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Markets have been gaining momentum over the recent weeks after a steep sell-off in January. Challenges remain ahead, what's happening right now and what to do about it:

### US:

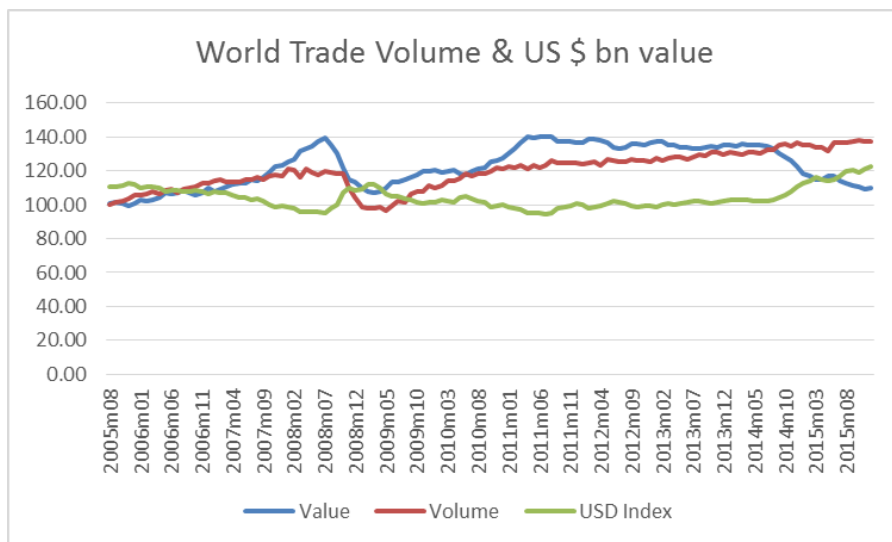
The US rate hike in March becomes more and more an obstacle. With the IMF already urging G20 leaders to commit on global stimulus programme, the rate hike becomes less likely. The IMF and the Worldbank have been raising concerns in the past, September 2015, and avoided an early rate hike back then. This could once again happen in the current economic market turmoil. The energy rout is also most likely far from over. Oil oversupply continues with a lack of growing demand despite very low prices. This is not only hurting oil producers, but more and more it's hurting exposed banks. In this sense, it is wrong to look at banks' balance sheet and only check for exposure to oil. The trickle effects it can have on finance and other sectors in oil producing regions, such as real estate in Texas, need to be considered as well. On the other hand, consumption has been really strong, yet, this has to be seen carefully as consumption is very much driven by previous investment and higher employment. The figure on the right displays all US oil companies with more than \$1bn bond debt and compares Debt/Asset ratios over recent history and the next large bond redemption. A debt/asset ratio of more than 1 is present in over half of the companies, which makes more bankruptcies very

US Oil Companies with >\$1bn bond debt	Debt/Assets Sep/Dec 2015	Debt/Assets Sep/Dec 2014	Next large debt redemption	Size of debt redemption
Comstock Resources	11.3	1.06	Oct 2017	300mio
EXCO Resources	10	4.22	Sep 2018	375mio
W&T Offshore	10	2.36	Jun 2019	900mio
Swift Energy	10	1	Jun 2016	250mio
Chesapeake Energy	9.67	0.87	Mar 2016	476mio
SandRidge Energy	5	1.78	May 2016	365mio
Sabine Oil	4	0.96	Jun 2019	750mio
Stone Energy	3.78	0.83	Feb 2017	675mio
Williams Companies	3.2	2.3	Jan 2017	400mio
Carrizo Oil	2.93	1.27	Oct 2018	600mio
Penn Virginia	2.18	1	Jun 2016	300mio
Freeport McMoRan	1.9	0.91	Mar 2017	500mio
Devon Energy	1.87	0.53	Jul 2016	500mio
Newfields Exploration	1.79	0.74	May 2018	600mio
SM Energy	1.32	1.04	Feb 2019	350mio
Black Hills	1.31	1.14	Aug 2032	75mio
Andarko Petroleum	1.23	0.77	Sep 2016	1.75bn
National Fuel Gas	1.17	0.69	Apr 2018	300mio
Range Resources	1.16	0.94	May 2019	300mio
Whiting Petroleum	1.1	0.65	Oct 2018	350mio
Southwestern Energy	1.07	0.42	Jan 2018	1.55bn
Oasis Petroleum	1.04	1.53	Feb 2019	400mio
Cabot Oil & Gas	1	0.86	-	-
Apache	0.9	0.35	Jan 2017	500mio
Consol Energy	0.79	0.62	Apr 2017	1.5bn
MDU Resources	0.79	0.68	Dec 2033	30mio
Noble Energy	0.77	0.6	Mar 2019	1bn
Concho Resources	0.64	0.67	Oct 2017	75mio
EQT	0.61	0.72	Mar 2018	200mio
Murphy Oil	0.55	0.48	Dec 2017	550mio
QEP Resources	0.55	0.89	Sep 2016	177mio
Cimarex Energy	0.54	0.33	May 2022	750mio
EOG Resources	0.48	0.33	Sep 2017	600mio
Conoco Philips	0.44	0.63	Oct 2016	1.25bn
Pioneer Natural	0.44	0.31	Jul 2016	455mio
Marathon Oil	0.43	0.32	Oct 2017	682mio
Hess Corporation	0.31	0.25	Jun 2017	300mio
Occidental Petroleum	0.28	0.19	Jun 2016	750mio
Chevron	0.23	0.21	mid-end 2016	1.45bn
Exxon Mobil	0.2	0.23	Mar 2017	2.25bn

likely in the near future. Williams Companies, Andarko and Devon Energy alone account for US\$52bn in debt (Source Morningstar).

### Europe:

Europe is really in a mess. A mess that needs an urgent resolution. The refugee crisis and the resulting

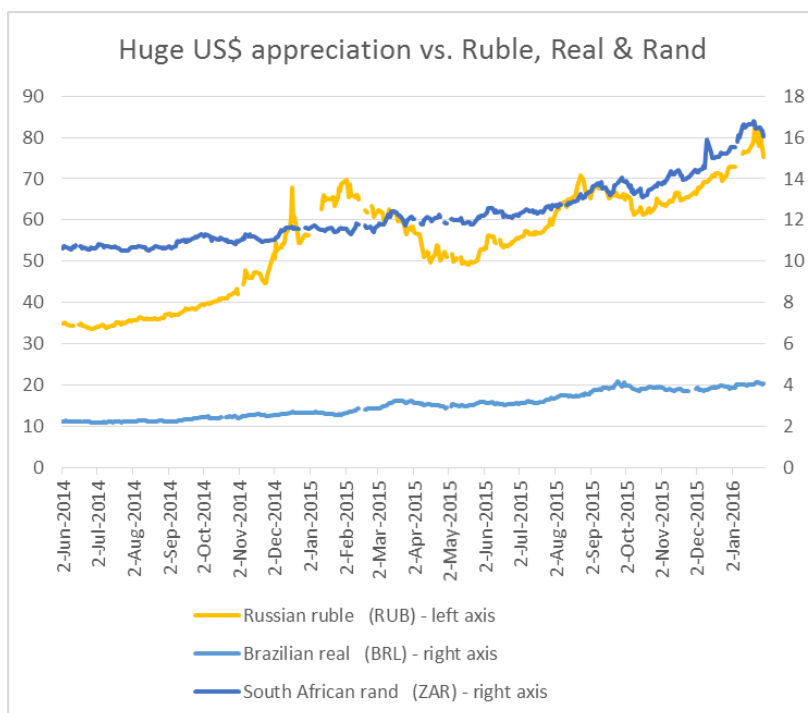


quasi break-up of the Schengen agreement is a laggard for the Eurozone economy. A possible Brexit could turn the continent sour and eventually lead to a divorce with other member states. This could then even result into a “de-globalization” – something that recent global trade data already suggests. Although global trade is slowing, the USD appreciation has mostly led

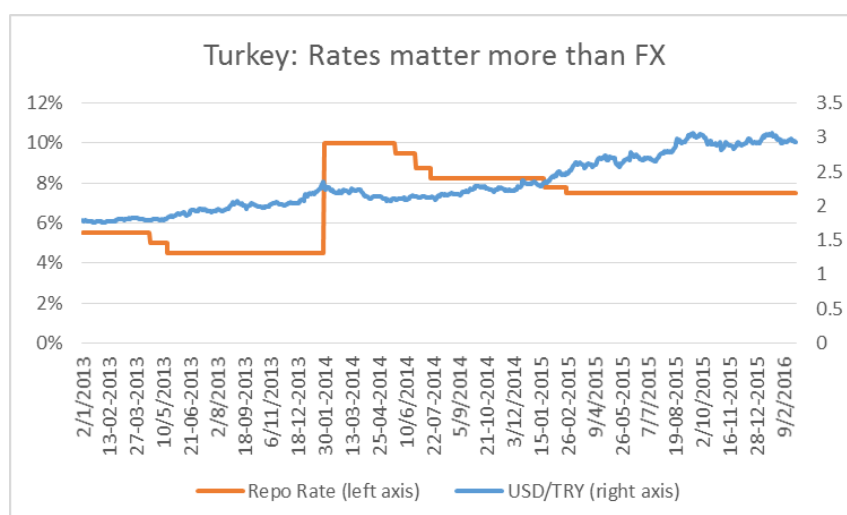
to the large drop in trade value over the last year (Source CPB World Trade Monitor). Despite the lower US yield curve, Euro cannot be seen as a strong currency right now, in particular, as Draghi and the ECB are the most aggressive on the global monetary easing scheme. Amid the surging number of migrants, the real estate sector should benefit the most and consumption is also likely to climb higher. From that respect, some economic data should come out positively, yet investments are more likely to remain depressed. The sterling offers some good entry levels vs. the dollar, even if a Brexit happens a pound depreciation might be short-lived as the British government would most likely seek financial deregulation to counter banks from moving away.

### BRICS:

Brazil, Russia and South Africa are pretty much in a similar boat. Falling commodity prices hurt the once booming economies – and what’s for Russia the painful sanctions, is for Brazil the Zika virus; corruption is probably equal in both countries. The slide in the three nation’s currencies make \$ interest payments and bond redemptions a drag on states’



budgets and corporations' balance sheets. The hunt for yield makes certain investments attractive, but with commodity prices expected to remain lower for longer, the higher yield should be viewed very carefully. China's slowdown should be seen as a very slow slowdown and credit risks should remain subdued. What China might lose in potential economic output, could be taken up by India amid a booming working age population. This also brings risks, as many young Indians struggle to find a job, since labor supply outpaces labor demand. All in all, the BRICS seem to have lost their shine, which is a crucial turning point as these nations have been key in last decade's global growth – and being home of 40% of the world's population. The capital outflows that resulted in huge currency losses vs. US\$ has in effect led to deflationary pressures in developed countries (Source IMF).



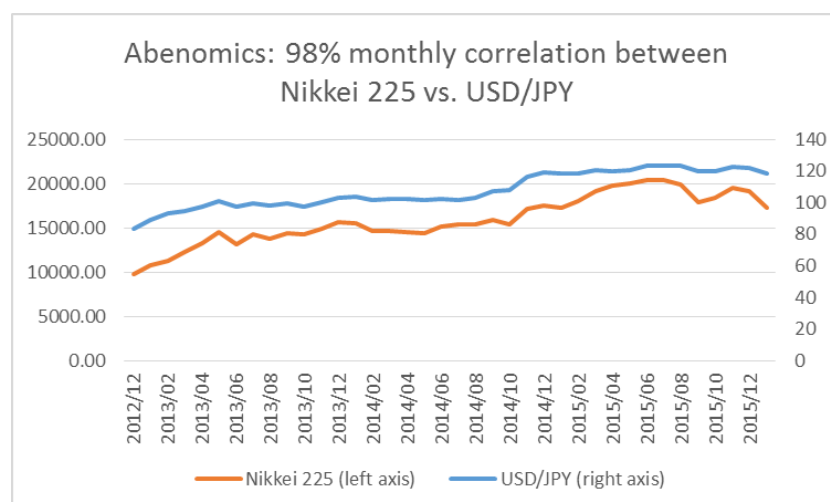
### Turkey & the Middle East:

Turkey can be seen as being in the midst of the current economic troubles haunting the global economy. A large depreciation of the Lira vs. the US dollar – of almost three-fold since 2008 – inflation crawls up towards double digits, investment withdrawals, a Syrian refugee crisis, Russian sanctions after Turkey shot down the Russian fighter jet,

terrorist attacks in Ankara and Istanbul and its fight on ISIS and the Kurds. This makes especially Turkish banks, with a large load of US dollar debt and increasing non-performing loans, vulnerable, but leaves the Turkish Central Bank few options in fighting inflation, as higher rates could dampen the already shattered economy (Source Central Bank of Turkey). The conflict in Syria is really important not only to Turkey, but to the whole Middle East, Russia and the US. If a resolution can be found in fighting ISIS effectively together and establish strong governments in the region, the current risk aversion could be reversed and could present a turning point even for the global economy. The likelihood of this outcome under current conditions is probably remaining low. Especially with the oil crisis likely to remain for longer, Middle East turmoil should persist. After Azerbaijan, more currency pegs are in danger to be abandoned – Oman and Bahrain are seen as most under threat, but also Saudi Arabia is under the target after more than \$100bn reserves have been wiped out over the last 1.5 years.

### Japan:

Japan has been reluctant on Abenomics, from which only 1 arrow has really shown strength, but maybe not for much longer. This arrow is an export-led



economy dependent on a weak Yen, which resulted in a 98% correlation between USD/JPY and Nikkei 225 stocks since Abe took office in December 2012 (Source Bank of Japan). With market turbulence insisting and the BoJ running out of options, the Yen is poised to appreciate further. The government budget deficit is less of a danger right now, as the easing BoJ removes some of Japan's debt burden via negative interest rates and JGBs are actually quite attractive to invest in right now.

### 3 big movements:

Most of the developed world is struggling to stave off deflation. At the same time this deflation is not born domestically, but rather due to massive emerging market currency sell-offs, money being pulled out of risky assets and into safe havens, which made their products and commodities much cheaper abroad. A movement that became strongly related to commodity prices, as overproduction was fueled by low interest rates – a self-reinforcing cycle. With this respect, negative interest rates are positive for refinancing debt and increasing investments, yet, the political landscape is not accommodating what's needed. With risk-aversion kicking in, most large companies currently take advantage of the low rates by refinancing existing debt or financing M&A takeovers. A trend that is likely to continue.

The Eurozone is currently too focused on political rather than economic issues. The refugee crisis could potentially turn the economy around as it grows the labor supply and pushes consumption higher, but for that to happen the refugees have to be used and seen as an advantageous workforce. Each country could submit an economic plan for the coming years to the European Commission. In whichever sector workers are needed, the suitable candidate, in this case refugee, with the given skills could be moved to this country. Europe could in effect establish an economic system similar to China by breaking down its economy into different sectors or products by supporting each area of expertise with workforce, investments, tax advantages and advertisement – this is something that is not even happening in each country nationally. Without any sort of Eurozone-wide agreement, there needs to be some sort of Eurozone break-up priced in, which currently pushes Euro lower and is a drag on investments. Important to emphasize is that this could solve the problem of the refugees already currently inside the Eurozone, however, the flow of migrants does not stop, it actually increases. Unemployment remains at elevated levels across the Eurozone, which might turn into a sour cocktail as more labor supply is not really wanted – with Merkel in power and committing to another term for the German 2017 elections, a really frightening political direction.

The oil crisis is comparable with the oil crisis in the 1980s, when oversupply and production cuts by OPEC did not match up with declining demand for oil. Back then it caused anger by some Arab states, as some members did not comply with the agreed quotas, which put prices further under pressure. Whereas today the Middle East is plagued by the civil war and the rise of ISIS, the oil crisis adds to the fire. The real problem of the oil crisis in fact is a wide spread debt default led by US oil producers, which has already started with some middle sized oil producers in the US defaulting. The debt that could potential become worthless could trigger a crisis, yet, not to such extent as the Subprime Mortgage Crisis in 2007/08. The size of debt from all major US oil producers is around \$350bn, which is well below the trillions of losses incurred during the Subprime Mortgage Crisis. Nevertheless, a domino effect could increase the size of a potential wide-spread oil producer default, in a case of local bank defaults and other sectors that are being affected.