Euro Sovereign Bond Markets Report

21 June 2013

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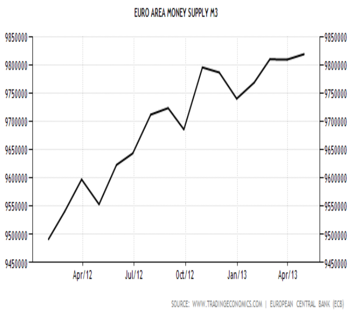
Euro Area money supply (M3)



Source: ECB, tradingeconomics.com

EZ inflation rate %

Source: Eurostat, tradingeconomics.com

Recent macroeconomic developments

- Sovereign bond prices declined this week due to the persistent uncertainty over the progress of reforms in the periphery, as well as over expectations of the Fed's monetary tightening that is expected from 2014.

- Euro area GDP fell by 0.66% in the fourth quarter of 2012 and by 0.2 in the first quarter of 2013. Output has declined for six consecutive quarters and unemployment, in particular youth unemployment is a major concern for EZ policy makers.

- According to the ECB's Governing Council, monetary policy shall remain accommodative "for as long as necessary", indicating that monetary easing may continue in 2014 given weaknesses in output and employment throughout the euro area.

- Annual HICP inflation in 2013 and 2014 is projected at 1.4% and 1.3% respectively, in line with the ECB's objective of 2%. However, risk of deflation in our opinion remains high and as a result the ECB may initiate monetary easing measures at a greater scale than expected by markets. Unless the ECB increases further velocity growth or money supply growth, deflation is not an impossible scenario.

- According to Eurostat, the number of persons employed decreased by 0.5% in the euro area and by 0.2% in the EU27 the first quarter of 2013 compared with the previous quarter. Compared with the same quarter of the previous year, employment fell by 1% in the euro area and by 0.4% in the EU27 in the first quarter of 2013.

- Given the persistence of the ECB's accommodative policy, we believe that long-term bond yields in the core euro area members (Germany, France, the Netherlands, Austria) will remain low at least for a year. As for the periphery, the willingness and capacity for banking and governmental reforms on behalf of high-yield sovereigns will be crucial factors that shall determine whether Ireland, Greece, Portugal and Spain may lower their bond yields and place a heavier emphasis on borrowing funds from bond markets, rather than from the EZ taxpayers.

- As for the bond yields in the euro zone, as shown on page 2 of this report, bond yields of all peripheral sovereign debt have increased over the last week (Irish, Greek, Portuguese, Spain and Italian 10 Year bonds).

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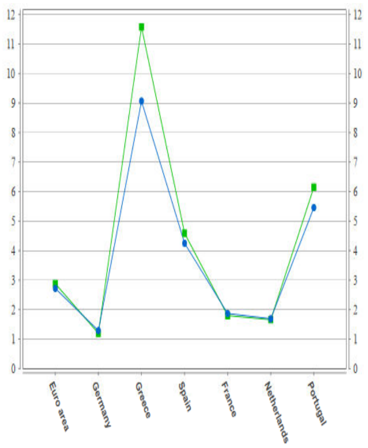
Long-term government bond yields, Apr. 2012 – May. 2013



Green: April, Blue: May
Source: Eurostat

Eurozone Bond Yields (21 Jun 2013)

Euro Bonds	5 Year	Weekly Change	10 Year	Weekly Change
Portugal	5.643	2.86%	6.424	1.60%
Greece	-	-	11.279	13.04%
Spain	3.693	7.73%	4.876	6.46%
Italy	3.53	8.98%	4.572	6.82%
France	1.249	28.10%	2.326	11%
Netherlands	1.074	29.55%	2.132	13.22%
Germany	0.791	44.34%	1.727	13.99%

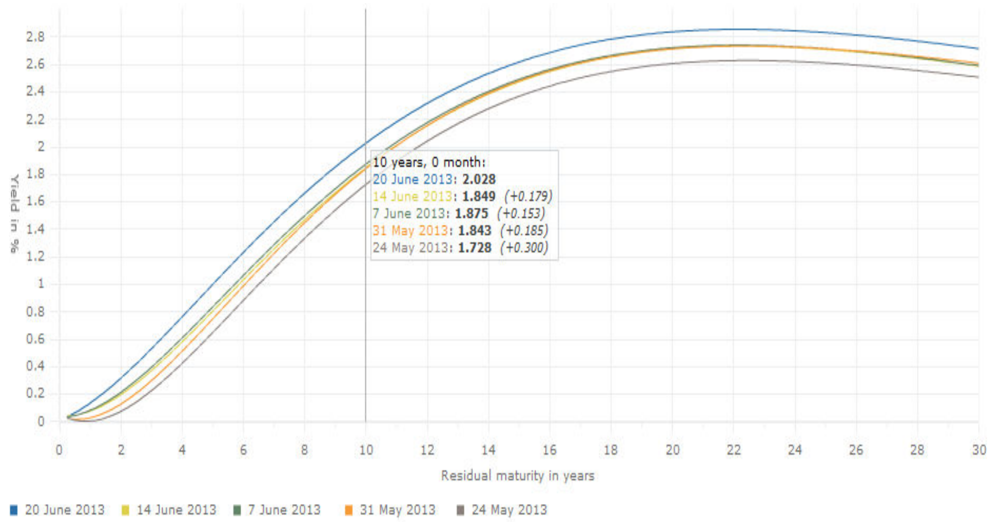
Source: Bloomberg, VRS Calculations.

Peripheral Eurozone Bond Yields (8,10Y maturities)

	Greece 10Y	Portugal 10Y	Ireland 8Y	Italy 10Y	Spain 10Y
06/21/2013	10.68	6.4	3.8	4.574	4.88
06/14/2013	9.93	6.3	3.54	4.28	4.58
06/07/2013	9.47	6.14	3.56	4.192	4.54
05/31/2013	9.39	5.61	3.26	4.162	4.436
05/24/2013	8.86	5.53	3.14	4.149	4.416
05/17/2013	8.29	5.24	3.02	3.905	4.207

Source: Bloomberg, VRS Calculations.

Yield Curve Movements of AAA Eurozone Debt



Source: ECB stats.

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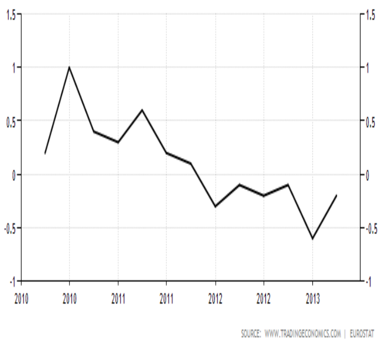
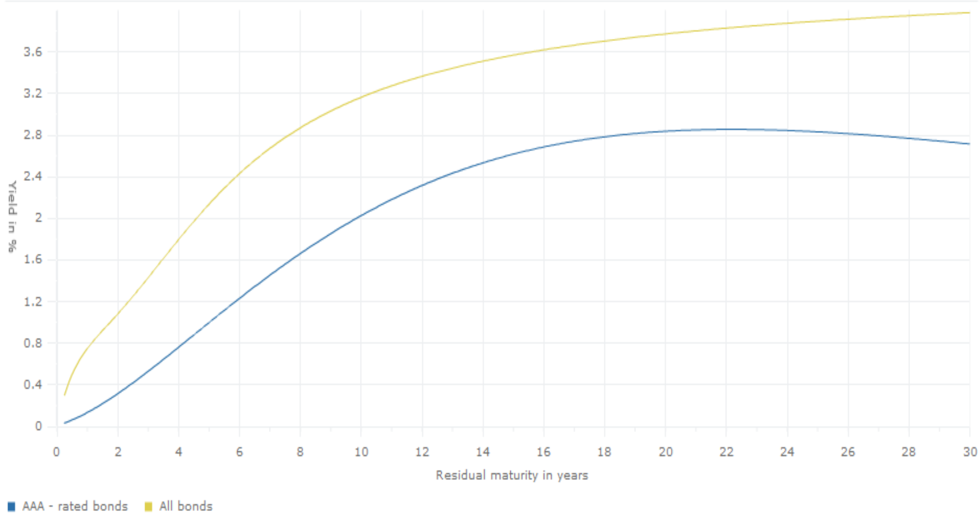
Annual Euro Area GDP Growth



Source: Tradingeconomics.com

Yield Curve of AAA vs. Total Eurozone Debt, 20 Jun 2013



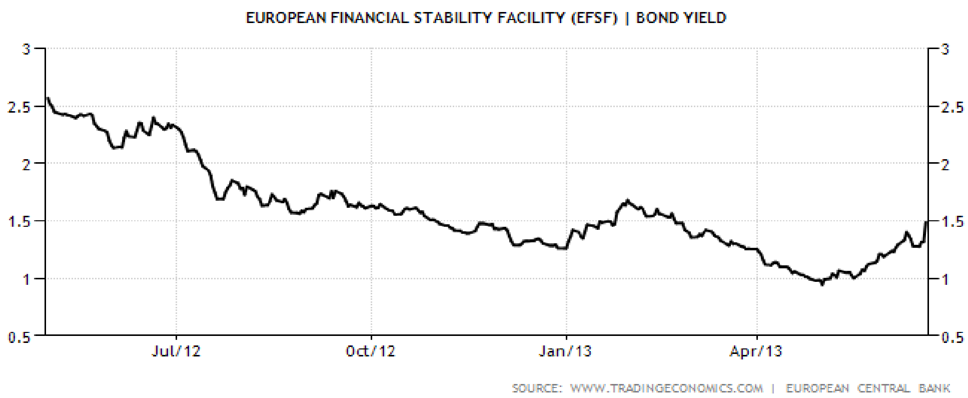
Source: ECB stats.

Central Bank Key Rates Throughout the World

Date	US Fed Funds Rate	Bank of England Official Bank Rate	Bank of Japan Call Rate	ECB Main Refinancing Rate	China 1Y Lending Rate
06/21/2013	0.09	0.5	0.1	0.5	6
06/14/2013	0.06	0.5	0.1	0.5	6
06/07/2013	0.09	0.5	0.1	0.5	6
05/31/2013	0.08	0.5	0.1	0.5	6
05/24/2013	0.09	0.5	0.1	0.5	6

Source: Central Banks' data.

EFSF 10 Year Bond Yields



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