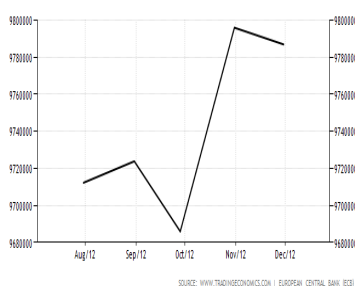


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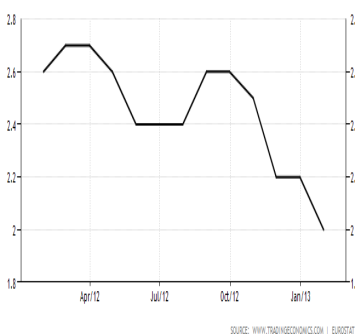
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### Euro Area money supply (M3)



Source: ECB, tradingeconomics.com

### EZ inflation rate %



Source: Eurostat, tradingeconomics.com

## Recent developments

- As generally expected, on February 8, 2013, the ECB decided to maintain the 0.75% key rate on its main financing operations in the euro area, given that HICP inflation rates have declined below 2% in line with expectations and that Euro area real GDP growth declined by 0.1% on a quarter on quarter basis, allowing the ECB to maintain its easy monetary policy.

- A significant development regarding the European monetary policy regimes emerged from the Bank of England on February. BOE decided to use unconventional monetary tools to counter the negative effects of recessionary business cycles, by setting an explicit target of 10% in nominal GDP. It remains to be seen whether this innovative approach to monetary policy will spark a general move towards a rules-based monetary policy as opposed to the ad hoc monetary policy approach of the ECB. Market monetarists have long argued in favor of NGDP targeting as opposed to New Keynesians or Monetarists who insist on targeting real variables and the money supply growth respectively.

- According to Eurostat, euro area annual inflation was down to 2.0% in January 2013 from 2.2% in December 2012. Euro area seasonally-adjusted unemployment in December 2012 stands at 11.7%, stable compared with November. Euro area retail trade volume was also down by 0.8% in December 2012 compared with November 2012.

- As for the bond yields in the euro zone, as shown on page 2 of this report, bond yields have dropped over the last week, especially in core Eurozone countries such as France, Germany, Finland and the Netherlands. Since January, 2013, Greek 10 year debt has fallen by 40 basis points, whereas Portuguese, Irish (8Y), Italian and Spanish bond yields have increased by 17, 7, 32 and 22 basis points respectively. EFSF bond yields went slightly down (2bps) over January.

- Meanwhile, Greece expects to cut its budget deficit to 4.3% of GDP in 2013, lower than previously predicted by the implemented program. However, public revenues in January were 7% lower than forecasted (€4.05 bn. vs. 4.35 bn.), whereas revenues from Value Added Tax plummeted by 15%.

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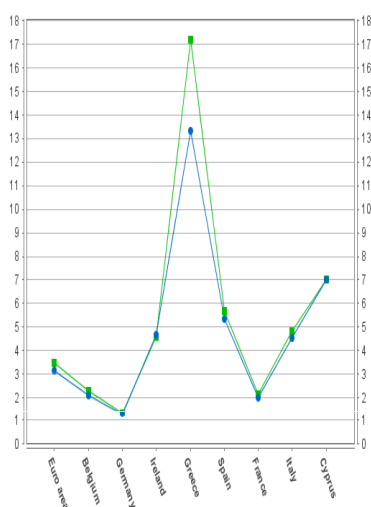
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### Long-term government bond yields, Nov. – Dec. 2012



Green: November, Blue: December  
Source: Eurostat

### Eurozone Bond Yields (08 Feb 2013)

Euro Bonds	2 Year	Weekly Change	5 Year	Weekly Change	10 Year	Weekly Change
Portugal	3.59	6.53%	5.42	6.27%	6.6	6.80%
Greece	-	-	-	-	10.84	1.31%
Spain	2.72	4.62%	3.98	2.05%	5.33	2.30%
Italy	1.43	-19%	2.85	-9.24%	4.19	-3.68%
France	0.26	-23.53%	1.08	-8%	2.21	-2%
Austria	0.21	-25.00%	0.87	-11.22%	1.91	-4%
Netherlands	0.27	-22.86%	0.73	-10.98%	1.79	-3.76%
Finland	0.16	-27.27%	0.73	-11%	1.79	-4%
Germany	0.18	-28%	0.63	-13.70%	1.6	-4.19%

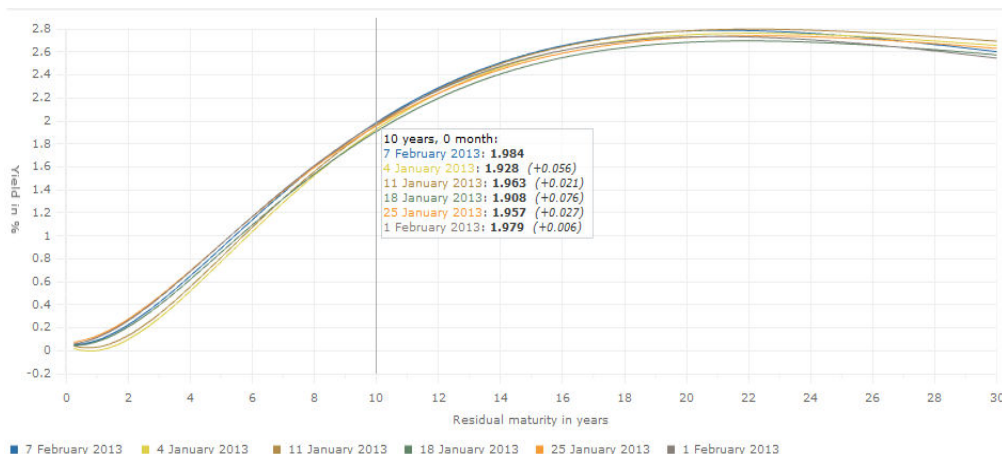
Source: Bloomberg, VRS Calculations.

### Peripheral Eurozone Bond Yields (8,10Y maturities)

Date	Greek 10Y	Portuguese 10Y	Irish 8Y	Italian 10Y	Spanish 10Y
02/08/2013	10.85	6.59	3.88	4.58	5.38
02/01/2013	10.7	6.18	3.75	4.33	5.21
01/25/2013	10.31	6.13	3.6	4.13	5.17
01/18/2013	11.03	6.12	3.62	4.17	5.08
01/11/2013	11.75	6.21	3.56	4.13	4.89
01/04/2013	11.25	6.32	3.81	4.26	5.06

Source: Bloomberg, VRS Calculations.

### Yield Curve Movements of AAA Eurozone Debt



Source: ECB stats.

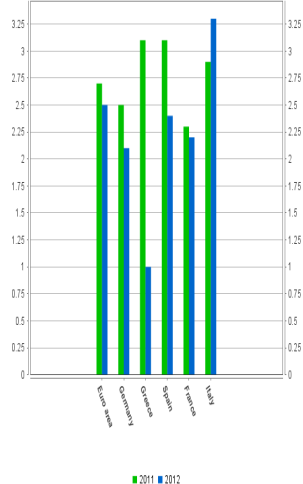
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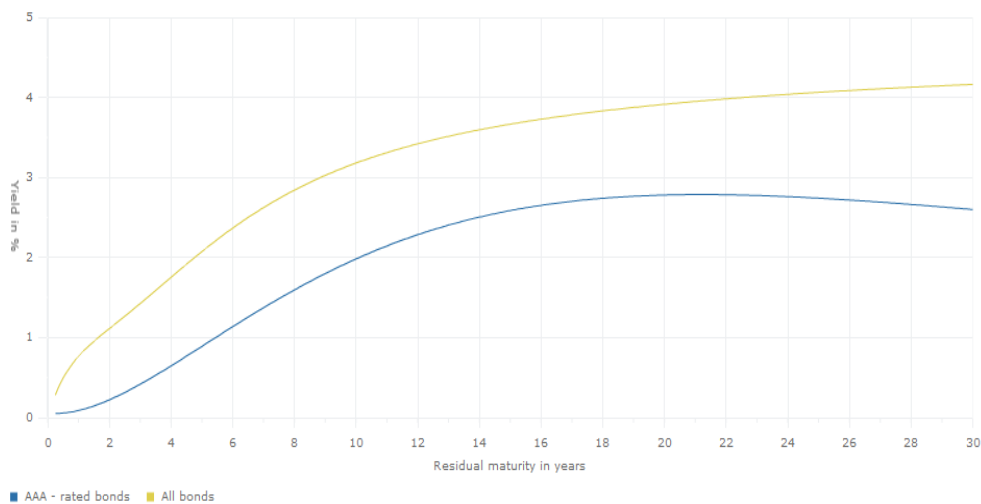
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## Annual HICP inflation rate



Source: Eurostat

## Yield Curve of AAA vs. Total Eurozone Debt, 08 Feb 2013



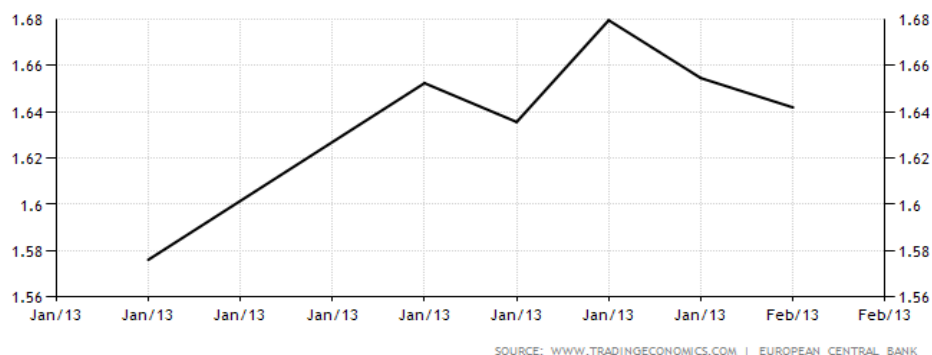
Source: ECB stats.

## Central Bank Key Rates Throughout the World

Date	US Fed Funds Rate	Bank of England Official Bank Rate	Bank of Japan Call Rate	ECB Main Refinancing Rate	China 1Y Lending Rate
02/08/2013	0.15	0.5	0.1	0.75	6
02/01/2013	0.16	0.5	0.1	0.75	6
01/25/2013	0.16	0.5	0.1	0.75	6
01/18/2013	0.16	0.5	0.1	0.75	6
01/11/2013	0.16	0.5	0.1	0.75	6
01/04/2013	0.17	0.5	0.1	0.75	6

Source: Central Banks' data.

## EFSF 10 Year Bond Yields



SOURCE: WWW.TRADINGECONOMICS.COM | EUROPEAN CENTRAL BANK

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