

Government Bond Data Report

European market data update

Q2: 2017



12th Annual
afme / **European Government
Bond Conference**
Finance for Europe
8-9 November 2017, Sofitel Europe, Brussels

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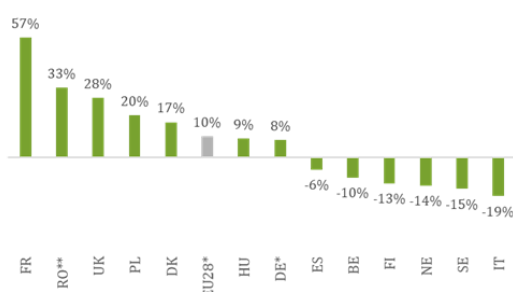
Highlights and Market Environment

This report provides a comprehensive data source with updated statistics of the Government bond¹ primary and secondary markets in Europe (EU28).

“For EU countries on aggregate, average trading volumes decreased 8% QoQ in 2Q17 but increased 9.8% YoY.”

Annual change in Government Bond average trading volumes

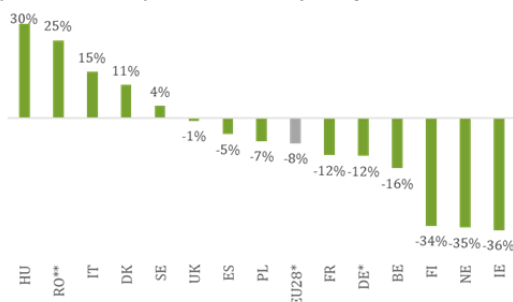
(2Q17 vs 2Q16) Selected European jurisdictions



Source: AFME with information from European DMOs and other agency sources and Trax, a MarketAxess subsidiary. See section 5 for details on aggregation basis and sources. *Europe total and German turnover is sourced from TRAX Facts as the quarterly variation of average daily volumes of government and sovereign bonds. **Romanian turnover volume calculated using outstanding volumes in Section 3.

Quarterly change in Government Bond average trading volumes

(2Q17 vs 1Q17) Selected European jurisdictions



Source: AFME with information from European DMOs and other agency sources and Trax, a MarketAxess subsidiary. See section 5 for details on aggregation basis and sources. *Europe total and German turnover is sourced from TRAX Facts as the quarterly variation of average daily volumes of government and sovereign bonds. **Romanian turnover volume calculated using outstanding volumes in Section 3.

Among the main findings of this report are:

- **Average daily trading volumes** of European government bonds decreased in most jurisdictions from 1Q17 to 2Q17. When comparing 2Q17 with 2Q16; however, the trend suggests an annual increase, most notably in France and the UK. For EU countries on aggregate, average trading volumes decreased 8% QoQ in 2Q17 but increased 9.8% YoY.
- **European Government bond gross issuance** totalled €626.8 bn in 2Q17, a decrease of 8.7% from the volume originated in 1Q17 (€686.3 bn). Comparing issuance in 1H17 with 1H16, there has been a shift to longer dated debt, as bond issuance has increased 5.7%, whereas bill issuance has decreased 14.4%.
- **Average bid-cover ratios** (demand/amount allocated)² was 2.11 in 2Q17, a slight increase compared to 1Q17, but still close to the lowest value of 2.07 since 2011.
- The year so far has seen **nine long-term credit rating upgrades for EU countries** compared to one downgrade, reflecting a general trend of increasing credit ratings for Southern and Eastern European countries.

	2013	2014	2015	2016	1Q17	2Q17
Issuance (€ bn)	2805.7	2726.6	2602.7	2546.9	686.3	626.8
Bonds (€bn)	1334.2	1266.9	1216.4	1177.8	369.1	325.4
Bills (€bn)	1471.4	1459.7	1386.3	1369.1	317.2	301.4
Outstandings (€ tn)	8.9	9.3	9.7	9.6	9.8	10.1
Bid-cover ratio	2.18	2.29	2.22	2.16	2.07	2.11
Average daily turnover (% YoY change)	-	-	-8.4%	-7.2%	16.1%	9.8%

Highlights

Bond turnover and repricing of sovereign bond markets

Average daily trading volumes of EU sovereign bonds increased 9.8% when comparing 2Q17 with 2Q16. This increase, however, does not significantly improve the decreasing trend in trading activity for many countries in recent years, particularly illustrated by the turnover ratio. The YoY increase in trading volume is primarily driven by significantly higher activity in France, as well as the UK.

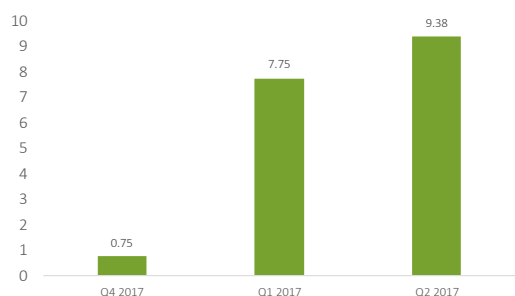
The notable increase in trading volumes in French government bonds in 2017, appears to reflect higher activity in the run up to the French Presidential elections in April and May. This is apparent

¹ Fixed income securities issued by central governments. The report includes Bonds and Treasury Bills and excludes agencies and Central Bank origination.

² Weighted average (by issuance volume) of bid-cover ratios in the United Kingdom, Spain, France, Italy, Germany, Belgium, Sweden, Netherlands, Denmark and Austria.

from the French monthly turnover figures, as the highest recorded trading volumes³ were witnessed in February and March, before volumes decreased in the following months. The YoY increase for the UK illustrates an increase in trading activity when compared with 2Q16, which had a particularly low level of trading before the UK's EU referendum vote.

EU sovereign green bond cumulative issuance (€bn)



Source: Thomson Reuters Eikon

Sovereign Green Bonds

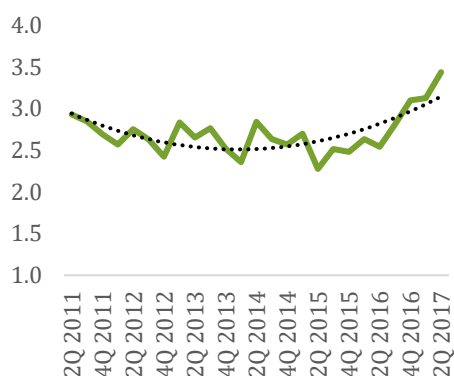
After Poland issued the first sovereign green bond (SGB) in December 2016 (a €750m 5-year bond), France followed with the issuance of a €7bn 22-year green bond in January 2017. The French SGB was reopened in June 2017 to increase the issuance size from €7bn to €8.63bn, and thus further growing the size of the fledgling market. **The French SGB was the largest green bond ever issued and sets a precedent for further SGB issuance in the future.**

Credit rating upgrades reflect improving credit quality in Southern and Eastern European countries

The credit rating upgrades for Cyprus, Slovenia, Greece, Portugal, Ireland and Malta continue the trend of increased credit ratings for Southern and Eastern European countries since 2015 and other countries hardly hit by the financial crisis. The notable exception to this trend is Italy, which was further downgraded in Q217 by Fitch.

The improving credit quality in the region was also reflected in falling CDS spreads in 2Q17 for Portugal, Spain and Italy.

Average bid-cover ratio of UK government bonds and bills



Source: AFME and Thomson Reuters Eikon. Weighted average of UK bonds and bills.

UK average bid-cover ratio hits new heights

The average bid-cover ratio for auctions of UK government bonds further increased in 2Q17. The average bid-cover ratio of 3.44 in 2Q17 is the highest for any of the 10 EU countries analysed by AFME since the beginning of the data set in 2010, suggesting that market interest remains strong despite Brexit uncertainty.

The UK bid-cover ratio is notably higher than the other 9 EU countries analysed, whose bid-cover ratios all fell between 1.49 and 2.70.

Fall in Greek outstandings

A very significant decrease in outstanding Greek sovereign debt can be noted in 2Q17, a fall of around €72bn. This decrease is largely attributed to the fact that the €62.4bn Greek GDP-linked warrant (ISIN GRR000000010), which was issued as part of the default in 2012, is no longer in the data set used from Thomson Reuters.

³ Since the start of AFME's available data series for France in 2006.

Major upcoming regulatory, legislative and policy initiatives

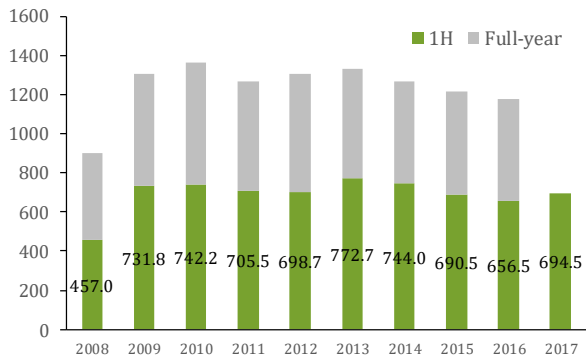
There several regulatory initiatives that are currently being considered at the European and national level with expected impact on the government bond markets. Some of the key initiatives currently being developed are:

- MiFID II/R
- Fundamental Review of the Trading Book (FRTB)
- Basel III
- CSDR
- Prospectus Regulation

AFME and its members are actively contributing on all of these and other initiatives.

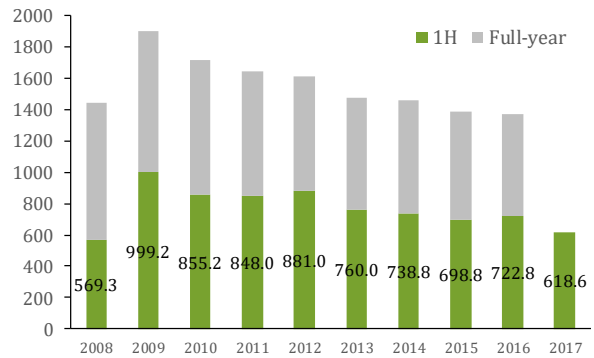
1 Issuance

1.1 EU Government Bond issuance (EUR bn)



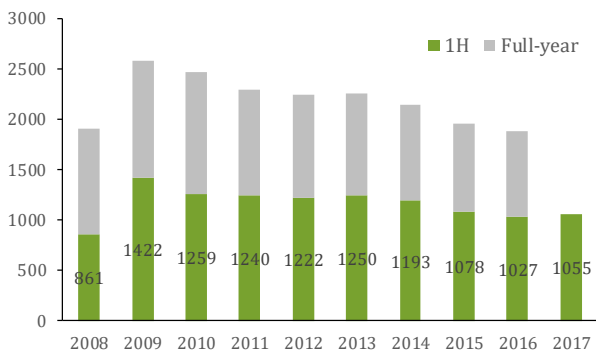
Source: ECB and National Debt Management Offices

1.2 EU Treasury Bills issuance (EUR bn)



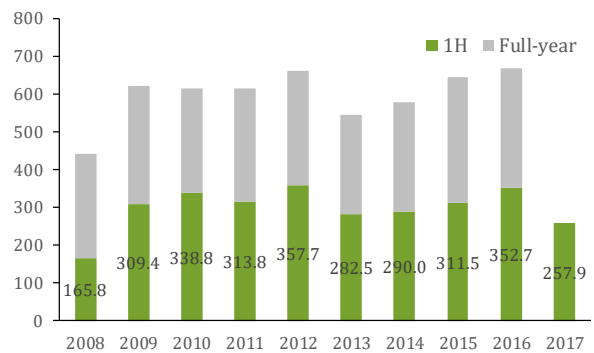
Source: ECB and National Debt Management Offices

1.3 Eurozone bonds and bills issuance (EUR bn)



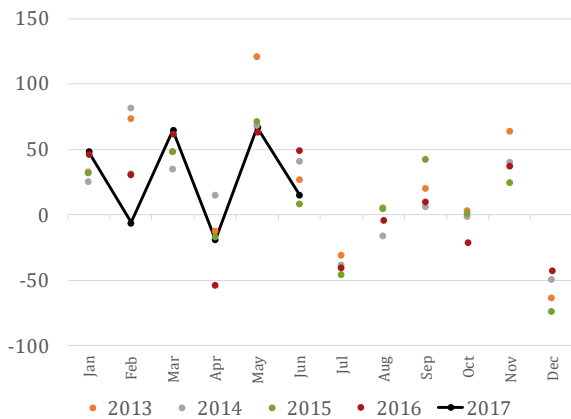
Source: ECB and National Debt Management Offices

1.4 Non-Eurozone bonds and bills issuance by (EUR bn)



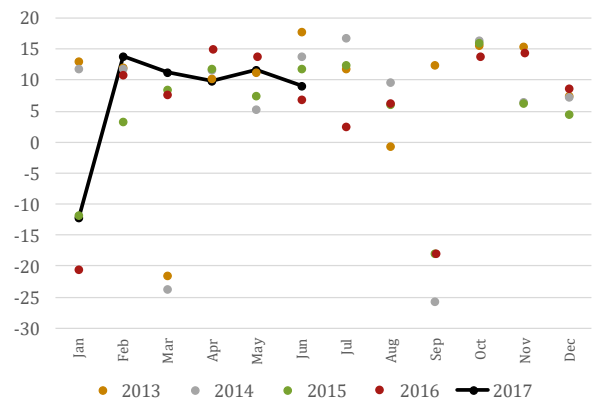
Source: ECB and National Debt Management Offices

1.5 Euro area net sovereign debt issuance (EUR bn)



Source: ECB

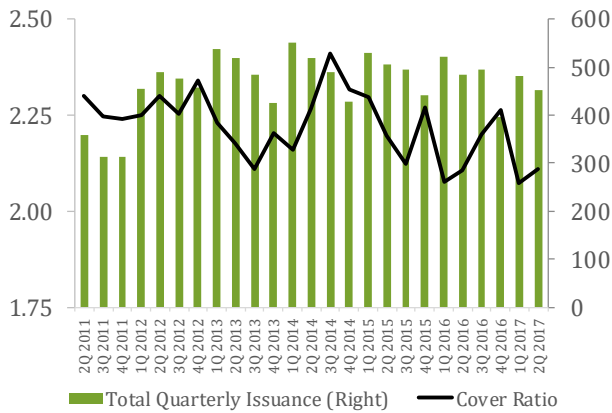
1.6 UK Gilts net issuance (GBP bn)



Source: UK Debt Management Office

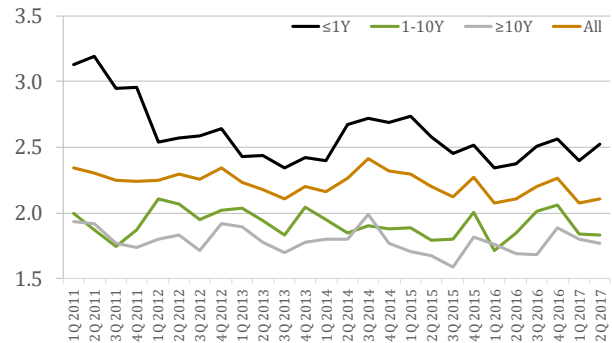
2 Recent auctions and primary dealers

2.1 Average bid-cover ratios and issued volumes in selected jurisdictions (EUR bn)



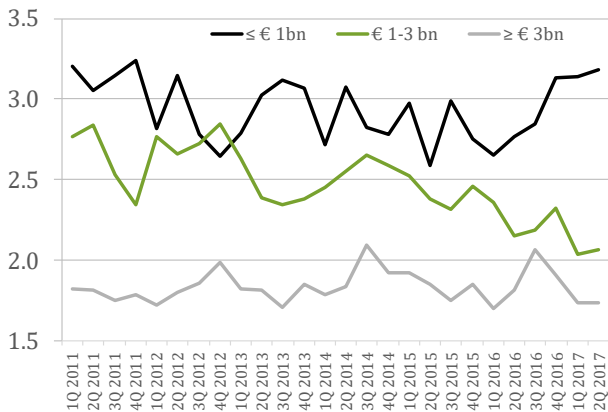
Source: Thomson Reuters Eikon. Weighted average of UK, DE, FR, ES, IT, BE, SE, NL, DK, and AT bonds and bills

2.2 Average bid-cover ratios by tenor (years) of issued instrument



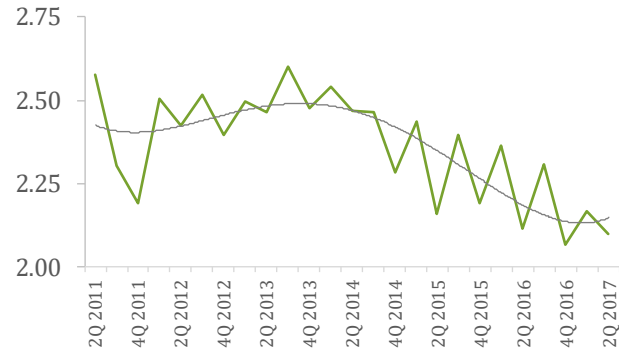
Source: Thomson Reuters Eikon. Weighted average of UK, DE, FR, ES, IT, BE, SE, NL, DK, and AT bonds and bills

2.3 Average bid-cover ratios by size of issued instruments



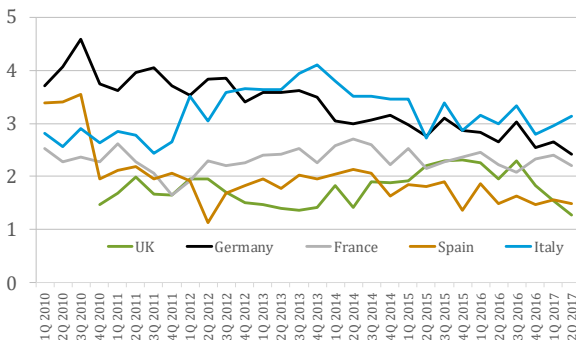
Source: Thomson Reuters Eikon. Weighted average of UK, DE, FR, ES, IT, BE, SE, NL, DK, and AT bonds and bills

2.4 Average auction size in selected European jurisdictions (EUR bn)



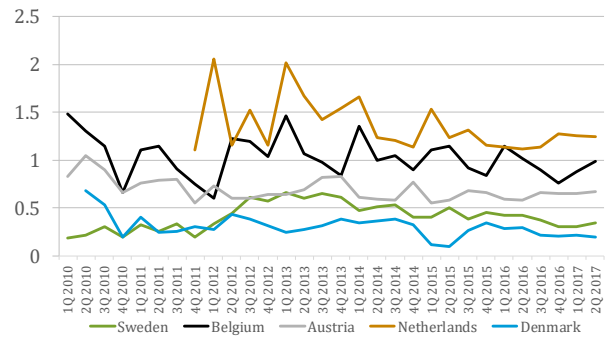
Source: Thomson Reuters Eikon. Weighted average of UK, DE, FR, ES, IT, BE, SE, NL, DK, and AT bonds and bills. Polynomial trendline in grey.

2.5 Average auction size in selected jurisdictions (EUR bn)



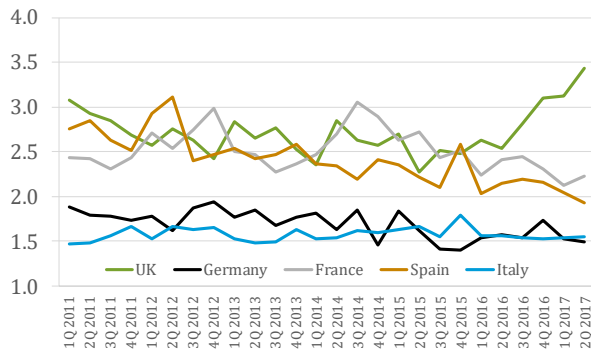
Source: Thomson Reuters Eikon

2.6 Average auction size in selected jurisdictions (EUR bn)



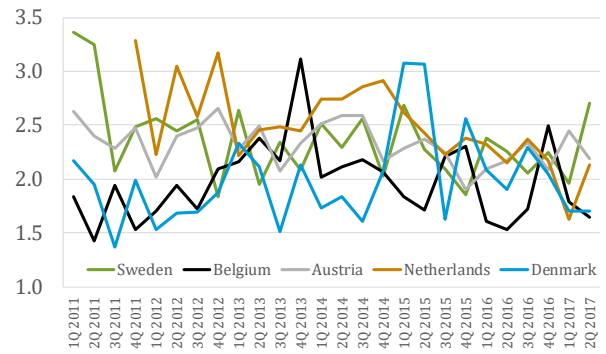
Source: Thomson Reuters Eikon

2.7 Average bid-cover ratios by jurisdictions



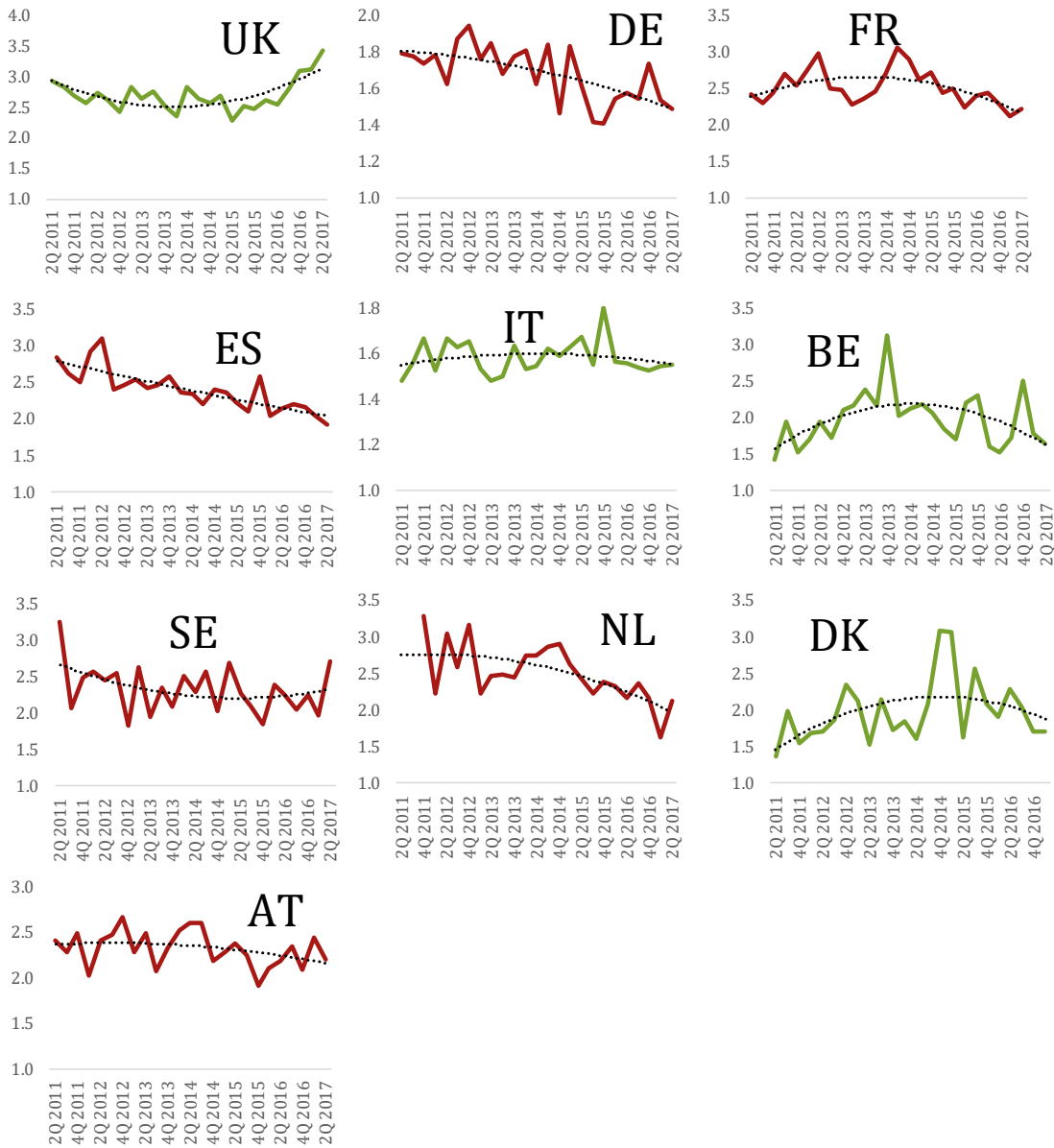
Source: Thomson Reuters Eikon

2.8 Average bid-cover ratios by jurisdictions



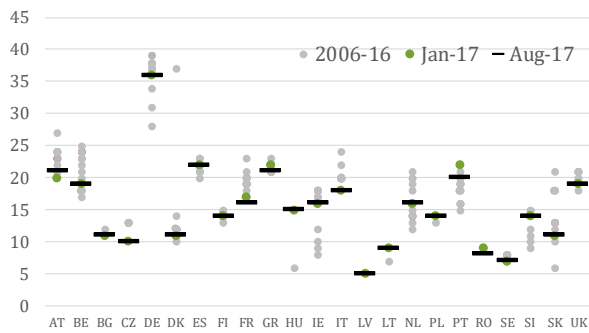
Source: Thomson Reuters Eikon

2.9 Average bid-cover ratios in selected jurisdictions: 2011-17



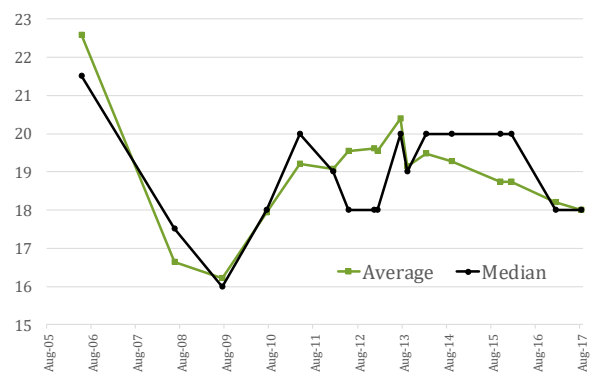
Source: Thomson Reuters Eikon

2.10 Number of primary dealers relative to historic number



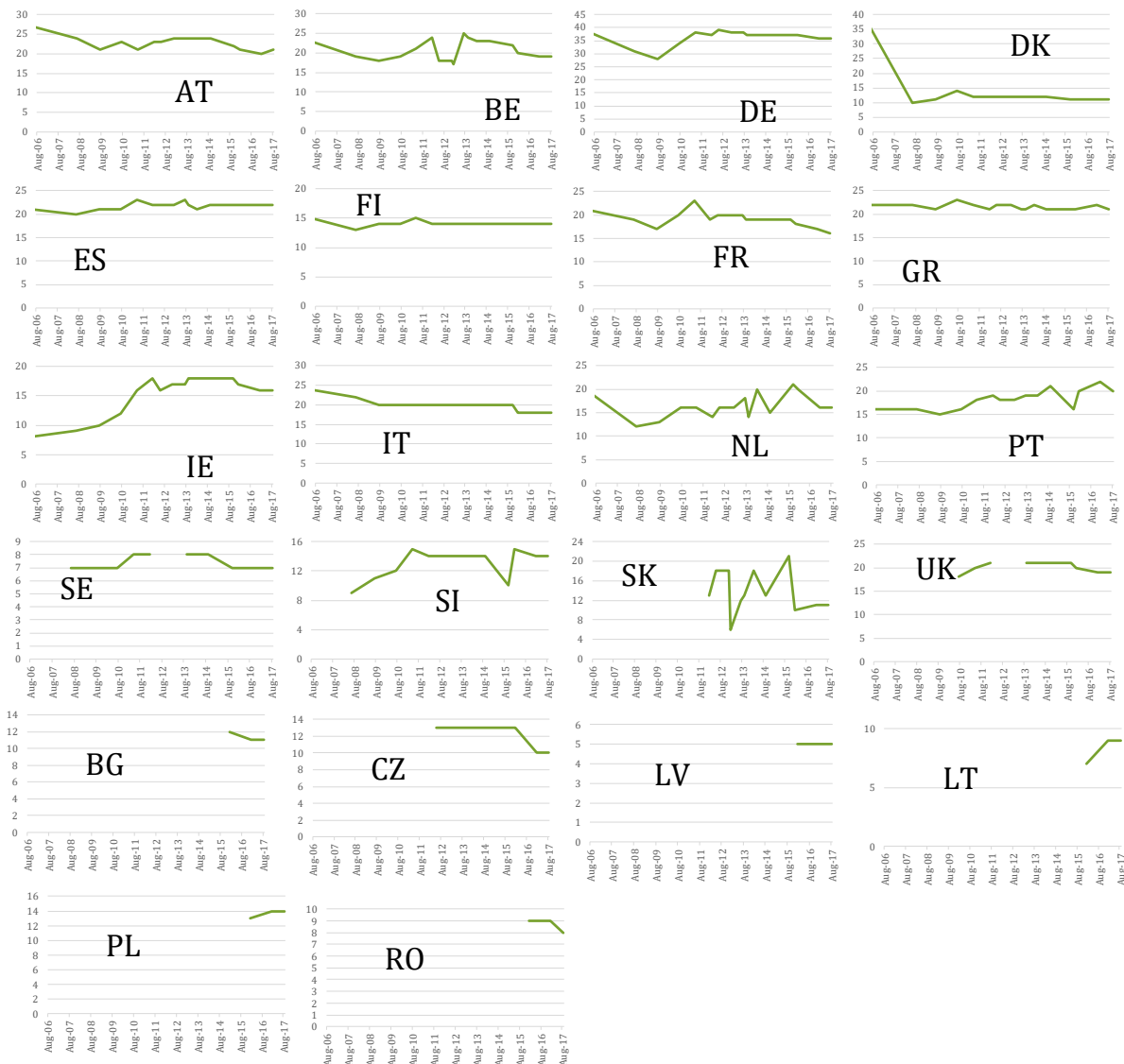
Source: AFME Primary Dealers Handbooks and national DMOs

2.11 Average and median number of primary dealers in selected EU countries



Source: AFME Primary Dealers Handbooks and national DMOs. Average and medians of AT, BE, DE, DK, ES, FI, FR, GR, IE, IT, NL, PT, SE, SI and UK

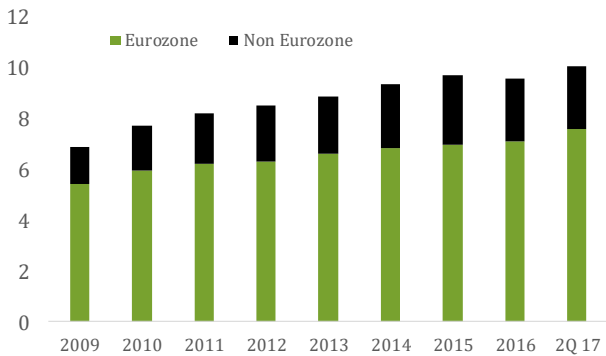
2.12 Number of primary dealers in Europe by jurisdiction: 2006-17



Source: AFME Primary Dealers Handbooks and national DMOs

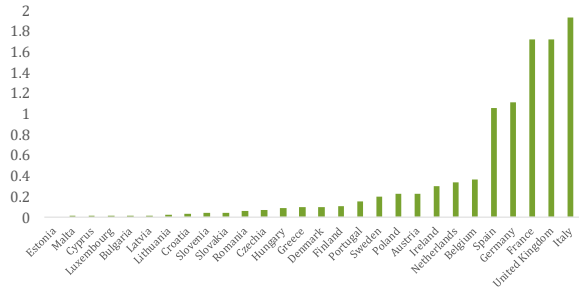
3 Outstanding

3.1 Outstanding debt securities issued by Central Governments (Nominal, EUR tn)



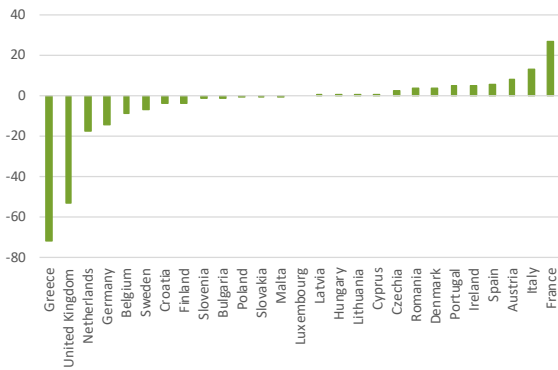
Source: ECB and Thomson Reuters Eikon

3.2 European government bonds outstanding by country (EUR tn)



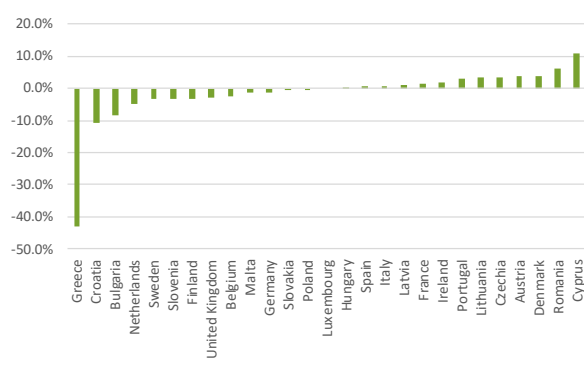
Source: Thomson Reuters Eikon

3.3 Change in outstandings 1Q17 to 2Q17 (EUR bn)



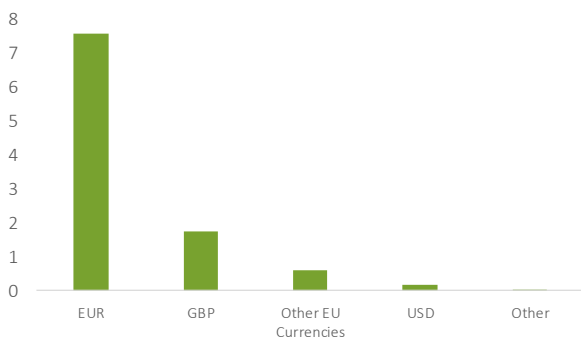
Source: Thomson Reuters Eikon

3.4 % Change in outstandings from 1Q17 to 2Q17



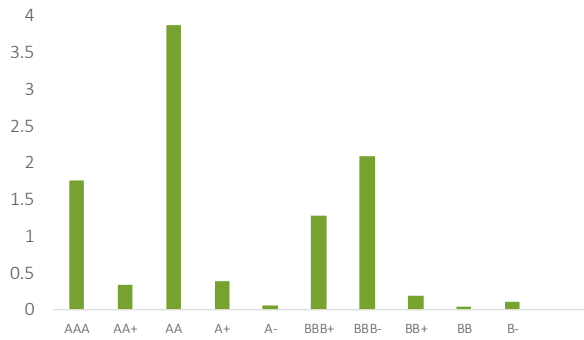
Source: Thomson Reuters Eikon and Standard and Poor's

3.5 European government bonds outstanding by currency (EUR tn)



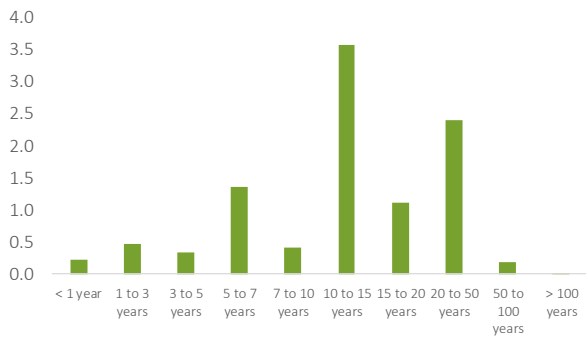
Source: Thomson Reuters Eikon

3.6 European government bonds outstanding by current rating of issuer (EUR tn)



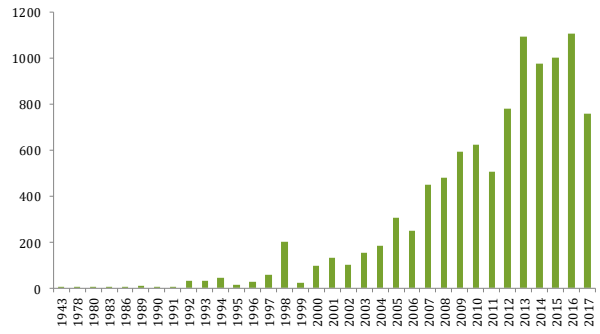
Source: Thomson Reuters Eikon and Standard and Poor's

3.7 Maturity wall of European government bonds outstanding (EUR tn)



Source: Thomson Reuters Eikon

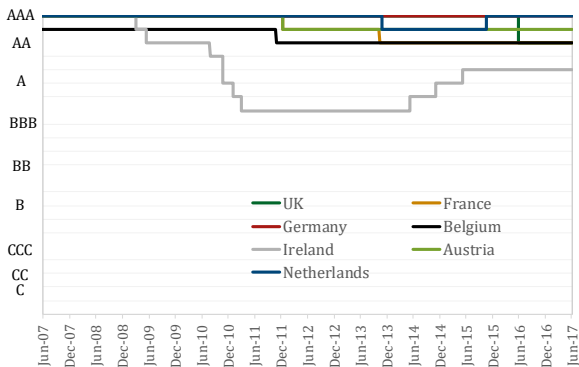
3.8 European government bonds outstanding by year of issuance (EUR bn)



Source: Thomson Reuters Eikon

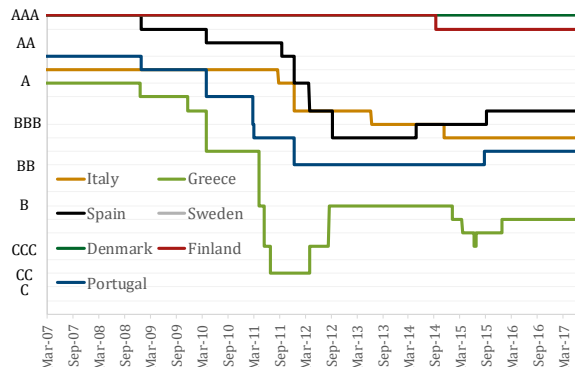
4 Credit quality

4.1 Long-term foreign currency credit rating (Central and Northern Europe)



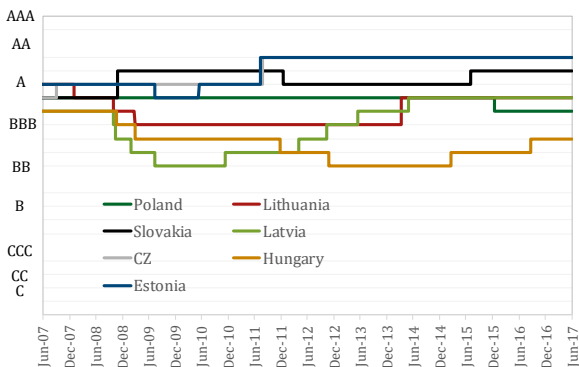
Source: Thomson Reuters Eikon with data of Standard and Poor's

4.2 Long-term foreign currency credit rating (Nordics and Southern Europe)



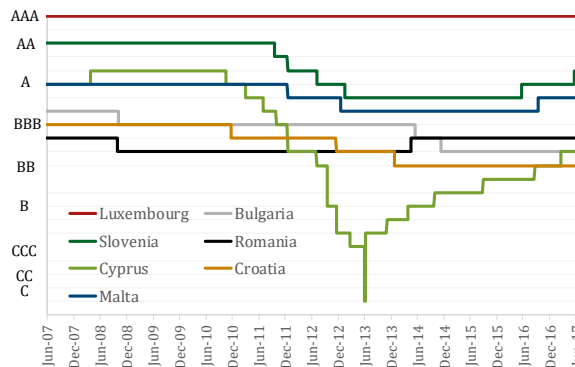
Source: Thomson Reuters Eikon with data of Standard and Poor's

4.3 Long-term foreign currency credit rating (Visegrad 4 and Baltic states)



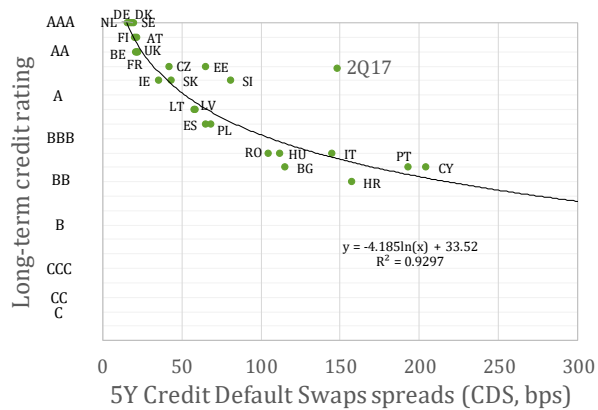
Source: Thomson Reuters Eikon with data of Standard and Poor's

4.4 Long-term foreign currency credit rating (Balkans, CY, MT and LU)



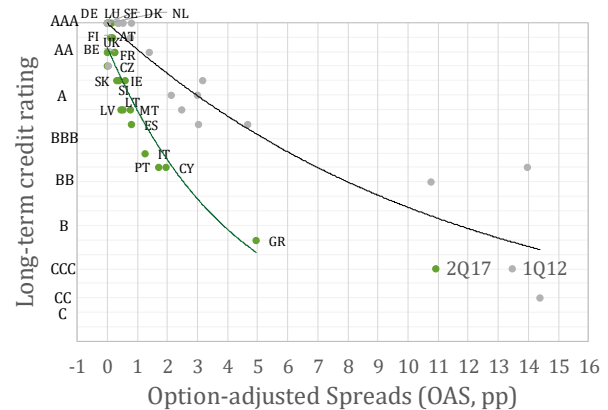
Source: Thomson Reuters Eikon with data of Standard and Poor's

4.5 Long-term foreign currency credit rating and 5Y Credit Default Swaps (CDS)



Source: Deutsche Bank and Standard and Poor's

4.6 Long-term foreign currency credit rating and option-adjusted spreads (OAS)



Source: Barclays and Standard and Poor's

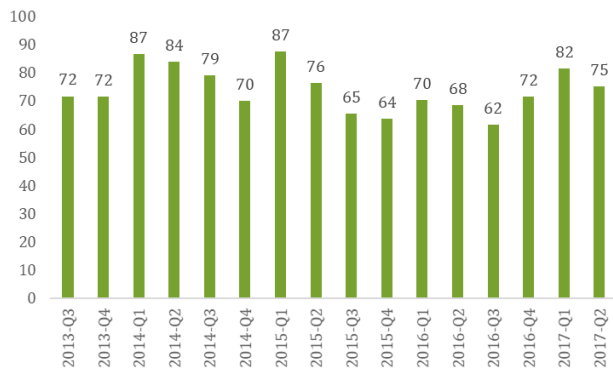
4.7 European rating actions on long-term foreign currency ratings (2017 YtD)

Issuer	Rating action	Date	Rated by	Rationale
Cyprus	Upgrade to BB+ (stable) from BB	Mar-17	S&P	Stronger-than-expected economic growth and fiscal progress
Italy	Downgrade to BBB (stable) from BBB+	Apr-17	Fitch	Track record of fiscal slippage, weak growth, and failure to bring down gov. debt. Political risk and banking sector weakness
Slovenia	Upgrade to A+ (stable) from A	Jun-17	S&P	Improving debt dynamics on the back of economic expansion and recovery of its financial sector
Greece	Upgrade to Caa2 (positive) from Caa3	Jun-17	Moody's	Successful conclusion of the 2nd review adjustment programme, improved fiscal prospects, and signs of the economy stabilizing
Cyprus	Upgrade to Baa3 (positive) from B1	Jul-17	Moody's	Improvements in economic resilience, consistent fiscal outperformance and favourable fiscal outlook
Greece	Upgrade to B- (positive) from CCC	Aug-17	Fitch	Expectation that debt sustainability will steadily improve, reduced political risk and sustained GDP growth
Malta	Upgrade to A+ (stable) from A	Aug-17	Fitch	Public debt dynamics are improving with strong nominal GDP growth and recurrent primary surpluses
Portugal	Upgrade to BBB- (stable) from BB+	Sep-17	S&P	Strong economic and budgetary performance as well as receding external financing risks
Slovenia	Upgrade to Baa1 (stable) from Baa3	Sep-17	Moody's	Favourable debt trend, driven by fiscal consolidation and robust economic growth. Progress in some important structural reforms
Ireland	Upgrade to A2 (stable) from A3	Sep-17	Moody's	Faster-than-expected growth and improvement in fiscal metrics

Source: Fitch, Moody's, S&P

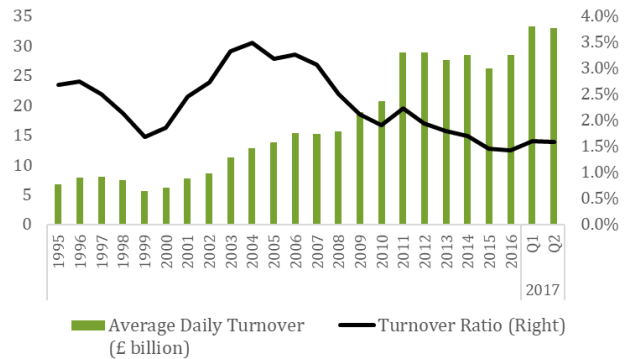
5 Secondary market trading volumes and turnover ratios⁴

5.1 EU28: Average daily trading volumes on MarketAxess (Gov. & Sovereign bonds, EURbn)⁵



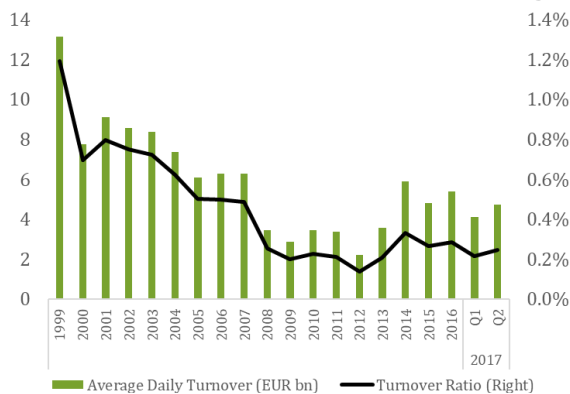
Source: Trax, a MarketAxess subsidiary

5.2 United Kingdom: Average daily trading volume (bonds only) and turnover ratio⁶



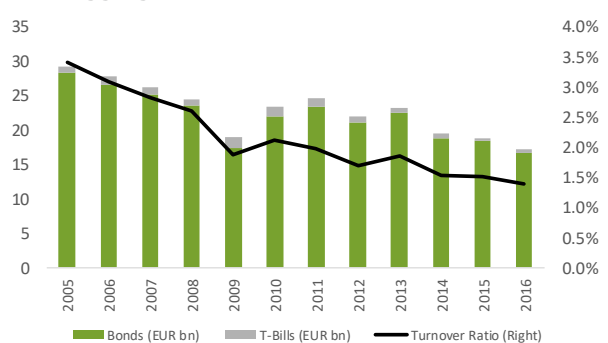
Source: UK Debt Management Office

5.3 Italy: Average daily trading volume (bonds and bills) and turnover ratio. Electronic trading⁷



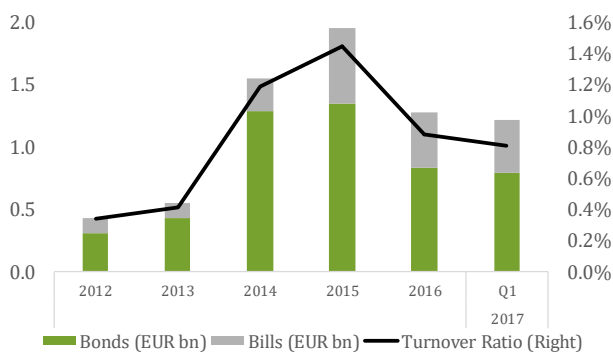
Source: Italian Dipartimento del Tesoro

5.4 Germany: Average daily trading volume (aggregated bonds and bills) and turnover ratio⁸



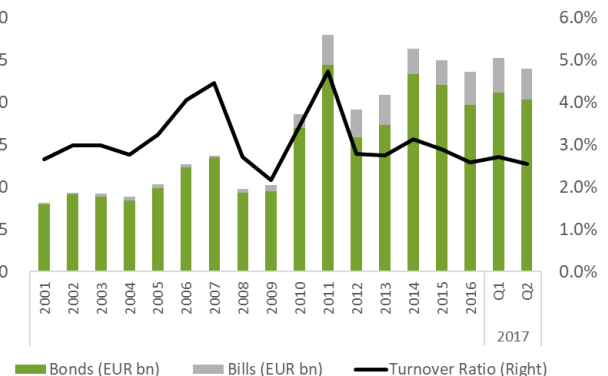
Source: Deutsche Finanzagentur and ECB

5.5 Portugal: Average daily trading volume and turnover ratio⁹



Source: Agência de Gestão da Tesouraria e da Dívida Pública – IGCP and ECB

5.6 Spain: Average daily trading volume and turnover ratio¹⁰



Source: Banco de España and Tesoro Público de España

⁴ Turnover ratios are calculated as the average daily trading volume relative to total outstandings. Cash trading only (excludes repo and derivatives transactions). Given the differences in the aggregation basis across jurisdictions, the data is not fully comparable between countries.

⁵ Secondary Market Volumes (please note this is restricted to 2013-Q3 onwards as split not available prior to this date. Volumes are calculated by converting the individual traded securities to EUR using the prevailing exchange rate on the date of each trade. ADV calculated by dividing the total converted volume by the number of UK trading days for quarter. Government & Sovereign bond volumes for EU28 member states as per the AFME methodology.

⁶ Turnover data reported to the DMO by the Gilt-edged Market Makers (primary dealers).

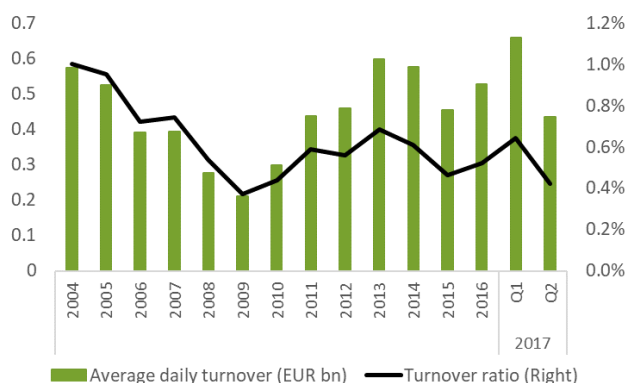
⁷ Turnover on electronic interdealer regulated market.

⁸ Turnover of both electronic and OTC trading. The traded volume is aggregated for a representative part of the members of the Bund Issues Auction Group with trades with all counterparties. Bubills, Schaezle, Bobls, Bunds and inflation-linked securities. Capital and coupon strips as well as US-dollar bonds are excluded. Data not currently available for 2Q17.

⁹ Turnover of electronic and OTC trading reported on MTS-Portugal, BrokerTec and eSpeed. Data not currently available for 2Q17.

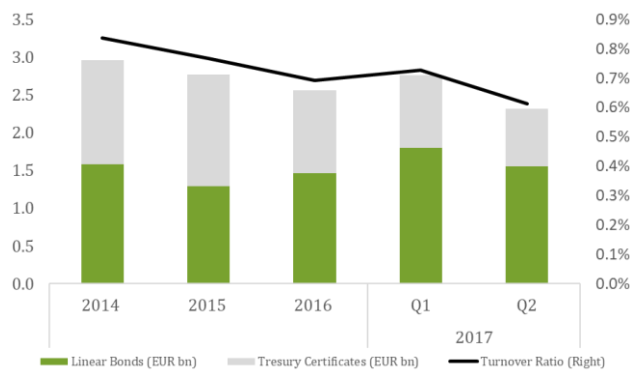
¹⁰ Turnover is total outright transactions (excluding Repo operations). Includes Treasury Bills, non-stripped Government Bonds and stripped Government Bonds, both in electronic platforms and OTC (second tier and transactions between market members and clients).

5.7 Finland: Average daily trading volume (aggregated bonds and bills) and turnover ratio¹¹



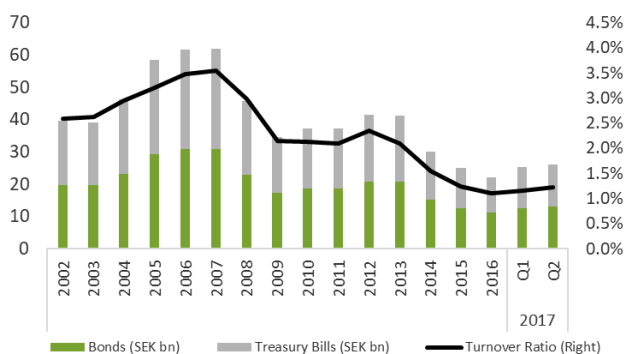
Source: Finland Valtiokonttori and ECBi

5.8 Belgium: Average daily trading volume and turnover ratio¹²



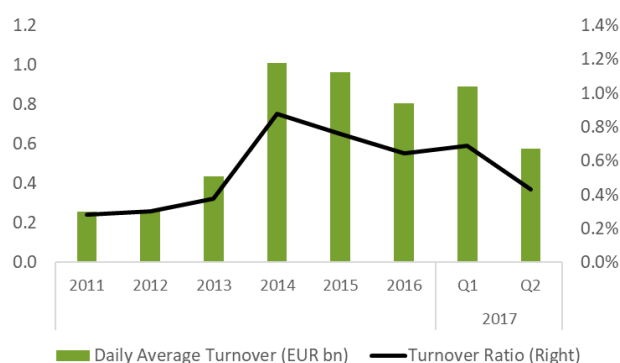
Source: Belgian Debt Agency and ECB

5.9 Sweden: Average daily trading volume and turnover ratio¹³



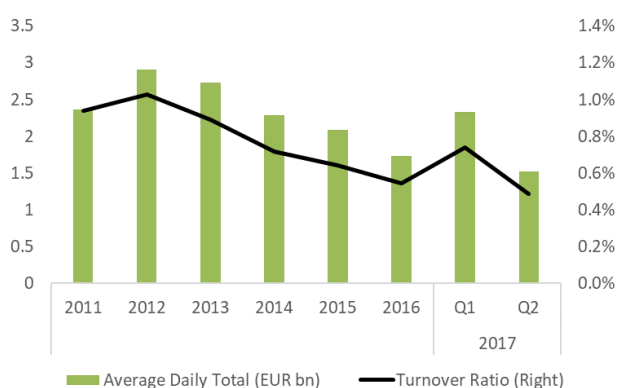
Source: Swedish National Debt Office (Riksgälden) and ECB

5.10 Ireland: Average daily trading volume (aggregated bonds and bills) and turnover ratio¹⁴



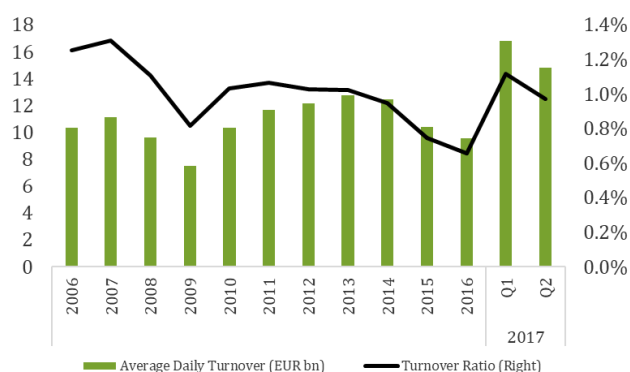
Source: Irish Stock Exchange and ECB

5.11 Netherlands: Average daily trading volume (bonds only) and turnover ratio¹⁵



Source: Ministerie van Financiën

5.12 France: Average daily trading volume (bonds only) and turnover ratio¹⁶



Source: Agence France Trésor and ECB

¹¹ Turnover of customer trades, MTS Finland and Euro MTS.

¹² Turnover is total outright transactions.

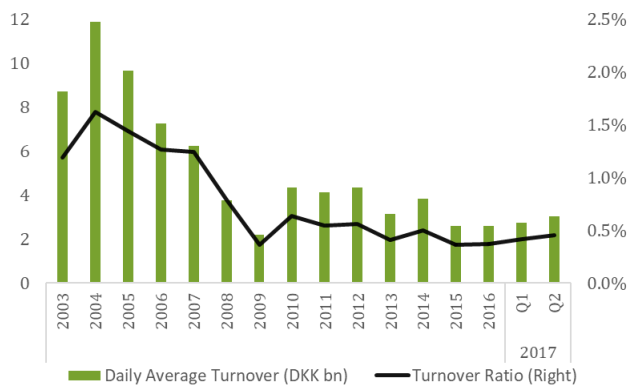
¹³ Turnover is total outright transactions.

¹⁴ Turnover on Irish Stock Exchange.

¹⁵ Turnover is customer and interdealer trading. Total outright transactions, including electronic and OTC trading.

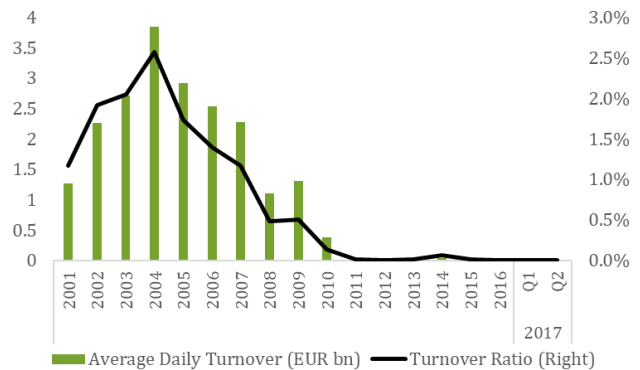
¹⁶ Turnover of voice and electronic trading (not including PSPP transactions or trading without an SVT).

5.13 Denmark: Average daily trading volume (bonds and bills) and turnover ratio¹⁷



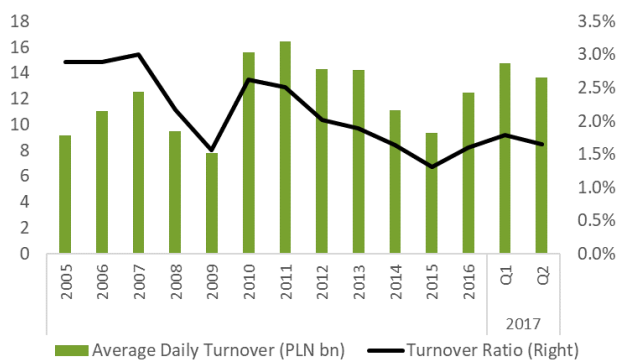
Source: Danmarks Nationalbank

5.14 Greece: Average daily trading volume (bonds only) and turnover ratio¹⁸



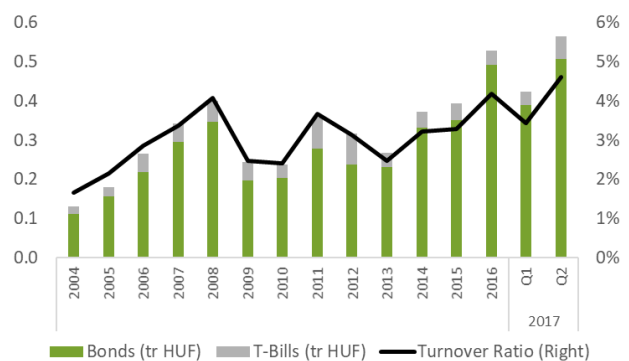
Source: Bank of Greece and ECB

5.15 Poland: Average daily trading volume (bonds only) and turnover ratio¹⁹



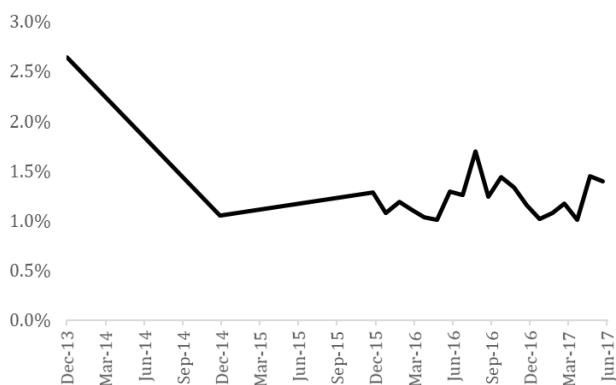
Source: National Depository for Securities (KDPW), WSE

5.16 Hungary: Average daily trading volume and turnover ratio²⁰



Source: ÁKK

5.17 Romania: Average daily turnover ratio²¹



Source: Ministerul Finantelor

¹⁷ Turnover of MTS, TradeWeb, Bondvision and trades reported to Nasdaq OMX (including voice trading).

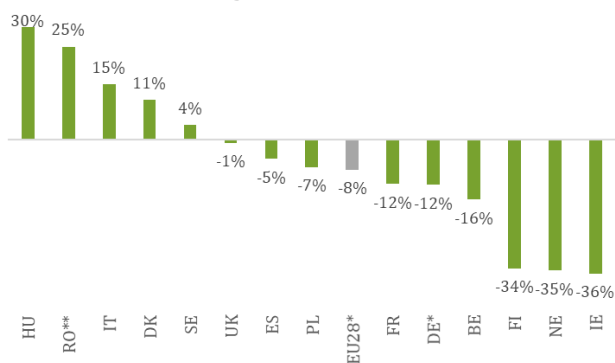
¹⁸ Turnover on Electronic Secondary Securities Market (HDAT).

¹⁹ Turnover is total outright transactions. Data from KDPW are presented according to the date of the settlement, while data from WSE are presented according to the date of conclusion of a transaction.

²⁰ Turnover does not include Premium Bonds, Bonus Bonds or Euro Bonds.

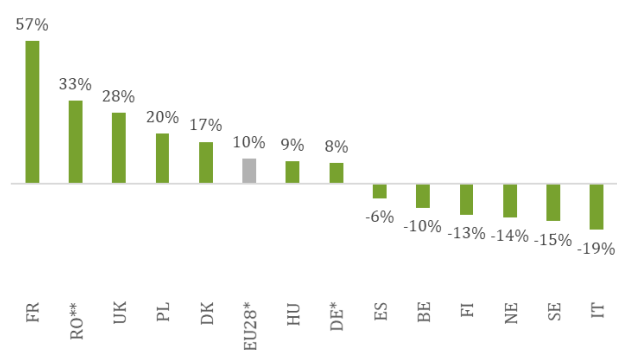
²¹ Turnover ratio of the government securities issued on domestic market. Official values reported as average monthly turnover ratios, which have been converted assuming 20 business days per month. Turnover volume not available.

5.18 Quarterly change in average daily turnover volumes of EU government bonds: 1Q17 to 2Q17



Source: AFME with information from European DMOs and other agency sources. See section 5 for details on aggregation basis and sources. *Europe total and Germany is sourced from TRAX Facts as the quarterly variation of average daily volumes of government and sovereign bonds. **Romanian turnover volume calculated using outstanding volumes in Section 3.

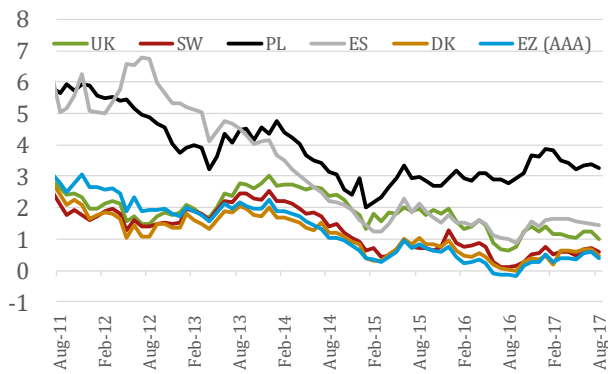
5.19 Annual change in average daily turnover volumes of EU government bonds: 2Q16 to 2Q17



Source: AFME with information from European DMOs and other agency sources. See section 5 for details on aggregation basis and sources. *Europe total and Germany is sourced from TRAX Facts as the quarterly variation of average daily volumes of government and sovereign bonds. **Romanian turnover volume calculated using outstanding volumes in Section 3.

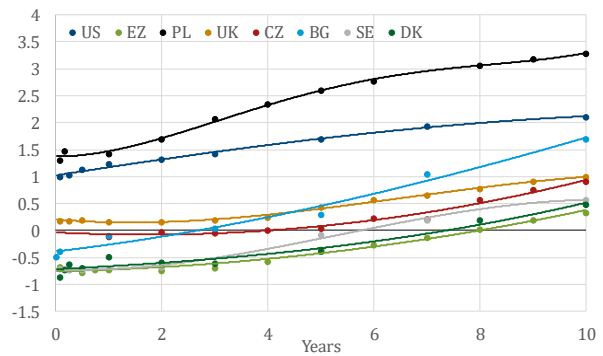
6 Valuations

6.1 Selected European 10Y spot yields



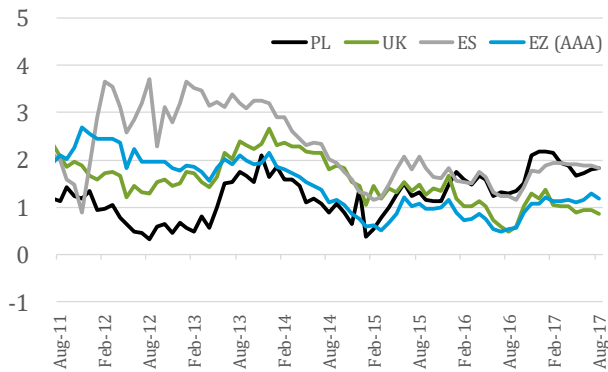
Source: ECB and Thomson Reuters Eikon

6.2 Sovereign spot yield curve of selected jurisdictions: 31 Aug 2017



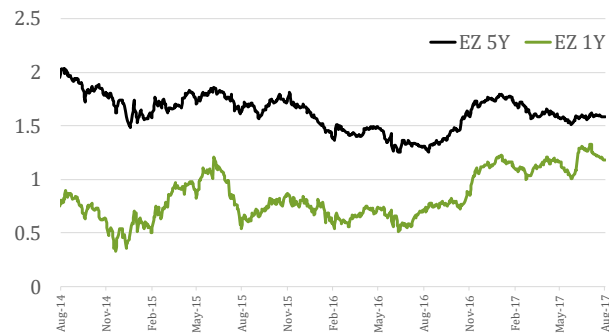
Source: Thomson Reuters Eikon

6.3 Slope: 1Y10Y spread



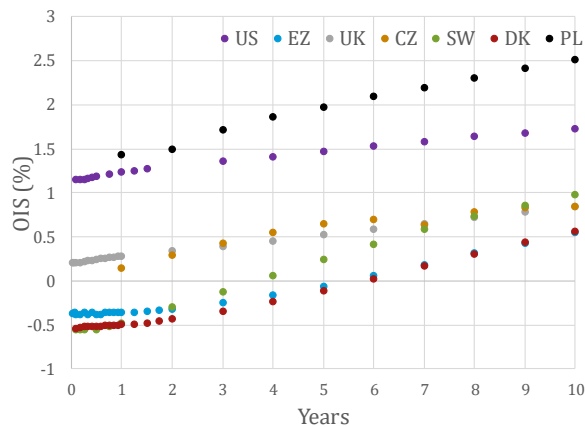
Source: ECB and Thomson Reuters Eikon

6.4 Market-implied inflation expectations (EuroZone)



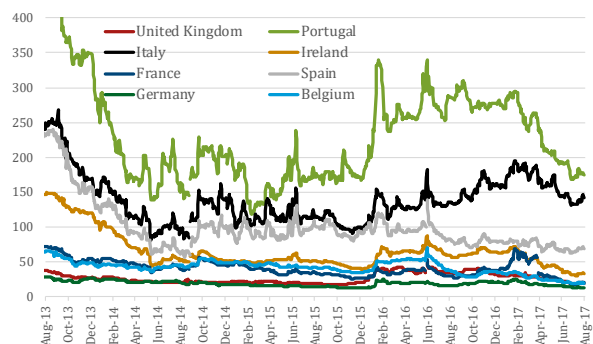
Source: Thomson Reuters Eikon

6.5 Overnight index swap (OIS) yield curve: 31 Aug 2017



Source: Thomson Reuters Eikon

6.6 5Y Sovereign Credit Default Swap (CDS, bps)



Source: Thomson Reuters Eikon



Annex

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Methodologies

A summary of the methodologies adopted for this report is available at <https://www.afme.eu/en/reports/Statistics/Methodologies>

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