

Morgan Stanley

# Interest Rate Setting and Political Uncertainty

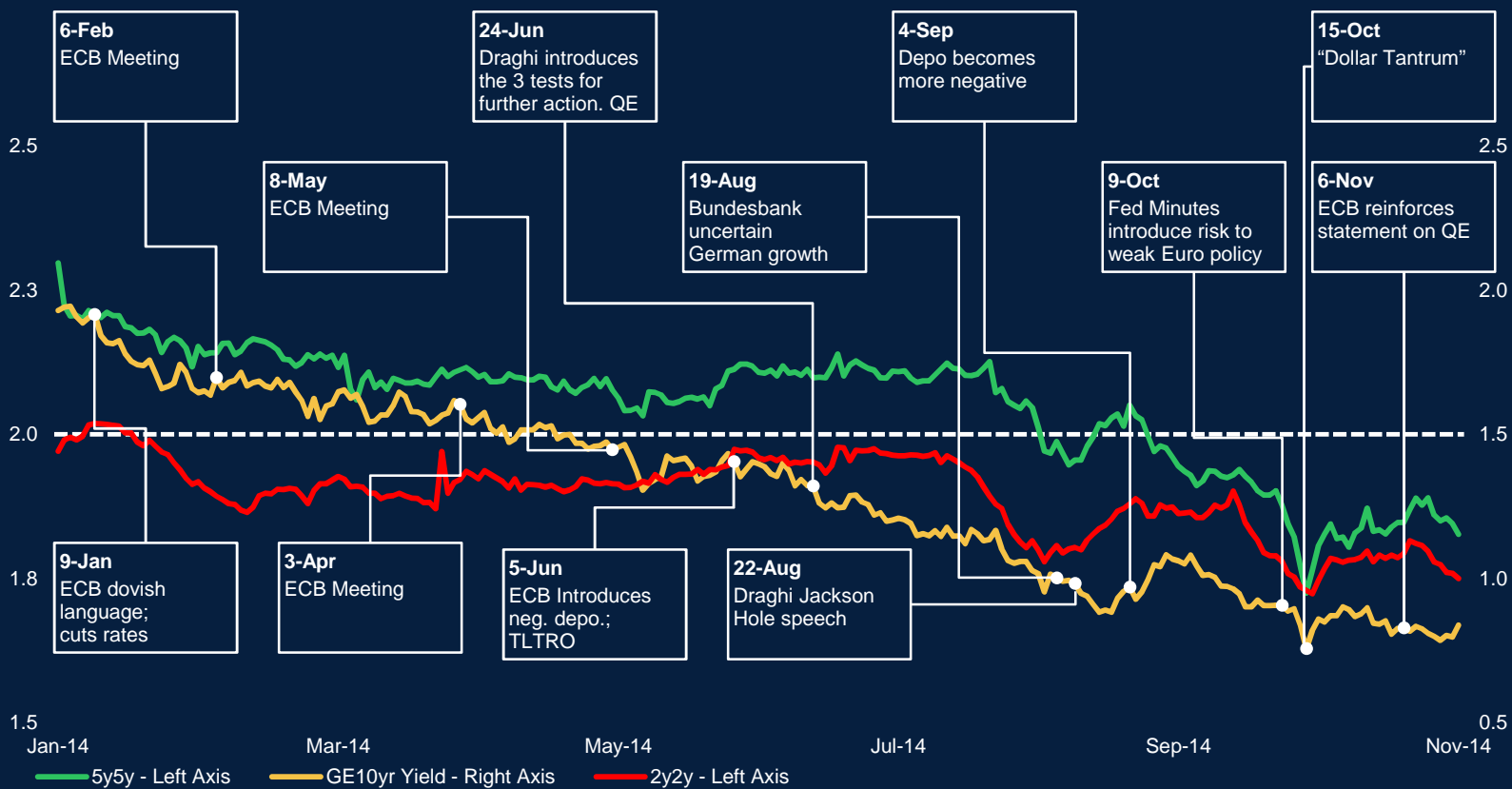
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December, 2014

# Risk Free Rate – How it normally Works

## GE 10 Year Yield vs 5y5y Inflation



# The Challenges of Market Dispersion

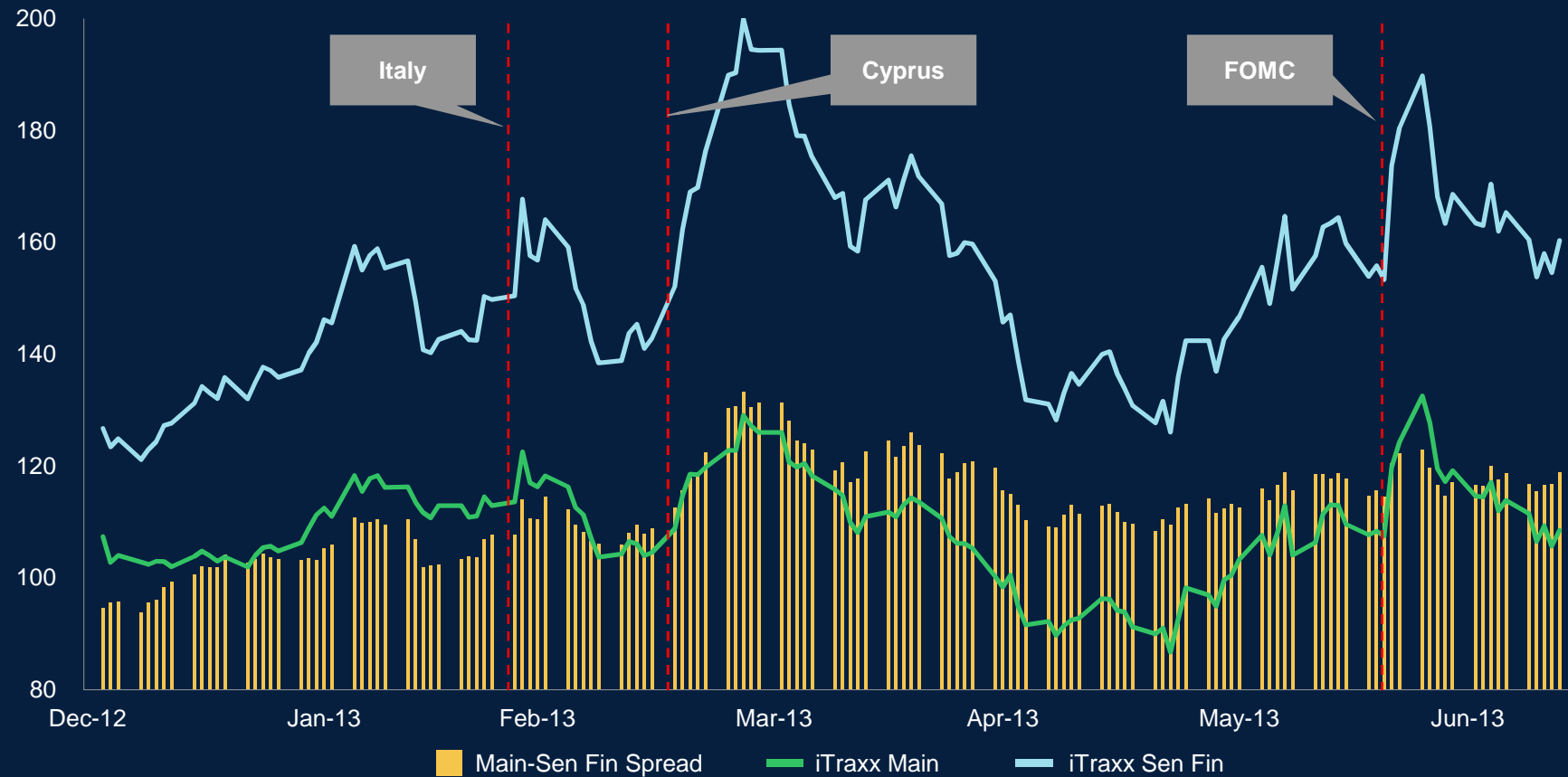
Spain, France and Italy 10-Year Spread to Bunds



# Banks and Impact of Political Uncertainty

iTraxx Main and Senior Financials

bps

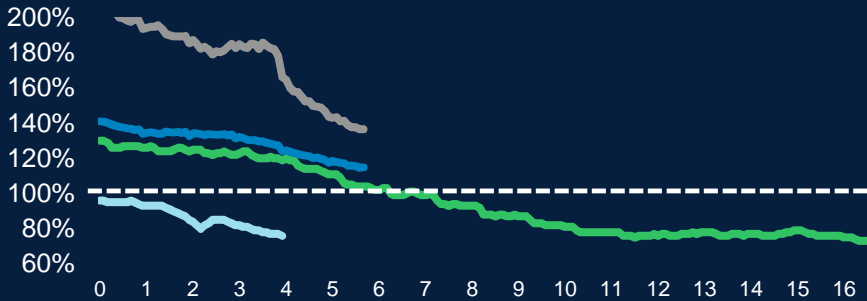


Source Bloomberg

# Impact on Capital Markets from Bank De-Leveraging

## Bank's Loan to Deposit Ratios Post Crises

Loan/Deposits (%)



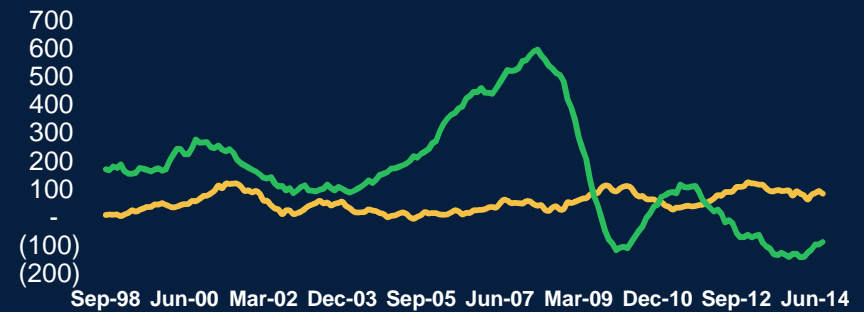
Time (years) following banking crisis

— Euro Area (Q1 09) — Japan (92) — US (Q4 08) — Spain (Q1 09)

Source: Morgan Stanley Research

## Euro Area Corporates T12M Net Issuance/Flow

€ Bn

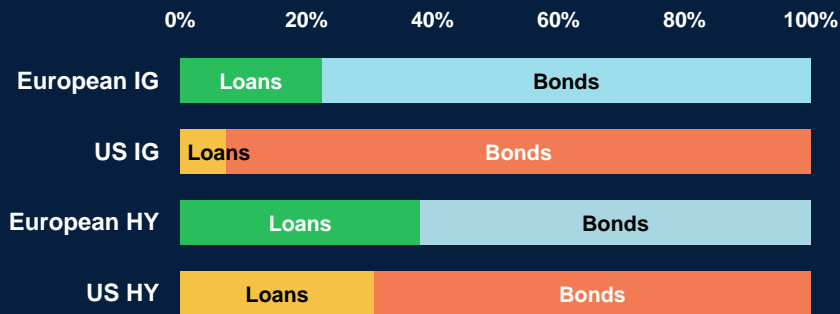


— Securities Other than Shares — Loans

Source: Morgan Stanley Research, ECB, Bloomberg, S&P, BAML Indices

## Corporate Debt Funding Mix

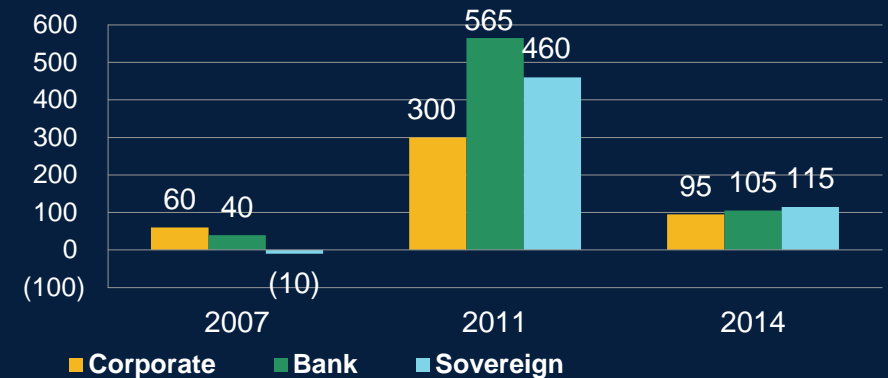
%



Source: Morgan Stanley Research, ECB, Bloomberg, S&P, BAML Indices

## Towards Normalisation

Spread to EUR mid-swaps (bps), Italy



■ Corporate ■ Bank ■ Sovereign

Source: Bloomberg; Enel and Intesa

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