



Spread forecasts

Below we update our spread forecasts into year-end for EUR and GBP credit. Generally it's bullish although many of these indices now struggle to tighten through start of the year levels. Financial senior tightens but under-performs due to expectations of heavy supply.

Figure 10: Year End Spread Forecasts

| | | | Start of Year | Current | YE Forecast | Change |
|--------------------|--------|------------|---------------|---------|-------------|--------|
| Cash Market | | | | | | |
| EUR | IG | Non-Fin | 99 | 121 | 105 | -16 |
| | | Fin Senior | 74 | 98 | 90 | -8 |
| | | Fin Sub | 219 | 233 | 210 | -23 |
| | HY | All | 436 | 451 | 385 | -66 |
| GBP | IG | Non-Fin | 151 | 169 | 145 | -24 |
| | | Fin Senior | 120 | 136 | 120 | -16 |
| | | Fin Sub | 271 | 283 | 250 | -33 |
| CDS Market | | | | | | |
| Europe | iTraxx | Main | 63 | 75 | 60 | -15 |
| | | Crossover | 346 | 340 | 280 | -60 |
| | | Fin Senior | 67 | 85 | 70 | -15 |
| | | Fin Sub | 149 | 170 | 140 | -30 |

Source: Deutsche Bank

The remainder of the note looks at what we believe are some interesting topical themes and potential opportunities that exist in credit markets. We first look at the impact of commodity weakness on European credit and eye up potential opportunities, then move onto what we think is decent value at the long-end of IG curves and then look at how EUR credit has lost its valuation advantage it had relative to USD/GBP credit when we last explored this theme in late May.