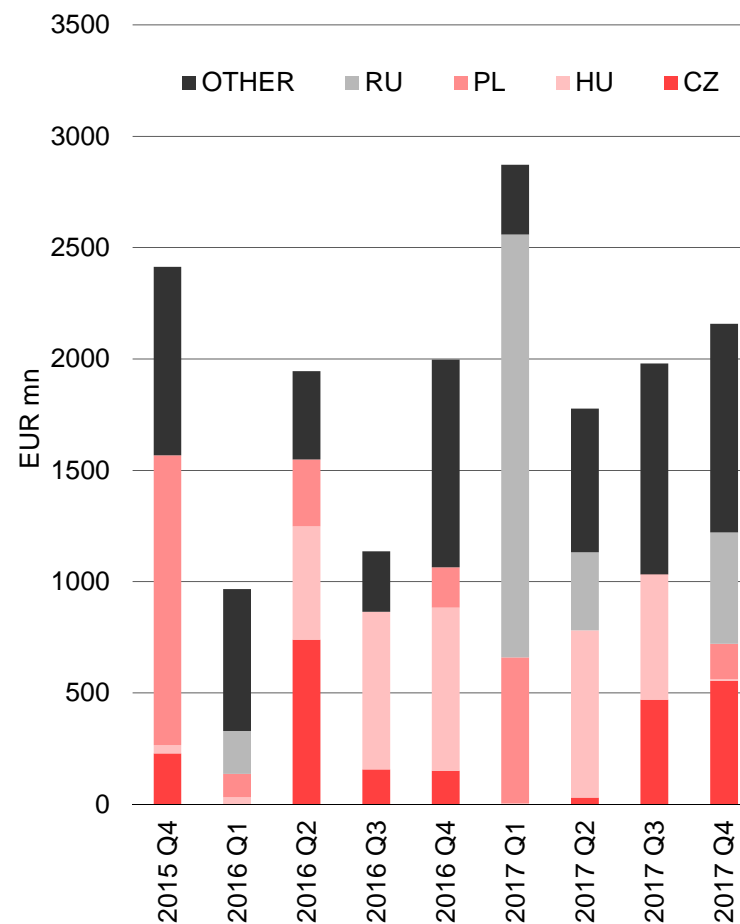
# Private sector liquidity provision to be particularly supportive for Russian corporates

Russian corporates will redeem USD 3.2bn in 4Q15 and USD 8.5bn in 2016

Emerging European bond redemptions: USD...



...and EUR denominated



Source: Bloomberg, UniCredit Research

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