

Euro-Area Financial Markets

January 2012

Currency

- The euro is very close to its long term average in real trade-weighted terms.
- EUR is not clearly above or below its long term averages against the other major currencies.
- Relative to six months ago, the euro is lower against all other major currencies except CHF.

90 Day Rates

- The Euribor futures curve has moved downwards during the past six months.
- The ECB's repo rate is priced to remain near the current 1.00% throughout the next twelve months.
- The German yield curve has become flatter than historical norms.

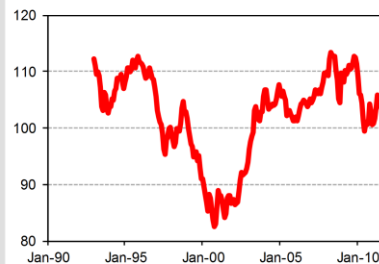
10 Year Yields

- Bund yields are very low compare with historical norms while yields in some euro-area countries are high.
- Bund yields have fallen in line with yields in other parts of the world so bond spreads have generally been stable.
- German bond spreads are not systematically different from their historical norms.

Equities

- Equities have declined sharply in recent months and have provided a total loss of more than -15% during the past year.
- Euro-area returns in the past year have been worse than other major markets.
- A cumulative loss of nearly -35% in the past five years is a lower tier performance compared with other major markets.

Real Trade-Weighted Index
(ECB index)

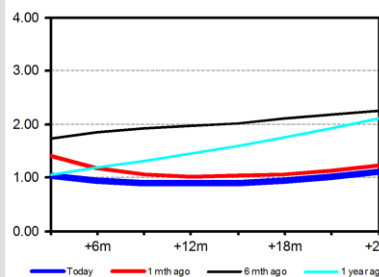


EUR: Now vs History

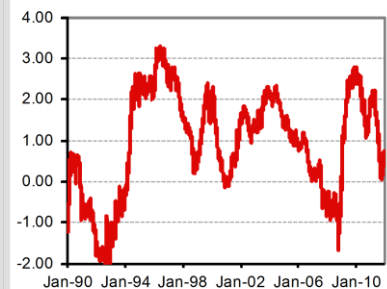
	Now	Average	Difference
USD	1.28	1.20	6%
JPY	98	137	-40%
STG	0.83	0.72	13%
CHF	1.21	1.60	-32%
SEK	8.81	8.89	-1%
NOK	7.65	8.14	-6%
CAD	1.30	1.54	-19%
AUD	0.81	0.60	-35%
NZD	0.62	0.50	-24%
TWI	104	103	1%

(average refers to 1990-2010)

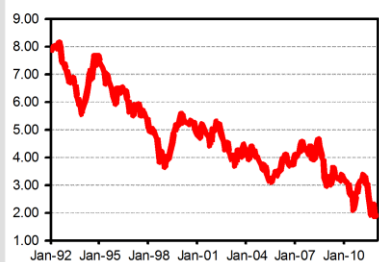
90 day future strips
(%)



Yield Curve
(10 year – 90 day)



German 10 year bond yields
(%)

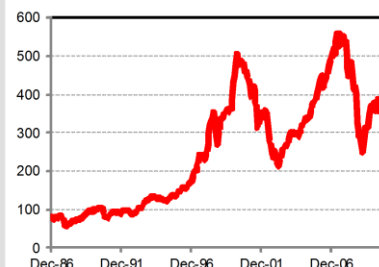


Bond Spreads: Now vs History

	Now	Average	Difference
USA	-0.09	-0.34	25bp
Japan	0.90	2.79	-189bp
UK	-0.20	-0.70	50bp
Swiss	1.19	1.53	-34bp
Swede	0.19	-0.55	74bp
Nor	-0.15	-0.74	59bp
Can	-0.10	-0.54	44bp
Aus	-2.03	-1.61	-42bp
NZ	-1.98	-1.89	-9bp

(average refers to 1995-2010)

Euro-area Equity Market
(Total return index)



Recent Equity Returns

	6m	1 year	5 years
US	-4%	2%	-1%
Euro	-18%	-17%	-34%
Japan	-13%	-17%	-52%
UK	-14%	-9%	5%
Swiss	-6%	-11%	-33%
Swede	-13%	-15%	-3%
Nor	-6%	-9%	-12%
Can	-10%	-11%	-7%
Aus	-6%	-9%	-5%
NZ	-4%	1%	-18%