Interesting entry levels for reflation trades:
we prefer BTP-Italia

- These are interesting times for euro-area linkers. The macro environment is not favorable: euro-area CPI moved back into negative territory in February, the ECB sharply lowered its inflation projections at its March meeting. However, a lot seems to be priced in already. We see light at the end of the tunnel.

- As oil prices have bounced back since mid-February, US and UK breakevens proved more reactive than those of the euro area. Cross-country gaps widened and euro area inflation expectations remained very close to historical lows. We think euro-area breakevens will move higher over the coming months: we like linkers in the 10Y to 15Y area of the curve, and consider the SPGBei Nov30, Bundei Apr30 and BTP Sep32 particularly attractive in breakeven (at around 95/100bp).

- BTP-Italia trade at cheap levels compared the nominal curve as well as compared to BTPeis. The Italian Treasury will launch a new 8Y BTP-i in early April. This is an interesting opportunity to buy into periphery exposure with a cheap (or at times free) option on inflation.

- We calculate holding period returns for BTP-i under different assumptions and factor in the impact of embedded options in our analysis. We think BTP-i Jun16 is a very good liquidity parking instrument, while at longer maturities we prefer BTP-i Nov17 and Apr20.

Elia Lattuga,
Fixed Income Strategist
(UniCredit Bank London)
+44 207 826-1642
elia.lattuga@unicredit.eu

Prices as of 29 March 2016 8:00

Bloomberg
UCGR, UCFR

Internet
www.research.unicredit.eu
Macro dynamics and EUR linkers

The macroeconomic environment is not favorable to linkers. However, a lot of negative news seems to be priced in at this stage, given the recent negative surprises and the ECB’s downward revision of inflation forecasts. We see light at the end of the tunnel.

Inflation figures for the euro zone have recently surprised on the downside. The headline declined to -0.2% in February, marking the lowest y-o-y change in a year. Core inflation inched down to 0.8%, below the 0.9-1.1% range that had prevailed since mid-2015. We attribute at least part of the slowdown in core prices to temporary factors. The performance of the overall economy, private consumption and wage growth does not appear consistent with core inflation having entered a renewed downward trend. We think core prices will hover at around 1% for the coming quarters, while headline will progressively close the gap with core inflation starting from this summer. At the March meeting, the ECB lowered its CPI projections sharply. The ECB expects inflation to average at 0.1% in 2016 (from 1%) and then rise to 1.3% in 2017 (from 1.6%) and 1.6% in 2018. The ECB attributes the revision mainly to developments in oil prices.

We think the ex-tobacco index will show a positive m-o-m trend over the next few months, also helped by seasonality, and approach a level of 100.5 by mid-year and 100.9 by year-end. We project a positive monthly dynamic of the Italian FOI, too, for the coming few months, with the index peaking in August at around 100.8 and moving sideways later in the year. Hence, carry is set to improve for both EU and IT inflation linked bonds over the coming months, but BTP Italians are unlikely to pay inflation compensation in the first half of the year. This comes as a result of the optionality features embedded in these bonds: the strike levels for inflation compensation are above currently projected short-term FOI levels.

Market based inflation expectations in the US, euro area and UK have been moving in sync for most of 2015, mirroring oil price developments. This was the main driver of the sharp cheapening of breakevens witnessed at the end of last year along the entire breakeven curve and across countries. That said, something has changed in the correlation between oil prices and breakevens over the past few weeks. In contrast to US and UK breakevens, euro area breakevens have only partly reacted to the rise in oil prices of the past month. The negative surprises in euro-area inflation figures mentioned above and the downward revision of the ECB’s inflation forecasts likely exerted some cheapening pressure on euro-area breakevens. This has widened cross-country gaps and kept euro-area inflation expectations very close to historical lows.

Source: Bloomberg, UniCredit Research
What are euro-area government breakevens and swap curves pricing in

Indeed, euro-area breakeven trade at extremely low levels. On the ZC inflation swap curve, the 10Y tenor matched historical lows of below 1% in early March and it is now trading almost 10bp higher. The 5Y is trading above 0.65%, just above recent lows while the 2Y has adjusted more sizably upward, rising above 0.40% (around 20bp higher than 2016 lows, with record lows of around 0%). The ECB’s favorite 5YSY breakeven has fallen back to 1.40-1.45%, after touching 1.50% following the ECB meeting, less than 10bp from record lows. The 2Y2Y is also currently trading at 0.74%, its lowest levels since January 2015 (when it touched 0.64%). EGB breakeven trade at cheaper levels compared to the swap curve. Breakeven at the long end (10Y) range between 90bp and 100bp. Like for the swap curve, this is ca. 15bp above early-March lows but still at the cheap end of the historical range.

The levels described above look attractive from an historical perspective, given our and the ECB’s medium-term inflation outlook and not least because of the ECB’s commitment to bringing inflation back to levels more consistent with its mandate. EGBs breakeven curves have flattened sizably over the past month. Moreover, the real yield curve is still rather steep up until the 12-15Y area, then it flattens out. We like euro-area linkers in the 10Y to 15Y area of the curve, and consider the SPGBei Nov30, Bundei Apr30 and BTP Sep32 particularly attractive in breakeven (around 95/100bp).

EURO AREA ZC SWAP INFLATION AND LINKERS (BREAKEVEN LEVELS)

CUMULATIVE CHANGES IN OIL PRICES AND BE OVER THE PAST YEAR

A closer look at BTP- Italia

If breakeven levels seem stretched on euro-area linkers, this is even more the case for BTP-Italia (BTP-i). Many of these bonds offer a real yield in line with the nominal curve and a cheap (at times free) option on realized inflation. A new BTP-i will be launched in early April that could open to very interesting entry levels also on the longer maturities, which are currently trading at less attractive levels than their shorter peers in breakeven. Note however that real yields and breakeven might be misleading in this case of BTP-i and a more careful analysis of the characteristics of these bonds is needed to assess their value.

Italian inflation

Italian (FOI) and euro area (EU HICP ex-Tobacco) inflation have followed very similar trends over the past two years, albeit with different seasonality patterns (less pronounced for the FOI). As mentioned in earlier paragraphs, we see Italian inflation returning towards 1% (yoy) over the next year from last February’s -0.2% and project a more marked acceleration of the index during the next six months.
A cheap asset class

BTP-i breakeven trade well below 1%. Most bonds trade with a breakeven in the 0-30bp area, with peaks in the 55bp range. Apr23 and the shortest bonds are the richest in breakeven, which leads to a U-shaped breakeven curve for BTP-Italy. The real yield curve on BTP-Italy is much steeper than the nominal (and the BTPei) curve up until 2020, before becoming relatively flat. BTP Italia Nov17 to Oct20 trade in line with the nominal curve (and so at nearly zero in breakeven), while the Apr23 offers a breakeven of nearly 55bp and virtually the same real yield as BTP-i Apr20 and Oct20. Given the shape of the BTP-i curve, Nov17, Apr20 and Oct20 are the most attractive bonds within this asset class, at least judging from real yield and breakeven levels. These results must be taken with a pinch of salt as they are affected by BTP-i embedded options and the way inflation compensation is accounted for. More on this below.

But not vs. swap

While being a relatively illiquid instrument, inflation swaps on Italian inflation are an important benchmark for BTP-i, not least because ASW positions on BTP-i have been a popular trade in the past. Such positions are less attractive at current levels and compared to EUR swap inflation. The spread between the EUR and IT swap inflation curves in the 5-10Y area is around the largest it has been for the last five years, with both curves trading close to historical lows. The breakeven of BTP-i Apr20 and Oct20 is roughly aligned to what is priced by Italian inflation swaps. All other bonds trade at richer breakeven levels. As noted in earlier paragraphs, BTPei trade at cheaper breakeven levels than the EUR inflation swap curve.

The risk perspective

BTP-i have been less exposed to market (BTP) swings than BTPei over the past six months, while they have reacted similarly to developments in oil prices. We think BTP-i might benefit as much as BTPei (and possibly more) if breakevens realign to the trend in oil prices, while additionally performing more effectively as a hedge in case of a rise in nominal yields.

---

REAL AND NOMINAL ITALIAN YIELDS

BTP ITALIA: BREAKEVEN LEVELS (VS. INTERPOLATED BTP CURVE)

SWAP INFLATION AND BTP-I BREAKEVEN

BTP-i and BTP-EI VS. NOMINAL YIELDS AND OIL PRICES (2023)

Source: Bloomberg, UniCredit Research
Due to the structure of BTP-i (and the potentially non-zero value of their embedded options), real yield and breakeven might be misleading when assessing their value. We looked at a broader set of variables including: 1. the gap to the next inflation compensation payment, 2. the holding-period inflation-free return, 3. the holding-period return inclusive of inflation compensation based on UniCredit research forecasts and 4. the value of the embedded options.

**BOX: Optionality features of BTP Italia**

BTP Italia are inflation-linked government bonds indexed to FOI inflation that, unlike other euro linkers, pay inflation compensation semi-annually together with the real coupon under certain conditions. The inflation compensation paid out is the inflation accrued since the previous coupon payment date (or since the launch of the bond for the first coupon). However, BTP Italia include a set of floor options on inflation that grants investors a minimum real coupon, so that inflation is paid out only if positive. Moreover, at each coupon payment date BTP Italia pay only inflation accrued in excess of previously paid inflation. The strike on inflation compensation is the highest FOI level recorded at all previous coupon payment dates (including the base index at launch).

Note that the index ratio of BTP Italia resets to 1 at each coupon payment date, but could be either higher or lower than 1 (and so the inflation accrual could be positive or negative) between these dates. This happens regardless of whether inflation compensation will be paid or not at the next coupon payment date. So, the index ratio is always computed with reference to the FOI level at the previous coupon payment date.

The recent downward trend in Italian inflation has pushed the FOI index below the level at earlier coupon payment dates for all outstanding BTP-i. This means that at least part of the future rise in the FOI will not accrue to BTP-i investors. The strikes for inflation compensation range from around 100.16 for the BTP-i Jun16 to around 100.35 for the BTP-i Oct16 and Apr17, this implies a rise of 0.2 to 0.8% from current levels before any inflation is paid. The table below reports the gap to the highest past FOI level (strike) for each BTP-i.

**Holding period return: two scenarios**

Cash prices might lead to some distortions in the calculation of the real yield for BTP-is. The total consideration of BTP-i includes an inflation accrual computed with respect to the previous coupon payment date, regardless of the floor and of the level of the strike on inflation compensation. Cash prices might vary to accommodate the value of this optionality, distorting the real yield of the bond. We simulate the holding-period return of BTP-is until maturity under two scenarios: 1. No inflation is paid until maturity (which mirrors the money market equivalent calculation) 2. The FOI follows our in-house forecasts. We take into account the overall consideration paid to acquire a BTP-i, including the coupon and inflation accruals, and factor-in the optionality in the inflation compensation. The results of these calculations are shown in the table below and reported in the following charts.

<table>
<thead>
<tr>
<th></th>
<th>Cash Price</th>
<th>Index Ratio</th>
<th>Outstanding</th>
<th>Real yield</th>
<th>Interp Nominal Yield (A)</th>
<th>BE</th>
<th>CPI Gap</th>
<th>HP return (Sc1) (B)</th>
<th>HP return (Sc2)</th>
<th>B-A (in bp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun16</td>
<td>100.625</td>
<td>0.99746</td>
<td>2</td>
<td>-1.26</td>
<td>-0.20</td>
<td>106</td>
<td>0.18%</td>
<td>0.14</td>
<td>0.14</td>
<td>34</td>
</tr>
<tr>
<td>Oct16</td>
<td>100.983</td>
<td>0.99495</td>
<td>18</td>
<td>-0.85</td>
<td>-0.07</td>
<td>78</td>
<td>0.78%</td>
<td>0.06</td>
<td>0.61</td>
<td>13</td>
</tr>
<tr>
<td>Apr17</td>
<td>101.947</td>
<td>0.99495</td>
<td>17</td>
<td>-0.46</td>
<td>-0.03</td>
<td>43</td>
<td>0.78%</td>
<td>0.03</td>
<td>0.32</td>
<td>6</td>
</tr>
<tr>
<td>Nov17</td>
<td>102.893</td>
<td>0.99571</td>
<td>22</td>
<td>-0.18</td>
<td>-0.01</td>
<td>17</td>
<td>0.55%</td>
<td>0.10</td>
<td>1.01</td>
<td>10</td>
</tr>
<tr>
<td>Apr20</td>
<td>103.788</td>
<td>0.99489</td>
<td>21</td>
<td>0.14</td>
<td>0.21</td>
<td>7</td>
<td>0.76%</td>
<td>0.27</td>
<td>1.35</td>
<td>6</td>
</tr>
<tr>
<td>Oct20</td>
<td>106.065</td>
<td>0.99465</td>
<td>8</td>
<td>0.08</td>
<td>0.30</td>
<td>21</td>
<td>0.81%</td>
<td>0.20</td>
<td>1.30</td>
<td>-9</td>
</tr>
<tr>
<td>Apr23</td>
<td>105.335</td>
<td>0.99507</td>
<td>9</td>
<td>0.29</td>
<td>0.81</td>
<td>52</td>
<td>0.63%</td>
<td>0.36</td>
<td>1.51</td>
<td>-45</td>
</tr>
</tbody>
</table>

Source: Bloomberg, UniCredit Research
Assuming that no inflation will be paid during the life of the bonds allows to gauge the value of inflation compensation. This is not a breakeven level strictly speaking, but can be interpreted in a similar way. This calculation clarifies that short dated BTP-i are not nearly as rich as the simple observation of real yields would suggest. The high cash price (low real yield) offsets a negative inflation compensation. So when matching the overall cost incurred to purchase a BTP-i, including the accruals, with future cash flows, a significantly higher return is obtained. Holding period (HP) returns are actually higher for all BTP-is (except Oct20 and Apr23) than the nominal yield of maturity-matched BTPs. Note that the longer the BTP-i, the more conservative the assumption that no inflation will be ever paid out over the life of these bonds.

This, in part, explains the relative richness of BTP-i Oct20 and Apr23 vs. BTPs on this metric. More insight into this issue is obtained by accounting for some inflation compensation over the coming years. We feed our in-house inflation forecasts into the above HP return calculation, assuming that inflation stabilizes at the end of the forecast horizon (about 1.3% yoy beyond December 2017). This widens the gap between BTP-i and nominal BTPs sharply. HP returns range from over 30bp to 115bp above nominal yields. BTP-i Nov17 and Apr20 appear particularly cheap on this metric.

The chart on the right plots BTP-i HP return under the first scenario along with the gap to be covered in percentage terms before any additional inflation compensation is paid out. The size of the bubbles is a function of the value of BTP-i embedded options for the investor. At the short end, BTP-i Jun16 seems the best option. At longer maturities, we would prefer Nov17 and Apr20. This finding holds broadly when mapping against HP return computed under the second scenario.

### REAL AND NOMINAL ITALIAN YIELDS TOGETHER WITH HP RETURNS

<table>
<thead>
<tr>
<th></th>
<th>0.00%</th>
<th>0.10%</th>
<th>0.20%</th>
<th>0.30%</th>
<th>0.40%</th>
<th>0.50%</th>
<th>0.60%</th>
<th>0.70%</th>
<th>0.80%</th>
<th>0.90%</th>
<th>1.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### BTP ITALIA VS. THREE METRICS

- **HP return - No inflation**
- **Nominal yield**
- **Real Yld**
- **HPR (Sc1)**
- **HPR (Sc2)**

**BOX: A new BTP Italia in the pipeline**

A new BTP-i is in the pipeline. The Italian Treasury will announce the guaranteed minimum annual real rate on the new bond on 1 April. The placement will start on 4 April and be restricted to retail investors for the first three days. Orders in this phase will be filled in full. On 6 April, the placement will be opened to institutional investors. The Treasury might decide to cap the total amount sold and activate an allotment procedure to fill bids collected in the second phase. The new BTP-i will have an eight-year maturity and be indexed like previous BTP-i to FOI inflation.

*continued*
The first issued BTP-i will mature on March 26 (EUR 7.3bn). After that date, EUR 97bn in BTP-i will be outstanding. BTP-i make up for a sizable share of the Italian and euro-area inflation-linked bond market. Italy is the largest issuer of linkers in the eurozone and BTP-i make up for 20% of the linkers market in the euro area. Recently issued bonds have an outstanding of EUR 7.5-10bn, which is a sensible target for the new issue, too.

Interest in BTP-is from institutional investors has been quite high in the past and the current placement procedure is the result of some fine tuning designed to improve the Italian Treasury’s control of the total size of the issue while accommodating retail demand in full.

EURO AREA LINKERS: OUTSTANDING AMOUNTS

<table>
<thead>
<tr>
<th>Country</th>
<th>Outstanding EGB ILBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>IT-i, 142, 27%</td>
</tr>
<tr>
<td>FR</td>
<td>FR-i, 104, 20%</td>
</tr>
<tr>
<td>GE</td>
<td>GE-i, 79, 15%</td>
</tr>
<tr>
<td>SP</td>
<td>SP-i, 22, 4%</td>
</tr>
</tbody>
</table>

Retail investors were allotted around 60% of the total of the last two BTP-i placements. Foreign investors were allotted 2% and 5% of the BTP-i Oct20 and Apr23, respectively.

The announcement of a new BTP-i was widely anticipated by the Italian Treasury funding plan. Still, supply might lead to some cheapening pressure on outstanding lines as investors make room for the new bond. This has often happened at BTP-i placements, but the concession has been less pronounced lately. Before the launch of the BTP-i Oct20, the closest outstanding lines (Nov17 and Apr20) started to cheapen in BE and in real yield. The two bonds managed to recover all of the lost territory over time. The performance of the market as a whole in the days following the minimum coupon announcement is clearly a strong driver of demand for the bond being issued vs. its neighbors. Supply pressure was less pronounced during the launch of the BTP-i Apr23. The BTP-i Oct20 and Apr20 cheapened in BE as expectation of a new BTP-i rose, but managed to hold up quite well during the placement. This is also a consequence of a better knowledge of BTP-is and a better anticipation of supply trends by market participants.
The charts display the performance of the two closest BTP-i (in maturity) when a new line is launched:
BTP-i Nov17 and Apr20 for the Oct20, BTP-i Apr20 and Oct20 for the BTP-i Apr23, BTP Oct20 and Apr23 for the new line.

Source: Bloomberg, UniCredit Research
Legal Notices

Glossary
A comprehensive glossary of many of the terms used in the report is available on our website: Link

Disclaimer
Our recommendations are based on information obtained from, or are based upon public information sources that we consider to be reliable but for the completeness and accuracy of which we assume no liability. All estimates and opinions included in the report represent the independent judgment of the analysts as of the date of the issue. This report may contain links to websites of third parties, the content of which is not controlled by UniCredit Bank. No liability is assumed for the content of these third-party websites. We reserve the right to modify the views expressed herein at any time without notice. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice. This analysis is for information purposes only and (i) does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any financial, money market or investment instrument or any security, (ii) is neither intended as such an offer for sale or subscription of or solicitation of an offer to buy or subscribe for any financial, money market or investment instrument or any security nor (iii) as an advertisement thereof. The investment possibilities discussed in this report may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. The investments discussed may fluctuate in price or value. Investors may get back less than they invested. Changes in rates of exchange may have an adverse effect on the value of investments. Furthermore, past performance is not necessarily indicative of future results. In particular, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety.

This information is given without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual advice. Investors must make their own determination of the appropriateness of an investment in any instruments referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. As this document does not qualify as an investment recommendation or as a direct investment recommendation, neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever. Investors are urged to contact their bank's investment advisor for individual explanations and advice.

Neither UniCredit Bank, UniCredit Bank London, UniCredit Bank Milan, UniCredit Bulbank, Zagrebčka banka, UniCredit Bank Czech Republic and Slovakia, Bank Pekao, UniCredit Russia, UniCredit Bank Romania nor any of their respective directors, officers or employees nor any other person accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This analysis is being distributed by the bank in question or by one of its subsidiaries and is intended to make their investment decision making under undue reliance on this publication, and may not be redistributed, reproduced or published in whole or in part for any purpose.

Responsibility for the content of this publication lies with: UniCredit Group and its subsidiaries are subject to regulation by the European Central Bank

Regulatory authority: Polish Financial Supervision Authority, Plac Pogórze, 53/55, PL-133200 Warszawa, Poland

Responsibility for the content of this publication lies with: UniCredit Group and its subsidiaries are subject to regulation by the European Central Bank

a) UniCredit Bank AG (UniCredit Bank), Am Tucherpark 16, 80538 Munich, Germany, (also responsible for the distribution pursuant to §34b WpHG). The company belongs to UniCredit Group. Regulatory authority: ‘BaFin’ – Bundesanstalt für Finanzdienstleistungsaufsicht, Lugeiafel 12, 60439 Frankfurt, Germany.
b) UniCredit Bank AG London Branch (UniCredit Bank London), Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom. Regulatory authority: ‘BaFin’ – Bundesanstalt für Finanzdienstleistungsaufsicht, Lugeiafel 12, 60439 Frankfurt, Germany and subject to limited regulation by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 9SH, United Kingdom and Prudential Regulation Authority 20 Moorgate, London, EC2R 6DA, United Kingdom. Further details regarding the regulatory status are available on request.
c) UniCredit Bank AG Milan Branch (UniCredit Bank Milan), Piazza Gae Aulenti, 4 - Torre C, 20154 Milan, Italy, duly authorized by the Bank of Italy to provide investment services. Regulatory authority: ‘Bank of Italy’, Via Nazionale 91, 00184 Roma, Italy and Bundesanstalt für Finanzdienstleistungsaufsicht, Lugeiafel 12, 60439 Frankfurt, Germany.
d) UniCredit Bulbank, Sveta Nedelja Sq. 7, BG-1000 Sofia, Bulgaria

Regulatory authority: Financial Supervision Commission (FSC), 33 Shar Planina str.,1303 Sofia, Bulgaria

e) Zagrebačka banka d.d., Trg bana Jelačića 10, HR-10000 Zagreb, Croatia

Regulatory authority: Croatian Agency for Supervision of Financial Services, Miramarica 24B, 10000 Zagreb, Croatia

f) UniCredit Bank Czech Republic and Slovakia, Na Prikope 585/20, CZ-11121 Prague, Czech Republic

Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic

g) Bank Pekao, ul. Grzybowska 53/57, PL-00-950 Warszawa, Poland

Regulatory authority: Polish Financial Supervision Authority, Plac Powstańców Warszawy 1, 00-950 Warsaw, Poland

h) ZAO UniCredit Bank Russia (UniCredit Russia), Prechistenkaya emb. 9, RF-105034 Moscow, Russia

Regulatory authority: Russia: Rosbank (Regulatory Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

i) UniCredit Bank Czech Republic and Slovakia, Slovakka Branch, Šancova 1/A, SK-813 33 Bratislava, Slovakia

j) UniCredit Bank Romania, Bureaunet 1F Expozitiei Boulevard, RO-01201 Bucharest 1, Romania

i) UniCredit Bank Romania, Bureaunet 1F Expozitiei Boulevard, RO-01201 Bucharest 1, Romania

j) UniCredit Bank Romania, Bureaunet 1F Expozitiei Boulevard, RO-01201 Bucharest 1, Romania

k) UniCredit Bank AG Hong Kong Branch (UniCredit Hong Kong), 25/F Man Yee Building, 68 Des Voeux Road Central, Hong Kong

l) UniCredit Bank AG Singapore Branch (UniCredit Bank Singapore), Prudential Tower, 30 Cecil Street, #25 -01, Singapore 049712

m) UniCredit Bank AG Tokyo Branch (UniCredit Tokyo), Otemachi 1st Square East Tower 18F, 1-5-1 Otemachi, Chiyoda-ku, 100-0043 Tokyo, Japan

n) UniCredit Bank New York (UniCredit Bank NY), 150 East 42nd Street, New York, NY 10017

O N T E T I C K I N E C O N F R C C H O N T I T E R I C S

POTENTIAL CONFLICTS OF INTEREST

UniCredit Bank AG acts as a Specialist or Primary Dealer in government bonds issued by the Italian, Portuguese and Greek Treasury. Main tasks of the Specialist are to participate with continuity and efficiency to the governments' securities auctions, to contribute to the efficiency of the secondary market through market making activity and quoting requirements and to contribute to the debt issuance policy choices, also through advisory and research activities.

ANALYST DECLARATION

The author's remuneration has not been, and will not be, geared to the recommendations or views expressed in this study, neither directly nor indirectly.

ORGANIZATIONAL AND ADMINISTRATIVE ARRANGEMENTS TO AVOID AND PREVENT CONFLICTS OF INTEREST

To prevent or remedy conflicts of interest, UniCredit Bank, UniCredit Bank London, UniCredit Bank Milan, UniCredit Bulbank, Zagrebčka banka, UniCredit Bank Czech Republic and Slovakia, Bank Pekao, UniCredit Russia, UniCredit Bank Romania, and another. In particular, Investment Banking units, including corporate finance, capital market activities, financial advisory and other capital raising activities, are segregated by physical and non-physical boundaries from Markets Units, as well as the research department. In the case of equities execution by UniCredit Bank AG Milan Branch, other than as a matter of client facilitation or delta hedging of OTC and listed derivative positions, there is no proprietary trading. Disclosure of publicly available conflicts of interest and other material interests is made in the research. Analysts are supervised and managed on a day-to-day basis by line managers who do not have responsibility for Investment Banking activities, including corporate finance activities, or other activities other than the sale of securities to clients.
ADDITIONAL REQUIRED DISCLOSURES UNDER THE LAWS AND REGULATIONS OF JURISDICTIONS INDICATED

You will find a list of further additional required disclosures under the laws and regulations of the jurisdictions indicated on our website www.cib-unicredit.com/research-disclaimer.

Notice to Austrian investors: This analysis is only for distribution to professional clients (Professionelle Kunden) as defined in article 58 of the Securities Supervision Act.

Notice to investors in Bosnia and Herzegovina: This report is intended only for clients of UniCredit in Bosnia and Herzegovina who are institutional investors (institucionalnim investitorom) in accordance with Article 2 of the Law on Securities Market of the Federation of Bosnia and Herzegovina and Article 2 of the Law on Securities Markets of the Republic of Srpska, respectively, and may not be used by or distributed to any other person. This document does not constitute or form part of any offer for sale or subscription for or solicitation of any offer to buy or subscribe for any securities and neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever.

Notice to Brazilian investors: The individual or firm responsible for issuing this report represents that: (a) the recommendations herein reflect exclusively the personal views of the analysts and have been prepared in an independent manner, including in relation to UniCredit Group; and (b) except for the potential conflicts of interest listed under the heading “Potential Conflicts of Interest” above, the analysts are not in a position that may impact on the impartiality of this report or that may constitute a conflict of interest, including but not limited to the following: (i) the analysts do not have a relationship of any nature with any person who works for any of the companies that are the object of this report; (ii) the analysts and their respective spouses or partners do not hold, either directly or indirectly, on their behalf or for the account of third parties, securities issued by any of the companies that are the object of this report; (iii) the analysts and their respective spouses or partners are not involved, directly or indirectly, in the acquisition, sale and/or trading in the market of the securities issued by any of the companies that are the object of this report; (iv) the analysts and their respective spouses or partners do not have any financial interest in the companies that are the object of this report; and (v) the compensation of the analysts is not, directly or indirectly, affected by UniCredit’s revenues arising out of its businesses and financial transactions. UniCredit represents that: except for the potential conflicts of interest listed under the heading “Potential Conflicts of Interest” above, UniCredit, its controlled companies, controlling companies or companies under common control (the “UniCredit Group”) are not in a condition that may impact on the impartiality of this report or that may constitute a conflict of interest, including but not limited to the following: (i) the UniCredit Group does not hold material equity interests in the companies that are the object of this report; (ii) the companies that are the object of this report do not hold material equity interests in the UniCredit Group; (iii) the UniCredit Group does not have material financial or commercial interests in the companies or the securities that are the object of this report; (iv) the UniCredit Group is not involved in the acquisition, sale and/or trading of the securities that are the object of this report; and (v) the UniCredit Group does not receive compensation for services rendered to the companies that are the object of this report or to any related parties of such companies.

Notice to Canadian investors: This communication has been prepared by UniCredit Bank AG, which does not have a registered business presence in Canada. This communication is a general discussion of the merits and risks of a security or securities only, and is not in any way meant to be tailored to the needs and circumstances of any recipient. The contents of this communication are for information purposes only, therefore should not be construed as advice and do not constitute an offer to sell, nor a solicitation to buy any securities.

Notice to Cyprus investors: This document is directed only at clients of UniCredit Bank who are persons falling within the Second Appendix (Section 2, Professional Clients) of the law for the Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and other Related Matters, Law 144(I)(2007) and persons to whom it may otherwise lawfully be communicated who possess the experience, knowledge and expertise to make their own investment decisions and properly assess the risks that they incur (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on by persons who are not relevant persons or relevant persons who have requested to be treated as retail clients. Any investment or investment activity to which this communication related is available only to relevant persons and will be engaged in only with relevant persons. This document does not constitute an offer or solicitation to any person to whom it is unlawful to make such an offer or solicitation.

Notice to investors in Ivory Coast: The information contained in the present report have been obtained by UniCredit Bank AG from sources believed to be reliable, however, no express or implied representation or warranty is made by Unicredit Bank AG or any other person as to the completeness or accuracy of such information. All opinions and estimates contained in the present report are the independent judgment of UniCredit Bank AG as of the date of the present report and are subject to change without notice. They are provided in good faith but without assuming legal responsibility. This report is not an offer to sell or solicitation of an offer to buy or invest in securities. Past performance is not an indicator of future performance and future returns cannot be guaranteed, and there is a risk of loss of the initial capital invested. No material contained in this document may be reproduced, distributed or disclosed to third parties for any purpose.

Notice to New Zealand investors: This report is intended for distribution only to persons who are “wholesale clients” within the meaning of the Financial Advisers Act 2008 (“FAA”) and by receiving this report you represent and agree that (i) you are a “wholesale client” under the FAA (ii) you will not distribute this report to any other person, including (in particular) any person who is not a “wholesale client” under the FAA. This report does not constitute or form part of, in relation to any of the securities or products covered by this report, (either (i) an offer of securities for subscription or sale under the Securities Act 1978 or (ii) an offer of financial products for issue or sale under the Financial Markets Conduct Act 2013.

Notice to Ommani investors: This communication has been prepared by UniCredit Bank AG. UniCredit Bank AG does not have a registered business presence in Oman and does not undertake banking business or provide financial services in Oman and no advice in relation to, or subscription for, any securities, products or financial services may or will be consummated within Oman. The contents of this communication are for the information purposes of sophisticated clients, who are aware of the risks associated with investments in foreign securities and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). This communication has not been approved by and UniCredit Bank AG is not regulated by either the Central Bank of Oman or Oman’s Capital Market Authority.

Notice to Pakistani investors: Investment information, comments and recommendations stated herein are not within the scope of investment advisory activities as defined in sub-section I, Section 2 of the Securities and Exchange Ordinance, 1969 of Pakistan. Investment advisory services are provided in accordance with a contract of engagement on investment advisory services concluded with brokerage houses, portfolio management companies, non-deposit banks and the clients. The distribution of this report is intended only for informational purposes for the use of professional investors and the information and opinions contained herein, or any part of it shall not form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever.

Notice to Polish investors: This document is intended solely for professional clients as defined in Art. 3.39b of the Trading in Financial Instruments Act of 29 July 2005 (as amended). The publisher and distributor of the document certifies that it has acted with due care and diligence in preparing it, however, assumes no liability for its completeness and accuracy. This document is not an advertisement. It should not be used in substitution for the exercise of independent judgment.

Notice to Serbian investors: This analysis is only for distribution to professional clients (profesionalni klijenti) as defined in article 172 of the Law on Capital Markets.

Notice to UK investors: This communication is directed only at clients of UniCredit Bank who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as ‘relevant persons’). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

UniCredit Research
29 March 2016
Economics & FI/FX Research
FI Special