NOVEMBER 2014

FOR INSTITUTIONAL AND CORPORATE CLIENTS ONLY

DEBT CAPITAL MARKETS
2014 REVIEW AND 2015 FORECAST

YEAR-END REPORT FROM SG DEBT CAPITAL MARKETS AND SYNDICATE TEAMS

SEE THE LAST PAGE OF THIS BROCHURE FOR A LIST OF SG DEBT CAPITAL MARKETS AND SYNDICATE CONTACTS AND IMPORTANT DISCLAIMERS AND DISCLOSURE

BUILDING TEAM SPIRIT TOGETHER

SOCIETE GENERALE
Corporate & Investment Banking

CELEBRATING 150 YEARS

Contents

Executive Summary

"PEOPLE WHO DON'T TAKE RISKS GENERALLY MAKE ABOUT TWO BIG MISTAKES A YEAR. PEOPLE WHO DO TAKE RISKS GENERALLY MAKE ABOUT TWO BIG MISTAKES A YEAR." ***(Peter F. Drucker)***

- The appetite for risk has been a common driver across debt markets in 2014, as illustrated by the strong performance of credit spreads across currencies and asset classes. Many would argue that there was little alternative for investors, considering the continuous decrease in government bond yields. In the Eurozone in particular, the combination of record-low yields and abundant liquidity has boosted euro corporate and financial bond volumes well above expectations. Corporate euro volumes have reached record levels, surpassing the all-time high of 2009, but with a greater proportion of high yield and hybrids. The same has been witnessed in the Sovereign space, with non-AAA rated issuers accounting for only 40% of total euro volumes, versus 60% in 2013.
- Investors have expressed increased flexibility and appetite for diversification, as illustrated, for instance, by the development of long-dated floating rate notes in the Corporate universe, or the reopening of the inflation-linked market by Sovereign issuers. Across asset classes, the use of private placements has increased, with issuers and investors increasingly looking for opportunistic tailor-made transactions.
- This appetite for risk has also been supported by a decrease in volatility, as both issuers and investors gained further confidence in the resilience of the financial markets. The "stress tests" conducted by the European Central Bank on European Union banks have been an important milestone in building up this confidence. The results released on 26 October evidenced that only 14 banks out of 123 were still experiencing a shortfall in capital.
- But the most striking illustration of this turnaround in confidence is the burst of M&A related transactions. Between 2009 and 2012, most issuers had been focusing on deleveraging and building up important cash positions as a cushion against a potential new liquidity crisis. Thanks to the massive quantitative easing conducted by the central banks, they have now accepted that liquidity is not likely to be a concern in the immediate future, and have decided to take advantage of the current record-low cost of debt to fund external growth. Acquisition financing transactions have increased considerably in the second half of 2014, both in bond and loan formats, and we expect this to continue in 2015.
- Another important theme across asset classes is the development of the "green bond" market, which has more than doubled in size in 2014. The profile of issuers has expanded considerably over the last 12 months, from a few supranational and development banks to local authorities and an increasingly diverse universe of private banks and corporates.
- Overall, 2014 has exceeded expectations, whether it is in term of volumes or yield performance, and the consensus is clearly in favour of this positive dynamic continuing to develop in 2015. But as credit spreads continue to tighten, the challenge for both issuers and investors will be to remain selective. The collapse of Phones4U in August 2014 has reminded high-yield investors that credit risk is still meaningful, and is very much name specific. The market nervousness experienced in October has reminded issuers that volatility is never far away in a global macro environment which remains difficult. These two healthy reminders should help pave the way for another very successful year in the debt capital markets in 2015.

Debt Capital Markets issuance volumes

DCM issuance volumes on EUR market

In EUR bn	Corporate Bonds				Financial Bonds				SSA Bonds				Total
	Investment Grade	High Yield	Hybrids	Total	Covered Bonds	Senior	Hybrids	Total	US Treasury	Agency/ Supra	Local Authorities	Total	Bonds
2011	99	29	3	**131**	212	152	17	**381**	856	235	65	**1,156**	**1,668**
2012	211	35	1	**248**	118	148	17	**284**	877	275	61	**1,213**	**1,744**
2013	196	55	21	**272**	101	157	28	**286**	924	217	62	**1,204**	**1,762**
2014 Expected	203	65	25	**293**	120	182	56	**358**	890	228	66	**1,184**	**1,835**
2015 Forecast	185	63	25	**273**	120	175	84	**379**	959	176	64	**1,199**	**1,851**
2015 vs. 2014	-9%	-3%	+0%	**-7%**	+0%	-4%	+50%	**+6%**	+8%	-23%	-3%	**+1%**	**+1%**

Source: SG CIB Analytics, Dealogic

DCM issuance volumes on USD market

In USD bn	Corporate Bonds				Financial Bonds				SSA Bonds					Total
	Investment Grade	High Yield	Hybrids	Total	Covered Bonds	Senior	Hybrids	Total	US Treasury	Soveriegns non US	Agency non US/ Supra	Local Authorities	Total	Bonds
2011	488	223	0	**711**	41	299	29	**368**	1,996	68	217	18	**2,300**	**3,379**
2012	679	345	8	**1,032**	44	326	89	**460**	2,202	88	200	19	**2,509**	**4,000**
2013	624	324	6	**954**	23	361	97	**480**	2,140	95	221	11	**2,467**	**3,901**
2014 Expected	605	320	5	**930**	10	450	135	**595**	2,069	87	225	12	**2,393**	**3,918**
2015 Forecast	575	300	5	**880**	10	450	200	**660**	1,989	103	217	12	**2,321**	**3,861**
2015 vs. 2014	-5%	-6%	+2%	**-5%**	+0%	+0%	+48%	**+11%**	-4%	+19%	-4%	+0%	**-3%**	**-1%**

Source: SG CIB Analytics, Dealogic

DCM issuance volumes on GBP market

In GBP bn	Corporate Bonds				Financial Bonds				SSA Bonds				Total
	Investment Grade	High Yield	Hybrids	Total	Covered Bonds	Senior	Hybrids	Total	US Treasury	Agency/ Supra	Local Authorities	Total	Bonds
2011	21	5	0	**26**	6	9	3	**17**	159	24	1	**184**	**227**
2012	33	4	1	**38**	14	9	2	**26**	164	28	1	**193**	**257**
2013	19	12	5	**36**	2	10	4	**15**	149	19	0	**168**	**219**
2014 Expected	24	10	3	**37**	8	8	11	**26**	153	22	0	**175**	**238**
2015 Forecast	20	9	2	**31**	8	8	13	**29**	161	21	0	**182**	**242**
2015 vs. 2014	-17%	-10%	-26%	**-16%**	+0%	+0%	+24%	**+10%**	+5%	-5%	+0%	**+4%**	**+2%**

Source: SG CIB Analytics, Dealogic

DCM (in addition)

	CNH	RUB
In USD bn	ALL	ALL
2011	31	23
2012	44	32
2013	61	45
2014 Expected	85	27
2015 Forecast	120	35
2015 vs. 2014	+41%	+29%

	ASIAN Supply	CEEMEA Supply
In USD bn	ALL	ALL
2011	88	105
2012	157	166
2013	171	176
2014 Expected	210	127
2015 Forecast	260	129
2015 vs. 2014	+24%	+2%

Source: SG CIB Analytics, Dealogic

Syndicated Loan issuance volumes in USD bn equivalent

In USD bn equivalent	EMEA Loans		Americas Loans	Asia Pacific Loans	Total
	Investment Grade	Total	Total	Total	Syndicated Loans
2011	967	**1,133**	2,155	765	**4,053**
2012	570	**792**	1,939	766	**3,497**
2013	697	**1,058**	2,510	779	**4,347**
2014 Expected	900	**1,200**	2,016	737	**3,953**
2015 Forecast	700	**1,100**	2,117	811	**4,028**
2015 vs. 2014	-22%	**-8%**	+5%	+10%	**+2%**

Source: SG CIB Analytics, Dealogic

PLEASE NOTE THAT ALL DATA ARE EXPORTED AS OF 14 NOVEMBER 2014

Debt Capital Markets

Corporates

- On both sides of the Atlantic, underlying benchmark yields have confirmed the overall tightening trend we have seen in the previous three years: the EUR 10-year swap and the UST 10-year both have come in by more than 100bp while the 10-year gilt tightened 80bp since the beginning of 2014. This technical tightening and high redemption levels have provided a favourable ground for a sustained primary activity in 2014, despite several headlines such as the Russia/Ukraine conflict, the Middle East tensions as well as more recent fears linked to Hong Kong student protests and Ebola. Total volumes of issuance in the EUR, USD and GBP investment grade markets have amounted to EUR 700bn eq.
- The stabilisation in the EUR/USD basis in 2014 has led to an increase in the competitiveness of credit spreads in euros versus dollars. This dynamic has skewed a few traditional USD issuers towards EUR issuance; however, the USD global issuance volumes have been fuelled by a regain in M&A activity. The sterling market has been significantly less competitive, with borrowers that focus on price printing almost entirely in euros and dollars.
- Demand has continued to be strong, mostly driven by yield-seeking investors with a focus on high beta credits, hybrids and high yield issuance. This dynamic has been reflected in the overall lengthening in tenor preference, as issuers have taken advantage of the historically low base rates to lock in attractive levels for the long term.
- Hybrid issuance has remained strong in 2014. Investors have consistently shown a preference for this increasingly standardised instrument and have sought the higher yields offered by the subordination features as well as the broadening of the hybrid universe in terms of issuer geography, rating and sector. Out of twenty issuers in 2014, nine had previously issued hybrids: repeat issuance shows that hybrids are not only event-driven but also viewed as a long-term element in the corporate capital structure.
- We have seen a compression in yields for non-rated transactions in 2014, as investors have become increasingly comfortable with this asset class in Europe. Non-rated issuance has become an established sub-set of the euro market and now accounts for 8% of the total volume. The breadth of borrowers has also increased. However we note that this asset class bears a higher sensibility to volatility.
- Finally, 2014 will remain the year when Corporates really started issuing in the SRI (Socially Responsible Investment) format – the “green bond” market. Already eight corporates tapped the euro green bond market in 2014, versus only one in 2013 (EDF), with all transactions showing strong demand. This format offers a diversification advantage, as we have witnessed many new accounts involved compared to similar senior regular issues. Regulation and best practices have now become main drivers of the SRI market growth and this format is one of the focuses of Societe Generale for the next years. SG CIB was a bookrunner on the benchmark transactions executed this year with GDF Suez, Abengoa and Verbund.

Investment Grade

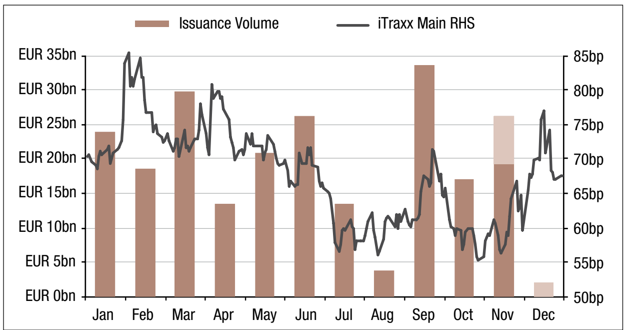
EUR MARKET

2014 review

- The investment grade (IG) senior corporate and hybrid market has been very dynamic again in 2014, reaching a record EUR 217bn issued year-to-date and an estimated EUR 228bn at the close of 2014, i.e. EUR 16bn and EUR 11bn more than in 2012 and 2013 respectively. Macro-economic events brought volatility in markets as seen with the iTraxx Main that ended at levels in line with those seen last January; record low levels since the last three years.
- Despite the February blackout period and fears regarding developed countries GDPs, the first three months of the year were very active in terms of volumes, with EUR 72bn issued (vs. EUR 59bn in Q1 2013), making Q1 2014 the largest quarter in terms of primary volumes since Q1 2009 (EUR 109bn). Issuance conditions were extremely favourable, with low rates and strong demand allowing tight new issue premiums, long tenors and “jumbo” hybrid transactions such as EDF, Orange and Volkswagen multi-tranche deals.
- Activity slowed down in April with only EUR 13bn issued due to deteriorating relations between Russia and Western countries, weak economic data from China and the traditional Easter holidays.

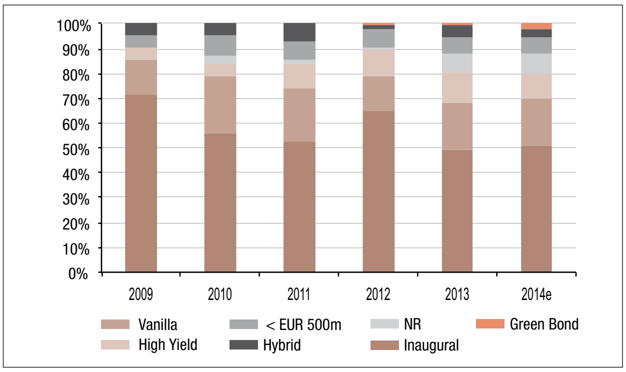
- As of end of June 2014, EUR 133bn of investment grade bonds were issued, the highest volumes in a first semester since 2009. Primary market activity was boosted in May and June, thanks to the unconventional measures announced by the European Central Bank (ECB) (lower rates, TLTRO, QE) offering conditions always more attractive to euro domestic and even non-European issuers (Kellogg, Caterpillar and Illinois Tool Works). The bulk of demand was concentrated on longer tenors.
- Primary activity slowed down in July and August (EUR 17bn vs. EUR 29bn in 2013) on the back of geopolitical tension (Eastern Europe and Middle East) and a revival in concerns about the health of European banks. These had brought uncertainties to the markets and the postponing of some transactions after the summer break.
- ECB surprised the markets once more in September by cutting the key rate and making the deposit facility rate negative. Almost EUR 33bn were issued by investment grade corporates (vs. EUR 27bn last year), benefiting from very low yields and supportive demand from investors looking to put their cash to work. Geopolitical risks still continued to worry the market during the month, as well as the Scottish referendum.
- Primary activity slowed down again in October (EUR 12bn vs. EUR 11bn in October 2013) as companies entered their blackout periods. Moreover, numbers of economic data were released and frightened the market: global growth slowed down, deflationary risks and budget deficits in Europe.
- Most issuance in 2014 came from the TMT (EUR 31bn) and Auto (EUR 25bn) sectors and on the long end of the curve (40% had a maturity higher than 10Y vs. 28% in 2013) where investors could find higher yields. The hunt for yield has also helped lower rated and smaller companies to access capital markets and take advantage of record low all-in-costs to optimise their debt profile.
- Despite record primary market volumes, demand was hardly satisfied for corporate investment grade bonds in 2014: New Issue Premiums (NIP) have been on average around 5bp vs. 9bp in 2013, for oversubscription ratios of 4x on average vs. 3.7x in 2013.

Despite macro-economic concerns, we saw record breaking volumes in the EUR market in 2014



Source: SGCIB Analytics, Bloomberg

EUR corporate volume boosted by the development of new types of bond issues in 2013 and 2014



Source: SGCIB Analytics, Bloomberg

Regional focus

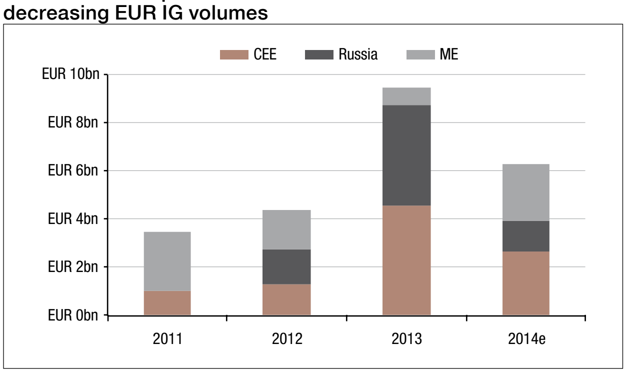
Western Europe

- Western European borrowers accounted for 79% of total EUR IG issues in 2014, a slight decrease from the 85% levels in 2013. With EUR pricings becoming increasingly competitive on the back of a stabilised EUR/USD basis, a larger number of non-European issuers have taken advantage of arbitrage opportunities in the EUR market.
- Volkswagen was again the most important euro borrower (EUR 10bn), followed by BMW (EUR 6.3bn), and Bayer (EUR 6.2bn as part of the refinancing of the Merck & Co assets acquisition). Orange was the largest issuer in the hybrid capital format, with EUR 4.25bn raised in the euro market, of which half is dedicated to financing the Jazztel acquisition.
- In Western Europe, France and Germany remain the largest providers of primary volumes with respectively 25% and 19%. UK/Ireland made up 15% of volumes, southern European issuers 10% and the Nordics 5%.

CEEMEA

- CEE and Middle East remained the core drivers of primary market activity, with suppressed benchmark rate environment having led to 42% of total IG supply to price in EUR (compared to 29% last year).
- Middle East has emerged as an active player in Euro, accounting for 38% of total CEEMEA supply in the currency – a hefty increase from 8% in 2013. CEE accounted for 42% of total Euro denominated Eurobonds placed. Notably, over 70% of CEE corporates issuing this year, had come to the market for the first time (SPP-d, PGE, Net4Gas, PKN Orlen, and Petrol D.D. Ljubljana)
- With limited Russian presence in the EUR market, overall volumes have however declined, with only EUR 6.3bn placed in the EUR IG market, compared to nearly EUR 10bn in 2013.

Limited Russian presence led to overall decreasing EUR IG volumes



Source: SGCIB Analytics, Bloomberg, Bondradar

Americas

- Issuers from the Americas played a significant role in the euro IG corporate market this year, contributing around 14% of overall supply.
- Although issuance dropped by ca. EUR 10bn compared to 2013 levels, issuers still managed to contribute ca. EUR 28.7bn worth of corporate paper to EUR supply.
- Several transactions were done in conjunction with USD offerings as an alternative source of liquidity for M&A and jumbo financing needs.
- Finishing up the year, we anticipate continued flow from the Americas as many issuers may want to take advantage of a relatively flatter EUR curve to its USD reciprocal.
- In terms of deal size, Petrobras priced the largest trade by volume in January with a EUR 3.5bn triple-tranche transaction. Verizon came with a EUR 3bn deal in February across 8's and 12's, and in November, Apple priced the third biggest deal with EUR 2.8bn in two tranches.

APAC

- The 2014 APAC corporate euro bond supply has reached EUR 10.3bn issued versus EUR 9bn from previous year. Australian corporates still dominate EUR issuance in Asia Pacific accounting more than 70% of the supply so far this year. Tenor was mostly concentrated on the 10-year space (35%). Societe Generale acted as bookrunner on Wesfarmers' EUR 600m 7-year transaction at the end of September.
- In Asia, Indian issuer Bharti Airtel took advantage of the favourable EUR/USD basis swap condition in the first half of the year and returned to the EUR market twice with a EUR 250m tap in January and a EUR 750m new issue in May. Both issues priced through the dollar curve of Bharti. However, the EUR/USD basis swap condition has turned unfavourable in the second half of the year, though we still saw some issuers such as Indian issuer ONGC Videsh tapping the market for diversification purposes. ONGC Videsh issued its first ever euro bond in July with a EUR 525m euro tranche, along with two USD 750m dollar tranche.
- As opposed to a very strong year in the Asian USD market, EUR market was rather disappointing for Chinese credits with only one transaction from Hutchison Whampoa (EUR 1.5bn 7-year transaction). However, given the low rate environment in Europe and the need by Asian issuers to diversify their investor base, we expect issuance to pick up next year.

2015 forecast

- SG CIB expects a decrease in euro issuance in 2015, as M&A related refinancing deals should primarily benefit the USD market, due to its unrivalled capacity to absorb very large transactions.

USD MARKET

2014 review

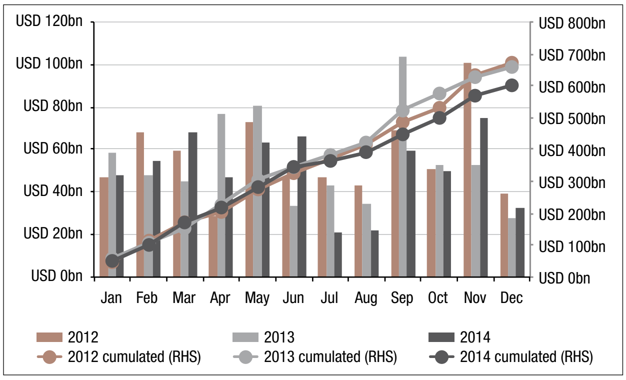
- In the first half of the year, primary supply was running ahead of 2013. However, geopolitical and growth concerns dampened the momentum and we have seen supply well below the previous averages every month since July. At end October 2014, year-to-date volumes stood at around USD 75bn shy of 2013 year-to-date volumes.
- March proved to be the busiest month of the year so far with around USD 68bn worth of corporate paper priced, June closed second with USD 66bn, and May was third with USD 63bn.
- While Q1 and Q2 provided a steady stream of supply (no month saw volumes short of USD45bn), Q3 saw exceptional slowdowns around July and August. Despite a frantic September, most of the activity was centred in the financials space with some notable M&A financings on the corporate side.
- In the jumbo size category, the largest trades by size priced in the first half of the year were Apple (USD 12bn), Oracle (USD 10bn), Petrobras (USD 8.5bn), and Cisco (USD 8bn), with Walgreens Boots Alliance (USD 8bn) pricing in October.
- Finishing up 2014, the overhang of political unrest in the Middle East, Ebola fears and volatility on the equity side due to worsening growth prospects around the world has culminated in relative softness on the secondary side.
- Societe Generale does not, however, anticipate a major disruption to end-of-year supply numbers; our expectations for 2014 currently stand at USD 605bn.

Top Five USD IG corporate deals in 2014

Issue Date	Issuer	Ratings at Launch	Deal Value	Tranches
04/29/14	Apple Inc.	Aa1/AA+	12,000	7
06/30/14	Oracle	A1/A+	10,000	7
03/10/14	Petrobras Global Finance	Baa1/BBB	8,500	6
11/06/14	Walgreens Boots Alliance	Baa2/BBB	8,000	7
02/24/14	Cisco Systems Inc	A1/AA-	8,000	7

Source: Bloomberg

Monthly breakdown of USD IG supply volumes in 2012-2014 (November and December forecasts)



Source: SG CIB Analytics, Bloomberg

Regional focus

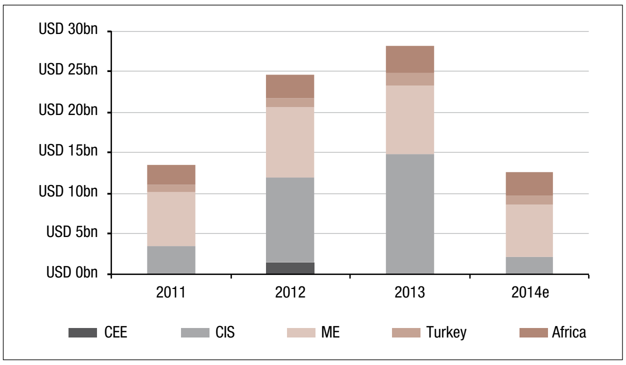
Western Europe

- European issuers accounted for 10% (approximately USD 51bn) of total volumes issued in the IG USD corporate space in 2014, versus 13% (approximately USD 80bn) in 2013. This decrease in European Yankee issuance is partly due to an increased M&A activity in the US.

CEEMEA

- Heightened geopolitical tensions persisting through most of 2014 have left the Russian USD corporate market dry and resulted in a considerable reduction of total volumes compared to 2012 and 2013. A loss of issuer appetite for USD in the wider CEEMEA has also led to a slow year overall, with frequent issuers turning to other currencies in search of diversification.
- Even the Middle East, the largest contributor to the currency, saw the share of issuance in USD fall from 92% in 2013 to 69% in 2014.

Sharp decline in Russian issuance has put pressure on total USD IG corporate volumes in CEEMEA



Source: SG CIB Analytics, Bloomberg

- As opposed to previous years, where oil and gas corporates were main drivers of USD supply, this year Utility & Power credits have taken over (with a change mainly attributable to a dual-tranche USD 2.5bn placement by Saudi Electricity and only one Russian oil and gas issuer: Gazprom USD 700m deal.

Americas

- The dynamics of Americas issuers in the USD market remained much the same as 2013, contributing 80% of all USD volume compared with 76% last year.
- Of the top five trades this year, all were from Americas issuers (four US, one Brazilian).

APAC

- In the APAC region, 2014 primary USD bond issuance volumes stands at USD 67bn, slightly down from the record high of USD 72bn last year. Chinese corporates increasingly accounted for a large percentage of the issuance, representing over 70% of corporate volumes in APAC, versus 57% last year. This steady growth is set to continue over the next few years given the easing of capital controls in China, which simplify both the issuance of debt outside China and the repatriation of issuance proceeds onshore. A significant development this year was the relaxation of PRC cross-border security and guarantee restrictions, which now allows PRC companies to provide guarantees to offshore subsidiaries without prior SAFE approval.

- The Top 5 largest transactions this year, totalling USD 18bn, were all printed by Chinese companies: Sinopec USD 6bn (Societe Generale joint-bookrunner); CNOOC USD 4bn; State Grid Corp of China USD 3.5bn; Tencent USD 2.5bn and Greenland USD 2bn, highlighting the depth and size of the overall market and the strong investor appetite for Chinese credits.
- Other Asian corporates continue to take advantage of the favourable funding condition in the USD markets to lock in cheaper coupon. South Korea remained the second largest issuer with USD 8bn of issuance, up from USD 4bn issued in 2013. Notably KNOC tapped the market twice with a total supply of USD 1.8bn. Societe Generale acted as one of the bookrunners on the USD 250m tap and USD 750m new issue in July.
- In terms of South East Asia and India, we expect significant growth in this region next year, notably driven by large needs for foreign capital in India and Indonesia, which could trigger a strong wave of foreign debt issuance. In addition, the cut in withholding tax imposed on foreign currency bond issuance from 20% to 5% in India, which came into effect on 1 October, will also encourage more overseas bond issuances.

2015 forecast

- Societe Generale anticipates USD IG corporate supply to be down 5% compared to 2014.
- There is no reason to anticipate an abnormal distribution of that monthly supply. Any Fed tightening should be well telegraphed and thus should have no major impact on volumes.
- Periods of volatility will lead to lower volumes (as per early October 2014). Thus, March, May, September and November will likely be the busiest months of 2015.
- In terms of tenor distribution, we anticipate a minor rebalancing from 2014, marginally in favour of shorter vs. longer bonds. Increased rates should naturally allow investors to increase short-term exposure. However, the impacts should be contained, as a higher rate cycle is widely anticipated:
  - Sub-5Y front end (50%)
  - 5-10Y belly (30%)
  - 10Y+ back end (20%)
- Deviations from these expectations will have impacts. For example, should the UST 10-year remain in the 2.25% range, longer-end demand (and subsequently supply) could increase.

GBP MARKET

2014 review

- The sterling market has been fairly quiet this year, with pricing dynamics generally less favourable compared to other currencies. Volumes have remained in line with the shy GBP 19bn we witnessed in 2013, with GBP 19bn year-to-date and an estimated GBP 24bn at the close of 2014. However, these numbers are somewhat short of the record GBP 33bn issued in 2012.
- The bulk of issuance came in Q1, with 23 trades representing 60% of the total volumes. The pace then gradually slowed down, as the sterling market conditions lost its competitiveness and we saw some borrowers that focus only on European issuance printing almost solely in euros.
- The hybrid market remained well supplied with four deals in 2014, often complementing a multicurrency hybrid issuance. Enel, EDF and Orange brought GBP 2.5bn to the market altogether, with each deal being multiple times subscribed (up to 13.3x for Enel).
- On senior issues, we saw a broader range of tenors being tapped with a decrease of the traditional 10/20-year tenors in favour of a split between shorter maturities (23%) and longer ones (40%). EDF brought to the market a remarkable deal in January by issuing the first ever 100-year sterling bond in January, also the largest trade of the year with GBP 1.35bn.
- UK (45%) and France (26%) issuers remain the largest providers of primary volumes, followed by Germany/Austria (12%) and the US (12%).

2015 forecast

- SG CIB expects to see GBP 20bn issued in the IG corporate GBP market in 2015, a 17% decrease from the expected GBP 24bn at 2014 end-of-year, as EUR and USD markets are expected to continue providing competitive levels.

EMERGING CURRENCIES

2014 review

CNH

- In 2014, the internationalisation of the CNH bond market has progressed significantly and new issuance continues to grow despite the softening RMB. Corporate issuance volumes in the dim sum bond market stand at over CNH 73bn, already exceeding 2013's full year tally of CNH 50bn. Only CNH 6.5bn came from foreign issuers (excl. China and Hong Kong), which is significantly lower than the domestic/foreign split observed in 2012 and 2013. The lack of foreign issuance was primarily driven by the unfavourable USD/CNH basis swap market in 2014 and the strong rally in other markets.
- The dim sum market was largely dominated by Chinese unrated issuers in 2014, which accounted for over 68% of the total volume from China. Issuance from State-Owned Enterprises has also increased compared to previous years, since more regional and local government SOEs were given approval to tap the market.

Foreign CNH corporate public benchmarks of 2014

Launch	Issuer	Country	Ratings	Amount (CNHm)	Tenor
04/07/14	Caterpillar (Tap)	USA	A2/A/A	400	2y
02/24/14	BP Capital	UK	A2/A/A	1,000	5y
02/24/14	Caterpillar	USA	A2/A/A	1,250	2y
02/20/14	Unilever	Netherlands	A1/A+/A+	300	3y
01/20/14	Fonterra	New Zealand	-/A+/AA-	1,250	5y
01/16/14	Volkswagen	Netherlands	A3/A-/A-	1,200	5y

Source: SG CIB Analytics, Bloomberg

- In 2014, there was no debut foreign issuer in the dim sum market. Volkswagen reopened the market for multinational issuers in January with its third CNH issue, raising CNH 1.2bn. Both Fonterra and Unilever came to the market for refinancing purposes. Caterpillar and BP Capital also revisited the market raising CNH 1.25bn and CNH 1bn respectively. It is worth noting that three out of the five deals were in the 5-year space, showing dim sum investor's increasing demand in the longer end of the curve.

RUB

- Due to several negative factors influencing the RUB bond market (ruble devaluation, escalation of geopolitical tensions around Ukraine, sanctions and growing inflation), we observed a significant reduction in primary supply in credits (RUB 790.2bn for 2014 year-to-date vs. RUB 1361.9bn for 2013 (-42%) and RUB 1000.2bn for 2012 (-21%) for the same time periods).
- RUB issuance was limited to periods of relative political stabilisation (59% of all new issued bonds were placed in May (RUB 85.8bn), June (RUB 126.2bn), September (RUB 94.6bn) and October (RUB 146.3bn).
- The Central Bank of Russia has tried to manage increasing inflation (8.3% YoY in October 2014) by hiking key rate hikes by 4% during the year. This has had the effect of increasing corporate bond yields by an average of 390bp this year to date.
- The reluctance of corporate issuers to borrow at significantly increased yields led to reduced bond supply. Among the corporate issuers during the year, only three companies (MegaFon, Transneft, Gazprom) placed bonds using non-technical deals (characterised by placement among wide scope of investors with a marketing campaign in advance). We also observed several technical placements (characterised by the existence of the anchor investor or the group of the anchor investors (usually bonds are bought by one investor) and by coupons not matching the market levels) from IG corporates: Russian Railways, Rosneft.

2015 forecast

CNH

- Given the weakening trend of RMB against the USD during 2014, such a high level of issuance is a strong indicator of the offshore RMB market's successful transition from pure currency play into a fixed-income asset class. In 2015, SG CIB expects non-financial issuance to continue growing at a steady pace, driven by the Chinese government's efforts to internationalise the yuan; increasing willingness by exporters to China to accept yuan-denominated payments; and a rising number of global financial centres offering yuan clearing and settlement infrastructure (Paris, London, Frankfurt, Tokyo, Korea). Foreign issuers are likely to become active again in the dim sum market in 2015 as many of the 3 year transactions issued in 2012 will need to be refinanced. Given the successful issuance in the CNH bond markets by Chinese peers, it is likely that regional government-owned institutions and Chinese high yield issuers will continue to tap the dim sum market in 2015. On the demand side, given the increasing demand from life insurers, we are expecting longer tenor transactions.

RUB

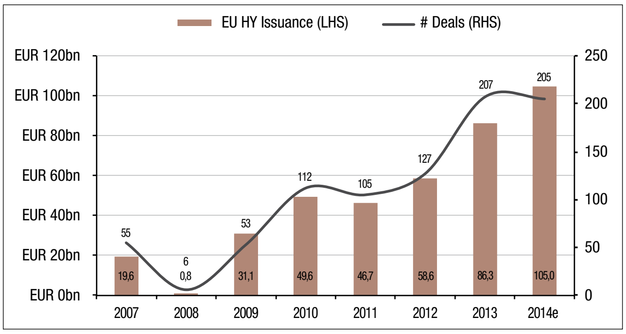
- In 2015 the Russian market environment will mostly depend on the geopolitical situation. In the case of successful de-escalation of the Ukrainian crisis, we expect a gradual return of trading and placement volumes to pre-crisis levels. The second concern for 2015 is oil prices that have significant influence on the ruble and the Russian economy.
- Despite the negative factors, we do not expect the share of total RUB bond assets held by main investors (largest local banks and asset managers) will decrease significantly. Thus we expect the amount of bonds outstanding to remain stable.

High Yield

2014 European Market Overview

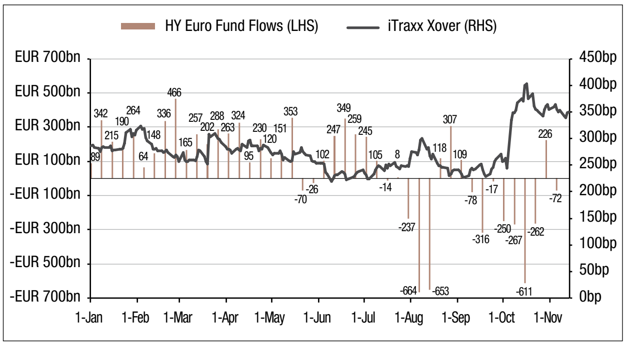
- The high-yield (HY) market opened brightly in 2014, with the continued low-rate environment dovetailing with further inflows into the asset class to produce a market conducive to issuance from both a cost perspective for issuers and a yield perspective for investors, who continued to migrate down the credit curve in search of returns. As we migrated into the Q2 period, we began to see tension in Ukraine become more conspicuous, while economic data began to revert to less positive territory especially in Europe and Asia. Continued support from policymakers headed off any excess concerns, however, with promises both in Europe and the US that monetary policy would remain loose for the foreseeable future. Meanwhile, investors remained under pressure to put cash to work as inflows into the HY asset class particularly in Europe saw little sign of abating, with inflows advancing to the 20th consecutive week in early May, for EUR 4.6bn.
- The abundance of liquidity in the market became more keenly illustrated with the preponderance of jumbo deals that we began to see issued. The first of these being the Wind, senior bond refinancing, followed by the Altice/Numericable offering (discussed below), which was the largest in the history of the European market, as well as the subsequent Wind senior secured refinancing. These transactions did however tap a large amount of the available liquidity in the market and, conspiring with the general oversupply that we began to see in the early summer period, the market began to become more selective in its response towards new issues. The strength of the supply in the primary market, allied to the emergence of outflows from high yield funds, in fact became so significant in June and July that in order for investors to raise cash for new issues it became necessary to sell existing holdings, and this led to some widening in the market. This trend was then exacerbated by broader geopolitical factors including the worsening of tensions in Ukraine and the Middle East to produce a limited sell-off going into the summer break.
- Coming out of the August period and into the traditionally busy September window there remained some hang-over from the pre-summer disruption. While we saw stronger transactions access the market at competitive rates, higher Beta transactions faced more pushback. This was only hampered by some initially name-specific issues, such as the collapse of Phones4U, which led to broader sell-off in the retail sector. Demonstrating the maturity of the market, however, is the fact that this sell-off was limited almost entirely to the retail sector, with investors adjusting their portfolios to account for the change in sentiment. Going into October, the European HY bond market continued to be defensive with only existing BB issuers being able to print new transactions. The overall softness in the secondary market started to offer some buying opportunities to investors finding better value than in the primary market where issuers were content to stay on the sidelines since not wanting to accept the required new issue concession.
- Overall, new issue volumes in Europe have been extremely strong with around EUR 102.2bn eq. in all currencies by 14 November 2014 vs. EUR 77bn eq. for the corresponding 2013 period. Despite the recent volatility and mostly outflows from dedicated HY funds since late July, European HY asset managers have registered a net EUR 5.2bn inflow up to 14 November.

High-yield volume trends (Europe: all currencies)



Source: Capital Structure, Bloomberg

Year-to-date high-yield fund flows and CDS index (Europe)



Source: JP Morgan, Bloomberg

Key Trends

Jumbo issuance:

- While volumes in 2014 are considerably higher than their 2013 equivalent, much of this is attributable to a few jumbo deals, which have added hereto unforeseen amounts to the volume of issuance. The most significant of these was the Altice/Numericable transaction priced in April, which came to a combined size of over EUR 12bn eq. and was the largest deal in the history of the European market (discussed further below). This was not the only deal of its kind however. Earlier in April Wind refinanced its senior notes with a dual-tranche transaction of a combined size of EUR 3.8bn eq. and followed this up in June with a EUR 4.0bn refinancing of its senior secured debt. Overall in the year to 14 November there have been sixteen EUR 1bn eq. + transactions in the European HY market in 2014, up from the 10 priced in 2013.

Aggressiveness of HY structures vs leveraged loan ones:

- Up until the end of July many issuers and many private equity sponsors benefited from consistently better leveraged multiples and more flexibility in use of proceeds (mostly for recaps) from the European HY bond market vs. the leveraged loan ones. This was illustrated throughout the first seven months of 2014 in multiple transactions for the likes of Afflelou, Care UK, Fives, Iceland, Quick, Novacap, Pizza Express or Histoire d'Or, just to name a few.

Growth of inaugural issuance:

- Much of the new volume seen in the market in 2014 has been as a result of new businesses looking to the HY market as an alternative source of funding from what they may have traditionally used. We have seen 70 inaugural deals from new HY issuers in the year to 14 November 2014, for EUR 29.2bn eq. of volume, up from the 48 for EUR 19.6bn eq. in 2013.

Surge in issuance by mid cap companies:

- From only one issuer in 2012 in Europe with an annual EBITDA of less than EUR 75m, we have since seen issuance from relatively small-sized companies surge from 25 issuers in 2013 to already 29 issuers in the year to 14 November 2014. As one would expect, most of these transactions range from EUR 175m to EUR 350m. Investors have become more comfortable with small-sized issuers and the corresponding smaller liquidity in the secondary activity of such transactions. This has opened the door to many lower-rated European mid-cap companies struggling to find long-term financing sources on the loan market.

Success of floating rate notes (FRN):

- FRN HY bonds, which had staged a strong development in 2013, continued for most of 2014 to be favoured by private equity funds thanks to their friendly non-call features and the revival of the collateralised loan obligation (CLO) market in Europe working to their advantage. In 2014 we have seen 35 FRN transactions for EUR 9.0bn of proceeds in the year to 14 November, compared with 25 deals for the full-year 2013 raising EUR 5.5bn.

Continued reduction in coupons:

- The continuation in Europe of a low-rate environment has increased the attractiveness of the HY market for investors, which have seen their funds bolstered by large inflows. Aside from the notable exception of Phones4U, default rates have also remained low of late, giving comfort to investors in their allocation decisions. This growing demand for assets and reduction in reference rates saw the average yield to worst in the market fall consistently in the early part of the year to a low of 3.836% on 20 June, down from 4.726% at the beginning of the year. For new issues, yields in the sub-6% area accounted for the majority of transactions in 2014, with 53% of new deals falling into this segment, up from 31% in 2013. As the market softened in the second part of the year, however, we did see coupons tick up somewhat, though remaining at low levels by historical standards.

Noteworthy issues of 2014

- **Numericable/Altice:** On 23 April Numericable was in the market with EUR 7.9bn eq. in 5-, 8- and 10-year, first-lien, secured notes in euros and dollars, rated Ba3/B+. The USD 2.4bn 5NC2 notes came out at 4.875% (T+316bp), tight end of talk. The USD 4.0bn 8NC3 notes priced at par to yield 6.000% (T+350bp), tight end of guidance while the EUR 1.0bn 8NC3 notes priced at 5.375% (B+424bp), at price talk. Finally the USD 1.375bn 10NC5 notes were issued at par to yield 6.250% (T+355bp), inside talk, while the EUR 1.25bn 10NC5 notes were issued at par to yield 5.625% (B+410bp), inside initial talk. Proceeds, along with a EUR 3.78bn term loan and EUR 4.7bn rights issue, were used to finance the cash consideration of Numericable's acquisition of SFR from Vivendi (EUR 13.5bn), as well as for debt refinancing. Simultaneously, Altice was also in the market with B3/B rated senior notes and priced a USD 2.9bn 8NC3, senior tranche at par to yield 7.750% (T+525bp) while the EUR 2.075bn 8NC3, senior notes came out at 7.250% (B+603bp); both inside guidance. Proceeds, along with EUR 569m of new equity from Altice, were used to finance the acquisition of shares in Numericable's rights offering, and repay debt. This joint transaction was the largest in the history of the European market. SG CIB was a joint bookrunner on the euro tranches of this deal.
- **Puma Energy:** On 28 January Puma Energy priced an inaugural USD 750m 7NC3, senior notes issue, rated Ba3/BB (F) at par to yield 6.750% (T+455bp); at talk. Proceeds were used to refinance existing debt and for general corporate purposes. Puma Energy is a midstream and downstream, retail and distribution oil group engaged in the supply, storage and distribution of refined oil products. Although based in Switzerland, the company's assets are primarily held in Latin America, Africa and Australia. This offering was an uncommon one for the European market, given the emerging market angle of the business, however the credit was well-liked and priced successfully, with the company later tapping the bond for an additional USD 250m add-on, which priced at 103.125, to yield 5.960% (T+412bp). Proceeds financed the company's on-going capex programme as well as going towards general corporate purposes. SG CIB was one of the two Global Coordinators on this deal (as well as on the USD 250m tap priced early July).
- **Abengoa Greenfield:** Abengoa is a recurring HY issuer, but on 24 September the company priced its inaugural "green" HY bond out of Abengoa Greenfield. This was

the first "green" bond to be issued in the history of the European HY market. The transaction was a EUR 500m eq., two-part, dual currency 5NCL, senior bond, rated B2/B/B+ (F). The first tranche of USD 300m was priced at par to yield 6.500% (T+469bp) and the second tranche of EUR 265m was priced at par to yield 5.500% (B+529bp). Proceeds were be used to finance eligible green projects which promote sustainability. SG CIB was a joint bookrunner on this deal.

Breakdown of the European high-yield bond market in 2014:

Currencies: EUR (62%), USD (25%), GBP (12%), Other (1%);

Currencies: EUR (61%), USD (27%), GBP (12%);

Countries: France (19%), UK (18%), Italy (14%), Germany (12%), Benelux (10%), Nordics (5%), Iberia (5%), USA (4%), Greece (3%), CEE (2%), Other (8%);

Ratings: B (49%); BB (41%), CCC (5%), NR (5%);

Use of proceeds: Refinancing (67%), General Corporate Purposes (15%), Acquisitions (13%), Dividend Recapitalisations (5%);

Types of issue: Unsecured (53%), Senior Secured (43%), PIK Notes & Other (4%);

Sector: TMT (28%), Industrial (17%), Auto (9%), Retail (6%), Consumer (5%), Construction (5%), Energy (5%), Healthcare (4%), Financial (3%), Chemicals (3%), Transportation (2%), Services (2%), Other (11%).

Regional focus

CEEMEA

- Volumes in this region have been down on last year, though given the smaller nature of the market, it is subject to greater year-to-year volatility than its larger Western European equivalent. Overall, at 14 November we saw issuance decline to EUR 2.4bn eq. (four deals) from EUR 3.4bn eq. in 2013 (nine deals). We nevertheless saw two inaugural offerings, one from Polish telecom operator Play and the other from Polish chemicals business Synthos. We also saw the first PLN-denominated bond issue, which is a significant step forward for the Polish market. The offering was a 5NC1 senior secured, B1/B+ rated PLN 130m tranche, which priced at 3mW+350bp as part of Play's multi-tranche bond offering to finance debt repayment and distribute to shareholders.

Americas

- The US HY primary market has had a strong 2014, with USD 290bn priced in the year to 14 November (+2% vs. a similar period in 2013), with USD 320bn expected for year-end 2014. The asset class has been experiencing some weakness recently in the secondary market related to geopolitical concerns and Federal Reserve interest rate policies. Outflows from retail mutual funds and ETFs have been substantial in recent months. This includes the weekly outflow of USD7.07bn during July - an all-time record in the HY market, topping the prior record outflow of USD 4.63bn in June 2013. Despite recent secondary weakness and retail outflows, total issuance was approximately USD 41bn for September, the busiest month of the year so far and the high end of market expectations. M&A activity drove market activity and totalled 33% of volume for the month. Issuers continue to tap the HY primary as rates still remain attractive from a historical basis, despite being ca. 100bp off year-to-date lows and 125bp off all-time lows.

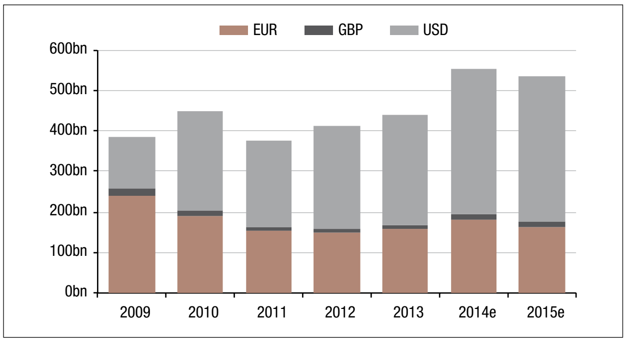
2015 forecast

- It is expected that the European market will continue to develop and broaden next year, with a further spate of inaugural issuance. Low reference rates in Europe should also keep the product competitive with alternatives from a pricing perspective, and this will help to maintain consistent issuance for refinancing purposes. The market for leveraged buyouts (LBOs) picked up considerably in 2014 and we expect that this aspect of the market should remain strong in 2015. One segment of the market which may not keep pace with 2014 is in the number and scale of the jumbo issuance that we have seen. The ca. EUR 12.0bn eq. and EUR 7.8bn eq. of issuance volume from Numericable/Altice and Wind respectively over the course of the year will not be easily repeated and, as such, while we expect that we will see a larger number of transactions come to market in 2015, the absolute size of issuance may fall slightly. This is captured in our volume projections for 2015 which we expect to reach EUR 63bn in euro-only issuance, down from a projected EUR 65bn for full-year 2014.

Financial Institutions

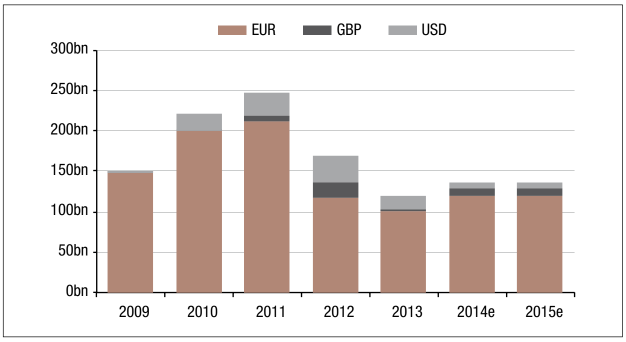
- Despite repeated European Central Bank (ECB) liquidity injections, the primary activity has continued to increase over the past few years across EUR, USD and GBP.
- This stems in particular from two trends:
  - The dovish measures from the various central banks across the world that have driven spreads tighter, incentivising issuers to tap the bond market;
  - High investor demand for higher yielding assets in a world of anaemic economic growth, high unemployment and extremely low inflation.
- As a result, this year both senior and covered bonds have enjoyed good performance, despite investors fretting about their limited upside and increasingly high downside risk.
- The ongoing bid means credit curves remain flat, with investors preferring to go down the ratings scale rather than into longer maturities in order to achieve a certain yield bogey, enabling weaker issuers to tap the bond market in relatively good conditions.

Senior unsecured volumes: increased supply across currencies



Source: SG CIB Analytics, Dealogic, all issuers, amount > EUR 250m eq., maturity > 18 months

Covered bond volumes: buoyant primary in EUR



Source: SG CIB Analytics, Dealogic, all issuers, amount > EUR 250m eq., maturity > 18 months

Senior unsecured market

EUR MARKET

2014 review

The year has been very supportive for credit. With little volatility in the path of issuance, primary activity has continued unabated, with the exception of the summer lull. It is worth noting that in the months following the announcement of the Covered Bond Purchase Programme (CBPP3), issuers have favoured Covered over Senior, which has slowed down to some extent. Secondary spreads have also enjoyed a strong performance across core and peripheral jurisdictions.

- In terms of maturity, we are seeing a continuation of the extension trend from last year, with the average tenor rising from 4.6 years in 2012 and 4.7 years in 2013 to 5.1 years in 2014. The drop in absolute rates and strong performance of secondary spreads enticed investors to participate in longer tenors, with the aim to reach their yield targets, and issuers to address new liquidity regulation.
- In terms of jurisdictions, the split of issuance is quite different from last year's. French supply has dropped massively (with senior being replaced by subordinated) while there was an increase in most other jurisdictions.
- Continuing the trend initiated last year, the iBoxx senior index has been consistently tightening throughout the year, with very few periods of news-related volatility. In total the index tightened by over 25bp throughout 2014.

Regional focus

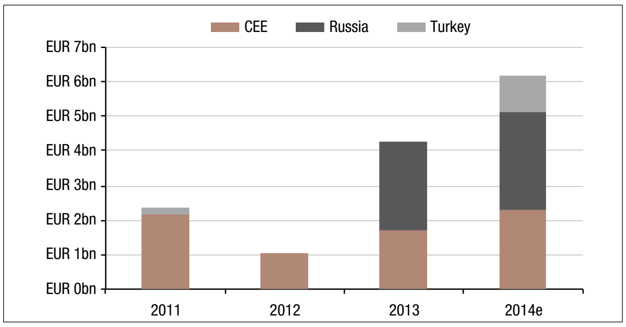
Western Europe

- Western European issuers represented 78% of total EUR senior unsecured supply with a volume of ca. EUR 135bn, a touch higher than last year. However the split has changed: French supply has dropped massively from EUR 43bn in 2013 to EUR 25bn in 2014 – largely due to a focus on capital issuance – while on the other hand, we have seen a strong increase in peripheral activity (from EUR 30bn in 2013 to EUR 37bn in 2014), which represented 21% of the overall EUR senior primary in 2014. Additionally, Swiss issuers that were absent last year came in, accounting for ca. 6% of this year's primary issuance.

CEEMEA

- Euro senior supply from the region has increased by 44% this year, from EUR 4.3bn in 2013 to 6.2bn in 2014. Despite the Ukrainian crisis, increased appetite for EUR has led to 65% of Russian supply to price in euro. Turkish banks have notably emerged as players in the currency, and CEE countries such as Poland and Slovenia persistently represented ca. 40% of total supply in 2013 and 2014.

CEEMEA EUR Senior supply: volumes on the rise



Source: SG CIB Analytics, Bloomberg, Bond Radar

North America

- Similarly to last year, the EUR market provided American and Canadian issuers with a competitive source of funding as the EUR/USD basis swap remained quite low (range-bound between 0bp and 20bp throughout 2014). Additionally, they capitalised on investors' appetite at a time when the senior market was undersupplied by European banks due to asset-quality review (AQR), targeted long-term refinancing operation (TLTRO) and focus on covered bonds (CBPP3).

APAC

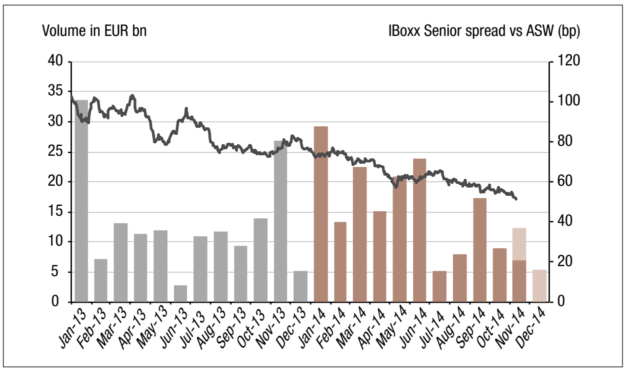
- Supply in 2014 has been slower compared to 2013, with volumes decreasing from EUR 9bn to EUR 5bn. This year there has been no supply from Asian banks and limited volumes out of Australia and New Zealand, mainly due to the unfavourable condition in the EUR/USD cross currency swap market in most part of the year.
- Macquarie tapped the market twice with a EUR 500m 2-year senior unsecured (SG CIB joint bookrunner) and a EUR 500m 5-year transaction. ANZ, NBA, CBA and Westpac each issued at least once.

2015 forecast

From 2009 to 2011 there has been a significant drop in primary activity due to banks' post-crisis deleveraging. Euro senior unsecured volumes had stabilised since at around EUR 150 160bn, but we are now set to surpass this level in 2014 with over EUR 180bn expected by year end. Yet, with the dovish ECB stance, the need for subordinated capital and the different measures incentivising covered bonds and asset-backed securities (ABS), we expect to see a slight drop in primary next year, with estimated volumes around EUR 175bn for 2015.

- The TLTROs provide financial institutions with ample liquidity at a low cost, alleviating their funding concerns and enabling them to roll the existing long-term refinancing operation (LTRO, maturing in Q1 2015) to a certain extent without accessing the public markets.
  - Although the initial TLTRO uptake was rather limited (EUR 82.6bn / 255 banks participating), we await the second operation (December) to get the full picture.
  - We suspect that if the combined uptake is low, the market is very likely to expect increased activity from the ECB (to fight low inflation and support economic growth), and we will get that much closer to full-blown quantitative easing (QE) which will in turn support spread tightening as the "Japanification" of the European credit markets continues.
  - If the uptake in December is very high, then we are likely to see the current trend of limited senior unsecured issuance continue, and that puts more pressure on secondary spreads to go tighter.
- High redemptions in 2015 (EUR 209bn) should help to maintain primary activity.
- Furthermore, as the environment remains supportive for issuance, we expect some institutions to slowly increase leverage, which should also be a positive for supply.
- However, one large mitigating factor is the expected increase in capital volumes next year (ca. +50% vs. 2014), which is being increasingly considered as a funding tool. Moreover, the lower differential between subordinated and senior unsecured spreads is a strong incentive for issuers to tap the hybrid market and improve their capital ratio.

Tighter spreads providing opportunities for issuance throughout the year



Source: SG CIB Analytics, Markit iBoxx, Dealogic, all issuers, amount > EUR 250m eq., maturity > 18 months

USD MARKET

2014 review

Primary activity in 2014 is expected to exceed 2013 at ca. USD 450bn, setting for the third year in a row a new record since the financial crisis.

- USD senior supply has continued its upward trend, but this is especially true for Yankee issuers. Primary activity from US issuers has actually been relatively stable from 2013 to 2014.
- Yankee issuers represented 53% of the supply in 2014, slightly higher than what we saw in 2012 and 2013. Canada remains the most active Yankee issuer, despite its volumes dropping by more than 35% from 2013 to 2014, followed closely by Japan (volumes up by 40%) and Australia (volumes flat).
- 3-5Y benchmarks once again dominated the market, accounting for 67% of supply. Activity in the long end (10-year +) increased from 15% in 2013 to 21% in 2014 (in line with 2012). Of note, activity in the 30-year tenor has increased by 83% from USD 8.5bn to USD 15.9bn, most of which came from US banks and insurers.
- Secondary spreads have alternated between long periods of tightening and quick corrections. Overall, the iBoxx USD Financials index has moved between 123bp and 152bp throughout the year and is now sitting at ca. 143bp.

Regional focus

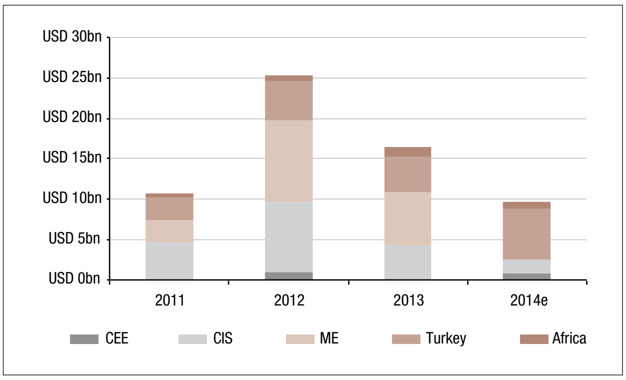
Western Europe

- Western Europe accounted for 23% of USD senior issuance in 2014, well above last year (14% in 2013), representing USD 98bn of supply. Interestingly, Swiss issuers represented 22% of the overall volumes (from USD 2.7bn in 2013 to USD 21.5bn in 2014), the main rationale being that they wanted to confirm to the market that their US fine had no impact on their capacity to issue. We also saw increased activity from UK issuers, especially in the 3/5-year part of the curve where the arbitrage vs. EUR and USD is most favourable, and from Germany (solely driven by Deutsche Bank).

CEEMEA

- Senior FI supply from the CEEMEA region was down 27% between 2013 and 2014.
- Most issues came from Turkey (USD 6.2bn) and the Middle East (USD 3.1). By tenor, most of the issues were in the middle part of the curve (5-year representing 64% of supply).

CEEMEA USD Senior supply: decreasing primary activity



Source: SG CIB Analytics, Bloomberg, Bond Radar

North America

- In 2014 nearly 54% of overall USD senior issuance came from North America, a considerable fall (vs. 63% in 2013). This is entirely due to a significant drop in Canadian issuance, with volumes down 35% in 2014 vs. last year as they have access to cheap funding in the CAD market and focused on covered bond issuance in EUR.
- The depth of the domestic market continues to provide US issuers with attractive funding opportunities, yet the more attractive EUR/USD basis has enticed US issuers to increasingly access the EUR market at a time where investors' appetite is boosted by low issuance expectations from European issuers.

APAC

- We witnessed over USD 85bn of senior unsecured supply so far in 2014, making it the most active year for the APAC region since 2009 (42% increase compared to last year's USD 60bn). While Australia and New Zealand banks remained the most active issuers, volumes increased slightly from USD 24bn in 2013 to USD 27bn in 2014. Japanese banks took over and became the largest issuers, with more than USD 29bn of supply versus USD 20bn in 2013.
- In 2014, we saw a noticeable increase in supply out from China, where primary activity rose from USD 5.9bn to USD 17bn. One third of the issuance was underpinned by first time issuers. We expect the trend to continue given the easing of capital controls in China. In February, SG CIB acted as bookrunner on a USD 650m 3-year senior transaction for ICBC International.
- Volumes from South East Asia and India remained stable in 2014. Notably Singapore banks were quite active in 2014. Compared to zero issuance in 2013, two of the biggest banks, DBS and UOB both came to the market with benchmark senior unsecured transactions.

2015 forecast

Volumes have increased significantly in the past few years from USD 300bn in 2011 to ca. USD 450bn in 2014. We expect 2015 supply to be around this figure in a conservative scenario, but do not expect them to be much lower.

- Depending on the final details from the Orderly Liquidation Authority (OLA), US banks could have to raise more senior debt, but this remains uncertain at this stage. In our view, one catalyst for the domestic market could be a move in rates that would cause deposit outflows, forcing the US banks to tap the market as these gradually run off, yet as they are currently deposit-rich the impact should remain moderate.
- The introduction of the new TLTRO means that unsecured funding levels will drop for European banks, but should remain constant for UK and Nordic banks. So Yankee volumes should be flat to 2014 supply. This would also be valid for Canadian and Australian banks as well.
- For Latin America, we expect banks will be rushing to access the bond market towards the end of 2014 and into 2015 as a way to get in front of the expected rate rise which usually shuts out the Emerging Market (EM) issuers for a period of time. Therefore, we expect volumes to be in line to slightly higher in 2015.
- We believe that CEEMEA banks will continue the pace of issuance that we have seen in 2014. The one caveat would be that in 2015 if Russian sanctions are lifted, we would see an increase in supply from the government-sponsored banks.
- In Asia, Korean, Chinese and Japanese issuers will continue to tap the US market. With the pace at which the Japanese banks are expanding in the US, we expect supply to be slightly higher and also from the Koreans.

GBP MARKET

2014 review

Sterling primary activity has been falling since 2009, with a new low reached in 2014 (GBP 8bn issued vs. GBP 10bn in 2013).

- Unsurprisingly, UK issuers accounted for about half of the supply with GBP 3.7bn. This represents a larger share than in 2013 (39%).
- In terms of maturity, the sweet spot remains the front end of the curve (below 3-year), which represented 49% of the supply (vs. 59% in 2013), especially in floating rate note (FRN) format. Of note, we have seen some investors increasing their duration with 5 year FRN transactions, which was not the case last year.
- Activity in the long-end (10-year +) decreased by 9% YoY, with the disappearance of very long-dated bonds: the longest maturity in 2014 was a 15-year, while in 2013 the 25 to 30-year tenors represented 19% of supply.
- In the secondary market, spreads as measured by the iBoxx GBP Financials index remained stable: we opened the year at 178bp and are now at 181bp. That said, they came in as tight as 153bp in June.

Regional focus

Western Europe

- Outside domestic UK supply (47% of the market in 2014), the rest of Western Europe barely represents 7% of issuance, with only BPCE and ABN AMRO tapping this market.

North America

- In spite of the region accounting for 22% of the supply in 2014, there has been only two issuers in the GBP senior market this year: Royal Bank of Canada issued four deals, all in FRN format, ranging from 2-years to 5-years for a total of GBP 950m, while Goldman Sachs priced a GBP 750m 12-year.

APAC

- In 2014, APAC GBP volumes stand at GBP 1.6bn with five deals priced, a 25% increase compared to last year. However, the diversity of the issuers has decreased with all five deals from Australian issuers. Three out of the five deals were 3-year transaction in FRN format as the GBP/USD basis is more attractive in short tenors.

2015 forecast

Sterling senior remains a niche market, largely dominated by domestic issuance. With UK issuers willing to explore foreign markets as other currencies became increasingly competitive, we do not expect to see higher volumes next year and forecast GBP 8bn in 2015.

- With the biggest contributor to this market scaling down their domestic issuance, supply should come on an opportunistic basis next year.
- The changes in basis swaps vs. EUR or USD and the arbitrage opportunities will be the foremost consideration in the coming year.
- We still expect decent primary activity from the APAC region, due to the fact that some Australian banks have UK subsidiaries.

EMERGING CURRENCIES

2014 review

CNH

- 2014 year-to-date CNH supply from financials (including Certificate of Deposits and private placements) stands at CNH 361bn, up 41% from 2013 year-to-date. This dramatic increase was mainly due to increasing volumes from Chinese banks. In order to promote the internationalisation of the renminbi, Chinese banks are encouraged to issue ever more frequently in the dim sum market, and to push for the distribution of these bonds to be done on an ever wider scale. Most active amongst these banks are Bank of China (BoC), Industrial Bank of China (ICBC) and China Construction Bank (CCB), all of which have issued through their headquarters as well as though their overseas branches to give their respective issues a "local" flavour (e.g. through a local listing or use of local law as governing law for the bonds). For example, BoC issued in early July a CNH 2bn dual-tranche benchmark via its Paris branch. The transaction was the first transaction to have a dual listing in Paris and Frankfurt, as well as the first ever CNH deal to be issued, listed and cleared in Paris. In terms of distribution, 34% of the 2-year tranche and 32% of the 5-year were allocated to European investors, showing increasing appetite from European investors for CNH credits. Furthermore, CCB also issued through its Frankfurt branch, raising CNH 1.5bn and ICBC issued through its Sydney branch, raising CNH 1.75bn.

- Foreign FI issuers (excluding China & Hong Kong) sold CNH 11bn worth of dim sum Bonds thus far in 2014, much lower than the CNH 26bn in 2013. This is mainly due to the unfavourable conditions in the CNH/USD basis swap market.

RUB

- In spite of a 19% fall in issuance volumes (i.e. RUB 129.4bn decline) 2014 year-to-date vs. 2013 same time, we observe a change of proportion between corporates and financial institutions in total bond placements from 51%/49% in 2013 to 28%/72% in 2014, with RUB 572bn priced for FIs vs. RUB 223bn for corporates.
- The market was non-existent in 2014 for open market bond placements of smaller Russian banks (i.e. placements among a wide scope of investors with a marketing campaign in advance).

Regional focus

Western Europe

- In the CNH senior unsecured market, only one deal was issued out of Western European in 2014 year-to-date. Italian bank Intesa Sanpaolo came to the market in February for its first foray into the offshore RMB market with a CNH 650m 5-year transaction.
- In June 2014 SG CIB placed Volkswagen Bank RUS bonds (-/BBB-/A-), which was the first off-shore bond placed by a non-Russian issuer (i.e. the ultimate beneficiary is Volkswagen Financial Services AG). The placement became one of the most successful in the Russian debt capital market in 2014. In October Volkswagen Bank RUS additionally placed two issues, bringing the total to RUB 15bn placed by the issuer.

CEEMEA

- Compared to last year, CEEMEA issuers were much less active in the dim sum market this year, notably due to unfavourable conditions in the basis swap market. The only transaction came from Gazprombank, which issued its second dim sum benchmark in January. The issuer managed to raise RMB 1bn, double the amount it managed on its debut in 2013.

North America

- From North American issuers, volumes in emerging currencies, such as in CNH or RUB, remain minimal. However, in the future, these growing markets could provide opportunities for issuers seeking to fund local operations.

APAC

- In 2014, Asian financial institutions continue to dominate CNH issuance representing 96% of the senior supply. Asian financials issued over CNH 355bn worth of deals (including Certificate of Deposits and private placements)

2015 forecast

CNH

- In 2015, we expect issuance volumes to remain solid given that portfolio managers still have ample RMB liquidity to put to work. The growing adoption of RMB by the banking sector, China's commitment to liberalise its exchange rate and the increasing pool of RMB deposits in various offshore centres (i.e. Hong Kong, Singapore and Taiwan) will help fuel the growth of the dim sum market in 2015. We also expect to see further development in the Formosa market.

RUB

- Sanctions imposed on main Russian state-owned banks may induce them to find the alternative ways for FX funding, including borrowing in local market and using cross-currency swaps, which may increase the placement volumes for this category of the issuers in 2015.
- After successful placements from multinational group Volkswagen Group via its Russian subsidiary – Volkswagen Bank RUS – in the ruble bond market (totalling RUB 15bn in 2014) in difficult market conditions, we expect to see increased demand for bond issuance from multinationals in 2015.

Covered bond market

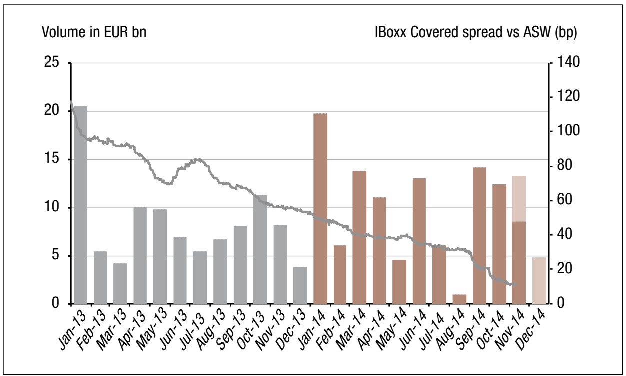
EUR MARKET

2014 review

Overall this year covered bond market conditions have been positive, with a very healthy primary market. Rate performance has resulted in a continual spread compression, supported by the supply/demand imbalance, strong bank treasury bid (liquidity coverage ratio, LCR driven), TLTRO announcement and more recently CBPP3.

- In terms of jurisdictions, core jurisdictions represented most of the supply (78%) and peripheral issuers accounted for 22%, which is lower than last year (27%).
- The EUR covered bond market remains supportive of debut issuance: 2014 saw inaugural deals from 10 new covered bond programs for a total of EUR 8bn. This is in line with previous years where the number of debut issuers ranged from 10 to 15.
- In terms of maturity, the bulk of supply was once again in the 5/10-year bucket (91% of total volumes). However, within this range we saw a strong increase in 10-year (representing 22% of 2014 supply vs. 12% in 2013) and in 5-year (41% vs. 34%) to the detriment of the 7-year tenor (27% vs. 34%). Interestingly, the average maturity of supply was stable from 6.8-year in 2013 to 6.9-year in 2014).
- Secondary spreads as measured by the iBoxx EUR Covered index performed well over the year, with an increase in momentum at the announcement of CBPP3 and following the release of its details. It opened the year at 53bp (the widest level on the year) and is now around 12bp. Most core covered bonds are now trading inside mid-swaps.

ECB CBPP3 has boosted covered bond supply



Source: SG CIB Analytics, Markit iBoxx, Dealogic

Regional focus

Western Europe

- The proportion of issuance from the region has decreased in the past few years, from 90% in 2012 to 89% in 2013 and 82% in 2014.
- Interestingly, after more than a year of absence in the covered bond market, Swiss issuers were very active this year, issuing EUR 5.25bn. SG CIB acted as a bookrunner on two successful 7-year deals for Credit Suisse that were both well-oversubscribed and priced with limited new issue concession.

CEEMEA

- Supply from CEEMEA issuers has been very low in the past few years and 2014 was no exception with only one covered bond from Raiffeisen AS (the Czech subsidiary of Austrian based Raiffeisen Bank International AG).

North America

- Supply from Canadian issuers increased significantly, from EUR 5.5bn in 2013 to EUR 12.5bn in 2014. With debut deals from CCDJ, BNS, BMO and TD, Canadian banks actually accounted for the lion's share of inaugural supply.
- These Canadian names are not really newcomers to the broader covered bond market, as all of them issued USD covered benchmarks from their covered bond programmes backed by CMHC-guaranteed loans. With the new Canadian covered bond legislation, CMHC-guaranteed loans are no longer eligible for inclusion in cover pools, so all banks (except RBC which always used non-guaranteed loans) had to set-up new covered bond programmes.

APAC

- Euro covered bond issuance from the APAC region has increased from EUR 4.7bn in 2013 to EUR 6.3bn in 2014. Australia and New Zealand still dominates with 100% of the region's issuance volume.

2015 forecast

Euro covered bond volumes have significantly decreased since 2011 to reach a low point of EUR 100bn in 2013, and then regained momentum in 2014, ending the year at EUR 120bn. For 2015, we expect to see volumes in line with this year at EUR 120bn.

- Overall covered bond funding needs from EU banks remain moderate due to abundant liquidity (TLTRO) and weak asset markets (in particular, mortgage lending to remain subdued).

- In addition, the proceeds from capital-raising exercises (AT1, T2) represent additional liquidity which could negatively impact covered-bond funding plans.
- Given that Australian, Canadian and New Zealand issuers face explicit covered bond issuance limits, supply from those regions are expected to be more moderate in the coming years. A similar trend is expected for Swiss covered bonds, which saw some temporary acceleration in supply, as issuers had to pause for two years because of litigation in the US.
- Singaporean covered bonds will in all likelihood join the market next year. Other new markets are expected to emerge from CEEMEA countries, with Turkey, Poland and Romania being the most likely newcomers.

While fundamental factors on the issuer side are seen as the main limiting factors for covered bond supply, the spread outlook for 2015 remains very enticing for issuers:

- There is scope for more spread compression in the short term, albeit at a slower pace. On the back of the announcement of the new CBPP3, Eurozone covered bonds started to outperform non-eligible market segments (all non-Eurozone and non-EEA countries). This is expected to continue, as the ECB has started to buy significant volumes from traders' inventories.
- Covered bonds not-eligible for CBPP3 will follow the general market trend with some delay, and might ultimately decouple if tightening of Eurozone covered bonds becomes excessive.
- The supply/demand imbalance has been playing in favour of issuers since 2013 and will continue to do so, with ca. EUR 145bn of expected redemptions in 2015 and LCR starting in October.

Overall, execution risk in the euro covered bond market is now very remote, but as spreads perform, risk/reward becomes less favourable and issuers may start to face some resistance from investors. In particular, if the ECB maintains an aggressive stance, a significant and durable crowding out of private investors cannot be excluded over the medium term.

USD MARKET

2014 review

Unlike the EUR market, the USD covered bond supply has decreased dramatically from a high of USD 45bn in 2012 to a mere USD 10bn in 2014. Mainly due to the conditions in the basis-swap markets, Nordic issuers have remained completely absent from this market in 2014, while Canadian issuers also preferred EUR transactions for their return to the covered bond market. A similar bias towards the more liquid and deeper EUR covered bond market can also be observed for Australian issuers who have halved their 2014 issuance in USD covered bonds compared to 2013.

- In terms of geography, Australia and Canada were the most active jurisdictions, accounting for 95% of the supply in 2014.
- The favoured tenor this year was undoubtedly 5-year, with a record 95% of 2014 supply – the last 5% coming from a 3-year private placement from Helaba.
- In secondary, covered bonds started to move sideways on the back of the primary market revival post-summer, which could be considered a healthy re-pricing phase following a long tightening period in an illiquid market.

Regional focus

Western Europe

- The only issuer we saw this year was Helaba, with a 3-year private placement. From a cost perspective, the USD covered bond market was more expensive for most issuers this year, especially in longer tenors, and with the momentum seen in the EUR market there was little need to expand to a different currency.

North America

- Canadian issuers were actually more active in 2014 than in 2013, although this is due to the lack of Canadian issuance last year, as they had to adjust their programmes to the new specific covered bond legislation, resulting in overall low volumes. When comparing to 2012, volumes are actually down 70% from USD 16.4bn to USD 5bn.
- Additionally, Canadian issuers also preferred EUR transactions for their return to the covered bond market – although TD and BNS also tapped the USD covered bond market after their successful EUR issues.

APAC

- 2014 USD covered bond supply in the APAC region reached USD 4.25bn (vs. USD 9.9bn in 2013) and issuance was 100% driven by the Australian banks (Westpac, CBA, NAB). In 2015 we expect to see some covered bond supply out from Korean and Singaporean financial institutions, since both jurisdictions recently passed covered bond laws.

2015 forecast

USD covered bond volumes have been consistently falling since 2011, with a low point reached this year. We expect to see the same order of volumes in 2015, i.e. ca. USD 10bn.

- At a time when the EUR market provides ample liquidity pockets, there is little value in currency diversification, except for a cost advantage. Yet with the EUR/USD basis swap still low, EUR remains the cheaper option for most issuers. Should we see a positive trend in this basis swap, we could expect issuers to be more interested in the USD market, but that is not happening at the moment.

- Moreover, the most active contributors to the USD covered bond market (Canada and Australia/New Zealand) all have caps regarding the amount they can issue, so we do not expect to see an increase in volumes from their side – especially if they favour EUR.
- The new legal frameworks are still being finalised and set-up (Panama, Mexico, Morocco, Singapore, etc.), but are unlikely to contribute significantly to supply in 2015.

GBP MARKET

2014 review

Primary activity in the GBP covered bond space has increased significantly from GBP 1.5bn in 2013 to GBP 7.5bn in 2014. Yet this represents a niche market in the covered bond space, with low volumes overall.

- The increase in volume stems principally from domestic supply: UK investors were in fact fairly absent from all capital markets last year as the FLS provided them with ample liquidity at an attractive cost and they were more active this year, with GBP 4.25bn issued.
- All supply came in the form of opportunistic 3-year FRNs, similarly to last year.
- In secondary, spreads have kept tightening in continuation of last years' trend, although at a slower pace. The iBoxx GBP Covered opened the year at 84bp and closed at 57bp, just shy of the 12-month low.

Regional focus

Western Europe

- Apart from the domestic supply, we have seen two transactions in the GBP covered bond market:
  - Danske Bank GBP 500m 3-year FRN
  - Nordea GBP 500m 3-year FRN
  - Deutsche Pfandbriefbank GBP 300m 3-year FRN

North America

- This year we had the first GBP-denominated covered bond ever issued by a Canadian bank, with Toronto Dominion's GBP 900m 3-year FRN and Bank of Nova Scotia GBP 250m 3-year FRN.

APAC

- Only one GBP 350m 3-year FRN from CBA. Volumes are down 65% from 2013.

2015 forecast

Issuance for 2015 is expected to be in line with 2014, around GBP 10bn.

- The sterling covered bond market remains essentially driven by UK supply, a jurisdiction that has re-started to issue. However, given their limited funding needs we do not expect to see a strong increase in their activity.

We believe we will continue to see opportunistic issuance from non-domestic jurisdictions (mainly Australian and Kiwis), although this likely will remain driven by arbitrage opportunities (ultimately the developments in basis swaps – especially in the short part of the curve).

Public Sector

OVERVIEW

- In 2014 we saw the continuation of the “risk-on” mode seen in the Debt Capital Markets at the end of 2013. The highly accommodative policies of Central Banks around the world translated in astonishing levels of liquidity and a renewed sense of confidence in the market. In fact, the drop in risk perception also translated in lower levels of volatility with investors progressively shifting positions into higher yielding assets. Overall, we witnessed a strong performance of public sector bonds with yields reaching new historical lows. Besides, we even saw negative yields in outstanding government bonds of core jurisdictions. Moreover, in an environment characterised by low global growth and ultra accommodative monetary policies, interest rates remained at multi-year low levels pushing investors to search for yields either by extending their duration, or by increasing their positions in lower credit signatures.
- US investors remained one of the key drivers of the market, as their credit valuations drove them towards riskier assets. Indeed, we saw US investors targeting more and more Emerging Markets (EM) as well as European non-core assets with larger capital flows seen between countries. Indeed, the recovery of many EM asset prices highlighted the flows into EM portfolios, the relatively low supply in the primary market as well as investor’s search for higher yields.
- With regards to other major currency areas, the GBP market continued to offer an important diversification source for public sector issuers, with the UK Treasury remaining the main player. Moreover, we saw the rise of the CNH market with this currency taking more and more room in the portfolio of Asian and US investors as well as Central Banks.

EUR MARKET

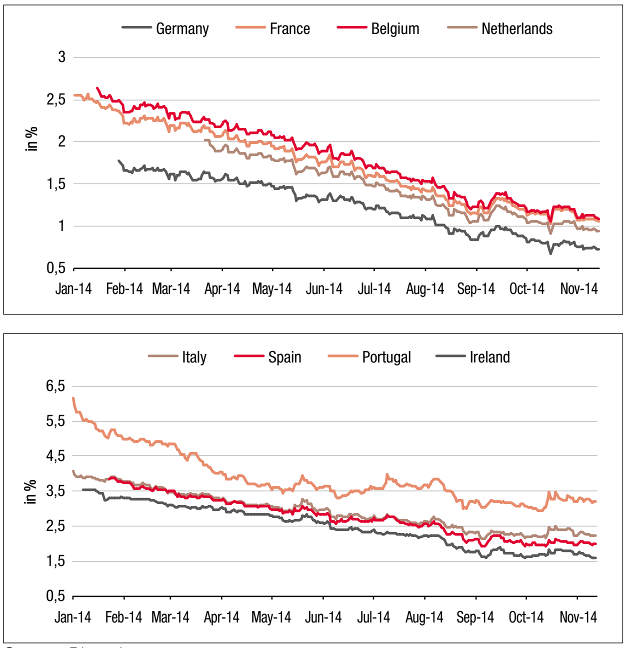
2014 review

- The overall tone in the EUR market was positive this year and largely influenced by the monetary policies set forth by the ECB. Indeed, the accommodative policies translated in impressive levels of liquidity in the market and a renewed sense of optimism. Moreover, the buoyant market tone was further ignited by credit rating upgrades, a drop in political uncertainties and the successful implementations of fiscal and structural reforms in countries like Spain, Portugal, Ireland and Cyprus.
- In terms of supply, public sector issuance volumes reached EUR 1,131.7bn by mid November, remaining in line with our estimations for 2014 (EUR 1,184bn). Sovereign issuers accounted for the lion’s share of the total public sector supply (79%) with total issuance volumes reaching EUR 897.9bn by mid-November (compared to our forecast for 2014 of EUR 890bn). On the other hand, issuance activity from sovereigns in the EUR syndicated primary market was 5% higher with respect to 2013. Indeed, the renewed sense of investor confidence lead to a broad reopening of the EUR syndicated primary market for non-core issuers with some landmark transactions taking place. For example, Spain issued a new EUR 10bn 10-year benchmark in January (Societe Generale as joint bookrunner) which was the largest ever syndicated transaction launched by any Eurozone sovereign.
- Agencies and supras issuance volumes reached EUR 170.7bn by mid-November, with total supply approximately 25% lower than our forecast for 2014 (EUR 228bn). This drop can be attributed to a slowdown in economic activity which implied agencies and supras revising down their funding needs estimations for the year.
- We saw non-European agencies and supras accessing the EUR primary market, as cross-currency swap market conditions became more attractive for these issuers early in the year. For instance, the 5-year EUR/USD basis swap hovered at the -10bp level in January before reaching a flat level at around April. In fact, cross-currency market conditions will continue to be a crucial factor for non-European agencies and supras wishing to enter the EUR market going forward.
- On the local authorities side, total issuance volumes reached EUR 63.0bn by mid November 2014, close to our forecast for 2014 (EUR 66bn).
- In terms of liquidity, total redemption inflows in the EUR market are expected at EUR 2,046bn for 2014. In fact, liquidity in the EUR market remained positive throughout most of the year with the net cash position estimated at EUR 136.4bn by mid-November. Overall, we witnessed larger flows from outside Europe as international investors became more and more active in the EUR market.

Public sector bond yields reached new historical lows

- The drop in investor’s risk perception towards Europe resulted in a strong tightening of European public sector bond yields. In particular, on the sovereign side both core and non-core European government bond yields dropped sharply, reaching multi-year lows. For example, in the 10-year segment the yields of the Spanish and Italian benchmarks reached their lowest historical levels, while Greek and Portuguese yields reached levels only seen before the crisis. Moreover, we saw negative rates in short-dated bonds of core jurisdictions. The tightening of yields was also a reflection of stronger demand from international investors (especially out of Asia and the US), as well as a search for yield with investors either extending their duration or moving down the credit quality scale. Despite some market nervousness linked to political tensions in the Ukraine-Russia, the Middle East and some edgy price action sparked by the Portuguese banking sector, European sovereign bonds yields showed an increased resilience to higher risk aversion. Moreover, as macro data out of the Eurozone started to provide new clues of fragile recovery, investors anticipated further policy easing from the ECB, with yield curves maintaining their downwards trend. Nonetheless, global growth concerns started to materialise in October when we started to see some sparks of volatility coming back into the market.

Strong tightening of European sovereign bond yields (10-year area)

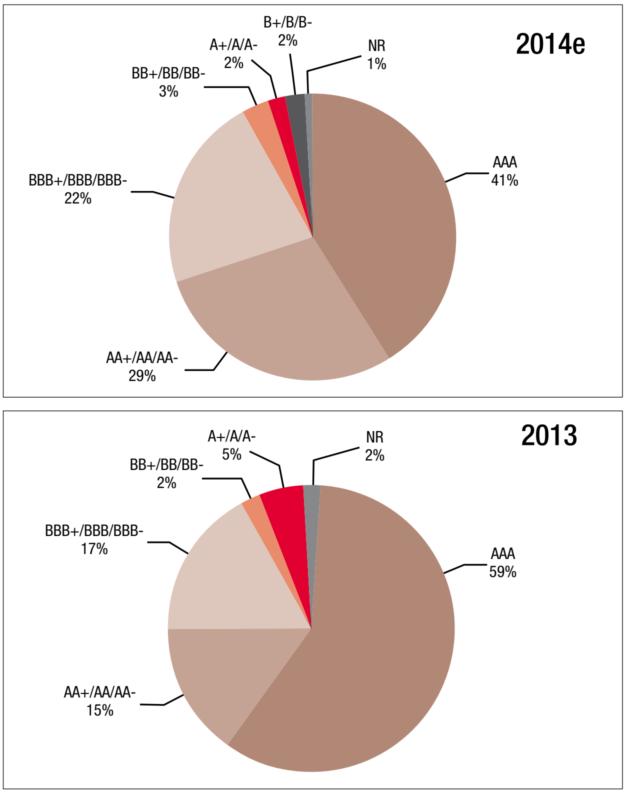


Source: Bloomberg

The long-end of the curve remained wide open for public sector issuers

- With interest rates remaining at historical low levels throughout the year, and cash-rich investors willing to extend their duration by looking for yield in the long end of the curve, we saw public sector issuers lengthen the average maturity of their debt by launching new long-dated syndicated transactions. For example, Belgium launched a successful EUR 5bn 20-year benchmark in March (Societe Generale as joint bookrunner) in a trade that met large investor's demand. Moreover, non core sovereigns and especially countries, like Portugal and Spain, that came out of the rescue package were able to access the long-end part of the curve and price new transactions that were multiple times oversubscribed. For instance, Portugal priced a new EUR 3.5bn 15-year transaction, and Spain was able to raise EUR 1bn with a 50-year trade. Furthermore, Italy launched a EUR 7bn 15 year benchmark that reached an astonishing orderbook of EUR 20bn in May.
- Agencies and supras were also active in the long-end of the curve, pricing new syndicated transactions for a total of EUR 13.6bn by mid-November. For example, the European Financial Stability Facility (EFSF) issued a EUR 4bn 30-year benchmark in July, while the European Investment Bank (EIB) priced several long-dated transactions under both Euro Area Reference Note (EARN) and Eurocooperation Bond (ECoop) formats.
- Overall, investors welcomed the new supply as they targeted longer dated transactions (including non-core issuers) in a quest for higher returns. As an example, we saw habitual short-term investors, like Central Banks and bank treasuries, shifting tenors and moving from the 1-3Y maturity bucket towards the 5-7Y (and even 10Y) segment of the curve in order to meet their yield targets. Also, we saw asset managers active in long-dated transactions priced during the year.
- Investor's hunt for higher yields also implied larger appetite for riskier assets with supply from lower-rated signatures increasing. Consequently, even if AAA rated issuers continue to account for the largest share of the total syndicated supply (41% in 2014 vs. 59% in 2013), we saw a significant increase in the supply coming from BBB+ or lower rated issuers this year (27% in 2014 vs. 19% in 2013).

Supply from lower-rated signatures significantly increased in 2014e compared to 2013



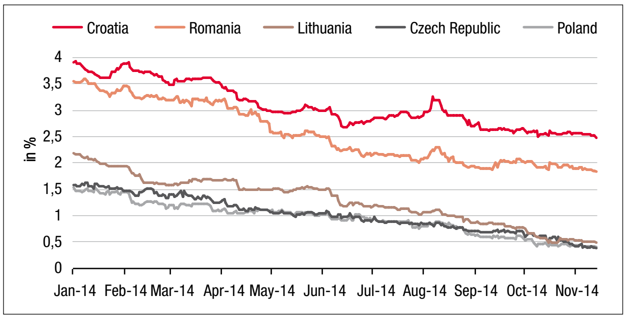
Source: SG CIB DCM Analytics

Regional Focus

CEEMEA

- Western European issuers continued to represent the largest share of the supply in the EUR debt capital market this year. Nonetheless, CEEMEA sovereign issuers took advantage of the supportive environment to enter the market and price new benchmark transactions. Total syndicated volumes from CEEMEA sovereign issuers in the EUR syndicated primary market reached EUR 20.2bn by mid-November, reaching a level above our forecast of EUR 15bn for 2014. Indeed, investors welcomed the new supply from CEEMEA issuers as they offered comparatively higher returns vis-à-vis Eurozone sovereigns, as well as attractive diversification opportunities. Societe Generale remained a favourite partner of CEEMEA issuers in the EUR debt capital markets participating in the successful transactions launched by Poland (EUR 2bn), Latvia (EUR 1bn), Slovenia (dual-tranche transaction for a total of EUR 2bn), Romania (EUR 1.25bn in April and EUR 1.5bn in October), Croatia (EUR 1.25bn) and Lithuania (EUR 1bn) during the year.
- Euro-denominated CEEMEA bonds yields held well in the market mostly performing throughout the year. Moreover, we witnessed a recovery in the inflows towards EM portfolios since Q2 2014 with investors shifting positions away from “safe havens” and reversing most of the outflows seen in the previous months. The progressive tightening of CEEMEA yields implied that investor’s search for yield remained well anchored despite some geopolitical concerns.

Solid performance of CEEMEA government bonds (5-year area)



Source: Bloomberg

The EUR inflation-linked market fully reopened in 2014

- Total EUR inflation-linked bonds issuance volumes reached EUR 80.9bn by mid November, including EUR 28bn of retail bonds from Italy. Excluding retail bonds, issuance volumes reached EUR 52.9bn (compared to EUR 37.2bn in the previous year). The higher volumes can be attributed to the demand seen for this asset class on the back of factors like larger inflation-linked redemptions due this year, as well as investors looking for diversification opportunities. Moreover, we saw a reopening of the EUR sovereign inflation-linked syndicated market after being closed for more than two years. For instance, Italy returned to the syndicated inflation-linked market after being absent since June 2011, launching a new EUR 4.5bn 10-year inflation-linked benchmark in March (Societe Generale as joint bookrunner). Spain issued its inaugural EUR 5bn 10-year inflation-linked benchmark in May (Societe Generale as joint bookrunner) and a new EUR 5bn 5-year inflation-linked benchmark launched in October (Societe Generale as joint bookrunner). In addition, France priced a new EUR 3.5bn 15-year inflation-linked benchmark in June (Societe Generale as joint bookrunner). On the auctions side, the regular inflation-linked supply from France, Germany, Italy and Spain was generally well received by the market, as highlighted by an average bid-to-cover ratio of 2.6 times.

2015 forecast

- The Eurozone will circle a prolonged period of low growth and low inflation which will pose a major challenge for global growth. The ECB will continue to play a key role in sustaining the economy and reassuring investors. In fact, we anticipate that the central bank will maintain its highly accommodative policies until sustained signs of recovery are observed. As such, rates should remain at historical lows during most of 2015 and yields should continue to tighten. In this market backdrop we expect to see sustained demand for longer dated assets as well as lower credit signatures.
- Unsolved tensions in the Ukraine, deteriorating relations with Russia, Ebola concerns and Middle East conflicts will translate in higher levels of volatility in 2015. Indeed, we expect to see a less stable market going forward which will pose a challenge for European economies as well as global recovery.
- For 2015 we expect the total EUR public sector issuance volumes to be slightly above the previous year (+1.3%) at EUR 1,199bn. The higher volumes can be attributed to an increase in sovereign issuance activity (+7.8%) on the back of larger redemptions expected next year as well as increased market activity from countries that came out of the rescue package. On the other hand, funding needs of agencies and supras are expected to be lower (-22.7%) due to lower economic growth.

EUR public sector issuance volumes 2014e vs. 2015e

Sector	Estimated Issuance Volumes in 2014 (EUR bn)	Estimated Issuance Volumes in 2015 (EUR bn)	2014-2015 Evolution (%)
Sovereigns	890	959	7.8%
Agencies & Supranationals	228	176	-22.7%
Local authorities	66	64	-3.3%
Total Public Sector	**1,184**	**1,199**	**1.3%**

Source: Based on SG CIB Cross-Asset Research and DCM Forecasts

- Unsolved tensions in the Ukraine, deteriorating relations with Russia, Ebola concerns and Middle East conflicts will translate in higher levels of volatility in 2015. Indeed, we expect to see a less stable market going forward which will pose a challenge for European economies as well as global recovery.
- For 2015, we expect the total EUR public sector issuance volumes to be slightly above the previous year (+1.7%) at EUR 1,204bn. The higher volumes can be attributed to an increase in sovereign issuance activity (+8.3%) on the back of larger redemptions expected next year as well as increased market activity from countries that came out of the rescue package. On the other hand, funding needs of agencies and supras are expected to be lower (-22.7%) due to lower economic growth.
- Inflation linked bonds will continue to be an important part of the funding programmes of the main sovereign issuers in 2015. Indeed, we foresee that issuers will provide regular liquidity to the inflation-linked market with both auctions and syndicated transactions throughout the year. We expect investors to be present in the inflation-linked market and continue investing in asset-swap (ASW) terms mostly on short-term maturities.

USD MARKET

2014 review

- The tone in the USD Debt Capital Market was positive this year on the back of encouraging macroeconomic data and a low rate policy from the Federal Reserve. Indeed, economic data releases showed that the US economy expanded at a moderate pace, with the International Monetary Fund (IMF) revising its growth forecast for 2014 to 2.2% (vs. 1.7% previously estimated). Most analysts initially believed that the stronger US macro data combined with the Fed's decision to end its bond-purchase programme in 2014 would push interest rates higher. However, the global low growth scenario and the inflation rate below the central bank's target have pushed Janet Yellen to keep the benchmark rate low for an extended period of time. As a consequence, the US Treasuries 10-year yield has tightened during the year from 3% beginning January to 2.3% at the end of October, leading to a strong outperformance from public sector credits.
- In this context, the USD market continued to be the most active market accounting for the largest share of the global issuance activity. Total volumes from public sector issuers in the USD market reached USD 2,484.6bn by mid-November, posting a slight decrease (-5%) compared to the previous year. This drop is mostly due to the sharp decrease of issuance volumes of US agencies, such as Freddie Mac, Fannie Mae, Farmer Mac, Federal Home Loan Bank, and Federal Farm Credit Bank.
- If we look more into the details, sovereigns (non-US) issuance volumes reached USD 88.8bn by mid-November, compared to our forecast of USD 87bn for 2014.
- Agencies (non-US) and supras issuance volumes reached USD 217.8bn by mid November, below our estimate of USD 225bn for 2014. On one hand, issuances volumes from agencies (non-US) decreased by 19% compared to last year, mostly due to a drop in funding requirements and lower reimbursements given the sharp decrease of interest rates. On the other hand, supranational issuers were active in the primary market with total issuance volumes being 3% higher than in 2013, as European issuers have benefited from a favourable EUR/USD basis swap level since the beginning of May.
- Concerning local authorities, total issuance volumes reached USD 13bn by mid November, slightly lower than last year (USD 14bn).

The USD market attracts a large number of European issuers

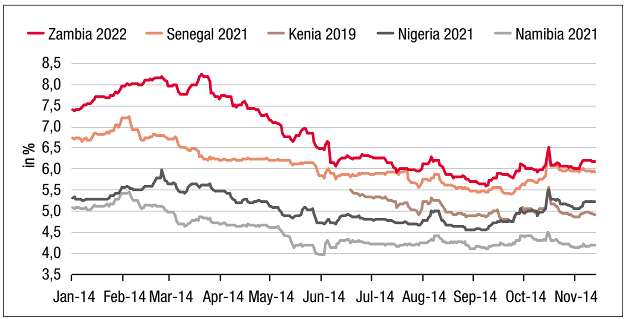
- During the year, the US Treasury continued to be the key issuer in the USD market, accounting for the largest portion of the total supply (approximately 76% of the total public sector volumes). However, non-US sovereigns remained highly active in the USD market, launching several successful transactions throughout the year.
- In addition, the favourable funding conditions seen in the USD market allowed non-core European issuers to launch successfully new benchmark transactions. For example, Portugal launched this year its first USD transaction since 2010 and its first syndication since exiting its 3-year Troïka Programme on 17 May. The new Portugal USD 4.5bn 10 year transaction (Societe Generale as joint bookrunner) is the largest USD sovereign benchmark since Germany in 2005, displaying Portugal's full access to international capital markets. Concerning agencies and supras, European issuers have launched several benchmark transactions during the year, taking advantage of the attractive EUR/USD basis swap level since the beginning of May. CDC launched successfully a new 3-year benchmark for USD 1bn (Societe Generale as joint-bookrunner) collecting an orderbook of USD 3bn. In addition, AFD issued a new 5-year benchmark for USD 1bn (Societe Generale as joint bookrunner). In the 5-year segment, Rentenbank issued a new transaction for USD 0.5bn (Societe Generale as joint bookrunner).

Preferred market status for CEEMEA region

- Despite concerns about CEEMEA credits at the beginning of the year, fears of a sell-off did not materialise, which enabled CEEMEA issuers to price numerous benchmark transactions at low funding costs, while benefiting from a strong demand from US investors. In this low rate environment, investors are looking for riskier assets to meet their yield target. Hence, CEEMEA transactions were well received by investors, as they offered an attractive pick-up compared to other sovereigns.

- Indeed, CEE sovereigns have been very active during the beginning of the year, successfully launching benchmark transactions gathering large investors' interests. For example, Slovenia issued a 5-year and a 10-year dual tranche, collecting an orderbook of over USD 16bn and priced flat to the sovereign's secondary curve.
- Furthermore, we witnessed larger supply coming from African issuers. Indeed, Senegal (Societe Generale as joint bookrunner), Ghana, Ivory Coast, Kenya and Zambia launched new benchmark transactions with limited new issue concessions and multiple times oversubscribed.
- As a consequence, we believe this year's successes from African countries will encourage inaugural transactions as well as more regular issuance in the upcoming years.

Strong tightening of Sub-Saharan (excl. South Africa) sovereign bond yields (5-7Y area)



Source: Bloomberg

2015 forecast

- Following the accommodative stance from the Federal Reserve and positive economic data, the market sentiment has been positive in the USD debt capital market during the year which allowed issuers to price numerous benchmark transactions at low funding costs. In addition, the net cash position has been largely positive, hence leaving many cash-rich investors willing to put their money to work.
- In this context, CEEMEA signatures attracted US investors looking for yield. As the Federal Reserve is expected to maintain its benchmark rate at a relatively low level for an extended period of time, we anticipate that issuance volumes from countries out of Africa will continue to increase in 2015.
- In terms of issuance volume, we anticipate the US Treasury gross bond issuance (excl. bills) to be slightly lower in 2015 and reach USD 1,989bn. In addition, we expect sovereigns (non-US) issuance volumes to increase by approximately 19% to USD 103bn in 2015. Concerning agencies (non-US), supras and local authorities we estimate issuance volumes to remain almost stable at USD 229m.
- Indeed, in 2015 the USD market will remain an important and strategic source of funding for European agencies and supranationals. Moreover, the EUR/USD basis swap will continue to play a key role for European agencies and supranationals to enter the USD market.
- Finally, the sukuk market has further developed during the year, as we have seen growing demand from Middle East investors. In addition, the largely oversubscribed USD sukuk transactions priced by issuers such as South Africa, Hong Kong, Sharjah (UAE) and Indonesia confirmed the growing demand in this market. Following the flurry of new entrants into the sukuk market, we believe the momentum will grow in 2015 with cash rich investors' looking actively for new investments' opportunities.

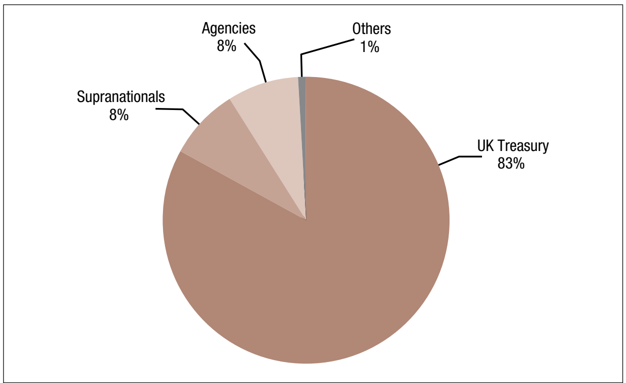
GBP MARKET

2014 review

- During the year we saw a string of encouraging macro data releases out of the UK signalling that the British economy is on a sustained path towards recovery. In fact, the British economy grew faster than initially expected, with economic activity largely fuelled by an expansion in the services industry. However, the Bank of England (BoE) maintained its accommodative monetary policy stance throughout the year, keeping its main rate close to zero and its asset purchase programme at GBP 375bn until inflation and labour market conditions further stabilise. As such, the combination of accommodative policy measures with encouraging macro announcements translated in an upbeat tone in the GBP market. Overall, we have seen a solid performance of UK gilts in the market with demand from domestic investors remaining strong. However, the demand from international investors has been limited, as the buoyant tone seen in both the EUR and USD markets translated in lower inflows in securities denominated in other currencies. Nonetheless, the GBP primary market remained wide open for issuers looking for funding diversification opportunities.
- In 2014, the total supply from public sector issuers in the GBP market reached GBP 138.8bn by mid-November compared to our forecast for 2014 of GBP 175bn. The lower volumes can be attributed to the relatively more favourable funding conditions in other major currency markets. The UK Treasury continues to be the main player accounting for the lion's share of the total supply (83%). On the other hand, total volumes issued by agencies and supras reached GBP 21.7bn by mid-November, posting an 11% increase with respect to 2013 and remaining in line with our forecast for the year (GBP 22bn). The higher volumes can be attributed to attractive cross-currency swap market conditions during the

year, as well as agencies and supras taking advantage of issuance windows looking to diversify their funding sources.

The UK Treasury remains the key player in the GBP public sector space



Source: SG CIB DCM Analytics

- In terms of maturities, we continue to see strong investor demand in the long and ultra-long part of the curve (30-year+) with supply in this segment accounting for approximately 43% of syndicated issuance volumes. For instance, the UK Treasury launched a GBP 4.75bn reopening of its inflation-linked 0.125% Mar-2068 gilt in January, followed by a new GBP 5.0bn 3.5% Jan-2045 gilt in June, a GBP 5.0bn inflation-linked 0.125% Mar-2058 in July and a GBP 4bn 3.5% Jul-2068 gilt in October (Societe Generale as joint bookrunner). Moreover, Mexico was able to access the ultra-long end of the curve in March, with a GBP 1.0bn 5.625% Mar-2114 (100-year tenor) highlighting that investors' appetite is strong in this segment of the curve, even for non domestic issuers with a comparatively lower credit rating. Furthermore, the States of Jersey took advantage of attractive funding conditions in the market to launch a GBP 250m 3.75% Jun-2054 transaction in June. In contrast, the supply coming from agencies and supras remained mostly concentrated in the 3-year to 5-year tenors.
- In the GBP inflation-linked market, total volumes reached GBP 27.5bn by mid-November with supply coming mainly from the UK Treasury. Overall, volumes in the GBP inflation-linked market were relatively lower (16%) compared to 2013, as inflation expectations became less appealing for investors during the year. In fact we saw UK breakevens following a downward path most of the year with the YoY Consumer Price Index (CPI) dropping to 1.2% by the end of September after hovering at the 2% level by the end of 2013.

Forecast 2015

- The tone in the GBP market was positive this year, fuelled by a string of positive macro announcements and by the supportive monetary policies of the Bank of England (BoE). The UK Treasury continues to be the most important issuer with domestic demand remaining the main driver of the market. In particular, we witnessed strong investor appetite in the long and ultra long part of the curve, not only for UK gilts, but also for GBP-denominated transactions from non-domestic sovereign issuers.
- Even if the British economy is gaining momentum, lower inflation and renewed worries linked to global growth, and especially the Eurozone, imply further uncertainties going forward. On the other hand, we expect the BoE to launch a first rate hike as soon as Q1 2015.
- Overall, we expect that the GBP market will continue to be window-driven with top rated agencies and supras entering the market for diversification and looking for favourable funding opportunities.
- For 2015 we forecast that total GBP public sector volumes will be higher (+4.0%) with respect to 2014 and reach GBP 182bn. The higher volumes can be attributed to larger issuance activity expected from sovereigns and especially the UK Treasury. Indeed, the UK Treasury will continue to be the key player in the GBP market with total gross bond issuance (excluding bills) expected at GBP 155.5bn. We expect total issuance volumes from sovereigns to reach GBP 161bn in 2015.

GENERAL CONCLUSIONS

- For 2015 we expect that liquidity will remain high in the market on the back of the continuation of highly accommodative policies of Central Banks. Overall, the trends seen in 2014 should continue in 2015 with a strong demand on the 10-year+ segment in the EUR and USD markets and in the 30 year+ area in the GBP market, especially at the beginning of the year.

In addition, we anticipate three major trends.

In terms of currencies: In 2015, the CNH market will further develop and will become more important, as investors will use this currency as a reserve.

In terms of products:

Sukuk: we expect to see new product developments out of the sukuk market, as issuers will be keen to launch new transactions in this market on the back of the strong demand stemming from Middle East investors.

Green bonds: as investors are increasingly including Environment, Social and Governance (ESG) themes in their investment portfolios, we expect Green Bonds to continue offering an attractive funding alternative for issuers in 2015.

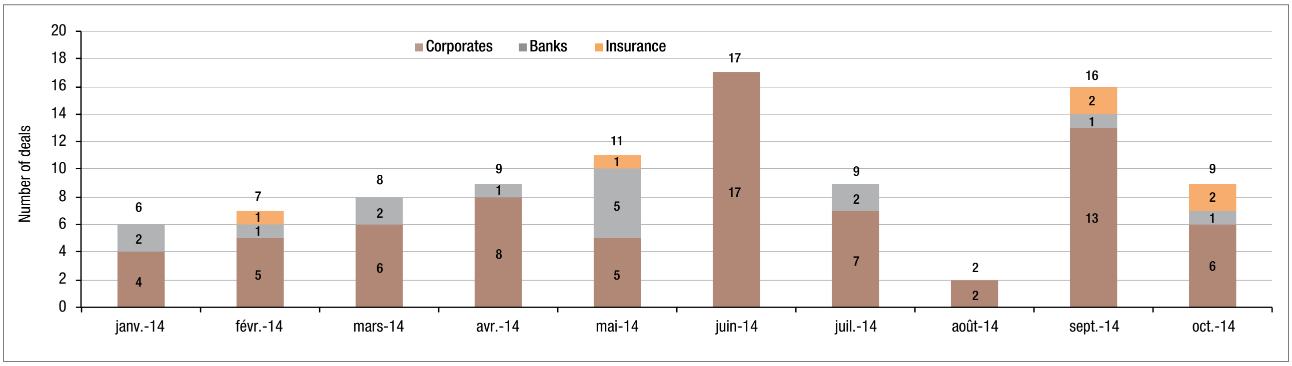
Inflation-linked structures evolution: the market is evolving towards new structures in order to access new target clients. For example, the Italian Treasury was able to further develop the inflation-linked BTP-Italia, which was conceived as a short-term instrument for retail investors. Following this trend, we expect new issuers to explore similar structures.

Liability Management

2014 review

- In 2014, liability management (LM) activity remained firm with over 90 transactions executed in European markets in the 10 months between January and October 2014, compared to 86 for the same period last year.
- LM activity remains correlated to primary market activity, hence we saw a pick-up in the volume of transactions just before and after the summer break.

2014 saw further liability management exercises from both corporates and financial institutions



Source: SG CIB

Corporates

- 2014 LM activity was dominated by corporates, which accounted for 78% of the total number of deals done this year (vs. 44% in 2013). Volumes picked up considerably, with a total of ca. EUR 140bn eq. targeted in an LM transaction across more than 170 bonds. There were a total of 73 LM transactions in the first 10 months, compared to 47 for the same period last year.
- Corporates continued to pro-actively manage their upcoming redemptions and take advantage of the low-yield environment to optimise their cost of interest and replace "expensive" old bonds with new debt, offering a much lower coupon than on outstanding bonds, while extending their average maturity at the same time.
- Most European transactions were conducted on EUR-denominated bonds which witnessed an impressive average take-up of 39% (vs. 32% in 2013), reflecting high investor interest in LM exercises.
- Cash tender offers continued to be the most commonly employed LM format, representing 68% of the total LM exercises, while exchange offers remain rare and mostly used by high-yield rather than investment-grade corporate issuers.
- We observed a pick-up in consent solicitation exercises as a result of the uptick in the M&A cycle – we could expect this trend to continue, too.

Financial Institutions

- Financial institutions (FI) carried out fewer LM exercises in 2014 given the further rally seen on their bonds in this low-yield environment.
- Most LM exercises came from banks who continued to reinforce their regulatory capital structure ahead of the ECB stress tests by replacing legacy subordinated instruments with new-style financial instruments (RBS, Lloyds, Barclays, Erste, etc.).
- In the insurance sector, we saw several European players tendering their subordinated bonds on the back of several key drivers, including addressing upcoming calls and optimising capital positions ahead of Solvency II implementation (ASR Nederland, Macif, Groupama, AXA) – this is a continuation of the trend established in prior years.
- Overall, most FI LM transactions were conducted to manage the capital structure, either through capital optimisation or managing upcoming calls on capital instruments, and we expect these same drivers to continue to remain relevant, even if transaction volumes may not be as large as in the immediate aftermath of the financial crisis in 2009-2012.

Hybrid Capital Market

Corporates

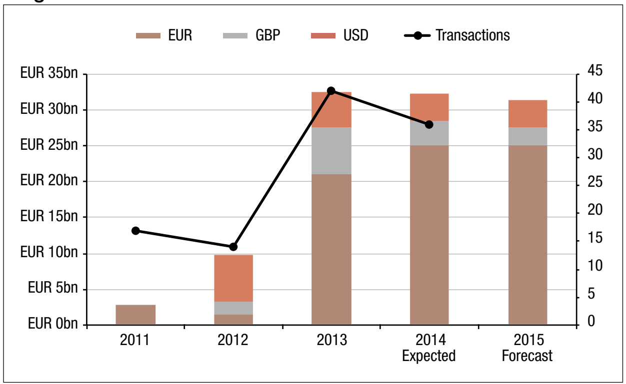
REGULATORY / RATING AGENCIES ENVIRONMENT

- In August, Standard & Poor's (S&P) put out an FAQ on how they treat early redemption and replacement of corporate hybrids in light of their "permanence" criterion for hybrids. A hybrid repurchase or exchange within the first five years of issuance (10 years for high equity credit instruments), with or without replacement, will cast doubts over the issuer's long-term commitment to hybrids and could lead to a possible loss of equity credit on outstanding and future issues. However, S&P maintained that it will assess hybrid redemptions on a case-by-case basis, attaching significant importance to the management intention behind such redemptions. Addressing hybrid refinancing risk is an acceptable argument, although S&P would be "more comfortable if the redemption takes place five years after the issuance date". Early refinancing through an instrument with higher equity content/features, such as a 100% hybrid, a 50% hybrid with stronger replacement language, or common shares, will be viewed favourably.

PRIMARY MARKET ACTIVITY

2014 review

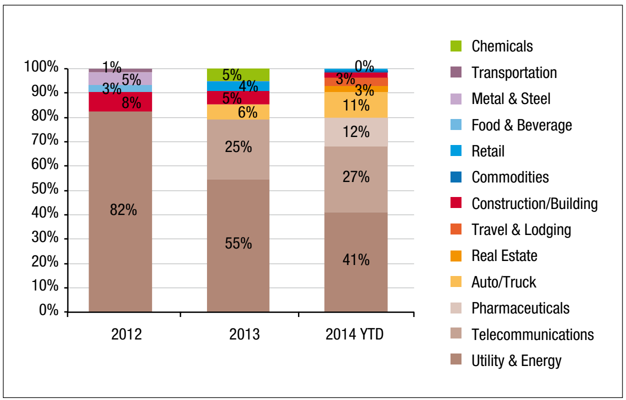
Corporate hybrid supply remained buoyant in 2014 after the surge in issuance volumes in 2013



Source: Dealogic, SG CIB.

- 2014 witnessed the transformation of corporate hybrids into an established asset class, with issuance volumes continuing to increase and a more diverse range of sectors looking at hybrids as a long-term element of their capital structure. The 2014 year-to-date volume is EUR 29bn eq. and may equal the 2013 volume of EUR 33bn eq. by the end of this year, given attractive primary market conditions.
- The recent pick-up in M&A activity has also been supportive for new corporate hybrid issuance this year, with several issuers turning to hybrid instruments to fund large acquisition projects (Orange, Volkswagen, Arkema).
- The EUR market continued to dominate the overall hybrid market, with 75% of the total issuance volume printed in euros, followed by 15% in USD and 10% in GBP.
- In terms of issuer type, this year saw the most diverse mix of issuers ever, with several issuers launching their inaugural hybrid transaction. Despite this diversification, utilities and telecommunications remain the biggest issuers, accounting for almost 70% of the total market. These two types of issuers are mainly attracted by the equity-content of the hybrid bond which enabled them to finance capital-intensive long-term projects like power plants and communication grids while preserving their balance sheet and credit ratings without diluting their shareholding structure.

In 2014, corporate hybrid supply came mainly from large Utility & Energy and Construction players



Source: Dealogic, SG CIB

- In 2015 we expect the volume of the corporate hybrid market to continue to stabilise, with the low rates and yield environment expected to last which should keep investors' appetite strong and offering issuers a cost effective capital funding instrument.
- M&A activity will likely drive hybrid issuances with most corporate issuers appreciating the positive impact of this funding instrument on their balance sheet and credit ratings in such a context.
- Finally, a large number of corporate hybrids have a first call date in 2015 due to issuance peaks in 2005 and 2015.

Financial Institutions

- The hybrid market has been unsettled in the past three years in response to the uncertainty created by the evolving regulatory landscape, resulting in very few hybrid T1 issues, while most LT2 transactions were driven by banks' refinancing needs. Clarification on the Capital Regulatory Requirements and Directive (CRD IV/ CRR) package released at the beginning of 2013 opened new perspectives for banks and the market witness a surge of hybrid issuances.

RATING CONSIDERATIONS

- After a consultation period ended on 21 March for its new hybrid methodology, on 29 September S&P released a list of revised ratings on hybrid capital instruments issued by financial institutions in Europe, North America and Asia, in line with its revised bank hybrid capital criteria published on 18 September. Specifically, the ratings of just under 1200 instruments issued by European financial institutions were reviewed of which 88% were downgraded (68% by one notch and 20% by two notches) and 12% were affirmed.
- On 1 May, Moody's released an RFC for rating contingent capital securities (CoCos). The RFC is aiming at including framework for rating high-trigger CoCos (trigger considered as being above the point of non-viability) and revision of rating of low-trigger non-viability CoCos (trigger at or close to point of non-viability). In July, Moody's published its new methodology which led to a series of rating revisions of AT1 bonds.

REGULATORY ENVIRONMENT

On the banking side

- The European Banking Authority (EBA) published on 31 January, the main features of the 2014 EU-wide stress test. For hybrids in particular, instruments with a conversion or write-down trigger above 5.5% would be eligible to help address the adverse scenario.
- On 12 June, the EU Bank Recovery and Resolution Directive was published in the Official Journal, thereby concluding the EU-level law making process. The Directive will enter into force next 3 July which will reflect into each Member State being required to implement the Directive by 1 January 2015 (with the option of implementing bail-in on 1 January 2016).
- Early October, the EBA published a consultation paper proposing draft guidelines concerning the interrelationship between the Bank Recovery and Resolution Directive (BRRD) sequence of write-down and CRR/CRD IV. Under these guidelines, the EBA clarifies certain potential ambiguities in CRR/CRD IV regarding the classification of instruments in context of the write-down sequence.
- On 7 October, the EBA published the results of its monitoring of AT1 instruments issued in Europe. The report is part of its mandate under CRR to monitor the quality of own¬¬-fund instruments issued by financial institutions. The EBA reviewed nine AT1 instruments issued between August 2013 and May 2014, of which six instruments carried a temporary write-down mechanism and three an equity conversion mechanism. The EBA highlighted certain provisions of these instruments that should be avoided in the future due to their complexity and potential to hinder loss absorption.
- On 26 October, the European Central Bank (ECB) (for Eurozone banks), alongside the EBA published the results of its EU-wide stress tests. The tests were announced in January 2014 and were conducted on a sample of 123 banks across the EU representing more than 70% of total EU banking assets. As of 2013 end, the weighted average CET1 ratio is determined to be 11.5%, which was reduced by 40 bps to adjust for asset-quality review (AQR). The impact of the adverse scenario is projected to be 260bps over 3 years which leads to an aggregate EU CET1 ratio of 8.5% in 2016 (7.6% on a fully loaded basis). Out of the 123 banks, 24 banks failed to cross the 5.5% CET1 threshold under the adverse scenario which amounts to a maximum capital shortfall of EUR 24.6bn. After taking into account the capital raised in 2014, this shortfall reduces to EUR 9.5bn from 14 banks. The EUR 9.5bn capital shortfall mainly arises from banks in Greece, Italy and other peripheral regions. Banca Monte dei Paschi di Siena had the biggest projected shortfall of EUR 2.1bn. The EBA also disclosed that EU banks had raised equity worth EUR 53.6bn (EUR 39.2bn after adjusting for repayments and buybacks) and EUR 39.1bn of AT1 and Tier 2 instruments between January and September 2014.
- In addition, the EBA released all year long, answers to its rulebook Q&A, which provided the market with further clarity, following CRR/CRD IV implementation.
- In Sweden, the Swedish Financial Supervisory Authority, Finansininspektionen (FI), published a Memorandum on the Capital Requirements for Swedish banks. The FI's implementation of the strengthened capital adequacy rules involves a clear tightening of capital requirements for Swedish banks, particularly the systemically important major banks. The FI estimates the total own funds requirement of the four major banks to vary between 18.7% and 24.5%, and the total common equity Tier 1 capital requirement to vary between 14.5% and 19.3%. The rules were published on 8 September.
- In the UK, the regulator's concern about selling CoCos to retail investors grew leading to the FCA imposing a ban applicable to all UK banks and non-UK banks subsidiaries selling bonds. After extending the consultation period by four weeks, the UK Financial

Policy Committee (FPC) released the record of its meeting held on 15 October 2014, where it agreed to certain recommendations concerning the leverage ratio framework for PRA-regulated entities, as follows: - The FPC recommends that a minimum leverage ratio requirement of 3% be introduced as soon as practicable for UK G-SIBs and other major UK banks and building societies at the consolidated group level. High trigger AT1 (equity conversion) instruments can be used to fill 25% of this requirement while the remaining 75% will have to be filled by CET1 capital - A supplementary leverage ratio buffer would also be applied to G-SIBs and other major domestic UK banks and building societies to be set at 35% of the corresponding risk-weighted systemic risk buffer requirements for these firms and to be met only with CET1 capital. This requirement would be introduced in parallel with the corresponding systemic risk buffer implementation (2016 for G-SIBs and 2019 for other major UK banks and building societies). Hence, a systemic risk buffer of 1% - 2.5% for G-SIBs and 0-3% for large UK banks and building societies would result in a leverage buffer in the range of 0.35%-0.875% and 0-1.05% respectively. - The FPC also recommends a countercyclical leverage ratio buffer (CCLB) to be set at 35% of the risk-weighted countercyclical capital buffer rate and to be adjusted quarterly alongside the changes to the countercyclical buffer rate. Based on the countercyclical buffer rate of 0-2.5% would result in a CCLB of 0-0.9%. - Hence, the above requirements would result in a combined leverage ratio in the range of 3%-3.9% for non-systematically important firms, 3.35%-4.775% for G-SIBs and 3%-4.95% for other major domestic banks and building societies.

- Finally, further clarity regarding the tax treatment of Additional Tier 1 was given in the Netherlands, Spain and in Germany.

On the insurance side

- On 31 January 2014, the European Insurance and Occupational Pensions Authority (EIOPA) released a timeline for the delivery of the Solvency 2 “Implementing Technical Standards” (ITS, Level 2.5) and Guidelines (Level 3) aiming at delivering the regulatory and supervisory framework ahead of the scheduled application of the Solvency 2 regime. The ITS will be legally binding, ensuring the uniform application of Solvency 2, while the Guidelines will not be legally binding but will be necessary to guarantee the convergence of Solvency 2 implementation.
- On 11 March, the European Parliament voted the Omnibus II Directive following a plenary vote, therefore finalising the new framework for insurance regulation and supervision in the EU. The Omnibus Directive was then adopted by the Parliament and the EU Council on 16 April.
- On 30 April, EIOPA launched an EU-wide insurance stress test. The test package will comprise of two modules. The core module of the exercise includes two adverse market scenarios, covering financial asset stresses and shocks to real estate assets prices and interest rates moves. The second module addresses the impact of a low yield environment. It is expected that the stress test will cover at least 50% of the market share in each country both of life and non-life segments. The technical basis for the stress test is the new insurance regulatory regime Solvency 2, which will apply as of 1 January 2016. Simultaneous with the launch of the exercise, EIOPA publishes the Solvency 2 Technical Specifications for the preparatory phase. Data for the stress test will be collected in July 2014 and the results of the test will be released in November 2014.
- On 10 October, the European Commission (EC) adopted Delegated Acts under the Solvency II Directive. The EC adopted a Delegated Act containing the implementing rules for Solvency II. These implementation rules mainly relate to the valuation of assets and liabilities, capital requirements and the proper governance of insurance companies. The rules will be directly applicable in Europe (unlike a directive which needs to be transposed into national law) once approved by both the European Parliament and European Council, which may take a period of maximum three months. There is also a technical period of minimum three months to allow the approval/translation of the Act. Hence the Delegated Act is expected to come into force between 10 January 2015 and 10 April 2015. That should mark the cut-off date for the Omnibus II grandfathering provisions.

PRIMARY MARKET ACTIVITY

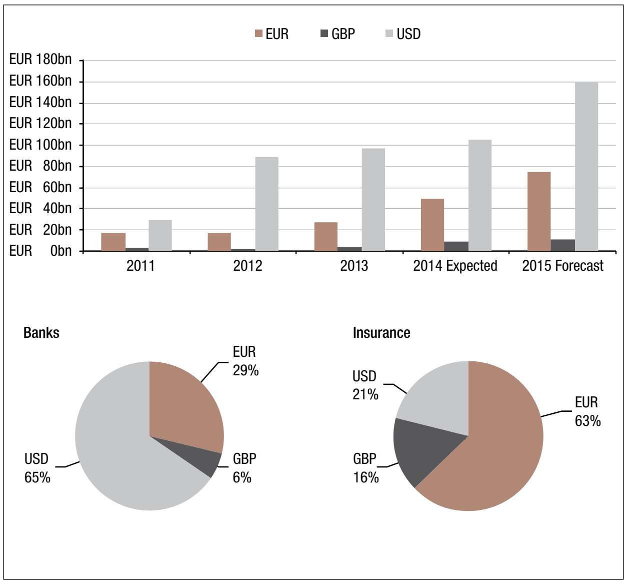
2014 review

In 2011-2012, the hybrid market was undersupplied. However, following the CRD4/CRR publication and RTS clarification by the EBA in late July, we have seen a wave of subordinated deals (notably AT1) from banks on the back of their strategy of capital reinforcement.

- Issuance conditions for subordinated debt were optimal in 2014. Clarification on regulations gave issuers confidence to access the market, and the tightening in spread across asset classes, resulting in investors’ hunt for yield, encouraged issuance in the segment. All transactions were largely oversubscribed and most performed well in secondary. Macro-economic concerns caused some notes to trade wider.
- We saw inaugural Additional Tier 1 transactions from: Italy with the UniCredit 8% USD 1,250m perNC10; Denmark with the Danske Bank EUR 750m 5.75% perpNC6; and Belgium with the KBC EUR 1,400m 5.625% perpNC5.

- As there is still some uncertainty vis-à-vis the tax regimes in a few countries (the Netherlands, Austria, etc.), some issuers that were adamant to launch an Additional Tier 1 had to wait. We expect that volumes will pick up as soon as the green light is given in those jurisdictions.

Strong increase in EUR supply driven by regulation clarity



Source: SGCIB Analytics, Markit iBoxx, Dealogic

EUR MARKET

Euro-subordinated volumes were well above last year's at EUR 56bn in 2014 vs. EUR 28bn in 2013.

- Most of the increase in primary activity is attributable to banks, whose supply increased by 87% - insurances volumes were fairly in line with 2013.
- Callable deals accounted for most of the supply in 2014, representing 87% of the total supply for both banks and insurances.
- In terms of jurisdiction, most transactions came from core countries (UK, Germany, Austria, France, Nordics, etc.), although we saw some activity from peripherals (30% of overall supply from Iberia and Italy).

USD MARKET

In the USD subordinated market, the volume of issues rose from USD 97bn in 2013 to USD 135bn in 2014. This still represents the most active segment with nearly 65% of volumes for banks and 21% for insurances overall.

- In terms of regional split, 42% of the supply came from the domestic market. European issuers only accounted for 35% of volumes, the rest being split between Middle East, the APAC region and South America.

GBP MARKET

Volumes in the sterling market remained low this year, although slightly up from 2013. We saw GBP 11bn of issuance in 2014 vs. GBP 4bn last year. The bulk of the supply came from banks. In terms of format, the PerpNC5 (banks) and 10-year bullet (insurance companies) were the most popular structures.

2015 forecasts

Now that we have a clear regulatory framework for Basel 3, we can expect banks to keep building up their capital cushion, which should boost the subordinated supply. In addition, recent announcement regarding MREL and TLAC should further boost the supply of hybrid capital. We can expect the following volumes for the full year 2015:

For corporates

- In EUR, a stable total of EUR 25bn of issuance.
- In USD, a total of USD 5bn flat to 2014.
- In GBP, a total of GBP 2bn of issuance compared to GBP 3bn 2014 full-year expected.

For financials

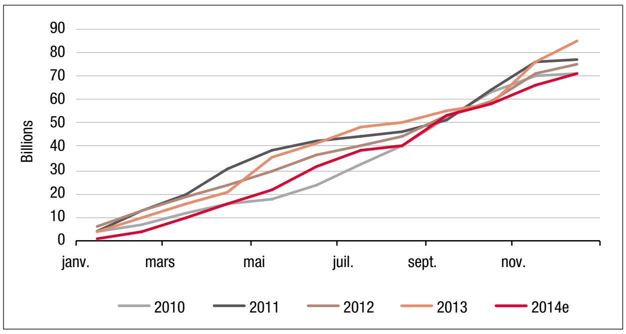
- In EUR, a total of EUR 84bn of issuance or an increase of 50% vs. 2014 full-year expected.
- In USD, a total of USD 200bn of issuance or an increase of 48% vs. 2014 full-year expected.
- In GBP, a total of GBP 13bn of issuance compared to GBP 11bn 2014 full-year expected.

SECURITISATION

European securitisation market 2014: seeing the glass half empty or half full

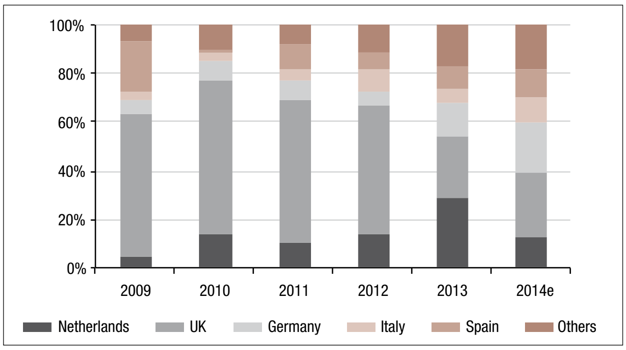
- Year-to-date volumes confirm that the European ABS market has hit a floor. Annual, public placement cumulative volumes have shown strong similarities over the past five years. 2014 started at a slower pace compared with previous years, but then accelerated sharply from Q2, moving back in line with past trends. Volumes have been resilient since then.

Public placement ABS – very similar yoy patterns



Source: SG Cross Asset Research

Expect UK market share to increase in Q4



Source: SG Cross Asset Research

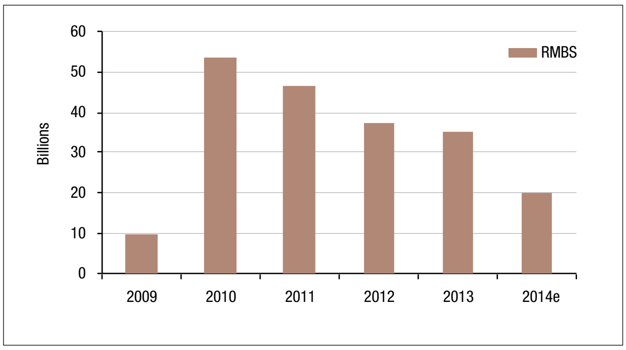
- We note that there is a better distribution between countries based on the breakdown of public volumes. Most jurisdictions (except for the Netherlands and UK) have grown significantly. This demonstrates that the ABS market contributes to reducing fragmentation in European capital markets. Moreover, we expect UK issuers to place important volumes in Q414, particularly UK RMBS to support their Master Trust structures. This sub-sector was the largest contributor until the funding of mortgage portfolios was diverted by the Bank of England (BoE) through its first "funding for lending" scheme.

- European ABS markets have received strong support from authorities, in particular the ECB and BoE: in 2013, the ECB lowered the haircuts applied to category 5 of eligible collateral (from 16% to 10%). Early in 2014, it was the EU's turn to publish a supportive paper on securitisation. In June 2014, the ECB and BoE's joint publication provided key support. Among other initiatives, the ABS Purchase Plan (ABSPP) stands out as a major ECB non-conventional monetary tool to boost its balance sheet and inflation in the Eurozone. It is expected to start in November.

- Above all, ABS markets have benefitted from the low-rate environment which has driven funding costs to record lows, reopening capital markets to a number of weaker banks. Large banks did not stay on the sidelines and have used securitisation extensively under public, private and retained formats. However, these improvements can still be qualified as limited and further steps need to be cleared before we qualify the European ABS market as working properly. Recent developments on the treatment of securitisation under Solvency II are positive but still insufficient to bring back insurers as long-term investors in ABS. Indeed, the economics for investing are not there. The measures have not levelled the playing field for ABS. We expect strong recognition from the Basel Committee with its update of revised capital requirements for ABS in early 2015. Concern about asset bubbles (particularly in the real estate sector) should not be attributed to ABS or to covered bonds, but rather to the overwhelming liquidity being injected by many central banks.

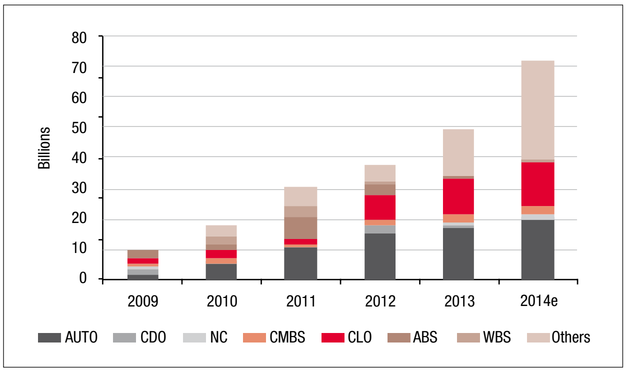
- The banking market continues to transform itself. The need for more disintermediation in Europe is strong and banks are moving in this direction. French RMBS CFHL 2014-1 by Credit Foncier was a remarkable achievement in terms of balance sheet deconsolidation while complying with the securitisation retention rules. The search for better returns is diverting investors from low yielding assets. Appetite for mezzanine tranches is strong resulting in high oversubscription levels. For example, the French RCI France 2014 transaction was 3x oversubscribed for the mezzanine piece. The consolidation of managed CLOs, something which started in 2012, is another example. This kind of development casts a bright light on the substantial opportunities offered by securitisation compared with other debt solutions.

RMBS pull back – don't expect a strong rebound in 2015



Source: SG Cross Asset Research

Significant volumes in Auto, CLO and to a certain extent CMBS



Source: SG Cross Asset Research

Expect better in 2015… at last

- We welcome the recognition of High Quality Securitisation (HQS), but does its definition hinder the development of ABS markets in Europe? Indeed, the industry has seen so many improvements so far that the recent definition of HQS at first sight looks like another major constraint. Two takeaways: First, not all types of assets being securitised will qualify as HQS. Specific ABS subsectors falling into HQS should get strong traction, resulting in the structuring and issuance of deals within these categories. The risk is that other non-eligible sectors would drop significantly. Second, HQS should get strong recognition from regulators. This is the case for LCR-eligibility, but true regulatory recognition should prompt significantly better regulatory capital treatment. HQS should receive this recognition in 2015. Europe still comprises a large number of ABS investors. Defining HQS and at the same time granting significant regulatory support to these structures should restore further confidence and, more importantly, revive the economics of securitising.

- Last year, we mentioned the coming AQR stress test exercise. The results were published on 26 October but held no big surprises. Besides many banks strengthened their capital base in 2014. The Single Supervision Mechanism (SSM) has been effective since 4 November. This very significant step towards more financial integration should push banks to further transform their balance sheet and increase their use of securitisation. The table below shows the share of retained ABS primary deals as computed by the securitisation department of the Association for Markets in Europe (AFME). We expect the ratio to decrease strongly in 2015 as more ABS go public going forward.

European ABS – Banks continue to structure a large amount of retained deals

Year	% of retained volumes
2006	0
2007	29%
2008	87%
2009	94%
2010	76%
2011	76%
2012	66%
2013	58%
Q314	66%

Source: SG Cross Asset Research/Credit, AFME

- Stabilising European ABCP market. ABCP conduits have been developing this year to adapt to the new LCR requirements under CRR/CRD IV. Moreover, the market has now achieved its transformation as a majority of existing conduits are now fully supported structures. 2015 will be a year of consolidation in terms of volumes, reliant on economic growth.

US securitisation market

- Public and 144A ABS Issuance in 2014 should reach approximately USD 210bn, with an additional USD 100bn from CLO supply, reflecting an expected increase from the previous year (these figures exclude Agency MBS and CMBS). We expect supply in 2015 to follow this trend and finish roughly 5-10% higher in ABS though likely see reduced CLO supply to USD 75bn. Growth in consumer and commercial loan lending, continued good collateral performance as well as investor demand should support these volumes. Spreads are expected to remain fairly stable across asset classes in the near term. As we move into 2015, there is the potential to see increased spread volatility due to the potential for rates moving higher and the combination of lingering global economic uncertainty and geopolitical risks.

- US ABS supply composition in 2015 looks materially similar to 2014 with the core asset classes remaining strong and a possible incremental increase in the number of issuers and possibly the development of new asset classes as in 2014. Auto-related ABS should end the year slightly higher and maintain their dominance in the market with this sector accounting for roughly 45% of all primary ABS supply. We have seen a meaningful increase in credit card issuance in 2014, and this should continue as issuers seek to refinance maturing debt as well as take advantage of lower rates before funding costs rise, making deposits more expensive.
- The student loan and equipment asset classes remain at steady levels taking up smaller portions of the market with student loan ABS volume likely down YoY into 2015. The non-traditional sector is expected to remain active. Yield-driven demand and an increase in acceptance for new asset classes by investors were the primary reasons for an increase in esoteric/non-traditional ABS volume and contributed to the attractiveness of this sector for issuers seeking financing. The market remains receptive to non-US issuers and moves in the respective f/x basis swaps will determine in part whether we see more offshore issuance in 2015.
- Within the mortgage ABS market, CMBS has remained strong in 2014 with improving property prices and issuance of over USD 80bn year-to-date. Private RMBS remain very limited, with a handful of issuers coming to market and this should not materially change in 2015.
- The regulatory environment continues to shape the securitisation market in the US. The recent passage of Regulation AB II and the credit risk retention rules of Dodd-Frank will increase the responsibilities of issuers while likely increasing the cost and complexities of completing transactions.

Syndicated Loan Market

2014 review

Western Europe

- Despite a significant increase in volume this year, pricing of Western European corporate loans has continued to trend lower throughout the year, continuing the trend from H2 2013.
- The European leverage loan market followed the growth trend of 2013, with estimated volumes totalling EUR 77bn - an 18% increase compared to 2013 - making 2014 the most active year since the credit crunch.
- Project Finance and Infrastructure loans have benefitted from resurgence of long term liquidity with banks and, increasingly investors, pushing pricing down.

CEEMEA

- Loan volumes to Q3 2014 are down 35% to USD 111bn vs. the same period last year across CEEMEA, in part due to the Ukrainian crisis which led to sanctions against certain Russian corporates/sectors.
- As in other loan markets, CEEMEA borrowers are facing the best market conditions since 2007, as a wall of liquidity, whether international, regional or domestic is chasing a limited pipeline of primary dealflow.
- The severe slowing of lending to Russian corporates has prompted lenders that can, to look at other regions in which to deploy their firepower with the Gulf, Kazakhstan/Azerbaijan benefitting. Africa, including sub-Saharan Africa, is increasingly in sights of banks but it will take time for the wider market to focus outside of traditional borrowers.

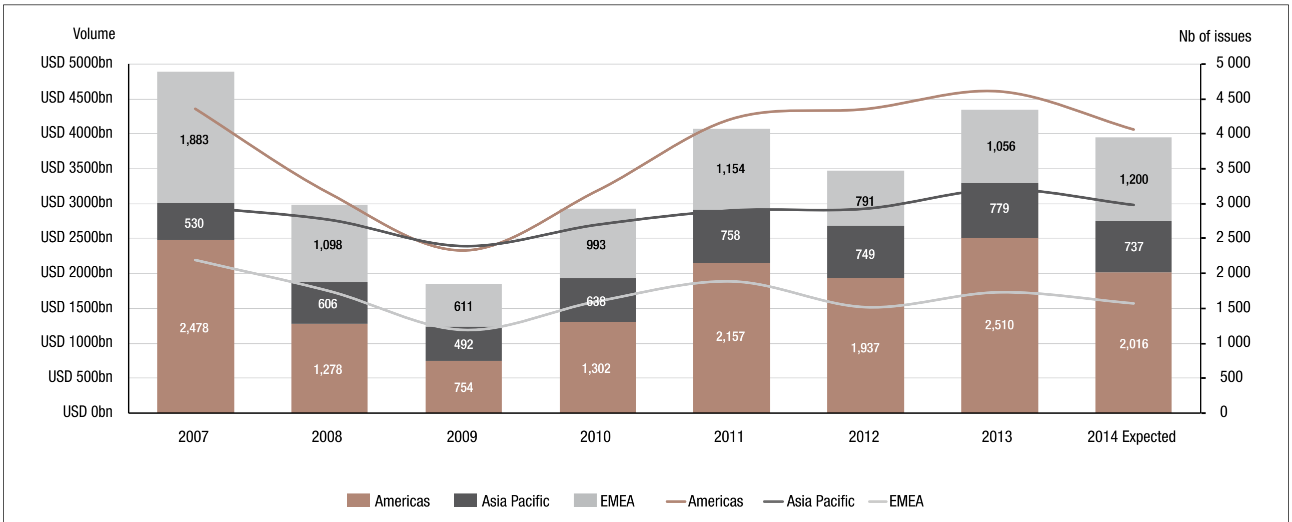
Americas

- For the first nine months of the year, US loan volume totalled USD 1500bn, basically flat compared to the same period last year and is expected to end the year at just over USD 2,000bn; leverage loans saw its share of the total slip from 55% to 48%, while investment grade (IG) lending increased its share from 33% to 38%.
- M&A activity represented 20% of the total at USD 301bn and is on pace to exceed 2013's level by 11%, representing the highest 9M total since 2007's figure of USD 360bn.
- Even including the USD 19.5bn bankruptcy filing of Energy Future Holdings in April, default rates remain benign at just 3.34% (S&P/LSTA lagging twelve-month default rate) and are expected to remain at low levels through the end of the year, given the expectation for continued economic growth, albeit at lacklustre levels.

APAC

- The Asia Pacific syndicated loan market volume for 2014 is expected to top ca. USD 737bn, which would be a ca. 5% decrease vs. 2013's USD 779bn volume. This overall volume decrease hides two different trends. The loan volume in APAC (excl. Japan) is expected to increase by ca. 13% (to USD 528bn vs. 468bn in 2013), while the volume originating from Japan is expected to decrease by ca. 29% (to USD 221bn vs. USD 311bn in 2013). As a consequence, while Japan remains the largest single market in APAC (with a ca. 30% share), its share will be significantly reduced vs. last year's ca. 45%.

International loan market volumes by region



Source: Dealogic

Regional focus

Western Europe

Corporate

- The tightening of margin has benefited all types of borrowers, both large caps and mid-caps, and whether investment grade or non-investment grade. However, it has been particularly pronounced for cross-over names, and for borrowers located in peripheral countries, particularly Spain and Italy. As such, pricing conditions in the loan market have gone back to levels not seen since before the Lehman crisis. Most corporates have taken advantage of this favourable background, either via a refinancing, or taking the popular route of an amendment and extension of their facilities.
- The significant increase in volume this year is partially explained by this high level of refinancing, and partially by the return of M&A-driven transactions. Since June, the loan market has witnessed a steady flow of acquisition financings, including large deals such as Bayer (USD 14.2bn), Imperial Tobacco (USD 7.1bn), BSkyB (EUR 7.1bn), BAT (USD 4.7bn), Merck (USD 15.6bn) and SAP (EUR 7bn). These transactions have all been very well received by the loan market and significantly oversubscribed, showcasing the high level of liquidity that banks currently enjoy. Of note, several of those transactions included multi-billion term loans with a maturity ranging from three to five years, in contrast to the previous two years when large acquisition financings were exclusively structured as short bridges to bonds.

Leverage

- Volumes between January and May 2014 were relatively in line with those of the same period last year (ca. EUR 31bn). Technical imbalance of supply and demand led to favourable conditions for borrowers, translating into higher leverage (4.9x in 2014 vs. 4.7x in 2013), lower pricing and looser terms. This general supportive market led to opportunistic early repayments of investors (via refinancing/IPO), therefore strengthening the liquidity in the market.
- June and July issuances reached new monthly records at EUR 13.2bn and EUR 14.6bn respectively, the highest reading since end of 2007. With 39 transactions launched in July, the oversupply of paper clogged up the loan market and provided investors with lot of choices. Consequently, during Q3 the market became a little less accommodating, with investors gaining purchase power and increasing their selectivity over assets, hence leading to a number of transactions being flexed up.
- 2014 has been a transformative year for covenant-lite ("cov-lite") transactions with European investors showing consistent and robust appetite for these deals. Sponsors have taken advantage of European lenders' willingness to commit to domestic cov-lite transactions, as well as those with a cross-border element. Volumes in 2014 for cov-lite transactions should represent at least twice the levels of 2013 (EUR 14.7bn January-September 2014 vs. EUR 7.7bn in FY13). The share of cov-lite transactions in relation to the entire institutional volumes grew from 20.5% in FY13 to 36.5% in the January-September 2014 period.
- Furthermore, 2014 has been also characterised by the reappearance of Second Lien, with this asset class covering most of the subordinated tranches in mid-market transactions.
- 2014 has also seen the expansion of the cross-border market to the point that borrowers and investors regularly follow the market context both in the US and Europe, with borrowers looking for better conditions and investors seeking the best relative value. This is evidenced by volumes more than doubling in 2014 compared to the 2013 levels.
- After the resurge of CLO issuance last year (EUR 7.4bn via 20 vehicles), the European CLO market has continued showing sustained growth, accounting for an estimated total volume of EUR 15bn (FY14), further increasing the market liquidity and creating demand for new primary issuance in Europe.

Project Finance

- There is a notable resurgence of liquidity in Western Europe for project finance, infrastructure and commercial real estate. Lenders and investors are increasingly searching for assets outside of their domestic or traditionally core markets. 2014 has confirmed that long-term (25y+) liquidity is readily available for infrastructure with banks and investors currently seeking to deploy excess liquidity. Commercial real estate is also well supported both from the bank and the institutional bid. Across the board, 2014 marked an acceleration in pricing compression for Project Finance. This has led an increasing number of lenders to put Spain, Italy and, to a lesser extent, Portugal back on their radar in a search for yield.

CEEMEA

- Traditionally the largest loan market in CEEMEA, the syndicated loan market for Russian corporates started out 2014 on the run with massive liquidity available to first and even second tier borrowers. The unfolding of the Ukrainian crisis, and in particular the EU and US sanctions of July 2014, brought that market to a halt. While banks continue to cover their clients, loan volumes have collapsed as clients are increasingly going bilateral or forming small club deals given the impossibility to form wide consensus.
- Gulf Borrowers are benefitting indirectly from Russia's difficulties. Already in a positive dynamic, Gulf Cooperation Council (GCC) borrowers are seeing bankers to redeploy a portion of their capital and funding previously earmarked for Russia to the Gulf. Previously off-limits, Dubai borrowers are back in favour. As elsewhere, pricing dynamics are going one way. An interesting development is the emergence of powerful GCC loan houses keen to deploy their arrangement capabilities alongside international banks.
- Africa remains fundamentally a natural resource play for most banks, with oil and gas deals the most efficient vector to enter new, and sometimes fringe markets. 2014 has seen deals closed in markets like Chad, while metals and mining is attracting lenders to Zambia, Burkina Faso, Mali or even Guinea. Nigeria has seen a significant increase of deals and is becoming a more popular market, and not only for oil and gas.

Americas

Corporate

- At USD 567bn, investment grade lending is up just 9% for the first nine months of 2014, compared to the same period last year, and is expected to finish the year at around USD 775bn.
- M&A activity accounted for 20% of this total, in line with last year.
- Bank liquidity, although strong, continues to be relationship-driven with cross-sell opportunities critical in banks' capital allocation processes.
- While Basel 3 is expected eventually to push pricing higher and possibly shorten tenors, to date it has not had any impact; pricing has remained fairly stable, although BBB issuers have seen a modest decline over the past year.
- Lender protections have eroded; 2014 has seen a trend toward fewer financial covenants for BBB-rated borrowers with more than half of the deals sporting just one covenant versus two or more in over half of the deals last year.

Leverage

- Leverage loan volume, which is expected to reach USD 600bn for the year and totalled USD 460 bn for the first nine months of 2014, is down 4% compared to the same period last year, with a 36% decrease in refinancing activity driving this decline.
- Despite the decline in overall volumes, M&A loan volume was up almost 60% accounting for 46% of total volume versus just 28% for the same period last year, and third-quarter 2014 M&A volume reached a post-Lehman bankruptcy high of USD 79.2 bn.
- Credit protections for lenders have steadily eroded over the year and leverage levels have continued to climb with average debt multiples for large corporate leveraged buyouts (LBOs) reaching 6.3x in Q3, a level not seen since the pre-crisis peak in 2007.
- Last year loan liquidity came from a fairly balanced mix of new CLOs and loan mutual funds. This year CLOs have dominated with issuance reaching an all-time high of over USD 100bn while loan mutual funds have seen steady outflows over the past two quarters. As a result, CLOs share of the new issue pie climbed to 68% in Q3 compared to 53% for 2013.
- Pricing has climbed since the beginning of the year as reflected in the increase in average yields on single B-rated credits from 4.89% in the first quarter of 2014 to 5.55% in Q3. This price increase is the result of two key drivers that are likely to persist through the end of the year. First, the technical picture has shifted from early in the year when demand outpaced new issue supply to a more balanced supply-demand equation over the past two quarters. Second, CLOs, which have pricing requirements higher than loan mutual funds, now represent the marginal dollar of demand for new loan supply.
- The growing acceptance of cov-lite loans has made loans an attractive alternative to high-yield (HY) bonds given its more issuer friendly prepayment flexibility and helps explain why second-lien loan volume has reached record levels of USD 33.9bn vs. USD 29.2bn for all of 2013, and compared to the previous full-year record of USD 30.1bn set in 2007.

Project finance & emerging

- North American project finance year-to-date volumes totalled USD 32.2bn through Q3 2014, up 31% from the same period in 2013.
- Mini-perm structures with tenors of 7 to 10 years are the norm, but banks are demonstrating an increasing willingness to commit to longer-dated deals.
- Drawn pricing continues to tighten and has broken through the L +175bp threshold for well-structured transactions.

- The pipeline of new deals includes some very large transactions in the liquefied natural gas (LNG), petrochemical and offshore wind space.
- The institutional investor universe continues to provide capital where banks are unwilling to play such as power projects with meaningful merchant exposure, although banks have shown an increasing willingness to take some merchant risk.
- Latin American syndicated loan volume totalled USD 17.5bn, up 24% from the same period last year. Significant bank liquidity is resulting in aggressive competition that has driven pricing downward.

APAC

Corporate

The 2014 Asia Pacific Corporate and Acquisitions loan volume is expected to record ca. USD 625bn, roughly in line with last year's level.

- Corporate and Acquisitions loans remain the key contributor to loan volume in APAC, representing ca. 84% of the total loan volume in the region. Japan will continue to top the league tables in Asia Pacific, in terms of volume share, followed by Australia, China, and Hong Kong. The increased share of the latter is partly driven by the significant volumes being raised by Mainland China corporates through their HK subsidiaries in order to tap cheaper offshore USD liquidity.
- Asia Pacific M&A volume is expected to reach ca. USD 50bn in 2014, in line with the 2013 level, supported by a healthy deal flow across sectors and geographies. Main M&A transactions have been the USD 5.7bn acquisition by Malaysian oil and gas company SapuraKencana of Newfield Exploration, the USD 4.95bn acquisition by OCBC of Hong Kong-based Wing Hang Bank, and the USD 4.8bn financing backing the carve-out of Power Assets Holdings from Hongkong Electric.
- In terms of corporate deals, the gaming sector has brought the two largest refinancings this year: the USD 4.4bn amend-and-extend for the Venetian casino in Macau and the SGD 5.1bn amend-and-extend for the Marina Bay Sands casino in Singapore.

Leverage

In 2014 the Asia Pacific leveraged finance market is expected to record a total volume of USD 9.5bn equiv., representing a ca. 5% YoY increase.

- Leveraged loan market volume has been led by Australia (31% share), while Mainland China/Hong Kong have emerged as the Number 2 source of deals (28% share), slightly ahead of Japan (26%).
- The benchmark 2014 Chinese leveraged buyouts has been the USD 850m Giant Interactive Group LBO, led by the main private shareholder of this computer games company and Baring Private Equity Partners.
- Deal flow in Australia has remained good, even if no jumbo deals have happened. The AUD 690m recapitalisation of software programme producer MYOB has been the largest transaction.

Project Finance

- The Asia Pacific project finance market has registered a strong decrease in 2014, and we are forecasting volume to decrease by almost 50% to ca. USD 45bn.
- One of the main reasons for the decrease has been the reduced volume coming from India (20%), where local banks (main lenders to this, largely, local currency market) have reached credit and concentration issues with some of the infrastructure and energy projects. China has remained quite resilient (again, with almost exclusively RMB denominated deals done by local banks), providing ca. 50% of the APAC volume. The third country in the list is Australia, with a 14% market share, mainly driven by the Roy Hill transaction, in the absence of meaningful LNG projects in 2014.
- The largest project financing transactions of 2014 were the USD 5.4bn financing for Roy Hill Holdings' iron ore mine in Australia and the RMB 16.6bn (ca. USD 2.7bn) financing for the development of two expressway projects in Jiangxi province, China.

2015 forecast

Western Europe

- Corporates pricing on investment-grade transactions is expected to reach a floor next year, as it is already down to historically low levels, but not to increase significantly, since banks forecast to remain quite liquid and hungry for assets. Hence, as most companies have already extended their maturities and locked in attractive margins, we expect refinancing volumes to drop next year. On the other hand, M&A activity is forecasted to remain vibrant, and should provide further supply in the form of event-driven financings.
- Leverage side, given the thin new-issue pipeline in Q4 2014, we expect the imbalance of supply and demand to be in favour of borrowers, which should sustain aggressive terms. At the same time, the intense competition between banks for mandates should allow borrowers to obtain concession on both structure and documentation. Nevertheless, we are observing a certain discipline from investors which are not willing to go much more aggressively. All in all, the European leverage volume is expected to continue growing in 2015 following the last two years' trends.
- Project Finance and Infrastructure liquidity will continue to outstrip demand, as public spending is likely to remain subdued. Pricing will continue to be under pressure, but the downward potential from 2014 levels remains limited in most markets, with the exception of Italy and Spain which have more ground to make up.

CEEMEA

- Save a significant improvement in the Russian market and a take-off of M&A in the GCC, we believe that loan volumes in CEEMEA will, at best, remain stable. Should sanctions be lifted, Russian corporates would immediately benefit from pent-up liquidity.
- Elsewhere in CEEMEA, we expect a similar trend in 2015 to 2014: abundant liquidity (including long term), banks increasingly creeping into new jurisdictions in order to quench their appetite and pricing compression, with 2015 having the potential to hit floors.
- We nevertheless expect the market to maintain a certain discipline in terms of structures for corporates while infrastructure and project finance are likely to continue to see a continued weakening of structures.

Americas

- The US is expected to see continued low default rates and modest GDP growth. However, recent factors that have created volatility in the broader capital markets, including concerns regarding a global economic slowdown, numerous geopolitical crises and the rapid decline in oil prices, have created a negative tone and volatility in the leverage loan market, which is reflected in increased pricing and a slowdown in new deal activity, and creates an uncertain outlook for this market moving into 2015.
- The emergence of rising interest-rate expectations, which is likely to put downward pressure on the fixed income markets, will be a mixed bag for the leverage loan market; in the near term, the loan market will likely move in sympathy with the broader capital markets, but rising interest rates should result in a flow of capital into loan mutual funds and ETFs attracting investors looking for short duration assets with yields that increase with rising interest rates. However, until interest rates move upward, CLOs are expected to remain the primary source of liquidity for new money deals.
- Increased enforcement of the Leverage Lending Guidelines by the US bank regulators is expected to cause underwriters to dial back on leverage levels and push the highest leverage deals into the unregulated shadow banking sector or high yield market.
- We expect liquidity from banks to remain strong for both Investment Grade loans and Project Finance/ Emerging loans, and we may well see continued price compression for Project Finance and Latin American deals.

APAC

- We are forecasting 2015 volume in APAC to grow by 10% to ca. USD 811bn, mainly due to the anticipated growth of markets such as Indonesia and India, as well as a likely recovery of volumes in Japan.
- Corporate and Acquisitions transactions will remain the key contributor to APAC loan volume in 2015. There is an expectation for two markets (Indonesia and India), which have just inaugurated new, pro-business, governments to increase their loan volume in 2015. M&A activity will continue to come mainly from China buying energy assets in the rest of the world, but we may also see some M&A business out of India, if in the second half of 2015, business confidence improves.
- The leveraged finance volumes will remain modest when compared to the rest of the world, but recent fund-raising exercises from private equity sponsors should make capital available, should the opportunities arise. Liquidity in the Asia Pacific leveraged finance market remains very much with bank investors as opposed to institutional ones, but the US Term Loan B market will remain an alternative to fund, especially the Australian transactions, with which it is more comfortable.
- On project finance, after falling in 2014 loan volumes are expected to increase in 2015. There remains a continued deficit in terms of electricity generation in South-East Asia and the new government in Indonesia may introduce reforms to facilitate land acquisition, and hence project financing. India also has a strong requirement for investment in infrastructure projects and the new government wants to reportedly favour the participation of foreign banks in local infrastructure projects. PPPs (Public Private Partnerships) and anticipated privatisation of state-owned assets should support a healthy volume in the Australian market.

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