15 March 2018

ARBAT CAPITAL

BANKING SECTOR REPORT – FEBRUARY 2018

EXECUTIVE SUMMARY

US banks were sold off in February after they had demonstrated the most impressive start of the year since 2010. In February US banks decreased by 2.3% MoM vs -3.9% of SPX index. But banks added +5.6% YTD significantly outperforming S&P 500 which increased only by +1.5% YTD. Banks were outperforming SPX index for the past 4 months in a row. Nevertheless, it should be noted that the correlation between January performance and full year one isn't very high, around 0.3. Absolute February performance on MoM basis was -0.5 StD from the mean performance and it is in the bottom 27% absolute monthly performance of BKX Index. In turn, relative February performance vs SPX index was +1.7% MoM in absolute terms, it is +0.4 StD from the mean and this result is in the top 32% of relative performance of BKX index vs SPX.

Correction was broad based with just 8 out of 34 banks of BKX index demonstrated positive performance. The key laggard was WFC which decreased by 11.2% MoM because of the Fed consent order related to the legacy issues which implied asset cap, third party review of the new oversight practices and replacement of four board members.

On 1 February the Federal Reserve Board released the scenarios banks and supervisors will use for the 2018 Comprehensive Capital Analysis and Review and Dodd-Frank Act stress test exercises. Bank reacted positively on it on the day of publication but then we saw flash crash on the whole US stock market. “Capital plans should be submitted to the Fed no later than April 5, 2018”. Stress test scenarios are tougher than 1 year ago with more severe recession, greater price shock for both stock market and real estate market, steeper curve and greater decline of ST rates but less severe decline in European economies. Also, it should be noted that the Fed included in the test impact of tax reform which is negative for majority of banks because of DTA write-downs (write-ups for some banks) and lower tax rate on losses in stress scenarios. Dividend cap was left unchanged at 30% despite expectations that it could be removed or at least revised up. The regulator reduced supporting documentation and slightly streamlined the CCAR process but, from our point of view, it is small positive given the optimism about deregulation and still no growth of SIFI buffer. We expect that payout ratios will markedly increase among US banks vs CCAR 2017 due to still high level of excess capital, solid profit generation and gradual deregulation.

After the Fed left federal funds rate unchanged on the January meeting, the market's attention was focused on the FOMC minutes and Powell's testimony which should help to see how justified was skyrocketing growth of treasury yields in the recent months. Both events were hawkish, from our point of view, so yields continued to go up – 10yr yield increased by 15.6 bps MoM in February or +45.5 bps YTD. The minutes of the January meeting pointed to more optimistic view on the labor market and the economy growth. The same view was disclosed by Jerome Powell which said that his personal outlook for the economy has strengthened since December. He also noted that some of the headwinds which US economy faced early have turned to tailwinds. Participants of FOMC committee noted “accommodative financial conditions, the recently enacted tax legislation, and an improved global economic outlook as factors likely to support economic growth over coming quarters”. As it was expected after more hawkish wording during the last meeting, the main discussion was focused on the inflation and the inflation outlook was more optimistic with staff expectations of notably faster core PCE

growth vs faster one in December and majority of members expected that inflation will rise to 2% in medium term. The next Fed meeting was expected to hold only on March 21 and the probability of the rate hike on the March meeting remained at 100% while probabilities of the hikes in 2nd, 3rd and 4th quarters also increased recently.

The January 2017 Senior Loan Officer Opinion Survey confirmed earlier emerging trends. C&I lending standards were modestly eased to large and middle-market firms over the past three months (the fourth consecutive quarters of easing), while standards for small firms were basically unchanged after 3 quarters in a row of easing standards. Banks continue to tighten standards for CRE loans for the tenth quarter in a row. Standards for all categories of consumer loans were basically unchanged, but standards for auto and credit cards were tightened again (the third consecutive quarter of tightening in credit cards and seven quarters in a row for auto loans). Overall, macro data remains very strong with positive surprises for majority of indicators, but loan growth continues to be anemic.

From our point of view, it is highly likely that US banks will continue to outperform broad market in 2018 due to net positive effect of the tax reform, higher rates, potential growth of total payout ratios during CCAR and continuation of the deregulation process. Multipliers don't look cheap but relative to S&P 500 index banks don't also look expensive. We expect that credit quality will remain strong (except for some consumer areas) while loan growth rate will accelerate due to faster growth of the economy and pick-up in CAPEX. Overall, operating results of US banks remain robust with very healthy both revenue and net income growth trends. Our top peaks remain Bank of America (BAC), JP Morgan Chase (JPM), Morgan Stanley (MS), Comerica (CMA) and Zions Bancorporation (ZION).

In February, EU banks significantly decreased after strong start of the year. They decreased by 3.7% MoM vs -4.0% of STOXX 600 Index. In late January EU banks finally went from the narrow sideway channel up, in which it was trading for more than 8 months (175-191 pts on the SX7P index), but after that the growth of index didn't accelerate and they quickly went back into the channel. Absolute February performance of SX7P was -0.6 std from the mean and this result is in the bottom 20% of absolute monthly performance of SX7P since the index inception. Despite the decline, it outperformed the broad market index by 0.3% and it is in the top 41% of relative monthly performance vs STOXX 600 (+0.1 std).

Dynamics within the sector was mainly driven by quarterly results. The leader of the sector in February was Barclays which added 6.8% MoM due to higher divided guidance despite it missed on some operating lines. The key laggard were Deutsche Bank and Sabadell which missed the estimates and both decreased by around 10% MoM.

Eurozone continues demonstrate strong GDP growth while risks for EU economy remain broadly balanced, including recent growth of currency and FX volatility. Eurozone GDP increased by 2.7% yoy in 4Q17 vs +2.8% yoy in 3Q17 and +1.9% yoy in 4Q16. Recent macro indicators confirm strong momentum in European economy with ongoing growth of PMI, better than estimates industrial production and further improvement of EU consumer health with continued solid growth of consumer spending and employment. Economic sentiment is improving further after the ECB meeting in December, reflecting more positive expectations for growth of EU economy.

EU yields markedly increased in the recent months and the yield curve continues to become steeper and steeper turning to be a tailwind for European banks along with

strong macro figures and growing profits. Lower regulation headwinds, less political uncertainty, stronger loan growth and decreasing NPLs also continue to contribute to the further growth of banking quotes given not very rich valuations for many of EU banks yet. We expect that EU banks will follow US peers and they will also outperform the broad based EU market in 2018, but the road of EU banks will be more bumpy because the short end of the curve will not change significantly in the near future even despite the strong growth of EU economy while a part of future rate hikes have already priced in, from our point of view. The nearest risk for EU banks could be Italian elections which will be held in the early March.

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1. MARKET PERFORMANCE

US

US banks were sold off in February after they had demonstrated the most impressive start of the year since 2010. In February US banks decreased by 2.3% MoM vs -3.9% of SPX index. But, it should be noted that the correlation between January performance and full year one isn't very high, around 0.3. Banks continue to outperform SPX index, the forth month in a row. Absolute February performance on MoM basis was -0.5 StD from the mean performance and it is in the bottom 27% absolute monthly performance of BKX Index. In turn, relative February performance vs SPX index was +1.7% MoM in absolute terms, it is +0.4 StD from the mean and this result is in the top 32% of relative performance of BKX index vs SPX.

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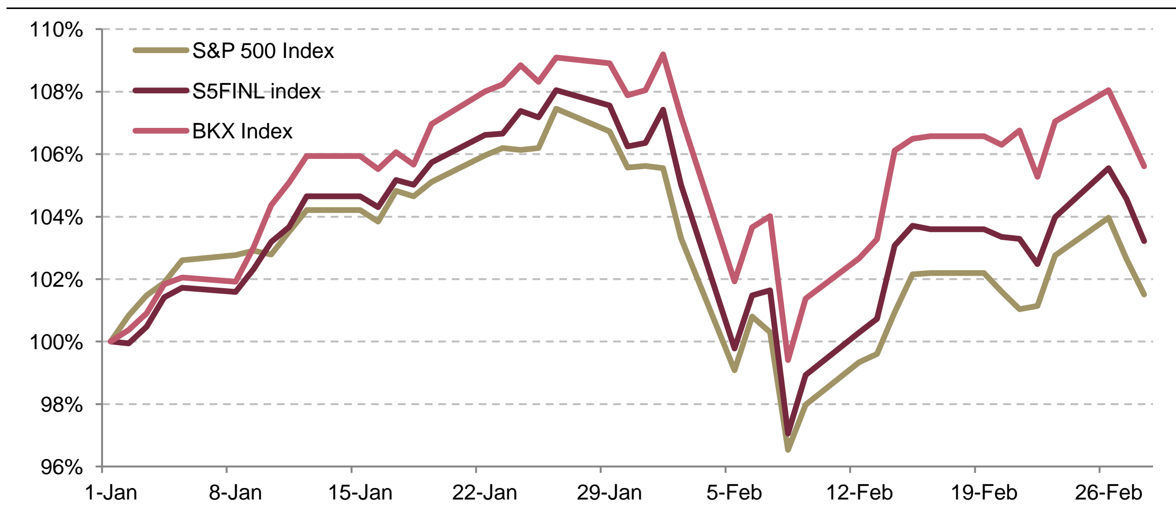
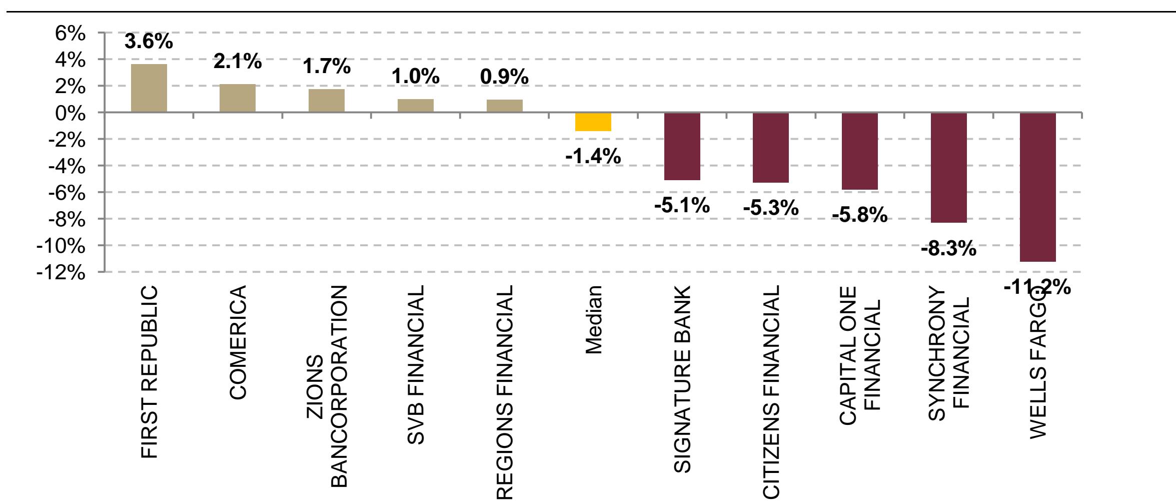
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

Chart 2. February US Banks Performance. Leaders and Laggards, 1Month Performance,%



Source: Bloomberg

Europe

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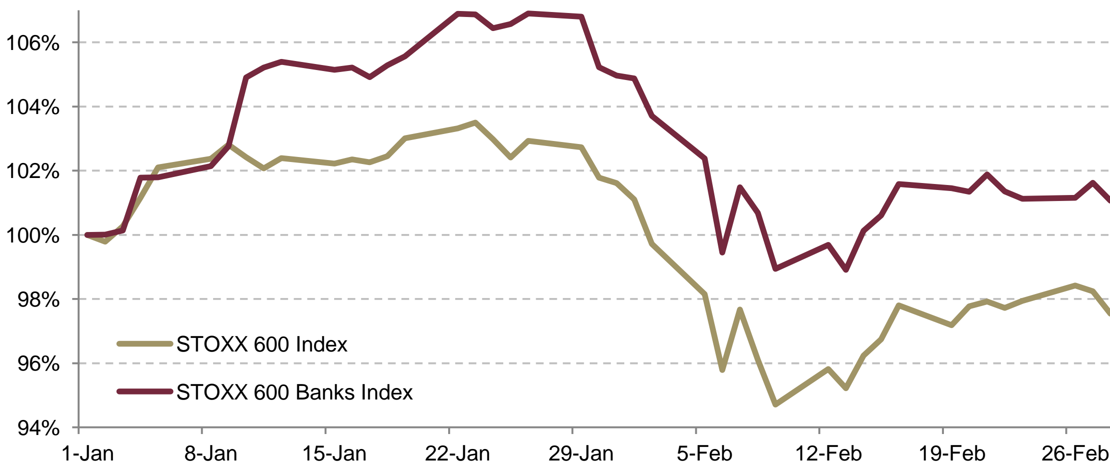
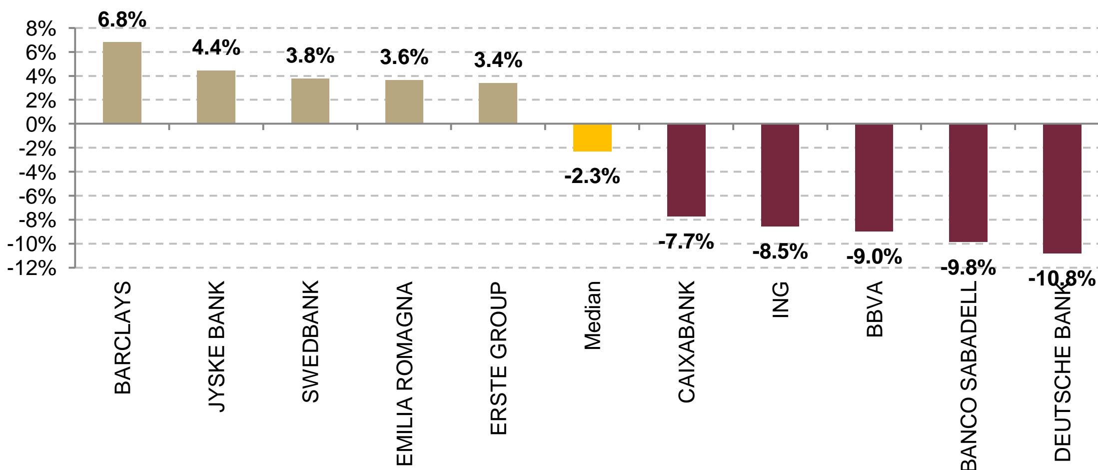
Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

Chart 4. February EU banks performance. Leaders and Laggards, 1Month Performance,%



Source: Bloomberg

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2. COMPANY NEWS

JP Morgan Chase Investor Day

JPM released its new financial targets and strategy view on the investor day which was held on February 27. Overall, mgmt was relatively optimistic increasing majority the targets of the previous investor day, but many of these targets are in line with the market estimates. But it should be noted that JPM's mgmt remains relatively conservative as it was earlier leaving the opportunity for positive surprises in the future. The key drivers of upgraded estimates were favorable global macro trends and positive impact of the tax reform. The key announcements, from our point of view, are following. 1) JPM expects that medium-term ROTCE increased from ~15% to ~17% due to positive effect of tax reform (it could be up to 300 bps while MT ROTCE without tax reform will remain unchanged as revenue growth will be offset by expenses growth). 2) Medium-term pretax profit should increase to $44-47 Bn from $40 Bn in 2017 vs Bloomberg consensus of $42 Bn and $42.6 Bn, respectively for 2019 and 2020 years. 3) Also, JPM significantly increased its net payout ratio from 55-75% previously to ~100% currently and lowered the high end of CET1 range from 12.5% in 2016/2017 guidance to 12% currently, probably implying more friendly regulation near term.

Net interest income 2018 target is $54-55 Bn vs Bloomberg consensus of $54.3 Bn (min $52.3 Bn / max $55.1 Bn). JPM implies core loan CAGR of 5-6% which is roughly corresponding to consensus estimates but lower than previous guidance. In turn, assumption of beta >50% is very conservative, from our point of view, taking into account <20% beta for the first 100 bps of rate hikes in 2015-2017. But mgmt continues to forecast current cycle beta dynamics in line with the previous cycle one.

Efficiency ratio remains at 55% around 1% lower than consensus estimate with guidance for total expenses in 2018 at <$62 Bn vs estimates of $61 Bn (min $59.7 Bn/max $62.7 Bn). 2018 technology spend is around ~$10.8 Bn. Lower efficiency ratio could drive further EPS's upgrades.

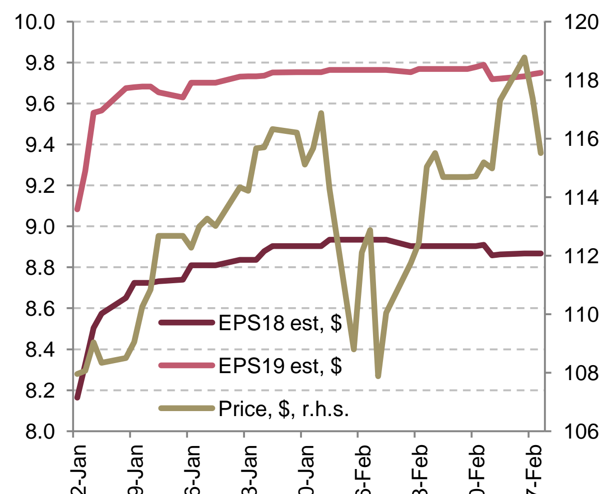
Table 1. JPM. Investor Day 2018 Guidance*

	2017 Inv Day	2018 Inv Day
Firmwide ROTCE	14-15%	~17%
CCB ROE	20% +/-	25% +
CIB ROE	14% +/-	~17%
CB ROE	15% +/-	~18%
AWM ROE	25% +/-	~35%
Core Loan Growth	10% +/-	6-7%**
Card NCO Ratio***	<3%	3.25-3.5%
Firmwide Overhead Ratio	55% +/-	~55%
Basel III CET1 Ratio	11-12.5%	11-12%
Net Payout Ratio	55-75%	~100%

*Medium-term ** ex-CIB *** Card NCO 2017 – 2.95%

Source: JP Morgan Chase

Chart 5. JPM price vs EPS estimates



Source: Bloomberg

Noninterest revenue growth is expected at ~7% in 2018 and ~3% CAGR going forward but with remark of market dependence. As for quality of loan portfolio outlook, JPM expects that NCO rates to remain relatively flat across business in both 2018 and medium-term.

Overall, it was positive guidance given traditional conservatism of JPM's mgmt in some areas and we expect that EPS estimates of 2018 and 2019 years will be revised further up in the near term, taking into account more hawkish view on the Fed rate hikes and recent dynamics of LT yields. JPM continues trading with marked discount to the industry, at 13.0x consensus 2018 EPS forecast and 11.8x 2019 EPS vs industry median of 13.8x and 12.6x, respectively. Currently, JPM is at 1.7x P/B with ROE 2018E forecast of 13.3% and ROE19E of 13.7% vs median P/B of industry of 1.7x with ROE 2018E and 2019E at 11.2% and 11.7% respectively. Currently, JPM is our top pick because of significant potential for EPS growth in coming years due to tax reform, more aggressive rates growth and deregulation. Our 12M price target remains at $125 with recommendation to buy stock.

Comprehensive Capital Analysis and Review

On 1 February the Federal Reserve Board released the scenarios banks and supervisors will use for the 2018 Comprehensive Capital Analysis and Review and Dodd-Frank Act stress test exercises. "Capital plans should be submitted to the Fed no later than April 5, 2018". Stress test scenarios are tougher than 1 year ago with more severe recession, greater price shock for both stock market and real estate market, steeper curve and greater decline of ST rates but less severe decline in European economies. Also, it should be noted that the Fed included in the test impact of tax reform which is negative for majority of banks because of DTA write-downs (write-ups for some banks) and lower tax rate on losses in stress scenarios. Dividend cap was left unchanged at 30% despite expectations that it could be removed or at least revised up. Also, the Fed firstly released details of the estimates of potential losses for global market shock and related counterparty exposures (applied to the banks with significant trading exposure). The regulator reduced supporting documentation and slightly streamlined the CCAR process but it is small positive given the optimism about deregulation and still no growth of SIFI buffer.

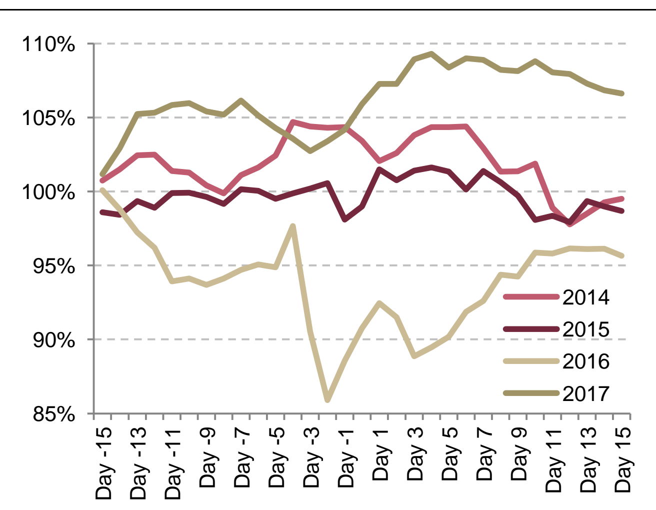
Table 2. 2018 stressed scenarios. Min Level.

	4Q17	Adverse	Severely Adverse
US GDP Growth	2.7%	-3.5%	-8.9%
EU GDP Growth	2.3%	-3.4%	-5.2%
UK GDP Growth	1.4%	-3.9%	-5.1%
Dev. Asia GDP Growth	5.9%	+2.1%	-2.2%
Japan GDP Growth	1.8%	-5.1%	-11.4%
US 3M Treasury Rate	1.2%	0.1%	0.1%
US 10Yr Treasury Yield	2.4%	0.7%	2.4%
US CPI Inflation	3.7%	1.3%	0.9%
US Unemployment*	4.1%	7%	10%
Dow Jones Index	27673	19718	9689
Market Volatility Index*	13.1	33.7	62.4
US CRE Price Index	279	237	136

*Max level

Source: Federal Reserve

Chart 6. BKX Dynamics During Publication CCAR Results



Source: Bloomberg

Overall, the CCAR scenarios are slightly tougher that it was expected but market reaction was positive (BKX index added 1.1% in the day of CCAR release vs -0.1% of SPX index) in spite of payouts are one of the main drivers for banking stocks in the near future. Moreover, payout ratios estimates haven't been significantly decreasing yet. Since publication of CCAR, median growth of DPS 2018E of BKX index was 0.3%, respectively. Median CET 1

ratio of BKX index members decreased by 17 bps qoq in 4Q17, but US banks still have significant amount of excess capital even without possible deregulation in the near term

Despite tougher CCAR scenarios, no evidence of future weakening of stress test requirements, negative impact of tax reform on capital ratios and so on, we expect payout ratios of US banks will markedly increase as of result CCAR 2018 due to still high level of excess capital in US financial institutions and significant improvement of profitability of US banks, which will continue to go higher in coming years because of positive effect of tax reform, accelerating of the economy and further deregulation. The key beneficiaries of CCAR 2018, from our point of view, will be BAC, RF, CMA and ZION.

Deutsche Bank 4Q 2017 Earnings

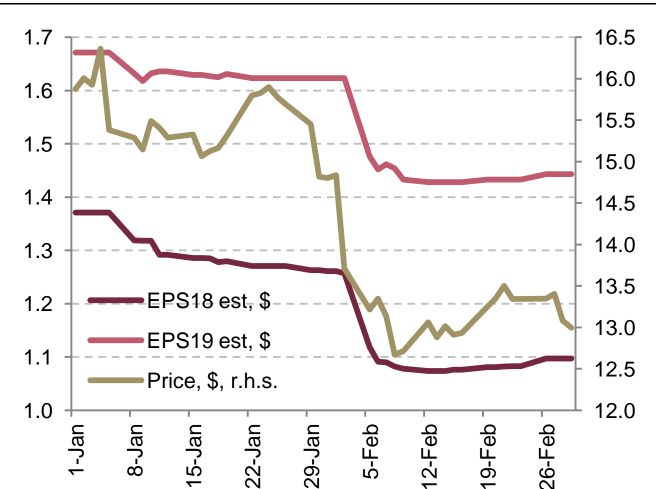
In 4Q17, Deutsche bank missed even significantly lowered estimates after pre-announcement of €1.5 Bn non-cash charge because of tax reform in early January. DBK reported third yearly loss in a row, but it was the first pre-tax profit in three years. DBK's 4Q17 net revenue was €5.71 Bn vs Bloomberg consensus of €5.88 Bn. Although, tax-related loss was lower than it had been earlier announced, 4Q17 adj. net income missed estimates, -€698 mln vs -€238. Despite too many one-timers, it was poor quarterly report with weak top-line, expenses and almost no progress on 'perpetual' restructuring. So, market perception of the results was very negative and DBK tumbled by 7.6% on the day of release of quarterly report vs -1.1% of SX7P. DBG significantly dropped, even despite to substantial underperformance YTD (-19.9% vs -1.1% of SX7P Index, as of 9 Feb). We expect that DBK's EPS estimates will be markedly revised down near term because of weak top line and negative guidance on costs. Yearly EPS consensus was already revised down by 20% YTD for 2018 estimates and by 13.7% for 2019 estimates, respectively.

Table 3. DBK GR 4Q Earnings

	4Q17	4Q16	4Q15
EPS adj, €	-0.2	0.27	-0.42
EPS GAAP, €	-1.04	-1.21	-1.36
Net Revenue adj, € mln	5697	7040	6358
Non-Int. Revenue, € mln	2755	3652	2445
Non-Int. Expenses, € mln	6371	6210	6837
Operating Income adj, € mln	-1357	-2444	-2990
Total Assets, € Bn	1475	1590.5	1629.1
CET1 Ratio, %	14.8%	13.4%	13.2%

Source: Deutsche Bank

Chart 7. DBK GR price vs EPS estimates



Source: Bloomberg

Investment banking and trading revenue decreased by 20% yoy, caused by decline of FICC revenue and partly by euro strengthening, -29% yoy. Equities trading went down by 25% yoy while investment banking fees dropped by 3% yoy. But mgmt noted that activity improved in January. Overall, 2017 FY revenue declined by 12% yoy. The key reasons are business disposals and challenging market conditions. Given this, DBK increased cost guidance (from €22 Bn to €23 Bn) was perceive very negatively as costs were very important driver for operating leverage (still negative). The growth was mainly explained by delayed disposals. Taking into account ongoing restructuring of DBK, revenues will remain

weak until we don't see growth of ST rates in EU. It will be very strong driver for DBK as the bank is one of the most rate sensitive banks in Europe.

In spite of loss usual for recent years, CET1 ratio increased by 20 bps to 14% due to reduction in RWA of €11 Bn and it is not binding constraint for DBK at the moment. The leverage ratio was stable at 3.8% and it is still a problem for DBK, from our point of view. CEO Cryan noted that DBK remained too complex for regulators. We think that it may be true not only with regard to regulators.

Overall, results were weak again. EPS estimates continue to go down. Risks are still high. From our point of view, the only reason to buy stock at the moment is cheap valuation (but cheap for a reason, from our point of view). DBK is trading with very deep discount to the industry, at 14.0x consensus 2018 EPS forecast and 9.7x 2019 EPS vs industry median of 12.8x and 11.8x, respectively. Currently, DBK is at 0.4x P/B with ROE 2018E forecast of 3.0% and ROE19E of 4.5% vs median P/B of industry of 1.0x with ROE 2018E and 2019E at 8.6% and 9.2% respectively. But we think that DBK is cheap for a reason, so our recommendation for the stock is hold. Our 12M target price is €14 with hold rating.

UniCredit 4Q 2017 Earnings

UniCredit (UCG IM) reported strong quarterly results, beating almost on all key lines of P&L and BS. Q417 net profit of €801 mln was significantly above consensus of €523 mln. 4Q17 revenue was €4.8 Bn, +7.4% yoy and +4.2% qoq, with solid figures both in NII and in fees. The key driver of positive surprise was operating costs which were below consensus by 6% (-0.7% qoq or -4.6% yoy). Overall, it was very good quarterly report with solid progress on business plan. So, market perception of the results was very positive as UCG increased by 2.1% on the day of release of quarterly report vs -0.8% of SX7P. We expect that UCG's EPS estimates will be markedly revised up in the near future.

UCG's asset quality continues to improve both in Core segment and non-Core one. Gross group NPEs declined by 5.6% qoq and -14% yoy. Net group NPEs went down by 5.1% qoq and -15.2% yoy. Also we saw slight growth of coverage ratio from 55.6% in the end of 2016 to 56.2% in the end of 2017. UCG also noted that it was successfully closed FINO phase 2 transaction in January 2018, so the share of UCG in FINO is currently less than 20%. Inflows to NPEs were relatively high in 4Q17 but bank noted that it was impacted by seasonality and single names. Cost of risk was 59 bps in 4Q17, significantly lower than adjusted figure of 4Q16 (-47 bps yoy). Overall, UCG continues to demonstrate better dynamics of asset quality than it was implied by the restructuring plan, adding confidence to its 2019 targets.

CET1 ratio declined by 20 bps qoq because of negative impact of RWA dynamics due to model revision and dividend accruals. But it remained significantly higher than 2019 target even taking into account that model revision will be further negatively impact on the figure in the near term. Given current dynamics of the NPEs, it seems that UCG could decide to increase its DPR ratio to 50% faster than it is guided at the moment.

Cost cutting is on track given 72% of branch closures and 64% of staff reduction having been already delivered. Frankly speaking, it is ahead of schedule being significantly below than consensus estimate, by 6% (-0.7% qoq or -4.6% yoy). However, mgmt didn't change FY18 and FY19 total cost targets, confirming them at €11.0 Bn and at €10.6 Bn.

Overall, results are good and we expect that EPS estimates of 2018 and 2019 years will be revised further up. UCG is trading with relatively deep discount to industry despite significant progress with execution of the strategic plan, at 14.3x consensus 2018 EPS

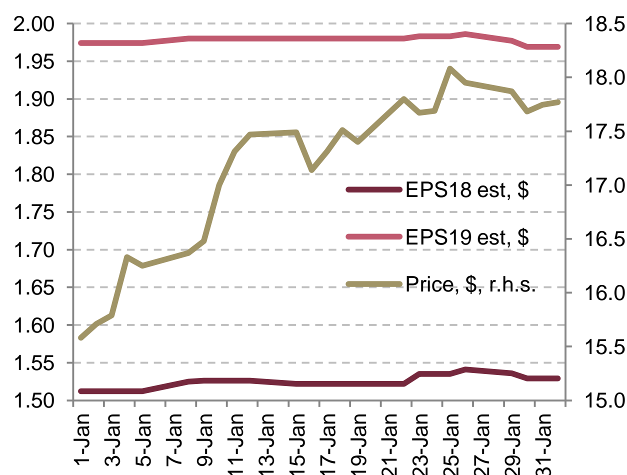
forecast and 11.1x 2019 EPS vs industry median of 12.8x and 11.8x, respectively. Currently, UCG is at 0.7x P/B with ROE 2018E forecast of 6.2% and ROE19E of 7.7% vs median P/B of industry of 1.0x with ROE 2018E and 2019E at 8.6% and 9.2% respectively Currently, UCG is our top pick in Europe with significant potential to improve profitability and payout ratios, which is trading with substantial discount to the industry. We raise our 12M target price for UCG from €18 to €23 with recommendation to buy stock.

Table 4. UCG IM 4Q Earnings

	4Q17	4Q16	4Q15
EPS adj, €	0.25	0.13	0.19
Net Revenue Adj, € mln	5089	4430	4933
NII, € mln	2703	2563	3026
Non-Int. Revenue, € mln	2386	1867	1907
Non-Int. Expenses, € mln	3209	1779	3233
Provision, € mln	772	9586	1187
Profit Before Prov., € mln	2048	666	1685
Total loans, € Bn	477	451.4	487.5
Non-Performing Assets, € Bn	48.4	75.5	80.0
CET1 Ratio	13.7%	8.2%	10.6%
Return on Common Equity	10.7%	-26.4%	3.5%

Source: UniCredit

Chart 8. UCG IM price vs EPS estimates



Source: Bloomberg

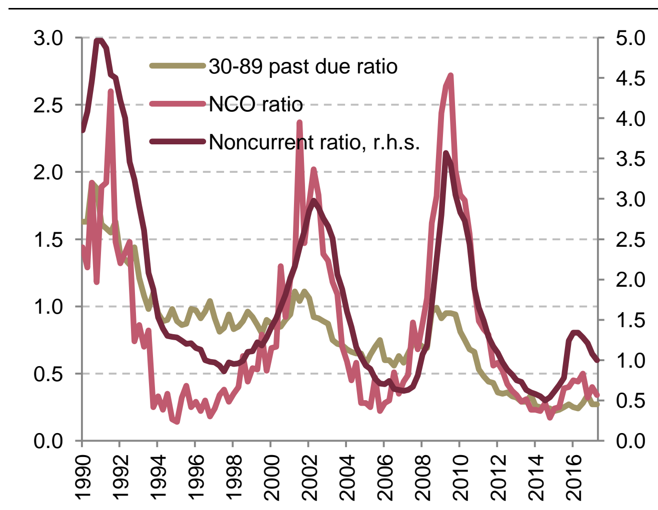
3. MACROECONOMIC NEWS

US

C&I loans

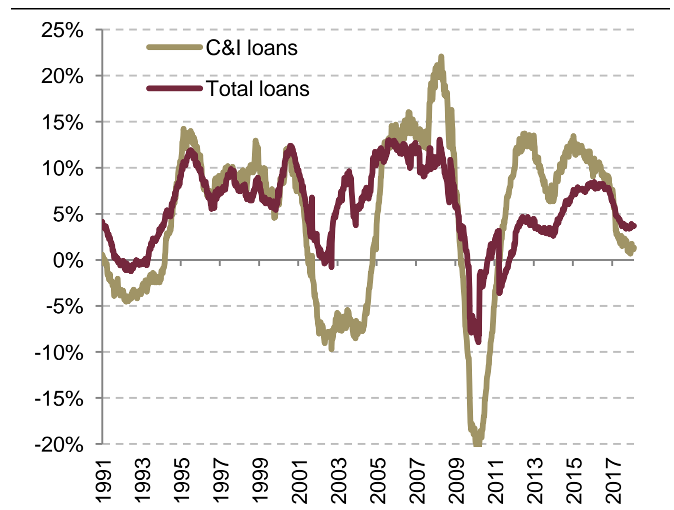
C&I loan growth continues to demonstrate weak dynamics despite adoption of tax reform, optimism of management of US banks, easing lending standards for the fourth consecutive quarter, solid and improving macro figures. There was a small acceleration of yoy growth in the end of December but it still remains anemic. The lowest C&I loan growth level in 2017 year was shown in the early December, +0.6% yoy, but it is not significantly higher currently. According to the last Fed H8 weekly report, C&I loan growth was just +1.0% yoy (as of February 7) vs +2.1% yoy (as the end of 3Q17) and +6.0% yoy as of 8 February 2017. It is near the lowest level in more than 6 years. Loan growth is slowing over the nine quarters in a row.

Chart 9. C&I. Delinquencies vs NCOs, %



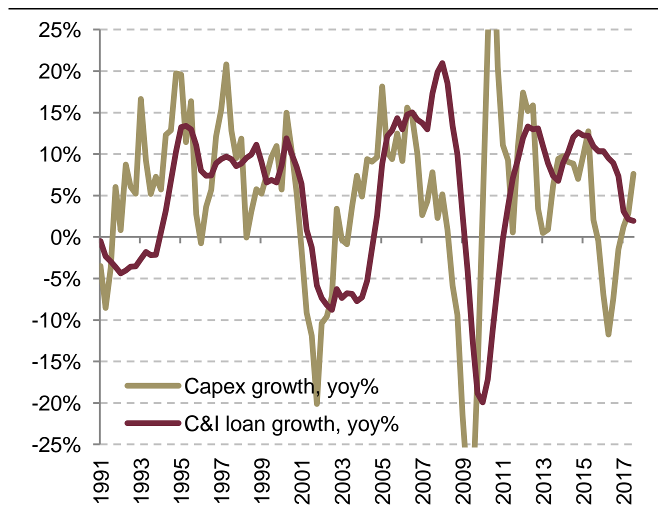
Source: Bloomberg

Chart 10. Loan Growth. C&I vs Total loans, YoY%



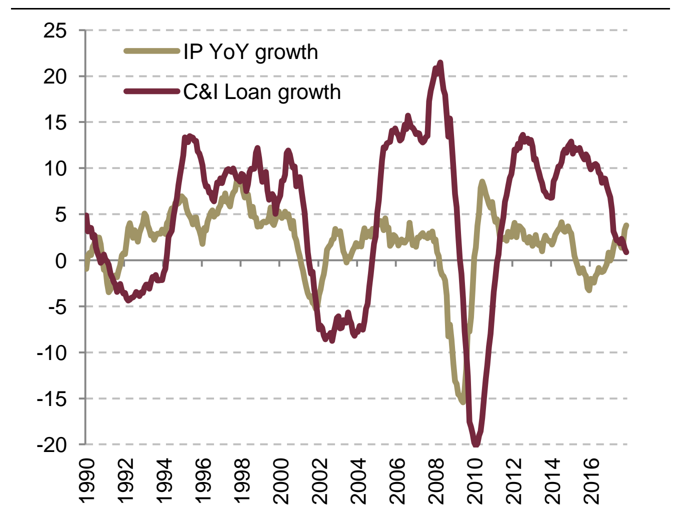
Source: Bloomberg

Chart 11. C&I. Loan Growth vs CAPEX



Source: Bloomberg

Chart 12. C&I. Ind. Production vs Loan Growth YoY%



Source: Bloomberg

During the 4Q17 earnings season, banks expressed optimism on future C&I loan growth due to more clarity on reforms (in the first place the tax reform enactment) and acceleration

of the economy. However, the same reasons were also named in the early 2017 but C&I loan growth continued to decelerate. Moreover, despite positive impact of tax reform on the economy, C&I loan growth acceleration could take some time because of repatriation of foreign cash by corporations at first. Among reasons of weak loan growth was also named a temporary run-off of the loan portfolio. We have no issue with possible acceleration of C&I loan growth in the current year due to reduction of uncertainty because of an approval of the tax reform in US, acceleration of US economy and high optimism in manufacturing sector but we do not expect that it will be significantly higher than the growth rate of nominal GDP as US economy is in the late cycle.

The January 2017 Senior Loan Officer Opinion Survey indicated that C&I lending standards were modestly eased to large and middle-market firms over the past three months (the fourth consecutive quarter of easing), while standards for small firms were basically unchanged after 3 quarters in a row of easing standards. “Specifically, for C&I loans to large and middle-market firms, moderate net percentages of banks reportedly decreased loan rate spreads, increased the maximum size of credit lines, and eased loan covenants”. More aggressive competition from other banks or nonbank lenders remains the key reasons of easing standards. As for demand, banks reported that demand for large and middle market firms was basically unchanged, while demand for small firms was weaker. Banks expects that they will continue to ease standards for large and middle-market firms over 2018 but standards for small firms will remain unchanged.

Macro remained strong in February with better than estimates results for majority of manufacturing sector data except for industrial production. Better than estimates figures were demonstrated by construction spending, payrolls, ISM manufacturing and factory orders. In turn, empire manufacturing and industrial production markedly missed estimates.

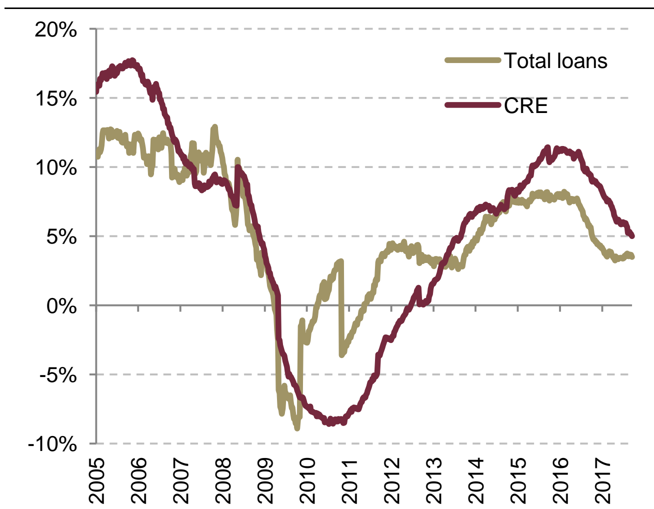
ISM manufacturing index decreased by 0.2 pts MoM to 59.1 pts in January from the revised down figures of December, beating the consensus estimate of 58.6 pts. The figure remains near the highest level over more than 13 years. Manufacturing payrolls increased by 15K in January vs expectations of growth of +20K, after growth of +21K in December (revised down from initial estimate of 25K). Construction spending increased by 0.7% MoM in December vs expectations of +0.4% MoM, but November estimate was revised down from +0.8% MoM to +0.6% MoM. Factory orders increased by 1.7% MoM in December vs expectations of +1.5% MoM after strong growth in November, which, in addition, was revised up by +0.4% in absolute terms. Industrial production decreased by 0.1% MoM in January because of weak mining sector, significantly missing expectations of +0.2% MoM. Moreover, December figure was substantially revised down from +0.9% MoM to +0.4% MoM. Empire manufacturing index was weak in January, decreasing by 4.6 pts to 13.1 pts, missing estimates of 18.0 pts. Overall, macro data continues to indicate healthy growth of manufacturing sector but this growth hasn’t transformed into acceleration of C&I loan growth yet because of the recent policy uncertainty, but situation may change in the near future due to successful enactment of the tax reform and potential changes in regulation.

CRE

Commercial real estate still remains one of the fastest growing segment in US (+5.2% yoy through February 8th vs 3.6% yoy growth for total loans), but growth rate continues to decelerate (around +10% yoy as the beginning of February 2017). CRE fundamentals are still in good shape but we see more and more signs of deceleration of growth of sector earnings in the future. Price growth accelerated in the last months to 7.1% yoy as end of December 2017 while transaction volumes remained weak recently (-10.3% yoy as the end

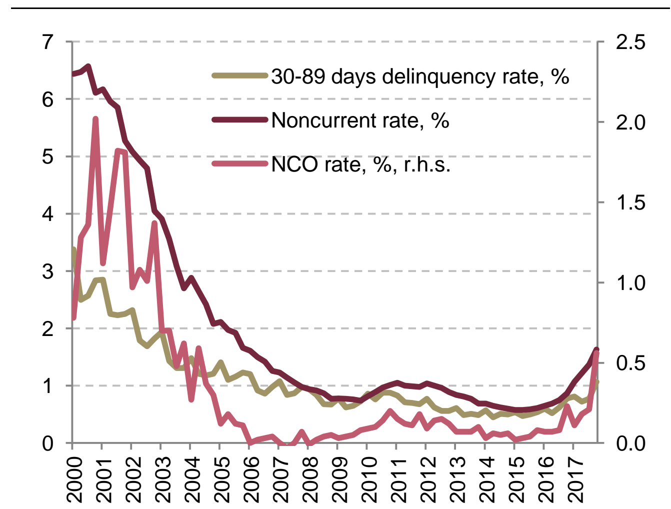
of January), operating fundamentals are starting to lag behind prices and banks continue to tighten lending standards (for the tenth quarter in a row). From our point of view, it suggests that we are at a late stage of the cycle, although quality indicators still continue to improve. Tax reform isn't as negative for CRE as we feared early in the year, but it is also not as positive as it is for many other sectors. Nevertheless, the sector could benefit from the second order effects of tax reform however it is not a near future event. The key risk for the sector remains rising rates, which significantly increased in the last several months, but we don't expect that it will lead to any serious problems, at least in the near future due to still strong fundamentals of the sector at current moment and responsible credit policy during the last credit cycle (majority of credit conditions were tighter than they were in previous cycles).

Chart 13. Loan Growth. CRE vs Total Loans, YoY, %



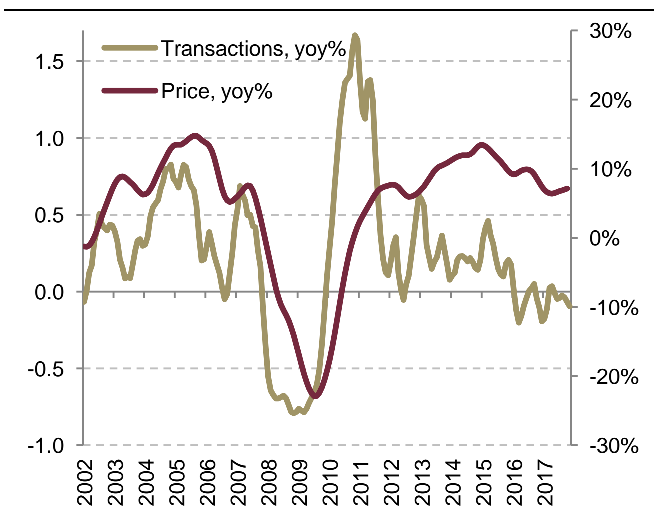
Source: Bloomberg

Chart 14. CRE. Delinquencies vs NCOs, %



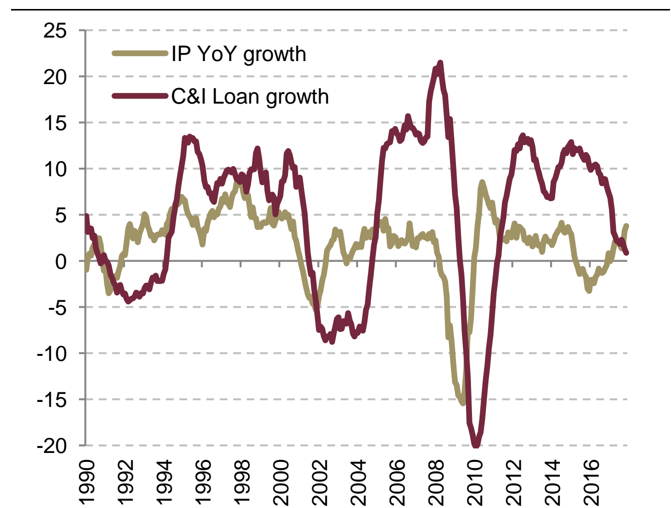
Source: Bloomberg

Chart 15. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

Chart 16. CRE. Same-Store NOI Growth, %



Source: Bloomberg

Banks continue to tighten standards for CRE loans. According to January 2018 SLOOS, "Moderate net fractions of banks reported tightening their standards for loans secured by multifamily residential properties and loans for construction and land development purposes", the tenth consecutive quarter of tightening. Banks also reported that demand for CRE loans was weaker during the last quarter. Weaker demand was demonstrated by all

major CRE segments. Banks also expect that they will continue to tighten standards on CRE over 2018, especially on multifamily loans. However, they don't expect that credit quality of the segment will deteriorate in 2018. Only quality of construction loans could markedly deteriorate.

Overall, business cycle remains supportive for commercial real estate segment even taking into account significant growth of yields from the lows of 2016 and acceleration of yields growth in the last months. Prices continue to go up, but the growth isn't uniform among sub-sectors. Thus, apartments price index added +10.3% yoy in December and Industrial CRE prices increased by 6.1% yoy while offices prices went up by 3.0% and retail CRE price index grew only by 1.1%. Current growth of CRE prices is markedly lower than it was few years ago, but it is still markedly higher than growth of prices for residential property. It seems that the lack of the growth of rates in the beginning of 2017 and seasonality were the main drivers of CRE prices recently. The situation could change in the near future because of rising rates as there isn't opportunity to mitigate growth of cap rates by narrowing the mortgage spread as it is already near lows. So, it is not surprising that CCAR 2018 stress scenarios imply greater decline for CRE prices vs CCAR 2017 scenarios.

As for other fundamentals, they still demonstrate healthy state but it seems that majority of indicators have already shown their peaks of this cycle. NAREIT average same store NOI growth is still at relatively high levels but it has markedly decelerated from the peaks of the cycle, especially in apartments and retail segments where same-store NOI growth rates are at multi-year lows, but they remain positive in any case. Despite still strong fundamentals and relatively high loan growth, REIT index dynamics was very weak ytd because of strong growth of yields. Thus, BBREIT index decreased by 9.2% ytd, underperforming S5FINL index by approximately 12.4% ytd. Notwithstanding, we don't expect as serious losses in the CRE as it was in the last loan cycle because LTV rates are markedly lower and average REIT's interest coverage ratio is well above than it was in 2000-2010 years.

Mortgage

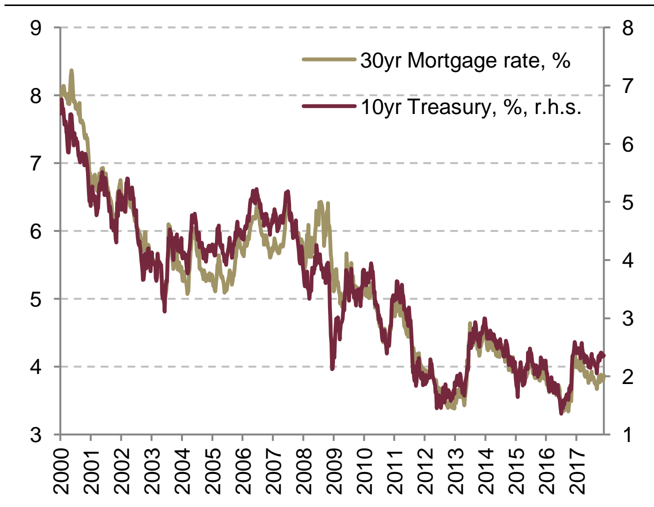
Mortgage loans growth rate decelerated to 4.2% yoy (as of February 8) vs +5.3% yoy 1 year ago, but it accelerated vs December 2017 levels and it was relatively stable since March 2017, hovering around 4%. It remained resistant even to significant volatility in mortgage rates during this year and recent substantial growth of long end of the curve. The tax reform outcome for mortgage sector is slightly negative because of higher standard deductions (less mtg interest deductions). But the key risk for the sector is the growth of the long end (which wasn't as strong as growth of the short end in 2017 but accelerated recently) even despite the affordability is still at high level and financial health of US consumer is very strong.

Lending standards for majority mortgage segments were basically unchanged in 4Q17, but standards for GSE-eligible loans were eased again. Standards for revolving home equity lines of credit (HELOCs) also were unchanged. Demand of mortgage loans was weaker again for all categories of mortgage market, despite still solid financial health of US Consumer and relatively high affordability of US homes. Probably, it is the negative impact of rising long-term rates. Banks also expect that they will continue to ease standards on residential mortgage over 2018.

30-yr mortgage rate declined to the lowest level since November 2016 in early September, decreasing from February 2017 high of 4.19% to 3.67% in September, but it increased after that by 68 bps in absolute terms to the new multi-year high of 4.35%, currently it is (+49 bps

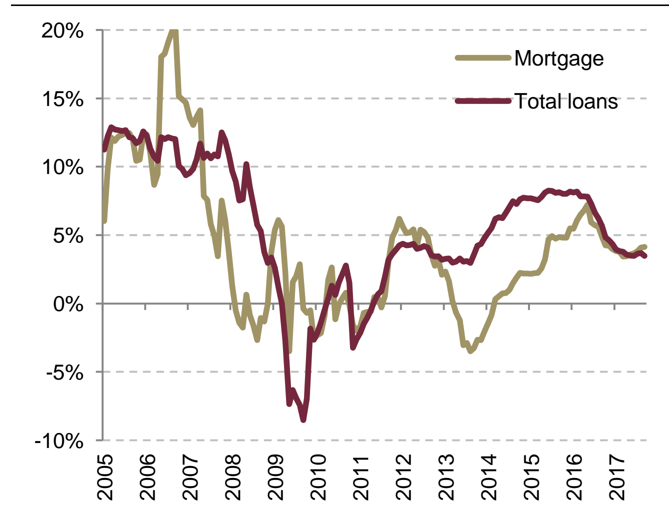
ytd). Thus, the current mortgage rate is significantly higher than average rate of both 2016 and 2017 years and remains one of the key risks for growth of mortgage loans in near years. But currently, mtg loan growth remains immune to this spike of LT rates as it is to easing lending standards.

Chart 17. Mortgage. 30yr Fixed Mrtg vs 10yr Tr yield, %



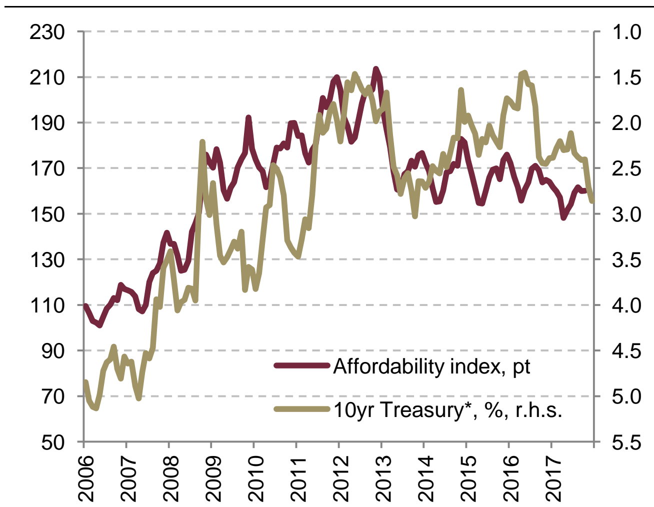
Source: Bloomberg

Chart 18. Loan Growth. Mrtg vs Total Loans, YoY, %



Source: Bloomberg

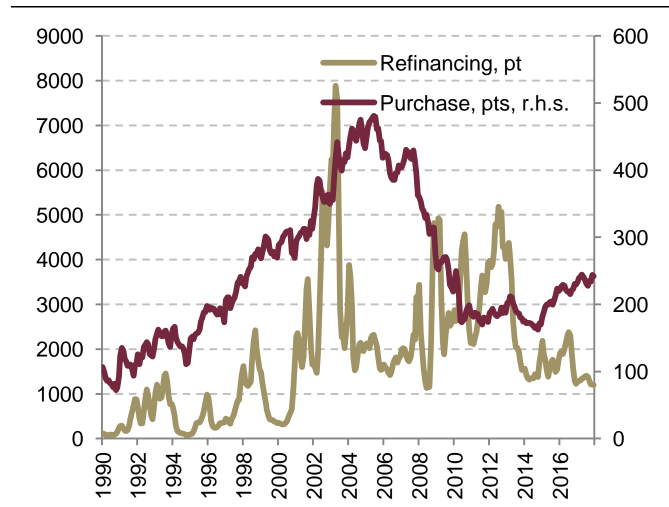
Chart 19. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 20. Mortgage. MBA Applications Indexes



Source: Bloomberg

Housing market indicators remained relatively strong in February, taking into account seasonality and skyrocketing growth of interest rates, after very optimistic figures in the end of the last year, showing positive surprises for majority indicators. Overall, fundamentals of housing market remain solid and we don't see significant risks in this segment at the moment (from quality of the loan portfolio point of view) but there are some imbalances there indicating late cycle. However, it should be noted that mortgage delinquencies increase by 29 bps qoq in absolute terms to 5.17% in 4Q17 (the highest level for the last 2.5 years) while mortgage foreclosures continued to go down to 1.19% in 4Q17 (vs 1.23% in 3Q17), the lowest level in more than 10 years. However, from our point of view, risks are still low, especially after successful adoption of the tax reform. The key problem for banks is relatively weak mortgage revenues because of tightening mortgage spreads and lower refinancing activity due to rising long end. Mortgage applications ticked up in September

but it went down since then and it remained significantly lower than average level of previous years while purchase applications didn't markedly increase in 2017. According to MBA's February 2018 forecasts, total mortgage originations will decrease by 5.5% yoy in 2018 (after 16.6% yoy decline in 2017), driven by 28% yoy decrease of refinancing volumes while purchase originations should increase by 6.5% yoy.

Construction spending increased by +0.7% MoM in December vs consensus of +0.4% MoM (November's figure was revised down from +0.8% MoM to +0.6% MoM), the fifth consecutive month of positive growth. And it seems that the growth should continue given very strong builders confidence in the recent months. NAHB housing index was flat at 72 pts in February matching the expectations. NAHB index remained near its 18-yr highs which were shown in December. It is not a surprise for us, taking into account very low inventory level of homes to sale and solid financial health of US Consumer. Housing starts were higher than expectations at 1326K in January vs expectations of 1234K and revised up December figure of 1209K. Building permits also exceeded estimate – 1396K vs 1300K of estimate, the same as January. But both figures remain volatile. In turn, both existing and new home sales showed negative surprises in January, the second consecutive month of missing expectations, after very strong growth in November. Existing home sales decreased by 3.2% MoM to 5.38 mln units vs expectations of 5.6 mln. New home sales were 593K vs expectations of 647K, but January estimation was revised up by 18K to 643K. Housing prices also continue to grow and it was better than estimates for FHFA index but slightly worse for S&P CoreLogic index. But on year-over-year basis, housing prices increased by 6.4% yoy, not very far from rate of growth of CRE prices.

Consumer

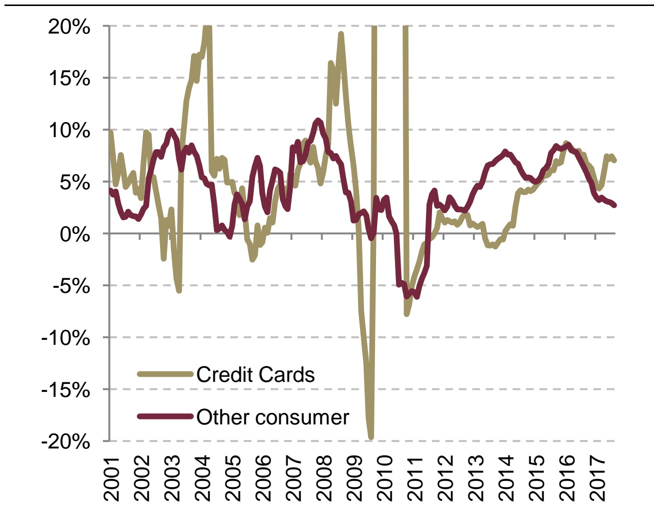
According to Fed H8 data, consumer loan growth yoy rate is currently +5.1% (through February 7th) vs 7.1% yoy 1 year ago. Consumer credit growth markedly accelerated during last several months due to speed up of credit card loan growth which is currently at 7.4% yoy vs +7.6% 1 year ago and +4.7% yoy in yearly October 2017. Net change of consumer credit in December was +$18.5 Bn vs consensus of +$20.0 Bn while November figure was revised up from $28 Bn to $31 Bn. However, loan growth of other consumer (not credit cards) remains anemic at +2.6% yoy vs +6.6% yoy 1 yr ago (because of slowdown in Auto). Anyway, from our point of view, consumer loan growth isn't as high as it could be taking into account strong job market, still low levels of debt-service-ratios, leverage ratios and positive effect of the tax reform. The key reasons are tightening loan standards because of accelerated loan growth in some consumer areas during the last credit cycle and growth of interest rates.

January 2018 SLOOS indicated that standards for all categories of consumer loans were basically unchanged, but standards for auto and credit cards were tightened again (the third consecutive quarter of tightening in credit cards and seven quarters in a row for auto loans). Also, banks reported that willingness to make consumer loans was decreased in the fourth quarter. As for demand, it continued to go down in auto, while it was unchanged in other segments. Banks also expect that they will continue to tighten standards on credit cards over 2018. Banks also expect that quality of credit cards will deteriorate in 2018, while credit quality of overall consumer portfolio will remain the same.

Most measures of consumer activity continue to demonstrate strength and were better than expectations in February, except for retail sales which significantly missed estimates -0.3% MoM vs consensus of +0.2% MoM in January. Furthermore, December figure was revised down from +0.4% MoM to 0% MoM. Conference Board Consumer Confidence increased by

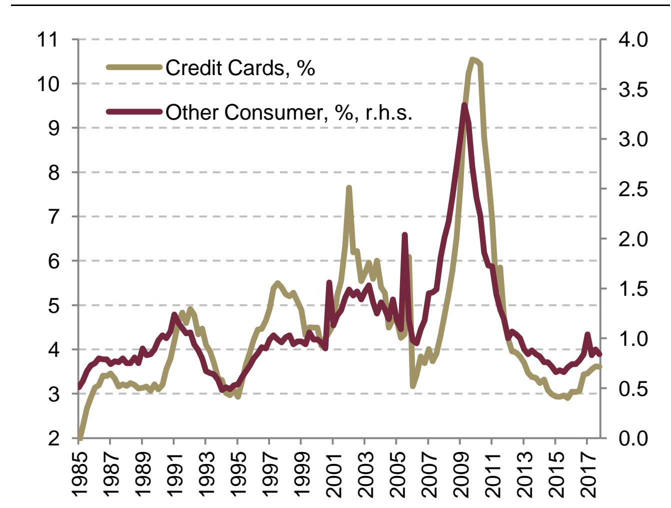
6.5 pts in February to 130.8 points (vs expectations of 126.5 pts) from revised down January figure of 124.3 pts (from 125.4) and it is the highest level of the index since the end of 2000. Consumer sentiment index of Michigan University was also better than expectations, 99.9 pts in February vs expectations of 95.5 pts and January figure of 95.7 pts, after 3 consecutive months of decline. So, it continues to be near its post-housing bubble period peak. And we think that consumer's sentiment will be further driven by good income prospects and strong labor market.

Chart 21. Consumer. Loan Growth Rates, YoY, %



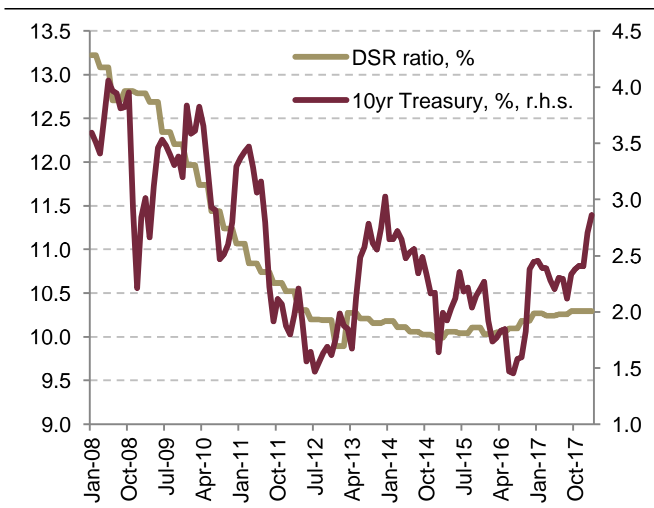
Source: Bloomberg

Chart 22. Consumer. NCOs Ratios, %



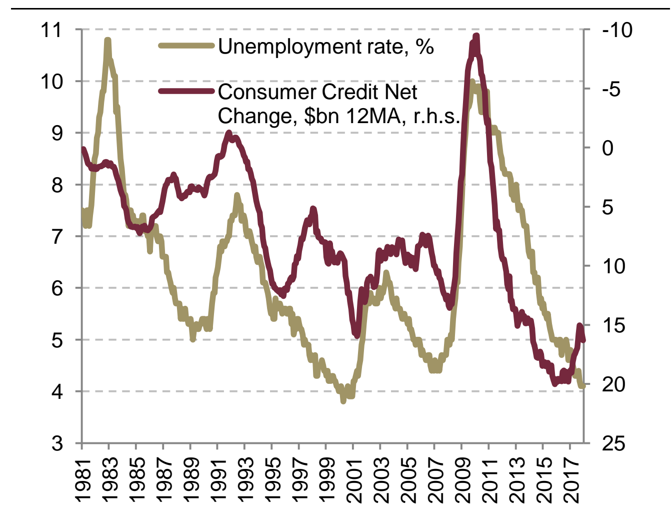
Source: Bloomberg

Chart 23. Debt Service Ratio vs 10yr Treasury Yield, %



Source: Bloomberg

Chart 24. Consumer. Loan Growth Rate, YoY, %



Source: Bloomberg

January employment data was very strong with strong beat both by ADP figures and nonfarm payrolls. The latter increased by 200K in January vs expectations of 180K and revised up figure of December from 148K to 160K. Unemployment ratio was flat in January at 4.1%, matching the expectations. In turn, average hourly earnings were markedly better than expectations of +0.3% MoM vs +0.2% MoM with revision up of December figure from 0.3% to 0.4%. On year-over-year basis, it was 2.9%. January ADP employment was 234K vs expectations of 185K and December figure of 242K (slightly revised down from initial estimate). Strong employment data was one of the main reasons of spike of LT yields in February implying further tightening of monetary policy in order to avoid overheating of the

economy. Initial Jobless Claims slightly decreased in February (avg of 225K vs 235K in January) and the indicator continues to be relatively stable and near more than 40-yr lows. Overall, financial health of US consumer remains strong. But banks continue to be cautious and they continue to tighten credit standards, especially in risky areas such as auto lending which significantly outgrew majority of other consumer segments during the last credit cycle. Taking into account ongoing rate hike cycle, financial pressure on consumers (especially low income segment) will increase and it suggests possible deterioration in the quality of the loan portfolio further. But we don't think that it could be a significant threat for credit quality of the total loan portfolio, at least, in the near future.

Interest Rates

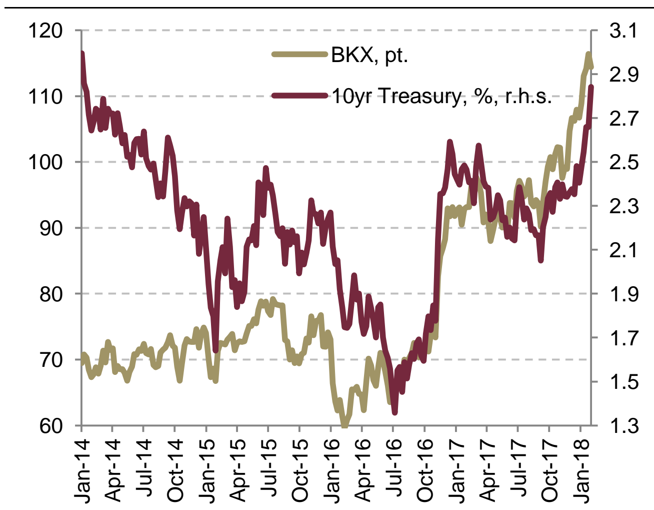
The Fed left the target range for the federal funds rate unchanged at 1.25%-1.5% in January after hike by 25 bps in December. It was widely expected outcome. Changes to statement were minor and these changes related only to wording but overall tone of the meeting was slightly hawkish. So, the market was looking forward to the FOMC minutes and Powell's testimony in February as the next Fed meeting was expected to hold only on March 21. Both events were hawkish, from our point of view, confirming the correctness of skyrocketing growth of long-term yields followed the December meeting. The minutes of the January meeting pointed to more optimistic view on the labor market and the economy growth. The same view was disclosed by Jerome Powell which said that his personal outlook for the economy has strengthened since December. He also noted that some of the headwinds which US economy faced early have turned to tailwinds. Participants of FOMC committee noted "accommodative financial conditions, the recently enacted tax legislation, and an improved global economic outlook as factors likely to support economic growth over coming quarters". As it was expected after more hawkish wording during the last meeting, the main discussion was focused on the inflation and the inflation outlook was more optimistic with staff expectations of notably faster core PCE growth vs faster one in December and majority of members expected that inflation will rise to 2% in medium term.

The dot plot continued to imply three hikes in 2018 (as it was in 2017) and two hikes in 2019 and two more in 2020 but these expectations could change as earlier as on the next FOMC meeting given very hawkish both the FOMC minutes and Powell's testimony. Mgmt of some banks (for example JP Morgan, PNC Financial) reiterated its expectations of four hikes in 2018 during the 4Q17 earnings season. The probability of the rate hike on the March meeting remained at 100% while probabilities of hikes in 2nd, 3rd and 4th quarters increased after these events to around 80%, 70% and 50%, respectively. We still expect 3 hikes in 2018 (but we believe it possible that the number of hikes could be more and, as we have already noted, the chances of that in recent months has grown) and it seems, from our point of view, that not all of these hikes has currently priced in. Due to still very low deposit beta, the number of hikes is very critical for almost all US banks, especially for the most asset sensitive ones. The yield curve became markedly steeper recently, but it still remains relatively flat and it bears some risk for US banks, from our point of view, even despite the short end is more important for majority of US banks, as it could negatively impact on bank's top line in the future.

Treasury yields significantly increased in February across the all curve after the same dynamics in January. Unlike to the previous month, the most impressive growth was demonstrated by the long end. 1M yield went up by 12 bps MoM to 1.49% while 3M yield came up by 20 bps MoM to 1.65%, 2yr yield increased by 11 bps MoM to 2.25% and 5yr yield added +13 bps MoM (currently at 2.64%). 10yr yield skyrocketed by 16 bps MoM to

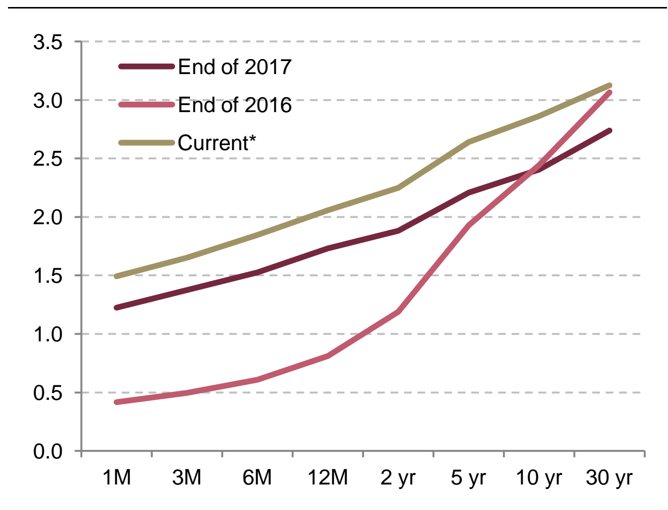
2.86% while 30yr yield increased by 19 bps MoM to 3.12%.

Chart 25. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

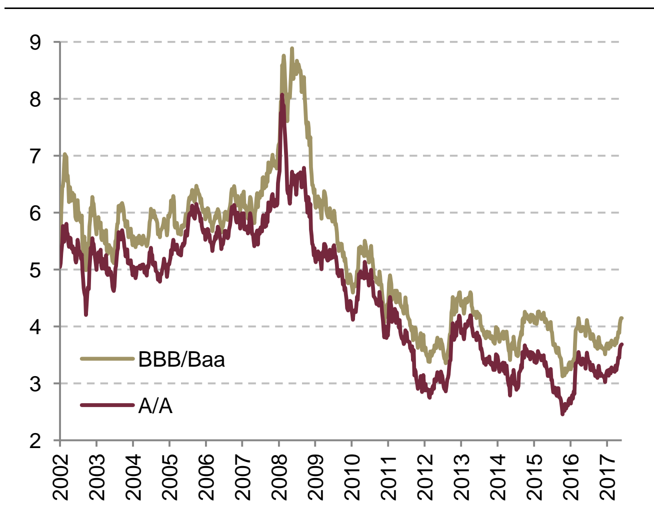
Chart 26. US Yield Curves, %



*As of the end of February 2018

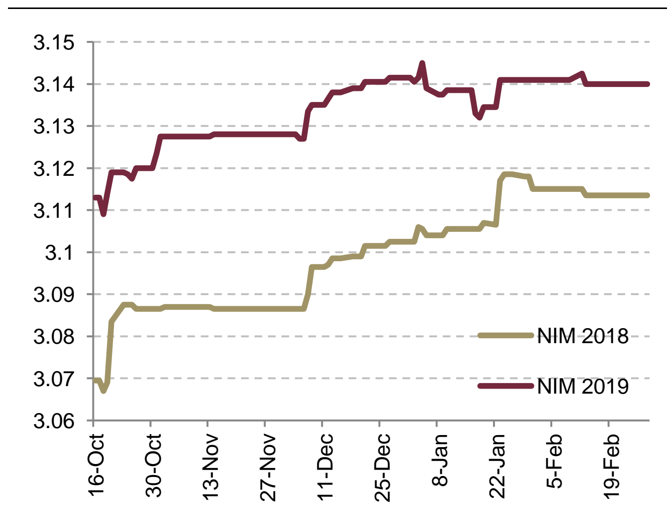
Source: Bloomberg

Chart 27. Corporate Yield Indices, 10yr



Source: Bloomberg

Chart 28. Median NIM of BKX index, %



Source: Bloomberg

As long end of the curve finally started to overgrow the short end, spread became wider YTD, especially 5yr-3Mo one. But despite this growth spreads are still not very far from its multi-year lows. 5yr-3Mor spread is just 1.8 bps higher than average level of 2017 yr while 10yr-2yr spread is 32 bps below than average level of the last year. Currently, treasury spread (5yr-3Mo) is 0.99% or -7.1 bps MoM (as end of February) vs 1.33% of 5yr-3Mo treasury spread in the end of February 2017. Spread (10yr-2yr) increased by 4.6 bps MoM to just 0.61% in February. Steeper yield curve is a positive driver for banks' profits, but we don't expect that the yield curve will become much steeper from current levels given the probable pace of the Fed rate hikes in the future.

According to Bankrate data, loan yields increased in February following the growth of the yield curve and rate hike in December. 30yr mortgage rate went up by 21 bps MoM to 4.31% (through February 22th). Auto loans rate (New loans, 60 mnth) increased by 10 bps MoM to 3.72%. In turn, deposit rates continue to be flat in February (the forth month in a row) except for 5yr CDs. 1yr CDs remained flat at 0.8%, while 2yr CDs were unchanged at

0.9%. 5yr CDs went up by 2 bps to 1.56% (through February 22th). 4Q17 earnings season showed that deposit betas continued to go up but, in any case, deposit betas are significantly lower vs the previous hike cycles. There were 3 rate hikes in 2017 or +75 bps in absolute terms, while median cost of interest-bearing liabilities increased just by 13.5 bps qoq and median cost of interest-bearing liabilities added only +23 bps yoy. Of course, the last rate hike was in December and cost of liabilities hasn't fully reacted to it yet, but in any case the beta has been remaining very low.

Europe

Corporate

According to January 2018 euro area bank lending survey, net demand for loans to enterprises "continued to be supported by increasing demand" in 4Q17, but unadjusted EOP corporate loans increased by only 0.18% yoy in December, the third consecutive month of positive growth. In turn, adjusted loans increased by 2.9% yoy, 26th consecutive month of positive yearly growth (slight deceleration from November figure of +3.1% yoy). Despite relatively good adjusted figures, we still think that corporate loan growth remains weak taking into account strong recent macro data with moderate acceleration of EU GDP growth this year (and significant upgrade of GDP growth Staff projections). Loan growth dynamics was relatively uniform among major European countries in December with deceleration of loan growth in all major countries except for France. But credit growth in the EU remains significantly different across countries. We see very healthy corporate loan growth in Germany and France while Italian and Spanish corporate loan growth is still deeply negative.

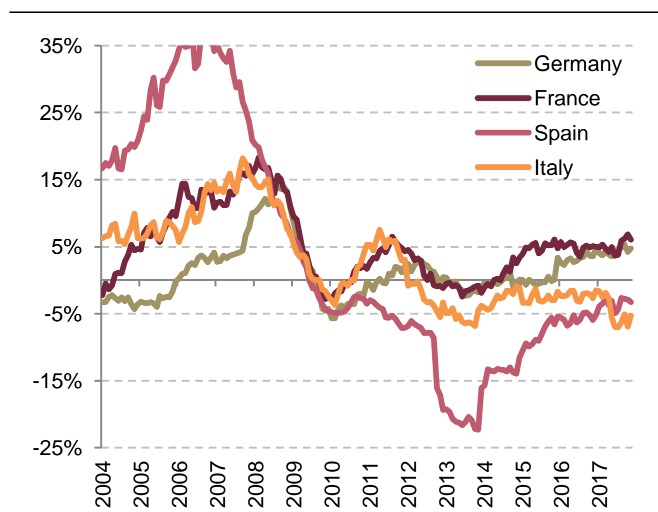
In line with January BLS, credit standards for corporate loans were broadly unchanged in 4Q17. But the net percentage remained considerably below the historical average since 2003 was in line with the expectation in the previous round. Banking standards were broadly unchanged for small and medium-sized corporations, but eased on loans to large firms. "Across the large euro area countries, credit standards eased marginally in Germany, tightened in Italy and remained unchanged in France, Spain and the Netherlands in the fourth quarter of 2017". The key driver of easing standards remains competitive pressure, while effect of cost of funding and BS constraints was not so important. Banks also continue to point on narrowing margins on average loans as one of key drivers of easing standards. Net demand for loans to enterprises continued to increase in 3Q17, in line with expectations of the previous BLS. "Across the largest euro area countries, overall terms and conditions eased in Germany, Italy and the Netherlands and remained unchanged in Spain and France". The key drivers of demand growth were increase in CAPEX, ongoing low level of interest rates and the growth in inventories and working capital.

Germany outstanding corporate loans (unadjusted figures) increased by 4.2% yoy but decreased by -0.8% MoM in December vs +5.3% yoy in November 2017 and +3.7% yoy in December 2016. French corporate loans outstanding added +6.6% YoY +0.9% MoM vs +6.2% in November 2017 and +4.9% yoy in December 2016. As for Spain and Italy, its outstanding corporate loans continue to decrease, -3.0% yoy and -6.9% yoy in December 2017, respectively (significant deceleration of loan growth in Italy from -5.1% in November 2017).

European corporate rates still demonstrate relatively weak dynamics. However, it appeared more and more encouraging signs in 2H17, but in December majority of banking yields fell significantly. Average EU corporate loan rates (all maturities, new business lending)

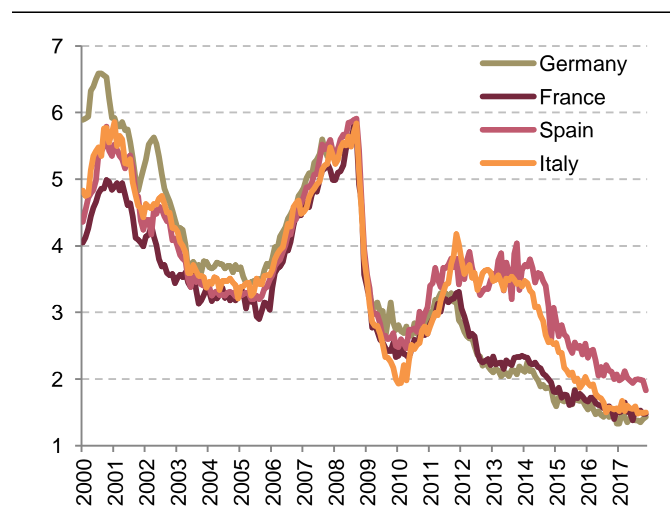
decreased by 14.3 bps MoM to 1.96% in December after decline of 1 bps MoM in November, the lowest level in 2017 despite significant growth of LT sovereign yields recently. Back book yields of EU banks continuously decreased since April 2014 but it slightly decelerated recently, -16.6 bps yoy in December. In the last month the most substantial increase was showed in Germany, where December rates on new corporate loans increased by 3 bps to 1.43% after +5 bps MoM in November. In turn, Spanish rates on new corporate loans substantially decreased by 15 bps in December, after decline of 1 bps MoM in November. Italian rates increased by 1 bps MoM in December to 1.5% while French rates were flat at 1.48% after significant decline in November. In fairness, spreads between new and outstanding rates continue to shrink but they still far from the positive territory for all major European countries except for Spain, where back book yield exceeded front book yield just by 6 bps in December.

Chart 29. EU Corporate Loan Growth, YoY



Source: Bloomberg

Chart 30. EU Corporate Loan Rates, New Loans, %



Source: Bloomberg

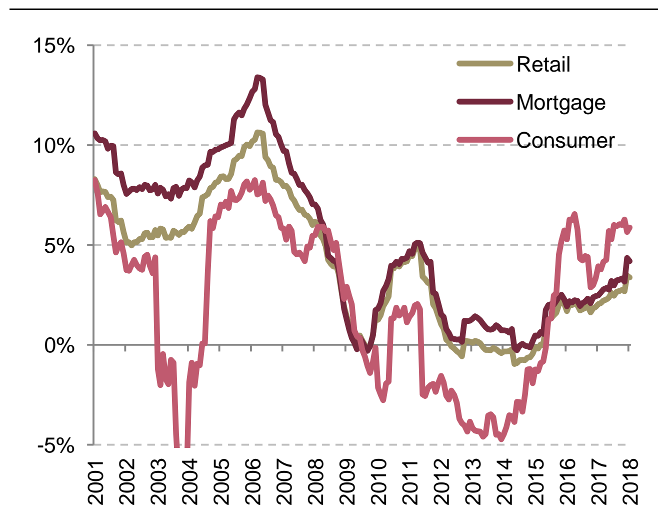
Consumer

EU loans to households increased by 3.4% yoy in December, significantly accelerated from November 2017 figure of +2.7% yoy (+1.9% in December 2016 and the average level of the last year, +1.7% yoy. Consumer loans keep gaining momentum but the rate of growth of the loan portfolio continues to differ widely across countries, German household loans increased by 3.7% yoy in December (flat MoM), French retail lending added 6.9% yoy in December (significant acceleration vs beginning of the year figures), while household loans in Spain decreased by 1.1% yoy in November (the marked deceleration from the November level). Italian consumer loans added +1.1% yoy in December, slightly decelerated from November growth figure. All major European countries except for Italy markedly accelerated consumer loan growth since the beginning of the year that fully consistent with the improvement of consumer financial health in Europe lately. Consumer confidence in Eurozone increased by 6.2 pts YoY to the highest level in 17 years, unemployment decreased by 1.0% YoY (the lowest level since the beginning of 2009 year), retail sales also continue to demonstrate robust growth.

Consumer lending (ex mortgage) still remains the key driver of EU household loan portfolio, adding 6.0% yoy or +0.4 MoM in December (slightly decelerating from the previous month), vs +3.3% yoy in December 2016. EU mortgage loans increased by 4.1% yoy in December (vs 2.4% yoy one year ago) significantly accelerating from the level of the last several

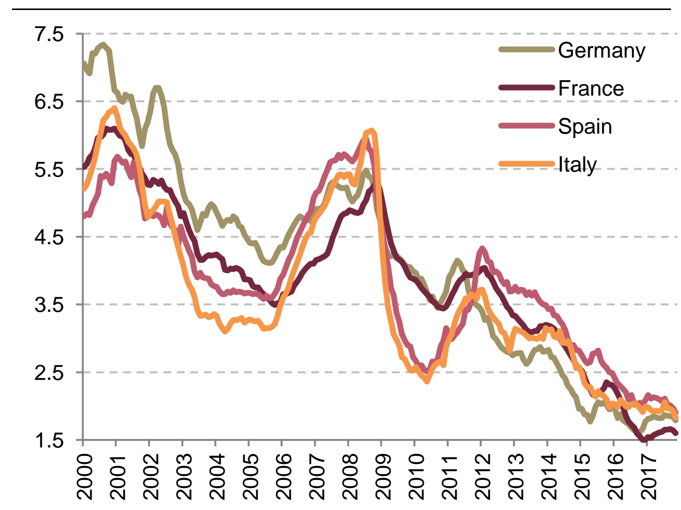
months. And it broadly corresponds to what we saw in January 2018 lending survey from ECB, where it was noted that 'positive net percentage of banks continued to report an increase in demand for housing loans' above historical average levels but below expectations of the previous survey. The most impressive growth in consumer segment continue to be demonstrated by Spain, where these loans rose by 13.8% yoy in December (vs +12.7% 1 year ago), while Spanish mortgage portfolio continues to stagnate, -2.6% yoy in December (vs -4.8% 1 year ago).

Chart 31. EU Consumer Loan Growth, YoY



Source: Bloomberg

Chart 32. EU Mortgage Loan Rates, New Loans, %



Source: Bloomberg

Average EU rates on new mortgage loans decreased by 4 bps MoM in December, the forth month in a row of decline of the mortgage yield after seven consecutive months of growth. But the rate remained higher by 7 bps from the minimum level of January 2017. Moreover, on year-over-year basis, this yield also showed positive growth of 6 bps yoy. The key driver of mortgage rates was the long end of the yield curve. 10yr generic yield declined by 4 bps MoM to 0.66% in February after skyrocketing growth in January. However, mortgage rates on new loans were relatively weak on month-over-month basis in all major European in December. German rate decreased by 5 bps MoM to 1.79%, French rate decreased by 4 bps MoM to 1.6%, Spanish rate went down by 7 bps MoM to 1.9% and Italian mortgage rate on new loans decreased by 10 bps MoM to 1.83%. Unsurprisingly, we continue to see declining back book rates on year-over-basis, average EU rate decreased by 1 bps MoM in December to 2.26%. But there was a deceleration of the rate of decline of back books recently due to steepening of the yield curve.

As for other consumer credits, EU new business rates collapsed by 32 bps MoM to 5.25% in December, the fourth consecutive month of the yield decline, but there was significant growth of consumer yields in the summer months. Although, December rate was the lowest one for more than 1 yr. Front book consumer rates significantly collapsed in all major European countries in December except for Spain where it increased by 17 bps to 7.24% after significant decline in November. German rate decreased by 24 bps MoM to 5.37% in December, French rate also decreased by 24 bps MoM to 3.55%, Italian rate went down by 25 bps MoM to 6.43%.

Average European consumer deposits rate (with agreed maturity) was flat on month-over-month basis in December at 0.37%. Cost of outstanding deposits (with agreed maturity) decreased by1 bps MoM to 1.04% after marked increase of 2.6 bps MoM in November, still

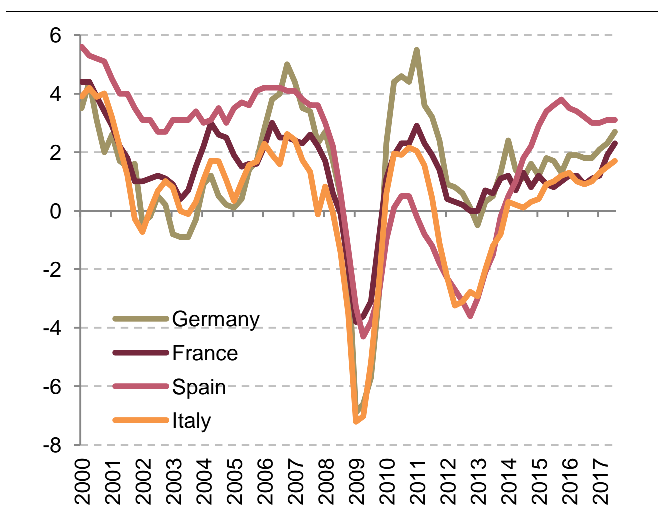
substantially lower than 1 year ago, -11 bps yoy and it is not good for EU banks, as cost of deposits significantly decelerated its decline rate while yield of consumer loans continued to go down faster than cost of deposits.

Overall Macro

Eurozone continues demonstrate strong GDP growth while risks for EU economy remain broadly balanced. Eurozone GDP increased by 2.7% yoy in 4Q17 vs +2.8% yoy in 3Q17 and +1.9% yoy in 4Q16. Consensus for GDP growth in 2018 is 2.3% yoy at the moment, increased by 40 bps from +1.9% yoy 3 months ago. Recent macro indicators confirm strong momentum in European economy with ongoing growth of PMI, better than estimates industrial production and further improvement of EU consumer health with continued solid growth of consumer spending and employment. Economic sentiment is improving further with strong growth of Euro area yields and euro currency in recent months (after the ECB meeting in December), reflecting more positive expectations for growth of EU economy. But recent growth of currency and FX volatility is considered by ECB as a risk which should be closely monitored.

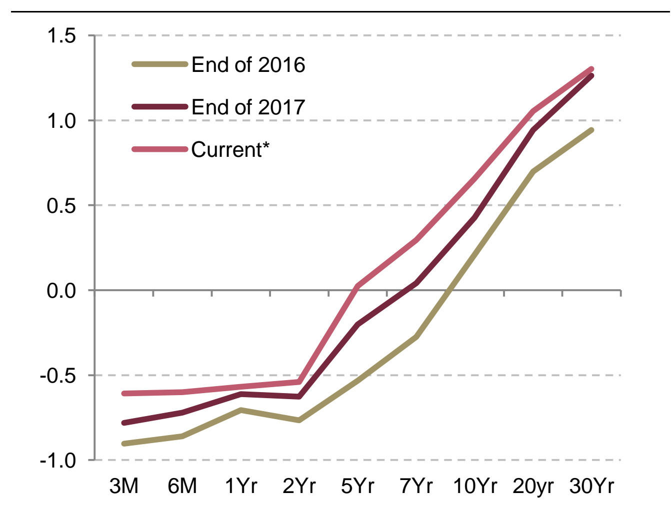
Composite PMI, which is well correlated with GDP growth, slightly decreased in February (preliminary data) from multi-year highs showed in January but it remained near the highs and significantly above 50 pts indicating that strong and broad based growth of the economy continues. February figure is 57.5 pts vs Bloomberg consensus of 58.4 pts, -1.3 pts MoM. Manufacturing PMI also decreased by 1.1 pts to 58.5 pts, the second consecutive month of decline (from December multi-year highs). Industrial production increased by 0.4% MoM in December, beating median estimate of +0.1%, after strong growth in October and November. November industrial production growth was revised up from 1% MoM to +1.3% MoM. Economic sentiment in EU remains near six-year high. A majority of business climate and business confidence indicators remained strong in February, significantly above long-term averages. Business investment is also strengthening due to strong growth of European economy, rising profitability and still favorable financing conditions.

Chart 33. EU Countries Real GDP Growth, YoY, %



Source: Bloomberg

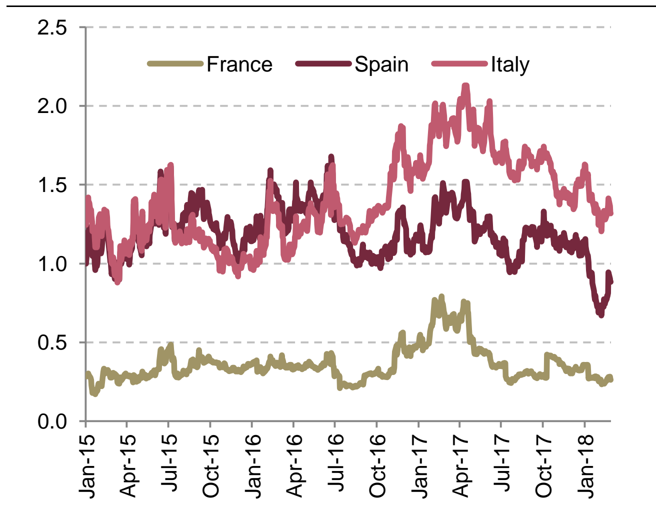
Chart 34. EU Yield Curves, %



*As of the end of February 2018

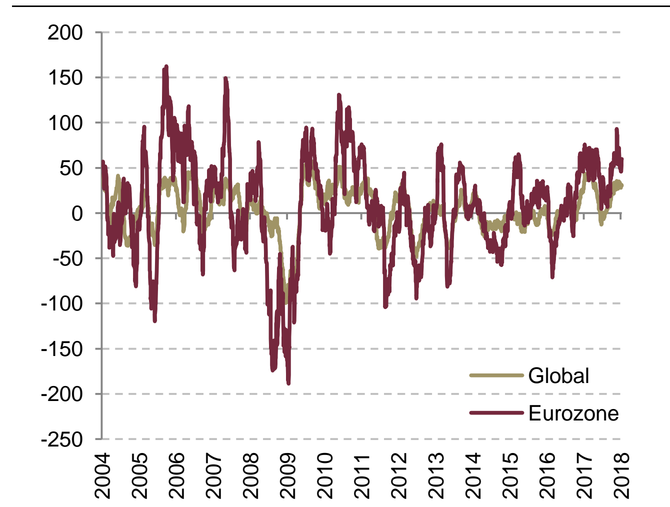
Source: Bloomberg

Chart 35. EU Countries Sov. Spreads vs Ger, 10Yr, %



Source: Bloomberg

Chart 36. Citi Economic Surprise Indexes, pts



Source: Bloomberg

EU consumer remains one of the key drivers of European economy, demonstrating strong growth of consumer spending. Private consumption increased by 0.4% qoq in 3Q17 or +1.9% yoy, flat vs 2Q17, while disposable income in EU increased by 1.6% yoy in 3Q17 vs +1.6% yoy in 2Q17. Labor market remains the key driver of the health of EU consumer. According to Eurostat, employment increased by 0.4% qoq in 3Q17 or +1.7% yoy and it is already above its pre-crisis peak of 2008 by 1.2%. Unemployment rate in Eurozone was 8.7% in December, flat vs November, but lower by 1% yoy in absolute terms. Despite current unemployment rate is still markedly higher than the trough of the previous cycle (7.3%), it is significantly below than 12.1% showed in 2013. So, consumer confidence remains near its multi-year highs. February consumer confidence is +0.1 pts, +6.5 pts yoy. But it should be noted that it decreased by 1.3 pts MoM because of seasonality.

Housing market in Europe also demonstrate solid growth. Euro Area residential property index increased by 4.4% yoy in 3Q17, markedly above +3.9% yoy in 2Q17, confirming broad based character of economic recovery. Among major European countries, negative dynamics of housing prices remains only in Italy, -0.9% yoy in 3Q17. Despite growth of housing prices and LT interest rates, housing affordability is still relatively high vs historic averages due to improvement on labor markets and still favorable financing conditions.

Rates

Despite there were no changes at January ECB policy meeting and relatively dovish Mario Draghi's tone, the reaction of the market was bullish for euro and bearish for bonds (yields markedly went up). As it was widely expected, ECB Introductory statement was almost the same as December one. Rates were left unchanged. The Governing Council confirmed (with no further details) that monthly asset purchases would be reduced to €30 bn from January 2018 (until the end of September 2018, or beyond, if necessary). Economic view was still very positive as pace of economic expansion remained robust. As for inflation, it "will converge towards our inflation aim of below, but close to, 2%" and "an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term". The strength of euro currency is a concern, "the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability". The next ECB meeting, which will be held on

March 8, will be very important as it should announce its new staff economic projections. But we don't expect that the key statements will be much changed as ECB has been remaining very consistent recently.

There were no signs that ECB was going to change its forward guidance. Moreover, Mario Draghi brought into focus that it had been too optimistic to expect the first rate hike in the current year. Non-standard monetary policy measures "are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim". It seems that more details on further pace of asset purchases will be announced closer to the summer. From our point of view, positive reaction on the Q&A session was caused by Draghi's recognition of the fact that EUR appreciation was partly stemmed by strong economic growth. But we think that the growth of yields was excessive as ECB remains consistent and it won't do any abrupt moves as any significant growth of the rates will negatively impact on many EU countries because of high debt levels especially in periphery countries.

We maintain our point of view that further pace of monthly asset purchases will depend on the incoming information, including inflation and volatility in the exchange rate. Given the market expectations, the first rate hike will not happen earlier than in 1H2019, from our point of view, and negative deposit facility rate environment will persist at least until early 2020 but the EONIA forward curve significantly moved up YTD, especially long end, reflecting market optimism about interest rate expectations. But we still think that it is too early to buy banks only because of possible rising rates in future taking into account very strong outperformance of European banks in the last year (but we recognize that it will be good reason to go long in case of correction of EU banks). Of course, fundamentals will continue gradually improve but the short end of the curve will not change significantly until the key policy rates will eventually start to grow; low rate environment will persist for several more years; growth of long end is largely already priced in, from our point of view; valuations don't look as reasonable as before; loan growth is still sluggish, especially in corporate segment while credit quality issues remains.

10yr EU generic yield decreased by 4 bps MoM to 0.66% after skyrocketed growth of +27 bps in January. It finally surpassed the high of the last year in January and it currently is higher by 4 bps that level of the yield (near two year high). The dynamics of the generic yields was relatively uniform during February as it was in January. 3M yield decreased by 3.9 bps MoM to -0.61%, 6M yield went down by 2.2 bps MoM to -0.60%). 1yr generic yield declined by 1.2 bps MoM to -0.57%, while 2yr yield lost -1.4 bps MoM to -0.54%. Overall, the yield curve became slightly flatter in February. Spread between 10yr yield and 1yr yield decreased by 2.9 bps MoM to 1.225%. Spread between 5yr and 3M yields declined by 4.1 bps MoM to 0.63%. Both indicators are near multi-year highs.

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APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price, $ (28/02/18)	Target price, $	Upside	52-week price, $		RSI	MCap, $ bn.	Dividend yield			Price/Earnings			Price to book	Price to tang. book	ROE, %			TCE ratio, %	CET1 ratio, %
					High	Low			2018E	2019E	2020E	2018E	2019E	2020E			2018E	2019E	2020E		
American Express	AXP	97.5	107.5	10.2%	102.4	75.5	50.4	83.9	1.5%	1.6%	1.6%	13.7	12.3	11.4	4.6	5.8	30.0	29.8	33.8	8.1	9.0
JP Morgan Chase	JPM	115.5	120.6	4.4%	119.3	81.6	54.2	396.4	2.1%	2.5%	2.7%	13.0	11.8	10.6	1.7	2.2	13.3	13.7	13.7	7.3	12.2
PNC Financial	PNC	157.7	160.9	2.0%	163.6	115.4	52.8	75.0	2.1%	2.5%	2.8%	15.0	13.6	12.0	1.7	2.2	10.9	11.5	12.7	9.2	10.4
Bank of America	BAC	32.1	34.5	7.3%	32.8	22.1	56.2	328.8	1.8%	2.5%	2.9%	12.9	11.3	10.1	1.3	1.9	10.2	10.9	11.5	7.9	11.9
Citigroup	C	75.5	84.0	11.3%	80.7	56.6	46.2	194.0	1.9%	2.4%	2.9%	11.8	10.3	9.2	1.1	1.3	8.6	9.5	10.0	8.5	13.0
BB&T Corp	BBT	54.4	57.1	5.1%	56.2	41.2	51.6	42.3	2.6%	3.0%	3.0%	13.8	12.8	12.1	1.6	2.6	10.9	11.4	10.8	7.7	10.2
Goldman Sachs	GS	262.9	268.0	1.9%	273.8	209.7	51.1	103.7	1.2%	1.3%	1.3%	12.3	11.1	10.5	1.4	1.5	11.2	11.5	11.5	7.3	10.9
SunTrust Banks	STI	69.8	74.7	6.9%	72.6	52.0	51.3	32.7	2.5%	2.8%	3.1%	13.9	12.7	11.6	1.5	2.3	9.9	10.4	10.8	7.3	9.8
Bank of NY Mellon	BK	57.0	59.8	4.8%	59.0	45.2	54.5	57.6	1.8%	2.1%	2.3%	14.1	12.8	12.2	1.5	3.5	10.6	11.0	11.5	4.8	11.9
Comerica	CMA	97.2	100.3	3.1%	101.7	64.1	55.6	16.8	1.4%	1.8%	2.0%	15.0	13.5	12.9	2.1	2.3	13.7	14.3	13.9	10.3	11.7
Citizens Financial	CFG	43.5	49.7	14.3%	48.2	31.5	42.3	21.2	2.2%	2.7%	3.2%	12.9	11.6	10.9	1.1	1.6	8.0	8.6	8.4	9.0	11.2
Regions Financial	RF	19.4	19.7	1.2%	20.1	13.0	55.7	21.8	2.1%	2.7%	3.0%	14.5	13.1	12.0	1.4	2.2	9.4	10.1	10.9	8.5	10.9
Discover Financial	DFS	78.8	89.3	13.3%	81.9	57.5	52.6	28.0	1.8%	2.0%	2.3%	10.2	9.2	8.7	2.7	2.8	24.7	25.0	26.2	9.9	11.6
M&T Bank	MTB	189.8	190.5	0.3%	197.4	141.2	53.4	28.5	1.7%	2.0%	2.3%	15.6	14.5	13.9	1.9	2.8	11.3	11.9	11.8	9.1	10.9
Fifth Third Bancorp	FITB	33.1	34.1	3.3%	34.1	23.3	53.4	22.9	2.2%	2.6%	2.7%	14.2	12.8	11.4	1.5	1.8	10.6	11.1	11.2	9.0	10.6
Huntington Bancorp	HBAN	15.7	17.3	10.5%	16.5	12.2	49.6	16.8	2.9%	3.3%	3.5%	13.0	12.0	11.0	1.7	2.3	12.9	13.2	13.4	7.2	9.9
Northern Trust	NTRS	105.9	110.8	4.7%	109.9	83.2	54.9	24.0	1.7%	1.9%	2.0%	17.3	15.7	14.9	2.5	2.7	14.6	15.2	15.1	6.5	13.5
People's United	PBCT	19.1	20.1	5.1%	20.1	16.0	44.5	6.6	3.6%	3.6%	3.8%	15.0	13.8	12.6	1.2	2.2	7.5	7.8	8.4	7.2	9.7
Synchrony Financial	SYF	36.4	45.5	25.2%	40.6	26.0	43.0	27.7	1.8%	2.1%	2.9%	10.7	8.5	8.2	2.0	2.2	18.2	25.3	21.3	13.3	16.0
KeyCorp	KEY	21.1	23.3	10.1%	22.2	16.3	52.7	22.4	2.4%	3.0%	3.4%	12.6	11.5	10.7	1.6	2.0	12.0	12.6	12.6	8.6	10.2
State Street Corp	STT	106.2	117.7	10.8%	114.3	75.3	54.5	39.0	1.7%	1.9%	1.9%	13.8	12.5	11.6	2.0	3.4	14.1	14.9	14.2	5.0	12.3
US Bancorp	USB	54.4	59.5	9.4%	58.5	49.5	44.3	89.8	2.4%	2.7%	2.9%	13.4	12.4	11.4	2.1	2.9	14.3	14.5	14.8	6.8	9.3
Zions Bancorp	ZION	55.0	58.5	6.5%	57.1	38.4	54.8	10.9	1.8%	2.1%	2.3%	15.3	13.7	13.2	1.5	1.8	10.3	10.9	11.7	9.3	12.1
Morgan Stanley	MS	56.0	60.7	8.3%	58.0	40.1	54.9	100.4	2.0%	2.4%	2.9%	12.4	11.2	10.8	1.5	1.7	11.1	11.6	11.6	7.1	17.5
Capital One Financial	COF	97.9	115.2	17.6%	106.5	76.1	47.1	47.6	1.7%	1.9%	2.5%	10.0	9.1	7.8	1.2	1.9	10.0	10.1	11.3	7.3	10.3
Wells Fargo	WFC	58.4	64.7	10.8%	66.3	49.3	41.6	287.6	2.8%	3.1%	3.5%	12.3	10.9	10.2	1.6	1.9	12.2	13.0	12.8	8.0	11.1
First Republic Banks	FRC	92.8	97.3	4.8%	105.4	84.6	51.4	14.9	0.8%	0.8%	1.0%	19.5	16.8	14.5	2.2	2.3	10.8	11.1	11.9	7.5	10.6
NY Commercial Bancshares	NYCB	13.6	14.1	3.8%	15.6	11.7	45.4	6.7	5.0%	5.0%	5.0%	15.7	14.6	13.4	1.1	1.7	6.6	6.8	7.6	8.3	11.4
SVB Financial	SIVB	249.0	277.6	11.5%	263.1	159.4	52.4	13.2	0.0%	N. A.	N. A.	18.0	15.5	13.4	3.1	3.1	16.1	15.9	14.8	8.2	12.8
Signature Bank	SBNY	146.2	172.7	18.1%	164.0	116.7	42.8	8.0	N. A.	N. A.	N. A.	13.1	12.2	11.6	2.0	2.0	13.9	13.2	12.1	9.4	12.0
East West Bancorp	EWBC	65.6	73.7	12.5%	69.2	48.2	49.4	9.5	1.3%	1.4%	2.1%	15.0	13.5	12.3	2.5	2.8	15.3	15.2	15.2	9.1	11.4
Synovus Financial	SNV	49.3	54.1	9.8%	52.1	38.0	46.3	5.9	1.9%	2.0%	1.9%	14.4	13.2	12.7	2.1	2.1	13.7	13.8	14.5	8.9	10.0
First Horizon National	FHN	19.1	22.7	19.0%	20.9	15.8	42.1	6.2	2.2%	2.6%	3.3%	13.3	11.2	10.3	1.5	2.4	10.2	11.8	12.1	6.6	8.7
BOK Financial	BOKF	94.5	100.7	6.6%	98.8	73.5	48.1	6.2	1.9%	2.0%	2.6%	14.8	14.1	13.4	2.0	2.4	11.4	11.0	10.9	9.5	12.0
Median				**7.8%**			**51.4**		**1.9%**	**2.4%**	**2.8%**	**13.8**	**12.6**	**11.6**	**1.7**	**2.2**	**11.2**	**11.7**	**12.0**	**8.1**	**11.2**

Source: Bloomberg

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APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (28/02/18)	Target price*	Upside	52-week price*		RSI	MCap, € bn.	Dividend yield			Price/Earnings			Price to book	Price to tang. book	ROE, %			TCE ratio, %	CET1 ratio, %
						High	Low			2018E	2019E	2020E	2018E	2019E	2020E			2018E	2019E	2020E		
Erste Group	EBS AV	EUR	41.9	41.9	0.0%	42.2	26.9	65.3	15.1	3.2%	3.9%	4.2%	12.8	12.1	11.3	1.3	1.5	10.2	10.5	10.5	5.6	13.4
Raiffeisen Bank	RBI AV	EUR	32.0	32.1	0.4%	35.4	18.8	45.6	8.2	2.7%	3.8%	5.0%	10.6	9.6	8.7	1.1	1.2	9.9	9.7	9.4	7.2	13.2
KBC Groep	KBC BB	EUR	77.3	79.8	3.2%	78.8	58.2	63.4	29.3	4.4%	4.8%	5.4%	12.1	12.8	12.5	1.9	2.0	13.8	13.2	13.0	5.6	16.5
Komercni Banka	KOMB CK	CZK	926.5	1053.7	13.7%	1013.0	882.0	49.4	6.9	4.8%	5.0%	5.4%	14.2	14.0	13.5	1.8	1.9	12.9	12.9	12.7	9.3	18.0
Jyske Bank	JYSK DC	DKK	362.1	374.7	3.5%	399.8	319.1	65.1	5.0	2.3%	3.3%	3.0%	11.7	11.8	10.6	1.0	1.0	8.0	8.5	8.4	5.4	16.4
SydBank	SYDB DC	DKK	239.4	258.0	7.8%	266.0	233.3	42.0	2.5	4.5%	4.8%	5.1%	12.1	12.1	11.0	1.3	1.4	11.5	12.0	11.7	8.4	17.3
Danske Bank	DANSKE DC	DKK	246.2	275.4	11.9%	259.5	223.0	51.8	32.1	4.5%	4.9%	5.3%	12.2	11.8	11.0	1.4	1.5	12.5	13.1	13.6	4.2	17.6
BNP Paribas	BNP FP	EUR	65.4	72.0	10.1%	69.2	55.7	52.9	81.9	4.6%	5.1%	6.0%	10.9	10.3	9.5	0.9	1.0	8.1	8.5	9.4	4.2	11.9
Natixis	KN FP	EUR	7.1	7.6	7.2%	7.5	5.2	50.7	19.3	5.6%	6.1%	6.6%	13.4	12.1	11.0	1.1	1.4	9.3	9.9	10.6	3.1	10.8
Societe Generale	GLE FP	EUR	47.1	50.5	7.2%	52.3	41.9	61.9	40.1	5.0%	5.4%	6.0%	11.1	10.0	9.3	0.6	0.7	7.4	8.0	8.5	4.1	11.4
Credit Agricole	ACA FO	EUR	14.1	16.5	16.5%	15.7	11.6	45.9	42.3	4.8%	5.3%	5.9%	12.6	11.4	10.3	0.8	1.1	6.4	7.0	7.8	2.3	11.7
CYBG	CYBG LN	GBp	301.2	306.4	1.7%	341.6	257.1	41.8	2.6	0.0%	0.1%	0.1%	14.1	12.6	10.7	0.8	0.9	5.6	7.0	7.8	7.1	12.4
HSBC	HSBA LN	GBp	717.1	769.9	7.4%	798.6	618.0	34.6	170.3	0.1%	0.1%	0.1%	12.2	11.3	10.4	1.1	1.2	8.3	8.4	8.7	6.7	14.5
Royal Bank of Scotland	RBS LN	GBp	267.7	291.8	9.0%	304.2	221.8	36.6	33.0	0.0%	0.1%	0.1%	11.7	10.4	9.1	0.7	0.8	7.4	7.4	7.6	5.7	15.9
Barclays	BARC LN	GBp	213.5	214.7	0.6%	235.4	177.3	69.3	38.6	0.0%	0.0%	0.0%	11.9	9.0	8.5	0.7	0.8	5.5	6.9	7.5	4.2	13.3
Standard Charted	STAN LN	GBp	810.8	779.9	-3.8%	864.2	678.8	47.6	31.1	0.0%	0.0%	0.1%	16.2	11.4	9.3	0.7	0.8	5.0	5.9	6.5	7.1	13.6
Lloyds	LLOY LN	GBp	68.8	75.9	10.3%	73.5	61.8	52.3	52.6	0.1%	0.1%	0.1%	8.9	9.1	9.1	1.1	1.3	12.5	12.2	12.1	4.8	14.1
Commerzbank	CBK GY	EUR	12.7	12.2	-4.2%	13.8	7.3	47.6	13.9	0.9%	2.3%	3.7%	27.0	15.2	10.5	0.6	0.6	3.1	4.4	5.7	5.4	14.9
Deutsche Bank	DBK GY	EUR	13.2	14.1	6.5%	17.7	12.4	38.9	31.2	2.5%	4.1%	5.3%	14.0	9.7	7.9	0.4	0.5	3.0	4.5	5.6	3.2	14.8
UniCredit	UCG IM	EUR	17.4	20.3	16.6%	18.4	12.7	50.5	37.1	2.1%	3.8%	5.5%	14.3	11.1	8.6	0.7	0.7	6.2	7.7	8.2	6.7	13.7
Mediobanka	MB IM	EUR	9.9	10.7	8.5%	10.1	7.6	52.2	7.8	4.3%	4.4%	4.8%	11.6	10.9	10.2	0.9	N. A.	8.7	8.6	8.5	12.2	13.3
Intesa Sanpaolo	ISP IM	EUR	3.1	3.4	11.4%	3.2	2.2	52.1	48.7	6.4%	7.0%	7.5%	13.7	12.1	10.8	0.9	1.0	7.5	8.7	9.8	6.3	13.3
Emilia Romagna	BPE IM	EUR	4.9	5.6	15.0%	5.3	3.8	61.0	2.2	2.5%	3.4%	4.4%	15.8	9.1	7.0	0.5	0.5	5.0	6.5	7.4	6.4	13.9
UBI Banca	UBI IM	EUR	4.0	4.6	16.0%	4.6	2.8	47.5	4.7	3.3%	4.6%	5.9%	19.9	12.6	7.9	0.4	0.5	3.9	5.9	6.8	7.9	11.6
ING Groep	INGA NA	EUR	14.5	17.2	18.9%	16.7	13.1	27.0	61.4	5.0%	5.2%	5.5%	12.4	11.9	11.1	1.1	1.1	10.2	10.4	10.6	5.8	14.7
ABN Amro	ABN NA	EUR	25.6	27.9	9.1%	28.5	21.8	45.0	22.5	5.1%	5.9%	6.6%	10.3	10.6	10.2	1.1	N. A.	11.0	10.7	10.9	4.7	17.7
DNB	DNB NO	NOK	156.7	165.3	5.5%	164.3	131.9	51.8	27.1	5.0%	5.6%	6.1%	12.9	11.7	10.7	1.3	1.3	10.4	11.0	11.4	7.2	16.4
BBVA	BBVA SQ	EUR	6.9	7.6	10.2%	7.9	6.2	34.7	51.0	4.1%	4.5%	4.8%	12.0	11.1	10.3	1.0	1.2	9.0	9.0	9.3	5.6	11.7
Santander	SAN SQ	EUR	5.7	6.2	10.3%	6.2	5.1	48.2	85.4	3.8%	4.2%	4.7%	12.6	11.4	10.2	1.0	1.4	8.4	9.2	9.3	4.6	12.3
Bankia	BKIA SQ	EUR	3.9	4.1	3.8%	4.7	3.8	42.4	12.3	3.5%	4.4%	5.2%	13.4	12.6	11.4	0.9	N. A.	6.3	7.1	7.6	6.6	13.9
Bankinter	BKT SQ	EUR	9.1	8.4	-7.2%	9.4	7.3	56.7	7.4	3.3%	3.5%	3.9%	15.7	14.5	13.0	1.9	2.0	12.2	12.7	12.6	5.8	11.8
Sabadell	SAB SQ	EUR	1.7	1.8	6.4%	2.0	1.4	32.9	10.6	4.3%	5.1%	5.8%	13.7	11.8	10.0	0.7	0.9	6.6	7.7	8.7	5.0	13.4
CaixaBank	CABK SQ	EUR	4.0	4.3	7.6%	4.5	3.3	42.7	26.4	4.5%	5.2%	5.1%	15.3	12.5	11.2	1.0	1.2	8.5	9.2	9.5	5.4	N. A.
SEB	SEBA SS	SEK	97.9	107.5	9.8%	109.0	92.8	50.5	23.5	6.2%	6.4%	6.9%	13.0	12.5	11.7	1.5	1.6	12.4	12.3	12.6	5.2	19.4
Handelsbanken	SHBA SS	SEK	114.2	116.0	1.5%	129.7	107.5	48.8	24.5	5.5%	5.7%	5.9%	14.7	14.2	13.5	1.6	1.7	11.7	11.9	12.2	4.8	22.7
Swedbank	SWEDA SS	SEK	209.0	222.9	6.6%	228.6	190.3	60.9	25.0	6.1%	6.4%	6.6%	12.7	12.2	11.7	1.7	2.0	14.2	14.4	14.4	5.3	24.6
Nordea	NDA SS	SEK	94.6	106.0	12.1%	115.7	91.8	45.4	43.3	0.7%	0.8%	0.8%	120.6	111.0	104.9	1.2	1.3	10.1	10.4	10.7	4.9	19.5
Julious Baer	BAER VX	CHF	61.6	65.9	7.0%	65.4	47.1	49.3	10.8	2.7%	3.1%	3.4%	15.4	13.7	12.4	2.3	4.5	15.4	15.1	15.2	3.1	16.7
Credit Suisse	CSGN VX	CHF	17.6	19.2	9.3%	18.8	12.9	51.5	33.4	2.5%	3.8%	4.8%	19.4	12.4	9.5	1.1	1.2	7.0	10.1	10.7	4.7	13.5
UBS	UBSG VX	CHF	18.1	20.0	10.7%	19.8	14.6	48.5	56.9	3.9%	4.2%	4.5%	12.4	11.6	10.4	1.3	1.5	9.5	10.5	11.2	4.9	14.9
Median					**7.7%**			**49.0**		**3.9%**	**4.4%**	**5.1%**	**12.8**	**11.8**	**10.5**	**1.0**	**1.2**	**8.6**	**9.2**	**9.5**	**5.4**	**13.9**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Mar	EU	Macro	Markit Eurozone Manufacturing PMI	Feb
1-Mar	EU	Macro	Unemployment Rate	Jan
1-Mar	US	Macro	Personal Income and Spending	Jan
1-Mar	US	Macro	Markit US Manufacturing PMI	Feb
1-Mar	US	Macro	ISM Manufacturing	Feb
1-Mar	US	Corporate	Zions Bancorporation Investor Day	
2-Mar	EU	Macro	PPI	Jan
2-Mar	US	Macro	U. of Mich. Sentiment	Feb
5-Mar	EU	Macro	Markit Eurozone Services and Composite PMI	Feb
5-Mar	EU	Macro	Retail Sales	Jan
6-Mar	US	Macro	Factory Orders and Durable Goods	Jan
7-Mar	**EU**	**Macro**	**GDP**	**4Q**
7-Mar	US	Macro	ADP Employment Change	Feb
8-Mar	**EU**	**Macro**	**ECB Rate Decision**	**Mar 8**
8-Mar	US	Corporate	Bank of New York Mellon Investor Day	
9-Mar	US	Macro	Nonfarm Payrolls and Unemployment rates	Feb
13-Mar	US	Macro	CPI	Feb
14-Mar	EU	Macro	Industrial Production	Jan
14-Mar	US	Macro	Retail Sales Advance	Feb
14-Mar	US	Macro	PPI Final Demand	Feb
15-Mar	EU	Corporate	Raiffeisen Bank International Investor Day	
15-Mar	EU	Corporate	Banco Bilbao Vizcaya Argentaria Annual Meeting	
15-Mar	US	Macro	Empire Manufacturing	Mar
16-Mar	EU	Macro	CPI	Feb
16-Mar	US	Macro	Housing Starts and Building Permits	Feb
16-Mar	US	Macro	Industrial Production and Capacity Utilization	Feb
16-Mar	US	Macro	U. of Mich. Sentiment	Mar
20-Mar	EU	Macro	ZEW Survey Expectations	Mar
20-Mar	EU	Macro	Consumer Confidence	Mar
21-Mar	US	Macro	Existing Home Sales	Feb
21-Mar	**US**	**Macro**	**FOMC Rate Decision**	**Mar 21**
22-Mar	EU	Macro	Markit Eurozone Manufacturing PMI	Mar
22-Mar	EU	Macro	Markit Eurozone Composite PMI	Mar
22-Mar	US	Macro	US Manufacturing, Services and Composite PMI	Mar
22-Mar	US	Macro	Leading Index	Feb
23-Mar	US	Macro	Durable Goods Orders	Feb
23-Mar	US	Macro	New Home Sales	Feb
27-Mar	EU	Macro	M3 Money Supply	Feb
27-Mar	EU	Macro	Ec. Confidence and Business Climate Indicators	Mar
27-Mar	US	Macro	Conf. Board Consumer Confidence	Mar
28-Mar	**US**	**Macro**	**GDP**	**4Q**
28-Mar	US	Macro	Wholesale Inventories	Feb
29-Mar	US	Macro	Personal Income and Spending	Feb
30-Mar	US	Macro	Chicago Purchasing Manager	Mar

Source: Bloomberg

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